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Putin's war and its impacts on global economy and in Latin America

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Introduction 1: Ukraine war is neither local conflict nor an exogenous accident, it is Putin's long-term strategy for world power

Putin's aggression is **global**: against post-WW2, against post-Berlin wall fall, against democracies, against globalization, with instrumentalization of key-commodities as a lever for power (gas, food, fertilizers, nickel)

What is in Putin's mind? A set of hypothesis:

- 1) Existent international order cannot give back Soviet power to Russia (Putin's failure to "make Russia big again")
- 2) Plan to compensate for Russian weak soft-power and insufficient economic weight by strategic channels (energy/commodities/arm exports, cyber intelligence, nuclear threat), remaining military power ensures to Russia a global role and lever
- 3) Dictatorship enjoys real advantages in case of war: lies are easier, no public opinion concern, allowing to legitimize violence, nuclear blackmail + strong internal repression, information cut-off
- 4) Violent mercantilism yields: decadent West will finance war and Putin's power (gas imports = 1 billion per day)
- 5) Repeat 1938 Munich and of Cuban missile crisis (1962)

Introduction 2: Ukraine war is neither local conflict nor an exogenous accident, it is Putin's long-term strategy for world power

Putin's aggression is a **long-term strategy**: has been planned step by step since 1999:

- 1) KGB's double reaction to the economic disaster of the 1990s and the humiliation of US behaviour and financial domination
- 2) After 1998 financial crash on debt: new macroeconomic policies ensuring financial stability + autonomy + rebuilding military power
- 3) New domestic policies: strong centralist authority + autocratic methods + control of medias + promotion of Russian identity and culture
- 4) New external intelligence strategy: strong networks (FSB ex-KGB + SVR, FSB cyber-control) with information warfare capabilities (disinformation against Western democratic orders), coalescing anti-US everywhere (Europe, Latin America, Asia, Africa), exploiting international laws and weaknesses of democracies, retaliating for NATO, dividing EU. Buying Western key actors: Boris Johnson (journalist paid by Putin), deal with Trump (NATO withdraw), with Orban, with French fascists (Le Pen) => to break EU cohesion

Introduction 3: Ukraine war is neither local conflict nor an exogenous accident, it is Putin's long-term strategy for world power

Putin's strategy in Latin America is also a long-term strategy:

- 1) Since 1999 Putin era: active return to LA for exploiting anti-Americanism and expected 'left turn' for selling arms and commodities and making-up for NATO presence in Eastern Europe, develop multi-polarity concept
- 2) Not so new: repetition of Cuba 1962 (bargaining retreat of Cuban missiles against US missiles in East-Turkey), Venezuela 2008, 2013, 2014 when Georgia and Crimea/Donbass were invaded (two Tu-160 Blackjack strategic bombers with nuclear bombs + 4 warships with nuclear missiles + 2014 talk about re-opening military base in Cuba)
- 3) Not limited to the 3 "allies" (Venezuela, Nicaragua, Cuba): whole Latin America is the target of disinformation and divisions; TV channels, statistical proofs of social media uses from Russian origin (attack institutions, instability for undermining regimes aligned with the West and democratic EU policies), + Bolsonaro, AMLO, Fernandez (up to February 2022) + Wagner Group (in Nicaragua & Venezuela)
- 4) More recently also in Africa against EU (Wagner's group and others)

GLOBAL ECONOMIC impact of Putin's war

The whole world will be affected, more than estimated by medias.

5 mutually multiplying destructive effects :

- 1) Immediate strategic commodity price increases: food, energy, fertilizers, nickel etc. => inflation to soar => growth to turn down => social upheavals + famine inevitable in Africa and Middle-East
- 2) Disruptions in other output chains and trade (sanctions/retaliations) => additional inflation => output/job losses => productivity down
- 3) Losses of human capital (war, immigration, destructions, non-productive expenditures) => productivity down
- 4) => Vicious circle between rise in uncertainty => deterioration of business confidence => less investment => less productivity => more inflation => tightening of monetary policies => financial crisis => higher debts => less international cooperation => more conflicts
- 5) Postponement of energy transition => speeding up global warming => more uncertainty and irreversible costs

TOTAL = global loss-loss game: more poverty, famine, political troubles, less cooperation, less growth, more wars = massive setback

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GLOBAL ECONOMIC impact of Putin's war is systemic: Breaks the rules-based framework + shock on strategic supplies + unproductive spending

Macroeconomic size looks minor: only 1.8% of world trade (Russia + Ukraine + Belorussia)

But **3 global fatal damages**: fragmentation of global economy + cuts in strategic supplies (food, energy, fertilizers, some key-metals) + waste of fiscal resources for defense & arms

= Putin's unilateral aggression provokes **unprecedented breakdown** in global economy and geopolitical context in post-WW2

Costs will depend on institutional resilience and cooperation ability

- ⇒ Huge increase in poverty and famines => less human capital
- ⇒ fragmentation of the world economy into geopolitical blocs
- ⇒ with different trade, technology standards, payment systems
- ⇒ Broken supply chains, R&D, production networks
- ⇒ More uncertainties, more risks/financial crisis, less investment, less productivity
- ⇒ More human disasters, more socio-political turmoil, more global warming
- ⇒ = global efficiency down, more over-indebtedness, less decarbonisation,

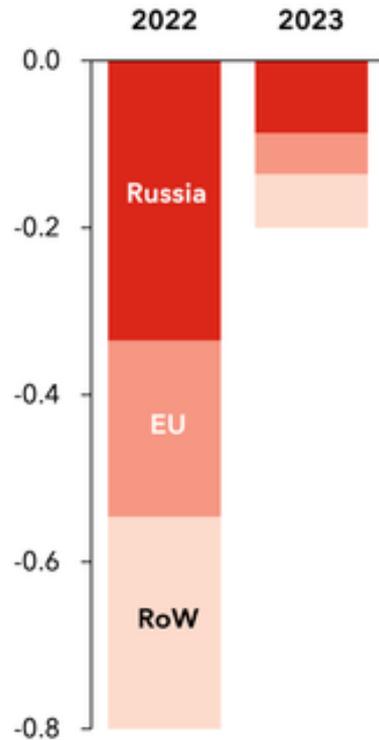
IMF WEO Outlook remains optimistic

Shaken by war

Global growth has been revised down for 2022 and 2023 due largely to the impact of the war in Ukraine.

Total annual revision

(percentage points;
relative to Jan 2022 WEO)



2022 Real GDP growth

(percent; year over year)

