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The Curious Case of Russia-Ukriane War and India's Economic Interests

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Abstract
The WWII had ended with devastation and pulverization of a huge part of earth and humankind. No one had ever imagined that the world would ever witness another war of such scale. However, the Russian invasion of a soon to be NATO country: Ukraine hinted otherwise. The invasion alerted the entire globe pushing it to the brink of a third world war. As a result, Russia was criticized from all directions and multiple international sanctions were imposed on her. Though these sanctions were intended to hurt Russia, they had spillover effects to the whole global economy causing a global downturn and economic catastrophe. Interestingly, despite diplomatic pressures from many nations, India chose to have a neutral stand and abstained from several United Nations resolutions condemning Russian aggression. Still India's such stand could not shield herself from the havoc of war brewing oceans away. As the globalization has erased all borders turning the world into a single market, the smokes of the war soon came to knocks the doors of India. This paper tries to find out the impact of Russia-Ukraine war on India.

Keywords: *Russia, Ukraine, India, War, Invasion, Economy, Sanctions, Trade.*

Introduction

War is something that must be avoided at all costs. Not ending wars will end the humanity. However, all these theories seem attractive only on papers because when a nation act in its interests, all limits and sanity are lost. And when mighty nations wield their powers, all treaties, attractive theories start finding the nearest trashcans. The war of the Russia on the Ukraine on 24th February 2022 and the invasion is the most recent example of the same. Russia's military incursion into Ukrainian territory sent a loud and unambiguous warning of its disapproval with Ukraine's potential alliance with NATO. The conflict, which dates back almost a decade, has resulted in thousands of casualties and millions of civilians migrating to other nations, creating a humanitarian catastrophe. Even though the conflict was constrained to Russo-Ukraine territory, its repercussions were felt throughout the entire world. Considering the economic shares of Russia and Ukraine particularly in Energy and Food, the inflationary pressures in the global economy was inevitable. Russian Central bank reserves were frozen as a result of the sanctions, and the ruble plummeted sharply.

Though India urged for "respect for the sovereignty and territorial integrity of states" and called "for the immediate cessation of violence and hostilities", the neutral position of India is considered as a subtle pro-Moscow position and brought displeasure from all major democracies including US. India's neutral stand makes sense as it is along the lines of historic non-aligned movement (NAM) and also because New Delhi and Moscow share an avowed preference for a more equal, multipolar world. India's position on Ukraine is crystal clear: it will prioritise its own goals over those of the America and its allies in terms of energy, security, economic prosperity, and defence. However, such neutral and balancing stand cannot shield it from the ravages of the war. Globalization makes it impossible to escape international norms, which has a cascading consequence for the economy nationally. And because India became a global economy in 1991 through liberalization, she also had to deal with the effects and destruction of the conflict.

Research Objective

India is the largest democratic country in the world and has a strong foreign policy that is mostly based on the ideals of friendly relations, partnership, and social harmony among all nations around the globe and thus has a special place in International politics. Obviously the war had to impact its healthcare, trade, economy and tourism. This paper tries to account all major impacts on the Indian subcontinent and how it affected Indian economy and trade.

Literature Review:

Teplova et al. (2022) applied a Time-Varying Parameter Vector Auto-Regression (TVP-VAR) model to determine the geopolitical risk on European financial markets and international commodity markets. It was demonstrated how the conflict affected returns, volatility, and the kinds of disruptions which was experienced by Russian bonds and European shares. The Meena (2022) report examined how the Russian-Ukrainian conflict affected the Indian economy. The findings show that it was the biggest military assault to hit the globe since World War I, wreaking chaos and inflicting a disaster. In terms of its geopolitical impact, this conflict caused India and Russia to forge a strong relationship.

Using an event research methodology, Yarovaya et al. (2022) investigated the effects of the Russia-Ukraine crisis on the G20 and a few other chosen financial markets. The outcome showed that both on the day of the event and in the days following it, the conflict between Russia and Ukraine had a large and unfavourable influence. Prices for crude oil increased as a result of the War, and negatively influenced the Rupee currency value. Rupee's decline may have gone worse, but the RBI's open market activities have stopped it (Dutta, 2022).

