

Chapter 10

Global Economic Consequences of Russian Invasion of Ukraine

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ABSTRACT

This chapter investigates the global economic consequence of the Russia-Ukraine war over a four-month period from December 2021 to March 2022. Russia invaded Ukraine on the 24th of February 2022. The study used the Pearson correlation and two-stage least square regression methods to assess the impact of Russian invasion of Ukraine on the global economy. It was observed that stock prices plunged on the day of the invasion. The Russian invasion of Ukraine and the COVID-19 pandemic jointly led to a significant increase in the world price of food and crude oil. The rise in the world food price index after the invasion was driven by a significant increase in the price of dairy and oils. The rise in inflation in Russia and Ukraine after the invasion was followed by a rise in inflation in countries that imposed severe sanctions on Russia, and in countries that were not involved in the conflict in any way.

INTRODUCTION

This paper investigates the global economic consequence of Russia's invasion of Ukraine. There is a need to determine the effect of the invasion on global business activities, global food prices and inflation. The need arises from the multiplicity of economic sanctions imposed on Russia, making the Russia-Ukraine war quite different from past wars such as World War I, World War II and the Iraq war.

The study begins by providing a background on the events leading to the Russian invasion of Ukraine or the Russia-Ukraine war. Since the 2000s, Ukraine has been wavering between the West and Russia. This means that Ukraine has not been able to fully join a Western alliance and has not accepted to be fully under Russian influence. In 2008, Ukraine planned to formally join the North Atlantic Treaty Organization (NATO), a move supported by the United States but opposed by France and Germany after Russia announced its opposition to Ukraine's membership of NATO. Subsequently, the plan to join Ukraine was postponed to a later time. In February 2010, a new Ukrainian president was elected who promised

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that Ukraine will be a ‘neutral state’ which will cooperate with Russia and Western alliances like the European Union (EU) and NATO. Soon after, Crimea was annexed by Russia in 2014. The annexation led to violence in Donbas and led to intense fighting and violence along the border regions that separated Russia and Ukraine to the east of Europe. Since then, Ukrainian public sentiment has been towards the West with calls for Ukraine to join NATO and the EU to reduce the influence of Russia on Ukraine. But Russia’s opposition of Ukraine’s membership of NATO since 2010 has caused escalation between the two countries. Russia invaded Ukraine on the 24th of February 2022.

Before the 2022 invasion, the world witnessed the COVID-19 pandemic which began in 2020. The COVID-19 pandemic disrupted economic activities globally (Ozili and Arun, 2020; Ozili, 2021, 2022). Many countries began to recover from the negative effects of the COVID-19 pandemic in 2022. The significant decline in the number of reported COVID infections and death cases in many countries led to the removal of COVID-19-era restrictions in many countries. At the start of 2022, there was great optimism about post-COVID-19 economic growth. Many countries intensified efforts to spur economic growth and to control the COVID-induced inflation. This led to a positive outlook for global GDP growth which was predicted to increase to 4.4 percent or 4.9 percent in 2022, according to the IMF World Economic Outlook. During the same period, Russia unexpectedly invaded Ukraine on 24 February 2022 (IMF, 2022). The invasion led to geopolitical tensions between the West and Russia, and it diminished global growth forecast due to uncertainty about the effect of the invasion on global supply chain.

The study focuses on the first four months after the invasion and investigate the immediate global economic consequence of the Russia-Ukraine war. Data were obtained from multiple source such as central banks, world bank and trading economics. Graphical analysis, correlations and two-stage least square regression methods were used to analyse the data. The findings reveal that stock prices plunged on the invasion date. The Russian invasion of Ukraine and the COVID-19 pandemic jointly led to a significant increase in the world price of food and crude oil. The rise in the world food price index after the invasion was driven by a significant increase in the price of dairy and oils. The rise in inflation in Russia and Ukraine after the invasion was followed by a rise in inflation in countries that imposed severe sanctions on Russia, and in countries that were not involved in the conflict in any way.

The study contributes to the literature in several ways. First, this study presents the first evidence of the immediate impact of the Russia-Ukraine War on the global economy. Second, it contributes to the literature by analysing how the violent actions of combatant countries affect shared prosperity, especially the prosperity of non-combatant countries. The findings showed that the actions of combatants, e.g., Russia, exacerbated inflationary pressure in many European countries, and led to a rise in the world price of food and oil, which negatively affected countries that were not involved in the conflict. Third, the study contributes to the literature that examines the economic consequence of past wars such as World War I, World War II, Korea wars and the Iraq war (e.g. Kang and Meernik, 2005; Heydemann, 2018; Chassang and Miquel, 2009; Koubi, 2005; Collier, 1999; Nordhaus, 2002; Glick and Taylor, 2010; Bluszcz and Valente, 2019; Ganegodage and Rambaldi, 2014; and Kesternich et al, 2014). However, these studies did not examine the economic consequence of war in a modern European society, and the spillover effect to other countries.

The rest of the paper is structured as follows. Section 2 presents the literature review. Section 3 presents a discussion of Russian invasion of Ukraine. It discusses the cause of Russian invasion of Ukraine in February 2022, the international response to Russian invasion during the war, the multilateral support for Ukraine, and Russia’s response to international sanctions. Section 4 presents the research methodology. Sections 5 and 6 presents the empirical results. Section 7 concludes.

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