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## Globalization's Worst Crisis

Sanctions and counter-sanctions in response to Russian intervention in Ukraine will disrupt global trade. Russia is the world's eighth largest economy. Industries will find stunted growth and respond with new patterns as retail outlets in Russia cope with empty shelves, European airlines mull closure of air space over Russia, agriculture producers confront stockpiles, and energy buyers will scramble for new supplies. "By disbaring Russian institutions from raising capital via European banks – which supplied nearly half of Russian investment capital in the past three years – the sanctions could push Russia towards recession as well as raise the risk of default on loans coming due within a year," writes Nayan Chanda, YaleGlobal's editor in his column for *Businessworld*. "It remains to be seen how the shortages and high price affect the patriotic fervour aroused by Vladimir Putin's Ukrainian adventure." Russia seeks dominance over its neighbors, Europe expects Russia to end the conflict, and both sides have expressed a readiness to end sanctions. Putin may not have control over the angry separatists in eastern Ukraine, but he could lead by pursuing cooperation with neighboring countries and Europe. – YaleGlobal

The war of sanctions between the West and Russia is the latest threat to the world trade and economy

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Globalisation's death has been announced many times. From the wrecked WTO summit in Seattle in 1999 to the global financial crisis in 2007, when the world trade seized up, the implacable march of globalisation has indeed slowed. But it has bounced back. The war of sanctions between the West and Russia is the latest threat to the world trade and economy, and one that might inflict long-term damage to the global economy.

A diplomatic solution might take months or years — and by then the nature of global transactions would have been considerably altered. Following western sanctions and Russian counter-sanctions, consumers and producers in the West face the prospects of empty shelves and idle shipping. If Moscow's threat of closing its airspace to European airlines flying to Asia materialises, the global aviation and energy market will pay a steep price. It is a sign of a globalised world that a development in Ukraine has sent ripples across the world — causing death, destruction and economic hardship.

Accusing Russia of creating mayhem in eastern Ukraine, where rebels armed by Moscow brought down a Malaysian passenger jet, the US and the European Union have imposed tough sanctions. By disbaring Russian institutions from raising capital via European banks — which supplied nearly half of Russian investment capital in the past three years — the sanctions could push Russia towards recession as well as raise the risk of default on loans coming due within a year. Already, western credit card use is being curtailed and hurt by sanctions — one Russian airline and a travel company have closed. Ban on Russian defence companies manufacturing AK-47 rifles to missiles could hurt Russian defence exports. In the long-run, sanctions on technology transfer also risks blighting development of Russia's oil and gas sector.

The impact is not limited to Russia alone. With the sanctions, European banks have lost an important customer; oil companies like BP, which is a major shareholder in Russia's oil giant Rosneft, could feel the impact of lost revenue affecting their operations. With Russia retaliating with a ban for a year on import of meat, seafood, vegetables, fruit and dairy products from the US and Europe, the pain is likely to spread. Russia is the world's fifth-largest importer of agricultural products and the bulk of it comes from western Europe. The loss of such a huge market to European farmers is bound to have economic and political repercussions. France alone has 6,000 companies exporting food items to Russia.

The Russian ban on import of food items will increase prices and likely result in empty shelves — reminiscent of the Soviet Union. It remains to be seen how the shortages and high price affect the patriotic fervour aroused by Vladimir Putin's Ukrainian adventure.

If Russia proceeds to close its airspace to European airlines flying to Asia, it could hurt the bottom lines of major European carriers. Already, they have seen a drop in their share value, as, of course, of Aeroflot, which collects \$300 million a year from airlines flying across Siberia. The European airlines reportedly save \$30,000 worth of fuel per flight to Asia and shave off 4,000 km. If these measures provoke retaliatory action by the EU, it could cause major disruption to global aviation.

The EU pledged to remove sanctions if Russia "starts contributing actively and without ambiguities to finding a solution to the

Ukrainian crisis". The Russian response so far has been an amassing of tanks and troops along Ukraine's eastern border amidst hints that it could mount a "humanitarian intervention" as suffering caused by the civil war is mounting. While announcing its sanctions, Russia said it would reconsider if the western countries adopted a cooperative attitude. The Russia-West confrontation will not bring any winner, but in the disruption of global trade and travel, the loser will be the world's consumers and businesses.

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