The Multipolar Global Political Economy

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Global trends indicate that the geopolitical transition towards a multipolar international system is matched by a growing diversification of the global political economy. The desire for a unipolar order from hegemonic powers accompanied by force, interventions and hybrid wars will not reverse this trend, though there can be some upsets, with specific countries switching to become satellites of unipolar great powers.

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The geopolitical transition to a multipolar system is matched by an emerging polycentric political economy as its material base. Commercial centres, earlier concentrated in the West, have diversified to the "emerging economies" of the developing countries in the global South. Noted in the 2000s when emerging economies were welcomed into the Group of Twenty (G20), the Russia–Ukraine war and the international reactions to this war have hastened the processes towards multipolarity. The United States (US) seeks to maintain a unipolar world order where its hegemony is unchallenged. The European Union (EU) has opted for Atlanticism linked with the US. Russia and China have been rooting for multipolarity for three decades. Much of the global South has opted for strategic autonomy and neutrality in this period of heightened rivalry and war. This article argues that a power shift in the international system is irreversible because a multicentred political economy is emerging that contradicts the politics of unipolarity.

Multipolarity is not a symmetrical distribution of economic, political, and strategic power. It is highly uneven and unequal as part of capitalist development. These "other" states do not have a single coordinating system and have internal and external contradictions, yet they have learnt the art of strategic autonomy and have the capacity to work between different power and economic systems. The president of the World Bank argued in 1982 that the global economy has become multipolar, rather than bipolar, because of the growth patterns of several countries of the South, especially the Organization of the Petroleum Exporting Countries (OPEC) (Benjenk 1982). This pattern has increased over the years. This article examines the reasons, strategies and possible outcomes of these historic shifts with a focus on the geopolitical and geoeconomics choices of the global South and asks if these shifts serve the interests of the people of these regions.

Several reasons account for the diversification of the global economy and the tilt towards polycentrism. One factor is the fairly steady growth of the "emerging economies." The combined gross domestic product (GDP) in purchasing power parity (PPP) of China, India, Russia, South Africa, Indonesia, Brazil, Iran, and Turkey is now larger than that of the combined G7 (World Bank Group 2020). The oil-producing and oil-exporting countries have risen on the back of increased oil prices and exports. Other emerging countries are catching up in different ways. The World Bank showed that China contributed to 30% of the global economic growth since 2009. The digital revolution is propelling China, India and many Association of Southeast Asian Nations (ASEAN) countries forward. The technological gap between China and the West has narrowed and is perceived as a threat (Moak 2018). Russia's ability to sustain its economy despite tough sanctions has surprised many economists and challenged studies that predicted its quick collapse. Indicators from countries of the global South show that despite poverty, inequality, and democratic deficit, these countries possess institutions that sustain growth.

Global Trade and the Breach of Confidence

Global trade is based on mutual trust and weaponising trade undermines interstate commerce. The US policy of unilateral sanctions—levied under the US domestic laws—on countries termed as threats to the US interest has been resented by the global South. It is common knowledge that from 1990 to 1999, out of 66 countries sanctioned by the US, 52 were in Africa, West Asia, Latin America, and Asia. Several countries sanctioned were subject to the US military interventions and wars. Moreover, the strategy of seizing the strategic reserves of any state is terrifying for countries that invest in Western banks and bonds on the basis of trust. This creates an atmosphere of fear and countries outside the Western bloc believe they need to safeguard themselves.

The recent US trade policies like "friend shoring" (Yelen 2022) or trade between allies while isolating strategic "others" are similar to 18th century colonial policies of "trade follows flag," while the contemporary version is that trade follows friends. With such policies in place, countries will search for diverse markets and alternate systems of trade.

In this context, trade between the global South is growing exponentially. Inter-Asian consumption is the biggest driver of export growth of several Asian countries, including China, India, Malaysia, and Indonesia (Moak 2022). China's exports to Asia have grown much faster than those to the US or EU, doubling to the global South in the past two years, with exports of $200 billion a month compared to $60 billion a month to the US. India has targeted that it will double its trade with Russia in the coming years. The consequence is that the dollar component in relative value has been diminishing for these countries.

The Dollar Hegemony

Many of the emerging countries want to reduce their reliance on the dollar as trading currency because of the high exchange rate of the dollar and the indebtedness of many countries because they pay for food and oil in dollars. So, Asian currencies buy less in terms of the US dollars (where in some cases the dollar is three times stronger than two years ago). Many indebted countries argue that a large part of this debt is on account of their depleted dollar reserves. Trade in national currencies, as a part of currency swap policies has been unfolding for years.

