# RUSSIA UKRAINE CRISIS

## DAWN OF A NEW WORLD ORDER?

Ashfaque Hasan Khan

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# 1. INTRODUCTION

Russia launched a Special Military Operation against Ukraine on February 24, 2022, setting off the largest armed conflict in Europe since the World War II with a view to preventing the later joining the North Atlantic Treaty Organization (NATO). In retaliation the Western alliance led by the United States imposed unprecedented crippling economic sanctions against Russia with the sole purpose of weakening its economy and military power. Never in the history, the World has seen such use of economy and finance as weapons of modern warfare. Russia, on the other hand, took a series of countermeasures to protect its economy as well as continue to finance its war. Like the Western alliance, Russia is also using its vital energy resources as weapon to punish Europe for joining Western alliance in sanctioning Russia. With winter approaching, Europe is frantically looking outside Russia to substitute its gas. Russia on the other hand, is also making effort with a greater degree of success in diversifying its sale of energy (gas, oil, and coal) to markets other than Europe.

The world has been witnessing the share of US dollar declining as international reserve currency since the emergence of Euro in 1999. It has been argued that the Russian invasion of Ukraine has accelerated the pace of de-dollarization. The use of unprecedented economic sanctions by the west is being identified as a key factor in accelerating de-dollarization. The US itself is being held responsible for the slow demise of the US dollar as the leading international reserve currency. By imposing sanctions on Russia, the West has given a message to the rest of the world that before establishing strategic economic ties with the west, a country should think twice. Who can guarantee that today's political allies will not become tomorrow's political foes? The rest of the world has learnt lessons from Russia's bitter experience and may divest their assets from US dollar, Pound, or Euro to some other currencies.[1]

Russia and Ukraine are also known as the world's breadbasket. War and economic sanctions have totally disrupted food production and exports of food grain by these two countries, causing widespread fear of global food crisis. The poor masses in the Middle East and North African (MENA) regions are most likely to be the victims of this global food crisis. Given its far reaching consequences for the poor, Turkey and the United Nations brokered a deal between Russia and Ukraine for the export of food grain from the selected Ukrainian ports in Black Sea.[2] An attempt is made to carry out an in-depth analysis of all these issues in the book.

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[1] See Mallaby (2022) and Springfield (2022).
[2] See Glauber and Laborde (2022).

February 24, 2022 will be remembered as a defining day in World politics. Russian invasion of Ukraine has changed the global politics monumentally. After the end of the second World War, the United States emerged as an undisputed leader of the world because of its dominant economic and military power. The United States, taking its global supremacy, shaped a new world order through the Marshall Plan and new multilateral institutions like the United Nations, the World Bank, the International Monetary Fund (IMF) and North Atlantic Treaty Organization (NATO) etc.[3] In recent years, the influence of the United States on the international order has been diminishing because of its weakening leadership and economy. With emerging new centres of power—like, Beijing, Moscow, Turkey, Iran, BRICS, and some powerful economies of Latin America—the United States has begun losing its grip over the international order. US policies, from Barak Obama's "leading from behind" to Donald Trump's "America First," were in contrast to President Harry Truman's policy of global leadership or leading from the front.[4] Recent developments in the Middle East in general and Saudi Arabia and United Arab Emirates (UAE) in particular, indicate the weakening of the leadership of the United States. The retreat or botched withdrawal of the United States from Afghanistan further altered its image as a

[3] See Kempe (2022).
[4] Ibid.

leader who could protect its allies anywhere in the world. The retreat from Afghanistan severely damaged the reputation of the United States as world's power.

Russian invasion of Ukraine is a turning point for the West, led by the United States. A victory of Ukraine with strong and united west behind it, would force the different emerging powers to rethink about the United States leadership. However, a Russian victory, at whatever cost, would accelerate decline of the west as an effective global power. In other words, the outcome of the Russia-Ukraine War will decide the future of the old order, or it may lead to a new world order. Realizing the gravity of the situation, the former Prime Minister of the United Kingdom, Mr. Tony Blair has already acknowledged that the era of Western dominance is ending. The world would see the emergence of bi-polar or multi-polar power centres. According to him, for the first time in modern history, the West and the East would be seen on equal terms while global dominance of the US and its allies ends. Russia's Special Military Operation against Ukraine may become a pivot of the diminishing powers and influence of the West.[5] The west is not likely to give up, hence, we may see the prolongation of the Russia-Ukraine War (war is already in its eleventh month).

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[5] See Blair (2022).

This book attempts to provide answers to the several questions related to Ukraine War. Firstly, why Russia was chosen as a target of the US led western alliance when the new cold war was already taking place between the United States and China? Secondly, why Russia launched Special Military Operations (SMOs) against Ukraine? Is it a fact that one fine morning the Russian President Vladimir Putin just decided to launch its Special Military Operations against Ukraine or there was a build up to this war? Was Russia forced or coerced to attack Ukraine? Attempt is made to answer these questions in the book. Thirdly, with the launch of the Russian SMOs against Ukraine, the United States and its Western alliance imposed wide ranging, unprecedented economic sanctions against Russia as punishment to its "crime against humanity." The scale and dimension of crippling economic sanctions suggest that it was well prepared in advance. In other words, the US and its Western alliance were anticipating the invasion of Russia on Ukraine and were well equipped to fight the economic warfare against Russia. Attempt is made to highlight a series of economic sanctions imposed on Russia and their foreseen consequences.

Fourthly, how far these sanctions have attained the desired or intended results? Are these sanctions working? Or will these sanctions work in the short-to-medium term? Attempt is made to answer these questions in greater detail in the book. Fifthly, what counter measures were taken by Russia to minimise the adverse impact of these sanctions. How is Russia using its energy resources as an instrument of economic war against the Europe? While weaponization of economic and financial sanctions against Russia were considered justified by the West; the weaponization of energy by Russia against Europe was considered unjustified by the West. Isn't it surprising? Attempt is made to discuss these counter measures by Russia in greater detail in the book. Sixthly, how China and India are bailing out Russia by importing oil and gas in large quantity at a discounted price. Data indicates that Russia has successfully diverted its sale of crude oil from Europe to China and India. As far as natural gas is concerned, Europe has not yet imposed any sanctions against Russia, but the initiative is now in the hands of Russia and not in Europe. Russia has not only drastically reduced but stopped the sale of natural gas to Europe with a view to punishing it for joining hands with the US. Europe is now in the grip of severe energy crisis, experiencing decades of high inflation and their economies landing in deep recession, resulting in massive demonstrations taking place in various capitals of the major European Countries. These issues are discussed at length in this book.

Seventhly, the process of de-dollarization has been taking place at a snail pace but more so after the birth of Euro as another international reserve currency in 1999. However, it is now being argued widely that after the Russia-Ukraine War and the imposition of wide ranging economic and financial sanctions by the West, the process of de-dollarization has accelerated with serious consequences for the US economy and its status as a global superpower. These issues have also been discussed at length in this book.

Eighthly, the Russia-Ukraine War has caused serious issues of food security, hunger, and poverty in many parts of the world. Those who launched the war and those who supported crippling economic sanctions have perhaps never realized the unwanted consequences of this War on the poor in many developing countries who were dependent on Russian and Ukrainian grain, fertilizer and sunflower oil etc. The issues of food security, hunger and poverty as inadvertent consequences of the war are discussed in the book. Concluding thoughts on the subject along with likely outcomes and some solutions to end the war are given in the book.

## 2. WHY RUSSIA?

After remaining engaged in Wars for over one decade in Afghanistan and in the several countries of the Middle East, the United States woke up somewhere around 2012 to find out that its arch-rival China has not only grown stronger militarily and economically but has successfully made inroads into Africa, Middle East, and Latin American countries. It was too late for the United States to prevent the rise of China. Nevertheless, it launched a Pivot Asia policy or 'Encirclement of China' policy by creating Indo-Pacific Alliance with Japan, India and Australia being its partners. Rise of China was perceived by the West as a threat to the world's status quo. Such a policy of the United States gave rise to the new cold war viz. China. The United States launched trade and technology war against China during the Donald Trump era. Even after the departure of Donald Trump, the new President of the United States, Joe Biden, continued to pursue, even more aggressively, the containment of China policy. In mid-2022, the US Secretary of State Antony Blinken warned China that "it intent to reshape the International Order". China in reply to Blinken stated that the "US is trying to contain and suppress China's development and maintain US hegemony and power" (Reported in *Express Tribune*, May 28, 2022).

When Joe Biden became the President of the United States, he remarked "America is Back." His government's first encounter with China took place in Anchorage, Alaska on March 18, 2021. The historic encounter took place between the United States represented by the Secretary of State and the National Security Advisor with their Chinese Counterpart. It was indeed a messy encounter which surprised the United States.[6] After the meeting, the United States decided to shift its policy away from China for the time being and focused its attention on Russia to break the emerging China-Russia nexus.

It is abundantly clear that China has been the focus of the West in breaking China-Russia nexus. But then why the west chose Russia first to break this emerging nexus? Table 1 below provide the answer where a comparison of economic strength of Russia and China has been documented.

A cursory look at the table is sufficient to see that Russia is economically far weaker than China. As against a $19.9 trillion economy of China, the size of the Russian economy is only estimated at $1.71 trillion.

[6] See Toosi (2021).

| **Table 1: Comparative Economic Strength of China and Russia** | | |
|---|---|---|
| **Items** | **Russia** | **China** |
| **Size of the Economy** | $1.71 trillion | $19.9 trillion |
| **Rank** | 11th Largest Economy | 2nd Largest Economy |
| **Per Capita Income** | $11,654 | $14,096 |
| **Population** | 147 million | 1.4 billion |
| **GDP growth** | 2.2% (2019), -2.7% (2020), 4.7% (2021), -11.2% (2022) | 6.0% (2019), 2.2% (2020), 8.1% (2021), 5.1% (2022) |
| **Exports** | $551 billion | $3.36 trillion |
| **Imports** | $366 billion | $2.69 trillion |
| **Forex Reserves** | $630 billion | $3.32 trillion |

*Source: CIA World Fact Book 2021*

In other words, China's economy is the second largest economy while Russian economy is ranked eleventh in the world. In terms of population, China has 1.4 billion people versus 147 million in Russia. Thus, the size of the Chinese economy is almost 12 times larger than Russia while in terms of population, China's population is roughly 10 times higher than Russia. In terms of per capita income, China stood at $14,096 against Russia's $11,654. In other words, Russia's per capita income is 80 percent of that of China. Table 1 suggests that the Chinese economy has been growing at a much faster pace than that of Russia.

Both China and Russia maintained huge trade surpluses, that is why, their exports were far greater than their imports. However, China's exports were six times larger and imports were seven times higher than that of Russia. Both the countries maintained current account surpluses which helped them build foreign exchange reserves. As against $3.32 trillion reserves of China, Russian reserves stood at $630 billion before the launch of the Special Military Operations against Ukraine. Hence, China is economically far stronger than Russia. West, therefore, decided to manage the weaker party first. Once Russia is neutralized economically and militarily, it will be easier to handle China according to the Western thinking. While Russia is bleeding, China must be kept under tremendous pressure. Nancy Pelosi's visit to Taiwan was perhaps according to the script.

## 3. RUSSIAN INVASION OF UKRAINE: HISTORICAL FACTS

There are two opposing views on Russia's invasion of Ukraine. One view, representing the West more or less believe about the sudden decision of the Russian President to invade Ukraine. The other view, negating western thoughts, suggests that there was a build-up spreading over three decades to this war. They believe that Russia was forced or coerced to invade Ukraine. What is the fact?

The Russian invasion of Ukraine is not an abrupt phenomenon. There is a long history behind this war starting with the fall of Berlin Wall on November 9, 1989. The issue was the reunification of Germany, the membership of the reunited Germany in NATO and the concern of the then Soviet Union. The Soviet Union never wanted the NATO troops to be present in former East German territory. On January 31, 1990, West German Foreign Minister Hans Dietrich Genscher stated that "what NATO must do is state unequivocally that whatever happens in the Warsaw Pact[7] there will be no expansion of NATO territory eastwards, that is to say,

[7] East Germany, prior to reunification, was a member of the Warsaw Pact led by the Soviet Union to counter NATO.

closer to the borders of the Soviet Union."[8] On February 9, 1990, the historic meeting took place in Moscow between the United States and the Soviet Union on the future role of NATO in a unified Germany.

The US Secretary of State James Baker asked Soviet President Gorbachev that whether he would prefer "a united Germany outside of NATO, absolutely independent and without American troops; or a united Germany keeping its connections with NATO, but with the guarantee that NATO's jurisprudence or troops will not spread east of the present boundary." Gorbachev in reply said categorically that "we intend to discuss all these questions in depth at the leadership level. It is obvious that a broadening of the NATO zone is not acceptable". Baker responded by saying that "we agree with that." During the same conversation, James Baker pointed out to Gorbachev that "as soon as our allies (NATO allies) tell us that they are against our presence we will bring our troops home." NATO is the mechanism for securing the US presence in Europe. If NATO is liquidated, there will be no such mechanism in Europe. If the United States keeps its presence in Germany within the framework of NATO, not an inch of NATO's present military jurisdiction will spread in an eastern direction."

[8] See Goldgeir (2019), Mearsheimer (2022a, 2022b and 2014) and Sachs (2022a, 2022b).

And Baker agreed with Gorbachev's statement that "any extension of the zone of NATO is unacceptable."[9]

It is abundantly clear from the conversion of James Baker and Mikhail Gorbachev that NATO's expansion towards the East was unacceptable and that the United States had given a categorical commitment in this regard. After this categorical statement of James Baker, the US officials backed away from these statements during subsequent meetings. Twist and turns and the interpretation of Gorbachev – Baker conversation induced uncertainties in the relations of Moscow and Washington, D.C. Soviet Union and NATO reached an agreement that the re-united Germany (after the fall of Berlin Wall) would join NATO under West Germany's

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[9] This conversation between James Baker and Mikhail Gorbachev is well recorded in the *Masterpieces of History: The Peaceful End of the Cold War in Europe, 1989*, edited by Svetlana Savranskaya, Thomas Blanton, and Vladislav Zubok, published by the Central European University Press. See also Goldgeier (2019), Mearsheimer (2022a, 2022b and 2014) and Sachs (2022a, 2022b) for further explanation. Those interested in conversation can find *Document No. 119: Record of Conversation between Mikhail Gorbachev and James Baker, February 9, 1990*. This conversation is contained in the book referred above. It is also important to note that Gorbachev Foundation has records of the conversation between the Soviet leader Mikhail Gorbachev and James Baker, translated by Anna Melyakova (See *Archive of the Gorbachev Foundation, Fond 1, Opis!* on the file at the National Security Archive.

pre-existing membership. However, NATO would not deploy troops in former East German territory.

