



**The ASIA University**  
**College of Management**  
**The Department of Finance**



**Consequences on Global Market from Invasion of Ukraine and Sanctions on Russia**

A Thesis in Graduation Project

by

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## **ABSTRACT**

This paper presents the consequences on economy due to Russian invasion of Ukraine and economic sanction on Russia on case of invasion. This research paper written during the event, which means information trustworthiness or accuracy could come in question. Russia being 13<sup>th</sup> largest economy and resource export oriented economy and Ukraine being unable to produce anything near their normative level means global market is being affected heavily. Food and energy shortage already propping up at this stage and recent and ongoing pandemic put huge strain on governments and individuals across the globe. In my research I conclude that due impact of war is far from over or at it's highest, except for Ukraine, and more instability could be instigated by events and it is possible positive feedback for more trade and economic disruption.

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# Chapter 1

## Introduction

Global market in modern day and age is very interconnected system which also in risk of facing supply chain disruption. In February 24<sup>th</sup> of 2022, the Russian Federation suddenly started invasion of Ukraine under the name of special operations. In response to this action of violence, European union and many other countries ratified sanctions on the Russian Federation such as trade sanctions limiting Russian exports and financial sanctions that freezing external transactions. Due to risk of implicated as supporting of the Russian Federation's actions, to stay clear in public image, many international companies followed suite to pull back their operations from Russia together with sanction specific corporations. Russia is big exporter of energy and also grain exporter, which amounts to 11% of global production and 8% in fertilizer production. Disruption in grain and fertilizer exports would put countries such as Egypt, Turkey and Pakistan and many more in frivolous position. Energy export from Russia is big concern in Europe due to big portion of central and eastern part of it is largely dependent on gas and oil import from the Russian Federation. Also due to invasion all the production and activity in Ukraine would be only put in defensive actions, which means Ukraine would not be producing 3.2% world wheat production and many more. All this would surmount on global commodity market which is already affected by ongoing pandemic and food import cutbacks or price increase in countries that were already in precarious positions in food insecurity could lead to regional instability which could further market disruption. This level of disruption more likely to have an impact on every day life of many and future repercussions on the Russian Federation's economy, which also magnified by handling from Russian government likes of threatening to seize assets of international branches of companies in their countries that tried to pull out of the Russian Federation's due to public reputation and genuine humanitarian concerns. In this paper, instability on governments and global

market export and import amounts and currency valuations are used for emphasizing of global production impact from reckless actions taken.

