

UKRAINE-RUSSIA WAR



An Economic review



BBC (2014) <https://www.bbc.com/news/world-europe-26418179>

BACKGROUND

Ukraine and Russia's current situation is due to their tangled history, which started in the Slavic state of Kyivan Rus (9th PCN), the current capital of Ukraine, Kyiv. Over the centuries, the west part of Ukraine was repeatedly invaded by European nations while the east mainly stayed under the Russians' hands. East Ukraine was annexed to the USSR after a bloody civil war in 1922 and only gained back its independence in 1991. However, the country stayed under Russian influence politically and economically until the 2000s. Ukrainians began to demonstrate an interest in more freedom and a closer relationship with Europe, which Russia saw as a threat to its sovereignty. Tensions then increased between pro-Russia and pro-Ukraine and it led to the invasion of Crimea by Russia in 2014. Since then, Ukraine drove away from Russia and increased its economic relationship with the EU.

CONSEQUENCES OF 2014

Almost eight years ago, on March 17 2014, responding to Russia's use of military forces on territory of Ukraine, the European Union released its very first package of sanctions against Russian and Ukrainian officials. This marked the beginning of the 'sanctions war' between the West and Russia related to the Ukrainian crisis.

The first restriction concerning movements of goods and services in this long line of sanctions imposed by EU towards Russia was introduced in June 2014 following Crimea annexation. In particular, it totally prohibited the import of goods originating from the Crimea and the city of Sevastopol. Overall, since 2014 to 2021, when the conflict moved to the phase when the whole sovereignty of Ukraine is on stake, 25 restrictions were imposed by EU towards Russia; 18 of them targets individuals and entities and only 7 sanctions concerns limitations of imports of several categories of goods and services; total prohibition of import of goods was imposed only on goods originating from the Crimea (European Council, 2022). Almost half of the imposed sanctions were released in 2014 and 2015 and only extended afterwards.

The most severe package of counter-sanctions imposed by Russia against the EU bans import of agricultural products to Russia; it reduced the total amount of agricultural imports almost by 40 percent. Countries that suffered the most from such measures were those with high volumes of trade with Russia, particularly Baltic states.

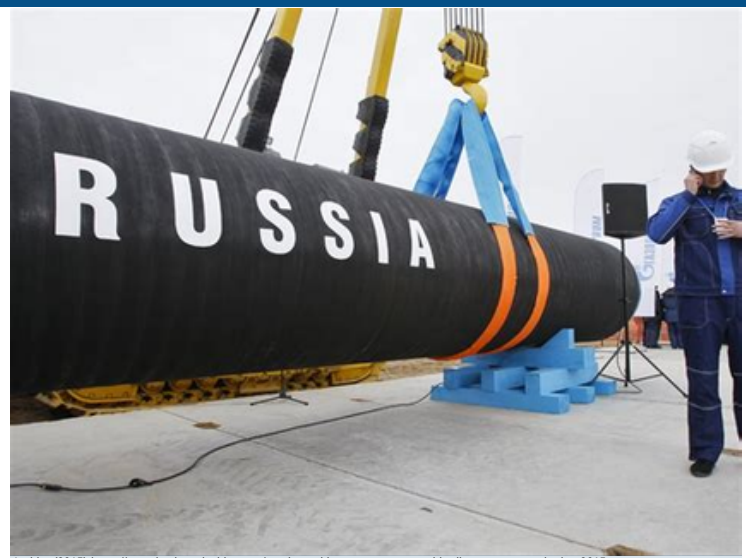
Since then, Ukraine drove away from Russia and increased its economic relationship with the EU. In 2014 already, Europe had set sanctions limiting imports and exports of Russia as punishment for their invasion of Ukraine. But at the same time, they have not stopped using and promoting Russian gas and pipelines which show indirect support to Russia's behaviour. This lack of consistency may explain Russia's temerity.

RUSSIAN GAS AND PIPELINES

Roughly 40% of Europe's gas supply comes from Russia. Despite gas pipelines going through Ukraine the supply has not been reduced yet, on the other hand, some pipelines that serve the Ukrainian supply have been destroyed by airstrikes etc. As western nations have imposed sanctions on Russia, the question comes up, why does Russia not respond with cuts in their Gas supply? Major reserves in other countries have been frozen and therefore Russia would harm itself by cutting off relevant revenue streams.

The war has changed the mindset of all of Europe, not only Germany. The new strategy, which will be discussed this Tuesday in the European Commission, is to look for new energy sources and end up or, more likely, reduce European dependence on Russian gas. The strategy might not be as easy or as appealing as desired, however. One of the alternative substitutes for Russian gas is the use of coal, a dirtier energy source that could dramatically increase pollution levels in Europe. But more importantly, 30% of Europe's coal comes from Russia.

Therefore, the shift will not mean the end of European dependence on Russia. Other alternatives include obtaining it from South Africa or Colombian, which will not be easy; or relying on solar panels. On the other hand, even though European countries are more hesitant, the US is willing to ban oil imports from Russia. This could come with some retaliation from Russia, as Putin has already warned that the European ban on Russian gas could be seen as an attack on the country. As the Russian deputy Prime Minister said: "A rejection of Russian oil would lead to catastrophic consequences for the global market".



