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## “EFFECT OF UKRAINE AND RUSSIA WAR ON INDIAN ECONOMY.”

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### Abstract:

Russia conflict has adversely affected India 's economy is through its negative consequences on trade. India sources resources like coal, oil, natural gas and other commodities such as steel, cotton and wheat from Russia, and imports highly valuable energy sources such as nuclear fuel from Ukraine. The war between Russia and Ukraine has led to disruption in these trade rotations due to increased tariff rates and sanctions, leading to higher prices and diminished availability of these commodities in India. This has, in turn, had spiralling effects on people 's economic well-being and resources. Similarly, the war has also hindered access to reliable and inexpensive communication systems, as the Russian-Ukrainian region contains most of the submarine communication cables in the world that form the backbone of the internet. These cables are essential for the proper functioning of global information technology networks and services, and the war has had serious repercussions on download and upload speeds, data security and other internet-driven services. This has also directly impacted the process of international trade, and has been an issue for India given its reliance on online software and service for conducting business.

**Key word:** Crude oil, inflation Energy Crisis, depreciation, Investment, Defence.

### Introduction:

Background and Introduction After COVID-19 and bull prices during last financial year, India was optimistic towards growth with recovering stock market, improving reserves, picking up of production and manufacturing activates, recuperating market forces of demand and supply, interest rates and volatility getting under control, at least to an extent. However, Russia-Ukraine conflict brought new challenges for India and the whole world. As Russia-Ukraine war began on 24th February and in response US imposed sanctions on Russian economy, the direct impact on Indian economy is on the trade with these nations. However, this has a little influence on India as proportion of trade with Russia is just around 1% of economy's total foreign trade, and that too is in the sector of defines where government can look out for ways to safeguard the deals, to a larger degree. However, the indirect impact of war on Indian economy is significant due to domestic inflation and economic decay caused via market factors such as rising prices of metals and edible oil, depreciation of Rupees, rising crude oil prices, which in turn raises transportation and inter-state movement of commodities, among others. Moreover, most of the indices of the stock market have fallen by more than 10% since 1st February, 2022, with certain short breaks. Brent crude oil prices is expected to skyrocket to around \$115 barrel within the next month, however appropriate estimations about movement of oil prices are difficult to ascertain due to zero-covid policy of China and slackening world demand for oil. This is in turn creating a substantial volatility and uncertainty in the market that is causing considerable hindrances for Indian economy during policy making and future expectations. Economist Jayanth R Verma, member of Monetary Policy Committee (MRC) of Reserve Bank, also stated that inflation is much higher than the stipulated target,

investment has remained subdued during this period of war, and private consumption has not fully recovered, especially considering the challenges faced by Indian economy due to three-year pandemic. With the immediate impact on health, education, manufacturing, service, tourism and other sectors, war may have a short or medium run deteriorating impact on price level, economic productivity, inequality, employment, wages, and demographic dividend, among others. On the other hand, war and subsequent economic sanctions on Russia also presents a window of unlikely opportunity for the Indian agri-exporters, as the world is looking at India to fill the vacuum created in stocks of wheat, maize, millet and other US and Europe's breadbasket. India, still significantly dependent on agriculture and allied activities, sold a record 1.4 million tonnes of wheat in April, and for the first time Turkey has placed an order for 50,000 tonnes of wheat, joining Egypt.

Impact of Russia-Ukraine War on India Economy After World war-II ends in 1945, Russia-Ukraine conflict is probably the largest traditional conflict among human history, not only in terms of days of conflict and implications of military attack causing huge loss of life, infrastructure loss, human rights violations, among others just in Ukraine and Russia, but also because of huge global economic crisis. Having extremely significant trade, diplomacy, nuclear energy, technology, and military relations with Russia, India has taken a neutral stance, with depicting significant concerns for implications of war and calling for resolving issues through diplomacy. However, India, or any other nation in current integrated and inter-connected globalized geopolitical world, cannot remain immune from the ravages of the war. In this study, we analyse the major impacts of war on Indian economy such as impact on Oil Prices, inflation and economic growth, energy and food crisis, as well as impact on Rupees.

