Economic Downturn

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BRASIDAS GROUP

Introduction

In our end of Q1 newsletter, Brasidas Group noted the failures in intelligence that the Kremlin made in its decision-making to invade Ukraine. Q2 has only seen an acceleration of these negative developments for the Russian Federation. Corporations have begun self sanctioning *en masse* and leaving Russia altogether. An EU ban on Russian oil and natural gas is threatening to decimate the Kremlin's coffers. Meanwhile, the deployment of Russian disinformation has increased and spread across channels of the internet thickening the fog of war.

In conjunction with the aftershocks of the COVID-19 pandemic, this situation has sent global markets into a tailspin. Supply chains are still experiencing issues, and no end in sight to these worries is on the horizon. Furthermore, COVID-19 precipitated a palpable rise in income inequality, which was a significant problem before the outbreak of COVID-19. To make matters worse, these crises are coupled by rising inflation and pending global food shortages. The World Bank is predicting a 22% rise in global food prices in 2022, which could have devastating impacts globally.

The economic downturn has forced investors to search for new opportunities and vehicles for their capital. A burgeoning crypto market, at unforeseen lows is tempting some to shift from rapidly devaluing fiat currency to innovative digital options. However, understanding of the technology and the risks associated with crypto-assets are creating challenges for ill-equipped investors. As the attraction of the potential for the market grows among investors so should their understanding and their risk assessment prior to investing.

Additionally, China's move to ban crypto mining could further cause this market to trend downwards. Before the ban, China accounted for over 75% of global crypto mining. But due to their climate goals, they are cracking down on mining as it requires a high-level of electricity consumption. The ban is forcing mining operations to set up in countries with less renewable sources of energy. Additionally, these countries are often more opaque and less inclined to take proactive steps to reduce their carbon production.

In these times of economic downturn, corporations are facing difficult challenges to vet supply chains and comply with rapidly shifting international sanctions. The Brasidas Group (BG) offers a wide range of services to help organizations meet these challenges. BG supports its clients with premium, bespoke services to address the myriad of challenges they face. BG offers a range of business intelligence, due-diligence, and risk assessment products to assist in effective strategic planning for the international marketplace. Learn more about what the Brasidas Group can do for your organization here.

Ukraine Conflict

A Shift in Corporate Behavior

While corporations tended to differentiate trade and state affairs in the past, the Ukraine-Russia conflict has prompted their increasingly active role in geopolitics and altered corporate behavior in general. The conflict has exacerbated the challenges facing the global economic and political structures, forcing multinational corporations to adapt their business strategies to a new set of circumstances. Following the NATO countries' adoption of extensive sanctions packages, corporations began closing their businesses in Russia, with some facing billions in losses.

Companies Leaving Russia as a Result of the Ukraine Conflict

According to *The Diplomat* , the list of major technology, management, energy, media, and credit card companies that have either suspended or ceased operations in Russia only continues to grow. Energy giant British Petroleum announced its exit from Russia on 27 February 2022, stating that it would give up its 19.75% stake in the Russian state-owned energy company Rosneft, which could amount to a USD 25 billion loss.

At the beginning of March, technology leader Microsoft suspended all sales of products and services in the country, and multinational financial services corporation Visa Inc. soon followed. Ultimately, hundreds of companies ended up "self-sanctioning," which, in turn, is expected to significantly increase the cost of doing business in Russia and shrink the Russian market soon.

Furthermore, corporations' decisions to exit Russia are expected to affect the global balance of power and trade. Since the Russian economy has become increasingly isolated from the West, its companies will seek to enter other markets, most likely in China and Asia. This may, in turn, prompt a closer Sino-Russian alliance and further intensify global divisions.

Global Companies Face Increased Risk with Fears of Conflict in Other Countries

Experts have noted that in an era of increasing deglobalization and shift towards regionalism, multinational corporations face a new set of uncertainties and risks. Notably, the increase in regulatory costs and reputational risks has made corporations rethink their pre-established strategy of over-compliance or de-risking.

As additional sanctions from NATO countries and Russian countersanctions are expected to be imposed, corporations are advised to shift focus to regional and local operations and the diversification of their supply chains. With the fears of potential conflict in Nagorno-Karabakh, Abkhazia, and Taiwan looming, companies must modify their operations further to combat rising costs and maintain supply chain security.

