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RESEARCH ARTICLE

THE AGE OF GEO-POLITICAL APES: OUTCOME FOR INDIA AND THE EMERGENCE OF ECONOMICS AS SUPREME

Dr. Rashi Arora
G.S.College of Commerce & Economics, Nagpur.

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Abstract

The recent war in Ukraine has led to the creation of a 'new world trade order'. This article explores the emergence of a new trade world order post the ongoing war in Ukraine with nations changing their sails, which however may not be a sustainable option in the long run due to economic considerations. While the western nations led by the USA have imposed sanctions against trading with Russia, India is reticent on the same citing economic reasons. On the contrary, it is considering the situation as an opportunity to purchase low-priced oil from Russia to control inflation, narrow the country's current account deficit and arrest the falling value of the rupee against the dollar. This research studies the pros and cons of this strategy for India and gives the reasons why India should opt for an alternative to its present-day dependency on Russia and other nations for its crude oil requirements.

Introduction:-

The year 2019 witnessed geopolitical tensions between China and USA. The tensions being related to economics did not escalate into a military conflict between the two. The root cause was the urge of the USA to regain its superpower economic status. The tussle between the two saw world economies being damaged and nations losing out on trade with a division between the nations in their support for the two. Talking blunt, the USA despite its economy being in the doldrums since 2008 leaves no stone unturned to remind the galaxy of its big brother status, often coming across as a tantrum being thrown by leaders who have little up on their sleeves in terms of strategies for economic restructuring and towards sustainable economic progress.

In the same timeframe, the world witnessed another tussle erupting between the prominent oil-producing nations Saudi Arabia, Russia, and the USA. The oil war between Saudi Arabia and Russia destroyed the shale gas producing businesses in their nascent stage in the USA prompting it to threaten Saudi Arabia by reminding it of its treaty to safeguard its borders and threatening to pull out its forces in case Saudi Arabia failed to fall into line and put an end to the oil war and radical reduction in oil prices. This is another example of the USA arm-twisting and going back on its treaty for economic reasons. This was due to the political upheaval created in the USA that threatened the then-Trump Government following a financial shock to the nascent shale energy producers and oil companies in Texas. The setback to oil producers in the USA had a rippling impact on its economy making them fragile. This prompted many to doubt the genuineness of the tussle between Saudi Arabia and Russia. It was suspected as a garb to destroy the oil industry of the USA.

Corresponding Author:- Dr. Rashi Arora
Address:- G.S.College of Commerce & Economics, Nagpur.

The recent tensions between Ukraine and Russia and the intervention of the USA threw some fresh memories into the dynamics of global 'oil chaos'. The USA was shouting for months about the imminent danger of Russia attacking Ukraine. It has also been some time since Ukraine was being cajoled to join NATO. This gave rise to a chain of events creating an alchemy of desired effects. Was Ukraine counseled to join NATO to ruffle Russian feathers enough for Russia to get provoked and take to arms against Ukraine? The war psychosis before Russia attacked Ukraine and during the conflict created uncertainty in oil and gas supplies enough for crude oil prices to go roof-top and forcing the importers to rethink their supply sources. The long-term positive impact can be for countries like India to invest more in renewable sources of energy like solar, wind, and biogas. In the short run, with the USA imposing sanctions against trading with Russia, primarily oil, in this case, it can help to revive its oil industry and shale gas industry. This if happens will be a successful 'U'-turn for USA's oil and gas industry which suffered due to Saudi Arabia and the Russian oil war, as stated above.

Since oil supremacy has been instrumental in the generating of the wealth of nations and political supremacy, oil wars are not uncommon. It has been seen before with changing eco dynamics in the 1970s, in the present and definitely not the last clash of the oil titanic nations, with one overpowering the other in the race to gain economic supremacy.

The romance with NATO of Ukraine has come to an abrupt end with NATO's unwillingness to join forces with Ukraine against Russia and its nations distancing itself from participation in the war in any way other than their willingness to provide defense equipment and warfare to Ukraine.

In the backdrop of this euphoria and the sanctions against Russia failing to put an end to the ongoing war, the warfare industry of the advanced nations is seeing some movement, with nations procuring and assisting Ukraine with war materials. A glance at the history of the global economic crisis highlights that defense being a high-value economic spinner has the potential to revive the global markets. Though Keynes is credited with having assisted the USA and the world's economy to come out of the Great Depression of the 1930s, many argue that it was the II World War that saw the world's economy returning to a normal situation.

