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## Ukraine crisis: Economic impact of preliminary analysis

Even in the case of a limited conflict, it is clear that Russia will face more :

Reported By:  | Edited By: [Vatsalya Srivastava](#) | Source: DNA webdesk | Updated: Feb 25, 2022, C



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Wars are terrible. Perhaps more so than people like me, who never had the misfortune to live through one, can imagine. It takes lives, and those that survive it get scarred one way or another. Large numbers of people in Ukraine are already leaving their cities and villages behind in search of safety. But beyond those that are directly affected by the Russian invasion of Ukraine, there are many millions across the world who may face indirect repercussions of this war. Wars breed uncertainty, and in a world that has barely started to recover from a pandemic, this may cause more damage. Predicting how things will pan

out in such an uncertain environment is a tricky job. But it may be possible to specify a simple framework based on historical precedent and expected direct & indirect economic impacts to track things as they unfold.

### Providing context: 2014 vs 2022

Addressing the media after speaking to President Macron of France, President Putin made the most direct reference to using nuclear weapons of any leader of a major nation in recent times. The threat of nuclear weapons should, and I suppose does scare the world. Especially in the day and age of 24\*7 news, it is easy to get carried away by the hyperbolic pronouncements of newscasters trying to hold your attention for more than 10 seconds. But given that we are still in the very early stages of this war, rather than engage in wild speculations on what may happen, it may be better to look at what transpired during the 2014 annexation of Crimea.

Almost eight years ago, on 18th March 2014, the Crimean Peninsula officially acceded to Russia. After

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months of cloak and dagger manoeuvres, Russian army regulars called "the little green men" by locals took over the area. The takeover and the subsequent (some say staged) referendum was largely bloodless. There was no pitched battle between the Ukrainian and Russian forces despite media houses predicting a conflict that could engulf the world. Nothing of the sort happened. Whether the outcome was good for the people of Crimea or not, the takeover did not have any significant spillover effects for the rest of the world. Precious little has changed in the world since. The two armies are still mismatched, and despite the clamour in the western world, it is unlikely that any western power will put boots on the ground. The implication is that 2022 may still turn out to be a repeat of 2014. The world will weep for the people of Ukraine, but this will remain a localised conflict posing little to no direct threat of violence in the rest of the world.



### Limited conflict, Sanctions, Oil and Prices

Even in the case of a limited conflict, it is clear that Russia will face more severe sanctions than it has since 2014. These will make it tougher for Russia to trade with the rest of the world. The Russian economy will be affected, but so will the rest of the world. Russia is one of the largest producers of oil and natural gas. The sanctions and the increase in uncertainty due to the war will almost certainly lead to a rise in fuel prices. Brent crude has already breached the 105 \$/barrel mark for the first time since 2014. Other OPEC countries are not likely to increase production (without significant international pressure) as they look to recoup their losses from the last few years of low oil prices. As fuel prices rise, not only will you pay more at the petrol pump, you will also pay more for almost everything else. Oil is a key ingredient in many other goods, but more importantly, almost all products we use today are produced someplace else. As the cost of transporting them rises, so do their prices.

Massive money printing had already led to inflation beating long-standing records in countries like the US. In India, inflation is barely within the tolerance limits of the RBI. A happy side-effect for consumers can be that Govt of India may finally reduce the massive excise duties on petrol and diesel.



### Sanctions that bite: Gas and potential Supply Shocks

In June 2011, the German parliament voted to phase out all its nuclear plants by 2022. These plants produced 29.5% of the electricity in 2000, and their contribution was down to 11.4% in 2020. Simultaneously the German government also spelt out a plan to reduce greenhouse gas emissions. This plan required the phasing out of its coal-fired plants. While both of these are worthy goals, they created a situation in which Germany was more and more dependent on Russian gas. In 2021, gas-burning accounted for 15.3% of the electricity produced. It also helped keep close to 20 million households warm and is the primary fuel for some industries like ceramics. Close to half of the gas required for these came from Russia. The German government has claimed that it will manage without Russian gas, but that is unlikely. Even if they do manage to keep the lights on, the price of electricity and energy will rise. The sanctions will hurt Russia, but she has survived sanctions for close to a decade now. But and herein lies the rub, they may hurt Germany more. Further, as Germany is one of the primary producers of many (especially technologically advanced) products, anything that affects them will eventually affect everyone.

Read | [Ukraine crisis: What do the mysterious 'Z' markings on Russian tanks mean?](#)

So, here is the key question, will Germany and the world damage themselves in their quest to punish Russia? If they do, then the prices of a whole host of products will rise even more, and supply shortages may affect all major economies. If they do not, well, then the sanctions will not mean much, and Russia can walk away having called the west's bluff.

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The author is an assistant professor of economics at the Jindal School of Government and Public Policy.

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