

The History and Impact of the Conflict between Russia and Ukraine

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Abstract. Since February 2022, the conflict between Russia and Ukraine has attracted a lot of attention. Many researchers have analyzed and predicted this. The conflict has not stopped, and the subsequent actions and measures of Russia, the European Union, the United States and other countries and regions will also bring great changes to the world's political, economic, and cultural exchanges. Starting with the historical origins of the conflict between the two countries, this study examined how the conflict between Russia and Ukraine has deepened step by step. Then, based on game theory, this study explored the reasons for Russia's decision and the consequences of such a decision. To solve this conflict, all countries and regions should put aside their opposition, establish a win-win sense, and find solutions to the problem through negotiation, exchange and trust. Major international organizations should also play a more active role in this process and assist in communication and coordination.

Keywords: Russian-Ukraine Conflict, Impact, History, Prisoners' dilemma.

1. Introduction

In February 2022, the Russia's invasion of Ukraine, which attracted intense attention from all sides of the world, officially started. As the conflict continued, the EU, Japan, Canada, Australia and the United States announced sanctions against Russia one after another. Subsequently, Russia and Ukraine held five negotiations on the conflict. The conflict between Russia and Ukraine has a long history and deep historical roots. However, the conflict did not stop, meanwhile the mutual sanctions between Russia and Western countries are also continuing. As of October 2022, the conflict between Russia and Ukraine has lasted for nearly 8 months. In name, the participants are Russia and Ukraine, but in fact, it is a contest between political and military forces of many countries. This contest between great powers is closely related to the process of the globalization. As a result, the influence of the conflict between Russia and Ukraine is not only within the two countries, but also related to the global development. Therefore, there have been many relevant studies on the impact of this conflict.

According to the report of CCG, the conflict between Russia and Ukraine will have an important impact on the world financial market, energy market, food market, global supply chain and global economy [1]. According to the preliminary forecast of the report, two weeks after the conflict, the stock markets of the United States, Europe and China both fell. In addition, the exchange rate of the US dollar rose, while the exchange rates of the euro, the pound and the ruble declined [1]. As a result, US debt has been sought after. In the long run, international capital will flow from emerging markets and developing countries to the United States, bringing new balance of payments difficulties and debt burdens to the United States. In addition, food and energy prices have risen [1]. Beside economy and energy supply, some scholars also focus on the health problem especially in Ukraine under the epidemic. Chaaya, Thambi, and Sabuncu et al (2022) investigated the health care system of Ukraine and the mental health of Ukrainian young people. They found out that the ability of Ukraine's health system has declined due to the Russian army's attacks on Ukrainian hospitals and other health facilities [2]. According to these authors opinion, the reduction of food and water supplies threatens critical infrastructure as well [2]. Health professionals had to leave Ukraine for asylum. In addition, the conflict between the two countries has forced people to avoid attacks in unsanitary and crowded places, intensifying the spread of COVID-19 [2]. The study of Chaaya, Thambi, and Sabuncu et al

(2022) also found out that under this situation, the mental problem of the young people in Ukraine also aroused broad attention [2].

In view of the protracted conflict between Russia and Ukraine, which has a significant impact on global development, this paper will start from the historical background of the conflict between Russia and Ukraine to analyze how the conflict between Russia and Ukraine came into being and worsened. Then, based on game theory, the author will analyze what problems Russia and Ukraine have in coping with the conflict. Finally, the impact of this conflict on the economy and finance will be summarized.

2. The historical background behind the conflict between Russia and Ukraine

To investigate the influence of the conflict between Russia and Ukraine, the history behind the conflict should be clarified. According to Shen (2013), Russia and Ukraine belong to the same nationality, namely the East Slav nationality [3]. Historically, the two countries once belonged to Kiev Ross. Subsequently, the invasion of the Mongolian army brought about the division of the two countries [3]. Through the Peleyaslav Agreement, Ukraine was incorporated into the territory of the Russian Empire, and gradually changed from a highly autonomous political entity under the jurisdiction of Russia to an ordinary province [3]. Since then, Russia has adopted various means to assimilate Ukraine [3]. After the October Revolution, as Soviet republics, Russia and Ukraine experienced great changes in the Soviet family [3].

In recent years, the dispute over the ownership of Crimea further deepened the contradictions between Russia and Ukraine. From the point of view of international law, Crimea is not an independent state [4]. However, the paradox is that the Crimea region voluntarily joined Russia in 2014. Since March 18, 2014, Russia has taken over the Crimean region and established the Federal District of Crimea. Moreover, under the region is the Republic of Crimea and Sevastopol. This chain of events caused strong discontent in Ukraine and at the same time triggered changes in European geopolitics, which subsequently caused economic changes, energy supply problems and other problems. As a result, the situation between various countries and regions, such as Russia, Ukraine, the European Union, USA and China, become more complicated. Meanwhile, the tension between Russia and Ukraine also increased.

In summary, the complex background foreshadows today's conflict and becomes a difficult point in later negotiations.

3. The cages of Prisoners' dilemma

Prisoner's dilemma is a representative example in game theory. This model reflects a non-zero-sum game. In other words, it means that in some situations, the best choice for individuals is not the best choice for the collective.

In terms of decision-making, both sides have shown this tendency in the conflict between Russia and Ukraine. According to CCG report, as soon as the Russian-Ukrainian conflict broke out, the United States and the European Union immediately announced sanctions against Russia in financial, energy, trade, cultural and other aspects [1]. Russian financial institutions such as the Central Bank of Russia is banned from using the US dollar for settlements; banks, including the Central Bank of Russia, will be excluded from SWIFT [1]. These sanctions will render most of Russia's foreign reserves unusable and contribute to the fall of the exchange rate of ruble [1]. At the same time, it is announced some payment methods will be stopped being used in Russia [1].

