The geopolitical impact of the conflict in Ukraine

Five trends to help businesses manage the potential risks to global security and prosperity.

The world has been watching the events unfold in Ukraine with apprehension, dismay and fear, and the attack has shaken the foundations of our international peace and security system. It has caused a large humanitarian crisis and is wreaking havoc on an already fragile global economy, which was just managing to slowly recover from the disruption caused by the pandemic.

The common hope, and absolute priority, is the safety of those directly impacted and a swift return to peace and stability. But since it's difficult to predict a diplomatic breakthrough or any significant military de-escalation in the short term, sanctions are likely to continue — and expand. And while the conflict in Ukraine isn't the only security emergency the world is facing, it's impactful because of the far-reaching effect it's having on global security and prosperity.

Assessing the conflict's global impact

The impact of the conflict in Ukraine is likely to be felt by businesses, consumers, governments and communities across the world in many ways.

1. The crisis in Ukraine is threatening the core principle underpinning the post-World War II international peace and security order, enshrined in the Charter of the United Nations — namely the prohibition of the threat or use of force against the territorial integrity or political independence of any state. Reports of potential conflict escalation with NATO, including threat of nuclear warfare (however small the chance), are reminiscent of a bygone era of power politics. As of mid-March 2022, more than two million refugees have fled the country, according to the UNHCR, and forecasts indicate as many as five to ten million will leave in the coming months if the military offensive continues.

2. The economic sanctions imposed by NATO allies and other countries have been swift — and unprecedented in terms of scope, scale and severity. But they could be considered a double-edged sword and may cause significant disruption to the wider global economy as well. The crisis has caused a profound rift between the Russian government and the West not seen since the Cold War era. In a global economic climate characterized by high inflation, including rising energy costs, supply chain disruptions and other economic hangovers from the pandemic, the crisis is adding to market instability and price volatility.

The conflict and the impact of the sanctions are causing commodity chaos. Energy prices are expected to remain at an all-time high for quite a while. What's more, food supplies and other key input products (e.g. nickel, potash, aluminium and palladium) that service a range of industries are also heavily impacted.

There's a significant risk of economic contraction in Russia as the ruble collapses, the Russian central bank struggles to access foreign currency reserves and the Russian government risks defaulting on dollar bonds. Reports from Eurasia Group indicate a possible 10-percent contraction of the Russian economy and a one-percent reduction of global growth as a result of current sanctions. (It's also important to note that this is a baseline, and things could get worse if secondary sanctions are imposed.)

Five key trends

No one has all the answers, but the business community is working quickly to gather intelligence and find appropriate ways to respond to the crisis, focusing on a peaceful resolution as a key priority. Overall, there are five major trends coming out of the crisis that require increased attention by organizations and businesses.

1. People's security is the priority

It's important to prioritize your people, especially for businesses and organizations with a presence in Ukraine. Efforts to preserve the physical security of employees should be paramount, including facilitating the evacuation or relocation of Ukrainian citizens who can leave. For companies with a significant employee base in Russia, deciding whether to cease operations will no doubt be difficult.

We see businesses around the world providing direct humanitarian assistance to those affected and to support NGOs and UN agencies on the ground. It's also important to help ensure the physical and mental well-being of Ukrainian and Russian employees located in other parts of the world. Even outside the areas directly affected by the conflict, it's natural for employees to be distressed and its impact will be felt differently by each employee. As an employer, it's an opportunity to support employees and remind them of any well-being and mental health resources that are available.

2. Heightened cyber risk

We're seeing actions and cyber security threats against entities mainly in Ukraine, including denial-of-service and malware attacks to disrupt the cyber infrastructure. But countries targeting the Russian government with sanctions or offering public support for Ukraine could be caught in tit-for-tat retaliation and face the risk of similar cyber attacks — which could affect financial and other critical infrastructures as well as IT systems.

The bottom line is there's a heightened cyber security threat globally. All organizations should be moving to a position of heightened alert when it comes to cyber security and protecting their most critical assets. Building cyber security plans and resilience is quickly becoming a number one priority across many organizations — and should be seriously considered.

3. Sanctions compliance

Many countries have announced a rolling program of sanctions, including asset freezes and prohibitions on transactions — with changes coming on an almost daily basis. Many businesses, especially those in the financial sector, are focused on making sure they have taken the necessary steps to ensure they comply with local legal sanctions in their geography.

Some jurisdictions, including the EU and the UK, have adopted new export controls regimes to mirror US rules. Some products will require export control measures to have been complied with before goods, services or technology may be exported to, or used in, Russia. The one key question organizations should ask themselves: "How well mobilized are we with our systems and processes to be confident we're applying and adhering to the legal sanctions across our organization?"

4. Supply chain potential impact

As we've emerged from a fragile economic situation caused by the pandemic, the combined effect of the sanctions and the disruptions caused by the military action may put more strain on recovering supply chains. We've already seen the impact on fluctuating oil prices, and delays in the procurement of basic metals like nickel, aluminium and palladium could hit industrial production and the wider supply chain. Due to a shortage of components imported from the region reliant on highly integrated production chains, other disruptions are likely.

For example, Russia and Ukraine account for one-fifth of all global wheat production and 70 percent of sunflower oil exports. These are critical inputs for agri-food businesses across the world, and they could soon feel the supply crunch. Countries like Algeria, Egypt and Nigeria are some of the largest importers of Russian and Ukrainian food staples, and this may have an outsized impact on their populations. In fact, the rising cost of staple foods was one of many precipitating factors that led to the Arab Spring uprisings nearly a decade ago — so one potential risk factor is more populist uprisings and protests against food price hikes in certain developing countries.

What can businesses do? First, they should help develop the economies and communities impacted by the crisis and facing food shortages. They should then focus on building their supply chain resilience and communicating with all the points in their supply chain to assess their exposures and develop strategies to mitigate them.

5. Living your ESG values

The room for businesses to be apolitical is shrinking. Companies are being forced by a mix of public, investor and reputational pressure to take a stance on the crisis in Ukraine — which may test their commitment to their organizational values and to doing things not necessarily driven by economic gain. Given the global response and the power of both traditional and social media, several multinationals have already taken unilateral action to boycott or divest themselves of activities in Russia.

This is indicative of a broader trend we identified earlier in January, where ideological, cultural and political rifts across and within nations are forcing business to make difficult choices that may make or break market development opportunities. More than ever, businesses are looking to spend more money, resources and efforts to navigate political hazards, and the current crisis is truly testing an organization's commitment to its values and the environmental, social and governance (ESG) agenda.

Following the signposts

Unfortunately, no one can predict how long the conflict will last and how soon we can return to an acceptable level of stability. As wartime leader Winston Churchill reminds us, *"Never, never, never believe any war will be smooth and easy, or that anyone who embarks on the strange voyage can measure the tides and hurricanes he will encounter. The statesman who yields to war fever must realize that once the signal is given, he is no longer the master of policy but the slave of unforeseeable and uncontrollable events.[1]"*

Notwithstanding the uncertainty, some of the key signposts to watch for include: the effectiveness of the coordinated sanctions, the marginal changes in the diplomatic position of the parties involved in the conflict and the progress (or lack thereof) of the negotiations, the military situation on the ground and the effectiveness of Ukraine's resistance. Above all, the desire for peace to prevail can and should be unequivocally communicated by all those who have a voice.

[1] Churchill on War — International Churchill Society (winstonchurchill.org)

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