



IMPACT OF RUSSIAN-UKRAINIAN WAR ON INDIAN ECONOMY

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ABSTRACT

The main reason to taking this very topic is to understand the nuances of this entire war and also to connect it with Indian economy. Russia launched an all-out attack on Ukraine through land, air and sea. The attacks by Russia are considered as the biggest attack by one state against another in Europe since the Second World War. The prime objective is to study the adversities faced by India on account of this war. To identify the primary areas where the war has had an impact on India so that the government can be aware of them and develop new policies to deal with these issues. Also, knowing where it has a specific impact can help the government focus on those areas. Understanding the implications and aftereffects of conflict will be useful in allocating finances at the proper time and area, otherwise it may have a greater impact on the economy. The prime objective is to study the adversities faced by India on account of this war. To identify the primary areas where the war has had an impact on India so that the government can be aware of them and develop new policies to deal with these issues. Also, knowing where it has a specific impact can help the government focus on those areas. Understanding the implications and aftereffects of conflict will be useful in allocating finances at the proper time and area, otherwise it may have a greater impact on the economy.

KEYWORDS: *Economy, National Development, War*

INTRODUCTION

War, the greatest disaster, hinders national development and even grassroots social bond. The scale of these wars is so devastating that it tends to be global, i.e., its impact covers the entire world. No country is left untouched by the ravages of war and must face its consequences. The war of Russia on the Ukraine on 24th February 2022 in the wake of its invasion is the recent example of the same.

The breakdown of the situation between Ukraine and Russia has highlighted the world, as the country has had broader security and financial dispersion for a considerable time, including India, with development taking place after Covid. Its spill over effect is seen over the entire world. The economies of Ukraine and Russia are small compared to the global economy as a whole. However, they are of great importance and influence in several key areas, especially food and energy. The rise in commodity prices due to conflict, which affected the household spending, is more likely to be spread through trade links with other countries.

Russia is the major global exporter of agricultural products like wheat, corn, coarse grains, sunflower oil and other grains, that will add inflationary pressures in the global economy. It could have an adverse implication on those emerging nations that rely on imported grain and where food is a high share of household spending. The economic sanctions on Russia with respect to trade make situation more badly.

STATEMENT OF THE PROBLEM

The main reason to taking this very topic is to understand the nuances of this entire war and also to connect it with Indian economy!

- Russia launched an all-out attack on Ukraine through land, air and sea.
- The attacks by Russia are considered as the biggest attack by one state against another in Europe since the Second World War.



Russia's Reason for the Invasion

- Russia's President Mr. Putin declared that he has ordered "a special military operation" to protect people, including Russian citizens who had been subjected to "genocide" in Ukraine, "for this we will strive for the demilitarisation and denazification of Ukraine".

Violations of International Laws by Russia

- **The UN Charter**
 - It demands the states to avoid using force or threat of using force against the territorial integrity or political independence of any state.
- **The UN General Assembly Resolution 3314 (1974)**
 - The resolution defines aggression as the use of armed force by a state against the sovereignty, territorial integrity or political independence of another state.
 - Also, allowing one's territory to be used by another state for aggression against a third state, would qualify as an act of aggression.
 - Hence, Belarus can also be held responsible for aggression as it has allowed its territory to be used by Russia for attacking Ukraine.

SIGNIFICANCE OF THE STUDY

Russia invaded Ukraine on 24 February 2022, escalating the Russo-Ukrainian war started in 2014. Russia periodically invaded Ukraine following the start of the war in 2014, but the recent attack is the largest conventional military attack in Europe since World War II. Ukraine expressed its wish to join NATO before the recent invasion, triggering Russia's response.

Putin stated the invasion was necessary to protect Russia, as well as demilitarize and de-Nazi Ukraine. (Ukraine is a democracy led by a Jewish president.) This invasion had endangered many innocent civilians and the Ukrainian government, but its effects will be felt far beyond just Ukraine.

