

# The Implications of the War in Ukraine for the International Economic System

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# Overview

- How will Russia's attack on Ukraine change our **international economic system**?

“the set of institutions, laws, norms and economic relationships which determine how the global economy functions”

- Review **four** main **drivers of change** arising from the invasion of Ukraine
- Consider the **main impacts from** these drivers
- Recommendations for **G7 Presidency** in 2023

# Drivers of change arising from Russia's invasion of Ukraine

- Unprecedented Western **economic and financial sanctions** and their impact on Russia
- **Retaliation by Russia** against the West
- Increased demands on Western **official development finance**
- Transformation of **Ukraine's economy**

# First Driver: Sanctions

# Components of economic and financial sanctions imposed on Russia

- Measures to restrict Russian access to **international financial markets**
- Much stronger, better coordinated, measures against **kleptocrats** supporting President Putin
- Restrictions on Russian access to **advanced technology** (energy, transport, defence equipment)
- Restrictions on Russia's ability to raise **revenues from hydrocarbons**

# Features of Economic and Financial Sanctions

- Main purpose: to weaken Russia's **ability to continue the war**
- Part of a **coordinated strategy** with military and political support (not expected to succeed on their own)
- Re-enforced by voluntary actions of **private companies**
- **Widely supported**, but by no means universal. **China's support for Russia** strictly limited
- **More measures** to come (energy price caps, asset confiscation?)

# Impact of Sanctions on Russian Economy

- **Short-term impact** limited (GDP growth down 3.4% in 2022)
- **Long-term effects** will be severe (technology, financial and human capital, government revenues)
- How much can Russia rely on **China**?

# Second Driver: Russian Retaliation



# Main Features of Russian Retaliation against West

- **Supply of natural gas** to EU cut by 80%
- Grey measures: **cyber attacks; destruction of infrastructure**
- Both steps have long-term consequences for Russia

Third Driver: Strain on Western  
development finance

# Strains on Western Development Finance

- Limited impact of war on **overall debt position** for US, EU, Japan?
- But considerable strain on **development assistance**
- G7 has delivered/pledged budget support exceeding \$32 bn; Ukraine needs \$5bn per month
- Total DAC assistance: \$178.9bn in 2021

Annex A	Projections for gross debt/GDP ratios (%)					
	October 2022 WEO			October 2021 WEO		
	2019	2021	2025	2025		
Average of all countries	103.9	117.9	112.7	118.9		
US	108.8	128.1	129.4	132.5		
Japan	236.3	262.5	260.7	251.3		
Japan (net debt/GDP ratio)	151.1	168.1	172.4	168.7		
Euro Area	83.8	95.3	88.8	93.4		
UK	83.9	95.3	76.7	111.2		
China	57.2	71.5	94.8	78.5		
Sub-Saharan Africa	43.5	51.4	46.1	47.8		
Source, IMF Fiscal Monitor, October 2022 and October 2021						

# Fourth Driver: Economic Transformation of Ukraine

# Economic Outlook for Ukraine

- **Short-term position** very serious (GDP -33% in 2022)

- But bright future:

strong **capabilities** in agriculture, tech and defence...

war has re-enforced **sense of purpose** and national identity  
(successful reforms since 2014)

much stronger **external frameworks** (EU, NATO) and global **soft power**

# Impacts on the International Economic System

- Weaker **global economic** governance
- Stronger impetus to **climate action**
- Faster **fragmentation** in global markets
- **Russia** like Iran? **Ukraine** like South Korea?

# How has the war changed global economic governance?

- Stronger **'West'** (G7 and EU)
- Severe strain on **broader multilateralism** (UN system, IFIs, G20)
- **G20** is likely to be “patched up”, but will struggle to deliver on enormously challenging agenda
- Future of co-operation with **China**?



# Stronger Impetus for Climate Action

- Heading for “climate-economic” crisis this decade (Paris Agreement global emissions budget used up in 8.5 years)
- Short-term set backs from Ukraine war
- But in longer-term Ukraine war may force Europe to lead the way
- Possible **boost to long-term growth** from accelerated action
  - (a) reduction in policy uncertainty reduces capital costs
  - (b) economies of scale from everyone acting together

# Acceleration in Market Fragmentation

- Market fragmentation was **already happening before the war** (e.g. Brexit, strengthened CIFIUS, BCAMs)
- Ukraine trade sanctions and Russian energy market retaliation will increase fragmentation in market for goods
- Financial sanctions will change the way some major countries view **foreign exchange reserves** and **current account imbalances**
- Urgent need to find the **optimum end point**

# Impact of Russian economic decline and Ukrainian economic success

- Possible reduction in Russian contribution to tackling **climate change** (deforestation)?
- Russia as a malign actor on **illicit finance**
- Ukraine could eventually make a strong contribution to **EU economic growth** and **food security**
- Ukrainian **fin tech** and **defence/tech** industries likely to be globally significant (joining agriculture)

# Recommendations to the G7

- Learn from unprecedented application of **economic and financial sanctions** (what was special this time?)
- Focus on **realistic/practical steps** to improve global economic governance; prioritise essential collaboration with China (policy carve outs?)
- Learn from Europe's response to Ukraine energy crisis and prepare for a **climate-economic crisis**
- Work out best available **end point** on global market fragmentation

Thank you!