



**ResearchPaper**

# Impact of Russian-Ukraine War on South Asian Economies

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## ABSTRACT

A damaging wave of economic instability has spread around the world as a result of Russia's conflict with Ukraine on political considerations, at a tough moment when most of these countries were recuperating from the pandemic's detrimental effects. This war had a significant impact on South Asian nations since all of them had direct or indirect commercial links with both of the warring powers. The United Nations and the European Union imposed many restrictions on Russian imported and exported goods, which have an impact not just on the Russian economy but additionally on the complete supply chain worldwide. Russia and Ukraine, the world's largest wheat exporters, have had a significant impact on several Import-based economies in Southeast and South-West Asia such as Nepal, Bangladesh, and the Maldives. The widespread assumption across the globe is that Russia has been subjected to international financial sanctions, as well as confiscation of property and possessions. President Putin's billionaire allies will damage the economy of Russia and thwart any additional aggression on Ukraine. Even though the crisis has an effect on the entire global economy, this is a logical argument. As a result, the objective of this study is to analyze how the conflict between Russia and Ukraine in 2022 will affect key global economic players, particularly those countries that have sanctioned Russia in retaliation, including America, Canada, the United Kingdom, India, and Europe. The Social Contract and Interest Group Theories are utilized in this research to shed information about the reasons of the current economic crisis.

**Keywords:** Russia-Ukraine War, Economic Instability, Social Contract, War, Conflict, Interest Group Theories

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## I. INTRODUCTION

Due to Russia's lengthy and obvious hesitation, the issue of Ukraine's sovereignty remained debatable even after the December 1991 Independence vote (Dragneva Lewers & Wolczuk, 2016). Following the collapse of the communist system, former Soviet Union satellites in Eastern Europe have methodically incorporated into Western organizations such as the EU and NATO. Russia, on the other hand, rejected the Maiden Revolution's overthrow of the democratically elected Yanukovich government and escalation of Ukraine's Westernization (Pabris & Kudors, 2015, p.78). The west has often brought up Russia's animosity against Ukraine (Charap & Darden, 2014).

The Indian plate dominates South Asia, which is defined primarily bounded on the south by the Indian Ocean and the Himalayas, Karakoram, and Pamir mountains to the north. Its northern limit is formed by the Amu Darya River. The South Asian Association for Regional Cooperation (SAARC) was founded in 1985 as a transnational economic trade organization integrating the businesses of the 8 South Asian states. The South Asian Association for Regional Cooperation (SAARC) is a South Asian intergovernmental organization and geopolitical union. India, the Maldives, Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka, and Afghanistan are classified as South Asian nations by the World Bank and UNICEF. These nations account for around 5.21% of the global GDP as of 2021. For the most part, the region's climate is known as the Monsoon climate, which greatly benefits and flourishes the region's agricultural sector.

For nearly two decades, South Asia has experienced robust growth, lifting many out of poverty and making significant advances in health and education. This fueled optimism about the next decade's sustained high growth as well as the prospect of living in single-digit poverty towards the conclusion of the term. Indeed the World Bank claims data, economic expansion in South Asian nations climbed from 6.1% to 7.3% Between 2013 and 2016, whereas growth rates in other emerging countries stayed constant or even turned negative. The

World Bank forecasts 6.3% GDP growth in 2020 and 6.7% in 2021. South Asian nations have seen high GDP growth in recent years; however, this is little less as predicted in 2019. The worldwide pandemic of 2020 was the primary reason of this drop. This caused a significant disruption in the region's continued economic expansion, and South Asian economies recovered from the pandemic's effects within the next two years, just like all other nations. The ramifications of invasion on Ukraine by Russia damaged the global economy's recovery phase in the first quarter of 2022. The main goal of the Russo-Ukrainian War, which started in February 2014 and followed the Ukrainian Dignity Revolution, was to establish the boundaries of Crimea and the Donbas.

The conflict in Donbas has persisted since Russia invaded Crimea in 2014. Despite this, the conflict intensified further when Ukraine was hit in form of Invasion by its previous counterpart. The globe which has strongly condemned this invasion as an aggressive act. A General Assembly resolution of the United Nations mandated that Russian forces withdraw completely, and Russia was expelled from the Council of Europe.

Many nations implemented fresh sanctions and prohibited commerce with Russia, severely affecting Russia's and the global economy.

Examination will be done through this study how Russia's move will drift the economy of South Asian countries beyond temporary shortages and supply chain disruptions. Along with this, several South Asian nations' responses and extra difficult economic management tactics throughout the heightened global uncertainties brought on by the Russia-Ukraine crisis have been analyzed. New economic plans have to be changed and drifted and addressed because the impacts of this conflict have already negatively impacted several of the world's biggest economies. Economic downturn in other nations in the south and the consequences of reduced foreign demand and volatile financial market developments, that would result in an increment of individuals living in poverty. India may be using relevant fiscal and monetary policies to regulate household consumption, that Lessons the consequences of inflation.