In terms of energy, on March 8, Biden signed a presidential decree banning the import of oil and gas from Russia [1]. On March 10, the President of the European Commission presented a plan to reduce natural gas imports from Russia by 70% by 2022 at an informal summit of the European Union in Versailles [1]. In addition, Western countries froze Russian governments and officials' assets in the United States and Europe, and prohibited the supply of semiconductor chips and other high-tech

products to Russia [1]. Multinational companies in the United States and Europe have implemented or responded to these sanctions one after another, withdrawing their shares in Russian oil and gas companies or withdrawing from Russia [1]. In addition to cultural and other sanctions, the United States and the West have imposed more than 5000 sanctions on Russia [1]. On the other hand, Russia also immediately took anti sanctions measures. Russia announced a ban on the export of more than 200 products, including technology, telecommunications and medical equipment [1]. Russia strictly restricts or suspends the export of products that the world market depends on, such as agricultural products [1]. In addition, 48 countries and regions have been blacklisted by Russia [1]. The punishment measures include canceling patent fees, repaying loans with rubles and banning food exports to them [1]. In addition, 59 foreign enterprises have also been blacklisted by Russia [1]. These companies and management are faced with the risk of seizure of accounts and assets, introduction of external management and property nationalization [1]. Whether Western countries or Russia, the essence of these sanctions and anti-sanctions measures is to maintain their own political status. However, the consequences of these measures are serious. The National Institute of Economic and Social Research (NIESR) of the United Kingdom predicted that the crisis in Russia and Ukraine and the subsequent surge in energy and food prices would cause a loss of \$1 trillion in world GDP, and the growth rate of world GDP would shrink by 1 percentage point by 2023; It will increase the world inflation rate by 3.0 percentage points in 2022 and 2.0 percentage points in 2023 [1]. At the same time, due to the problems of food and energy supply, the lives of ordinary people will also be seriously affected, leading to a human rights crisis.

From the perspective of game theory, the conflict between Russia and Ukraine made the complexity of the game between countries in the world more confusing, which may lead to the pursuit of beggar-thy-neighbor policies by relevant countries, and the international space for win-together cooperation is narrower than before, which has a negative effect on the trend of economic globalization. In addition, as mentioned above, people of all countries will also bear risks in economy, energy, food and health in this political and military game.

From the perspective of the trading endowment theory of the international economy, this hinders the effective implement of the role positioning of each country in economic globalization, which also creates more artificial obstacles for the realization of the Palito optimal equilibrium [5]. For example, in order to reduce the impact of future geopolitical uncertainty, multinational companies shrink investment, which will have a greater negative impact on the global trade, hinder the global division of labor system, and is not conducive to the maximization of the value of global social welfare. To sum up, the conflict and the response of these countries and regions has already formed a more confusing *prisoners' dilemma* situation.

4. Prediction of the consequences of the conflict between Russia and Ukraine

4.1. The curse of stagflation risks

The changes in the international political pattern caused by the Russia's invasion of Ukraine have had a huge negative impact on the global economic chain, and the stagflation risks in the world's major economies have increased, which are highlighted in two aspects.

In terms of inflation, since the COVID-19 outbreak, the continuous implementations of quantitative easing monetary policies in the United States and Europe have led to serious inflation. For example, the CPI of the United States rose to 8.5% year-on-year in March 2022, hitting a 40-year high record since January 1982.

Some countries followed QE, which further adding to global inflationary pressures. At the same time, the rising prices of food, energy and other commodities caused by the Russia's invasion of Ukraine have led to the pressure of imported inflation in major economies and a huge burden on people's living standards [6].

In terms of economic growth, the policies of high welfares and high consumption implemented by Western Europe, the United States and other developed countries have for a long time brought great

debt pressure to national finance. At the same time, the collide of COVID-19 and the Russia's invasion of Ukraine has further reduced effective demand [7]. In addition, the restructuring of the global industrial chain has shifted the supply curve to the left, which has led to insufficient economic momentum and slow economic growth. These two factors make major economies face a more severe risk of economic stagnation.

4.2. The cloud of pessimism

The political and economic instability caused by the conflict has seriously affected the people's positive expectations for economic development. In April 2022, the IMF had lowered the expectation of world economic growth rate in 2022 to 3.6% from 4.4% projected in January, and in the Eurozone, from 3.9% to 2.8%, the largest downward revision [8]. In addition, business confidence in the UK has been falling sharply, the business confidence index fell from 2 in January 2022 to -21 in July 2022.

According to the relevant theories of expectation management in economics, the impacts of pessimistic expectations have leading and self-fulfilling roles. When economic growth rate is expected to be slow, investment risks increase and returns decrease, micro subjects will adopt more conservative strategies, which increases the difficulty for governments to effectively implement policies and regulate the macro economy. On the other hand, the political pressure formed by pessimistic expectations will weaken the stability and sustainability of the new economic policy, which are not conducive to the investment decisions of micro subjects. All of these put more humanistic psychological pressure on the macro economy.

Hence, to end this conflict and its impact, exchanges and negotiations in various aspects between Russia and Ukraine, the United States and the European Union are required [9]. Moreover, international organizations such as the United Nations should play a more positive role in the future [9].

5. Conclusion

The conflict between Russia and Ukraine and its chain reactions makes the world and people face the stagflation risk, the cloud of pessimism, the energy and food shortage as well as other risks. The deadlock in the conflict between Russia and Ukraine lies in the lack of communication and trust between various countries and regions. In order to change this dilemma, every country and region should realize that the world is one and the process of globalization is irreversible. The damage to the interests of other countries is equal to the damage to their own interests. Only by putting aside hatred and prejudice and thinking in a win-win and cooperation-oriented way can we find a breakthrough in the crisis.

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