# On The Horizon:
# An Economic World War III

By Dr. Roudi Baroudi

Actual hostilities in Russia's invasion of Ukraine have thus far been limited to those two countries, but to many around the globe, devastating consequences of the ongoing crisis are already beginning to qualify as an economic third world war.

And as usual, it is the poor who suffer the most. With the onset of climate change, other armed conflicts, and a global pandemic having already narrowed food supplies, snarled logistic chains, and driven up prices, malnutrition and outright starvation have been stalking much of the developing world for several years. The Russia-Ukraine war made matters even worse, not least by severely disrupting grain, energy, and fertilizer markets. In addition, Ukraine accounts for almost 50% of two key vegetable oils global production, sunflower and safflower, crucial staples in the diets for billions, with war choking off exports. A deal has just been struck to allow Ukrainian grain shipments to resume via the Black Sea, but the following day saw Russian missiles strike Ukraine's primary maritime export facilities at Odessa.

With these developments, all these commodities – and countless others derived from them – have become significantly more expensive, threatening the worldwide recession outbreak that could trigger full-fledged famines in dozens of countries. Tens of millions of people in Yemen, Somalia, Ethiopia, Lebanon, and other places are already heavily dependent on food aid, and from the Caribbean and South America to both North and sub-Saharan Africa and several parts of Asia, basic nutritional sustenance is approaching the limit of affordability for hundreds of millions more. Even in wealthier places like North America and Western Europe, people of modest means are struggling to make ends meet for their families.

Unless solutions are found to this crisis, this is just the beginning. Canada, the United Kingdom, and other post-industrial societies face inflation levels not seen in 40 years. New outbreaks of Covid-19 have brought China's economy to a virtual standstill, and even middle-class households in Europe may not be able to heat their homes in the coming winter due to price hikes and/or supply shortages stemming from Europe's boycotts of Russian energy products and Russia's retaliatory reduction of deliveries. Several European governments are already devising new subsidies to help low-wage earners afford necessities like petrol and electricity, prices that have risen even more dramatically than other goods and services. But these are palliatives, not cures, and with the EU now calling on individual countries to lop an additional 15% off their gas consumption beginning in August, the problem is expected to keep growing.

Think this crisis won't affect you? Think again.

The global economy is more interconnected than ever before, and while supporters of globalization have long proclaimed that interdependence makes the world a safer place - safer by preventing armed conflict - the Russia-Ukraine war has turned that argument on its head. Europe's attempts to punish Moscow by reducing Russian energy imports appear to at least partially backfire, mainly because while Germany and other EU countries have previously benefited from years of comparatively cheap gas prices thanks to Russian pipelines, they also have failed to maintain sufficiently diverse sources of supply. The resulting half-measures have served largely to drive up electricity and transport costs, allowing Russia to keep earning significant revenues while eroding living standards, inflicting social pain, and fueling public discontent across the EU.

In parts of the world where food insecurity is already a clear and present danger, the unrest and political instability are far more volatile, a fact made clear by the popular revolt that recently overthrew Sri Lanka's government. To a certain extent, the crisis also contributed to the downfalls of the British and Italian prime ministers and continues to fuel widespread anger against governments in other countries as well. It is not surprising then, that despite Western leaders' demanding other governments to follow their lead by sanctioning Russia, those in China, India, and many other countries have preferred to keep their options open. Some simply refused to join the embargo, while others publicly agree and quietly continuing to purchase Russian oil, coal, and metals at fire-sale prices.

In addition to sociopolitical pressures, the crisis also threatens to exacerbate an even more existential peril by undermining commitments to reduce the carbon emissions that cause climate change. Unfortunately, in today's context, Europe has little choice but to pull out all the stops to compensate for reduced supplies of Russian oil and gas. For instance, Germany and other European countries have halted plans to phase out their nuclear sectors, while France is even expanding its fleet of reactors, already the continent's largest.

While there is opposition to such decisions, at least nuclear plants don't contribute to climate change. However, the same cannot be said of coal-fired generating stations, and the energy crisis is forcing several jurisdictions to keep relying on these dirtier facilities to keep the lights on and limit price increases. Some good news is that more households around the world are installing domestic solar panels and wind turbines, with the EU leadership calling for massive investments in renewables, but the former is a drop in the bucket and the latter is still a policy plan rather than an operant construction program.

