



## **THE EFFECTS OF THE RUSSIA - UKRAINE WAR ON GLOBAL TRADE**

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### **Abstract:**

*The Russia's invasion of Ukraine has created a catastrophic humanitarian crisis and threatened the stability of geopolitical relations. The war has added to mounting concerns about a sharp slowdown in global growth, a rise in inflation and debt and a surge in poverty. The economic impact of conflict has rippled through various global channels, including commodity and financial markets, trade and migration links and confidence. The aim of this research is to reveal the effects of the Russia-Ukraine war on the global economy. While examining the economic impacts of the war in the research, the reports of organizations such as OECD, World Trade Organization, World Bank, UN, IMF, UNCTAD were used. According to the reports, it is possible to say that the conflict between Russia and Ukraine will affect the global economy via three main channels: financial sanctions, increase of commodity prices and supply chain disruptions.*

### **Keywords:**

Russia, Ukraine, War, International Trade, Global Economy

### **1. Introduction**

Ukraine's which is in the interest of Russia's close circle deepening relations with EU and NATO disturbed Russia and turned into a crisis, resulting in Russia's intervention in Ukraine in 2014. This intervention went as far as the annexation of Crimea with the occupation of Eastern Ukraine. As a result of these conflicts, firstly Crimea declared its independence by using the right of "self-determination" in a way that caused controversy and then it was connected to Russia with a referendum. In the light of all these developments, on February 24, 2022, Vladimir Putin launched a military operation in the region with the aim of clearing Ukraine from soldiers and Nazism. Putin stated that, they have no intention of occupying the territory of Ukraine and he supported the right of self-determination of the people living there. At the same time, he added that the purpose of the operation was to protect the people of the predominantly Russian speaking Donbas region which was faced humiliation and genocide by the Kyiv regime for eight years. When a literature review is made, the reasons for the intervention are the rapprochement of West-Ukraine, energy security, geopolitical factors, Russian nationalism, the importance of the Crimea and Black Sea fleet and the historical ties.

The purpose of this article is to search the effects of the Russia-Ukraine war on global trade. The war between Russia and Ukraine has triggered turmoil in the financial markets, drastically increased uncertainty about the recovery of global economy. In this article, the effects of the war on the global economy were investigated by using the reports of organizations such as OECD, World Trade Organization, World Bank, UN, IMF, UNCTAD. In brief, according to the results of the research, the conflict between Russia and Ukraine will affect the global economy via three main channels: financial sanctions, increase of commodity prices and supply chain disruptions. In the first part of the article, the reasons behind the scenes of the war are stated, in the second part, the global economic impacts of the war is discussed.

### **2. The Background of the Russia-Ukraine War**

Russia maintains its ability to be the dominant military power in nuclear weapons by controlling the Euroasian geography with its geopolitical structure and territorial integrity (Karabayram, 2007). Russia which is located in a geopolitically important geography has the largest surface area in the world. It is an important raw material and energy exporter with its petroleum, natural gas, copper, iron and many other mine and rich forest resources (Ağır,

2016). In the 1990's Russia entered into an economic transformation with the effect of the economic crisis, lost its former imperialist power and super power in the international arena with the narrowing of its borders, entered into a hot conflict with Chechnya and on the other hand, it faced more independence demands from other autonomous regions included in the federation (Yilmaz, 2006). Regarding for Russia, the countries of the Former Soviet Socialist Republics Union have always been important and the close relations of these countries with international organizations such as European Union (EU) and NATO has caused Russia to be uncomfortable. As for Ukraine, is of special importance to Russia due to both its geopolitical position and its role in Russian history. Ukraine which was joined the Soviet Union in 1922, left the Union in 1991 and became one of the founding members of Commonwealth of Independent States in the following period. Although Ukraine declared its independence after the Soviet Union, it could not achieve a stable political structure in the last period and went back and forth between Western countries and Russia. Ukraine, which followed a distant policy with Russia during the Orange Revolution and Yushchenko period, experienced various crises with Russia due to the sharing of the Black Sea fleet, the energy problem and its rapprochement with Western countries (Bolgün, 2022).

