

On the Main Challenges of the Architecture Transformation of the World Economy

<https://www.eurasiareview.com/31032022-on-the-main-challenges-of-the-architecture-transformation-of-the-world-economy-oped/>



By Vladimer Papava

March 31, 2022

The COVID-19 pandemic that began in March 2020 and, to no lesser extent, the war launched by Russia in Ukraine on February 24, 2022, radically changed the world economy (Roubini, 2022). The established global order in the world economy is changing right before our eyes (Krugman, 2022) and the processes within require study by economists.

The two-year experience of the COVID-19 pandemic and the limited functioning of the economy as a hostage of medicine (Papava, 2020) have put problems onto the agenda that require a revision of the architecture of the world economy that has developed over many years of globalization. And to these problems, new ones were added, caused by the Russian war in Ukraine, and the economic sanctions of the civilized world imposed on the economy of the aggressor; i.e., Russia (BBC, 2022).

Among the problems inherited from the economic crisis caused by the COVID-19 pandemic is the disruption of global supply chains (Coyle, 2021). The uncoordinated actions of national governments since the onset of the COVID-19 pandemic and the disruption of these supply chains have contributed to the formation of a false perception of the end of globalization and the beginning of a process of de-globalization, more precisely isolationism (Derviş and Strauss, 2020). Obviously, due to the global nature of the pandemic and the economic crisis caused by it, it is possible to overcome them exclusively in a global way (Stiglitz, 2020) when the actions of national governments will be as coordinated as possible (Mazzucato and Torreale, 2020).

Economic sanctions against Russia have also affected the global nature of the world economy, especially world trade (Furman, 2022). The most effective “formula” for solving the problems caused by economic sanctions is the diversification of international trade which is again based on globalization (Spence, 2022).

That is why, even during the beginning of the COVID-19 pandemic, it already became clear that a renewed approach to the globalization process is indispensable (El-Erian, 2020). Such an understanding of the current situation is even more relevant against the backdrop of economic sanctions against Russia.

The disruption of global supply chains during the COVID-19 pandemic, for its part, has caused supply to shrink and inflation to rise (El-Erian, 2021). Economic sanctions against Russia imply its exclusion from global supply chains which will further reduce supply and increase inflation (Papava, 2022b).

The exit of many international companies from Russia as well as restrictions on the purchase of Russian oil and gas (Ballard, 2022) and the beginning of the so-called “food war” (Frum, 2022) directly affected the appearance of a shortage in the world economy (Kung, 2022). In other words, economic sanctions against Russia are not only devastating to its economy (Werker, 2022) but, at the

same time, contribute to underproduction and the inflation caused by it (Papava, 2022c) even more than they did as a result of the COVID-19 pandemic.

Whatever it was, overcoming underproduction and the inflation caused by it is possible only by building new supply chains based on such configurations that will bypass Russia. And this takes time.

In this context, the question arises of how the formation of new global supply chains will take place – exclusively through private companies or with the active participation of national governments?

The obvious answer is not only the active participation of national governments but also the adoption of coordinated decisions by them with the help of international organizations and the use of international formats such as coordination and decision-making, for example, within the G7. This answer follows directly from the fact that the economic sanctions were adopted by the national governments, both independently and in appropriate coordination.

Speaking about the new architecture of the world economy, in all likelihood, it is worth remembering something from the past, already forgotten. In particular, we are talking about the world economy under the Cold War during the existence of the USSR. At that time, the world was conditionally divided into three groups. The first included countries united around the USA, the second – countries united around the USSR and the third – countries playing a buffer role; i.e., having more or less normal relations with the first two groups. Apparently, this structure of the world economy will also be reproduced in the context of the use by the US and its allies of the measures of the Cold War against Russia's Hot War in Ukraine (Papava, 2022a). Here we note that, in my deep conviction, the Cold War of the times of the USSR did not end with its collapse but was “frozen” because of Russia's economic weakness (Papava, 2014).

Based on the current situation in the world, in the new architecture of the world economy, the first group of countries will include those that fully adhere to the economic sanctions imposed by the US; the second group, first of all, will include countries that are members of the Eurasian Economic Union (EAEU) (this is most true of Belarus whose territory is used by Russian military troops to attack Ukraine from the north), and the third group of so-called buffer countries is the most vague since it includes not only those countries that have not joined the above-mentioned economic sanctions (for example, Israel and Turkey), but those that only partially share these sanctions.

This division of countries into three groups is conditional.

First, it is difficult for the first group to include EU countries that are still buying and will have to continue to buy Russian gas. These countries can clearly belong to the first group as soon as they can find a real alternative to Russian gas.

Secondly, the countries of the EAEU (Armenia, Kazakhstan and Kyrgyzstan), except for Belarus, will most likely try to be in the third and not in the second group.