But twist and turns and misinterpretation of conversation between Gorbachev and Baker continued to plague the relations between the two countries. With each episode of NATO expansion, Russia (the heir apparent of the erstwhile Soviet Union) would remind the US and the West about the 1990 meeting of Gorbachev and Baker and considered this as "violation of the Spirit" of the 1990 conversation.[10] This was not the only conversation between the authorities of two nations. The then US Secretary of State Warren Christopher travelled to Moscow in October 1993 to explain in advance that the United States would not support new members joining the NATO and that the US would develop a Partnership for Peace for all European countries rather than NATO membership for only selective European countries. Some officials from Clinton's national security office travelled to Moscow before the visit of Warren Christopher in October 1993 and stated that the US would not push for NATO's enlargement at the January 1994 NATO Summit in Brussels. They even emphasized that not even an associate member status would be given to any country. Rather, the US would promote a Partnership for Peace to include all members of the former Warsaw Pact,

[10] See Shifrinson (2020) and Guyer (2022).

including Russia.[11] While meeting with Boris Yeltsin in Moscow in October 1993, Warren Christopher clearly stated that "nothing would be done to exclude Russia from full participation in the future security of Europe". "Boris Yeltsin interrupted Christopher to make sure that he understood correctly that all countries in Central and Eastern Europe and the former Soviet Union would be treated equally and that there would not even be an associate status."[12]

Experts and policy makers continued to debate the 1990 conversation between Gorbachev and Baker. Kramer (2009) argued that this conversation was limited to discussion about unified Germany's status in NATO and that there was no promise made or even discussion made about NATO's expansion eastward.[13] The fact, however, is that the US policy makers were absolutely clear about the NATO's expansion eastward. They fully realized that after the disintegration of the Soviet Union and the end of the cold war, Russia became much weaker militarily as well as economically. But they were careful in handling Russia. On the one hand, they knew it well that the pride of Russia was badly hurt but on the other hand, they wanted to remain engaged with Russia.

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[11] See Goldgeier (2019).
[12] See Goldgeier (2019) and Guyer (2022).
[13] For more on debate, see Eckel (2021).

**Box 1: NATO's Expansion Over the Years**

NATO is a military alliance of 28 European and two North American countries that constitutes a System of Collective Defence. NATO was formed in 1949 with 12 founding members (Belgium, Canada, Denmark, France, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, United Kingdom and the United States of America).

Countries Joined NATO since its formation

| | | |
|---|---|---|
| Greece and Turkey | : | 1952 |
| West Germany | : | 1955 |
| Spain | : | 1982 |
| Poland<br>Hungary<br>Czech Republic | : | 1999 |
| Bulgaria<br>Estonia<br>Latvia<br>Lithuania<br>Romania<br>Slovakia<br>Slovenia | : | 2004 |
| Albania and Croatia | : | 2009 |
| Montenegro | : | 2017 |
| North Macedonia | : | 2020 |

Each time when NATO moved eastward, Russia vehemently criticized NATO. Russia has always viewed the expansion of NATO eastward as an existential threat that would bring Western armed forces and missiles on its doorstep

Hence, they never wanted to give any prominence to Russia in Europe but at the same time not wanted to antagonize Russia either. Since 1994 onward, the US tried to maintain a balanced approach in its relations with Russia by not giving her importance in Europe and at the same time avoiding antagonizing Russia. Moreover, the US continued to support freedom and democratization in Central and Eastern Europe but prevented Russia from gaining strength in Europe.

In the meantime, while the United States remained engaged with Russia, NATO's eastward expansion continued with ever greater zeal and enthusiasm. With each episode of NATO expansion, Russia fiercely opposed the expansion and continued to remind the US about the spirit and promise of Gorbachev-Baker meeting of 1990. At the Munich Security conference in 2007, Russian President Vladimir Putin criticised NATO and the US and termed continued expansion of NATO as an existential threat to Russia. "What happened to the assurances our western partners made off after the dissolution of the Warsaw Pact? Where are those declarations today?[14] "Where are those guarantees"? Putin raised these questions with audience for which they had no reply[15]. Shortly after the takeover of Crimea and endorsement from Russian Parliament of

[14] See Box 1 for the expanding NATO.
[15] See Eckel (2021) for a detailed discussion on this issue.

takeover of Crimea, Putin made a speech and argued that Russia was humiliated by NATO's expansion. He pointed out that every time when NATO expanded "they lied to us, made decisions behind our backs, placed us before an accomplished fact."[16] Joe Biden's CIA Director William J. Burns has been warning the US Administration against the expansion of NATO eastward since 1995. As a political officer in the US Embassy in Moscow, William Burns reported to Washington in 1995 that expansion of NATO eastward is giving birth to hostility across the divide in Russia against the United States. When President Clinton brought Poland, Hungary and Czech Republic in NATO in 1999, Burns once again wrote that the decision was "premature at best and needlessly provocative at worst". He also pointed out that with each episode of NATO enlargement the view of 'stabbing in the back' was gathering storm across Russia and was poisoning Russia's relations with the West. In June 1997, 50 prominent foreign policy experts wrote a letter to Bill Clinton, saying "we believe that the current US led effort to expand NATO is a policy error of historic proportions that would unsettle European stability."[17]

Russia's narrative gained weightage when the last US Ambassador to the Soviet Union, Jack Matlock

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[16] Ibid.

[17] See Suny (2022) for a detailed discussion on this.

repeatedly insisted in Congressional testimony that Gorbachev received assurances from the US and NATO that if Germany is united and stayed in NATO, the borders of NATO would not move eastward.[18]

One year after the outburst of Russian President Vladimir Putin in Munich Security Conference, he was invited by NATO in 2008 Bucharest Summit for NATO-Russia Talk. The Summit was held on April 2-4, 2008, where Croatia and Albania were invited to join the NATO. The President of the United States George Bush strongly supported Ukraine and Georgia becoming NATO Action Plan Member (first step towards full membership). He was strongly opposed by the UK, France, and Germany because Russia, once again, bitterly opposed Georgia and Ukraine's membership bids to NATO. The German Foreign Minister Frank Walter Steinmeier opposed the membership drive of Georgia and Ukraine and said that we should not provoke Russia as these two countries were part of the Soviet Republics and that their borders are with Russia. While welcoming the desire of these two countries, the NATO clearly stated that both the countries will become members of the NATO. It was, however decided to review their request in December 2008 Summit.[19] It was clearly noted in

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[18] Ibid.

[19] For a detailed discussion on this issue in Bucharest Summit, see Zaryckyj (2018).

Bucharest Summit Declaration (Para 23) as "we agreed today that these countries will become members of NATO."[20] In April 2008, William Burns, then the United States Ambassador to Moscow once again wrote to the then Secretary of State Condoleezza Rice that the entry of Ukraine into NATO is the "brightest of all redlines for Russian elite (not just Putin)". Russia will never tolerate Ukraine into NATO.[21]

It was abundantly clear from the declaration that the NATO, eventually, will invite Georgia and Ukraine to join NATO because in Bucharest Summit, both these countries were promised by the US President George Bush to receive NATO Membership Action Plan (MAP). The MAP was deferred till the next Summit after the opposition from France, Germany, and the UK. Russia was extremely critical of these two countries joining the NATO because Russia never wanted the NATO's war machines in its backyard. On August 8, 2008 (exactly four months after the Bucharest Summit), Russia invaded Georgia and reached just 35 miles short of Georgia's capital, Tbilisi. Russia's invasion of Georgia was meant to demonstrate Moscow's sensitivity to NATO's move into the territory of the former Soviet Republics. This attack was also meant to warn Ukraine of similar fate should it continue to pursue its membership drive. This was also

[20] Bucharest Summit Declaration (2008), Para 23.
[21] See Suny (2022) for a detailed discussion.

an effort by Russia to prevent further NATO expansion into former Soviet Republics.[22]

Russia's invasion of Georgia did not deter NATO and it continued its eastward expansion. One year after (2009) the Georgian War, Albania and Croatia became the members of the NATO. Montenegro in 2017 and North Macedonia in 2020 also joined NATO. As of early 2022, NATO officially recognized three states, namely Bosnia and Herzegovina, Georgia, and Ukraine to join NATO shortly. Russia always considered the enlargement of NATO eastward as big mistake and a violation of the spirit of the statements and assurances made in 1990 (Gorbachev – Baker historic meeting of 1990). Every time NATO moved eastward, Russia vehemently criticized NATO and reminded the 1990 assurances. It always viewed the expansion of NATO eastward as an existential threat as this would bring NATO forces and its missile batteries on Russia's doorstep. When NATO officially stated in January 2022 to include Ukraine in NATO, Russia drew a red line and made its intension clear by sending its troops to the border of Ukraine. Since January 2022, tension between Russia and the US and its allies continued to build on the issue of Ukraine joining NATO. Finally, Russia was pushed to the wall, forced, or coerced to invade Ukraine. On February 24, 2022, Russia

[22] See Larrabee (2008).

launched Special Military Operation (SMO) against Ukraine.[23]

In summing up, ever since the fall of Berlin Wall on November 9, 1989, the United States continued to pursue its policies full of ambiguity viz. Soviet Union and then Russia. The US believed that it had won the cold war and sought to redefine Europe with terms and conditions favourable to the US. Soviet Union and then Russia wanted the United States and its NATO allies to recognize its interest in Europe as a major player. Given the power disparities, the US never wanted to recognize Russia as a major power in Europe. Russian President Vladimir Putin considered the decade of the 1990s as a decade of humiliation for Russia, but he could not do anything other than simply watching from the fence. Gorbachev, Yeltsin and Putin, all wanted Russia to find its place in Europe and secure its borders – not as a junior partner but on equal footing with US. The US never gave this opportunity to Russia. Putin, on the other hand, never reconciled with the disintegration of the Soviet Union and treated this as humiliation. He wanted to reverse this humiliation.

The US continued to pursue its policy of engagement with Putin but never wanted to antagonize

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[23] See Wade (2022), Mearsheimer (2022a, 2022b) and Sachs (2022a, 2022b) for a detailed discussion on how the US and NATO coerced or forced Russia to invade Ukraine.

him. Since the fall of the Berlin wall, the US policy of engagement as well as not giving importance to Russia in Europe continued. The US wanted that Russia should accept its leadership role as the other European countries have done but Putin was not willing to accept such humiliating conditions. Putin's war in Georgia was a message to the US and its Western allies that he is not going to accept the US supremacy in entire Europe. In fact, Russia never treated Ukraine as independent state.[24] On December 17, 2021, Putin demanded that no former Soviet states such as Ukraine be added in NATO. In a televised address to the nation, Putin explicitly denied that Ukraine had ever had "real statehood" and that the country was an integral part of Russia's "own history, culture, spiritual space."[25] In fact, Russian history begins from Ukraine and Russian religion spread from there as well. Ukraine has been a part of Russia for centuries and therefore, their histories are intertwined with each other. Ukraine has been an independent state for only three decades but remained under some kind of foreign rule since 14th Century. Most importantly, some of the most important battles for Russia's freedom, starting with the Battle of Poltava in 1709, were fought on Ukrainian soil. Even the most celebrated dissidents of Russia such as Aleksandr Solzhenitsyn and Joseph Brodsky have insisted that Ukraine was an integral part of Russian

[24] See The Economist (2021).
[25] See Perrigo (2022).

history as well as Russia itself (See Kissinger (2014) for a detailed discussion). Given the deep historical ties of Russia with Ukraine, it has been a painful event to accept Ukraine as an independent state. These developments finally led to the invasion of Ukraine by Russia – the ultimate objective of the US and its allies.

## 4. ECONOMIC SANCTIONS ON RUSSIA

Following the Russian invasion of Ukraine on February 24, 2022, the United States-led NATO and European allies have imposed wide-ranging, well-coordinated crippling economic and non-economic sanctions on Russia never witnessed against any country in the history.[26] These sanctions are continuation of earlier sanctions imposed on Russia after its annexation of Crimea and Sevastopol in March 2014. Further sanctions were imposed on Russia on February 23, 2022, when it recognized Luhansk and Donetsk as independent and sovereign people's republic in Ukraine region.[27] In the words of French Finance Minister on March 1, 2022, that "we are waging a total economic and financial war on Russia. We are going to cause the collapse of the Russian economy". In response, Russia's top security official threatened Paris by saying "watch your tongue, gentlemen! And don't forget that in human history, economic wars quite often turned into real wars". After the threat from Moscow of "real war", French Finance Minister had to regret about his remark of "total economic and financial war".[28]

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[26] See Davidson and Weaver (2022) on the issue of sanctions.
[27] See European Council 2022.
[28] Reported by Reuters and Anadolu Agency on March 1, 2022.

These sanctions are imposed in the broad areas of Banking and Finance, Trade and Technology, Industries, influential and rich individual's close to kremlin (oligarch) and most importantly energy (oil, gas and coal). There were multiple objectives of imposing crippling sanctions. Firstly, in a broader sense bleeding Russian economy and weakening of its military power and war machine. That is, to degrade Kremlin's ability to challenge the west. In the words of Lloyd Austin, the Defense Secretary of the United States, "The goal is to see Russia weakened to the degree that it can't do the kind of things it has done in invading Ukraine."[29] Secondly, to damage Russian currency Rubble, trigger bank panics and provoke chaos in the Russian financial system. Thirdly, to isolate Russia from rest of the World, destabilize Putin's government by creating domestic uprising, mass agitation against the war leading to the regime change in Russia. Regime change in Moscow was one of the main objectives of the US and NATO. On March 26, 2022, President Biden while speaking in Warsaw said, "For God's sake, this man (Putin) cannot remain in power". Similarly, on February 24, during a White House Press Conference on the first day of Russia's invasion, Biden said "sanctions are designed not to prevent invasion but to punish Russia after invading" so the people of Russia know what he has brought on them. That is what this is all about. On February 27, James

[29] See Burns (2022).

Heappey, the UK Minister for the Armed Forces wrote in the Daily Telegraph. "His failure must be completed; Ukrainian sovereignty must be restored, and the Russian people empowered to see how little he cares for them. *Putin's days as President will surely be numbered … He will lose power and he won't get to choose his successor.*" On March 1, 2022, Boris Johnson's (the then the Prime Minister of the UK) spokesperson said, "*We will bring down the Putin Regime.*" These statements reflect long-standing US strategy for regime change in Moscow, with Ukraine as the pivot.[30] Eleven months in war, none of the above objective has been achieved thus far.

Beyond any doubts, eleven months since the invasion of Russia on Ukraine the unified reaction of the US led Western alliance have remained strong so far. Russia do faces deepening isolation. Eight rounds of over 4000 economic sanctions have been imposed on Russia spreading from blocking international transaction of big Russian banks, that is, removing Russian banks from international payment system SWIFT (Society for Worldwide Interbank Financial Telecommunications) which is meant to make cross-border payment to freezing assets of Russian Central Banks and effectively knocking

[30] See Wade (2022) and Sachs (2022a, 2022b) for a detailed discussion on how the US and NATO coerced or forced Russia to invade Ukraine, fulfil their objective of regime change in Russia and replace Putin with someone friendly to and subordinate to the US.

out almost 45 percent of Russia's foreign exchange reserves. Russia cannot use almost 45 percent of its total reserves of $630 billion (at the time of launching SMO) amounting $283 billion. From Western perspective, denying such a huge amount of Russia's Central Bank would weaken its ability to protect its currency from a free fall.

