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**IMPACT OF UKRAINE AND RUSSIA WAR ON INTERNATIONAL
TRADE**

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ABSTRACT

This study examines the effects of the Russia-Ukraine war on the world economy. Ukraine was attacked by Russia on February 24, 2022. It was noted that the day of the invasion saw a sharp decline in stock values. The COVID-19 outbreak and Russia's invasion of Ukraine both contributed significantly to the global rise in food and crude oil prices. The cost of dairy and oils significantly increased following the invasion, which contributed to the increase in the international food price index. Following the invasion, there was an increase in inflation in both the nations that imposed harsh sanctions on Russia and the countries that were not directly involved in the conflict. This was seen in both Russia and Ukraine. Overall, both in the combatant and noncombatant countries, the invasion caused a steady increase in inflation. Even though Turkey and Israel mediated the settlement of the war between Russia and Ukraine, the crisis's economic effects persisted throughout most of Europe and even beyond.

Keywords: *War, Ukraine, Russia, Conflict, sanction, SWIFT, invasion, economic consequence, NATO, Europe, inflation, oil price.*

BACKGROUND OF THE WAR

After the USSR broke up in 1991, Ukraine gained its independence. One of the biggest nations in Europe is Ukraine, which shares a substantial border with Russia. Russia has long been concerned about its security since, as seen in World Wars 1 and 2, significant attacks on Russia have come from the western frontier. Russia was concerned about Ukraine's

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security as a result of its ambition to join NATO, and therefore annexed Crimea in 2014. Additionally, Russia provided help to rebels in Eastern Ukraine's Donetsk and Luhansk areas. Russia acknowledged Donetsk and Luhansk, two rebel-held breakaway areas in eastern Ukraine, as independent states on February 21, 2022. This was a very astute move because, by granting these two regions the status of independent nation-states, Russia gained complete authorization to attack Ukraine under the pretext of assisting the two sovereign states in their fight against the persecution of Ukraine. This is supported by the UN charter's provisions, which permit neighbouring states to step in and assist an independent state that is being oppressed by its enemy upon request. Russia is waging war on Ukraine while disguising its actions as a "Military Operation."¹

II. INTRODUCTION

The COVID-19 epidemic, which started in 2020, was seen by the world prior to the invasion of 2022. Worldwide economic activity was affected by the COVID-19 epidemic (Ozili and Arun, 2020; Ozili, 2021, 2022). In 2022, many nations started to recover from the COVID-19 pandemic's detrimental consequences. The lifting of COVID-19-era limitations occurred in many nations as a result of a notable drop in the number of reported COVID infections and mortality cases in those countries. There was a lot of hope for post-COVID-19 economic growth at the beginning of 2022. Numerous nations stepped up their efforts to combat the COVID-related inflation and promote economic growth. As a result, there was a favourable Peter K. Ozili consequences of Russia's invasion of Ukraine for the world economy 3 outlook for the growth of the world GDP, which was expected to reach 4.4 to 4.9 percent, in 2022, the IMF World Economic Outlook states. On February 24, 2022, Russia unpredictably invaded Ukraine during the same time frame (IMF, 2022). Geopolitical tensions between the West and Russia were exacerbated by the invasion, which also made it harder to predict global growth because of uncertainty about how it would affect the world's supply chain. The study looks into the immediate effects of the Russia-Ukraine war on the world economy and focuses on the first four months following the invasion. Information was gathered from a variety of sources, including trading economics, the World Bank, and central banks. The data were analysed using two-stage least square regression, correlation analysis, and graphic analysis. The results show that on the day of the

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invasion, stock values fell. The global price of food and crude oil increased significantly as a result of both the COVID-19 pandemic and the Russian invasion of Ukraine. Following the invasion, there was a notable increase in the price of oil and dairy products, which contributed to the rise in the world food price index. Following the invasion, there was an increase in inflation in both the nations that imposed harsh sanctions on Russia and the countries that were not directly involved in the conflict. ²

III. The War's Effects on International Trade and Development

- **How has Ukraine's economy been affected by the war**

One of the poorest Soviet republics used to be Ukraine. The developing nation's tremendous, if rocky, progress since gaining independence in 1991 is being undone by the war, severely exacerbating its already dire economic conditions.

Today's economic output in Ukraine is a small fraction of what it was before the war. The nation lost 30–35% of its GDP in the first year of the battle. As a result, Ukraine had its worst recession ever (see Figure 1)². Even if it grows by just 0.5%, its GDP is expected to rise in 2023.