Put all this together, and yes, the Russia-Ukraine war is indeed imposing significant – in some cases crippling – costs on virtually everyone alive today. In addition to food and energy, global commercial insurance premiums also rose – by an average of 11-12% - in the first quarter of 2022, and of necessity, those added costs will be also passed on to consumers. Unless the situation improves, the resulting deprivations could well match those of another world war in both severity and duration. The importance of cheap and plentiful food is self-explanatory, and the price of virtually all goods and services is at least partly a function of energy costs (and, to a lesser extent, insurance costs). To be sure, plenty of efforts are under way to ease pressures, but so long as the war continues, and even for some time after it ends, there will be no quick fixes.

Germany, for instance, has moved to radically expand its capacity to receive liquefied natural gas and signed a long-term partnership with Qatar, the world's largest and most reliable exporter of LNG. Efforts to increase supplies are under way elsewhere, too: Greece has begun the process of tripling its regasification capacity, Italy is moving to increase gas imports from Algeria, and Europe has already secured additional gas deliveries from the United States, the UK, Norway, and Azerbaijan. But while the floating regasification units Berlin is counting on take less time to build than onshore ones, it will be many months before these facilities are up and running, and other measures also have significant lag-times. In another lane, the U.S. President Joe Biden has been pressuring Saudi Arabia and other Gulf oil producers to ramp up their production to calm market fears and reduce crude prices, but thus far the effects of this effort have been limited. France is centering its outreach on the United Arab Emirates, but the fruits of their collaboration will take years, not months, to ripen.

For everyone, everywhere, inflation is a mortal enemy that must be dealt with. The worldwide slowdown engendered by the Covid-19 pandemic has been followed by all manner of inflationary and recessionary pressures, with a recent study by the Pew Research Center finding that in 37 out of 44 advanced economies, inflation rates had at least doubled over the past two years. By some measures in some major economies, rates have more quadrupled.

Now the Russia-Ukraine war has expanded the problem by several orders of magnitude. The United Nations' Global Crisis Response Group recently published its second report on the Ukraine war's impact on three key areas – food security, energy, and finance – and UN Secretary General António Guterres warned that in addition to the suffering on the ground, "the war is threatening to unleash an unprecedented wave of hunger and destitution, leaving social and economic chaos in its wake." According to the study, some 1.6 billion people are already directly exposed to one or more elements of the crisis, with 1.2 billion facing a "perfect storm" of all three.

The last time the global economy faced a similar crisis was in the 1970s, when soaring oil prices led to years of stagflation – a combination of low growth and rising prices – that took a decade to overcome. If price increases are not reined in faster this time, we won't have the resources to make the necessary investments to battle climate change, and the results could be catastrophic.

While the US Federal Reserve, the Bank of England, and other central banks have jacked up interest rates to control inflation, a much more vigorous campaign is required. Luckily, we are not without tools to accomplish this. Near the end of World War II, dozens of countries banded together under the 1944 Bretton Woods Agreement, creating the world's first system for stable economic and financial relations among nation-states. Over the decades since, this network has added both more member states and developed the capabilities of dedicated institutions, especially the IMF and the World Bank.

These mechanisms are usually applied on a country-by-country basis, but there is also recent precedent for global-scale interventions: in response to the financial crisis of 2008-2009, central bankers around the world acted in concert to rescue debt-laden banks and insurers, buy up toxic assets, and restore confidence. Total meltdown was averted, but even with this unprecedented effort, much of the world suffered several years of what came to be known as the Great Recession.

If ever there were a time for a repeat of that performance, this is it. The damaging ripple effects of weaker growth and mounting inflation are destabilizing economies around the world, already pushing several of them into recession**.** Calming the waters requires all hands-on deck to revive dialogue and diplomacy, whether with a roundtable for peace or some other mechanism to end this unfortunate and terrible war. The US Fed, the European Central Bank, the IMF, and other national and international financial institutions need to step in – quickly and forcefully – to redress imbalances, support the neediest among us, ease the greatest cost-of-living crisis in generations, stop the deteriorating economic outlook, and otherwise restore world stability. If they don't, there will indeed be a third world war, at least economically, and as Guterres warned, "no country or community will be left untouched."

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