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RESEARCH ARTICLE

RUSSIA - UKRAINE WAR: ECONOMIC IMPACT ASSESSMENT

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Abstract

The war between Russia and Ukraine has raised many consequences out of it. This military action by Russia launched with a reason that Russia want to make Ukraine Nazi less and want to protect the rights of people of some of the regions of Ukraine. Whereas, the reasons for this actions seems very much rooted than it appears. Russia, after the break of USSR, has faced many problems as a country but today has secured a very great position on the world map. The third largest manufacturer of oil, second largest manufacturer of natural gas, is getting some troubles for their business and hence this action of war seems to be taken. This war has affected and is affecting the world economy and Indian economy as well. The increased prices of crude oil have resulted in inflation worldwide. Further Russia and Ukraine being the major players in wheat growing and exporting, an uncertainty is dwelling for harvesting the crop of this season which will lead to the increased rates of wheat worldwide. These are some the effects of this war. The intention behind this paper is to study the economic impact this war.

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Introduction:-

Any international activity which done in connection with war, let it be small or big, creates some of the long-lasting consequences to the world. It may affect the lives, the international relations and most impactful, the economy at a certain. The intention behind this paper is to study the economic impacts of the Russia – Ukraine war which has been started in the month of February 2022. It becomes very important to study the probable reasons of the war before directly studying the impacts.

The biggest and long lasting war after World War 2 in Europe has begun on 24th of February 2022 when Russia start invading the neighboring country Ukraine. The Russian president announced the war with giving the reasons to the people of his country. At the time of launching the invasion, the Russian President gave a reason for the act that the goal behind this “special military operations”, as Russian leaders call it, is demilitarize the neighbor and to make the Nazi impact free Ukraine to assure the security of the people of Ukraine who are being bullying by the Ukraine’s Government. Further this is also repeatedly said by Russia that Ukraine is working on making plutonium-based bomb, which can be threat to the security of Russia (Paul Kirby, 2022, April 19)¹. This is the side of Russia who is invading the neighboring country hence it becomes necessary to study the other side also. Retired Lt. Gen. Abhay

1 Paul Kirby.(2022, April 19). *Why has Russia invaded Ukraine and what does Putin want?* BBC News. <https://www.bbc.com/news/world-europe-56720589>, accessed on 21 April, 2022.

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Krishna (2022)² focuses more on the past happenings to find out the reasons behind this war. According to him, one of the reasons behind this crisis is Russia's emergence as a new energy giant on the world map. The notable thing here is Russia, after the breaking of Union of Soviet Socialist Republics in 1990, after facing many challenges and economic struggles has taken the place of world's third largest oil producer and second largest natural gas producer. Further with the help of Nord Stream 2 project, Russia is trying to be less dependent of Ukraine for supplying the natural gas to Europe. Here comes the role of US and allies, where they don't want Russia to overpower in European region. Though, these reasons are not worded by any of the country till now, the actions leads to this theory. So and so forth, there are many theories which are put forward for the reason of the military action by Russia. Whatever may be the reasons, but this action of war has triggered various impacts on world economy. The intention, as told above, of this paper is to study the following objectives.

Objectives:-

1. To study the impact of Russia – Ukraine war on Commodities Prices
2. To study the impact of Russia – Ukraine war on Oil and Gases Prices
3. To study the impact of Russia – Ukraine war on World Economy
4. To study the impact of Russia – Ukraine war on Indian Economy

Discussions and Results:-

As told above, whatever may be the reasons, but the Russia – Ukraine war has impacted the world by many facets. It has been resulted in increase in prices of the oils, petroleum, commodities and other goods. European dependence on Russia and Ukraine is the major reason why this volatility in prices is taking place. For many of the produces and products, India is also dependant on Russia and hence the war has also impacted Indian markets too.

According to the information note published by Food and Agricultural Organization of United Nations (2022)³ the ongoing crisis may become the reason for preventing farmers of Ukraine form harvesting and selling the crop in the coming time. Uncertainties are also there in case of planting the crops for the next season which will affect worst in the coming future. In case of Russia also, due to the internationally imposed sanctions, agricultural inputs may face lacking and lead to scarcity of resources for producing basic commodities. This situation can lead to problems in supply of foods globally. Further the damages and restricted logistical situations can also play their role in increasing the prices of the commodities in countries in action and countries which are dependent on them for these commodities.

IFPRI Food Security Portal's Excessive Food Price Variability Early Warning System has shown excessive levels of the volatility in prices of the commodities like wheat, rice, maize, soybean and cotton which may lead to the global food security as consequences (Rice, Harnandez, Glaubar and Vos, 2022)⁴. This situation is triggered out from the outbreak of Covid 19 and is getting worse with Russia-Ukraine war. This price volatility has its impacts on various other issues also. Such type of condition of price volatility can create chaos in minds of the farmer in regard of taking decision about what to produce. At the end, consumption decision of the people with low income household is affected which may lead to further consequences, which may be really worst.

