

The war in Ukraine: Russia's ruptured relations with the West

Geopolitics, supply chains and power
dynamics in 2023



The world leader in global business intelligence

EIU offers deep insight and analysis of the economic and political developments in the increasingly complex global environment; identifying opportunities, trends, and risks on a global and national scale.

Formed in 1946, with more than 70 years of experience, it is ideally positioned to be a commentator, interpreter and forecaster on the phenomenon of globalisation as it gathers pace, enabling businesses, financial firms, educational institutions and governments to plan effectively for uncertain futures.

Actionable insight to win in the world's markets

The world's leading organisations rely on our subscription services for data, analysis and forecasts that keep them informed about emerging issues around the world. We specialise in:

- **Country analysis**—access detailed country-specific economic and political forecasts, as well as assessments of the business environments in different markets with [EIU Viewpoint](#).
- **Risk analysis**—our risk services identify actual and potential threats around the world to help our clients understand the implications for their organisations. Available products: [Financial Risk](#) and [Operational Risk](#).
- **Industry analysis**—five-year forecasts, analysis of key themes and news analysis for six key industries in 60 major economies. These forecasts are based on the latest data and in-depth analysis of industry trends, available via [EIU Viewpoint](#).
- **Speaker Bureau**—book the experts behind the award-winning economic and political forecasts. Our team is available for presentations and panel moderation as well as boardroom briefings covering their specialisms. Explore [Speaker Bureau](#) for more speaker information.

Contact us

LONDON

Economist Intelligence
The Adelphi
1-11 John Adam Street, London, WC2N 6HT
United Kingdom
Tel: +44 (0)20 7576 8000
e-mail: london@eiu.com

NEW YORK

Economist Intelligence
750 Third Ave, 5th Floor,
New York NY 10017, United States
Tel: +1 212 541 0500
e-mail: americas@eiu.com

HONG KONG

Economist Intelligence
1301 Cityplaza Four 12 Taikoo Wan Road Taikoo
Shing, Hong Kong
Tel: + 852 2585 3888
e-mail: asia@eiu.com

GURGAON

Economist Intelligence
Skootr Spaces, Unit No. 1 12th Floor, Tower B,
Building No. 9 DLF Cyber City, Phase - III Gurgaon -
122002 Haryana,
India
Tel: +91 124 6409486
e-mail: asia@eiu.com

DUBAI

Economist Intelligence
PO Box No - 450056, Office No - 1301A Aurora
Tower Dubai Media City Dubai,
United Arab Emirates
Tel: +971 4 4463 147
e-mail: mea@eiu.com

For more information on our solutions and how they can help your organisation, please visit www.eiu.com.

Things to watch in 2023: the war in Ukraine

- **Russia's invasion of Ukraine has ruptured Russia's relations with Western countries and accelerated the transition to a fragmented, multipolar world.**
- **In 2023 the war will continue, entering a transitional phase from a hot conflict to a protracted, lower-intensity stalemate.**
- **Peace negotiations are unlikely, as both sides perceive the war as existential, but neither will be able to gain a sustained advantage on the ground.**
- **The Russian economy's decoupling from Western countries will deepen, and growing ties with China will not make up for lost market access to Europe.**
- **Russia's influence in the post-Soviet space will wane, but the country will succeed in widening a rift between Western countries and the Global South.**

February 24th 2023 will mark one year since Russia launched its invasion of Ukraine. Over the course of 2022 the conflict underwent several phases, from sweeping Russian gains in the first weeks to successful Ukrainian pushbacks later in the year. This year, Ukraine appears committed to pushing the Russian army out of the territories occupied since February 2022, and to regaining some control over Donetsk, Luhansk and Crimea, which Russia has illegally occupied since 2014. Here are the top ten trends that we expect to emerge in 2023.

1. The war will enter a transitional phase in 2023, from an active conflict to a protracted, lower-intensity stalemate with a contested frontline. Exhaustion and heavy losses will make carrying out large-scale offensives increasingly costly and difficult for both sides. Both Russia and Ukraine are preparing for a new push in the spring, but both sides will struggle to gain a conclusive advantage on the ground. Russia's military problems will continue, including heavy damage to troops and equipment. This will push Russia to double down on its strategy of inflicting major damage on Ukraine's critical infrastructure as a means to choke the economy and demoralise the population—with limited success. A second Russian mobilisation drive is also likely, but it will fail to attract large numbers of troops.

