

# Economic Implications of the Effects of the Ukrainian War

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## Abstract

Without any doubt, beyond humanitarian consequences, Russia's war in Ukraine will have economic implications, some of which we can already see, others will be more obvious soon. The most important effect is on energy and food prices. Energy security remains the "Achilles' heel" of the European economy, given its heavy dependence on Russian energy imports. In this article, we will analyse, among other implications, what is probable to happen in the commodity trading markets and who are the winners and losers from this difficult situation. We will also have a look at capital flows, what are the perspectives of emerging markets from the area. Another aspect taken into consideration is consumer and business confidence, because, despite significant savings accumulated during the pandemic, there will be an important change from the consumer side, which will nevertheless affect the GDP growth. Given the fact that this is an ongoing event, some of the conclusions may be different at the time of presentation.

*Keywords: war economic effects, energy prices, trade and investments, inflation*

## 1. Introduction

The war between Russia and Ukraine could lead to a food shortage, disrupting prices and causing civil unrest. This has happened in the past and has given rise to riots on the part of the population - remember the Arab Spring and the food crisis of 2007 and 2008 (Harrigan, 2014). Even the French Revolution was partly triggered by food instability (Brauch & all, 2012). With the military invasion of Europe's granary, there may have been a shock wave that could provoke protests around the world (Radulescu et al., 2020). It is obvious that what follows is an energy catastrophe for Europe (Bodislav et al., 2021). We remind you that Russia has not yet announced the response package for the restrictions received. With about half of the money supply blocked in foreign banks and being effectively withdrawn from the international financial market, it is quite clear that the match is one bigger than the simple war in Ukraine. From the point of view of the democratic countries, Russia has not many options but the Russian president seems to not have put yet everything on the table, like a poker player. If he loses, Putin loses everything. Also if he wins, Putin's victory will be an absolute disaster for the Anglo-Saxon side of the world and this is probably the thought that animates him. At the same time, it means that all the efforts to stop global warming and support sustainable development will be in vain and we will develop in the next parts why (Bran et al., 2020). Nevertheless, we are living

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complicating times, it is not even a zero-sum game but rather a lose-lose situation for the entire planet (Bodislav et al., 2020). It is difficult for the general public to understand that the sanctions imposed on Russia are a double-edged sword. We see reports of boats of oligarchs arrested in the world's ports (Oltermann, 2022). Although these are small victories against the Russians, it's just that reality has changed a little bit. The third principle of mechanics tells us that when a body acts on another body with a force (called an action force), the second body also acts on the first with a force (called a reaction force) of the same size and in the same direction, but in the opposite direction (Sprunt, 2000). In our specific case, this principle is verified by the facts: the Russians entered Ukraine (action) where they came across the country's army (reaction); the international community has imposed restrictions on Russia (action), and Russia is to make its own decisions (reaction).

**2. Methods**

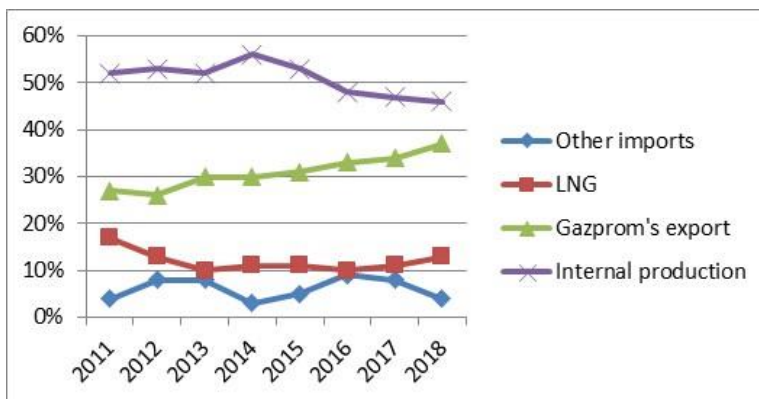
Using descriptive and comparative analysis, we tried to observe and exemplify with real data what the consequences of this war are and what may be the difficulties that the E.U. population will face. We start by analysing some energy indicators like oil, coal and gas producers and their impact on the European market and not only, to show the complexity of the relation between the E.U. and Russian federation. We are looking also at the food sector and cars and chip industry by analysing the palladium market.

**3. Results**

Russia, apart from the devastating atomic bombs and other threats from withdrawing from specific joint programs (e.g. space program), apparently has no other weapon than the energy one.

