



Economic Impact of war in Ukraine and in West Asia

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Abstract

The ongoing wars at Ukraine and West Asia have significantly affected global economy in general and adversely affected economy of the countries involved in war, by directly disrupting maritime transport and logistics, tremendous loss of human lives. Indirect impacts include among others increased size of “dark fleet” with increased risk of accidents and lesser availability of tankers for legitimate operations; altered shipping routes with increased transit times, freight rates, insurance cost and expenses of trade, to economy, etc. The combined effects of the above impacts are loss of GDP, loss of trade and business, loss of human lives and damage to infrastructure, decline in the working population, increase in poverty, inflation, shortages, uncertainty, rise in debt and disruption to normal economic activities. The article also addresses the key considerations for policy makers towards building socio-economic protection systems for the future and economic recovery following ceasefires.

Keywords: Dark fleet; Food and energy products; Economic outputs; Maritime industry

Introduction

After the COVID-19 pandemic, implications of maritime decarbonization, the wars in Ukraine and in West Asia have disrupted significantly maritime transport and logistics. In addition to the loss of human lives, the two wars with serious economic costs – damage to infrastructure, decline in the working population, inflation, shortages, uncertainty, rise in debt and heavily disturbed the economic activities. The resultant geopolitical tensions, altered trade routes with increasing cost of shipping and rising price of Oil and Gas, etc. had put challenges to ports and shipping lines to perform satisfying their business and social objectives and the stake holders.

The Israel - Hamas conflict, starting with the surprise attack on 7th October 2023 by the Palestinian militant group Hamas against Israel from the Hamas controlled Gaza Strip gave another blow to the global shipping industry. Beside closure of the Israel's port of Ashkelon and its oil terminal, it has put heavy threats to shipping in the region arcing from the Gulf to the Horn of Africa have grown more complex. Several shipping companies have been forced to suspend operations in the area and to reroute their vessels at considerable costs and delivery delays for energy, food, and consumer goods, after Yemen's Houthi group targeted ships in the southern Red Sea areas, a key maritime artery. Defense Secretary, UK has expressed willingness to take direct action against Houthi

rebels as the situation is a test for the international community. Failure to protect the Red Sea runs the risk of emboldening those looking to threaten elsewhere. Military conflict in West Asia has resulted in further turmoil and uncertainty in the world on multiple fronts. The war on Gaza has extended beyond Israel and Hamas to southern Lebanon where exchanges of fire between Hezbollah and Israeli troops and Syria, killing Hezbollah, Hamas, and Iranian commanders. From southern Lebanon, Iran-backed militias in Syria and Iraq attacked U.S. forces. The Houthis, Iran-backed rebels of Yemen, have turned the Red Sea into a battlefield. The U.S.'s air strikes in Iraq, Syria, and Yemen, seek to retaliate against Shias and the Sunni Islamist militants attacked Iran, killing people. Since November 2023 Yemen's Houthis have attacked ships in the Red Sea which accounts for about 12% of the world's shipping traffic, in their support to Palestinians in the war with Israel. As of 31st January 2024, India has deployed a dozen warships east of the Red Sea to provide security against pirates and two warships in the Gulf of Aden and at least 10 warships in the northern and western Arabian Sea, along with surveillance aircraft. The duration, intensity of the conflict, and spread to other parts of the region, all contribute to the uncertainty surrounding its impact, throwing international laws and the idea of sovereignty, to the wind, thereby risking a wider all-out war. The immediate reactions in oil and equity markets highlight the global market's sensitivity to such events.

International sanctions against Russia and Belarus led to restrictions for Russian ships to enter ports in various OECD countries and thus, affected maritime transport to and from Russia. Interruption of gas supply via pipelines from Russia to Europe and longer shipping routes increased demand for LNG-carriers implying increased operating cost of LNG-fueled vessels. Increased gas prices impacted decarbonization of the maritime sector, which is a rather long-time impact. The United States announced formation of a 10-nation coalition with multinational force to deter the Houthi attacks against the trade passing through Red Sea areas, the busiest maritime route in the world. However, attacks and retaliatory attacks continue at red sea and beyond and land sites at Kyiv and at Belgorod, Russian border city even in 2024.

