



Impact Of Russia-Ukraine War On India And World

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	<i>Abstract</i>
	<p>Conflict between Russia and Ukraine have exposed the vulnerabilities in the financial system. The war between Russia and Ukraine is a blow to the global economy begetting rapid inflation and sluggish growth. The ongoing conflict 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 in prices of commodities which will negatively affect the recovery of Global and domestic economy affected by the gruelling pandemic. Russia and Ukraine make up only 2% of global economy but they make majority of many essential products. One of the countries deeply affected by the war is India. The article briefly explores the history of conflict, the global impact of the war and the impact of war on India.</p>
CC License CC-BY-NC-SA 4.0	Keywords: <i>Global Economy, India, Russia, Ukraine, supply chain, energy, food, oil</i>

Introduction

The world saw a lot of promise for post-COVID economic growth as 2022 got underway since many states strengthened efforts to spur growth and kept rising prices under control. As a result, the assessment of the world GDP has improved, and it is projected to grow by 4.4 percent in 2022 (IMF, January 2022).

In the meanwhile, Russia invaded Ukraine in February 2022. Geopolitical tensions between Russia and Western nations escalated as a result of the battle, which dimmed aspirations for global growth and raised concerns about how the crisis may impact the global supply chain. The impact of the Russian-Ukrainian War on the world economy will be covered in this article.

When Ukraine announced its intent to join the North Atlantic Treaty Organization (NATO) in early 2008, Russia rejected it, sparking the start of the conflict between the two countries. Shortly after, Russia invaded the Crimean Peninsula in 2014.

As a result, there was unrest in Donbas and violent fighting at the Russian-Ukrainian border on February 24, 2022, which led to a Russian outright invasion of Ukrainian land.

Global organizations and Economic indicators suggest that the war has had significant influence over global economy.

India has close trading ties with Russia and Ukraine. The war between both nations have affected global economy and has had dire consequences to Indian economy. Geopolitical tensions arising from war has further affected India. The article will examine economic implications of war on Indian economy.

Western nations have together condemned actions of Russia in Ukraine and have put almost 3000 sanctions on Russia.

Paper Type: Research article

Research Methodology

Information used in this paper is derived from Secondary Sources like newspaper and online reports published by Private agencies, Government Agencies, educational institutes and economists.

Objectives of Research

1. To analyse various sectors of Indian economy that has been affected due to War between Russia and Ukraine.
2. To note impact of War on Various sectors of Global Economy.
3. To understand increase in prices of crude oil and natural gas.
4. To note impact of war on India's import and export with Russia and Ukraine.
5. Analysis of commodity prices affected by war via graphs and tables.

Brief about the Conflict

Ukraine is the 8th most populous country in Europe 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. It gained Independence from Soviet Union in 1991.

In 2014 post the Euromaidan movement Russian troops were deployed in Crimea. In a referendum held on March 90% people supported joining Russia. Russia formally annexed Crimea on March of 2014. The Euromaidan movement large scale civil unrest erupted in Eastern Ukraine in Donbas region which includes Donetsk and Luhansk region. Both regions border Russia. The majority population of both these regions are Russian. There were allegations of Russian interference in the Region.

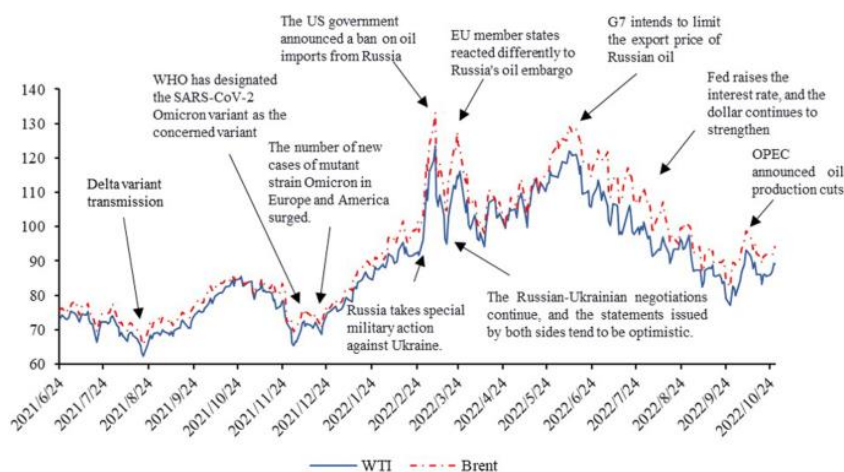
The Organization for Security and Co-operation in Europe (OSCE) attempted to create peace between Russia and Ukraine via Minsk 1 and Minsk 2 protocol but both failed to solve issues. While Russia shares centuries of ties with Ukraine, the USA and EU see Ukraine as a buffer between Russia and the West.