Shifting Corporate Behavior as a Result of the Ukraine-Russia Conflict

Overall, corporations' involvement in sanctioning efforts indicates a notable shift in corporate behavior and questions why companies continued their operations in countries facing human rights violations. And while corporations claim that their response to the Ukraine crisis is an exception and not the rule, nothing is certain, and everything has become possible.

EU Ban on Russian Oil

Can the Kremlin Raise its Fuel Revenue following an Embargo?

At a meeting in Brussels held on 30 May 2022, leaders of the European Union (EU) agreed to cut 90 percent of Russian oil imports to the EU by the end of this year. The aim is to deprive the Kremlin of its main source of funding for the war in Ukraine. The remaining 10 percent not cut, is the oil transported to countries heavily dependent on Russian oil, including Hungary, Slovakia, and the Czech Republic, through the Druzhba (meaning "friendship" in Russian) pipeline. However, with Russia raising its oil prices and diversifying its importers, the embargo effects could be considerably diminished, if not evaded altogether.

Before the invasion of Ukraine in 2021, Russia generated total revenues of around USD 180 billion from the export of crude oil and oil products. During that time, the EU accounted for almost half of these exports, with Germany and the Netherlands as the leading importers. Those countries paid around USD 1 billion a day for Russian oil and gas. What EU leaders are now hoping to achieve is to reduce the Member States' dependency on Russian oil by transitioning to alternative suppliers, such as the United States, Norway, and Saudi Arabia. Thus, this decision would create a sizeable dent in Russia's government budget and cause long-term adverse effects on its economy.

Russia Seeking New Oil Partnerships with India, China and Turkey

Nevertheless, the EU is not the only one looking for new partnerships, as Russia is turning to countries such as India, China, and Turkey, to export its crude at discounted prices. Responding to the EU measures, Russia's permanent representative to the International Organizations in Vienna, Mikhail Ulyanov, said that the ban only reflects negatively on the bloc and tweeted that "Russia will find other importers."

Since the start of the recent invasion of Ukraine on 24 February 2022 until the end of May 2022, India imported 34 million barrels of Russian oil, which is three times the amount it imported during the same period in 2021. Furthermore, China's demand for Russia's energy has also been gradually increasing over the past months, with oil imports reaching a record high of 1.1 million barrels per day (bpd) in May 2022, compared to 800,000 bpd in 2021. Coupled with the overall rise in oil prices, this newly-created demand for Russian crude will likely result in an increase in Kremlin's fuel income, at least in the short run, which according to experts, will be up by 45 percent in 2022, reaching USD 180 billion.

Russia's long-term economic prospects might not be as bright without the EU's annual contributions of almost USD 430 billion [EUR 400 billion] a year to its budget. Additionally, the new set of EU sanctions, which includes asset freezing and travel ban on individuals, and the exclusion of Russia's biggest bank, Sberbank, from SWIFT, will likely reinforce the downward spiral of its economy. Therefore, whether Russia's newly enhanced partnerships with non-European countries can mitigate the impact of the EU sanctions and to what extent remains to be seen.

Russian Fake News and Misinformation:
A Strategic Weapon in the Ukrainian War

From the first moments of the Russian invasion, many misleading videos and false information started circulating on social networks, especially on Facebook, Twitter, and TikTok. In just a few hours, internet trolls and propagandist pages supported by Moscow were extensively sharing misinformation and fake news that contained false information about alleged Ukrainian war crimes and the number of war casualties.

Moscow also attempted to discredit actual news as "Western Propaganda." However, several examples of Ukrainian propaganda circulated online in the early stages of the conflict, fueling Kremlin attempts to discredit Western media. These instances included the Ghost of Kyiv story and a widely spread story about 13 Ukrainian soldiers refusing to surrender before a heroic slaughter on Snake Island. These stories have only helped the Kremlin in their own misinformation efforts.

