



EFFECTS OF RUSSIA UKRAINE WAR ON INDIAN ECONOMY & THE FAILURE OF UNO

¹Author – Manik Gupta, ²Author – Smriti Kaushik

¹Research Scholar, Ph.D., ²Former Student, Kurukshetra University

¹Department of Commerce,

¹Baba Mastnath University, Rohtak, Haryana, India

ABSTRACT

There has been "immense human suffering" because of the Russian Ukrainian conflict, according to the World Trade Organization (WTO). The conflict between Russia and Ukraine, which erupted a few weeks ago, is threatening the global order. As a result of India's heavy reliance on commodities like oil, jewellery, fertilizers, natural gas, diamonds and edible oils; the Indian economy is suffering a lot. This fiscal year, the country's import bills are expected to rise above the USD 600 billion mark, which might lead to rise in the inflation levels and contribute to the deficit in current account. Ukraine's main export market in the Asia-Pacific region is India, with bilateral trade expected to reach 2.5 billion USD in FY 2020-21. However, India and Russia's bilateral trade in 2020-21 was estimated at 8.1 billion USD. Exporters are keeping a close eye on the current crisis's duration and intensity. This paper aims at analysing the economic impact of the Russian-Ukrainian conflict on the Indian Economy.

KEYWORD

Russia, Ukraine, Economy, UNO, Global trade, Indian Economy.

I. INTRODUCTION

The Globe is witnessing the Russian – Ukrainian War and its devastating effects on every relevant country. A widespread increase in inflation can be seen in the world economies. India is not an exception. The rise of USD 5 per barrel in crude oil prices would lead to USD 6.6 billion increase in the trade account deficiency, according to the analysis by the country's chief economist, Devendra Pant. As a result of India's reliance on imported edible oils, crude oil, fertilizers, natural gas, jewellery and gems, the country's import bills are expected to rise above USD 600 billion this fiscal year, warning a report. This could lead to an increase in inflation and a current account deficit, as well as a depreciation of the rupee. There would be an increase in India's import costs due to the continued geopolitical uncertainties resulting from the Russia-Ukraine conflict. This means that imports of goods in FY22 may exceed USD 600 billion, compared to the first 10 months, when they totalled USD 492.9 billion. The Russia-Ukraine crisis has fueled global trade uncertainty and will have an impact on oil and other commodities. Russia may not be India's primary trading partner, but supply shortages resulting from Western sanctions could harm India's economy. Russia's invasion of Ukraine has caused "immense human suffering," according to the World Trade Organization, but it has also harmed global trade, which is likely to have the greatest impact on low-income countries such as India. [1]

Wheat and sunflower oil prices are expected to rise as a result of the ongoing hostilities between Russia and Ukraine. While both countries are major producers of wheat, Ukraine is a major exporter of sunflower seeds. Even though India is self-sufficient in wheat, researchers say it imports some greater grain. The reduction of Russian and Ukrainian wheat in the international market will also provide an excellent opportunity for Indian exporters, resulting in a minor rise in domestic prices. [2]

In the high summer of 1941, Jews were pushed to death by the Nazis and the Ukrainian allies. Their luggage could be heard rattling on the cobblestoned alleyways. The Holocaust was so tormenting as the images of women being stripped and beaten before taunting crowd appeared. Their eyes wide open in trepidation and mouths frozen in mid-scream were some terrible and harrowing images. Lessons from the Holocaust and promises made in its aftermath are relevant today, even though we aren't now in the midst of another world war or a Holocaust. It's a reality that Ukrainian President Volodymyr Zelensky slammed in front of the UN Security Council. He highlighted the core foundation purpose of the United Nations was to maintain world peace in 1945.