### **Objective of the study:**

1. To study the surge of edible oil prices.
2. To Know Inflation and economic growth after Russia and Ukraine war.
3. To study the war crisis between Russia and Ukraine.
4. To identify the factor which carries impact on Indian Economy.

### **Methodology:**

This article is largely store on secondary sources, especially from the daily newspapers and from other various web sources. All the collected and collated information and data are presented systematically thereby meaningful inferences would be drawn. Further, the article relates to the present situation.

### **Review of the Literature:**

A brief review of the findings of the studies on Russia-Ukraine war crisis is presented here under.

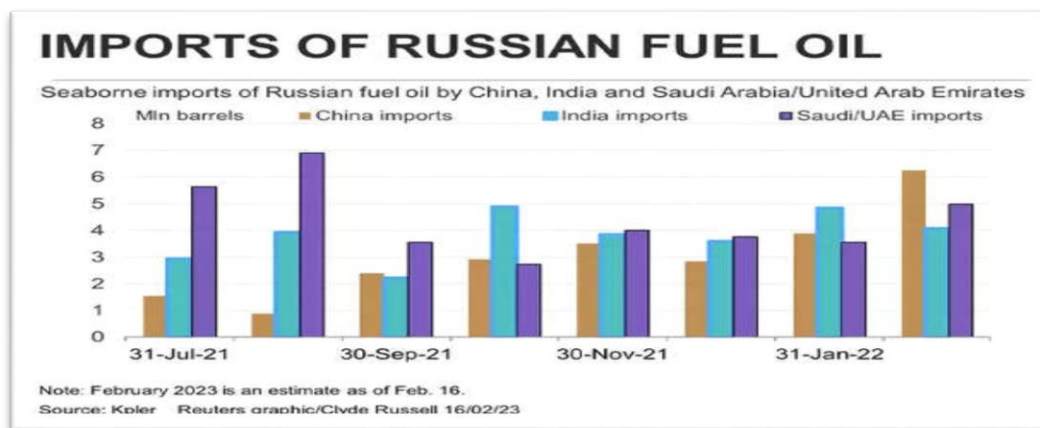
Alfred Kammer and others in their article "How War in Ukraine is Reverberating Across World Regions" threw lights on the Russia-Ukraine war crisis and how it is affecting the global economy.

The study of Mimanse Verma "How will the Russian- Ukraine War Impact the Indian Economy" highlights the war crisis carries a big impact on the Indian Economy, especially the rise of crude oil prices. The supply disruptions would certainly cause the growth of the Indian Economy.

### **1.Impact on crude Oil and Prices:**

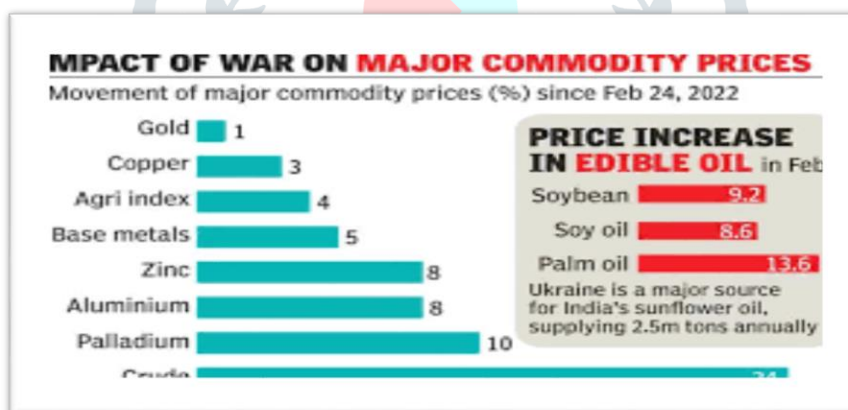
A major part of the world demand, including Indian demand, for crude oil is gratified by the Russia as it is second largest exporters of crude oil, only after Saudi Arabia. However, the Russia-Ukraine war has raised the global prices of Brent crude oil up to \$139 per barrel in March, inflationary, fiscal, and external sector crisis in the Indian economy. On the other hand, the Russian oil prices also fell down from its pre-war level, due to sanctions and boycott of Russia by US and several European economies. In order to understand the impact of conflict on Brent crude oil prices is from the past experience. which later pulled back to around \$107 per barrel. Overall, it has mounted by around 20% from around \$89 per barrel since the war started.