Impacts

Direct impacts

Direct impacts are disruption of shipping activities in the Black, Azov, and Red Seas, which haltered trade routes, maritime decarbonization, functioning of ports of Ukrainian and Israel ports, trading of agricultural and energy products, increased use of the Danube River ports in Ukraine and increased shipping activities in neighboring countries like Romania, Republic of Moldova, Georgia [1]. Number of ships calls at Constanta port at Romania saw an increase of about 25% between 2021 and 2022 [2], Implementation of the Black Sea Grain Initiative in August 2022 created an export corridor for food and fertilizer exports from designated Ukrainian seaports, allowed partial resumption of shipping activities from Ukraine. Shipment under the Initiative contributed to partial reduction of hardship in poor countries of the world by transporting grains. Termination of the deal in July 2023 significantly affected the seaborne trade of Ukrainian products (U.S. Embassy Kyiv: 18 July 2023).

Indirect impacts

The war of aggression against Ukraine has given rise to several consequences including “Grey vessels” where shipping companies obscure vessel origins and ownership to give the appearance of legality. This fleet is described as gray due to the difficulty in determining legality and sanctions compliance. Grey vessels are primarily being used to transport Russian oil routed to countries that have not banned trade with Russia, like China, Turkey, India, etc. In addition, the “dark fleet” also undertakes illegal shipping practices. Dark fleet refers to tankers carrying POL (Crude), chemicals, and other liquid cargo who engage in dark activities like disabling their AIS or using deceptive shipping practices – like Global Navigation Satellite System (GNSS) manipulation, ID, and location tampering) to give the appearance of legality. Both dark and gray fleets appear on the flags of convenience list, making it easier to avoid sanctions and employ sub-standard safety practices. The increase in number of dark and gray fleet tankers limits availability of tankers for legitimate operation of liquid cargo and suppliers may raise their prices. Moreover, the

increase of dark and gray fleets is also associated with increased risk of accidents and spills since old dark and gray vessels are not equipped with the latest equipment or maintained to the minimum standards, which can lead to a disaster. International bodies for monitoring global movements of tankers are yet to come out with easy identification of such dark and gray vessels.

Other impacts

Effects on shipping and shipbuilding markets

Russia’s war against Ukraine also led to indirect impacts on shipping and shipbuilding markets. International sanctions caused a reduction in new orders and completions at Russian yards. Sanctions also affected shipbuilding operations in OECD countries. Sanctions on the Russian bank VTB and Sovcomflot (Russia’s largest shipping company, and one of the global leaders in the maritime transportation of hydrocarbons, as well as the servicing and support of offshore exploration and oil & gas production) following the full-scale invasion of Ukraine have put new building contracts of several billions of dollars at shipyards located in OECD countries at risk.

Effects on freight rates and insurance costs

Altered shipping routes increased transit times, marine bunker prices, freight rates, insurance cost and expenses of trade. While average bunker prices of very low sulphur fuel oil (VLSFO) at global level reached a peak of over USD 1,100 per tonne in June 2022 which is a 75% increase in comparison to the start of 2022, insurance cost of shipping across the Black Sea have also increased by over 20% due to war risk premiums [3].

Effects on seaborne trade of some commodities

Russia and Ukraine accounted for 34% of wheat global market share before the start of the war [4]. Russia, a top producer of POL (Crude) at global level accounted for about 14% of the world’s total supply in crude and condensed oil [5] and 8% of LNG global supply. The disturbed shipping in the Black Sea and the international sanctions led to major shifts in the seaborne trade of POL(Crude) and LNG primarily due to higher transit time.

Increased use of the dark fleet

More ships are operating under the “dark fleet” with unclear ownership, no insurance, against about 10% of dark fleet tankers trading internationally in first quarter of 2022 [6], the size of such fleet has been doubled in the last quarter of 2023. Increased usages of dark ships, and their ship-to-ship oil transfers, imply increased risk of oil spills with negative environmental impacts [3].

Effect on storage capacities

Part of containerized cargo destined for Russia is now being stored or stranded in various Harbors like Hamburg, Germany, Istanbul, Republic of Türkiye, Rotterdam, [7] putting pressure on the storage capacities and warehousing of these ports.

Effect on demand for second-hand tankers

Price of second-hand tankers has increased worldwide by about 34% since March 2022 [8], due to the increase of distances in altered routes to and from EU and Russia and less availability of tankers because of increased size of dark fleet.