The present economic scenario globally is akin to stagnation with nations facing a period of high inflation along with severe growth constraints. This has been an outcome of the pandemic and the Russia-Ukraine war. With the world returning to a new normal situation post-pandemic the imminent crisis remains of the Russia-Ukraine war, the continuation of which can have disastrous socio-economic consequences if the same is not put to an end.

The escalation of conflict between the two nations has seen lives lost on both sides, the annexation of land by Russia, emotional outbursts by the Ukrainian President, a standing ovation to his virtual presence in international meets, and an announcement by Ukraine that it has no wish to join NATO. So it takes us back to square one and the question - why are the two nations at war?

The entire turn of events creates room for serious introspection on the role of western developed nations other than stopping short of assuming that the cat stole the cream from the fighting two monkeys. But in the end, the sight of cream was a mirage for the cat that was left with the option of producing alternate economic methods called sanctions on one of the stronger apes not on its side. But the war did see the monkeys devastate their race and their kingdoms in the masochistic euphoria.

Effects Of War On Russian And Ukraine's Economy

War brings destruction to lives and livelihoods. It dislocates people geographically, socially, and economically. As the proverb goes "When the war begins the devil makes hell bigger". Lives are lost when war wages on both sides irrespective of the fact of who is right and who is wrong. Similarly, communities and economies of the warring nations suffer.

According to the World Bank, the two warring economies are likely to be hit severely. The Ukrainian economy is mineral-rich and has an abundance of coal, iron ore, manganese, oil, titanium, magnesium, mercury, kaolin, natural gas, graphite, sulfur, etc. With the ongoing war and with direct disruptions to social and economic activities, the economy is projected to shrink by 45.1% in 2022 (World Bank 2022), which could be more with the intensity and period of the war. The infrastructure of the nation has been ruined, businesses destroyed along with a relentless loss of human lives.

Though the sanctions have failed to stop Russia from pulling back its guns against Ukraine, nevertheless the economic impact is likely to damage its economy. According to the World Bank, Russia's economy is likely to contract by 11.2 % in 2022. But, the ongoing war is likely to intensify the damage. The Russian economy is rich in crude oil, iron ore, nickel, diamonds, coal, palladium, aluminum, uranium, gold, platinum, etc. The disruptions in global trade due to sanctions against Russia are likely to hurt economies around the globe since the dependency on Russia is high of the globe due to the rich base of minerals and natural resources in Russia.

The western nations are supporting Ukraine with military warfare, it is to strengthen it in the ongoing war. This strength indirectly weakens Ukraine's economy. The longer the war is waged, the more will be the magnitude of lives lost and the damage to the society and economy of Ukraine.

In Russia's case sanctions have been imposed by the western nations which have failed to dissuade it from the war zone. Its trade with the Eurozone has been reduced drastically as is the case with other nations that are exploring alternative options to reduce their dependency on Russia. This has negatively impacted the Russian GDP, in the short and the long run, even if countries like India are exploring increasing their trade with Russia to reduce their oil import bill. An increase in trade of Russia with India and China is not enough to compensate for the loss with other nations, especially in the Eurozone.

Impact Of War On The World Economy

The two politically conflicting nations are those on whom the world depends for subsistence and also for other crucial commodities. Any war disturbs the normal production process and environment. This particular case is the fight of the titans where tensions are refusing to ebb and most likely it is going to be a long-run story. With the ongoing war, the globe is likely to be severely hit on social and the economic fronts.

