

Tension Between Russia and Ukraine: An Invitation to Increase Global Poverty

André Luís Cateli^{1*} and Ewerton Ricardo Messias²

¹Faculty of Business, University Center of Integrated Colleges of Ourinhos, Brazil.

²Department of the Professional Master's Program in Animal Health, Production and Environment, University of Marília, Brazil.

*Corresponding author:

Ewerton Ricardo Messias, Department of the Professional Master's Program in Animal Health, Production and Environment, University of Marília, Brazil.

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Abstract

This article aims to identify whether the economic sanctions imposed on Russia due to its military advance on the territory of Ukraine can have effects beyond the parties involved. To do so, it investigated the main items subject to an economic embargo and its consequences within the European Union to, subsequently, address the consequences for the rest of the world. The investigation will use economic principles as a reference system, especially one that demonstrates that the market can improve everyone's situation and will be developed through bibliographic research and on specialized websites, using the deductive method. Finally, it was possible to foresee that the tension between Russia and Ukraine will lead to global inflationary processes, given that it will increase the scarcity of essential items consumed worldwide, thus resulting in an increase in global poverty, including in Russia itself.

Keywords: International Tension, Economic Crisis, Inflationary Rise, Global Impoverishment.

Introduction

On the morning of February 24, 2022, Russia launched a “special military operation” in Donbas, a breakaway region in eastern Ukraine. The escalation in the years-long conflict between Russia and Ukraine has triggered the continent's biggest security crisis since the Cold War, raising the possibility of a dangerous confrontation between the Western powers and Moscow. The reason for the attack, according to Russian President Vladimir Putin, was the recognition of the independence of two separatist areas of Ukraine: the People's Republic of Donetsk and the People's Republic of Luhansk.

With the speech that these regions are part of Russian history and that after the collapse of the Soviet Union, NATO advanced eastward, incorporating most of the Eastern European nations that were in the communist orbit, signaled that it currently sees this expansion as an existential threat to his country, if the prospect of Ukraine joining the Western military alliance materializes, understanding the fact as a “hostile act” [1].

Faced with the completion of the military invasion, the imposition of economic sanctions began by the nations that, in a diplomatic way, pursued the maintenance of peace, especially the United States and the European Union. As Russia is a major economic power and a strategic supplier of food and natural resources to

much of the world, especially natural gas and wheat, economic sanctions will lead to a shortage of these items in the market, which will result in a global inflationary process.

Taking into account this scenario of tension between Russia and Ukraine, this article aims to analyze the economic consequences of sanctions around the world and in particular whether this situation can influence the increase in global poverty. To this end, it will use economic principles as a reference system, especially one that demonstrates that the market can improve everyone's situation. The investigation will be developed through bibliographical research and in specialized sites, using the deductive method. Finally, it was possible to foresee that the tension between Russia and Ukraine will lead to global inflationary processes, given that it will increase the scarcity of essential items consumed worldwide, thus resulting in an increase in global poverty, including in Russia itself.

He Market Can Improve Everyone's Situation

The market is not like a competition, in which there is a winner and losers. This is because, in commerce, everyone can win, some to a lesser extent, others to a greater extent. Thus, competitors are competitors in the same market, as much as they are partners, so that people compete with each other, but they are partners due to their specialties. Commercial activity allows people to specialize

in what they do best, so that, like people, countries can benefit from being able to transact with each other, allowing them to also specialize in what they do best and can enjoy a greater variety of goods and services. In the words of Mankiw: Commerce allows each person to specialize in the activities at which he is best, whether agriculture, clothing or construction. By trading with others, people can buy a greater variety of goods and services at a lower cost. Like families, countries can also benefit from the ability to trade with each other (our own translation) [2].

As an example, one can mention a person who wants to build his own house. However, the opportunity cost can be immense, since you don't have any knowledge about civil construction, when there are specialized people who can do the same task with extremely greater efficiency. In the same way, the person who builds houses can be offered services that other people specialize in. Empirical evidence has shown that more market is better than less market, but good quality institutions also play an important role in curbing markets where their failures worsen the outcome of free competition. The Market cooperates when necessary, but always encourages everyone to compete with each other, which in turn drives people to specialize more. The consequences of a specialized workforce are the rationing of natural resources, better wages, real economic growth and, consequently, an improvement in the standard of living and well-being of society (our own translation) [3].

Starting from the certainty that resources are scarce, it seems evident that specialization in the execution of tasks is extremely positive, insofar as the resources to be used for the development of the same task will be smaller, since the experience will lead to a better use of the raw material. In the same way, the specialty, due to the punctual attention directed to certain processes, can provoke the development of new technologies that will lead to the improvement of processes and gain of scale. In view of this conjuncture, the scenario that takes into account the continuity of trade between nations through the free market, allowing the specialization of tasks, which can be strongly harmed by the tension between Russia and Ukraine, is more efficient.

