

In this article, in addition to analyzing the economic consequences of the war in Ukraine, particularly those associated with raw materials and the role of the dollar and the effects of economic weapons, we ask ourselves about the changes facing the real and financial economy and the possible extension of the conflict to the margins of a purely economic war.

Under the hypothesis that the geo-economic panorama will take precedence over the geopolitical one in the coming years, shaping a novel web of regional relations, regardless of the outcome of the war, and through the analysis of the economic element as an instrument of hard power, a prospective exercise will be carried out to propose possible macroeconomic scenarios, some radically different from the current one.

The economy "as a continuation of politics by other means".

For decades, since the end of World War II, economic growth has provided unprecedented geopolitical stability. After the fall of the USSR, it seemed that the "end of history"¹ was guaranteed by the victory of capitalism over any other economic conception, led by the internationalization of companies, the delocalization of capital and the ability of anyone with sufficient purchasing power to consume any type of good or service, regardless of its origin.

Although it is not possible to defend the idea of a scenario without conflict during these years of a "flat world"², it is indisputable that the economy served to maintain the world order to some extent, with a clear preponderance of Western economies and their style of governance.

The Cold War of the 20th century involved the confrontation of two politically, economically, militarily, culturally and ideologically opposed blocs, which sought to embody radically different social projects. Today we are no longer in the same situation, but in the context of fierce competition, in some cases with US hegemony contested, which can take the form of conventional wars, such as the one declared by Vladimir Putin.

¹ According to Francis Fukuyama's concept, reflected in his work "The End of History and the Last Man". Fukuyama, F. (1992). The end of history and the last man. Madrid: Planeta.

² Friedman, T. L. (2005). El mundo es plano: una breve historia del mundo globalizado en el siglo XXI. Londres: Allen Lane;

During these years of relative peace and quasi-unanimous economic unipolarity, even China seemed to converge in economic terms, despite not doing so in political terms.

Although the Ukrainian war is not, as some analysts insist on claiming, the first major war to take place on European soil after the two world wars (how can we forget Yugoslavia or the 78 days of bombing in Kosovo), what is certain is that it constitutes a before and after in the way of dealing with the counter-attack, not because of the importance of the war itself, of the inevitable discussion of *ius ad bellum*³, but because the fear of an escalation leading to a nuclear conflict has left the economy as the only possible weapon against Putin and his military offensive.

Russia is not a world economic power. With a GDP similar to that of Australia or Spain, its *per capita* income is lower than the European average (about \$10,000)⁴. However, its military capability has put its European neighbors and its ideological nemesis on the warpath.

While the moral principles governing national sovereignty are almost unanimously accepted by nations, the West's fickle economic precepts and its ability to make amends through sanctions against countries that do not submit to them are not.

This and no other is the reason why many capitalist countries have not sanctioned the embargo on Russia⁵, despite having unreservedly condemned the invasion of Ukrainian territory. It is not, therefore, an adherence to the Russian cause, but a clear sign of distrust towards the Western powers and their way of implementing economic warfare as a mechanism for conflict resolution, whether armed or not.

The world, only a few years ago populated by rich capitalist countries, developing capitalist countries and poor countries with capitalist yearnings, all based on a neo-liberal economic system supported by globalization, has become much more complex: none of those states that yearned to enter the select group of full development today wants to

³ The concept, coined during the birth of the League of Nations, refers to the legitimacy of the cause that provokes the war.

⁴ datosmacro.expansion.com. (Accessed 04/26/2022). Retrieved from GDP of Russia: <https://datosmacro.expansion.com/pib/rusia>

⁵ The UN General Assembly vote on March 2, 2022 is very significant in this regard. While a large majority of states condemned Russian aggression - 141 out of 193 - 35 abstained and 12 did not participate in the vote, most of them African - no less than 17 abstained - or Asian. Even more numerous are those who refuse to associate themselves with the sanctions, including some traditionally close to Western capitals, and especially to Washington. [la-croix.com](https://www.la-croix.com/Economie/Guerre-Ukraine-grands-pays-nappliquent-pas-les-sanctions-contre-la-Russie) (Accessed 21 April 2022). Retrieved from Guerre en Ukraine : ces grands pays qui n'appliquent pas les sanctions contre la Russie: <https://www.la-croix.com/Economie/Guerre-Ukraine-grands-pays-nappliquent-pas-les-sanctions-contre-la-Russie-2022-04-07-1201209225>

blindly acquiesce to the punitive mechanisms of the preeminent Western economies. We have before our eyes further proof that nations are asserting and reclaiming the independence of their choices.

This shows, among other things, a strong sense of injustice in the face of this kind of selective indignation.

