

# The UK economy post any war in Ukraine might be very ugly.

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I have no idea whether or not Russia will invade Ukraine this week, as the USA is now suggesting it might. I have largely ignored the issue precisely because I have not been able to really appraise the risk, much of which appears to arise from posturing. However, if a war is likely it seems appropriate to consider the possible economic consequences.

Many would appear to think that these are small. For example, recent economic forecast from the government, Bank of England, Office for Budget Responsibility and others seem to take little account of this conflict. Superficially, that may be justifiable as the chance that the UK will be directly involved in any war is low, and if it is, the cost will be limited, although I would regret any loss of human life for any reason.

This is, however, to ignore the real probable consequences of any such conflict. As we know, there is no major western power who appears to have any willingness to intervene, directly, in this dispute. Obvious logistical reasons suggest why that is the case. It will be hard enough for Putin to manage such a conflict. For anyone else to assist Ukraine in mounting an effective defence would appear to be much harder still. Instead, sanctions appear to be the chosen weapon of choice against Russia.

As I have already noted this morning, the Russian influence over the City of London and the UK economy is strong. There are good reasons why the USA thinks that the UK will be the weakest link when it comes to imposing sanctions. What, however, astonishes me is the failure to take into account the consequences of those sanctions. We might have noticed the impact on energy costs, which will skyrocket still further if any form of conflict breaks out because of the threat to gas supplies from Russia to the likes of Germany. These, though, are only the first impact.

My economic concern is not for energy prices, significant as they are. Instead I note that China has very deliberately aligned itself with Russia, and that Russia appears to be very deliberately deferring any invasion until the Winter Olympics in China are over. The chance that that is by accident is remote.

It is also incredibly unlikely that China would want to be directly involved in any conflict in Ukraine. There will be almost no benefit from such an engagement for it. But, it does not need to take any such action. All it has to do to create mayhem for the West by disrupting supply chains for the products that it supplies and economic turmoil will be guaranteed in the economies of the countries that oppose Russia.

Supply chain disruption during the Covid crisis must have convinced China of the economic power that it holds over a great many economies in the world. It does not need direct investment, or ownership of assets, or the purchase of influence to create a stranglehold on the economies of countries like the UK. All it needs to do is to withhold supplies of the goods that we want to purchase from China and it can, quite deliberately, and with planned aforethought, guarantee very high levels of economic disorder that threaten our economic stability.

In complex, integrated, global supply chains we saw during the Covid crisis that the limitation of supply of just some components could create disruption. The shortage of chips to the motor industry was a perfect example of that. I have no doubt at all that this will be China's weapon of choice when it comes into conflict with the West to support its ally Russia after we seek to impose probably futile economic sanctions on the Russian economy.

In that case, anyone who thinks that this conflict is without economic consequence for the UK in coming weeks, months and most likely, years is fooling themselves. With luck not many people will die as a direct consequence of the dispute in Ukraine. That, at least, is my hope. However, this dispute has the potential to create greater consequence for the economies of the West than the oil conflicts of the early 1970s, and the resulting price increases did. Mayhem might be coming our way.