

ASSIGNMENT

Since the inception of the geopolitical conflict through the Russia-Ukraine war, the world economy has been grappling with a slowing economy, precisely disruptions in oil and natural gas markets which have also affected emerging economies alike. Against this backdrop, discuss the following points in the Indian context:

About export and import of Russia

In 2021, Russia was the number 11 economy in the world in terms of GDP (current US\$), the number 10 in total exports, the number 21 in total imports, the number 61 economy in terms of GDP per capita (current US\$) and the number 45 most complex economy according to the Economic Complexity Index (ECI).

INDIA-RUSSIA RELATION

The India and Russia ties have been a longstanding relation. Since the signing of the “Declaration on the India-Russia Strategic Partnership” in October 2000, India-Russia ties have acquired a qualitatively new character with enhanced levels of cooperation in almost all areas of the bilateral relationship including political, security, defence, trade and economy, science and technology, and culture.

TRADE RELATION

In 2021, Russia exported \$7.6B to India. The main products that Russia exported to India are Crude Petroleum (\$935M), Diamonds (\$884M), and Refined Petroleum (\$775M). During the last 26 years the exports of Russia to India have increased at an annualized rate of 9.38%, from \$738M in 1995 to \$7.6B in 2021.

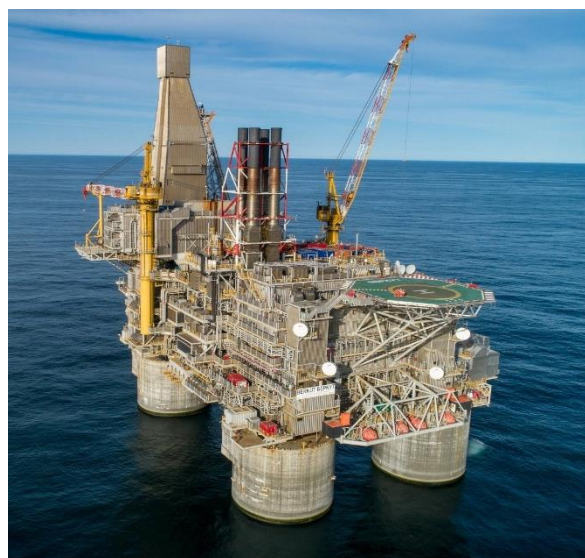
In 2021, India exported \$3.68B to Russia. The main products that India exported to Russia were Packaged Medicaments (\$482M), Broadcasting Equipment (\$397M), and Large Flat-Rolled Stainless Steel (\$133M). During the last 26 years the exports of India to Russia have increased at an annualized rate of 4.98%, from \$1.04B in 1995 to \$3.68B in 2021.

Exports: In the year 2018-19, India's total export of agricultural and allied commodities to Russia was of the order of US \$ 556 million, approximately 4.3 % lower than the previous year.

a) Major Exports: Tea, Marine Products, Coffee, Fresh Fruits, Buffalo meat, Guar-gem meal, and Rice etc.

b) Minor Exports: Processed Fruits and Juices, Tobacco, Sesame seeds, Spices etc

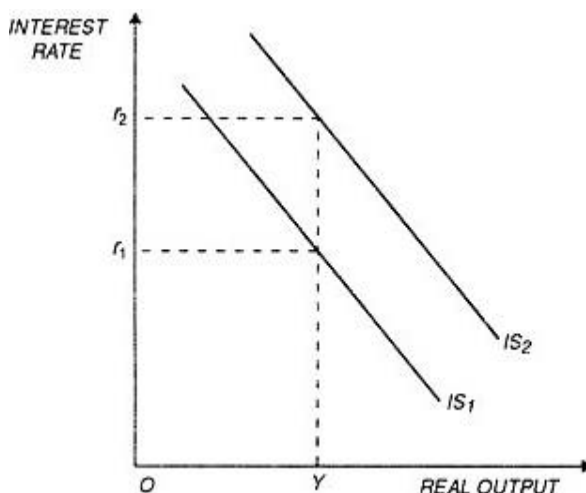
Imports: In the year 2018-19, India's total import of agricultural and allied commodities from Russia was of the order of US \$ 82 million, approximately 73 % lower than the previous. The greater part of Russian exports belongs to oil and petroleum products. Other leading exports are natural gas, timber, fertilizers, machinery and equipment, armaments. The foreign countries receive from Russia over 300 million tons of oil and approximately 250 billion cubic meters of gas



Russia Ukraine conflict

As Russia is one of the largest oil producers in the world, the imposition of economic sanctions on Russia by Western countries led to a decrease in the supply of oil, causing a surge in global oil prices. The high oil prices had a significant impact on the Indian economy, as the country is heavily dependent on imported oil for its energy requirements. The rise in oil prices led to an increase in the import bill, putting pressure on the Indian rupee, which eventually led to a rise in inflation.

Russia is one of India's key trading partners, and any disruption in the trade relationship can have significant consequences for India. The imposition of economic sanctions on Russia by Western countries led to a decline in India's exports to Russia, as the country could not export certain products to Russia. The sanctions affected various sectors, including the pharmaceuticals, chemicals, and agriculture sectors.