Fearing an eastward expansion of NATO, Russia invaded Ukraine on February 24 2022. The invasion was via land, air and sea. It has been described by Military experts as the largest conventional military invasion since the Second World War.

Global Impact of War

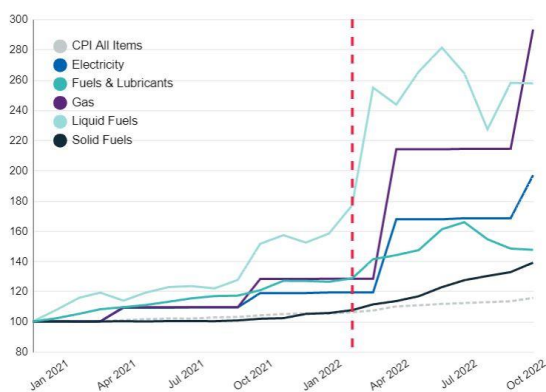
1. **Impact on Oil Price:** Prices of Oil and Gas as well as prices of commodity have quickly increased. The prices are expected to remain high as long as uncertainties persist.

The war and associated chain events drove the West Texas Intermediate (WTI) crude oil price to climb by \$37.14, a 52.33% surge, and the Brent crude oil price to rise by \$41.49, a 56.33% increase, between October 1, 2021, and August 25, 2022, the event window. The conflict between Russia and Ukraine can be used to explain 70.72% and 73.62%, respectively, of the volatility in WTI and Brent crude oil prices during the event window.



(Source: <https://rdcu.be/dxO2P>)

2. Impact on Energy Prices: The harsh economic sanctions imposed on Russia have led to additional rises in the price of energy on the global market. In the end, more inflation is likely to occur since energy raises the cost of manufacturing, storage, and transportation in the supply chains for products and services.



Source: Office for National Statistics (ONS) consumer price inflation, November 2022
Note: December 2020 = 1

3. Impact on Trade Route: Black Sea is a key transit point for important goods like agricultural products (wheat, corn) and dry bulk exports. Military actions and presence of warships in region disrupts this trade route. Disruptions have affected supplies and are affecting prices of goods.

4. Impact on Agriculture Sector: According to the US Department of Agriculture, Russian and Ukrainian wheat exports are about a quarter of the global total (USDA, 2022). Ukraine and Russia account for nearly a fifth of global exports of corn and other coarse grains. Almost 80 per cent of exports of sunflower oil are accounted for by Ukraine and Russia. Sanctions and disrupted supplies would lead to higher prices for wheat and other grains, adding to already strong inflationary pressures in the global economy. There could also be adverse political implications in some

5. Impact on Food Security: The Food Security Information Network identifies the war as a major factor contributing to the startling increase in the number of people experiencing food insecurity, along with the virus, other wars, and harsh weather. An increase from 193 million in 53 countries and territories in 2021, to about 258 million people in 58 nations and territories experienced moderate-to-severe acute food insecurity in 2022. Since the organization started releasing these figures in 2017, this is the greatest number ever.

6. Impact on Rare metals and noble gases: The War affected prices of many crucial metals that are used to manufacture complex and advanced machinery. Russia is a major producer of palladium. They produce about 40 percent of global mine production and about 10 per cent of global platinum supply. Palladium is

used in engine exhausts to reduce emissions. Russia and Ukraine produce about 15 per cent of global supply of titanium sponge, Titanium sponge is used in manufacturing of aircraft fuselage and engine components. Ukraine produces 70% of global neon supply. USA uses 90% of semiconductor grade neon. Ukraine also exports helium. Both helium and neon are used in manufacturing of chips. The two largest suppliers in Ukraine were shuttered after the conflict broke out. Ukraine also is a major exporter of krypton and xenon and both their supplies have been affected. Non-availability of raw materials has affected Semiconductor sector which has affected Automobile Sector, Aerospace sector and various other complex and sensitive sectors.