The Russia Ukraine crisis had a direct impact on the economics and trade of thousands of Indian citizens. Over 18,000 Indian students are studying medicine or engineering in Ukraine, accounting for roughly a quarter of all international students. Hundreds of them returned as soon as Ukraine closed its airspace. On March 1, a medical student from Karnataka was killed in shelling in Kharkiv city, the country's first Indian death in Ukraine's war, despite the government's claims that all Indians had fled Kyiv and the use of the Air Force to speed up the evacuation. In the fourth meeting with Ukraine, Indian Prime Minister Narendra Modi urged Russia and Ukraine to ensure envoys secure "urgent safe passage" for those Indian people trapped in Kharkiv and other crisis areas. [5]

Last year, India imported \$2.6 billion in goods from Ukraine, \$1.85 billion of which was vegetable oils, primarily sunflower oil. More than 70% of India's sunflower oil imports come from just one country: Ukraine. Sunflower oil prices will rise if the supply is disrupted, as India imports over 60% of its edible oil requirements, with sunflower oil accounting for 14% of those imports. Meanwhile, in 2021, the India-Russia trade was worth \$11.9 billion. Indian exports totalled \$3.3 billion, of which \$542 million was made up of pharmaceutical products. [4] Other leading exports include electronics, iron and steel, tea, and automobile components. Last year, India imported \$8.6 billion worth of Russian goods. It was necessary to bring in a large number of raw materials including crude oil and petroleum-based products as well as agricultural fertilizers, precious metals and gemstones.

1.1 Policy Recommendations

- It is imperative to keep international trade in food and fertilizers flowing freely between Ukraine and Russia to avoid or minimise the harm of the conflict on their food and agricultural sectors. This includes protecting crops and cattle as well as food processing facilities and logistical networks in the event of a natural or man-made disaster.
- To withstand these consequences and conflicts aroused from the war, Countries will need to find other suppliers as they'll not be able to rely on Ukraine and Russian Federation for food imports amid these disruptions. In addition, they should rely on their current food supplies and diversify their domestic production sources. [6]
- Due to the conflict's negative impact on food security, vulnerable groups need to be monitored closely and social protection programmes tailored to help them recover as quickly as possible. By registering additional population groups in the Unified social information system, refugees, internally displaced people and those who are directly affected by the conflict can be better served by the Ukraine's national social protection system.
- There should be no legal barriers to accessing existing social protection systems and job possibilities in the countries that host refugees, as well as increased capacity in host nations' social protection systems to handle additional caseloads.
- Countries in the path of the war must carefully evaluate the impact of their initiatives on international markets, both short-range and long, in light of the possible disruptions. Export restrictions should be avoided at all costs. They increase price volatility, reduce the global market's buffer capacity, and have negative long-term effects [7].

1.2 Economic impacts in India and around the world

Russia has a population of over 150 million people with GDP of 1.7 trillion USD. Russia's primary exports comprises of Oil and Gas & the country possess one third of the planet's natural resources. This has already led to huge impact on oil prices across the globe and it is apparent that Indian economy is no such exception. For the Financial Year 2022-2023, the projected budget deficit assumed oil prices would be in the range of USD 70-75 per barrel. With oil prices now around USD 120+ per barrel, inflation and the exchange rate will be directly impacted, as will a variety of industries dependent on oil derivatives, such as the auto sector and petrochemicals.

The price of a ton of coal in Russia has risen from USD 87 to USD 220, despite the country having the world's second-largest coal reserves. In addition to wheat, corn, and soyabean, Russia is a major exporter of the commodities. The prices of these commodities have been adversely affected by the conflict. Just to name two examples, wheat prices have risen by over 90% year on year worldwide and corn prices has shot over 30%. Correspondently, phosphoric acid and palm oil prices have also rocketed.

There are comprehensive consequences as well. For instance, travel will become extremely expensive directly damaging the tourism and overall effecting entire hospitality business and the supply chains will become disorganized. India is bound to be affected by this. Russia also supplies rare metals to the global semiconductor industry, which will affect chip manufacture, which is already facing problems. Even though Ukraine's economy is only USD 185 billion and its population is only 4.14 crore, the place of land and the borders it shares, appears to have sparked the conflict. Ukraine exports a large quantities of crude sunflower seed oil, metals, polymers and plastics. Because of this, it has a considerable impact on the IT industry and is especially relevant as the move towards digitization picks up speed. It also possesses tremendous engineering skills.

1.3 Ukraine-Russia Trade Relations

Indian commerce with Russia totals roughly USD 10 billion, or 1.3% of India's total trade. Only 2% of India's oil imports come from Russia. Moreover, Middle East countries supply 62% of the world's oil, followed by Africa with 14%, and North America with 12%. India's fiscal calculations could be thrown out of the window if oil prices continue to soar.

