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Situation Assessment

A year on the Russian invasion of Ukraine
Global Economic and Political Implications

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February 2023
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Preamble

With Russia firing its first missile into Ukrainian territory on February 24, 2022, many warnings have been issued from every side, at the level of politicians, experts and analysts, who warned that the effects of the Russian invasion will be catastrophic on food and energy supplies. There are also fears that Europe - and perhaps the whole world- will slide into World War III.

On the day Moscow began bombing Ukrainian cities, the warnings were realistic and without exaggeration. The scene drawn at the beginning of the war, and, of course, days before it broke out; when the world was warning of it, it was a simple quickly absorbable scene talking about Russia with its military might, and one of the three largest oil producers. It is a country that has the largest gas reserves, and it is the second largest producer and supplier of the European Union, with 40% of its energy sources. This country has attacked a country the size of Ukraine, which is one of the main reservoirs of grain and food in the world, and an ally of the West, and a candidate for joining NATO.

Since the early hours of the war, the world - in particular the European Union and the United States - has moved first by supporting Ukraine militarily and economically and by welcoming its citizens; second by finding out how to deal with the effects of the war; and third by confronting and punishing Moscow and boycotting it.

If the element of the traditional political conflict is strongly present in all the details of the war and before it, the repercussions of the war were from the first moment greater than the traditional political conflict; as it opened the doors to global crises in many areas, especially food and energy, leading to changes in some European policies, and in the features of international relations.

A year after the start of the Russian invasion of Ukraine, with its crises, tensions, actions and measures, the repercussions of the war have become clearer. It has become possible to determine the magnitude of its negative effects in the world, and perhaps the magnitude of its positive effects on a number of parties.

Apart from the effects of the war at the military level, and in terms of casualties and destruction, what are the repercussions of that war on the world in its first year, and what are the expected consequences of those repercussions in its second year? In an effort to address this question, the focus will be on four key elements: food, energy, European politics and international relations.

First: Food

The Russian invasion of Ukraine came at a time when the world was trying to get out of the repercussions of the Corona pandemic that affected humanity for about two years; thus hitting the hopes that emerged with the end of 2021 and early 2022, to restore the economy to its natural features.

The war has had an impact on global markets, especially on food, with its heavy social security weight. These effects were had two main reasons behind them; first, production and export conditions in Ukraine were harmed by the war, as Ukraine is a global breadbasket and a major source of food globally; second, the rising of energy prices, which resulted in high costs of food production, that effected tens of millions of people around the world.

It is worth mentioning that more than 55% of Ukraine's land is agricultural land. In 2021, Ukraine exported $27.8 billion worth of agricultural products, that accounted for 41% of its exports ($68 billion)(1) .

Ukraine annually exports about 45 million tons of grain to the world. Moreover(2), it produces a third of the world's production of sunflower oil. It is the largest exporter, (half of world exports). It is worth noting that sunflower is planted in April and May, while its harvest begins in September; and therefore the process of cultivation has been affected by the war(3), that began on February 24. Sunflower production is concentrated in the east and southeast of the country, namely in areas that have been particularly the scene of war since its inception. In a related context, Ukraine is the world's sixth-largest maize producer and seventh-largest wheat producer(4), with Russia and Ukraine exporting about a third of the world's wheat and about 70 percent of its sunflower oil(5).

Thus, the war blocked a large part of the exports of cereals and food products; first, because of the field battles; and second, because of the Russian blockade of Ukrainian ports on the Black Sea. While many of Ukraine's grain silos have been filled without the ability to export, grain

(1) Ukraine Agricultural Production and Trade, Foreign Agricultural Service (U.S. Department of Agriculture) -FAS-USDA, April 2022: https://bit.ly/3Iedp2x

(2) «The Black Sea Grain Initiative: What it is, and why it's important for the world», UN News, United Nations, 16/09/2022: news.un.org/en/story/2022/09/1126811

(3) Ukraine Agricultural Production and Trade, Foreign Agricultural Service.