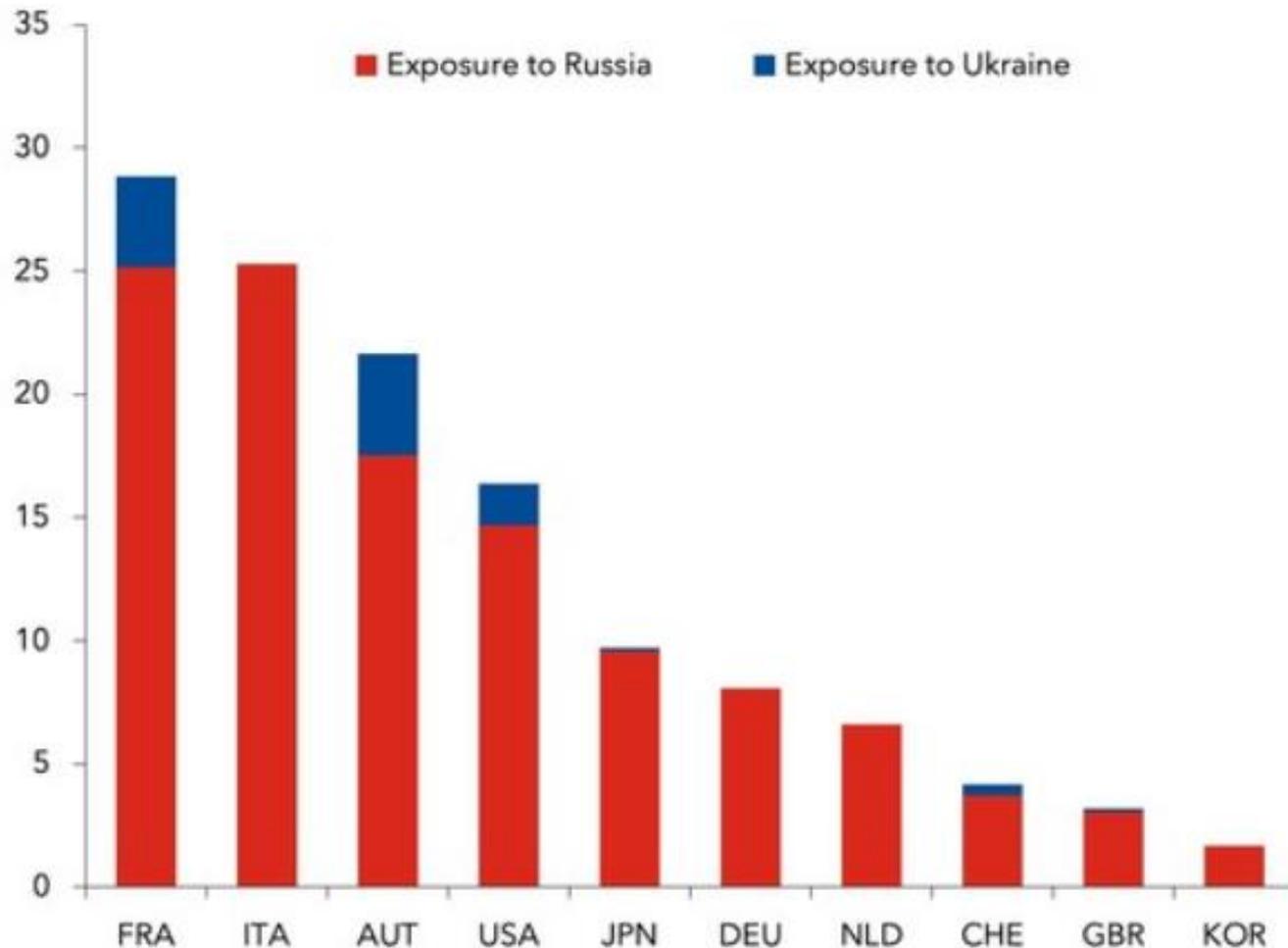


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

Lender linkages

European banks had the most direct exposure to Russia and Ukraine, but aggregate exposures seem to be relatively modest.

(billions of US dollars)



Source: BIS, Consolidated Banking Statistics; and IMF staff calculations.

IMF

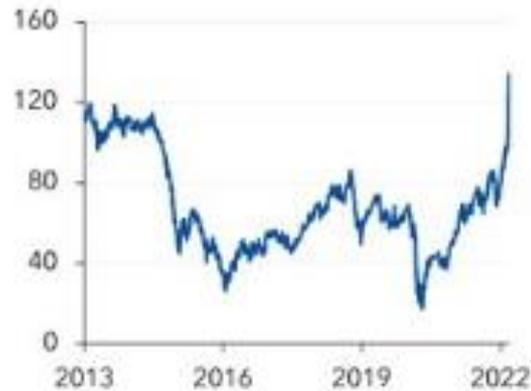
Global price increases

Growing pressures

Prices for energy, grains, and metals soared since the invasion of Ukraine, signaling that inflation rates are poised to accelerate.

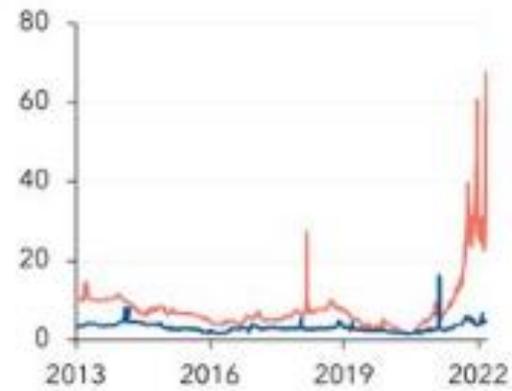
Brent Crude Oil

(\$US/barrel)



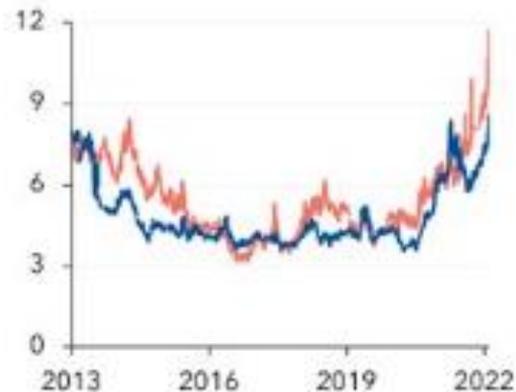
European & US Natural Gas*

(\$US/MMBtu)



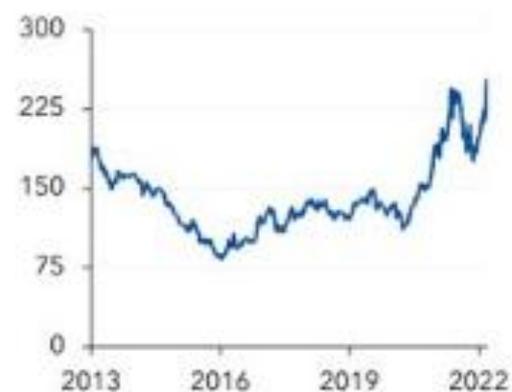
Corn, Wheat

(\$US/bushel)



