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The global economic crisis against the background of the war in Ukraine: Curreant realities and prospects for overcoming

La crisis económica mundial en el trasfondo de la guerra en Ucrania: Realidades actuales y perspectivas de superación

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Written by:

Oleg Musiienko⁴⁰<https://orcid.org/0000-0001-6533-0359>**Volodymyr Kapustnyk**⁴¹<https://orcid.org/0000-0003-0733-4233>**Tanya Fernanda Arbeláez-Encarnación**⁴²<https://orcid.org/0000-0002-1635-4116>**Magda Julissa Rojas-Bahamón**⁴³<https://orcid.org/0000-0003-4882-1476>**Diego Felipe Arbeláez-Campillo**⁴⁴<https://orcid.org/0000-0002-9041-9563>

Abstract

The purpose of the article is to study the global economic crisis through the prism of the war in Ukraine, as well as to study the prospects to overcome it. The subject matter of the research is global economic crisis. Research methodology includes the use of general scientific and special methods of scientific knowledge, including dialectical, historical, qualitative and quantitative comparison, normative and dogmatic, method of factor and structural analysis, modelling and forecasting methods. Research results. The peculiarities of the term “economic crisis” are revealed and the authors’ definition of this concept is provided. National and international statistical studies related to the economic situation in Ukraine are considered. The legislative acts and resolutions on solving the problems of the economic crisis caused by the war, adopted by Ukraine, are analyzed. Practical implementation. It is determined how the war in Ukraine affects the economic system of all countries of the world. It is concluded that the

Анотація

Метою статті є дослідження світової економічної кризи крізь призму війни в Україні, а також вивчення перспектив її подолання. Предметом дослідження є світова економічна криза. Методологія дослідження включає використання загальнонаукових та спеціальних методів наукового пізнання, зокрема, діалектичного, історичного, якісного та кількісного порівняння, нормативно-догматичного, методу факторного та структурного аналізу, методів моделювання та прогнозування. Результати досліджень. Розкрито особливості поняття «економічна криза» та надано авторське визначення цієї дефініції. Розглянуто національні та міжнародні статистичні дослідження щодо економічної ситуації в Україні. Проаналізовано прийняті в Україні законодавчі акти та постанови щодо вирішення проблем економічної кризи, викликані війною. Практична реалізація. Встановлено, як війна в Україні впливає на економічну систему всіх

⁴⁰ Ph.D in Law, Associate Professor, Associate Professor of the Department of Criminalistics of the Yaroslav Mudryi National Law University, Ukraine.

⁴¹ Doctor of Law Sciences, Associate Professor of the Department of Forensic Medicine and Medical Law named after Honorary Professor M.S.Bokarius, Kharkiv National Medical University, Ukraine.

⁴² Estudiante Derecho, Universidad Libre de Colombia.

⁴³ Ph.D. Educación y Cultura Ambiental. Docente titular Jorge Eliécer Gaitán. Grupo de Investigación Primate. Par evaluadora Colciencias, Colombia.

⁴⁴ Grupo de Investigación Lenguajes, Representaciones y Educación, Universidad de la Amazonia, Grupo de Investigación Primate, Colombia.

war in Ukraine negatively affects inflation fluctuations and may cause and could increase poverty in Colombia. Value/ originality. It is concluded that the war in Ukraine can be the cause of global economic crisis. The measures that will contribute to overcoming rapid development of this negative phenomenon are proposed.

Keywords: aggressor, crisis, economy, finances, food, poverty, war.

Introduction

We observe crisis phenomena in any sphere of development of modern society – social, political, spiritual and economic ones nowadays. In particular, the latter one – the economic sphere or economic space – is an extremely relevant topic for discussion. As a result of the armed aggression of the Russian Federation against Ukraine and the conduct of hostilities on our territory, the economic crisis has begun to develop rapidly, and its effects are being felt worldwide.

Until the 19th century the concept of “crisis” referred to the medical sphere (a sharp course of the disease), the theater (the culmination of the performance), politics, military affairs, and agricultural production. In the middle of the 19th century it began to be used in the economy, as a result of the comprehensive research by Karl Marx, who came to the conclusion that the crisis is an integral part of the capitalist economy (Kuruma, 1936).