(4) Ukraine Agricultural Production and Trade, Foreign Agricultural Service.

(5) Kelvin Chan and Paul Wiseman, expert: How did Russia-Ukraine war trigger a food crisis? AP News, 18/06/2002: https://bit.ly/3IEgzho

prices on world markets have risen; and there has been a shortage of supplies.
A reading of the price change after the Russian invasion of Ukraine shows that the price of wheat per metric ton rose from $374.24 in January 2022 to $486.3 in March; and then to $522.29 in May. The metric ton of maize rose from $276.62 in January 2022 to $335.53 in March and $348.17 in April(6).
Of course, this rise in prices, as well as the rise in the prices of other Ukrainian food products, and the rise in products that need Ukrainian food raw materials, caused panic in the global markets. If the price hikes affected various developed and developing countries, the biggest impact was on developing countries. Some of those countries were almost getting into economic and political crises; while developed countries, including the United States and the European Union, were more able - albeit unevenly- to take measures to mitigate the effects of that hike.
The food crisis continued to escalate gradually, which was reflected in the continuous rise in prices, until on July 22, 2022, when an agreement was reached by the United Nations and Turkey to open a humanitarian waterway in the Black Sea, in what was called the "Black Sea Grain Initiative(7)."
Since then, as of January 2023, some 600 ships loaded with cereals and foodstuffs have left Ukrainian ports of Chornomorsk, Odessa and Yuzhny. By 16 February 2023, more than 21 million tonnes of grain and foodstuffs had been exported through the Black Sea Initiative, 47% of which was maize and 29% wheat(8), with 64% of wheat exported through the initiative reaching developing countries(9).
The Black Sea Grain Initiative, along with the solidarity corridors opened by the European Union to help Ukraine export its agricultural products(10), have contributed to lowering the prices of cereals and food products.
The price of a metric ton of wheat in August 2022 fell to $ 382.86, almost returning to what it was before the war. The metric ton of corn fell to $289.84 in August 2022, rising in October to $346.56; and then it fell back in December 2022 to $302.2(11).
Exports of grain through the Black Sea Initiative were almost equally distributed to developing and developed countries; 53.9% and 46.1% respectively(12); which means that this initiative benefited countries of the world with different economic conditions.

(6) Commodity Markets, The World Bank: https://bit.ly/3xzoRks

(7) » The Black Sea Grain Initiative: What it is, and why it's important for the world», UN News, United Nations, 16/09/2022: news.un.org/en/story/2022/09/1126811

(8) What has been shipped?" Black Sea Grain Initiative Joint Coordination Centre, United Nations: www.un.org/en/black-sea-grain-initiative/vessel-movements

(9) Note to Correspondents: Update on the Black Sea Grain Initiative, Secretary-General, United Nations, 18/01/2023: https://bit.ly/3KmPSPz

(10) On 12 May 2022, the European Commission announced that it had developed an action plan for the establishment of solidarity corridors to ensure Ukraine's ability to export grain and import the goods it needs (www.adnki.net/AKI/? p =88484). The Solidarity Corridors initiative allows the use of EU trains, trucks and ferries, as well as speeding up customs transactions, with the possibility of storage on EU territory.

(11) Commodity Markets, The World Bank: https://bit.ly/3xzoRks

(12) What has been shipped?", Black Sea Grain Initiative Joint Coordination Centre.

It is worth noting that, since the first day of the Russian invasion, the European Union has worked on countering the effects of the war on food. The Union has pointed out on more than one occasion that there is no risk of significant food shortages in the Union, due to the well-founded agricultural sector, which is supported by the Common Agricultural Policy, as well as self-sufficiency in many food products. EU countries have succeeded, with little disagreement, in reaching common strategies on food; which was not the case regarding political, military and financial issues.

The 27 EU countries agreed on coordinated actions to address the global food crisis, through four points: solidarity corridors with Ukraine, helping developing countries make their food production more sustainable and resilient to crises, cooperation with international partners to open borders to Ukrainian agri-food products, as well as support for relevant international initiatives.

