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Impact of Russia and Ukraine War on the Global Economy

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Abstract

Purpose: The study sought to investigate the impact of Russia and Ukraine war on the global economy.

Methodology: The study adopted a desktop methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

Findings: The study concluded that wars and military conflicts drastically reduce the trade among adversaries via embargos or consumers' patriotism, however, after the cessation of immediate military threats and no tension predicted in the future, the trade will slowly recover. Moreover the current Russia Ukraine war is set to dramatically alter the trade of energy, oil, raw supplies and, components and raise the hesitancy of Western consumers. The increased imposition of sanctions has impacted the supply significantly. The opportunity cost of military investment, the humanitarian loss of the financial system, and the burden of repairing post-war damage are vast

Unique Contribution to Theory, Practice and Policy: The study was informed by relative n theory, future studies could benefit from this theory especially in other research context. The study recommended that, Ukraine needs an integrated approach in order to solve all economic and social problems in the country. Only integrated approach will allow to use available Ukrainian resources and advanced European experience to provide economic and social stability of the country.

Keywords: *Impact, Russia, Ukraine, War, Global, Economy.*

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INTRODUCTION

War is a complex concept. In essence, a war is a condition where a devastating fight (armed conflict, economic embargo) occurs between opposing forces of great influence (countries, groups of people), thereby impacting the entities under siege (business and society within opposing forces) and their equivalent stakeholders in business and society outside opposing forces (Johannes,2022).

War arising from armed conflict that is World War I, World War II is arguably one of the most researched subjects among historians. Yet, this form of war, despite its continued manifestation in recent times in Iraq war and Syrian war, remains a rare occurrence in business research as compared to its counterparts such as traditional trade war involving economic sanction that is China–United States (Mandrinou et al., 2022) or contemporary warfare involving a global pandemic especially the COVID-19 (Lim, 2021) or a global agenda especially climate change and poverty (Lim, 2022). Noteworthy, existing research at the intersection of armed conflict and business is predominantly centered on wars prior to the new millennium (2000s), focusing on companies as inventors or producers of game-changing weaponry, war financing, and the taxation of war profits (Lakomaa, 2017).

War emerging from armed conflict in modern time’s remains as a relatively underexplored phenomenon in business research, thereby highlighting a noteworthy gap. Addressing this gap is important to gain a better understanding of the impact of war on business and society (Grossi,2022). Gaining this understanding is necessary so that opposing forces may be better informed on the consequences of war before declaring and engaging in warfare without this understanding, opposing forces may find themselves facing unforeseen circumstances that may lead to regret and a potentially different decision had this understanding been made available or known before the decision was made. Developing this understanding at this juncture is also timely given the recent emergence of an armed conflict between Ukraine and Russia, which began when Russia invaded Ukraine on February 24, 2022, and remains ongoing at the time of writing. International response to the invasion has also been agile and abundant, thereby making this context a fertile ground for study (Dombo,2022)

Russia and Ukraine have long had a close cultural and historical connection that has evolved over the years (Kammer, Azour, Selassie, Goldfajn & Rhee, 2022). This linkage was due to their geographic position but also trade connections (Lichterman, 2022). However, Ukraine has in recent history long been considered an independent country that had a separate political system to Russia. This changed when “on 24 February 2022, the Russian government ordered the entry of military forces into Ukraine territory. With this action, Russia launched a full-scale invasion of Ukraine” Grossi and Vakulenko (2022). This invasion sent shock waves throughout the global community because of its brazen nature but also due to its impact on neighboring sovereign states (Cai et al., 2022).

Russia is wanting to include Ukraine within its territory for a number of geopolitical reasons (Behnassi & El-Harba, 2022). Both countries share a common cultural history although have different political systems. Much of the reason for the potential annexation is around the natural resources including oil and gas that are found in Ukraine, which supply a large percentage of

consumers in the European Union (Johannesson & Clowes, 2022). This means it is strategically advantageous for Russia being a non-European Union member to have control of Ukraine. Another reason is to increase attention on Russia due to the world focus at the moment being centered on China and the United States.