The world experienced one of the biggest global crises of modern times as a result of the rapid spread of the Covid-19 pandemic, which seriously shook the world economy in 2020. According to economic experts, after the pandemic, the world community is facing the worst economic crisis since the Second World War. Thus, in the first 9 months of 2020, the number of working hours decreased by 11.7%, equal to 323 million permanent jobs. This, in turn, led to the reduction in revenues of \$3.5 trillion, or 5.5% of GDP. About 12 trillion dollars were spent on financial support for families, vulnerable groups, and enterprises (Radio Svoboda, 2021).

The Head of the UBS, Axel Weber, noted that it will take about two years to return to pre-crisis GDP indicators, that is, the world awaits a long-term recovery (Ellyatt, 2020). The representatives of the United Nations Conference

країн світу. Зроблено висновок, що війна в Україні негативно впливає на інфляційні коливання та може спричинити та збільшити бідність у Колумбії. Цінність / оригінальність. Зроблено висновок, що війна в Україні може бути причиною світової економічної кризи. Запропоновано заходи, які сприятимуть подоланню стрімкого розвитку цього негативного явища.

Ключові слова: агресор, криза, економіка, фінанси, харчування, бідність, війни.

on Trade and Development (UNCTAD) say that the economic consequences of the coronavirus will be felt for a long time, primarily among the poorest and most vulnerable social groups.

Before the world had recovered from the economic crisis caused by the rapid spread of the Covid-19 disease, on February 24, 2022, the Russian Federation launched a full-scale invasion of the territory of Ukraine. As a result, martial law was declared in the country. For more than six months since the beginning of the invasion, Ukraine has experienced large-scale destruction. According to the report prepared by the World Bank, the cost of reconstruction of Ukraine and its economy is more 349 billion dollars (DW, 2022). As a result, the world economy found itself on the brink of a global crisis, the consequences of which will be felt by all, without exception, countries of the world.

Methodology

The methodological and theoretical basis for the study consists of the fundamental provisions of economic theory regarding global economic crisis, the scientific works of leading domestic and foreign scientists on the issues of the development, and spread of the crisis.

In particular, dialectical and historical methods are used to generalize the theory of global economic crisis, to determine its nature and to highlight its features.

Qualitative and quantitative comparison method is applied to clarify the peculiarities of the course and consequences of the economic crisis in Ukraine, Latin American countries and other countries of the world.

Normative and dogmatic method helps to identify the mechanisms of counteraction to the

challenges of the global financial crisis in Ukraine.

The method of factor and structural analysis makes it possible to reveal the impact of the economic crisis, caused by the war in Ukraine, on the economy of this State and of Colombia, as according to the UN, the invasion of the Russian Federation caused the increase in poverty in Colombia (the poverty rate is expected to rise from 36.3 % to 38%).

Modelling method is used to estimate the global consequence of the economic crisis and the further GDP development in 2022 and 2023.

Forecasting method is applied to propose the measures that will contribute to overcoming rapid development of the global economic crisis, caused by the war in Ukraine.

Literature Review

Among the foreign scientists who studied the issue of the crisis in the economy, we can highlight Arthur Spiethoff (1902), who studied the causes of cyclical processes in the economy, and, as a result, the onset of the crisis. He noted that the signs of the crisis are over-accumulation of capital and a decrease in wages. Reduced incomes of the population cause a reduction in consumer services, which leads to a crisis.

The research by Fischer, Dornbusch and Schmalensee (1988) draws our attention to another definition of a crisis in the economy; according to them, it is breaking the balance of various nature, from monetary and fiscal policy, the emergence of new products and methods, rising prices for oil and raw materials to changing people's consumer preferences and workplaces. That is, there is a violation of the balance of supply and demand in all spheres.

The economist John Maynard Keynes (1936) noted that the understanding of the economic crisis is expressed not in the increase in interest rates, but in a sudden drop in the efficiency of capital. He is one of the first who proved the need for State intervention in the economic sphere to overcome the crisis.

Among the domestic scientific researchers, we can highlight Chukhno (2010, p. 5), who believes that the crisis is one of the forms of economic development, during which outdated equipment and technology, the organization of production and labor are eliminated, and the space for

growth and the establishment of a new one is revealed.

According to Ostapishyn (2013, p. 115), crisis is breaking of the balance in the development of the economic system, which leads to changes in the form of its organization, to its transition to a new state or to the cessation of existence.

