

THE PRICE OF WAR

UNDERSTANDING
CONFLICT ECONOMICS
IN A VOLATILE WORLD

2 November 2023

CERGE-EI
FOUNDATION 

REACTION

*"It is not an empty phrase
when we say 'Ukraine's
security is our own security'."*

*-Marie Chatardova, Ambassador of the
Czech Republic to the UK*



A photograph of Dr. Rebecca Nadin, a woman with dark curly hair, wearing a black top with a red rose pattern. She is seated in a black chair and gesturing with her hands while speaking. A name tag on her chest reads "CEJIS FOUNDATION" and "Dr. Rebecca Nadin". In the background, a banner reads "THE PRICE OF WAR".

“China, particularly with its Global Development Initiative...is saying... You, the West, you talk about human rights, but actually we place development...the right to develop, as a human right.”

-Dr. Rebecca Nadin

Is China Winning in the Global South?

Dr. Rebecca Nadin, ODI

The Chinese Communist Party has been very good at conducting extensive risk assessments and we should thus see their actions as strategic and in service of their “national rejuvenation” strategy. This strategy includes China’s engagement with the Global South and China’s immediate neighbors. First, having a stable border is key for China’s domestic goals; second, China is building economic connections and routes with neighboring countries; third, China uses the Global South as a “testing ground” for their initiatives. Much of this rests on China’s position as a voice for countries in the Global South – a position it has largely curated for itself by listening to the socioeconomic development needs of the global south.

Conflict and Geopolitics: Understanding Tomorrow's Risks

Moderated by Iain Martin, Reaction and The Times

Professor Peter Frankopan, University of Oxford | Anna Rosenberg, Amundi Asset Management |
Dame Melinda Simmons DCMG, Former Ambassador of the UK to Ukraine |
Professor Jan Svejnar, Columbia University and CERGE-EI



L-R: Iain Martin; Professor Jan Svejnar; Dame Melinda Simmons; Professor Peter Frankopan; Anna Rosenberg

The uncertainty surrounding the Middle East conflict and the long-term results of the war in Ukraine were central to the conversation. First, in the Middle East, there remain many unanswered questions about what a broader, regional escalation would mean geopolitically and economically. External powers, particularly the US, will play a key role in managing the conflict, but this is colored by the fact that, as

the US has become more self-reliant for oil, its strategic concerns in the Middle East may be seen to shift.

Ukraine is another matter, given that the expectation is for the war to drag on for a rather extended period. The first point of concern is Russia's ability to continue fighting. Professor Svejnar pointed out that Putin can – and has – transformed Russia into a war economy, but Dame Simmons countered that this does not necessarily mean they can continue on given that their goal is not to simply retain the territory they have taken, but rather to take the whole country. Considering Ukraine's success in the Black Sea and their subsequent predicted economic recovery in 2024, the West should see that supporting countries under siege can have important economic, and thus geopolitical, implications.

This brings about the second point: trade agreements have effectively become security agreements and the West must thus understand who the winners and losers are in the recent and ongoing trade diversification and recognize that some countries have, in fact, benefited economically from the war in Ukraine. This is particularly significant given that many countries have become disillusioned with the Western liberal democratic model, and, as Anna Rosenberg said,

“US influence is being diluted...European influence is being diluted.”

And while it is agreed that Russia is a pariah state for the West, it is, per Professor Frankopan, not viewed that way by most of the world. Thus, to proceed effectively in this geopolitical climate, the West must recognize that its role as the beacon of liberal democracy may not hold the same sway that it once did and understanding why this is will be crucial moving forward.

General David Petraeus, KKR
Interviewed by Iain Martin

"10 yrs ago...we were in an era of benign globalization..It was characterized by the barriers to investment, capital flows, trade, generally being reduced...We're now in an era of renewed great power rivalries...you see barriers to trade, investment, and capital flows increasing."

-General David Petraeus

Investing and Doing Business in a Volatile World: The Impact of Conflicts

Moderated by Alan Brown, Artemis Fund Managers

Dr. Matthias Danne, DekaBank | Professor Beata Javorcik, EBRD |

Dan Mikulskis, People's Partnership | Keith Wade, Schroders

The globalization of finance, both in terms of funding wars and investing across markets, has major implications for reconstruction strategies, the global economy, and investors.