Without this being the only reason for the moral solitude in which the EU, the USA and other countries of the ideological orbit of the one or the other find themselves, it seems evident that this fact alone speaks of what may be the geo-economic chessboard after the war in Ukraine. It is a certain event that the war will end at some point, and hopefully without major military implications, but it seems inevitable to anticipate a global economic war, whose origins are to be found in the globalization process itself, the recent covid crisis and all the macroeconomic failures it has revealed, and the recourse to the economy as a mechanism to solve conflicts, as a continuation of the political path⁶.

Economic instruments at the service of war

The usefulness of economic weapons is conditioned by many factors. Firstly, they must be used with caution, to avoid the intended effect falling on those who use them. Secondly, it is necessary to foresee the opponent's countermeasure, which may transgress the economic domain; that is, it is necessary to consider how far one wants to go in economic punishment without opening the door to a conventional conflict. Another condition for its effectiveness implies that the economic stature of the aggressors is sufficient to be able to sustain the attacks over time, without them reverting like a boomerang in a dramatic way.

It seems appropriate, therefore, to analyze the consequences of the economic measures implemented, the possibility of applying others that are discussed at length and, during the process, observe the behavior of one or the other in the possible scenarios of the conflict.

To analyze the instantaneous consequences of the conflict on the world economy, let us begin by highlighting the unprecedented escalation in the price of certain raw materials. It is necessary to clarify that the price formation mechanism of raw materials, particularly

⁶ In reference to Clausewitz's famous phrase.

oil and gas, is very complex and does not rely solely on conjunctural circumstances, although it is clear that it has a high degree of volatility.

Without going into economic concepts any further than necessary, it should be explained that the prices that countries pay for energy supplies are determined by the law of supply and demand, which is nothing more than admitting that the final price of the product is the one at which the consumer's desire and ability to pay meet the supplier's profit expectations.

This means, in terms of competition, that the supplier will sell to whoever pays him the most, and that this aspect is legitimate as long as we accept the very legitimacy of the liberal economic system in which we live.

Having clarified this point, the prices of some essential raw materials began to rise unstoppably a few years ago, because the Asian economies, in the midst of an emerging process, demanded greater quantities of supply and were in a position to pay for them.

With the Covid crisis, which, as we have already mentioned, revealed major shortcomings in the supply chains and in the supply of certain strategic goods, this phenomenon of increased consumption of energy goods was exacerbated. The reason for this was none other than a process of growth that was resumed with enormous emphasis after the economic slowdown caused by the onset of the pandemic, but which was essentially modified by the objectives of decarbonizing the economy.

These objectives, still a long way off but ultimately almost unanimously accepted, have added an extra element to the increase in the price of raw materials, firstly because many of them form an essential part of the new "clean"⁷ processes and secondly because decarbonization amplifies the intrinsic volatility of supplies, giving them a nature of imprecision in their consumption and in the quantities offered, which adds another element of uncertainty.

In the context of Europe's energy dependence on other suppliers, mainly Russia for gas, to take an example of a single relevant raw material, the conflict has only highlighted the limited room for maneuver of the supply and demand curves, in a scenario in which

⁷ Simonneau, D. (Consultado el 18 de 04 de 2022). [cairn.info](https://www.cairn.info/revue-geo-economie-2015-2-page-193.htm?try_download=1). Obtenido de Towards a new geopolitics of gas: https://www.cairn.info/revue-geo-economie-2015-2-page-193.htm?try_download=1

Europe cannot reduce its dependence on Russia from one day to the next, nor can Russia look for a substitute buyer of the same magnitude as the EU.

This being the case, the additional gas price inflation is only short-term, since the objectives of reducing the EU's dependence on Russian gas in a short period of time are not realistic and part of the economic damage inflicted on Russia involves leaving without a buyer what is the largest source of dollar inflows for its economy.

The current reality is that the EU pays a higher price for gas than before the crisis, because it cannot go without it or replace the source as it would like, and that Russian cash reserves channeled through gas sales have only increased.

The fact that a new supplier has been sought in the USA⁸ does not solve the price problem. The contract with the USA is a two-year agreement, without fixed prices or quantities, for the supply of liquid gas, which will have to be transformed into its natural state and which will be more expensive for the consumer than that which comes from pipelines. It is also important to remember what we have learned from the marginalist markets; we are not the only buyer for the USA and perhaps not the one willing to pay the best price.

Diversification of sources, so necessary for strategic independence, inevitably implies paying a higher price for supplies. This is true for any good, whether or not it is of a strategic nature.

In the long term, countries dependent on Russian gas will look for various alternative sources other than the USA (Qatar, Algeria, South Africa...), and the very mechanism of transport and/or regasification will lead to a systematic increase in prices.

On the Russian side, although the possibility of China taking over the surplus that Europe gives up is frequently mentioned, it does not seem clear that it is an objective for the Asian country to fall into energy dependence on a single country, given that, as outstanding risk-averse people, the Chinese have been actively demonstrating their preference for diversification for decades.

