

Economic Trends after Geopolitical Conflicts: International Markets and Prospects

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Abstract: This paper mainly focusses on the conflict between Russia and Ukraine and how this conflict affects international market. This paper uses some data from websites to study about how these changes of data means. The reason why this paper focus on these questions is because Russia plays a big part in international market and this conflict could be seen as a conflict between capitalism and socialism countries. This research find that this conflict brings really bad effect to international market which decrease the supply of specific goods and changes import and export. Also, this paper find that this could also see as a new conflict between Russia and other European countries because this conflict affects European countries directly—especially in energy supply and metal supply. The meaning of this paper is that this paper focus on specific data to show the total market's change. The suggestions to the leader of these countries are that stop the war as soon as possible, let the supply back to before and let the market back to equilibrium.

Keywords: inflation, supply and demand, price, international market

1. Introduction

There's so many people paying a lot attention on the armed conflict between Russia and Ukraine, there's a lot of question about it such as why they have this conflict and how will it affect the world. First of all, the conflict between these two countries is a historical problem. As we know, before 1990 both Ukraine and Russia belong to Soviet Republic. Only after about 30 years, Soviet Republic split into so many countries and some of them like Europe (capitalism) and some of them like Russia (socialism). In 2013, the president of Ukraine—Yanukovich signed an accord which stopped a lot of economic activities with Europe, which means he wants a better relationship with Russia. But a lot of people in Ukraine didn't support his idea so they had a parade which led Yanukovich give up his presidency. That is because Ukraine is in the middle between Russia and Europe, so the west part of Ukraine prefer to Europe and the east part of Ukraine prefers to Russia. That conflict is the direct reason which cause the war between Russia and Ukraine in 2021. After 2014, Ukraine falls in a long time with a weak government—which brings a lot of places wants to leave. In 2021, part of east Ukraine—Donbass declare that they're independent from Ukraine. And Russia supports their declare. The reason why Russia supports their declare is that in 2021, Ukraine wants to join European Union. This behavior will bring a big threaten to Russia. Ukraine is always playing the character which keeps the balance between Europe and Russia, if Ukraine joined in European Union, that would threat Russia directly—both in economic and in military. So, there's no reason for Russia to do nothing in

Ukraine. As soon as Russia supports Donbass area, Ukrainian government's army attacks that place. That gives Russia an official reason to join in this conflict with armies. So, Russia declare they will attack Ukraine—which they called “anti-militarization”. That's some of the main reason why Russia and Ukraine have such a serious conflict. So, after analyzing the reasons why there's a conflict between these two countries, how will this war effect the world in economic? This question is really important because this war is not only a conflict between 2 countries, but also means a conflict between socialism and capitalism. And also, Russia plays a really important part in global market, and now Russia begins to have a war with other country, which means this behavior definitely brings a huge effect on global market.

And, the following sections of this paper are organized as follow sections: section 2 analyses about domestic market in both Russia and Ukraine. Also, this section will analyze about the prospect of the domestic market. For section 3, this paper will analyze about energy, financial and metal market.

2. Domestic Market

2.1. Russia

The most important change is the rate of unemployment changed in Russia after the war. That's because after the war begins, people need to do something to prevent the risk of war, so people prefer to get a job instead of keep finding the job that they really like to do. That will cause the decrease in unemployment rate. According to the data from statista.com [1], the unemployment rate in Russia decreased from 4.1% to 3.7% form Feb 2022 to Jan 2023. Based on the huge population in Russia, this part could assume that there's a lot of people who decide to get a job after the war. And that could make the pressure of social charity decreased because the government don't need so much money on helping these unemployed people. When more people decide to join in work, the wage rate may decrease cause in this situation, the labor demand is lower than labor supply.

The inflation rate [2] of Russia after the war is always higher than 15% for nearly about 4 months, in this situation, the nominal wage rate is decreasing and price level is keep increasing, so the real wage rate is keep decreasing which makes people live harder [2]. For the most direct effect, when the war begins, the government needs to spend a lot of money on it, so it's easy for the government to have a deficit. According to the data on hindustantimes.com [3], Russia has already spent \$82 million on the war, but the total revenue in Russia is \$340 million which means that if government keep the society same as before, they need to face to deficit and if they don't want to face to this deficit, they need to cut down government expenditure such as social charity. All in all, the war definitely brings huge damage to Russian economic.

From the data of Forbes [4], the total economic development decreased about 8%, but the expected number is +4%, which means the economy of Russia actually decreased about 12% in total. That is a really huge number because Russia has such a big market. So obviously Russia took a big hit during the war.