²<https://www.britannica.com/question/Whats-the-background-to-Vladimir-Putins-attack-on-Ukraine-in-2022>.
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²International Monetary Fund (IMF)

The salaries of Ukrainians have drastically decreased. **The World Bank estimates that in 2022, the percentage of the people living in poverty will have increased from 5.5% to 24.2%.** Thus, the war has reversed fifteen years of development by pushing 7.1 million more people into poverty. Furthermore, despite being one of the world's top exporters of crops including wheat, barley, and maize prior to the conflict, Ukraine is currently among the nations with the highest levels of food insecurity. According to estimates from the UN WorldFood Programme, one in three households in Ukraine experience food insecurity; in some areas of the country's east and south, this number rises to one in two.

● **Agriculture**

Farmers are displaced, farms are destroyed, and soil is eroded by war. This is especially harmful in what is referred to as the "breadbasket of Europe." In fact, the agriculture sector's downturn in Ukraine has been particularly detrimental. The world's largest producers of food and agriculture were Russia and Ukraine. Arable farming accounted for five fifths of Ukraine's land area before the war. 14% of the workforce in this extremely fertile nation was involved in agriculture, which also generated \$22.2 billion in export income (45%) (International Trade Administration, ITA, 2022).

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● Refugees

Over six million people have fled Ukraine as a result of the conflict thus far. They leave a sizable void in Ukraine's labour force, having made up about 15% of the country's pre-war population. This migration is probably going to result in a severe labour shortage even after the war ends. However, the world has stood strong with Ukraine. Countries across the globe have imposed punishing sanctions and defensive trade instruments on Russia, and on an unprecedented scale. Before the war, trade as a share of Russian GDP was close to 50%. The wide-ranging trade sanctions seemed sure to weaken Russia's economy significantly and bring the aggression against Ukraine to a halt.

GDP figures for Russia are also likely to mask the cost of the war facing ordinary people. As with Ukraine, the human cost of the war has been devastating with up to 120,000 Russian troops killed, according to US government estimates.

Away from the frontlines, public services may suffer as the government redirects its spending towards military demand. In Russia's 2022 budget, a third of funds were allocated to the military and 'internal security'. Increasingly, this seems to be the main effect of Western policies on the Russian economy.

Analysis of Russia's 2023 public budget suggests that relative to 2022, the government will spend 50% more on 'security' (which includes military activity). This comes with cuts of 9% in health spending, 2% in education spending, 24% in infrastructure spending and 19% in industrial spending.

● The Impact of the war on countries around the world

The sharp cost of living

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. Further cost increases led to inflation rates that far outpaced growth in wages. The global cost of living problem has worsened people's health and wellbeing, particularly

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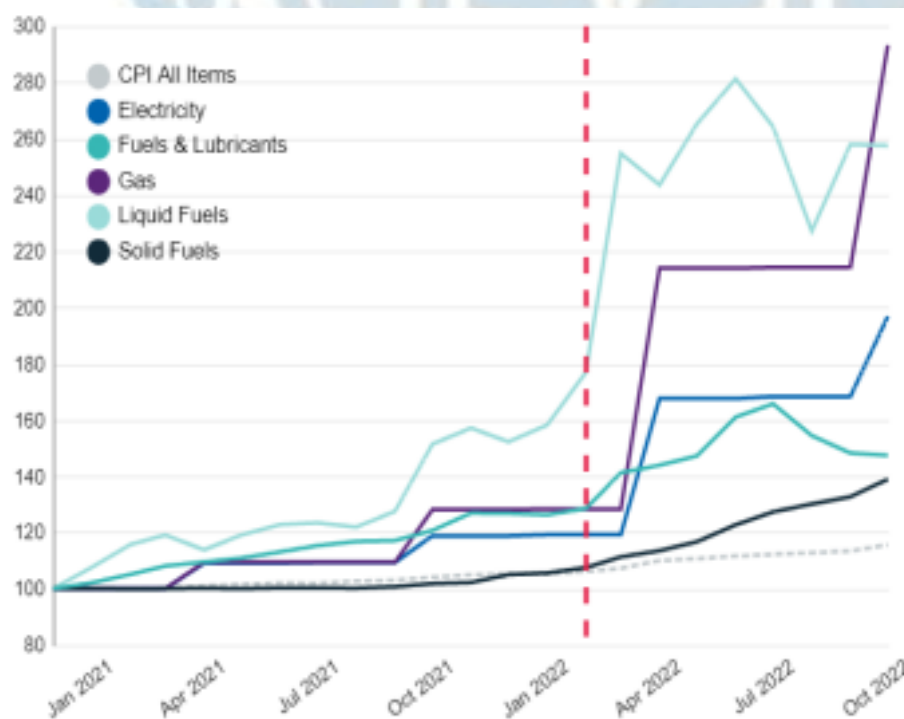
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for the world's poorest citizens, and raised the possibility of famine.

