

Conflict Research Programme **Policy Brief**

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Meeting the immediate needs of the Ukrainian economy, the role of international actors and the importance of understanding the conflict as a conventional war

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Background

This briefing draws together proposals presented at a private meeting of economists and political scientists led by Tymofiy Mylovanov (KSE) and Joseph Stiglitz (Columbia).

The human, social and economic costs of the Russian invasion

Ukraine needs urgent economic support involving protection of social infrastructure, public goods, institutions and state support to sustain its defense against the Russian invasion.

As of April 11th, the 46th day of the Russian war against Ukraine, and against freedom, democracy and humanity of the entire world, the invading army has destroyed more than 4,430 residential houses, 8,265 km of roads, 165 kindergartens, 138 healthcare facilities.¹ According to the estimates by Kyiv School of Economics, there has been at least \$32bn worth of damage to roads, bridges, ports and railways. In addition to this, 196 health-care facilities have been destroyed across Ukraine (\$2bn of damage) with almost 300 kindergartens destroyed (\$226m worth of damage).² All losses combined could range from \$564bn to \$600bn, or 2.8 to 3 times Ukraine's GDP in 2021. According to the World Bank, Ukraine's economy is expected to shrink by an estimated 45.1 percent this year.³

Ukraine has faced terrible atrocities with several cities being continuously under siege and bombing, making the collection of data regarding the true economic costs and fallout impossible. Mariupol, a city with over 430k citizens before the war, has been under siege for 42 days with people deprived of food, water, heating, and electricity. Preliminary estimates⁴ of the city mayor suggest that at least 5k civilians have been killed, around 30k deported to Russia by force, and 90% of the city destroyed.⁵ In Kyiv, Kharkiv, Sumy, Chernihiv, Kherson, Chernigiv, Zaporizhzhya regions Russian military forces are bombing hospitals, maternity houses, schools, residential buildings, and killing civilians seeking evacuation from the war zone. Ad hoc bombings happen also in Western regions.

With Russian troops retreating from Northern Ukraine and suburbs around Kyiv, the prosecutor general of Ukraine Iryna Venediktova reported about 1.2k confirmed deaths among civilians in the Kyiv region (oblast).⁶ The Ombudsman for Human Rights in Ukraine Lyudmyla Denisova reported about numerous rapes (including those of children) and tortures.⁷

Considering these atrocities, the huge shock to the Ukrainian economy and on-going Russian invasion in the South and East, the international community must stand squarely with Ukraine.

The nature of the conflict

International support for Ukraine needs to be calibrated carefully to recognise the nature of the conflict. Ukrainians are defending themselves from Russian *conventional* armed forces. Ukraine is using a combination of conventional military state methods and popular, social infrastructure, in which the civic population is drawn on to support and sustain the resistance (for example, through providing intelligence on Russian troop movements). This gives the conflict a 'people's war' character. International assistance needs to be directed towards providing Ukraine with the resources that help it to maintain this civic, democratic resistance. Crucially, it follows from this analysis, that the need to maintain as far as possible the Ukrainian state's capacity to provide critical public goods such as education, health, and so on, is not separate to the war effort but a key part of maintaining the social fabric that forms part of the country's military success to date.

¹ <https://kse.ua/about-the-school/news/zbitki-naneseni-infrastrukturi-ukrayini-v-hodi-viyni-skladayut-mayzhe-63-mlrd/>

² <https://www.economist.com/graphic-detail/2022/04/05/russias-war-in-ukraine-has-caused-at-least-68bn-in-physical-damage>

³ <https://www.worldbank.org/en/news/press-release/2022/04/10/russian-invasion-to-shrink-ukraine-economy-by-45-percent-this-year>

⁴ These figures are not included into the number of damaged objects above.

⁵ <https://en.interfax.com.ua/news/general/818745.html>

⁶ <https://nv.ua/ukr/kyiv/kijivska-oblast-venediktova-rozpovila-skilki-lyudey-zaginuli-stanom-na-10-kvitnya-50232703.html>

⁷ <https://nv.ua/ukr/ukraine/events/viy-na-v-ukrajini-rosiyani-qvaltuvali-ditey-u-kijivskiy-oblasti-50232336.html>

This character of the conflict means that Ukraine is not in a situation of intractable violence like those analysed by the LSE Conflict Research Programme in Syria, Iraq, Afghanistan, the DRC and Somalia.⁸ Ukraine's democratically elected government has a deep and broad-based popular support, which is rooted both in civil society and the maintenance of institutions and social infrastructures. The Ukrainian government rightly recognises the need to protect its social and civic infrastructure in order to maintain effective, coherent resistance.

