

*Improving economic policy*

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# The impact of the Ukraine crisis on international trade

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**Zsolt Darvas and Catarina Martins**

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# Motivation and questions



- Russia's aggression was quickly followed by the imposition of wide-ranging economic sanctions on Russia
- Main trade sanctions: prohibitions of exports to Russia of strategic goods (including high-tech goods and components for use in electronics, telecommunications, aerospace and oil refining) and bans on imports of Russian energy
- The war hit the global economy by creating new geopolitical and economic uncertainties, soaring energy prices, and disruptions to global value chains
- Questions:
  - How global trade volumes and commodity prices were impacted?
  - How have Russian trade dynamics changed?
  - Are sanctions circumvented via China and Turkey?
  - What's the likely evolution of Russia's trade balance?

# Isolating the impact of Russia's war on the global economy and trade is difficult, 1



- Global inflation pressures were building up already before the war, along with the recovery from the COVID-19 pandemic
- Shortages of various materials and machinery
- Increased transportation costs and times
- Excess household savings and pent-up demand
- Strong rebound in US consumer goods demand, leading to global scarcity of goods, with spill-over effects on the rest of the world
- Global commodity increased by 52% in 2021: largest increase on record since 1992

# Isolating the impact of Russia's war on the global economy and trade is difficult, 2



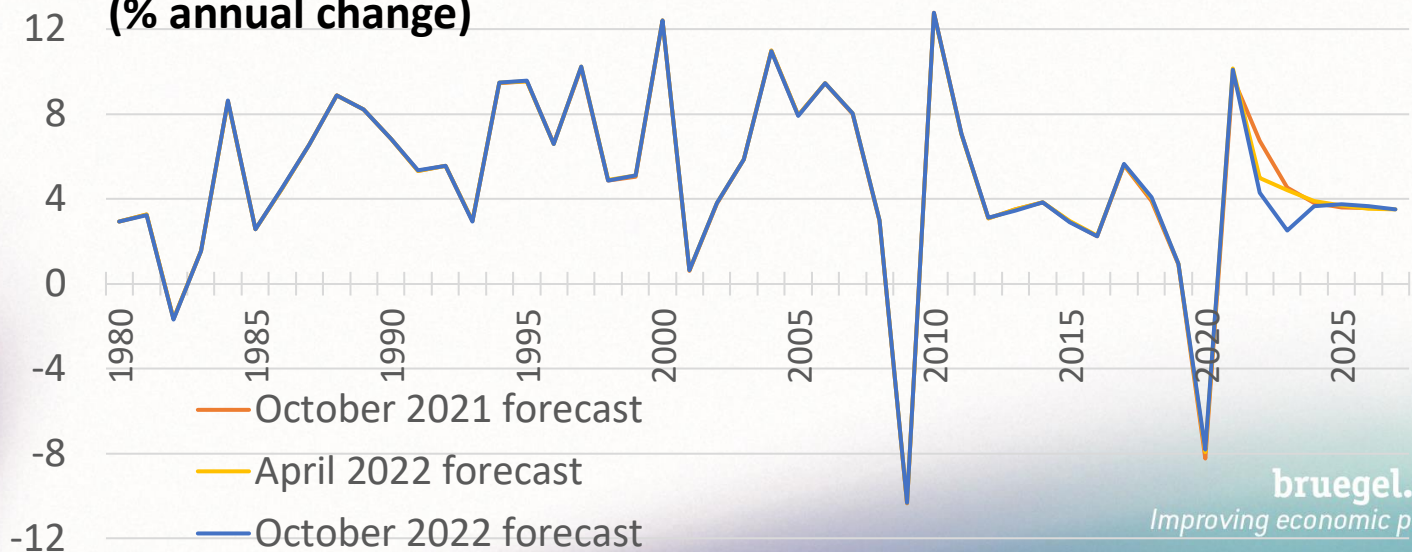
- We approximate the impacts of the war by comparing commodity price and trade volume projections made in October 2021, April 2022, and October 2022
- Most likely, the war has played an important role in the revisions, though:
  - Expectations for monetary policy tightening by major central banks are higher now than in 2021 (yet partly this is the consequence of higher energy prices due to the war)
  - COVID-19 restrictions might have been phased out faster than expected in 2021
  - China's slow-down could be larger than expected in 2021

