

The Russia-Ukraine Conflict and the Adjustment of the International Economic and Trade Governance System

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Abstract. Since the outbreak of the Russia-Ukraine war, significant changes have occurred in the international system, including shifts in the geopolitical landscape and instability in the energy market. A series of trade sanctions and counter-sanctions have also taken place. This study aims to explore the causes, contents, and ultimate outcomes of the changes in the global economic and trade system since the beginning of the Russia-Ukraine conflict, as well as the potential issues that may arise in the future. The emergence of the Russia-Ukraine conflict has exacerbated the security situation in Eastern Europe, disrupting the existing geopolitical balance. This unstable geopolitical environment has prompted the international community to re-examine the layout of economic and trade cooperation. At the same time, it has also triggered turmoil in the energy market, pushing Europe into an energy crisis or causing energy prices to rise.

Keywords: Russia-Ukraine conflict, global economic, trade system, geopolitical balance, energy crisis.

1. Introduction

As the Russia-Ukraine conflict continues to evolve, this small-scale regional war has gradually transformed into a battleground for multiple major powers. Every minor change in this conflict is constantly influencing the global political situation and the economic governance system. Firstly, the Russia-Ukraine conflict is the largest military conflict in Europe since the end of the Cold War. Russia and Ukraine occupy key positions on the geopolitical stage of Eastern Europe. The conflict has worsened regional security and disrupted the existing geopolitical balance in Eastern Europe. This unstable geopolitical environment has prompted the international community to re-examine the layout of economic and trade cooperation, as geopolitical risks directly affect the investment decisions of multinational enterprises and the safety of trade routes. Secondly, the Russia-Ukraine conflict has triggered turmoil in the energy market. Russia's original energy export destinations were mostly European countries. However, after the outbreak of the Russia-Ukraine war, many European countries imposed economic sanctions on Russia, preventing it from selling oil, natural gas, and other energy resources to European countries. As a result, East Asia has become an ideal direction for Russia's energy exports. Subsequently, the United States, Europe, and other countries imposed a series of trade sanctions on Russia, covering multiple fields such as finance, trade, and technology. Russia has also taken corresponding counter-sanctions. These sanctions and counter-sanctions have greatly disrupted the international trade order. At the same time, traditional trade rules and mechanisms have proven inadequate in responding to such large-scale sanctions, necessitating adjustments to the international economic and trade governance system to adapt to new trade conflict scenarios. For instance, international institutions like the World Trade Organization need to re-examine rules related to the legality of sanctions.

In previous studies, most have mentioned that due to the sanctions imposed by Western countries on Russia, there have been significant changes in the prices and types of Russia's energy exports. Therefore, this paper uses energy-exporting countries as an example for analysis.

This article examines the impact of energy market transformation on energy transition, as well as the economic upheaval that the sanctions imposed by Western countries on Russia and Russia's counter-sanctions against Western countries may cause in the global economy.

2. The Impact of the Russia-Ukraine Conflict

2.1. Altering the Geopolitical Landscape

The change in the geopolitical landscape has led to a shift in the European security landscape. Firstly, it is reflected in the changing role of North Atlantic Treaty Organization (NATO) in Europe and the strategic priorities it represents. NATO has altered its military deployment in Eastern Europe, deepening the dependence of Eastern European countries on NATO's military protection. For instance, Poland and the Baltic states have all requested NATO to increase its military presence in their vicinity and deploy more military equipment, further consolidating NATO's eastern defense line and intensifying military confrontation with Russia. This demonstrates the conflict between Russia and Ukraine and the importance of Ukraine to Russia. As NATO continuously strengthens its military deployment in Eastern Europe, a broad strategic buffer zone becomes particularly important for Russia, and Ukraine fills this gap, allowing Russia to avoid direct military threats from NATO. However, Ukraine desires NATO's protection, which conflicts with Russia's fundamental interests, thus constituting an irreconcilable contradiction and altering the geopolitical landscape in Eastern Europe. Secondly, the change in the European security landscape will also lead to an intensification of internal security divisions. Some European countries, fearing the spillover of the conflict, actively participate in military aid to Ukraine and sanctions against Russia. However, other countries are more concerned about the domestic problems brought about by the energy crisis and economic crisis, and thus show a cautious attitude towards sanctions against Russia. Therefore, there are significant policy differences within Europe regarding security and the Russia issue. Some European countries have adopted the same attitude as the United States towards Russia, first imposing economic and financial sanctions. They froze some of Russia's assets in Europe, including those of Russian enterprises and individuals, such as bank accounts, financial investments, and real estate, covering multiple fields including energy and finance.