A shift in world powers occurred with the invasion of Ukraine, the most significant one since the 9/11 terrorist attacks. The USSR, a predecessor to Russia, was the main concern for the US following WWII in the Cold War. However, 9/11 shifted US focus to Al-Qaeda and ISIS: Russia did not pose the same threat it once did. Putin made contradictory moves during the 2000s and 2010s. He made multiple attempts to prevent former Soviet bloc countries from becoming closer to Western Europe-- notably Georgia in 2008-- and supported Syrian dictator President Bashar al-Assad; but also helped fight ISIS, was Europe's main energy supplier, and helped negotiate pacts, such as the nuclear deal with Iran in 2015. Putin's attack on Ukraine has made Russia the most prominent threat to the Western world once again.

The EU, historically divided over the extent of power Brussels should have in foreign policy, has become united as a result of the Ukrainian invasion. The EU is one of the main global economic powers, and remained mostly removed from geopolitics before. However, the recent offensive has raised fears of another European war, prompting the EU to finance Ukraine to buy weapons.

Most prominently, many people have been displaced and forced to flee because of Russia's attack. This migration is one of the fastest and largest migrations in recent history, with one million people leaving their homes in the first seven days after the attack. This raises concerns over a refugee crisis in Europe, and whether refugees can return to their homes, if their homes still exist.



Implications for the average person outside of Ukraine result from the crisis as well. The US made sanctions on two Russian banks and five oligarchs and their families, and prohibited the purchase of Russian sovereign debt. This restricts major Russian banks, affecting Russian international trade. This will raise prices, depreciate currency, and cause market crashes in Russia. The loss of Russian exports, which include fossil fuels and other commodities, impacts mainly Europe, but other countries as well. Energy prices will rise because Russia is a major exporter of natural gas and petroleum. Russia can limit or cut off energy to Europe, and multiple pipelines run through the unstable region of Ukraine to Europe. Industries will also take a hit, raising prices of consumer goods, as Russia is a main exporter of minerals and

heavy metals, such as palladium used in catalytic converters in cars and semiconductor chips used in various technologies. In addition, food prices will spike because fertilizer and wheat are main exports in Russia and Ukraine. The stock market has already started to suffer because of the potential war in Europe, and will likely not recover anytime soon.

Indian people are living in almost every country of the world. We play a huge role in world development and the global economy.

According to foreign ministry of India there are more than 20000 Indians living in Ukraine. The Indian government already issued an advisory on the 15th Feb for evacuating Indians from the Ukraine. But none of them booked for return to India.



A full arrangement was arranged by the government with more than 4 daily flights. The war began on 23rd of February and the airfield of the Ukraine is blocked now by the Russian army.

Government issued a second advisory to evacuate Indians from the neighbouring countries. All the Indians have been advised to reach out to the land borders of Poland and Romania. Indian air force and Air India will launch an airlift operation to bring back all the Indians to the country.

People now living in the basements and subway are advised to be there for 6 days and the Indian air force will launch an operation to bring them with full safety.

OBJECTIVE OF THE STUDY

The prime objective is to study the adversities faced by India on account of this war. To identify the primary areas where the war has had an impact on India so that the government can be aware of them and develop new policies to deal with these issues. Also, knowing where it has a specific impact can help the government focus on those areas. Understanding the implications and aftereffects of conflict will

be useful in allocating finances at the proper time and area, otherwise it may have a greater impact on the economy.

RESEARCH METHODOLOGY

Consequence of the war ahead

Large-scale property and human life loss is a result of the conflict between Russia and Ukraine. It leaves behind death, illness, malnutrition, poverty, and devastation. It has caused turbulence in the financial markets and raised uncertainty across the board, and it will take time to recover from its effects. Russia is among the top 5 producers of steel, nickel, and aluminium and is third in the world for oil output. It is also second in natural gas production. Additionally, it exports the most wheat globally.

On the other side, Ukraine ranks sixth in the world for corn production, seventh for wheat, first for sunflowers, and tenth for sugar beet, barley, and thirteen other crops. On the day of the invasion, there was a dramatic decline in global financial markets and a rise in the prices of metals, food commodities, natural gas, and oil. For the first time since 2014, the price of a barrel of Brent oil surpassed \$100 USD.