The difficult predicament India is in is also a result of the slow growth brought on by the Corona pandemic and the lock down (The Statesman, 2022. According to Chortane and Pandey (2022), the conflict had little to no effect on the currencies of the Middle East and Africa, but it had caused depreciation of the currencies of European countries. Dole (2022 said that despite the Indian government's neutral attitude toward Russia and the Ukraine, the conflict had a negative effect on the rupee's value relative to the US currency.

Impact on India's Economy

India is Ukraine's top Asia-Pacific export market, with bilateral trade between the two countries totaling USD 2.5 billion in the fiscal years 2020–21. However, for the fiscal year 2020–21, bilateral trade between Russia and India reached 8.1 billion USD. Further, only 1% of India's trade consists of Russian oil imports, therefore there may be unintended consequences like stagflation and slow growth. According to experts, the effect on Indian industry will mostly be seen through rising cost-push inflation that affects all market participants, including families, companies, and the state.

The Indian economy is likely to experience three different types of effects: direct, which will affect trade between India and both Russia and the Ukraine; indirect, due to changes in the world's commodity and energy markets; and macroeconomic, where policy implementation and business decisions may need to be postponed or altered to deal with any crisis-related fallout. The permutation and combination of this 3X3 matrix will lead to further a worse consequence which is yet to be seen.

Impact on Oil Prices

India is the third-largest buyer of oil after the United States and China, purchasing more than 80% of its needs. Around 2% of India's annual coal and oil imports from Russia are worth USD 1 billion. Compared to India's oil needs, Indian oil companies' billions $ investments in Russian oil reserves are still very small. On the other hand, the 20 million MT per year Nayara Energy of India is owned by the Russian oil giant Rosneft. It has to lead to inflation. Diesel and oil prices have significantly increased, while LPG prices have steadily increased even before the dispute.

The Indian government has now been able to somewhat reduce the price of LPG and fuel. In the discount value record, fuel and electricity are weighted at 13%, while in the consumer price index, fuel and light are weighted at 6.5%. In its most recent report, the IMF increased a suspension of India's monetary growth to 6.6% from 7.2% in 2022, primarily due to changes in oil price assumptions. The key underlying assumption for the GDP growth in the Economic Survey of India from the previous year was that oil costs would be between USD 70 and USD 75 per barrel rather than USD 100. The value of imported fertilisers to India, particularly urea and potash from Moscow, has also increased as a result of the crisis. By doing this, the government will increase its fertilizer support budget by around USD 1.3 billion.

Pharmaceuticals and healthcare sector

Pharmaceutical firms like Dr. Reddy's Labs and Sun Pharma both have branches and manufacturing plants in Russia as well as Ukraine. Apart from that, the list of goods delivered from India to Ukraine and Russia is headed by medicines. In FY 2022 and the first nine months of FY 2023, India's total medication exports remained at USD 19.4 billion and USD 14.4 billion, respectively. The percentage of medicines in India's total products is 6.6% in the fiscal year 2022 and 4.7% in the first nine months of the fiscal year 2023.

While US is the top market of medicines from India, Russia is 4th in the list of medicine markets for India, with a 2.4% share in FY 2022 and a 2.7% share in the first nine months of FY 2023. As a result, Ukraine continues to be a modest market for India, ranking 29th with a share of 0.9% in FY 2022 and 0.8% in FY 2023's first nine months. However, this geopolitical conflict has an impact on many drug organizations.

Further, the conflict in Ukraine hindered medical schools and had an effect on the growth of the health sector both domestically and internationally. Statistics from India, in particularly, claim that prior to the conflict, around 18,000 Indian medical students were registered in healthcare institutions all over Ukrain. Since some Indian students attended Ukrainian medical schools in the east of Ukraine, which was the first portion of Ukraine to be invaded by Russia, these students were among the first to be impacted by the invasion. Indian government has successfully evacuated most of students by Operation Ganga. Significant concerns yet persist because they cannot finish their medical training in Ukraine for the foreseeable future.

Stock Markets

A decline in investor confidence across the field was among the usual responses to the conflict. Global stock markets, including those in India, experienced one of their worst declines since the outbreak. As the battle dragged on, the benchmark BSE sensex dropped below the 51,000 mark, dropping another 15% to 53,035 on 7 March from its 52-week high. Investors started to feel uneasy and choose safe-haven investment. Traders started switching financial assets from stocks to gold-related assets as a result of economic hardship in the stock market, which made them uneasy and lose confidence, which drove price movement of Gold to $2000 per ounce.