After freezing assets, they also restricted Russia's financial business. Some European countries limited the business activities of Russian banks with the international financial system, such as cutting off the connection between some Russian banks and the SWIFT international settlement system, greatly hindering Russia's cross-border trade and affecting its international trade and capital flow.

2.2. Causing Turmoil in the Energy Market

As a major energy exporter in the world, Russia's annual energy export accounts for approximately 11% to 18% of the global total. However, the outbreak of the Russia-Ukraine conflict has severely hindered Russia's energy exports. On March 8, 2022, the US President signed an executive order, announcing a ban on the import of Russian oil, liquefied natural gas and coal, and prohibiting new energy investments in Russia. On April 8, 2022, the EU announced a ban on the import of Russian coal, with spot transactions immediately halted and non-spot transactions having a four-month grace period. The full ban on the import of Russian coal was implemented in the second week of August. On June 3, 2022, the EU announced a ban on the import of Russian crude oil within six months and Russian petroleum products within eight months. It also prohibited insurance companies from providing insurance services for ships transporting Russian oil. Member states importing Russian crude oil through pipelines were exempted, as well as Bulgaria and Croatia for the import of Russian seaborne crude oil and vacuum gas oil. Hungary was granted an exemption from the ban on Russian oil imports, and the Czech Republic was exempted from the 18-month ban on the resale of Russian petroleum products. On December 3, 2022, guidelines for capping the price of Russian oil were issued. The guidelines consist of nine sections and 49 articles (hereinafter referred to as the "Regulations"). The Regulations specify that the price cap for Russian seaborne crude oil exports is set at \$60 per barrel and prohibit the provision of transportation, insurance and other services to those purchasing Russian crude oil at prices above the cap. The Regulations also categorize transaction scenarios and different types of participants into "levels", with Level 1 participants including entities directly purchasing restricted petroleum products and Level 2 participants including financial institutions

