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East vs. West: Battle for Reforming the World Economy

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Abstract

Despite the fast growth of the developing economies' share in the world GDP, they are still estranged from global economic governance processes. Domination of Western countries in international financial organizations and all segments of the global financial market, including the forex market, provides the West with the opportunity to maintain unequal exchange in economic relations with developing nations. Vices of the global financial architecture built by the West for their own benefit gave birth to acute global crises of the new type. In this situation developing economies started to struggle for protection of their rights which, following the BRICS group creation, became meaningful, systematic and global. Supported by developing countries, the BRICS group is striving for the rearrangement of the whole global economic architecture including the international trade, foreign exchange and financial relations, foreign investments, control over sources of raw materials, regional markets, and high technologies.

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The world economy at the crossroads

The world economy is now at the crossroads, experiencing tectonic upheavals that occasionally shake global and regional markets heralding the beginning of fundamental changes.

Until recently the West has dictated its terms and conditions at all sectors of the world economic system, such as the international trade, currency system, technologies, communications, capital market transactions, direct investments in production, control over raw material resources, etc. Such domination mostly stipulated to historical conditions, first of all, the fact that today's system of international economic relations was formed based on the results of the Second World War. Its architecture, as well as the laws of its functioning, were defined by the United States of America, the country that featured the greatest economic power for the time.

Some time later the link between the U.S. and revived Western European countries formed. The notorious "golden billion" formed playing a key role in the system of global governance of the world economy. The most important economic decisions were elaborated in informal discussions during meetings of Bilderberg and Rome Clubs, at the machinery of the Organisation for Economic Co-operation and Development (OECD). Then they took their shape as statements of the Group of Seven and were brought into effect through international economic organizations, such as the International Monetary Fund (IMF), World Bank (WB), International Bank for Reconstruction and Development (IBRD), General Agreement on Tariffs and Trade (GATT) (later WTO) dominated by Western countries. *Developing economies were estranged from the decision-making process and, in fact, were discriminated. Their role was reduced to obedient fulfillment of the rules of the game defined by the "golden billion" for own benefit.* Rules of international trade created conditions for unequal exchange. Prices of finished products flowing to developing countries from the West were set too high, while prices of raw materials forming the basis of exports of developing countries were set too low.

In other words, the global economy featured a unipolar world in its most obvious form.

Relocation of industries to developing economies and changes in the balance of forces in the world economy

The process of globalization has considerably changed the architecture of the world economy and the very content of international economic relations.

After the "cold war" ended, the globalization was characterized not only by aggressive capture by Western transnational companies (TNCs) of the markets of former socialist economies that were new for them. During that period, the transferring of production facilities (not only in mining but also in processing industries) to developing economies vitalized considerably. In Western countries, TNCs mainly kept science-intensive production (information technologies, biotechnologies, nanotechnologies).

The capital inflow from the West was also stimulated by economic policies of developing and transition economies, which combined certain role of the government and the freedom of businesses. The measures to attract foreign direct investments were supplemented by improving national legislations and law enforcement practices, fiscal and customs systems, development of free-market-economy institutions (including stock markets), construction of the transport infrastructure, implementing of new means and ways of communication, stimulating the domestic demand. Owing to the cheap labor and other operating expenses and to low taxes, developing economies became a profitable place to invest.

Reports of the United Nations Conference on Trade and Development (UNCTAD) often noted faster inflow of foreign direct investments (FDI) to developing and transition economies. In 2003–2013 global FDI volumes were growing 5 % a year, while for developing economies this indicator made 17 %. While in 2000–2007 developed economies received 3 times as much of FDI compared with developing economies, in 2012 the latter outstripped the West in terms of attracted foreign investments for the first time. In 2014 the FDI inflow to industrial economies decreased to USD498.8 billion, which was as low as never before, falling 28 % against the previous year. To the contrary, the investment inflow to developing economies grew 2 % reaching USD681.4 billion. Yet USD48.1 billion was received by transition economies which, according to the U.N. classification, included Russia. Thus, the share of developing and transition economies in the total FDI inflow made 59.4 % in 2014 against 52.5 % a year before.

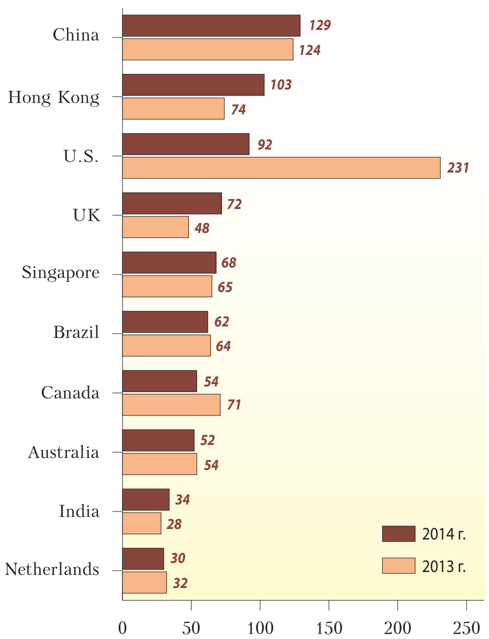

Fig. 1. 10 economies with highest FDI inflows (USD billions) (according to UNCTAD: World Investment Report 2015. Reforming International Investment Governance) // UNCTAD : website. P. 5. URL: http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf (date of reference: September 17, 2015)

Today developing economies make one half out of 10 greatest FDI recipients. In this situation, the position of the United States as the global leader in terms of the investment inflow gradually weakened. While in 2000 the U.S. received over USD300 billion investments (22 % of the global FDI inflow), in 2014 this amount only reached USD92.4 billion making less than 8 % from the total FDI inflow. Thus the U.S. only took the 3rd place passing China and Hong Kong ahead (see Fig. 1).

As a result, the geographic panorama of the world economy changed, industries started moving from the West to the East at a quick pace. The balance of forces in the world economy has also changed. While in 1990, according to the IMF, Western developed economies were responsible for 80 % of the global GDP at current prices (including 58.3 % for the U.S. and the euro area countries), in 2010 this reduced to 65.7 % (including 49 % for the U.S. and euro area countries), and in 2014 to 55.1 % (including 34.5 % to euro area countries). And conversely, in 1990 developing economies only were responsible for 21.7 % of the world GDP at current prices, while in 2010 this indicator reached 34.3 %, and in 2014 their share increased to 44.9 %. But if the GDP is recalculated based on the purchasing power parity (PPP), the share of Western economies, according to IMF estimates, will be less than one half of the world's GDP (43.1 % in 2014), including the total of 28.2 % for the U.S. and EU (each 16.1 and 12.1 % respectively). In terms of PPP, the share of developing economies in the world GDP in 2014 reached 56.9 %.

Western control over the global financial system

Without impeding the relocation of industries to developing economies, the West, however, continued its tight control over the global financial system and, thus, the world economy as a whole.

Western countries enjoy their privileged positions at all international financial organizations, including the IMF and World Bank, through unfair system of quota, vote distribution and the forming of managerial bodies. These mechanisms help the U.S., together with European and other Western countries, to adopt decisions favorable for them.

Western countries dominate in all segments of the global financial market, including the currency market. In February 2015 the U.S. dollar and euro were responsible for 72 % (43 % and 29 % respectively) of all world financial payments on trade and capital transactions, taking into account that, as noted above, the share of the U.S. and euro area economies in the world GDP only makes 28.2 % in terms of PPP and 34.5 % at current prices. Yet higher is the weight (85 %) of dollars and euros (62 % and 23 % respectively) in world foreign exchange (FX) reserves.

The U.S. and EU countries derive a huge benefit from that. In particular, the U.S. government can allow huge long-lasting negative trade and payment balances covering these for the account of selling treasury bonds and continuously growing its sovereign debt that, according to April 2015 data, exceeded USD18.2 trillion. *Essentially, foreign countries using U.S. dollars in their foreign trade, capital transactions and as a means of FX reserves accumulation, lend money to the American economy.*

The West hosts the most powerful banks, key commodity, forex and stock exchanges, leading rating, broker, auditor, consulting and insurance companies, pension funds, electronic interbank payment houses, international payment systems and other commercial institutes defining the rules of functioning and the architecture of the world finance. In this situation, the Western commercial finance sector is quickly growing and diversifying. The amount and value of traded securities (stocks, bonds, promissory notes, bills of exchange, debentures, depositary receipts and their derivatives, such as futures, options and swaps) have drastically grown.