As a result, after the war on Ukraine, the main country on the map of world food production, had a major impact on the prices of food commodities on world markets. That threatened food supplies as it meant a lot for developing countries. However, political treatment through the Black Sea Grain Initiative, European actions through the Solidarity Corridors and others, helped in mitigating the repercussions of the war at the food level significantly.

Second: Energy

Despite the importance of the concerns raised by the Russian invasion of Ukraine regarding food supplies and prices, they were not as grave as the concerns that emerged on the issue of energy sources; as while the impact of the food issue was great on certain countries, especially developing countries, the issue of energy sources affected various countries of the world, especially the developed industrialized countries.

Of course, the focus on the subject of energy sources has been great in the global media, especially since this media is mostly in the orbit of those developed countries, which first need energy in their industrial and agricultural production and others, and secondly their governments feared that there would be widespread popular protests due to the rise in the value of consumption. Adding to concerns, the European Union, with war being at its political borders, and whose effects are felt at home, relies on Russia for 40 percent of its energy needs.

From the early days of the war in Ukraine, all these fears have become a reality; first because supplies on the ground were effected; secondly because the European Union has had to reduce dependence on Russian gas as a punishment; and of course, it started working on finding alternatives; and thirdly because of Russian measures to pressure Europeans through gas, such as supply cuts, after the EU countries adopted unprecedented financial and economic sanctions against Moscow.

Thus, after the Russian invasion of Ukraine, energy prices, which had already risen gradually in 2021(13), rose when life began to return to normal in the wake of the historical paralysis caused by the coronavirus pandemic.

The cost of natural gas per megawatt-hour has risen dramatically, from €79.79 on 22 February 2022 to €214.55 on 8 March(14). The price of a barrel of Brent crude on February 22, 2022, was $96.84, while the price of a barrel of West Texas crude was $92.35. On March 7, 2022, Brent oil hit $123.21 per barrel, while West Texas Oil hit $119.4 (15).

With the rise in energy prices, in addition to the rise in food prices as previously discussed, there has been a rise in consumer prices in a large number of countries around the world, including European countries and the United States. Electricity prices in the European Union, for example, went up 35% compared to the previous year(16).

(13) For example, the cost of natural gas for megawatt hours has risen gradually since late 2020 , registering €14.91 on 1 January 2020 to €172.88 on 22 December 2021 (https://bit.ly/3IeSlsH)

(14) Paul Wiseman and David Mchugh, "War in Ukraine at 1 year: Pain, resilience in global economy", AP News, 15/2/2023: https://bit.ly/3IeSlsH

(15) Closing price of Brent, OPEC basket, and WTI crude oil at the beginning of each week from March 2, 2020 to February 6, 2023, Petroleum & Refinery, Statista: https://bit.ly/3Z0kVVq

(15) Infographic-Energy crisis: Three EU-coordinated measures to cut down bills, European Council: https://bit.ly/3Yx4QqQ

Amid all these developments, solutions and alternatives had to be sought, especially by the EU and G7 countries. They sought to work on two fronts: confronting the repercussions of the war on energy prices, and punishing Russia and boycotting it, knowing that the boycott caused a shortage of supplies, especially since the Kremlin initiated the use of energy as a pressure card(17).

European industrial production, which requires a large amount of energy, such as the production of chemicals and metals, including aluminum, has been reduced(18). The European Union has taken measures to cap market profits in the energy sector and has ensured that fossil fuel companies, which have made extra profits from high energy prices, help people and businesses struggling to pay their energy bills.

All these measures, along with other factors, notably the slow down in the global economy and the consequent decline in energy demand, have contributed to the significant re-decline in energy prices.

The cost of natural gas per megawatt-hour (MWH) on 8 June 2022 fell to €79.41. Before the fall, however, that cost rose again to 349.9 on August 26, 2022, as the rift with Russia escalated; but it gradually fell to 58.11 euros on February 7, 2023; which is less than it was before the war(19).