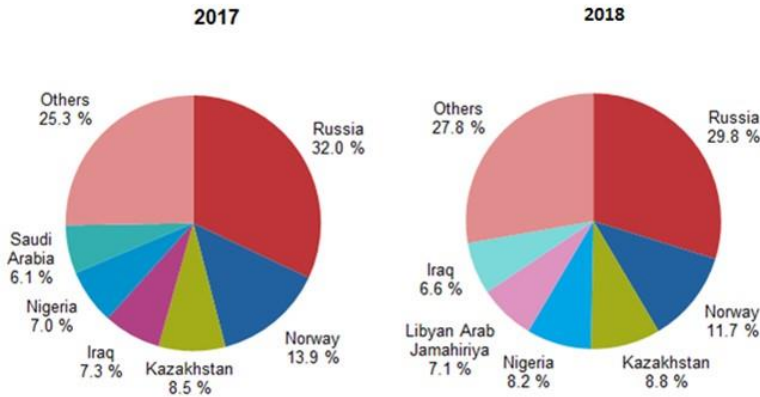
**3.1 Gas and oil**

The calculation is commonplace for everyone: almost 40% of gas, 30% of oil, and almost 50% of Europe's coal are Russian.



Picture no. 1. European Gas Sources  
Sources: Data from Gazprom report (Gazprom, 2019).

It is easy to see that while LNG and other sources of import are stable, the quantity of gas coming from Russia is growing constantly; in the last decade the internal sources are diminishing.

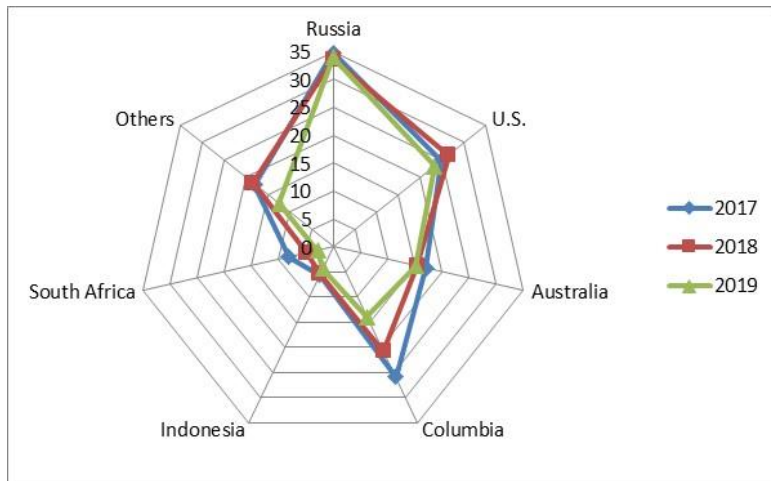


Picture no. 2. EU import of oil from main partners  
Sources: Eurostat database (Eurostat, 2018).

Even though the share of oil coming from Russia into the EU is variable, still we could appreciate that at least 30% of necessary oil is exported by forms Soviet Union.

### 3.2 Coal

Although in 2020 the quantity of coal coming from Russia diminished, mainly because of the EU policy of reducing the coal plants' activity, still we can say without mistake that a large part of the coal importation has the same source.



Picture no. 3. EU coal imports by sources (January – November, ml. tonnes/year)  
Sources: Data from Banchemo Costa, 2020.

As we could see, there is a clear leader regarding the coal exported to E.U., in 2020 the situation continued to be the same, Russia being the source of 41% of total coal imported by the E.U. countries, followed by the U.S. (18%), Colombia (17%), Australia (12%), South Africa (5%), etc. Despite the engagement of Lithuania to interrupt every import of energy from Russia, it is hard to believe that all European countries will follow the example, especially Germany whose industry is strongly dependent on Russian imports.

Given the actual circumstances, it became quite strange that the world is relaying to solve the price oil pick dilemma on Mohammed bin Salman, the crown prince of Saudi Arabia, accused of killing, in Turkey, a Saudi dissident journalist. It looks like all of a sudden, the old principles became less important. The same situation can be observed in the coal energy area. While years in a row, the EU supported the idea of reducing GHG with any price, especially those produced by burning coal, now some EU countries (Poland, Romania, etc.) decide to reopen coal mines, to assure the necessary energy for their internal market. EU breaks taboos and reopens coal mines to reduce dependence on Russian energy; there are not many options on the table on such a short time.

Unable to obtain cash against gas, Russia will most likely stop delivering gas to Europe. It is again a dead end, a blocking movement that will force a radical outcome. Theoretically, former URSS would need Europe's money for another 2-3 years. This is to finance the additional gas pipeline to the Chinese. But it is hard to believe that they will want more European money if there is nothing to do with it. Also, the financing can be done from its own sources in the conditions in which it optimizes its autarchic economy in close-circuit system.

