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Impacts of Russia-Ukraine War on Global Economy with Special Reference to Indian Economy

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Abstract

The relation between two countries (Russia and Ukraine) became hostile after 2014 Ukrainian revolution, which was followed by Russia's annexation of Crimea of Ukraine and the war in Donbus, in which Russia supported the Separatist fighters of the Donetsk people's Republic and Luhansk people's Republic. The war has replaced more than 11 million people. Russia's military forces have caused extensive damages to civilian infra-structure. The Kyiv School of economies estimated that as of April 2023, the direct documented damages to Ukraine's infra-structure were 147.5 billion dollars (at replacement cost). The war has devasted Ukraine's economy and reduced food and energy security in many countries.

War between Russia and Ukraine have exposed the vulnerabilities in the financial system. The war is a blow to the global economy causing rapid inflation and sluggish growth. The ongoing war has affected the trade routes and have disrupted supply chains globally. Western nations have unitedly condemned Russian Federation and have placed several sanctions as well as bans on Russia. These sanctions have led to an increase price of commodities which will negatively affect the recovery of Global and domestic economy affected by the severe pandemic. Russia and Ukraine make up only 2% of global economy but they make majority of many essential products. The article explores the impact of the war on the global economy with special reference to Indian economy.

Keywords: Global Economy Separatist fighters, Indian economy, Russia, Ukraine, supply chain.

1. Introduction

Ukraine is the 8th most populous country and second largest country in Europe by area. Ukraine is bordered by Russia in East, Belarus in North, Poland, Slovakia, Hungary, Romania, and Moldova in West. It also has a maritime boundary with Black Sea and Sea of Azov. Historically Ukraine has been under Ottoman Empire, Russian Empire and The Soviet Union.

Russia-Ukraine war takes its birth from the disintegration of the Soviet Union. Ukraine was a member of the erstwhile Soviet Union, became an independent country in 1991. The struggle between Ukraine and Russia began as an internal Ukrainian crisis in November 2013, when the then Ukrainian President rejected a deal for greater integration with the European Union and decided to join Russia-led Eurasian Economic Union, sparking mass protests across the country. The 'Euromaidan' protests collapsed the government. In 2014, an attempt to regain its lost influence in the Ukraine, Russia annexed Crimea, an important port region in Ukraine. Later, Russia and Ukraine had signed the Minsk peace Accord in 2014 to halt the armed conflict in east Ukraine.

The current crisis began in early January 2021, when Ukraine President urged the US to permit Ukraine to join the North Atlantic Treaty Organization (NATO). Ukraine and Russia are two countries that border each other in Eastern Europe, and any eastward expansion of the NATO is a direct threat to Russia's interest and border security. Subsequently, Russia demanded the West to give a legally binding guarantee that the NATO will not expand eastward or allow former Soviet States like Ukraine to join, and that the NATO will not hold any military activity in Eastern Europe. However, the US has ruled out changing NATO's 'open-door policy' which means, the NATO would continue to welcome more members. No assurance from the US given, on February 22 of 2022, Russia recognised the independence of two separatist regions of Donetsk and Luhansk. The larger conflict materialized, on February 24, when Russia launched what it termed as a 'special military operation', which has invited a range of sanctions on Russia from across the world. Firms, corporates, and family members of these businesses spread across various countries. The new sanctions imposed by the United States, the European Union (EU), the United Kingdom (UK), Canada, Australia, Japan, and others are extraordinary in terms of scope-both in terms of the type of sanctions and the entities targeted, coordination, and speed. These include asset freezing, blocking access to new funding, restrictions on certain types of transactions, and exclusion of Russian banks from the SWIFT payments system. In addition to financial sanctions, several trade sanctions have also been imposed, including suspension of export licenses for dual-use items

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which can be used for military purposes, banning exports of high-tech items and oil-refinery equipment, sale of aircraft and equipment to Russian airlines.

2. Methodology of Study

To complete the paper the descriptive as well as analytical method is used. Sources of data and information are collected from Secondary Sources like newspaper and online reports published by Private agencies, Government Agencies, educational institutes and economists.

3. Objective of the Study

To explore the impact of Russia – Ukraine war on global as well as Indian economy.

4. Data Analysis

Global Impact of Russia – Ukraine War:

The current conflict is affecting global economies through following ways:

a) Commodity Price

Rising Price of Crude Oil and Natural Gas: Since Russia is one of the biggest oil exporters in the world, the conflict has caused an immediate global supply shock. The conflict has resulted in crude oil and natural gas prices shooting up on expectations that sanctions against Russia would cripple energy exports. International natural gas prices have also been rising amid increased uncertainty in European natural gas markets. The conflict would disrupt supplies from the Nord Stream pipelines to the EU, leading to further energy shortages and inflation. The concerns over tightening supplies and further sanction on oil and gas supplies have added to the uncertainty in the market.

