

Analysis on the Impact of the Russia-Ukraine War on Russia

Hao Wu^{1,a,*}

¹*Department of Economics, University of Sheffield, Sheffield S1 4DT, The United Kingdom*

a. hwu69@Sheffield.ac.uk

**corresponding author*

Abstract: The Russia-Ukraine war has been the headline of the news since 2022. There are enough research and reviews to explain the historical conflicts between Russia and Ukraine. The research is to assess the potential impact on Russia in the times of the Russia-Ukraine war before understanding in different causes of the war. The global financial restrictions on Russia have already impacted its economy greatly. With the sanctions from USA, UK, and EU, Russia reacted back by restricting their energy exporting to these countries. This led to a surge in inflation for these countries, which rippled the rest of the countries. With many countries negatively influenced by the war and the sanction, the study is meant to explain the rationale behind the war and examine the cost for Russia. Using empirical analysis and secondary research, the reason was oriented in the historical problem between Russia and Ukraine although there are other modern political reasons that would mention as well. The report concluded that Russia is negatively impacted because of different types of sanctions from many countries while Russia's core and rare natural resources allow it to be resilient in the war.

Keywords: Russia-Ukraine war, sanctions, influence

1. Introduction

The Russia-Ukraine war has threatened the world economy and the global relationship largely, not to Russia and Ukraine only. With the war started with the background of the Covid-19 Pandemic, the aftermath was more severe. So far, Russia has threatened to be restricted in the perspective of financial transactions, global trade, and reduced foreign direct investment. So far, the impact behaves in the ways of financial sanctions, the surge in the commodity price and disturbance on the supply chain. Also, relations with other countries become tense, which affects Russia's economy, society, and politics. The analysis of the impact would be the core of the paper. The conflict has involved other countries joining the war other than Russia and Ukraine themselves, causing the war to become more significant after World War II. Given the war is ongoing, there is little research to understand the impact of the war. However, with the war has impacted globally, it is meaningful to understand the story and forecast the future if reasonably.

It is still questionable on the subject of Ukraine's sovereignty although the December 1991 Independence referendum awakes the Russia's reluctance [1]. The percussion of this caused the war to start officially in 2022 although the conflict is continuous since 1991. The Russia-Ukraine war has impacted significantly not only these two countries but also the world. The conflict started because Ukraine is closely to connect with the EU and NATO which disturbed Russia and caused the war on

24 February 2022. The right of self-determination of Ukraine becomes the core topic of the conflict. Russia and Ukraine hold different views on the right. Ukraine considered Russia to be occupying its territory while Russia holds the view of supporting their own self-governance. This resulted in the Russia-Ukraine war, which caused other countries such as the USA and the UK to join the war by the behavior of sanctioning Russia. The war triggered the global crisis because the conflicts caused inflation and reduced business confidence in the global economy. The war is still ongoing and seems to be magnified, it is difficult to evaluate the specific impact on each country. Understanding the impact on each party, it would allow to predict the future trend and results of the war more reliably. However, with the existing sanctions, the impact on Russia could be understood by these sanctions. In this paper, the causes of the war would be stated before evaluating the impact on Russia's economy.

The Russia-Ukraine is detrimental in the modern world. It is called the most influential and biggest war after World War II. It caused turmoil in Ukraine and Russia, with military operation destroying their home and infrastructure. People lost their lives in the war and the business has been stopped and exited the market. World Bank stated that there are over 4 million refugees in Ukraine and an additional 6.5 million people are estimated to be internally displaced within Ukraine [2]. Ukraine gains many supporters such as the US, while some of the media considered the US is treating Ukraine as a tool to intervene in Russia. With more countries supporting Ukraine in the war, the negative impact is on every country in the world. Also, with Russia controlling some of the key natural resources that providing to the world, the war has caused great inflation under the recession caused by Covid-19. The war fastens the arrival of a deep recession.

This paper is to understand the impact of the Russia-Ukraine war on related parties, especially Russia through literature analysis. Following, the paper would touch upon the potential impact on the world and predict the trend of the war based on the analysis of the impact on each party. Lastly, the paper would give a conclusion on the story with evaluate some loopholes of the paper, which introduces the next step at the end of the paper.