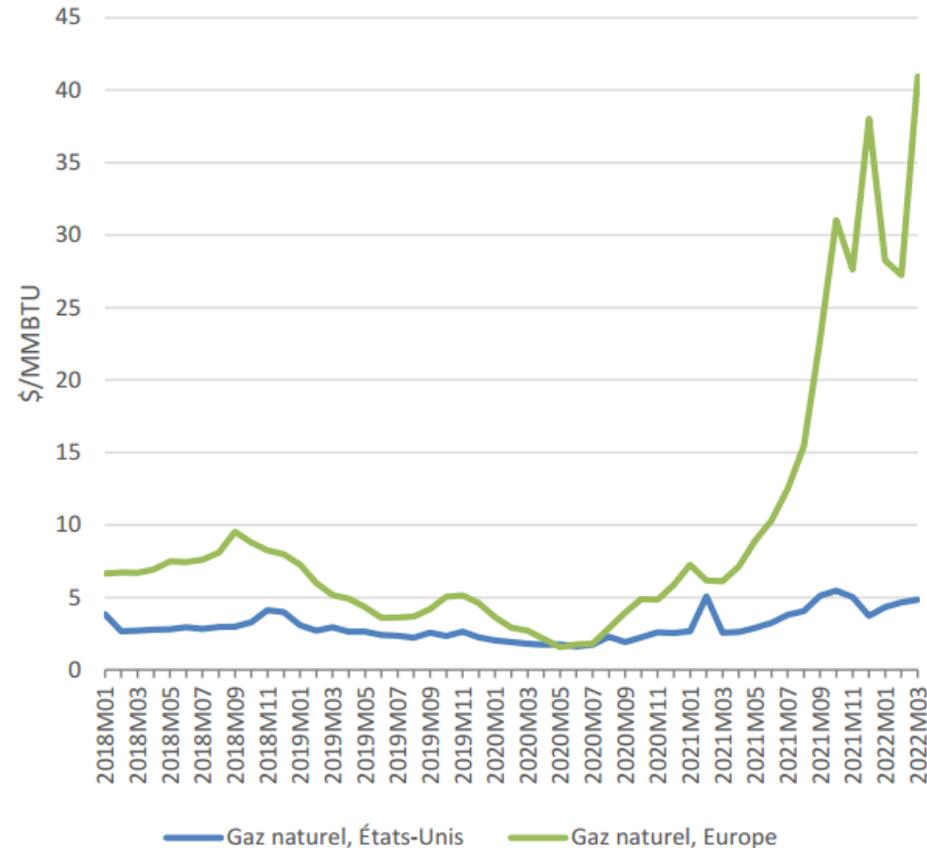
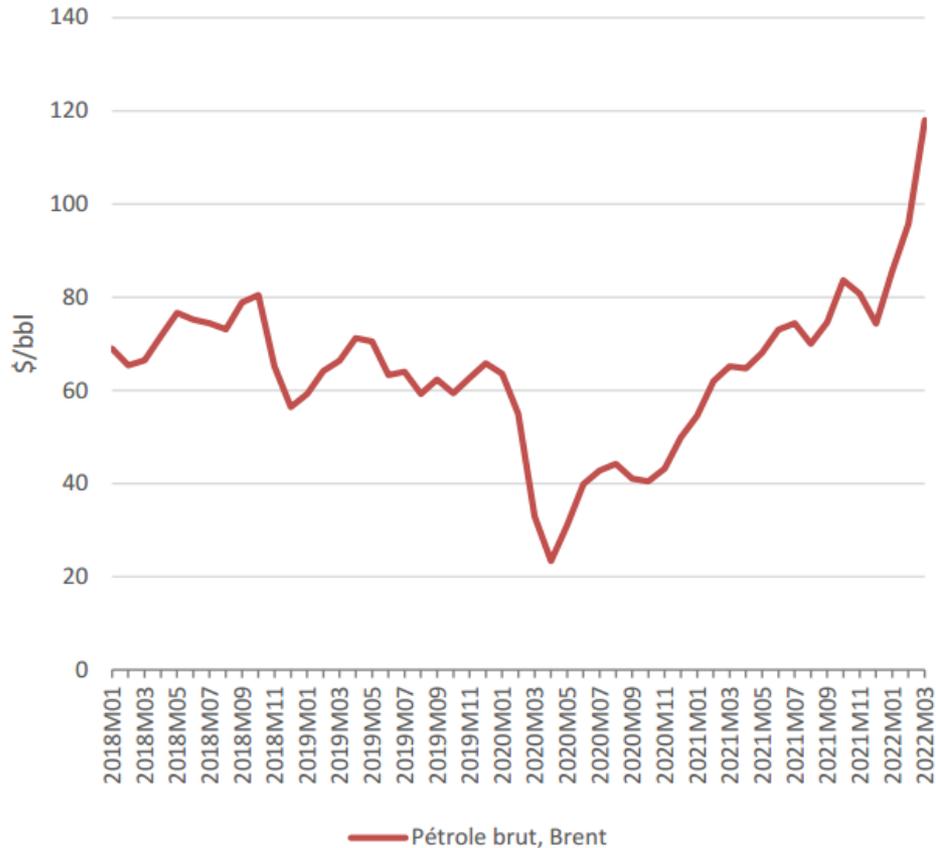
Metals Index**

(2016=100)



Energy prices: oil and gas

\$ EU par baril et \$ EU par million de BTU



Source: WTO

ECONOMIC impact upon LATIN AMERICA

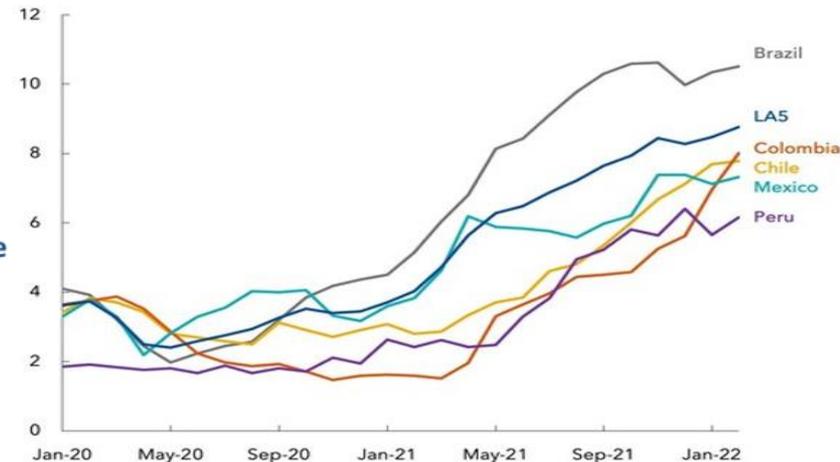
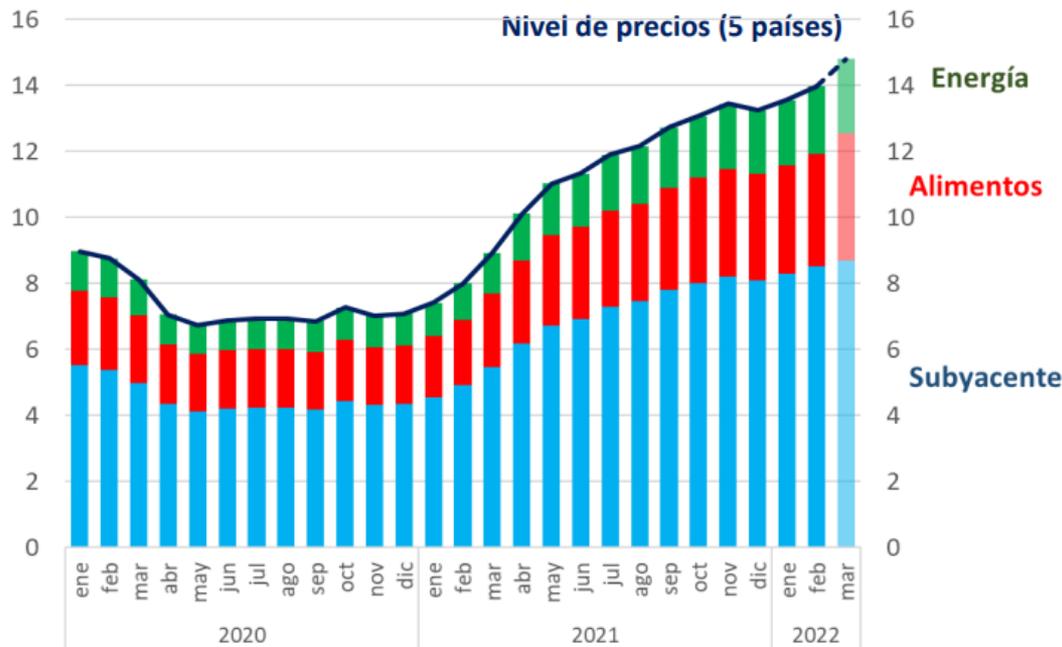
- Main channels of economic effects: Prices + trade + output chains + risks + global slowdown (or recession) + monetary tightening + financial crisis
- ❖ Price effects on strategic commodities: energy, food, fertilizers, nickel, tin, enriched uranium, antimony, etc
 - => Impacts on LA economies depend on their trade/production structure
 - => + on Central bank credibility + on social protection schemes (fiscal)
 - ❖ Disruption in Global Value Chains: results of sanctions and retaliations, worsening of the process of de-globalization
 - => Impacts on other prices and on outputs & jobs, but opening opportunities for changes
 - ❖ Uncertainty: strong increase in risks perceptions, affecting investments, FDI, technological projects
 - => Impacts on financial and exchange-rate evolutions, but opportunities for **regional integration** + international **cooperation** (joining new supply-chains with other regions)

Price increases in LATIN AMERICA

Inflation started in 2021: soaring cost of food and energy affects more low-income households

Risk that international financial conditions tighten rapidly => capital outflows => financial instability => depreciation => more inflation

América Latina (5 países): Variación interanual de precios
(En porcentaje)



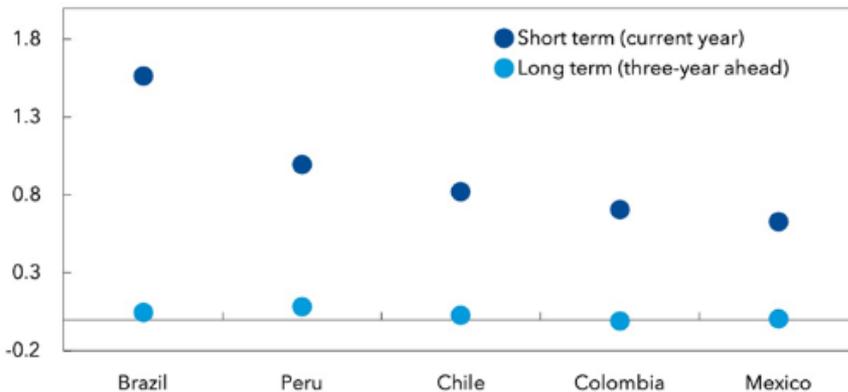
Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Peru refers to Lima.