providing specific trade financing and general financing. The EU requires service providers to retain relevant records for five years and provide a sample certificate if they want to purchase Russian crude oil products. Service providers must comply with the record-keeping and certification procedures in good faith. The Regulations state that the price cap only applies to the purchase price of restricted petroleum products, and ancillary costs such as freight, insurance, transportation costs and legal fees are not included in the cap and must be invoiced separately at commercially reasonable rates. The Regulations also stipulate corresponding regulatory and penalty measures for violations of the price cap guidelines, including but not limited to fines and asset freezes. However, the Regulations also list some exemption rules for special circumstances, such as humanitarian or specific energy supply situations. On December 5, 2022, the import of Russian seaborne crude oil was banned, and the G7 and the EU imposed a maximum price cap on Russian seaborne crude oil exports. On February 4, 2023, the Council announced the maximum price cap for Russian seaborne exports of refined oil products at \$45 and \$100 per barrel. On February 5, 2023, the import of Russian seaborne refined oil products was banned, and the G7 and the EU imposed a maximum price cap on Russian seaborne exports of refined oil products. On June 25, 2024, the EU Council issued a statement on its official website, officially announcing the 14th round of sanctions against Russia, including measures to limit Russia's ability to transport liquefied natural gas to the world for the first time. It prohibits the transportation of Russian liquefied natural gas to EU ports for onward shipment to third countries, including ship-to-ship and ship-to-shore transfers. It also prohibits new investments and the provision of goods, technology and services for the completion of Russian liquefied natural gas projects under construction. This series of energy sanctions against Russia has brought about significant changes to the global energy structure. The gas game between Russia and the EU is concentrated in three areas: trading mechanisms, gas pipelines, and enterprise operation management. Disputes often arise from the differences between the two sides in these areas, leading to crises. The outbreak of the Russia-Ukraine conflict in 2022 further exacerbated the EU's gas crisis, and the interdependence between Russia and the EU in the gas sector has also changed to some extent. In the short term, the Russia-Ukraine conflict poses a significant risk to the energy security of some European countries, but it does not constitute a global energy security issue (Yi, 2022). After the US and European countries imposed sanctions on Russia, Russia was unable to use the SWIFT international settlement system to conduct energy settlements with other countries (Zhang, 2022). According to data from the Russian SWIFT Association, about 300 Russian financial institutions are SWIFT members, accounting for more than half of Russian financial institutions and making Russia the second-largest user after the US. Russian financial institutions conduct an average of about 46 billion US dollars in foreign exchange transactions globally each day, of which 80% are denominated in US dollars. Russian financial institutions account for about 1.5% of all SWIFT daily message transmissions. The ban on SWIFT will cut off the information exchange between Russian and international financial institutions, thereby blocking the regular channels for Russia's foreign trade settlements. From an energy perspective, the removal of Russian banks from the SWIFT system will make the normal export of oil and gas, which accounts for more than 40% of Russia's total fiscal revenue, difficult, and this will bring about a series of consequences such as currency devaluation, capital outflow, and stock market decline, causing a severe shock to the Russian economy in the short term. Therefore, Russia has imposed counter-sanctions on the countries that sanctioned it, such as forcing some countries to use the ruble for settlement when purchasing Russian energy resources. This has led to the proportion of Russia's energy exports to the EU in its total crude oil exports dropping from 40% to 45% before the Ukraine conflict to 4% to 5% currently (Russian Satellite News Agency, nd). Russia's energy supply to Europe has sharply declined, and now its energy products are mainly exported to some Asian countries such as China, India, and Turkey. In just two years since the outbreak of the Russia-Ukraine conflict and Russia's sanctions, India has occupied about 40% of Russia's crude oil export share, and Turkey has become the largest Russian energy importer in the Western Hemisphere. This has led to the continuous eastward shift of the world energy center, and Russia is also actively expanding its

energy market in Asia, making the US one of the main suppliers of liquefied natural gas to Europe. This has forced countries to rethink the relationship between energy security and trade stability.

2.3. Russia's trade sanctions and Russia's counter sanctions

After the outbreak of the Russo-Ukrainian War, some countries in Europe and America imposed a series of trade sanctions on Russia, such as restricting the export of high-tech products and equipment to Russia, including semiconductors, telecommunications, encrypted security, lasers, sensors, navigation, aviation electronics, and maritime technology. In addition, the European Union also prohibits the import of bulk commodities such as coal, steel, and fertilizers from Russia, while Canada prohibits the export of alcoholic beverages, tobacco, some textiles and sportswear, shoes, luxury clothing and accessories, jewelry, kitchenware, and art to Russia. Restricting Russia's development in multiple fields such as military and civilian. At the same time, in the field of transportation, European and American countries have not spared Russia. Multiple countries have banned Russian airlines from entering their airspace in both air and sea transportation, and have also restricted flights between their own airlines and Russia. The United States has sanctioned 183 oil tankers and other ships, claiming that these ships form a so-called "shadow fleet" that transports Russian oil exports that are subject to US sanctions.