Russian Allegations and Justification for Invasion

Such misinformation from the Russian side was mainly to provide a casus beli for the invasion. By claiming that Russia's national security was endangered by Ukraine's alleged plan to join NATO and that the Russian population was being mistreated and constantly murdered by Ukrainian militias in Donbas. Highlighting these allegations, the Kremlin tried to justify the invasion and present it as an act of defense. In that effort, Kremlin propaganda tends to put the far-right paramilitary organization, the Azov Battalion, in the spotlight.

The Kremlin is constantly pointing out its involvement in the murder of civilians in Odesa during the 2014 Donbas war. Pro-Russian propaganda increasingly stressed Azov Battalion's Nazi iconography and ultra-nationalist ideology as the main argument for invasion.

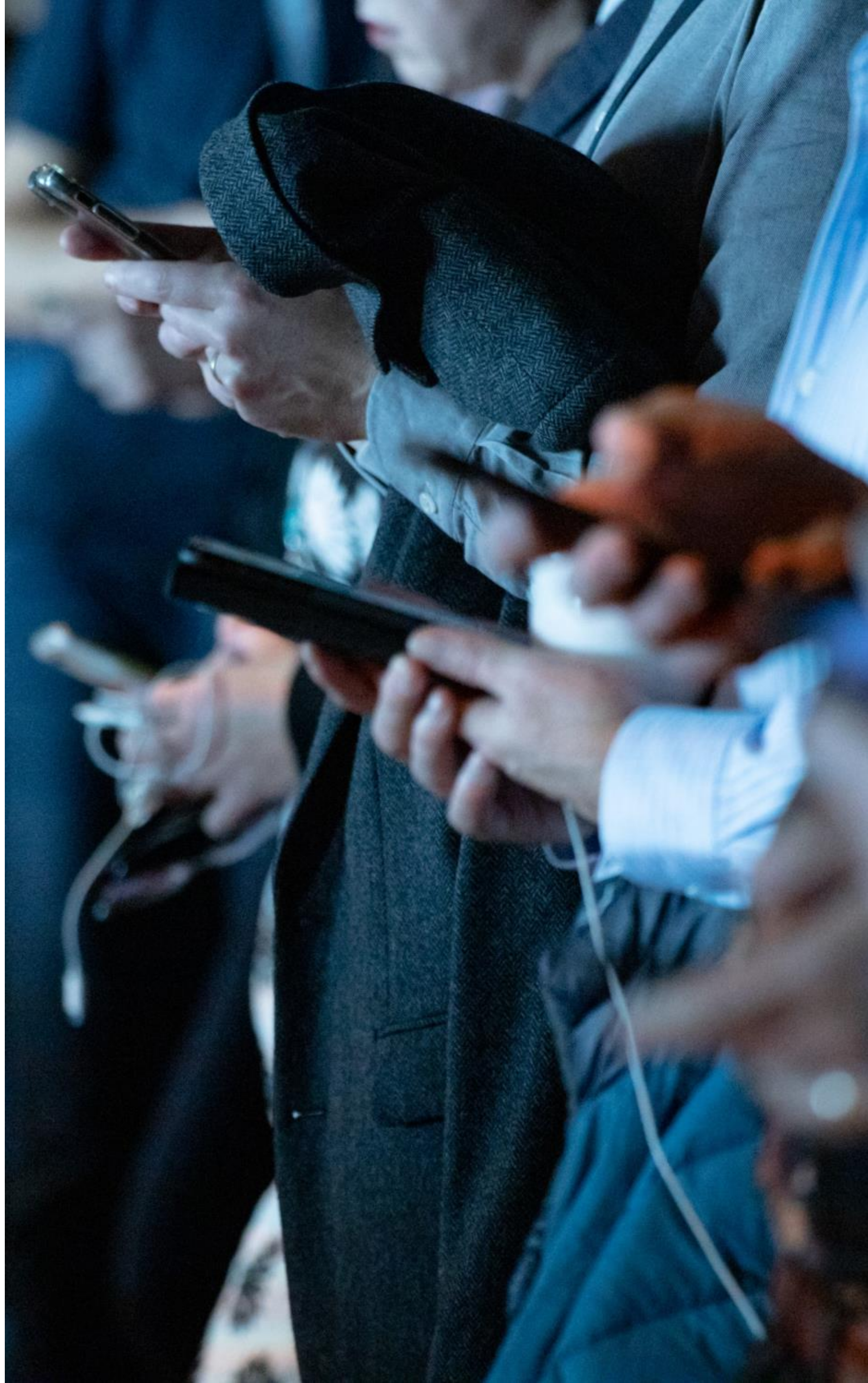
Furthermore, the Kremlin falsely applied its violent methods and ideology to the current Ukrainian government and president, Volodimir Zelensky. One of the Kremlin's main strategies is to blur the general perception of its intentions and end goals by portraying the attack on a sovereign country as a "denazification" of a rogue state.