According to Bilodid (1973, p. 343), crisis is a sudden change in the usual state of things; breakdown, aggravation of the situation; in the economy, it is periodic overproduction of goods, which leads to a sharp aggravation of economic benefits: a reduction in production, disruption of credit and monetary relations, mass unemployment, etc.

Results and Discussion

Having analyzed the views of a number of researchers and scientific sources, we can come to the conclusion that the economic crisis has the following features:

- 1) intervention in the system development;
- 2) overproduction of goods;
- 3) massive bankruptcies;
- 4) reduction of individual productions;
- 5) salary reduction;
- 6) increase in unemployment;
- 7) high rates of inflation;
- 8) growth of social tension;
- 9) disaster to the monetary system;
- 10) long-term effect;
- 11) negative character.

As Sushchenko (2015, p. 58) correctly notes, the economic crisis is also characterized by the disruption of the macroeconomic balance, an imbalance of interacting structures; overproduction followed by a fall in production volumes; accumulation of commodities in wholesale trade; falling commodity prices; decline in company income and living standards.

Consequently, in our opinion, economic crisis is a sudden decrease (fall) of the country's economy, which is caused by a financial crisis happened under the influence of internal and external economic and political factors.

Unfortunately, there are no accurate data that would reveal the current economic situation in Ukraine. But we have tried to conduct our own analyzes, based on statistical studies.

As for CPI inflation accelerated by 10.7% year on year in February (study by the State Statistics

Service of Ukraine (2022). In March, it was 13.7%, and in April it was already 16.4%. This growth is due to the disruption of supply chains, uneven demand, increased business expenses, and the physical destruction of business assets during the war. According to the Center for Economic Strategy, by the end of 2022, prices may rise by another 10 – 15% (Zhyrii, 2022).

As for the labor market, it is gradually recovering. But the number of applicants exceeds the number of vacancies, therefore, this entails a reduction in wages. In April, 54% of enterprises had to retain fewer staff, and 34% had to pay lower salaries. The number of enterprises completely shut down in late April was almost halved – from 32% to 17% (Yudina, 2022).

Due to occupation and mining, about 4.5 thousand hectares of land were sown. Agricultural enterprises suffer great losses due to the removal of grain, destruction of machinery by the occupiers, and the land's unfit for sowing. There is a shortage of fertilizers, plant protection products, etc. (Uhniva, 2022).

The reduction of economic activity led to the formation of a significant budget deficit. It is financed by the placement of military bonds of the domestic State loan (for March – April 135 billion UAH were raised, of which 70 billion UAH were purchased by the National Bank of Ukraine) and international aid (grants and bilateral loans). As for the provision of bilateral agreements and grants we can highlight: the EU (132 million euros), the United States (about 10 billion dollars), Germany (1 billion euros), Great Britain (128 million euros), Lithuania (5 million euros) and other countries, excluding periodic aid packages (Ministry of Finance of Ukraine, 2022a).

Expenditures in the country increased significantly owing to military needs and social programmes, as well as the reconstruction of the regions. Instead, the monthly deficit of the State budget is about 5 billion dollars (Ministry of Finance of Ukraine, 2022b).

Thus, we have considered how the war affects the socio-economic situation in Ukraine, but whether the negative effects are confined to the territory of our State? Clearly, not.

We can observe that the war in Ukraine is a key factor affecting the state of the economy both inside and outside the country. A number of

researches by the economists, journalists and international organizations testify to this.

Thus, Josep Borrell, the EU High Representative for Foreign Affairs and Security Policy (2022), have stated that “the negative consequences of the war in Ukraine have the greatest impact on the countries of the European Union. The war in Ukraine is accompanied by a sharp increase in inflation under the pressure of prices for food, energy and basic essential goods. Inflation has already increased throughout 2021, and the war in Ukraine in 2022 only accelerated it. If we pay attention to those regions of the world that do not produce energy, do not import food, we can see their suffering. For example, in Latin American countries, the Covid-19 pandemic has already weakened the economy, and the war in Ukraine will only accelerate serious economic changes. That is, the economic perspective of many countries of the world will have global negative social, economic and political consequences that will arise as a result of the war”. That is, there are real reasons to believe that the war in Ukraine can cause a global economic crisis.

According to a study by the World Trade Organization (WTO) from 12 April 2022, the most immediate consequence of the crisis that we are witnessing has been a sharp rise in the prices of goods and services. Despite relatively small fractions in world trade and production, Ukraine is a key supplier of essential goods, including food, energy commodities, fertilizers, etc. If the transportation of vital goods is interrupted, it could have dire global consequences for the food security of the poor countries (World Trade Organization, 2022).