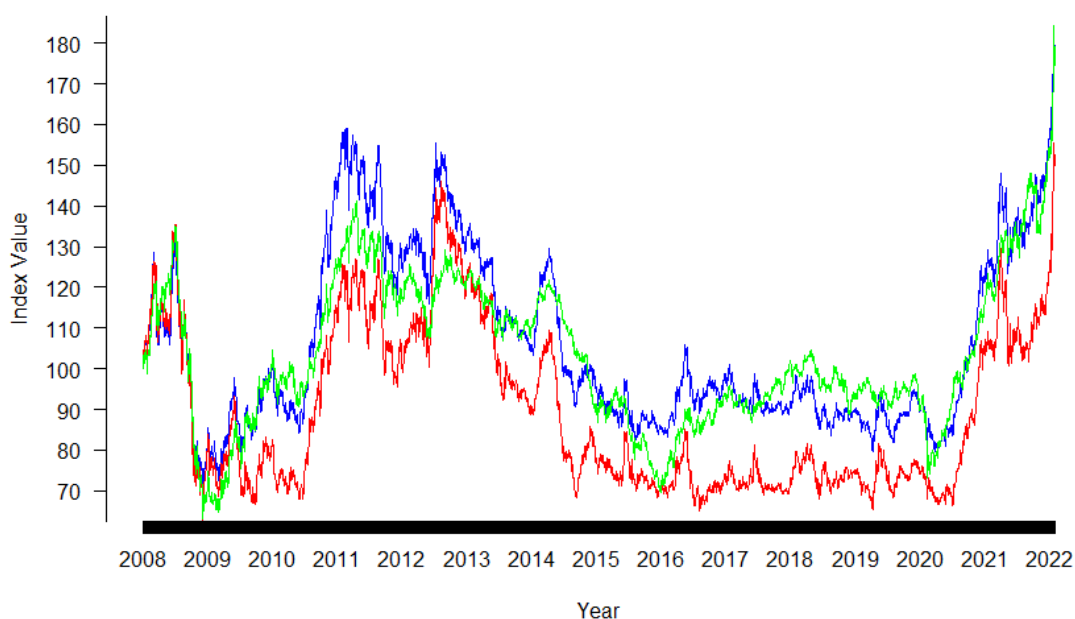
## Chapter2

### Literature review

Impact on market is certainly visible in big case like invasion and sanction on country that takes big share global resource export market. (Troeger, 2006) show market is very sensitive in case of armed conflict. If sanction on the Russian Federation hurting global market, at least would it be capable of achieving it's intended goal of stopping war in Ukraine in timely manner. In that regard there is researches that studied cases similar to today's which utilized sanction as a tool, a countermeasure for that situation. Sanctions are usually used for three distinctive possible reasons that are enforcing peace, retaliatory action for human rights abuse and regime change. In this case enforcement of peace is main objective but (Soest, 2013) study shows authoritarian governments are not lenient on bending over due to risk internal power hold slip over and reason such as that sanctions only possible way to end this war in favor of Ukraine is more likely to be regime change and blunt as it is, that would be very unlikely to initiate foreseeable future due sanctions intended effect requires long term enforcement to have impairing impacts on authoritarian governments (Steinbach, 2018). But that doesn't mean there is high pressure to end the war on the Russian Federation. (Cyrus, 1997) suggests economic and trade sanctions would put country such as the Russian Federation, that interconnected and dependent on international supply of certain goods, in situation of incapacity to produce or operate factories or goods and can be technological and productivity pull back in their market. Even non sanctioned sections of their production uses software and hardware that forbidden to sold or be operated in the sanctioned country, which in causality would lead to decreased production and output in the respective sector. War and essential resource shortage often lead to social and political instability in first and second party or even in third party countries which would put human right and safety infringement (Steinbach, 2018). As

mentioned in UN 2022 may 19 report (Meeting, 2022), there is acute famine risk and most of the 140 million people suffering acute hunger lived in just 10 countries and due to recent events, risk is increasing tremendously for those who were already in critical regions. In (Rudolfson, 2018) reports that, food insecurity is tied to instability in region and in (UNCTAD, 2022) shows food price is related to major and minor uprisings. In (UNCTAD, 2022), it also mentions due to airspace restrictions freight rate increase is expected and that would lead price hikes due to transport fee increase and in positive feedback to prior impact, it would increase unrest in areas that weren't immediately impacted by price hike and island nations.

***The link between food price spikes and political instability***



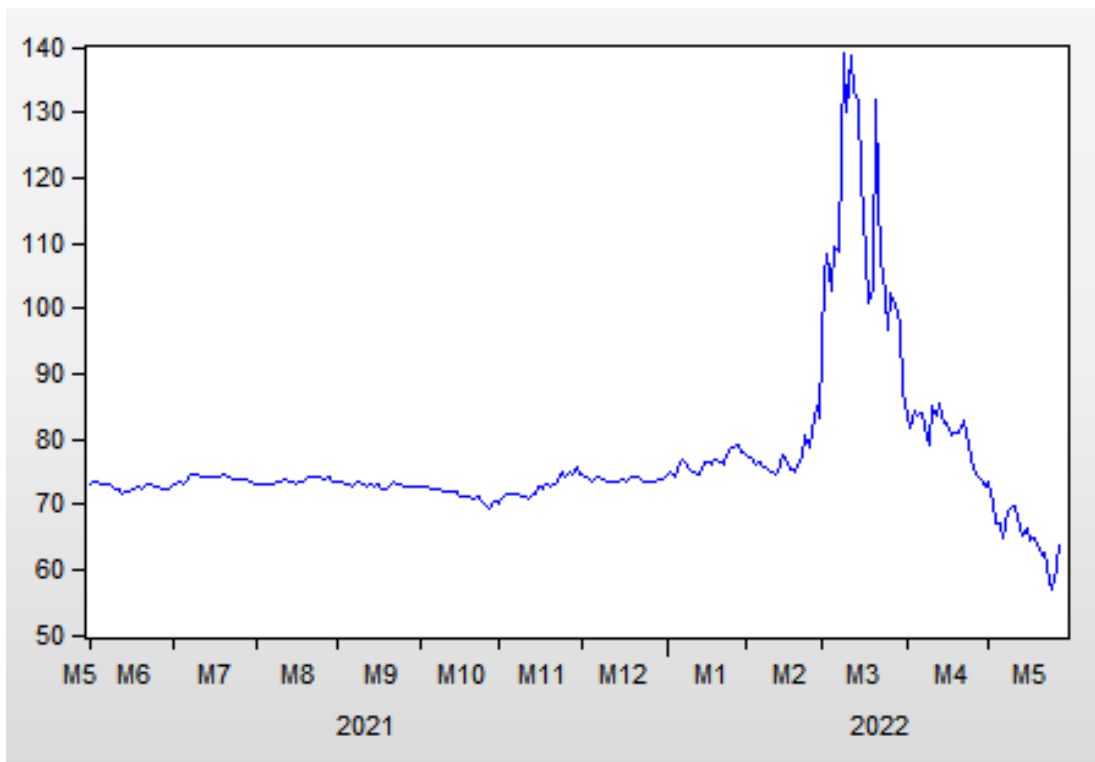
Even in situations like this the Russian Federation combating intervention from European Union and United States of America and many other countries, that pursuing non aggressive means of interventionism like sanction and diplomatic stance in a fear of direct retaliation from the Russian Federation, any way possible. The Russian Federation was preparing for responsive actions from west after experience from Crimean annexation, but overall response was tremendous than expected response. The Russian Central Banks actions and Federal decision to forcing buyers of