Rapid growth is demonstrated by so-called "shadow banking", a new segment of the commercial finance sector including numerous Western non-bank financial intermediaries, such as money market funds, financial corporations, trusts, investment funds, companies specializing in investments in real property, hedge funds, etc. Their role became especially notable after the 2008 global crisis after implementing stricter control and regulatory norms for banks, e.g. capital requirements for operations with some securities were stiffened. *As a result, some investors chasing profits shifted to "shadow banking" institutions enjoying freedom from new regulations.*

As noted in the report prepared by the Financial Stability Board (FSB), total assets of "shadow banking" (Fig. 2) as of the beginning 2015 exceeded USD75 trillion. The U.S., EU and UK answer for over 80 % assets of "shadow banking" (USD25, 24 and 9.3 billion respectively),

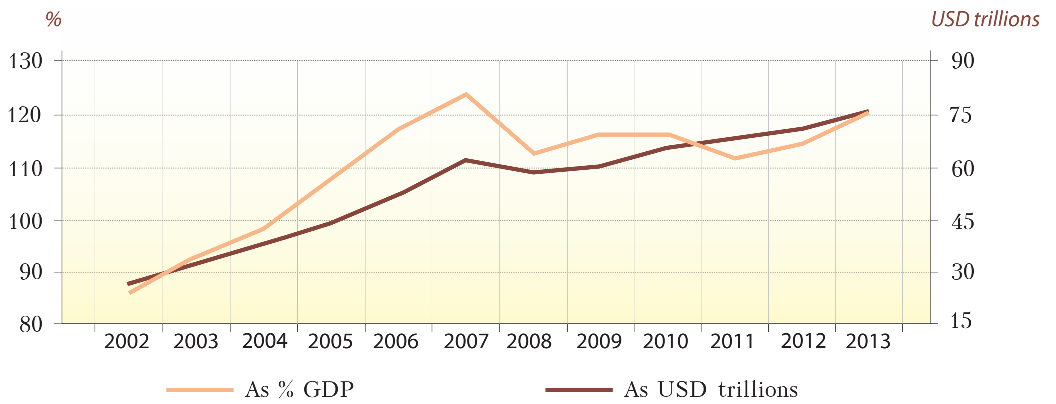

Fig. 2. Assets of “shadow banking” institutes, as USD trillions and % GDP (according to Global Shadow Banking Monitoring Report 2014) // Financial Stability Board: website. 2014. October 30. 53 p. URL: http://www.financialstabilityboard.org/wp-content/uploads/r_141030.pdf (date of reference: September 18, 2015))

while all developing countries (mainly China and Brazil) only answer for 5 %. "Shadow banking" plays a huge role in many Western economies, its assets in the Netherlands exceed the national GDP 7.6 times, in the UK 3.5 times, in Switzerland 2.6 times, while in developing countries these do not even reach 10 % GDP.

The monopoly position in the field of financial services and their huge overvalution allow the West to support inequivalent exchange in economic relations with developing countries even during the relocation of industries to the East. As estimated by specialists of Boston Consulting Group, in 2013 the income of Western banks from mere wire transfers made USD1 trillion (the total volume of wire transfers was over USD410 trillion, i.e. 5 times as high as the global GDP), and by 2023 this will reach USD2.1 trillion, which is comparable with GDPs of such large European countries as France and Italy. Up to one quarter of IMF loans are spent for so-called "technical assistance" (conducting lectures, organizing various trainings, etc.) – i.e. services of Western consultants to governments of developing economies that received loans.

World financial pyramid and the new type of crises

Rapid development of the Western financial sector created numerous and dangerous structural disproportions threatening the stability of the world economy. The financial sector only representing channels purposed to reallocate material goods and creating no value-added by itself has left far behind manufacturing sectors of the economy creating such goods (products and services), namely the industry, agriculture, construction, transport, etc.

Nikkey, a newspaper of the Japanese business community, notes that the value of shares quoted on world stock markets, the greatest part of which is formed by Western companies, reached a record level of USD74.7 trillion, exceeding the annual volume of the world GDP. According to J. Anderson, an American stock market analyst, the total volume of outstanding shares and bonds denominated in four leading Western currencies (U.S. dollar, euro, British pound and Japanese yen) made an equivalent of USD111 trillion, including USD56 trillion denominated in U.S. dollars, 29 in euros, 9 in British pounds and 17 in yens, which is 3.3 times as high as the total GDP of the above four countries (USD34.23 trillion) and 43 % as high as the world GDP (USD77.3 trillion dollars).

Total assets of the world financial system, including traditional banks, insurance companies, pension funds and "shadow banking" institutes, reached the tremendous amount of USD306 trillion, which is 4 times as high as the world GDP. Of these, according to the Financial Stability Board, assets of traditional banks only make USD140 trillion (almost 200 % of the world GDP) followed by "shadow banking" structures with USD75 trillion (over 100 % of the world GDP), insurance companies and pension funds with USD55 trillion (76 % of the world GDP).

Rapid growth of financial sector's assets took place in times of revolution in communication means and ways supplementing the freedom of transborder flows of goods, technologies and labor force with the freedom of information flow. The Internet shrank the time and space making it possible to transmit any data to any *point of the planet. Coupled with excessive fancy for financial instruments of moneymaking and speculative behaviors of Western investors this created novel opportunities of instantaneous transposition of short-term capitals.* It is important that the greater share of financial instruments is managed by open mutual funds allowing investors *online* transactions with securities. Moreover, a material part of stock market transactions is conducted by so-called *high-frequency traders (HFTs)*) using computer algorithms that continuously monitor market trends and automatically buy or sell securities. Such mechanisms and methods create an effect of gregarious, panic behavior of investors and impetuous transposition of huge capital aggregations.

In other words, the West has built a huge, immensely mobile and unstable financial pyramid. The new crisis type was given birth exactly by scales of capitals accumulated in the financial sector, velocity of their cross-border movement and the separation of finances from the production. Classic cyclical crises of goods overproduction were replaced by crises of financial instrument overproduction. Both of these are based on disbalance between demand and supply, however, a distinctive feature of modern crises is that they result from sudden massive outflows of speculative capitals first affecting the economy of a separate country and then, as a result of a chain reaction, spreading over a region or economy type.

Moreover, crises of this type started shaking the world economy as a whole provoking regressions and stagnations as it happened in 1997–1998 and 2008–2009.

Trying to prevent uncontrolled crisis expansion in 2008–2009 governments of Western countries were forced to increase their budget deficits and sovereign debts to infuse liquidity in commercial financial structures, in particular through "quantitative easing" programs. In the mere G-7 countries the sovereign debt amount since the 2008 global crisis has grown almost 40 % and made 120 % GDP by the beginning 2015.

During the effective period of the "quantitative easing" program the U.S. Federal budget deficit grew several times (almost 9 % GDP in 2010 and 2011, 7.6 % in 2012). As for the sovereign debt, during 6 years of Barack Obama's presidency, i.e. from January 2009 to July 2015, this grew 70 % (from USD10.6 to USD18.2 trillion) exceeding the country's GDP, and 2.8 times (from USD6.6 to USD18 trillion) during the most recent 14 years (since January 2001). The mere sovereign debt (excl. household and corporate debt) per U.S. citizen made USD56.250. And the sovereign debt including financial obligations of the government, businesses and households reached 400 % of the country's GDP. *Instead of becoming the world's largest creditor nation, America turned into the largest debtor*.

The U.S. sovereign debt is increased by way of issuing sovereign bonds also covering the huge balance of payments deficit on the current account (USD400 billion in 2013, USD410 billion in 2014). The balance of payments deficit, in its turn, is stipulated by chronically negative balance of foreign trade (in 2013 imports exceeded exports by USD700 billion, in 2014 by USD719 billion).

The growth of the Federal budget deficit and sovereign debt also stipulates to the empire nature of the U.S. foreign policy clearly featuring messianic motifs, such as striving for spreading the American lifestyle and American understanding of democracy and human rights everywhere suppressing the "dissent" of other countries in a military way. The mere wars in Iraq and Afghanistan cost the U.S. government USD1.5 trillion.

The sovereign debt growth forms dangerous disbalances, this is a time bomb under the American economy. No one knows what will be the detonator and when the timing device activates but there are very few people who doubt that this bomb finally explodes if the debt grows further. Danger attributes are obvious, this is witnessed by the mere fact that the 2008 world financial and economic crisis started exactly from shocks in the U.S. financial system. The end of the "quantitative easing" program allowed Barack Obama's government to reduce the Federal budget deficit (2.8 % GDP in 2014) but not to balance the foreign trade yet.

A sharp sovereign debt crisis formed in Europe in 2011. Thanks to urgent measures taken in 2012, the EU managed to make it less sharp but only for some time. In 2014, the problem of EU sovereign debt aggravated again. The sovereign debt of the euro area countries reached 92 % GDP with 87 % for the whole European Union (the maximum permissible EU debt level is defined as 70 %).

The true causes of financial crises are, however, much deeper than errors in the formulation of "quantitative easing" programs or in calculations of the required additional liquidity. They are in a totally different field, namely in specifics of the Western liberal economy development model, the main adepts of which have traditionally been the U.S. and the UK. This model absolutizes the "market economy", believes in its ability to self-regulate and strives to decrease the governmental intrusion as much as possible.

The threat of a new destructive crisis is hanging over the world financial system and the global economy as a whole.

Developing economies' battle for their rights in the world economy

The survival experience of many developing economies during 1997–1998 and 2008-2009 global crises provoked by vices of the international financial architecture was very painful. Most economies of Eastern Europe, Asia, Africa and Latin America experienced huge capital outflows, fall of exports due to lowered demand and prices for raw-material commodities, decrease of national currency exchange rates, deficit of the governmental budget and growth of foreign debt.

Sharp financial crises, injustice of the currently existing manners in the world economy became a powerful stimulus to fight for own rights for developing economies that were discriminated and estranged from the global management of economic processes despite changes in the balance of powers in the world economy and the fast growth of their share in the world GDP.

Although such fight is free from blood and people deaths, this still resembles classic wars. As in any war, fronts are formed here, tactical successes sometimes turn out to be strategic losses, offensives and counteroffensives are planned, temporary armistices change to furious fights and persistent exhaustible positional activities to rush attacks and enemy encirclement. As in any war, coalitions form and the opposing party tries to split these looking for collaborationists and inducing their betrayals. As in any war, secretive methods of security services are used. The intelligence tries to obtain confidential information on enemy's plans and intents to thwart these and simultaneously throws in disinformation to misinform, entrap the enemy or make it expend its energy and funds going to impasse.

Naturally, developing economies tried to stand upon their rights in their confrontation with the West in former times too but that fight was sporadic, local. That was either in separate regions (forming regional integration groups like ASEAN, MERCOSUR) or separate raw material markets (OPEC, Gas Exporting Countries Forum).

