

**UKRAINE RUSSIA CONFLICT...180 DAYS AND STILL
CONTINUING...THE DISASTROUS IMPACT ON THE WORLD AND
INDIA**

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ABSTRACT

The paper attempts to highlight the disastrous impact of a war, on the world. Besides the huge loss of life, an attempt has been made to understand the effect it has had on the world with respect to supply chain disruption, shortage of raw material, and logistic constraints. The world was just limping back to normalcy after two years, due to the adverse impact of the pandemic, when it had to face the adverse consequences of the war. This has taken a huge toll on all economies with respect to inflation as well as burgeoning fiscal deficits. Each country is trying to grapple with these twin issues. Besides the general impact on the world, an Indian specific country has been attempted.

RESEARCH QUESTION: Any war is a recipe towards disaster. The Russia Ukraine conflict has not only led to large and unretrievable loss of human life as well as means of living, but it has also led to a wider impact on the equations within the world economy as well as on India. This paper is an attempt to understand all these nuances and more.

INTRODUCTION

The Russia-Ukraine war started on February 14th, 2022. It was started by Russia. There are both political as well as economic reasons for the start of the war and its continuance. One of main reasons for this unprecedented attack was President Putin's concern over the growing influence of The North Atlantic Treaty Organisation (NATO), into Eastern Europe and former USSR countries. It is this reason and many more that has led to unprecedented hardship:

- in the form of almost all economies of the world facing very high inflation levels. Levels

that have been unheard of for a long time.

- Most economies are on the brink or already into recession.
- Major upheavals in their budgets.
- Huge amount of destruction and loss of lives.

An attempt is made to study the effect of this war in terms of humanitarian, economic and political impact of the war. Will there be a solution or will it follow the length of the ‘cold war’. At this point it is difficult to predict the end of this war, but the adverse impact has already been felt across the world. Governments are grappling with shortages, high inflation, and huge fiscal deficits. Ukraine and Russia are grappling with their own set of problems namely widespread destruction and huge loss of human lives. Countries will eventually find a solution to the economic issues they are facing, but what about the people who have lost their lives.

Figure 1: Images of Destruction due to the War



Source: Google Image

2. Reasons for the War

There seems to be political as well as economic reasons for Russia attacking Ukraine. Ukraine was part of erstwhile USSR as well as a host of other countries like Belarus, Georgia, Moldova, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Lithuania, Latvia, Estonia, as well as parts of Poland and Turkey. Reasons behind the attack by Russia would have to consider how close Ukraine was to Russia before the breakup in 1991. Though all the countries mentioned

above were a union of multiple national republics, both its government and economy were highly centralised.

2.1 Political Reasons stated by Russia for invading Ukraine

Russia was concerned about Ukraine joining NATO. It also claimed that the country was involved in committing genocide. According to President Putin, Ukraine joining NATO is a direct threat to Russia. The reason being that NATO is neither a defensive alliance nor is it only concerned with European affairs. It was involved in four offensive wars1) Kosovo in 1999 2) Afghanistan from 2001-2021 3) Iraq from 2003-2011; and 4) Libya in 2011.

Since NATO was involved in the above-mentioned wars, Ukraine becoming a part of NATO, would lead to a threat to Russia. Before the threat became real, Russia attacked.

Another reason that is being suggested is that Putin has an overriding ambition to consolidate Russia into the erstwhile USSR. He has also claimed that Ukraine has perpetuated genocide against ethnic Russians who reside in East Ukraine in the Donbas region. Kremlin backed rebels have been fighting with Ukraine forces in this region since 2014. In fact during the war he has claimed that he has liberated Donetsk and Luhansk (which are two separatist regions in the Donbas) as independent states.

Figure 2: Map indicating Ukraine and the Donbas region



Source: Google Image

Putin claimed that by liberating these areas, he has in fact “denazified” Ukraine. He has also claimed that “Ukraine has never had its own statehood, there has never been a sustainable statehood in Ukraine”. According to Putin, Ukraine has always been a part of Russia, and his invasion is really to unify what should never have been separated.

2.2 Economic reasons for the Invasion

Ukraine is the world’s biggest supplier of Sunflower oil. If it becomes a part of Russia, then the combined supply would be 60%. Russian gas accounts for 40% of Europe’s natural gas imports. Ukraine is often termed as the ‘breadbasket’ of the world. It exports wheat, barley, potatoes, and rye to the rest of the world due to its fertile soil. Besides this, it is also one of the top global producers of natural resources like titanium, manganese, gas, and coal.