Russian Disinformation's Military Purpose

Simultaneously, Russian propaganda tends to conceal the actual movement of its troops, mystifying the war objectives and keeping information about war crimes and casualties undisclosed. Even before the war, the Kremlin attempted to disprove rumors and intel about the forthcoming invasion, claiming that it is "Western propaganda" and mere provocation with no ground in reality.

Russia initially claimed that army movements on Ukrainian borders were only military exercises, thus misleading significant parts of the general public into believing that Russia's only interest was to protect its borders and support the endangered Russian population in Donbas. Days before the invasion, the Russian press service of the People's Militia of Donetsk posted a fake video on its Telegram channel claiming that it showed a Ukrainian sabotage operation targeting Russian chlorine tanks.

Similar videos and posts were also shared by Russian media and pro-Russian leaders in Donbas, whose aim was to provide a pretext for the invasion and justify further actions. However, it was revealed by various independent OSINT researchers and media agencies, such as Bellingcat, that the actual footage was recorded in April 2010, believing that the Russian intelligence service, GRU, created a complete hoax.



Similarly, Russian officials tried to discredit evidence about their war crimes in Bucha, claiming that the entire incident was staged by Ukrainian's Western allies to be used as propaganda against Russia. As the actual satellite footage and on-ground photos of dead people were posted by several anonymous users online, the Russian leadership claimed that Ukrainians had been prepared to kill their citizens only to blame Russia.

Russia's Media Isolation and Fake News Within The Country

While most of the global public is aware that Russian claims are vague since they provided no evidence that the Bucha massacre was staged, it was easy for Russian propagandists to sell their narratives to their citizens. The main reason is that there are no independent media outlets in Russia, as all journalists and portals that criticize Putin or the Russian government are banned.

In the given circumstances, it is hard to have an objective picture of what goes on in Russia due to its considerable media isolation. As Putin uses social media and influencers to promote his agenda on Ukraine and rally the support for the war, networks like TikTok have started banning pro-Russian content. At the same time, Putin has introduced a new law by which all individuals who spread fake news about the Russian army can face 15 years imprisonment.

AI is Helping Russia Spread Propaganda Within It's Borders

With AI-driven technologies, such as deep fakes and highly advanced photo and video editing possibilities, it becomes almost impossible for regular citizens to assess the validity of presented information properly. The war in Ukraine has proved that the age of digital misinformation in the "post-truth" era has become the new reality. Such a dystopian course that the whole society has taken will inevitably lead to global insecurity and instability. It threatens complete world order based on liberal democracy and opens new possibilities for manipulation.

In a new world order, authoritarian regimes with more developed internet technologies and artificial intelligence will have a higher ground over "open societies." Limitless media and propaganda capacities would give them more power to create and reshape global "truth" narratives.

Cryptocurrency and Blockchain:

How to Understand the Risks of the Latest Financial Asset Class

Blockchain and Crypto Assets

Rising inflation and fears of recession spurred by rising interest rates have seen a general economic downturn. Crypto-assets are no exception to this overall downturn. In a space that has been price exclusionary for many, the market factors are causing many investors to consider the present a prime opportunity to enter the crypto space. As the price of industry-leading crypto-assets continues to drop, investors without prior exposure to this asset class are flooding the market. However, investors should understand this space's unique benefits and risks.

To understand and mitigate the risks and benefits of crypto-investing, it Is key to have an adequate understanding of crypto-assets and what differentiates them from all other financial asset classes. In its primary sense, cryptocurrency, the most common crypto-asset, refers to a digital currency secured by cryptographic technology, in contrast to fiat currency, which is backed by a government or a commodity currency backed by precious metals such as gold. Cryptography's role in cryptocurrency makes it nearly impossible to counterfeit a digital currency. Furthermore, essentially all cryptocurrencies exist on a peer-to-peer transaction system, thus eliminating the role of financial intermediaries such as banks or payment processors. This characteristic holds true for other crypto assets, such as non-fungible tokens (NFTs).

