

The Main Negative Factors of Military Influence on the Economic Environment of the Region and its Financial and Economic Security

Yosyf Sytnyk [†], Dmytro Havrychenko ^{††}, Tetiana Staverska ^{†††}, Roman Primush ^{††††}, Vitalii Erfan ^{†††††}
klochek155@gmail.com boik_g@yahoo.com zzz_007@yahoo.com
education_univer21@yahoo.com cp2077@yahoo.com

[†] Lviv Polytechnic National University, Ukraine

^{††} Odesa Medical Institute of the International Humanitarian University, Ukraine

^{†††} State Biotechnological University, Ukraine

^{††††} National University of Civil Defence of Ukraine, Ukraine

^{†††††} Uzhhorod National University, Ukraine

Abstract

The main purpose of the study is to determine the main factors influencing the economic environment of the region and its financial and economic security. Ukraine aspires to become a full member of the European Union, but the events of 2022 have changed everything. Full-scale military operations on the territory of Ukraine significantly affect its socio-economic situation. Today, the issue of studying the negative impact of military operations on the economic environment is very relevant. Based on the results of the study, we have identified the main negative factors of the military impact on the economic environment of the region and its financial and economic security.

Keywords:

war, military actions, negative factors of the war, financial and economic security.

1. Introduction

Today, the Ukrainian economy is facing a shock unprecedented in its history. The full-scale military invasion of the northern neighbors dealt a powerful blow to all parts of the economic system of our state. Decreased production of the main types of products, in particular forming the basis of the export potential of Ukraine. In addition, ports are blocked, and then the lion's share of foreign trade. The transport and logistics, social, marketing and engineering infrastructure of entire regions is being destroyed. There is an outflow of personnel abroad and their partial relocation to the west of the state, temporarily throwing hundreds of thousands or millions of people out of active economic life.

All this threatens the possibility of reliable and long-term consolidation of the successes of the Armed Forces of Ukraine on the fronts of the current war. After all, it is a well-known fact that it is rather

difficult to achieve military victories without a reliable economic rear, and it is virtually impossible to ensure sustainable post-war growth. Therefore, today the domestic economy is becoming more obvious as one of the priority fronts, which will determine both the further course of military actions and the ability of our state to successfully recover after they end.

Just as on the battlefield, when competent military leadership becomes the key to victory, success on the economic front largely depends on the ability of managers at different levels to form adequate strategic plans and ensure the effectiveness of their practical implementation, including the timely implementation of the designated applied tasks.

This means that the statements of individual experts often replicated by the media about the allegedly inevitable post-war economic boom in Ukraine and the "doom" of our state to EU membership and the rapid restoration of destroyed cities or the modernization of infrastructure (or even its transformation into an innovative "mecca" of the future) of Europe) need critical reflection. Indeed, there are prerequisites for this. But without adequate action on the part of the authorities, which consists in the introduction of appropriate instruments of economic policy, the significant potential of the post-war revival can be leveled.

Even after the first phase of the war in Donbass (in 2014), the issue of changing the emphasis of economic policy in order to more effectively resist the aggressor was discussed in the public space. In particular, it was noted that in the context of

opposition to the centralized economy of the Russian Federation, the development of private initiative and entrepreneurship in Ukraine is gaining priority. After all, individualism as the basis of a free society and competitive business is the main force capable of overcoming totalitarianism. And in order to maximize the economic potential of entrepreneurship, our government should abandon the harmful dogma that has dominated the Ukrainian economy throughout the entire period of its independence, being unconsciously transferred from the times of the Soviet past, about the determining role of the state budget in the economic life of the country.

2. Methodology

To achieve the goals set in the study, we applied the following methods: induction and deduction, comparison and systematization; synthesis and analysis; abstract-logical - for theoretical generalizations and conclusions of the study.