Apart from this, the people of Russia were denied the services of VISA and Mastercard for cross-border payment. Over 300 Russian companies along with 500 Institutions and more than 3000 individuals have been blacklisted. Over 1000 companies that were operating in Russia have curtailed their operations and some biggest brands like British Petroleum, Exxon, Shell, Coca-Cola, Burger King, American Express, Dell, Hewlett Packard, McDonalds, Nestle, etc., have suspended their activities in Russia. Similarly, 162 companies including Acer, Alibaba, Asus, Cloudflare, International Paper, Koch, Lenovo have decided to stay the course and continue to operate in Russia.[31]

Furthermore, the European Union (EU) had imposed a number of import and export restrictions on Russia. It means that the European entities cannot sell certain products (for example, related to technology) to Russia (export restrictions) and Russian entities are not

[31] See Sonnenfeld and Tian (April 2022), BBC News (September 2022), and Caprile (2022).

allowed to sell certain products to the EU (import restrictions). For example, crude oil and refined petroleum products with limited exceptions imports from Russia phased out in six (for crude oil) to eight months (for Petroleum products), that is, by end 2022. Coal and other solid fossil fuels were banned from August 2022 because the ongoing contracts are to end by then. Gold including jewellery, iron and steel, wood, cement, seafood and liquor have also come under sanctions.

Banning imports of Russian gas is a hard nut to crack as Europe is heavily dependent on Russian gas. The EU imported 40 percent of its requirement of gas from Russia in 2021. Germany, the largest economy of the Europe is relatively more dependent on Russian gas accounting for 43 percent, followed by Italy (29.2%). It is in this background that the EU had decided to cut its gas imports from Russia by two-thirds within a year (end-2022) but refused to implement total ban. In order to achieve this goal, the member states of the EU agreed to cut usage of gas by 15 percent till October/November 2022.

The purpose is to conserve gas for winter season (More on this issue later). There are doubts that the EU will find alternative to Russian gas and may rely on

Liquefied Natural Gas (LNG) tanker from the US and Qatar but faces logistical issues (more on this later).[32]

Apart from economic sanctions, Western/European sanctions also include prominent individuals. Some 1214 individuals including Russian President Vladimir Putin, Foreign Minister Sergey Lavrov, 351 members of the Russian State Duma (the lower house of the Russian Parliament), member of the National Security Council of Russia, high ranking government and military personnel, prominent businessmen etc. have been sanctioned. Their assets have been frozen, and they cannot travel to the US, UK, and EU either by land, air or sea. The accounts of the listed persons have been frozen in EU banks. The purpose of imposing sanctions on these individuals is that they cannot support the present Russian regime with their money, nor they can find safe haven in the EU.

Russian airline is also under sanctions, that is, their flights cannot get access to the EU and Western airports; they cannot use EU airspace to fly their planes. Private business jets are also included in the ban. Furthermore, Russian airlines cannot buy any aircraft, spare parts or equipment for their fleet and cannot perform the necessary repairs. Similarly, Russian merchant ships totalling over 2800 vessels cannot use European and

[32] See Horton and Palumbo (2022) and BBC News (June 27, 2022).

Western Ports. Exceptions are made for energy, food grain, medicines and humanitarian aid.[33]

In the history, we have observed that sanctions do not achieve its intended goals. The sanctioned countries manage to learn to live with sanctions, develop its economy, though not at a desired pace, and their military power as well. Iran is a classic example. It has been under crippling sanctions by the West since 1979 (43 years), its economy still surviving and militarily Iran got stronger. Remaining under crippling sanctions for over four decades, Iran has developed its combat drone technology and unmanned aerial vehicles which it intends to sell to Russia.[34] Furthermore, as President Xi Jinping in his inaugural address at the BRICS Summit stated that sanctions are double – edged sword and it boomerang. It hurts the sanction imposing countries' interest as well as others and inflict pain and suffering on everyone.[35]

Hurting Russian economy through crippling economic sanctions are bound to hurt European economies in general and German economy in particular because two economies are intertwined with each other. For example, 90 percent of the US semiconductor – grade neon which is critical for the lasers used to make chips,

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[33] See Davidson and Weaver (2022) and Whalen et. al (2022) for further details on sanctions.
[34] See Nadimi (2022) and Brobst and Talehlu (2022).
[35] Chinese Ministry of Foreign Affairs (2022).

comes from Russia; Russian closure of its airspace for Western airlines is adding to fuel and travel costs; 35 of the 40 biggest French companies listed on the stock exchanges have significant Russian investment; Russia imported $370 billion worth of goods last year with bulk of its imports coming from Europe, US, Japan, and South Korea. Exporter from these countries could lose hundreds of billions of dollars of sale to Russia; several banks with their headquarters in the US, Europe and Japan had disbursed about $150 billion worth of loan to Russian firms. Since most of these firms are now barred from earning their incomes needed to pay back their debts, these banks are bound to face severe financial losses; profits of Italian fashion houses, French winemakers, Belgium diamond merchants, British Law firms, US Aircraft manufacturers and German Car makers will be hurt financially as their revenue will be squeezed.

Hurting Russian economy without pain to Europe is not possible. There are possibilities that the allies may not exhibit the same zeal with the passage of time when these sanctions start biting their own economies. It has been a conventional wisdom that business must be separated from politics. US led western sanctions on Russia has introduced the concept that "either you are with us, or you are against us". A zero-sum game has been introduced in international relations. By freezing the assets of Russian Central Bank along with pressurizing private companies to take a political stance, the west has demonstrated that the sacred foundation of free trade and capitalism can and should be violated, if they desire so.

By imposing sanctions on Russia, the West has sent a message to the world that before establishing strategic economic ties with the west, the country should think twice. Who can guarantee that today's political allies can become political foes tomorrow? Trust gap has widened to unprecedented proportion. Others have learnt lessons from Russia's bitter experience. Trust in keeping money in dollar, euro, and pound sterling denominated assets are waning. Countries have become nervous in parking their assets, legal or otherwise in Western banks. Shifting of capital away from set western financial parks to Asian region cannot take place immediately. Sanctions have accelerated the process of finding alternative reserve currency (More on this issue later). Sanction fatigue is also likely to set in, particularly in Europe. The winter and unprecedented price hike in Europe may force the European countries to rethink their stance towards Russian sanctions by the USA and its allies. Massive protests in France, Germany, Italy, Czechs Republics etc. have become a routine matter in important European Capitals demanding the governments to revisit their policies towards Russia.

## 5. HAVE SANCTIONS WORKED SO FAR?

Right after the launch of the Special Military Operations (SMO) by Russia against Ukraine, the US and its Western alliance imposed crippling economic sanctions on Russia on the very first day of the war. The declared intension of these wide-ranging sanctions was to punish Russia for invading Ukraine, making the life of the Russian people so difficult that they would revolt against President Vladimir Putin which will force Russia to stop the war. Eleven months in war with no sign of its closure clearly indicates that the sanctions have failed to stop the war. But the not so declared intension of these sanctions were to bleed Russian economy and weaken its military powers.

Have sanctions against Russia achieved the desired objectives? The answer is uncertain. Some would argue that sanctions are working. Some would maintain that "sanctions are wounding but not yet crushing Russia's economy."[36] My professional judgement suggests that the sanctions are hurting the real sector of the Russian economy (manufacturing activity is down) but external sector (balance of payments) including Russian Rubbles are getting stronger. In other words, Russia is facing no difficulty in financing its war against Ukraine. To

[36] See Whalen et al (2022).

understand whether these sanctions would achieve the desired results in the long run (how long will be the long run?) it is important that we discuss some important statistics pertaining to Russian economy

In terms of area, Russia is the largest country in the world which makes it the richest nation in terms of natural resources wealth. Russia is a leading producer of natural gas, oil, coal, diamond, copper, gold, platinum, aluminium, gemstone etc. Table 2 reports the proven reserves of natural gas in top ten countries.

**Table 2: World's Proven Natural Gas Reserves by Country (Billion Cubic Meters)**

| | | | |
|---|---|---|---|
| Russia | 48,938 | Saudi Arabia | 8,438 |
| Iran | 34,077 | UAE | 7,726 |
| Qatar | 23,931 | Nigeria | 5,750 |
| Turkmenistan | 15,365 | Venezuela | 5,589 |
| USA | 12,958 | Algeria | 4,504 |

- Top Ten = 167.2 trillion Cubic Meters
- World Reserves = 204 trillion Cubic Meters
- Russia, Iran and Qatar = 107 trillion CM (53%)
- Top Ten = over 80% Reserves

*Source: OPEC Annual Statistical Bulletin 2020, International Energy Agency, March 16, 2022*

Russia has the largest proven gas reserves with almost 49 trillion cubic meters in the world followed by Iran, Qatar and so on. Out of the total proven reserves of

204 trillion cubic meters, top ten countries accounted for 80 percent of the reserves. Russia, Iran, and Qatar account for 53 percent while Russia alone has 25 percent of the World's proven reserves of natural gas. Russia, with 200 billion cubic meters, is the single largest exporters of natural gas in the world followed by the US, Qatar, Norway, Australia and so on (See Table 3).

| **Table 3: Ten Largest Exporters of Gas in The World (Billion Cubic Meters)** | | | |
|---|---|---|---|
| Russia | 200 | Canada | 71 |
| USA | 150 | Germany | 50 |
| Qatar | 144 | Netherlands | 40 |
| Norway | 113 | Algeria | 34 |
| Australia | 103 | Nigeria | 35 |

*Source: OPEC Annual Statistical Bulletin 2021, International Energy Agency, March 16, 2022*

As far as coal is concerned, with 160 billion tons of proven coal reserves, Russia alone accounts for 15.2 percent of World's total.[37]

Russia is the number one diamond-producing countries in the world amounting 23 million carats of

[37] See European Parliament (2015).

gem-quality and accounting for 30 percent of the world's production,[38] it is the second largest producer of gold with 331.1 tons;[39] with 80 billion barrels of proven oil reserves, Russia ranked 8th in the world accounting for almost 5 percent of the world's total oil reserves. This reserve is over 60 times of its annual consumption and can last for 60 years at the current consumption level. Russia produced 10.5 million barrel per day oil and exported 4.7 million barrels per day with remaining oil used for domestic consumption. Russia is the 8th largest producer of copper in the world with estimated production of 0.82 million metric tons in 2021. Similarly, Russia comes in a distant second place for world platinum production, having produced between 19 to 25 metric ton each year during 2010-2021.[40]

With this amount of natural resources wealth, it is hard to imagine that the Western sanctions against Russia will cripple the Russian economy as it was envisaged at the time of imposing sanctions. In today's integrated world, finding alternative markets are also not difficult. If oil and gas cannot be sold in Europe, it can be sold to Asian Countries and elsewhere. Furthermore, goods sold to one market can be re-routed to those who have imposed sanctions to bypass sanctions. This is what

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[38] See BizVibe (2022).
[39] See Holmes (2021).
[40] See World Economic Forum (2022).

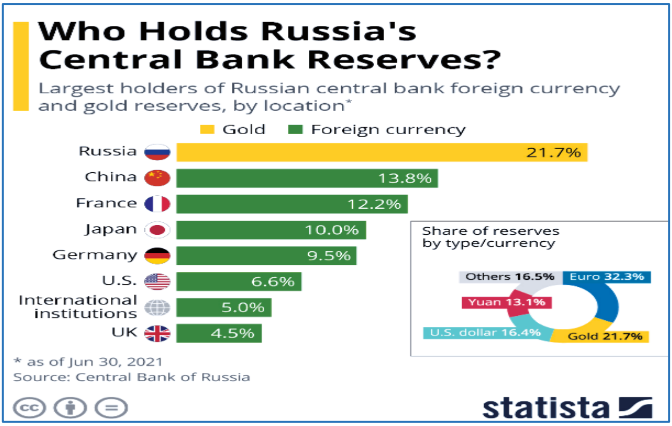
is happening in the last eleven months of the Russia-Ukraine war. While Russia became financially rich during the war, Europe is facing dark and freezing winter as well as deep economic recession.

| **Table 4: Who Holds Russia's Forex Reserves?** | | |
|---|---|---|
| **Share of Reserves by Currency** | | |
| • US Dollars | : | 16.4% |
| • Euro | : | 32.3% |
| • Yuan | : | 13.1% |
| • Gold | : | 21.7% |
| • Others | : | 16.5% |
| **Share of Reserve by Country** | | |
| • Russia | : | 21.7% (gold) |
| • China | : | 13.8% |
| • France | : | 12.2% |
| • Japan | : | 10.0% |
| • Germany | : | 9.5% |
| • US | : | 6.6% |
| • International Institutions | : | 5.0% |
| • UK | : | 4.5% |
| • Others | : | 16.7% |

*Source: Central Bank of Russia as of June 30, 2021*

As part of the unprecedented sanctions, Western world has frozen Russia's foreign exchange reserves held by its Central Bank. The most direct purpose of freezing reserves was to limit Russia's ability to finance its war against Ukraine. To understand the implications of freezing Russia's assets held by its Central Bank, it is important to know the composition of the reserves held in different currencies as well as in different countries. This information is contained in Table 4 and Chart 1.

**Chart 1: Who Holds Russia's Central Bank Reserves**




As stated earlier, some 45 percent of $630 billion Russian foreign exchange reserves have been frozen by the West. After its annexation of the Crimea in 2014, Russia continued its efforts to reduce its dependence on dollar. The share of US dollar denominated assets in Russia's foreign exchange reserves was 47.5 percent in 2014 but continued to decline, reaching 16.4 percent by the time of its 2022 invasion of Ukraine. Similarly, the share of Euro declined from 39 percent to 32.3 percent during the same period.[41]

China is the single largest holder of Russian Central Bank reserves as of June 30, 2021, holding 13.8 percent of the total Russia's reserves in gold and foreign currency and are located in China. Russia itself holds 21.7 percent of reserves in the form of gold. This means that Russia will remain in charge of over one-third of its $630 billion foreign exchange reserves through domestic gold (21.7%) and reserves held by China (13.8%). Almost 45 percent of Russia's reserves are held by the US and its allies which make Russia vulnerable. The United States is holding only 6.6 percent of Russia's reserves and other dollar denominated reserves are held by other countries. Over one quarter (26.2%) of Russia's reserves are held by France, Germany, and UK. The total reserves held in Euro stood at over 32.0 percent.

In anticipation of growing economic sanctions after annexing Crimea in 2014, Russia continued to build its reserves reaching as high as $630 billion before the invasion of Ukraine. Russia, rightly anticipating the role of the US in hurting its economy going forward, it continued to reduce its dependence on US Dollar denominated assets. However, it failed to comprehend the role of European Union in any future war and hence, did not give much attention in reducing its dependence

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[41] See Winning and Kobzeva (2016).

in Euro denominated assets. Russia rightly diversified its reserves by buying more gold from the international markets and started holding its reserves in Chinese Yuan. Reserves in gold and in Chinese Yuan have played a key role in minimizing the impact of western sanctions on Russia so far.

**Key Destination for Russia's Energy Exports**

In 2021, Russia was the largest natural gas exporter in the world, the second largest crude oil and condensates exporter after Saudi Arabia and the third largest exporter of coal after Indonesia and Australia.

