

Economic Consequences of Political Conflicts: Finance, Energy and Agricultural Markets

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Abstract: The Russia-Ukraine conflict that broke out in 2022 will have a major impact on the world's economy from the financial market, energy market, and agricultural product market. Ukraine has fertile black land in Eastern Europe. It is an important exporter of agricultural products in the world and an important way point for Russia to export energy. Russia is also one of the most important exporters of energy and agricultural products in the world. This article analyzes the reasons for the conflict between Russia and Ukraine from the perspective of geopolitics, and further combines data and charts to analyze the impact of the event on the world economy. This article can make the government aware of the dangers of war to human society and that only peaceful coexistence between countries can make mankind better. With rapid development, investors should reduce their investment during the war, so as not to lose their property.

Keywords: Russia-Ukraine conflict, energy, finance, agricultural products

1. Introduction

An important reason for the conflict between Russia and Ukraine is geopolitical factors. Geographically speaking, Russia straddles Eurasia and plays an important role in the geopolitics of Eurasia, especially in Eastern Europe and West Asia, where it has extensive influence and discourse. Ukraine is a huge obstacle to NATO's eastward expansion. Ukraine is located in eastern Europe, and at the same time it is in the sphere of influence of Russia and the key area of NATO's eastward expansion. Both were historically important members of the Soviet Union, but many people still considered Ukraine to be part of Russia after the disintegration of the Soviet Union.” In addition, Eastern Ukraine, which borders Russia, believes in the Orthodox Church, while Western Ukraine mainly believes in Catholicism, which makes the two the contradictions between countries are becoming more and more intense. Politically speaking, the former Ukrainian President Yanukovich who supported Russia was overthrown in 2014, and the new President Poroshenko moved closer to NATO. Russia occupied Crimea at this time. In 2014 By 2015, the conflict between Ukraine and Russia had involved the issue of territorial sovereignty. Russia supported pro-Russian forces in Ukraine and provided weapons. The Ukrainian government also accepted assistance from the West. The escalation of the conflict became a national issue and greatly intensified the contradictions between Russia and Ukraine, causing Russia to be sanctioned and condemned by public opinion on a large scale. Until Zelensky became the president of Ukraine, he repeatedly revealed his desire to join NATO. willingness, which made Russia think that if Ukraine joined NATO, it would pose a

great threat to Russia's security, so it sent troops to attack Ukraine on February 24, 2022, and the conflict between Russia and Ukraine broke out completely [1-3]. The Russian-Ukrainian conflict has played a very important role: In terms of politics, the United States has always supported Ukraine's territorial integrity and sovereign integrity, helped Ukraine join NATO and jointly imposed sanctions on Russia with NATO countries. The reason for the sanctions was that the United States believed that Russia was dealing with Ukraine. When there is a conflict between them, it is a violation of international law and international order to directly send troops to initiate the station. Therefore, it has implemented a ban on sending high-tech products such as chips and weapons to Russia, and a ban on providing Russia with high-end industrial technology. For Russia's agriculture, Oil, natural gas, coal and other export products have been embargoed, Russian officials have been frozen in the United States, and Russian officials have been banned from entering the United States. Military experts and mercenaries were sent into Ukraine to fight, and at the same time, NATO countries sent ammunition to Ukraine to support the war. From a realistic point of view, the United States supports Ukraine mainly to maintain its influence in Europe and western Asia, and prevent Russia from Further expansion of power is to safeguard national interests rather than to truly maintain Ukraine's territorial and sovereign integrity, but the United States should achieve the goal of resolving this conflict through diplomatic means [4-6]. On February 24, 2022, Russia launched a large-scale military operation against Ukraine, which brought the Russia-Ukraine conflict into a new stage. This conflict not only had a huge impact on the society and national defense of the two countries, but also had a huge and the global economy had a profound impact. Ukrainian foreign exports decreased by 50%, Russian foreign exports by 25%, the ruble fell from 74.85 rubles per dollar at the beginning of the Russian-Ukrainian conflict (April 22, 2022) to 1 dollar by the end of 2022 Nearly 80 rubles [7].

This article will answer the impact of the Russia-Ukraine conflict on the two countries and the world economy, because this issue always affects the lives of each of us, such as oil prices and food prices. Knowing the impact of this event on all aspects of the world, according to the paper, it can provide valuable suggestions for governments and other institutions to balance the economic impact of the Russia-Ukraine conflict.

