OSMOSIS

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GHOTALA SYSTEM

Introduction

The Kafala system is a body of legal frameworks that have defined the relationship between employers and migrant workers in the countries of Lebanon, Jordan, and all Arab Gulf States except Iraq. It was created to ensure a cheap and plentiful supply of labour in an era of booming economic growth. Its defenders argue that it augments the functioning of local businesses and helps drive development. The system has become controversial in the status quo and a growing consensus agrees that it is rife with the exploitation of workers. Low wages, poor working conditions, and employee abuse are a few of the problems associated with a lack of regulations under the Kafala system. Anti-racism protests as a conduit of the BLM movements in the Global North brought out the racial discrimination and gender-based violence endemic to the Kafala System. The preparation for the 2022 FIFA World Cup in Qatar has helped expose the dark side of the Kafala system.

What is the Kafala System?

The Kafala literally means a sponsorship between the “Kafeel” and a foreign worker. The Kafeel is usually the employer of the worker. The system has been widely used in the Gulf Cooperation Council(GCC) Countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates along with other countries like Jordan and Lebanon. Two countries out of these countries, Bahrain and Qatar claim to have abolished the system, however critical analysis of labor laws in these countries leads us to the conclusion that reforms are poorly enacted and do not amount to abolition.

The system does not fall under the jurisdiction of labour ministries but instead falls under the jurisdiction of interior ministries and thereby removes the foreign workers from the ambit of the host country's labour laws. Therefore foreign workers are acutely vulnerable to exploitation and denied basic rights like the ability to enter a labour dispute process or unionize in a common forum for labour unions. The sponsors also exercise power over the workers by having the sole ability to renew or terminate their residency visas, as their visas are linked to their employment. The system endows private citizens with control over the legal status of their foreign labourers rather than the state having this power. This causes a power imbalance that a sponsor can exploit and sets up a cyclical threat mechanism which allows the sponsor to manipulate a labourer suffering from economic depravity into essentially being a slave to the sponsor.

In almost all situations, workers need their sponsor's permission to end their employment, transfer jobs or enter or exit the host country. Leaving the workplace without permission often results in the termination of the worker's legal status and even imprisonment or deportation. This could also happen if the worker is fleeing abuse. Workers, therefore, have little recourse in the face of this gross exploitation and therefore various experts believe that the Kafala system enacts modern-day slavery.

The Status Quo

In the status quo, tens of thousands of individuals from developing countries take a leap of faith and migrate to the nations following the Kafala system with the hope to better themselves and their families back home. High poverty rates in the Global South along with unseemingly high unemployment rates and political issues contribute to this migration to the Kafala states. The Grossly unmitigated harms due to the unchecked leverage over workers produced an environment for the erosion of labour standards and multivariate human rights violations, Some countries have pledged to work towards the abolishment of the Kafala system however a lack of political will to acknowledge the danger of the Kafala system or the will to change it is severely lacking.

The Kafala sponsorship system awards private citizens and companies in the Arab Gulf countries the right to easily sponsor, request and finalize the sponsorship process without any legally binding contracts. This method, unfortunately, takes migrants on a journey of deceit, exploitation, heavy recruitment fees, many forms of abuse, and even human trafficking. This malafide recruitment scheme promotes the idea that the employer has “bought” an employee, and that the employee is now akin to property. Exploitation by itself assumes many forms which include excessive hours of work, withholdment of wages, little to no leisure time, and forced work demands without any compensation. Migrant women taking on the role of domestic workers in private homes, are severely vulnerable to abuses from their employers. The Kafala sponsorship system was originally adopted in the 1950s, by the Gulf Cooperation Council nations. It aimed to create a higher regard for diplomatic relations and to create regulation between employers and migrant workers. It also envisioned a rapid economic boom in these growing nations. These agreements have been abused making the Kafala Countries benefit from cheap labour. Thousands of cases are documented by local agencies and international media, like the Human Rights Watch, which reports starvation, widespread violence, discrimination, rape, excessive domestic work, debt bondage, and sex trade practices. Unmitigated growth in the cost of rent and food coupled with wage withholding by employers makes it nigh on impossible for many domestic workers and lower-wage builders to lead a balanced life. This corrupted strategy resembles indirect slavery, making it significantly harder for migrants to escape such dreadful situations. Female domestic workers who attempt to run away are then trafficked by sex traffickers. The power of the Kafala system is the fuel for contemporary slavery enacted through a cycle of threats and manipulations. The Kafala countries should take accountability for continuing to not implement virtuous policies that would protect the interests of migrant workers. Being an aware global citizen involves the ability to fight human rights abuses and human trafficking for moral and social causes. Attention to human rights should be given a selective but equal concern throughout the world. Advocacy in this area of human rights is essential for a multitude of reasons. Human rights have the socio-political and moral authority that exceeds far beyond a particular backing of power congelations.