The announcement by the Ukrainian Government that the Association Agreement, which was expected to be signed in November 2013 between Ukraine and EU was suspended, came to the agenda of other countries and turned into a major crisis. This crisis which continued with the annexation of Crimea by Russia, turned into an international problem (Semercioglu, 2016). Ukraine's location between Europe and Russia, its dominance over the Black Sea and the fact they come from the same race make Ukraine to be come into prominence in the immediate surrounding. For this reason, Russia is making moves to prevent Western countries from advancing towards to the Ukraine. Consequently, the rapprochement of NATO and EU with Ukraine disturbed Russia and it caused Russia to intervene Ukraine (Keskin, 2015).

After weeks of protests as part of Euromaidan movement (2013-2014), pro-Russian Ukrainian President Viktor Yanukovich and Ukrainian parliamentary leaders signed a compromise agreement calling for early elections on February 21, 2014. The leaders of the Russian speaking eastern regions of Ukraine declared their continuing loyalty to Yanukovich, leading to pro-Russian unrest. The turmoil was followed by the Donbass war which began with the annexation of Crimea by Russia in March 2014 and the formation of the two Russia-backed separatist quasi states of the Donetsk People's Republic and the Luhank's People's Republic. On September 14 2020, Ukrainian President Volodymyr Zelenskyy approved Ukraine's new National Security Strategy which ensures the development of distinctive partnership with NATO for the purpose of NATO membership. On March 2021, Zelenskyy signed decree approving "the strategy for the de-occupation and the reintegration of the temporarily occupied territory of the Autonomous Republic of Crimea and the city of Sevastopol. On February 24 2022 Putin announced that he had made a decision to launch a military operation in Ukraine. He remarked that there were no plans to occupy Ukrainian territory and he supported the right of the Ukrainian people to self-determination. He stated that the purpose of the operation was to protect the people in the predominantly Russian-speaking region of Donbas who had been facing humiliation and genocide perpetrated by the Kyiv regime for eight years now. Within the minutes of Putin's announcement explosions were begun in Kyiv, Kharkiv, Odessa, and the Donbas region. Immediately following the attack, Zelenskyy announced the introduction of martial law in Ukraine (Wikipedia, 2022).

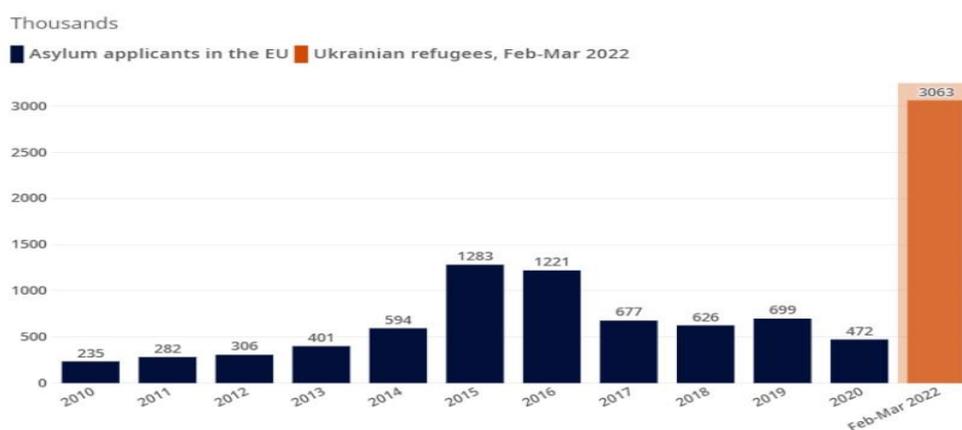
### **3. The Economic Impacts of the War**

The war between Russia and Ukraine is a humanitarian disaster. Moreover, the economic damage is already being felt around the world and threatens to become increasingly severe and protracted. Russia's invasion of Ukraine on February 24 has thrown into question the recovery of growth from pandemic Covid 19 and unleashed catastrophe across the region that has destroyed lives, homes, and infrastructure. The impact has been felt around the world.