WTO Director General Ngozi Okonjo-Iweala, in his turn, noted that “the war in Ukraine caused not only enormous human suffering, but also damage to the world economy at a critical moment. The impact of the war is felt all over the world, particularly in the countries with a low level of economy. But now is not the time to reduce supplies and raise prices – in times of crisis, more trade is needed to ensure access to basic necessities. And dividing the world economy and turning away from the poorest countries will not lead neither to prosperity nor to peace” (World Trade Organization, 2022).

According to the WTO's modeling of further GDP development in 2022 and 2023, global GDP is expected to grow by 2.8% in 2022, which is 1.3 points below the previous forecast of 4.1%. Growth is set to reach 3.2% in 2023, close to the 3.0% average between 2010 and 2019.

Production in the Commonwealth of Independent States (CIS) region, excluding Ukraine, is expected to drop sharply by 7.9% before a 12.0% decline in the region's imports. This study was based on the following elements: 1) the direct impact of the war in Ukraine, including the destruction of infrastructure and the increase in trade costs; 2) sanctions introduced against the aggressor state; 3) weakening global demand due to lack of confidence (World Trade Organization, 2022).

The World Bank (2022) notes in its report for April 2022 that "according to the forecasts, the volume of production in 2022 will decrease by 4.1%". The war in Ukraine has worsened the world's recovery from the Covid-19 pandemic, and its economic consequences are being felt across many sectors, including commodity and financial markets, trade and migration links, and investor confidence. Supply shortages and higher energy and food prices will accelerate inflation, affecting the entire world. The countries most at risk are those with high current account deficits or a significant share of debt nominated in foreign currency. It will be hard for them to prolong the debt. Prolonged conflict can increase human and economic costs, political uncertainty, fragmentation of regional integration, and destruction of important trade and investment ties".

According to the Report by the Organization for Economic Co-operation and Development (OECD, 2022), "the war in Ukraine triggered a cost-of-living crisis, targeted the world economy for inflation as a result of soaring prices for energy and food prices, and poses a major risk of a food crisis in poor countries of the world. Before the war, the world economy was on the way to recovery. After the full-scale invasion of the Russian Federation into Ukraine, this process has stalled".

That is, we can conclude that the impact of the war in Ukraine on the world's economic system is decisive one and could trigger a global economic crisis that would be prolonged and destructive for all countries. The term "global" is synonymous with "world", therefore absolutely all countries of the world will experience the consequences of the war in Ukraine, which will be expressed in the economic crisis.

Using the example of the countries of the Latin American region, we will try to consider this situation in more detail.

A Reuters study indicates that the risks facing Latin American countries include rising inflation, including food inflation, which could trigger social unrest (Campos & Nomiyama, 2022).

The World Food Program of the United Nations (WFP) (2022) predicts that many countries in Latin America are already facing a shortage of fertilizers, and crops in Brazil are particularly at risk. According to the experts, almost 50 million people in 45 countries are on the verge of starvation.

According to the UN, the invasion of the Russian Federation into Ukraine caused the increase in poverty in Colombia and other Latin American countries. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC, 2022) declared in its report that it expects the poverty rate in Colombia to rise from 36.3 per cent to 38 per cent; that is, almost 880,000 people will become poor.

The projected increase in poverty in Colombia and the rest of the region will mainly be driven by "uncertainty, inflation (especially in food and energy) and a slowdown in economic activity and trade. That is, the region is facing a domestic situation characterized by a sharp economic slowdown, rising inflation, slow and incomplete recovery of labor markets, leading to an increase in poverty. As a result, 7.8 million people are projected to join the 86.4 million others whose food security is already at risk (ECLAC, 2022).

According to ECLAC (2022), the sharp increase in food prices associated with the war in Ukraine will have the greatest impact on poor people who have not yet been able to recover from the Coronavirus pandemic.

Colombia's statistical agency DANE reported that inflation in May was 9%. There was a 21.6% increase in prices for food and non-alcoholic beverages (Alsema, 2022). This indicates that the economic crisis in this region as a result of the war in Ukraine is rapidly developing.