⁸ elconfidencial.com. (Accessed 06 April 2022). Retrieved from The EU closes a deal with the US to guarantee liquefied gas for two years: https://www.elconfidencial.com/economia/2022-03-24/acuerdo-ue-eeuu-aumentar-importaciones-gnl_3397254/?msclkid=f0924d4ed05711ecaa85876edd43c455

It seems, therefore, that the best element of economic warfare that the EU could use against Russia would be to significantly reduce its gas purchases, because it is more than likely that there would be no buyer to accept the volume of surplus supply.

If we place ourselves in the different scenarios on the possible development of the war, we observe different effects on the Russian economy.

In the first scenario, immediate end of the war and return to the original *status quo*, trade relations between Russia and the EU could become fluid again, with a greater diversification of European supply sources, but with a clear awareness of the greater savings from Russian gas supplies.

However, in any of the possible scenarios other than an early resolution of the war, the EU will have signed contracts with other countries, legally subjecting it to a certain period and consumption.

Regardless of the evolution of future Russian-European relations, the use of gas as an economic weapon against Russia will have had negative consequences on the price that Europeans will pay for future supplies, in exchange for reducing in the medium and long term the income that Russia receives from trade in one of its star goods, with the consequent impoverishment of its economy.

As for Russia's defensive economic weapons⁹, in particular the payment in rubles, it does not seem that in the medium or long term it will be of any use and will not be an effective counterattack by the Russian side. Regardless of the fact that contracts are signed in dollars, Russia is obliged to pay its debt and imports in strong currencies. The inflow of rubles into its economy would deplete domestic dollar reserves. Considering that it has little access to those it hoards in foreign markets, in the short term the measure may help to avoid a deterioration of the ruble, but not in the medium and long term.

This reasoning, except for some details, can be applied to most of the raw materials (oil, rare earths, aluminum, copper...) that Russia offers to the EU, although it is true that the gas market is more inelastic than the rest and adjustments are, for this reason, much slower.

⁹ expansión.com. (Accessed 18 April 2022). Retrieved from Putin will demand "unfriendly" countries to pay for Russian gas in rubles: <https://www.expansion.com/economia/politica/2022/03/23/623b4495e5fdea460d8b45c4.html>

Swift

As a consequence of the Russian invasion of Crimea in 2014, some companies were already excluded from the Swift system, but the economic warfare measure is particularly dangerous, no longer in the short term, but in any of the scenarios involving a temporary extension of the conflict.

The Society for Worldwide Interbank Financial Telecommunication (Swift) is a Belgian company created in 1973 that integrates 11,000 banking establishments throughout the world, which are allowed to carry out financial operations for the transmission of payment orders. This system has a very close relationship with the U.S. Treasury and, by extension, with the preservation of the dollar as a store of value and safe haven currency¹⁰.

The exclusion of a greater number of Russian companies from Swift would mean, in the immediate future, an additional increase in the prices of energy and other goods subject to transnational payment.

The effects on Russia would be much more devastating, extending to the entire financial network of the country.

However, in any of the scenarios in which the conflict is temporarily extended, the effect on the financial system would far transcend the Russian borders, significantly altering its current configuration and very possibly fragmenting its uniqueness.

It is a reality, not only in the economic sphere, but intrinsic to the human being, that when a tool cannot be used, a substitute is sought. This fact constitutes the root of what in economics is known as the process of creative destruction.

If we go back again to the various occasions in which the exclusion of Swift has been handled as a tool of economic warfare, we note that its application in 2014 led to the birth of the Russian SPFS system¹¹. On the other hand, the sanctions imposed on Iran also forced Europe to seek alternatives that would make possible the continuation of trade with the country, with the creation of INSTEX¹².

¹⁰ abc7.com. (Accessed 04 April 2022). Retrieved from What is SWIFT and why is it called the "nuclear" option for Russian sanctions: <https://abc7.com/russia-ukraine-russian-banks-removed-from-swift-sanctions-on-nato/11605430/?msclkid=3ec0c9dbd05a11eca24f873fd63a825d>

¹¹ ege.fr. (Accessed 26 March 2022). Retrieved from Economic warfare in the international financial system: <https://www.ege.fr/infoguerre/2019/11/guerre-economique-systeme-financier-international>

¹² Created in 2019 by Germany, France and the United Kingdom.

If we add to the process of creative destruction, the search for substitute procedures, the desire of some countries to free themselves from the financial hegemony of the USA and its standard currency, we have the necessary ingredients to take the prospective exercise even further.

China, whose desire to de-dollarize the world economy is public and notorious, developed in 2015 its own system, the CIPS, in addition to enhancing as much as possible the digital yuan. This system is preferentially used in operations associated with the achievement of the new silk road, with the consequent empowerment of the yuan as an investment currency.