Russia and Ukraine are major commodity producers. The disruptions have caused global prices to skyrocket, especially for natural gas and oil. Food costs have also soared with wheat which Russia and Ukraine account for 30 percent of global exports, reaching record levels. The impact of the war will occur through three main channels. First, higher prices for commodities such as food and energy will continue to drive up inflation which in turn will reduce the value of incomes and weigh on demand. Second, neighboring economies in particular will face disruption in trade, supply chains and remittances as well as a historic increase in refugee flows. And third, lower business confidence and greater investor uncertainty will weigh on asset prices, tightening financial conditions and potentially leading to capital outflows from emerging markets (Kammer et al., 2022)

The deep humanitarian crisis sparked by the war has been the most pronounced of the initial global shockwaves and will likely be among the most enduring legacies of the conflict. The war has triggered one of the fastest growing refugee crisis since World War II, with more than 4 million refugees-about half of whom are children-fleeing from Ukraine within about one month of the invasion. An additional 6.5 million people are estimated to be internally displaced within Ukraine, with about one-third of the total population requiring emergency humanitarian assistance (World Bank, 2022)

The below figure indicates the number of the refugees coming from Ukraine from the beginning of the war.

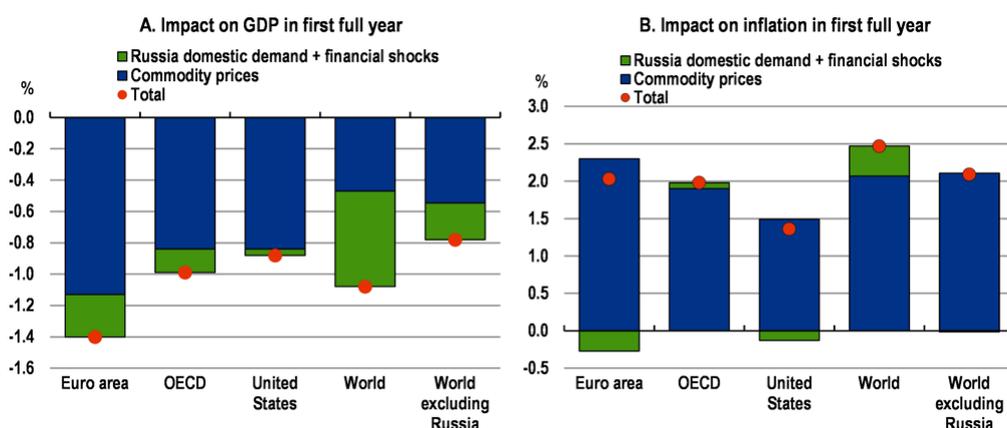


**Figure 1: Refugee Arrivals**

Source: <https://www.oecd.org/economic-outlook/>

Note: Applicants have submitted an application for international protection. Ukrainian refugees between 24 February and 15 March.

During the uncertainty, the OECD estimates that this year global economic growth could be more than 1 percentage point lower than forecast before the conflict, while inflation, already high at the beginning of the year, could be at least another 2.5 percentage points higher in individual countries overall than it would have been without the war. The following chart shows the potential impact on GDP and inflation over the 1 year period beginning 24 February 2022 (Cormann and Boone, 2022).



**Figure 2: The conflict implies a substantial hit to global growth and stronger inflation**

Source: OECD calculations using NIGEM global macroeconomic model. [https://www.oecd-ilibrary.org/sites/4181d61b-en/index.html?itemId=/content/publication/4181d61b-en&\\_csp\\_=56c704db250f23a2bbc31916dc53e922&itemIGO=oecd&itemContentType=book](https://www.oecd-ilibrary.org/sites/4181d61b-en/index.html?itemId=/content/publication/4181d61b-en&_csp_=56c704db250f23a2bbc31916dc53e922&itemIGO=oecd&itemContentType=book)

With Russia supplying about 19% of the world’s natural gas and 11% of its oil, energy prices have skyrocketed alarmingly. Europe in particular is highly dependent on Russian gas and oil. Spot prices for gas in Europe are now more than 10 times what they were a year ago, while the cost of oil has almost doubled in the same period. The price shock risks increasing poverty and disrupting the production of goods and services worldwide. The below figure shows the rise of the energy prices.