What does everything say so far mean? That Putin has an overwhelming likelihood of shutting down Europe's entire fossil fuel supply. This will create an unprecedented energy shortage in Europe, a kind of scenario that will lead to the collapse of the entire continent. It is very clear that countries will not stand idly by, seeking protection. How will they do that? Most probably, looking from additional sources regardless of price. So probably we expect fabulous price increases. The gas is already trading at an all-time high. The reality that all market participants know is that Russia simply cannot be replaced in the world energy market right now. It is clear to everyone that we are in a very bad setup. It is a match that cannot end at the negotiating table. And that makes all the development so far passable for a shocking war of great proportions.

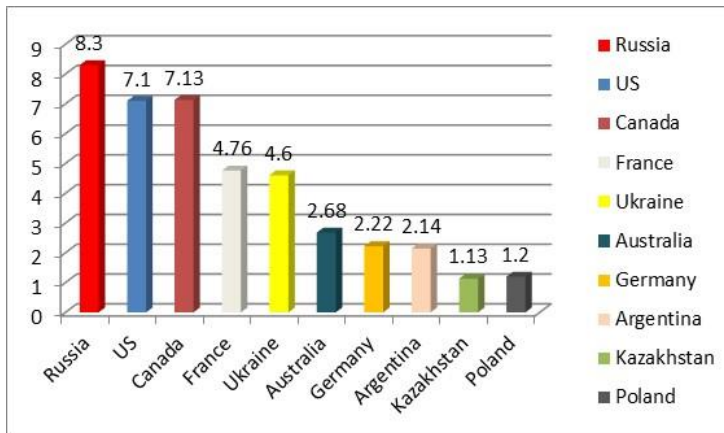
### **3.3 Trade and investment**

If Russia decides to suspend all imports from the EU as part of the countermeasures it could take, it will target goods worth € 80 billion a year, which is 0.6% of the GDP of the "27" EU member states. The countries most affected are Germany, the Netherlands, Italy, Poland, and France (European Commission, 2021). It is also reported that there will be a risk for European investments in Russia, amounting to 311.4 billion euros, the EU being the largest foreign investor in the country. Russia has instead invested a total of 136 billion euros in the EU. As a result, a rift between the two neighbours is likely to have significant negative consequences for both sides - unlike the United States, who's economic and trade relations with Russia are virtually negligible. To all, should be added the confiscation of the valuables of several Russian oligarchs in various countries but they are smart and fast enough to put on shelter their wealth. Probably some

countermeasures will be announced from the Russian side as well soon.

### 3.4 Wheat

It is clear that, because of the war, the world will be confronted with a food prices issue in the next month, especially the countries whose food culture is based on flour and pasta; consequently this aspect will affect the most vulnerable territories. According to OEC, in 2020 Russia and Ukraine exported more than 28% of the world's wheat (OEC, 2021), (Russia – 19.5%, Ukraine 8.97%) and even though some other countries as the U.S. (13.7%), Canada (13.9%) or France (9.26%) seem less affected by the conflict and therefore might take the opportunity to increase their productions, there is not so easy because the time is limited.



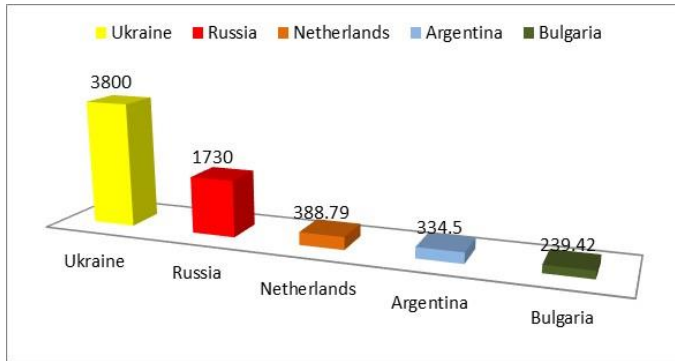
Picture no. 4. Main wheat exporters in 2020

Sources: Data from Observatory of Economic Complexity - OEC.

When we look at the wheat value importers side we could see that Egypt (5.2 bn.), China (3.47 bn.), Turkey (2.44 bn.), Italy (1.89 bn.), Algeria (1.64 bn.) are the main concerned countries and so here are where the first food issues may arrive. Another aspect to be taken into consideration is the value of wheat from total imports for each country; in this case Egypt (with 6.8% from country imports), Tajikistan (6.69%), Soudan (6.24%), Saint Vincent and the Grenadine (5.25%), Algeria (5.24%), etc. Of course, everything is depending on how long the conflict will take and how well these countries are prepared for such crises. Despite the conflict, bizarrely, the sowing of land for this year is 10% higher in Ukraine. Still, there is huge uncertainty regarding the future crops on Ukrainian soil. We have to take into consideration the future destructions of infrastructures (seaports and railways), things that are quite important during the exportation process.