Additionally, Russia supplies India with fertilizers, rare and semiprecious stones and mineral oil as well as nuclear reactor components. All of this trade can be severely affected by a Russian economic crisis and its subsequent cascade effects. Even before World War II, coal prices had already skyrocketed, so it's important to look at the impact of India's large imports from Russia (nearly USD 1 bn per year). Pharmaceutical products, Chemicals, Motor Vehicles, Tools & Equipment and Electricals are among the best and most popular exports.

Significantly, this conflict will not only affect trade but also it would have adverse impact in manner of geopolitical connections. India's reliance on Russian military hardware is a major source of concern in this dispute. Russian aircrafts in Indian army comprises of its 70% number, Russian T72 and T90 battle tanks are prominent part of India's army. Moreover, there are more plans by Indian army to import short-range and man-portable Defence Systems from Russia, the consequences of the conflict and India's need to walk on thin air concerning its dependence on Russia for defense are huge issues. According to Ukraine's exports, India buys a considerable amount of sunflower seed oil, while exporting a modest amount. But pharmaceutical products mark the highest export of India.

1.4 Cross-border investments between India and Russia

Investments by Indian oil corporations in Russian oil reserves totalling billions of dollars are minor in comparison to India's energy needs. On the other hand, Russia's Rosneft already owns majority ownership in the Essar refinery, which processes 20 million tonnes of oil every year (now Nayara Energy). They've also reiterated their commitment to the long-term supply of crude oil and Liquefied Natural Gas (LNG) to India and increasing Russian investments in Indian petrochemical markets.

1.5 Effects on the forex and capital markets

Lately, there is a visible decline of about 20% of India's market value which will have a huge impact on various sectors such as real estate, everyday products, etc. when coupled with other inflationary pressures. To make the matter worse, the government's finances would be significantly impacted by the delay of the LIC IPO, which was originally scheduled to go live this fiscal year but has now been postponed due to market uncertainty around the whole divestment process.

II. OBJECTIVES

- To examine the economic impact of the Russian-Ukrainian conflict on Indian economy.
- To investigate the exports of Russian and Ukrainian products.
- To investigate Russia and Ukraine's trade in agricultural products.
- To examine the proportion of wheat imports from Russia and Ukraine.

III. REVIEW OF LITERATURE

What's most concerning for businesses is the lack of certainty about how long this battle will go and what consequences it will have. Are customers likely to return? Are we expecting increase in shipping rates and an extension in the delivery time? Is it going to be easier to pay in the future? Will the credit guarantee coverage be made more widely available? Prahalathan Iyer, the chief general manager of the EXIM Bank of India, suggested that letters of credit may be used to circumvent the lack of an export credit guarantee. "When it comes to LC terms without insurance, sanctions mean that the ECGC ratings are likely to change".

There may not be simple solutions to other problems. For example, there is a lot of uncertainty about Russia's imports. Shah reported an increase in freight rates to Russia. However, despite the surge, shipping companies are reluctant to book shipments to Russia, he added Garodia said "It's too early to predict how things would turn out in the end."

Rajendra Prasad Sharma, a professor at the Indian Institute of Foreign Trade, said that shipping companies may halt deliveries or may use alternative routes to reach their destinations because of the current economic crisis. Another worry for Indian industries is Russian coking coal. Coking coal is mostly utilised in blast furnaces to make steel, where it is primarily used as a fuel. Amidst the current instability, its price may rise from its current range of \$300-400 per metric tonne and affect the cost of steel manufacturing.

According to Argus Media, India imported 141,577 tonnes of coking coal in November 2021, a 65% decrease from the previous year. Manufacturers are unable to raise pricing because raw material costs have already risen during Covid. "If we raise prices, the market will not be able to absorb them instantly. Customers' purchasing power will be reduced because of the higher price. It would also harm employment creation by reducing productivity. Our company's production is still 30-40% lower than it was pre-Covid, and the Ukraine-Russia crisis could further reduce it.