Concluding Remarks

Policy solutions the Kafala governments should put forth are the following: (a) A system of governance that oversees an unmitigated balance of power. There needs to be a legally binding agreement between the employee, the employer, and the third legal party as a form of supervision (b) the implementation of a body of legal policy that criminalizes abuse of any form imposed by an employer should be created, (c) application of the international human rights standards practice should be a mandatory oath signed by employers, sponsors, and companies, and (d) Awareness campaigns should be organized to increase information on this corrupt and unchecked sponsorship system. These alternative solutions might seem rudimentary, and they are because there has been no solid implementation of basic policy standards set by the GCC nations to date. By implementing stricter regulations, and by prosecuting criminals, the governments in the Kafala countries can help establish a fair system for migrant workers.

SIDS IN PARIS

Introduction

Comoros, Sao Tomé and Principe, Nauru, Vanuatu, these are some names of Small Island Development States (SIDS) that you may not have heard of before. Cuba, Puerto Rico, Bahamas, Aruba are some island nations famous for being aesthetic destinations for beach parties. What is common to all these islands and the world in general is climate change. The issue of climate change is even more acute for these SIDS due to their proximity to water. SIDS are uniquely vulnerable to marine effects of climate change like sea level rise, ocean acidification, an increase in the intensity of cyclones and marine heatwaves. Since these islands also rely on high precipitation due to their proximity to the sea, changes in precipitation patterns vastly affects the agricultural capabilities of the SIDS making food security a far fetched dream. Coastal Erosion and severe storms have also denuded visually appealing beaches into rocky wastelands and reduced the efficacy of the vibrant tourism industry. Owing to these constant threats to their way of life the SIDS nations united together under the Alliance of Small Island States (AOSIS) to negotiate better climate controls at the 2015 Paris climate change summit of the UNFCCC.

What is AOSIS and how did the SIDS utilise it to bat for changes in the Paris Climate Change Summit?

AOSIS is an intergovernmental organization of low lying coastal states and SIDS. AOSIS is also a heterogeneous organization meaning thereby that the characteristics of the member states of AOSIS have a varied range of geographic, socio-economic, and cultural differences. It is composed of 44 United Nations Members (39 SIDS members, plus 5 observers who represent developing states and 20% of the UN membership as a whole). Not all members are islands in the strict sense (for example Guyana) or even “small islands” (for example: Papua New Guinea), all of the AOSIS states are facing existential threats and therefore are at the frontline for battling the adverse effects of climate change. The SIDS represents a varied amount of economic prosperity from wealthy nations like Singapore and Trinidad and Tobago to Least Developed Countries like Comoros, Haiti, Kiribati, Sao Tome and Principe, etc. The SIDS also represents a multifaceted political diversity with varied political contexts and regional constituencies

Within the AOSIS SIDS has successfully built common diplomatic discourses by carefully influencing the strategy of the AOSIS. This resulted from the emergence of charismatic and vocal political leaders like Mr. Enele Sopoaga (PM of Tuvalu, primary spokesman for the AOSIS in COP15 in Copenhagen 2009), Mr. Tony de Brum (Minister of Foreign Affairs of the Republic of the Marshall Islands), Mr. Anote Tong, (President of the Republic of Kiribati). These leaders were well-known in the realm of climate change and generated momentum by setting up meetings in advance of the Paris climate change summit. These meetings included the Majuro declaration in 2013 hoping to raise the profile of climate change and its expectations burdened by SIDS in the Paris Climate change Summit. Moreover in 2015 Mr. James Fletcher (Minister of Environment, Energy, Science and Technology, of Saint Lucia) and Mr. Freundel Stuart (PM of Barbados) played a crucial role in building a lobbying bloc around the Caribbean Community and Common Market (CARICOM) which is a political and economic union of the Caribbean countries mainly composed of SIDS. Lastly various ministers from the Indian Ocean Region (IOR) including

Thoriq Ibrahim (Maldives), Vivian Balakrishnan (Singapore) and Jean-Paul Adam (Seychelles) played significant roles by raising their voices for SIDS in various formal and informal meetings preceding the Paris Climate Change Summit.