Price increases in LATIN AMERICA

External causes affect more Latin America

But Central Banks reacted with surprise hikes, preserving credibility: long-term inflation expectation remain low

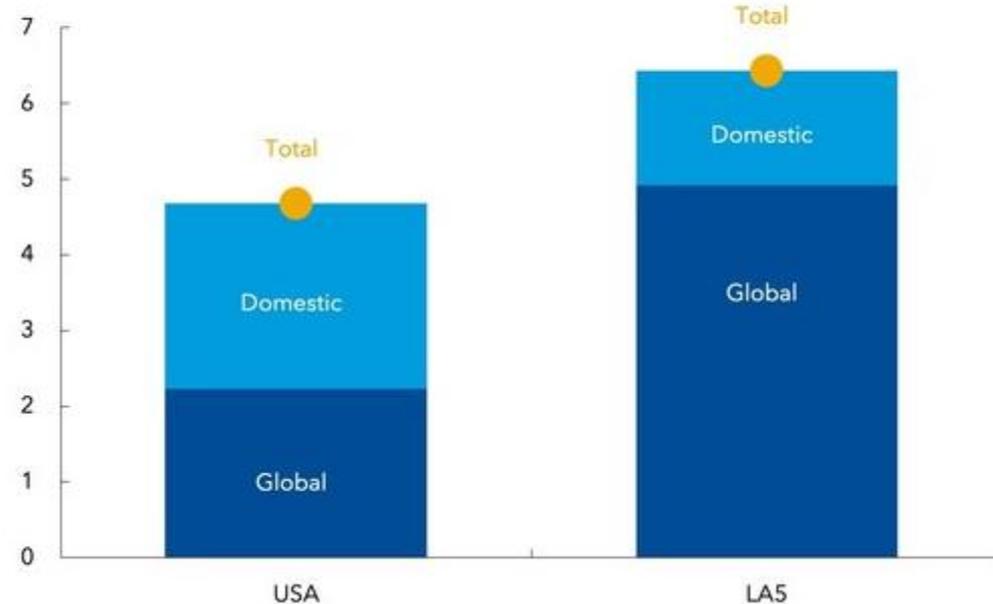
Average Quarterly Revisions in Inflation Expectations, 2021



The global effect

Global factors have contributed much more to inflation in the region than in advanced economies.

(year-over-year change)

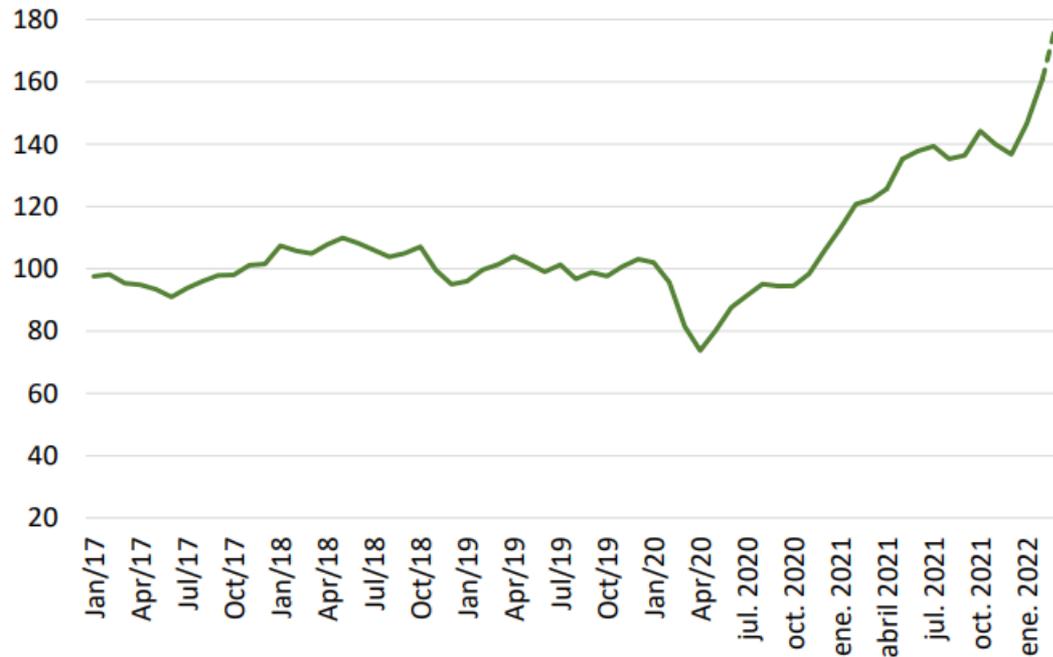


Source: IMF staff calculations.

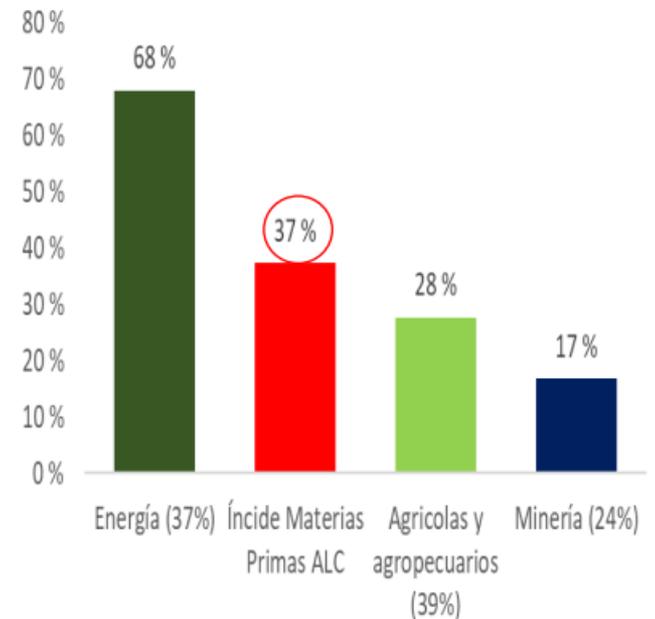
LATIN AMERICA: Export Price increases: +80% with respect to 2019

América Latina: Evolución del índice de precios de las materias primas exportadas, enero 2017 a marzo de 2022

(Números índices: enero-diciembre 2019 = 100)