All this indicates the rich resources that will come under the Russian regime if they succeed in their malafide intentions of breaking up the country and/or annexing it totally.

3. Impact of the war

The impact of the war has huge political as well as economic ramifications.

3.1 World

The war in February 2022 came immediately after the debilitating impact of the Pandemic as well as the adverse impact of various environmental issues that the world is grappling with. The war could not have come at a worse time. The world was and still is grappling with the impact of Covid-19, which had brought everything to a standstill. United Nation General Secretary Antonio Guterres has aptly described the situation as a ‘triple food, energy, and financial crisis.’ The pandemic had already contracted the Gross Domestic Product (GDP) of all economies of the world. The countries were grappling with an extremely deep recession that they had not witnessed in a decade, through lower investment, an erosion of human capital through lost work and schooling, as well as fragmentation of global supplies. The governments had consciously decided to increase spending power of their citizens by giving sops and doles, to cushion the impact of the pandemic for its citizens. This meant that countries were already facing a high fiscal deficit. This situation continued through 2020 till early 2022. Along with this climate change impact started rearing its head via unprecedented heat waves, floods, and droughts. All of these increased the demand for energy and at the same time adversely affected the agricultural production.

With the start of the war, the effect on prices and availability of natural gas immediately

escalated further. The world reacted to this unprovoked attack on Ukraine by imposing various sanctions on Russia. All the countries including China have condemned this aggression and have appealed to President Putin to immediately put a stop to it. But despite this, the war continues to rage.

Several countries have imposed Economic and other sanctions on Russia.

- This entails the cutting of “selected Russian banks”, from the SWIFT network
- Restrictions on economic relations with the illegally annexed Crimea and the city of Sevastopol as well as the non-government control of Donetsk and Luhansk.
- Asset freeze and travel restrictions on many prominent Russians.
- Some countries that are normally neutral have also decided to apply the above sanctions.
- Individual big conglomerates like IKEA, Apple, ExxonMobil, and General Motors have decided to apply the same set of sanctions, acting as international law enforcers on behalf of United States.

3.2 India

India has so far maintained a neutral stand on the Russia Ukraine war. Prime Minister Modi has appealed time and again to President Putin to deescalate and completely put an end to the war. On the global stage, India has abstained five times so far from condemning Russia’s actions at the United Nations. It has continuously reiterated that all countries should be “committed to the principles of the UN charter, to international law and respect for sovereignty and territorial integrity for all states”.

India has had a long history of cooperation with Russia. This goes back to the time that we attained our independence. There have been various points in India’s history, that whenever we have been threatened it is Russia that has come to our rescue. Thus, diplomatically it would be difficult to impose the same set of stringent sanctions that America and Europe have imposed.

