NEWSLETTER

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UKRAINE VS. RUSSIA: ONE YEAR LATER

By Eric Nager, CRPS®

On February 24, 2022, Russian soldiers invaded Ukraine, starting the largest land war in Europe since World War II. As with most wars, this one has not gone according to expectations. We are near the one-year anniversary of this event that has had tremendous impact on the world economy as well as the markets. Here is a recap and a look ahead.

When Russia attacked, most everyone thought it would be a quick and easy victory, especially the Russians themselves. Even Western intelligence agencies and militaries in the United States and Europe thought that the Ukrainians would not hold out long. In fact, some countries offered Ukrainian president Volodymyr Zelensky safe passage out of the country. His brave refusal, and choice to stay and fight, gave an inspiring example to the world.

There were two main reasons why the Russians failed to achieve a quick victory. The first was the relative incompetence of the Russian army. The vast majority of their soldiers are conscripts who do not want to be there, and they are

not especially well led. They also have a very poor logistical system for resupply. The second reason was the underestimated ability of the Ukrainian soldier. Ever since 2014, when Russia annexed Crimea away from Ukraine, the two countries have fought a low-level war in the eastern part of Ukraine. During that time, the Ukrainians have been getting training from North Atlantic Treaty Organization (NATO) countries, and that training has greatly paid off.

After Ukraine blunted the initial attack, Western aid started pouring in. At first, Eastern European countries donated old Soviet-era tanks, that were still in their arsenals, along with some air defense systems. The U.S. provided Javelin anti-tank weapons that literally stopped the Russian armor in its tracks. As the war extended into summer, the West started supplying better and longer range artillery, like the Himars system, that allowed the Ukrainians to strike deeper behind the Russian lines and disrupt supply lines. By the late summer, the Ukrainians were able to recapture a significant amount of territory back from the Russians, including the city of Kherson, the only regional capital that had fallen into Russian hands.

The outbreak of war had immediate impact on food and energy prices adding to global inflation. Ukraine is a major exporter of grain. When exports stopped, bread prices skyrocketed, especially in the Middle East and Africa. After much negotiation, brokered by Turkey, the warring parties made a deal to export grain from both countries allowing each to gain some hard currency. Food prices then eased back to more normal levels in the affected areas.

On the energy front, Russia is one of the largest exporters of oil and natural gas. Soon after the war started, Europe, Russia's largest customer, embargoed Russian oil and greatly reduced importing Russian natural gas causing energy prices to spike worldwide. This set off a scramble for Europe to acquire natural gas from other sources like Qatar and the U.S. Fortunately, they were able to fill their natural gas storage tanks before the onset of winter and it has been a very mild winter so far in Europe. From the Russian standpoint, other countries like China and India stepped up to buy their oil, so the economic impact on them has not been too significant yet.

The situation today, now that it is again winter, is somewhat of a stalemate. Russian forces are attacking in the east and the Ukrainians are largely holding the line with heavy losses on both sides. Russian president Vladimir Putin has called up hundreds of thousands of reserve soldiers in an attempt to break through. The Ukrainians are trying to hold out until the arrival of more Western aid. Just recently, Germany and the U.S. agreed to send modern tanks, the Leopard and Abrams respectively, but they are not expected to arrive for some months.

In the meantime, the Russians have been sending Iranian-made drones to take out power stations and the Ukrainian electric grid so the civilian population will be without power in the winter. This has led the West to promise better air defenses, like the U.S. Patriot missile system, to shoot down the drones. Some are concerned that sending better weapons and equipment, which require trainers to be on the ground, runs the risk of provoking Russia and widening the war.

WHAT COMES NEXT?

As a military historian, these things are difficult to predict. My best guess is that the war will drag on indefinitely. The Russians do not have the capability to overwhelm the Ukrainians, at least with conventional weapons, and NATO, led by the United States, will not supply enough arms and technology to allow the Ukrainians to eject the Russians from their territory. Sadly, this leaves the Ukrainian people continuing to suffer.

The most likely scenario for a Russian victory is if Western support for Ukraine collapses. President Zelensky is concerned about this, and he has fired members of his administration associated with corruption. The most likely scenario for a Ukrainian victory is if there was some sort of coup in Russia that replaced Putin. Neither scenario seems likely in 2023 but, as noted, expectations with regard to war are often incorrect.

Eric served 30 years in the U.S. Army Reserve, and his last posting was as Command Historian for the U.S. Army Pacific.

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It is not too late to make IRA contributions for tax year 2022. These **MUST BE IN your account on April 17th**. If you are making a contribution for 2022, specify that on your check on the memo line. Otherwise, TD Ameritrade will assume it for the current tax year of 2023.