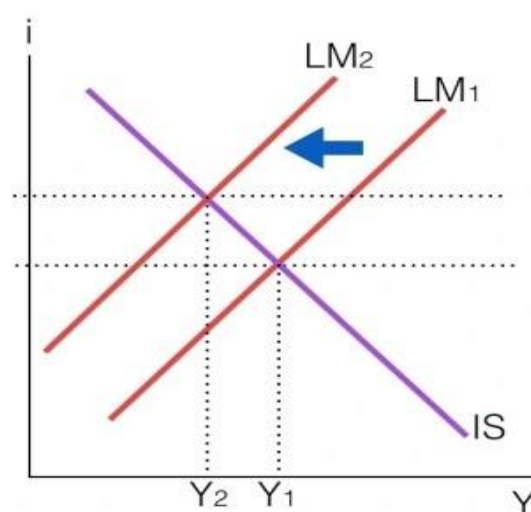


Similarly, the conflict has led to a decline in India's imports from Ukraine. Ukraine is an important source of imports for India, and any disruption in the trade relationship can affect the country's economy. The conflict in Ukraine led to a decline in India's imports from Ukraine, as the country could not import certain products from Ukraine. The decline in imports affected sectors such as iron and steel, minerals, and chemicals. Moreover, India's continued support for Russia during its ongoing conflict with Ukraine has created economic challenges for India as, due to the economic sanctions by the west on Russia, India's companies are finding it hard to do business with Russia due to the restrictions. This has led to a decline in India's exports to Russia in areas of engineering goods, textiles, pharmaceuticals, defence etc.

As conflict it created a lot unnatural things as bilateral trade iss recover from covid but it again start the another problem which is conflict between Russia and Ukraine led to decrease in supply of crude oil.

The real extent of shock is much larger for the real economy as the rate of inflation of fuel prices is much greater than the inflation of crude oil prices, which is significant for framing monetary policies.

A report by Bloomberg states that though crude oil is being traded at around \$100 per barrel however, for people not owning oil refinery the real impact on economy is larger as if the crude oil is being traded between \$150 and \$275 per barrel. This is due to the

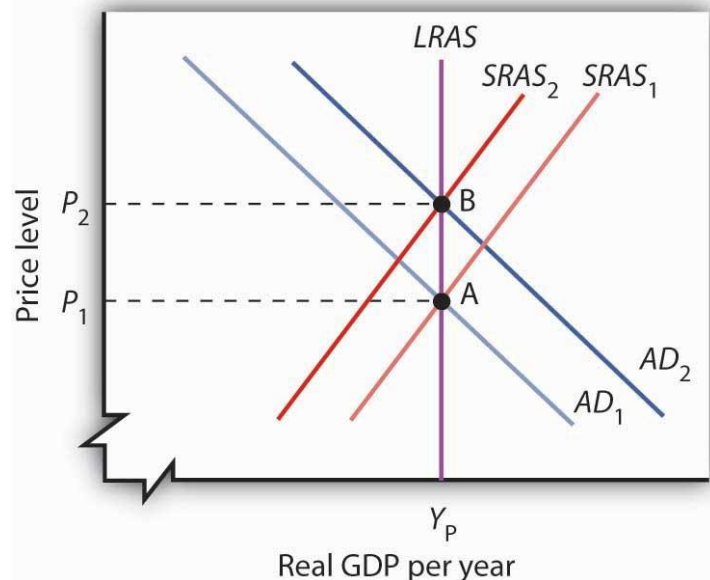


fact that real economy mostly buys refined petroleum products such as petrol, diesel, jet-fuel etc., rather than the crude oil which is majorly purchased only by the oil refineries.

Typically, inflation of Brent crude oil and petroleum product move in a symmetrical manner with difference lying in a small markup Page 7 of 13 of around \$10 per barrel, however, this relationship is broken due to the conflict. In world market, Diesel is being traded at about \$170 per barrel whereas petrol is being traded at \$150 per barrel, primarily due to explosion of High demand-supply gap of petrol and diesel,

Left shift in LM curve due to the stress on the economy as people restrain themselves from spending/investing

We have seen how increased oil and gas prices globally, affected the prices of commodities in India which led to an inflation in the Indian economy. Also, the uncertainty induced by war has affected the global financial markets, and this has led to an increase in risk aversion among investors. As a result, there has been a flight to safety, with investors moving their money to safe-haven assets such as US Treasury bonds. This has led to a decline in the demand for riskier assets such as emerging market bonds, including those from India. The declining value of Russian Rouble has made Russian goods cheaper and their demand has increased which means that the demand for Indian goods decreases affecting the economy.



To tackle such issues, the RBI has intervened in the foreign exchange market to prevent excessive volatility in the rupee, and it has also used monetary policy tools such as interest rate adjustments to manage inflation. This has led to an increase in the **Interest** rates. The RBI has also used a combination of Open Market Operations, the CRR, and other policy tools to manage liquidity in the market and maintain money market stability enough crude to satisfy world demand for fuel. In addition to sanctions, this is also set off as old refineries struggle to compete, as well as increased cost due to environmental regulations, expectation of future decline in oil demand, fall in demand due to covid, among others, resulting in huge shut down of refinery operations between 2020-2022 in US and Europe.