Russia and Ukraine's principal objectives for 2023

Russia	Will the objective be achieved?	Ukraine	Will the objective be achieved?
Secure current positions in occupied territories.	No	Prevent Russia from expanding its control westwards.	Yes
Gain full control of the four regions annexed in September 2022.	No	Push Russia behind the line of February 24th 2022.	No
Escalate the conflict with attacks against civilian and energy infrastructure.	Yes	Undermine Russia's positions in territories occupied before 2022, such as Crimea.	No
Break Western unity through disinformation, cyberattacks and broader acts of sabotage.	No	Secure advanced Western weaponry and equipment such as long-range missiles.	Partly

Source: EIU.

THE WAR IN UKRAINE: RUSSIA'S RUPTURED RELATIONS WITH THE WEST

GEOPOLITICS, SUPPLY CHAINS AND POWER DYNAMICS IN 2023

At the same time, Ukraine's war efforts will continue to be constrained by equipment and personnel shortages.

2. Russia's plans to mobilise anti-Ukrainian sentiment in Europe will fail and Western support for Ukraine will continue. This was indicated by generous military assistance pledges from the US in December 2022 and from some European countries in January 2023, including an agreement to send German Leopard 2 battle tanks. Pro-Ukrainian sentiment in the EU remains strong, with 74% in approval of the bloc's position on the war, according to a Eurobarometer survey in January. Financial and humanitarian aid will continue uninterrupted and will prevent a total collapse of the Ukrainian economy. The biggest risk to support for Ukraine comes from donors' declining arms and ammunition stockpiles. Still, Western support will ensure that Ukraine has the means to keep fighting in 2023 and to proceed with planned counter-offensives to challenge Russia's positions.

3. Peace negotiations are unlikely to take place. Both Russia and Ukraine perceive the war to be existential, and we do not expect either side to agree to concessions in 2023. Ukraine has presented a ten-point peace plan, including the restoration of Ukraine's territorial integrity (to the country's 1991 borders), which Russia has dismissed. If any talks do occur, they will be limited in scope, along the lines of the talks that led to the grain deal signed in mid-2022. The lack of meaningful talks is in line with our forecast that this will be a protracted conflict without a clear-cut resolution.

4. Western sanctions will remain in place in the long term, with a focus in 2023 on tightening implementation and closing loopholes. Additional restrictions on Russia's energy sector are also possible (for instance through a tightening of the G7 oil price cap, which could be lowered below the current price of US\$60/barrel). The EU and the US will pay close attention to Russia's circumvention efforts and are likely to impose sanctions on countries that they believe are aiding Russia with sanctions evasion, such as Iran. In parallel, this sanctions push will also prompt greater efforts by the targeted countries to sanction-proof their economies, for example by setting up non-Western financing channels.

5. The Russian economy will contract further. This will result from the G7-imposed price cap on Russian crude oil, as well as the EU's embargo on oil and petroleum products. Russia's economic downturn will damage the public finances (complicating the financing of the war), and the results of sanctions will become more evident on the ground, with shortages of goods worsening and domestic manufacturing output under stress. In this context, the Russian leadership will be increasingly concerned about social stability. In the long term Western restrictions on the import of high-tech goods (such as semiconductors) will weigh on the Russian economy and gradually erode the country's status as a global energy superpower.

6. Europe's decoupling from Russia will deepen. The EU market will remain closed for Russian hydrocarbons, which used to represent about a third of Europe's total energy consumption. The bloc will continue to invest in a new model of energy security excluding Russia. Energy prices will remain high in the EU, compared with other advanced economies, and Europe will lose global market share for the exports of energy-intensive industrial sectors such as metals and chemicals. However, this will be followed by a new equilibrium in which Russia will be much more economically constrained and will have far less leverage over Europe.

