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Abstract

Putin's invasion of Ukraine will trigger a new type of Cold War situation for decades to come, with a new kind of Iron Curtain falling in a once again bi-polarized world between Western democracies and autocracies in Russia and China. This has already had, and will continue to have, far-reaching consequences for the global markets and global trade. The delivery of natural and mineral resources and food has become a currency of power in this global conflict accompanied by trade sanctions and protectionist economic policies. De-globalisation worldwide looks likely to be the geo-economic consequence.

Diversification, friend-shoring, and abandoning the fixation of profit as the exclusive goal of business should more than ever be the guiding principles for Western states and companies to protect their vulnerable supply chains in times of long-term global economic turmoil.

Keywords: Putin, global polarization, geo-economics, diversification, friend shoring

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Putin's invasion of Ukraine marked a unique turning point in history

The following considerations aim to demonstrate the extent to which Putin's war in Ukraine will ultimately lead to worldwide de-globalisation, forcing companies to protect their vulnerable and sensitive supply chains.

Putin's invasion into Ukraine on February 24th, 2022, marked a unique turning point in history. It is the largest war in Europe since World War II, destroying the building blocks of peace in Europe that were established by public international agreements with the former U.S.S.R., like the Helsinki Accords in 1975 which guaranteed the inviolability of state borders, signed by 35 states including the U.S.S.R.; the Paris Charter of 1990, the Budapest Memorandum of 1994, when Russia, the U.S., France, and the UK guaranteed the territorial integrity and sovereignty of Ukraine, and the UN-Charter's prohibition of the use of force.

1. A scenario for future global international relations

As difficult as it is to foresee how this war will play out in military terms and how it will end, it seems fairly likely that the political, economic, and military confrontation will continue, even if in varying degrees of intensity.

As a result, we are likely to see, at least in the next 15-20 years (Putin is constitutionally entitled to stay in office until 2036), an ongoing fundamental conflict with Russia, alternating between more aggressive and more cold war periods. Putin cannot give up his objective to annex and occupy the whole of Ukraine. And even this will not satisfy the imperial goals of his future long-term strategy. Only recently he compared himself to Tsar Peter the Great who retook Sweden for the Russian empire following the Nordic war which lasted 20 years. Even if Putin might eventually offer an armistice, it would have to be considered as simply a pause in the war to give him time to replenish his military and personal resources. When his military, personal, economic, and financial resources allow, he might eventually attack other regions of the former USSR empire, such as Georgia and Moldova, or even the Baltic states. Putin is driven by a century-old political culture of Russian imperialism and the notion of the superiority of the chosen Russian people above all others, with Moscow being the "Third Rome", assigned to defend the true values of mankind against the decadence of the West which, as a permanent foe of Russia, does everything in its power to try to destroy Russia's greatness and its orthodox mission.[1] Even without the deep influence of state propaganda on the mindset of the Russian people, there is strong support for this political and orthodox notion of the Great Russia by the majority of Russians. That is why, in principle, this Russian imperialism and proselytization drive will not end with Putin's departure. Both are deeply engraved in the Russian self-identity. The former U.S.S.R. basically followed the same principles, where the ideology of communism was only a temporary replacement for orthodox proselytization in the long Russian history. When communism replaced the orthodox faith as an ideology, it only served as the other side of the same coin to legitimize autocratic governance and imperialistic expansionism.

[1] Walter Laqueur, Putinism: Russia and its Future with the West, New York 2015, p.91.

As a result, we are going to see a relatively fundamental long-term conflict between Russia and the West (the EU and NATO) in Central Europe, with an "Iron-Curtain"-like division between both, although this conflict differs in many regards from that of the Cold War (1945–1989).

Major international stakeholders will not decisively join the Western camp but will pursue their own national agendas as far as possible. Following its usual non-alignment policy to stay on good terms with Russia, India, for example, will do everything possible to avoid getting involved in the conflict. China will support Russia, at least outwardly, and might even profit economically from the conflict and any potential future gas and oil embargos by the EU. We are likely to arrive at a more global conflict in the near future between two somewhat polarized blocks, in other words, between autocracies and democracies, which will differ from the ideological confrontation between communism and liberal democracies with global free markets during the cold war. Many states like India and others will probably once again manoeuvre between both blocks as in Cold War times.