Prior to WWII, wars were domestically funded, but conflicts are now bankrolled from abroad. As such, countries come out of war in debt, with their debt to GDP ratio an average of 15 percentage points higher than would otherwise have been expected and they find themselves unable to meet their pre-war GDP per capita trend even after a quarter century. It is thus important to consider what this means for reconstruction. That is, grants (rather than loans) will be critical, as will private investment).

“When you analyze what explains how long reconstruction after a war took, money that's available from outside explains only 10% of variation. Other factors such as, for instance, institutions play a very important role.”

-Professor Beata Javorcik

The impact for investors is also critical. Geopolitical risk's effect on investment and trade is often not immediately observable. As Keith Wade explained,

“The global investment report showed that countries were still investing in China, but we know at the margin that is beginning to change. So private equity activity in China has slowed down very, very sharply.”



At the moment, the markets are not excessively volatile.

[Market volatility is] below average. It's nothing spectacular. What is the reason for that today? If you look only on the figures you see today, my impression is that the people who are active in those markets do not want to see what's going on as a paradigm shift. They say it's temporary, it will go away. "

– Dr. Matthias Danne

However, should Iran become directly involved in the Middle East conflict, oil prices could skyrocket and we could see a global recession.

In addition to these broader implications, there are critical considerations for institutional and individual investors to bear in mind. Crucially, that passive investment – designed to insulate investors from market shocks through portfolio spread – is potentially compromised by the role index providers now play in capital allocation (i.e. removing sanctioned Russian companies from investment indices).



Dr. Matthias Danne

US 2024: Election in a Time of War

Moderated by Justin Webb, BBC

Ambassador Lew Lukens, Signum Global Advisors | Greg Swenson, Republicans Overseas UK |
Tim Montgomerie, Political Commentator

The war in Ukraine has brought foreign policy issues to the fore of American political discourse, and in the US 2024 election, foreign policy is likely to play more of a role than it has in the past, particularly given the candidates' markedly different approaches. Within parties, the Republican tension centers on Ukraine, while the Democrat's tension is focused on Israel. While the British perception is that the Democrats are stronger on foreign policy, America's disastrous withdrawal from Afghanistan was terrible publicity for Biden. That said,

"There is a lot of trepidation about the idea that Donald Trump will be reelected and what happens to the international global order if he really does go America first, America alone."

-Ambassador Lew Lukens

Often, during war, there is a 'rally around the flag' effect, but since, in both instances, there is no direct American troop involvement, this may not apply. As such, tying funding for Ukraine into packages that also address domestic concerns like US border protection demonstrates the nation's ability to take on both issues, making Americans more supportive of funding Ukraine.



Ambassador Lew Lukens (L) and Greg Swenson (R)



What then, should we expect in the 2024 election? The discrepancies between Trumps' words and his actions are often touted as cause for concern. However,

"A lot of Americans vote for Trump, and we write them off as nuts or idiots. They don't know what they're doing. But actually, the gamble they take with him is quite calculated and quite informed, actually... They think in an unstable world, having someone that people can't predict what he's going to do, isn't a bad thing."

-Tim Montgomerie



Professor Sir Lawrence Freedman: The Problem of Ending Wars

It is first important to understand that there are two ways to end a war: a peace treaty or a ceasefire. Peace treaties are an arduous process that take an extended period of time. Ceasefires, on the other hand, don't necessitate negotiations around the issues, they simply end the fighting. Thus, Ceasefires favor those who are ahead. In the case of Russia and Ukraine, neither would be satisfied with simply maintaining their current territory and are thus unwilling to agree to a ceasefire, and yet it is very possible that the conflict has reached a stalemate in terms of territorial gains and losses.

*"It is a cliché that it's much easier to start a war than to end a war.
And like many clichés, it's true."*

Importantly, the conflict in the Middle East is very different from the war in Ukraine, in that it cannot be sustained long term. And yet, there is no basis for a negotiation between Hamas and Israel, so how can it end? There are two possible avenues for ending this conflict. The first is that Israel, given the mounting pressure on them in light of the humanitarian crisis in Gaza, will claim to have accomplished their objectives and end the fighting themselves. The other avenue, advocated for by Professor Freedman, is that the issue of Gaza becomes internationalized, ultimately leading us to a two-state solution. International involvement is necessary given that any Israeli government in Gaza will not have any legitimacy, and Hamas does not have the resources to successfully reconstruct Gaza in the wake of this conflict.