Growing global food insecurity

Global food security has been impacted by the conflict. Together, Ukraine and Russia accounted for more than a third (36%) of global wheat exports prior to the conflict. Additionally, they export about half of the sunflower oil produced worldwide. Unfortunately, early predictions—including those made by the Economics Observatory—that the conflict would worsen food insecurity worldwide have come true. Because they depend more on Russia and Ukraine for the import of grain and gasoline, developing and rising countries have been particularly heavily hit. 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.

● Soaring energy prices



Source: [Office for National Statistics \(ONS\) consumer price inflation](#)

The harsh economic sanctions imposed on Russia have led to additional rises in the price of

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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. The European oil standard, Brent, saw a price surge of about 25% in the first two weeks of the war. Petrol prices in Europe had risen by almost 580% from a year ago by the end of March, though they have subsequently decreased.

Impacts on global financial markets

It is evident that the violence has impacted both consumers and businesses worldwide. Stockmarket data indicates that companies with close ties to Russia, either through ownership or trade, had a significant decline in share values after the invasion. According to a study by the London School of Economics, trade ties with Russia reduced each nation's aggregate stock market index's value by 1.53% on average (see Figure 5). Businesses were dependent on Russia on average by 0.25% prior to the war. This meant, for instance, that a company with a \$1 billion annual production would have \$2.5 million worth of total exports and imports to and from Russia. However, some nations rely on Russia significantly more than others. The nations of Europe have sustained the greatest losses. Trade ties have the greatest impact on East European nations, whereas ownership ties have the greatest impact on West European nations. Conversely, nations like China and the United States that have weaker ties to Russia have suffered less. This implies that the war's long term, global financial effects will be felt most acutely in Europe.

IV. Ukraine and Russia

a. Impact on Russian and Ukrainian exports

The total amount of Ukraine's exports plummeted by 30% between 2021 and 2022. In fact, though, some neighbouring nations—Poland and Hungary, for example—have expanded their procurement from Ukraine, especially with regard to agricultural goods. Grain exports from Ukraine have always been significant. In the same time frame, Russia's exports rose by 15.6%. The primary cause of this was a rise in prices, especially for grains, gasoline, and fertiliser. But the volume of exports might have decreased slightly.

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Russia's largest export decline was to the United States and the United Kingdom, while its highest growth was to China and India. The largest drop was seen in non-complex industrial products such as wood products and steel and complex industrial items like pharmaceuticals and automobiles.

b. Impact on countries dependent

One of the main worries at the beginning of the conflict was the possibility of shortages in goods in which Russia and Ukraine had substantial market shares. Palladium, fertilisers, fuels, sunflower products, wheat, and maize all raised special issues.

Most of these shortages have been prevented. In particular, following early declines in commodities like wheat, global trade volumes essentially stayed at pre-war levels. Prices for the goods most impacted by the conflict increased, but not as much as initially anticipated, which added to global inflation. In 2021, Ukrainian grain sustained approximately 400 million individuals globally. Throughout the initial 5 months of conflict³, Ukraine faced obstacles in exporting its grain via its primary routes in the Black Sea. Consequently, nations reliant on Ukrainian grain endured hardships. Many grain-importing nations in the Middle East and Africa were already grappling with food shortages due to ongoing conflicts and ecological shifts. The Ukrainian conflict exacerbated these food crises. Countries heavily reliant on Ukrainian imports managed to secure alternative sources of provisions. For instance, Egypt witnessed a significant 81% decline in wheat imports from Ukraine during the initial eight months of conflict, but compensated by sourcing from other outlets like the European Union.

Furthermore, there was a notable shift in product substitution. For instance, Türkiye responded to reduced wheat imports by substantially increasing rice imports. This underscores the significance of the multilateral trading framework upheld by the WTO facilitating the flow of trade to regions where it's most needed.