As for oil, its price fell, with Brent oil recording $80.99 per barrel on February 6, 2023, while West Texas Oil barrel on the same day recorded $74.11, the lowest in comparison to what it was before the war(20).

An important factor that has prevented the natural gas crisis from worsening is that a number of European countries last year stored large quantities of gas (Germany: 84%, France: 91%, Belgium: 88.5%, Denmark: 88%, Italy: 82%, Poland: 99%(21)). Moreover, Europe has experienced a less cold winter than usual.

In conclusion, it can be said that the developed countries have been able to withstand the effects of war, while the developing countries and emerging economies have been more affected by it. The resilience of these advanced countries in particular has been underpinned by several measures, including the disbursement of billions of dollars spent on subsidizing energy prices.

(17) Moscow has tried to put pressure on Europe, reducing pipeline supplies to 40 percent of total capacity in June and 20 percent in July, and cutting off supplies to countries such as Bulgaria, Denmark, Finland, the Netherlands, and Poland.European Commission President Ursula von der Leyen said on December 12 that by September 2022, Russia had cut 80 percent of its piped energy supply compared to September 2021, putting significant pressure on the European energy system.

(18) Caroline Pailliez and Gus Trompiz, «French aluminium smelter to cut output as electricity prices soar», Reuters, 6/9/2022, https://reut.rs/3Z1cGJv

(19) Paul Wiseman and David McHugh, "War in Ukraine at 1 year".

(20) Closing price of Brent, OPEC basket, and WTI crude oil at the beginning of each week from March 2, 2020 to February 6, 2023, Petroleum & Refinery, Statista: https://bit.ly/3Z0kVVq

(21) Ayoub Al-Raimi, how will European countries live after the Russian gas cut? Al Jazeera Net, 2/09/2022: https://bit.ly/3UV7mEs

With all these measures; however, it transpired that, the German consumer bill in energy, for example, rose by 24.4% in December 2022 compared to what he had to pay a year earlier. Food prices in Germany have as well risen by 20.7%(22).
The decline in energy prices; however, will gradually reflect on consumer prices, especially on the prices of foodstuffs, whose cost will go down. This may not appear before late spring and early summer of 2023. It is of course conditioned by the war format and pace remaining as they are, and without major escalation; and by the continuation of economic confrontation measures by major countries.

(22) «German inflation reached record 7.9% in 2022», a News, 3/1/2023: https://bit.ly/414J5QJ

Third: International Relations

Although Russia has historically represented the leadership of the eastern camp, and has always been on the opposite front of the West. And as struggle and political, ideological, intelligence and economic conflicts are going on between it and the Western countries, even after the end of the Cold War, the Russian invasion of Ukraine has made the Russian-Western relationship more severe and complex. This is reminiscent of the most intense days of the Cold War, with the difference being that Russia is no longer as strong as the Soviet Union. Western countries, therefore, succeeded in besieging it and depriving it of many advantages internationally.

This new scene, whose features were clearly visible after the invasion of Ukraine, was reflected in the nature of international relations, alignment and polarization on the political arena, on several fronts, especially on the Russian-European and the Russian-American fronts. Add to that the effects on transatlantic relations, and even on Western relationship with China.

First, on the “Russian-European” front, the European Union reacted very strongly to the invasion of Ukraine. From the first hours of this invasion on 24 February 2022, actions and measures opened the door to a new era for the Union, whether in energy policies or in military strategies. The prominent title for this phase is “breaking with Russia”; which has produced - and still does - a new scene in Europe and in “Russian-European” relations.

Despite the difficulty of the challenges posed by the war on the European Union, for which it did not seem ready, nor had it been tested before, as its eastern borders were subject to stability imposed by interests, partnerships and political and economic balances even for most of the Cold War years; the European Union has worked to deal with the new challenges imposed by the invasion of Ukraine seriously and rigorously, by adopting new strategies.