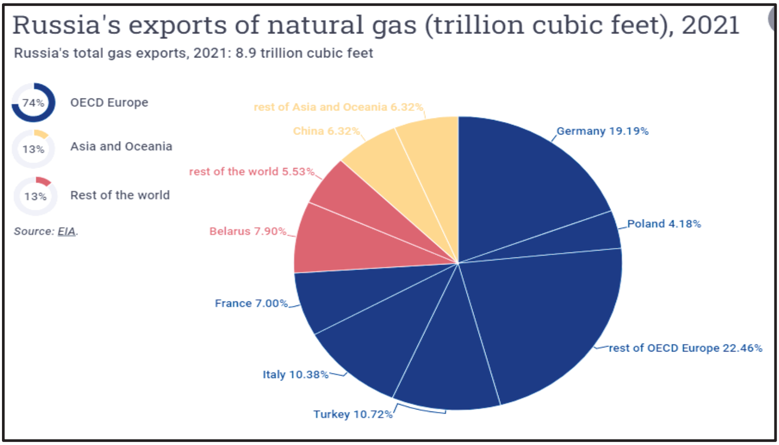
**Table 5: Key Destinations for Russia's Energy Exports: 2021**

| | **OECD Europe** | **Asia and Oceania** | **Rest of the World** |
|---|---|---|---|
| 1. Crude Oil and Condensate (Prodn: 10.5 million bbl/day and exported 4.7 million bbl/day | 49% | 38% | 13% |
| 2. Natural Gas (Production: 24.8 trillion Cubic Feet in 2021) and exported 8.9 TCF in 2021 | 74% | 13% | 13% |
| 3. Coal (export: 262 million tons/year) | 32% | 53% | 15% |

*Source: US Energy Information Administration, March 14, 2022.*

While OECD Europe, received most of Russian crude oil and natural gas in 2021, countries in Asia and the Oceania region received most of Russia's coal. Table 5 and Charts 2 to 4 present Russia's key destination.

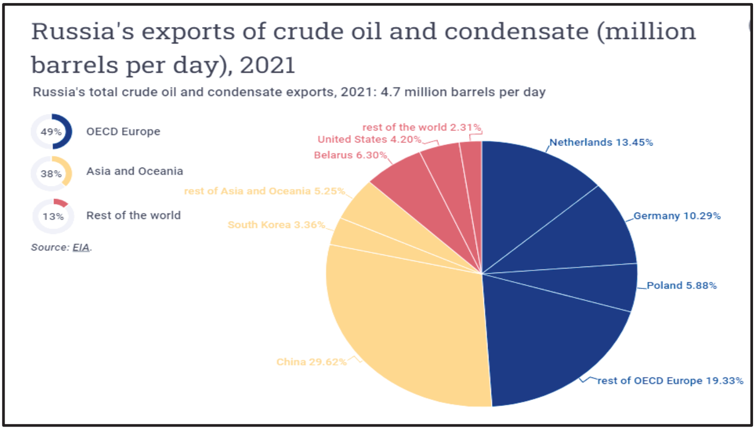
**Chart 2: Russia's Exports of natural Gas (Trillion Cubic Feet), 2021**




## Crude oil and Condensate

Russia produced 10.5 million barrels per day (b/d) of crude oil and condensate in 2021, of which, 49 percent or 4.7 million b/d was exported. Out of the total exports of 4.7 million b/d, almost one – half or 2.4 million b/d went to the OECD Europe, some 38 percent went to Asia and Oceania region and the remaining 13 percent went to the rest of the world.

**Chart 3: Russia's Exports of Crude Oil and Condensate (Million Barrels Per Day), 2021**

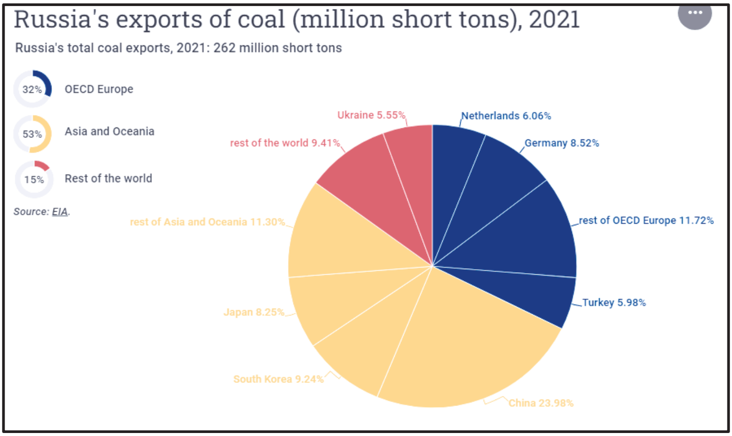



Although almost one-half (or 2.4 million b/d) of Russian crude oil and condensate was exported to Europe, China imported almost 30 percent or 1.6 million b/d from Russia at the country level. The United Kingdom and the United States imported 8 percent and 3 percent crude oil respectively of their demand from Russia.

Within the OECD Europe, the Netherlands and Germany, together imported 25 percent or 1.1 million b/d crude oil and condensate from Russia in 2021. In the event of complete ban on Russian crude oil imports from the EU, Russia needs to find alternative markets in Asia and elsewhere. As will be seen momentarily, China and

India have fully compensated the loss of Russia's market in Europe.

**Chart 4: Russia's Exports of Coal (Million Short Tons), 2021**




## Natural Gas

In 2021, Russia produced 24.8 trillion cubic feet (tcf) of natural gas, of which, 8.9 trillion or 36 percent of its total production was exported. Bulk of Russia's natural gas (84%) exported through pipeline and the remaining 16 percent was shipped as Liquified Natural Gas (LNG). Like crude oil, OECD Europe was the single largest destination of Russian natural gas exports accounting for 74 percent of its total exports of natural gas. The remaining 26 percent was distributed with 13 percent each to Asia and Oceania and to the rest of the World.

Within the OECD Europe, Germany (19.2%), Turkey (10.7%), Italy (10.4%), Belarus (7.9%) and France (7.0%) are the major destination of Russian natural gas (See Chart 3). China and Japan are among the top ten destinations, together accounting for approximately 10 percent or 882 billion Cubic feet of Russia's natural gas exports.

**Coal**

Russia exported more than half of the coal produced in 2021. It exported 262 million short tons in 2021. Asia and Oceania region imported more than half (53%) of Russian Coal followed by 32 percent to OECD Europe and the remaining 15 percent went to the rest of the world. China, accounting for 25 percent – or 63 million short tons has been the single largest destination for Russia's Coal export. Within Asia and Oceania region, besides China, South Korea, Japan, and Taiwan together imported 22 percent. Russia exported 32 percent of its Coal to OECD Europe, of which, Germany, the Netherlands, Turkey and Poland together received 24 percent of all Russian Coal exports in 2021 (See Chart 4). About 90 percent of the coal exported by Russian was used for power generation.

# 6. HOW DEPENDENT IS EUROPE ON RUSSIAN ENERGY?

Europe is heavily dependent on Russia for its energy requirements. Energy is the life blood of any country's economy. Over the decades, Europe remained dependent on Russian oil, gas and coal. After the war in Ukraine, the European leaders are striving hard to end their dependence on Russian energy. Decades of dependence on Russian pipped gas and oil cannot be replaced through alternative sources in short-to-medium term. European leaders will continue to present their bold faces to their masses, suggesting that everything is under control and that they have stockpiled enough natural gas for the winter season to protect their people. Reality is different. Russia caters 25 percent of Europe's oil and 40 percent of its gas requirements. It is not an issue of one winter or two winters. Eliminating dependence on Russian energy will take many winters at horrendous costs to European economy. The entire Europe is devoting its entire time and energy to protect its well-being at the pre-invasion level. The same time and energy could have been used to further improve the living standards of the European. Instead, the time and energy is being used to protect the Europe from the pain of winters and prevent European economies falling into deep recession. All in the name of "price of freedom". But whose freedom?

## Oil

While announcing wide-ranging economic sanctions, Europe did not announce ban on the imports of Russian oil and gas immediately. Europe agreed to ban all Russian oil imports which come in via sea by the end of the year 2022. It allowed oil import to continue by pipeline as a "temporary measure" because countries like Hungary and Slovakia depend heavily on Russian oil.[42] But other European countries like Lithuania (83%), Poland (58%), and Finland (80%) are even more dependent on Russian oil import (See Table 6 for details).

**Table 6: Dependence of Europe on Russian Oil (%)- (November 2021)**

| | | | |
|---|---|---|---|
| Germany | 30% | Latvia | 24% |
| France | 13% | Greece | 29% |
| Italy | 13% | Czech Republic | 21% |
| Finland | 80% | Belgium | 23% |
| Estonia | 34% | Poland | 58% |
| Hungary | 43% | Slovakia | 74% |
| Lithuania | 83% | Norway | 25% |
| Netherlands | 23% | Turkey | 21% |

*Source: Monthly oil Statistics, International Energy Agency.*

[42] See Horton and Palumbo (2022).

To meet their oil needs, Europe can buy from other producers. The International Energy Agency (IEA) – a club of oil importing countries – has released 120 million barrels of crude oil from their stocks. The President of the United States ordered on March 31, 2022, to release 180 million barrels or approximately 1.0 million barrels per day for six months, starting May 2022 from its Strategic Petroleum Reserves – its largest release since the creation of reserves in 1974 (after the Middle East War in October 1973).[43] With the release of 15 million barrels in mid-October 2022, President Joe Biden has fulfilled his promise of releasing 180 million barrels of oil from its strategic reserve. With the release of 180 million barrels of oil, the US strategic reserve of crude oil has fallen to its lowest level of about 400 million barrels since 1984.[44]

The United States has been asking Saudi Arabia and the United Arab Emirates (UAE) to increase oil production, but both the countries had rebuffed the US request to boost oil output in order to reduce oil prices. Both Saudi Arabia and the UAE – two largest producers and important members of the OPEC did not increase their output so as to reduce oil prices internationally.[45] They did not do so because they never wanted to hurt Russia financially - a member of the OPEC Plus. Instead,

[43] See BBC News (2022).
[44] See Al Jazeera (2022), and Krauss (2022).
[45] See Helmore (2022).

Saudi Arabia has imported 647,000 tons or 48,000 barrels per day from Russia at discounted price. Saudi Arabia had little capacity to raise oil production, therefore it more than doubled the amount of Russian oil import in the second quarter to feed its own power stations to meet summer cooling demand and hence freed up its own oil for export. It killed two birds with one bullet – it bought Russian oil at discounted price and increased the supply of its own crude in the market. As a result, international prices of oil have declined from as high as $140 barrel in early March to $93.2 barrels today (as of October 24).[46] In desperation, US relaxed Venezuela's oil sanctions – an erstwhile powerful member of the OPEC. After the US sanctions Venezuela has largely been selling its oil to China.

**Gas**

While Europe can survive with some difficulties without Russian oil, it will face unbearable consequences, in the absence of Russian gas, in the short to medium span notwithstanding all the numbers presented by the European countries in terms of stockpiling gas to face dark and freezing winter. Furthermore, it is not an issue of forthcoming winter, rather there will be many more winters through which the European people will have to survive.

[46] See Sonnichsen (2022).

Europe is heavily dependent on Russian gas. In 2021 Europe imported some 40 percent or 155 billion cubic meter gas for their requirement from Russian pipeline gas. It is precisely the reason that the European Union did not ban Russian gas import immediately. Within Europe, countries like Germany, France, Italy, Poland, Serbia, Bulgaria, Latvia, Finland, Moldova, Bosnia and Herzegovina and North Macedonia are heavily dependent on Russian gas (See Table 7 for details). It will be extremely difficult for these countries to replace Russian gas with alternative sources for quite some time. Gas is not available at shelf of any store. There will be practical difficulties in finding new sources of gas ranging from lack of infrastructure to long-term contract with existing customers.

**Table 7: Dependence of Europe on Russian Gas**

| | | | |
|---|---|---|---|
| Germany | 43% | North Macedonia | 100% |
| Italy | 46% | Bosnia & Herzegovina | 100% |
| France | 25% | Moldova | 100% |
| Belarus | 19% | Finland | 90% |
| Turkey | 16% | Latvia | 90% |
| Netherland | 16% | Bulgaria | 90% |
| Hungary | 12% | Serbia | 89% |

*Source: US Energy Information Administration, March 14, 2022*

What could be the alternative sources to Russian gas? Liquified natural gas (LNG), mainly from the United States and to some extent from Azerbaijan can substitute Russian gas in the short run. The US agreed to ship 15 billion cubic meters of LNG to Europe by the end of 2022 which is only one-tenth of the European requirement. The US could supply 50 billion cubic meters of additional LNG by 2030. Qatar, Algeria, or Nigeria can also be alternative sources, but these countries may face practical difficulties to quickly expand their production because of the inadequate infrastructure. Furthermore, these countries have long-run contract with other countries, mostly in Asian region. They cannot cancel their long-term contract and diversify gas to European countries.

As it is well-known, Europe has mostly relied for decades on pipelines for gas import, therefore, it will be very difficult to quickly substitute the piped gas with LNG as there are inadequate number of LNG terminals available in Europe and most of them are not connected with pipeline. Europe can boost its use of renewable energy, including wind power but it will take time to roll out for commercial use. While Europe is working hard with earnest to diversify its energy requirements, Europe's import of Russian diesel have increased by 22 percent since the beginning of July 2022 — a fact that underscores just how difficult it can be to replace Russian fuel in the short term.[47]

There is news that China is quietly reselling Russian gas to Europe. China has ramped up its purchases of Russian LNG and then turning around and reselling much of it to Europe. During the first half of 2022, China bought 2.8 million tons of Russian LNG – a 28.7 percent increase compared with last year. As a result, China has emerged as the largest buyer of LNG in the world. Russia's sales of pipeline gas to China have also increased even more dramatically than LNG, growing by almost 65 percent in the first six months of the year over the corresponding period of last year. It is interesting to note that the purchase of gas is far more than the domestic requirements of China. Chinese economy has slowed owing to the ongoing Covid-19 shutdowns; hence its gas consumption requirements has also declined. But, then why China is importing such a large volume of gas at a time when its economic activity has slowed? The answer is, as reported, China is quietly selling much of its surplus gas to Europe at higher prices (See Jacques 2022).

In order to reduce its reliance on Russian gas, the European Union has unveiled its plan. Firstly, EU wants to reduce its reliance on Russian gas by two-third at the end of 2022. Secondly, Europe is preparing a plan to

[47] See Jayanti (2022) for a detailed discussion.

make Europe independent of Russian energy by 2030. However, the challenge at hand is how to face the dark and freezing winter in the event of complete shutdown of Russian gas? The European Commission has already unveiled an emergency plan to scale back gas consumption. Europe believes that Russia is 'weaponizing' gas supplies and therefore, considered this as Russian 'blackmailing'. In this background, the EU Commission has asked the member states to reduce gas consumption by 15 percent between August 2022 and April 2023. The breakdown of the consumption of gas in Europe include 37 percent for household; 30 percent for electricity and heat generation; and 30 percent for industry. Voluntary reduction in gas consumption by 15 percent was announced by the President of the European Commission on July 20, 2022, which indicate that it is the industries which will face the major brunt of the cut in gas supplies. Interestingly, three sectors, namely glass, ceramic and chemical consume half of the industrial sector gas. Fertilizer is yet-another highly gas-intensive industry. Higher gas prices will jack up the price of fertilizer with serious consequences for agricultural production. European will have to sacrifice their comfort of hot water, warm houses, offices, and factories.