Crisis in the Middle East: The View from Jerusalem

Yossi Klein Halevi, Shalom Hartman Institute

"This government does not have a chance to my mind of surviving the rage, the popular rage that we're going to experience here. The day after the soldiers come back from the front, the war turns inward and it's about bringing down this government.... What the majority of Israelis will crave most of all is stability, is a coming together, finding some common ground, because I think most of us realize that what we went through in this last year led directly to this disaster – led directly to October 7, because our enemies perceived rightly, perceived weakness and divisiveness within Israeli society. And military intelligence was telling Netanyahu, if you don't stop your judicial revolution, we're going to have war. They perceive weakness, and they're going to exploit that weakness. Netanyahu ignored them. And so what Israelis will want after this is some new vision of how we work together as a society. This is an extremely fractured society."



The Ukrainian Economy: Technology, Innovation, and Investment

Moderated by Maggie Pagano, Reaction

Professor Yuriy Gorodnichenko, University of California, Berkeley | Andy Baynes, Global Talent | Dmytro Natalukha, Verkhovna Rada of Ukraine

It is difficult to estimate the cost of Ukrainian reconstruction given that the extent of the damage is unknown and that 20% of the country is currently occupied. That said, it is estimated that

“Every day of the war in Ukraine costs at least a billion dollars, and this is a staggering amount. But we should also understand that this is not a one time payment. This is going to be something that is going to be stretched out over ten, maybe more years...Say you start with \$600 billion, you divide this by ten, \$60 billion per year. This is an amount of money that can be handled by Ukraine, various allies, international financial institutions.”

-Professor Yuriy Gorodnichenko

However, a simple transfer of funds is insufficient to successfully reconstruct Ukraine. Ukraine needs to shift its economy to a more sustainably appealing model. That is to say, Ukraine currently has



Andy Baynes

foreign support for largely moral reasons, but it needs to restructure its economy to garner sustainable support, because external powers will not sustain the current funding structure if/when the war becomes more of a stalemated conflict.

An absolutely critical piece of this economic restructuring will be ensuring the presence of human capital in Ukraine. Many Ukrainians may return home out of a patriotism in the immediate aftermath of the war, but it is crucial that they are able to remain in Ukraine and earn competitive wages and to support employees with physical and mental trauma. Ultimately, to support and sustain growth they need supply of talent, freedom of capital, and legal framework for commercial enterprise. Ukraine has talent but is lacking in the other two respects.

Support the CERGE-EI Foundation's work in Ukraine

A portion of the proceeds from the symposium series support the CERGE-EI Foundation's work with Ukrainian universities and students. Last year, the Foundation spent over \$200,000 in Ukraine to support economics education to over 1,700 students at 13 universities.

Support this critical work:



ACADEMIC YEAR 2022-23



AMOUNT WE SPENT ON OPERATIONS IN UKRAINE:

\$214,764

1,759
STUDENTS REACHED
IN 2022-23

41
COURSES TAUGHT
IN 2022-23

62 UKRAINIAN PROGRAM
GRADUATES SINCE 1991
INCLUDING 12 PhD GRADUATES

7 UKRAINIAN
STUDENTS ENROLLED
AT CERGE-EI

10 DISTANCE LEARNING
PROGRAM LOCAL
INSTRUCTORS
OVERALL TOTAL: 21

17 TEACHING FELLOWS
OVERALL TOTAL: 39

16,500+
TOTAL STUDENTS

350+
TOTAL COURSES

70+ GRANTS TO INDIVIDUALS
IMPACTED BY THE WAR

PARTICIPATING INSTITUTIONS IN UKRAINE, 2022-2023 ACADEMIC YEAR

- 1 Black Sea National University, Mykolaiv
- 2 Chernivtsi National University, Chernivtsi
- 3 West Ukrainian National University, Ternopil
- 4 Cherkasy State Business-College, Cherkasy
- 5 Lviv National University, Lviv
- 6 Kyiv School of Economics, Kyiv
- 7 Lviv Polytechnic National University, Lviv
- 8 National University of "Kyiv-Mohyla Academy," Kyiv
- 9 Oles Honchar Dnipro National University, Dnipro
- 10 Sumy State University, Sumy
- 11 University of State Fiscal Service of Ukraine, Irpin
- 12 Ukrainian Catholic University, Lviv
- 13 Taras Shevchenko National University of Kyiv, Kyiv



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