3. Research Results and Discussions

The beginning of 2020 brought new qualities and characteristics to global and national processes. The coronavirus crisis, which has really shown a global character, has demonstrated what the economic, social, social, humanitarian environment can be like (both in each country in particular and the world as a whole) in the context of the introduction of various restrictions (as a counter to the spread of the pandemic) on economic freedoms and movement people both between countries and within countries. Reducing production, trade, trade and international economic cooperation, freezing and even refusal to invest, the loss of millions of jobs and a decrease in income, a decrease in aggregate demand (and hence the supply of goods and services), deterioration of partnership between countries, weakening of human contacts and trust, etc. 1 - an incomplete list of human losses in 2020 [1-15]. And then, in 2022, military aggression came from the Russian Federation.

For 8 years of "less" active military aggression, the economy of Ukraine, especially the sphere of economic security, continued to be overly "budgeted", and then overbureaucratized, corrupt, inflexible and ineffective. As before, its export

potential was determined by monopolies concentrated in a narrow segment of the primary industries, primarily metallurgy and agriculture. The whole danger of such a situation became apparent after a full-scale military invasion of Ukraine by Russian invaders.

So, during the first month of the war, only 17% of large enterprises continued to operate without any restrictions (another 30% were able to switch to online work, and the rest either did not work at all, or suspended their activities, if not until peaceful, then at least, until quieter times).

More than 10% of the country's arable land turned out to be unavailable for the sowing campaign, which significantly affected both the country's export potential and the filling of the state budget. And if farmers relatively quickly got used to difficult conditions and find options for storing, transporting the necessary resources and provide other important things for the sowing to take place, it is more difficult for less flexible agricultural holdings to adapt to new realities.

At the beginning of April, more than 50% of Ukrainians lost their jobs. First of all, this concerns the workers of large old industrial enterprises located in the southeastern region of Ukraine.

The total losses from the transport blockade, in particular sea trading ports (providing up to 65% of Ukraine's international trade, primarily due to metallurgical and agricultural products) will amount to approximately \$ 3-5 billion monthly (and this is without taking into account damage to infrastructure as a result of systemic bombardments).

Taking into account the indicated government, it urgently introduced a number of important regulatory innovations designed to reduce the fiscal burden on businesses and stimulate the development of small businesses. In particular, it was allowed to switch to the third group of the simplified taxation system for taxpayers with a turnover of up to UAH 10 billion. with an unlimited number of employees. Payers under the new "simplified" rules must pay a 2% income tax instead of income tax and VAT. The list of transactions for which the single tax payer of the third group will be exempted from VAT tax liability has been expanded. The period during which a taxpayer may, without the application of sanctions, not fulfill a tax obligation, if he does not have the appropriate opportunity, has been extended. A certain liberalization of the customs legislation took place, in

particular, obligatory payments for the import of goods and cars were partially abolished.

The indicated measures to liberalize the economy indicate that the government is clearly aware of the direct relationship that exists between the degree of economic freedom and the pace of economic development. It is a pity that this realization did not become the basis for the implementation of the relevant reforms, at least after 2019. Moreover, it should be noted and even emphasized that the changes that have begun should not only continue, but also intensify in the post-war stage. Otherwise, we will inevitably be expected to return back to the bosom of the clan-oligarchic economy, with all its "family spots": monopolization of markets, corruption, high energy intensity of production, the predominance of raw materials industries, the low quality of social capital, an unsatisfactory investment climate, etc. .

This means that a strategy for the post-war economic development of Ukraine, focused on maximum deregulation and demonopolization, should be formed already today. And in view of the realities of wartime, when primarily large trains of fuel and food, as well as powerful logistics hubs, are bombarded, it is advisable to talk about the early laying of the foundations of a kind of "mosquito economy" (by analogy with "mosquito" military strategies, when the main targets on the battlefield are achieved primarily through the use of ultra-mobile innovative means and resources that are in service in a large number of small autonomous groups, well-trained fighters).

The main negative consequences for the economic development of the region as a result of military actions are presented in Table 1.