gas export to use ruble managed pull back crashing ruble value. But ruble value alone could not imply whole economy (Nelson, 2022).

## Chapter 3

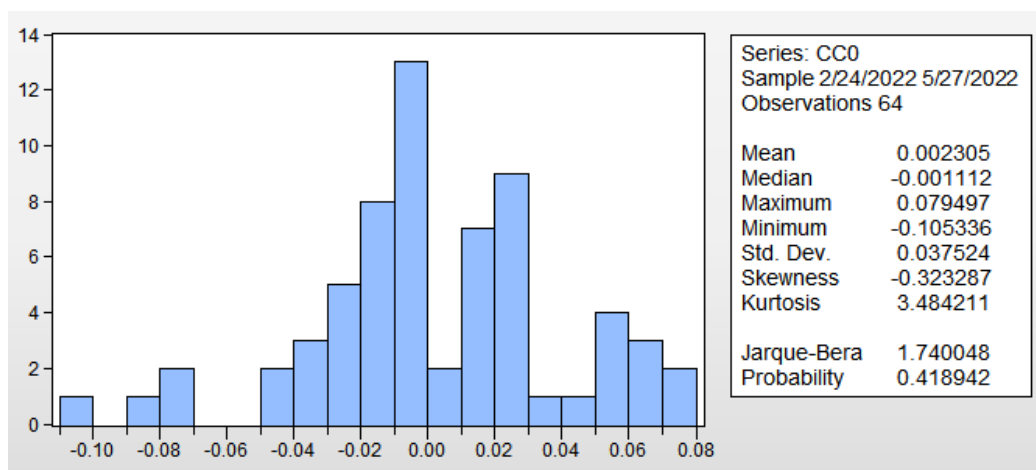
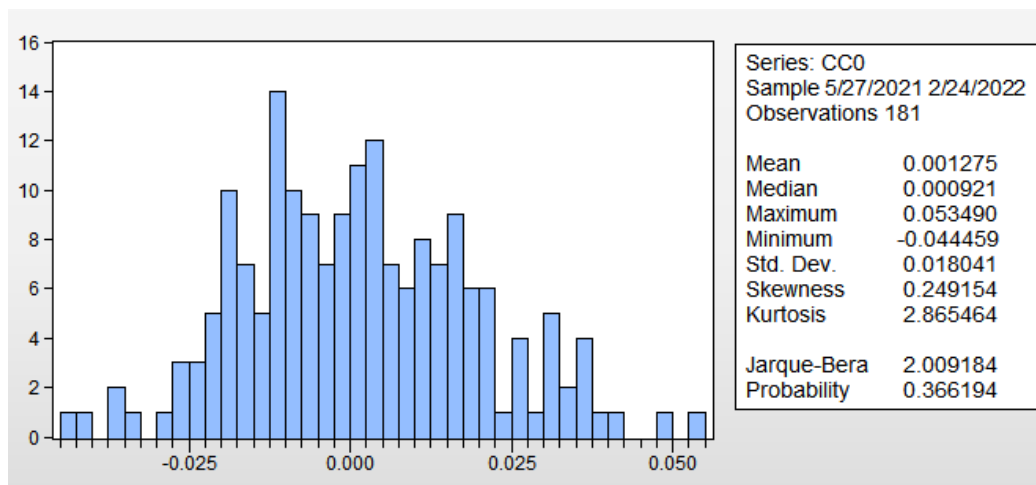
### Analysis

The Russian Federation experienced sudden USDollar to Ruble rate uproar in other word valuation of ruble fall tremendously in start of invasion. But the Russian governments interest rate adjustment and new gas export requirement and fiscal policies managed to pull back ruble valuation to pre-war level. But that would not mean Russian economy left unharmed as the Russian Ministry of Economic Development reportedly said that gross domestic product of the Russian Federation will contract 7.8% and unemployment rate will increase to 6.8%, which is 4.1% right now. It would not have exacerbated effect on global economy but with every other accumulative effects such as pandemic, trade sanctions and much more will have put more strain on economy.