THE WAR IN UKRAINE: RUSSIA'S RUPTURED RELATIONS WITH THE WEST

GEOPOLITICS, SUPPLY CHAINS AND POWER DYNAMICS IN 2023



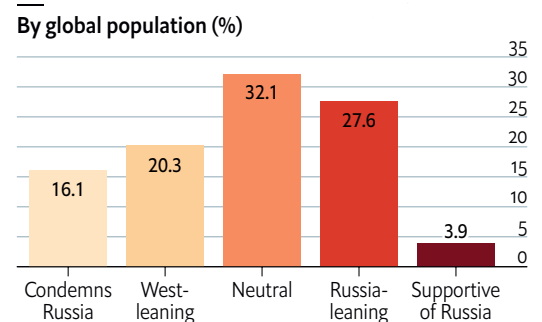
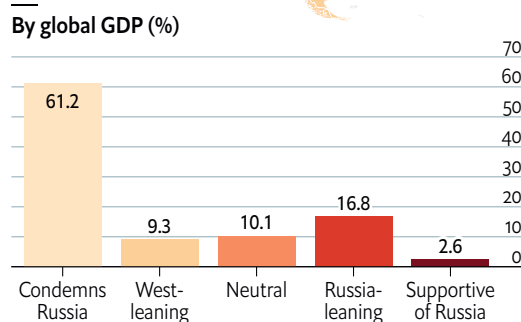
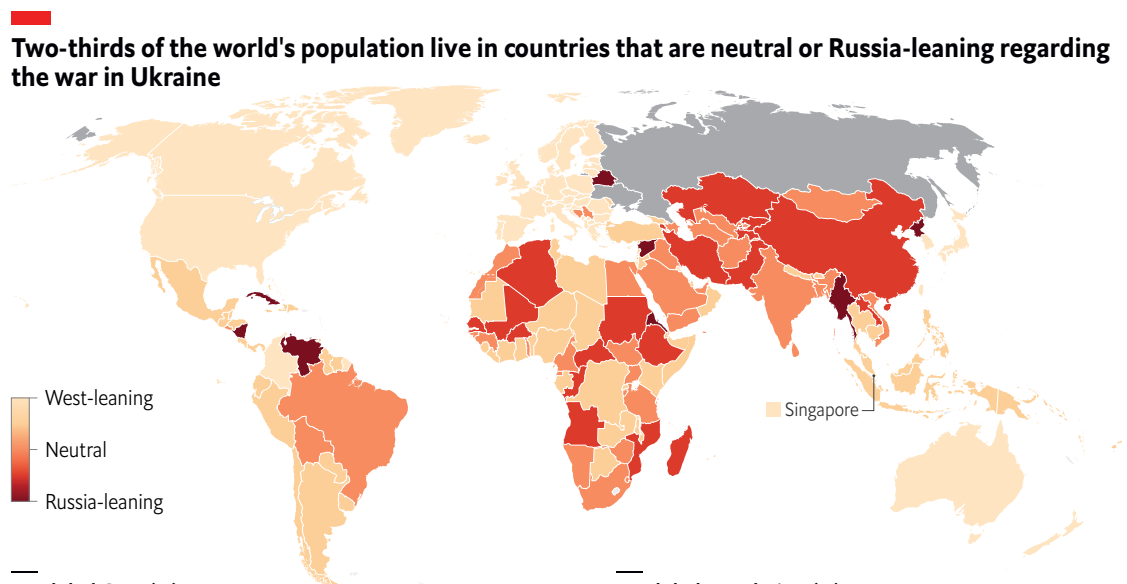
Sources: Rosstat; Ministry of Economic Development; EIU.

7. Russia's role as a security guarantor and regional hegemon in the post-Soviet space will continue to wane. This will open the way for other regional and global powers—notably China, Turkey and Western countries—to jostle for influence. The security vacuum left by a distracted Russia and shifting power dynamics could result in an uptick in regional conflicts in 2023. In the breakaway region of Nagorny Karabakh, Azerbaijan will continue to put pressure on Armenia (which relies on Russia as its security guarantor) for a permanent peace resolution. Georgia and Moldova could also be flashpoints this year. In Central Asia, the Fergana Valley—where the borders of the Kyrgyz Republic, Tajikistan and Uzbekistan meet—will continue to record clashes.