International economic support is needed on a very large scale to protect and sustain Ukraine's social infrastructure (e.g. public goods like education, health and welfare, and functioning markets underpinned by the rule of law) as well as support the successful prosecution of the war effort.

Urgent assistance is required to help Ukraine's government, civil society and institutions sustain and uphold 'civic life' so that legitimate authority structures continue to function effectively.

Uneven economic situation on the ground

There are three geographical dimensions to the current Ukrainian economy: (a) frontline-areas with heavy fighting, (b) transitional-areas with some fighting, bombing and other war-impacts, and (c) hitherto relatively unimpacted areas where 'normal life' can continue to function. The situation in the most severely impacted frontline areas (a) like Mariupol sees economic activity ground to halt and efforts to get humanitarian assistance is frustrated by Russian forces. In (b) and (c) the situation is different. Here social infrastructure requires a state-led reorganisation to support the war-effort and to ensure economic resources are not permanently lost to conflict.

- 4.5m Ukrainian refugees have left the country as of 11th April⁹ with 6.5m internally displaced.¹⁰ This diaspora retain immediate economic ties to Ukraine and underline the necessity of burden-sharing between the European economy and the Ukrainian. For example, the need to subsidise the exchange rates between the Hryvnia and Euro to support the diaspora illustrates this interdependence and mutual interest.¹¹
- There is a demand shock in the Ukrainian economy. Businesses that provide non-essential goods will struggle to survive and adapt in the new war-economy context.
- As of 22nd March 38% of businesses had shut down.¹² Half of the surveyed business owners reported there was no demand for their goods or services, 38% complained that they have significant issues with logistics. In terms of salaries, 39% of surveyed businesses did not pay salaries, while 29% did not pay to the suppliers. In terms of immediate support, 37% of surveyed businesses requested temporary tax reduction or elimination ("tax holidays"). Businesses shutting down include IT and high-tech firms while those surviving and adapting include healthcare and logistics. According to the industry polls, as of March 29, 46% of IT specialists became internally displaced and 14% of them moved abroad.¹³

⁸ Mary Kaldor et al., 'Evidence from the Conflict Research Programme: Submission to the Integrated Review of Security, Defence, Development and Foreign Policy' (London, UK: Conflict Research Programme, London School of Economics and Political Science, July 2020), <http://eprints.lse.ac.uk/106522/>.

⁹ <https://data2.unhcr.org/en/situations/ukraine>

¹⁰ According to UNHCR as of 8th April. See <https://www.bbc.co.uk/news/world-60555472>

¹¹ See Adam Tooze's blog: <https://adamtooze.substack.com/p/chartbook-103-how-refugees-need-for>

¹² https://gradus.app/documents/188/BusinessInWar_Gradus_KSE_Report_30032022_ua.pdf

¹³ <https://dou.ua/lenta/articles/ukrainian-it-during-war/>

- Ukraine is a major agricultural producer. Exports were worth £27 billion in 2021 and the country is the fourth largest exporter of corn and seventh largest global producer.¹⁴ Currently, farmers are still planting, even in Russian-occupied areas. Despite Ukraine's role in global agriculture, 50% of farming is undertaken by households for subsistence purposes and the impact this will have on economic resilience in war remains uncertain. At the same time, Ukrainian exports are shot down by the Russian navy's blockade, the army's shelling, and the control of the ports by occupying forces (e.g. Russia has blocked 94 vessels with agricultural products in the Black Sea).¹⁵
- Ukraine's economy has already faced negative impacts from post-2014 Russian military intervention which has been reflected in its external debt obligations. \$61bn has been borrowed from foreign lenders since 2014 and the current external debt stands at \$54.3bn. \$7.3bn in interest payments are due this year and payments are currently being made on time. Reflecting the default risk Ukrainian government bonds are trading at around 25 cents in the dollar as they are offloaded by more risk averse lenders.¹⁶

Responding to urgent economic needs

While military assistance is important, it would be a grave historic error (that risks some form of Russian victory) for the international community not to supplement this with rapid economic aid and financial guarantees that support the Ukrainian economy as a whole, protecting its social infrastructure and civic institutions.

International donors must frame their assistance around the reality that Ukraine is fighting a conventional war – not an armed insurgency – and requires sweeping support to uphold and sustain its social infrastructure, not just military aid. Pledges and commitments made to date have not matched this reality and Ukraine is not currently receiving the economic aid it needs.