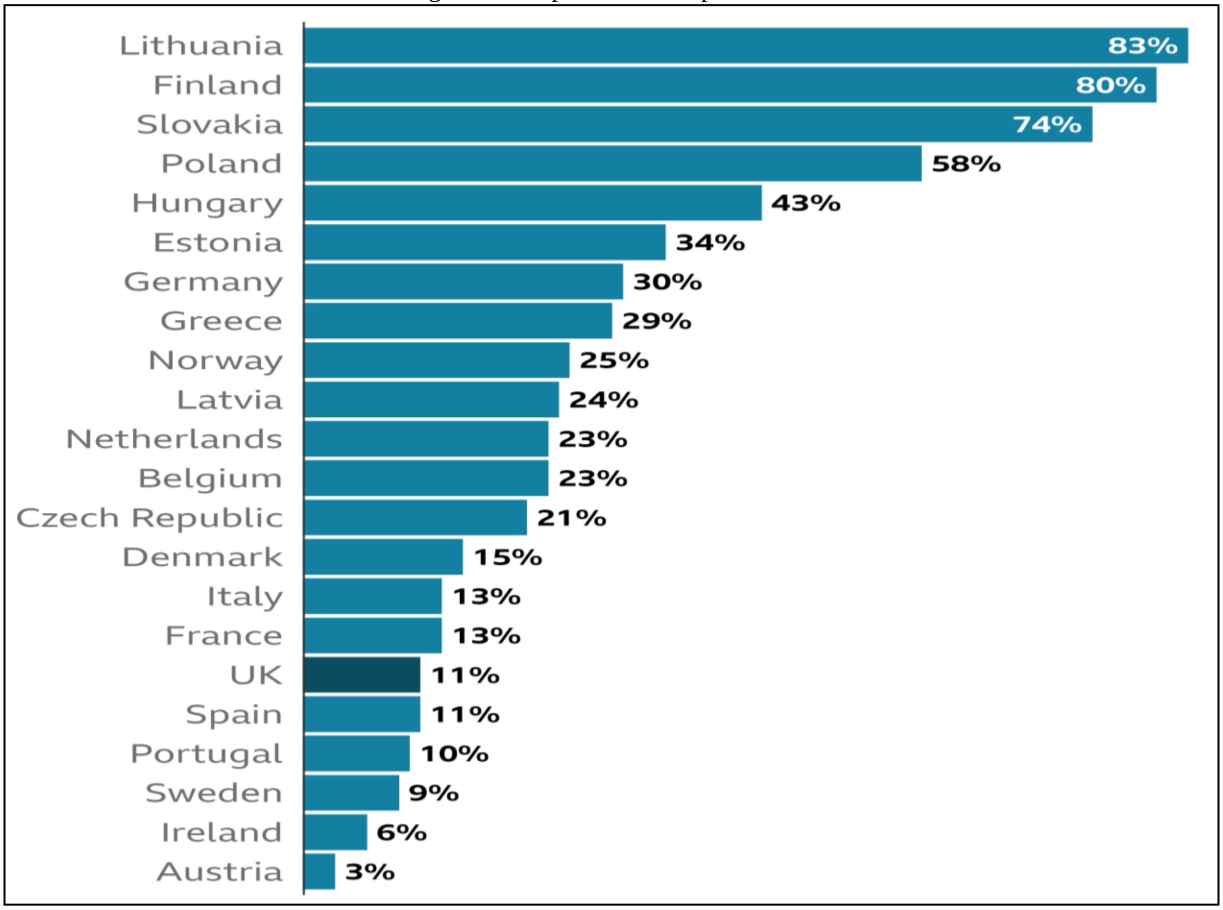
According to WTO's Trade Forecast 2022-23, the prospects for the global economy have darkened with the ongoing war. It has in its forecast downgraded its expectations for 2022 growth of merchandise trade volume from 4.7% to 3%. According to World Bank (2022), growth in the European and Central Asian region will slow down from 7.8% in 2021 to 2.2% in 2022.

Those economies are especially susceptible that heavily depend on the two warring nations for trade and development. The largest trading partners for Russia in the year 2021 were China, Netherland, Germany, Turkey, Belarus, the United Kingdom, Italy, Kazakhstan, etc. With no punitive actions coming from China for Russia, the damage to Russia's exports and revenue is likely to be from the European nations which as a group are stronger for Russia in terms of trade than China individually.

Sanctions Against Russian Commodities And Its Consequences With Regards To Crucial Commodities-Oil And Food

A. Crude Oil

Chart 1:- Percentage of oil imports for European countries from Russia.



Source: BBC

Russia depends heavily on the European Union (EU) for its oil exports and the European Union depends heavily on Russia for oil. Sanctions imposed in the EU is not only going to hurt Russia but to a considerable extent growth and society in EU as well. Despite announcing its intention, the EU nations will not be able to completely and permanently apply economic sanctions against Russian oil and gas imports due to the crisis the same can have in their own nations. Not only will the lives of ordinary citizens be impacted but trade and industry is also likely to be hit hard. This is due to the absence of alternative sources to procure the essential commodities like oil, gas, etc. And even if the EU is able to do so by the end of the year, by then Russia may find other partners, especially in Asia to compensate for this loss since nations in Asia heavily depend on external sources for their oil and gas requirements. Therefore, assuming that economic sanctions against Russian goods are likely to economically cripple Russia may in practice may not have the desired effect as envisaged by the west, especially the USA.