7. Impact on Banking and Financial Sector: In March, seven Russian banks were removed from Swift including Bank Otkritie, Novikombank, Promsvyazbank, Bank Rossiya, Sovcombank, Vnesheconombank (VEB) and VTB Bank. European Commission also plans to exclude three more Russian Banks. These include the country's biggest lender, Sberbank. Sberbank accounts for more than one-third of Russia's banking sector. Swift is an instant messaging system that informs users when payments have been sent and arrived. It allows Smooth and rapid transactions across border. Removing banks from Swift will guarantee that they "are disconnected from the international financial system and harm their ability to operate globally," according to statements made by the US, the UK, the EU, and other parties.

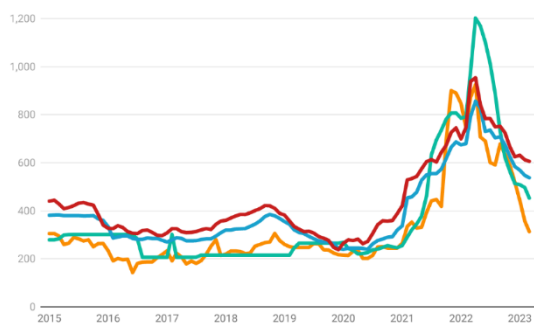
The intention is to deny Russian businesses access to Swift's typically seamless and quick transactions, which would interfere with payments for their important exports of agricultural and energy products. Since banks must now deal directly with one another, there will be delays and additional expenses, which will eventually prevent the Russian government from receiving its funding. US has prevented Russian Central Bank from accessing its US dollar reserve. The European Union (EU) prohibited the listing of Russian state-owned companies' shares on its trading markets, as well as the sale of euro-denominated securities to Russian clients and the deposit of more than €100,000 in Russian accounts held by EU central depository securities.

8. Impact on Fertilizer prices: Russia accounts for about 13 per cent of global fertilizer supplies. Fertilizer prices were already volatile due to Covid Pandemic and resulting lockdowns. The reopening of economies led to increase in demand which led to increase Fertilizer prices. Price rises for coal and natural gas, two essential feedstocks and energy sources used in the manufacturing of fertilizer, as well as some production capacity cutbacks contributed to the supply side of the equation. Belarus and Russia are significant producers of each of the three main nutrients used in fertilizers: In 2020, Russia contributed 11% and 14%, respectively, to global trade in phosphate and urea, while together with Belarus, it accounted for 41% of global trade in potash. The fertilizer industry is susceptible to trade shocks because a small number of nations manufacture a significant portion of the fertilizers that are traded internationally. Big fertilizer importers who were experiencing shortages from Belarus and Russia managed to find supplies elsewhere. Morocco, the fourth-largest importer of ammonia worldwide, increased imports from Saudi Arabia and Egypt to make up for shortages from Russia. Brazil, the second-largest potash importer, for instance, was able to increase imports from Canada to help offset the loss from Belarus. In the meantime, several regions' production capacities rose in tandem with exports; they included Nigerian urea, Moroccan phosphate, and Canadian potash. In certain markets, like India, Russian fertilizer exports also experienced a sharp surge at the same period.

Fertilizer prices

\$ per metric ton

— DAP — TSP — Urea — Potassium chloride



DAP = diammonium phosphate; TSP = triple super-phosphate

Chart: Joseph Glauber • Source: World Bank

Disruptions to global supplies of these commodities, added to existing supply chain problems, have the potential to heavily disrupt specific industries and prolong shortages, for example of cars, thus helping to keep prices high.

9. Refugee Crisis: The war has forced 6 million people to flee Ukraine and seek refuge. This figure represents about 15% of Ukraine's pre-war population.

Refugees from Ukraine recorded in Europe ¹

5,974,800

Last updated 31 December 2023 - Source: UNHCR collation of statistics made available by the authorities

Refugees from Ukraine recorded beyond Europe ²

470,000

Last updated 31 December 2023 - Source: UNHCR collation of statistics made available by the authorities

Refugees from Ukraine recorded globally

6,444,800

Last updated 31 December 2023 - Source: UNHCR collation of statistics made available by the authorities

10. Actions against Russia: BP, one of the world's seven largest oil and gas companies and the single largest foreign investor in Russia, announced it was divesting from Rosneft.

