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RESEARCH ARTICLE

IMPACTS OF RUSSIA-UKRAINE CONFLICT ON INTERNATIONAL TRADE

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Manuscript Info *Abstract*

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Introduction:-

Integration into the world economy has proven a powerful means for countries to encourageeconomic growth, development, and poverty diminution. Over the past 20 yes, the growth of world trade has averaged 6 percent per year, twice as fast as world output. But trade has been an engine of growth for much longer. Since 1947, when the General Agreement on Tariffs and Trade (GATT) was created, the world trading system has benefited from eight rounds of multilateral trade liberalization, as well as from independentand regional liberalization. Indeed, the last of these eight rounds (the so-called "Uruguay Round" completed in 1994) led to the establishment of the World Trade Organization to help administer the growing body of multilateral trade agreements. Theresulting combinationof the world economy has raised living standards around the world. Most developing countries have shared in this affluence; in some, incomes have risen dramatically. As a group, developing countries have become much more important in world trade—they now account for one-third of world trade, up from about a quarter in the early 1970s.

Many developing countries have substantially increased their exports of manufactures and services relative to traditional productexports: manufactures have risen to 80 percent of developing country exports. Moreover, trade between developing countries has grown quickly, with 40 percent of their exports now going to other developing countries. However, the progress of combinationhas been uneven in recent decades. Progress has been very remarkablefor a number of developing countries in Asia and, to a lesser extent, in Latin America. These countries have become successful because they chose to participate in global trade, helping them to attract the bulk of foreign direct investment in developing countries. This is true of China and India since they embraced trade liberalization and other market-oriented reforms, and also of higher-income countries in Asia—like Korea and Singapore—that were themselves poor up to the 1970s.But progress has been less quickfor many other countries, particularly in Africa and the Middle East. The poorest countries have seen their share of world trade decline substantially, and without lowering their own barriers to trade, they risk further marginalization. About 75 developing and transition economies, including virtually all of the least developed countries, fit this description. In contrast to the successful integrators, they depend suspiciouslyon production and exports of traditional produce. The reasons for their marginalization are complex, including deep-seated structural problems, weak policy frameworks and institutions,and guardat home and abroad.

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International Economics

International Economics is the study of economic relationsbetween countries. The field is split between the study of International Trade, which extends microeconomics to open economies, and International Finance, which employs macroeconomic analysis.

International Trade describes and predicts patterns of production, trade and investment across countries. It also looks at the resultthat trade has on both the level and allotmentof incomes within and across countries. It analyses different trade policies, the possessionsof'regionalism' (regional trading blocs) and the potential effect of multilateral trade negotiations conducted by World Trade Organization(WTO).

International Finance examines the effects of financial flows between countries. It looks at the effect of such flows on the balance of payments and the exchange rate. It also evaluates the implications of different exchange rate regimes and considers the suitablerole of international institutions such as the International Monetary Fund (IMF).Students of International Economics can make use of the skills and tools learned in a broadrange of career paths, such as journalism, consultancy, government agencies and international institutions, while at the same time enjoying the ability to make sense of some of the most important and compositeissues of our times. International economics is growing in importance as a field of study because of the rapid integration of international economic markets. Increasingly, businesses, consumers, and governments realize that their lives are pretentiousnot only by what goes on in their own town, state, or country but also by what is happening around the world. Consumers can walk into their local shops today and buy goods and services from all over the world. Local businesses must compete with these foreign products. However, many of these same businesses also have new opportunities to make biggertheir markets by selling to a huge numberof consumers in other countries. The advance of telecommunications is also rapidly droppingthe cost of providing services internationally, while the Internet will assuredly change the nature of many products and services as it expands markets even additional.

Globalization and International Trade

Globalization" refers to the growinginterdependence of countries resultingfrom the increasing combinationof trade, finance, people, and ideas in one globalmarketplace. International trade andcross-border investment flows are the mainelements of this integration.Globalization started after World War IIbut has accelerated noticeably since themid-1980s, driven by two main factors.One involves technologicaladvances that have lowered the costs oftransportation, communication, andcalculationto the extent that it is ofteneconomically viablefor a firm tolocatedifferent phases of production in differentcountries. The other factor has to do withthe increasingliberalization of tradeand capital markets: more and moregovernments are refusing to protect theireconomies from foreign competition orinfluence through import tariffsand nontariff barriers such as importquotas, exportrestraints, andlegal prohibitions. A number of internationalinstitutions established in the wakeof World War II—including theWorld Bank, International MonetaryFund (IMF), and General Agreement onTariffs and Trade (GATT),succeeded in1995 by the WorldTrade Organization(WTO)—have played an importantrole in promoting free trade-inplace of protectionism.Empiricalevidence suggests that globalizationhas significantly boosted economic growthin East Asian economies suchas Hong Kong (China), the Republicof Korea, andSingapore. But notall developing countries are equally engagedin globalization or in a position tobenefit from it.