Rising Prices of Food: Russia and Ukraine are among the important producers of agricultural commodities in the world. The disruptions caused by sanctions and the related uncertainty would directly impact the availability of food in the global market. Reduced availability of food and critical agriculture-related goods have bid up the prices, thus leading to higher food costs. This would contribute to the rise in the global inflation level.

Edible Oil: Ukraine and Russia being the largest exporters of edible oil, essentially sunflower oil, the ongoing conflict between the two nations have further created a supply crunch in the market, which leading to higher prices.

Metals: Russia and Ukraine are major producers of metals and steel. Uncertainty over the supply of metals and sanctions on Russia have led to sharp rise in the prices of these products.

Chip Shortage Widens: Russia and Ukraine control a significant share of global palladium and neon supplies. These are the key raw materials that go into making of semiconductors. The global chip shortage is likely to worsen if the conflict continues. It is through this shortage of semiconductors that industries such as automobile, mobile phones, and consumer electronics industry are impacted, which are directly dependent on these chips for their production.

b) Financial Markets

Sanctions have proved to be disruptive to businesses as it impinged on the profits of companies in Russia and raised questions on capability and willingness of Russia to repay its debts. It has also resulted in severe depreciation of Russia's currency and raising key interest rates to 20% from 9.5% by Russian Central Bank. The global credit rating agencies withdrew ratings for Russia's sovereign and Russian entities.

c) Trade and Supply Chains

Russia and Ukraine being major suppliers of several commodities, there would be supply chain disruptions in these sectors in the global commodity market. The conflict has disrupted shipping and air logistics networks, causing freight rates rising across the board. The disruptions in the Black Sea are already impacting the prices of several agricultural products using Black Sea trade routes for transit. Russian airlines, specifically, have been banned from the EU airspace-including Aeroflot and Air Bridge Cargo. Since the latter is a top-20 global provider, with 18 widebody freighters, its ban is further reducing the already tight capacity on Asia Europe lanes.

India's Trade with Russia and Ukraine:

Russia: India enjoys a privileged strategic partnership with Russia. India's exports to Russia increased from US$ 1.8 billion in 2011-12 to US$ 3.3 billion in 2021-22, recording an average annual growth rate (AAGR) of 7.7%. During the same time, the imports have recorded an AAGR of 12%, growing from US$ 4.8 billion in 2011-12 to US$ 9.9 billion in 2021-22. India has been maintaining a trade deficit with respect to Russia, with the deficit widening from US$ 3 billion in 2011-12 to US$ 6.6 billion in 2021-22. Trade with Russia in terms of both exports and imports recorded the highest levels in 2021-22.

- ***Exports:*** As part of the Eurasian Economic Union (EAEU), Russia provides GSP benefits to exports from India. With respect to commodities traded, around 16% of India's exports to Russia during 2021-22 were electrical machinery and equipment. This was followed by pharmaceutical products (14.7%), machinery and mechanical appliances (9.3%), iron and steel (7.4%), and organic chemicals (7.1%).
- ***Imports:*** With respect to India's imports from Russia, over 53% of India's imports were mineral fuels and oils, followed by pearls, precious and semi-precious and stones (12.7%), fertilizers (7.8%), project goods (5.3%), animal or vegetable fats and oils (5%), and paper and paperboard (1.5%) during 2021-22.

Ukraine: Total trade between India and Ukraine increased from US$ 3 billion in 2011-12 to US$ 3.4 billion in 2021-22. India's exports to the country remain relatively stable throughout the last decade. During 2021-22, India's exports to Ukraine was US$ 472.7 million, lower than US$ 491.2 million recorded in 2011-12. On the other hand, India's imports from Ukraine witnessed an increase from US$ 2.5 billion in 2011-12 to US$ 2.9 billion in 2021-22, increasing by an AAGR of 4.2%. As is the case with Russia, India has been recording a trade deficit with the country which stood at US$ 2.4 billion in 2021-22, increasing from US$ 2 billion recorded in 2011-12.

- ***Exports:*** Pharmaceutical products remain the major exported commodities from India to Ukraine, accounting for over 30% of India's exports to the country during 2021-22. It was followed by plastics and articles (5.5%), machinery and appliances (5.3%), iron and steel (5.1%), miscellaneous chemical products (4.9%), and electrical machinery and equipment (4.2%).
- **Imports:** Animal or vegetable fats and oils (sunflower seed oil in particular) accounted for almost 3/4th of India's

imports from Ukraine in 2021-22. This was followed by fertilizers (12.7% of imports), inorganic chemicals (7.6%), project goods (1.2%), and wood and articles (1.1%).

