**Russia-Ukraine War and Its Impact on the Global Economic System**

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The conflict between Russia and Ukraine will seriously affect the world economy in many ways. Changes in supply and demand in areas of energy and commodities will undoubtedly exacerbate global inflationary pressures.

The major sanctions on Russia include: removing Russian banks from the Swift messaging system established for international transactions; freezing the assets of Russian companies and oligarchs in western countries; and restricting the Russian central bank from using its $630 billion (£473 billion) of foreign reserves. In response to these moves, Russia has been placed by financial institutions to junk status. In other words, the Russian default is certain.

It is estimated that between the Bank of Russia and the private sector, Russia contributes roughly $1 trillion to liquid global wealth, of which about $300 billion is deployed in money markets. Sanctions have almost disturbed the $1 trillion balance sheet globally, which will contribute to inflation and commodity prices.

Following sanctions, the big western companies like Apple, Audi, BMW, Boeing, Coca-Cola, Dell, Ford, Netflix, Nike, Nestle, and Renault have either exited the country or closed their stores and stopped sales. Since Russia is one of the major producers of some important base metals such as titanium, nickel, palladium, and aluminium, their prices are also expected to increase. This increase will affect global industries, especially the automotive industry. There will also be an increase in agricultural products’ prices because of the war. More than a quarter of world wheat is produced by Russia and Ukraine. At the same time, corn, barley, and rapeseed prices will increase.

Geopolitical fracture lines build slowly over time, making it tempting to delay tough strategic realignments. But once those lines fracture, it is often too late to do anything.

European banks, particularly in Austria, France and Italy, are affected badly due to sanctions on Russia. France and Italy’s banks each have outstanding claims of about US$25 billion on Russian debt, while Austrian banks had US$17.5 billion.

Since 2014, financial institutions in the US have been decreasing their interaction with Russian banks. Still, Citigroup has a small portion of $ 10 billion exposure in Russian banks.

Ukraine is also on the verge of default. Ukraine’s $ 60 billion worth of bonds has also gone to junk status.

French banks BNP Paribas and Credit Agricole are the most exposed to Ukraine because of their local subsidiaries in the country. Societe Generale SA (SoCGen) and UniCredit the top EU banks, with the largest operations in Russia, are also among the most exposed to Russian debts. European, US and Japanese banks could face serious losses, potentially to the tune of US$150 billion.

Switzerland, Cyprus and the UK are the biggest destinations for Russian oligarchs seeking to store their cash overseas. Cyprus also attracts Russian wealth with golden passports. Financial institutions in these countries are all likely to lose business because of the sanctions. The share prices of UK banks Lloyds and NatWest are both down more than 10 per cent since the start of the invasion.

Apart from banks, the war is going to lead to substantial losses for many businesses with interests in Russia. Any companies that are owed money by Russian businesses are going to struggle to get repaid, given that the ruble is down 30 per cent and the Swift restrictions are going to make payments very difficult. US companies have about US$15 billion of exposure to Russia. Many of these debts will potentially end up being written off, causing serious losses.

Some oil companies like Shell and BP have decided to offload assets that they own in Russia. Others such as trading and mining group Glencore, which has significant stakes in two Russia-linked companies, Rosneft and En+ Group, are reviewing their investment status. But if the value of these assets evaporates because there are no buyers at sensible prices, companies like these could be looking at substantial write-downs.

this means that international capital is seeking new safe-haven, bringing incremental international capital to China’s domestic capital market, making China’s financial market one of the beneficiaries of the crisis. However, China’s ability to maintain the stability of its surrounding environment remains a major consideration for international capital flows in the face of growing geopolitical competition and conflict.

The economic and financial sanctions imposed by the US and Europe will exacerbate Russia’s recession. Nonetheless, Russia can still utilize its energy resources for its geopolitical interest. Russia is said to have substantially raised natural gas prices. European natural gas prices have soared by 41 per cent. In addition, nearly 35 per cent of palladium, an important element used in the US semiconductor industry, was imported from Russia. Once Russia stops supplying palladium to the United States, the shortage of chips in the US will be exacerbated. At the same time, 90 per cent of neon, another element used in the US semiconductor industry, was imported from Ukraine. A sharp increase in the price of neon as a result of the war could also have some impact on the US semiconductor industry. Some market institutions have analyzed that crude oil prices may once again exceed the USD 140 mark, which will benefit Russia, a major energy exporter, enough to compensate for the losses caused by rising financial settlement costs. Russia has great exposure to the UK, and as the result of the conflict, it is expected that the impact on the UK could be to reduce GDP growth by around 0.8 per cent to 4.0 per cent in 2022 and 0.5 per cent in 2023. The UK draws most of its gas imports from Norway and produces a sizeable chunk of its own gas needs, so interruptions in supply would be less likely, but it would suffer from higher wholesale gas prices.

The Russia-Ukraine conflict has become an economic skirmish as much as it is a geopolitical war.

As geopolitical conflict intensifies, this change will have implications for the long-term evolution of global financial capital markets. Geopolitical fracture lines build slowly over time, making it tempting to delay tough strategic realignments, but once those lines fracture, it is often too late to do anything but react. The Russia-Ukraine war is a warning that how suddenly geopolitical motion can accelerate. Businesses should consider their risk exposures carefully. These recent events should raise the premium for home market strength and increase the discount for far-afield holdings.

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