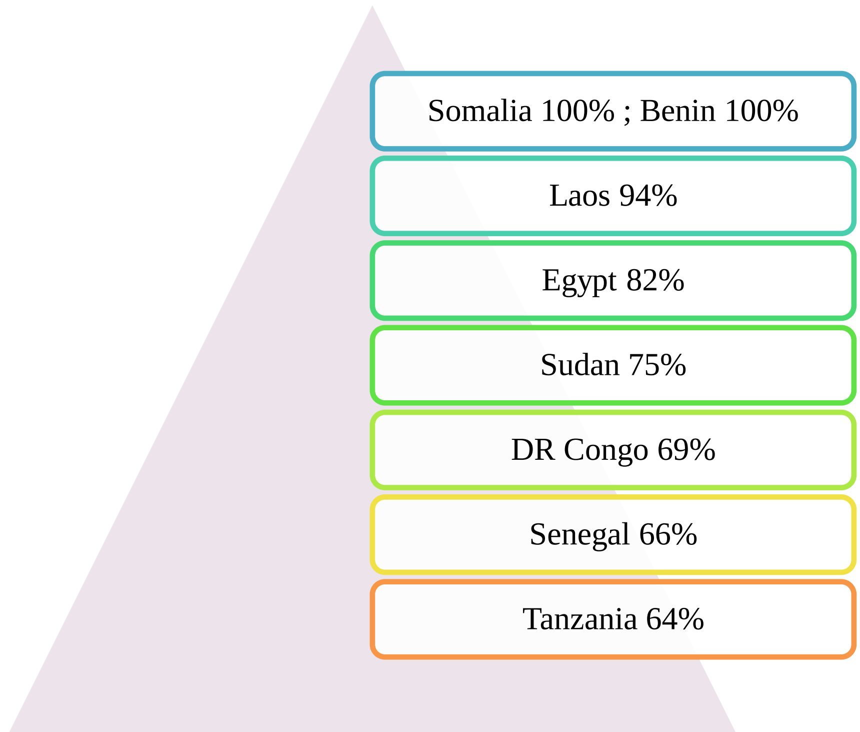
Table 1:- Sanctions Against Russia

Trading partner	Trade	Sanction	Impact	Reality Check
EU	2.2 million barrels per day (bpd)import of crude oil from Russia and 1.2 million bpd of oil	EU agreed to stop import of oil from Russia by sea which is 2/3rd of the total	Russia's earning of $ 1 bn a day to be effected. The move to reduce EU's oil imports from Russia to about 10% of its	EU continues to (claimed on a temporary basis) import of oil by pipeline from Russia for those nations that are highly dependent on Russia. Nation's like Germany to stop by the

	products		current level.	end of this year
USA	Oil & Gas	Banning of all oil and gas imports	17.8 million barrels of crude oil and petroleum products were imported from Russia in March 2022	Sanctions applied with immediate effect but many reports doubt the 100% applicability of this ban (FastCompany 2022)
UK	Oil	Ban of oil imports	In 2021 imports from Russia made up 4% of gas used in the UK, 9% of oil and 27% of coal (Bolton 2022)	Phasing out of oil imports by the end of 2022
Germany	Gas	Freezing of Nord Stream 2 gas pipeline	Nord Stream 2 (consisting of two lines) would double the total capacity of the Nord Stream system from 55 billion cubic meters (BCM) to 110 BCM per year (Belkin et.al 2022)	Halted
EU	Coal	Ban of coal import	The EU's sanctions on Russian coal will cost the country $4.4 billion a year (Lurye 2022)	To halt by August 2022
Other Sanctions				
*USA, EU, UK:- Financial sanctions against Russian banks, firms, individuals. *Multinational Conglomerate:-Suspended trading in Russia or withdrawn altogether. These include McDonalds, Coca-Cola, Starbucks, etc. Others like Burger King, Marriott, etc., have not withdrawn citing complicated franchise deals. * On 26th June 2022 in the G7 summit in Germany, USA, Britain, Japan and Canada banned the imports of Russian Gold				
Source: Constructed by the researcher based on the data received from BBC, Statista and sources as specified in the table				

B. Global Food Crisis

Chart 2:- Dependent Countries on Russia-Ukraine for Wheat (2020)



Source: World Economic Forum

Many nations across the globe are dependent on Russia and Ukraine for food supplies. Together the two fulfill 100% of wheat import requirements for Somalia and Benin and a high percentage for other nations, especially the world's least developed ones. These are the nations that cannot afford to follow the call of economic sanction against Russian goods, in this case being food. Since doing the same would be disastrous for their civilization struggling with hunger. Also, these are the nations that cannot divert their requirement for food to other nations as firstly it would be at a high cost which they cannot afford and secondly, the other nations like India are also treading carefully with the production of the main crop wheat having fallen due to severe heat waves in 2021-22 compared to the previous year.