As stated earlier, the European Commission had asked the member countries to cut their gas consumptions by 15 percent. The purpose of cutting gas consumption was to stockpile gas at the storage to 80 percent by November 1, when the European heating season begins. The member countries continued to buy Russian gas aggressively on the one hand and made efforts to meet gas consumption reduction target of 15 percent on the other. As a result, the European countries have reached the target of filling natural gas storage sites by 80 percent ahead of time. In fact, the latest estimates indicate that 81.2 percent of EU gas storage is filled by August 31, 2022. Gas storage sites continue to fill as countries switch from gas to coal or oil to LNG in power plants and industries. European gas storage levels surpassed 80 percent at the end of August, in line with their average over the 2017-2021 period and ahead of November 1 deadline set by the EU. Although the European countries have achieved the gas storage target but paid heavily for this. The cost of filling the storage was over $51 billion – 10 times more than the historical average of filling tanks for winter. Europe may not face the problems of availability of gas immediately but the price of gas that the consumers will pay have skyrocketed. As stated earlier, energy is the lifeblood of any economy. When blood is reduced in the body, human being gets sick. Similarly, sharp reduction in energy is bound to choke the economy and will seriously affect the living standards of the Europe.

It is a fact that the European countries filled their storage by aggressively buying Russian gas, therefore, they may not face serious shortages in the winter. This storage will become empty by Spring (March 2023). How and from where the European countries will buy gas to fill their storage for the next winter? Europe will require 30 billion cubic meter gas to fill their storage for the next winter. From where they will buy additional 30 billion cubic meter gas? They can buy US LNG but the price of this gas will be skyrocketing. How will European people pay their gas bills? How can European industries compete in international market with such a high cost of production?

# 7. ALTERNATIVE ENERGY MARKETS AVAILABLE TO RUSSIA

The United States and its western allies have imposed wide-ranging economic sanctions including sanctions on the sale of oil and gas. It is well-known that Russia is the world's largest exporter of oil and natural gas, and 45 percent of Russia's federal budget was financed through the oil and natural gas revenue in 2021. Until the war broke out in February 2022, the European Union has long been its best customer for both oil and gas. According to the US Energy Information Administration (EIA), some 49 percent of Russian crude oil and 74 percent of Russian natural gas exported to the European OECD countries. After the war, everything has changed. When Europe is not buying oil and gas from Russia, what options are available to Russia. Or what are the alternative markets available to Russia to diversify its sale of oil and gas? Europe is preparing plan to pivot away from Russian fossil fuels by 2030. If this plan is seriously pursued by the Europe; Russia will have enough time to diversify its energy exports from Europe to Asia and elsewhere.

**On Oil Export**

China and India – the two largest oil importing countries, have emerged as alternative destinations for Russian oil after the US led sanctions on the sale of oil to

Europe and other Western countries. China has been the Russia's biggest non-European or Asian customer. Some 38 percent of Russian oil exports went to China in 2021 as compared to 49 percent to OECD Europe. In 2021, China was the largest single buyer country of Russian oil taking 1.6 million barrels per day on average. Data shows that China's imports of crude oil increased from Russia since the launch of the Special Military Operation. China imported 38.7 million barrels from Russia in February 2021, increased to 45.7 million barrels and 46.8 million barrels, respectively in March and April. It jumped to 60.2 million barrels in May or 1.98 million barrels per day, surpassing Saudi Arabia in importing oil. In other words, Russia reclaimed its position as China's biggest oil supplier overtaking Saudi Arabia in May because it was selling oil at discounted price. During January – July 2022. Russia exported 346.3 million barrels of oil to China – up by 4.4 percent compared with the same period of last year. It may be noted that China's energy consumption was low during the first half of 2022 due to Covid-19 lockdowns. Despite lockdowns, China's oil import remained at elevated level from Russia during January – July 2022. Russia has also signed a deal with China to supply 733 million barrels of oil over 10 years amounting $80 billion.

Besides China, the other market for Russian oil is India — a country of 1.38 billion and the world's third largest consumer and importer of oil. India consumed almost 5 million barrels of oil per day or 1.8 billion barrels in 2021, 80 percent of which was imported. Prior to the Russia-Ukraine War, India imported oil from Iraq, Saudi Arabia and the UAE. Only 2 percent or 12 million barrels of oil imported from Russia. After the war, things have changed dramatically. India is buying oil from Russia at discounted price (discount of $30-35/bbl) in an unprecedentedly large quantity. Since the war began on February 24, 2022, India has purchased more than 110 million barrels – almost nine times more than what it bought in 2021 from Russia. Monthly purchases of Russian oil skyrocketed with the ratio of 3 million barrels in March to 7.2 million barrels in April, 24 million barrels in May, 28 million barrels in June, 26 million barrels in July, 22 million barrels in August, 26 million barrels in September and over 28 million barrels in October. Further breakdown suggests that India imported 4.72 million barrels of Russian oil during the first quarter (January–March) of 2022 which jumped to 60.2 million barrels during the second quarter (April–June) and further jumped to 74 million barrels in third quarter (July–September of 2022). Since April to October 2022, India has imported 162 million barrels of Russian Oil against only 12 million barrels in 2021.

India and China have offset most of the fall in Russian shipment to Europe. They together bought 79 million barrels more Russian oil in the second quarter (April-June) compared with the first quarter (January–

March). The price of crude from other sources for China such as Saudi Arabia, UAE, Iraq, and Oman, increased to $800 per tonne in the second quarter while import cost from Russia stayed at $700 per tonne. In the case of India, its oil imports from Russia, on average, cost $790 per tonne in the first quarter (January–March) but declined to $740 per tonne in the second quarter (April–June). This suggests that both India and China are buying Russian oil at discounted price. In the era of rising energy cost, both India and China have emerged as major beneficiaries by buying Russian oil.[48] After the EU proposal to ban Russian oil, the traffic was diverted to India and China. India's two largest refineries – Reliance industries in Jamnagar, Gujrat, and Nayara Energy, also in Gujrat have been working to the capacity. India will keep on importing Russian oil at discounted price, will refine the crude and will export the products to Europe at higher prices. There are indications that India may continue to purchase more Russian oil in coming months as long as it is available at discounted price.[49] India has emerged as the largest beneficiary of the European sanctions on Russia.

What is less known today is that trade between Turkey and Russia has been booming after the Russian invasion of Ukraine. Turkish companies are not banned

[48] See Lin et.al (2022).
[49] See Venkatesh (2022).

from dealing with their Russian counterparts and they are filling the void created by EU businesses that left Russia after its invasion. It is in this background that Turkey has doubled their oil imports from Russia to fill the gap created by the EU. Turkey is now importing over 200,000 bpd this year as against 98,000 bpd in 2021. In other words, Turkey's import of Russian oil has reached 6 million barrels per month.[50] Hence, China, India and Turkey have more than compensated the loss of European market for Russian oil. Without any difficulty, Russia has diverted its sale of crude oil from Europe to Asia and elsewhere.

**On Gas Export**

As stated above, Russia did not find it difficult to diversify its oil sale from Europe to Asia and elsewhere. However, finding alternative markets for Russian gas would be a relatively hard nut to crack. If Russia is to replace the European market for gas, its best option would be "NO LIMIT" friend, China. Russia is Beijing's third largest gas supplier. It is already sending gas to China through the Power of Siberian 1 Pipeline (4000 km pipeline which is not connected with the supplies to Europe) and shipping LNG since 2019. In 2021, Russia exported 16.5 billion cubic meters gas to China, while it sold 155 billion cubic meters gas to the EU. China's total

[50] See Reuters (2022).

gas demand in 2021 was 367 bcm. Even if China increases its purchase of gas from Russia significantly, it will be a small fraction of total Chinese demand. However, it clearly suggests that given the voluminous requirement of gas for China, there is a plenty of scope to import Russia's gas provided more pipeline gas infrastructure is built. Building such infrastructure will require time and finances. Power of Siberia 2 pipeline with annual capacity of 50 bcm, connecting Russia and China would begin in 2024 which will increase the scope for Russian-China energy trade, but it will not be operational before 2030. Russia produced 762 bcm of natural gas and exported 210 bcm via pipeline. Of which, 155 bcm exported to the EU. As against 16.5 bcm gas export to China in 2021, Russia will increase the supply of gas to China amounting 38bcm through pipeline by 2025 and further to 48 bcm. Hungary and Serbia will continue to buy Russian gas into the future. Both the countries have not supported sanctions on Russia. In fact, Hungary signed a deal with Russia last year agreeing to receive Russian gas via pipelines that would bypass Ukraine, such as Turk stream, a gas pipeline connecting Russia to Turkey via the Black Sea. Hungary has also acceded to pay for Russian gas in Rouble.

Finding alternative markets for Russian gas will be difficult from short to long term purpose because of the lack of infrastructure available in Russia as well as in importing countries. Bulk of Russian gas is exported through pipeline and only 16 percent are LNG export. If China can be an alternative market, only one pipeline – Power of Siberia 1 pipeline is available. The work on second pipeline – Power of Siberia 2 pipeline will start in 2024 with a capacity of 50 bcm and will be completed by 2030. It will be difficult for Russia to ship LNG to China in a large scale. Furthermore, China is importing large quantity of LNG from the US and Australia and may not like to divert its purchase towards Russia. Australia exported 42.3 bcm LNG to China in 2020-21.[51]

Similarly, given the heavy dependence of Europe on Russian gas, it will be difficult for the Europe to completely ban Russian gas and find alternative sources. Europe has imported 45 percent of gas from Russia, 24 percent from Norway, 11 percent from Algeria and 5 percent from Qatar in 2021. Mostly, the Russian gas is imported through well-developed pipelines but alternative sources of gas can come in the shape of LNG but for that more LNG terminals are required for uninterrupted supply of LNG as already existed terminals are not sufficient to meet the needs. Germany, in particular will be hard hit. Given that Russia itself cutting down the supply of gas to Europe which has moved towards the US for LNG. During the first six months of 2022, the US has exported more LNG to Europe than it did in all 12 months of 2021. If the same

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[51] See Koons (2022) for more discussion.

trend continues, the total increase over 2021 is around 50 bcm – much lower than the European requirement. Europe, in a desperate condition, is buying LNG from the US at prices four times higher than the price for domestic consumption.[52]

While Europe is buying relatively more expensive oil and gas from non-Russian sources, their counterparts or peers in Asian countries are buying Russian oil at discounted prices. This is bound to widen the prosperity gap between the regions. Both Russia and Europe will be facing serious difficulties in finding alternative markets and alternative sources of energy. Europe will have no option but to rely in Russian piped gas. For alternatives, Europe will have to invest heavily on infrastructure related to LNG terminals and connecting them with already existed pipelines. If they invest heavily and take the course, by 2030 they may be able to say good bye to Russian gas. Similarly, by 2030, Russia will have to invest on LNGs, divert piped gas towards LNGs and find alternative markets in Asia and elsewhere, particularly in Turkey. Bottom line is that the divorce between Russia and Europe will be very messy. Decades of dependence on Russian piped gas cannot be changed from other sources overnight. Europe will suffer far more than

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52 See Temizer (2022), Renshaw and Disavino (2022), Kern (2022), and Balkan Green Energy News (2022).

Russia economically. The damage to the Russian economy through sanctions will be far less than the damage to the European economies after imposing sanctions on Russia.

## 8. RUSSIA'S COUNTERMEASURES

Putting Russia's currency in a free fall regime, triggering bank panics, provoking chaos in the Russian financial market, hurting Russia's exports, Industries, and most importantly damaging Russia's economy to weaken its war machines have been the explicit goals of sanctions imposed by the US and its Western allies after Russia's invasion to Ukraine. For eleven months of the war, none of the above stated goals have been achieved. On the contrary, Russia's financial health has been strengthened; Russian Rubble turned out to be one of the best performing currency in recent months. Russia is experiencing the highest ever current account surplus despite increase in war spending, and GDP is projected to shrink around 2 percent in 2022. Furthermore, sanctions were intended to reduce Russia's revenue from energy exports, but they have backfired after the surge of energy prices in the world as Russia is earning more money than ever before. Most importantly, sanctions have failed to stop the war.[53]

Russia appears to have prepared herself for sanctions and immediately after the impositions of wide-ranging sanctions it launched its counter measures to

[53] See Reuters (2022).

protect its currency and prevent bank panics or run in the bank. Russia took the following measures.

- The Central Bank of Russia (CBR) immediately injected $1.0 billion into the market on the day of invasion to support its currency.
- The CBR raised its benchmark interest rate from 9.5 percent to 20 percent on February 28, 2022
- It set a limit for the people on withdrawal of foreign currency
- Imposed capital controls and a ban on foreigners selling securities in the market
- Banned all Russian Residents from transferring foreign currency abroad
- Announced on March 23, 2022, that “unfriendly countries” (those who joined sanctions bandwagon) will have to pay for Russian oil and gas in Rubbles
- Asking Russian exporters and most importantly to the State-owned Gazprom who are still earning in foreign currency to convert 80 percent of their export proceeds in Rubbles and deposit the same with the CBR within three days.
- And most importantly, Russia delinked its currency with US dollar and linked it with gold. It announced that the CBR would be purchasing gold at a fixed price of Rubble 5000 per gram of gold. This was a masterpiece countermeasure taken by Russia to protect its currency from a free

fall regime. As a result, the Russian currency staged a remarkable comeback. How did it happen?

- Following the launch of the Special Military Operations by Russia against Ukraine on February 24, the Rouble – dollar parity was Rub 79.7 per US dollar. Two weeks after the invasion, the Rouble went as low as Rub 150=$1.[54] Panic in Russian banking system was visible. Russian started dumping their own currency and started buying foreign currency (dollar) resulting in excessive demand for dollar. There were indications that this is going to trigger bank panic and collapse of Russian currency. The above-listed countermeasures in general and two/three measures in particular turned the table in favour of Russia. Russian currency made a remarkable recovery in a short period of time. It has become stronger today than at the pre-invasion level. Rouble, as of October 31, 2022, stood at Rubble 61.5=$1 whereas on January 5, 2023 it stands at Rub 1=$ 0.014 and has been adjudged as the world's strongest performing currency.