A sudden surge in commodity prices heightens the risk of persistently high inflation, which might lead to stagflation and social instability in both developed and developing countries. The automobile industry was also affected by the increase in the cost of raw materials and commodities such as metals, semi-conductors, lithium, and magnesium. Even some of the key suppliers of Western European automakers, Ukrainian auto plants, have stopped operating in Europe.

Aircraft companies are also at great risk as a result of the restrictions the US and Canada have placed on the accessibility of Russian airlines. In retaliation, Russia also forbade European and Canadian aircraft from flying in Russian airspace. Airlines must now travel large distances to get to their destinations, which will cause fuel prices to increase. Even European businesses are prohibited from conducting business with Russian Railways, which will hamper freight operations as well. According to a Coface research, the Russian economy would experience a severe recession in 2022, with an estimated GDP of -7.5%. As a result, the risk rating for the nation will drop from B (very high) to D (very high). Even the Russian Central Bank and banks are not allowed to utilise the SWIFT payment system since it could cause the "Ruble" to fall in value. Although Russia has excellent financial standing—low public debt, a surplus on its current account, and significant foreign reserves estimated at 640 billion US dollars—these factors alone would only go so far in preventing the Ruble from depreciating. Being the largest exporter of energy, even Russia might profit from the rising prices of commodities.

Russian mining and industrial operations would be hampered by more limitations on their access to Western semiconductors, computers, telephones, and information security systems.

The European economy is reliant on Russian oil and natural gas, making it unable to protect itself against its effects. It would significantly affect inflation in addition to being quite different to replace the entire supply in such a short- to medium-term time frame. According to Coface's predictions, an increase in inflation of at least 1.5% would reduce consumer consumption along with exports and company investment.

The GDP growth rate would be further reduced by 1% as a result. Fully reliant on Russian natural gas are Germany, Italy, and a few other Central and Eastern European nations. The value of the Euro will also decrease due to their trade relations. The annual growth rate of Europe will be close to zero, and probably even negative, if the flow of natural gas from Russia is totally stopped.

Other nations throughout the world are also not exempt from its economic repercussions as a result of the rise in commodity prices, which will exacerbate inflationary pressures. Supply interruptions have occurred for all nations that are net importers of energy and food items, including China, Japan, India, Korea, Taiwan, and Thailand.

The war's effects on India's economy

India, a developing country, does not trade much with Russia in terms of goods, but it still stands to suffer financially as a result of the sanctions imposed by the West, which will disrupt supply chains and trigger shocks to global terms of trade. This will result in a spike in the cost of energy, food, and metals, which raises inflation in the economy. This battle exposes the Indian economy to certain dangers while also giving it some possibilities to overcome challenges. India now faces the following challenges:



The price of crude oil has increased to \$100 a barrel as of May 5, 2022, which is the highest level in 14 years. This could result in high inflation and slow growth in India. Since Russia accounts for just 1% of India's oil imports, the rest of it comes from the Middle East since logistics and shipping are more affordable there. As a result, the impact's size is not very bad. Due to the global macro instability, this puts the nation at danger. Global economy circumstances would deteriorate as a result of ongoing geopolitical tensions, further impeding India's export and investment. The nation's biggest source of worry is this.

Due to the continuous fighting, gas and fuel prices have also increased, which raises the expenses of logistics and transportation and ultimately drives up local and global pricing. A peak has also been reached in oil prices. India imports from Russia \$205 billion worth of minerals, \$832 billion worth of precious metals, and \$609 billion worth of fertilisers, which might cause a significant amount of inflation in the Indian economy. An interruption in Russia's supply chain would have a negative effect on the Indian economy because India also buys 84% of its sunflower oil from that country.



Another immediate hardship was evident as soon as the conflict started in the global financial markets. Due to investor panic selling, the Sensex fell by 2700 points, wiping out Rs. 7.5 lakh crores from the stock market. The financial markets become volatile when there is uncertainty. The 2022 S&P BSE Sensitive Index (BSE Sensex), which had reached a 52-week high of 53,035 on March 7th, had fallen further 5700 points in the subsequent wave of depreciation. Investors begin to switch their investments from stocks to gold-related assets as a result of their fear and lack of confidence caused by the equity market's misery, which drives gold prices to \$2000 per ounce.