IV. RESEARCH METHODOLOGY

While the term "research" is usually used to indicate a search for information, it can also refer to a deliberate and scientific search for relevant facts on a specific scientific subject. Clifford Woody defines it as "defining and redefining problems; generating hypotheses; collecting, organizing, and assessing data; making deductions and reaching conclusions; then carefully testing the conclusions to determine whether they satisfy the developing hypothesis." A close reading and extensive study of secondary sources are required to apply the analytical and descriptive research methodologies. To fully develop the textual analysis, the Majority of the data used for the investigation was gathered from secondary sources. A variety of sources including government papers and newspaper articles have been consulted to gather the information needed to meet the stated goals and close readings have been performed for the analysis of a few of their writings.

V. RESULTS AND DISCUSSION

As a result of the dearth of concrete evidence on the economic consequences of the Ukraine conflict, WTO economists have relied on simulations to draw "reasonable assumptions" about international trade. "World merchandise trade volumes in 2022 could expand at a rate of 0.5% or up to 5.5%."

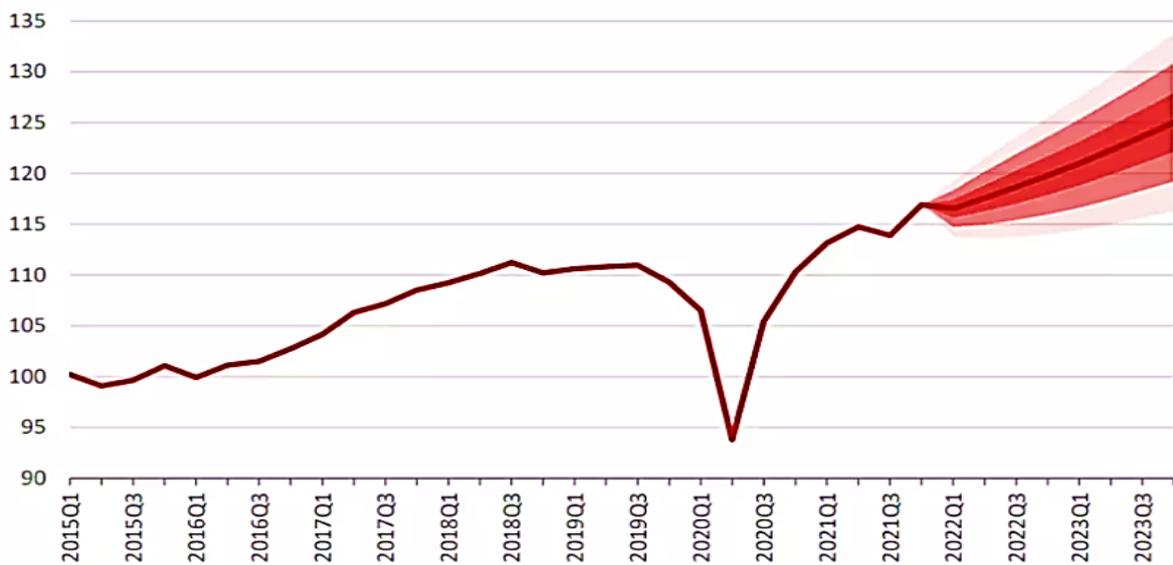


Fig. 1 Volume of world merchandise trade

It is difficult to predict where global imports will go in the future. According to the WTO, oil and natural gas prices may have a global impact on real incomes and import demand, however, natural gas prices may globally affect the demands of import and real incomes. However, acc. to WTO, greater impact in Europe might be of natural gas prices. Fig.2 illustrates a topical breakdown of goods export from the three months of 2019 to the expected last 3 months of 2023. [8]