Table 1: Development of trade between Ukraine and India (Million USD)

Years	Trade Turnover	Export	Import	Balance
2018	279	217	061	155
2019	276	202	074	128
2020	269	197	072	125
2021	345	249	096	153
2022	247	088	169	081
2023 (January-Sept)	179	045	134	089

Source: Indian Embassy Moscow

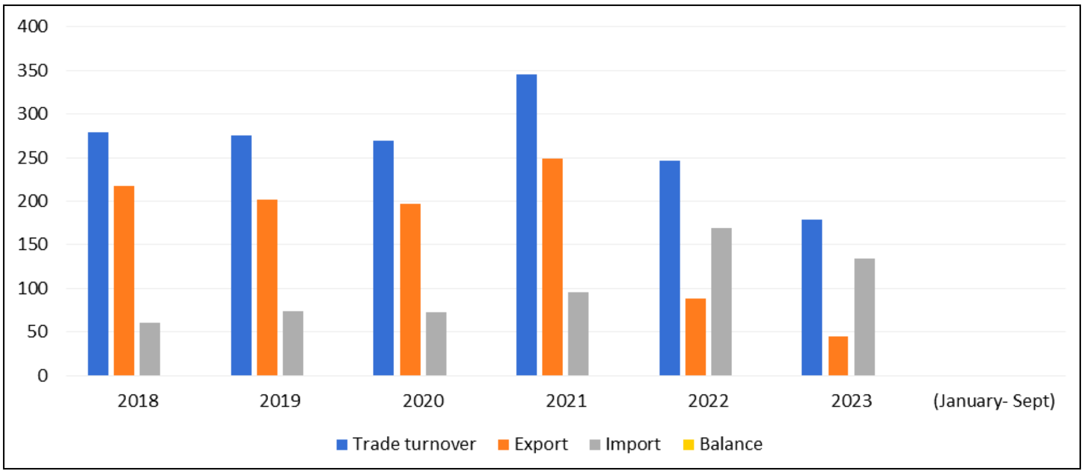

Fig 1: Trade between Ukraine and India

Table 2: India's Import-Export with Russia (USD)

Heads	Years					
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022 (April – July)**
Import from India to Russia	211.39	2389.47	3017.67	2655.52	3254.68	714.35
Export from Russia to India	8573.46	5840.44	7093.01	5485.75	9869.99	13370.46
Total:	10686.85	8229.91	10110.68	8141.26	13124.68	14084.81

Source: Embassy of Ukraine in Republic of India

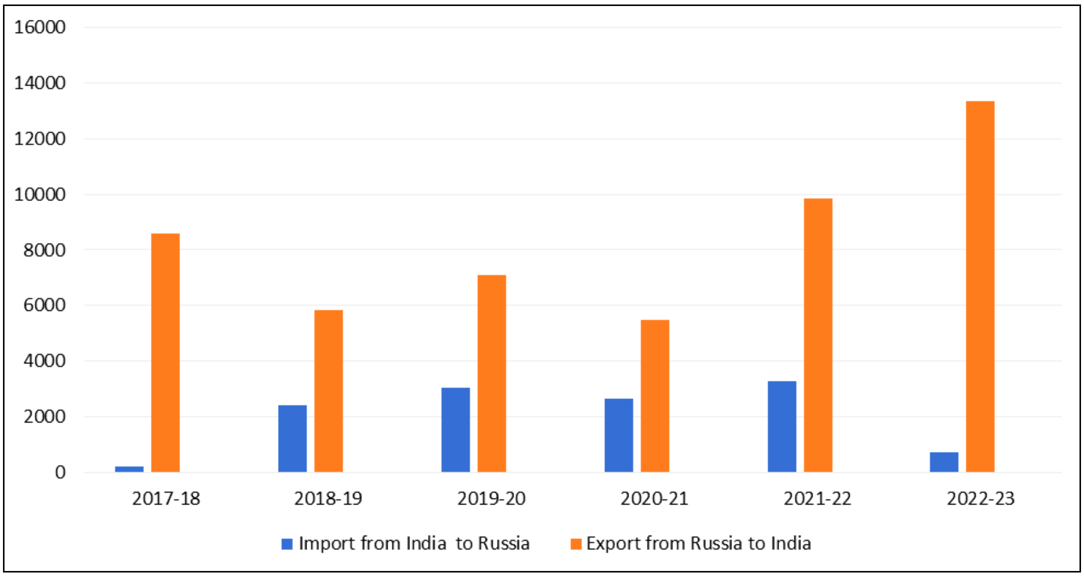

Fig 2: India's Import-Export with Russia (in USD).

Impact of Russia – Ukraine war on Indian Economy:
Russia-Ukraine conflict and the set of punitive sanctions imposed on Russia by the US and its allies, especially European Union, have the potential to impact India through multiple channels.