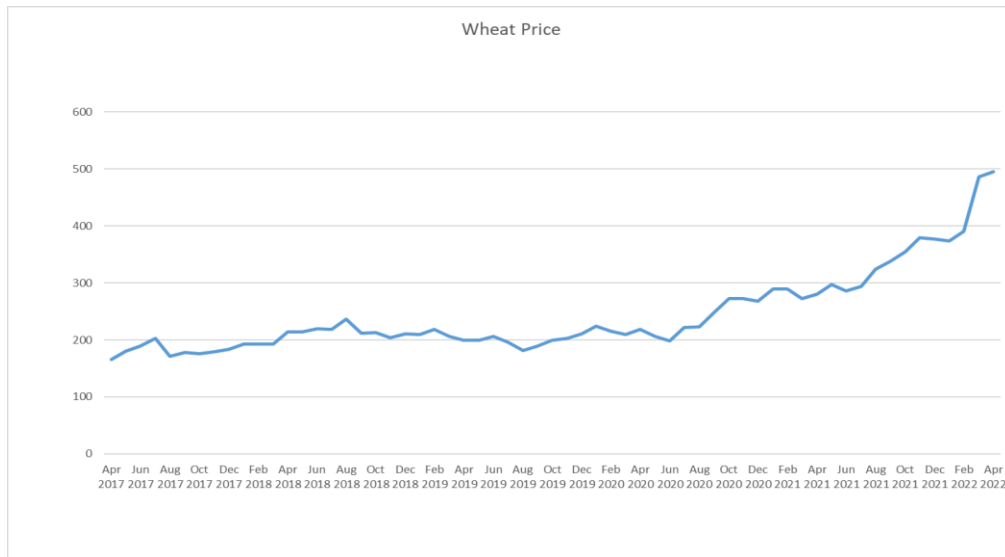




Next bilaterally analyzing data from price change in oil, wheat, and stock exchange in two different time set we could determine if impact off the main event affected the market. As here we can see before and after price change volatility and average change in price has increased in oil and wheat, and commodity market.



Next we have to checked if political instability and unrest could be increasing due to volatile grain price fluctuations. For that to be proven, we have utilized historical grain commodity price data from year 2008 to year 2022 and major relatively food insecurity related unrests and uprisings as for representation for hard to determine, unrest. We used those two indicators to determine if there is correlation in between them.



**Dependent Variable: VALUE**  
**Method: Least Squares**  
**Date: 05/30/22 Time: 09:52**  
**Sample (adjusted): 2008M02 2022M03**  
**Included observations: 170 after adjustments**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SPOTCHANGE	2.396565	0.798724	3.000491	0.0031
C	0.312377	0.035037	8.915503	0.0000
R-squared	0.050863	Mean dependent var		0.317647
Adjusted R-squared	0.045214	S.D. dependent var		0.466937
S.E. of regression	0.456259	Akaike info criterion		1.280181
Sum squared resid	34.97290	Schwarz criterion		1.317073
Log likelihood	-106.8154	Hannan-Quinn criter.		1.295152
F-statistic	9.002948	Durbin-Watson stat		0.173604
Prob(F-statistic)	0.003106			

On test, grain price could not explain full responsibility of uprisings but that is due to the prior political movements and base to base situations. As the Russian government continuing to support the invasion, cycle of grain planting and harvesting would be disrupted and could inflame situation even more. Even more Russian government pushing to nationalization of foreign investment and assets, which in short could be revitalize sectors and niches they once filled, but in longer term

would be catastrophic for Russian economy, by Russian economy in long time will be seen as inhospitable or high risk for international corporations.

## Chapter 4

### Conclusion

Military action is often forebode in the name of inherent disdain from public and genuine probability of inflaming situation even more and putting civilian rights and lives in danger or fear of direct human life loss. Usually those are stay as probability and stay as small contained event. But the Russian Federation's invasion of Ukraine was not one of them. Having notable presence in many essential resource production these two countries involuntarily and forcibly setback on practicing on international economy. As today's economies interconnected as they're pushed in to more specialization supply chain disruption, production disruption is not just have impact on regional level but intercontinental level. As analysis suggests, food insecurity is one ledge for instability in countries that were already in danger of separatism, uprising or more. Due impact of war is far from over or at it's highest, except for Ukraine, and more instability is possible positive feedback for more trade and economic disruption.

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