

Russia's War over Ukraine

What is the issue?

The Russian attack on Ukraine is now the largest attack by one state on another in Europe since the Second World War and the first since the Balkan conflict in the 1990s.

What is the history of conflict between Ukraine and Russia?

- **Annexation of Crimea** - Ukraine was one of the republics within the USSR during the cold war days, and has remained a strong ally of Russia till 2013.
- While it was planning to sign an association agreement with the European Union in 2013, Russia sternly objected to it leading to tensions.
- Russia subsequently annexed "Crimea" (Russian speaking province in Ukraine) by force and declared its sovereignty over it with people's support.
- **Naval skirmish over the Sea of Azov** - After Crimea's annexation in 2014, Russia gained control over both sides of the Kerch strait.
- In May 2018, Russian opened a 12-mile-long bridge over the Kerch Strait, which has also become the physical gateway to the Sea of Azov.
- The Ukrainian vessels' attempt to travel from the Black Sea to the Sea of Azov was denied by the Russia.
- However, Ukraine insists that the patrol of the Kerch Strait was authorised under a bilateral agreement with Moscow leading to a naval skirmish.
- **Russian backed rebels** - Russia has been criticised for its involvement in the Donetsk and Luhansk regions in eastern Ukraine.
- Also, Russia acknowledged that the two regions of [Donbass region](#) as independent republics which aggravated the issue.
- **Migration crisis** - Belarus, a Russian ally was blamed for the migration crisis in the EU's Polish border.
- Russia flew bombers near Poland's borders earlier this month.
- In the Black Sea, Russian President Vladimir Putin dispatched vessels to shadow U.S. warships.
- **Pro-West approach of Ukraine**- After the fall of the Soviet Union, Ukraine voted for independence from Moscow.
- Putin deems Ukraine as an artificial creation carved from Russia by enemies.
- Russia has described Ukraine as a puppet of the West.
- **NATO's expansion**- Ukraine's request to be a part of NATO angered Russia and it started placing troops near the Ukraine border.
- In 2021, Moscow has deployed thousands of troops as well as tanks near Ukraine's eastern border and has mobilised troops in the Crimea.



Why the world can't afford a war over Ukraine?

- The global economy is now deeply integrated and the costs of a prolonged conflict are terrible.
- The loss of life and suffering that is already underway in Ukraine.
- The world is still reeling from the Covid-19 pandemic, which hurt the poorest countries and people the most and it cannot afford a conflict-induced slowdown.

What will be the economic situation in times of war?

- **Inflation risks-** Russia is the world's second largest oil producer.
- Brent crude shot past the 100 dollar per barrel mark for the first time in eight years on concerns over supply.
- Rising oil prices could speed up already rising inflation with India importing more than 80% of its oil requirement.
- Rising oil prices will also impact the current account deficit, which is the difference between the values of goods and services imported and exported.
- Sanctions on Russia by the West could impact its trade with the world and result in a rise in the prices of other commodities and products.
- India imports most of its requirement of sunflower oil from Ukraine, and the two countries now at war are also two of the world's biggest producers of wheat.
- **Economic recovery-** The rise in crude prices poses inflationary, fiscal, and external sector risks.
- Oil-related products have a share of over 9% in the WPI basket and experts say that a 10% increase in crude would lead to an increase of around 0.9% in WPI inflation.
- A larger oil import bill will impact India's external position and it is also likely to increase subsidies on LPG and kerosene, pushing up the overall subsidy bill.
- **FPI sentiment-** Foreign portfolio investors have been selling their holdings in Indian equities over the last four months after the US Federal Reserve announced the gradual withdrawal of stimulus followed by a hike in interest rates.
- Investors started pulling out funds from emerging economies to park them in US treasuries and benefit from the expected rise in bond yields.

- On Thursday, FPIs pulled out a net of Rs 6,448 crore from Indian equities, leading to the fall in the markets.
- **DII behaviour-** As FPIs pulled out on Thursday, Domestic Institutional Investors (DIIs) emerged as net investors.
- Experts say that the current geopolitical concerns will not impact long-term fundamentals and investors should take the fall in markets as an opportunity to invest in mutual funds and high-quality blue chip companies.
- **Equity investors-** If DIIs are investing amid the sharp fall in markets, retail investors too should not panic and should increase their investments if they are underweight in equities.
- In times of volatility, investors should avoid venturing into small cap stocks, and should invest through flexi cap and multi cap funds, as they invest across market capitalisations and would generate superior returns when the market recovers.
- **Gold outlook-** In times of uncertainty and inflation, gold emerges as the asset class of choice for investors.
- It is important to note that at a time when equities have been falling, gold has risen sharply and the price of gold in Delhi has risen 8.7%.

References

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