How did the AOSIS delegation change the worldview on SIDS?

The AOSIS delegation was fairly small during the Paris Climate Change Summit however they still managed to get a “good outcome, albeit not a great one”. AOSIS had three “red lines” or positions at the Paris Climate Change Summit which were cyclically repeated during the final days of the negotiations at Paris.

Firstly the AOSIS reminded the international community that Small Island Nations have special circumstances and are uniquely affected by the ills of climate change. AOSIS fought for the recognition of these special circumstances and hoped to provide a larger mandate for the same. In the Final text of the Paris Agreement, SIDS appear multiple times regarding the issues of sustainability financing, mitigation and transparency issues. SIDS nations made sure that there was a discursive separation between themselves and other groups of nations or regions labeled as “vulnerable countries” to secure preferential access to climate financing. The AOSIS therefore succeeded in keeping their special circumstances regarding flexibility in reporting systems while at the same time avoiding any additional burden in terms of reporting activities. The AOSIS also required special access to finance for adaptation and the language related to finance in the Paris Agreement may be considered a victory for the same. Secondly, AOSIS fought for an ambitious agreement which was legally binding. Since 2008 due to the previous special circumstances red line the AOSIS had been lobbying for the inclusion of ambitious temperature targets to be the standard yardstick for success in global emission reduction, the AOSIS accomplished this by negotiating an agenda item called the "structured expert dialogue" that forced the final report to mention a +1.5 °C target. AOSIS also actively solicited support from vulnerable countries like the African, Asian and LDC countries prior to the Paris Climate Change Summit. Therefore by the time negotiators reached Paris a plethora of countries from varied backgrounds were advocating for this level of ambition in climate goals. Therefore even after a high level of resistance from global emitters of greenhouse gases, the SIDS succeeded in setting a more ambitious goal to prevent climate change.

Thirdly the AOSIS fought to include a recognition of losses and damages within the Paris Agreement. The concept wasn't new as the AOSIS was lobbying for these measures to be enacted since the 1990s. In simpler terms it is a legally loaded idea reflecting liability and compensation mechanisms, broadly defined under the UNFCCC as "the actual and/or potential manifestation of impacts associated with climate change in developing countries that negatively affect human and natural systems". For SIDS climate change leads to the melting of polar icecaps and the subsequent rise in sea levels which poses an existential threat to them. Therefore, irrespective of which country is emitting greenhouse gasses, the SIDS are the first countries to be impacted. The AOSIS succeeded at the Paris Climate Change Summit in attaining an independent article dedicated to loss and damage (article 8). The Paris Agreement's inclusion of article 8 bolstered the Warsaw International Mechanism on loss and damage and promoted the establishment of a "clearing house for risk transfer that serves as a repository for information on insurance and risk transfer, in order to facilitate the efforts of parties to develop and implement comprehensive risk management strategies" (paragraph 48 of decision 1/Paris Agreement), and evolved a task force which will "develop recommendations for integrated approaches, to avert, minimize, and address displacement related to the adverse impacts of climate change” (paragraph 49 of decision 1/Paris Agreement). Therefore the Paris Agreement struck a balance among all groups, regional players, and emitter countries and the final document did include the main AOSIS position of 1) no “watering down” of their status; 2) Inclusion of ambitious target of +1.5 °C target as a long-term goal and; 3) Permanence of the concept of loss and damage

Concluding Remarks

The SIDS although geopolitically insignificant compared to behemoths like China, India, USA, etc. still managed to get collective action to be taken against climate change through a multifaceted approach of lobbying, multilateral negotiation, and double coincidence of existential threats. The SIDS utilized the AOSIS countries as a launchpad, with only 5% of the world population being represented by the AOSIS nations; the AOSIS nations constitute about 20% of the membership of the United Nations. This gave the SIDS a greater amount of leeway to lobby other nations of the third world to enact better climate targets. In the modern world with the end of bipolarity, the actions of the SIDS in the formation of the Paris Agreement have exemplified the power of Multilateralism in the 21st century world order.