The same day, the Government Pension Fund of Norway, the world's largest sovereign wealth fund, announced that it would divest itself from its Russian assets.

On 28 February, Shell also announced that it would be pulling its investments in Russia.

On 1 March, the Italian energy company Eni announced that it would cancel its investments into the Blue Stream pipeline.

11. Russian retaliation to sanctions: On 31 March, as a retaliation against the Western economic sanctions, Putin announced that Russia would stop supplying gas to Europe that was not paid for in roubles. On 26 April, Gazprom announced that gas supplies to Poland and Bulgaria would halt.

Impact of War on India:

1. Impact on Defence Sector: India has historic ties with Russia in defence as well as economic sector. However United States is also India's Largest trading partner and investment partner. US and Russia ties are at their lowest since Cold War Era. If US imposes Ban on trading with Russia it would be a difficult situation for India.

India depends on Russia for defence related equipment. The war affects the operational availability of Russian products.

Export of defence products made in collaboration with Russia could be hampered due to bans and sanctions.

Import of defence equipment from Russia is hampered due to imposition of ban and sanctions by Western nations.

2. Impact on Automobile sector: Russia is one of the largest producers of palladium, which is used in automobile exhausts. Ukraine is a major exporter of neon and helium gas which is used in manufacturing of silicon wafers and semiconductor chips. Delay in raw materials have affected stock of supplies which

have inturn affected manufacturing of Automobiles. Companies like Toyota and Mahindra have more than a year long wait list for their Cars.

3. India's Import Export with Ukraine:

Dynamic of the development of trade between Ukraine and India (Million USD)

Indicators	2018	2019	2020	2021	2022	2023 (January-September)
Trade turnover	2.79	2.76	2.69	3.45	2.57	1.79
Export	2.17	2.02	1.97	2.49	0.88	0.45
Import	0.61	0.74	0.72	0.96	1.69	1.34
Balance	+1.55	+1.28	+1.25	+1.53	-0.81	-0.89

(Source: Indian Embassy Moscow)

India is Ukraine's largest export destination in Asia pacific and fifth largest overall export destination. Major exports from India to Ukraine are Pharmaceutical products, reactor/ boiler machinery, oil seeds, fruits, coffee, tea, spices, iron and steel. Major exports from Ukraine to India is Sunflower oil, inorganic chemicals, iron and steel, plastics, chemicals etc

4. India's Import Export with Russia:

Statistics for India's Trade with Russian Federation

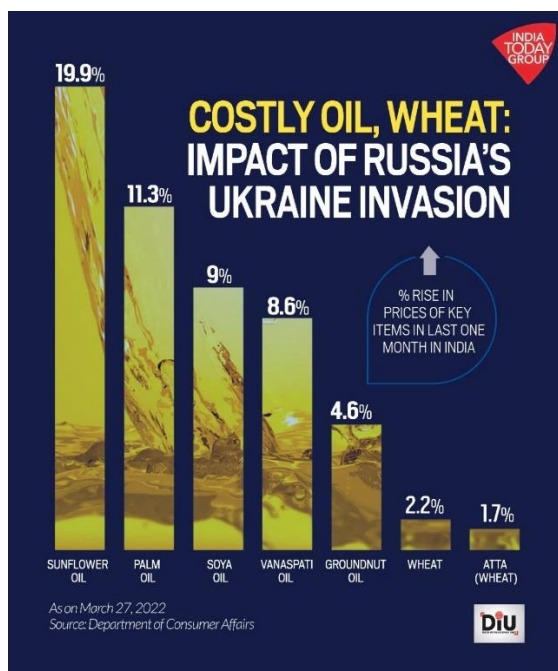
India-Russia Trade Statistics
(Source: Department of Commerce, India)
Values in US \$ Millions

Head	2017 Apr -2018 Mar	2018 Apr -2019 Mar	2019 Apr -2020 Mar	2020 Apr -2021 Mar	2021 Apr -2022 Mar	2022 (Apr-Jul)
Import from India to Russia	2,113.39	2,389.47	3,017.67	2,655.52	3,254.68	714.35
Export from Russia to India	8,573.46	5,840.44	7,093.01	5,485.75	9,869.99	13,370.46
Total	10,686.85	8,229.91	10,110.68	8,141.26	13,124.68	14,084.81

(Source: Embassy of Ukraine in Republic of India)

India's top imports from Russian Federation are Mineral Fuels, Mineral oils, Mineral Waxes, Natural or cultured pearls, Animal fats, Vegetable oil. India's top exports to Russian Federation Iron and Steel, Organic Chemicals, Pharmaceutical Products, Boilers, Nuclear Reactors.