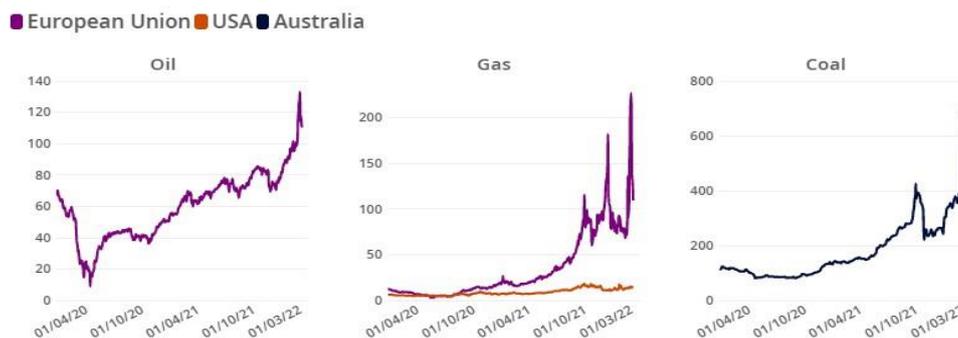


Figure 3: Energy prices

Source: Brent oil prices (USD/barrel), EU TTF and US Henry Hub natural gas prices (EUR/MWh) and coal Newcastle (fob) prices (USD/Mt). <https://www.oecd.org/economic-outlook/>

Russia and Ukraine have an important role on the global economy. Their influence as major suppliers in a number of commodity markets. Russia and Ukraine together account for about 30% of global wheat exports, 20% for corn, mineral fertilizer and natural gas and 11% for oil. In addition, supply chains around the world depend on exports of metals from Russia and Ukraine. Russia is a major supplier of palladium, used in catalytic converters for automobiles and nickel used in steel production and battery manufacturing. Russia and Ukraine are also sources of noble gases such as argon and neon which are used in the manufacture of semiconductors and major producers of titanium sponge which is used in aircraft industry. Both countries also have significant global reserves of uranium. Prices for many of these commodities have risen sharply since the war began, although there have been no significant interruptions in production or export volumes (Cormann and Boone, 2022)

The figure 3 below shows the risen prices of export commodities of Russia and Ukraine beginning from January 2022.

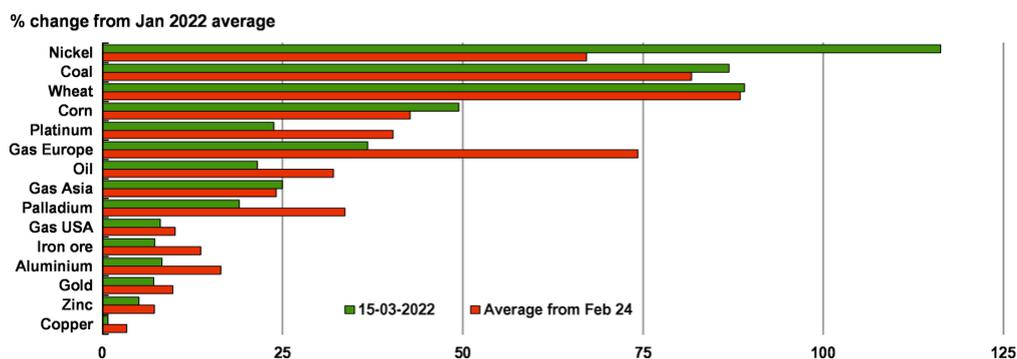


Figure 4: The prices of the principal export commodities of Russia and Ukraine (% change from January 2022)

Source:Refinitiv<https://www.oecd-ilibrary.org/sites/4181d61b-en/index.html?itemId=/content/publication/4181d61b-en>