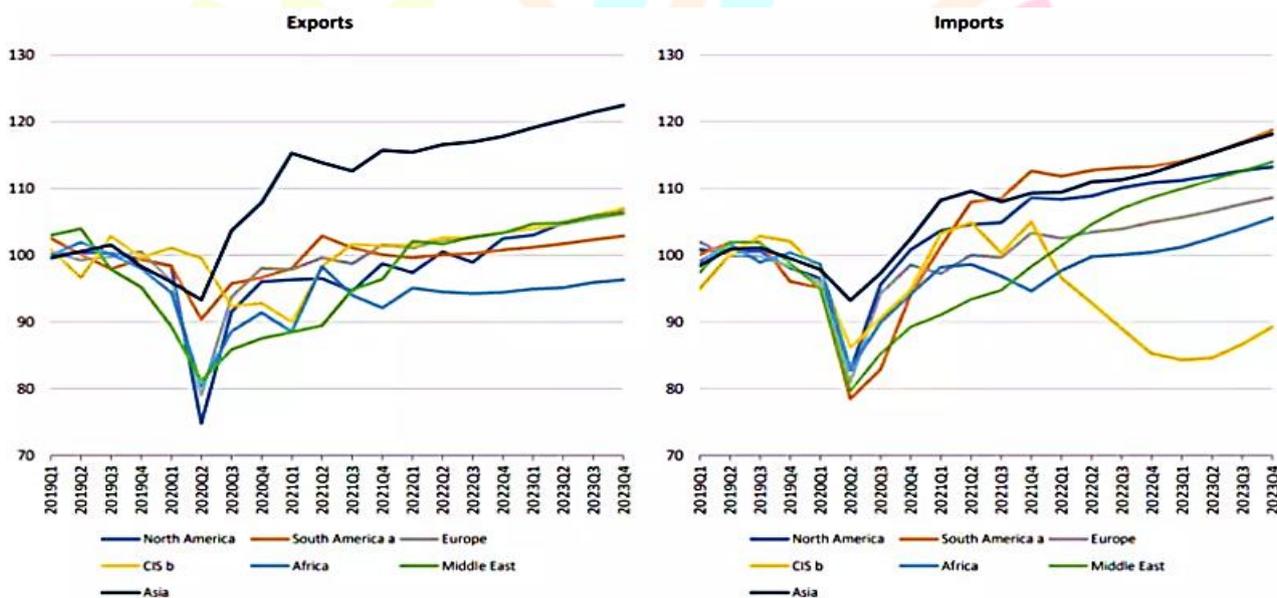


Fig. 2 Merchandise exports and imports by region

Being a major provider in several commodity markets, Russia and Ukraine account for over 20% of corn, mineral fertilizers, natural gas exports, 30% of world wheat exports, and 11% of oil exports. Also, their metal exports are crucial to global supply chains. Cars utilise palladium in their catalytic converters, whereas steel production and the creation of batteries rely on nickel, which Russia is a leading producer of. Argon and neon inert gases used in semiconductor production and titanium sponge in aircraft are also produced in Russia and Ukraine. [9] The uranium deposits in both countries are of global significance. Although there is no such disruption in exports, there is a dramatical hike in prices of these commodities after the beginning of the war.

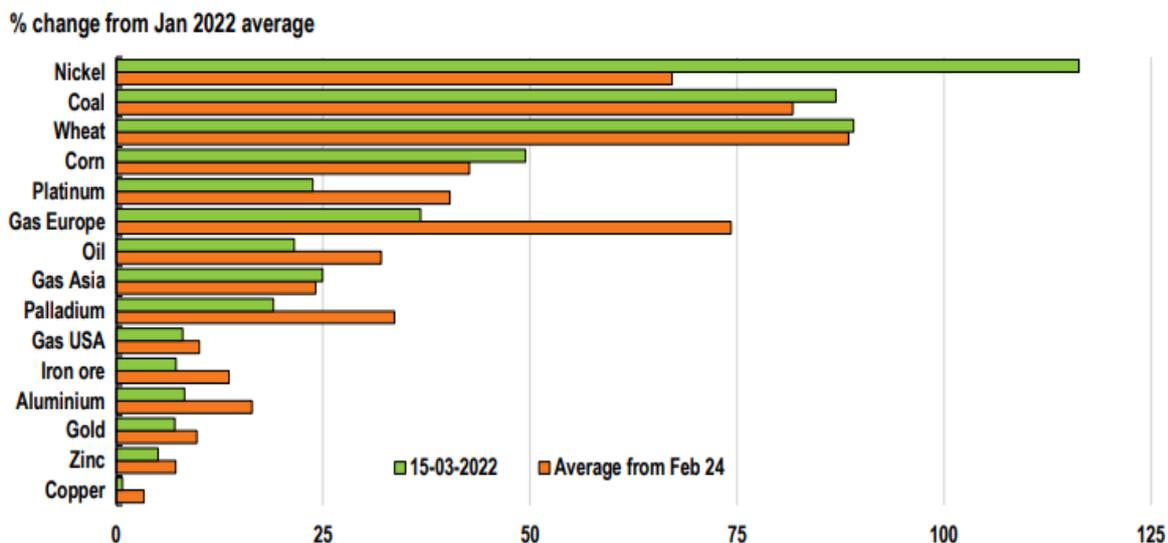


Fig 3 The prices of Russia's and Ukraine's main export commodities have risen dramatically.