How did Russia's currency recover so quickly? Very ingeniously, the CBR pegged its currency with gold at the rate of Rub 5000 per gram of gold. Why Russia

[54] See Sweet et.al (2022) and Daniel (2022).

fixed its exchange rate with gold at Rub 5000 = per gram of gold? Because the market price of gold was $62 per gram, hence Rub 5000/$62 = Rub 81 = $1.0. This was the exchange rate more or less at the time of invasion. With one stroke of pen, Russian currency recovered from as low as Rub 150 = $1 on March 7, 2022, to more or less at the pre-invasion level now. Russian Central Bank has announced that it is willing to exchange gold for Rubble with anyone who wants to buy gold by paying in Rubble. In doing so, Rubble – dollar parity has become irrelevant for Russia because its currency is now pegged with gold. Currently, Russia's gold reserves are estimated at more than 2298.53 tonnes (valued at $140 billion) – the 5th largest stockpile of gold in the world after the US, Germany, Italy, and France. Russia has spent years in building its gold reserves. It expanded its gold reserves sixfold since mid-2000s. With Russian gold coming under sanctions, the country's gold stock from banks as well as from individuals could be sold to the Central Bank of Russia. The more gold coming to the Central Bank, the more Rubble will be strengthened.

To maintain stability in its exchange rate, Russia is witnessing steady flow of foreign currency through the sale of oil and gas to Europe and elsewhere. Russia is projected to earn $321 billion through energy export alone – up by more than one – third compared with year 2021 on account of higher energy prices (Reuters 2022). According to the Central Bank of Russia, the current account surplus surged to $225.7 billion during January – November 2022 which is up by 108 percent or higher by $117.1 billion than the corresponding period of 2021.

Emboldened by the continued flow of external resources resulting in the strengthening of Russian Rubbles, the Russian Central Bank started cutting its benchmark interest rate from 20 percent to 17 percent, a further cut to 14 percent on April 30, 2022, and yet another cut to 11 percent on May 26, 2022. The CBR further reduced its benchmark rate to 9.5 percent on July 1, 2022 — the level prior to the launch of the Special Military Operation. The continued improvement in the financial position of Russia encouraged its Central Bank to further trim its benchmark rate to 7.5 percent on September 15, 2020, which is even lower compared with the time of invasion in Ukraine.[55] The bottom line is that Russia has so far successfully blunted the impact of western sanctions and launched counter offense by itself cutting and finally stopping gas flow to Europe.

**Weaponization of Gas?**

The United States and its Western allies have used sanctions as a weapon of war to punish Russia by damaging its economy, creating public discontent leading to regime change in Russia or building pressure on Putin through mass agitation to stop the war and

[55] Reuters reported this on September 16, 2022.

vacate all the land that it has captured till the time in the war with Ukraine. In their opinion, they were justified in using sanctions as weapon of war to punish Russia. West failed to realize that Russia, being a resource rich country, also possesses some weapons to fight back. Being the largest exporter of gas, according to the European Union, Russia is 'weaponizing gas' against the Europe. From their perspective, Russia is "blackmailing" Europe by suspending gas supplies.

Ever since the launch of the Special Military Operation, Russia continued to show its muscles. In late April 2022, Poland and Bulgaria became the first EU countries to face gas cut off from Russia because they refused to pay for gas in Rubbles. On May 20, Finland was told to comply with transaction in Rubbles. It coincided with Finland expressing its desire to join NATO. In late May, Denmark suffered the same fate and also termed Russia's action as blackmailing. Russia also fully stopped gas supplies to the Netherlands for similar reason (not paying in Rubble). Germany, Italy, and France witnessed their gas supplies reduced considerably as Russia retaliated to the combined visit to Kyiv by their leaders to express solidarity with Ukraine. The month of June saw more gas reduction to other EU member countries like Austria, Slovakia, and the Czech Republic. By June 2022, the gas shortage across the EU stood at 60 percent. Three countries – Portugal, Poland and Denmark – witnessed 80 percent shortages.

Realizing that Russia can cut off gas supply to Europe, particularly during the winter, the European Commission asked member countries to voluntary reduce gas consumption by 15 percent between August 1, 2022, to March 31, 2023, compared to their average consumption in the past five years during the same period. Why 15 percent? The European Commission calculated that the EU would suffer gas shortages of up to 45 billion cubic meters which is about 15 percent of what the member states consume, on average, during August and March. In order to meet the challenges of gas shortages, the Commission also asked member countries in June 2022 to increase their gas reserves to 80 percent by November and 85 percent by the end of December 2022.[56]

The European countries started reducing their gas consumption and stockpiling gas to meet the reserve targets. The European countries used the techniques of limiting air conditioning temperature and heating, switching to alternative fuels, and postponing the phase out of nuclear energy. Businesses, factories, public buildings, and private households were asked to contribute their shares in reducing gas consumption and accordingly build up gas reserves.

Knowing very well the strategy of the EU in building gas reserves to face coming winter, Russia

[56] See European Council (2022).

started gradually reducing the flow of its natural gas to Europe through the Nord Stream 1 pipeline. It first reduced the supply to 40 percent and then to 20 percent. On August 31, 2022, Russia shut down the Nord Stream 1 pipeline for three days. On September 2, 2022, Russia completely shut down the pipeline for serious maintenance issue and gave no date for its resumption. Top European officials have described this shut down as Russia's "blackmailing of Europe" and "weaponizing" its gas supplies. The shortage of gas resulting in massive surge in gas prices to as much as $500 per barrel of oil equivalent, ten times the normal average. Gas prices in Europe have increased by 4 times compared with the pre-war situation or with the average of 2021.

Higher gas prices are driving up firms' cost of production, squeezing consumers' budget, leaving them less money to spend on other goods and services. The Europeans will have to sacrifice their comfort of hot water, warm houses, offices, and factories. Many opine that high inflation caused by high energy prices could fuel social unrest, protests, and strikes according to the survey conducted in France, Germany, Poland, and the UK.[57] Vast majority of the people believe that the crisis won't be a short lived; it is here to stay for some time in the future. Europe is already witnessing massive protest in various member countries which are not shown in

[57] See Euro News (2022).

mainstream media. For example, over 70,000 Czechs protested in Capital Prague over energy crisis fuelled by the EU sanctions against Russia. Protestors asking their government to adopt a neutral approach to the Russia–Ukraine war. They have also asked their government to think about the people and the country first than standing with the EU.[58] Similar protests held in Berlin, Cologne (Germany), Milan (Italy), Brussels (Belgium), London, Cardiff, Birmingham (UK), Madrid (Spain), Naples, Paris (France) and so on.

**How Germany is Coping with Energy Crisis?**

Germany is the single largest economy of the European Union, accounting for one-quarter of Europe's GDP, 16 percent of population and contributes 20 percent to the EU budget. German economy is the major driver of economic growth and development in the EU. Some 52 percent of its imports originate from the member states of the EU. Smaller European economies are highly dependent on Germany. Countries like Czech Republic, Poland, Hungary, Romania, and Slovakia send some 25-33 percent of their all exports to Germany. Overall, the EU member states derive 2.2 percent of their GDP (around Euro 290 billion) through exports to Germany. This is the dependency of Europe on Germany. Germany is highly dependent on Russian gas. While Europe

[58] See Reuters (2022) and The Economic Times (2022).

imports 40 percent of its gas requirement from Russia, Germany imports 43 percent of its requirement, mostly from Nord Stream 1 pipeline from Russia.

Although the entire Europe is in the middle of an energy crisis, Germany being heavily dependent on Russian gas is facing even serious challenges. Russia stopped supplying 55 bcm gas to Germany via Nord Stream 1 on September1, 2022. Through reducing the gas consumption, Germany has, though, stockpiled enough gas to face the winter, the energy prices have skyrocketed not only in Germany but also in Europe as a whole. Germany is facing serious challenges to substitute 55 bcm Russian gas from alternative sources in the short-to-medium term. Instead of augmenting supply of gas, Germany along with the entire Europe is following demand management policy. The skyrocketing prices of gas have wreaked havoc across the Europe, turbocharging inflation, hamstringing industries, and making ordinary people shudder when they get their power bills.

The soaring energy prices have impacted disposable income of the German people. Lower disposable income, hurting and lower consumption is likely to cause reduction in production. As a result, German economy is likely to contract 0.3 percent this year and much more (0.7%) in the next year. Germany is experiencing the risk of Stagflation i.e., lower output and rising prices.[59] The highly energy intensive industries of Germany like steel, building materials, glass, paper, chemicals that form the backbone of the German economy are likely to hit hard. There are fears that some businesses may relocate their manufacturing units elsewhere where energy is cheaper and production cost is lower (gas is 10 times cheaper in the US).[60] A recent study suggests that German economy to lose $265 billion in added value by 2030 due to the Ukraine war and high energy prices, spelling negative effects for the labour market (lesser job opportunities or rising unemployment).[61]

Europe's largest economy (Germany) has been one of the most dependent on Russian energy for decades but the war in Ukraine has changed the dynamics of German economy. Germany's economy greatly benefited from the cheap energy from Russia for decades and emerged as one of the powerful export-oriented economies of the world. The era of cheap energy is gone with Russia-Ukraine War, and Germany's stance towards Russia in this war will leave a lasting impact on Europe in general and on Germany in particular in terms of facing serious challenges of living permanently with high energy prices. What will happen to Germany's competitiveness in

[59] See Connolly (2022).
[60] Ibid.
[61] See Reuters (2022).

international markets? How can Germany's export industries compete with China, India, and others in international markets? Energy is considered as the lifeline of any economy. Interrupted flow of energy makes the economy unstable seriously affecting the state's economy. When the German economy will be affected, it will ultimately affect the rest of the European economies leaving Europe to face dark and freezing winters in years to come. The longer the war persists the more freezing and dark winters will be the fate of Europe in general and Germany in particular going forward. We may see desertion in the European camp. Hungary's relations with the EU have already become strained on the issue of the EU sanctions on Russian energy. Besides, Serbia which is officially a candidate for EU membership has signed an agreement with Russia for "mutual consultations" on foreign policy matters at the side-line of the UN General Assembly in New York on September 24, 2022. Aligning the foreign policy of Serbia with the EU is one of the main pre-conditions for joining the EU. By signing agreement with Russia, Serbia's membership drive for the European Union is now jeopardized.[62]

Germans are adjusting to the new realities of living under gas shortages on the one hand and extremely high prices of energy on the other. Cities in Germany are switching off lights on public monuments,

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[62] See AP News (2022).

turning off fountains, imposing cold showers on municipal swimming pools and sports halls. EU is going to experience rationing of hot water in home; less heating in rooms, office buildings, private buildings, and businesses premises for which they are not accustomed to.

In a nutshell, Germany along with whole Europe is facing unprecedented energy crisis and due to breakdowns in gas supply, these countries will be witnessing dark and freezing winters. European economies, including Germany are entering into deep recession – many people will be losing jobs. Unemployment in Europe is expected to rise and giving birth to social unrest and protest across Europe. Such protests are already taking place in various capitals of the Europe. The more the EU squeezes Russia, the more the gas prices rise, as gas is not readily available for Europe other than from Russia. It means Russia will be selling less gas but will be earning more revenue. Between August and March, the demand for gas in Europe is up by 30 percent as compared to the remaining months of the year. Gas rationing in Europe will plunge the European economies including Germany (the most powerful economy of Europe) into long and deep recession. The future of Russia–Ukraine war will depend crucially on how Europe handles the winter. This fact is very well known to the European leaders as well as the leaders of the G-7 countries.

In this backdrop, the G-7 countries have agreed to impose a price cap on Russian oil aimed at slashing Russia's revenue from the sale of oil.[63] Market forces believe that this price cap is not going to be an effective instrument for Russia to make more foreign exchange. G7 countries have not yet come to an agreement on a specific price. Russia, on the other hand, has warned that if price cap policy is implemented, it will stop supplying oil and gas to the market. Implementation of price cap is bound to push global prices of oil and gas further up with serious consequences for the world economy. Notwithstanding the desire of the G7 countries, the price cap mechanism is not likely to be effective without the support of China and India (the two largest importers of oil and gas). India has categorically stated that it will support price cap policy if oil from Iran and Venezuela are made available to the market. India is largely dependent on imported crude oil and hence, cannot take risk in uncertain environment.[64]

**Bounty for Russia in Ukraine War**

Before this Chapter is closed few words regarding little known facts are in order. Russia has annexed those areas of Ukraine which it has captured after February 24 invasion of Ukraine. The annexed areas include Luhansk, Donetsk, Kherson and Zaporizhzhia. Crimea was already

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[63] See Reuters (2022).
[64] See Business Standard (2022).

annexed in 2014. After the annexation, Ukraine will permanently lose almost two-thirds of its deposits of natural resources. Russia will control at least $12.4 trillion worth of Ukraine's energy, metal, and mineral deposits. It will control 63 percent of Ukraine's Coal deposits, 11 percent of its oil, 20 percent of its natural gas, 42 percent of its metal and 33 percent of its rare earths including mineral like lithium. Russia has seized 41 coal fields, 27 natural gas sites, 14 propane sites, 9 oil fields, 6 iron and ore deposits as well as several sites for titanium, zirconium, strontium, lithium, uranium, and gold.[65] Whatever Russia has spent in its war in Ukraine, the bounties it receives will more than compensate for the war expense.

[65] See Evans (2022).

# 9. THE FUTURE OF DOLLAR AS THE INTERNATIONAL RESERVE CURRENCY

After the Second World War, the United States emerged as the single largest economy in the world, accounting for 45 percent of the World GDP. Over the years, the share of the US GDP in the world GDP continued to decline. It declined to 40 percent in 1960 and further 24 percent in 2021 — a loss of 21 percent points in 75 years. Because of the dominance of the US in the world economy, dollar became the international reserve currency. What is a reserve currency? A reserve currency is a foreign currency that a Central Bank of any country holds as part of its foreign exchange reserves. Countries hold reserves for a number of reasons, including to withstand economic shocks, pay for imports, need to repay foreign debts, and provide stability to its exchange rate or protect the value of its own currency against others. The share of US dollar in Central Banks reserves has declined by 12 percentage points, that is, from 71 percent to 59 percent since the launch of the Euro in January 1999.[66]

The dominance of the dollar in the system of global payments outsized the power of the United States and encouraged it to use economic/financial sanctions

[66] See Arslanalp et.al (2022) and Bhutada (2021) for details on reserves and GDP shares, respectively.

blatantly. Since almost all the international trade with US as well as trade among other countries are conducted in the US dollar and the settlements of the payments are handled by the corresponding banks with accounts at the Federal Reserve, any sanctions by the United States on any country for any reason would cut the ability of the sanctioned country to transact in dollar, creating immense difficulties for the sanctioned country.

The aggressive use of sanctions by the United States and its allies has threatened the hegemony of the US dollar. It may be pointed out that Donald Trump administration unilaterally re-imposed sanctions on Iran in 2018 after it withdrew from the Nuclear Agreement. The allies of the United States like France, Germany and the United Kingdom started developing an alternate dollar-free system and continued to trade with Iran. More recently, Russia and China have reduced the use of dollar in their bilateral trade, particularly after the annexation of Crimea with Russia in 2014.

After the Russian invasion of Ukraine on February 24, 2022, the United States and its Western allies have imposed wide-ranging and unprecedented economic and financial sanctions to punish Russia. Since the war erupted between Russia and Ukraine, Russia’s financial health instead of weakening has further strengthened as compared to past. Once again, the aggressive use of sanctions has given rise to the fear for other countries that if they go against the wish or policy of the United States, they may face such aggressive sanctions. The fear of sanctions has accelerated the efforts to find alternative mechanism for international payment free from dollar. It is the act of the United States itself which has intensified the process of de-dollarization.