5. Impact on Agriculture Sector: Russia and Ukraine export huge amount of tea from India. Total tea exports to Russia during Jan-Nov 2021 stood at 30.89 million kgs and Total tea exports to Ukraine stood at 1.6 million kgs. The current crisis will hamper trade and cause oversupply in domestic market leading to a crash in the prices. This negatively affects farmers and companies involved in the sector. 80% of India's sunflower oil imports during the year 2020-2021 came from Russia and Ukraine. Suspension of port activities in Ukraine will impact edible oil prices.

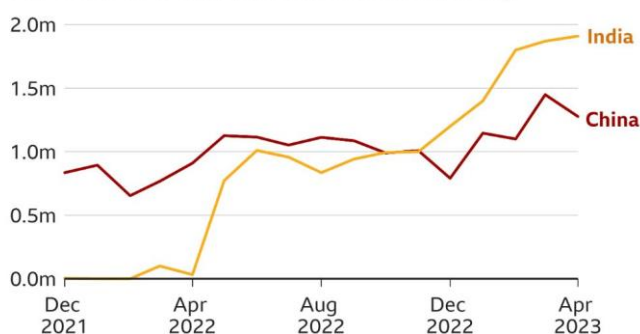


(Source: <https://www.businesstoday.in/latest/economy/story/100-days-of-russia-ukraine-crisis-heres-how-commodities-markets-economy-have-been-impacted-336094-2022-06-02>)

- 6. Impact on Pharmaceutical Sector:** India exported US \$591 million worth of Pharmaceutical goods to Russia in FY21 nearly 6.95 percent growth year over year. India exported US \$181 million worth of Pharmaceutical goods to Ukraine during FY21 with a 44 percent YoY. The domestic Pharma sector is negatively affected by the War.
- 7. Impact on Oil and Gas sector:** India is a major importer of Oil and Gas. About 85% of crude oil and 50% of Natural Gas is imported. Rising global oil and gas prices will negatively affect the Energy Resource Industries sector. Government owned companies like ONGC have three investment projects in Russia but are not looking to expand owing to the crisis. Rising prices of crude oil and natural gas will impact economic progress and inflation. Russia has been offering their oil at a discount price due to sanctions laid down by Western countries. Russian oil accounted for only 2% of India's annual crude oil import before 2021, but as of 2023 Russian oil is almost 21% of India's import.

Seaborne imports of Russian oil

Urals and ESPO crude, millions of barrels-per-day



Source: Kpler

BBC

- 8. Impact on Banking and Financial Sector:** The State Bank of India (SBI) has ceased to handle transactions for Russian firms that have been sanctioned by the West. SBI fears that any deal with entities or sectors under sanction will attract sanctions on it as well, hence in order to achieve this, the bank has issued a circular.

Due to sanctions placed by the west on Russia following its invasion of Ukraine, banks in India were in a tight spot as payments for exports were delayed and bills for purchases from Russia began to bounce, according to Reuters.

9. Impact on Markets: Indian Markets have been heavily impacted by the Crisis In the three months since the impasse started, foreign portfolio investors (FPIs) have removed nearly Rs 1 lakh crore from the Indian markets, which is Rs 50,000 crore more than they had removed in the nine months prior combined. The Indian rupee has declined in value relative to the US dollar as a result of the withdrawal of foreign portfolio investments (FPIs). When the war started on February 24, the value of the rupee was about 77.53 versus the US dollar. By May 31, however, it had lost almost 4% of its value. A weak rupee has also had a negative effect on imports, particularly on oil imports.



(Source: <https://www.businesstoday.in/latest/economy/story/100-days-of-russia-ukraine-crisis-heres-how-commodities-markets-economy-have-been-impacted-336094-2022-06-02>)

Findings

Geopolitical tensions between the West and Russia escalated with Russia's invasion of Ukraine in February 2022, which lowered hopes for global growth because it was uncertain how the conflict would specifically impact the global supply chain.