Many rising and developing nations would face severe shortages if Russian and Ukrainian wheat exports were completely stopped. Some countries would be more vulnerable to economic collapse, as well as humanitarian catastrophes, such as a significant increase in poverty and hunger. [10] Fertilizer production disruptions could exacerbate these disruptions by putting agricultural supply for the next year at risk. Wheat imports from Russia and Ukraine account for more than 75% of total wheat imports in certain Middle Eastern economies. [11]

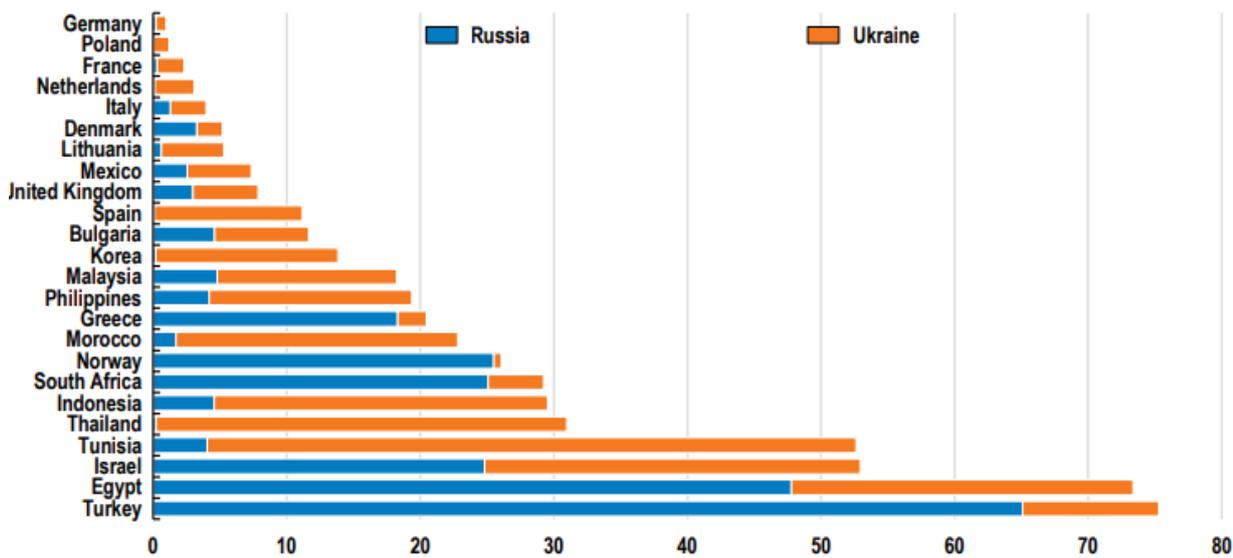


Fig. 4 Russia and Ukraine wheat imports are critical in various countries. Percentage of total wheat imports from Russia and Ukraine in 2019.

Figures 5 to 8 highlight how important Russia and Ukraine are to global agriculture from an international trade perspective. Russia and Ukraine play important role in exporting foodstuffs and agricultural products globally, which are generally intense in few countries however resulting in increase to their vulnerability and volatility. [12]