Insider (2015) <https://www.businessinsider.com/russia-pushing-gazprom-to-provide-discount-gas-to-ukraine-2015-3?international=true&r=US&IR=T>

The already existing gas supply to Germany through Nord stream 1 was unaffected because of German dependency on that gas, as it is one of their biggest supply streams. The not completed Nord stream 2 project on the other hand has been frozen by German Chancellor Olaf Scholz. NS2 would have had double the speed of NS1. Gazprom, Russia's half-state owned Gas Flagship and 5 western energy companies are bearing the burden of this \$11 billion project.



IRNA (2020) <https://en.irna.ir/news/84137892/SCO-required-to-set-up-Asian-Interbank-network-modeled-upon-SWIFT>

ON THE 27TH OF FEBRUARY, THE EUROPEAN UNION AGREED TO BAN RUSSIA FROM SWIFT. THE SOCIETY OF WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION IS AN ORGANISATION THAT PROVIDES A SAFE ENVIRONMENT FOR INTERNATIONAL TRANSACTIONS BETWEEN BANKS.

SWIFT IS WORLD WIDELY USED AND MANY INSTITUTIONS REQUIRE ITS USAGE TO TRANSFER MONEY AND MAKE INVESTMENTS. WITHOUT ACCESS TO SWIFT, IT WILL BE CONSIDERABLY HARDER FOR RUSSIA TO INVEST INTERNATIONALLY AND THE COUNTRY WILL BE FORCED TO FIND ALTERNATIVES, ONE OF THEM COULD BE THE USE OF CRYPTOCURRENCY.

THE BANKING SYSTEM

The ban of Russian banks from SWIFT impacted their access to global financial markets which resulted in a collapse of the Russian ruble. Today, the depreciation of the Russian currency to the Euro is close to 50% compared to previous war data. This huge drop in the Ruble means that Russian investments and debts in the EU have become twice more expensive. Any imported good in Russia has seen its price increase which will harm both consumers and importing companies. It also endangers the stability of Russian banks and the Russian central bank has already taken measures to prevent people from cashing out and creating bankruptcy.

Since Russia's attack on Ukraine, there has been a rise in the volume of transactions from the ruble to Bitcoin and Tether, a stablecoin that is pegged to the U.S. dollar. According to Charles Hayter, the CEO of CryptoCompare, the reason behind this is to hedge against the impact of the ruble plummeting. Furthermore, Coinbase CEO Brian Armstrong stated that "some ordinary Russians are using crypto as a lifeline now that their currency has collapsed."

CRYPTOCURRENCY

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There's debate as to whether cryptocurrency would be beneficial to the Russian government evading sanctions. The underlying reason for this is decentralization. However, because most blockchains are public ledgers, transactions can be traced. It is therefore not optimal for avoiding sanctions. On the other hand, the identity of those making the transactions are anonymous. As for liquidity, it's very difficult to move large amounts of money with crypto given its market capitalisation is only a small fraction compared to the global currency market. As of February 2022, the overall trading volume in crypto averaged \$24 billion whereas SWIFT transactions amounted to \$5 trillion per day.



Vulcan Post (2020) <https://vulcanpost.com/720888/famous-bitcoin-millionaires-and-billionaires/>

DUE TO THE DECENTRALIZATION OF CRYPTOCURRENCY, IT IS NOT CONTROLLED BY ANY CENTRAL AUTHORITY. THE MOVEMENT OF ASSETS IS MADE THROUGH THE USE OF BLOCKCHAIN TECHNOLOGY, A PUBLIC DIGITAL LEDGER WHERE TRANSACTIONS ARE DUPLICATED AND DISTRIBUTED THROUGHOUT A NETWORK OF COMPUTER SYSTEMS. AS IT IS A PEER-TO-PEER NETWORK, THESE TRANSACTIONS DO NOT GO THROUGH ANY INTERMEDIARIES, RESULTING IN QUICK PERMISSIONLESS PAYMENTS ANYWHERE IN THE WORLD. HOWEVER, PRIVATE BLOCKCHAINS EXIST AS WELL BUT THESE ARE UNCOMMON.

CONCLUSION

As the conflict keeps evolving on a daily basis, any economic conclusion will result in a mere attempt to simplify complicated international issues. As the Russian and Ukraine economies, but also every other country's economies are incredibly susceptible to the current tensions, it has quickly translated in great instability, high volatility in the markets and several bank runs. Although consequences are hard to predict and quantify, the losses are already obvious on both sides. As we have seen Russia will have to find new ways to substitute SWIFT systems as well as other international systems that are gradually becoming available in the country. Moreover, the devaluation of the national currency and the severe market crash hint to severe economic losses. Considering the detrimental consequences on humanitarian and economical levels, it appears already clear that there cannot be gains for either sides from this war. Then the question is whether the egocentric motives driving Putin into this war are going to come to a halt soon, rather than asking if a level of unacceptable atrocities has been already reached.

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