³<https://www.rescue.org/article/ukraine-war-what-are-impacts-world-today>, [accessed on 15th April 2024]

c. Role of trade policy

The relative stability in food prices was largely attributed to countries exercising restraint in implementing export restrictions, a move supported by the WTO. For instance, the Ministerial Declaration on Emergency Response to Food Insecurity, adopted during the 12th Ministerial Conference in Geneva last June⁴, committed WTO members to concrete actions aimed at keeping food and agricultural trade open. Nevertheless, the WTO's Trade Monitoring Reports indicate a rise in export restrictions in the context of the ongoing conflict, emphasizing the need for continued vigilance. Economic simulations conducted by WTO economists underscore the critical role of maintaining a robust multilateral trading system. Previous estimates suggested that a division of the global economy into Western and Eastern blocs would result in an average real income loss of 5.4%. However, updated estimates indicate that further reductions in tariffs and non-tariff measures could yield an average gain of 3.2%, thereby increasing the opportunity cost of fragmentation into rival blocs to 8.7% on average. This issue is particularly pressing for least-developed economies, with opportunity costs potentially reaching as high as 11.3% on average.

In conclusion, two key findings emerge. Firstly, international trade has demonstrated remarkable resilience, aiding countries in adapting to the economic repercussions of the conflict. Secondly, the WTO has played a pivotal role in facilitating this resilience, and there are additional advantages to be reaped from fortifying the multilateral trading framework.⁵

V. Regional and global repercussions

They are evident, with economies in Europe and Central Asia (ECA) significantly affected

⁴WTO. 2022a. Twelfth WTO Ministerial Conference. In: WTO. [Accessed 14th April 2024].

https://www.wto.org/english/thewto_e/minist_e/mc12_e/mc12_e.htm

⁵https://unctad.org/system/files/official-document/ditctab2018d3_en.pdf, 4.2, page 149, [Accessed on 15th April 2024]

due to close ties with Russia and, to a lesser extent, Ukraine. The impact is particularly pronounced in Eastern Europe, the South Caucasus, and Central Asia, where trade, remittance, commodity, and confidence connections are robust. A slowdown in Russia and Ukraine disrupts neighbouring countries via trade, financial, and remittance disruptions, supply chain severances, and digital connectivity issues. Higher energy prices also strain affordability and financial viability of electricity and heating services. Remittances from Russia constitute a substantial portion of GDP in Tajikistan and the Kyrgyz Republic, and are expected to decline due to reduced economic activity and weaker ruble. Furthermore, Russia and Ukraine serve as significant export destinations sources of tourists for ECA economies.

⁶However, outside ECA, direct economic exposure to Russia and Ukraine is limited comprising a small fraction of global GDP, exports, imports, and foreign direct assets. While energy exports from Russia face challenges, the impact on global tourism to reduced Russian tourists is noteworthy.

Overall, trade and financial ties are stronger with the euro area for most ECA economies, with exports to Russia and Ukraine typically constituting less than 5 percent of total exports, and tourists from these countries making up a significant portion of arrivals

VI. India and Russia Relations

When India's External Affairs Minister Subrahmanyam Jaishankar visited Moscow recently, it marked a potential shift in India-Russia relations after a period of cautious diplomacy.

⁷India had previously maintained neutrality in the Ukraine conflict while expanding trade

⁶Global Economic Prospects ,Europe and Central Asia by Yuki Okawa, January 2018, Page 94 [Accessed on 15th April]

⁷<https://thediomat.com/2024/01/india-turns-the-page-on-ties-with-russia-after-ukraine-war/>, by

[Mohamed Zeeshan](#), Published on January 03, 2024, [Accessed on 16th April 2024]

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with Russia, avoiding overt alignment with Moscow. However, recent geopolitical shifts, including US support for Israel amid criticism for its actions in Gaza, have altered the dynamics. Jaishankar's assertive remarks and expanded agenda for talks with Russian officials indicate a deepening partnership, including discussions on multilateralism and military cooperation. Russia's efforts to revive military ties with India present new opportunities for defense collaboration, potentially challenging India's ties with the US. Amidst strained relations with Washington, India may increasingly lean towards Russia, which Jaishankar acknowledges as a historically beneficial relationship, especially considering recent global events shifting strategic priorities. The relationship between India and Russia following the Ukraine-Russia war is undergoing significant shifts, influenced by geopolitical dynamics and strategic considerations. While the full extent of these changes remains to be seen, several trends and potential impacts have emerged.