DOKHA-ISATION

Introduction

The USA or the post-cold war hegemon of the world has always had a stable currency owing to it having the largest economy in the world ($26 trillion gdp per year). Moreover the Federal Bank of the USA enacts various measures of monetary policy to ensure greater resilience of the dollar. In various countries where the domestic currency gets weaker, the domestic currency is replaced with the dollar. In a fully liberalized and convertible financial system, savers would prefer to hold a portion of their portfolio in foreign-currency-denominated assets, simply in order to achieve a desired distribution of risk and returns. But such diversification may increase systemic risks when financial systems are still immature and subject to many distortions. Therefore, dollarization of financial systems in developing countries presents both advantages and risks. On the one hand, allowing FCD in the domestic financial system provides the opportunity to allow greater domestic intermediation. On the other hand, because of currency risk and potential balance of payments problems, the systemic risks are high, and dollarization could increase the potential for financial and banking crises. These considerations imply that the speed with which it would be advisable to advance toward a fully convertible financial system and the proper timing for the liberalization of FCD and loans will be determined by the conditions prevailing in specific cases.

Benefits

Allowing FCD in the domestic financial system enhances the opportunity for *reintermediation* in economies that have undergone reinforce confidence. When even this is not sufficient to strengthen the government's financial discipline sufficiently, full dollarization—abolition of the domestic currency altogether—could indeed be the only alternative to achieve price stability. This would entail certain losses for the country: forgoing seignorage, limitations to the lender of last resort function, and the loss of the exchange rate instrument. It is true, however, that the value of these resources and instruments is limited in economies that are overwhelmingly dollarized.16 Yet full dollarization, being difficult to reverse, effectively precludes the possibility of a recovery in the demand for domestic money.

Risks

On the negative side, a rapid development of dollar-denominated operations in the banking system increases the risk of crisis in financial and foreign exchange markets. Capital inflows intermediated by the banking system may expand gross official international reserves, with a parallel increase in domestic short-run liabilities in the form of the increase in banks' required reserves with the monetary authorities. Unless the monetary authorities hold all the resultant increase in required reserves in foreign exchange reserves, there will be a deterioration in their net foreign-currency-denominated position. Moreover, the rapid expansion in dollar deposits and loans that may result from a return of flight capital is likely to increase the riskiness of the loan portfolio of the domestic banks. Although this increase in risk would also develop in the domestic-currency loan portfolio, an important difference is that the expansion in loans and deposits under the fractional reserve banking system implies that the total volume of dollar-denominated assets and liabilities will greatly exceed the volume of net dollar assets held in the economy. This lessens the central bank's ability to act effectively as the lender of last resort and periods of significantly high inflation and unstable macroeconomic conditions. During the same time agents may have become reluctant to hold deposits in the banking system. With a restoration of stability, it is likely that confidence will be rebuilt only gradually. The availability of FCD can speed up this process to the extent that agents may be more willing to return to domestic intermediaries if they can hold dollar-denominated assets.

Allowing FCD also promotes financial deepening. Domestic banks can expand their operations rapidly by competing for the FCD held by residents in cross-border accounts. In fact, the growth of domestic banks would be somewhat limited if they were not allowed to offer FCD, since residents are unlikely to significantly reduce the share of their savings held in the form of dollar financial assets for some time. In addition, the existence of dollar accounts in domestic banks could facilitate the integration of the domestic market into the rest of the world and lower the cost of international financial transactions. Also, in case of fear of devaluation, the availability of FCD may encourage depositors to shift at least part of their local currency deposits (LCD) into FCD rather than CBD.