2.2. Ukraine

For Ukraine, the situation is worse. During the war, according to the data from CNN [5], the economy in Ukraine shrank by more than 30%, this could be considered as a very serious situation because nearly one third of the market have been destroyed. That's mainly because the main battlefields are in Ukraine's place. Obviously, this brings really bad effect on the development of economy. Because of the war, we could assume that the price level of Ukraine will increase because of during the war, the demand of food will increase because people willing to buy more food to prevent the risk of the war and the supply of food will decrease because during the war, the cost of food transportation will increase. In this situation, the food supply will increase. From the data on tradingeconomics.com [6],

the inflation rate of Ukraine is 24.9%, this is such a high number (US inflation rate at the same year is 6%). And the investment in Ukraine may decrease because Ukraine is during wartime, so the investment has a high possibility to earn nothing. So, we could assume that it's hard for Ukraine to have such a high speed of development. But countries from North America and Europe supported Ukraine. From the data on the website of Whitehouse [7], US government and some other countries from Europe give Ukraine government a lot of weapons and things like that which could decrease the cost of war for Ukraine government. For unemployment rate, after the war, this paper could assume that the unemployment rate will be much higher because the social environment in Ukraine is not that kind of good which will lead more people left their work job or even leave Ukraine. The data on republicworld.com shows that the unemployment rate in Ukraine reached about 30%, that could not only cause the economy in Ukraine will be destroyed heavily, but also cause a serious social conflict.

Both in Ukraine and Russia, the same effect that the war brings is that the economic development will decrease. That's mainly because the war makes the society unstable. Obviously for now it's worse for Ukraine because the main battlefield is in Ukraine. For the difference between these two countries, we could see that the main cost between these two countries is different. For Russia, the main cost is the because of the war, the relationship between Russia and other capitalism countries will becoming worse which leads to the economic activities between these countries decreases, for total output, when the war ends, there's no cost of war and it will lead the economic environment in Russia back to equilibrium. For Ukraine, lots of people left Ukraine because of the war and a lot of people died because the war happens in Ukraine's territory. Even after the war ends, people who died because of the war will not come back, so the labor market's supply will decrease which cause the ability of production in Ukraine decreases, and because of the war, the investment of Ukraine will decrease which makes it's harder for Ukraine government to develop its economy after the war.

2.3. Prospect

First of all, mostly when the war begins, people will not support—no one likes war. According to the data from BBC [8], most of Russian don't really care about this, there's few changes in their life after the war begins. So, the consumption of total nation may not change a lot. As we know consumption is really important for a nation's total economy, only when people have the want to buy more things, there will be a higher demand which could produce more revenue. But on the other hands, there's few goods from Europe and United States could be a sign which shows that the relationship between these countries will be terrible, that's because these countries support Ukraine which means Russia is their enemy now. This is a dangerous sign because these countries play a huge part in international market. But because of the war, the investment might be affected a lot.

The data from ceicdata.com [9] shows that after the war begins, the interest rate increases from 9.7% to 21%, as investment has a negative relationship with interest rate, this part could assume that the investment of Russia decreased a lot. The reason of this situation is obvious—United states and other countries declare that they will impose economic sanctions on Russia, and that could decrease the investment on Russia. Also, when we think about government expenditure which is also an important reason that could cause the change of total output of a country. The biggest change in government expenditure is that Russian government need to pay a lot of money now for keeping the war and after the war, the government need to spend a lot of money on subsequent expenditures like fixing destroyed roads or pay pensions. So, the revenue of Russian government definitely decreases which means government's expenditure on economic development will decrease—and this could lead to the decrease of economic development speed in Russia. Even when the government paying too much money on the war, it might cause a deficit and leads to the decrease in social charity. That could increase the cost of normal people to keep their normal life, which could cause both consumption and investment decreased more.

All in all, even though consumption have no big changes, the investment and government expenditure decrease which leads to the future development can't be as fast as before. On the other hand, when we think about labor market, as many people died during the war and the detriment of war cause the decrease in production capacity will lead to the total market in Russia decreased. Less young people not only mean less labor, as we know the biggest consumers are young people, Russia not only loses a lot of workers, but also loses a lot of consumers, newborn babies need more than 15 years to be workers. That cause in the next 15 years, Russia is facing to a huge problem that there's few workers or consumers, this gap should be fixed by international economic activities, but because of the war, the relationship between Russia and other European countries are broke so these activities also decreased.