In fact, except foremostcountries in East Asia and some in LatinAmerica, developing countries havebeen rather slow to integrate with theworld economy. The share of Sub-Saharan Africa in world trade hasdeclinedcontinuously since the lat1960s, and the share of major oil exportersfell sharply with the drop in oilprices in theearly 1980s. Moreover, for countriesthat are actively occupiedin globalization, the benefits come withnew risks and challenges. The balance of globalization'scosts and benefits for different groupsof countries and the world economyis one of the hottest topics indevelopment debates

Economic Consequences of the Russia – Ukraine Conflict

The Russia-Ukraine conflict has triggered turmoil in the financial markets, and drastically increased uncertainty about the recovery of the global economy. Higher commodity prices intensify the threat of long-lasting high inflation which increases the risks of stagflation and social unrest.

1. Certain sectors such as automotive, transport or chemicals are more likely to suffer.
2. Coface forecasts a deep recession of 7.5% for the Russian economy in 2022 and downgraded Russia's risk assessment to D (very high).

3. European economies are most at risk: at the time of writing, Coface estimates at least 1.5 percentage point of additional inflation in 2022, while GDP growth could be lowered by 1 percentage point. Together with a complete cut of Russian natural gas supply, this could cost at least 4 points of GDP, thereby leading EU GDP growth close to zero – more probably in negative territory – in 2022.

The Conflict Threatens to Squeeze Energy and Commodities Markets Further

Russia is the world's 3rd oil producer, the 2^{nd} natural gas producer and among the top 5 producers of steel, nickel and aluminum. It is also the largest wheat exporter in the world (almost 20% of global trade). On its side, Ukraine is a key producer of corn (6th largest), wheat (7th), sunflowers (1st), and is amongst the top ten producers for sugar beet, barley, soya and rapeseed.

On the day the invasion began, financial markets around the world fell sharply, and the prices of oil, natural gas, metals and food commodities surged. Following the latest developments, Brent oil prices breached USD 100 per barrel for the first time since 2014 (125$/b at the time of writing), while Europe's TTF gas prices surged at a record EUR 192 on 4 March.

While high commodity prices were one of the risks already identified as potentially disruptive to the recovery, the escalation of the conflict increases the likelihood that commodity prices will remain higher for much longer. In turn, it intensifies the threat of long-lasting high inflation, thereby increasing the risks of stagflation & social unrest in both advanced & emerging countries.

Automotive, Transport, Chemicals are the Most Vulnerable Sectors

The crisis is obviously strongly impacting an already strained automotive sector due to various shortages and high commodity & raw material prices: metals, semiconductors, cobalt, lithium, magnesium…Ukrainian automotive factories supply major carmakers in Western Europe: some announced the stoppage of factories in Europe while other plants around the world are already planning outages due to chip shortages.

Airlines and maritime freight companies will also suffer from higher fuel prices, airlines being the most at risk. First, fuel is estimated to account for about a third of their total costs. Second, European countries, the US and Canada have forbidden the access to their territories to Russian airlines and in turn, Russia has banned European and Canadian aircrafts from its airspace. This means higher costs since airlines will have to take longer routes. Eventually, airlines have little room for rising costs, as they continue to face lower revenues due to the impact of the pandemic.

Rail freight will also be impacted: European companies are forbidden to do business with Russian Railways which will likely disrupt freight activity between Asia and Europe, transiting though Russia.

We also expect feedstock for petrochemicals to be more expensive, and the soaring prices of natural gas to impact the fertilizer markets, hence the whole agri-food industry.

Deep Recession Ahead for the Russian Economy

The Russian economy will be in great difficulty in 2022, falling into deep recession. Coface's updated GDP forecast for 2022 stands at -7.5% after the recovery experienced last year. This has lead us to downgrade the country's risk assessment from B (fairly high) to D (very high).