However, prompt policy changes aided in a quicker recovery. The BSE sensex experienced an upward trajectory from its most recent low level of 50,921 on June 17 throughout practically all trading sessions. The index finally surpassed the 60,000-mark last Friday after 40 days. It's interesting to note that the sensex recovered 10 60,000 points in fewer days than it did when it dropped from 60,845 points in April to 50,921 points in June. In other words, the sensex increased by 3% in six months while the S&P 500 fell by 2%.

Food Security and agriculture Sector

Russia and Ukraine are two of the world's top producers of fertiliser, oilseeds, and other agricultural products including wheat. Global supply chains will be interrupted, and food prices will rise as a result of the crisis. The EU is expected to see the greatest effects. Rising oilseed prices and disrupted supply chains are likely to have the greatest impact on India. Every year, it imports 2.5 million tonnes of sunflower oil, of which 70% is from the Ukraine, 20% is from Russia, and 10% is from Argentina. Given that around 60% of India's total oil consumption is imported, the government will be compelled to look into every alternative to maintain domestic supply and keep prices stable.

However, the conflict between Russia and Ukraine is also creating an opportunity for some Indian farmers who export agricultural products, mainly wheat, maize, millet, and processed foods. A ban on Russian freight also means that Indian exporters of nuts, confections, and green vegetables will have additional opportunities. As the price of these goods rises to new heights, it created new market opportunities for Indian farmers and exchangers. Almost 15 days after the outbreak of the conflict, wheat from Gujarat, Rajasthan, and Uttar Pradesh were being supplied for between Rs. 2,400 and 2,450 per quintal as opposed to around Rs. 2,100 per quintal. Due to several national infrastructure efforts that are intended to boost employability, labor and salaries are predicted to rise in remote regions. Indian wheat producers are now very able to compete and in a place to substantially fulfill the gap created by Russia and Ukraine due to the surging worldwide prices for wheat.

Tourism Sector

The most current UNWTO statistics from 2020 show that Russian tourists contributed $14 global sales of $12.9 billion (€12.9 billion) and made up 3% of tourism sales. Before the outbreak, $36 billion was generated by Russian visitors. Another $8.5 billion was donated by Ukrainian tourists, according to the World Tourism

Organization information. Since Russian invasion, the state of tourist industry has deteriorated in the nations.
According to data from the Indian Tourism Statistics reports for 2021, the nation received over 2.51 million visitors from Russia and an additional 0.29 million travellers from Ukraine. Due to the ban on flying caused by the Russia-Ukraine war, there were fewer tourists overall in India. The tourism industry had been expanding substantially during the previous 20 years prior to the pandemic. Many nations had succeeded in diversifying. For instance, India draws millions of tourists from all over the world, including over 2.51 million Russians.

Defense Sector:

India's reliance on Russia for defense is well known and serves as the main justification for its consistent response to the crisis in the Ukraine. India's defense stock is credited to Russia to the tune of more than 70%. Delhi is Moscow's biggest source of arms imports, while India is Russia's biggest source of arms exports. Russia supplied 66.5 percent of India's weaponry imports between 2000 and 2020. 35.82 billion dollars of India's $53.85 billion in weaponry imports over that time period went to Russia. The value of imports from Israel was $4.1 billion, while imports from the United States totaled $4.4 billion.
In its budget announcement for 2022–2023, India committed $70.2 billion for military spending, based on a significant defense agreement that was struck in October 2018 and calls for the delivery of the $5 billion S-400 air missile system produced in Russi. The Russian T-72M1 and T-90S combat tanks, which make up 66% and 30% of all units, respectively, of the Indian Army's main battle tank force. Furthermore, despite the US's threat of sanctions over the S-400 purchase hanging over India, the Indian military depends on Russian armaments and cannot work efficiently without them in the coming years.

Foreign Investments

International portfolio investors withdrew more than Rs.1 lakh crore from Indian markets in the first three months after the outbreak of the Russia-Ukraine war, which is Rs. 50,000 crores more than they withdrew over the course of the previous nine months altogether. However, major foreign buyers are once more investing heavily in Indian stocks. They have purchased shares for Rs 16218 crore since August, which contrasts sharply with earlier months when they were solely interested in transferring cash from Indian equities marketplaces.
They experienced a net outflow of Rs. 656771 crore in July. However, compared to earlier months, the outflow in July was significantly lower. For instance, the outflows totaled Rs. 5811237 crore in June. In the first half of this year, Foreign Portfolio investors sold equities worth Rs 2 lakh crore, as well as between October 2021 and June 2022, they liquidated assets worth Rs 2.46 lakh crore.