After the war started, millions of Ukrainians fled to other countries resulting in a humanitarian and political crisis. As a result of the invasion, the United Nations passed a resolution on March 2, 2022 that demanded complete and unconditional withdrawal of Russian troops from Ukraine (Alyukov, 2022; Grossi & Vakulenko, 2022). This resolution has not been heeded to as the conflict continues between Russian and Ukrainian forces in the region. Both Ukraine and Russia are careful with the kind of force they are using in the conflict. This is due to the public perception and business implications of such action. Ukraine has received much aid from other countries to help them, but the situation is still ongoing. This has meant the Ukraine/Russia conflict has had a significant impact on economies in the region and the world mostly through gas prices and inflation. As the global community is just recovering from the effects of the COVID-19 pandemic, the conflict is influencing supply chains and energy prices.

Many international organizations have provided support to Ukraine due to the impact of the war on international business (Owens, 2022). This includes the International Monetary Fund providing emergency financing as well as the World Bank providing financing as well as a package called “Financing of Recovery from Economic Emergency in Ukraine.” The reason for this funding has been due to the current and ongoing impact of the war on world stock market returns (Boungou & Yatie, 2022). The European Union provided numerous sources of aid to Ukraine including financial and humanitarian assistance. A solidarity fund for Ukraine was established in order to provide essential services. Due to the strategic location of Ukraine, the European Union increased financing assistance from member states. This helped countries such as Poland and Slovakia that share borders with Ukraine to provide assistance to refugees. In addition, the North Atlantic Treaty Organization (NATO) encouraged the delivery of nonlethal and humanitarian aid. As a result of the conflict, countries close to Russia such as Sweden have expressed interest in joining NATO due to pressure from their citizens to remain an independent country.

This new interest in NATO is due to concerns about Russia's military presence in the region and fear that they might also invade other countries. The strategic entry into Ukraine by Russia means that nations can dominate the global environment due to the amount of oil and gas located in Ukraine. Despite the Ukraine being close to many other European Union countries, there is still a lack of coordinated military effort to stop the conflict due to political concerns. This means that countries can suppress and control smaller nations if there are economic or strategic reasons. As a result of the conflict, some countries have sought new energy suppliers, but this can be difficult given the current business contracts in place. This has led to more nations focusing on renewable energy sources and becoming self-reliant on energy sources so that they do not depend on other countries for their energy supply. Many large companies most notably Ikea and McDonalds have withdrawn from the Russian marketplace that has an impact on the psyche of consumers. These companies' withdrawals are part of the general global boycotts and blockages on Russian-made products and services for the Russian marketplace.

Despite conflicts between countries continually occurring, research on conflict and international business is limited (Chapra, 2011; Curran & Zignago, 2011; Kayed & Hassan, 2011; Sigurjonsson & Mixa, 2011; Teagarden & Hinrichs, 2009). Casson and Li (2022,) state international business “is most productive when it has open and permeable boundaries that allow ideas to be imported from and exported to related disciplines.” An international business perspective is useful to understand the effects of the Ukraine conflict on the global economy. This is due to the international nature of most Russian economic activity and its influence on cross-border cooperation. Although the domestic market is large in Russia, it is the import and export of global goods and services that has a strong effect on gross domestic production.

Statement of the Problem

Majority of impact of war has been articulated from an environmental impact perspective, a war can create a collapse of the forest areas because it can increase the number of people that rely on wood for fuel and bush meat for protein (Draulans & Van Krunkelsven, 2002). Noteworthy, a war can cause or worsen environmental degradation due to deforestation, erosion, habitat destruction, and pollution, among others (Kanyamibwa, 1998). From a public health impact perspective, a war can create a destruction of healthcare systems, a rise of improper sexual practices (e.g., increased sexual atrocities and lack of prophylaxis), and a shortage of food and medical supplies, and thus, adversely affecting public health that is increased health complications, maternal and infant mortality, malnutrition, psychological stress, and sexually transmitted diseases (Ashford & Huet-Vaughn, 1997).