2. Reasons for the War

2.1. Historical Reason: NATO and Ukraine

Looking back to history, it is obvious that Ukraine and Russia have a long-time potential conflict. On February 24, 2022, the president of Russia, Putin, launched a military operation as an announcement of self-determination. The intervention in Ukraine includes occupying the territory of the country while Putin still claimed they continued to support the self-determination of Ukraine. Later, the conflict starts as Crimea declared its dependence. However, Putin stated that the Donbas region is faced humiliation and genocide by the Kyiv regime for years [3]. Russia, as the country of the Former Soviet Socialist Republics Union, is an important country to connect Europe and Asia. And it plays a key role in maintaining a close relationship between countries in the European Union (EU) and The North Atlantic Treaty Organization (NATO). Historically, Ukraine is important for Russia as a country connecting Russia to Europe. Also, Ukraine was a member of the Soviet Union and connected with Russia closely although Ukraine left the Soviet Union. This indicated that these two countries were in a strong connection for many years. Ukraine was belonged to Western countries and Russia in history before signing a policy with Russia during the Orange Revolution and Yushchenko period. Ukraine also experienced various crises with Russia due to the sharing of the Black Sea fleet, the energy problem and its rapprochement with Western countries [4]. So this caused a potential conflict in the future. The Minsk Accord was signed by Russia, Ukraine, France, and Germany between 2014 and 2015. Meanwhile, Ukraine's president was voted to Volodymyr Zelensky. The president of Ukraine requested to join NATO and caused Russia to excuse training excess at the border of Ukraine. Such a special military operation led to the official war in February 2022. Russia launched a military

operation in 2022 causing anger from other countries who support Ukraine. This war sequentially caused sanctions on Russia and Ukraine from different supporters.

2.2. Political Reasons as Putin's Election

Putin puts his political action in the intervention on Ukraine as his achievement. Given Ukraine dominates the Black Sea and governed the immediate surrounding, Putin plans to move so that they can avoid Western countries to invade Ukraine. Combined with the rapprochement of NATO and the EU, the intervention in Ukraine started [5]. On 24 February 2022, Putin officially launched military governance in Ukraine as a claim to protect the people in the predominantly Russian-speaking region of Donbas. If Putin succeeds in this war, Russia would be in a new and higher position in the world and Putin would enjoy the honor of consolidating other countries with Russia. This is such a big achievement for Putin, which could record in history. Economically, Putin considers Ukraine a strategic place for Russia's economy. As explained earlier, Ukraine helps connect Asia and Europe. If Russia succeeds in the war, it would help to boost the economy of Russia. However, the evasion currently caused many sanctions from Europe Union, the USA, and Canada. The sanctions have influenced Russia greatly in daily life. The reasons are complicated. The war in 2022 is just triggered by the more fierce conflict between Russia and Ukraine.

3. Impact on Russia

3.1. Financial Sanctions

Russia's evasion of Ukraine caused great anger from other countries which resulted in a series of sanctions from other countries. Financial sanctions are the most common way of expressing anger against Russia. Around 75% of Russia's banking sector assets are influenced by financial sanctions from other countries. The sanctions include the restriction on access to global financial markets. The financial sanction would impact the commercial transaction such as the procurement of the fabrics. The sanction makes Russian companies difficult to make global production. The financial sanction also means the cross-border transfer would limit its global trade. The economic activities therefore would slow down and hence affect the economy of Russia. Economic Intelligence pointed out three sources that stop the trade: (1) land-based trade being disrupted, (2) air ties being hampered and (3) sea freight routes through the Black Sea would be canceled for weeks [6]. The US and the G7 together are still putting more pressure on Russia to express anger for Russia's evasion. There are more restrictions that are yet to be implemented SWIFT excludes Russian banks into its system, which is significant for daily commercial transactions and global transfers. Apple Pay, Google Pay, and Paypal have different kinds of sanctions on Russia as well, either blocking or freezing their accounts. Etsy and NFT, as financial markets, block all the accounts and balances of Russia's accounts. Switzerland freezes the Russian accounts in Switzerland banks. Such financial sanctions ranging from payment to overseas investment would impede Russia on its economic trade and financial activities. For instance, the restriction by America froze around \$630 of foreign-exchange reserves, which could cause the bank run of local banks and volatility of the Russian rupees.

3.2. Business Sanctions

The business sanctions are mainly in the technology industry. AMD, Intel, and TSMC blocked its supply of microchips to Russian companies. Apple stopped selling all of its products in the Russian market. Dell exited the Russian market. BMW, the automobile manufacturer, closed its factory in Russia. Other carmakers stopped their business in Russia. Boeing, the airplane manufacturer, stopped selling their accessory parts to Russia. These are merely small parts of the sanction lists. Other

retailing companies such as McDonald's, and PepsiCo, from the US and other countries, close their outlets in Russia. All business sanctions influenced Russia's residents in the way of reducing choices of goods and services. Now, Russia is developing its local brands to replace these foreign brands to guarantee that basic needs are met. In the future, local brands would provide various goods and services and Russia considers that the future impact on the goods and services is negligible.

3.3. Other Sanctions

Other sanctions include the restriction of people and engagement in international events. Many countries restrict people whose nationality is Russian to study in their countries. This indicates Russia would restrict the best education. Meanwhile, some countries limit Russia from doing business in their countries. Also, Russia is restricted for participating international sports or events related to an International Federation (IF) or National Olympic Committee (NOC) in Russia or Belarus. It means Russia would be less interactive with other countries. With less exposure in the world, Russia would solely rely on itself. The currency would be restricted for use. Some Russia has nowhere to exchange their currency. Given many countries support Ukraine, other countries who are neutral on the war do not dare to help Russia because they also fear these supporters would retaliate against the countries together with Russia. With this trend, Russia would be more and more isolated.

