

GLOBAL ECONOMIC IMPACTS OF THE RUSSIA-UKRAINE WAR

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June 9, 2022

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



The Russia-Ukraine war that commenced on February 24, 2022, came at a time when the world was battling the scourge of the COVID-19 pandemic along with the threats of climate change affecting the lives and livelihoods of people around the globe. However, this conflict reinforced the significance of traditional security challenges that still govern world affairs and are at the heart of states' decision-making.

Besides the immense human-suffering that is being caused due to the ongoing hostilities between Russia and Ukraine (the biggest conflict in Europe since the end of World War 2), this conflict has adversely affected global trade, disrupted international supply chains, increased commodity prices and caused serious implications for economic and food security of small states.

According to the Economist Intelligence Unit (EIU) Global Forecast, the downgrading to European economic growth in 2022 (3.7%) will adversely impact the global economic growth as well which is now estimated at 3.4%.¹ The EIU report further identifies that the ongoing war continues to impact the global economy through 3 channels namely: financial sanctions, commodities prices and supply-chain disruptions.²

1 "Global economic implications of the Russia-Ukraine war", Economist Intelligence Unit (EIU), published on March 03, 2022. <https://www.eiu.com/n/global-economic-implications-of-the-russia-ukraine-war/>

2 Ibid.

Being the main parties to the conflict, Russian and Ukrainian economies are the worst hit. According to World Bank estimates, the Ukrainian economy, since February 24, 2022, has shrunk by 45.1% while the Russian economy has faced a major recession with its output projected to contract by 11.2% in 2022. Inflation in Russia has risen by 14% already.³

Impacts on Global Trade

The World Trade Organisation (WTO) in its report, "Trade Forecast 2022-2023",⁴ has raised alarms regarding the global trade recovery which is at risk due to the Russia-Ukraine conflict and multiple other challenges that might exasperate, especially for smaller countries/economies.

Experts at the WTO had to recalibrate their global economic growth estimations for the year 2022 in light of the Russia-Ukraine war. They have depreciated the global merchandise trade volume (import and export of goods) estimate from 4.7% to 3% for 2022.⁵ This figure is subject to further change due to the uncertainty caused by the conflict in Ukraine. Furthermore, financial sanctions against Russia and the Ukraine war impacted supply chains and global trade negatively. The conflict has disrupted trade routes across all modes (land, sea, air) making global trade highly difficult, time-consuming, complex and costly.

Impacts on Global Commodity Prices

The Russia-Ukraine war is causing serious food and fuel crises globally as the conflict has disrupted supply chains across the world by threatening supply and movement of essential goods including food, energy and fertilisers, especially from Russia and Ukraine. This in turn has led to a shortage of supplies and a sharper raise in commodity prices around the world.

Since Russia and Ukraine are major wheat producers (responsible for more than a quarter of global wheat trade and produce 12% of the world's calories consumed), disruption in sea-trade routes leading from Ukraine and sanctions against Russia will inevitably put pressure on these commodities' prices. The hikes in commodity prices will also mushroom global inflation which the EIU forecasted

3 "Russian Invasion to Shrink Ukraine Economy by 45 Percent this Year", The World Bank, published on April 10, 2022. <https://www.worldbank.org/en/news/press-release/2022/04/10/russian-invasion-to-shrink-ukraine-economy-by-45-percent-this-year>

4 "Russia-Ukraine conflict puts fragile global trade recovery at risk", World Trade Organization (WTO), published on April 12, 2022. https://www.wto.org/english/news_e/pres22_e/pr902_e.htm

5 "Russia-Ukraine conflict puts fragile global trade recovery at risk", World Trade Organization (WTO), published on April 12, 2022. https://www.wto.org/english/news_e/pres22_e/pr902_e.htm

to nearly 6% in 2022.⁶ This estimate is also likely to increase even more given the fresh lockdown in China and further increase in commodity prices. This development will seriously hurt the post-COVID economic recovery of states around the world, especially the developing economies.

EIU estimates that as long as the conflict in Ukraine rages on, oil prices will remain above \$100/barrel. In 2022, gas prices are expected to increase by at least 50%, especially in Europe (due to its heavy dependency on Russian energy).⁷ In March 2022, per barrel price of oil saw an increase of 38% (\$118) as compared to January 2022. As per WTO estimates, natural gas prices in Europe surged by 45% between January and March 2022.⁸ Similarly, prices of several base metals (aluminium, titanium, nickel etc.) have also reached peak levels as due to the Ukraine war. Russia is a major producer of these metals and sanctions against its economy has disrupted trade and supply of these ores., This which in turn has impacted defence, automobile and aviation industries around the globe.⁹

Conclusion

The Russia-Ukraine war has had an extremely negative impact on the global economy which was already devastated from the COVID-19 pandemic. This conflict has created serious challenges and threats for global security in multiple sectors, especially economic and food security. The WTO has warned that low income countries will be impacted the most due to the insecurities created by the Russia-Ukraine war and that this conflict has 'darkened' the prospects for the world economy.¹⁰ The shortage of supplies (mainly food & energy) and increase in commodity prices will severely affect food security, mainly of poor countries that will be forced into even worse conditions if the current situation with regards to the global economy persists due to the Russia-Ukraine war.

Currently, the Russia-Ukraine war is raging on with no apparent end to the hostilities in sight. Thousands of civilians and non-combatants have fallen victim to the conflict already. The only viable option at the moment is to cease hostilities and resolve issues through dialogue and negotiations. It

6 "Global economic implications of the Russia-Ukraine war", Economist Intelligence Unit (EIU), published on March 03, 2022. <https://www.eiu.com/n/global-economic-implications-of-the-russia-ukraine-war/>

7 "Global economic implications of the Russia-Ukraine war", Economist Intelligence Unit (EIU), published on March 03, 2022. <https://www.eiu.com/n/global-economic-implications-of-the-russia-ukraine-war/>

8 "Russia-Ukraine conflict puts fragile global trade recovery at risk", World Trade Organization (WTO), published on April 12, 2022. https://www.wto.org/english/news_e/pres22_e/pr902_e.htm

9 Ishita, Shally, and Sharleen, "Fallout of Russia-Ukraine war: Metal users, producers feel price pinch", Business Standard, updated on March 10, 2022. https://www.business-standard.com/article/markets/fallout-of-russia-ukraine-war-metal-users-producers-feel-price-pinch-122030901484_1.html

10 "Russia-Ukraine conflict puts fragile global trade recovery at risk", World Trade Organization, published on April 12, 2022. https://www.wto.org/english/news_e/pres22_e/pr902_e.htm

is in the best interest of all members of the international community to assist Russia and Ukraine to de-escalate the situation and resolve issues peacefully rather than subjecting to aggression and hostilities, which not only undermines international law, peace and security but also results in massive devastation of infrastructure and global economy, not to mention the loss of precious human lives.