Recent scholars have also issued timely reminders on the impact of war on public health as Russian troops cross into Ukraine (Sheather, 2022; Zaliska et al., 2022). From a social impact perspective, a war can create “a temporary re-organization and re-justification of the role structure of the society, including the shuffling of individuals who occupy those roles that is new members of military recruited from the civilian population (Modell & Haggerty, 1991). Furthermore, a war can also create forced displacement that is family separation, human trafficking, becoming orphaned and leave lasting physical injuries that is physical disability, loss of body part and psychological trauma that is witnessed atrocities, suffered violence for survivors (Bürgin et al., 2022) which may be intergenerational for the latter (Betancourt et al., 2015). The enduring social impact of war is also seen in education that is division of youth according to nationality, religion, or language; unequal positions of certain groups; intolerance towards other nationalities displayed through education materials (Kreso, 2008), posing a threat to the social unity of the future generation. However few studies have been conducted on the impact of war on economic perspective. This study will bridge that conceptual gap and articulate the impact of Russia and Ukraine War on the global economy.

Theoretical Review

This study will benefit from realism theory propounded by Gilpin 1984.

The realist tradition is a multi-faceted one encompassing numerous strands and theories (Gilpin, 1984). Moreover, realism is intended to explain general tendencies rather than specific outcomes (Waltz, 1978). Nor does it offer specific policy advice for individual cases. Offensive versus

defensive realism. Realism is a diverse body of theory, spanning authors from Thucydides in the fifth century BCE to the present, and including theories operating at the individual, state, and system level of analysis (Gilpin 1984). Thus, to say one is applying realism refers only to a general philosophical approach until one specifies what version of realism one is applying. Our study will focus on a central line of debate that has particular relevance to the Ukraine conflict, that between offensive and defensive realism (Rose 1998; Mearsheimer 2013; Lobell 2010; Golovics 2017). These approaches are variants of structural realism (neorealism) (Waltz 1979), which locates the key sources of state behavior in the nature of the international system. Both variants agree that international anarchy means that states have to rely on themselves for survival and that their efforts to provide for their own security invariably make those around them less safe, resulting in a security dilemma.

The essential difference between offensive and defensive realism concerns how difficult it is to avoid war in these conditions. In the offensive realist world rational states pursuing security are prone to take actions that can lead to conflict with others and usually do. In the defensive realist world rational states pursuing security can often afford to be relaxed, bestirring themselves only to respond to external threats, which are rare” (Rose, 1998). Defensive realism stresses that as long as the states themselves do not seek expansion, peace may prevail. In other words, even given the dangers of the anarchic system, it takes an aggressive or dissatisfied state to disrupt peace and start war (Schweller, 1996). As long as states are satisfied with the status quo, they will pursue only enough power to maintain the existing distribution of power, and not try to overturn it. In such conditions, stability will prevail. Because defensive realism finds that satisfied states can generally manage to avoid war, it requires some additional cause for war to occur, and that is usually a state that is not satisfied. Thus, Schweller insists that if one asserts, as Waltz and other realists do, that states seek security or in other words are defensive positionalists then the security dilemma largely disappears, becoming a much more tractable stag hunt or assurance game (Schweller, 1996).

In this view, neorealism overlooks the importance of revisionist goals in driving the security dilemma and conflict (Schweller, 1996). Walt (1985,) argues: Status quo states should therefore avoid provoking countervailing coalitions by eschewing threatening foreign and defense policies. This assertion is especially relevant to post-Cold War Europe, as many feel that the West violated this precept by expanding NATO and the EU, thus provoking Russian reaction (Mearsheimer 2014, Walt 2015, Sakwa 2015). Offensive realism, in contrast, finds that the cautious thing for states to do is to constantly seek more power. Because one can never be fully assured that other states will not seek to use their power, the safest thing always is to get as much as one can. This version of realism retains the traditional realist assumption that the primary state goal is power, rather than the defensive realist assumption that states seek security.

