Business, Management and Economics Engineering
ISSN: 2669-2481 / eISSN: 2669-249X
2023 Volume 21 Issue 01

RUSSIA-UKRAINE CONFLICT: RESULT FOR THE INDIAN ECONOMY

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Abstract:
History has demonstrated that following a conflict, markets do recover. History has not taught us how to foretell how a battle will end or what its repercussions will be. The Russian invasion of Ukraine has sent tremors across world markets. Russia and Ukraine produce 37% of the world's palladium, 17% of its natural gas, 13% of its wheat, 12% of its oil, and 9% of its nickel, but they only represent less than 2% of global trade. The supply chain connections and the sanctions on Russia will undoubtedly have an impact on world trade and banking. The main source of worry for the Indian economy is the impact on commodities, especially energy. Rising petroleum costs invariably cause the rupee to lose value, inflation to rise, the budget deficit to widen, and GDP growth to slow. A 10% increase in oil prices is expected to aggravate the current account deficit, slow GDP growth by 20 basis points, and boost inflation by 40 basis points. This article examines the impact of the Russian-Ukrainian War on the Indian Economy.

Introduction:

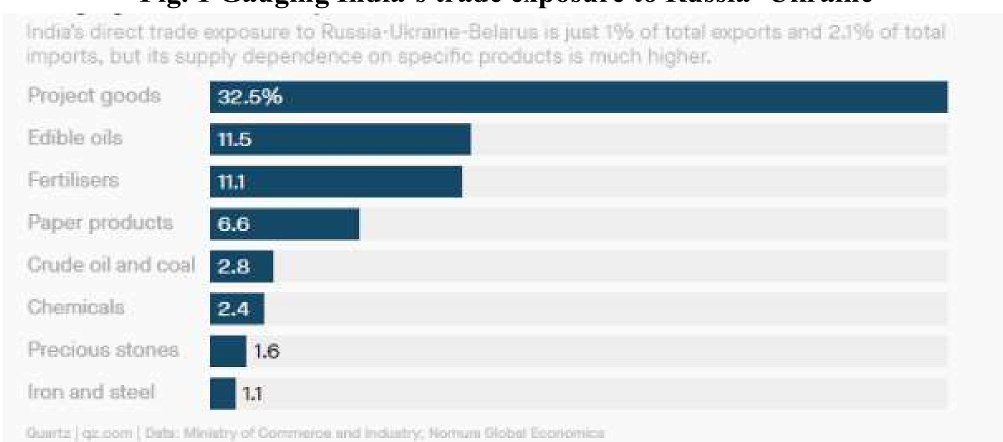
All diplomatic efforts to prevent a future armed conflict between the two nations were unsuccessful when Russia announced a "special military operation" in Ukraine. Researchers have researched Russian combat tactics, and they suggest coercive diplomacy. Along with a moderate ascent the most recent Russian troop deployment and the annexation of Crimea. These serve as living instances of the strategy in action, along with Ukraine. According to AHDB report (2020), the global conflict has gotten worse. Posed a serious threat to European security and slowed down world economic growth in terms of wheat production and other grains. It is weak as a result of the pandemic's recessive effects. What can be considered a likely scenario? A revival of the Cold War is likely to have an economic impact on the West. Internationally, commodity prices have increased while the financial market has contracted. The European region will experience these consequences with extreme polarization. Being net oil importers, most Asian nations will be able to withstand the effects in the long run. However, in a shorter amount of time, the hasty purchases of crude oil will maintain the price per barrel high for a while as a result of the rush to fill up storage capacities, meet rising oil demand, and prevent the beginnings of an energy crisis. India is largely at the centre of the power dynamics that develop throughout and/or after the current war. India is a permanent member of the United Nations Security Council this year, in contrast to the previous Russia-Ukraine quarrel in the Crimea peninsula in 2014–15. According to Anstey (2022) both dismay with New Delhi's lack