Furthermore, about one-quarter of the global population is living under the US sanctions which invariably reduces their ability to trade and perform other activities that require the use of US dollar. Hence, it should be of no surprise that the process of de-dollarization has intensified across the world.

After Russia's war in Ukraine followed by massive Western sanctions, several important countries like Russia, China, Iran, Saudi Arabia, Turkey, and others are making strenuous efforts to move away from dollar. Russia has been gradually reducing its dollar holding since the imposition of Western sanctions after the annexation of Crimea in 2014.

Russia's holdings of US Treasury bills came down from $150 billion in 2008 to a negligible $4 billion by mid-2021. Russia shifted its reserves out of dollars since 2018 and was selling its oil in non-dollar currencies. Russia also decreased her US dollar assets in its National Wealth Fund (NWF) amounting $186 billion and diversified the

Fund into Euro (40%), Yuan (30%), gold (20%), Japanese Yen (5%) and British Pound (5%).[67]

Ever since the annexation of Crimea and threatened by the US to disconnect Russia from the SWIFT system (Society for Worldwide Interbank Financial Telecommunications) in 2014, Russia started developing its own System for Transfer of Financial Messages (SPFS)—Russian equivalent of the SWIFT financial transfer system.[68] The first transaction on the SPFS network involving a non-bank enterprise was executed in December 2017. As of March 2022, over 400 institutions (mostly banks) were part of the network. Russia was negotiating with China to integrate its own network of payment system CIPS (Cross-Border Interbank Payment System) with Russia's SPFS in 2018. Russia was also negotiating with Turkey, Iran, and India to join SPFS. Furthermore, Russia's Economic Development Minister has recently offered the member countries of the Shanghai Cooperation Organization (SCO) to join its financial messaging system, SPFS. Russia wants to increase the volume of settlement in national currencies to avoid dollar as well as introduce global inter-banking alternatives.[69] China has its own home-grown alternative

[67] See Korsunskays and Marrow (2021).
[68] SWIFT is a Belgium-based messaging service that lets banks around the World Communicate about cross-border transactions.
[69] See Russia Briefing (2022).

payment system, alternative to SWIFT, that is, Cross-Border Interbank Payment System (CIPS) which processes payments in Chinese Yuan. CIPS emerged as an alternative to SWIFT since 2015. The System has broad-based network of 1280 financial institutions – three times more than the Russia's SPFS. Hence, China and Russia are working on home-grown alternatives to the SWIFT Payment System. Russia and China joining hands together can cause a major dent to the dollar's dominance. Russia's demand for energy payments in Rubbles has been a major development since its war in Ukraine. Hence, a rise of an alternative reserve currency could cause a knock–on effect on the World trading system dominated by the US dollar. Russia and China, therefore, have the potential to come up with an alternative reserve currency as well as alternative cross-border payment system.

Russia has also developed its Mir Bank Card payment system – alternative to Visa and Mastercard – to improve regional trade and bypass US sanctions. Iran and other Central Asian Republics like Belarus, Kazakhstan, Kyrgyzstan, Armenia, Tajikistan, Uzbekistan, and Turkey have joined Mir Card payment system. Mir Card payment system is supported by Russia's SPFS. There are more than 100 million Mir Cards in circulation which is about one-third of the total market share of Russia. Nigeria and Russia are discussing the possibility of using Mir Cards in the African Country as well. In August 2022, the Russian and Indian Governments have come closer to an agreement to have Mir Cards–based payment system in India. China and Russia are moving closer to have co-branding of China's Union Pay Cards and Russia's Mir Cards. Bottom line is that the more cross-border payment settlements take place with China's CIPS and Union Pay Cards and Russia's SPFS and Mir Cards; the more the US dollar is displaced from international transactions. This is the major objective of both Russia and China to minimize the use of US dollar and maximize the use of their local currencies for cross-border payment settlements.

China on the other hand has been consistently working towards internationalization of its currency – Yuan. Yuan became the part of the international reserve currency, that is the part of the Special Drawing Rights (SDRs) in 2016 and it is being held as a reserve currency in 75 countries. It is well-known that the US dollar and the Euro dominated SWIFT payment system accounted for 77 percent of the global transaction in 2021. Chinese Yuan, however, rapidly making inroads in SWIFT payment system. In 2010, Yuan ranked 35$^{th}$ when SWIFT started its tracking of international transaction. Today, according to the Bloomberg, Yuan attained 4$^{th}$ position in international payment market. Going forward, this process will be further intensified.

China's Belt and Road Initiative (BRI) is another vehicle through which the use of Yuan for trade and investment settlement can be made. As part of the internationalization of the Chinese currency, China has entered into the Currency Swap Arrangements (CSAs) with 41 countries around the world with total amount of Chinese Currency Renminbi RMB 3.5 trillion or $554 billion.[70] Some of the major currency swap arrangements with different countries are documented in Table 8.

The main purpose of China entering into CSAs with different countries is to increase the role of local currencies in settling trade and payments at the global level. When international trade and payments are settled in local currency, to that extent the US dollar is displaced at the global level. This is one element of minimizing the dependence of dollar in international transactions or commonly referred to as de-dollarization. Russia and China have drastically cut their use of dollar in bilateral trade over the last several years.

In 2015, approximately 90 percent of bilateral transactions were conducted in dollars. It has now declined to 46 percent by the third quarter of 2020. Post February 24, things must have changed dramatically.

[70] See Tran (2022).

| **Table 8: China's Currency Swap Arrangements with Different Countries** |
|---|
| ♦ Canada (RMB 200 billion or $32 billion) |
| ♦ Eurozone (RMB 350 billion or $56 billion) |
| ♦ UK (RMB 350 billion or $56 billion) |
| ♦ Brazil (RMB 190 billion or $30 billion) |
| ♦ Argentina (RMB 122 billion or $19 billion) |
| ♦ Australia (RMB 200 billion or $32 billion) |
| ♦ Hong Kong (RMB 800 billion or $119 billion) |
| ♦ Russia (RMB 150 billion or $24 billion) |
| ♦ South Korea (RMB 4000 billion or $60 billion) |
| ♦ Singapore (RMB 300 billion or $47 billion) |
| ♦ Indonesia (RMB 250 billion or $39 billion) |
| ♦ Malaysia (RMB 180 billion or $30 billion) |
| ♦ Thailand (RMB 70 billion or $11 billion) |
| ♦ Japan (RMB 200 billion or $30 billion) |

Following the Russia–Ukraine War, the process of de-dollarization has gained extra-ordinary momentum. During the BRICS Summit, (BRICS Virtual Summit, June 22-23, 2022) the Russian President announced that the five member countries – Brazil, Russia, India, China, and South Africa, have agreed to develop a reliable alternative mechanism for international payment settlement (Alternative to SWIFT) and a new international reserve currency (alternative to the US dollar) based on the basket of BRICS currencies. A decision to expand BRICS by adding more countries was also taken in the Summit. BRICS currently accounts for over 41 percent of the World's population and over a quarter of the World GDP. Within BRICS, China accounts for 70 percent of the economy followed by India (13%), Russia and Brazil (7% each) and South Africa (3%). China and Russia – the two important countries of the BRICS, wants to expand the bloc. Argentina and Iran have already applied for the membership and ten more countries including Turkey, Egypt, Saudi Arabia, Mexico, Malaysia, Indonesia, Fiji, Algeria, Cambodia, and Thailand are also considering joining the BRICS. If all these countries join the BRICS, the total population of expanded BRICS is estimated at 4143 million or 53.4 percent of the world population. However, as things are proceeding, Argentina, Iran, Saudi Arabia, Turkey, and Egypt with their combined population of 355 million will most likely be joining BRICS next year.

| **Box 2: BRICS Reserve Currency and IMF SDRs** | |
|---|---|
| **BRICS Reserves Currency** | **IMF SDRs** |
| Real (Brazil) | Dollar (U.S.) |
| Rubble (Russia) | Pound (U.K.) |
| Rupee (India) | Euro (Europe) |
| Renminbi (China) | Yen (Japan) |
| Rand (South Africa) | Renminbi (China) |

Work on launching an alternative international reserve currency has been on fast track by Russia and China. The alternative reserve currency will comprise five currencies of the BRICS member states exactly in line with the IMF currency, that is, Special Drawing Rights (SDRs).

The new international reserves currency (5Rs) would be based on the basket of currencies where the weight of each currency will depend on its share in trade among the BRICS countries or its share in global trade.A new international reserve currency would provide safety, liquidity, and return. This move, if successful, would greatly undermine the dominance of the US dollar and serve as an alternative to the IMF's SDRs. It will allow BRICS to build their own sphere of influence and unit currency within that sphere. The dependence on the dollar will be greatly reduced going forward. No one but the United States itself be blamed for diminishing the power and influence of the dollar because of its blatant use of economic sanctions as an instrument of war. When the BRICS launch its international reserve currency, they will also launch an alternative cross-border payment system to bypass SWIFT. Those countries who intend to join the BRICS, must have realized the importance of having an alternative reserve currency by watching Economic Sanctions being used as a weapon of the war. For their safety and security, they must have realized the need to have an alternative reserve currency.

# 10. UNINTENDED CONSEQUENCES OF ECONOMIC SANCTIONS

Following the launch of Russia's Special Military Operations against Ukraine, the Western world under the leadership of the United States imposed wide ranging economic sanctions. Their main objectives were to punish Russia by damaging its economy, creating unrest within Russia leading to a regime change and most importantly weakening Russia's military strength. The west perhaps did not visualize the unintended consequences of their crippling sanctions against Russia. Firstly, in doing so, the west unnerved many non-western countries, especially those feeling vulnerable to the US sanctions or those developing countries thinking that if they stand against the United States' policies, they may meet the same fate of sanctions. These non-western and developing countries will most likely reduce their dollar-denominated asset holdings gradually. Further, these countries may diversify their foreign exchange reserves by reducing the share of dollar. These countries may also support the efforts of Russia and China in developing alternative international payment system and alternative reserve currency. The enlargement of the BRICS and the Shanghai Cooperation Organizations (SCO) are clear indications of where the world is moving.

Secondly, the Kings, Queens, the Princes and the Princesses, the corrupt politicians, and tax evaders may now think twice in holding their assets in western world or in US dollar, Euro, or Pound denominated assets. We have already seen China and Russia reducing their investment in the US Treasury Bills. China in particular has reduced its holdings of US government debt by 17 percent since end- January 2021 till October 2022. China's Treasury bond holdings stood at $909.6 billion at the end of October 2022 – down from almost $1.1 trillion.[71] Accordingly, we may see shifting of capital gradually to non-western countries and to non-US dollar, non-Euro, and non-Pound.

Thirdly, in order to damage the Russian economy, these sanctions have backfired, and it is European people who are paying the price and the European economies are suffering badly. The standard of living and the quality of lives of the people are at the stake and suffering heavily.

Fourthly and most importantly, the Western World perhaps never visualized the consequences of their sanctions on the poor of the African countries in particular and developing countries in general which caused a rise to serious food security issues both in developing and African countries.

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[71] See Kawate (2022).

Like fuel prices, food prices particularly of wheat have soared after the war, causing serious food insecurity in many African, middle – eastern countries as well as in Pakistan and Afghanistan. International price of wheat is ranging between $347 per tonne (France Grade 1) to $437 per ton (US Hard Red Winter). Since 2019, the price of wheat is up by 69.4 percent; by 48 percent in 2020 and 23 percent in 2021.

Russia and Ukraine are known as the World's breadbasket. War in Ukraine and sanctions on Russia have totally disrupted the food production and export of food from these two countries. These two countries account for roughly one third of the world's wheat exports, nearly 20 percent of the corn and 80 percent of the sunflower oil exports. Russia is the world's largest producer of fertilizer accounting for 15 percent of nitrogenous, 19 percent of Potash and 14 percent of Phosphorous fertilizer. Many countries in Europe and Central Asia rely on Russia for over 50 percent of their fertilizer requirements. Germany gets 30 percent of its requirements from Russia. Although, there are no sanctions on food exports from Russia on paper, but practically it has become difficult for Russia to export wheat, fertilizer, sunflower oil etc. to the outer world.

Beside sanctions and war in Russia and Ukraine, there are weather related issues in other major wheat producing countries which has created shortages in international market resulting in increased prices of wheat. China, the single largest wheat producer in the world, has faced weather related issues which have affected its wheat production. China's wheat production is likely to be down by 20 percent. Similarly, India is the second largest producer of wheat in the world and has experienced serious heatwaves that engulfed the wheat growing belt of India which seriously affected wheat production. Consequently, India has decided not to export wheat this year so as to keep price of wheat under control in India.

Table 9 documents wheat production of top ten countries. China with 134.2 million tons of wheat production accounts for roughly 18 percent of global wheat production. India, with 107.6 million tons, accounts for 14 percent of the world's wheat production. Both the countries that have faced weather-related issues will be exporting less amount of wheat, keeping in view their own needs in the country, or may not be able to export any to meet their own requirements.

China, India, Russia, and Ukraine account for roughly 47 percent of World Wheat Production. War, sanctions and weather-related issues will restrict the supply of wheat in the international market. The tight supply situation has already caused wheat prices to go up in international market.

| **Table 9: Top Ten Wheat Producing Countries: 2020 (Million Tonnes)** | | |
|---|---|---|
| **S/No** | **Country** | **Production** |
| 1 | China | 134.2 |
| 2 | India | 107.6 |
| 3 | Russia | 85.9 |
| 4 | United States | 49.7 |
| 5 | Canada | 35.2 |
| 6 | France | 30.1 |
| 7 | Pakistan | 25.2 |
| 8 | Ukraine | 24.9 |
| 9 | Germany | 22.2 |
| 10 | Turkey | 20.5 |
| ♦ Total Wheat production = 760 million<br>♦ EU as a whole produced 126.6 million tones<br>♦ China, India, Russia and Ukraine account for 46.4% of World Wheat Production | | |

*Source: Wheat Production by country 2022, Wheat Production – Food and Agriculture Organisation (FAO), Rome*

The international wheat market is so tight that Bangladesh had to cancel two international tenders in three weeks' time; first in June 2022 and second in early July 2022. In both cases, Bangladesh received only one international tender that offered wheat at $548.38 per tons CIF basis and $476.38 per tonne respectively. Bangladesh has issued yet another tender to import

50,000 tonnes of wheat. The deadline for submission of price offers was September 1, 2022. Bangladesh is among the importing countries hit by disruption to Russia – Ukraine War.[72]

The MENA (Middle East and North Africa) region countries are heavily dependent on Russia and Ukraine for their grain (Wheat, Corn, Barley, Rapeseed and Sunflower oil). According to the United Nations Report published on March 16, 2022, Egypt (80%), Tunisia (80%), Lebanon (60%) and Turkey (26%) are dependent on Russia and Ukraine for their grain imports. Egypt is the world's largest importer of wheat. It imports a total of 12-13 million tonnes every year to feed a population of 105 million. The population of MENA region consume the highest wheat per capita (128 kg per annum) and more than three–fourth comes from Russia and Ukraine. Higher prices of grain, energy, fertilizer and transport had already threatened food supplies for millions of people owing to the Pandemic, and now Russia-Ukraine war has further compounded the issue of food insecurity in Middle East and African regions. People in many African countries heavily rely on imports of food grain, particularly wheat from Russia and Ukraine. The United Nations itself is facing difficulties in buying food grain for their relief operations in many parts of the world. While countries heavily dependent on Russia and Ukraine for food grain imports are looking

[72] See Hogan (2022).

towards alternative sources in the midst of rising food inflation and export restrictions, switching to alternative sources will be difficult as well as expensive.