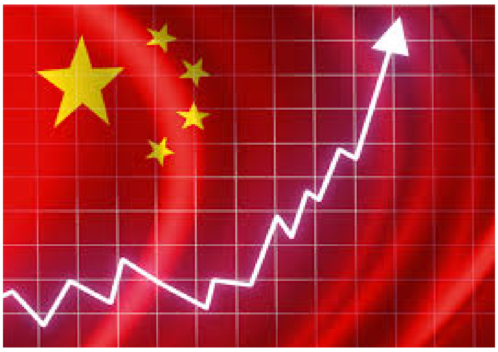
Allowing residents to hold FCD can increase credibility by raising the cost of monetary indiscipline, thus committing the government to stronger financial policies. Similar arguments have been made to support the introduction of indexed government debt. A similar type of commitment strategy is to issue dollar-denominated debt to domestic residents as a substitute for domestic currency debt. However, it is not always the case that “raising the stakes” in this form will guarantee sound policies or avoid crises, and the costs of a crisis would be higher if one did occur. Furthermore, when confidence is very weak, it would appear that a different type of monetary framework, such as a currency board, would b more effective, both to bolster financial discipline and to increase the vulnerability of the banking system to capital outflows. Maturity mismatches between the bank assets and liabilities in foreign currency would increase banks' vulnerability to volatile capital flows. For example, the withdrawal of short-term, dollar credits from banks forced the Mexican authorities to provide substantial dollar loans to the banking system in early 1995. Further, in the case of a devaluation, loan defaults would increase, and the financial position of banks deteriorate, unless dollar lending is largely to debtors whose net financial position benefits from a devaluation, for example exporters. In fact, the central bank may attempt to avoid significant devaluations because of the likely negative effect on the quality of the banks' loan portfolios, even if there were otherwise valid macroeconomic reasons to devalue.

Dollarization also implies the loss of seignorage revenues for the monetary authorities. Other things equal, the use of foreign currency reduces the demand for domestic money and implies a lower level of seignorage for the government. While the central bank may earn some seignorage from below-market remuneration of banks' required reserves in foreign currency, it cannot avoid seignorage losses that result from foreign currency in circulation. The data on flows of U.S. dollar currency to various dollarized economies suggest that the circulation of foreign currency, and thus the potential seignorage losses, is indeed substantial in some of the more dollarized economies.

Conclusion

Dollarisation involves a significant amount of reduction in economic autonomy due to the lack of control over monetary policy while also allowing enhanced monetary and economic stability over long periods of time.

DRAGONIAN MEASURES



Introduction

Chinese products today are synonymous with low quality and expendability however they are also sold in great quantities in domestic markets across the world. China has emerged as a major power countering the Hegemony of the USA in international Geopolitics due to its economic significance in the modern world. China is able to finance various nations in Africa while also being able to develop cutting edge technology in the fields of Artificial Intelligence and autonomous weapons systems. All of this China can do even after being a third world less developed nation only 40 years ago. Read on to find out how China achieved this miraculous feat in such a small period of time and how economists have found out the X factor being “productivity” in the meteoric economic progress of China.

Early Reforms

1978 marked China’s first effort to awaken a dormant economic giant by encouraging the formation of rural enterprises and private businesses. This major program of economic reform relied on liberalising foreign trade and investment, relaxed state control over a few prices and investment in industrial production through human capital improvements. The strategy has worked wonders for the nation as pre-1978 China had seen a 6% annual growth rate whereas the post-1978 China saw average growth of more than 9% a year with lesser variability. An IMF research team recently examined the sources of China’s growth and arrived at a surprising conclusion. Capital accumulation like growth in stock of capital assets, such as new factories, and the communications systems was fairly important. So was the number of chinese workers which had a sustained increase in productivity which drove the economic boom. From 1979-94 productivity gains accounted for greater than 42% of Chinese growth by 1991 and had overtaken capital as the most significant source of that growth. This marked a change in the narrative that capital investment takes the lead.

A Surprising Find

A significant amount of pre-existing research on economic development suggests a significant role of capital investment in economic growth; a sizable portion of China's recent growth can in fact be attributed to capital investment which has made the country more productive. New machinery, modern technology, and greater investment in infrastructure have raised output. Capital stock growth has achieved a steady level of 7% over 1979-94, however, the capital-output ratio has hardly budged. This allows us to surmise that despite a huge expenditure of capital, goods, and services produced per unit of capital have remained the same. Therefore a lack of deepening of capital suggests a smaller role for capital, the labour input also saw a relative decline in its weight in the economy. Capital formation and labour together accounted for 82% of pre-1978 growth however they only account for 58% of the post-1978 boom. This reduction in 25% was taken up by Productivity which caused a significant boom in Chinese economic growth.