4. Dealing with the Economic Fallout due to the War

4.1 World

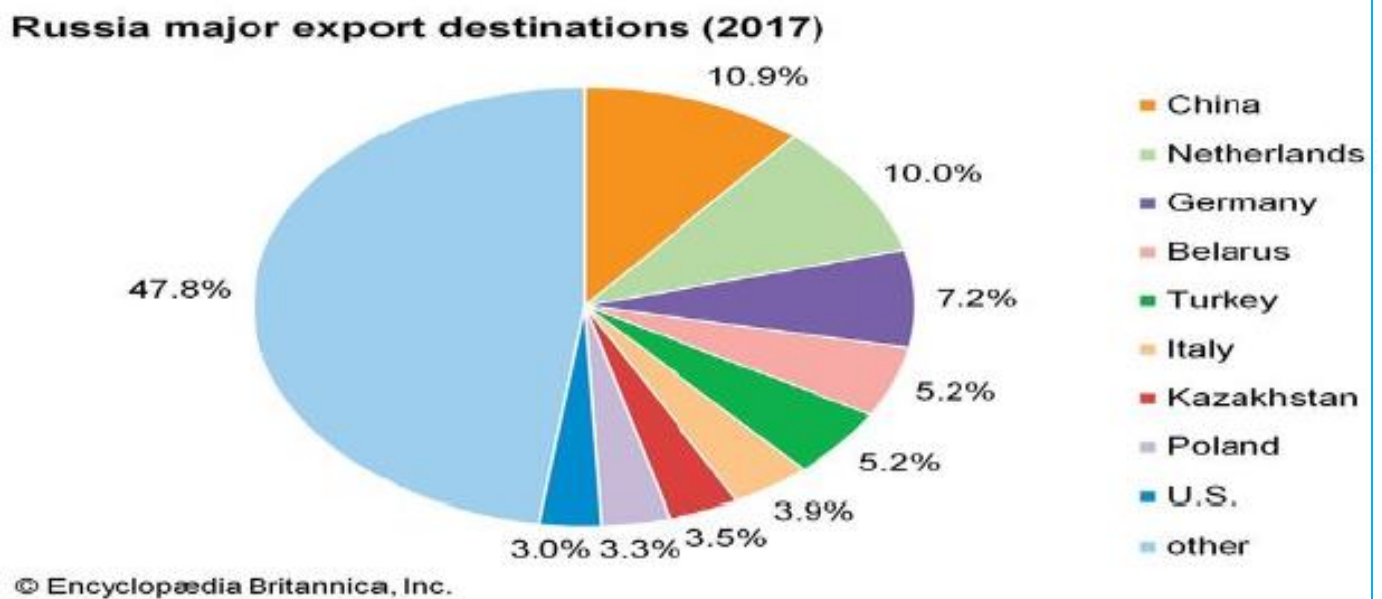
Besides the huge loss of lives, and the massive destruction of property, the sanctions imposed on Russia, as well as the fact that Ukraine is fighting to save its country, has led to a large disruption

of food grains and raw materials. It is a well-known fact that both Russia and Ukraine own a large amount of precious raw materials, natural gas, as well as food supply. The disruption in all the above along with the strict sanctions that have been imposed have led to the disruption of raw material supply, shortage of food grains as well as parts and components, and the blockage of trade routes.

4.1.1 Raw Material

Both Russia and Ukraine are very rich in raw materials. Russia is a major producer of nickel, neon, palladium, and in fact controls approximately 19% of global copper reserves. Copper is a key element in the electronics as well as the construction industry. Russia is a major supplier of natural gas to most of the European nations.

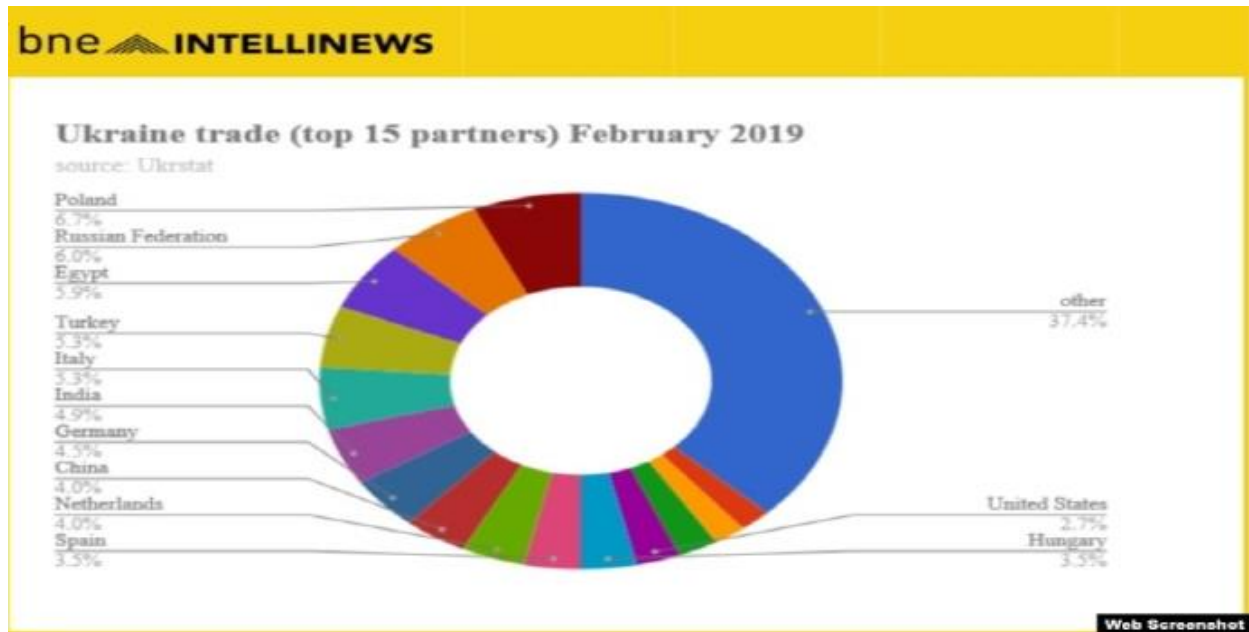
Figure 3: Russia’s major Export Destinations (2017)



Source: Encyclopaedia Britannica

Ukraine exports wheat, sunflower oil, barley, corn, and potatoes. Together Russia and Ukraine account for 29% of the global wheat market.