Given the adverse impact of pandemic, the rising oil prices could further worsen the manufacturing, tourism, transportation and allied economic sectors.



**2. Inflation and economic growth:**

Russia-Ukraine war creates a supply shock for the Indian economy. As per a report by financial express Indian manufacturers, with the beginning of verbal assault and expectations of war, have increased the prices of goods in January and early February 2022, well before the actual war started. The oil sector of the economy is deteriorated as a 10% increase in crude oil is likely to increase inflation by 30 basis points. The net impact on inflation could turn to be more structural and complex as high oil prices might create a pass-through impact on other sectors. Conflict has increased the world prices for most of the consumer commodities, with deepened impact on edible oils, wheat and grains, fertilizers, gas, crude oil, and metals.

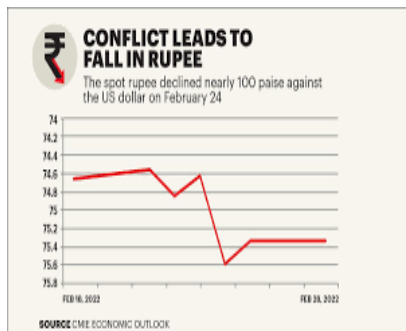


**3. Energy Crisis:**

The real extent of shock is much larger for the real economy as the rate of inflation of fuel prices is much greater than the inflation of crude oil prices, which is significant for framing monetary policies. A report by Bloomberg states that though crude oil is being traded at around \$100 per barrel however, for people not owning oil refinery the real impact on economy is larger as if the crude oil is being traded between \$150 and \$275 per barrel. This is due to the fact that real economy mostly buys refined petroleum products such as petrol, diesel, jet-fuel etc., rather than the crude oil which is majorly purchased only by the oil refineries.

**4. Depreciating Currency:**

Indian Rupees, along with other currencies, are under serious threat of very high volatility due to Russia-Ukraine conflict. Uncertainty and risk facing INR also risen because of current account deficit with rising oil prices as well as sanctions imposed on Russia. Uncertainties related to the currency and economy in general, especially after pandemic, has also shaken the confidence of the investors which may further depreciate rupees as investors take their capital out of Indian economy. As India follows managed exchange rate system, a direct approach for RBI is through releasing some part of record high stock of foreign exchange of around \$598 billion, to control the depreciation of currency and reduce import bills.

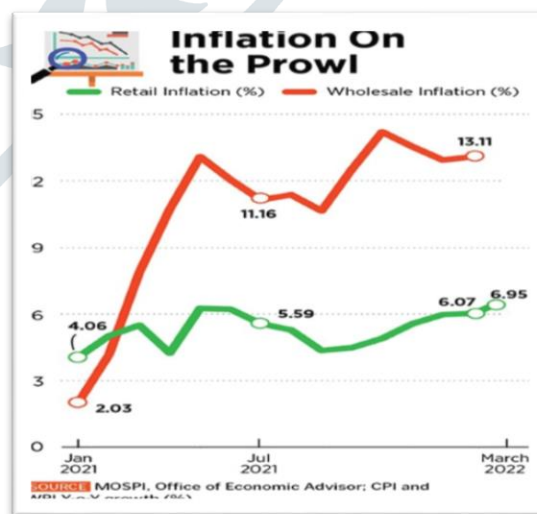
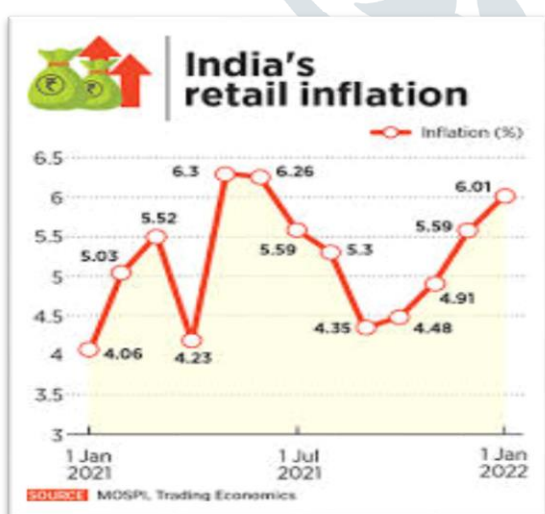