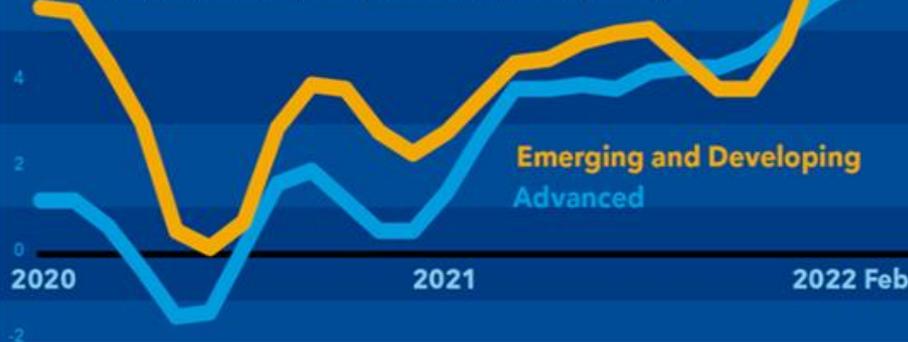
Variación enero-marzo 2022 versus enero-marzo 2021



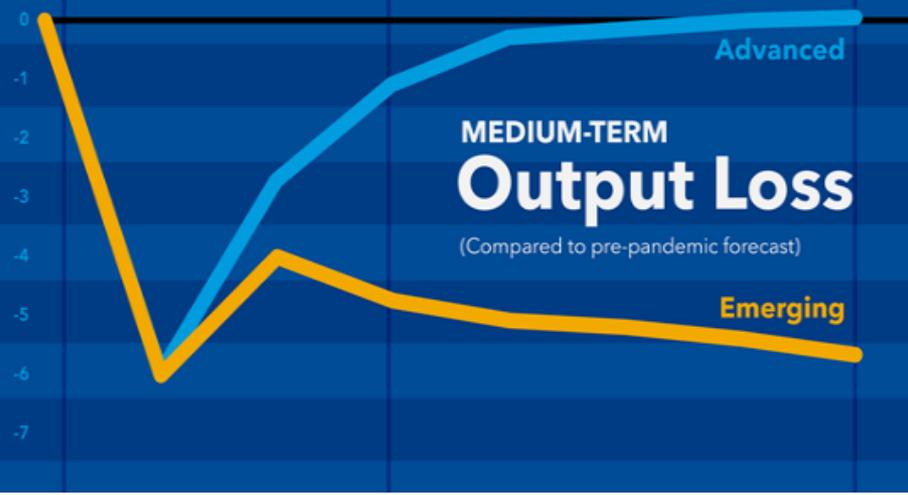
Fuente: CEPAL, sobre la base de información de la base de datos del Banco Mundial, Bloomberg, y EIA. Valor para marzo de 2022 es una estimación de CEPAL

Consumer Price Inflation

(Three-month moving average; annualized percentage change)



2019 2022 2026



Countries most affected by FOOD PRICE INCREASES



Trade structure

Russia/Ukraine/biolorussia have a big power on mineral global market: 27% of world imports

Incidencia de Rusia Ucrania y Bielorrusia en las importaciones mundiales de productos minerales seleccionados, 2019-2020

(En porcentajes de las importaciones mundiales de cada producto)

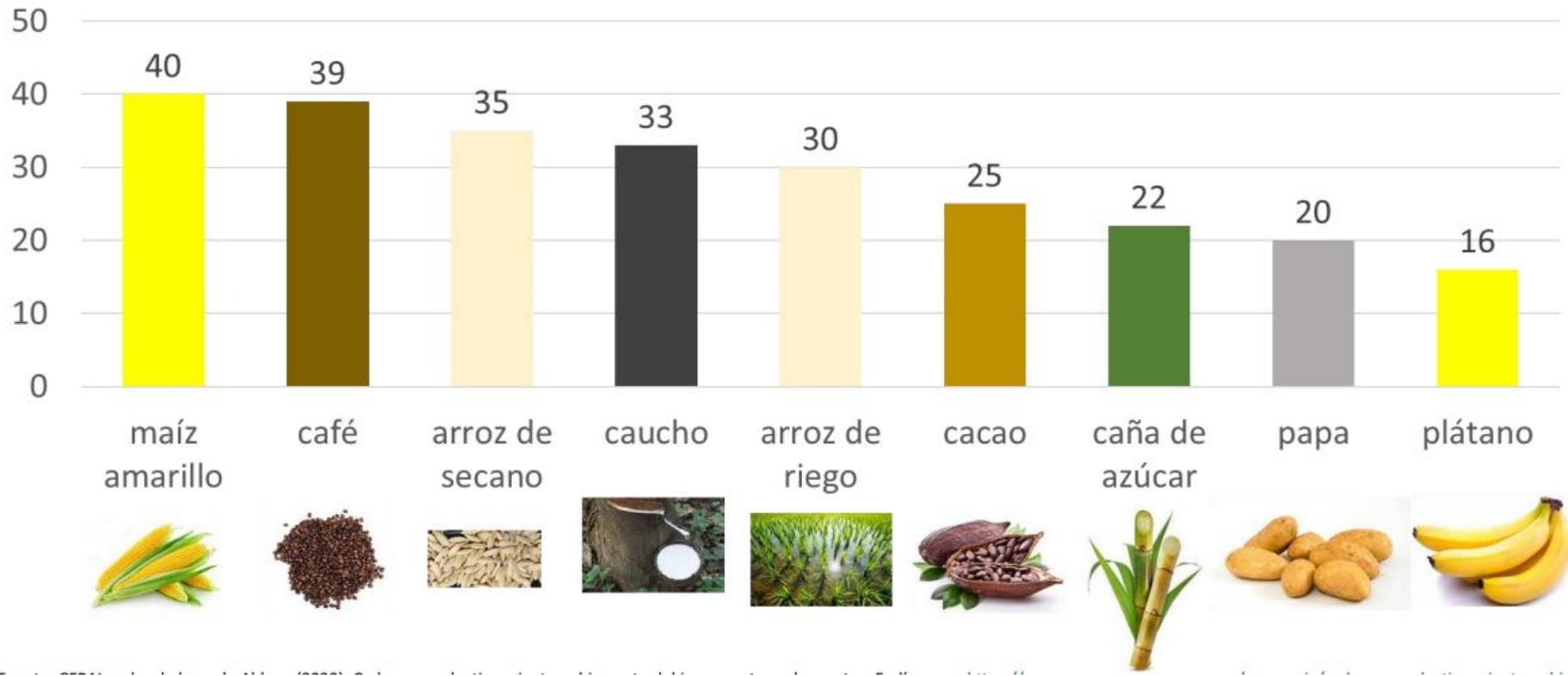


Impact of fertilizers in agriculture

Russia dominates fertilizer markets

=> costs for food outputs

Fertilizantes (% del costo)