### **Economic Profile of Russia**

Following Russia's invasion of Ukraine in late February, the economic situation has shifted considerably. In reaction Western Nation and their supporter allies responded to a military takeover lapped unprecedented constraints on Russia. These measures devastated Russia's financial industry, drove the currency plummeting, The Moscow Stock Exchange was eventually suspended. Sanctions included removal of selected SWIFT organizations and the confiscation of Central Bank accounts held due to this fact and external pressure, Russia has stopped engaging in foreign trade, which has affected imports, productivity, and foreign trade. Russia's debt levels have decreased as a result, and as a result, Moody's, Fitch Ratings, and S&P Global have all issued ratings placed it at the extreme south of the pile with an instant creditworthiness. Significantly, the economy will increase with the full effect of the sanctions in Q1 expected in Q2. In recent weeks, public opinion has worsened considerably. International sanctions that are severe will encourage foreign direct investment and currency in Russia. Major impact on the development are forecasted to become further less trustworthy.

### **Ukraine Financial Situation**

On February 24, Vladimir Putin, the president of Russia, gave the order to begin the invasion of Ukraine, which has since continued. To keep up with the military and essential government services, Ukraine authorities has spent approximately \$270 million on military bond sales.

Additionally, the US has authorized USD 6.4 billion in military and armament aid, compared to the EU's \$500 million. However, the economic cost of the conflict is already unprecedented: Martial law looks to be stifling the meagre activity that is present domestically, While the two main agricultural exports of the country wheat and maize, have been severely disrupted, possibly leading to a decline in exports.

As the destruction of crucial infrastructure will have long-term effects, but casualties will be felt in times to come in in the history of both the Nations and specially in country like Ukraine. Seeing the gravity of the issue and the unexpected nature of the conflict, analyzing the recession may take some time. As a result, the economic effect of the war is expected to be severe As more people arrive in the near future come and the death toll climbs. According to Focus Economics, GDP will expand by 8.3% in 2022, down 11.7% from the previous month's average. The organization predicted that by 2023, the GDP will decline by 3.5%.

### **War's effects on The Indian economy as well as the global economy**

Table 1 depicts Russia's share of world crude oil output. According to projections, Russia's crude oil output will account for around 12% of world output. Due to violence, regulations, and an embargo on Russian petroleum products, oil prices have jumped. Transportation will be hampered, causing the price level and expense of life to rapidly rise.

**Table1.Russianparticipationinglobalconsumptionofcrudeoil**

Period	%age
2020	12
2025	11.4
2030	10.6
2035	13.7
2040	11.5
2045	15.6
2050	13.6

*Source-US-EIA*

Russia and India have a substantial trading connection. Comparing the first half of 2021 to year to year period in the previous year, imports from Russia grew by 37.45%. India, meanwhile, has recently seen a 22.8% increase in exports. The significance of India's trade with Russia is illustrated through clear indication that the Russia outnumber its exports to that country.

Despite being hundreds of kilometers from the nearest American city, the economic effects of Russia's invasion of Ukraine will be felt by millions of American families. This is because the global economy and financial markets are inextricably linked. According to a CNN Egan(2022)reporter, RSM economist Joe Brusuel as stated that "the ordinary American household will pay the burden of Vladimir Putin's invasion of Ukraine."

According to the New York Times' Smialek and Swanson (2022), the Russia-Ukraine scenario may have an influence on inflation by raising the cost of food and energy internationally and creating uncertainty in the United States. They contend that trade between two super powers the part of import very little food from Russia, which is the world's largest exporter of wheat, a "commodities crunch caused by a conflict could have knock-on effects that at least temporarily drive-up prices for raw materials and finished goods when much of the world, including the United States, is experiencing rapid inflation." That is to say, even though considering America buys far less oil from Russia than does Europe, any change throughout the price of gasoline in one area of the world would ultimately influence the price of oil elsewhere, including Major super power of the world.

The tension between Russia and Ukraine, according to Ivanova (2022), a reporter for CBS News, has caused the recent increase in oil prices to cause it to "hit an eight-year high. –If the conflict escalates or if US authorities impose "another wave" of sanctions against Russia as expected by analysts, this price increase could not abate. While economists worry that the battle would limit the sum of money that US consumers can use for discretionary expenditure owing to the spike in commodities, Analysts from stock markets of US market indexes would remain volatile for the length of the battle (Ivanova, 2022). RSM predicts that the annual inflation rate could surpass 10% if oil prices reach \$110 per barrel. Overlooked and has not happened since 1981, when inflation peaked at 10%, and not to mention that inflation is the "biggest problem confronting the US economy." A potential scarcity of vital metals such as nickel, aluminum, and palladium in the global supply is fueling inflationary fears in the United States.

