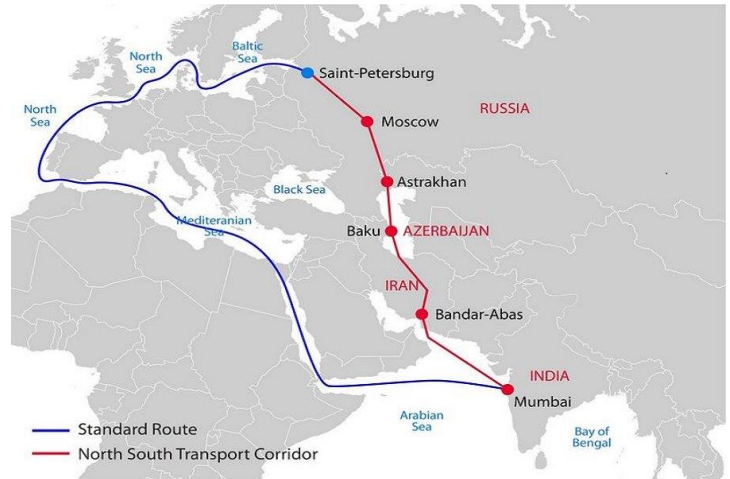


The Real Threat to the West from Russia and China

May 2023

If Russia and China successfully expand and develop the North-South trading corridor over the next two years, the impact on the world economy could be huge. It is difficult to estimate accurately how much of the US\$94 trillion world economy would be accessible to this newly fortified trading coalition. One thing is certain, however – it will pose a real threat to the current patterns of the global economy and could potentially shift the balance of power in the world.



For Russia and China, the North-South trading corridor provides a much more direct route to key markets in the Middle East, Africa and Europe, allowing them to reduce their reliance on the traditional trade routes through the South China Sea and the Suez Canal. If the corridor develops, it will result in greatly increased trade and investment between Russia, China and other countries in these regions and shift the balance of power in the global economy. There are significant threats associated with such a development. These may well include conflicts with countries or regions threatened by Russia and China's expanding influence, as well as potential geopolitical and security risks due to the increased flow of goods and people through the corridor.

Expansion and development of the North-South trading corridor is likely to give Russia and China a bigger bite of the cherry when it comes to accessing the world economy. Potentially, this could lead to greater economic integration and competition between these countries and other major players. But increased trade along the North-South corridor would also reduce the role and power of the West in global trade significantly:

- First, it would mark a shift of trade routes away from traditional Western trading partners such as the United States, Europe and Japan.
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The decrease in trade volumes for these countries and corresponding increase in trade for countries along the North-South corridor, particularly China and Russia, would represent additional geopolitical tensions.

- Secondly, increased trade along this corridor could lead to the development of new markets and industries in the countries along the route. For Western firms, this would mean new competition and decreased market share and profitability, particularly for those that rely heavily on exports.
- Thirdly, the expansion and development of that trading corridor is likely to lead to a realignment of geopolitical power away from the West. As China and Russia develop stronger economic ties with countries along the corridor, they will gain greater influence over these countries' political and strategic decisions.

The West will need to take significant steps to strengthen its trading base within the Asia-Pacific region, excluding China. If it fails to do so, it will find itself isolated from the North-South trading corridor, with a significant decrease in its trading base and power.

To avoid this threat, the West is working hard to form alliances with countries in the Asia-Pacific region, such as Japan, South Korea, Taiwan and Australia. These countries have strong economies and would no doubt provide alternative trading partners. For example, negotiated trade agreements could be sweetened with greatly reduced tariffs and trade barriers to facilitate increased trade and compete with the North-South corridor. Another potential strategy in the Asia-Pacific region, currently being piloted, is to invest in and develop infrastructure such as ports and transportation systems.

This could provide the West with greater access to markets as well as increasing its competitiveness in the region, but it will not be easy. Many of these countries will be hesitant to ally with the West due to geopolitical tensions or concerns about being seen as too closely aligned with one side. There will also be opposition from China, which could use its economic power to put pressure on countries in the region to limit their trading relationships with the West.

For the West, the consequences of the machinations of Russia and China and the impact of their trading collaboration could be monumental. What happens in the next two years will be critical.

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