1. Concerns over Russian Reliability: The invasion of Ukraine has raised concerns in India about the reliability of Russia as a strategic partner. Russia's actions in Ukraine have prompted re-evaluations of its role as a traditional balancer against Pakistan and China. India's dependence on Russian weapons and defence technology is being re-examined amidst uncertainties about future cooperation in this sector.⁸

2. Potential Shift towards the United States: As doubts grow regarding the reliability of Russian arms supplies, India may increasingly turn towards the United States for defense cooperation.⁹ Improving India-US relations and concerns over Russia's alignment with China are driving India's pursuit of alternative strategic partnerships.¹⁰

3. Potential Impact on Multilateral Relations: The evolving dynamics between India and

⁸Carnegie Endowment for International Peace, (<https://carnegieendowment.org/2022/03/16/india-s-tough-balancing-act-in-wake-of-russia-s-war-in-ukraine-pub-88471>)

⁹Brookings Institution, <https://www.brookings.edu/opinions/as-russia-india-ties-falter-over-ukraine-what-are-indias-options>

¹⁰The Diplomat, (<https://thediplomat.com/2022/03/india-russia-relations-after-the-ukraine-invasion/>) The Economic Times, (<https://economictimes.indiatimes.com/news/defence/russia-ukraine-conflict-a-tight-rope-walk-for-india/articleshow/90091647.cms>)

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Russia could have repercussions on multilateral frameworks and regional alliances. India's recalibration of its strategic partnerships may influence its stance within organizations such as the Shanghai Cooperation Organization (SCO) and BRICS.¹³

4. Economic Opportunities and Energy Cooperation: Despite concerns about Russian reliability, opportunities exist for enhancing economic ties between India and Russia, particularly in the energy sector.

5. Impact on Regional Dynamics: A potential shift in India-Russia relations could have broader implications for regional dynamics, including India's relations with other countries such as members of the Quad (US, Japan, Australia), the UK, and regional actors in Asia.¹¹

VII. India and Ukraine

Commerce and Trade Relations Bilateral trade between the two countries has grown significantly in the last 25 years, and in 2018-19, was almost US\$ 2.8 Billion. India is Ukraine's largest export destination in the Asia-Pacific and the fifth largest overall export destination. Main items of export from Ukraine to India are agricultural

Year	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
India's Export	259.11	310.16	330.10	390.80	463.79
India's Import	1,751.10	2,481.47	2,355.97	2,341.03	2,060.79
Total Trade	2,010.21	2,791.63	2,686.07	2,731.82	2,524.58

¹¹The Wire, (<https://thewire.in/diplomacy/ukraine-crisis-india-russia-relationship>)

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products, metallurgical products, plastics and polymers, etc. while pharmaceuticals, machinery, chemicals, food products, etc. are the major Indian exports to Ukraine. A number of Indian companies like Ranbaxy, Dr. Reddy's Laboratories, Sun Group etc. have their representative offices in Ukraine. Representatives of major pharmaceutical companies have also set up an 'Indian Pharmaceutical Manufacturers' Association in Ukraine. Bilateral trade figures in the last 5 years are as follows (in US\$ mn):

VIII. Future Issues

Longer-term implications may see global trade, production, and investment networks fragmenting, leading to shortages and price spikes in key commodities, impacting various industries like food, construction, petrochemicals, and transport. The war and high commodity prices could worsen fiscal challenges in many emerging market and developing economies (EMDEs), prompting measures like subsidies and price controls, which may strain budgets further. Governments may increase defense spending, while sanctions on Russia could prompt a reassessment of reserves management policies. This could lead to the development of decentralized financial technologies and a shift towards diversifying currency reserves and stockpiling precious metals and real assets as safeguards against future crises and supply disruptions.¹²

IX. Conclusion

The Russian invasion of Ukraine poses challenges to the India-Russia relationship, exacerbated by three key trends: decreasing reliability of Russia as a counterbalance against Pakistan and China, improving India-US relations, and reduced Indian dependence on Russian weapons. This may lead to closer Russian alignment with China, raising concerns and prompting a search for alternative partners like the US. However, the impact is not predetermined. Russia's ability to maintain arms ties with India despite sanctions could mitigate short-term diversification efforts. Mutual interests in a multipolar world may sustain some level of engagement, even if arms relations deteriorate. Opportunities exist to

¹²Department of Commerce, Ministry of Commerce & Industry, [Accessed on 17th April 2024]

energy ties, though limitations exist due to geography and sanctions. A decline in the Russia India relationship would impact India's ties with other states, potentially improving with Quad members, the UK, New Zealand, and other regional actors and arms suppliers.



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