The BRICS's New Development Bank (NDB) disburses in national currencies since 2015. By 2019, $15 billion was disbursed in national currencies (Chenoy 2020). The NDB's then chairperson K V Kamath said that they had no intention of destabilising the dollar, "but 50% of loans should be local currency financed."[1] The BRICS initiated a clearing platform but this has moved slowly. Other regional groupings like the Shanghai Cooperation Organisation (SCO) and Eurasian Economic Union (EAEU) are expediting a road map to conduct trade, investments, mutual settlements, and bonds in national currencies. China is developing currency swap arrangements along its Belt and Road Initiative (BRI) and with the partner countries of the Regional Comprehensive Economic Partnership.

Asian central banks have more than $400 billion of local currency swap lines and trade among themselves in national currencies. Since 2019, India has been paying Russia for fuel, oil, minerals and specific defence imports like the S-400 Triumf air defence systems in rupees on an informal basis. The rupee trade has advanced with Russia in recent times. In July 2022, the Reserve Bank of India (RBI) unveiled a rupee settlement system for international trade with a rupee payment mechanism by opening "Special Vostro Accounts" in designated Indian banks (Misra 2022). With this system in place, the Indian rupee can be used for invoicing, payment, and settlement of exports/imports. India has a trade deficit with Russia of around $3.52 billion on average over the last two years. Now with vostro accounts, Russia can make purchases from India (pharmaceuticals, machinery, etc).

Economists argue that India's earlier experience with the rupee–ruble trade provides lessons on how to counter global currency hierarchy (Sen 2017). India has worked out local currency trade with the United Arab Emirates (UAE), approved $75 billion currency swap with Japan and $400 million currency swap with South Asian countries. India notified non-dollar mediated rates of exchange for Turkish and Korean currencies. Currency swap arrangements are on the increase. Turkey similarly is trading in national currencies with China and Russia.

China has developed an alternate currency, the renminbi (RMB), that is used as a credible alternative reserve currency and diversifies risks. The RMB launched in 2015 (after sanctions on Russia) offers clearing and settlement services for participants in cross-border yuan payments and trade. The International Monetary Fund (IMF) has included the yuan in its Special Drawing Rights (SDR) currency basket, which is a step towards internationalising the yuan. The trade wars with the US strengthened China's resolves to hedge its currency.

Moscow and China have joined forces against the dollar's dominance in trade and finance, and started using yuan–ruble trade in several sectors since 2019. After the Xi–Putin agreement (2020), the yuan started becoming Russia's de facto reserve currency. It is claimed that the yuan-derived foreign exchange earnings can be sufficient for the Russian budget and after the 2022 sanctions, the yuan–ruble trade volumes surged by 1,067% to almost $4 billion (Pesek 2022). Though the ruble is currently at a five-year high against yuan and is backed by a gold standard, it will remain volatile and is not likely to become an exchangeable currency in the near future.

Russian banks have started using the China-based Cross-Border Interbank Payment System (CIPS) for international payments, as they are debarred from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) international system. Researchers in China suggest that CIPS can be used for trade and financial arrangements with ASEAN, Central Asia, West Asia, Africa, and South America as soon as possible. Chinese experts advocate using the e-yuan to bypass the swift system and US dollar hegemony (Pao 2022). The UAE, Iran, Turkey, Indonesia, Sri Lanka, Myanmar, Thailand, Malaysia, and Indonesia (since 2017) are trading in local currencies. Bilateral currency swaps among ASEAN, China, Japan, and South Korea have reached $380 billion.

Other steps taken by countries to strengthen national currencies have come by way of increasing their gold reserves. In the last few years, Russia and China have increased their gold reserves as a backup against the dollar. In 2022, again China has emerged as the biggest buyer of gold, followed by Turkey, Kazakhstan, India, and other developing countries (Pesek 2022b).

In yet another small step, to counter dollar dominance, the People's Bank of China entered into an agreement with a Switzerland-based bank, Bank for International Settlements, to maintain a strategic reserve for a yuan pooling scheme.

China has given 15 billion yuan ($2.2 billion), and other countries of the Asia-Pacific like Malaysia, Indonesia, Singapore, Chile joining this scheme will do the same. This serves as a renminbi liquidity arrangement to enable trade in national currencies (PTI 2022).China held almost $3 trillion of US treasury bonds. But for the first time, China has been diluting its strategic reserves to below $1 trillion since 2010.

Despite all these moves, local currency usage is still small, driven by governments and markets, but, yet, is growing and is important for the small and medium sectors of these economies. The challenge for national currencies of the emerging economies is that these are not fully convertible. Thus, despite the rise of alternate systems of trade, the dollar still is and will remain dominant and is 60% of the global currency, with the euro making up 20%, yen 5.8%, and yuan 3%. However, signs of diversification as a process are established.

