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RUSSIA-UKRAINE WAR : INDIAN PERSPECTIVE

Dr.Jyoti Bhargava

(*Assosiate Professor*, NPGC)

Abstract

Russia's invasion of Ukraine in February was the largest military attack since World War II, causing global depression and economic disaster. As a result of the Russo-Ukrainian war, numerous international sanctions were imposed on Russia to force Russia to de-escalate the crisis. The sanctions imposed on Russia, while intended to harm Russia, have had knock-on effects on the global economy, particularly through disruption of the global supply chain. India has taken a neutral stance but cannot protect itself from the ravages of a war of this magnitude. The economic impact of the war on the Indian economy is huge due to the increase in inflation in the economy which paves the way for other major problems. Thus, ongoing geopolitical tensions exacerbate external risks that weaken global growth conditions, further holding back India's exports and capital spending. This is the main reason for the nation's concern.

Keywords: Russia-Ukraine, War, Financial crises, Indian Economy, Geopolitical tensions.

Introduction

Since ancient times in human history, nations have witnessed the immense destruction caused by battle. War, the greatest tragedy, stifles national progress while undermining social cohesion. Such wars are so terrible that they tend to become global and cover the entire globe. No country is immune to the devastation of war and must face the consequences. A recent example is Russia's attack on Ukraine on February 24, 2022, in response to its invasion. Its ripple effect can be seen across the planet. While the economies of Ukraine and Russia are modest compared to the global economy. However, they have a huge impact in some critical areas, including energy and food. The rise in commodity prices caused by the conflict, which affects household spending, is more pronounced than possible contagion from trade links with other countries. The rise in commodity prices caused by the conflict, which affects household spending, is more pronounced than possible contagion from trade links with other countries.

Russia is a key global supplier of agricultural products such as wheat, corn, coarse grains, sunflower oil and other grains, which will add to global inflationary pressures. This could have a negative impact on developing economies that depend on imported grain and where food makes up a large part of family spending. Economic restrictions imposed on Russia on trade exacerbate this problem. Because US dollars account for more than 80% of Russia's daily foreign transactions. The US, European Union, UK, Australia, Canada and Japan have all signaled their intention to target Russian banks, while Germany has also halted a major Russian gas pipeline project. Reserves of the Russian Central Bank were frozen. These penalties are more severe than those imposed in 2014 when Russia seized Crimea. Even Russian subsidiaries outside of Russia are under pressure and may be forced to close their doors. External risks are exacerbated by continued geopolitical tensions, which will worsen conditions for global growth and may push the economy toward stagflation. Even India could not defend itself from its devastation.

Review of Literature

Teplova (2022)investigated the effects of the geopolitical risk of the Russian-Ukrainian war on Russia, European financial markets and international commodity markets using a time-varying vector autoregression (TVP-VAR) model. The battle was found to have caused a change in the relationship. Russian bonds and European stocks suffered a shock.

Christopher Mark Devis(2016) The development and results of disputes in Europe, if we remember the current one for Ukraine, have been influenced by elements of monetary, innovative and military adjustments, which are therefore influenced by the financial struggle and support used to change them. This article maps the protective monetary ideas relevant to the fight in Ukraine and subsequently draws illustrations for the present on power adjustment, military capacities, customary deterrence, financial combat, and sanctions countermeasures from 20th-century encounters in Europe. An assessment of the effects of currency approvals on Russia and Ukraine in 2014–2016 is carried out.

Haig-Muir (1995),the Australian economy was small, open and dependent on the export of most of its primary goods throughout the First World War. At the time, the economy struggled to meet various wartime needs as it lacked the necessary infrastructure. Qualitative examination of the problem showed that the conflict brought about changes in new patterns of production that help improve secondary industries and support national economic growth.

Wang (2022)conducted an economic analysis of the war between Russia and Ukraine. Crossover risk is found to be significant in the US but less so in Europe for stock prices. With Europe's reliance on Russian oil, market participants expect a big policy response from renewables, benefiting low-carbon stocks. The economic effects of this war are therefore difficult.

Meena (2022)this article studied the impact of the Russo-Ukrainian war on the Indian economy. The result showed that since World War II, it was the largest military attack that caused a disaster that affected the whole world. This war led to the formation of a close-knit alliance between India and Russia in the context of geopolitical effect.

