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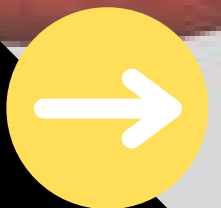
FINZETTE

Financial Gazette

Inside this week's issue:

Ukraine-Russia Tensions

Why are Ukraine's NATO ambitions so controversial?
Could an all-out war break out?
The tensions are also causing Wall Street losses and a rise
in oil prices



12th february 2022

A Brief History

As the Soviet Union **disintegrated in 1991, Ukraine**, which had been a part of the Russian empire for centuries before becoming a Soviet republic, **gained freedom**. It made strenuous efforts to shed its Russian imperial past and build closer links with the West.

Viktor Yanukovych, a pro-Kremlin Ukrainian president, rejected an association agreement with the European Union in favour of deeper relations with Moscow, sparking huge demonstrations and his removal from power in 2014.

Russia retaliated by **annexing** Ukraine's Crimean Peninsula and backed a separatist movement in Ukraine's east.

While the military war in eastern Ukraine has been at a standstill since it began in early 2014, shelling and skirmishes continue to occur on a daily basis, with an uptick of violence in the spring of 2021.

The Story So Far

Troop mobilisation:

Russia began mobilising troops and military equipment near the Ukrainian border in October 2021, reigniting fears of an invasion. With no official explanation, commercial satellite photos and social media reports from November and December 2021 revealed armour, rockets, and other heavy equipment heading toward Ukraine. **More than a hundred thousand troops** had been stationed along the border by December, and US intelligence sources warned that Russia may be plotting an attack of Ukraine in early 2022.

Currently Russia has sent more forces to its border with Ukraine and could launch an invasion at any time, with speculations being made that the invasion could occur during the Winter Olympics.



What Does Russia Want?

Moscow, for its part, has **slammed the US and its NATO partners** for arming Ukraine and staging joint drills, claiming that such actions encourage Ukrainian hawks to try to retake rebel-held territory by force.

Furthermore, Russian President Vladimir Putin has frequently stated that Ukraine's desire to join NATO is a red line, and has voiced alarm about NATO nations' ambitions to establish military training centres in Ukraine. **He claims that this will give them a military footprint** in the area even if Ukraine does not join NATO.

In a draught security treaty last month, Russia laid out numerous major requests to the West, including on Ukraine and other security issues.

It was asked in the manifesto that the US stop NATO's eastward expansion and not allow former Soviet republics to join the alliance.

Ukraine And NATO Membership

An European nation must demonstrate a commitment to democracy, individual liberty, and respect for the rule of law in order to fulfil **one of the three key requirements** for NATO membership. While Ukrainian leaders claim they have crossed that line, several American and European officials disagree.

Transparency International, a global anti-corruption organisation, placed Ukraine **117th out of 180 nations** on its corruption index in 2020, lower than any NATO country.

So as of now, there is no decision being taken on its membership as it also lags behind on the other 2 parameters of contributing to overall NATO defenses and approval from all 30 members.



“ Although a point to be noted is that **Ukraine did send troops** to aid US led wars in Iraq and Afghanistan. ”

Wall Street And Oil Prices

Global stock markets fell on Friday as investors worried about intensifying Ukraine-Russia tensions and the possibility of the US Federal Reserve tightening its interest rate rise schedule in response to decades-high inflation.

Washington claimed Russia has massed enough soldiers near Ukraine to conduct a military invasion, and encouraged **US citizens to evacuate** the country within 48 hours after Moscow hardened its reaction to Western diplomacy.

Oil prices ended up 3% at seven-year highs as escalating fears of an invasion of Ukraine by Russia, a top energy producer, added to concerns over tight global crude supplies. **Energy stocks rose** more than 2.8 percent, despite the fact that most of the 11 main S&P 500 sector indices fell, headed by tech & consumer discretionary.

Possibility Of An All Out War?

Western countries have put their weight behind Ukraine, although some have been more forceful than others. Weapons have been provided by the United States and the United Kingdom, while Germany promises to deploy a field medical centre next month but will not contribute military equipment.

Although it is unclear if the two countries would go to war, some analysts believe Russia will attack Ukraine in order to claim a fast and definitive win and strengthen its negotiating position in future discussions regarding NATO expansion and spheres of influence.

What Russia and Vladimir Putin truly want is to defeat the Ukrainian armed forces in the field, inflict a humiliating military loss, and, as a result, raise concerns about Ukraine's allies' support.

Russia's Nuclear Prowess

Despite reductions in nuclear forces over the previous several decades, Russia still retains a nuclear arsenal of 4,500 weapons, including 1,600 strategic warheads deployed on ballistic missiles and heavy bomber bases across the world, far beyond any of the NATO members.

An Explosive Situation

If Russia grows its position in Ukraine or into NATO nations, the war in Ukraine risks deteriorating further and escalating further. Russia's activities have prompted fears about its intentions abroad in Eastern Europe, and a Russian intervention into a NATO territory would elicit a NATO ally's response. The battle has heightened tensions in Russia's ties with the US and Europe, hurting prospects for collaboration in other areas such as counter-terrorism, weapons control, and a political settlement in Syria.

A Russian invasion would aggravate inflation by **driving energy costs even higher**, putting more pressure on the Fed to hike interest rates.



There has also been a lot of debate about imposing penalties on Moscow. If Putin sends his troops into Ukraine, the US and its European allies have publicly committed to hammer Russia financially like never before. Leaders have revealed few details, reasoning that it is important to keep Putin guessing, but both Washington and London have mentioned personal actions aimed at Putin.

Cutting Russia out of the SWIFT banking system, which transfers money from bank to bank throughout the world, would be one of the most difficult financial acts they could do, causing immediate and long-term economic damage to Russia.

The measure may shut Russia off from most international financial activities, including overseas income from oil and gas production, which contribute for more than 40% of the country's gross domestic product.

The US also holds one of the most powerful financial weapons against Putin – **blocking Russia from access to the US dollar**. Finally, the US is considering imposing export controls, potentially cutting Russia off from the high tech that, among other things, helps warplanes and passenger jets fly and powers smartphones.

All in all, there is also a possibility that the world will have to pay a heavy price if there is war, as the treatment of Russia by the US is similar to that of Iraq but we must not forget that Russia is not the same and will definitely retaliate.