Oil and the Petrodollar

The phenomenon of the "petrodollar" emerged in the 1970s with two steps taken by Washington under President Richard Nixon at the time of the Vietnam war and the global oil crises. First, in 1971, the US unilaterally abolished the Bretton Woods regime by which the dollar rate was backed by gold holdings. This turned the earlier "gold standard" into the "dollar standard," enabling the US to fund its unending wars (Gowan 1999: 19). Second, with the oil crises, the US negotiated and signed in 1975 an agreement with Saudi Arabia whereby oil sold was hereafter invoiced in dollars. Given Saudi Arabia's influence over OPEC, the other OPEC states followed. So, every oil importing country in the world had to hold and pay in dollars for oil imported from OPEC (Iseri 2009). This "petrodollar" reinforced the US and the dollar's central role in the global economy because it is linked to a strategic commodity, namely oil (Petrove 2006). The petrodollar is central to US hegemony. Of course, the euro is also acceptable for oil payments, but the dollar dominates.

As a part of the sanctions regime against Russia, the collective West has decided to impose a "price cap" on Russian oil of $60 a barrel. The oil cap defies the idea of a market economy. Russia, OPEC+ and many oil importing countries reject this price cap. And are trying to shift payments for oil away from the dollar.

The Challenge

Countries outside the Western zone have borne the global hegemony of the dollar. After the end of the Cold War, Russia, the other major oil producer and member of OPEC+, built up significant dollar reserves by virtue of its oil and commodity exports. After the Russian aggression on Ukraine, the sanctions regime and the freezing of the Russian strategic reserves by the US and European banks, the Russians have switched to selling oil in rubles.

China's concerns about dollar hegemony and its strategic reserves in the US were first voiced by the then premier Wen Jiabao in 2009. China's concerns stem from the financial crises of 2009; US's huge and growing debt ($30 trillion currently); use of sanctions; reputation of US as fiduciary after it froze strategic reserves of countries; geopolitics of containing China and so on. So, China started talking to Saudi Arabia to trade oil in yuan since 2017.

Moving the oil trade out of dollars to yuan, according to the *Economist*, can take $600 billion to $800 billion worth of transactions out of the dollar zone and boost China into the centre of global political economy. China's moves to trade oil in national currencies have been consistently supported by Russia (Asia Unhedged 2017). The pressure from China is to import less from Riyadh. China's systematic increased oil imports from Russia have facilitated this goal.

China under Xi Jinping is hastening the routes to lessen the relevance of the dollar. The sanctions on Russia have created new opportunities for China and others, since Russia no longer wants to trade in the dollar. An agreement (September 2022) was signed with the Russian oil giant Gazprom to invoice shipments to China in yuan and rubles instead of dollars. Similarly Russian oil major Rosneft announced yuan bonds (bids for 10 billion yuan, that is, $1.4 billion). Similarly other Russian commodity exporters like Rusal—aluminium, gold, iron ore—have followed. Russia is now third in using yuan global payments (behind Hong Kong and Britain). Russia supplies 19% of Chinese crude oil. The yuan is now 26% of foreign trading in the Moscow exchange compared to 6% in April 2022 (Pesek 2022c).

China is encouraging Saudi Arabia to do the same. China buys 25% of Saudi oil and these talks are on for almost six years. China introduced yuan-priced contracts in 2018, but this has not progressed much since the Saudi riyal is pegged to the dollar, unlike the dinar of Kuwait which is linked to a basket of currencies. China helped Saudi build ballistic missiles and Chinese investments in Saudi Arabia have been increasing, while US oil imports have been falling. It is possible that the Saudis will also start diversifying their payment system.

The US Federal Reserve has destabilised and targeted weaker oil-based economies like Iran, Iraq, and Venezuela with sanctions. The Trump administration tried to pressurise the IMF not to assist Iran for COVID-19 relief package. The Biden administration continues to put pressure on Iran. The consequence is that all these countries have established linkages with China and Russia for trade and economic sustainability. Russia is selling Venezuela's crude oil. China diverted Iranian crude with yuan payments and initiated the Iran–China silk route agreements. China is now Iran's largest trade partner. Iran diversified trade with Afghanistan and oil for gold with India. Iran has replaced US dollar with the CNY on its foreign exchange bourse which indicates that the CNY is beginning to play a role of an oil currency. Currently, Iran, Angola, Indonesia, and Venezuela are willing to settle their transactions in CNY.

