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THE Current

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Conflict and Consequence

As tensions between Russia and Ukraine continue to escalate, a bipartisan group of United States senators is coming closer to finalizing legislation that would impose strict sanctions on top Russian officials. Benjamin Cohen, a distinguished professor emeritus and an expert in international political economy, offers some insight on the conflict and its implications for the U.S. and global economy.

The Current: How does the current situation between Russia and Ukraine differ from previous actions Russia has taken against its neighbor?

Benjamin Cohen: What's different is the scale of the threat coming from Russia. Apart from the seizure of Crimea in 2014, previous actions against the Ukrainians have been relatively restrained. Russian intervention has been limited to the small Donbass area in the easternmost region of Ukraine. Western sanctions against Russia, correspondingly, have been relatively limited as well. But now Russia has more than 100,000 soldiers on Ukraine's borders, poised to attack if ordered. No one doubts that if the order is given, the entire country could be overrun in just a matter of days. So, this time sanctions are bound to be far more severe, as President Biden promised. And if Russian President Vladimir Putin retaliates in turn — for example, threatening the Baltic states or engaging in cyberwarfare — the risk of an ever-widening escalation of hostilities is considerable.

TC: What immediate impact does the conflict between Russia and Ukraine have on other parts of Europe and, by extension, the U.S.?

BC: A suspension of Russian gas sales to Europe can be expected, hurting the economy of the European Union (EU), which is our second largest trading partner after Canada. That's bound to hurt both U.S. exporters and, more widely, all U.S. corporations dependent on supply chains across the Atlantic.

At present, the EU relies on Russia for about 40% of its natural gas supply, and alternatives are scarce. A suspension of gas imports from Russia would require all sorts of cutbacks across Europe, from electricity to home heating. The EU economy wouldn't crash, but it would certainly take a hit. Growth would be slowed sharply. That in turn would have knock-on effects on the U.S. economy by depressing sales to Europe. The EU currently accounts for about 15% of U.S. exports.

TC: Are other sources able to fill the gap if natural gas supplies from Russia are cut off?

BC: Unfortunately, no. Across the global gas market, the only areas where there is a potential for substantial increases in production in the short term are in the U.S, in states like Texas and North Dakota. But the issue is getting the increased output to Europe. In the European market, Russia has a natural advantage because it can deliver supply via pipelines, most of which are overland. The only way to get U.S. gas to Europe is by shipping it in liquified form (LNG), which requires more specialized terminals and tankers than are currently available.

TC: Are some business sectors more likely than others to be impacted by an economic slowdown in the EU?

BC: Overall, across the economy as a whole, the impact on the U.S. economy would be moderate. But specific sectors could suffer setbacks because of their heavy reliance on the European market. These include aircraft, motor vehicles, machinery and pharmaceutical and chemical products. Workers in these sectors might face cutbacks and layoffs. Consumers, on the other hand, might benefit from a slowing of price increases.

TC: Are there any actions consumers should take now in anticipation of the broader, resultant impacts the sanctions could have on the EU and, consequently, the U.S economies?

BC: As far as our economy is concerned, we have other more salient threats to worry about, including the ongoing pandemic, inflation, gnarled supply chains and political deadlock in Washington. If Russia does indeed invade Ukraine, our biggest concerns will be not economic, but military. Can we stop an ever-widening escalation of hostilities?

TC: The Russian economy is already suffering, even before any of the proposed sanctions are applied. How likely are they to have their desired effect?

BC: The Russian economy is, indeed, fragile and, for the most part, feeble. Their military sector is first-rate; they are the world's second largest arms exporter after the U.S. But otherwise, their manufacturing base is unable to compete effectively. Their exports are mainly agricultural (especially grains) and carbon fuels (oil and natural gas). If sanctions are as tough as President Biden has been suggesting, Russian companies will be unable to make use of global payment mechanisms, which are highly dependent on the U.S. dollar and access to the U.S. banking system. Export sales will plummet, imports of vital goods will be hampered and Russia's economy will stall.

The real question is, will any of that matter to Vladimir Putin? For Putin, what matters most is geopolitics, not material affluence. Most likely, he would appeal to the nationalism and patriotism of the Russian public. Don't blame me, he will say, it's all the fault of the aggressive West, which seeks to dominate and enslave Russia. We can expect to see his propaganda machinery go into overdrive in an effort to shape domestic public opinion.

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