Another urgent issue related to the global economic crisis is the "grain agreement" – unblocking of Ukrainian ports for the export of grain. It was concluded on 22 July 2022 in Istanbul between Turkey, the UN and Ukraine, and allowed commercial and cargo ships to leave Ukrainian ports (Odesa, Chornomorsk and Pivdennyi) and deliver agricultural products to various countries around the world. Since the establishing of "grain corridor", more than 177

ships with wheat, corn, and oil (approximately 4 million tons of agricultural products) left Ukrainian ports to the EU States, Asian and African countries. The validity period of this agreement is 120 days from the moment of concluding (Rail.insider, 2022). It will be automatically extended unless either party indicates that they wish to terminate it. But what are the guarantees that the aggressor country will comply with all the terms of the agreement? None.

On 23 July, 2022, after signing the agreement, Russia launched a missile attack on the Odesa trade port. According to the UN, “maybe it didn’t technically break the contract, but the consequences caused by the strikes affect everything – people’s lives and destinies, infrastructure, economy”.

The Minister of Foreign Affairs of Ukraine Dmytro Kuleba stressed in this regard that as part of the work of the 77th session of the UN General Assembly, Ukraine should expand co-operation with other countries, primarily African, Asian and Latin America ones. He pointed out that Ukraine maintains a constant dialogue with European and American partners “we are working to expand the circle of this communication thanks to African, Asian, Latin American countries. Those issues that are relevant for us – sanctions against Russia, weapon, trade, functioning of the grain corridor – all of them are at the “heart” of our directives”. According to him, the General Assembly provides an opportunity to “communicate with those parts of the world, which we do not have constant contact with” That is, an extended program of such communication with the countries of Asia, Africa, Latin America and the Pacific region is expected (Ukrinform, 2022).

As for the specific issues that the delegation is working on, it is the creation of coalition to protect the grain corridor, the Minister added. Active communication with the countries of the “Global South” is aimed at getting them to protect the grain corridor, because it affects prices and makes it possible to avoid hunger in the poorest countries (Ukrinform, 2022).

Among the adopted legislative acts and resolutions aimed at solving the problems of the economic crisis caused by the war, the following ones can be highlighted:

- 1) the Law of Ukraine “On the State Budget of Ukraine for 2022” was supplemented by the article on the transfer of funds from the State

Road Fund to fulfill debt obligations on loans received by the State or under State guarantees, as well as to meet the needs of the defense sector (Law of Ukraine No. 2135-IX, 2022).

- 2) Resolution No. 2141-IX (2022) “On the Appeal of the Verkhovna Rada of Ukraine to the United Nations, the European Commission, the European Parliament, other international organizations and their parliamentary assemblies, the parliaments and governments of the European Union and NATO Member States, the parliaments and governments of the democratic States of the world regarding the necessity to take additional joint measures to stop the aggression of the Russian Federation against Ukraine and prevent the expansion of this aggression to other European countries;
- 3) Law of Ukraine No. 2143-IX (2022) “On the ratification of the Guarantee Agreement (Additional financing for combating COVID-19 within the Access to Long-Term Financing Project) between Ukraine and the International Bank for Reconstruction and Development”;
- 4) Resolution of the Verkhovna Rada of Ukraine No. 2185-IX (2022) on the Adoption of the Draft Law of Ukraine on compensation for damage and destruction of the selected categories of immovable property as a result of hostilities, acts of terrorism, sabotage caused by the military aggression of the Russian Federation;
- 5) Law of Ukraine No. 2257-IX (2022) “On making changes to some legislative acts of Ukraine regarding increasing the effectiveness of sanctions related to the assets of certain individuals”;
- 6) Resolution No. 2288-IX (2022) “On the approval of proposals regarding the application of personal special economic and other restrictive measures (sanctions) to the representatives of the Russian Orthodox Church”;
- 7) Resolution No. 2329-IX (2022) “On the adoption of the Draft Law of Ukraine on Amendments to the Law of Ukraine “On the State Budget of Ukraine for 2022” regarding the financing of measures aimed at regulating relations on the natural gas market and in the field of heat management during the war and subsequent recovery”;
- 8) Resolution No. 2424-IX (2022) “On the formation of the Temporary Special Commission of the Verkhovna Rada of Ukraine on the issues of monitoring the receipt and use of international logistical assistance during martial law”;