Russia's invasion to Ukraine has prompted several countries to impose a wide range of sanctions. Russia is now estimated to be the most sanctioned country in the world. By the end of March, financial sanctions has covered about three-quarters of Russia's banking sector assets. The sanctions have restricted Russia's access to global financial markets, including through the removal of seven Russian banks from the Social for Worldwide Interbank Financial Telecommunication (SWIFT) network. Restrictions on the Central Bank of Russian Federation (CBR) are the most damaging sanctions with the freeze of Russia's gross international reserves held overseas inhibiting Russia's ability to meet its financial obligations. Russia has also announced restrictions, including a requirement that European energy imports to be invoiced in rubles. While this has helped to support the ruble, such a move could accelerate Europe's plans to reduce its dependence on Russia's energy and limit Russia's ability to finance exports in the longer term (World Bank,2022). Many international companies are also abandoning the Russian market. Oil and gas exports have yet to be strongly affected by the sanctions, but the crisis could accelerate the global transition towards greener energy sources (World Trade Organization, 2022). Financial sanctions will impact supply chains and trade, as companies will have difficulty to find financial channels through which to manage trade with Russia. In addition to this, the potential destruction of some infrastructure (particularly ports in Ukraine) will exacerbate existing supply chain problems. Disruption to supply chains will come from three sources: 1) Land-based trade routes between Europe and Asia will be disrupted as transit through Russia becomes more difficult or impossible from a compliance, reputational or safety perspective. 2) Air ties between Europe and Russia (and in turn Russia and Europe) will be severely been hampered because of the decision of EU countries to close their airspace to Russian aircraft and cargo. 3) Sea freight routes through the Black Sea will be cancelled for several weeks following Ukraine's decision to shut down commercial shipping (Economic Intelligence, 2022). While Russian airspace is closed to 36 countries and vice versa, some carriers currently recommend not to book overland shipments between Europe and Asia. The war will have a negative impact on global air cargo capacity and increase air freight prices as freight forwarders are forced to take longer routes and spend more money on fuel (UNCTAD, 2022).

According to the United Nations, based on the six indicators of countries exposure to the war's ripple effects on global commodity and financial markets, 1.7 million people in the world live in 107 economies that are severely exposed to at least one of this crisis' three global channels of transmission: rising food prices, rising energy prices and tightening financial conditions (United Nations, 2022).

#### **4. Conclusion**

In February 2022, the world was shocked by the Russia's invasion of Ukraine. The most significant consequence of the war between Russia and Ukraine is the lives lost and the humanitarian crisis associated with the large number of people besieged and displaced. However, there are also many important economic impacts which is affecting all over the world.

Russia and Ukraine are major producers and exporters of key food items, minerals and energy, although they are relatively small output terms. The war has already caused significant economic and financial shocks, particularly in commodity markets where prices for oil, gas and wheat have skyrocketed. Movements in commodity prices and financial markets seen since the outbreak of war, if sustained, could reduce global GDP growth by more than 1 percentage point in the first year, resulting in a deep recession in Russia and push up global consumer price inflation by around 2.5 percentage points. Well-designed and carefully targeted financial support can reduce the negative impact on growth by adding only a small extra boost to inflation. In some countries this could be financed by taxation of windfall profits. On the face of a new negative shock of uncertain duration and magnitude, monetary policy should continue to focus on ensuring-well anchored inflation expectations. Most central banks should carry on their pre-war plans, with the expectation of the most affected economies, where a pause may be needed to fully assess the consequences of the crisis. In the short term, many governments will need to cushion the blow of higher energy prices, diversify energy sources and increase efficiency where possible. Regarding of the food, higher production in the countries, refraining from protectionism and multilateral support for logistics will help the countries most affected by a disruption to supply from Russia and Ukraine. The war has pointed up the importance of minimizing dependence on Russia for key energy imports. Policymakers should reconsider the appropriateness of market design with a view to ensure energy security and create incentives in place to ensure the green transition in publicly supported way. The results of the war confirm a rapidly worsening outlook for the world economy, underpinned by rising food, fuel and fertilizer prices, heightened financial volatility, sustainable development

divestment, complex global supply chain reconfigurations and rising trade costs. During these difficult times, policy makers must fortify macroeconomic policy buffers and institutions to strengthen stability; promote an inclusive and more equal recovery by strengthening social protection systems to protect the most vulnerable, including refugees and maintain focus on improving energy efficiency and the green transition to secure a sustainable future.

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