Sometimes developing countries managed changing some elements of the existing global economic system to their benefit. For instance, oil-producing nations were able to create a more fair mechanism of world trading with the black gold through OPEC. However, much more often the West fended such attempts using the inhomogeneity of developing economies, numerous contradictions between them and their dependence on Western loans, technologies and arms deliveries. In particular, to split OPEC, the U.S. used Saudi Arabia, their closest ally in the Middle East, and used pro-American regimes in a number of Latin America countries to split MERCOSUR.

Only after the BRICS group was created uniting 5 developing economies and nations with transitional economies enjoying the greatest economic potential and political influence and representing different continents and regions of the world such battle became meaningful, methodical, systematic and – the main thing – global affecting the whole architecture of world economic relations.

The BRICS group declared expressly that the unipolar world is unjust and that there is a need to form polycentric world order including the involvement of developing economies in the global system of world economic governance.

The influence of BRICS stipulates, first of all, to the total potential of its member countries. According to 2014 data, BRICS countries account for 26 % of the territory, 43 % of the population of our planet, 30 % of the world GDP (USD32 trillion), 20 % of the international trade. Four out of five countries are in the top 10 of the world's economies. Foreign exchange reserves of BRICS countries stand for 43 % of the world's reserves. Sovereign funds of the five's countries are among key global capital market players.

In terms of growth rates, BRICS countries are far ahead of Western countries and became the main driver of the world's economic growth. In 2000-2010, the GDP of Western countries grew 61 % compared with 4.2 times for BRICS countries. The purchasing power-parity-based share of the association's countries in the world GDP in 2014 reached 30.3 % (Russia – 3.3 %, China – 16.3 %, India – 6.8 %, Brazil – 3.0, South Africa – 0.9 %) exceeding the share of the U.S. and euro area countries reaching 28.2 % (U.S. – 16.1 %, EU – 12.1 %). The share of BRICS countries in the world trade is also growing quickly.

The comparison of the U.S. and China is especially indicative. The United States gradually started to cede in the economic competition to China, the latter having turned into the "world factory". The PRC economy is growing rapidly: an average of 11.1 % in 2002–2012, 7.5 % in 2013 and 7.4 % in 2014. In 2009, China became the world leader in terms of exports volumes, in 2010 it reached 2nd place in terms of GDP volume and in 2012 outflanked the U.S. in foreign trade (USD4.3 trillion in 2014). As estimated by the IMF, China's GDP made USD10.5 trillion at current prices or USD17.6 trillion based on PPP, i.e. the country reached the 1st place in the world by GDP calculated based on PPP (USD17.6 trillion against USD17.4 trillion in the U.S.).

BRICS members are also members to various associations of developing economies and emerging markets, such as the Group of 77, Non-Aligned Movement, regional structures in Africa, Eurasia, Eastern and Southern Asia and Latin America. They well understand interests of developing economies and try to appropriately reflect them in their activities.

This is exactly the participation of Brazil, Russia, India, China and South Africa in such associations of developing economies that helped to form the "Eastern Coalition". This is opposed by the "Western coalition" of 37 industrially developed countries with the tandem of the U.S. – EU in its center. This is natural that, differently from the "Western coalition" that was formed a long time ago, the "Eastern" one, the interests of which are expressed by the BRICS group, is only in the process of its formation. This is still inhomogeneous, fragmented and sometimes it is hard to ensure its rallying and the development of a common platform regarding some problems of the world economy. That is why sometimes BRICS opposes the "Western coalition" or its core (the U.S. – EU tandem) alone and sometimes being supported by some developing countries. From time to time Russia moves forward or, like two strongest warriors on the battlefield, the U.S. and PRC joust.

Although the U.S. government officially maintains a moderately neutral position in respect of the BRICS group, the American establishment understands that this group is a potential challenge to the American domination in the world.

In the first instance, the U.S. is trying to split and discredit the BRICS group in the eyes of developing countries. American media emphasize the decreasing economic development rates of BRICS countries claiming that the Five has lost its main driver role in the global economy and the U.S. is re-establishing as the main driver. Further slowdown of the Five's economic growth and the close disintegration of this association are forecast (Table).

Table

BRICS countries' GDP growth (% YOY)*

	2011	2012	2013	2014
Brazil	3.9	1.8	2.7	0.1
India	6.6	5.1	6.9	7.2
China	9.3	7.7	7.7	7.4
Russia	4.3	3.4	1.3	0.6
South Africa	3,2	2,2	2,2	1,5
Average	***5.5***	***4.0***	***4.2***	***3.4***
United Kingdom	1.6	0.7	1.7	3.0
Germany	3.6	0.4	0.1	1.6
Italy	0.6	–2.8	–1.7	–0.4
Canada	3.0	1.9	2.0	2.4
United States	1.6	2.3	2.2	2.4
France	2.1	0.2	0.7	0.2
Japan	–0.5	1.8	1.6	0.0
Average	***1.7***	***0.6***	***0.9***	***1.3***

** Most important economic indicators of Russia and selected foreign countries // Russian Federal State Statistics Service: website. URL: http://www.gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d06/165.htm (date of reference: September 24, 2015).*

Western media, however, cushion the fact that annual growth rates of BRICS countries even in 2014 were almost 3 times as high (3.4 %

against 1.3 %) as in the G7 countries (Table). As emphasized in IMF's April 2015 World Economic Outlook (WEO), developing and transition economies ensure 70 % of all the world growth. Thus, *despite all difficulties, the share of BRICS countries in the world GDP is firmly growing and they are still the driver of the world economic development.*

Washington is trying to split BRICS through diplomatic channels using various tactics towards the leading group members.

In respect of Russia the U.S. pursue the policy of direct pressure and isolation holding it for the most vulnerable member of the Five due to low diversification of its economy and excessive dependency on hydrocarbon exports. Washington regards anti-Russian sanctions not only in the context of the Ukrainian crisis but also from the perspective of influencing the BRICS group as a whole. Russian economy's drifting into crisis, as Washington suggests, must show all Five's countries the power of the U.S.

However, indeed, U.S. sanctions not only did not "scare" the BRICS association but even made its anti-American attitudes yet stronger. An article of the Xinhua news agency noted that "We must draw a lesson from the economic war started by the United States against Russia. If Moscow loses, PRC will be their next target... Therefore America claims that it is still the only hegemon and this is not as easy to change or destroy the world order headed by the West. Russia's troubles are a warning for China... The conflict of the U.S. and Russia made us regain conscience – China should not put blind trust in capitalists and politicians from the West. As long as you obey, they are messengers from heaven, but as soon as you disobey them such messengers promptly turn into a nightmare".

In respect of China Washington has been pursuing a containment strategy trying to limit the expansion of its economic development in the world, first of all in the Asia-Pacific Region.

Americans are striving to develop their relations with Brazil and India in every possible way trying to use the devotion of these countries to multiple-vector diplomacy. Washington is trying to discredit BRICS in the eyes of Brazilians and Indians and represent the deepening of bilateral cooperation as an alternative to the membership of these countries in the Five.

The war between the "Eastern" and "Western" coalitions is held in all segments of the world economy and in all geographic directions, both globally and regionally.

International trade

Severe struggle for changes in the world trade rules deployed in the WTO. Doha round of multilateral trade negotiations that has continued from 2001 discovered serious disagreements between developed and developing countries in a number of issues, such as trade in agricultural products, maximum volumes of agricultural subsidies, formulas and ratios of tariff decreases for industrial and agricultural products, protection mechanisms for "special" agricultural products, sizes of tariff quotas for "sensitive" products. After China and Russia joined the WTO positions of developing economies in this organization strengthened a lot, they were able to achieve appointing Roberto Azevкdo, Brazil's Representative, as its Director-General.

Developing economies tightly bind the fulfillment of West's requirements to decrease duties on industrial goods imports with U.S.

and EU counteractions reducing agricultural subsidies. Moreover, they require extending the access of their products to developed countries' markets, in particular due to preferential and differential treatment.

Polar opposite are also positions of developed and developing economies as for the WTO's future. Developing economies advocate for leaving areas of WTO competence as they are now, i.e. limiting these to trade in goods and services. Western countries would like to spread Organization's competence over new fields (investments, labor standards, intellectual property, principles of commercial disputes, etc.).

Some progress was achieved during the Bali WTO Ministerial Conference in December 2013. In November 2014 the WTO General Council approved a package of three resolutions in elaboration of Bali agreements. The first of these concerns the entry of the Trade Facilitation Agreement in force and effect. By its second resolution, the General Council, at the request of India and a number of other developing economies, guaranteed the non-application of WTO legal procedures in respect of additional agricultural subsidies used to create and maintain national food reserves. The third resolution proclaims renewal in 2015 of the work to find compromises on Doha agenda issues that have not been agreed yet.

Taking into account strong opposition in a number of WTO member countries to the agreements reached in November 2014 and numerous matters of dispute still to be resolved, the perspectives of completion of the Doha round of trade negotiations are still unclear.

Essentially, WTO has got beyond control of Western countries. A stalemate occurred in which none of the groups can impose their approaches to international trade regulation on the whole organization.

World financial architecture and IMF activities

After the 2008-2009 global crisis a number of large developing economies, first of all the BRICS group, came out for deep rearrangement of the global financial system and forced the West to agree to open a wide dialogue on such issues. The Group of Twenty (G20) was formed including both major Western countries and emerging markets (BRICS members and Argentina, Indonesia, Mexico, Saudi Arabia and Turkey). The main task of the G20 was finding ways to overcome the crisis and prevent such scenarios in the future. *This group became the center of developing the most important decisions on financial markets pushing the G7 to sidelines. This mere fact became an important milestone in the battle of developing economies for their participation in the global process of the world economic governance.*

The BRICS group actively supported the development by the G20 of stabilization measures that helped prevent the spread of the crisis in 2009 and mitigate its effects.