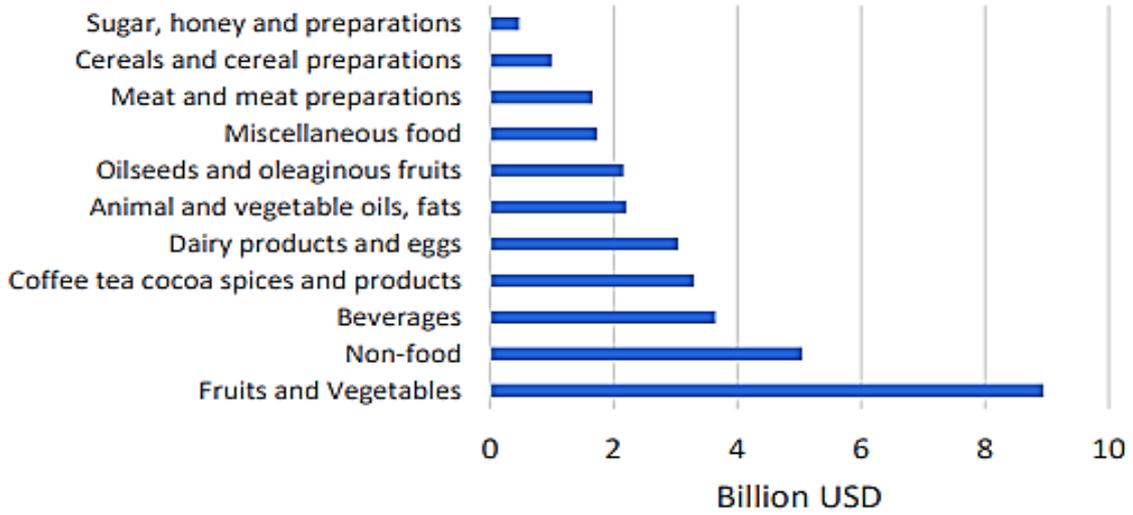


Fig. 5 Russian Federation agricultural imports in 2021

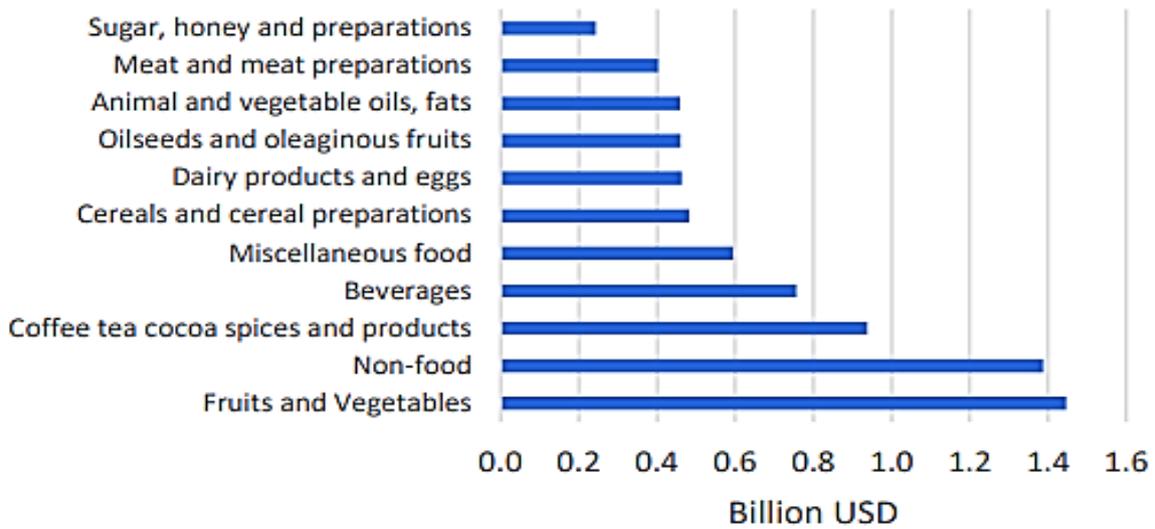


Fig. 6 Ukraine agricultural imports in 2021

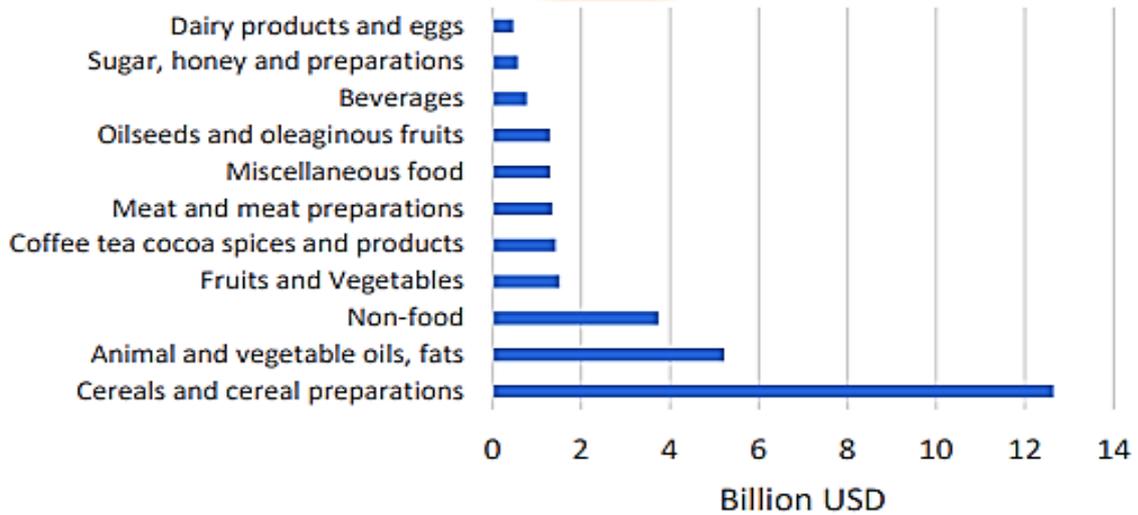


Fig.7 Russian Federation's agricultural exports in 2021.

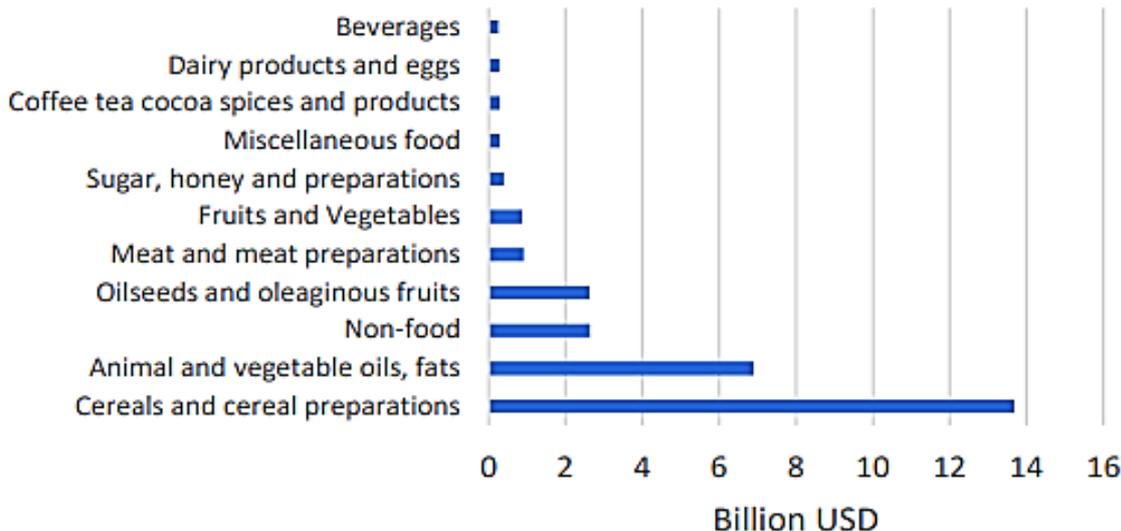


Fig. 8 Ukraine's Agricultural exports in 2021.

VI. CONCLUSION

It is difficult to foresee India's long-term fate in light of the current state of international affairs, especially given the rapid onset of serious short-term consequences following Russia's seizure of Ukrainian territory. India may be far away from both the countries in distance but the economic and geopolitical spheres make them come together. It's not easy for India to take a clear stand in the situation because of the squabble between the West & Russia, as that may push Russia closer to India's persistent neighbours, Pakistan and China. India's relationships with the West will deteriorate just as the country is beginning to grow and strengthen them. Reversing it, showing back to Russia has its reverberations and consequences. Both in terms of trade and the security of its frontiers, India's stakes are considerable. International relations should be shaped by the new outcomes of foreign superpowers as the desired outcome.

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