Table 1: The main negative consequences for the economic development of the region as a result of military actions

<i>№</i>	<i>The main negative consequences</i>
----------	---------------------------------------

1	Destruction of infrastructure
2	Deterioration of socio-economic stability
3	Inability to carry out export-import operations
4	Logistic blockade due to military actions

If we consider the issues of economic security of the regions of Europe, which today are faced with the issue of regulating migration waves, then this also has its own characteristics.

Currently, Europe and the developed countries of the world are witnessing the most serious population movement on its territory since the end of the Second World War. Military aggression in Ukraine, instability and extreme danger for their lives in a number of Ukrainian regions prompted people to seek salvation in a relatively stable and prosperous European Union, which, however, has not yet been able to overcome this crisis.

Considering that this is mainly about refugees, it would be more accurate to describe this situation as a "refugee crisis", since the term "migration" only generalizes the phenomenon without specifying its cause. Forced seeking asylum in another country is one of the types of migration.

Europe is not the first time faced with such a colossal influx of people (an example is the migration of the population due to the Yugoslav wars) and managed to prove that it has a well-thought-out migration policy to cope with such tasks. However, at present we are seeing a lack of consensus among the EU member states on how to resolve the crisis that has arisen, which also indicates the presence of problems within the European Union itself. The reason for such disagreements is the different assessment by states of the benefits and threats that a country can receive by accepting refugees. At first glance, refugees may seem like a burden to states. However, there is also a certain economic benefit both at the level of individual firms and states, and at the level of the entire European Union.

From the point of view of the state, migration can positively affect the economy and the social sphere. Over the past 10 years (excluding 2015), migrants have accounted for about 70% of the increase in the workforce in the EU, filling vacancies in both emerging industries and sectors with declining demand for personnel. In addition, migrants make the labor market more flexible. Since the phenomenon of population aging exists in the EU, migrants are an integral part of the region's economically active population. An open market for refugees in both skilled and unskilled labor will allow some countries of Eastern Europe that are negative towards migrants to fill open vacancies formed due to the aging and outflow of the population (mainly young people) to the countries of Western Europe. According to an OECD study, migrants contribute more to the budget of countries in the form of taxes than they receive social payments from the state. According to 2013 statistics, in Switzerland and Luxembourg, the net increase in the state budget as a result of migrant activities amounted to 2% of GDP. However, there is a risk that a significant part of the refugees will be satisfied with living on social benefits, thereby increasing the burden on the state budget of the host country.

4. Conclusions

A real global challenge for the modern world, and, above all, for Ukraine, is Russian armed, informational, political and all other possible forms of aggression. Therefore, it is extremely important to

develop and concretize measures of state and regional policy in the face of the loss of a certain share of their own territory and systemic encroachments on Ukrainian independence; determination of priority directions for the transformation of the economic system and the economic mechanism of modern Ukraine

It should be stated that the post-war economic boom in Ukraine is possible only if the state's economic policy measures are implemented in line with a clear and consistent strategy aimed at deregulating the economy and creating a favorable investment climate. The main priority of such a strategy should be to change the government's budget guidelines. That is, instead of overloading the state budget with various kinds of social programs, the main emphasis should be placed on financing defense programs and building a military-industrial complex, including the creation of a modern system of territorial defense. In addition, budget funding should be directed to guaranteeing basic medical (social medicine) and educational (school education) services to the population, as well as supporting cultural institutions (museums, libraries, theaters, etc.).

The solution of the overwhelming majority of social problems of the inhabitants of our state should occur mainly by stimulating their self-employment, including reducing the tax burden on labor, and introducing an effective mechanism for public works. This will create prerequisites for income growth. If we consider the issues of ensuring the economic security of the EU regions, in the context of the settlement of the migration process in Europe, then at the present stage it is a very controversial, complex and complex phenomenon that contributes to the emergence of the problem of integrity and national identity of the EU countries. With its help, one can get both opportunities for economic growth and the solution of demographic problems, as well as negative consequences in the form of burdening the state budget with social payments to refugees and an increase in the crime rate. To resolve the crisis, European governments need to contribute to the elimination of "hot spots" of conflict in Ukraine and develop a common policy that allows not only to solve the problem that has arisen, but also to get as much benefit as possible.