Chinese productivity increased at an annual rate of 1.1% compared to a monumentally high 3.9% during 1979-94. Productivity accounted for more than half of the output growth by the early 1990s whereas capital formation contributed less than a third of the same output growth. On a comparative, the USA only averaged a 0.4% productivity growth rate from 1960-89. Productivity based growth is more sustainable and this was felicitated by market-oriented reforms undertaken by China in the post-1978 era.

Moreover the reforms caused an increment in economic efficiency by introducing profit incentives for rural collective enterprises, small private businesses, family farms, traders and foreign investors. They freed several enterprises from constant intervention by state authorities. Between 1978 and 1992 the state-owned enterprises saw a decline in the out from 56% of national output to 40% whereas the share of collective enterprises increased from 42% to 50% and private businesses and joint ventures rose from 2% to 10%. Profit incentives further emboldened factory owners and small producers as they devoted more and more of their firms' own revenue streams to improve business performance. China's productivity performance eclipses that of all asian tigers which hovered around 2% compared to China's 4%.

<u>How Did the Productivity Boom Happen?</u>

China's economy was still burdened by extensive governmental controls, especially in the rural sector. So how exactly did the Chinese reforms create an environment suitable for boosting productivity?
Prior to 1978 nearly 80% of the population was engaged in agriculture whereas by 1994 only 50% was engaged in agriculture. The reforms period created better property rights in the countryside and enabled farmers to form small non-agricultural businesses in rural areas. Decollectivization led to more productive family farms vying to sell agricultural products at higher prices, this further made labor utilization more efficient. This rapid growth of village enterprises induced workers to move out of agriculture and drew tens of millions of people from traditional agriculture into higher value added manufacturing.

Post 1978 reforms also awarded more autonomy to enterprise managers. Managers were now free to set up their own production goals ad even sell some products in the private market at competitive prices. Managers could also grant bonuses to good workers and fire bad ones. Managers could now retain some portion of the firm's earnings for future investment. The reforms gave greater ability for private ownership of production. Privately held businesses also created jobs and developed the highly demanded consumer products. This also earned hard currency through foreign trade, paid state taxes and awarded the national economy a flexibility that it did not have in the past.

China further welcomed foreign investment. The open door policy added power to the economic transformation. FDI levels which were negligible before 1978 reached $100 Billion in 1994. This led to an increase in annual flows from a decimal percentage of total fixed investment in 1979 to 18% in 1994. This foreign money has created jobs, erected factories, led to important transfers of technology and linked China to international markets. Exports as a whole rose about 19% a year during 1981-94, this strong export growth further fueled productivity growth in domestic industries.

Lastly, the price reform in China has been dealt with, with great caution. A fair amount of autonomy to producers of consumer goods and agricultural products had been awarded but not to other sectors. This is due to several bouts of inflation in the past two decades in the Chinese economy which has deterred the Chinese government from implementing full scale price liberalization. High rates of growth increase inflationary worries and pose the single biggest threat to the advance of the Red Dragon, however it has been largely contained till date.

Conclusion

China was endowed with a significantly large human resource pool. This endowment and the ability of the Chinese reforms to bring out cyclical aggregate increase in productivity and sustain output growth through multiple decades has allowed for China's unique niche position in the modern political economy. China today doesn't suffer the population problem as that of India neither does it face a density problem that is characteristic of LDCs(Least Developed Countries) like Bangladesh. China's highly productive population coupled with its large physical size marks it as a powerful global presence and allows experts to draw insights for development in other LDCs. China has single-handedly proven that capital investment, while crucial to growth, becomes more potet when accompanied by market-oriented reforms which reinvigorate rural enterprises and small private businesses. China has proved to be a role model for countries with a large segment of the population underemployed in agriculture.

The European Winter: Heated by Confrontation

- By Akshit Ramanathan

Amid accusations in the international forum on who is actually committed to ending the conflict in Ukraine by not backing Russia and boycotting their oil and gas, comes the European winter, with its inhumanely low temperatures.