**5.Impact on Trade and Investment:**

India is the second-largest importer of Russian goods, thus the ongoing Russia-Ukraine war has had a direct impact on India’s economic ties with both countries. As the conflict has destabilized the region and reduced the amount of safe and efficient transport routes, the cost of trading between India and Russian or Ukraine-based companies has increased. These increased costs, combined with the geopolitical risks of doing business in a war zone, have discouraged Indian trade and investment in both countries. The conflict has also led to the breakdown of a number of key infrastructure projects in the region. For example, India had planned to build a natural gas pipeline between India and Russia, which would have been a major boon for both countries. Unfortunately, because of the war, the project has been put on hold indefinitely. Additionally, India had been banking on lucrative military contracts with Russia to help boost its own defence industry. Unfortunately, with the current conflict, Russia has been prioritizing its own military needs, leaving India to look elsewhere.

**6.Automobile Sector:**

Ukraine and Russia are amongst the major chip exporters globally. According to a report by Moody Analytics, while Russia supplies the semiconductor industry with important metals such as palladium, Ukraine supplies special gases such as Neon and Helium which are required for chip making. As the ongoing war between Russia-Ukraine escalates, the semiconductor industry is going to bear a massive brunt, with chip-dependent sectors such as the automobile and the IT sectors getting hit badly. Even before the crisis, the world was facing a semiconductor shortage. According to the report, amid the ongoing Russian-Ukraine crisis, the prices for neon gas have surged 10 times, which will potentially impact the manufacturing of automobiles in the Asia-Pacific region.



**7.Impact on Airline:**

The real impact of the situation in Ukraine is yet to be ascertained. From an industry perspective, it will have consequences for international travel. However, domestic travel may not be affected to a great extent. A lot will depend on how quickly the government moves in to open up international travel from here on,” averred partner Deloitte India, Sumit Singhania. However, as brent crude surged to \$105 a barrel at 1630 IST,

up from the previous close at 8.45 per cent, experts warned of a steep rise in aviation turbine fuel (ATF) prices eroding fourth-quarter earnings of Indian carriers. “If crude oil prices stay high for some time, it will impact the overall sector. Thus, one needs to watch out for price volatility in the commodity markets to understand the economic impact of the conflict,” remarked practice leader & director, transport and logistics at CRISIL Infrastructure Advisory, Jagannarayan Padmanabhan. “The consequent rise in ATF prices is an area of concern. But that was not unanticipated as crude prices have been rising steadily over the past few weeks. Fears have been expressed that oil prices could touch the earlier high of more than \$140 a barrel. We, therefore, hope the situation soon deescalates. Thus, the next few days will be crucial,”

Depending on the airline and type of operations, the share of ATF in an Indian carrier’s total operating cost can range anywhere between 25 to 45 per cent. Following the rise in crude oil prices, the cost of aviation turbine fuel (ATF) has advanced 19 per cent to Rs 90,519 per kl from Rs 76,062 per kl on January 1. The high crude prices could lead airline companies to increase fares. “Air ticket prices have to increase or else airlines will have to absorb the cost of the rise in ATF component. We feel that they will have to increase ticket prices as the industry has only recently started recovering from the impact of the coronavirus pandemic. The increase in fares may result in a substantial chunk of leisure and free independent travellers (FITs) shifting to railways,” said CRISIL’s Padmanabhan.