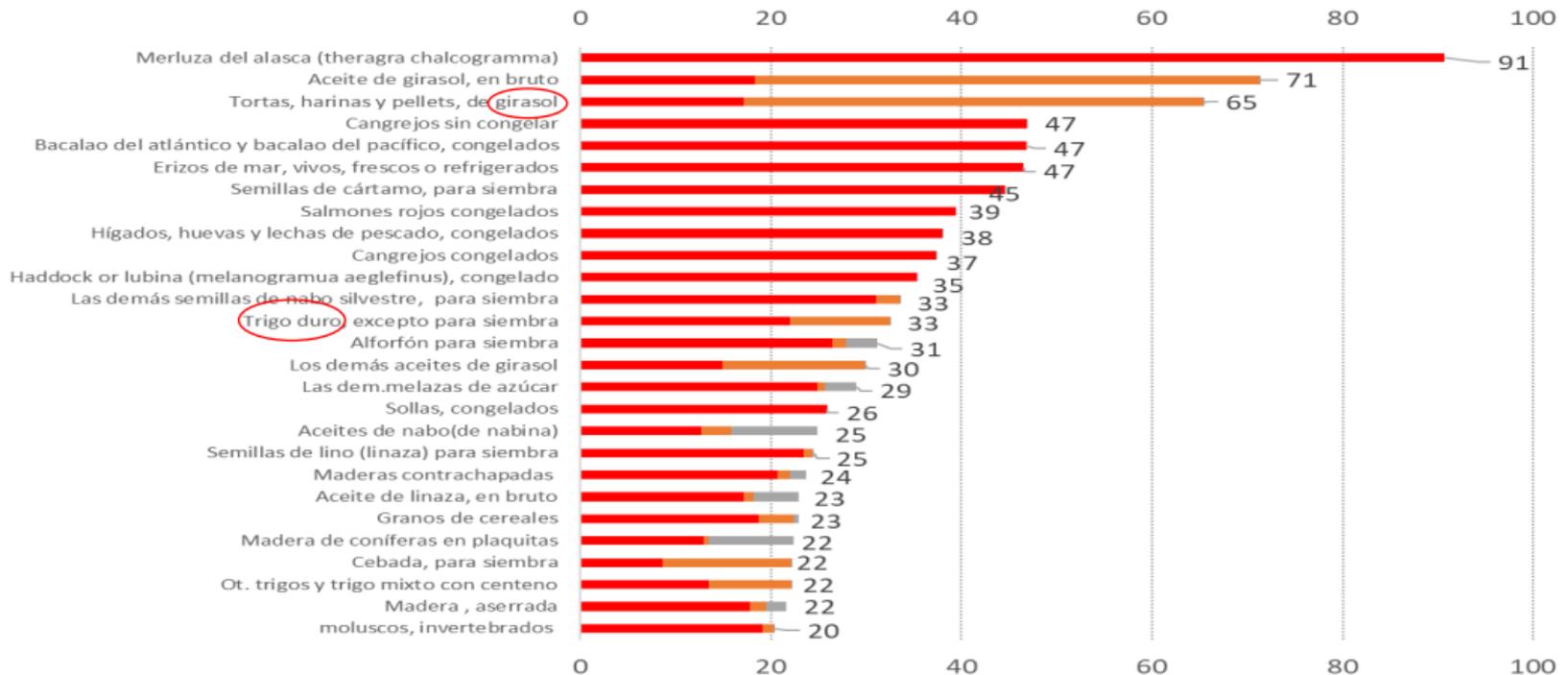


Trade structure

Russia = 30% of world imports for their 20 agricultural products

Ukraine important for wheat, sunflower, barley

Incidencia de Rusia Ucrania y Bielorrusia en las importaciones mundiales de productos agrícolas seleccionados, 2019-2020
(En porcentajes de las importaciones mundiales de cada producto)



LAC Trade structure

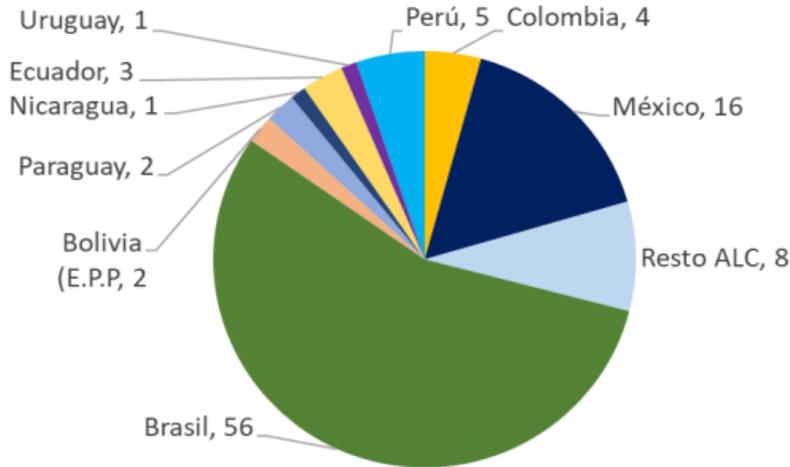
ALC imports from Russia = 0.6% of total imports (\$14 bn)

Brazil and Mexico main importers in value

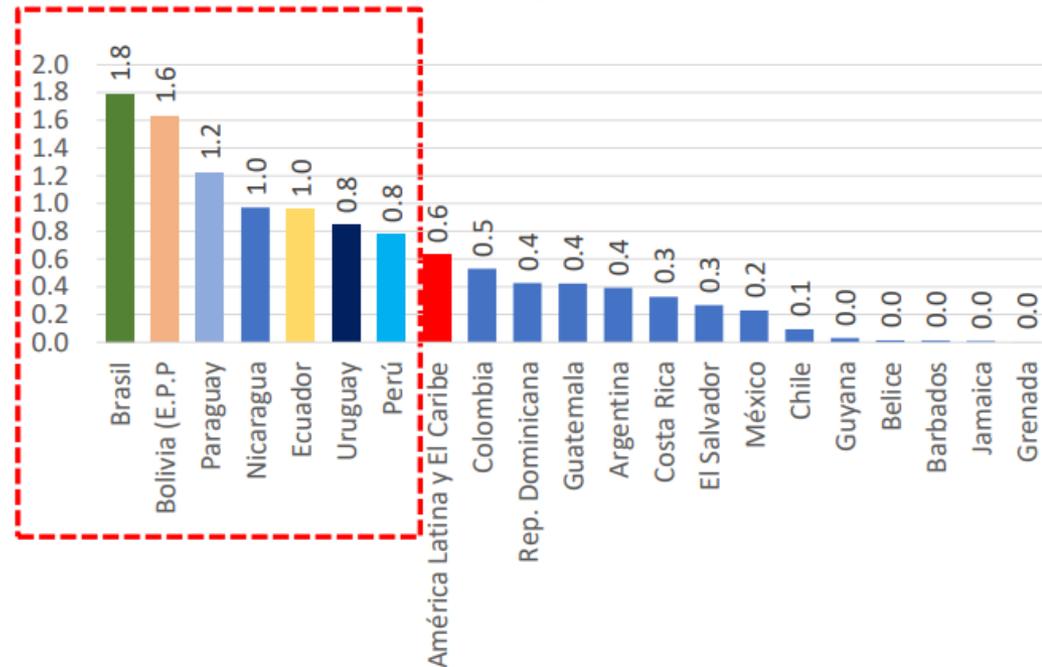
Brazil and Bolivia main importers in % of their imports

América Latina y El Caribe, importaciones desde Rusia por países, 2020

Estructura (US\$ 5 345)



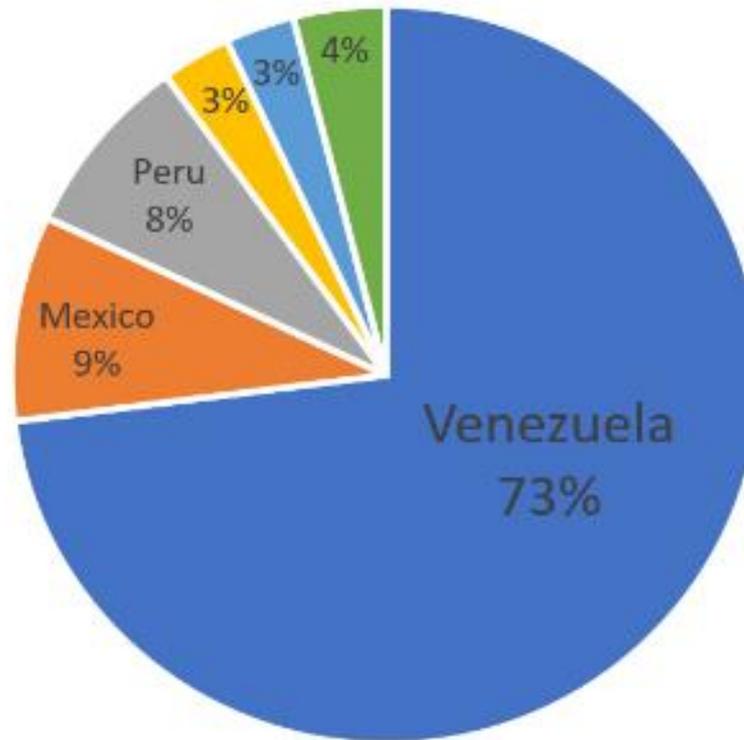
(En porcentajes de las importaciones totales)