However, BRICS countries, having been supported by other developing economies – members of the Group of Twenty, had a broader look on its tasks suggesting that the new East – West dialogue platform gives a good chance for fundamental reform of the international financial and economic architecture.

The Five made a series of proposals to strengthen the stability of the international monetary and financial system that formed the basis of some important decisions of the Group of Twenty. In addition to participation in resolutions of the G20 the BRICS group received the opportunity to defend interests of developing economies at the Financial Stability Board

(FSB), a newly created body, and at the Basel Committee on Banking Supervision (BCBS). Considering appeals of Christine Lagarde, the IMF Managing Director, in 2012 BRICS leaders decided to make additional contributions to the Fund's credit resources for a total of USD75 billion aiming to prevent possible global financial crises.

In return BRICS countries brought about the issue at the G20 on a greater involvement of developing economies in the IMF and World Bank decision making process by way of changing the methodology of quota definition and governing bodies formation principles, redistributing quotas and votes. In favour of their position they argued that four of them (PRC, Russia, Brazil, India) are in the top ten of the largest IMF shareholders and that the existing IMF system of quota and vote distribution is unfair. For instance, China has an IMF vote share of 3.8 % while its specific weight in the world GDP is 12 %. At the same time, the UK and France the GDPs of which do not even reach one third of what China produces have 4.3 % votes each.

The coordinated position of the Five supported by other developing economies allowed BRICS during another G20 summit held in the Republic of Korea in 2010 achieve an agreement with the G7 to rearrange IMF activities towards greater consideration of interests of developing countries. This agreement formed the basis of the G20 outcome documents and the resolution of the IMF Board of Governors of December 15, 2010 on conducting the new 14th round of Fund's reform to be ratified by Fund's shareholder countries.

The new IMF reform package included the following items:

– European countries abandon two seats in the Executive Board and pass 6 % votes to developing economies;

– IMF passes to a fully elective Executive Board;

– quotas increase twice with the relevant reduction of volumes of New Loan Arrangements after agreements enter in force and effect;

– new method of quota estimation and mechanism of their regulation are developed;

– the revision of the quota definition methodology to be completed by January 2013 and quota redistribution by beginning 2014.

The reform provided for a double increase of the total amount of quotas from SDR238.5 billion to SDR477 billion (approx. USD737 billion) for the account of increasing the share of developing countries. It was planned that China's quota-based place will rise to the 3rd from the 6th (growth from 3.8 % to 6.3 %), Russia's to the 7th, *India's to the 8th and Brazil's to the 10th. As a whole, BRICS's share has to grow 3.46 % and reach 14.18 %. Taking into account that, according to the Articles of Agreement, all important decisions must be taken by 85 % votes, i.e. 15 % can block any IMF decision, it would be enough for the Five only to find one ally.*

The IMF reform provided in the 14th package became an outcome of long difficult negotiations and a complex compromise between developed and developing economies. *This cannot be called radical as even after the reforms become implemented the U.S. would retain its veto, its share would reduce from 17.1 % to 16.4 % (according to the current Articles of Agreement and By-Laws, IMF's major resolutions must be taken by a majority of 85% votes).*

The reform of the global finance in favour of developing economies was opposed by those U.S. and UK political and financial circles that control international capital markets benefiting from the existing situation. Despite the pressure of the international community the U.S. Congress has been blocking the implementation of the IMF reform package for 5 years. Only in mid-December 2015 the legislation to authorize the 2010 IMF Quota and Governance Reforms was adopted in exchange for President Obama's approval to lift the embargo on oil exports. This decision responded to the interests of major oil TNCs financing the Republican Party that controls the Congress. As a result the BRICS states have entered the list of the top ten members of the Fund.

At the end of November 2015 under the pressure of emerging market countries IMF Board of Governors decided to include from October 2016 the Chinese renminbi into the IMF currency basket. The renminbi will rank third in the basket after the dollar and the euro with the share of 10.92 %, ahead of the British pound sterling (8.09 %) and Japanese yen (8.33 %).

Long-term delay of the IMF reform ratification by the United States made BRICS countries to form their own international financial institutions. During the 6th BRICS summit in July 2014 in Fortaleza, Brazil the decision was made to create the New Development Bank (NDB) with the capital equivalent to USD100 billion together with the Contingent Reserves Arrangement (CRA). The New Development Bank will finance infrastructure projects in BRICS countries and other developing economies. The Reserves Arrangement is intended for BRICS mutual help in the event of a financial crisis.

Washington regards the New Development Bank and the Contingent Reserves Arrangement as an alternative to the existing basic international financial organizations, such as the IMF and World Bank, or, in a broader sense, as an attempt to create a new financial system parallel to the currently existing one. In particular, if the Contingent Reserves Arrangement helps developing economies, the latter will have no more need for IMF loans and the IMF will be unable to force these to conduct economic reforms in a direction desirable for the West.

Almost simultaneously with that China came up with the initiative of creating the Asian Infrastructure Investment Bank (AIIB) regarded by the West as an analog of the Asian Development Bank (ADB) dominated by the U.S. and Japan. Despite serious pressure from the U.S., 57 countries (including the UK and other Washington's nearest allies) agreed to take part in the creation of this new bank. Its l*argest shareholders became BRICS countries (China – 30.34 %, India – 8.52 %, Russia – 7.5 %). Unlike the WB and IMF, the Charter of the new bank gives no veto power to anyone and this secures equal opportunities for all members of AIIB.*

Lawrence Summers, former U.S. Treasury Secretary, named the decision to create the three new international financial structures "the end of American economic hegemony in the world".

International monetary system

Developing economies, including BRICS countries, have been actively trying to reform the international monetary system dominated by the U.S. dollar. In the recent years these countries have considerably increased not only their weight in the world production but also their financial potential. The mightiness and stability of their national financial systems are ensured by several factors, first of all, positive balances of trade and payments, low sovereign debt levels, large volumes of foreign exchange reserves and sovereign funds.

In particular, four BRICS countries are among the top ten countries enjoying the largest foreign exchange reserves. As at the end of June 2015 the 1st place in terms of volumes of international reserves belonged to China (USD3730 billion), 6th to Brazil (USD366 billion), 7th to Russia (USD362 billion) and 8th to India (USD355 billion).

BRICS countries plan to gradually displace the dollar from the global currency system by means of shifting to payments in national currencies. And BRICS countries shift to payments in national currencies in trade not only among themselves but also with other developing and even some developed countries. In particular, in 2014 Russia agreed with Iran to establish a joint bank that will focus on financing trade and investment projects in roubles and rials. Russia has been also conducting negotiations on this issue with other partners, in particular, with Egypt and Argentina.

However, a leading role in this process belongs to China, which is stipulated by its financial power and scale of foreign trade. China signed 32 swap agreements (in particular with four BRICS partners) on mutual opening of accounts in national currencies for a total of USD506 billion, largest of them being with Hong Kong, Republic of Korea, European Union, Singapore, United Kingdom, Australia.

China's active implementation of payments in national currencies in foreign trade fostered the promoting of renminbi in the group of leading international currencies ("renminbi internationalization" according to the Chinese methodology) which, in its turn, became an important component of the strategy aimed at displacement of the dollar from dominating positions.

Although renminbi has not yet taken the same place in international bank payments as the one enjoyed by China in the world production, the specific weight of the Chinese currency unit has been growing rapidly (Fig. 3). *According to SWIFT,*

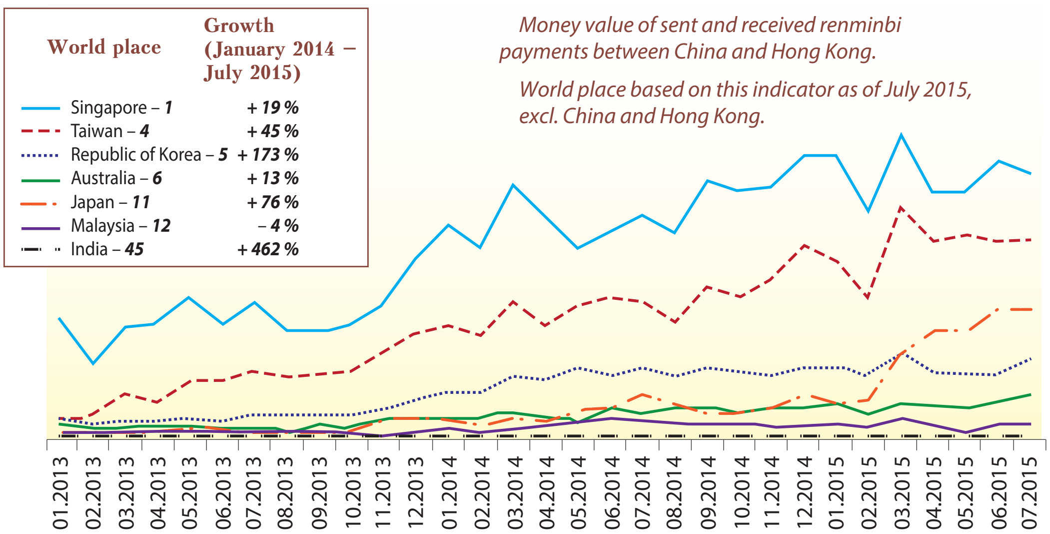

Fig. 3. Renminbi use in international payments in Asia (South Korea and Taiwan use the RMB for the majority of payments with China and Hong Kong) // SWIFT : website. 2015. September 1. URL: http://www.swift.com/about_swift/shownews?param_dcr=news.data/en/swift_com/2015/PR_RMB_august_2015.xml (date of reference: September 24, 2015))

in 2013–2014 volumes of renminbi-denominated international bank settlements grew up 321 %. Just in a year and a half, from January 2013 till end 2014, renminbi rose from the 13th to the 5th place in international currency rating following the U.S. dollar, euro, British pound and Japanese yen and overcoming the Swiss frank, Canadian dollar and Australian dollar. While in January 2013 renminbi only enjoyed 0.63 % of the whole volume of world bank payments, in December 2014 this was already 2.17 % and, according to many experts, this will overcome Japanese yen (2.69 %) soon. In 2015 renminbi's share in the total volume of interbank payments grew to 2.34 %.