References

- [1] Kryshchanovych, M., Oliinyk, N., Skliaruk, T., Voityk, O., & Doronina, I. Problems of shaping the business environment in countries with economies in transition: aspects of anti-corruption. *Management Theory and Studies for Rural Business and Infrastructure Development*, 43(2), 2021, 316–327. Retrieved from <https://ejournals.vdu.lt/index.php/mtsrbid/article/view/2332>
- [2] Kruk, K. (2019). *The Crimean Factor: How the European Union Reacted to Russia's Annexation of Crimea*. Warsaw Institute. Accessed 14th of April 2020. Available: <https://warsawinstitute.org/crimean-factor-european-union-reacted-russias-annexation-crimea/>
- [3] Kagan, F. W., Barros, G., & Stepanenko, K. Russian offensive campaign assessment, 2022 Institute for the Study of War. <https://archive.ph/d3c6B>
- [4] Fiore, N. (2019). Divisions in large-scale urban battles: The essential headquarters. Monograph. US Army Command and General Staff College
- [5] European Council (2020). *EU restrictive measures in response to the crisis in Ukraine*. Council of the European Union. Accessed 14th of April 2020. Available: <https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/>
- [6] Dimitriu G. Clausewitz and the politics of war: A contemporary theory, *Journal of Strategic Studies*, 2020, 43:5, 645-685, [10.1080/01402390.2018.1529567](https://doi.org/10.1080/01402390.2018.1529567)
- [7] Kryshchanovych, M., Ortynskyi, V., Krasivskyy O., Mazyi, N., & Pasichnyk, V. Methodical approach to countering threats of economic security in the context of ensuring the protection of national interests. *Financial and Credit Activity: Problems of Theory and Practice*, 4(39), 2021, 202–208. <https://doi.org/10.18371/v4i39.241309>
- [8] Meidutė-Kavaliauskienė, I., Dudzevičiūtė, G., & Maknickienė, N. Military and demographic inter-linkages in the context of the Lithuanian sustainability. *Journal of Business Economics and Management*, 2020, 21(6), 1508–1524. <https://doi.org/10.3846/jbem.2020.13444>
- [9] Bar-Nahum, Z., Finkelshtain, I., Ihle, R. *et al.* Effects of violent political conflict on the supply, demand and fragmentation of fresh food markets. *Food Sec.* 12, 503–515, 2020. <https://doi.org/10.1007/s12571-020-01025-y>
- [10] Merry, E. Wayne. "Chapter 1. The Origins of Russia's War in Ukraine: The Clash of Russian and European "Civilizational Choices" for Ukraine". *Roots of Russia's War in Ukraine*, New York Chichester, West Sussex: Columbia University Press, 2015, pp. 27–50. <https://doi.org/10.7312/wood70453-004>
- [11] Kochnev, A. (2022). Requiem for Donbas: Three essays on the costs of war in Ukraine. *Doctoral dissertation*, Johannes Kepler University, Linz. <https://epub.jku.at/obvulihs/content/titleinfo/5295005/full.pdf>
- [12] Redeker, N. Same shock, different effects: EU member states' exposure to the economic consequences of Putin's war. Hertie School – Jacques Delors Centr. 2022. <https://www.delorscentre.eu/en/publications/detail/publication/eu-member-states-exposure-to-putins-war>
- [13] Cenciari, L. (2020). The origins of the Ukrainian Crisis. <https://doi.org/10.13140/RG.2.2.36305.97120>
- [14] Kryshchanovych, S., Gutsulyak, V., Huzii, I., Helzhynska, T., & Shepichak, V. Modeling the process of risk management response to the negative impact of risks as the basis for ensuring economic security. *Business, Management and Economics Engineering*, 19(2), 2021, 289–302. <https://doi.org/10.3846/bmee.2021.14798>
- [15] Warren C., Technology, war and the state: past, present and future, *International Affairs*, Volume 95, 4, 2019, 765–783, <https://doi.org/10.1093/ia/iiz106>