Sanctions notably targets major Russian banks, the Russian central bank's, the Russian sovereign debt, selected Russian public officials & oligarchs, and the export control of high-tech components to Russia. These measures put considerable downward pressure on the Russian ruble, which has already plummeted, and will drive a surge in consumer price inflation.

Russia has built up relatively strong financials: a low level of public external debt, a recurrent current account surplus, as well as substantial foreign reserves (app. USD 640 bn). However, the freeze imposed by western depositary countries on the latter prevents the Russian central bank from deploying them and reduces the effectiveness of the Russian response.

The Russian economy could benefit from higher prices for commodities, especially for its energy exports. However, EU countries announced their intention to limit their imports from Russia. In the industrial sector, restricted access to Western-produced semiconductors, computers, telecommunications, automation, and information security equipment will be harmful, given the importance of these inputs in the Russian mining and manufacturing sectors.

European Economies are the Most at Risk

Because of its dependence on Russian oil & natural gas, Europe appears to be the region most exposed to the consequences of this conflict. Replacing all Russian natural gas supply to Europe is impossible in the short to medium run and current price levels will have a significant effect on inflation. At the time of writing, with the barrel of Brent trading above 125$ and natural gas futures suggesting prices durably above 150€/Mwh, Coface estimates at least 1.5 percentage point of additional inflation in 2022 which would erode household consumption and, together with the expected fall in business investment and exports, lower GDP growth by approximately one percentage point.

While Germany, Italy or some countries in the Central and Eastern European region are more dependent on Russian natural gas, the trade interdependence of Eurozone countries suggests a general slowdown.

On top of that, we estimate that a complete cut of Russian natural gas flows to Europe would raise the cost to 4 percentage points in 2022, which would be bring annual GDP growth close to zero, more probably in negative territory – depending on demand destruction management.

No Region will beSpared by Imported Inflation and Global Trade Disruptions

In the rest of the world, the economic consequences will be felt mainly through the rise in commodity prices, which will fuel already existing inflationary pressures. As always when commodity prices soar, net importers of energy & food products will be particularly affected, with the spectre of major supply disruptions in the event of an even greater escalation of the conflict. The drop in demand from Europe will also hamper global trade.

In Asia-Pacific, the impact will be felt almost immediately through higher import prices, particularly in energy prices, with many economies in the region being net energy importers, led by China, Japan, India, South Korea, Taiwan and Thailand.

As North American trade and financial links with Russia and Ukraine are fairly limited, the impact of the conflict will mainly be felt through the price channel and through the slowdown of the European growth. Despite the prospect of slower economic growth and higher inflation, the recent geopolitical events are not expected to derail monetary policy in North America at this stage.

Conclusion:-

1. Russia is one of the biggest producers of Natural gas, oil, steel, nickel, and aluminium. It is also the largest wheat exporter. Ukraine is a prominent producer of corn, wheat, sunflowers, sugar beet, barley, soya and rapeseed.
2. Due to this conflict, Oil, natural gas, metal, and food prices have soared. There is a worldwide inflation because of the war which risks social unrest and stagflation
3. Automotive industry took a hit, as Ukrainian car companies announced factory stoppages all across Europe and some announced outages in the rest of the world due to chip shortages.
4. Due to high fuel prices, airlines and maritime freight companies will suffer from higher cost.
5. Russia has banned European and Canadian aircrafts from entering its airspace, while USA and Canada have the same to Russia.
6. Coface forecasts a 7.5% GDP drop in 2022 for Russia, taking in account the recovery from the previous fiscal year.
7. But Russia has built strong financials, a huge foreign reserve, and low-level debt, but the freeze imposed by western depository countries prohibit their deployment.
8. EU countries intend to limit export to Russia.
9. European countries will take a major hit due to their dependence on Russia for fuel. There will be an acute shortage and high prices if Russia cuts off natural gas flow.
10. For the rest of the world, commodity prices will increase. Many economies in the Asia-Pacific region are energy importers. These will be majorly hit almost immediately.

11. USA-Russia trade will be affected only by the slow growth of European countries, so USA won't see major fluctuations due to less dependence on Russia.
12. In conclusion, this Russia-Ukraine conflict will adversely affect the world economy and world trade, be it directly like the European union, or indirectly like the USA.

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