Renminbi has been more actively used as a means of payment in the foreign trade of not only China but also in the trade of third countries between each other. In February 2015 renminbi came off world's second-best after the U.S. in settlements with trade letters of credit with a share of 9.43 % overcoming euro, yen and British pound.

Much higher is the average world share of renminbi in bank payments in the Eastern and South-Eastern Asia where most countries are oriented on trading and investment partnership with the PRC. Here renminbi has already displaces the U.S. dollar and de facto became a regional currency. Countries of South-Eastern Asia are gradually expanding the use of renminbi to define exchange rates of their national currencies. In 2014 region's countries, including the Republic of Korea, Indonesia, Taiwan, Singapore and Thailand, bound exchange rates of their currencies to the currency basket dominated by renminbi. Renminbi has been quickly growing in popularity as a means of foreign exchange accumulation. 25 countries included the Chinese currency unit in their foreign exchange reserves.

The undermining of dollar's domination in the world economic system is fostered by measures taken by BRICS countries to gradually reduce its share in their foreign exchange reserves. In 2014, Russia reduced the specific weight of the American currency in its international reserves from 44.8 % to 39.6 %. This was mainly thanks to the sale of U.S. government debt instruments. During the period from January 2014 to July 2015 their volume in the portfolio of the Bank of Russia decreased by USD50 billion, from USD131.8 billion to USD81.7 billion. The PRC is getting rid of the U.S. dollar too. In July 2015, the amount of U.S. Treasury bonds purchased by the People's Bank of China decreased to USD1240.8 billion against USD1275.6 billion in January 2014.

For the same purposes, central banks of BRICS countries have been increasing their gold reserves replacing the U.S. dollar. In particular, the Bank of Russia in 2014 increased its gold reserves by over 170 tonnes reaching 1206.8 tonnes at year-end (Fig. 4), a record figure in the past

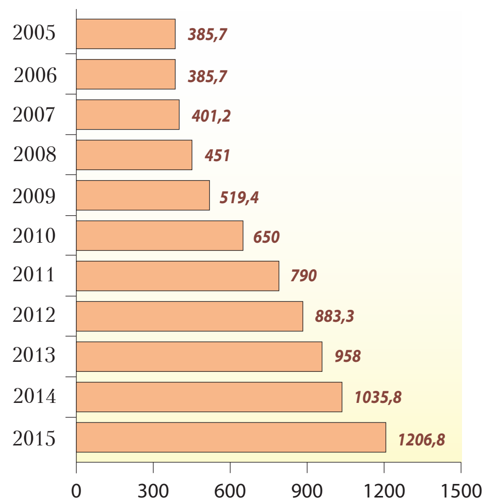

Fig. 4. Changes in physical volumes of gold in Russia's FX reserves at year beginning (according to the Bank of Russia, statistics of external sector, International reserve assets and other foreign-currency liquidity of the Russian Federation)

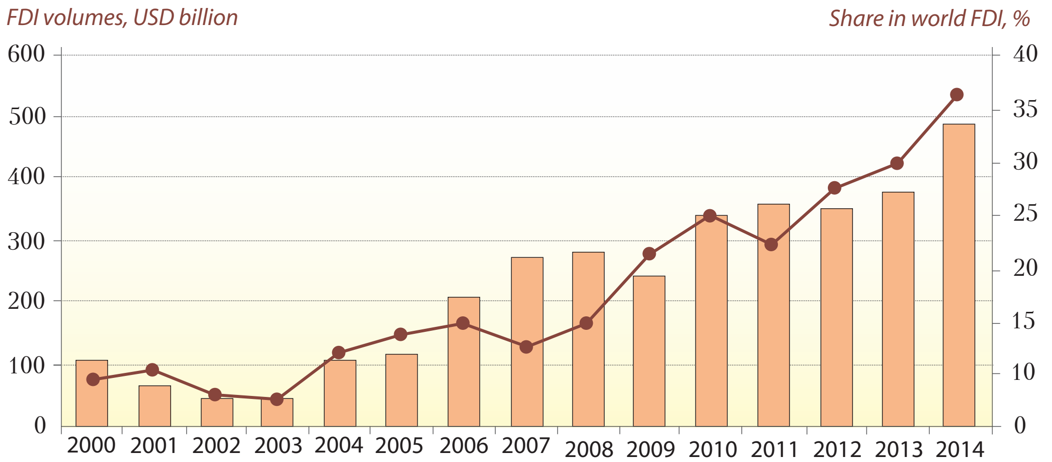

Fig. 5. Volumes of FDI from developing economies and their share in world FDI, 2000–2014, USD billions and % (according to Global investment trends monitor) // UNCTAD : website. 2015. May 18. No. 19. 8 p. URL: http://unctad.org/en/PublicationsLibrary/webdiaeia2015d2_en.pdf (date of reference: September 17, 2015))

10 years. That process continued in 2015. By August 1, 2015 the physical gold volume made 1287.7 tonnes, and its share in the FX reserves grew to 12.6 % against 7.8 % at the beginning 2014. As of July 2015 Russia's gold reserves were 6th largest in the world overcoming Switzerland.

The People's Bank of China has been actively purchasing gold too. At the end July 2015 it published data on reserves of this metal for the first time since 2009, these made 1658 tonnes. According to this indicator, China has reached the 5th place in the world.

For this reason, many Western analysts came to conclusion that both Russia and China were in the process of preparing grounds to introduce the gold-backed renminbi that would be able to press the U.S. dollar after some time. In the article headed "Currency War! China is Preparing for Something Big" analysts of Futuremoneytrends noted that "Already we are seeing China and Russia begin to hoard gold. China by the way is both the world's largest gold producer and biggest importer, so not only are they accumulating gold by the truck load, not once ounce produced is leaving their shore. China, across the board is preparing for something big in our currency markets".

Foreign direct investments

Developing countries have been actively growing their foreign direct investments.

As noted in the UNCTAD report "Global Investment Trends Monitor" of May 18, 2015, Western countries' foreign direct investments almost aren't growing (USD792 billion in 2014). At the same time, foreign direct investments from developing economies have been rapidly increasing (Fig. 5). In 2014 these grew 30 % to USD486 billion. Their share in the world's volume of foreign direct investments for the most recent seven years increased 3 times from 12 % in 2007 to 36 % in 2014.

Out of 20 world's largest investors, 9 (Hong Kong, PRC, Russia, Singapore, Republic of Korea, Malaysia, Chile, Kuwait and Taiwan) relate to the category of developing economies and emerging markets, and according to this indicator Russia (with its

USD56 billion) took the 6th place after the United States (USD337 billion), Hong Kong (USD150 billion), China (whose FDI volume exceeded USD100 billion for the first time reaching USD116 billion), Japan (USD114 billion) and Germany (USD112 billion).

The main role in this process belongs to the largest companies of developing countries that actually turned into transnational companies and compete with traditional Western TNCs. Corporations from developing countries have been purchasing assets belonging to American and European TNCs both in Western countries and in developing economies. In 2014 TNCs and national companies from developing economies invested USD152 billion in the purchasing of existing companies via mergers and acquisitions, which is 27 % higher than in 2013.

TNCs and national companies from developing economies made 171 out of 223 ultra-major (USD1 billion or more) transactions purchasing existing companies and 80 % transactions connected with the opening of new companies in other developing economies.

The third world's largest FDI exporter became China using accumulated foreign exchange reserves. In 5 years the Chinese increased their foreign investments twice, from USD56.5 billion to USD116 billion. Together with Hong Kong, foreign investments of Chinese companies reach USD266 billion making 55 % of all investments originating from developing economies. While in 2004 the inflow of foreign direct investments to China was 11 times the Chinese FDI, in 2014 these indicators nearly equaled. PRC's foreign financial assets, including direct investments in production, securities and accounts held with foreign banks exceeded USD4.6 trillion.

In 2015 the trend towards growth of Chinese capital investments abroad, primarily in Western countries, continued and China may become a pure capital exporter soon. According to the PRC Ministry of Commerce, volumes of foreign direct investments from Chinese companies in January-April 2015 increased compared with the same period of 2013 by 36.1 % to RNB 214.37 billion (USD35 billion).

Almost 80 % foreign investments are from Chinese government-sponsored companies closely cooperating with executive authorities and implementing the general national strategy in foreign markets.

Thus, the property of Western TNCs is gradually "nationalized" with their displacement from developing countries and strengthening of such countries' economic sovereignty.

Access to sources of strategic raw materials

One of the main aims of foreign investment policies of large developing economies is securing a stable access to oil and gas fields and other sources of strategic raw materials that have mainly been controlled by Western TNCs until recent.

Active hydrocarbon field exploration and development operations abroad are conducted by Russian fuel and energy companies, such as Gazprom, Rosneft, Gazpromneft, Zarubezhneft and Lukoil as well as corporations from India and Brazil, however, for obvious reasons, the leading role in this process is played by China. Until recently, more than one half of Chinese foreign investments were in companies specializing in developing fields of oil, gas and other mineral raw materials.

