

The Impact of the Russian-Ukrainian Conflict on Romania's Economy

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Abstract

Lives lost, pain, families torn apart, people fleeing war, cities destroyed - all are part of the war triggered by Russia's invasion of Ukraine, an unprecedented humanitarian crisis. The ongoing conflict on Romania's border has profound economic consequences not only for the belligerent countries, but for the whole of Europe and the world's economies have not been spared from imported inflation and disruptions in world trade.

In our research, we aimed to highlight the impact of this conflict on our country, causing an increase in inflation, fiscal pressure, budget deficits, public debt and it accentuated climate problems. In the current conjuncture, various adverse shocks can propagate through several channels, therefore in our research we will briefly present the most important of them. Russia's invasion of Ukraine and associated sanctions represent a broad global shock with divergent effects on economic activity (decline) and the inflation rate (increase).

Key words: national security, international economics, inflation, financial crises, war

J.E.L. classification: D74, D84, E01, E31, E43, F51

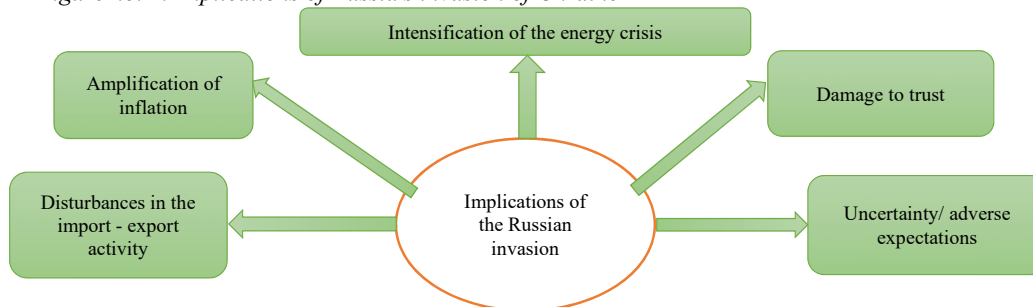
1. Introduction

In addition to the high number of human casualties, the displacement of millions of Ukrainian citizens, the conflict between Russia and Ukraine has triggered tensions in financial markets, sharply increased uncertainty about the recovery of the global economy and imposed sanctions on a European state not seen since World War II so far.

Almost 2 years after the beginning of the war, we are trying to draw in numbers how the economies of Ukraine and Russia resisted during the months of conflict, but also Romania's position, during the months marked by disruptions in import, export, supply activity, by the cutting of strong connections from the energy field and the triggering of a potential crisis (Figure no. 1).

Even if Romania depends to a large extent on Russian imports, it is still one of the European countries with the lowest degree of dependence (European Central Bank, 2022), which can limit the severity of the effects produced by the sanctions of the invading country.

Figure no. 1. Implications of Russia's invasion of Ukraine



Source: processing after BNR evaluations (National Bank of Romania, 2021)

2. Theoretical background

The well-known theorist of international relations, Kenneth Waltz, warned, in a study published in 1993, in "International Security" magazine, that "often the economic competition is sharper than the military one and if nuclear weapons limit the great powers in using force we can expect the economic and technological competition between them to become more intense" (Waltz, 1993, p. 78).

According to "Filled Manual 100-5" (War Department of USA, 1941, pp. 97), three stages can be distinguished in the dynamics of international relations: peace, conflict and war, and different strategies (table no. 1) are applied depending on them:

Table no. 1. Possible strategies that can be applied according to the stages

Stage	Purpose	Type of operations	Examples
War	Fight and win	War	Generalized scale battles: - offensive - defensive
Conflict	Anticipating war Conflict elimination	Operations other than war	<ul style="list-style-type: none"> • Attacks and raids • Supporting insurgencies • Anti-terrorism • Peace keeping
Peace	Peace promotion	Operations other than war	<ul style="list-style-type: none"> • Anti-drug • Civil support • Assistance outside borders • Strengthening peace

Source: own processing after (Hervé, 2008)

Given the speech of Russian President Vladimir Putin, who announced the invasion of Ukraine on the morning of 14th February, the action was framed as a special military action – a pre-emptive raid to support the insurgents in the Kharkiv, Donetsk and Luhansk areas. It can be seen that the support received by the Ukrainian state and the resistance faced by the Russian troops turned the intended raid into a full-blown war, with Ukraine becoming a geopolitical region of maximum interest. Thus applying operational geostrategic theories and resorting to a wide range of methods and means adapted to the complexity of the situation (of the specifics and particularities of the geopolitical field) respectively: military strategies in hot areas and strategies of deterrence with operations, other than war, on the periphery these areas.

At a strategic level, the conflict turned Romania into an important pawn from the perspective of the Allied Countries (NATO), being able to ensure suitable terrain for the deployment of deterrence forces, but also the existence of geographical protection elements (mountains, rivers, etc.). Moreover, Romania can ensure both direct access to the Black Sea and indirect access through the navigable channels of the Danube, which can be used by all types of forces (air, naval and land). Thus, the United States of America sent as a deterrent force the 101st Airborne Division, an elite unit recognized for its successful actions in World War II, especially for ensuring the Normandy Landings.