Fluctuation in Input Costs and Impact on Macroeconomic Variables

An expected resultant commodity price surge could lead to a severe increase in input costs, leading to increase in the product prices for exports and goods for domestic consumption. The impact of higher crude oil prices for a prolonged period on India's macroeconomic fundamentals could be severe, affecting through various lines such as GDP growth, inflation, savings, exchange rate of rupee, interest rates, trade, current account and finally on India's fiscal deficit.

Exchange Rate: High oil prices and volatility prevailing in global markets have resulted in rupee coming under significant pressure. Higher oil prices would result in higher trade deficits and leading to sharp rupee depreciation. Exchange rate is likely to remain volatile due to the uncertainties related to the conflict, risk aversion tendencies, the spike in Brent crude oil prices and policy tightening by the Federal Reserve.

Inflation: A rise in global crude prices and heightened uncertainties would increase the domestic price of crude products and increase domestic inflation. The continuous hardening in crude oil prices exacerbated by the Russia-Ukraine conflict, other geo-political concerns, and its impact on the Indian Rupee pose the biggest risk to the WPI as well as the CPI inflation. The impact of rising crude oil prices on WPI and CPI inflation would be influenced by the extent of pass through to domestic retail prices of fuels.

Financial Services: Flight to safety has resulted in capital outflows from emerging economies, including India. Foreign Portfolio Investment (FPI) flows are expected to remain volatile in the coming months due to Russia-Ukraine conflict and its fallout in the form of sanctions, high inflation and expected increase in interest rate by the Federal Reserve. Continuous FPI outflows and heavy selling in domestic equities could weigh on the equity markets and India's market valuations. Indian companies having exposure to Russia, Ukraine and other European companies would come under the scanner, with chances of stress in their financial conditions.

Public Services: The impact of higher oil prices could affect India's expenditure budget, leading to fiscal targets going awry. Impact of high crude oil prices on Government finances could lead to Government of India cutting back on capital outlays.

Trade Channel and Impact on Current Account

Since pharmaceutical products, being necessary goods, are currently exempted from sanctions, India's pharmaceutical exports which are the largest exports from India to both Russia and Ukraine are expected to witness only a marginal impact. Russia and Ukraine are also major destinations of Indian tea exports, and the crisis is expected to create an over-supply of tea in the domestic market, leading to falling tea prices. At the same, a depreciating Indian rupee is expected to benefit India's export-oriented sectors by making exports competitive. Disruptions in supply chains, along with rise in export insurance costs and shipping freights are also expected to raise the trading costs of Indian exporters. As regards imports, India's import costs would rise owing to higher prices of crude, fertilizers, metals, and edible oil. India's external sector remains highly vulnerable to global crude oil price movements and is expected to continue to remain so in the near future. On the other hand, rise in commodity prices may prove favourable in case of sectors such as steel and aluminium, leading to higher realisations for domestic primary steel makers and aluminium smelters. However, it would have negative impact on the construction, real estate, and automobile sectors which are the end users of these products. With Russia and Ukraine producing around 75% of the neon gas (Ukraine alone about 70%) used to manufacture semiconductors, disruptions are expected in the automobile sector which is already undergoing disruptions from the semiconductor shortages. Russian sanctions are expected to further curtail semiconductor production. With Russia being one of the largest producers and suppliers of palladium globally, there has been a significant increase in the price of palladium amidst uncertainties surrounding Russian sanctions. Thus, an expected increase in import bills due to elevated food, fuel, and fertilizer prices; moderation in domestic demand in major trading partners and growing uncertainty surrounding capital inflows may further widen India's current account deficit and thus impacting reserves in the short term.

Heightened Defence Spending

India's present military arsenal is heavily stocked with Russian-made or Russian-designed equipment, purchased mostly under government-to-government contract. Due to Russia-Ukraine war, India's reliance on Russia for arms imports are expected to come down. However, this would lead to India diversifying its import sources, leading to increased defence spending for the country. On the other hand, increased efforts by the Government of India to increase the domestic production of defence equipment under 'Make in India' would reduce India's dependency on Russian based defence products and divert part of its huge defence budget to meeting development needs and other priority sectors.

Conclusion

The prolonged conflict between Russia and Ukraine has significantly impacted the Global economy particularly for India. Owing to escalation of Russia-Ukraine war, the global economy has disrupted in economic growth; because the supply chains of international trade has been disordered badly and fires up the prices of various essential commodities in the global markets.

Russia–Ukraine war ignited the inflationary pressure in the global economy and India is not excepted from it. The world leaders, therefore, should think about the end of the Russia–Ukraine war, so that the economic stability could be restored in the world.

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