8. The war will continue to reshape global geopolitics. Russia will increasingly rely on China for economic and trade ties and will benefit from worsening US-China relations. However, China will be careful not to become overly dependent on Russian commodities or the Russian market. Russia will try to build new trade routes with emerging markets, which have mostly remained neutral in the conflict, and will aim to capitalise on growing resentment against former colonial powers and US hegemony, notably in Africa and Latin America. Russia will also use its existing economic leverage and disinformation narratives to stoke a further rift between the Global South and the developed economies of Europe and North America, with the goal of hurting US and EU interests from afar.

THE WAR IN UKRAINE: RUSSIA'S RUPTURED RELATIONS WITH THE WEST

GEOPOLITICS, SUPPLY CHAINS AND POWER DYNAMICS IN 2023



Source: EIU.

We expect Russia to have at least some success in this area (for instance by spreading disinformation about the alleged impact of Western sanctions on food security).

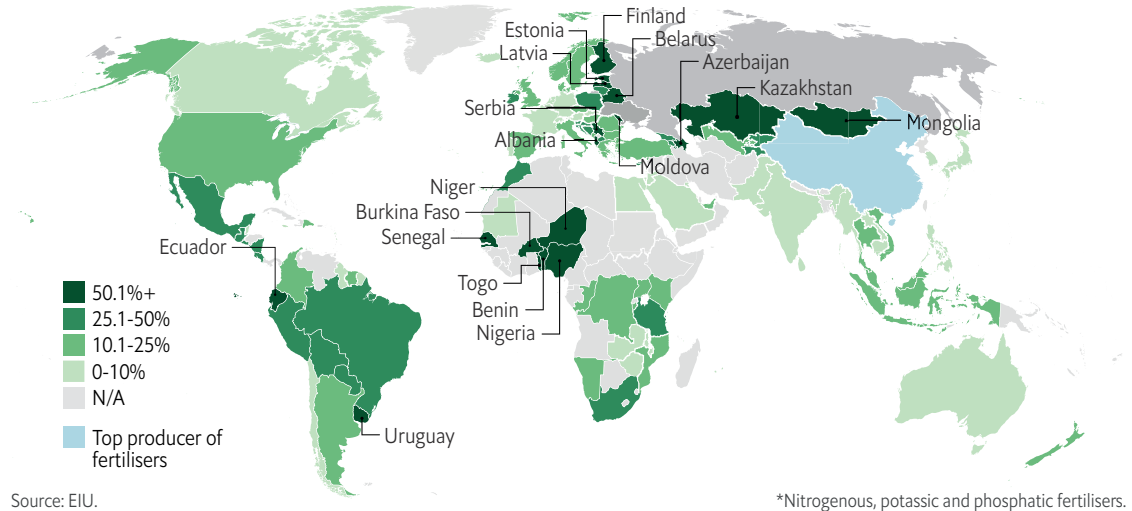
9. Global commodity prices will moderate (compared with 2022 highs), but still remain significantly above 2019 levels. We expect Russia's oil production to contract as a result of the EU oil embargo and the G7-imposed price cap on Russian crude oil. This, combined with OPEC+ production cuts and the reopening of China's economy, will push the oil market into a deficit and keep prices high. In addition, global natural gas prices will remain high owing to gas shortages in Europe and Russia's inability to fully re-direct gas flows elsewhere. The main pressure on global food markets will be felt through fertiliser shortages, as high global energy prices keep production costs high. Grain shipments from Russia and Ukraine will also remain subject to uncertainty.

10. The reorientation of global supply chains will continue. With no resolution of the war in sight, firms will push to reorient their supply chains as far from the conflict as possible, and to source critical resources from elsewhere (apart from energy, Russia is a major producer of gold, base and precious metals, fertilisers and food staples). In 2023 "friend-shoring", prioritising trade and investment ties between friendly countries, will continue to gain traction. As US-China strategic competition deepens, this will add to the long-term trend towards the fragmentation of the global economic and security framework. Large neutral economies (such as India, Saudi Arabia, Turkey and Brazil) will play an increasingly important role in the global geopolitical scene.