While European and American countries have imposed a series of sanctions on Russia, Russia has also introduced a series of counter-sanctions in response to these sanctions. In response to the cancellation of Russia's most favored nation treatment by the United States and the West, Russia has also taken corresponding countermeasures, raising tariffs on some goods from the United States and some European countries, increasing the cost of these countries' goods entering the Russian market (Fu, 2023). Raise benchmark interest rates, enhance the attractiveness of the ruble, promote settlement localization, and reduce dependence on the US dollar. Russia restricts or prohibits the import of certain specific goods from European and American countries, such as imposing import bans or quota restrictions on European and American industrial products, agricultural products, etc. that are partially dependent on imports and can be replaced by domestic production, in order to reduce dependence on European and American goods and attempt to fundamentally break away from the "encirclement" of European and American countries. At the same time, in response to the energy sanctions imposed by the United States, the European Union, and the G7 on Russia, Russia has also introduced countermeasures. Russia has shifted its energy export direction, reducing its energy exports to Europe and shifting more towards other regions such as Asia and the Middle East, reducing the impact of energy sanctions imposed by European and American countries and weakening the stability of energy supply to European countries. In order to reduce the impact of US dollar control, Russia vigorously promotes the use of rubles for settlement in energy trade, reduces dependence on the US dollar and the euro, lowers the risk of sanctions imposed by European and American countries on its energy trade through financial means, and also enhances the ruble's position in the international energy market. In terms of finance and trade, Russia has also implemented a series of counter sanctions measures, including restricting the business activities of some financial institutions from the United States and some European countries in Russia, including restricting the establishment of branches in Russia, and intensifying monitoring and restrictions on their business scope. Strict approval is required for investment projects involving national security, key industries, and other fields, and even suspending or prohibiting some European and American companies' investment projects in Russia to protect their own industries and economic security.

In short, this series of sanctions and counter sanctions have caused economic losses for both sides. European and American companies have lost market share in Russia, with tight energy supply and rising prices; The Russian economy also faces certain external pressures, such as difficulties in adjusting trade channels and increased risks in the financial sector, but at the same time, it also prompts Russia to accelerate the process of economic structural adjustment and diversification of trading partners.

3. Results

First, the energy market is turbulent, and the world energy pattern has undergone tremendous changes (Xiong, 2024). From the supply side, the Russia-Ukraine conflict will reduce Russia's crude oil supply capacity, and the European energy import center may shift. For example, France was originally one of Russia's main consumers of energy exports, but due to the EU's four rounds of sanctions against Russia since 2022 (officially released by the EU Council), Russia's energy products cannot be transported to most parts of Europe through legal channels, resulting in a surge in natural gas and oil prices in France (People Forum, 2024). So Russia has exported oil and gas in large quantities to China, India, Türkiye and other countries. It can be seen that Russia's energy export direction has changed significantly and gradually moved to the east; From initially exporting most of its energy to European and American countries, to now mainly exporting to the Middle East, Southeast Asia, and East Asia, the structure of Russia's energy exports has undergone significant changes. Therefore, I believe that Russia's energy supply direction has undergone a major adjustment. The European market is no longer Russia's main supply direction, but has shifted massively to East Asia, South Asia, Southeast Asia, and the Middle East, shifting the center of gravity of the world's energy supply to the east (Yang, 2022). The Ukrainian crisis has triggered an energy crisis, which is the direct cause of the current economic predicament in Europe, rooted in the strategic shortsightedness of some European political elites. Over the past 20 years, some European political elites have been too persistent in pursuing green and low-carbon goals, strictly restricting the development of traditional energy and nuclear power industries internally, and shutting down a large number of enterprises and nuclear power plants engaged in traditional energy mining and extraction. However, at the same time, they have imported a large amount of cheap traditional energy from Russia to ensure their own heating and industrial production, gradually forming Europe, especially Germany's energy dependence on Russia. Germany's energy dependence on Russia began during Schroeder's tenure as Chancellor from 1998 to 2005. Merkel, who succeeded as Chancellor, continued to strengthen this dependence by pushing for the commissioning of the Nord Stream 1 pipeline, which transports gas from Russia to Germany, in 2011, and then strongly supporting the construction of the Nord Stream 2 pipeline project. In fact, some foreign scholars have been criticizing Europe's energy dependence on Russia, and criticizing the trend of politicization of European environmental issues and green low-carbon goals. They believe that European left-wing forces, represented by the Green Party, strongly promote green low-carbon goals and bring Europe into the "energy policy trap". With the outbreak of the Russia-Ukraine conflict, the price of natural gas, oil and other energy has soared alarmingly. The natural gas prices in Europe in March 2022 were more than five times higher than a year ago, while the global oil prices almost doubled during the same period, and the price of coal increased by 3.7 times. Through a series of studies, it shows that the risk of global economy falling into stagflation caused by the Russia-Ukraine conflict in the past five years has increased the Russia-Ukraine conflict, which has had a major impact on the world energy, raw materials and food supply chain, leading to soaring commodity prices (quoted in the supplement) (Li, 2022). The severe impact on market expectations, combined with the effects of export bans and financial sanctions, poses severe challenges to the global commodity supply chain. Importantly, the impact of this conflict on global commodity supply is difficult to recover in the short term, and commodity prices will continue to hover at high levels for about a year, leading to a large number of unsold commodities. This has increased the downward pressure on the world economy, even leading to an overall economic recession, against the backdrop of the world economy already entering a downward channel, huge supply chain gaps, and rising inflation. From a total perspective, the direct impact of Russia and Ukraine on the global economy is minimal, with Russia's GDP accounting for only 1.7% of the world's total and Ukraine's accounting for only 0.1%.