Yarovaya (2022)this article examined the impact of the Russia-Ukraine conflict on the G20 and other selected stock markets by applying an event study approach. The result revealed a significant and negative impact of the Russian-Ukrainian conflict on the day of the event and on the days after the event. It was also found that the stock markets of Hungary, Russia, Poland and Slovakia reacted immediately to military actions with negative returns even in the days leading up to the event, while the stock markets of Australia, France, Germany, India, Japan, Romania, South Africa, Spain and Turkey were adversely affected in the days following the invasion.

Objectives of the study

The primary objective is to study the root cause of the conflict between Russia and Ukraine. Another prime objective is to study the adversity India is facing as a result of this war. Apart from this paper, they also highlight the potential opportunities ahead for the Indian economy as a result of the sanctions imposed by the US.

Results, Analysis and Interpretation

Causes of Russia's invasion of Ukraine:

Since 2000, Ukraine has been part of both the West and Russia. It means that Ukraine will not fully align with the West or fully become part of the Russian alliance. In 2008, Ukraine decided to join the North Atlantic Alliance. (NATO). However, France, Germany, and Russia opposed the decision, although the United States supported it. Ukraine later abandoned the decision to join NATO. In February 2010, a new Ukrainian president was elected. He ran on a platform of creating a "neutral state" in Ukraine that would work together, including Russia and Western alliances such as the EU and NATO. Crimea was incorporated into Russia in 2014. The annexation has caused intense warfare and brutality along the border areas that divide Russia and Ukraine in eastern Europe, as well as in the Donbass. Since then, popular opinion in Ukraine has shifted in favor of the West, with calls for Ukraine to join NATO and the EU to reduce its dependence on Russia. Since 2010, however, Russia has opposed Ukraine's participation in NATO, leading to an escalation of tensions between the two nations. This cause eventually led to war. The Russian government further argued that Ukraine's desire to join NATO posed a threat to Russian security and would encourage NATO's eastward expansion, threatening Russia's very survival. The West can also attack Russia and threaten its security. These two problems lead Russia to seek armed conflict with Ukraine. Russia also tried to broker a solution. However, as the Russian government claims, Ukraine's refusal to participate in the negotiations triggered the invasion of its territory. In order to form a new government in Kiev and sign a peace agreement with it, Russia sought to overthrow the pro-Western government there.

The ban on joining NATO and the EU will be taken into account in the agreement. Many Western countries protested and condemned the Russian invasion of Ukraine. As a result, sanctions were also imposed on Russia by other countries such as the United States, Great Britain, European Union, France, Japan, Australia, Canada, New Zealand and Taiwan. The United States and New Zealand have banned the export of goods to the Russian military and security forces, and both countries have also banned the export of military equipment to Russia. In addition, both countries banned all imports of Russian oil and gas, and both banned significant exposure of the Russian central bank to dollar-denominated foreign reserves held by the Russian central bank. Even in retaliation, the Russian government responded to the same and took countermeasures, including a ban on the export of more than 200 products, a ban on interest payments to foreign investors, a ban on the sale of Russian bonds to foreign investors and others.

Russian invasion carries a big impact on the following three major areas:

The first thing is that higher commodity prices such as food and energy are pushing up inflation around the world. In addition, the purchase value will decrease.

The second thing is that the neighboring countries trade with the economies, the supply chain would be disrupted and there would be a sharp increase in refugee flows.

And the third is that it restricts trade between countries, tightens the financial conditions of countries; this would be adversely affected in the market. Russia and Ukraine are the main producers of commodities in general, oil more specifically. War would definitely cause world prices to rise. Food costs have jumped as Ukraine and Russia produce 30% of global wheat exports. The biggest impact on current accounts will be oil importers from ASEAN countries, India, border economies including some Pacific islands.

Consequences of the War ahead

The Russia-Ukraine conflict is bringing destruction of life and property on a large scale. It brings death, disease, starvation, poverty and ruin. It triggered shocks in the financial markets and also increased uncertainty in all aspects, which would take some time to recover from its consequences. Russia is the world's 3rd largest oil producer, 2nd in natural gas production and among the top 5 producers of steel, nickel and aluminum. At the same time, it is the largest exporter of wheat in the world. On the other hand, Ukraine is the 6th largest producer of corn, 7th wheat, 1st sunflower and is among the 10 largest producers of sugar beet, barley, soybeans and rapeseed. On the day of the invasion, financial markets around the world plunged and prices of oil, natural gas, metals and food commodities soared.