The level of global trade volume in 2023 is forecasted to be 3.4% lower in October 2022 than the October 2021 forecast



The global trade volume of goods and services, 1980-2027

(% annual change)



# 2021: fastest commodity price increase on record

## The upward revision in 2022 commodity prices is 49%



### Commodity prices, 1993-2027 (% annual change)



The impact of the war is mostly confined to energy prices, whereas non-energy commodity price forecasts changed little



### Revision in commodity price forecasts, October 2022 vs October 2021

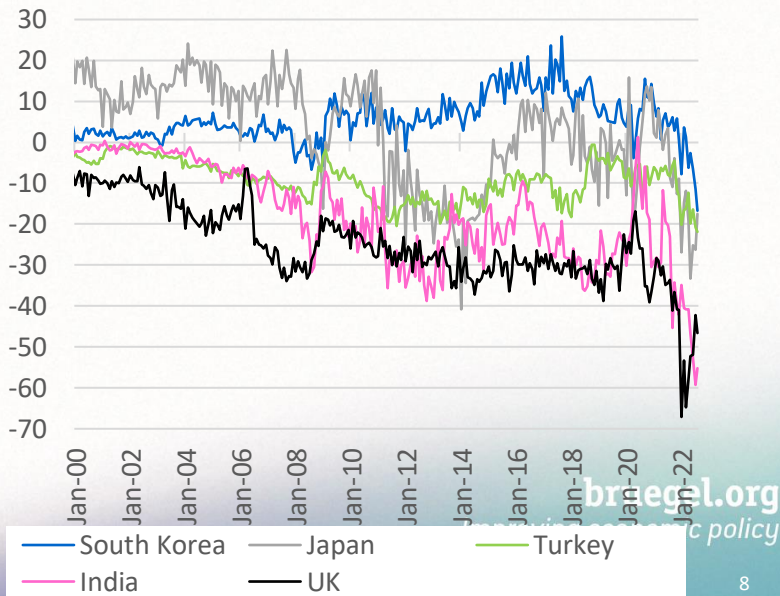
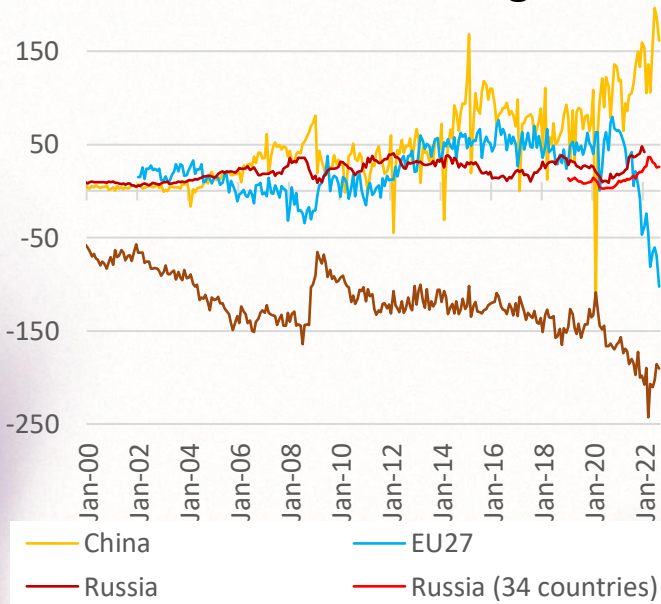
	2021 % change	2022 % change		Revision in 2022 price level forecast
		October 2021 forecast	October 2022 forecast	
Total	52%	-1%	41%	49%
Energy	100%	-2%	80%	102%
Petroleum	66%	-2%	41%	51%
Gas	254%	-4%	155%	244%
Coal	111%	-2%	158%	181%
Non-energy	26%	-1%	7%	8%
Food	26%	2%	14%	11%
Beverages	22%	6%	16%	14%
Agricultural raw materials	15%	0%	3%	1%
Metals	47%	-7%	-5%	-1%