Figure 4: Ukraine trading partners



Source: Google image

Both the figures above indicate very clearly the impact of the war. Given the extent of trade by both the countries there has been a major disruption of supplies.

4.1.2 Shortage of Parts and Components

Metal markets have become particularly vulnerable to the war. Russia is the fifth largest coal producer, it accounted for 10% and 17% of international trade in metallurgical and thermal coals respectively. It is the third largest producer of Nickel, as well as iron ore pellets, (both are key components in stainless steel production).

Many companies across the spectrum have been adversely affected, some of them are Automobile manufacturers, Aviation Companies, Consumer goods makers, Energy companies, pharmaceutical companies, Food and beverage companies, Chemical industry. There has been a huge shortage of chips, which use the metal raw material exported from Russia and Ukraine. This in turn has affected many industries including the automobile and the electronic industries.

4.1.3 Logistic Disruption

With the outbreak of the war, the air space of these two countries has been banned for the rest of the world, due to safety reasons. This has led to an increase in the travel time between any two destinations, thus leading to an increase in energy costs. Besides this, the logistics of moving cargo in the Black Sea have been severely disrupted since the onset of the war. Russian naval forces have blocked Ukrainian sea ports. Cargo from these ports move to Constanta, Romania. Due to the blockade, there has been a significant increase in the price of transportation of cargo.

5. Resultant Political and Economic Decisions

Six months of the war have led countries around the world grappling with unprecedented inflation levels, as well as the spectre of an impending recession. These are unprecedented times for the world given the fact that the world had barely started getting back on its feet after the terrible covid 19 pandemic. The economies had to deal with a demand shortage due to the pandemic and now an inflation due to the war. Looking at this aspect from the (1) World and (2) India:

5.1 World

The USA, EU, Japan, Australia, UK, Canada, and other developed countries have imposed strict sanctions on Russia. UK has frozen assets of the Russian Oligarch and the Russian Sovereign wealth fund; they are slowly going to phase out imports of Russian oil and products.

EU, along with the USA have banned Russian ships from entering their ports and have also imposed sanction on the assets of 26 prominent Russian personalities.

USA has revoked the status of “most favoured nation”, that was given to Russia. This would allow the US to impose high tariffs on Russian goods and would further make it hard for Russia to do business with almost half of the global economy. US has banned energy imports and oil, Canada too has imposed a ban on Russian oil. Switzerland as well as Japan have also imposed a range of sanctions against Russia.

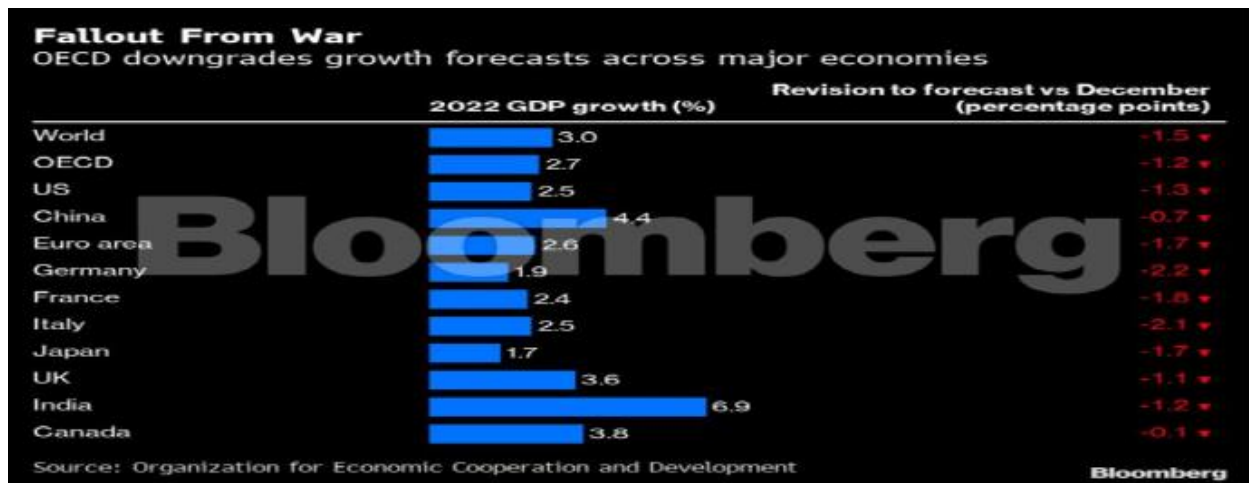
The impact of the war as well as the sanctions are being felt worldwide. The immediate one was the sharp rise in the price of oil, along with high prices as well as shortages in food, fertilisers, gas, energy, basic raw material for steel plants. Both the countries at war, as mentioned earlier, are very rich in raw materials that are extremely important for the world's manufacturing sector. This has led to soaring inflation, sky high energy costs and a looming recession.