In response, Russia has stepped up its nuclear rhetoric, putting pressure on both public opinion and key political actors to deter potential involvement in the conflict as well as to achieve military objectives.

In this context, in order not to lose its place on the international geopolitical stage, Russia reactivated many of the frozen conflicts (Nagorno-Karabakh, the Israeli-Palestinian conflict, the Kosovo conflict, Iran's nuclear program, etc.) and sought support from its Asian neighbor China.

On an economic level, the geopolitical scene is in total war. For example, the Chinese giant Lenovo tried to buy the PC Division from IBM, and another company from China wanted to buy the UNOCAL Oil Corporation, which caused lively protests in the American Congress. Chinese companies are very active in the field of energy resources, being present in the oil competition in the

Caspian and Caucasian areas, but also in the textile industry, putting in "danger" the businesses of some giants from the EU, the USA and other large producers in the field.

In the contemporary geopolitical rivalries (Hervé Coutau-Bégarie, 2008), states continue to use the access/restriction to resources and the control of the commercial, financial and energy routes as tools for fighting and carrying out the new type of conflict that has appeared in human society since the end of the last century. This type of conflict could be seen during the Cold War but was felt again in the recent Russian-Ukrainian war, the European Union other allied states (USA, Japan, Canada, Norway, Switzerland, Australia, etc.) adopted international sanctions, Russia looking for alternative resource outlets in Asian and African markets.

3. Research methodology

During the study, rational research methods (rationalism) were approached, aiming for the research to be approached predominantly in a rational style (positivist approach), but this will be corroborated and affected by some constructivist approaches in order to imbue the scientific approach with the note of adaptability required both for the specifics of the organization and the socio-political context existing in the economy.

To achieve the proposed objectives, we will use research strategies from the interpretive sphere as follows:

- phenomenological (both structured – objective, understanding (subjectivist interpretation) and unstructured – empathetic, introspective)
- interpretive practice (participatory observation)
- symbolic interactionism (which consider actions - man acts towards himself and towards others only on the basis of the meanings he constructs situationally, interactions - in human behavior there is a visible (interactional) and an invisible (symbolic) manifested form, the situations social, meanings and symbols - Social objects or events do not have intrinsic meanings because they lack self-awareness, as a result they are invested by people, i.e. they give them particular symbolic characteristics, rules, norms, social roles, role takeovers or adoptions - the analysis will not only be external, objective, based on the substitution of the real perspective of the social actor with the theoretical one of the researcher, but the analysis of the interactional situation in order to understand and introspectively interpret behaviors and behaviors)
- ethnographic (ethnomethodology) – understanding and interpreting common meanings shared by group members.

Qualitative analysis techniques (analysis of documents, normative framework and regulations) combined with induction, abduction and deduction were used as data collection and analysis methods.

4. Findings

The effects of the war in Ukraine on the Romanian economy

In the current environment, adverse shocks can propagate through several channels, as follows:

A. The commercial channel is one of the main channels for the propagation of a possible crisis. An open conflict between Russia and Ukraine affects the demand for goods and services both between the two states and on European countries (Orhan, 2022).

According to the data sent by the National Institute of Statistics, Romania exported to Russia products of 402 million euros and imported 3.88 billion euros in 2022. Compared to 2021, the import increased by almost 25%, while the export decreased halved, causing the trade deficit to deepen. The values strictly reflect Romania's direct exposure to Russia, without taking into account possible indirect exposures through trade with a number of intermediaries.

In the case of Romania, according to Eurostat data, about 45% of natural gas imports come directly from Russia, while the rest of the imports take place through intermediaries such as Bulgaria or Hungary, the main exposure being, in fact, also in the relationship with Russia. However, Romania remains among the few European countries with the least dependence on Russian natural gas imports.

Also, according to the bans imposed on European countries (including Romania), they undertake not to export luxury products to Russia and also to stop importing from Russia steel and steel products, iron, wood, cement, paper and plastic, fruits seafood, alcoholic beverages or tobacco, gold and jewelry.

B. The financial channel (United Nations, 2022) targeted several important bans, such as: restricting Russia's access to EU capital and financial markets, ban on transactions with the Central Bank of Russia, ban on providing Russia with euro banknotes or wallets cryptographic.

Banking exposures to Russia are limited. Banks in Romania do not have direct capital participations with Russian origins, but with all that, increased monitoring of cyber security is necessary.

C. The migration channel (MUFG, 2022, pp. 48). With the launch of the Russian military aggression on February 24, 2022, millions of Ukrainian citizens fled the path of war, seeking shelter and protection in European Union countries, but also in the Republic of Moldova.