Three governmental companies, CNPC, Sinopec and CNOOC, purchased controlling interests in 18 Western oil producers. *The Chinese focus on developing economies with relatively weak positions of transnational oil and gas corporations, such as Kazakhstan, Venezuela, Iran, Angola, Nigeria and Sudan*. In 2011–2014 China invested USD73 billion in energy projects abroad. According to the IEA, Chinese companies operate in more than 40 countries controlling some 7 % of the world oil production. Assets of Chinese oil and gas corporations in 20 world countries allow producing 1.37 million barrels of oil a day, which is 29 % of all Chinese oil imports.

Just one enterprise, China Nonferrous Metal Mining (Group) Co., Ltd, owns assets worth USD2 billion in 30 countries (27 companies, 14 mines, 5 smelting works). This has abroad deposits of heavy non-ferrous metal ores (copper, lead, zink, tin, nickel, etc.) with the total volume of 26 million tons and light non-ferrous metals (bauxites) of over 300 million tonnes.

In order to entrench in countries with large deposits of strategic raw materials China is broadly using soft lending. In 2009–2010 PRC extended loans for USD75 billion to seven countries, namely Venezuela, Kazakhstan, Turkmenistan and Russia in exchange for guaranteed oil and gas deliveries or involvement of Chinese companies in oil and gas field development.

Regional markets

In many cases companies from BRICS countries manage to press Western TNCs in some developing countries or even whole regions.

In particular, BRICS countries have firmly entrenched in the African economy. In 2009, China overpassed the U.S. in terms of trading with African countries and in 2013 this left Americans far behind increasing the gap to 2.5 times: the turnover between Africa and China exceeded USD210 billion. PRC's direct investments to African countries increased from USD500 million in 2003 to USD15 billion in 2012. Chinese companies invested USD40 billion in 50 African countries having established 2 thousand enterprises. Chinese investments in the mining industry of African countries make 29 % of the whole volume of all foreign investments.

India's trade with the African countries is rapidly growing too. According to expert estimates, in 2015 its turnover with Africa reached USD100 billion and possibly exceeded volumes of the trade between Africa and the U.S. Brazil has been quickly developing its foreign trade connections with Africa too overcoming many European countries in this area.

In Asia the strengthening of economic positions of BRICS member countries is connected with the implementation of the Chinese initiative creating the Silk Road Economic Belt covering a huge territory: part of China, Central and Southern Asia, a number of the South-Eastern Asia and Transcaucasia countries, and also implies economic integration, financial interaction, forming common logistics and infrastructure. In November 2014 for the purpose of financing such projects the PRC developed a fund amounting to USD40 billion. Obviously, the newly established Asian Infrastructure Investment Bank will be used for that.

A special meaning belongs to the arrangement on the coupling of the Eurasian Economic Union being the key integration project in Eurasia, *and the Silk Road Economic Belt, which arrangement was achieved during the visit of Xi Jinping, the President of the PRC, to Moscow in May 2015. In the future the interaction between Russia and the PRC in such projects may lead to the forming of a common economic space in the whole Eurasian continent*.

The BRICS group has been actively expanding its economic connections with Latin America countries that have been mainly oriented on business cooperation with the U.S., however, owing to the neoliberal development model imposed on them by Washington, experienced serious shocks and charted their course towards diversification of economic connections. In many South America countries, including large ones, such as Brazil, Argentina, Peru, Chile, left or left-center leaders got into power.

The political "growing left" of Latin America created favorable conditions for the development of economic links to BRICS countries, first of all, to China. In 2000–2013 China's turnover with Latin America countries grew 22 times and the U.S. share in the foreign trade of this region's countries fell down during the same period from 54 % to 35 %. According to bilateral trade volumes, in 2014 PRC left the U.S. behind in the largest countries of the continent, such as Brazil, Argentina, Venezuela and Peru.

Chinese companies and banks increased their investments in the region by over 70 % against the growing outflow of the North-American capital. During his visit to Latin America in 2015 Xi Jinping, the President of the PRC, announced the intent to bring the turnover with region's countries to USD500 billion by 2025 and investments to USD250 billion by the same time. The Chinese leader agreed with Nicolás Maduro, the President of Venezuela, on the implementation of joint projects for a total amount exceeding USD20 billion. Ecuador received loans from China for a total of USD7.53 billion.

In May 2015 Li Keqiang, the Premier of the State Council of the People's Republic of China, paid his official visits to Brazil, Columbia, Peru and Chile. 35 documents on cooperation in industry, infrastructure construction, new energy types, financial, aircraft, agricultural, telecommunication and R&D activities were signed with the mere Brazilian party. The agreement on joint activities until 2021 provides for Chinese investments for a total of USD53 billion in various areas of the Brazilian economy, in particular, in oil production (with Petrobras for USD5 billion) and the mining industry (with Vale for USD4 billion).

Also parties signed an agreement on the studying of opportunities to implement an infrastructural megaproject worth USD30 billion, the construction of a 3.5 thousand km railway from the Brazil's Atlantic coast concentrating the greatest part of the country's industrial potential to a Peru port on the Pacific coast. Such artery would create new opportunities to develop China's economic connections with the region as it will help reduce greatly the time and cost of transport between the PRC and Latin America, for instance, of iron ore, oil and soy.

Russia does not belong to Latin America's major trade partners (the turnover is below USD20 billion), however, in many commodity items, first of all, deliveries of weapons and military equipment, its share in the trade with the region's countries is substantial and continues growing. Russian companies, first of all, oil producers, have been actively working in the region. A new momentum to the development of trade and economic connections with Argentina was given by the visit of this country's president K. Kirshner to Russia in April 2015 during which a set of bilateral agreements was signed.

In the situation with EU's aggravating sovereign debt crisis and destabilization of its financial system, China started stepping up its presence in the European continent too. First Beijing staked on "peripheral" countries of Southern Europe, first of all, Greece and Portugal with their strong positions of "leftist" political parties. However, after some stabilization of sovereign debt crisis Chinese banks and companies expanded their business geography in Europe. Chinese direct investments in Europe started growing quickly increasing one and a half times (from USD12 to USD18 billion) in 4 years only (from 2011 to 2014). The greater part of these funds was invested in the UK, Italy, Holland and Portugal.

China is striving to purchase in Europe little banks and insurance companies (but with good reputes), branded companies. Investors from PRC bought Volvo in Sweden, CDP Reti (gas distribution) in Italy, major shareholdings in automotive Peugeot Citroen and fashion Sonya Rykiel in France, Pizza Express restaurant chain and Aquascutum ready-made clothes manufacturer in the UK, bought real properties in Portugal and Latvia, showed their interest in purchasing Pirelli.

Pursuing their strategy of creating the Maritime Silk Road, Chinese state-owned companies invest funds in modernizing ports on the European coast of the Mediterranean, in particular, Piraeus, Marseille and Barcelona. If Alexis Tsipras's government continues privatizing the Piraeus port and the PRC receives the opportunity to purchase this port's controlling interest, this will become a key transportation hub of the Chinese trade on the continent. The Chinese government is also financing the construction of a high-speed main railway line that will connect Piraeus port with Belgrade and Budapest.

PRC is also creating transport and logistics infrastructure on the African coast of the Mediterranean connecting this with the Red Sea. In Israel this is building a railway between Mediterranean cities Tel Aviv and Haifa and Eilat port on the Red Sea, in Sudan this is modernizing Port Sudan.

The U.S. uses all its effort to stop BRICS's "economic offensive" on different continents, first of all, the Chinese trade and investment and Russian energy "expansion" in the Asia Pacific Region and in Europe resorting to the "containment" strategy. Sometimes such endeavors are success as this happened in 2011 where, under Washington's pressure, Iceland's government blocked the transaction of Chinese investor's purchasing a large land plot in this country. Owing to the U.S. pressure on Bulgaria and other European countries in 2014 Russia was forced to withdraw from the South Stream gas pipeline construction project.

High technologies

Leadership in high technologies is one of the most important advantages allowing the U.S. and other Western countries to dominate in the system of the world economy global governance.

The lagging behind and dependency of developing economies and emerging markets on the West in many areas of modern technologies do make it more difficult to rearrange the world economic system on *a more fair basis, however, the gap in this area between "Eastern" and "Western" coalitions is gradually shrinking.*

China's achievements in R&D and high technology development have been growing at impressive rates. The created modern industry and mighty financial system allow close engaging in the solution of the task to turn China from "product factory" into "knowledge factory" as it was resolved during the 17th National Congress of the Communist Party of China. Several million of the Chinese got higher education and underwent trainings at the best universities of the U.S. and other Western countries. Many of them became qualified professionals and returned to their homeland occupying leadership positions in the Chinese Academy of Sciences, Engineering Academy, universities, major companies. In 2000 – 2010 the number of scholars in China increased 2.3 times to 3.18 million people. According to Times 2013, 16 Chinese universities were in the world top. In the recent 10 years the share of Chinese high-tech products in the world production increased from 6 % to 22 %. The PRC created two "silicon valleys" in Shenzhen and Zhongguancun and numerous technology parks in the country's major cities. The share of high-technology products in Chinese exports makes 25–30 %. Chinese companies Lenovo, Huawei, Xiaomi, Coolpad, ZTE compete on world markets with such high-tech Western corporations as Apple, Samsung, etc.

Other BRICS countries also have substantial achievements in some high-tech areas: Russia (peaceful outer space exploration, nuclear energy, aeronautical engineering), India (information technologies) and Brazil (aircraft engineering, biofuel production).