Russia, world's third largest producer of oil and second largest producer of natural gas, is facing many limitations from the financial and commercial sanctions by the world. Many of the International Financial Institutions have raised the restrictions against Russia in answer to their Military action in Ukraine. Whereas such type of restrictions are also limiting the purchasing countries as problems are arising in Russia related trade and financing issues to

2 Retired Lt. Gen. Abhay Krishna.(2022, March 4). *View: Root cause of Ukraine-Russia conflict*. The economic Times (E-paper). <https://economictimes.indiatimes.com/news/defence/view-the-root-cause-of-the-ukraine-conflict/articleshow/89807225.cms?from=mdr>, accessed on 22 April, 2022

3 Food and Agricultural Organization of United Nations. (2022 March, 25). *The importance of Ukraine and Russian Federation for Global agricultural markets and the risk associated with current conflict- information note*. <https://www.fao.org/3/cb9236en/cb9236en.pdf>

4 Brendan Rice, Manuel A. Harnandez, Joseph Glauber and Rob Vos. (2022, March 30). *The Russia-Ukraine war is exacerbating International Food Price Volatility*. IFPRI (International Food Policy Research Institute). <https://www.ifpri.org/blog/russia-ukraine-war-exacerbating-international-food-price-volatility> accessed on 22 March, 2022

them. Some of the countries have also denying purchase of the crude oil from Russia. This decision may result in excess demand of crude oil from other OPEC countries, which may further result to increase in oil prices worldwide. The military action in Ukraine by Russia has resulted in sharp hikes in prices of crude oil worldwide which is affecting the world energy markets (G. Sampath, 2022)⁵. Especially, this price hike is major in the European countries, who are heavily dependent on Russia for their energy needs. Germany, one of the major countries in Europe, which is major country who is very much dependent on Russia for their energy needs have already cleared that they cannot impose sanctions for energy with Russia. This shows the dependence of the European countries on Russia. According to the data published by countryeconomy.com (2022)⁶, it can be seen that the Brent crude oil has increased by 62.1% in last twelve months. When, only the data of period related to the conflict is taken, then also volatility in price can be seen. At the end of the year 2021, the prices closed to \$74.17 per barrel which then increased to \$86.51 in January 2022. In February 2022, prices of Brent crude oil, was \$97.13 per barrels which marginally increased after the invasion at \$171.25 in March 2022. After in the month of April, some decrease was also registered in the prices, but it was due to some measures by IMF. In such a way, it can be seen that the Russia-Ukraine war has triggered the prices of commodities, oil and natural gas.

The war and its consequences are not limited to the commodity and energy prices, it has a many folded impacts on the world economy for a longer period. As it can be easily known, when crude oil price increases, the transportation fuel also increases. When transportation fuel increases, the transportation costs are increased. When transportation costs are increased the raw material and ultimately the final prices of the product also get increased. This situation then leads to economical instabilities in the market. Through various news and reports it can be easily seen that the world economy, especially, the European economy is shattered due to this war. In the words of Ellyat (2022)⁷, when the invasion of Ukraine by Russia was started, no one knew when it will stop. But the economic effects of this action are showing its face, and it's not so good. The markets have shown negative results and the inflation is going up since the war has begun. The IMF has already predicted that the inflation growth rate of US and Europe will reach to 7.7% and 5.3% respectively. For controlling the prices, it is predicted that the Central Bank will increase the rate of interest which can lead to market sell outs aggressively in some the worlds markets. The inflation in agree business, supply chain market and energy market is on spin. The global growth rate will also get affected by this activity of war. The International Monetary Fund predicted that the global growth rate will be declined by approx 1% from 4.1% to 3.2% in the coming period which will create drastic consequences. It's also been said that the inflation in food prices will be on top. In this way the world economy will face many challenges due the Russia-Ukraine war in coming time.

The global economic happenings affect the countries of the world as part and parcel. As the economy of world is experiencing changes and challenges so does the Indian economy. Indian economy, which was experiencing many challenges due to the Covid 19, is also affected by the war between Russia and Ukraine. As a country, India may catch some of the benefits and some of the losses from this situation. Losses, as India depends on Russia for many resources and gains as India can be the alternative for Russian and Ukrainian commodities worldwide. According to the report of United Nations Conference on Trade and Development (2022)⁸, it can be clearly seen that India is dependent for agree food commodities on Russia and Ukraine both, as 3.0% and 9.8% of the imports are from Russia and Ukraine respectively. Though this dependency is not as high as African countries, still it can shake the Indian economy for a while. As per then news of NDTV (2022)⁹ The RBI Governor, Mr. Shaktikant Das shown no

5 G. Sampath. (2022, March 13). How will Ukraine – Russia conflict affect the crude oil prices? The Hindu. <https://www.thehindu.com/podcast/how-will-opec-plus-respond-to-the-surge-in-crude-prices-caused-by-the-russia-ukraine-conflict-in-focus-podcast/article65221695.ece> accessed on 22 April, 2022

6 Countryeconomy.com. (2022 April, 20). Crude oil Brent US Dollars per barrel. <https://countryeconomy.com/raw-materials/brent>

7 Holly Elyat. (2022 April, 21). From the soaring food prices to the social unrest, the fallout from Russia – Ukraine war could be immense. CNBC. <https://www.cnbc.com/2022/04/21/from-food-to-inflation-the-russia-ukraine-war-has-a-global-impact.html> accessed on 22 April, 2022.