2. Geo-economic consequences

What does this scenario of international political relations mean for international trade and the global supply chains of Western international companies? More than ever, economic globalization will be burdened by this conflict. Economic trade and finance, the global availability of resources like gas, oil, rare metals, and food such as wheat, have become a currency of power, more so than ever before. Thus, existing trends in trade protectionism and economic sanctions will accelerate and continue to undermine the principles of free trade and GATT. The original idea that an increasingly interconnected global economy, trade, and global business will lead to a more peaceful, harmonious world order has failed.[2] The underlying theoretical assumption that states with close trade relations would not wage war against one another has been disproved by the political reality. We are already seeing the beginning of "de-globalisation"[3] as a new era turns away from the former acceleration of globalisation. According to a recent survey, 46% of German companies receive significant inputs from China, and of those, almost half are planning to reduce their dependency on the country. [4] The German Minister of Economic and Climate Policy, Robert Habeck, did not extend the German state guarantee for VW investments in China's Uigure province.[5] Instead, VW's top management recently announced an investment offensive in the U.S., framed as "strategic resilience". [6]

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[2] This theory was already once disapproved by the political reality in the decade before the First World War, when improving trade relations between Great Britain and the German Reich under Wilhelm I did not prevent both from becoming enemies in the First World War. Cf. Charles Kupchan, How Enemies Become Friends – Sources of Stable Peace, Princeton 2010, pp.187.

[3] "Das Ende der Globalisierung, wie wir sie kennen" (The end of globalisation as we know it), Frankfurter Allgemeine Zeitung, 27.05.2022.

[4] Baur, A. and Flach, L. (2022), "Deutsch-chinesische Handelsbeziehungen: Wie abhängig ist Deutschland vom Reich der Mitte?", (German-Chinese Trade Relations: How dependant is Germany on the Middle Empire", ifo Schnelldienst, No 4, 31 March.

[5] "Habeck verweigert VW-Garantie für China-Geschäft" (Habeck refuses to grant a federal German state guarantee to VW for its China business), Deutsche Welle 28.5.2022.

[6] "Volkswagen prepares for a de-globalized world", Wall Street Journal, March 27, 2022.

As the politically driven reduction in European gas, oil, and coal imports from Russia have become Putin's currency of power in the conflict, European states and companies are being forced to look rapidly for alternative energy delivery partners outside of Russia, together with alternative energy resources. The new push for the production of alternative, non-fossil energies in general will trigger a run on metals like lithium, zinc, nickel, copper, and cobalt, all needed for batteries, electric cars, solar panels, and electricity grids. These metals are mainly found in a few autocratic states: China was estimated to control over half of the global rare earths mining capacity in 2020, and 85% of rare earth refining[7], while Congo-Kinshasa controls 70% of cobalt. according to the International Energy Agency (IEA), this will, to some extent, shift the West's fossil energy dependence from Russia to dependence on such metals from other autocratic regimes.[8] To what extent these states will use such dependencies as a currency of power, like Russia today, remains to be seen. In addition, according to the European Commission, imports for 34 products that Europe relies on are highly exposed to supply chain disruption given their low potential for diversification and substitution inside the Union. [9]

3. Conclusion

This fundamentally new political and economic situation of global markets and trade will present international companies with profound challenges for decades to come. The global economy and international trade and supply chains have become and will remain far more politicized, if not militarized, as currencies of power.

Thus, Western states and companies need to be far more aware of their import dependencies than in the past. To avoid again falling into an import trap in their trade relations by becoming over-dependant on imports of resources from autocratic states, the trade policy of Western companies must become: diversification, diversification, diversification![10], diversifying both global trade partners and global supply chains. Like many other companies, BASF, the German chemical industry giant, blindly ignored the state of Putin's policies and naively went along with Putin's gas trap. Now BASF has to write off all of its Russia investments, with investment in Nord Stream 2 alone worth 1 bn euros.
Many other leading Western companies (MacDonalds, BP, et al.) have had to shut down and write off their production in Russia and are leaving their investments to the Russian state.

In addition to this business policy, it would be wise and more secure for Western companies to trade with states and their companies that adopt a mutually comparable set of fundamental values and norms. Friend shoring means the commitment to work with countries that "have strong adherence to a set of norms and values about how to operate in the global economy and about how to run the global economic system", as U.S. Treasury Secretary Yellen recently

[7] The White House (2021), "Building resilient supply chains, revitalizing American manufacturing, and fostering broad-based growth", June 2021.

[8] The Role of Critical Minerals in Clean Energy Transitions, International Energy Agency, Flagship report — May 2021.

[9] European Commission (2021), Strategic dependencies and capacities, Commission Staff Working Document, 5 May 2021.

[10] Christiane Lagarde, A new global map: European resilience in a changing world, Keynote speech by Christine Lagarde, President of the ECB, at the Peterson Institute for International Economics, Washington, D.C., 22 April 2022.

argued.[11] “Globalisation is out, friend shoring is in” is the talking point in Western financial institutions. As a consequence, it is crucial to realize that profit alone should not be the only goal of Western companies. “Freedom is more important than free trade. The protection of our values is more important than profit,” as NATO General Secretary, Jens Stoltenberg, said at the World Economic Forum in Davos.[12]

Following these three principles – diversification, friend-shoring, and abandoning the fixation on profit as the exclusive business goal –, Western companies could find themselves better prepared to stabilize their trade relations and supply chains in times of de-globalisation and geo-economic turmoil.

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[11] Speech transcript, US Treasury Secretary Janet Yellen on the next steps for Russia sanctions and ‘friend-shoring’ supply chains, at the Atlantic Council, Washington April 13, 2022.

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