2. Financial Market

The Russia-Ukraine conflict will affect the world's finances, because during this period of war, a safe-haven currency is needed to guarantee the value to the greatest extent, and the US dollar is the main safe-haven currency, and other non-safe-haven currencies will depreciate. The U.S. dollar's trend index in this conflict increased from 96 to 98, a gain of 2.1% [8]. The euro's movement index rose from 1.12 in December 2022 to 1.18 in March 2023, but then fell to 1.16 at the end of March, and the Russian ruble's movement index against the dollar rose from 78 in December 2022 to 1.18 in February 2023 82, but fell to 80 as the conflict escalated, and may continue to fall afterwards. From December 2022 to March 2023, the trend index of RMB against the US dollar rose from 0.155 to 0.165 [7]. The depreciation of the Russian ruble and the euro because of this conflict has had a negative impact on their economies, and the global economy has been in a weak state. As an important trade partner of the United States, the depreciation of the ruble will also depreciate the dollar, but because China has not directly participated in the conflict between Russia and Ukraine, the impact on the RMB is relatively small. Generally speaking, changes in the exchange rate will definitely lead to changes in the international trade pattern Changes that affect the cost of exports and imports.

For example, in 2014, the amount of agricultural products exported from Ukraine to other countries decreased, because the exchange rate of the Ukrainian ruble against the US dollar depreciated by 30% that year, which increased the cost, which also increased the price and reduced

the sales volume, resulting in export volume. decreased. The potential situation may be that with the escalation of the Russian-Ukrainian conflict, the Ukrainian ruble will further depreciate, and the export volume will further decrease, which will affect Ukraine's economic growth rate and cause the low employment rate because the production volume of enterprises will decrease, reducing employment opportunities. Due to the impact of the Russia-Ukraine conflict, the ruble has depreciated, and the economic recession will reduce people's income. Therefore, the demand for daily necessities in Russia will increase, and other non-essential needs such as luxury goods and tourism will decrease. Export commodities It will also mainly be industrial raw materials such as oil and gas because the ability to export high-end technology products is restricted.

3. Energy Market

The impact of the Russia-Ukraine conflict on energy markets is the most significant. The surge in oil and natural gas prices was mainly due to the fact that before the outbreak of the conflict, countries around the world were eager to develop their economies rapidly after the epidemic became normalized, which led to a rapid increase in the demand for oil. At that time, major oil supply countries were also affected by natural disasters and human factors. The impact of the reduction in the supply of oil, oil prices began to rise step by step. Ukraine is an important transshipment country for Russia to transport oil, coal and natural gas to Europe. This channel accounts for more than one-third of Europe's energy supply. After the outbreak of the Russia-Ukraine conflict, Russia's energy exports were greatly affected, making the global Oil prices increased significantly again [8].

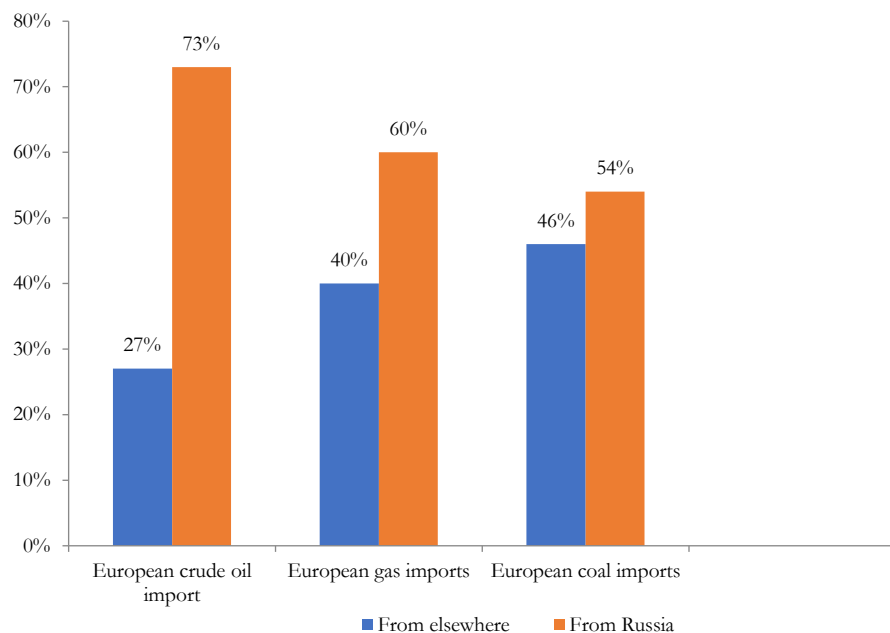


Figure 1: Proportion of Russia and elsewhere in European energy imports.