A special role in the new fragmentation of the world economy belongs to China and India. Formally, they are included in the third group, the so-called buffer countries. They do not support economic sanctions against Russia, although at the same time they are unlikely to go for an excessive aggravation of relations with the US and its allies.

So, in particular, China fears that its companies will fall under US sanctions in the event of cooperation with Russian companies, given the fact that Moscow asked Beijing to provide military and financial assistance (Bloomberg News, 2022).

India faces a difficult choice as it seeks to maintain what is officially described as a “special and privileged strategic partnership” with Russia (Lukin and Pareek, 2022) while at the same time New Delhi will likely have to consider reconfiguring ties with Moscow (Pant, 2022).

Speaking about the transformation of the global architecture of the economy, it is necessary to touch upon the question of the role of international financial institutions (IFIs) in this process. The range of issues discussed in relation to these institutions covers a complete cessation, or at least a significant restriction of Russia and Belarus’ access to their resources, to the exclusion of these countries from all IFIs (Weiss, 2022). It is already a fact that the European Bank for Reconstruction and Development (EBRD) has announced the closure of its offices in Moscow and Minsk (EBRD Press Office, 2022).

Much in the renewed architecture of the world economy depends on how soon and at the expense of what peace will be achieved (Sachs, 2022) and, especially, how the interests of the state integrity of Ukraine will be observed.

The restoration of the old architecture of the world economy, which was before the Ukrainian crisis, based on the current situation, is purely theoretical, since for this Russia will have to, for whatever

reason, give up its claims to the territorial integrity of Ukraine. At the same time, the United States and its partners will need strong guarantees from Russia to exclude such actions not only in relation to Ukraine but also to other countries. Even in this case, at least an approximate restoration of the pre-crisis architecture of the world economy will require some time and considerable effort. At the same time, apparently, a complete repetition of the pre-crisis architecture will never be possible...

References

Ballard, Kelli, 2022. “No Oil From Russia – Now What?” *Liberty Nation*, March 9.

<<https://www.libertynation.com/no-oil-from-russia-now-what/>>.

BBC, 2022. “What Sanctions are being Imposed on Russia over Ukraine Invasion?” *BBC*, March 24.

<<https://www.bbc.com/news/world-europe-60125659>>.

Bloomberg News, 2022. “China Says It Wants to Avoid U.S. Sanctions Over Russia’s War.”

Bloomberg, March 15. <<https://www.bloomberg.com/news/articles/2022-03-15/china-says-it-wants-to-avoid-u-s-sanctions-over-russia-s-war>>.

Coyle, Diane, 2021. “The Great Supply-Chain Massacre.” *Project Syndicate*, October 15.

<<https://www.project-syndicate.org/commentary/current-supply-shocks-and-2008-global-financial-crisis-by-diane-coyle-2021-10>>.

Derviş, Kemal, and Sebastián Strauss, 2020. “What COVID-19 Means for International

Cooperation.” *Project Syndicate*, March 6. <<https://www.project-syndicate.org/commentary/global-cooperation-can-prevent-next-pandemic-by-kemal-dervis-and-sebasti-n-strauss-2020-03>>.

EBRD Press Office, 2022. “EBRD to Close Its Offices in Moscow and Minsk.” *European Bank for*

Reconstruction and Development, March 28. <<https://www.ebrd.com/news/2022/ebrd-to-close-its-offices-in-moscow-and-minsk-.html>>.

El-Erian, Mohamed A., 2020. “Navigating Deglobalization.” *Project Syndicate*, May 11.

<https://www.project-syndicate.org/commentary/covid19-deglobalization-two-priorities-by-mohamed-a-el-erian-2020-05?utm_source=Project%20Syndicate%20Newsletter&utm_campaign=3ce69c95d3-

[sunday newsletter 17 05 2020&utm_medium=email&utm_term=0_73bad5b7d8-3ce69c95d3-93567601&mc_cid=3ce69c95d3&mc_eid=e9fb6cbcc0](https://www.project-syndicate.org/commentary/us-federal-reserve-slow-inflation-response-by-mohamed-a-el-erian-2021-10)>.

El-Erian, Mohamed A., 2021. “The Inflation Catch-Up Game.” *Project Syndicate*, October 21. <<https://www.project-syndicate.org/commentary/us-federal-reserve-slow-inflation-response-by-mohamed-a-el-erian-2021-10>>.

Frum, David, 2022. “The Food War.” *The Atlantic*, March 8, <<https://www.theatlantic.com/ideas/archive/2022/03/rising-food-prices-ukraine-russia-war/626967/>>.

Furman, Jason, 2022. “The Economic Consequences of the Ukraine War.” *Project Syndicate*, February 25. <<https://www.project-syndicate.org/commentary/economic-consequences-of-ukraine-war-by-jason-furman-2022-02>>.