On the other hand, the Russia-Ukraine conflict has been the largest military conflict in the European continent since the end of the Cold War, which has greatly changed the geopolitical pattern in Eastern Europe. Russia and Ukraine occupy key positions on the geopolitical stage of Eastern Europe, and the conflict has worsened the regional security situation and disrupted the original

geopolitical balance in Eastern Europe. This unstable geopolitical environment has prompted the international community to re-examine the layout of economic and trade cooperation, as geopolitical risks can directly affect the investment decisions of multinational corporations and the security of trade routes. At the same time, many countries have begun to adjust their foreign economic strategies in response to the uncertainty brought by conflicts, strengthen trade cooperation with relatively stable regions, and avoid excessive dependence on resources and markets in conflict affected areas. At the same time, sanctions and counter sanctions between Russia and European and American countries have become particularly important. After the outbreak of the conflict, European and American countries have imposed a series of economic sanctions on Russia, involving multiple fields such as finance, trade, and technology. Russia has also taken corresponding countermeasures. These sanctions and countermeasures have greatly disrupted the international trade order. Traditional trade rules and mechanisms appear inadequate in the context of large-scale sanctions, prompting the international economic and trade governance system to adjust to adapt to new trade conflict scenarios. For example, international organizations such as the World Trade Organization need to re-examine the legitimacy of sanctions and other related rules.

Finally, the Russia-Ukraine conflict may have a great impact on some countries, industries and products. Russia and Ukraine do play a significant role in the global economy and trade in some important sectors and products, as they (mainly Russia) play the role of major suppliers in international commodity markets such as grains, edible oils, natural gas, oil, coal, metals, minerals, fertilizers, etc. Russia's energy supply direction has been adjusted, and the European market is no longer its main supply direction, but has shifted massively towards China and India, causing the center of gravity of the world's energy supply to shift eastward. Russia is the world's largest exporter of pipeline natural gas, accounting for 26% of global exports, the world's second-largest exporter of crude oil, accounting for 12% of global exports, and the world's third-largest exporter of coal, accounting for 18% of global exports. The conflict between Russia-Ukraine conflict has intensified the differentiation in the field of international economy and trade. Some countries have strengthened cooperation with non-Western countries to seek more stable economic and trade relations. At the same time, some international economic and trade organizations and agreements have also been impacted, and their cooperation models and rules need to be re-examined and adjusted. Europe is facing development difficulties due to the pressure of energy substitution; Some developing countries have experienced a deterioration in their international balance of payments and have fallen into a sovereign debt crisis; The impact of geopolitical factors on global trade and cross-border capital flows is becoming increasingly prominent. The significant adjustment of Russia's economic development model under the joint sanctions of the United States and Europe has promoted the reshaping of global industrial and supply chains, changed the cooperation and flow of goods, funds, and technology, intensified the trend of anti-globalization, and severely impacted multilateral international governance mechanisms.