Being the third-largest gold supplier, Russia can simply increase its gold supply, aiding in the recovery of the "Ruble's" lost value. Because of this, Russia chose to link the Russian Ruble to gold on March 5, 2022, meaning that one gramme of gold would be worth 5000 roubles until June 30, 2022.

Pharma industry losses to the Indian economy are a result of rising active pharmaceutical ingredient (API) price volatility. 90% of the API required by the sector is imported, and the Ukraine conflict is going to make conditions worse. Because of this unpredictability, company profitability and



financial sheets are already under pressure. The financial environment for the sector can deteriorate.



Additionally, the US sanctions against the usage of the SWIFT payment system have worried the Indian pharmaceutical business. This is because companies are concerned about getting paid because, according to a report from the Pharmaceuticals Export Promotion Council (Pharmexcil) for 2020–21, pharmaceutical exports to Russia and Ukraine totalled \$591 million and \$181 million, respectively, or less than 3% of total pharmaceutical exports. Now, getting paid for goods to Russia will be a major issue. The Federation of Indian Export Organizations (FIEO) estimates that unrealized receipts for goods that have already been dispatched total roughly \$400 million.

That is primarily from Russia. The financial repercussions would now be severe for Indian exporters. As the "Ruble," a volatile currency, has also plummeted to some extent, banks have taken strict precautions to settle payment mechanisms.

In its union budget for 2022–2023, India committed \$70.2 billion for military spending, based on a significant defence agreement that was struck in October 2018 and calls for the delivery of the \$5 billion S-400 air missile system produced in Russia. Furthermore, despite the US's threat of sanctions over the S-400 purchase hanging over India, the Indian military depends on Russian weapons systems and cannot function effectively without them in the medium term.

Along with these difficulties, the Indian economy will face the following chances in the future:

Three metals—steel, aluminium, and nickel—have seen increases in price as a result of this dispute. The increase in steel prices gives Indian exporters a chance to access Southeast Asia's export market. The largest and most economical producer of aluminium in the world, Russia, is unable to satisfy the demand on a worldwide scale. Sanctions also make it harder to find aluminium, which is already in limited supply. In such situation, Indian firms like Hindalco, Vedanta, and Nalco can enter the market and meet their needs. In addition, because metal prices are decided globally and have a bearing on geopolitics, they will continue to be high. India may potentially

close the deficit by expanding wheat exports, since Russia and the Ukraine have both disrupted the world's wheat supply. The two are the two biggest exporters of wheat worldwide. In such a case, it may be possible to investigate the export market and make mustard oil from Rajasthan and Uttar Pradesh available. The absence of the SWIFT system has left a void in the market. The UPI system in India can fill this in (Unified Payments Interface). Without internet access, UPI allows for digital payments. In the last few years, India has experienced significant growth in this industry. In terms of transactions, UPI surpassed \$1 trillion in the fiscal year 2021–2022. If UPI can fill this need, it will significantly boost the Indian economy's banking sector and take SWIFT's position in the Russian market. The major effects of the war between Russia and Ukraine on the global economy are rising energy costs and less trust in the financial markets, which are supported by severe international sanctions against Russia.

CONCLUSION

All of humanity and human civilisation are at war with each other.

Nothing constructive can be made of it. It undermines social cohesion as well as the nation's ability to grow. It slows down the rate of human progress. The same dynamic may be seen in the most recent confrontation between Russia and Ukraine. It has caused financial instability and raised doubts about the global economy's ability to recover. The commodities and energy markets risk greater pressure as a result. Disruptions are caused all around the world by it. The US's numerous trade sanctions on Russia worsen the issue. This essay investigates the effects of the war on the Indian economy.

Also mentioned are potential chances for the Indian economy. Increased global competition is India's main challenge. Due to an increase in the cost of crude oil, diesel, and gasoline. This could lead to a rise in the current account deficit and subsequently sluggish economic development. Apart from that, Indians have a wide range of opportunities in front of them. The time is ripe to enter the export market in order to fill a void



in the global market by ensuring their presence in a variety of sectors.

In order to lessen the impact of inflation, the Indian Government now needs to take specific actions when establishing the monetary policy.

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