

Impact of Russia Ukrain war on Indian Economy

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ABSTRACT

The Russian invasion of Ukrain in February was the largest conventional military attack seen since world war II which can cause a global economic impact. Indian had taken a neutral stance born of its historic strategic partnership with Russia. Yet this is unlikely to shield India from the ranges of war of such scale. The war has stacked uncertainty in global trade. India may not have a significant merchandise trade with Russia, nonetheless it stands to loose economically due to supply disruptions caused by western sanctions. The combination of supply disruptions and the ongoing terms of trade shock will likely weigh on growth, result in sharp rise in inflation and will lead to a wider current account deficit. The paper explains now India could suffer due to Russia-Ukrain war without being a part of it.

Keywords :- Donbas, Donetsk, Luhans, NATO, Minsk Protocol, Morgan Stanley, T. 72 MI T-90S, EU.

I. INTRODUCTION :

The crisis in Ukraine, in all of its manifestations, is having alarming breakout implications on an already wounded global economy with Covid -19 and climate change particularly in developing countries. Ukrainian and Russian federations are known as breadbasket of world as they provide almost 30% of barley and wheat. almost half of sunflower il and one fifth of the maize. Russian federation is the top natural gas exporter in the world and second largest oil exporter.

The Ukraine crisis has crossed a critical point, with Russia following up its recognition of rebel regions in eastern Ukraine (Donbas Region) Donetsk and Luhansk with a full fledged invasion to demilitarise Ukraine.

While on one hand Russia remains India's biggest and time tested supplier of military hardware, the US the EU and UK are all vital partners that India cannot afford to oppose. In the

present paper we will discuss about the impact of the Russia- Ukraine war on Indian economy.

What is the conflict: Contestation about post cold war central European territoriality and resurrecting a burnished Russian past is at the core of the Ukrain crisis Ukraine and Russia share hundreds of years of cultural linguistic and familial links. For many in Russia and in the ethnically Russian parts of Ukraine, the shared heritage of the countries is an emotional issue that has been exploited for electoral and military purposes as part of the soviet union Ukraine was the second most powerful soviet republic after Russia and was crucial strategically, economically and culturally. The balance of power in the region. Ukraine being a crucial buffer between Russia and the west, Ukraine's bid for NATO membership and Russian interests in the black sea accompanied by the protests in the Ukraine are the major causes of the ongoing conflict:

The current scenario:

The conflict is now the largest attack by one state on another in Europe since the second world war and first since the Balkan conflict in the 1990s. With the invasion of Ukraine, agreements like the Minsk protocols of 2014 and the Russia-MATO Act of 1997 stand all but voided: The G7 nations strongly condemned Russia invasion of Ukraine.

Sanctions have been imposed by the US the European Union (EU) the UK, Australia, Canada and Japan.

- China rejected calling Russia's moves on Ukraine an invasion and urged all sides to exercise restraint.
- India did not join the western power's condemnation of Russia's intonation in Crimea and kept a low profile on the issue Russia's stand. NATO's expansion violated promises made prior to the break up of the soviet union, that

Ukraine's accession to NATO would cross Russia's red lines and that NATO's strategic posture poses a continuing security threat to Russia.

- NATO's expansion as a politico military alliance, even after the dissolution of the soviet Union and the Warsaw pact, was a U.S.'s initiative intended to temper European ambitions for strategic autonomy and to counter Russia's resurgence.
- The Ukraine crisis was justified by the Russian president on the grounds of security interests and the rights of ethnic Russians in former Soviet Republics.
- Russia wants an assurance from the west that Ukraine will never be allowed to join NATO. The US and its western allies are refusing to bar Ukraine from NATO chalking it as a sovereign country that is free to choose its own security alliances.

Impact on India:

- The Russian - Ukraine crisis will send cooking gas, petrol and other fuels bills soaring for Indian households and businesses. Higher oil prices add to freight/transportation costs.
- Depending on how long global oil prices remain elevated, the tensions could raise questions on the RBI's credibility in making inflation projections and upset the governments budget calculations particularly fiscal deficit. The surge in crude oil prices will lead to an increase in crude oil import bills, and gold imports could jump back, keeping the rupee under pressure.
- India's imports of petroleum products from Russia are only a fraction of its total oil import bills and thus replaceable. However getting alternative sources for fertilizers and sunflower oil may not be as easy.
- Exports to Russia account for less than 1% of India's total exports, but exports of pharmaceuticals and tea could face some challenges. Freight rate hikes could make overall exports less competitive.