4. Conclusion

In conclusion, the Russo-Ukrainian war has brought tremendous changes to the world, had a profound impact on the international economic and trade governance system, accelerated changes in the global economic landscape, and restructured international trade relations. From a geopolitical perspective, the development of the Eurasian continent is affecting the future international order at both the global and regional levels. If the effectiveness of the United Nations and regional security forums is affected by the current Ukrainian crisis, the international community will face greater danger and challenges in the long run. Countries need to adapt to this change as soon as possible, strengthen international cooperation and coordination, and jointly promote the improvement and development of the international economic and trade governance system. In terms of geopolitical pattern, the essence of the Russia-Ukraine conflict is the contradiction between Russia's desire to expand its sphere of influence in order to maintain national security and NATO's desire to seek

protection from NATO and European and American countries, which makes the situation in Eastern Europe more tense. The North Treaty's continuous strengthening of military forces in Eastern Europe is also constantly stimulating Russia to make some radical acts out of its desire to protect itself, but also strengthening cooperation between Russia and Asian countries, leading to a more obvious trend of world multipolarity and major challenges to the international order. The energy market is in turmoil, and the Russia-Ukraine conflict has caused serious damage to the European energy supply system, and has had to seek to import energy from other regions. There exists an "energy interdependence" between Russia and Europe. The dependence and competition abstracted through the establishment of an energy game model between Russia and Europe indicate that both sides achieve their goal of influencing each other's behavior by changing their own profits. The game between the two sides is also non static, with their respective profit variables constantly changing, leading to changes in the "equilibrium solution" in reality. The increased cost of pressure exerted by Russia on the European Union is conducive to the formation of a diversified energy import pattern in the EU. The cost of energy has significantly increased. The direction of Russia's energy exports has shifted towards Asia and other regions, leading to significant changes in the global energy trade pattern, increased uncertainty in the energy market, and frequent fluctuations in energy prices. In terms of trade sanctions and counter sanctions, European and American countries have imposed extensive and severe sanctions on Russia, involving multiple fields such as finance, trade, and technology, which have brought enormous pressure to the Russian economy. However, Russia has also taken a series of counter sanctions measures, restricting European and American companies from doing business in Russia, promoting domestic currency settlement, etc. Sanctions and counter sanctions have impacted the global trade order, causing the international trade system to face division and restructuring, hindering the global industrial chain and supply chain, and setbacks in the process of economic globalization.

Therefore, the author believes that at the international community level, it is necessary to strengthen the coordinating role of international organizations, oppose trade protectionism and unilateralism, strive to resolve disputes through negotiation, strengthen global energy governance, establish a fair, reasonable, and stable energy market order, and jointly address the challenges of energy security. Each country should develop diversified energy strategies based on its own situation, reduce dependence on single energy suppliers or regions, increase investment and development in renewable and clean energy, improve energy utilization efficiency, and achieve sustainable energy development. At the same time, I also believe that strengthening economic structural adjustment is one of the powerful methods to face the world's economic and financial difficulties, in order to improve the resilience and low risk resistance of our own economy, reduce dependence on the external environment, and strengthen the development and innovation capabilities of domestic industries.

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