It is important to note that during the past 2020 Russia and China reduced their dollar exchanges by 50%¹³ and both powers could complete a process of compatibilization of alternative systems to Swift, should it prove not only essential given the circumstances, but also opportune for their geo-economic plans.

In this regard, China has been working for years on the long-standing process of economic de-dollarization¹⁴. Associated with the reduction of the stock of US dollars and the accumulation of gold, the gradual destruction of the financial system as we know it is an ambition of Xi Jinping, who intends to give his country the financial relevance that its economic strength lacks.

A scenario in which Russia is excluded from the system underpinning Western economies with the dollar at the head could ultimately undermine the uniqueness of the financial system and its current globalization, fragmenting the economy into distinct areas of operation, with different instruments and different strong currencies that could eventually become safe haven securities to the detriment of the dollar and give China financial power in a substantially important part of the world.

The effects of the economic war on geopolitical dependencies

Russia's financial and commercial isolation pushes it in the short and medium term towards other markets, especially when the EU has found substitute suppliers to reduce

ege.fr. (Accessed 25 March 2022). Retrieved from La décredibilisation d'INSTEX, "special vehicle" for trade with Iran: <https://www.ege.fr/infoguerre/la-decredibilisation-dinstex-vehicule-special-pour-le-commerce-avec-iran>

¹³ iris-france.org. (Accessed 18 March 2022). Retrieved from « La Russie de Poutine risque de devenir dépendante de la Chine »: <https://www.iris-france.org/166123-guerre-en-ukraine-la-russie-de-poutine-risque-de-devenir-dependante-de-la-chine/?msclkid=ca70c93dd05b11ecb2a77a7dec79fb17>

¹⁴ lopinion.fr. (Accessed 18 April 2022). Retrieved from Avec la crise ukrainienne, Pékin rêve d'une alternative au système financier dominé par l'Occident: <https://www.lopinion.fr/international/swift-cips-yuan-numerique-pekina-alternative-financier-domine-par-occident>

its dependence on strategic raw materials. In its search for other buyers, an even more energetic approach to the Chinese power, with whom Russia has had growing trade relations for the past two decades, particularly since the invasion of Crimea, is more than foreseeable.

Even if China does not submit to the tyranny of a single supplier, it is very likely that it would be in its interest to corner an increasing share of Russian production. China has time and patience in its hands; both forms of power stand out from its very long-term strategies, far removed from the result-seeking immediacy of Western economies' strategies.

However, the economic situation of Russia after the war, the longer the worse in its forecasts and without the privilege of patience or time, will make this country a region with only one interest for China: that of commercial subordination. The future dependence of the Russian economy on China will foreseeably relegate the Russian threat to the purely military sphere, converting its economy in the medium and long term to the role of a Chinese subsidiary in the West.

Regardless of the Asian country's ambitions, which in the opinion of this author are for the moment confined to the economic sphere insofar as the very survival of its system depends on the strengthening of its welfare state, a plausible future scenario implies a "yuanization" of a considerable part of the world.

It does not seem unreasonable to anticipate a future in which there will be a regionalisation of the globalisation process, with geographic areas operating with different financial mechanisms and rules of the game, aligned politically and compatible in terms of trade.

To support these geo-economic regions, there may be a proliferation of organizations, also of a regional type, with arbitration mechanisms in accordance with local customs and practices, as opposed to the current institutions, which operate under the ethical umbrella of Western economies with the extraterritoriality of the law, pre-eminently Anglo-Saxon, as a globalizing mechanism. The segregation of the dollar could lead to the emergence of alternative ways of conceiving commercial relations, disputes and competitions and, above all, the way of using economic weapons and implementing the sanctioning mechanism.

In conclusion, the effects of this economic war being waged against Russia are effective in the short term, in the sense of undoubtedly weakening the opponent, but they are accompanied by consequences in the medium and long term that transcend the conflict itself and have a profound impact on the way of doing business that we have experienced to date.

The very process of globalization, at least in its geo-economic aspects, seems to be endangered, with effects on prices, variety in consumption and access to different products and, above all, by the way in which the economic aspect is used as an instrument of offensive and defensive warfare.

A possible financial segregation, operating with parallel mechanisms, not necessarily compatible, would unequivocally contribute to an unprecedented process of geopolitical and economic regionalization, which would definitively move us away from the concept of a “flat world” that at some point we seemed to have adopted.

The new economic alliances would transcend the purely commercial aspects, antagonisms and classic friendships inherent to free competition, to become the makers of a new financial architecture and, by extension, of a geopolitical configuration based more than ever on the economic aspect of international relations.

The reality of international relations shows us that what is urgent is always perceived as important, so that the short term takes precedence over the consequences in the medium and long term and over our ability to anticipate scenarios instead of reacting to events.

Belinda Romero Pedraz
Lieutenant-Colonel ESFAS DPLD*