Russian Arms Sales to LAC

Russian Arms Sales to Latin America by Country, 1992–2017

Stockholm International Peace Research Institute (SIPRI) Data



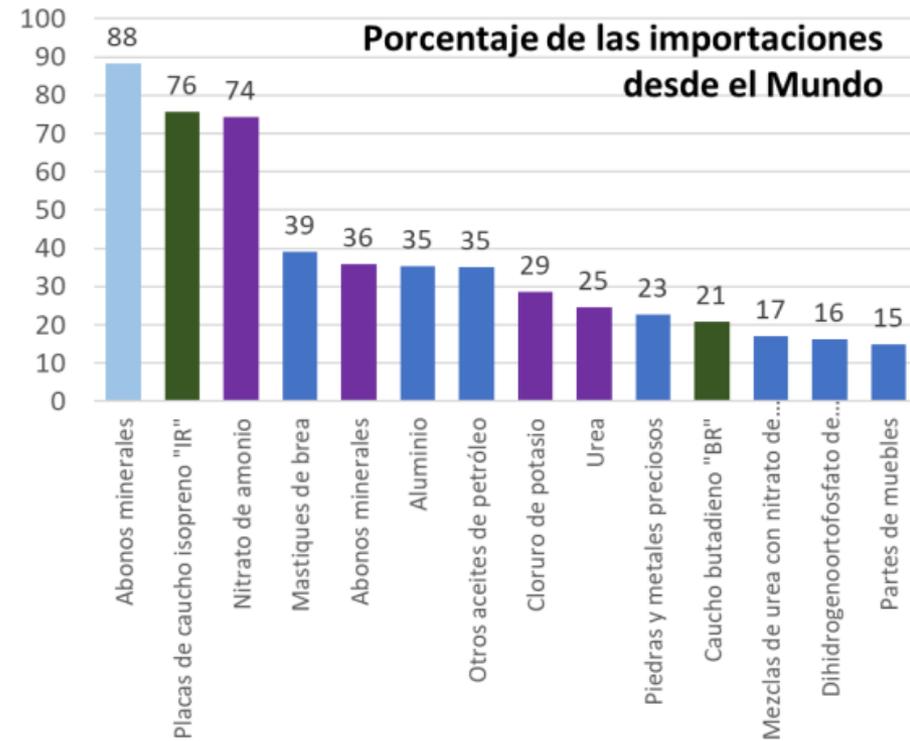
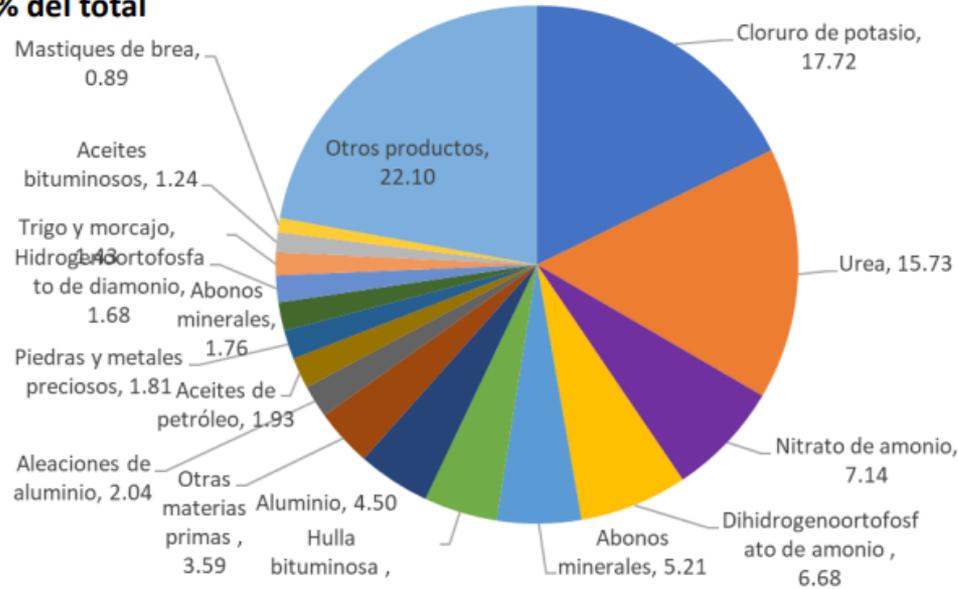
■ Venezuela ■ Mexico ■ Peru ■ Brazil ■ Colombia ■ Others

LAC Trade structure

LAC imports from Russia very important for 14 products
Strategic dependency from fertilizers !

América Latina y El Caribe, importaciones desde Rusia: principales productos, 2020

**Estructura (US\$ 5 347)
% del total**



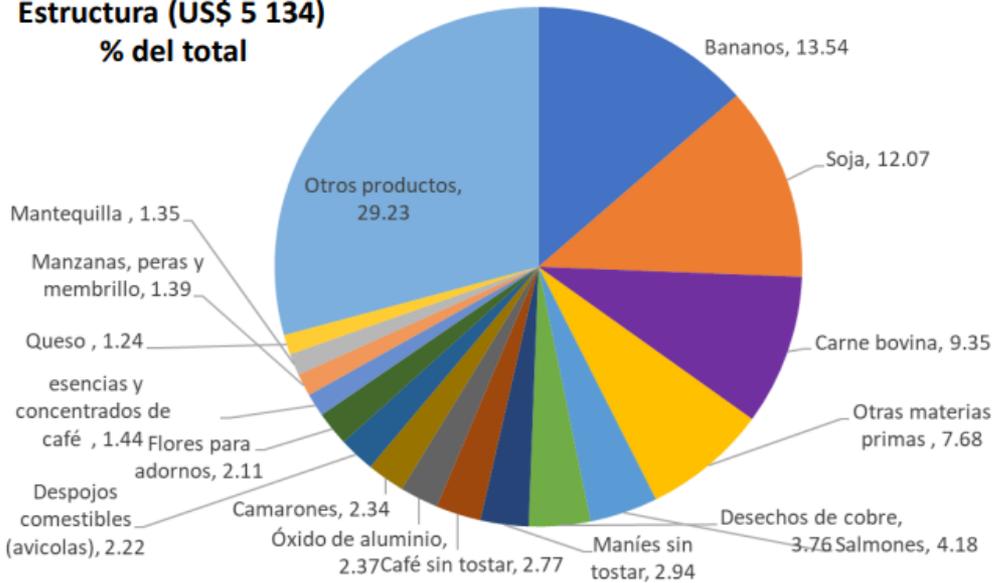
Fuente: CEPAL, sobre la base de información de la base de datos COMTRADE

LAC Trade structure

LAC agricultural exports to Russia very important for 16 products

América Latina y El Caribe, exportaciones a Rusia: principales productos, 2020

Estructura (US\$ 5 134)
% del total



Fuente: CEPAL, sobre la base de información de la base de datos COMTRADE

More exposed economies to Putin's regime

Equator : 21% del banana;
36% de flores;
34% del café;
18% del pescado;
4% del camarón;
15% de mermeladas;

Colombia: 41% de la carne;
97% de la mantequilla;
98% de la crema de leche;
18% de la pasta de cacao;
15% del café;
11% del banano;
9% de las flores

Paraguay:

- Soja (48,6%)
- Despojos de bovinos (2,4%)
- Hígados de bovinos (0,9%)
- Tripas y estómagos de animales (0,5%)
- Otros productos (1,2%)

■ Carne bovina (43,9%)
■ Leche en polvo (1,1%)
■ Lenguas de bovinos (0,8%)
■ Mantequilla (0,5%)

Chile: 61% desechos de cobre;
40% de salmones;
35% de queso fresco;
22% del vino;
21% de truchas congeladas;
10% de mermeladas;

LAC trade is very weak: too dependent



On extra-regional i.e. insufficient regional integration and regional value chains

