

ECONOMIC SECURITY OF UKRAINE DURING THE WAR: RISKS, POSSIBILITIES AND GUARANTEES OF SECURITY

Shpachuk Vitalii

*Doctor of Science in Public Administration, Professor,
Newcastle University Business School:
Visiting Professor,
Newcastle upon Tyne, United Kingdom*

Getmanenko Oleksii

*PhD in Economics,
Associate Professor of International Economic Department,
State University «Uzhhorod National University»*

The economic security of any country is a key component of its national security, which ensures the sovereignty of the economy and the state itself. The first significant blow to the economic security of Ukraine, related to military actions, was inflicted in 2014 as a result of Russia's occupation of the Crimea, as well as hostilities in some parts of the Donetsk and Luhansk regions. The next blow was struck on February 24, 2022, in the form of a full-scale military aggression, which continues to this day and has turned into a protracted war of attrition.

As a result of such actions on the part of Russia, significant risks and challenges were caused to the economic security and economy of Ukraine both in the short-term and in the long-term. Among the main factors that provoked a significant deterioration of the economic security of Ukraine, the following should be highlighted:

- deterioration of the demographic situation and a significant reduction of human resources both as a result of deaths during the occupation and participation in military operations, and as a result of the forced emigration of a part of the population outside the country or displacement within the country;
- receiving international aid mainly in the form of loans;
- destruction of assets that were involved in the functioning of the economy, life support of the population;
- destruction of critical infrastructure facilities;
- the depletion of financial reserves of the state, population and business, the growth of economic disparities that formed during the war period: the allocation of funds mainly to military purposes, rather than to the development of the state, a significant increase in external and internal state debt, etc.;
- Russia currently occupies about 20% of the territory of Ukraine, which includes a significant part of the Kherson, Zaporizhzhia, Donetsk, Luhansk

regions and the Crimea (in 2014, Russia seized about 7% of the territory of Ukraine),

- the occupied territories contain significant deposits of metals, minerals and energy resources worth more than 12 trillion. dollars USA – 63% of coal deposits, 11% of oil deposits, 20% of gas, 42% of metals and 33% of rare earth and other important minerals, among which lithium is also present [1].

The effect of these factors was a significant decrease in the level of Ukraine's GDP. In 2021, the GDP of Ukraine, according to IMF estimates, was \$200 billion and it was the 56th indicator in the world, with the start of the war in 2022, the economy of Ukraine decreased by a third and continues its decline [2].

Among the potential triggers of increased risks of economic security, the following should be highlighted:

- a constant decrease in the capacity of the budget system, and sometimes the inability to ensure the implementation of planned expenditures;
- growth in the negative balance of the trade balance;
- a decrease in the competitiveness of Ukrainian manufacturers as a result of prolonged underinvestment, stopping of innovations and increasing additional costs;
- deterioration of the economy's ability to ensure food security as a result of negative processes in the agricultural sector;
- excessive influx of imported consumer and industrial goods;
- the negative impact of the consequences of the war on ecology and the environment.

It is in such conditions, with a constant increase in the level of risks, losses and other threats, that the functioning of the Ukrainian economy and business takes place, and efforts are made to maintain at least the minimum level of economic security of the state. At the same time, it must be taken into account that it is impossible to completely avoid the risks and threats caused by the ongoing war. As a result, many enterprises were forced to either cease their activities due to occupation, loss or damage of assets, or to relocate their production or change their specialization.

At the same time, despite the ongoing war, Ukraine remains a country with huge opportunities and potential, which can be attractive to any business and investor, whether in agriculture, energy, infrastructure, tourism, manufacturing, etc.

Among the advantages and opportunities of continuing or starting a business in Ukraine, the following should be highlighted:

- favorable geopolitical location of Ukraine;
- an accessible labor market and a large number of skilled labor who lost their jobs due to the destruction and/or relocation from the occupied territories, returned to Ukraine after forced emigration due to military aggression and are looking for work;
- significant amounts of various minerals and low prices for raw materials, which makes the processing and production of goods in Ukraine profitable;

- abolition of duties and quotas on Ukrainian exports and «transport visa-free» with the EU and other countries;
- availability of inexpensive electricity, which is absolutely necessary to maintain the required level of business competitiveness;
- rapid adaptation of business to functioning in complex and rapidly changing conditions.

However, even with the presence of these and other advantages, in order to successfully use them, Ukraine, as well as business and investors, need long-term security guarantees.

In such a difficult situation, real long-term effective security guarantees from external partners are extremely possible for Ukraine. At the same time, these guarantees should apply not only to the military and security sphere, but also to the financial sphere.

Regarding the military and security sphere, Ukraine today:

- the International Working Group on Security Guarantees for Ukraine was formed, and in 2023, the leaders of the Group of Seven (G7) countries agreed on the sidelines of the NATO summit in Vilnius on the «Joint Declaration of Support for Ukraine» (Joint Declaration of Support for Ukraine) in the field of security and economy;

- 8 bilateral security agreements were signed: with Great Britain, Germany, France, Denmark, Canada, Italy, the Netherlands and Finland.

In addition, there is an opportunity to sign similar agreements not only with the G7 countries, but there is an opportunity to go beyond the G7 and sign such agreements with 30 countries.

However, they can hardly be called real security guarantees, most of all it looks like certain temporary security configurations, formal documents, like the Budapest Memorandum on Security Guarantees in connection with the accession of Ukraine to the Treaty on the Non-Proliferation of Nuclear Weapons in 1994. There is a high probability that these agreements may repeat the fate of the Budapest Memorandum.

Ukraine is unlikely to receive guarantees regarding joining NATO, and the issue here is not so much Ukraine's compliance with NATO standards. Cyprus has also not yet been accepted into NATO because part of its territory is occupied, and no one in the bloc wants to fight with Turkey, which is a member of NATO. Therefore, Ukraine's accession to NATO is possible only if the alliance countries are ready for a direct military conflict, a confrontation with Russia.

Ukraine also needs guarantees of long-term financial support from international partners with a minimal share of credit funds. Foreign aid is a key element of the economic model currently operating in Ukraine. Foreign aid directly finances welfare payments and indirectly helps finance military payments because it starts the economic cycle in the economy and allows domestic taxes to be collected to finance the military. If there is no financing

of social costs at the expense of foreign aid, domestic consumption will be significantly reduced, and with it, taxes to finance the army will be proportionally reduced.

In the absence of external financial assistance in 2025, real destructive consequences will be felt in Ukraine. That is, even then, hyperinflation, a decline in the economy, and delays in social payments are possible. And then Ukraine can switch to a card system, when state employees will not be given salaries, but some food packages or cards, so that people simply do not die of hunger. And although this can be considered an apocalyptic scenario today, it is absolutely real if there is not the necessary amount of foreign aid.

And here the agreements on security guarantees already concluded by Ukraine could be useful. The main benefit of these agreements for Ukraine is that they present a certain clear algorithm of assistance: finances, weapons, sanctions against Russia, political actions and potential joint projects in the field of the military-industrial complex.

If the credit component continues to prevail in the external financial support of Ukraine in the existing extremely difficult conditions, this support will turn into the earning of funds by international partners in the war. At the same time, this applies not only to partner countries, but also to international institutions, for example, such as the International Monetary Fund.

Also, the issue of Ukraine receiving funds in the form of tax revenues from blocked Russian assets has not been resolved. There is still no mechanism for remittance of taxes from Russian assets received by European owners. It can be stated, that this mechanism is in process of searching.

References:

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