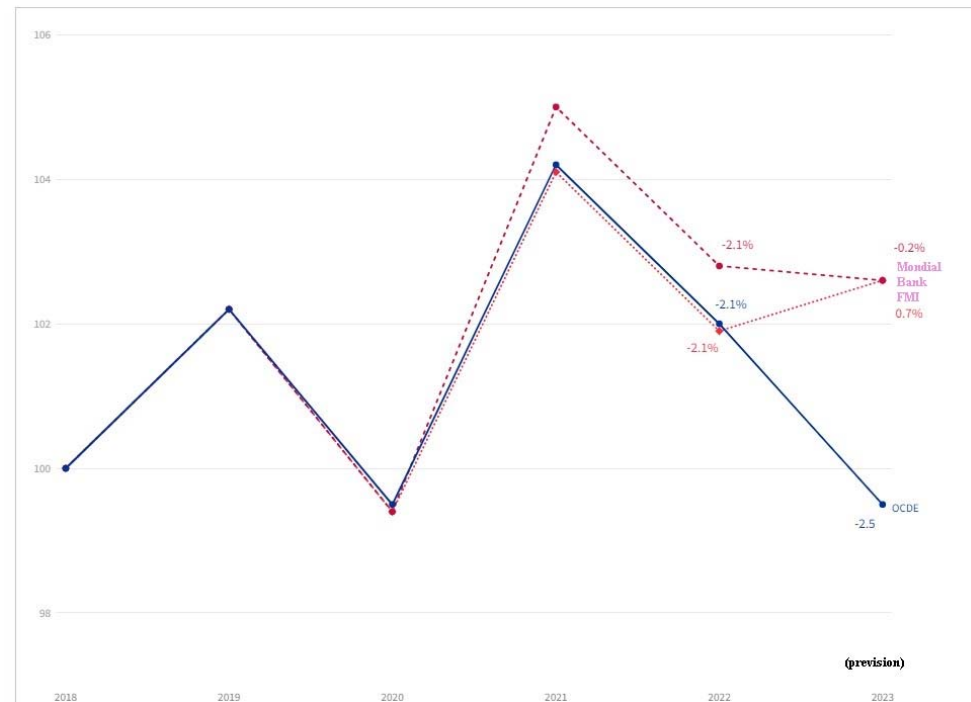
Since the beginning of the geopolitical crisis, most of the Ukrainian refugees have only transited the territory of Romania. It is expected that a small part of them will settle here and actively contribute to the labor market, given the particular structure of the migratory flow made up mainly of women and children.

D. The channel of trust (MUFG, 2022, pp. 52). In addition to the previously mentioned factors, there is also the erosion of investor confidence caused by the increase in uncertainty that characterizes the macroeconomic context. Moreover, the amplification of the feeling of uncertainty takes place especially in the geographical proximity of the armed conflict zone.

Since Russia's unprovoked and unjustified invasion of Ukraine in early 2022, the European Council has adopted 10 sanctions packages against Russia and Belarus. They aim to weaken Russia's ability to finance the war and specifically target the political, military and economic elite responsible for the invasion.

According to the World Bank and the Organization for Economic Co-operation and Development (OECD), 2022 was an unfavorable year for the Russian economy. Its economy could continue its decline in 2023, as Russia's GDP is expected to fall by 2.5% in the most pessimistic scenario (OECD) or by 0.2%, according to the World Bank (Figure no. 2).

Figure no. 2. Russia's GDP: evolution in the period 2018 - 2023



Source: own processing after World Bank (2022) and OECD (2022)

The labor shortage is the result of the war in Ukraine, mobilization and emigration - factors that amplify the effect of Russia's pre-existing demographic problems. At the same time, the number of jobs is continuously increasing due to an economy artificially stimulated by military spending. The labor shortage is fueling two of Russia's most pressing economic problems: rising inflation and the falling ruble.

5. Conclusions

In the case of Romania, the direct effects are anticipated to be lower as a result of the lower energy exposure compared to those of the main commercial partners, but the effects transmitted through indirect channels, especially through the confidence of economic agents, are predicted to be more substantial from the cause of the internal vulnerabilities associated with the twin deficits (budget deficit, current account deficit) that have accumulated in recent years in the Romanian economy.

Regardless of the finality of the war fought between the two neighboring countries Russia and Ukraine, the context led the European Union to reconsider new geopolitical strategies, to instill in the partner countries a series of principles that would determine their resistance to the pressures coming from Moscow, but also to any other aggressive power. It instilled the feeling of belonging to a cohesive and unitary union, respecting the principle of sovereignty and territorial integrity.

In conclusion, from an economic point of view, Romania will experience higher prices for energy, natural gas, but also for other raw materials that were once imported from Russia (wood, paper, steel, coal, crude oil, etc.), a shortage for certain raw materials that will cause delays in some investments and projects, a more expensive access to resources, the allocation of an additional share of the GDP for defense, but also an increase in inflation. However, depending on the pragmatic and constructive approach, Romania may also know certain opportunities in the next period, especially in the energy, naval, infrastructure, food, agricultural, defense, and development investment sectors.

So, through the failure of diplomatic and political methods a new Cold War has opened which will eventually generate a new arms race.

It remains to be studied whether the inflammation of the geopolitical scene was a result of the degradation of diplomatic relations or the crisis generated by the Covid pandemic, as a result of which all the economies of the world suffered (inflation in the USA reached historic levels, the lack of activity of a good part of the defense economy, a viable and quick option to relaunch the economy by increasing budget spending but also by investing in defense, the slowdown in China's economic growth, blockages in supply chains, etc.).

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