A blockchain or distributed ledger is the underlying system that allows a peer-to-peer payment system to work. A blockchain collects information in groups, known as blocks or ledgers. Blocks have certain storage capacities and, when filled, are closed and linked to the previously filled block, forming a chain of data or a "blockchain." In order to understand blockchain technology's particularities, it is essential to understand the four main types of blockchains. These include public, private, hybrid, and consortium blockchains.

Different Types of Blockchains

Public blockchains are the most common blockchains on which most cryptocurrencies run. The most significant benefit of public blockchains is that no single entity controls the blockchain, making it difficult to alter or tamper with the information chain. It is primarily due to this aspect that public blockchains are considered highly secure. But as a drawback, these blockchains have a prolonged transaction speed. For example, no sane person would buy a cup of coffee with Bitcoin if the time it took for the transaction to process is over 10 minutes, the average confirmation time for a Bitcoin transaction. This is a major impediment to the growth of cryptocurrency as a medium of daily exchange.

Private blockchains, unlike public blockchains, are restrictive by design and are closed off to the public. A single entity or individual generally controls these blockchains. The benefit of centralized control is that third parties are restricted from accessing certain information and processing times are usually much faster. It is conceivable that in the not-so-distant future, hospitals or universities could utilize a private blockchain to store confidential personal data.

A *hybrid blockchain* combines the main aspects of private and public blockchains. Organizations can set up a private, permission-based system where only select entities can access the blockchain's underlying data. In a hybrid model, this is usually coupled with a public permissionless blockchain to which anyone has access. Like private blockchains, hybrid blockchains are not entirely transparent but add the values of centralized control.

A *consortium blockchain* is a private blockchain that grants access to a particular group rather than a single entity. This reduces the risk of a single individual controlling the entire network.

Risks of Blockchain

As with any digital technology, blockchains have risks from various vectors, particularly from a cybersecurity perspective. In addition to spear phishing, ransomware, or SIM swaps, there are inherent digital risks that expose blockchains to various exploitation methods from bad actors. For example, at the nucleus of any blockchain are set cryptographic keys. Like a password, these keys are intended to be private signatory devices that can provide proof of ownership. Usually, a crypto transaction will involve a set of both public and private keys. While the public key can act as an account number allowing the holder to receive transactions, a private key acts as a personal key for a safety deposit box enabling the user to access or "unlock" the cryptocurrency and prove ownership. Ideally, like a safety deposit box, no one but the owner should have access to private keys. Nevertheless, malicious actors are constantly attempting to gain access to these keys. Furthermore, if the key is lost, the cryptocurrency in that transaction is rendered unspendable. Thus memorizing complex private cryptographic keys or storing them on a digital server or drive creates its own risks and flaws.

From a regulatory perspective, another inherent issue with blockchain technology is the anonymity of the marketplace. By its very nature, blockchains are and will remain mostly anonymous. This is primarily due to protocols of crypto transactions that often require users to verify any given cryptocurrency transaction anonymously. Additionally, cryptocurrency was initially developed as an alternative to traditional fiat currencies, subject to strict regulation and monitoring. Cybercriminals are increasingly using cryptocurrencies as a vehicle for money laundering and other forms of financial crime. Chainalysis estimated an average of USD 8.7 billion in cryptocurrency per annum was laundered from 2019-2021. Blockchains are by their very nature untransparent, and that problem will continue to plague the industry or encourage lawmakers to regulate the market. Regulation can have positive effects from a due diligence and law enforcement perspective. Still, regulation could also send crypto-markets into a tailspin as much of their value is based on speculation.