Russia and Ukraine are also likely to hoard wheat which is a normal behaviour in any war-torn nation in the uncertainty that war brings with regards to the period of continuity and the severity and with the productive financial and other assets being diverted towards winning the war.

Considering the above, there remains little doubt that the world in the given circumstances is heading towards a worsening inflationary situation globally with a shortage of food and fuel at the epicenter.

Is War In Ukraine An Economic Advantage For India?

In the backdrop of the Ukraine war, India too has changed its sail in the import of crude oil from its traditional partners towards Russia. Whereas in the year 2021, India imported crude oil marginally from Russia, presently the Russian oil imports are around 10% of India's total crude oil imports and is 50 times since April 2022(Livemint 2022)

India is the world's third-largest consumer of oil. For 85% of its oil requirement, it imports oil. Its main import partners for oil are Iraq, Saudi Arabia, UAE, United States, Nigeria, etc. According to the Petroleum Planning & Analysis Cell India's import of crude oil in 2021-22 was 212.2 million tonnes, an increase from 2020-21 when it had imported crude oil of 196.5 million tonnes (Economic Times 2022). With the inflationary trends emerging across the globe due to the supply chain disruptions related to the pandemic, India also experienced the same which has only worsened in the backdrop of the war in Ukraine. With crude oil becoming expensive, India's crude oil import bill spiraled to $ 119 billion in 2021-22 which is almost double the oil bill of the previous year (Economic Times 2022). India is vulnerable to its energy needs from external sources. Coupling this with the inflationary surge, any deal is a good deal that dampens the oil-related and inflationary flames. So, if war provides an unintended benefit of cheap oil imports from Russia and if that, in turn, can control the surging inflation, it is the social and humanitarian need for the Government to accept it for the good of its citizenry, assuming the benefits of the same percolates down to the common man. It may be bad politics on a global level, as per the expectations of the western nations, but good governance on a financial and social front.

On the food front, the war brought an initial advantage for India to export wheat to those nations that were earlier importing from Russia and Ukraine. But, this advantage was short-lived since the expectations of wheat production for this year do not support the same. Wheat production is expected to be less compared to last year due to the severe heat waves that the nation faced (Vishwa 2022). However, with the next cropping season being favorable and in case of the war continuing for a longer duration, the export of food can be to India's advantage.

Conclusion:-

India Needs To Strategise Carefully

Though India today is considering importing crude oil at a discounted price from Russia as a silver lining and a step towards controlling the rising inflation, correcting of current account deficit, and falling rupee, this solution is temporary and calls for India to strategize its response to crude oil external dependency in the long run due to the following reasons:

Firstly, Russia today is ready to offer crude to India at a discounted price. This is in response to the sanctions levied by the Eurozone. The Eurozone is heavily dependent on Russia for its energy needs and may not be able to sustain and continue the ban on oil imports from Russia in the long run. With or without the cessation of war and the unpredictability that it brings with it, inflationary situations may worsen coupled with recession lurking around the corner for many nations, including the western. In this milieu, the economic necessities and struggles of the common man of these nations may overrule the political decisions of economic sanctions against Russia. And when trade again resumes between Russia with its previous partners, the question that arises for India is that would Russia be ready to supply oil to India, and that too at a discounted price?

Secondly, the dependency for energy on external sources has continued for too long for India. With the nation expected to emerge as a global superpower in the future, a solution needs to be sought. Now is the time for India to walk the talk and tap alternate sources of energy by reposing trust in solar energy generation, leveraging of EV, biogas, etc., to wean its transport sector and manufacturing activities away from fossil fuel dependency.

Thirdly, politics is different from economics. Corporate giants and businesses across the globe may feel the financial pinch as a result of economically isolating Russia. With this hurt, they may not be able to follow the diktats of the political decisions of sanctions against Russia, and with Russia's trade resuming with its original partners as before, how would then be the behaviours of India's original major suppliers of oil towards India? Will these nations, Iraq, Saudi Arabia, UAE, United States, etc., be kind enough to trade with India with the same terms and conditions of trade as earlier? As of now, there are no sanctions and punitive actions on nations trading with Russia but the future may directly or indirectly affect India's economic prospects with the arrogant superpowers, being India's main trade partners, not taking too kindly to the present strategy of India. So one can only hope that the decision of today does not result in 'penny wise but pound foolish' for India.

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