BRICS countries have been building their connections in high-tech areas on a bilateral basis too. So, Russia and India have been working on modern rocket technologies under the bilateral BrahMos program, continue joint development of a multifaceted fighter and multi-purpose transport aircraft. During the visit of Russia's President Vladimir Putin to Delhi in December 2014 the parties agreed to implement joint high-tech, industrial and scientific projects, in particular in mobile communications, development of low-orbit spacecraft, use of GLONASS satellite navigation system. The agreement to form a bilateral technology alliance is being implemented by Russia and Brazil.

The development of high technologies is becoming a priority of multilateral cooperation between BRICS countries. A working team on science and innovations has been created. 11 most perspective lines of cooperation have been defined, from aerospace to bio and nano technologies. In particular, BRICS information companies have been carrying on joint developments of critically important software types based on an open-source operating system.

Economic model

In the economic competition between "Eastern" and "Western" coalitions the economic model that each of the groups may offer the rest of the world is of huge importance.

The U.S. imposes on all countries the neo-liberal model based on the faith that spontaneous market forces are able to "self-regulate" and on the devotion to ideas of government's non-intrusion in the economy. The main principles of economic liberalism issue from this, such as every possible encouragement of private competition and deregulation *of the economy by the government, total liberalization of foreign trade, capital flows and financial services market, removing any restriction for foreign investments, privatization of all governmental property, reducing business taxes and introducing floating exchange rate of the national currency.*

China's rapid growth demonstrated that the neo-liberal model of the economy is far not the most efficient and has an alternative matching developing economy conditions much better than the Washington Consensus. Differently from the dogmatism of liberal model's adepts deeming this the only true and universal, their nearly-religious faith in the almightiness of spontaneous market mechanisms, the Chinese economic development model features pragmatism, taking into account national specifics in market reforms, refusal to use revolutionary methods of economic transformations in favour of evolutionary methods.

The Chinese model implies active governmental involvement in the governance of economy, its transparency and multilevel structure (60 % GDP are produced by state-owned and 40 % by private companies), government's domination in strategic sectors of economy (banks, energy, defense industries, telecommunications), combination of private initiative and tight governmental control, as well as principles of planned and market economies, and to the extent the economy develops, plans become less directive and more indicative, with circumspect industrial policy.

Components of the Chinese model became high share of savings in the GDP (30–40 %) used for investment purposes, creating "points of growth" in the form of technology parks and exports-oriented free economic zones, formation of favorable business climate to attract foreign direct capital investments, limiting portfolio and other short-term Western investments able to destabilize the financial system, gradual easement of foreign exchange control, supporting stable exchange rate of renminbi by way of Central Bank's active interventions and restrictive measures on the foreign exchange market, broad imports of Western technologies.

After 2010 China met with the slowdown of the economic growth. It became clear that resources of the export-oriented model ensuring phenomenal growth rates of the

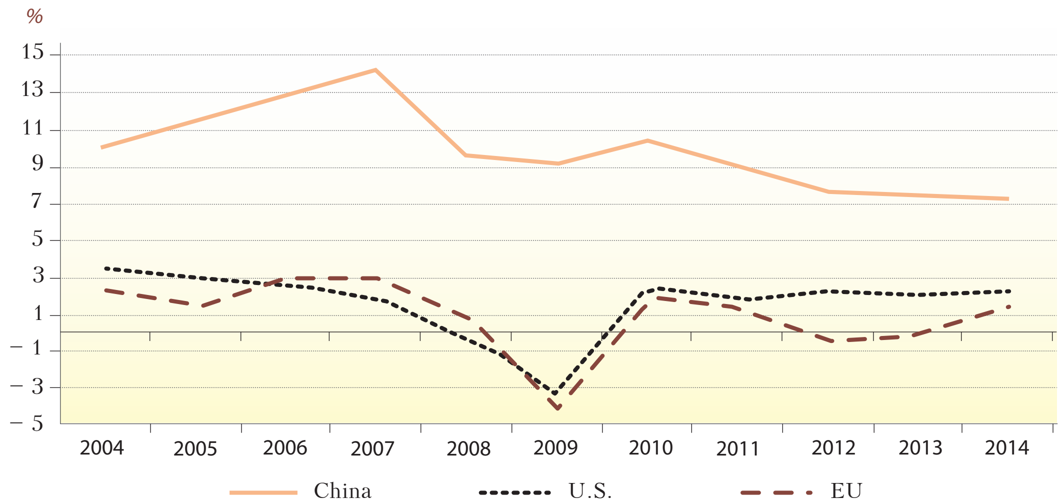

Fig. 6. GDP growth rates of China, the U.S. and EU, % (based on CIA World Factbook)

Chinese economy are nearly depleted. Western media hurried to announce the "end of the Chinese economic miracle", however, even taking into account the slowdown, China's GDP growth rates are much higher than the same indicators of the U.S. and EU.

The PRC government set the task to carry out structural reforms (maintaining growth for the account of domestic market development) and has been successful in it. During the Plenum of the Central Committee of the Communist Party of China in November 2013, the course to "every possible deepening of market reforms" and "optimization of governmental intrusion in the economy" was announced.

The liberalization of the stock market was fostered by the opening in November 2014 of a "bridge" between Hong Kong and Shanghai exchanges providing an opportunity for foreign investors to buy shares of Chinese companies directly. As a whole, in 2014 the country's stock market grew 50 %, in 2015 this trend continued. In May 2015 the total capitalization of Shanghai and Shenzhen stock exchanges exceeded USD10 trillion increasing 170 % since May 2014. In the first half 2015 190 IPOs were completed in these exchanges (against 115 in the whole 2014), as a result of which Chinese companies were able to attract USD23.6 billion.

Such fast growth of the capital market led to the formation of a "bulb" and in June 2015 correction started in China. Contrary to Western media's prophesies the stock market decline did not grow into the Chinese economy crisis. Firm measures of the PRC government allowed pulling down the mood of panic and recovering investors' interest in shares of Chinese companies the capitalization of which in August 2015 was 40 % as high as in October 2014.

Another important reform in the financial area was step-by-step transfer to the market formation of renminbi exchange rate. While in the past the People's Bank of China defined renminbi's reference exchange rate in its sole discretion and the market rate was not allowed to deviate more than 2 % from that, starting from August 2015 the reference exchange rate is established based on the market value of the national currency at the end of the previous trading session.

In mid August the Central Bank of China decreased the reference exchange rate of renminbi to dollar three times (1.9 %, 1.62 % and 1.1 %). Western, and especially American, media promptly named the activities of the People's Bank of China "devaluation", linked them with the Chinese exports decrease (in July 2015 exports decreased 8.3 % YoY) and accused Beijing of triggering off a "currency war". Indeed, renminbi's market exchange rate quickly recovered and stabilized by end August only having decreased against July 2015 by 2.9 %.

In January 2016 the main Chinese stock market index fell down again due to international investors' fears of the possibility of further deceleration in Chinese GDP growth (according to preliminary estimations in 2015 it equaled 6,8 % while the forecast for 2016 is 6,3 %). However Chinese government keeps calm perceiving the current situation as a natural adaptation of national economy to the structural reforms.

In some sense, the "convergence" theory suggested in the 70s of the past century by John Galbraith, one of the most influential economists of that period, embodied in the modern China. The prominent thinker predicted gradual convergence of capitalism and communism and the birth of a new, more humanistic, civilization model that would combine the best sides of the planned and free-market economies.

The Chinese approach to economic reforms has persuasively proved its efficiency. Many developing economies use various components of the Chinese model in their practices. Even some "rookie" members of the European Union show their interest in the Chinese experience. In July 2014 Viktor Orbán, the Prime Minister of Hungary, called to re-nationalize privatized governmental property and restrict control over foreign investments. The Hungarian leader promised to turn Hungary into an "illiberal state" challenging the principle of government's non-intrusion in the economy.

Counter-offensive of the "Western coalition"

However, Americans are not a nation that would passively observe what is happening in the world economy and lose its ground without a fight. Sense of purpose, persistence, inventiveness, aggressiveness, readiness to fight desperately even where, it seems, there is no chance to win remaining – these national American features turned the U.S. into the most powerful country dominating in all fields of international relations.

Headed by the U.S., the "Western coalition" is trying to pass to the counter-offensive in all fronts. As noted above, the U.S. is blocking the IMF reform trying to split and discredit the BRICS group, stop the Chinese "trade and investment" and Russian "energy" expansion in the Asia-Pacific Region and in Europe using the "containment" strategy against Russia and China.

However, Americans are planning to strike the "Eastern coalition" in another place, by establishing two jumbo economic blocks of Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP).

Washington and Brussels regard TTIP and TPP as economic blocks of new type having no precedents in terms of coverage and liberalization degree of foreign economic ties.

The tasks of creating the two above mentioned economic blocks reduce to the following:

– recovering West's leadership in the world trade and investments retaining its domination in the global system of world economic governance;

– increasing competitiveness of the U.S. economy, instilling dynamism in it and, simultaneously, for the account of exports growth, removing the existing dangerous disproportions (trade and payment balance deficits and growth of the sovereign debt);

– limiting China's foreign economic ties, harnessing the growth of this country's economic power and the impact of the BRICS association on the world economy;

– hindering the formation of the "Eastern coalition" "tearing off" developing economies from BRICS and involving these in TTIP and TPP;

– creating a system of world trade organization parallel to the WTO expanding the rules elaborated by Washington in its own interests for TTIP and TPP over the whole world economy.

In beginning October 2015 the Trans-Pacific Partnership agreement was finally signed in Atlanta (the U.S.). This included 12 developed and developing countries (the U.S., Japan, Mexico, Canada, Australia, New Zealand, Peru, Chile, Viet Nam, Malaysia, Brunei and Singapore) the total share of which in the world GDP reaches 40 % together with 25 % in the world trade. The negotiations on the Transatlantic Trade and Investment Partnership involving the U.S. and EU continue and their outcome is still unclear.