On too few products

On strategic inputs for their exports and their domestic needs

On external shocks and geopolitical blackmails

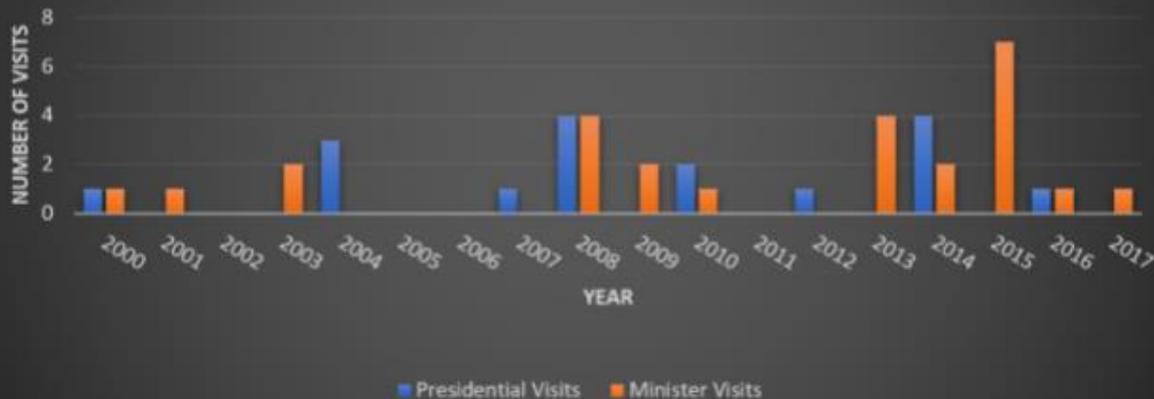
= failure of Regional integration

= failure of cooperative industrial policies

High-Level Russian Visits to Latin America (43 total)

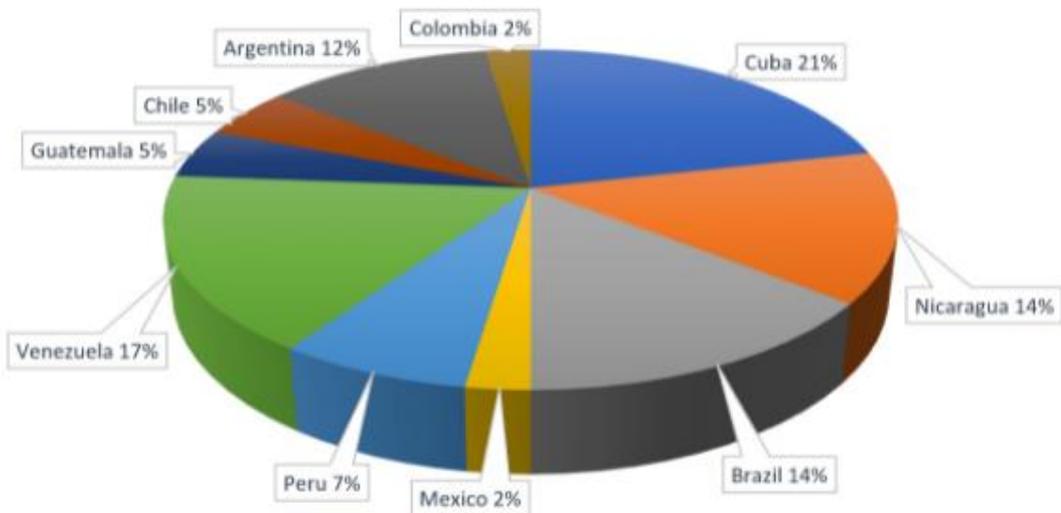
2000–2017

Kremlin data and press reports



Russian Diplomatic Visits to LAC

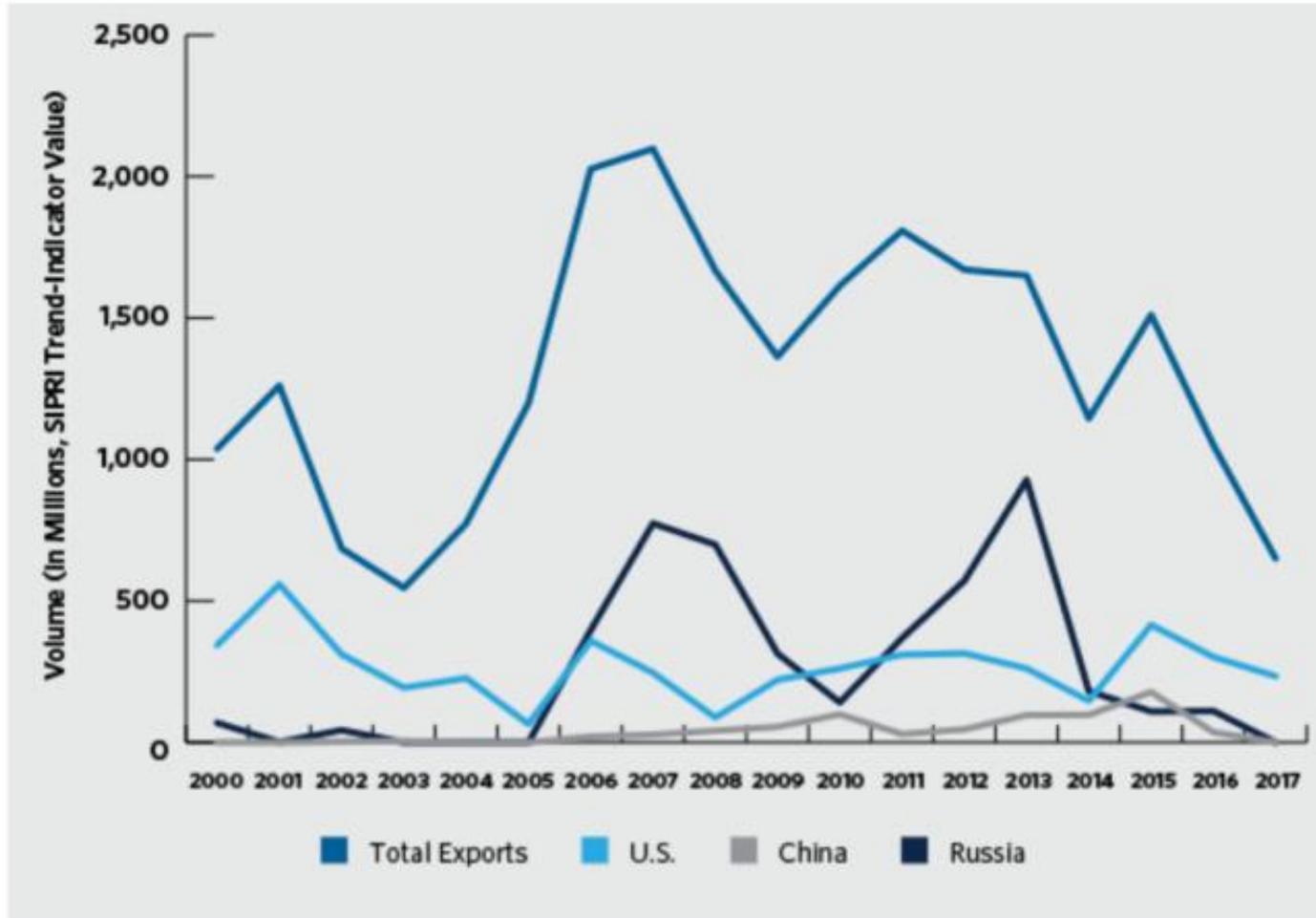
High-Level Russian LatAm Visits By Country 2000–2017



Sources: Kremlin data, press reports.

Russia was 1st provider in 2006-2009 & in 2011-2014

Arms exports to Latin American countries 2000-2017



Source: "SIPRI Arms Transfers Database," Stockholm International Peace Research Institute, March 12, 2018, <https://www.sipri.org/databases/armstransfers>. SIPRI data does not include Cuban arms sales.