Conflict has caused shocks to the energy, commodity, and trade supply. They have also raised the cost of food, energy, and commodities, which has led to global inflation in many countries. Russia's invasion of Ukraine put additional pressure on essential goods like food and electricity.

Sanctions on Russia and lower output from both nations contributed to this outcome. Distress in Supply chains have increased financial strains and decrease in consumer and business confidence.

Fluctuations in crude oil prices have affected US and EU, aggravating inflation globally. WTI and Brent crude prices are at record rates. US and EU have placed sanctions on Russian Crude oil. This has led to a fall in price of Russian oil. To continue exports Russian government is offering countries massive discounts to buy their oil. India has massively benefitted from this offer. Indian imports of Russian oil have increased by more than 10 times in past 2 years.

Ukraine and Russia have global clout in production and supply of wheat, coarse grains and edible oil. The war and resulting disruption of trade routes have led to sharp increase in prices of these goods. Many low-income countries in Sub Saharan Africa depend on Ukraine and Russia for food grains. Countries like India depend on these nations for edible oil. The conflict will affect Food security across the world.

The war has affected India's defence sector negatively. The imported equipment from Russia are facing delays. Parts of existing equipment are not in stock. Products being made in collaboration are under the sword of sanctions and bans from western nations.

The conflict has affected the Manufacturing and supply of fertilizer and. This has led to increase in global prices of fertilizer which has negatively affected agriculture sector in India and the world.

The export of Machinery, agriculture goods like tea and Pharma products from India have also been affected by the war and the disruption of trade routes.

Disruption of trade routes have affected the trade of metals like palladium and titanium which are crucial for manufacturing of components of automobile and aerospace sector.

Ukraine also exports noble gases like Helium and Neon which are crucial in manufacturing of semiconductors and chips. This has affected entire manufacturing sector especially Automobile sector, leading to delays and cancellation of products.

Removal of Russian Banks from SWIFT system and bans on Russians from accessing US dollar reserve has led to complexities for banks across the world as well as in India. Banks are facing difficulties in processing transactions of Russian clients.

Conclusion

The prolonged conflict between Russia and Ukraine has significantly impacted the world economy, particularly for India. Due to the disruption of India's close economic linkages to both nations, trading costs have increased and investment prospects have decreased. A second consequence of the battle has been the revival of terrorism in the area, raising security expenses and further destabilizing the economy in India.

The ongoing conflict has negatively affected sectors like Oil and Gas, Agriculture, Metals, Automobiles, Speciality Chemicals and Pharmacy globally as well as domestically.

Fluctuating oil price shave led to concerns about inflation. This highlights the need for countries to move away from fossil fuels. Embracing Green energy sources like Solar Panels , and Nuclear Energy can ensure continuous uninterrupted flow of energy.

The conflict has led to setbacks in import of defence related equipment from Russia to India. The conflict has shown why it is risky to rely on Third party for military equipment. Government of India must aim for self-reliance in Defence sector. The disruption of trade routes have affected trade of edible oil and coarse grains from Ukraine. This has impacted markets around the world and especially India. Government of India must come up with policies to ensure that we achieve self-reliance in production of seed oil and coarse grains.

Low income countries who depend on Russia and Ukraine for food grains and agriculture products have been severely affected by this conflict. International Community must cone together to support such nations and ensure High Food Security.

The conflict in Ukraine, the ongoing pandemic, and the sharp rise in food and fuel costs all coincide with crises that serve as painful reminders for governments to be ready to handle large-scale, unanticipated shocks that destabilize rapidly. The large and unprecedented energy shock brought on by Russia's aggression against Ukraine is likely to drive inflationary pressures, which will sap consumer confidence and purchasing power and raise global risks.

The international community should step up and settle the ongoing dispute through peaceful negotiations in order to save the global economy, especially the emerging economies, given the supply disruptions that have led the prices of fuel and cooking oil to soar globally.

The research's conclusion is that, in making decisions about how to handle the crisis, the leaders of these nations have given political concerns a higher priority than economic ones because of the political and military aspects of the conflict in Ukraine.

This has resulted in the economy being impacted by high politics issues once more, as well as stagnation and an increase in global prices.

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