At the Onset

With the onset of the Russian Special Military Operation in Ukraine, the US, EU, a few non-EU nations, and NATO countries specifically imposed and supported sanctions against Russia, with the hopes of crippling the Russian economy and putting a quick end to the invasion. They encouraged the rest of the world too to not trade with Russia and tagged those who continued as 'irresponsible and warmongering.' One of the key Russian industries upon which sanctions and import bans were imposed was the energy sector. While Russian oil and gas were the cheapest bet Europe had to power itself, post-sanctions, they have fast-depleting energy reserves which might barely see them through the winters. In this regard, the West seems to have played a bad hand, with Moscow continuing the game on its own terms.

Europe's Tryst with Energy Supplies

With the discovery of North Sea oil in 1851, countries of Europe, namely Norway, the United Kingdom, Denmark, Germany and the Netherlands, exploited the oil and natural gas reserves of the North Sea by setting up several offshore rigs that conducted uncontrolled oil and gas drilling right up-to the 1960s and 1970s.

Subsequently, production from the North Sea fields, a particularly important source of natural gas, began declining due to the depletion of reserves. Excessive drilling in the region also posed a threat to the geographic stability of the region, with the possibility of earthquakes causing a major natural calamity in the region being high. In due course, the nations that were involved in oil and gas exploration in the North Sea renounced the source and pledged to look for safer and cheaper substitutes to meet Europe's energy demands; considering the only other source of energy was coal which was highly polluting and had to be mined from inland Europe. It was necessary to pinpoint a source or supplier of oil and gas that could supply in large volumes, at affordable prices. This was a necessary criterion considering the volume
of fuel usage in European countries for heating, industrial activity, transportation, essential services, and national defense. European fuel consumption also multiplies during winter. The best bet and vendor of cheap energy was Europe's Cold War rival, Russia, which had the quantity, proximity, sources, and technology to meet Europe's demand.

Russia officially began supplying its allies in the Eastern Bloc in 1964, with the commencement of the Druzhba pipeline. There were attempts by the US administration at the time to convince European countries to not allow the set up of a Kremlin-linked oil and gas line, but the obvious benefits of Russian energy costs and quantity far outweighed any counterargument to not purchase Russian oil and gas. Until recently, nearly 40% of Europe's energy came from Russian supplies, with Germany, Italy, and France being among the largest consumers. Over the decades of Russo-European energy supply ties, Europe failed to diversify suppliers and instead diversified supply routes from Russia. This act of Europe was but natural as Russia had fulfilled all long term contracts and had proven to be a reliable commercial partner.

Russia’s Military Action and Sanctions

Russia officially began the Special Military Operation in Ukraine on the 24th of February 2022. The immediate response of the US, UK, Canada, Australia, and the EU was to impose import bans on Russian crude and refined products. Germany subsequently halted the Nord Stream 2 Baltic Sea gas pipeline project, which was intended to increase the flow of Russian gas directly to Germany. Amongst direct actions that could be taken against Russia, economic sanctions were the only viable option as Russia had not shown aggression against the EU or NATO and military involvement could only be possible by supporting Ukraine indirectly, as Ukraine was neither a member of the EU nor the NATO. A major flaw in the West’s approach to the administration of sanctions was that they believed that the world would follow their lead (countries not bound by the West included) and support and promote sanctions and limits applied on “belligerents.”

An interesting aspect to note is that Germany has been a supporter of Russian oil and gas and even opposed sanctioning the Russian energy sector. However, being part of an international alliance, Germany was bound by the greater aim, where individual interests are secondary to the collectives. The effect of sanctions on the Russian economy and gas industry is not clearly known since all records were made confidential by Russia post-imposition of sanctions. But the west certainly failed to cripple Russia and bring a quick end to the conflict. The invasion caused global prices to rise in most sectors and increased the overall cost of living. Amidst this, the fuel prices became too high, almost bringing the middle-income population to protest on the streets. The Asia-Pacific region was experiencing such a scenario and seemed to have no way out of the skyrocketing fuel prices. At this juncture, the sanctions on the Russian energy sector allowed Russia to reorient logistics and redirect its crude .

