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War in Ukraine: Scenarios, Outlooks, and Implications for Business

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A Snapshot from Ukraine

Russia's attack on Ukraine has continued to intensify in and around all major Ukrainian cities as Putin moved almost all the forces he had positioned at the border into the country while the use of artillery, rockets, and missiles to attack cities increased steadily over the past weeks. Still, while Russian forces continue to attempt to encircle Kyiv from its western and eastern outskirts, efforts to replace combat losses and deploy additional reinforcements forward are unlikely to enable them to successfully resume major operations around the capital any time soon. On the contrary, Ukrainian forces have reclaimed some ground around Bovary to the east of the capital and remain in control of large areas in its southern periphery.

Although their advance has now significantly slowed following initially rapid gains in the south of the country, with their main goal being the creation of a land corridor between Crimea and the Russia-backed eastern territories, Russian forces continue to make steady progress around the city of Mariupol. But up in the north and north-east their advance continues to be frustrated by Ukrainian resistance. With the initial aspirations for a quick victory now gone completely, Russia's new objective may seem to have shifted toward winning Ukraine's resistance in the east in the hope that Kyiv will surrender its eastern regions in exchange for the end of the war.

However, the contrasts between the southern and northern fronts should not mislead nor cause underestimation of the overall Russian campaign design for Ukraine. The fall of Kyiv remains a key goal and a limited Russian victory in the south alone would still have massive implications for Ukraine, stifling the country's economy while limiting access to western aid flows and weighing heavily on any future peace negotiations. In this sense, the stalemate around Kyiv is more a reflection of the difficulties of Russian forces to take the capital rather than any meaningful shift in their objectives for the conflict.

At the same time, while fighting on the ground intensifies with the possibility of further escalation, multinational efforts to equip the Ukrainian military with anti-tank and anti-aircraft missiles to defend against Russian invaders proceed at high speed while NATO troops have repositioned along the Alliance's eastern flank. But above all, Western economic response – as promised – has been astonishing, and world leaders vow to further punish Russia by continuing to raise the costs of its invasion through wide and deep sanctions for as long as necessary. Therefore, given the scope and severity of sanctions as well as the size of the target – in addition to the tragic human toll – the political, security, and economic consequences of the war stretch well beyond the battleground and will likely reverberate in the global economy for years.

Although the situation in Ukraine remains fluid and the outlook is subject to extraordinary uncertainty, visualizing the war's possible multiple trajectories and outcomes can help navigating such consequences.

Four main plausible scenarios can be envisioned for the end of the conflict, each carrying heavy consequences for Russia, Ukraine, Europe, and the global economy as a whole – and while Russia's main goals seem to be limited to Ukraine for now, the ever-present possibility for miscalculation or a deliberate escalation from either side carries considerable escalatory risks.

A: Ukraine Capitulates

In this scenario, Russia's overwhelming military superiority eventually gets the better of the Ukrainian extraordinary resistance and Putin succeeds in seizing control of the whole of Ukraine despite its fierce opposition. A pro-Russia puppet government is installed in Kyiv while the last pockets of resistance are subjugated by the substantial Russian forces that remain stationed in the country. The war crimes committed to overcome, and subsequently repress, Ukrainian resistance make Vladimir Putin, his regime, and Russia as a whole global pariahs. Russia's economy is completely isolated from the western economic system but is kept alive by the ambivalent positions of some major emerging economies. Moscow faces important economic costs, but Putin manages to solidify his hold on domestic power. A new iron curtain descends in the heart of Europe bringing back familiar Cold War dynamics such as militarized borders, aggressive hybrid warfare operations, escalatory pressures, and chronic insecurity.

B: Regime Change in Russia

By far the least likely scenario, here Putin is ousted from power despite a well-crafted pro-regime narrative of the war in Russia ensured through a crackdown on domestic and foreign media. Small but highly symbolic anti-war demonstrations continue to take place throughout Russian major cities while an increasingly outspoken dissent spreads in the ruling elite, especially among oligarchs, MPs, and powerful industry-leaders who, hurt by Western sanctions, start calling for a ceasefire more frequently and more explicitly. Exacerbated by the stalemate on the battlefield, the domestic turmoil is enough to convince senior intelligence and military officials close to Putin to take action against the President and remove him from office. Faced by the prospect of a long and costly impasse in Ukraine coupled with economic collapse and diplomatic isolation, the post-coup government orders a withdrawal of all troops. Sanctions against Russia are lifted and Ukraine, which survived as a sovereign democracy, joins NATO – as do Moldova, Belarus, Georgia, and Finland. Russia is too weak to make a substantial resistance, while the West re-establishes its global prominence in shaping and leading the international liberal order.