A relevant historical analogy is the mutual agreements struck between the allies during World War 2, notably the US lend-lease programme and Canada's '1 billion dollar gift' to the United Kingdom. Like today, aid reflected a deep mutual interest in stopping a Nazi/Axis power victory. Creative and suitably updated use of the command planning instruments employed by the Allies during WW2 should also be considered in relation to Ukraine's current economic needs.

Mechanisms need to be designed in order to link immediate war economy needs with sustaining the economic decentralisation that will be required in order to recover in the post-war period. As argued by a group of world leading economists in the *Blueprint for the Reconstruction of Ukraine* the roadmap to rebuild Ukraine should run through three distinct phases:

- i) Emergency response (akin to the response to a natural disaster hitting a country);
- ii) Rapid restoration of critical infrastructure and services to revive the basic functions of the economy and the government;
- iii) Laying foundations for a rapid, sustained growth trajectory.¹⁷

¹⁴ <https://www.fb.org/market-intel/ukraine-russia-volatile-ag-markets#:~:text=Ukrainian%20Agriculture&text=In%202021%2C%20Ukraine%20exported%20more,Turkey%20also%20at%20%241.5%20billion.>

¹⁵ <https://cepr.org/sites/default/files/news/BlueprintReconstructionUkraine.pdf>

¹⁶ Source: Jubilee Debt Campaign

¹⁷ <https://cepr.org/sites/default/files/news/BlueprintReconstructionUkraine.pdf>

Within this context there are a number of key pillars for emergency economic assistance:

- **War-economy reorganisation.** Demand should not be a problem in a redesigned war economy which primarily faces constraints on supply (resources, people, etc.). The war effort will generate demand and the international community – above all, the EU, UK, US and West *per se* – needs to provide all financial support necessary to achieve these ends.
- **Centralisation mechanisms.** Markets cannot make the adjustments necessary on their own in the time required without state intervention. In logistics, procurement and construction the state needs to plan and direct business activity to meet war effort needs.
- **Infrastructure investments.** Logistics and infrastructure can be coordinated centrally but run by businesses on a decentralised basis, thus sustaining functioning markets for the future. Social needs should be rapidly prioritised; for example, investment in quality prefabricated housing in western Ukraine could meet needs of displaced population in a relatively short period of time, investments in roads can help support logistics in light of Russian occupation of / attacks on key maritime trading infrastructure in the south.
- **Agriculture.** Emergency credit for Ukrainian farmers is critical to ensure that planting takes place this year. Agribusinesses should receive materials, machinery, and other aid to ensure they have resources to harvest/store/transport/export crops. Agribusinesses should be prioritized for credits.
- **Critical role of insurance.** The role of insurance is central and cannot be provided effectively by the market given the obvious destruction risks in wartime. The state will need to step in with insurance that effectively underwrites production in key sectors, e.g., protecting farmers to ensure food supply, as well as infrastructure and logistics.
- **Protecting Ukraine's public goods.** In order to ensure the on-going civic character of the Ukrainian resistance and its ability to exercise power – even in extremis conditions of martial law, etc., - with public legitimacy, international economic assistance should be provided to protect and uphold as far as possible key public goods, such as education, welfare and healthcare systems, policing, legal institutions and the rule of law system.
- **Upholding Ukraine's 'intellectual sovereignty'.** Ukraine must be supported in its efforts to defend what they have called their 'intellectual sovereignty' in the face of Putin's war, i.e., ensuring the on-going presence of the country's research and educational sector within the worldwide scientific commons, and providing reach and profile to the country's intellectuals, teachers and researchers in the global community.
- **Massive injection of financial liquidity needed.** To achieve the above aims Ukraine is in urgent need of an immediate and massive injection of financial liquidity in the form of cash / aid – and not more loans. The EU, UK and US should investigate scope for innovative central bank interventions that could support Ukraine's financial position and the Hryvnia. While anti-

corruption guarantees should not be discarded, they should be proportionate to the reality of Ukraine's need to rapidly grow the war economy.

- **Multistakeholder process for sustainable Ukrainian borrowing.** Ukraine needs a mechanism for the suspension of interest payments, which reduces as much as possible downstream risks. It should be agreed rapidly on a multistakeholder basis involving the IMF, World Bank, EU, US and other key actors taking into account the unique situation of the Russian invasion. A long-term public commitment to debt restructuring is also needed based on fair burden-sharing between bondholders and international institutions.



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