As speculation plays an integral role in cryptocurrency value, volatility in the market is also a prime risk with cryptocurrencies. For example, in the last year, one Bitcoin traded for anywhere between USD 66k and USD 20k, while a single EUR was valued at USD 1.19 to USD 1.05 over the same period. As an investor, the types of volatility seen in the crypto sphere should precipitate careful consideration. Cryptocurrencies inherently hold no intrinsic value, and their value is based entirely on the amount someone is willing to pay for them. However, as they are increasingly being accepted as a medium of exchange by respectable companies like IBM and payment processor Square, their market value continues to grow. Nevertheless, much of the current value of a cryptocurrency like Bitcoin or Ethereum is driven by volatility, and they are quite sensitive to market fluctuations.

The market volatility risk also provides investors with the additional risk of rug pulls. Rug pulls are a standard crypto pump and dump scheme that capitalize on investors' desires to get rich quickly by entering the ground floor of the latest cryptocurrency. One recent example capitalized on the popularity of the Netflix show Squid Game. Scammers created a $SQUID coin that exploded in value from one penny to USD 2,800 only to freefall back to pennies minutes later. The scammers ultimately made off with millions. Unlike a regulated securities market, this type of predatory behavior is completely legal in the cryptocurrency world.

Additional risks in the cryptocurrency space include fake platforms, fake digital wallets, mining scams, initial coin offering (ICO) scams, and variations of Ponzi schemes. These risks necessitate that crypto-investors conduct adequate due diligence before entering the market.

How to handle crypto assets from a due diligence perspective

There are a few steps investors can take to consider any cryptocurrency investment. Before investing in any new crypto asset, investors should read and understand the project's white paper. Crypto white papers serve as a blueprint issued by developers outlining their goals for the project. The white paper should also contain the project's design methodology and explain why developers decided to create it. Often white papers can seem too technical for those without a computer science background, but the project's primary underlying idea should be accessible for the uninitiated to understand.

Significant variables to consider in a project's white paper are the real-world utility of a crypto project, how the project receives consensus in the decentralized network, how crypto assets are distributed, and the project timeline. The answers to these questions differ widely depending on the project.

The white paper should also provide the potential investor with key information about the project that can be used to verify a project's bona fides. In principle, investors should independently verify various factors before investing in any crypto asset. One key factor is where the cryptocurrency is exchanged, as any cryptocurrency should be traded on a branded, legal crypto exchange with an established reputation. Another factor to consider is the company's registration and affiliation to verify that companies are who they claim to be and are regulated and registered with the organizations they claim. Generally speaking, a legitimate company will conduct a KYC check on a potential customer. Thus, a company that does so adds a degree of trust to an investor's risk assessment. Furthermore, investing in crypto-assets could expose investors to potential regulatory and sanctions challenges that they should be aware of.

The Brasidas Group offers professional services to assist investors in crypto markets. Our range of bespoke solutions can provide an investor with the due diligence and red-flag assessments to make an informed crypto-investment decision. As the crypto market grows, the Brasidas Group continues to provide its clients with bespoke products to assist them in navigating the ever-changing market landscape.

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Shifts in Global Crypto Market: China's Ban on Crypto Mining

In late 2021, China banned all cryptocurrency transactions and mining, including bitcoin and blockchain stocks. This came after several phases of targeting digital currencies in China since 2013, restricting financial institutions, companies, and banks from conducting services through cryptocurrencies. The ban came from several of the most important financial regulators in China, such as the central bank and securities and foreign exchange regulators, to maintain control over every aspect and loophole of the economic system and prevent the volatility of digital currencies from undermining China's financial system. This decision is in line with China's environmental strategy to make carbon emissions peak by 2030 and reach carbon neutrality by 2060.

However, amidst China's tactics and strategy to hold complete control over its political and economic processes through such regulations – these policies are not without effect for broader financial processes and digital currencies outside of China and East Asia. The effects of this decision are multi-dimensional and without any dilemma going far outside of China's jurisdiction. Restrictive measures on digital currencies in China generated different political, economic, and environmental processes across countries.

As crypto-mining requires plants with high electricity usage, it is considered an environmentally unfriendly industry given that in many countries, electricity is fossil fuel/ coal-produced. China's ban has caused even more damaging fluctuations in this matter. Studies show that after the restriction was introduced, many crypto miners have moved to countries where crypto mining is allowed, but which are using less renewable energy, such as Kazakhstan. Based on the available data and research, the usage of renewable energy sources like solar, wind, or hydropower dropped from around 40% in 2020 to 25% in 2021. One significant reason is that bitcoin miners lost their access to China's regions with hydropower.