C: NATO-Russia War

Certainly the most dangerous and, fortunately, not the most likely, this scenario sees the conflict in Ukraine setting the stage for a direct, catastrophic military confrontation between NATO and Russia. At present, neither side appears willing to escalate the crisis along these lines. NATO has ruled out the option of imposing a no-fly zone over Ukraine in support of Kyiv due to fears that this would trigger a war, clearly signalling an intention to avoid direct conflict with Moscow. However, a number of pathways could still drag into war the United States and its NATO allies at virtually any moment, such as the exponential worsening of the humanitarian crisis in Ukraine or an unintentional strike of a NATO member's territory from Russia. With Russia's Foreign Minister Sergei Lavrov warning that "World War Three can only be a nuclear war", the impacts such scenario would bring about are unmeasurable. Nevertheless, the West and Russia have already entered an insecurity spiral that is increasing the risk of conventional escalation, which would trigger a larger European conflagration, even if the conflict does not go nuclear.

D: Painful Compromise

This scenario is a plain continuation of what we are already witnessing in Ukraine. The Ukrainian military and civil resistance are able to bring the Russian offensive to a stalemate and hold these conditions long enough to take a toll on Russian military morale and economic sanctions begin to seriously cripple Russia's economy. At this point, both sides feel compelled to accept a painful compromise which perhaps sees Ukraine's eastern enclaves now under Russian control being formally ceded to Russia in return for a cease-fire and the withdrawal of Russian troops. While Ukraine does not explicitly commit not to join NATO, the process is postponed indefinitely. The US and Europe agree to lift all recently imposed economic sanctions on Russia. This scenario brings fighting to an end, but leaves no side fully satisfied – Putin must step back from a substantial geopolitical foray after paying a huge financial and political price, and Ukraine must cede part of its territory and sovereignty while only nominally maintaining its independence. The security situation in Europe does not return to a status quo and, instead, significantly deteriorates.

While a regime change (in a mass mobilization or in a coup) and an all-out war with NATO (sought for or occurring through accident) cannot be ruled out completely, as of now, the most likely scenarios seem to be a **Ukrainian Capitulation** or a **Painful Compromise**. Russia's decision to invade continues to make little geopolitical sense as a decisive movement to realise the state's agenda: even if its troops manage to overrun Ukraine's resistance and depose President Volodymyr Zelenskyy, Putin will still face the challenge of occupying a country of 40 million and install a puppet regime that would face a permanent insurrection, meaning that reaching some sort of **compromise remains the baseline strategy** whether a military victory is eventually achieved or not.

As such, the most likely outcome of the crisis is a scenario where Putin declares mission accomplished, his troops withdraw to the eastern regions of Ukraine under de facto Moscow control, and he then reaches a compromise with the West that is enough to save face back home for having launched a full-scale invasion while achieving the bare minimum – namely that Ukraine will not join NATO, for now.

Confidence

At the same time, confidence in this outlook remains limited given how President Putin has proven unpredictable thus far. For any forecast to be meaningful, it is necessary to assume Russia's leadership will act rationally; this assumption is not at all to be taken for granted. Up until the attack on Ukraine, Putin had behaved like a perfectly rational actor. He had been very careful to always stay in the "grey zone" and was able to either blame proxies (Donbas, 2014) or use self-defence arguments (Georgia, 2008) whenever he passed the threshold of the use of force as in the UN Charter.[ii] The recent invasion of Ukraine marked a significant change in behaviour, which makes forecasting Russia's military statecraft particularly difficult.

Short term outlook

In the short term, regardless of which scenario will eventually materialize for the end of the crisis, Putin will continue pushing through with his offensive. Moscow will most likely escalate military operations to secure its territorial advances and try to take the capital.

Kyiv will likely continue to be besieged, with Russian forces making further advances in southern and north-eastern areas. The battle for the capital, however, is likely to be a protracted effort unless Russian troops are able to demonstrate the ability to launch a more concentrated and coherent attack. Thus far, they have not shown this ability.