Effect on economy

Lost GDP

In the first year of the conflict, Ukraine lost 30-35% of GDP. Its GDP is projected to grow in 2023, if only by 0.5%. Ukraine's economic output has come down to a fraction of its pre-war levels and the country has lost around 40% of GDP. Contraction of Russian economy over 2022 was lower at 2.1 % as per recent data from the Russian Federal State Statistics Service. However, the near-term outlook for the Russian economy remains uncertain. As per the study commissioned by the UNDP, the Israel-Hamas war in Gaza has resulted in loss of GDP of \$10.3 billion on Lebanon, Egypt and Jordan and increase further with continuation of the war. The Gaza economy has already contracted by 4.5% in the first three quarters of 2023 (UNCTAD estimate). Even in the most optimistic scenario of 10% annual GDP growth, it may take 2035 for Gaza to restore the per capita GDP level to pre-blockade level of 2006. Gaza war is costing Israel @ \$260 million per day. With unknown length of the war, falling revenues and increasing borrowing costs, much economic and political uncertainty is on the horizon. Israel is considering scaling back its operations, and the United States has been prodding it to do so more quickly to arrest the death toll and economic disturbances.

Loss of trade and business

Russia and Ukraine have suffered from shortages in products and market shares with concerns for wheat, maize, sunflower products, fertilizers, fuels, and energy. For example, Egypt's imports of wheat from Ukraine plunged an estimated 81% in volume terms in the first eight months of the war which was made up from importing from alternative suppliers, like the European Union. The decrease in wheat imports by Türkiye was compensated for by increased imports of rice, as per multilateral trading system provided by the WTO which allows trade to flow where it is needed most. Disruptions to supplies of POL (Crude) from Russia and food grain from both Russia and Ukraine associated with higher shipping cost resulted in price rise at many countries across the globe.

According to the President of the World Bank, economic impacts of the war stretch beyond Ukraine's borders, resulting in rise in global energy prices and affects the poor the most, as does inflation. Delay and uncertainty of basic metals like nickel, aluminum, and palladium, produced by Russia and Ukraine have affected industrial production and the wider supply chain at the global level. Germany has curtailed car production due to

shortage of supply of wiring systems from Ukraine. The hardest hit countries are those with medium to high reliance on natural gas imports for heating, industry, or electricity, and the countries closely connected with EU energy markets. Centre for Economic Performance (CEP) found that firms with strong ties to Russia through trade or ownership experienced a substantial decrease in their cumulative return following the invasion and aggregate stock market index based on firms in the CEP study's sample fell by 1.53% in valuation for the average country due to international linkages to Russia.

The Ukraine war gave a massive shock to the global economy, especially to energy and food markets, squeezing supply and pushing up prices. Compared with other economic regions, the euro area has been particularly vulnerable to the economic consequences of Russia's invasion of Ukraine where food prices increased by 14.1% in January 2023 in comparison to the previous year [9]. Rising commodity prices are likely to accelerate inflation even for Latin America and the Caribbean, which already faces an 8 % annual rate across five of the largest economies: Brazil, Mexico, Chile, Colombia, and Peru. Inflation leads to higher cost of living, loss of people's savings, rise in uncertainty and loss of confidence in the financial system. The war triggered a massive shock to the global economy, especially to energy and food markets, squeezing supply and pushing up prices to unprecedented levels. The rising tension in the red sea puts significant problems to shipping through the busiest shipping route for POL with potential of increasing of oil price at global level. IMF estimates suggest that a 10% increase in global oil prices could increase inflation globally by 0.4 percentage point. The six countries bordering the Red Sea proper are: Saudi Arabia and Yemen on the eastern shore, and Egypt, Sudan, Eritrea, and Djibouti on the western shore. It is connected to the Indian Ocean in the south through the Bab al-Mandab Strait and the Gulf of Aden. An alternate route is far longer through the Cape of Good Hope along South Africa to reach the west. However, this longer route would require an additional two weeks' time and extra costs of approximately \$1.25 million per sailing depending on destinations.