The preparing of the TPP was as secret as never before (TTIP negotiations are conducted in the same secrecy). By the time of writing this article the content of the agreement was not published, but information leaks through the well-known WikiLeaks organization allow to draw conclusion on how Americans intend to achieve the above tasks through TPP and TTIP.

The United States is counting on rapid exports increase by way of zeroing or radical decrease of imports tariffs for their products and removing non-tariff trade barriers. For instance, the TPP agreement zeros or considerably decreases duties for 18,000 products manufactured in the U.S. The competitiveness of Chinese products in TPP member countries will, therefore, considerably decrease for these reasons.

Washington intends to limit the "trade and investment expansion" of China and other developing economies using own strengths in finance, innovations and business law able to ensure the domination of the United States in the world economy. Americans are striving for TTIP and TTP agreements to cover all issues of intellectual property protection, technical standards, e-trade, financial services, protection of foreign capital, rules of competition, etc.

For instance, demanding standards in respect of pharmaceuticals will seriously restrict the possibility of production and imports of generics (cheaper analogs of original American drugs) by TPP countries. This norm will fix the monopoly position of American pharmaceuticals giants on the world market and hinder the growth of the pharmaceuticals sector in developing economies.

Washington estimates that approval of higher quality standards will help fend attempts of China and other developing countries to cut in into global value chains in those markets of high-tech products that are now dominated by American and European manufacturers. For instance, harmonization of mobile telephony standards under TTIP and TTP will, parallel to their restriction, devalue the efforts invested by the Chinese in new product developments in this area and in their promoting on the U.S. and Europe markets.

According to WikiLeaks, since 2013 the U.S., EU and 23 other countries, including Turkey, Mexico, Canada, Australia, Pakistan, Taiwan and Israel, have been involved in secret negotiations on the Trade in Services Agreement (TiSA) that will be a component of TTIP and TTP Using TiSA mechanism. Washington counts on fixing its positions on global service markets forming the lion’s share in the economies of Western countries (80 % GDP in the U.S.), and even in many developing countries services are responsible for over 50 % GDP. The main topic of TiSA negotiations is the issue of world financial services market liberalization totally reigned by American banks and companies. Weaker governmental regulation of the global financial services market would provide the West with huge advantages in their economic fight with China and BRICS group as a whole together with other developing countries.

Establishing within TTIP and TTP stringent restrictions on governmental subsidies to business entities, which is normal for "liberal market economies", together with the distribution of governmental orders, will, as estimated by Americans, make it more difficult to export from China and other developing countries, the development model of which suggests broad government's involvement in the economy, including the domination of public enterprises in strategic sectors of the economy.

One of threats for the "Eastern coalition" is that TPP forms a kind of ring along Chinese borders, the new economic block involves Beijing's nearest neighbors and countries with which China has most developed trade and economic connections, such as Japan, the U.S., Australia, Singapore, Malaysia. Moreover, China has disputes with three TPP member countries, namely with Japan (Senkaku Islands), Viet Nam and Malaysia (the Spratly Islands in the South China Sea). If South Korea, Taiwan and the remaining ASEAN countries join TPP in the future, China will, essentially, become "surrounded" by an adversary economic group.

Obviously, the U.S. will try to use TPP and TTIP for further isolation of Russia involving Russia's CIS partners in new economic blocks and destroying our own projects of economic integration in the post-soviet space. Moreover, it is entirely possible that Americans will try to involve India in TPP in order to split the BRICS group.

Russia's position

Russia's position in the battle between the "Eastern" and "Western" coalitions for the reforming of the international economic system has changed over time and even now this cannot be deemed finally stated and firm.

In the 90s of the past century, on the wave of romantic faith in ideals of democracy and free-market economy, the new Russian elite propagated nearly religious admiration of the West and copying this in almost every field of the social life. However, Belgrade bombarding in 1999 brought the Russian society down to earth. The second phase of Russia's recent history started. *Many people realized the absurdity of attempts to become a member of the Western community openly ignoring Russia's national interests, not holding it for an equal partner, continuing the "containment" policy, resisting integration processes in the post-soviet space perceived as an attempt to re-establish the "soviet empire" in one or another shape.* In the foreign policy, the course to build a multipolar world was announced. The domestic policy was substantially corrected to reinforce the vertical of power.

At the same time, in the domestic economic model principles of Washington consensus were still strictly observed. As a result, by 2014 the economy had numerous disproportions, GDP growth rates dramatically decreased, most macroeconomic indicators aggravated. Foreign economic ties were still mainly focused on Europe. The dependency of Russian banks on Western loans, and of fuel and energy companies on oil and gas deliveries to Europe, made our country very vulnerable to the outside impact. *In other words, the domestic economic policy and external economic ties (exports, imports and capital inflows, focusing on West) did not correspond to the political course (attempting to challenge West's global domination and building a multipolar world in cooperation with BRICS countries).*

Such structure could not be stable, which revealed during the Ukrainian crisis. In 2014 the West imposed sanctions against Russia using its dependency on Western commodity markets, loans and *technologies and tactically hitting points of tenderness and accumulated disproportions. The government promptly took measures to redesign foreign economic policies named "Turn to the East". Russia charted its course towards geographic diversification of foreign economic ties and reducing its dependency on the West,* in particular, it is striving to redirect oil and gas exports and food imports towards the East.

The BRICS partners of Russia extended it their helping hand showing that this group has become a tower of strength for our country on the international stage. China, India, Brazil and South Africa rejected Washington's attempts to connect them to anti-Russian sanctions, frustrated American designs to isolate Russia on the international stage and organize its economic blockade. *They condemned the Western policy of economic pressure on Russia, vitalized business connections with the RF, especially in finance, energy and defense – those sectors of the Russian economy that were most affected by Western sanctions.*

Since the Western sanctions came into effect, Russia has signed with BRICS partners over 140 economic contracts and agreements, including ultra-major agreements with China (construction of the Power of Siberia and Altai gas pipelines, construction of Yamal LNG plant, exploration in Barents and Pechora Seas, deliveries of 360 million tonnes of oil for a total of USD 270 billion to the PRC during 25 years and so on). Thus Russia is deeply integrating in the "Eastern coalition".

Conclusion

The active fight between "Western" and "Eastern" coalitions has only started and, obviously, will continue for more than one decade.

Commanders move their troops, form reserves and think over far-reaching battle plans, however, no one can predict how the stand between two coalitions will look like and how the battle for democratization of the world economic system will develop. We would like to hope that the U.S. and other Western countries will be wise enough to understand that rules of the game must be changed and rights and obligations must be redistributed in favour of developing economies. This scenario is the most favorable and least costly for the world community, as it is much cheaper to reform the current system of the global governance of the world economy, in particular, reorganize the work of IMF, WTO and WB, than create a new system, including parallel international financial and economic structures.

And if the U.S. and a number of other Western countries do not give up their confrontation approaches, continue trying to split BRICS, create the Transatlantic Trade and Investment Partnership in addition to the Trans-Pacific Partnership involving more developing economies in such blocks, the fight will continue. *But in any event the West will be unable to stop this natural process, the outcome will remain the same.*

The "Eastern coalition" will, no doubt, gain power and grow in the course of time. BRICS became the center of gravity for many developing economies having a sharp feeling of unfairness of the existing world economic system, oppose the dictate of the West, wish to pursue their sovereign foreign and domestic policy and build a more democratic multipolar world. The views of a number of large countries of this type, for instance, Argentina, Iran, Egypt and Indonesia, on the most important problems of the world economy are similar to the views of the Five, and they have already expressed their wish to join the group. The BRICS's New Development Bank may have such new members as Mexico, Indonesia and Greece experiencing strong pressure from the IMF and European Union owing to their sovereign debt crises.

BRICS leaders have not yet examined the issue of the Five's expansion as they deem that first the work of the created financial infrastructure must be set up, however, after some time including this in the agenda will become unavoidable. It is possible that before then applicants will be "tested" through the institute of supervisors or attraction to the work of some Five's bodies.

At the same time, the "Western coalition" is clearly missing solidarity. From the very beginning major European powers, as opposed to the USA, supported BRICS's proposal to redistribute quotas and votes in the IMF. The vast majority of Western countries ignored the unambiguous U.S. warning and expressed their wish to join the Asian Infrastructure Investment Bank being established at China's initiative. Many of these are enthusiastic about the inflow of direct investments in production from China and shift to renminbi payments in their trade with China. "Leftist" regimes of Latin America, Southern and Eastern Europe demonstrate critical attitudes to the main postulates of the liberal model of economic development and activities of U.S.-dominated international financial organizations; however, they understandably hesitate developing their cooperation with the BRICS group.

Russia will have to make its final choice too. Abandoning the dead-end neoliberal model and the conducting of structural reforms using some components of the Chinese experience not only will confirm Russia as a reliable member of the "Eastern coalition" but also will ensure higher GDP growth rates putting the economy on an innovative footing for us. Also Russia is still to complete the task of national economy's "deoffshorization" that was set three years ago. Parallel to the prohibition for governmental officials to have property and assets in the West, this will help to make our elites more domestically-oriented.

The result of the economic competition between "Eastern" and "Western" coalitions will define a lot, namely who will set the rules of the game and control the world economy. The outcome of such fight will answer the question if the Western civilization with its liberal economic development model has dropped the curtain in the history of the humanity as this was claimed by Francis Fukuyama in his book *The End of History and the Last Man* or Samuel P. Huntington with his book titled *The Clash of Civilizations and the Remaking of World Order* with his idea of multipolar world was more far-seeing. Or, maybe, John Galbraith, the father of the "convergence" theory, was right dreaming of the birth of a new, more humanistic civilization model combining the best of the planned and market economies?