Escalation will certainly be characterized by a greater use of indiscriminate attacks which will cause an increased number of civilian casualties, significantly worsening the humanitarian crisis. Greater conflict will cause greater supply chain disruptions and widespread shortages to key commodities, with shipping insurance rates also rising significantly.

Medium term outlook

In the medium term, even if he takes Kyiv sooner than later, Putin loses. Russia lacks the forces – and perhaps the will – to occupy Ukraine in the face of the restless armed opposition and civil rebellion. The only thing that Russia's offensive has so far achieved is: reinforcing NATO, awakening Europe, isolating Russia, ruining its economy, and alienating many Russians from the global stage, including Putin's friends, political allies, and even the army. For all such reasons, increased instability within Russia's own borders is a possibility that becomes more and more likely as long as the conflict in Ukraine continues.

On the other hand, in light of the heavy sanctions and military support given to Ukraine from the West, more drastic actions from Russia beyond Ukraine – including cutting off energy supply, cyber-attacks, disinformation campaigns, and harassing of ships and planes around borders, which are dangerous and escalatory in nature – can be expected for the coming weeks.

Long term outlook

On the longer term, Russia's economic isolation will have dramatic repercussions for the already fragile global economy with sanctions, at this scale, changing the very nature of globalisation and private-sector decision-making itself in major ways.

Moreover, the way the crisis ends will inform, or confirm, the new global geopolitical configuration of the next decade. Any compromise with Russia, which seems the only viable option, will manifest the return to a multipolar world order marking the end of more than three decades of American hegemony and unipolarity.

Such a shift in the geopolitical situation will prompt countries and global companies alike to re-evaluate their policies as well as their very position in the world. A multipolar global order will, in all likelihood, see a significantly change in the means of

ii Crowther, A. (2022). Putin Erraticus. Center for European Policy Analysis. Available at: https://cepa.org/putin-erraticus-and-united-allies-supporting-ukraine/.

First and foremost, the crisis in Ukraine is a humanitarian one – arguably the worst in Europe since the 1990s. But outside of Ukraine, the crisis is promising severe economic consequences. Besides the immediate impacts on both Ukraine's and Russia's economy caused by the war, sanctions are impacting the global economy well beyond Russia in various ways including, but not limited to, currency and equity markets volatility, commodity shocks, and rising inflation – which in turn increases a whole range of political risks globally, especially in commodity-importing countries.

While it is still early to speculate what the overall economic impact of the invasion will be – which will depend on the duration, extent, and escalation of the conflict, sanctions, and economic disruption – higher consumer prices, soaring inflation, and increased uncertainty, which combined mean a reduction in households' real incomes and consumption, will limit global economic output.

Direct impacts of financial sanctions

The main instrument in the West economic warfare against Russia has so far been the **weaponization of the global financial system**. Selected Russian banks have been cut off the international payments system SWIFT while almost two thirds of the Russian central bank's foreign assets have been frozen (in the form of financial assets in commercial banks or deposits in other central banks).

The two measures combined caused immediate and severe impacts on the Russian economy, currency, and monetary policy, with the ruble tumbling about 30% and the central bank doubling interest rates to 20% and imposing controls on payments abroad. But globalization means that such moves can only cause damage both ways, and the impact of sanctions is reverberating internationally.

Sanctions are significantly reducing Russia's **trade volumes**, particularly imports – most notably by making payments for international transactions difficult and hurting spending capacity of Russian businesses and households – while also including an explicit ban on the export of 'dual-use' goods and technology to Russia. Moreover, global firms are experiencing **logistical issues** in getting goods to and from Russia.

Overall, the risk of direct financial contagion from a Russian financial crisis to advanced economies is negligible because the rest of the world has relatively little direct exposure to the Russian financial system.

In the longer term, sanctions through the weaponization of financial interdependence could lead to the potential fragmentation of the global financial system.

Moving forward, even more targeted measures in a new round of sanctions can be expected to have substantial consequences for the Russian banking system and the country's economy more broadly. Moreover, uncertainty over the future inclusion of additional banks, and possibly non-financial corporates, is already having important consequences – and the list of targeted institutions will most likely grow as the crisis is expected to escalate further.

Corporate exodus

International businesses are **withdrawing from Russia** due to reputational concerns, as well as the difficulties imposed by current and future sanctions and deep uncertainty about Russia's economic future.