Economic Sanctions and The Shortage of Strategic Products

Russia is one of the largest oil producers and has the largest gas reserves in the world, supplying more than 40% of all European demand for the product, as well as having one of the largest coal reserves in the world. In addition, it has enormous importance in the supply of fertilizers to the whole world [4].

Currently, the Nord Stream pipeline transports 55 billion cubic meters of gas annually, which are mainly used in Germany [5] [6]. By contrast, Ukraine is a major exporter of grains such as wheat, maize and barley. the country harvested a record 84 million tonnes of grain in clean weight in 2021, up from 65 million tonnes in 2020 (Polityuk, 2022). With the outbreak of confrontation between the countries and the respective introduction of economic sanctions on

Russia, its natural gas will no longer be purchased by the countries that condemn the conflict, which will lead to the use of alternative fuels, mainly coal and oil.

The volume of gas that the European Union needs cannot be substituted by any supplier unilaterally without disrupting deliveries to other regions and in the event of a prolonged interruption for the next two winters, Europe will have to reduce demand, an uncertainty that will keep prices high (Shiryaevskaya & Almeida, 2022).

The scarcity of natural gas will consequently lead to the scarcity of these other fuels which, due to the market, will have their prices high, due to the increase in their demand and the impossibility of a sudden increase in their extraction. On the first day of the conflict, the price of a barrel of oil exceeded US\$100.00, while natural gas experienced an increase of 8% (Rodrigues, 2022). On the Ukrainian side, agricultural production will likely fall significantly between this year and next, given that the country has shifted its focus to defending its borders and much of its areas have been affected by Russian military operations.

Considering the embargoes on Russian fertilizers in this aspect, we have the perfect formula for increasing the price of grains around the world. In the face of such evidence, the most diverse countries will have to invest in increasing energy and agricultural production in conditions that are not as efficient as those regularly performed by Russia and Ukraine, which, taking into account the economic principle of that the market can improve everyone's situation, will provide higher costs due to the lack of specialization in production.

Inflation And Its Effects On Increasing Poverty

Inflation is an economic term often used to designate the general rise in prices in society. It represents the increase in the cost of living for consumers and companies, resulting from the increase in the price of products and the devaluation of the currency (Pena, R. A., 2022). Inflation generates important uncertainties in the economy, discouraging investment and thus hampering economic growth. Relative prices are distorted, generating various inefficiencies in the economy. People and firms lose track of relative prices and, thus, it is difficult to assess whether something is cheap or expensive. Inflation particularly affects the less favored sections of the population, as they have less access to financial instruments to defend themselves against inflation. In the case of the present investigation, the inflationary process comes mainly from the increase in grain and fuel prices, which generates an even more perverse scenario for the poorest, given that grains represent basic subsistence items and fuels reach reflects all other products that are transported to supermarkets, including the grains themselves.

It is also worth mentioning that higher inflation also increases the cost of public debt in underdeveloped countries, as interest rates on public debt have to compensate not only for the effect of inflation, but also have to include a risk premium to compensate for uncertainties. associated with higher inflation, that is, it causes a

scenario of high interest rates, which goes against investments, making it difficult to generate new jobs. It is inferred from this situation that the inflationary process that will be generated in the coming months by the conflict between Russia and Ukraine will greatly contribute to the increase in poverty of the most vulnerable people around the world, already so punished by the pandemic of the new coronavirus, including in Russia itself, given that in the first week of the conflict, the Russian Central Bank doubled the basic interest rate and the ruble experienced a 30% devaluation.

Conclusion

The tension that began between Russia and Ukraine at the end of February 2022 aroused global attention, given the disruption of order and peace experienced by humanity in recent years.

It was found that in order to contain the advance of the Russian offensive on Ukrainian territory, the West joined, especially the United States and the European Union, applying various economic sanctions in a way never seen before. Among the economic sanctions, attention was drawn to the embargoes on the purchase of oil and natural gas from Russia, the largest European producer and exporter of these energy sources, as well as fertilizers.

Added to this, it was found that the military offensive on Ukrainian territory will significantly reduce the grain production of Ukraine, which is a major producer and exporter of grains, mainly wheat, corn and barley.

It is concluded that this situation is a perfect formula for the escalation of inflation worldwide, given an increase in the scarcity of grains as well as the scarcity of energy (oil and natural gas), leading countries to search for alternatives that will not count the economic principle that the market can improve everyone's condition, resulting in a loss of efficiency due to lack of specialization.

Thus, it was verified that the increase in the scarcity of these strategic products will lead to an inflationary process over the next few months that will particularly affect the less favored layers of

the population, who have less access to financial instruments to defend themselves against inflation, including within the Russia itself, which already has a significant increase in the basic interest rate to try to contain the process, thus maximizing its internal debt, another perverse factor for the most vulnerable due to the inability of the government to allocate more resources to the realization of social rights.

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