Data source: IEA [9]

Photo credit: Original

It can be seen from Figure 1 that in 2020 Europe will import crude oil, natural gas and coal from Russia, accounting for 30%, 40% and 50% respectively. This shows the importance of Russia's

energy exports to Europe and the conflict It will inevitably have a great impact on the world's energy market.

Brent crude oil rose from around \$60 a barrel in January 2021 to around \$75 a barrel on April 6, an increase of about 25%. The price index (TTF) of natural gas in Europe rose from about 20 euros per million BTU in March 2021 to about 60 euros per million BTU in early April, an increase of about 200% [10]. In the case of a sharp increase in energy prices in the energy market, both transportation and manufacturing costs will rise, which may cause companies to face higher production costs and lead to higher prices for finished products, and demand will also increase due to price increases. High and reduced, it may trigger inflation and affect the entire economy because of the decline in the purchasing power of consumers [11].

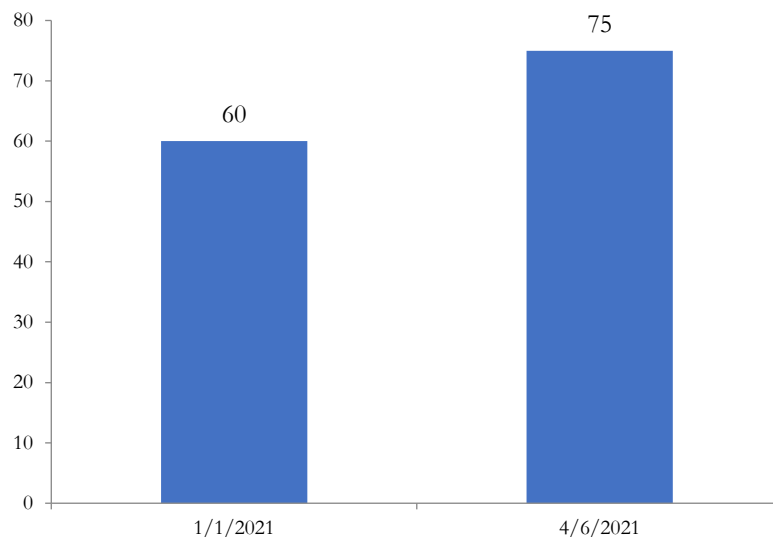


Figure 2: Changes in Brent crude oil from January to April in 2021.

Data source: Platts [10]

Photo credit: Original

As can be seen from Figure 2, the prices of both Brent crude oil and European natural gas increased significantly during the Russia-Ukraine conflict, with Brent crude oil increasing from \$60 a barrel to \$75 a barrel. It can be seen from Figure 3 that European natural gas has risen from 20 euros per million BTU to 60 euros per million BTU, an increase of 25% and 200% respectively.

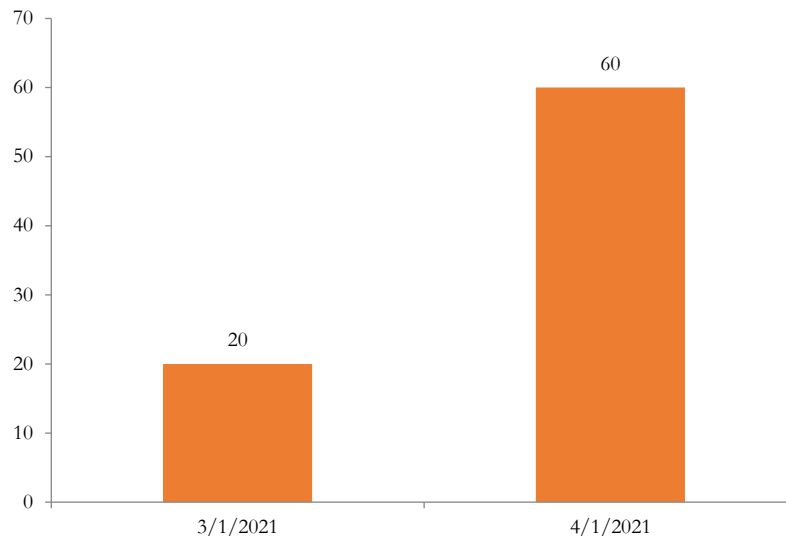


Figure 3: Changes in European gas from March to April in 2021.

Data source: Platts [10]

Photo credit: Original

4. Agricultural Market

In this conflict, the price of crops will rise like energy, and the global supply of agricultural products will also decline, because the Eastern European Plain where Ukraine is located has fertile black land, which is rich in important crops such as wheat, barley, corn, and sunflower seeds. , Russia is rich in all kinds of meat. These two countries are the most important agricultural producers and exporters in the world, and this conflict will inevitably reduce the agricultural exports of the two countries, leading to a rapid increase in food prices, which will affect global agriculture and the economy will be adversely affected.