In reaction to the US ban on all oil and gas imports from Russia crude prices surged to \$ 130 per barrel up 43% from the beginning of Feb. This is a major set back for global economic growth as Russia is one of the largest exporters of crude oil globally. India's trade however comprises of 1% oil imports from Russia but the impact could be in form of high inflation and sluggish growth.

Morgan Stanley lowered India's GDP forecast for the fiscal year 2023 by 50 base points

to 7.9% citing risks to macro stability due to high crude oil prices.

"Even as we expect the cyclical recovery trend to continue, we expect to be softer than we previously projected. We believe that the ongoing geopolitical tension exacerbate external risks and impart a stagflationary impulse to the economy" Therefore the west and other western countries) should push both sides to resume talks and line up to their commitment as per the Minsk agreement to restore relative peace on the border.

India Specific way :

India has to brace itself for some immediate challenges flowing from the Russian action.

- It will have to balance the pressure from one strategic partner to condemn the violation of international law with that from another to understand the legitimate concerns. India managed these pressures during the 2014 crisis of Crimea annexation. It shall again manage it effectively.
- Quantification of the impact at this stage will be difficult but most important is to manage and navigate disruptions created by war so that we have minimum impact on fiscal and deficit levels and we are able to execute the budgetary priorities accorded into 2022-23 budget. India's third largest economy is projected to grow 8.9% in the current fiscal year slower than the previously anticipated 9.2% according to recent govt. data.
- India has entered into a situation of high inflation low growth and high fiscal deficit. In fact India's macro situation is stable and the country is on the path of broad based sustainable recovery. It was noted that more risk could arise if global growth conditions weaken further which would hamper India's export and capital expenditure cycle.

Inflationary Impact:

India depends on imports up to 85% of its crude oil needs. The surge in international oil prices to a 14 year high will now result in broader price pressures.

Analysts conclude that the impact on India's economy will be felt mostly through high cost push inflation weights on all economic agents - household, business and govt. Every 10% rise in crude oil price leads to a 0.4% point rise in consumer inflation. Morgan Stanley pegs retail inflation at 6% for the fiscal year 2023, much higher than the RBI's 4.5%.

This has increased the risks of a higher import bill and in turn a widening of India's current

account deficit (CAP). The CAD is expected to widen to 2.6% of the GDP in the financial year 2023 up from 1.7% last year. This is likely to weaken the rupee which recently plunged to its record low of 76.98 a dollar.

India's defense supplies:

Between 2016 and 2020 India accounts for nearly 25% of Russia's total arms exports according to trends by a defense think tank Stockholm international peace researchInstitute. This explains that share of defense expenditure in India's budget is not little. In its Union Budget for 2022-23 India allocated \$ 70.2 billion on military spending up almost 10% over the initial allocation in the previous fiscal. A key defense contract in question is the delivery of the Russia developed 5.400 air missile system worth \$ 5 billion which was signed in Oct. 2018.

A congressional research service report (Pdf) from Oct. 2021 said the Indian military can not operate effectively without Russian supplied equipment. The India Army's main battle tank force is composed predominantly of Russian T-72 M/ and T-90S accounting to 66% and 30% of all units respectively.

India will continue to rely on Russian weapon system the analysts say despite the S' threat of sanction over the S 400 purchase loome large over India.

As we recover from the covid 19 pandemic the global macroeconomic uncertainties have increased due to the war between Russia and Ukraine.

II. CONCLUSION AND SUGGESTIONS :

It is incumbent on Russia to implement a ceasefire and subsequently for both sides to return to the negotiating table. Escalation is not an option. Minsk peace process revival may be the solution to this problem.

- On the fiscal side the govt. which has been conservative in its revenue assumptions in the budget has the room to cut domestic fuel taxes to nip inflation expectations and sustain India's fragile post covid-19 recovery.
- We need to focus on growth recovery, fiscal sustainability and monetary tightening. Though the war is the major disruption to the process of post covid 19 economic recovery, fiscal consolidation is emerging as a major issue as countries deal with a large deficit and debt, high inflation and uneven economic recovery. Though in the short run necessary flexibility for the creation of fiscal space needs to be provided through higher borrowings there is a

need to return to a sustainable fiscal management for macro stability and growth.

- A balanced approach India Russia ties have ensured that Delhi has not been entirely left out of the conversations on Afghanistan and in central Asia while also providing some leverage with the US at the same time the US, EU and UK are all vital partners and India's relation with each of them and the western world in general go far beyond the sum of their parts.
- Delhi must talk continually to all sides and engage with all of its partners keeping in mind that there is no justification for the violation of any country's territorial sovereignty.
- India must also make it clear to coercing countries their with us or against us formulations are hardly constructive.

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