The sanction on Russia changes the life of Russian residents. Now the government of Russia is reacting by developing its own industries to substitute those foreign companies who exit the Russian market. The change is abrupt so Russia requires a quick adaptation. For example, if Russia is blocked by SWIFT, its international payment would disturb the procurement of imports and trade of exports. Also, the block in the payment would mean Russian would not make payments when traveling abroad or studying abroad. One single sanction has diverse and multiple impacts on Russia. Therefore, these sanctions combined together indicate a drastic change for Russia, and Russia now is isolated from the world. The sanctions would continue and more sanctions are yet to come.

4. Reflection on the Future

Although other countries do not directly involve in the war, they are still heavily affected because of their dependency on Russia or Ukraine. There is a massive impact on the global supply chain in the aftermath of the Russia-Ukraine war. Russia supplied wheat to Ukraine and Russia is the largest supplier for Ukraine as well. It accounts for 25% of the global export [7]. As wheat is an important staple, the war caused great inflation in many countries and hence households suffered from greater living pressure. Moreover, as Russia is an important country for energy and crude oil, the inflation surges even further. So the war impacts every household. The inflation is particularly obvious for European countries that heavily rely on Russia's energy. The aftermath also includes massive volatility in the energy commodity market. Cormann and Boone explained that the prices for many commodities increase because of the war as the volume of production is unchanged [8]. Ivanova reported that the oil price has been increased to an eight-year high and would push forward if US policymakers execute more sanctions on Russia [9]. The tension would bring the US economy the biggest problem from the perspective of inflation [10]. Speaking of Europe, the energy restriction to the EU as mentioned earlier forces the EU to absorb the higher rate of inflation because of a supply chain disruption. European nations rely on Russia for about a quarter of their oil and 40% of natural gas [11]. The rising energy price and commodity decreased business confidence and forced some investments to leave the region. Moreover, the war caused more uncertainty for the future, especially at the time of the global recession caused by the pandemic. The uncertainty creates negative emotions in the investment, causing turmoil in the financial market.

5. Reflect on Russia and the Trend of the War

Sanctions are continuing while Russia could rely on its exports of oil. Russia exports 8.3 million barrels of oil a day, which is enough to guarantee its economic growth of 0.7% in 2023. From this perspective, Russia is not afraid of its economic growth. They have core advantages because of their natural resources. Russia plays a vital role in providing oil, energy, and food to other countries. If these exports from Russia are all limited as a way of Russia's retaliation against other countries, the world's inflation would surge. This is dangerous under the deep recession caused by the Covid-19. So such complicated background would mean Russia still has its own weapons to react and retaliate back to other countries although they are influenced negatively by the sanctions. Therefore, whether Russia would go more aggressively to intervene in Ukraine would depend on how they balance the net impact by combining the sanctions with their core advantages. With more countries involved in the war, the situation becomes more complicated. Countries are interdependent with each other and sanctions are continuing. Every country would balance on to what extent they need Russia's exports and markets. Depending on what would change if Russia implements sanctions on them as retaliation and how other countries would support them to solve the problem from retaliation. The war is not one to one, Ukraine and Russia, but more on US, EU, Canada, and the rest of the world. Every country requires to balance what is positive and negative if they support one part of the country unless they remain neutral.

6. Conclusion

In conclusion, the incidence of the war is not a surprise. The historical reason leaves the question of which caused the war in 2022. The negative impact is not only to Russia and Ukraine in the way of loss of lives and homes but to the global world. Everyone is impacted by the surge in inflation and turmoil in the financial market. The incidence of war is not happened by accident but is in expectation because of the leftover of the historical reason. Also, the president of Russia is ambitious as his personality together with the future achievement for the election of the new president. The other reason could be that Ukraine is a key and strategic country for Russia to connect Asia with Europe. With the advantage of geography, Russia is keen on occupying Ukraine. The Russia-Ukraine war has caused many countries to be involved in the behavior of different extents of sanctions. These sanctions have a significant impact on Russia and Russia is reacting by replacing them with their local brands, which tries to minimize the potential loss by the sanctions. However, the sanctions still negatively impact Russia's trade with other countries and its supply chain.

The war is still ongoing with no one could know how is the ending. From the above analysis, everyone is inevitably influenced by the war. Russia is at a great loss while they have core and unique resources that are in great need of other countries. Hence, although Russia is sacrificing many in the war while the intervention in Ukraine is a strategic plan in the longer run. The violence caused loss of life and the economy. The war would also make countries in the world more isolated and there could be a trend of deglobalization for many countries who fear similar sanctions to Russia. For example, China is now reacting and emphasizing its plan on developing its strategic industries such as manufacturing and technology, which tries to avoid the impact of future sanctions from foreign companies.

The paper roughly explains the causes of the war and its impact on Russia, which helps to understand what is happening now. To better predict the development of the war, the mathematical measurement of the impact would be essential to understand whether Russia would insist on the intervention or give up considering the economic and other losses. So the next step of the paper is to use econometrics and regression to understand the economic loss.

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