Before the crackdown, China was a market with the highest share in crypto mining, going almost three-quarters of the global worth. However, this decision generated shifts in the worldwide crypto mining market, with the U.S., Kazakhstan, and Russia becoming the world's largest centers for cryptocurrency mining. According to recent research, the U.S. share in the global hash rate, which measures the total computational power dedicated to mining, grew from 4.1% in 2019 to 35.4% in 2021. In Kazakhstan alone, it grew from 1.4% to 18.1%, and in Russia from 5.9% to 11.2% over the same period.

The global crypto market has become a reality that cannot be neglected. The total worth of the worldwide cryptocurrency market is above USD 2 trillion and is projected to reach around 5 trillion by 2030. Also, the global crypto mining equipment market is valued at approximately USD 1.130 million. If this trend continues, the crypto market has the potential to become one of the major industries in the future. This shows that the decisions of significant global economic players such as China will necessarily affect future processes. Some countries will most likely try to follow China's regulatory policies. It is far less likely that the total ban across countries will occur, although a certain level of regulation is necessary and will happen due to the negative potential of money laundering and criminal financing activities. Given the variations at each country's level, there is also a challenge regarding regulations across countries. Moreover, the aim of the world to go towards a more environmentally safe and responsible world with the reliance on renewable energy will force the crypto mining industry to adjust to eco-friendly policies across countries.

No End in Sight for Global Supply Chain Troubles

Just as global supply chains were expected to start moving towards recovery from the complications caused by COVID-19, things took a turn for the worse. Unlike many other states, China continues to have a zero-tolerance COVID-19 policy in place, closing down entire cities for even the slightest sign of the virus. Recent outbreaks in Shenzhen and Qingdao have caused immense shipping delays in their ports. Depots serving local ports are being closed indefinitely, and land-based cargo going to and from these ports is also hampered. These closures have also restricted airfreight coming in and out of major cities like Shanghai, causing cargo carriers to cancel flights.

The war in Ukraine and western sanctions against Russia have closed both air and rail routes traversing the two countries. European firms traditionally utilize rail across Russia to get their goods to China must now find sea routes to get them to their destination. Shipping via air routes faces similar issues as Russia's expansive air space becomes blocked for western companies due to reciprocal sanctions. According to the International Air Traffic Association, air cargo rates were 150% higher in December 2021 than 2019. These rates are only expected to rise while overall shipping capacity will shrink due to the ongoing sanctions. For example, Russian AirBridgeCargo Airlines account for about 4% of worldwide international air cargo, usually ferrying freight between China and Europe.

Energy Supply Problems Exacerbate the Situation

In conjunction with troubles related to the actual movement of goods, the ongoing situation will also exacerbate the price of fuel required to transport them. Russia is the third-largest producer of oil globally and comes in second in terms of global natural gas production. Fuel prices have already seen a significant spike, and they will likely only get worse over time. The shipping cost via land, sea, and air will increase, and considerable delays are also certain.

The supply chain crisis will continue to be precarious for the foreseeable future. No one can determine when the war in Ukraine and related sanctions will cease. It is even more challenging to predict COVID-19 outbreaks in China. Companies relying heavily on materials and products that lean on routes encompassing these regions will need to assess the situation daily and on a case-by-case basis to find the best possible solution for the supply-related problems they will face. These efforts will undoubtedly be best served through a combination of both internal and third-party engagement.

COVID-19 and the Rise of Income Inequality

The COVID-19 pandemic has caused not just an enduring health crisis, but also an economic one. The global economic crisis caused by continued supply chain disruptions and bottlenecks shows no sign of abating. Though countries are slowly starting to return to business-as-usual as the pandemic starts to die down, many are warning of long-term financial consequences, particularly in inequality.

Income Inequality Increasing as a Result of COVID Pandemic

The International Monetary Fund has warned that income inequality has been exacerbated by the pandemic, with 100 million people falling below the poverty line at the same time as global billionaire wealth grew by USD 4.4 trillion. Deloitte similarly warns that health outcomes between the "haves and have nots" are noticeably different, and economic pressures are likely to be different as well. Specifically, those working in occupations conducive to remote work have faced substantially less downward financial stress compared to low-skilled laborers, who are disproportionately employed in jobs that require interpersonal contact and faced massive layoffs.