of expected support and its initial approach of tacitly criticizing Moscow for violating the territorial integrity of another country are factors in its decision to abstain from voting on the UNSC resolution**.** Abstinence from participating in the conflict could suppress criticism to China's expansionist plans in the Indo-Pacific when India wishes to improve relations with the United Kingdom, the United States, and the European Union. There is an argument going on at the same time. The conflict takes place shortly after India purchased the S-400 missile system from Russia. The Western sanctions will hinder Russia's defence industry by prohibiting technological imports and exports to India. According to Albis et al. (2022) Payment in US dollars is hindered by the absence of two significant Russian banks and their 90 subsidiary subsidiaries from the well-known SWIFT global banking system**.**
With bilateral trade of $2,5 billion in FY 2020–21, India is Ukraine's biggest Asian market for exports. In contrast, the value of bilateral commerce between India and Russia in the fiscal year 2020–21 was 8.1 billion dollars. The Federation of India Exports (FIEO) has advised traders to stop or divert their goods away from the Black Sea route. In addition, the imposition of sanctions will impede international trade and worsen supply shortages.
International rules cannot be avoided in a globalised society, which has a cascading influence on the economy at the national level. Crude oil price increases, turbulence on the financial markets, the potential for growing current account deficits, which would weaken the rupee further against the dollar, and a likely increase in inflation as measured by the WPI-CPI indexes are all having an immediate negative impact on the Indian economy. The current high P/E ratio will have further effects on the stock markets. The continuing sanctions will unavoidably increase oil prices, which were already about $105 on the day Russia invaded Ukraine, the highest since 2014. Russia is the second-largest exporter of crude oil in the world. As per Economic Bulletin (2022) India's current account deficit, which is now at 1.3 percent of GDP, would grow if import costs increased. The RBI estimates that a $10/barrel increase in oil prices has a 49 basis point impact on inflation.

This will cause the budget deficit as a percentage of GDP to increase by 43 basis points. However, if it is passed on to consumers, a $10/barrel increase will lead to a 50 basis point increase in the CPI. Nomura estimates that a 10% increase in oil prices will result in a 0.2% decline in GDP growth and a 0.3% worsening of the current account. According to the Economic Survey, growth is expected in 2022–2023, with an assumed oil price of $75 per barrel. Additionally, the RBI faced pressure to hike interest rates to battle inflation, which will impede economic growth, because its most recent monetary policy announcement did not factor in an increase in oil prices. According to Kroet (2017) the RBI's 4.5 percent inflation target for FY23 appears to be at danger of 90-100 basis points (bps) if oil prices average $90 per barrel and 100-130 bps if oil prices average $100 per barrel, according to comments made by the State Bank of India's group's top economic advisers. Gas prices are expected to increase because Russia is a key natural gas exporter and India imports 55% of its natural gas. The daily adjustment of the price of gasoline, diesel, and natural gas has been suspended because elections are soon to be held in five states.
The gap between selling and cost prices, which industry sources estimate to be over Rs 10/litre due to the current push and international price pressure, has grown. If passed on to consumers, this would result in extremely high inflation that would already be above the Reserve Bank of

India's tolerance shield of 6%. Indian stock markets plunged 3% on February 24 due to the banking sector's inability to avoid the world's turmoil, and it is expected that volatility will continue as tensions escalate. According to Lejeune (2022) & Macchiarelli et al. (2022) the NIFTY dropped 816 points to 16,248 on the same day, while the SENSEX dropped nearly 2,700 points to 54,529, marking the biggest drop in a single day in the index's history. In reaction to the increase in oil prices, foreign portfolio investors switched to sellers and withdrew a net amount of Rs 51,703 crore from Indian equities $177 billion in investments were lost from the Indian market after the SENSEX collapse**.** The firms have remained vigilant and postponed their initial public offerings (IPOs) in response to the depressing market conditions. 90% of India's sunflower oil imports come from Russia and Ukraine in terms of exports. India got 1.89 million tonnes of sunflower oil in 2021, of which 70 percent came from Ukraine. This month, however, not a single shipment has been sent. Our country would experience a setback because it is one of the biggest exporters of pharmaceutical products to Ukraine, and because rising input costs for the auto industry are expected to lead to higher vehicle prices.