For the first time since 2014, Brent crude oil broke the $100 per barrel mark. The sudden rise in commodity prices amplifies the threat of long-lasting high inflation, which could create a situation of stagflation and unrest in society in both developed and developing countries. Rising prices of commodities and raw materials such as metals, semiconductors, lithium and magnesium also affected the automotive sector. In Europe, which is an important supplier of car companies in Western Europe, some Ukrainian car companies have also stopped operating. Due to US and Canadian restrictions on the accessibility of Russian airlines, airlines are also at high risk due to higher fuel prices. In reciprocity, Russia also banned European and Canadian aircraft from its airspace. Airlines now have to fly long distances to their destinations, which will lead to higher fuel prices. Even European companies are banned from doing business with Russian railways, which will also disrupt freight operations.

According to the Coface report, the Russian economy is headed for a deep recession as the estimated GDP will be -7.5% in 2022. This will reduce the country's risk rating from B (fairly high) to D (very high). Even Russian banks and the Russian Central Bank are banned from using the SWIFT payment system, which may lead to downward pressure on the Russian currency "Ruble". Although Russia has strong finances in terms of low public debt, current account surplus, substantial foreign reserves estimated at around US$640 billion, which would help prevent ruble devaluation only to some extent. Russia, which is the largest energy exporter, could also benefit from higher commodity prices. Further restrictions on Russian access to Western semiconductors, computers, telecommunications and information security equipment would limit Russian mining and manufacturing facilities as important inputs. The European economy cannot protect itself from its chaos because of its dependence on Russian oil and natural gas. Just as it is very different to replace the entire supply in such a short to medium term, it would have a significant impact on inflation.

According to Coface estimates, at least 1.5% point of additional inflation would erode household consumption, along with a decline in exports and business investment. This would further reduce the GDP growth rate by 1% point. Germany, Italy and some countries of Central and Eastern Europe are fully dependent on Russian natural gas. The trade relationship between them will also reduce the value of the EURO currency. If the flow of natural gas is completely cut off from Russia, then Europe's annual growth rate will be close to zero, possibly even negative. In the rest of the world, other countries are not spared from its economic consequences due to rising commodity prices which will support inflationary pressures. All countries that are net importers of energy and food products, such as China, Japan, India, Korea, Taiwan and Thailand, have experienced supply disruptions.

Impact of the War on the Indian Economy India

The developing nation does not have significant trade in goods with Russia, but could still lose out economically due to supply chain disruptions and global shocks in terms of trade caused by sanctions imposed by the West. This will cause the prices of metals, food and energy products to skyrocket, leading to an increase in inflation in the economy. This conflict exposes the Indian economy to certain risks and also provides certain opportunities to counter adversity. The immediate headwinds facing India are as follows: - A 14-year high in oil prices (to cross $100 per barrel as of 5 May 2022) could have a knock-on effect in the form of high inflation and sluggish growth in India . Since India's trade comprises only 1% of its oil imports from Russia, most of it comes from the Middle East due to the advantages of low-cost logistics and transport. The magnitude of such an impact is therefore not so adverse. This makes the risk to the nation due to macro-instability prevalent globally. Ongoing geopolitical tensions are exacerbating external risks that weaken global growth conditions, further holding back India's exports and capital spending. This is the main reason for the nation's concern. This ongoing conflict has also sharply increased petrol and diesel prices, which increases the cost of transport and logistics, which further increases domestic and international prices. Oil prices are also at their peak. India imports 205 billion dollars of oil and minerals, 832 million dollars of precious metals, 609 million dollars of fertilizers from Russia, which can lead to significant inflation in the economy. India also imports 84% of sunflower oil from Russia; its supply chain disruption would have an adverse impact on the Indian economy. With the outbreak of war, financial markets around the world experienced another imminent adversity. The Sensex tumbled 2,700 points, wiping out Rs 7.5 lakh crore from the stock market due to panic selling by investors. Uncertainty breeds volatility in financial markets.