Both Russia and Ukraine are important wheat exporters in the world, accounting for 10% of global wheat exports. From 2013 to 2014, Russia exported 26.5 million tons of wheat, and Ukraine exported 63.8 million tons of wheat in 2013, but the sharp drop in 2014 It has reached 30.3 million tons, which has greatly increased the price of wheat. According to FAO statistics, the average price of global wheat in 2013 was US\$303 per ton, and it rose to US\$342 per ton in 2014, an increase of about 13%. After the full-scale conflict between Russia and Ukraine broke out in 2022, the price of wheat will increase by 15.6% compared with 2021. The soaring price of food may lead to slow economic growth, because food is the simplest and necessary item in life, and the increase of food price will directly lead to the decline of consumers' purchasing power and expenditure. The final result is that the total demand is less than Total supply affects economic development and social employment. Rising food prices will also pose a serious threat to the stability of a country, because when food prices are too high, the government will rely on foreign imports, which will not only reduce the employment opportunities in the country, but once economic sanctions are imposed, the people will also be out of control. Food shortages lead to riots, threatening the stability of the country [12-14].

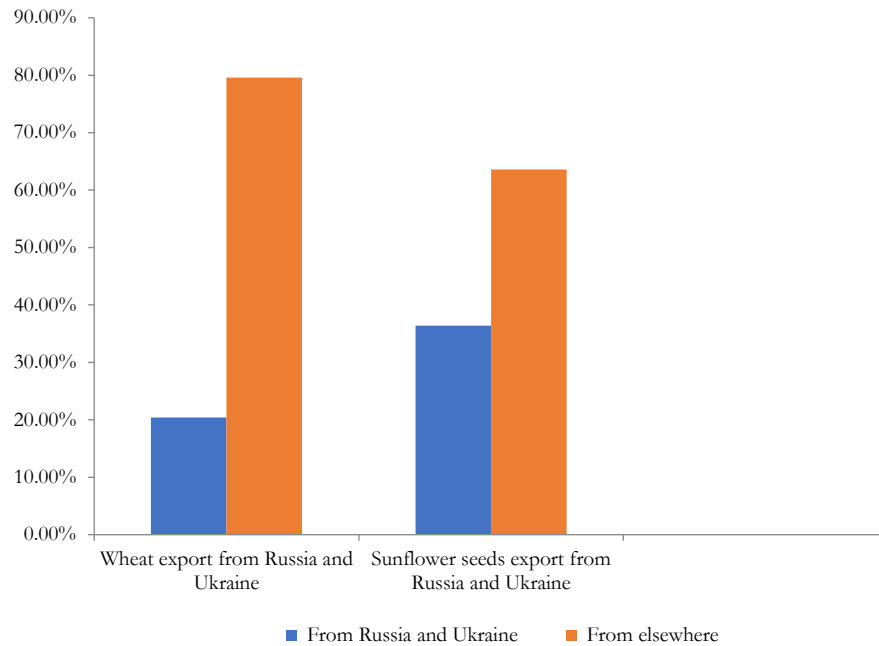


Figure 4: Proportion of Russia, Ukraine and elsewhere in European main crops imports.

Data source: FAO [15]

Photo credit: Original

It can be seen from Figure 4 that Ukraine and Russia exported 26% and 67% of wheat and sunflower seeds to Europe respectively in 2020, showing Europe's dependence on Russia and Ukraine, especially on sunflower seeds, and good handling the importance of the Russia-Ukraine conflict.

5. Conclusion

Analyze the impact of the Russia-Ukraine conflict on the world economy from the perspective of energy market, financial market and agricultural product market.

Analyze the impact of the Russia-Ukraine conflict on the world economy from the financial market, energy market, and agricultural product market by making tables and analyzing data. The Russia-Ukraine conflict has brought great negative effects to various fields in the world. The resulting sharp rise in energy prices has caused great inconvenience to life, and the exchange rate changes in the financial market have also led to further shrinking of the property of the people in the warring countries. The price increase in the agricultural product market has caused more people to be hungry, telling the international affairs of all mankind Disputes between countries cannot be resolved simply through war, but through multi-party coordination and peaceful negotiations. War will not only cause a large number of innocent casualties, but also cause serious damage to the world's economy, environment, and society.

After the war is over, the government should reflect on the reasons for the war and uphold the principle of peace in subsequent diplomacy to better help human development. Investors should invest cautiously to reduce losses during special periods such as epidemics, wars, and economic recessions.

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