Fig. 1 Gauging India's trade exposure to Russia- Ukraine

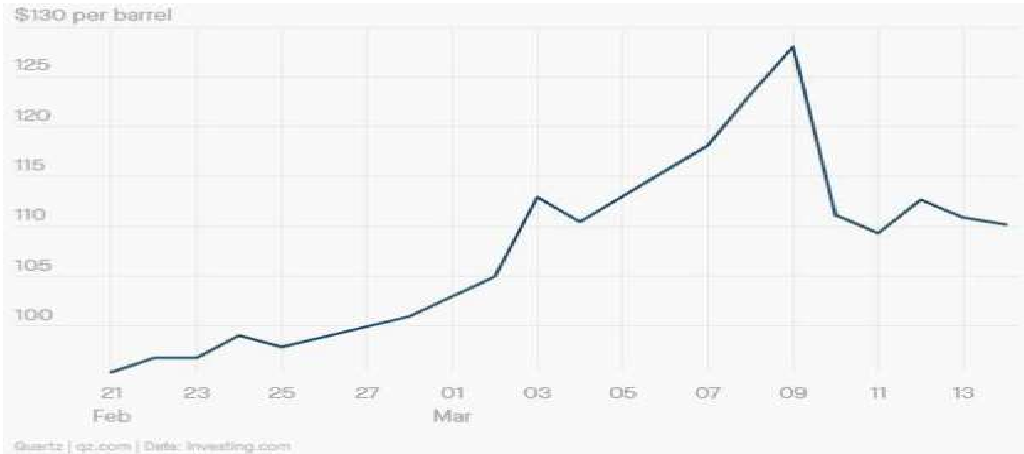


Here are several ways that India could suffer from a war between Russia and Ukraine even if it isn't involved.

Exports of Russian crude are forbidden:

As per Mortimer & Patel (2022) in their two different articles, due to the United States' ban on all Russian oil and gas imports, brent crude prices skyrocketed to nearly $130 per barrel last week, up 43% from the beginning of February.