So far, more than 300 companies have already either suspended or scaled down their operations with or within Russia, among which Amazon, Apple, Volkswagen, Toyota Motor, McDonald, IKEA, and Samsung Electronics, just to name a few. There are currently only less than 40 companies with significant exposure to Russia that have yet to curtail their operations within the country.[ii] Hydrocarbon companies have announced their intention to end joint ventures and partnerships with businesses associated with the Russian state, including BP, Shell, Equinor, and Total. Manufacturers have also announced that they are stopping shipments to Russia while many law and consulting firms are severing ties with Russian clients.

Some companies, as well as their shareholders, could make large losses, for instance through large assets write-offs and a conspicuous reduction in revenues and/or global production – depending on companies' industry and exposure to the Russian market. These actions will likely hurt individual firms and investors, and potentially some sectors entirely, but their wider impact will not be as impactful as, for instance, sanctions relating to energy supply.

Most recently, Russia's government approved the first step towards **nationalising assets of foreign firms** that leave the country in the wake of economic

ii Yale School of Management. "Over 300 Companies Have Withdrawn from Russia - But Some Remain." Available at: https://som.yale.edu/story/2022/over-300-companies-have-withdrawn-russia-some-remain.

sanctions over Ukraine.[iii]

Energy and commodity shock

While, as said, the global impact of sanctions will be limited, the most serious implications for the global economy will come in the form of higher energy and commodities prices due to concerns around supplies, the destruction of physical infrastructure, and sanctions. Even if the EU and the US choose not to impose any ban on Russia's oil and gas, prices for hydrocarbons, metals, and grains will still hike.

Gas prices have risen by more than 50% in the last week, on top of a fivefold rise last year, and will continue to rise through 2022. 40% of the gas imported by the EU is supplied by Russia, with figures climbing to much higher rates for Eastern and Central European countries, and to 80% for Poland, 50% for Germany, and 40% for Italy. This will affect all European economies, and the same is true for higher oil prices.

Oil prices have jumped more than 30% since 24 February, touching $139 a barrel this week, to settle at around $116 at time of writing. Prices will remain firmly above US$100 per barrel as long as the conflict continues. Moreover, the threat of sanctions on Russian hydrocarbon exports and uncertainty surrounding supplies will exacerbate existing market tightness pushing prices further up.

Prices for base metals, including aluminium, copper, nickel, platinum, palladium and titanium, of which Russia is a major producer, will remain at peak levels as long as war rages in Ukraine after having surged significantly last year due to supply chain disruptions. This will have a substantial impact on global industrial sectors as these metals are used in the manufacture of cars, electronic equipment, and aircraft.

Prices for agricultural commodities, particularly wheat, will also increase as Russia, and to a lesser extent Ukraine, are major exporters and, together, account for more than 25% of the global wheat trade. Disruptions to trade routes in the Black Sea could cause shortages of wheat and rising food prices which, in turn, could unleash social tensions across emerging markets, as occurred in 2010.

Supply chain disruption

Possible destruction of transport infrastructure, difficulties affecting land-based trade routes, restrictions on air links, and the cancellation of sea freight routes from Ukraine will compound existing supply-chain issues inherited from the coronavirus pandemic Leading to growing shortages of key components. Moreover, financial sanctions on Russia will also impact trade and supply chains, with global companies struggling to find financial channels to process payments and trade with Russia.

Rising inflation

Soaring energy and commodity prices will add to **inflationary pressures** from supply chain disruptions and post-pandemic recovery measures this year and possibly in 2023. The rise in inflation is likely to be so marked to offset the positive impact of higher commodities prices for producers.

Central Banks, who had already announced plans for or started **monetary tightening** policies to curb inflation, are now rushing to end stimulus showing how policymakers across developed economies are most worried about inflation jumps despite a potential growth hit from on the post-coronavirus recovery the conflict in Ukraine.

Pre-invasion, the European economy was starting to pick up steam compared with the US, but that is likely to end with a war that may act as a global **stagflationary shock**, with Europe being the most exposed region.[iv]

Heightened geopolitical risk

The conflict is also generally increasing geopolitical risk, which will likely contribute to further hurting economic performance, particularly industrial production, employment, and trade.

Uncertainty over future economic conditions – particularly due to fears of a further escalation of the conflict outside of Ukraine but also, more immediately, of new rounds of harsher sanctions against Russia – is causing global companies, investors, and consumers to adopt a more cautionary approach, holding back on or delaying investment and consumption plans. Uncertainty over such potentially large-scale war and fears over worst-case scenarios are thus significantly amplifying renewed economic disruption by compounding it with falling consumer confidence and household spending.