- 9) Resolution No. 2478-IX (2022) "On the Formation of a Temporary Special Commission of the Verkhovna Rada of Ukraine for Preliminary Consideration of the Issues Regarding Violations of Legislation That Could Lead to Crisis Phenomena in the Energy Market of Ukraine on the Eve and During the Armed Aggression of the Russian Federation Against Ukraine;
- 10) Resolution No. 2496-IX (2022) "On the Address of the Verkhovna Rada of Ukraine to the European Union and the countries of the Group of Seven, as founders of the Financial Action Task Force on Money Laundering (FATF), regarding the strengthening of the fight against money laundering, including funds of criminal origin, with the financing of terrorism, with financial mechanisms used by the Russian Federation to avoid sanctions and continue the invasion of the territory of Ukraine";
- 11) Resolution No. 2504-IX (2022) "On the Appeal of the Verkhovna Rada of Ukraine to the members of the Financial Action Task Force on Money Laundering (FATF) regarding the exclusion of the Russian Federation from among FATF members and its inclusion in the list of high-risk countries".

At the international level, among the adopted legal decisions on solving problems in the economic sphere as a result of the war in Ukraine, the following can be highlighted:

- 1) Approval of the EU sanctions package in response to Russia's aggression, including: the introduction of a ban on financing the Russian Federation, its government and the central bank; a ban on the import of goods from the non-controlled territories of the Donetsk and Luhansk regions of Ukraine, restrictions on trade and investments, a ban on the provision of tourist services; freezing of assets of 27 known natural and legal persons, who participated in undermining and threatening the territorial integrity, sovereignty and independence of Ukraine (European Council, 2022a);
- 2) Approval of the EU economic sanctions, including: expansion of existing financial restrictions; prohibition to provide services on shares of Russian companies on EU trading platforms; prohibition to accept deposits exceeding a certain value; prohibition of keeping accounts of Russian clients in the Central Securities Depositories of the EU, as well as the sale of securities

- denominated in euros; prohibition of the sale, supply, transfer or export to Russia of certain goods and technologies from oil refining; ban on the export of goods and technologies in the aviation and space industry; ban on the sale of all aircraft, spare parts and equipment to Russian airlines (European Council, 2022b);
- 3) prohibition to carry out operations with the central bank of Russia;
- 4) prohibition of certain business services (directly or indirectly) such as accounting, auditing, statutory audit, tax consulting services, IT consulting, legal consulting, architectural and engineering services, business consulting and management services, as well as services from public relations for the government of the Russian Federation, as well as legal entities, organizations or bodies based on the territory of Russia;
- 5) blocking foreign exchange reserves by excluding the main Russian banks from the SWIFT system;
- 6) a complete ban on the participation of Russian citizens and organizations in procurement contracts in the EU;
- 7) restrictions on financial and non-financial support of Russian business entities that are state-owned or under state control within the framework of EU, Euratom and Member States programs. There will be any new contracts or agreements with Russian state bodies or related persons (European Commission, 2022);
- 8) creation of the "Trading Group on Freezing and Confiscation" to study the links between assets belonging to the persons subject to the EU sanctions and criminal activities (European Commission, 2022).

That is, at the national and international level, the leadership of our country is doing everything possible to solve the problem of spreading the global economic crisis, which awaits the world as a result of the war in Ukraine.

Conclusion

Analyzing the above, we can state that the war in Ukraine can be the cause of global economic crisis, which is expressed in: bankruptcy of enterprises, reduction of production, reduction of wages, increase in unemployment, hunger, humanitarian crisis, inflation, economic slowdown, destruction of political, economic, social ties, etc.

Among the measures that will contribute to overcoming rapid development of the global economic crisis as a result of the war in Ukraine, in our opinion, are the following:

- 1) support for Ukraine in all spheres, in particular defense and financial ones;
- 2) support to industries and producers: measures to increase production, removing barriers to resource trade;
- 3) orientation of the State and world policies to support farmers and all industries;
- 4) forging of an international consensus (G-7, G-20);
- 5) avoiding or reducing export restrictions that increase the prices for goods; import restrictions in developing countries;
- 6) expansion of targeted programs of social protection;
- 7) change or improvement of food systems, etc.

As Antonio Guterres, UN Secretary General correctly pointed out, “there is no way to solve this global economic crisis without solving the economic crisis in developing countries. The global financial system should rise above its principles and fully use all its tools to provide support and aid to vulnerable countries. We must act now to save our lives and solve the coming global crisis” (UN, 2022).

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