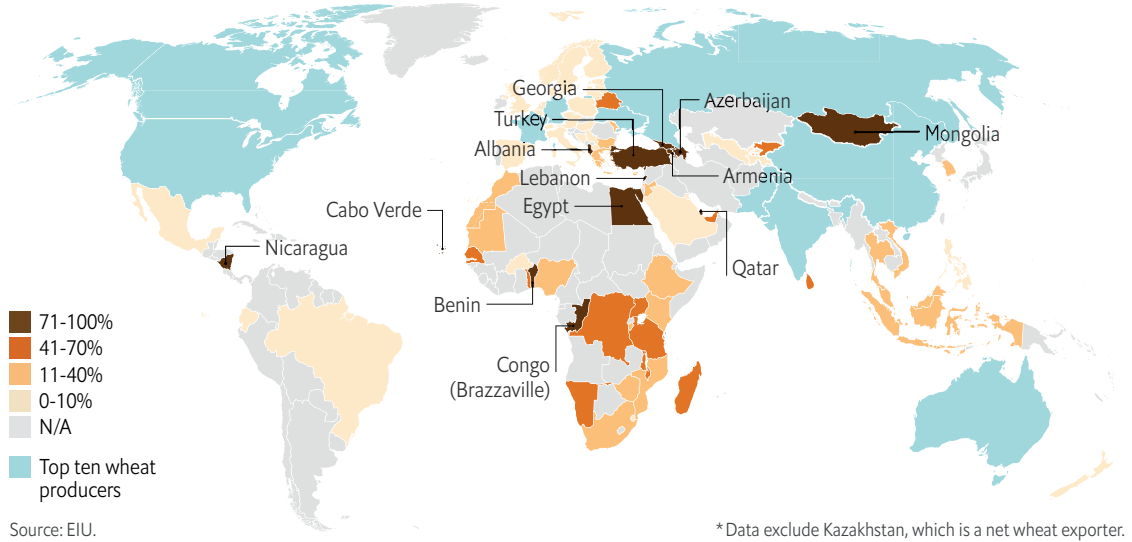
THE WAR IN UKRAINE: RUSSIA'S RUPTURED RELATIONS WITH THE WEST

GEOPOLITICS, SUPPLY CHAINS AND POWER DYNAMICS IN 2023

Which countries rely the most on Russian and Ukrainian supplies of fertilisers? (%, weighted average of fertiliser imports from Russia and Ukraine, 2021)*



Over half a billion people live in countries that rely heavily on Russian and Ukrainian wheat (% of total wheat imports from Russia and Ukraine, 2021)



EIU Viewpoint: Country Analysis

Preparing you for what's ahead

Understand a country's political, policy and economic outlook with our award-winning forecasts, analysis and data. Our experts assess the global dynamics that impact organisations, so you can plan and operate effectively.

What's included?

- Global and regional outlook spanning politics, economics and market-moving topics
- Daily insights on the developments that impact the future outlook
- Executive summaries of country forecasts over the medium-term outlook
- Medium-term country forecasts on ~200 countries' political and economic landscape
- Long-term country forecasts on the structural trends shaping ~80 major economies
- Industry analysis on the outlook for 26 sectors in ~70 markets
- Commodity forecasts on supply, demand and prices of 25 critical goods
- Macroeconomic data on forecasts, as well as historic trends
- Industry data on demand and supply of key goods, now and in the future
- Proprietary ratings on the business environment
- Thematic analysis of the cross-cutting issues that our experts expect to shape the global outlook

How Country Analysis helps you to stay ahead

Expansive coverage - global, regional and country-level analysis for nearly 200 markets, delivered by our analysts. Every month, 20,000 data series are updated, enabling you to adapt and plan ahead.

Challenging consensus - stay ahead of your competitors. For more than 70 years our forecasting teams have made bold calls, accurately.

A nuanced approach - intuitively designed to address politics, policy and the economy, our methodology includes detailed insights in addition to data.

Robust, accurate information - apply insights with confidence. Our forecasts and analysis are non-biased and rigorously researched.

To arrange a demonstration of EIU's Country Analysis service or to discuss the content and features included, please visit [eiu.com/n/solutions/viewpoint/country-analysis/](https://www.eiu.com/n/solutions/viewpoint/country-analysis/)

Copyright

© 2023 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

While every effort has been taken to verify the accuracy of this information, The Economist Intelligence Unit Ltd. cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report.