Moreover, the impacts of sanctions on the global economy and financial markets have a **significant spillover** effect to other countries, where the crisis is creating an adverse shock to both inflation and activity. Amid monetary tightening, fiscal policy will try to address rising prices to support vulnerable households and help offset the financial squeeze. The crisis is thus likely to create **complex policy compromises and further complicate the policy landscape** at times when the global economy is still in full recovery from the pandemic.

Global food security and political instability

With most experts anticipating a prolonged period of geopolitical tension with elevated prices and risk premiums across commodities and foods sourced from Russia and Ukraine, emerging markets are the

iii Washington Post. "Russia considers nationalizing Western businesses that have closed over Ukraine invasion." Available at: https://www.washingtonpost.com/business/2022/03/10/russia-nationalize-foreign-business-ukraine/.

iv Stagflation happens when the economy is experiencing both economic stagnation and high inflation.

most exposed to the resulting political instability that may ensue – especially in **Africa and the Middle East.**

While price shocks exacerbating pre-existing problems with global grain supplies will have an impact worldwide, especially on poor households for whom food and fuel see a higher share of spending, higher prices will be felt particularly across North African and Middle Eastern countries where **food insecurity** is a constant threat and where spikes in food prices are traditionally linked to **increased social unrest and conflict.**

Spiralling food and energy costs may destabilize countries such as Turkey, Egypt, Algeria, and Tunisia, flaring widespread public anger particularly in relation to **the price of bread**, which is a politically charged commodity. Morocco, which is comparatively less dependent on cereal imports than other countries in the region, is also exposed as it is facing its worst drought in three decades. Finally, in conflict-affected, fragile states where famine is an ever-present looming threat such as Syria, Yemen, and Lebanon, the crisis may further aggravate already **dire humanitarian conditions.**

Economic recession

While the economic impact of the conflict will be felt mostly in Ukraine and Russia, with both experiencing sharp recessions this year, and by those eastern European countries that are most exposed to trade with Russia, Europe as a whole will take a significant hit from the combined energy, supply-chain, and trade shock.

Russia – which accounting for just less than 2% of global GDP but also bears systemic importance in certain sectors of the global economy – will likely suffer a financial crisis and acute economic recession as a direct consequence of Western sanctions.

Ukraine – in addition to the human toll – is experiencing substantial economic damage. Critical transport infrastructure including roads, bridges, seaports, and airports have been closed, damaged, or destroyed. While it is too early to take stock yet, it is clear that Ukraine will face significant recovery and reconstruction costs.

The war in Ukraine and the associated sanctions imposed on Russia, however, are likely to **slow global growth**, according to the IMF – of how much depending on the outcome of the war and how long sanctions remain.[v] Some indications in this sense come from **yields on US government debt** maturing in two years' time – with the yield-curve flattening being one of the most reliable indicators of an impending recession of recent history – that are now trading less than 30 basis points below notes maturing in ten years, the narrowest spread since the pandemic erupted worldwide in early 2020.[vi]

Recession risks due to the combination of supply disruptions, rapidly rising prices, heightened business and household uncertainty, and slowing growth in output and employment are **magnified in Europe** due to the region's economic integration with both Ukraine and Russia and given its greater exposure to soaring gas prices. Here, **emerging markets** will be affected less than advanced economies.

At the same time, higher public spending to absorb the inflow of asylum seekers from Ukraine and to bolster military spending – which is where NATO countries seem to be heading – will **partially offset adverse effects on Europe's GDP**, though both are likely to add to pressure on resources and therefore inflation.[vii]

v Georgieva, K. "Transcript of IMF Media Roundtable on Ukraine". March 10, 2020. Available at: https://www.imf.org/en/News/Articles/2022/03/10/tr031022-transcript-of-imf-media-roundtable-on-ukraine.

vi Kemp, J. "Column: Global recession risks rise after Russia invades Ukraine". Reuters. Available at: Column: Global recession risks rise after Russia invades Ukraine | Reuters.

vii National Institute of Economic and Social Research. "The Economic Costs of the Russia-Ukraine Conflict". Available at: The Economic Costs of the Russia-Ukraine Conflict - NIESR.

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