Realizing the gravity of the situation, particularly in African countries, the United Nations and Turkey brokered a deal with Russia on July 2, 2022, allowing export of grain and other agricultural products from the selected Ukrainian Black Sea Ports. This agreement will alleviate rising food insecurity and global hunger concerns.[73] The Agreement brokered by the UN and Turkey came at a very crucial time when the storage capacity had reached its limit with 20 million tonnes of grain and oil seeds harvested in 2021. With 19.5 million tonnes wheat that was expected to be harvested in the summer of 2022 and additional 38.2 million tonnes of feed grain expected to be harvested in the Fall 2022, storage capacity would have been exhausted in the absence of export of these grains.

Two separate agreements were signed; one between Ukraine and Turkey, covering grain export from Ukraine and the second one between Russia and Turkey, covering exports of food and fertilizer from Russia. In the first agreement, Russia assured the safe passage for the exports of Ukrainian grains from three ports i.e., Odessa, Chornomorsk, and Pivdennyi in the Black Sea. In the

[73] Details of the Agreement can be found in Glauber and Laborde (2022).

second agreement, Russia got assurances for the export of food grains and fertilizer without any hindrance. This Agreement does not cover exports of natural gas from Russia. The Agreement was signed for 120 days but has now been extended for another 120 days. This Agreement may have alleviated the concern of availability of food grains, but the price of food grain remained an issue for developing countries, in general, and for the poor African countries, in particular. Under the Agreement, over 100 ships and 2 million tonnes of grain have been exported through the Black Sea Ports.[74] Russia, however, complained that its part of the Agreement was facing serious hurdles from the Western powers, in terms of removing logistic sanctions.[75]

[74] For a detailed discussion on UN – Turkey Deal, see Lynch (2022).
[75] See Nichols (2022).

## 11. CONCLUDING REMARKS AND RECOMMENDATIONS

Russia has monumentally changed the global politics with the launch of the Special Military Operation against Ukraine on February 24, 2022. The main purpose of Russian invasion has been to prevent Ukraine from joining the NATO. But with the passage of time the dimension of the war has expanded into protecting the existing world order with Washington DC in the lead to prevent the dawn of a new world order with multiple centres of power. A victory for Ukraine would protect the existing or old world order, under the leadership of the United States. While a victory of Russia, at whatever cost, would lead to a new world order with multiple power centres.

This book has attempted to provide answers to several questions related to the Russia-Ukraine War. For example, why Russia was chosen as a target instead of China, keeping in mind the fact that the cold war was already launched against the later in terms of trade and technology war. Why has Russia launched Special Military Operations against Ukraine? Was this a knee-jerk reaction of Russia or was there a build-up to this war? Or, whether Russia was forced or coerced to launch the Special Military Operations? The West, in retaliation, imposed unprecedented wide-ranging economic sanctions against Russia. The scale and dimension of crippling economic sanctions suggest that these were prepared and finalized much in advance. What are those sanctions and how far have they impacted Russian economy? Will these sanctions on Russian economy and finances leave short-term effects? Or will Russia endure the consequences of the war for a longer period? What countermeasures have been taken by Russia to minimize the impact of western crippling economic sanctions? How is Russia using energy as a 'weapon of war' to cripple European economies? Furthermore, this war has accelerated the pace of de-dollarization with serious consequences for the US economy. What are the initiatives taken by Russia, China, BRICS and SCO member countries to develop alternative reserve currency and alternative cross-border payment system? This war has also created consequences for the poor in terms of food security, hunger and poverty. Perhaps, those who launched the war and those who imposed economic sanctions had never thought of the consequences of the war for those who are bystanders.

This book has attempted to provide answers to the above-listed questions with detailed analysis. Russia was chosen as a target over China because the former's economy is much weaker than the later. However, Russia is a resource rich country and has survived the crippling economic sanctions of the west so far. There is a lesson for those powers who believe in using economics and finance as a weapon of modern-day war that economic sanctions will not work against a resource rich country. Both Russia and Iran have witnessed crippling economic sanctions and survived. Iran has been under the western sanctions for 43 years. Its economy remained functional and militarily Iran has become much powerful today than 43 years ago.

Russian invasion of Ukraine was not an abrupt phenomenon. There is a long history behind this, dating back to the fall of the Berlin Wall. The United States leaderships had promised and gave assurances time and again to the Russian leadership that the NATO would not move an inch eastward, that is, closer to the border of Russia. These promises and assurances are well-documented. However, the NATO continued its eastward movement notwithstanding promises and assurances. Russia, on the other hand, continued to remind the West with each episode of NATO expansion that such an act is the violation of the spirit of the promises and assurances. For the United States, the disintegration of the Soviet Union and the end of the cold war had grossly weakened Russia or Soviet Union, both economically and militarily and therefore, this was a golden opportunity for them to redefine Europe with terms and conditions favourable to them as well as treat Russia as one of the weaker European countries. Given the power disparities after the demise of the Soviet Union, the United States never wanted to recognize

Russia as a major power in Europe. Russia on the other hand wanted the recognition as a major power in Europe and a role in European security. This rivalry continued and finally Russia was put against the wall, and it had no option but to invade Ukraine – the ultimate objective that the US and its allies wanted to achieve.

A series of economic sanctions were imposed by the West on Russia with a view to punishing it for invading Ukraine. Eight rounds of over 4000 economic sanctions have been imposed on Russia spreading from blocking international transactions of big Russian banks to freezing 45 percent of its $630 billion foreign exchange reserves to denying services of VISA and Mastercard for cross-border payment. Sanctions were also imposed on the exports of Russian energy to the Europe in particular and world in general, sale of technology to Russia by the west and on the Russian airline flights to EU and western countries. All these sanctions were imposed on Russia to destroy it economically as well as militarily. Have these sanctions worked? These sanctions have failed to stop the war which is now in eleven months. Russia is earning far more during the war than before the launch of the Special Military Operations. Its current account surplus is ballooning because of the rising export earnings from energy. Russia's currency has been termed as one of the best performing currencies in the world during the last eleven months. Its currency recovered from an all-time low of Rub 150 = $1 on March 7, 2022, to Rub 69.7 = $1 on January 10, 2023.

History has shown us that economic sanctions never achieve the intended objectives, more so against a resource-rich country. Iran and now Russia are classic examples. Iran has been under the sanctions of the West for 43 years (since 1979), but its economy remained functional and militarily it became more powerful. Russia has survived the most crippling sanctions for the last eleven months. Sanctions are double-edged sword and it boomerang. It hurts the sanction imposing countries more than the sanctioned countries. Economic sanctions are damaging European economies far more than the Russian economy. Shortages of gas, skyrocketing prices of gas have wreaked havoc across the Europe, rising inflation and increased of interest rates by the Central Banks of the Europe are throwing European economies into recession. Europe will be experiencing many dark and freezing winters along with the rationing of hot water in home; less heating in rooms, office buildings, private buildings, and businesses premises for which they are not accustomed to. The quality of lives of the European will bound to suffer.

One of the important consequences of the blatant use of economic and financial sanctions as a weapon of modern-day war has been the acceleration of the process of de-dollarization. The use of sanctions has unnerved many emerging and developing countries that if they stood against the policy of the United States, they may face such aggressive sanctions. This fear of sanctions has forced the countries to find alternative reserve currency and international payment system. Many initiatives have already been launched in different parts of the world under the leadership of China and Russia. Alternative reserve currency from the platform of the BRICS is a real possibility soon. China and Russia are joining hands to come up with an alternative cross-border payment system to replace SWIFT. Russia and China have also developed card payment system as alternative to VISA and Mastercard. Through the platform of the BRI, China is internationalizing its own currency as an international reserve currency. China has entered into the currency swap arrangements with over 40 countries amounting $554 billion. When international trade and payments are settled in local currency, dollar to that extent will be displaced at the global level. After the Russia-Ukraine conflict, the process of de-dollarization has gained extra-ordinary momentum. No one but the United States itself is to be blamed, for the demise of dollar as a dominant international reserve currency.

As unintended consequences of the Russia-Ukraine War, the issue of food insecurity in many African and Middle Eastern countries has taken place. Both Russia and Ukraine are the major suppliers of grain in the world. War and sanctions have caused disruption in supply of food grains as well as fertilizer to the world market causing their prices to soar. Higher food prices along with higher energy prices and transport charges have contributed to the rise in general price level and hurting the poor the most and giving rise to food insecurity. According to the United Nations Food and Agriculture Organization (FAO), global spending on food imports is expected to reach $1.94 trillion in 2022 because of the rise in food prices. Russia–Ukraine War and the depreciating values of currencies against the US dollar are mainly responsible for the surge in global food price. Bulk of the increase in the global food import bill is accounted for by high-income countries, mainly on account of higher food prices. Since bulk of the food grain will be imported by the high-income countries, the poor and low-income countries will be hard hit in terms of availability as well as cost of food grains. Sub-Saharan Africa, already hit hard by malnutrition, is expected to spend almost $5 billion more on food imports despite decline in quantity. These are alarming signs from a food security perspective (Business Standard 2022). The United Nations and Turkey have brokered a deal with Russia, allowing export of grain and other agriculture products from the selected Ukrainian Block Sea Ports. The deal, though surviving so far, is surrounded by many uncertainties.

While the world economy was recovering from Covid-19; the Russia–Ukraine War, the blatant use of economic and financial sanctions by the West, and the weaponization of fossil fuel by Russia have once again thrown the world economy in general and the European economies in particular into turmoil. This war has sparked serious energy crisis in Europe, the worst in the last 50 years (after the 1973 oil crisis). Energy prices are breaking record after record and energy supply to Europe is dwindling. This is a perfect storm for disaster for the European economies. Europe is most likely to enter into a deep recession. Rising unemployment in the midst of rising food and energy prices are likely to seriously affect the quality of life of the European people. The longer the war between Russia and Ukraine (it is already in eleventh month) lasts, the more it will destroy European economies. Is the war going to end soon? How is it going to end?

**Recommendations**

Russia-Ukraine War is now in eleventh month since February 2022. War fatigue among warring factions and among allies are visible. Russian troops are tired, Ukrainian troops are exhausted, US and its western allies are no more enthusiastic in writing cheques for Ukraine. Since the launch of the Special Military Operations by Russia, the United States has provided $17.6 billion to Ukraine as security assistance.[76] Europeans are paying heavy price of supporting Ukraine. Their economies are entering into deep and prolonged recession. Rising

[76] See Congressional Research Service (2022).

energy prices and multi-decade high inflation have inflicted severe pains to the people of Europe. They are adjusting their quality of lives downward. They are venting their anger and frustration on regular basis in the various capitals and cities of Europe, urging their governments to review their positions in the ongoing war. The governments are under pressure and the current situation may not continue as it has been going on for eleven months. This war must end very soon.

The United States and its Western allies have failed to create chaos, agitation, run on currency and overthrow the government of Vladimir Putin in Russia. Their sanctions have failed to damage Russian economy and its finances. On the contrary, it is the European economies which are suffering far more than the Russian economy. It is in this background that the United States is asking the Ukrainian President to come on the negotiating table with Russia's Putin.[77]

What can be the framework of negotiations between Russia and Ukraine? One thing is absolutely clear. There cannot be Absolute Satisfaction among warring factions; hence, they have to settle with Balanced Dissatisfaction. Firstly, immediate cessation of hostilities and ceasefire by warring factions. Secondly, Ukraine cannot win this war and cannot retake the lost territory even if the west continues to arm her. It has destroyed

[77] See Ryan et.al (2022).

Ukraine and the war will continue to damage Ukrainian infrastructure as well as its economy. The suffering of the Ukrainian people will continue if war persists.

The West will not give enough weapons to Ukraine to defeat Russia. Their objectives have been to bleed Russia to weaken its economy and its military strength to the degree that it never dares to invade any European Country again. Therefore, the West must stop supplying arms to Ukraine. Thirdly, Ukraine will have to announce that it will NOT join NATO because this was the root cause of the launch of the Special Military Operations by Russia. Fourthly, Ukraine must have the right to choose its economic and political relations freely with rest of the world including the EU but must not join NATO. Fifthly and unfortunately, Ukraine will have to cede territory to Russia to end the war because Russia will never withdraw its forces from the occupied territory of Ukraine that it has captured in 2014 and 2022. This has also been argued by Henry Kissinger in May 2022. If Ukraine believes in retaking all the territory lost to Russia in 2014 and 2022, it is not going to happen short of nuclear war. Is the west in general and Europe in particular ready for a nuclear war? Every saner element would say NO to Nuclear war. Sixthly, Russia must announce stoppage of further incursions into Ukrainian territory. Seventhly, Russia will have to offer something concrete to Ukraine by announcing that it will set up reconstruction fund (like Marshall Plan for Europe) for Ukraine. Russia must undertake reconstruction activities in Ukraine, particularly, for restoring infrastructure, destroyed building and houses as well as electricity plants. The entire funding of the reconstruction of Ukraine must be borne by Russia (without naming it as war reparations). Eighthly, the West must unfreeze some $300 billion foreign reserves of Russia so as to enable them to undertake reconstruction activities in Ukraine. Ninthly, all the sanctions imposed by the West against Russia must be removed. Tenthly, Russia must resume gas supplies to Europe at its earliest. The repair works in Nord Stream 1 and Nord Stream 2 must begin to not only restore but enhance the gas supplies to Europe with a view to providing relief to the European people and their economies. Eleventhly, the United States, NATO and the European Union must help in creating congenial atmosphere in Russia, Ukraine, European Union and elsewhere by refraining themselves from war mongering statements.

Enough loss of men and material has been incurred by the warring factions. There should be no more bloodshed in Europe and peace must be given a chance. It is hoped that the above eleven-point agenda may bring peace and stability in the Europe. Europe has been the theatre of two world wars, it cannot afford the third one and that too a nuclear war.

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# RUSSIA UKRAINE CRISIS

## DAWN OF A NEW WORLD ORDER?

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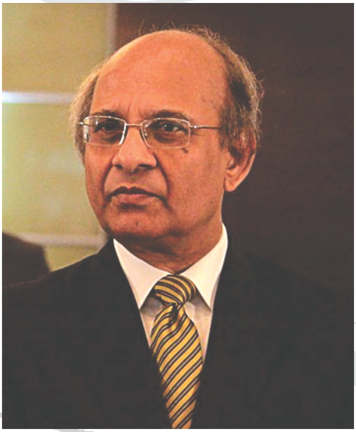

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