It appears that these inequalities are going to translate into greater gender and racial disparities in many countries, as low-skill and low-income jobs are hit harder, which could translate into long-term political instability and social unrest unless strong policy measures are undertaken to ameliorate these effects and ensure social mobility continues to be a plausible goal for many.

COVID Increasing Income Inequality Between and Within Countries

The World Bank has supported this analysis, adding that the pandemic has worsened inequalities within countries and between countries. While some have argued that the immediate GDP impact has favored poorer countries less afflicted by COVID, overall, the trend seems to be that the pandemic will worsen global income inequality in the long term. The World Bank has claimed that the sluggish recovery prevalent in emerging markets will partially reverse the decline in between-country inequality of the past two decades. Developing countries, already indebted to international financial institutions, will not have the same access to capital or established infrastructure as developing countries. This will lead to a prolonged and sluggish recovery that makes reducing global inequality an even more challenging prospect than analysts feared pre-COVID.

The rise in both within-country and between-countries inequality will likely cause destabilizing knock-off effects, ranging from a decrease in multilateral cooperation and a corresponding increase in international instability to disruptive social unrest in countries struggling with recovery. As a result, the World Economic Forum has encouraged governments to increase their welfare, social, and infrastructure spending in the coming period to reverse the rise in inequality before it spirals out of control. Only time will tell how effective these efforts prove to be.

Anticipating the Global Food Crisis

The war in Ukraine has not only led to a severe humanitarian crisis in Ukraine but has also fueled the rapidly developing global food crisis brought on by the COVID-19 pandemic. Russia's invasion of Ukraine comes as the latest development in the crisis that has been straining the food market for two years, stimulated by the post-pandemic global demand, increased energy prices, export restrictions and global supply chain issues, and extreme weather conditions.

Given that Russia and Ukraine account for around a third of global wheat supplies, while Ukraine is a major corn and sunflower oil supplier, the consequences of the war have caused massive shortages and price shocks around the world. This was exacerbated by the fact that Russia is a key supplier of fertilizers and of the energy necessary to distribute and grow the food. The cessation of exports from Ukraine has caused the food price index measuring international prices of most globally traded food commodities to its highest (158.5 points) since the first records of the food price index in March 1990 and 30% higher than in the same time last year according to the Food and Agriculture Organization (FAO).

Global Metrics Point to a Rise in Food Prices

The World Bank predicts global food prices to rise 23% in 2022, after rising 31% in 2021, and the cost of the fuel to transport the food rising as well, ultimately causing experts to predict reduced farm yields for incoming several years. While countries like the United States and the United Kingdom, where the residents spend less than 10% of household income on food, would face some negative impacts of increasing food prices, other countries like Nigeria, Kenya, and Kazakhstan, where food comprises over 40% of consumer spending, are the most susceptible to the negative effects of the crisis.

Similarly, countries like Egypt and Lebanon, which relied on Ukraine and Russia for about half of their wheat imports since 2016, could face devastating consequences of this global food crisis. Given this, the Egyptian government acted swiftly, and has, as of June 2020, been into negotiations with India to replace approximately 80% of its wheat imports that would otherwise come from Russia and Ukraine. Similarly, the increased costs of fertilizers are likely to lower expanding food production and exacerbate food supplies in developing countries that rely on fertilizer imports. In fact, FAO warned that reduced exports of wheat and other food commodities that were disrupted by the war in Ukraine are leaving between 11 million and 19 million more people with chronic hunger over the next year.

While the possibilities of the end of the war in Ukraine remain uncertain, the global community would need to act swiftly to mitigate the devastating effects of the ongoing food crisis. At the same time, this crisis calls for international actors to rethink and remodel current food systems in order to make them more resilient and responsive in times of crisis since they have been highly vulnerable to external factors such as conflicts and unfavorable weather conditions. The need for diversified food production across both diets and markets, ensuring alternative supply chains, and focusing on resolving large economic inequality problems across the world would likely ensure less global food crisis in the future.