The most well-known advocate of this view in recent years has been John Mearsheimer, whose offensive realism is articulated in his book *The Tragedy of Great Power Politics*: There are no status quo powers in the international system, save for the occasional hegemon that wants to maintain its dominating position over potential rivals. The desire for more power does not go away, unless a state achieves the ultimate goal of hegemon (Mearsheimer, 2001). Why do states behave this way? Why must they be offensive rather than defensive? The answer is that the structure of the international system forces states which seek only to be secure nonetheless to act aggressively

toward each other States can never be certain about other states' intentions. Given this fear which can never be wholly eliminated states recognize that the more powerful they are relative to their rivals, the better their chances for survival (Mearsheimer, 2001).

If one subscribes to offensive realism, the intentions of states do not matter much. States are compelled to pursue power, knowing that others will do the same. However, if one subscribes to defensive realism, then the intentions of the states become essential. Is one or more of the states in the system dissatisfied with the status quo? If so, that dissatisfaction may lead to conflict. While few scholars have explicitly invoked these variants of realism in addressing the Ukraine conflict, the connections are clearly visible, and one goal of this paper is to make them more explicit. Perhaps most interesting is that the perspective of offensive realism has generally been neglected in the study of this conflict.

We have seen relatively little attention to the argument that the anarchic nature of the system was sufficient to cause this conflict. Instead, nearly every analysis directs blame at one side or another in some cases both in explaining the conflict. In identifying the sources of the conflict in Ukraine, defensive realism has dominated. Perhaps the most compelling example of this is the commentary of John Mearsheimer. Mearsheimer advocates offensive realism and his work *The Tragedy of Great Power Politics* stresses the argument that conflict happens even when no one seeks it. Yet on the case of the Ukraine conflict, Mearsheimer (2014) indicts both the West and the interim government in Ukraine for causing the conflict. This fits more closely with the defensive realist school, which argues that under most circumstances, the stronger states in the international system should pursue military, diplomatic, and foreign economic policies that communicate restraint" (Taliaferro, 2000).

Mearsheimer's shift from his general stance of offensive realism to defensive realism on this case, apart from being confusing, has important consequences for policy debates. There is, of course, no requirement that scholars' policy recommendations follow their academic writings. Mearsheimer's critique of the West's policy is less a doctrinaire defense of realism as it is an indictment of liberal internationalism (Mearsheimer 2018). The point, therefore, is not to accuse Mearsheimer of contradiction, but rather to use his academic writings, along with those of others, to explicate the underpinnings of some of the policy prescriptions that are being made. That he happens to be one of the people making prescriptions is somewhat incidental to the argument that realism does not lead necessarily to those prescriptions. Mearsheimer is only one of many scholars and commentators who identify western overreach as the most important cause of the war, and accommodation of Russia as the solution. The theory of realism will shed light to our study by helping the readers understand the cause of the two wars.

Empirical Review

Christine (2022), conducted a study to analyze the short-term effects of international trade interruptions on the economy, considering different isolation scenarios. The hypothetical extraction method and a multi-regional input-output model were used to simulate the economic effects on the production of 189 countries. The results showed that the most affected country is Russia, with a drop in production of 10.1% in the scenario with sanctions from the European Union and 14.8% when the sanctions are also applied by Australia, Canada, Japan, United States, and the

United Kingdom. The European countries with the greatest geographical proximity and strong trade flow with Russia suffers a significant drop in their production, including Lithuania, Latvia, Estonia, Finland, Hungary, and Poland. In Russia, the most affected economic sectors are Re-export & Re-import and Mining & Quarrying.