Turkey is another link in the shifting of Eurasian geopolitics adding to the polycentric global political economy. Turkey is becoming the hub for supplying Russian energy to various countries like Hungary, Serbia, and Austria. Turkey is paying for Russian oil in its own currency (through Gazprombank) and is backed by Saudi Arabia. The Arab states want Russian oil to flow to world markets to maintain stable hydrocarbon market.

The EAEU along with China are developing a common payment system and this has been proposed to the BRICS. The plan is for a common card that merges the already existing Russian MIR, China's Union Pay, India's RuPay, Brazil's Elo and others. This card will present a challenge to Western-designed cards like the Visa and Mastercard (Escobar 2022). This system links the countries of the SCO and BRICS in a monetary system within their own currencies and outside the dollar-dominated zone.

The India Angle

India like other countries has an interest in buying oil in rupees. India's oil import at discounted price from Russia has risen exponentially since the Russia–Ukraine war. To facilitate trade in Indian rupees, the RBI has allowed the creation of "Special Vostro Accounts" in designated Indian banks (Misra 2022). This move is projected as internationalising the rupee, but as the former governor of RBI, D Subbarao (2022), said, it is "essentially an effort to enable payments for the crude that India buys from Russia in rupees." And once it is set in motion, "it can save up to $4 billion a month in forex outgo which will be a substantial relief in trade deficit of $20 billion–$25 billion right now." Further, as Subbarao said, the dollar is US currency but the world's problem "because of deepened financial globalisation and the continuing hegemony of the dollar."

There have been reports that Russia is looking to complete oil deals with Indian refiners using the UAE's currency—dirhams—and at least two Indian refiners have settled some transactions using dirhams (Verma 2022). Similarly, top Indian cement importers are paying for Russian goods in yuan. But problems remain because the exchange rate between rupee–ruble is not fixed; both currencies are volatile and Russia needs to ease imports from India. With such steps, the two can get around the dollar dominance (Sen 2022). India has worked with Iran and Russia to develop the International North-South Transport Corridor that can transport commodities through four sanctioned countries. In sum, the challenge to dollar dominance is rising.

Conclusions

Global trends indicate that the geopolitical transition towards a multipolar international system is matched by a growing diversification of the global political economy. The desire for a unipolar order from hegemonic powers accompanied by force, interventions and hybrid wars will not reverse this trend, though there can be some upsets, with specific countries switching to become satellites of unipolar great powers.

The majority of the global South is committed to neutrality, strategic autonomy and multipolarity since this system gives agency to subaltern countries that desire freedom from dominance. The position taken by the global South of not choosing sides in the confrontations between the collective west on the one side and Russia and China on the other indicates a resolve to resist hegemonic pressure and lends support to multipolarity in the international system.

Russia's war with Ukraine and the sanctions regime imposed on them closes them off from the collective West. While they have averted immediate economic collapse, this will have a long-term impact on their economy. Russia has turned inwards and towards the East and global South. The US policies of "containing" and isolating China, with exclusivist trade policies and forbidding sensitive technology transfers, induce China to source or manufacture technologies from alternate sources. Both Russia and China are in the process of constructing alternate commercial and trade chains. Both have high stakes in the construction of a multipolar international system.

Several emerging economies and developing countries have taken steps to trade in their national currencies. Inter-Asian trade has grown exponentially. The US strategy of unilateral sanctions regime and freezing the strategic reserves of countries designated as threats, is seen as a breach of trust and undermines confidence in global trade.

Emerging economies have been taking steps to develop trade and use of national currencies since several years. Regional multilateral bodies like the BRICS, the SCO and others are involved in a process that is gradually enabling the use of alternate currencies and banking systems.

Energy pipelines towards China and Asia ensure that the energy producing and exporting countries remain a force in global markets and will influence currency and commodities exchange. Currencies linked to a basket of commodities that include oil will be viable for international exchange.

The use of alternate currencies is not de-dollarisation, but steps towards diversification and risk reduction. The US dollar and the euro remain the strongest forms of exchangeable and reserve currencies. To make an alternate system operational, requires a longer and sustainable effort and the ultimate test is the market. Trade in local currencies gives options to emerging economies not available before, especially if they are able to buy food and oil in their national currencies.

It is clear that the geopolitics and geoeconomics are merging and new supply chains and alternate currency chains are enabling dual/multiple circulation systems. This is the material basis of the multipolar system.

NOTE

1 Speech of the President, New Development Bank, 20 April 2020, https://www.ndb.int/president_desk/speech-mr-k-v-kamath-president-new-development-bank-fifth-annual-meeting-board-governors/.

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