

# **Global South will pay for Trump and Netanyahu's war**

*C.P. Chandrasekhar*

As February ended, a stunned world tracked with disbelief the unwarranted war on Iran declared by the US under President Donald Trump and Israel under Prime Minister Benjamin Netanyahu.

Aimed at ensuring externally engineered regime change justified on grounds that do not stand up to even cursory scrutiny, the immediate fallout of the aggravated aggression violative of international law was civilian deaths, including that of innocent children, the assassination of the political and military leadership of Iran, the wanton destruction of property, the disruption of economic life in West Asia and elsewhere, and the threat of another damaging spike in the price of oil.

But there are longer-term implications of the war and all that preceded it for a world and its citizens plagued by multiple crises. As always, the most devastated would be the less developed countries of the Global South, especially the poorest among them.

Viewed in the longer term, the war on Iran is one more over-the-top, aggressive step in a multipronged final effort to reshape the global system that has been under way ever since Trump's second term as President began. There are a number of elements to this conscious reshaping of the system. To start with, a waning hegemon is working to end an already weakening multilateralism. Besides announcing a walkout from multiple UN agreements and agencies, the US under Trump has declared that while it still yearns for leadership of the capitalist world, it does not want to bear the costs of that leadership. This has meant that it cuts off flows of grants and concessional finance through bilateral and multilateral channels and trims its contribution towards covering the costs of policing the world.

Countries needing grants and concessional finance to meet multiple challenges tracing to colonial times, and worsened by the extreme events stemming from climate change precipitated by the development of the developed, are told they must find their own resources. It also means that "allies" in Europe and Japan have to meet the costs of their security, necessitating increases in budgetary allocations for defence, including for purchases of defence equipment from the US to support Ukraine's war effort. The corollary is a decline in grant and concessional flows from Europe and Japan as well.

Secondly, the US government is seeking to recover post-Cold War supremacy by shutting off cost-competitive trading partners from access to its markets, with tariffs and quantitative restrictions. Parallely, it is weaponising tariffs with differential imposts across partners to achieve multiple economic and political ends varying from protecting and promoting foreign allies (like Jair Bolsonaro of Brazil), to penalising those who "violate" unilaterally imposed sanctions (by importing oil from Russia, for example).

Faced with that protectionism in the US, nations stretching from Europe to Mexico are trying to limit foreign access to their own markets in a defensive effort at compensatory protectionism. World trade is being shrunk by barriers erected by the more developed.

Tariffs are also being used by the US administration as instruments to garner revenues to finance budgetary deficits resulting from tax concessions and transfers to favoured domestic capitalists. This transactional approach extends to using tariff adjustments in “trade deals” to force US multinationals and foreign firms and governments to accept making investments in, and reshoring capacities to, the US, in an effort to revive American manufacturing and appease a white working-class base. The era when the US government exploited the “exorbitant privilege” it enjoyed from the dollar’s role as the global reserve currency to facilitate direct investments abroad by American capital is fading. It now wants to “reshore” capacities to service US and foreign markets from US soil. Integration through productive investment is seen as a problem.

### **‘Deglobalisation’ in trade and finance**

In economic terms, these elements of the US effort to reshape the global order involve a degree of “deglocalisation” in the areas of trade, development finance, and foreign direct investment. But importantly, they do not involve deglobalisation in the flows of private financial capital, which persist and increase because of the huge infusion of cheap liquidity into the system by central banks in the developed nations seeking to prop up weakening economies in the developed North.

These differential trends between trade and productive investment, on the one hand, and financial flows, on the other, arise because the US as a nation has for long been uncompetitive in merchandise trade, and this has led to the relocation abroad of investment in the material producing sectors. But it remains a nation that is competitive in the provision of opaque and speculative financial services. A world of wanton war is also the Age of Finance.

This asymmetry in globalisation processes across trade, investment, and finance is particularly damaging for the less developed countries of the Global South. Trade barriers and reshoring of investment undermine their ability to gain from trade in goods and services, forcing them to rely on the surfeit of capital flows from Northern locations to finance their trade and current account deficits. Wars that disrupt economic activity and trigger inflation in the prices of dollar-denominated energy and food imports worsen those deficits and intensify that dependence.

As the experience with managing or rescheduling the foreign exchange payments associated with such dependence illustrates, countries are forced into a spiral of austerity euphemistically termed “adjustment”. They must reduce domestic absorption and the associated imports—through cuts in private consumption, investment, and state spending—to release the foreign exchange needed to repay foreign creditors. That imposes pain on already poor populations.

The erosion of multilateralism only worsens this tendency. Poor countries are doubly hit by the resulting squeeze on flows of grants and concessional credit. They are deprived of funding for adaptation to the damaging consequences of climate change. They are also forced to rely on expensive commercial finance to cover chronic current account deficits and resort to austerity to limit those deficits. Domestic policy space shrinks even as external

vulnerability increases. Lurking behind the brutality of unwarranted wars is the danger of chronic economic crises and deprivation in the Global South.

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