Ebru (2022), conducted a study on the effects of the Russia - Ukraine war on global trade. The study adopted a desktop research method. Moreover while examining the economic impacts of the war in the research, the reports of organizations such as OECD, World Trade Organization, World Bank, UN, IMF, UNCTAD were used. The study noted that war has added to mounting concerns about a sharp slowdown in global growth, a rise in inflation and debt and a surge in poverty. The economic impact of conflict has rippled through various global channels, including commodity and financial markets, trade and migration links and confidence. According to the reports, it is possible to say that the conflict between Russia and Ukraine will affect the global economy via three main channels: financial sanctions, increase of commodity prices and supply chain disruption.

Lim (2022) research adopted a case study approach to ascertain the impact of war for business and society. The study revealed that war can impact society within that is limit access to basic necessities and monetary resources, increase unemployment and reduce purchasing power, and increase asylum seekers and refugees) and outside (e.g., supply shortage and inflation and threat of false information) as well as business within (e.g., threat of cyberattacks, threat to digital and sustainable growth, and short-term and long-term sanctions and support) and outside (e.g., test of business ethics and moral obligations and test of brand management) war-torn countries.

Stukalo (2017), conducted a study to identify and elaborate social effects of the war conflict in Ukraine and to get understanding of its influence on European stability, on position of Ukraine on European arena. The study was prepared by using such methods as: analyzing Ukrainian and European research papers, comparison and generalization of the facts about war conflict in Ukraine. In the study social consequences of the war conflict in Ukraine, such as migration, unemployment, crime growth, decreasing of population and others were studied. The study concludes that social dimension of the war conflict in Ukraine has its influence on European stability and geopolitical situation, especially Ukrainian migration.

METHODOLOGY

The study adopted a desktop methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

RESULTS

The results were grouped into various research gap categories namely as conceptual, geographical and contextual gap.

Research Gaps

Conceptual Gap

A conceptual gap occurs when desired research findings provide a different perspective on the issue discussed. Stukalo (2017), conducted a study to identify and elaborate social effects of the war conflict in Ukraine and to get understanding of its influence on European stability, on position of Ukraine on European arena. The study was prepared by using such methods as: analyzing Ukrainian and European research papers, comparison and generalization of the facts about war conflict in Ukraine. In the study social consequences of the war conflict in Ukraine, such as migration, unemployment, crime growth, decreasing of population and others were studied. The study concludes that social dimension of the war conflict in Ukraine has its influence on European stability and geopolitical situation, especially Ukrainian migration. The study presented a conceptual as our study will focus on impact of Russia and Ukraine War on the global economy.

Geographical and Contextual Gaps

A geographical gap is the missing piece or pieces in the research literature, is the area that has not yet been explored or is under-explored. Christine (2022), conducted a study to analyze the short-term effects of international trade interruptions on the economy, considering different isolation scenarios applied by Australia, Canada, Japan, United States. The study presented a geographical gap as it was conducted in Australia, Canada, Japan, United States which have a different social economic background our study will focus on super power countries sanctions on other countries.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The study concluded that wars and military conflicts drastically reduce the trade among adversaries via embargos or consumers' patriotism, however, after the cessation of immediate military threats and no tension predicted in the future, the trade will slowly recover. Moreover the current Russia Ukraine war is set to dramatically alter the trade of energy, oil, raw supplies and, components and raise the hesitancy of Western consumers. The increased imposition of sanctions has impacted the supply significantly. The opportunity cost of military investment, the humanitarian loss of the financial system, and the burden of repairing post-war damage are vast.

Recommendations

The study recommended that, Ukraine needs an integrated approach in order to solve all economic and social problems in the country. Only integrated approach will allow to use available Ukrainian resources and advanced European experience to provide economic and social stability of the country.

The study also recommends that it is necessary to develop constructive and pragmatic approach to ensure peace and stability in Europe and in the whole world. Such a policy should be based on the key economic pillars which, from the one side, will push parties for dialogue and ensure stopping the war in Ukraine, and, from the other side, will create new bridges and durable basis for cooperation and stability in Europe and the World. Thus, from one side, such a policy should be

based on reducing dependency on Russian natural resources, from the other side, it should ensure developing of non-political forms of cooperation beneficial for all sides.

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