### 3.5 Sunflower oil

But other food products that are so important in every kitchen and even if they may be replaceable by products coming from other sources, still the scarcity of sunflower cooking oil from the market, for example, will create a pressure on all other products prices since it is one of the most consumed vegetable oil all over.

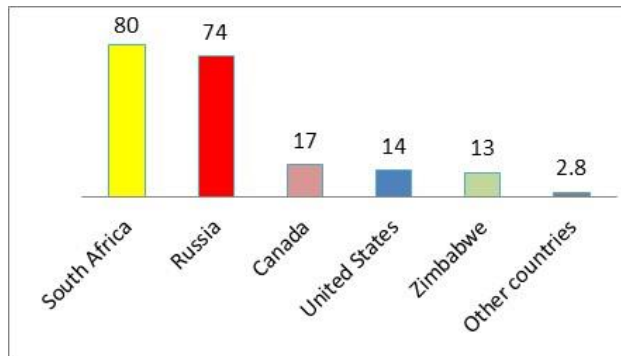


Picture no. 5. Sunflower oil exports. 2019  
Sources: Data from Investmonitor (Leiva, 2022)

As we can see, Ukraine is exporting a lot of agricultural and mineral resources and inevitably the war will bring man human atrocities but it will produce collateral effects as well; countries that were succeeding to run their business as usual with the help of Ukrainian and Russian products, will be forced to rethink their chains of supply, and surely at higher prices.

### 3.6 Palladium

Another crisis that is likely to materialize could focus on several areas, amid rising prices for precious metals, and could be exacerbated if Russia closes exports to the western countries. Russia currently owns 40% of the world's production of palladium, a material widely used in the automotive industry, for catalysts, but also in IT.



Picture no. 6. Global production of palladium by country in 2021 (metric tonnes).  
Sources: Garside, 2022

A palladium crisis would automatically mean an explosion in car prices. In addition, experts expect a chip crisis, which could significantly affect electronics prices. We should maybe think carefully if our laptop, PC, or the car we drive is worth changing now, because, in the wake of the war in Ukraine and sanctions against Russia, we may be witnessing a major production crisis, both in the chip industry as well as in the automotive sector and so affected by problems.

If Putin blackmails the world by banning palladium supplies (Moscow provides 40% of the market), this will virtually lead to the closure of hundreds of car factories around the world. Palladium is used by car manufacturers in catalytic converters to reduce emissions. Without catalysts, no company will be able to sell its cars. Even if it were to be sourced from other sources of palladium, car prices would rise sharply.

The chip industry would also be severely affected, with palladium being used in sensors, memory, and other chips by all major manufacturers, such as Intel, Samsung, Taiwan Semiconductor Corp, etc.

More and blacker clouds are gathering in the global industrial sector, and the effects of blocking extraction chains and deliveries for rare metals are almost impossible to calculate given that we use almost the same way today, electronics and home appliances have become smart, since cell phones, televisions, etc.

Prices would explode and plunge the world economy into an unprecedented crisis. The way out of this crisis, in the context of the lack of predictability in Moscow's decisions, can only take place by increasing production at other producers. Even under these conditions, this will mean higher prices, a new wave of inflation

#### 4. Conclusions

It is very difficult to predict what will happen in the next month. Even though that this war was aimed to be a short one, the Ukrainian people proved to be braver, organised, and patriots that Russian leaders would believe in the beginning. Being helped by the western countries they succeed to oppose vigorously. Still, it is unclear at this moment if the Russian army will fully withdraw or is just a readjustment for the new positions. Putin's army will not leave without a trophy, no matter how powerful other sanctions will be imposed. Most probably, the sanctions will create a stronger link between the Russians and their president. The statistics show that there are more regular people who stand behind and support the war. The medium class (those people who are going to restaurants, cinemas, who are using banking systems or traveling, etc.) is more affected but low-class population, driven by nationalism and populism, is not quite concerned by these sanctions. The consequences of energy rising prices can be seen already in Europe, the Euro area annual inflation, in March 2022, is 7.5%, the energy prices being 44,7% higher than in March 2021 (Eurostat, 2022). How much the European people are willing to accept that their life comfort will diminish. It remains to be seen but for a large majority this is an acceptable price to pay for their liberty. There is no doubt that the world will always find energy sources, the question is how expensive they are.

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