At the military level, the European Union has recorded an unprecedented development in its history, by participating in the war through declared support with military equipment and lethal weapons[23], in a strategic change that is likely due to two reasons: First; it is difficult for the European Union to get NATO to defend Ukraine, because the latter is not a member of it, and because the Alliance is at the root of the crisis, due to the Russian rejection of NATO expanding its borders. Its participation; therefore, may drag the world into a wide and destructive war. Second; it has become certain that the European Union is moving to change its military strategy, which has always focused on the idea of defending the continent by NATO.

(23) Along with the European Peace Facility and the European Union Mission of Military Assistance to Ukraine, which work specifically on military matters, the EU has, since the beginning of the Russian invasion, provided substantial financial support to Kiev, including military, financial and humanitarian assistance.

Total EU military, financial and humanitarian assistance by 20 November 2022 amounted to 52 billion euros. Germany became the largest donor in Europe; while the US aid by the same date amounted to 48 billion euros(24).

Parallel to the European Union's support for Ukraine in its war against Russia, a number of EU member states are witnessing a strategic shift in the issue of investment in the armament and defense sector, which is in line with European trends that had emerged with the beginning of Donald Trump's Presidency in 2016. However, their pace had eased with the world's entry into the Corona pandemic in 2020.

Perhaps the most prominent example of the military strategic shift, in the wake of the Russian invasion of Ukraine, is Germany, which has, first preferred - since the end of the Second World War - to follow a peaceful approach away from the arms race, despite its great industrial and technological superiority; and secondly, it has pursued a policy of cooperation with Moscow through commercial and economic interests, the most prominent manifestation of which is the Nord stream pipeline, which transports natural gas from Russia(25).

At the European Union summit held in Versailles in March 2022, French President Emmanuel Macron urged EU countries to allocate 2% of their budget to defence(26).

On the other hand, the EU managed to avoid an imminent danger in the field of energy, especially through earlier storage, while working to ban Russian oil and put a cap on its price.The EU has quickly tried to search for alternative sources of energy, especially by investing in the production of renewable energy.

European Commission President Ursula von der Leyen announced on December 12, 2022, in what looks like an inventory of what the EU has done on energy since the start of the Russian invasion of Ukraine and what it plans for the future(27), that the Union has launched the “REPOWEREU” plan, which aims at significantly reducing demand for Russian gas. 300 billion Euros had been allocated to that plan, which, according to the European official, had been transformed into numerous bills and executive acts on the ground.

She spoke of 10 steps the EU has taken in 10 months, including moving away from Russian fossil fuels and gas imports towards reliable and trustworthy suppliers, and working to expand renewable energy sources and improve energy infrastructure.

The EU, even with all the difficulties, seems to have learned the lesson, and it is difficult to go back to the Russian energy bosom unless politics comes up with something very exceptional.

(24) Ukraine Support Tracker, Kiel Institute for the World Economy, https: //bit.ly/3uH5yUP

(25) German Chancellor Olaf Schultz announced on 27 February 2022, three days after the Russian invasion of Ukraine, a plan to strengthen the German defense military by investing 100 billion euros. He confirmed that his country would commit to allocating 2 percent of its total internal production to defense annually, which was agreed upon in NATO in 2006. The new measure supports Germany's defense budget of about 50 billion euros a year, allowing the reconstruction of the German military force, which suffered from years of neglect in the wake of the end of the Cold War, noting that previous statements and reports had pointed out that the German army is in a poor position, which hinders its ability and readiness to fight.

(26) Speech by President Emmanuel Macron - Press conference at the Versailles Summit, French Presidency of the Council of the European Union, 11/03/2022:https://bit.ly/3W8Q34i

(27) Statement by President von der Leyen on ‘RepowerEU: outlook on EU gas supply in 2023', European Comission, 12/12/2022: https://bit.ly/3Fxs9sb

Second, on the transatlantic front, the war in Ukraine has prompted the European Union to try to reduce dependence on the United States; or more accurately, to complement the approach that France had launched before the spread of the Corona pandemic, to move away from dependence on Washington.