supplies to this region at discounted prices. Thus, the fall in demand from the European side was compensated by a far greater rise in demand for fuel from the Asia-Pacific. Since the Asia-Pacific comprises of a large number of emerging economies, fuel requirements and consumption are as good as pouring water into the sand. The Asia-Pacific (especially economies such as India and China) grabbed this opportunity to stock up on fuel resources at affordable prices at a time of soaring costs in almost all sectors. Most recently the G-7 nations, European Union and Australia have imposed a price cap of $60 per barrel on Russian crude oil along with sanctions against freighters carrying Russian crude oil. This measure aims to reduce Russian oil profits while preventing global oil price spikes, ensuring a minimum flow of Russian oil globally. Russia retorted by saying that the price cap would only affect its output minimally and plans to hit back at the sanction by imposing an export ban to countries that were supportive of it, while also considering imposing a floor price from its side. The fallout of the price cap is one that will have to be closely watched.

Europe's Energy Crisis

The EU, under the influence of the US and other countries who do not source their energy from Russia, banned Russian energy imports and are now bearing the consequences of a frigid winter and depleting energy reserves. The west's hypocrisy has again come to light with many countries firing up their coal fired power stations which will further slowdown the process of achieving net zero emissions and aggravate fallout issues such as global warming and biodiversity destruction. Despite their own shortcomings and poor planning for diversifying energy sources, the west still accuses the global south (whose energy consumptions and emissions are much lower than the whole of EU) for not actively meeting global emission standards, net zero emission and supporting a war that has no direct security threat to the Asia-Pacific region. Europe's planned transition to renewable energy sources is expensive and in the initial stages of development and execution. It is not a viable option for Europe to depend on them to tide through tough times. The EU is not keen on exploring nuclear energy, especially after the 2011 Fukushima disaster, since a fallout can have far reaching consequences in the small landmass of Europe. Russian oil was meant to bridge the gap of transition to renewable sources from coal and polluting energy sources.

Far-West Supplies

An unsurprising yet interesting development in this near yearlong conflict has been the Nord Stream 1 and 2 gas pipeline explosions. Nord Stream 1 and 2 were responsible for carrying a large volume of Russian oil and gas to Europe and their damage has effectively cut Europe from majority of Russian energy supplies. Kremlin has accused the UK, an all weather ally of the US, of sabotaging the line, in an attempt to isolate Russia from the European market. While fingers are pointing in multiple directions, there have been no concrete findings as to the cause of the explosions. Meanwhile, EU imports of US energy supplies has increased and far exceeded the amount that Asia-Pacific imported. The US has found a new, growing, desperate buyer in Europe and the perfect market to sell its energy reserves which it had conserved all these years while exploiting international markets of oil.

Lessons to be Learnt

This entire year has given an important lesson when it comes to energy consumption, strategic reserves and energy security. The biggest failure of Europe has been its failure to diversify energy sources, singularly depend on Russian supplies and getting addicted to, while taking for granted, energy supplies from Russia. The second failure that most of Europe has encountered is the absence of large enough strategic reserves which are a key resource built for times like these. The greatest downfall of all countries party to the EU or the NATO has been the lack of individuality and being bound by a multilateral union of nations who, against their likes, have to address the “greater cause.” The European economy seems to be driven by political interests rather than sound economic principles, even in times when delicate economic maneuvers are required. A recession in the west is now a possibility and bracing for impact with appropriate economic and financial measures should be the prudent option out. Economists in Europe seemed to have failed to prepare Europe for a war, especially one not upon them which seems to affect the European economy worse than what was probably thought. Poor economic, logistic and supply diversification planning has led Europe to its own downfall.

In a Lighter Vein

The following conversation between the Prime Minister, Jim Hacker, and his Principal Private Secretary, Bernard Woolley with reference to a stormy cabinet meeting over a sudden financial crisis and lack of advice from the Cabinet Secretary, Sir Humphrey Appleby, from the popular BBC sitcom ‘Yes, Prime Minister (1986); explains the lack of planning and, more specifically, need for diversification in the European economy,

“*Hacker*: Bernard, Humphrey should have seen this coming and warned me.

Bernard: I don't think Sir Humphrey understands economics, Prime Minister; he did read Classics, you know.

Hacker: What about Sir Frank? He's head of the Treasury!

Bernard: Well, I'm afraid he's at an even greater disadvantage in understanding economics: he's an economist.”