Decline in working population

The UN Office of the High Commissioner for Human Rights (OHCHR) recorded in August 2023, total 26,717 civilian casualties in Ukraine including 9,511 killed and 17,206 injured since the start of the conflict. The figures are underestimates given the difficulties of obtaining accurate figures from areas blighted by intense hostilities. Separate figures from US officials are far higher: they report nearly half a million casualties across Ukraine and Russia as of August 2023, with around 60% of these Russian. The war between Ukraine and Russia has forced over six million people to flee the war-torn Ukraine till mid. 2022, which is around 15% of Ukraine's pre-war population. High casualties and refugees have significantly reduced national workforce in Ukraine. The exodus

is likely to cause a serious shortage of workers even after the war is over. Displacement of about 80% of Gaza's population sparked the world's biggest refugee crisis. The Gaza Strip, with 50% of the population being children, is now almost uninhabitable with people without adequate sources of income, access to water, sanitation, health, or education, UNCTAD said. The Israel-Hamas war pushed over 230,000 people into poverty.

Rise in poverty

Russia's invasion has driven millions into poverty and seriously affected Ukraine's economy. As per World Bank, incomes of Ukraine people have plummeted. Poverty in the country soared from 5.5% of the population to 24.2% in 2022. The war has thus pushed 7.1 million more people into poverty, undoing progress made by Ukraine since its independence in 1991, adding catastrophically to its economic woes. The war between Ukraine and Russia has forced over six million people to flee Ukraine till mid. 2022, which is around 15% of Ukraine's pre-war population. They leave a large hole in its national workforce. Even after the war is over, this exodus is likely to cause a serious shortage of workers. The Israel-Gaza war forced the Palestinians into deep poverty. Over two-thirds of the 2.3 million populations have fled their homes.

High government spending

For fiscal policy, the cumulative long-term effects of a fading peace dividend may be larger than most governments have so far acknowledged. For example, Europe could end up raising defense spending by 1 % or more of GDP annually and the resulting costs may exceed even the ambitious, €807 billion without considering Europe's eventual contribution for rebuilding Ukraine, which could be \geq €100 billion. In September 2022, the World Bank estimated that the cost of rebuilding Ukraine would be about \$349 billion, which exceeds the Ukraine's pre-invasion GDP. Levels of damage suffered by Ukraine have not been seen in Europe since World War II, and it took 20- 30 years for Germany and UK to rebuild after the war.

Damages of infrastructures:

Ukraine's rising sufferings are job losses following destruction of infrastructure like ports and manufacturing plants and slow-down, or cessation, of economic activities including agriculture. Similar pictures emerged due to the Gaza war where Gaza areas lost 45-50% of all housing in one month of fighting. Till mid-November 2023, about 60% of ICT infrastructure, over 60% of health and education facilities, and 70% of commerce-related infrastructure have been destroyed.

Key considerations for policy makers:

➤ The severe impact on world food supply underlines the importance of maintaining open and resilient maritime

transportation routes for essential products and global cooperation.

➤ The disruption of maritime activities and markets due to the wars with broader and indirect impacts need to be addressed in recovery supports along with medium- and longer-term consequences of the war on ship demand, cargo, and decarbonization efforts to ensure sustainable development of the maritime industry.

➤ Withdrawing troops in phases to arrest loss of human lives and adverse economic conditions. Israel has announced such withdrawal from the Gaza Strip on 2nd January 2024.

➤ Policy makers intensify the work against sanctions circumvention and reduce number of vessels being used as dark fleet.

➤ Policy interventions to building social protection systems for the future can include a combination of (i) guaranteed minimum income support designed to protect individuals and households from adverse shocks, (ii) regulatory reforms that gradually remove restrictions on firms' hiring and dismissal practices, and ultimately support the creation of formal jobs in the private sector and a reduction in informality; (iii) enhanced coverage of and protection for vulnerable groups; and (iv) digitalization for improved quality and quantity of services provision.

Conclusion

As Russia and Ukraine war was continued then in long run the impact will be very serious for the world economy. In the present situation it has mostly affected their ties which have business with them while in the long run, most countries of the world will be affected [10]. The Russia and Ukraine war period increased by more than one year and there is no sign to stop. Simon [11] opined that while Russia is trying to make Ukraine a failed state, the European Union wants to make Ukraine their allies. If Ukraine becomes member of the NTAO then Ukraine will be strong and future Russian attack on Ukraine will be considered as attack on all NATO countries while the NATO Armies will be present at Romania, Poland boundaries in front of Russia. Compromises are very difficult. Similarly, economic recovery in Gaza following a ceasefire is not likely to be immediate, considering the large-scale destruction and uncertain access to resources, including materials and equipment owing to the siege on Gaza. At the Asia-Pacific Economic Cooperation (APEC) Summit in San Francisco, the 21 members, including the United States, China, and Russia, remained divided over the war on Gaza.

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