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Threats and Opportunities of the Ukrainian Crisis : Impact of the Global Stability

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THREATS AND OPPORTUNITIES OF THE UKRAINIAN CRISIS: IMPACT ON THE GLOBAL STABILITY

Summary:

The current Ukrainian crisis has various effects, both domestic and international, on the political, economic, and social agenda. The crisis is also inexorably linked to the issue of national security of many states and is undoubtedly changing the geopolitical situation in the world.

This paper examines and compares the causes and implications of the two Ukrainian crises: the one of 2008 – 2009 and the most recent one of 2014 – 2015 by looking at their main triggers and consequences. The paper also intends to provide an insight on the potential threats and new opportunities for further development of the Ukrainian and global economies.

Key words:

Global Stability, the Ukrainian Crisis, crisis triggers, consequences of the crisis.

Introduction

The Ukrainian Crisis will be a turning point for how major powers think about the globalization. Global integration held the promise of peace, stability, and mutual prosperity. But the great power comity of 1991 to 2008 was never going to be permanent.

There are many various threats to violation of the global stability in the 21st century. There are some worrying prospects for the international security situation:

- The war in Syria and the Israeli-Palestinian conflict broke out again, resulting in large casualties to Syrian and Palestinian civilians.
- Many of West African countries were affected by the raging Ebola epidemic in 2014.
- We can see numerous uncontrolled flows of migrants from Africa and the Middle East to successful and stable Western Europe. The refugee

issues have created a humanitarian crisis, and Europe is now facing an increasingly serious social crisis.

- There were a few catastrophic crashes of passenger planes (such as Malaysian plane in Ukrainian Donbas in the summer 2014 and Russian plane in Egypt in the autumn 2015).
- Terrible terrorist attacks were extended to European countries. The “Charlie Hebdo Weekly” events in Paris in winter 2015 and the subsequent series of terrorist attacks on "Black Friday" in November 13, 2015 have shown that Europe is facing the increased terrorist infiltration.
- Escalation of the Russian aggression, primarily in Eastern Ukraine.
- Prolonged Ukrainian crisis during 2013-2015.

All these events have one common feature: civilians are suffering and the world order is violated.

The Ukrainian Crisis of the 2013-2015 is inexorably related to the issue of national security of many states and undoubtedly changes the geopolitical situation in the world.

This crisis came as a wake-up call for post-modern Europe, the reminder that existential threats still exist and that conflicts may hardly be avoided because of purely economic calculations of cost and benefit.

Main thesis

In the understanding of some Western diplomats, politicians, journalists and civilians, the Ukrainian Crisis may have dire consequences only for Ukrainians, Crimean Tatars and progressive Russians. The Ukrainian Crisis is considered to be just another European territorial issue, which is difficult to solve. There is also a view that this crisis may have insignificant repercussions beyond Eastern Europe. However, it is not right.

Ukrainian Crisis isn't a local and temporary problem, but global. It has become and still remains an important factor in transformation of the international order. Moreover, it is a “catalyst” of the international confrontation of the global players such as the USA, EU, Russia, and China.

According to the head of the International Monetary Fund Christine Lagard, the Ukrainian Crisis is one of the geopolitical risks that affects the global economy and may have serious consequences. British Prime Minister David Cameron said that the new global crisis is threatening to the global economy because of the aggression of the Russian Federation in Ukraine, the Ebola virus and the Middle East. Polish President Andrzej Duda during the opening of the 25th Economic Forum in Krynica-Zdroj (Poland) on the 8th of September 2015 stated that there are four biggest problems that are threatening Europe today. These are demographic crisis, the Eurozone crisis, immigration crisis, marginalization of war in Ukraine and Russian aggression.

That is why the whole world, its leaders and investors consider how the instability and escalating crisis in Ukraine could violate the global economy.

Here are five main reasons why the world's largest economies are interested in events in Ukraine.

Ukraine is a fragile emerging market

Ukraine's instability comes at a difficult time for emerging markets worldwide. Let us compare causes and consequences of the Ukrainian Crisis during 2008-2009 and 2013-2015 years.

Table 1. The main characteristic of the Ukrainian Crisis during 2008-2009 and 2013-2015

Period	Type of crisis	Objective conditions	Negative consequences
2008-2009	social, economic, structural	the global economic crisis; systemic deformations, which have been accumulating for a long time; growth of economic and social asymmetries.	drop in GDP; rising inflation; currency devaluation; increasing unemployment; growing arrears of wages; lower living standards and other
2010-2012	Crisis-free period		
2013-2014	political, military	aggravation of internal economic contradictions; necessity to change the political regime; annexation of the Crimea; military conflict in the East.	political instability; drop in GDP; reduction of gold reserves; growing of external debt; the growth of inflation rate; increasing unemployment; a sharp decline in living

			standards for most of the population and other
2014-2015	systemic social, economic, political, military	widening global crisis; military conflict in the East of the country; significant financial and human losses; being accumulated for a long time deformation system; further growth of economic and social asymmetries; lack of transparency control systems; unsystematic economic reforms; lack of incentives for entrepreneurship and social dialogue partners.	reduced confidence for the government; political instability; drop in GDP; currency devaluation; default threats; very high inflation rate; further decline in living standards for most of the population; high unemployment rates; expansion and deepening of the so-called "new poverty and other

Domestic private consumption has been eroded by the spike in inflation and the IMF-imposed austerity measures. All in all, Ukraine's economy may be contracted by up to 12% this year, and the stabilization prospects are unclear.

