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# Ukraine and the Global Economic War: Barbarism or Civilisation?

The west's actions against Russia since the war in Ukraine could signal an emerging new order which shuns the US for weaponising the dollar and western control over the global financial system.

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*Do the Ukraine war and the action of the United States, the European Union, and the United Kingdom spell the end of the dollar as the world's reserve currency? Even if the peace talks between Russia and Ukraine reach a 15-point plan, as the Financial Times has reported, there will be fallout for the dollar. For the first time, Russia, a major nuclear power and economy, was treated as a vassal state, with the United States, the European Union, and the United Kingdom seizing its $300 billion foreign exchange reserves. Where does this leave other countries that hold their foreign exchange reserves mainly in dollars—or the Euro?*

The threat to dollar hegemony is only one part of the fallout. Complex supply chains built on the premise of a stable trading regime under WTO principles are also threatening to unravel. The United States is discovering that Russia is not simply a petrostate as they had thought but supplies many of the critical materials its industry and military need. This is apart from Russia being a major supplier of wheat and fertilisers.

Seizing Russia's funds means that faith in the United States as the world's banker and the dollar as the global reserve currency are in question. Why should countries maintain a trade surplus and bank it abroad if it can get seized at will? The promise of the dollar as the world's reserve currency was that all surpluses in dollars were safe. With the seizure of the Afghan central bank's 9.5 billion dollars, the United States has shown that it considers dollars held by another country with the US central bank fair game. It may be an economic asset in the books of a country. But it is effectively a political liability, as the United States government can seize this asset at will. The United States showed this earlier with Iraq, Libya and Venezuela. The seizure of Russia's foreign exchange reserves by a handful of western countries—ex-colonial and settler-colonial states—means that the so-called rules-based order is now based on weaponising the dollar and the west's control over the global financial system.

Economists Prabhat Patnaik and Michael Hudson and financial experts such as Zoltan Pozsar of Credit Suisse are now predicting a new regime in which the Chinese Yuan or its variant will emerge as the world's new reserve currency. Why? After World War II, the Bretton Woods agreement led to the dollar becoming the world's reserve currency. It replaced the British pound and was pegged $35 to an ounce of gold. In 1971, President Nixon removed the US dollar from the gold standard, which meant the dollar was now only backed by the United States government (Treasury) guarantees.

The dollar as reserve currency had three things going for it in post-war years. It was backed by the United States, the largest industrial producer and pre-eminent military power, even if challenged by the Soviet Union. And it was backed by West Asian oil, the largest traded commodity, priced in dollars.

The denomination of West Asian oil, particularly Saudi Arabian oil, was critical to the United States and determined by its military power. Once we understand the importance of oil for the United States, we can also understand the coup in Iran against Mohammad Mosaddegh, the 1953 coup in Iraq, and many other political events there, far more easily. Oil was the basis of the Carter doctrine, extending the Monroe doctrine equivalent to the Persian Gulf region. As cartoonists wrote, "Our oil is under their sand." The United States' control over West Asian oil combined with its industrial and military power ensured that the dollar remained the world's reserve currency.

The fall of the United States as the world's industrial power has gone hand in hand with the rise of China. A measure of China's industrial rise can be seen from a simple statistic from the Lowy Institute based on IMF global trade data. In 2001, over *80% of countrie*s had the United States as their major trading partner. By 2018, that figure dropped to *just over 30%*—128 out of 190—who had China as their major trading partner, not the United States. This dramatic change happened in less than 20 years! The reason for this change is industrial production: China overtook the United States in 2010 to become the largest industrial producer in the world. India is the fifth-largest but produces only 3.1% against 28.7% of world industrial production in China and 16.8% in the United States. It is not surprising that trade follows industrial production.

Two recent events are important in this context. China and the Eurasian Economic Union comprising Russia, Kazakhstan, Kyrgyzstan, Belarus and Armenia seem to be moving towards a new international and monetary system. India and Russia also seem to be working out a rupee-rouble exchange based on India's need to import Russian arms, fertiliser, and oil. India had already created a similar system earlier for buying Iranian oil. This newly emerging system might also give a fillip to India's exports to Russia. Two, Saudi Arabia has recently indicated it might designate its oil sales to China in the yuan and not the dollar. After 1974, this would be the first time Saudi Arabia would sell any oil in a currency other than the dollar. It means an immediate fillip to the yuan, as 25% of Saudi Arabia's oil is sold to China.

The United States dominates the services, intellectual property (IP) and information technology (IT) markets. But markets for physical goods, unlike services, IP and IT, are based on a complex network of suppliers and, therefore, complex global supply chains. If the western economic war means taking out Russia's supplies from the global market, many supply chains are in danger of unravelling. I have written about the energy war and how the European Union depends on gas piped from Russia to Europe. Many other commodities are critical for those sanctioning Russia—and those who may find it difficult to trade with Russia due to the west's sanctions.

Strangely enough, one key element in the supply chain for manufacturing chips depends on Russia. It is a major supplier of sapphire substrates (using artificial sapphires) that go into chips. The other critical item is neon gas supplies to chip makers, whose major suppliers are in southern Ukraine. Two suppliers, one in Mariupol and one in Odessa, produce about 50% of the global neon supply and 75% of Ukraine's supplies to the world's chipmakers.

I earlier highlighted the danger to the European Union's climate change plans and its shift to gas as a bridge fuel. Using batteries as the key storage element in the renewable energy route also has a substantial Russian weakness. Nickel is critical for electric batteries, and Russia is the third-largest supplier of nickel in the world. With the United States and European Union imposing sanctions, it may lead to China, already emerging as the world's largest battery supplier, creating an even more dominant position.

The other issue that could create supply chain bottlenecks worldwide relates to palladium, platinum, titanium, and rare earth elements, which advanced industries require. These materials are on the list of fifty strategic minerals the United States needs. If we remember how the supply chains seized up during Covid-19, the coming crisis could be a lot worse. Sanctions are easy to impose, much harder to lift. And even after they are gone, supply chains will not come together seamlessly to how they were before. Remember, these supply chains have been incrementally configured over decades. Undoing them using the wrecking ball of sanctions is easy; redoing them is far more challenging.

Food supplies to the world will be hit even harder. Russia, Ukraine and Belarus produce significant quantities of fertilisers that farmers everywhere need. Russia and Ukraine are among the biggest exporters of wheat. If Russian wheat is sanctioned and Ukraine's harvest is hit due to war, the world will not find it easy to thwart a severe food shortage.

There is no question the world is on a cusp. It will either lead to the complete destruction of the Russian economy, even if Russia achieves a quick peace in Ukraine and there is no NATO-Russia War. Or it will reconfigure a new economic order, which has been in the offing—a world order where cooperative solutions are found instead of undertaking military and economic wars for resolution.

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