### **8.Impact on Defence:**

Russia, according to the sources, might not be able to deliver the second unit of the S-400 air defence missile systems to India on time due to its military operations in Ukraine and the sanctions imposed by the United States and other western nations on it. However, some training equipment and simulator for the second unit have already arrived. Russia had in December 2021 delivered the first of the five S-400s India procured for \$5.43 billion. there are a host of issues and implications that the Ukraine conflict has raised. Since February 2022, There are multiple implications for Indian defence policy in the face of Russia’s aggression against Ukraine. The first is the growing and deepening compact between Russia and the Peoples’ Republic of China (PRC), which presents worrisome consequences for the Indian defence policy. Notwithstanding, External Affairs Minister, S. Jaishankar’s comment last November that the India-Russia is “steady and time-tested”, Russian dependence on the Chinese for political support and now potentially for weapons to sustain its military offensive against Ukrainian forces means India has some serious challenges to confront given its extensive reliance on Russian arms to defend against adversaries such as Pakistan and more importantly, the PRC.

The increasing proximity between Moscow and Beijing will limit India’s military options and fetter its capacity to credibly prosecute military operations if a war breaks out between India against Beijing or Rawalpindi or both. Secondly, while Indian dependence on the Russian Federation will continue into the foreseeable future, given India’s accumulated inventories of Russian-origin conventional armaments, it is undeniable that India has to wean itself off Russian military capabilities. Several of these Russian weapons systems, such as fighter combat aircraft, long-range artillery, air defence systems and tanks, are likely to continue to be fielded by the Indian Armed Forces for at least for the next two decades. India, today, is fundamentally at a crossroads requiring some sharp choices that should enable it to break free from Moscow’s stranglehold over key military supplies to India. However, this is not exclusively of Moscow’s doing, it is an asymmetric dependence New Delhi has created for itself. A combination of factors explains this excessive dependence on Moscow: India’s inability to secure timely and cost-effective replacements of existing Russian hardware as well as the refusal of alternative suppliers to provide India with the best conventional military equipment on terms that Russia did and secondly, but most importantly, New Delhi’s failure to indigenise military capabilities that meet the requirements of the Indian armed services. Thus, blaming Moscow alone will not overcome India’s military woes, New Delhi has to embark on a deeper programme of indigenisation. New Delhi needs a combination of two shifts: A progressive move away from Russia to meet its conventional military needs and greater investments in indigenous weapon systems. Thankfully, this effort is already underway following the outbreak of the Ukraine Crisis last year, India cancelled or kept on hold several orders

such as MiG-29 fighters for the Indian Air Force (IAF), Mi-17 helicopters, and Krivak Class stealth frigates. India faces serious obstacles with regard to spares for its frontline fighter aircraft—the Sukhoi-30s due to the ongoing conflict between Russia and Ukraine, which has placed serious strains on the Russian aircraft industry to keep its external customers adequately supplied. It is evident that the military hostilities between Moscow and Kyiv are likely to be protracted at a minimum, which will significantly weaken the Russian defence industry. In fact, by backing Ukraine, the West's aim is to gut Russia's defence industry significantly, which should add an impetus or catalyse India's own quest to diversify and indigenise. A progressive move away from Russia to meet its conventional military needs and greater investments in indigenous Weapon system.

### Conclusion:

The Russia-Ukraine war is a big blow to the world economy and created uncertainty in global trade, it has huge impact on, crude oil, cooking oil and other commodities like wheat and corn. They are the big suppliers and exporters of wheat, edible oil and other commodities to the entire world. Thus, the war between Russia-Ukraine adversely affecting the supplies of these commodities in general and more particularly wheat and crude oil. It is noted that Russia and Ukraine are the major suppliers of wheat and cooking oil for the world and accounting together for one fourth of the world exports. Therefore, the conflict between Russia-Ukraine carries huge impact on Indian Economy. So, there is a surge in prices of cooking oil, gas and crude oil. However, in view of the supply disruptions caused the skyrocketed prices of cooking oil and fuel across the world, the international community should come forward and resolve the ongoing conflict through peaceful negotiations and rescue the global economy especially the developing economies.

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