Table 2. Forecast GDP, %

The institutions	on 01.01.2016	on 01.01.2017	on 01.01.2018	on 01.01.2019
The World Bank	-12	+1	+2	+3
International Monetary Fund (IMF)	-9	+2	+3,5	+4
National Bank of Ukraine (NBU)	-11,6	+2,4	-	-
Ministry of the Economic development and trade of Ukraine	-8,3	+0,7	-	-

Source: Банки України <<http://insiders.com.ua/>> (10.10.2015).

The situation in Ukraine also could lead investors to reassess the risks of other emerging markets slowing economic growth.

Ukraine is an important tie between Russia and the rest of Europe

Ukraine doesn't hold the economic power it once did, but it has retained its geography until recently, before the military occupation and military aggression in 2014 in Ukraine. The annexations of the Crimea and the “Russian game in Ukraine” have provoked the collapse of some taboos in the international arena. Two fundamental agreements have been violated: the Helsinki Accords of 1975, ensuring the stability of relations between the West and the East on the basis of guarantees of non-usage of force, respect of the borders and sovereignty of States; and the Budapest Memorandum of 1994, signed by certain major states, including Russia, which guaranteed Ukraine’s sovereignty and territorial integrity in exchange for the destruction of its nuclear potential. Besides, Russia has violated international agreements on the Black Sea Fleet, a series of bilateral agreements (on friendship and cooperation, an agreement on border issues and other), as well as the norms of general international law, in particular, the rules of the UN Charter.

In middle 2014 - early 2015 the trend towards the growth of geopolitical tension in Ukraine had only increased. Military actions in the Donbas and the loss of its substantial part present more serious problem than the annexation of the Crimea, because it is one of the major industrial regions of the country. In Donbas, which used to account for 16% of Ukraine’s GDP and a quarter of its exports, the war-related damage is currently estimated at 20% of GDP. The industrial production has nearly come to a standstill, largely as a result of power cuts and railway disruptions.

Moreover the Ukrainian conflict is a bright precedent of a modern «hybrid war», which confirms its unique crushing action.

Major players in the global market imposed sanctions against Russia

One of the consequences of a Russia’s breaking of its international obligations was the fact that other international players have acquired the right to review their commitments to Russia. They introduce economic sanctions against it. The Western financial and other sanctions and the related increased political risks are hampering investments, economic growth and modernization in Russia.

Russia’s economic recession and political isolation weakens it in its relationships with the West and also with Asia. European countries also have economic losses from sanctions against Russia. As a result of the EU's imposing sectorial sanctions against the Russian Federation and the Russian response, the total economic losses of the EU countries may reach 40 billion Euros (0.3

% of EU GDP). At this, the greatest losses from the introduction of Russian embargo on food imports from the EU, have suffered Poland (1.1 billion US dollars), Germany (814 million US dollars), the Netherlands (797 million US dollars), Spain (796 million US dollars), Denmark (545 million US dollars), France (444 million US dollars), Finland (367 million US dollars) in 2014. However, the total losses of the largest European Union economies – Germany, UK, France, Italy, and Spain – in relation to the overall indexes of their exports are negligible in comparison with Poland or Finland¹.

The risks to the economy of the EU in the context of the Russian aggression against Ukraine are estimated as significant. Taking this into account, the EU seeks to ensure balanced decisions on economic sanctions against Russia, preferring hidden financial sanctions

European and world trade may be impacted

Ukraine is one of the world's top exporters of corn and wheat, and prices may rise even on concern these exports can halt.

Moreover, because of the relative isolation of Russia with the imposition of EU sanction and Russian import substitution policy, Europe lost a large market of its goods. That is why it is possible to consider the potential crisis of supply and demand, which would require fast adaptive actions on reorientation of the world's import / export flows.

Ukraine's government is in debt and needs assistance

Arguably, the situation arguably would not be so volatile if Ukrainian government coffers were more stable or the economy was stronger.

Gross external debt of Ukraine has almost doubled in 2014 compared to 2008 and amounted to UAH 142,079.

Additionally, developed countries also have problems of over-indebtedness: USA – 101 %, Japan – 22.7 %, Italy – 132 %, Belgium – 101 %, Singapore – 105 %, Greece – 175 %, Portugal – 129 %². Attempts of the governments of developed countries to solve their problems with over-indebtedness will restrict the flow of international investments, including to Ukraine. Future prospects will also depend on the ability of Ukraine to use stabilization funds of international financial assistance effectively, whose confirmation would be an implementation of priority measures of the anti-crisis program and real struggle against corruption.

¹ Analytical centre "Borysfen Intel", *Analysis of Current Trends in Economies of the Leading Countries of the World, and Risks Associated with the Russian-Ukrainian Conflict* <<http://bintel.com.ua/en/article/ekonom-mira/>> (10.10.2015).

² *Ibidem*.

Conclusions

It can be concluded that the past security problems and hot issues have become more serious rather than being solved, and new security threats are constantly emerging. The international security situation is unstable and the international order seems to be in meltdown.

The Ukrainian Crisis is more than merely national or East European conflict. It is unsettling the European security order and entire international organizational system. The biggest risks it entails concern the future destiny of Russian Federation as an important actor in Northern Eurasia and global politics. Russia's decoupling from international financial flows, trade routes, intellectual exchange, and political integration will have repercussions far beyond Eastern Europe.

Ukraine cannot survive without the implementation of efficient reforms in the next few years.

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