Krugman, Paul, 2022. “How the Putin Shock Might Affect the World Economy.” *The New York Times*, March 8. <<https://www.nytimes.com/2022/03/08/opinion/putin-russia-ukraine-economy-sanctions.html>>.

Kung, Chan, 2022. “Bracing for the Era of Economic Shortage.” *Eurasia Review*, March 24. <<https://www.eurasiareview.com/24032022-bracing-for-the-era-of-economic-shortage-analysis/>>.

Lukin, Artyom, and Aditya Pareek, 2022. “India’s Aloof Response To The Ukraine Crisis.” *Eurasia Review*, March 7. <<https://www.eurasiareview.com/07032022-indias-alooof-response-to-the-ukraine-crisis-analysis/>>.

Mazzucato, Mariana, and Els Torreale, 2020. “How to Develop a COVID-19 Vaccine for All.” *Project Syndicate*, April 27. <https://www.project-syndicate.org/commentary/universal-free-covid19-vaccine-by-mariana-mazzucato-and-els-torreale-2020-04?utm_source=Project%20Syndicate%20Newsletter&utm_campaign=64d8372856-sunday_newsletter_03_05_2020&utm_medium=email&utm_term=0_73bad5b7d8-64d8372856-93567601&mc_cid=64d8372856&mc_eid=e9fb6cbcc0>.

Pant, Harsh V., 2022. “India Must Think of Reconfiguring Ties with Russia.” *Eurasia Review*, February 28. <<https://www.eurasiareview.com/28022022-india-must-think-of-reconfiguring-ties-with-russia-oped/>>.

- Papava, Vladimer, 2014. “The End of the Frozen Cold War?” *Eurasia Review*, June 30.
<<https://www.eurasiareview.com/30062014-the-end-of-the-frozen-cold-war-analysis/>>.
- Papava, Vladimer, 2020. “Coronomic Crisis: When the Economy Is a Hostage to Medicine.” *Eurasia Review*, March 29. <<https://www.eurasiareview.com/29032020-coronomic-crisis-when-the-economy-is-a-hostage-to-medicine-oped/>>.
- Papava, Vladimer, 2022a. “Cold War vs. Hot War in 2022.” *Eurasia Review*, February 28.
<<https://www.eurasiareview.com/28022022-cold-war-vs-hot-war-in-2022-oped/>>.
- Papava, Vladimer, 2022b. “On Sanctionomics.” *Eurasia Review*, March 14.
<<https://www.eurasiareview.com/14032022-on-sanctionomics-oped/>>.
- Papava, Vladimer, 2022c. “The Underproduction Inflation: An Acute Challenge for Post-Pandemic World.” *Eurasia Review*, February 7. <<https://www.eurasiareview.com/07022022-the-underproduction-inflation-an-acute-challenge-for-post-pandemic-world-oped/>>.
- Roubini, Nouriel, 2022. “Russia’s War and the Global Economy.” *Project Syndicate*, February 25.
<<https://www.project-syndicate.org/onpoint/russias-war-and-the-global-economy-by-nouriel-roubini-2022-02>>.
- Sachs, Jeffrey D., 2022. “Time to Talk Peace Terms with Russia.” *Project Syndicate*, March 28.
<<https://www.project-syndicate.org/commentary/peace-settlement-for-ukraine-by-jeffrey-d-sachs-2022-03>>.
- Spence, Michael, 2022. “Will Russia’s War Spur Trade Diversification?” *Project Syndicate*, March 1. <<https://www.project-syndicate.org/commentary/russia-ukraine-war-must-spur-europe-energy-diversification-by-michael-spence-2022-03>>.
- Stiglitz, Joseph E., 2020. “Plagued by Trumpism.” *Project Syndicate*, March 9.
<https://www.project-syndicate.org/commentary/trump-coronavirus-failure-of-small-government-by-joseph-e-stiglitz-2020-03?utm_source=Project%20Syndicate%20Newsletter&utm_campaign=cba7e1c6a1-sunday_newsletter_15_03_2020&utm_medium=email&utm_term=0_73bad5b7d8-cba7e1c6a1-93567601&mc_cid=cba7e1c6a1&mc_eid=e9fb6cbcc0>.

Weiss, Martin A., 2022. “Russia, Ukraine, and the International Financial Institutions.”
Congressional Research Service, March 14.

<https://crsreports.congress.gov/product/pdf/IN/IN11888>.

Werker, Eric, 2022. “The Russian Economy is Headed for Collapse.” *The Conversation*, March 10.

<https://theconversation.com/the-russian-economy-is-headed-for-collapse-178605>.

Vladimer Papava

Vladimer Papava is a former Minister of Economy of the Republic of Georgia and the author of *Necroeconomics*, a study of post-Communist economic problems. Vladimer Papava is a Professor of Economics of the Ivane Javakhishvili Tbilisi State University, Academician of the Georgian National Academy of Sciences, and a former Rector of the Ivane Javakhishvili Tbilisi State University.