3. Energy, Financial and Metal Markets

As a commonsense, Russia is the biggest supplier of energy to Europe market. After the war begins, the war between Russia and European countries broke and Russia decreased the supply of energy in Europe. That cause a lot of problems. For Russia, when they decrease the supply of energy which makes the supply of energy less than the demand of energy, the total energy market in Europe will lose equilibrium and Russia's total income will decrease because they decrease export. For European countries, they don't have enough energy supply which cause a lot of social problems like the heating system can't keep 24 hours working which makes a lot of people complain about the system. According to the data from theguardian.com [10], the most common solution for these European countries is increase the price of heating system to buy energies from other countries. But that could cause the people's cost of living increasing which leads to less people decide to use heating system during the winter[11]. All in all, that will decrease the total income in these European countries which might affect that country's economic development and threat the social environment because of the decrease of social charity (as we know heating system is part of social charity).

According to the data from investing.com [12], the price of oil in European market is keep decreasing after the war, that could use to show the change of energy market in Europe. So, in energy market, the war both brings bad effect on these countries. But for Russia the situation is much better because they could export these energies to other countries like China to decrease the bad effect which is brought by the war.

For international economic activities, the effects are also obvious. First, because of the war, the cost of transportation will increase. For this paper, assume that if somebody want to transport some goods to Ukraine, but the cost of transportation is so high which could threat my revenue. In this situation, this person will not prefer to do this. So, the cost of export and import will increase. So, consumers will not be willing to buy these goods so the total international economic activities will decrease.

The war between Russia and Ukraine also effects the metal market. The biggest part of Russia's export is energies and metals. After the war, Russia decreased the export of metals to European countries and American countries. This behavior not only affects Russia's total market but also affects the market of the countries who need these metals. That's because the terrible relationship between Russia and capitalism countries makes their economic activities decreased which hurts both sides.

And the import of Russia also decreased. According to the data from cbl.com [12], the export to Russia from Dutch decreased about 40% in 2022, that's because the sanctions which are given to Russia after its invasion to Ukraine. So now Russia face to a hard situation—both import and export decreases, which makes Russia's economy can't develop as fast as before.

For Ukraine, the war also, brings a lot of damage. Same as Russia, Ukraine's market also be damaged a lot. The export and import decreased to a really low number and now the economic system is keep using only based on the help of other capitalism countries like Britain or United States. during

the war, the demand of metals in Ukraine increases [13], but the biggest supporter—Russia, decrease the export of metal. In this situation, this demand will cause the cost of metal increases, which changes the equilibrium.

For exchange rate market, the war also affects a lot. For Russia [14], the Russian ruble's exchange rate is keep decreasing. That's because the supply of other countries' money decreases and the demand of ruble inside Russia increases. The main reason is that the war with Ukraine gives a reason for these capitalism countries to giving sanctions to Russia which makes Russia hard to develop economy. If exchange rate is keep changing, it's hard for central bank to control the interest rate and money supply in the market. And people in Russia will decide to change their ruble to dollars which let them decrease their loss because of the change in exchange rate. For Ukraine, UAH's (the money which is used in Ukraine) exchange rate have a sudden huge decrease after the war begins and still not get back until now. So, in total, after the war begins, both UAH and Russia ruble's exchange rate is keep decreasing, which brings a huge problem to their central bank.

Because of the war, the war brings a really bad effect on the relationship between Russia and these countries so, the economic activities decrease, which leads to the demand of energies or metals cannot be fully supplied in normal prices. That cause a lot of social problems in Europe like the problem in heating system that mentioned before in this paper. Also, terrible relationship between these countries will brings the decrease in economic activities which makes both of these country's economic development speed decreases. But for countries like China which still have good relationship with Russia, the supply of metals and energies will not change so there's no worries about because of the war, the supply will decrease. In some situation, the economic activities between these countries may increasing because of the war. According to the data from Russia Briefing, Russian export to China increased about 29.3% last year. So, for the countries like China, they may benefit from the war [15].

4. Conclusion

This paper focuses on the conflict between Russia and Ukraine and its significant impact on the global market. The study primarily concentrates on the changes in data that have far-reaching consequences beyond mere numerical values. The motivation behind this study is to understand how interstate conflicts can affect the global market. The findings of this study demonstrate that conflicts such as the one between Russia and Ukraine have a detrimental impact on the global market. Such conflicts increase the cost of maintaining normal economic activities and result in reduced economic development in war-torn countries due to damages incurred during the conflict. In addition, there is a decrease in investment and consumption, and the fluctuations in exchange rates pose significant challenges for central banks to control. Moreover, wars adversely affect the major industries of countries involved in the conflict. For instance, in Russia, the energy and metal markets have witnessed significant declines due to war-related damages. The conflict between Russia and Ukraine is also rooted in the difference of ideologies, with two main groups – capitalism and socialism – involved. Sanctions imposed by opposing countries based on the reason for the war have further hampered global economic activities. In light of these findings, this paper recommends a focus on ending the conflict, undertaking post-war reparations, and subsequently controlling the exchange rate. Such measures could help to restore economic stability to pre-conflict levels.

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