Although from the first moment of the war, the Euro-American alliance showed seriousness, firmness and durability, as the Russian invasion had to be repelled, the European Union did not forget Trump's words, and his famous question: “Why should Americans defend Europeans who do not defend themselves?” Some of its leaders and officials have not either forgotten what they were planning before the Corona pandemic, especially in France; which is to push for independence from the United States. Thus, the Russian invasion came as a warning saying: now is the right time.

In the meantime, Germany, France's partner in leading the Union, and the first European power, began after the Russian invasion of Ukraine to pursue a new policy, regarding the relationship with Moscow, which has always been close to it and wanted it to be close to Europe. Thus, Berlin sought substantial military investment, for the first time since World War II, as we mentioned earlier, in a measure that strengthens the European Union and thus its independence.

The EU seems to be aware that it must continue its quest to strengthen its independence from Washington, especially since the US administration may change in 2024, and may even get to the White House, Trump himself, who is not fond of supporting Europe; and he even admires Putin.

Third, on the Russian-American front, the relationship between the two arch-rivals has returned to the ferocity of the Cold War, with Washington working hard to isolate Russia politically and economically, and apparently seeking to drain it militarily as much as possible. Washington also continues to support Eastern European countries bordering Russia, including Finland and Sweden, to join NATO.

US President Joe Biden visited Kiev on February 20 to reaffirm its support for the one-year anniversary of the war and stress that his country will not retreat from this support, knowing that this visit would not have taken place amid military activities, unless it is coordinated with Moscow security-wise.

Fourth; with regard to China, the already strained relationship between Beijing and Washington has increased in many ways after the Russian invasion. While Beijing has sought to demonstrate a balanced standing with the West and with Russia, and has called for a cessation of hostilities emphasizing Ukraine's sovereignty and territorial integrity; diplomatic, trade and oil coordination between China and Russia has escalated throughout the war, as Beijing has worked to maintain its strategic ties with Moscow.

After Russia reduced the pumping of gas to European countries, Russian gas exports to China, via the Siberian pipeline to the east of the country, rose. Since July, Russian gas exports to China have increased by about 300 percent compared to the previous years.

Apart from the military and field results in terms of the number of victims and the size of the destruction; the outcome of a year of war in Ukraine shows that the world has largely succeeded in facing the repercussions of that war, specifically in two issues that raised a lot of concern and fears with the early hours of the Russian invasion on February 24, 2022, namely the issues of food and energy.

After the prices of food and energy consumption have risen significantly around the world, especially in Europe and the United States, the measures and initiatives that were made succeeded in bringing back the prices of food raw materials and energy products to their pre-war prices. Therefore, this issue will be gradually reflected in the costs of production, and thus in the prices of goods.

Of course, this optimistic view remains conditioned by two main matters: first; the continuation of the implementation of the relevant plans, especially by the United Nations and the major powers, and second; the non-escalation of the war in agricultural and storage areas, or its slipping into other countries and at greater levels.

On the other hand, it can be said that the European Union has launched a near-revolution to change its military strategy and traditional energy policies. Europe is heading in the coming period to complete this approach; and it is likely that it is will also be deepening the rupture with Russia, as well as making progress in changing the pattern of relations with Washington, towards greater independence from it.

There are, definitely, a number of indications that the EU could succeed in abandoning Russian energy sources. Among these indications is what the International Energy Agency said regarding developing a scenario showing that Russian gas flows to Europe will decline a lot in 2025; then, they might go down to zero in 2028, by relying on liquefied gas and clean renewable energy. Meanwhile, the agency expected that the rupture in gas trade between Russia and Europe would be permanent(28).

Another indicator is the EU's reliance on alternative energy sources, including Eastern Mediterranean oil and gas. On February 15, 2023, Energean company announced the launch of the first shipments of Israeli oil exports from the Karish field. The shipment represents the first new source of Eastern Mediterranean energy to reach Europe.

(28) Javier Blas, "Can Europe's Energy Bridge to Russia Ever Be Rebuilt?", 12/12/2022: https: //bloom.bg/3j3r3N2

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