8 United Nations Conference on Trade and Development. (2022 March, 16). The Impact on Trade and Development of the War in Ukraine. United Nations UNCTAD. https://unctad.org/system/files/official-document/osginf2022d1_en.pdf accessed on 23 April, 2022

9 Gupta Sourabh. (2022 March, 21). “Marginal Impact” of Ukraine war on India’s Economy, says RBI Governor. NDTV Profit. <https://www.ndtv.com/business/17-lakh-crore-liquidity-infused-in-two-years-will-ensure-adequate-funds-says-rbi-governor-2834328> accessed on 23 April, 2022

negative interest in the theory that this war will affect Indian economy, as he clears India's economy today is much far to face severe negative impacts, but it may face marginal effects. This statement seems relaxing when we see today's Indian conditions but still it is affecting the economy at all. Damodaran (2022)¹⁰ focuses on various other impacts of this war than the impacts on oil only. The impact of Russia – Ukraine war is not only limited to the oil and crude oil only but it has many facets. Russia is the third largest oil producer, second largest natural gas producer, besides it, third largest coal exporter also. All these are the inputs for transportation and energy needs which leads to the increased prices of transportation. Further, in case of agricultural produce, Russia and Ukraine are third and fourth largest wheat exporters for the world, respectively. Unlike the effects of oil and energy crisis, war affected wheat exports of Ukraine and Russia creates the opportunity for India to take benefits of this situation by exporting the wheat on premium prices which is already happening. It is recorded that the wheat from Gujrat, Rajasthan and Uttar Pradesh is now being transported for exports to the world. This has also raised the prices of wheat from 2100 Rs/Quintal to 2400-2450 Rs/Quintal. Though it seems good for the exports, it can affect the domestic uses of the cereal.

In this way the Russia – Ukraine war has affected the world and Indian economy. The results of the war as spread over various parts of the economy.

Findings and Conclusions:-

1. The longest war in Europe after World War II has been started between Russia and Europe which is affecting the world in many facets. Russia on 24th February, 2022 launched the war officially.
2. Demilitarize Ukraine and to make the Nazi impact free Ukraine to assure the security of the people of Ukraine who are being bullying by the Ukraine's Government is told as the reason behind this special military action by Russia.
3. This war has resulted in various financial and commercial sanctions against Russia by the world which has resulted in various economic changes and challenges.
4. The war and the sanctions have been resulted increase in prices of the crude oils, petroleum, commodities and other goods. Russia being the third largest producer of oil and second largest producer of natural gases plays important role in energy needs of the world, especially Europe. But due the sanctions by the world, the purchase of these resources from Russia is affected and the prices of these resources have become volatile.
5. The ongoing war has also troubles the harvesting of wheat in Ukraine, who is one of the top producers of wheat. Further this war may impact the planting of wheat for the next session, in return, which is resulting in scarcity of wheat supply and the increased prices of wheat.
6. IFPRI Food Security Portal's Excessive Food Price Variability Early Warning System has shown excessive levels of the volatility in prices of the commodities like wheat, rice, maize, soybean and cotton which may lead to the global food security as consequences.
7. IMF has predicted that the inflation growth rate of US and Europe will reach to 7.7% and 5.3% respectively
8. It is said by the RBI governor that India is at a good condition and this war will not hamper Indian economy.
9. The reduced supply of wheat worldwide has given India a chance to become alternative for wheat supplier to the world.

As said earlier, any action which leads to war creates various negative effects on the world any many facets, especially in field of economy. The war between Russia and Ukraine has also affected the world economy. Prices of the commodities such as wheat, oils, soybean, and maize are getting volatile in case of its prices which again have created uncertainty about various aspects. The price of crude oil is increasing worldwide, and so the transportation costs. This increasing transportation costs is resulting in inflation. India, being one of the major developing economies of world, is also affected by this war. The prices of petroleum are increasing in India from day when the war started. Though this war has created some negative impacts on Indian economy, it has also given a chance to be the wheat exporter to the world.

10 Harish Damodaran.(2022 March, 4). Explained: War impacts Beyond Oil. The Indian Express. <https://indianexpress.com/article/explained/explained-beyond-crude-prices-ukraine-russia-oil-cost-7799959/> accessed on 23 April, 2022

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