Rupee Exchange Rate

Because of the war, currency markets have experienced significant volatility. War and sanctions have contributed to currency devaluation, and the rupee has not been exempt. The Russian-Ukrainian War had a negative effect on the value of the Indian Rupee. India's reliance on imported crude oil, cooking oil, fertilisers, and defence equipment has increased the currency's susceptibility to geopolitical shocks. Through open market operations, the RBI has attempted to stop the rupee's devaluation, but this is not a sustainable strategy. India has to turn its current account deficit into a current account surplus. It's vital to reduce needless gold use. Alternative forms of green energy need to be made more accessible and practical.

Positives for India

The US and its several alliance groups made the decision to stop operating in Russia during this conflict. The Society for Worldwide Interbank Financial Telecommunications, or SWIFT, a global organisation with connections to more than 200 nations and 11000+ institutions, opted to sever links with Russia. Due to this circumstance, there is a void that India's own UPI can fill (Unified Payments Interface). The use of UPI has increased significantly over the past few years, and UPI has even advanced to the point where digital payments can now be done without an internet connection. In financial year 2021–22, UPI's transaction volume surpassed $1 trillion. If UPI can cover this gap, it will represent a significant step forward for India's financial sector, taking SWIFT's place in the Russian market.
Also, if India can restart the rupee-rouble trade and turn into Russia's favoured supplier, there is a positive aspect. In order to fill the economic gaps caused by the sanctions and large economies

like India, Russia would have to have their assistance. There will be enough loot to split with China, which will be Russia's preferred choice due to its size and proximity. India must make a concerted effort to entice Russian investment in GIFT City. Compared to investments made in western markets, these investors would find their investments to be much safer and more profitable.

Steel, aluminum, and nickel prices have all increased as a result of the conflict. Indian exporters now have the chance to access Southeast Asia's export market because to the increase in steel prices. Despite being the largest and most cost-effective producer of aluminum in the world, Russia is unable to meet the demand. Additionally, sanctions make the aluminum supply constraint worse. Then, Indian businesses like Hindalco, Vedanta, and Nalco can enter the market and meet their needs. In addition, because metal prices are determined globally and have a bearing on geopolitics, they will continue to be high.

India will be able to continue its export momentum and further integrate into global supply networks thanks to the Russia-Ukraine conflict. India must strengthen the rule of law and the ease of doing business in order to encourage Indian entrepreneurs to take advantage of this chance. Russia diversified its foreign currency assets by purchasing gold as a means of preparing for sanctions. China might easily employ a similar strategy while keeping in mind its long-term goals for Taiwan. Indians will experience a significant increase in wealth if Chinese purchasing helps to maintain gold prices, as they are the largest holders of the yellow metal. Faster development will arise from increased consumption and available funds for investment. Further, since a big number of planes may be subject to rental contracts that are terminated or insurance coverage is halted because the native country is determined to make the sanctions painful, the aviation industry is also shut down in Russia. By providing some assistance and therefore establishing itself in certain industries, India might benefit its friend and thereby enhance foreign exchange rates and income from such activities.

Conclusion

According to US Secretary of State Antony Blinken, the Russia-Ukraine war of 2022 is more significant than a fight between two nations and bigger than Russia and NATO. It is a catastrophe with global repercussions that calls for attention and collaboration on a global scale. The nations may be thousands of miles apart geographically, but due to their shared geopolitical and military rivalry, they are close in proximity. It is evident that this is a war that never should have happened, but it did, and its effects have been and will continue to be enormous.

India has to rely on its "*Aatm-nirbhar*" policy and take a stand which is beneficial for its own interests. The impact of a war of such scale will always be there but India has to play diplomatically for a better future of its own citizens. In the context of this new Cold War, and particularly in light of its relations with China, India should reestablish its international ties. India should be more concerned about its own neighbours than Ukraine. In actuality, for the past two years, when facing the resolve of China, we only received empty talk from the Western nations and silence from Russia.

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