## II. METHODOLOGY

The Interest Group Theory and the Social Contract Theory serve as the foundation for this research. Historically, there has been a political philosophy known as The Social Contract. developed by various modern political philosophies, naming few of them like Locke, and Jean Jacques Rousseau (Mbah, 2021a). In his book 'Leviathan,' Thomas Hobbes presents which shows how in order to bring about peace in the State of Nature, which is a chaotic, lawless society where people always live in "fear of death," it enters into a Social Contract.

In this work, we employed a fundamental review and research technique where it is studied many socioeconomic consequences of Russia's Ukraine's incursion. We separated the article into 2 segments and afterwards dissected it into several discussion threads. In the following 1st section as needed. The first portion of the paper comprises the response of South Asia's uniting body of economic and social status, SAARC, to Russia's Ukraine annexation and its influence on the South Asian sector. The 2nd portion of the essay is a thorough looking at the conflict or war's influence on each area of South Asia. We address the economic and social realities in many regions of Asian south which are greatly damaged by the West's trade sanctions against Russia. We also discuss the Sri Lankan economic crisis, which has cast a pall over the rest of Asia.

## III. RESULTS

SAARC encourages member countries to enhance economic and regional cooperation. The devastating impacts of the SAARC officials are deeply concerned concerning the consequences of the Russian- Ukrainian conflict on the South Asian economy. SAARC Chamber of Commerce and Industry President Iftikhar Ali Malik, has warned that the escalating Russia-Ukraine crisis will have a negative collision on the South Asian economy. According to him, the world economy's forecast for 2022 is grim right now, and Asian south is no.

exception. An executive member of the committee of the Lahore Chamber of Commerce named Momin Ali Malik headed a business group that he met with. A large amount of the world's according to the ancient trade leader, supply of oil, gas, and other commodities, comes from Russia and Ukraine.

According to him, South Asian countries' inflation rates had been rising relative to their rivals on the international market before the invasion. Due to the region's net commodity importation, trade relations will have the biggest immediate impact. A subsequent spike and Inflation and its consequences will widen the disparity, increasing regional production costs and decreasing low-wage and energy-intensive businesses' competence. There will be Proportionate effect on South Asian inflation right away, and there will be a secondary effect on growth that will result in stagflation. Depending on how long the conflict lasts, how severe the sanctions the West imposes on Russia are, and how the Russian government reacts, the impact on South Asia will vary.

Russia accounts for around \$13 billion of India's overall commerce. India is the third-largest oil consumer in the world after the US and China, importing more than 80% of its oil needs. In the first 11 months of 2021–22, India and Ukraine's commerce increased to \$3.09 billion from \$2.59 billion. India and Russia regularly trade gemstones, mineral oil, furnaces, nuclear reactors, and commodities. Due to current political situation, this trade is having a cascading effect on the Indian economy also which has to be taken care of.

Although it is clear that Russia, Ukraine, and NATO all wish to safeguard their citizens' lives and property (according to the Social Contract Theory), their separate agendas clash. Russia, which "repeatedly walked away from deals that have held the continent at peace for decades," is threatened by Ukraine's interest in joining NATO. As stated by Antony Blinken, "it continues to take aim at NATO, a defensive, voluntary alliance that protects nearly a billion people across Europe and North America, and at the governing principles of international peace and security that we all have a stake in defending."

Because of this, the value of South Asian economies will vary depending on their trade contacts with Russia and Ukraine and their linkages to the rest of the world's money markets.

#### IV. CONCLUSION

Ultimately, this significant impact on supply chains is accompanied by almost weekly price increases, feeding the inflationary flames. In addition to the uncertainty, it develops market obstacles that hinder the movement of products like grain, oil, and vehicle components. Because of this, millions of businesses and individuals around the globe are experiencing financial hardship. Through trade connections, the invasion had a direct influence on South Asia. Sky rocket prices are the main cause of this, since South Asia is a Russia and Ukraine are both net importers of goods. Commodity price volatility has exacerbated South Asia's economic disparity with its Western counterparts, which drives up the relative cost of manufacturing there and eroding the ability of low-wage and energy-intensive enterprises to compete. Additionally, both the amount of fossil fuel imports and the amount of fossil fuels used to generate energy in the Asian south are significantly higher. As a result, rising inflation rates are another direct effect, and the conflict's indirect impact of slower economic changes in that area—which results in stagflation—is also felt. The longevity of the confrontation, the magnitude of European restrictions placed on Russia, and the Russian retaliation will all have an impact on how South Asian countries are affected.

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