On March 7, 2022, the S&P BSE Sensitive (BSE Sensex) index fell to 53,035, down 15% from its 52-week high, and a further decline of 5,700 points was recorded in the second round of decline. The market distress in the stock market is causing jitters among investors and they are losing confidence, due to which they have started shifting their investments from stocks to gold-related investments, which has shot gold prices to $2000 per ounce. Russia, being the third largest supplier of gold, can easily increase the supply of gold, which can help Russia regain the lost value of the "Ruble". Therefore, on 5 March 2022, Russia decided to peg the Russian ruble to gold, i.e. 1 gram of gold = 5000 rubles by 30 June 2022. Another loss for the Indian economy is the pharmaceutical industry due to the increase in active pharmaceutical ingredient (API) price volatility. The industry depends on imports for 90 percent of its API needs, and the Ukraine crisis will make the situation worse. Companies' margins and balance sheets are already under pressure as a result of this volatility. Things could get tougher for the industry financially. As a result of the sanctions imposed by the United States on the use of the SWIFT payment system, it is causing concern to the Indian pharmaceutical industry. This is because according to a report by the Pharmaceutical Export Promotion Council, in 2020-21 pharmaceutical exports to Russia and Ukraine were $591 million and $181 million respectively, less than 3 percent of total pharmaceutical exports and now by companies. they are worried about receiving payments. Receiving payments for exports to Russia will now be a huge problem.

According to FIEO (Federation of Indian Export Organizations), there is about $400 million in unrealized accounts for exports that have already been shipped. Most of it is from Russia. Now the financial implications for Indian exporters will be steep. To this end, banks have taken strict measures to settle the payment mechanism, as the "ruble" as a volatile currency has also collapsed to some extent. India has earmarked $70.2 billion in its 2022-2023 Union Budget for military spending under a key defense deal that includes the $5 billion supply of Russia's S-400 missile system that was signed in

October 2018. In addition the Indian military cannot function effectively without Russian-supplied equipment and will continue to rely on Russian weapons systems in the medium term, despite the threat of US sanctions over the purchase of the S-400 looming large over India. Apart from these adversities, there are also opportunities that lie far ahead for the Indian economy as follows: Due to this conflict, the prices of three metals ie steel, aluminum and nickel have skyrocketed. The rise in steel prices presents an opportunity for India to tap into the Southeast Asian export market.

Russia, which is the largest and most cost-effective producer of aluminum in the world, cannot meet its global demand. Sanctions also increase aluminum shortages. In that case, Indian companies like Hindalco, Vedanta and Nalco can enter the market and meet their demands. In addition, metal prices will remain high because they are internationally determined and thus have a geopolitical impact. India can also fill the gap by increasing wheat exports as there have been global wheat supply outages from Russia and Ukraine. Both are major wheat exporters in the world. In such a scenario, there is a potential opportunity to make available mustard oil from Rajasthan and Uttar Pradesh and explore this export market. There is a vacuum in the market due to the unavailability of the SWIFT system. This can populate India's own Unified Payments Interface (UPI). UPI enables digital payments without internet. India has grown considerably in this industry over the past few years. UPI has crossed the $1 trillion mark in transactions in the financial year 2021-22. If UPI can fill this vacuum, it will provide a huge benefit to the Indian economy in the financial sector and replace SWIFT in the Russian market. The main impact of the Russian-Ukrainian conflict on the world economy lies in higher energy prices and weaker confidence in financial markets, supported by strong international sanctions against Russia.

Conclusion

War is the enemy of all mankind and human civilization. Nothing good can come of it. It not only stunts the growth of a nation but also uproots social cohesion. It slows down the pace of human progress. The recent conflict between Russia and Ukraine is witnessing the same situation. It has triggered financial turmoil, increasing uncertainty about the recovery of the global economy. It threatens to depress commodity and energy markets even more. It brings disruption all over the world. The situation is aggravated by various trade sanctions imposed on Russia by the US. This article studies the effects faced by the Indian economy as a result of this war. Potential opportunities for the Indian economy are also discussed. India's biggest misfortune is the rise in inflation due to the rise in oil, diesel and petrol prices. This could increase the current account deficit and consequently slow the growth of the economy. Apart from that, various opportunities await the Indians. It is the right time to enter the export market to fill the vacuum in the world market by ensuring their presence in various fields. Now the Government of India has to take some measures in making monetary policy to reduce the impact of inflation.

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