Fig.2 Brent crude oil prices since Ukraine invasion

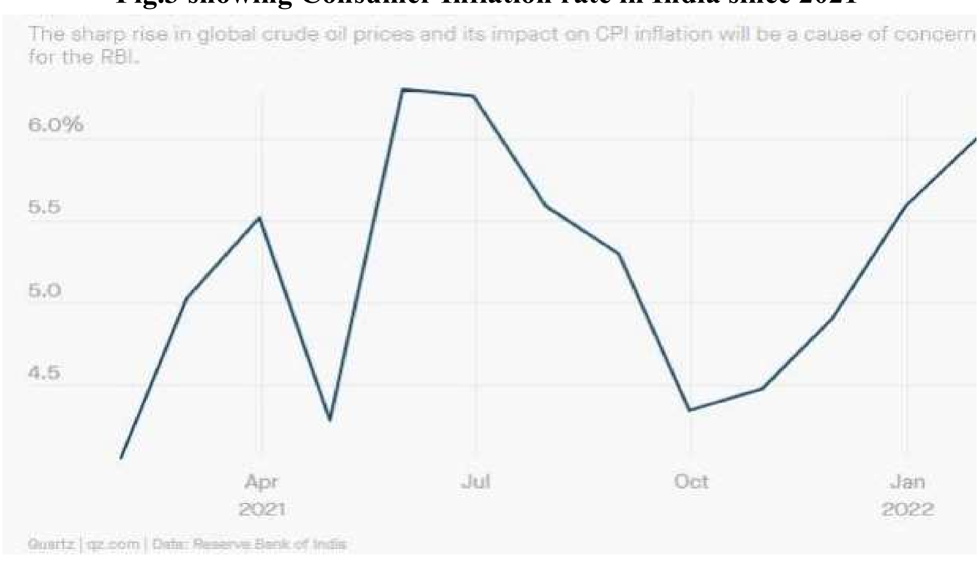


This is a significant setback for the expansion of the global economy because Russia is one of the biggest producers of crude oil. Although only 1% of India's trade is comprised of oil imports from Russia, there may be a knock-on effect in the form of high pricing and sluggish growth. According to the paper, there may be more issues if conditions in the global economy continue to deteriorate and India's export and capital investment cycles are hampered.

Worries about inflation

India imports enough crude oil to satisfy up to 85% of its needs. Wider price pressures have been brought on by the 14-year high in international oil prices. Analysts predict that the impact on India's economy would mostly manifest as rising cost-push inflation, which will have an impact on all economic players, including consumers, businesses, and the government. According to previous research, consumer inflation rises by 0.4 percentage points for every 10% increase in crude oil prices.

Fig.3 showing Consumer Inflation rate in India since 2021



The likelihood that India's import bill would increase and that its current account deficit will worsen as a result has increased (CAD). A study predicts that the CAD will increase from 1.7

percent of GDP last year to 2.6 percent of GDP in the fiscal year 2023. The rupee, which just touched a new low of 76.98 against the dollar, will likely suffer as a result of this.

India's military supplies

According to Frankfurt (2022) since the invasion of Ukraine, India has reportedly abstained frequently from UN votes in order to safeguard its supply of defence technology, the majority of which is supplied by Russia. The Stockholm International Peace Research Institute's statistics shows that between 2016 and 2020, India received about 25% of all Russian weapon shipments. This explains why a sizeable chunk of India's annual budget is allocated to defence spending. In its union budget for 2022–23, India allocated $70.2 billion for military spending, an increase of almost 10% from the initial allocation for the prior fiscal year. One of the most significant defence contracts in doubt is the delivery of the $5 billion S-400 air missile system, which was constructed by Russia. The Congressional Research Service reported in October 2021 that the Indian military requires Russian technology in order to function effectively. According to Ruist (2020) the Russian T-72M1 and T-90S combat tanks, which account for 66% and 30% of all units, respectively, make up the majority of the Indian Army's main battle tank force[i]. India will continue to rely on Russian weaponry in the medium term, despite the US threat of sanctions over the S-400 purchase hanging over it heavily.

Lessons and Advice for India

The gap between the civil and military sectors must be bridged since it is apparent that a nation with a weak military will be unable to defend itself against a technologically superior adversary. It takes professional leadership, not partisanship for one's own gain. According to Silk (2016) it takes professional leadership, not partisanship for one's own gain. Instead of being loyal to the current government or political party, the defence services must uphold the constitution. In conclusion, even though all of the factors are known and Presidents Putin and Xi Jinping have played their cards, OSINT considerations suggest that there will likely be more of a standoff, unless the US and Europe want to engage the Bear and the Dragon in a conflict that will result in mutually assured destruction.

Conclusion

Given the disastrous short-term effects that started to materialise within hours of Russian military taking Ukraine, India's long-term fate in the middle of the ongoing turmoil in international waters is mostly uncertain. The nations may be thousands of kilometres apart geographically, but due to their shared geopolitical and military rivalry, they are close in proximity. Despite being one of the largest exporters and a hub for its students in the occupied country, India's dependence on and relationship with Russia are not hidden in any field. Even the slightest discrepancy might put crucial defence relationships and agreements in danger of being terminated. The potential for transaction and deal completion delays brought on by sanctions against Russia could be seen as a sign of India's vulnerability to Chinese influence. It is far more challenging for India to take a firm position in the West-Russian confrontation.

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