The governments in trying to control inflation which, in some developed economies, has reached double digits, have started adopting tight monetary policy. This means that money has become

dearer, i.e., cost of borrowing has increased. This has led to an exodus of funds that were invested in the stock markets of emerging market economies. Large funds were invested in developing economies by the developed ones to take advantage of the rate of interest earned in the developing country. But as the central banks of developed nations have started increasing their base interest rates, to combat high inflation figures, there has been an exodus of such funds from emerging market economies. These have compounded issues for the emerging countries.

There have been emerging market economies like Sri Lanka, Nepal, and Bangladesh as well as India who have been facing impact of high inflation resulting in hardship of its citizens. Sri Lanka has compounded issues of political and social unrest. Bangladesh to meet the expensive oil imports has recently increased the price of fuel by 50%, the highest in history. Nepal too administered huge hike in fuel prices, which have led to large protests in the country. The impact can be seen in the downturn in GDP growth rates for major world economies.

Figure 5: Growth forecasts across major economies



Source: OECD

5.2 India

Traditionally, India has been the world’s third largest consumer of oil, and over 80% is imported. Russia was not a major supplier to India before the war broke out. But now Russia is the second major supplier after Iraq.

Before the war, the second major supplier was Saudi Arabia. As the world has imposed sanctions on Russia, the country is selling its oil at a discounted rate. India has taken advantage of this

lower price and has started importing oil from Russia. Other countries like the USA have urged India not to buy too much from Russia. The exact discount is not known, but researchers estimate the discount to be in the range of about \$30 per barrel. The problem that has risen is that the payment must be made in roubles (Russian currency), this means that dollars or rupees would have to be converted into the currency. Due to the strict sanctions, it is becoming difficult for conversion, the option is then to negotiate with Russia to accept rupee payment. There are rumours that a rupee-rouble exchange rate may have been worked out. This is beneficial for India as it would be able to reduce the inflationary impact of oil price increase on the total basket of commodities. Measures adopted by the RBI, as well as the importing of discounted oil from Russia, have in fact provided relief from the highs of +7% inflation figures, in the last two months. Along with high inflation figures, India as other economies of the world are facing a huge trade deficit. The advantage that India has, is a long and an old association with Russia. This geo-political equation has helped India in the past and is an extremely important factor in cooling of inflation levels presently.

6. Conclusion

War really does not solve any issue; it is always dialogue and discussion which can lead to a meaningful solution to even the most complex issues. The Russia -Ukraine war has completed six months but there seems to be no sign of abatement. What the war has done is brought together all the EU nations. There have been a host of sanctions on Russia, but they continue unabated. Ukraine is being supplied with the most sophisticated weapons from all over the world, and they have held strong against the mighty Russian attack. This signifies the strong sense of 'self-pride', 'My country', which has managed to keep the Russians away. It is the same sense of pride which led to the USA eventually leaving Vietnam.

Hopefully better sense will prevail, and the war comes to an end, as besides the loss of lives, till date the loss of war destruction in Ukraine is \$113.5 billion, it will cost \$200 billion to rebuild, \$23 billion to cost Ukraine's farmers and agribusiness companies in lost profits, destroyed equipment and transportation costs due to the war (Source: NYT). These are huge numbers and no price on the loss of lives in both the countries.

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