# The trade balance of countries importing commodities deteriorated

## The China-US trade balance gap widened



### Overall trade balance of goods, January 2000 - August 2022 (USD billions)

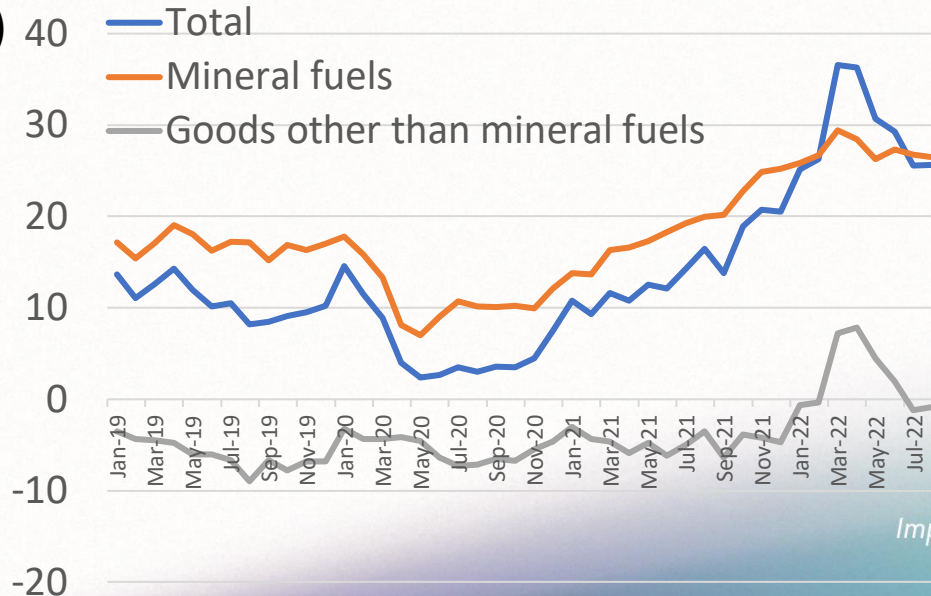




# Since Russia stopped publishing detailed trade data, we collected bilateral data from 34 trading partners

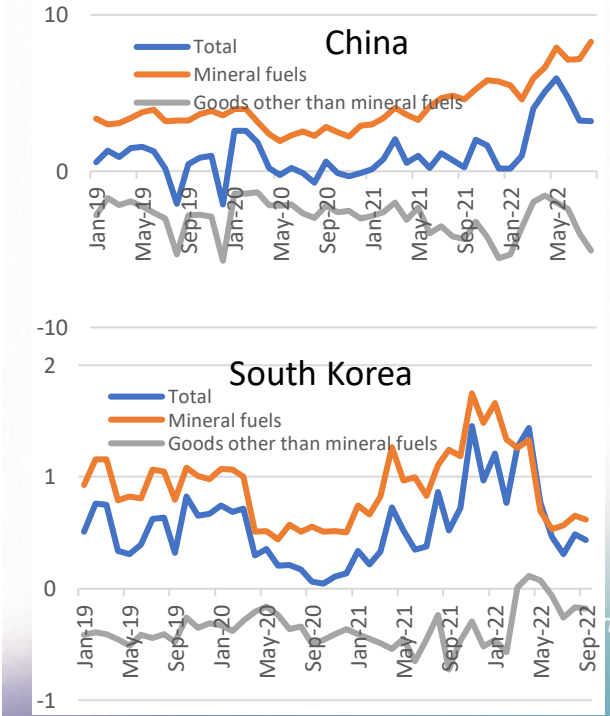
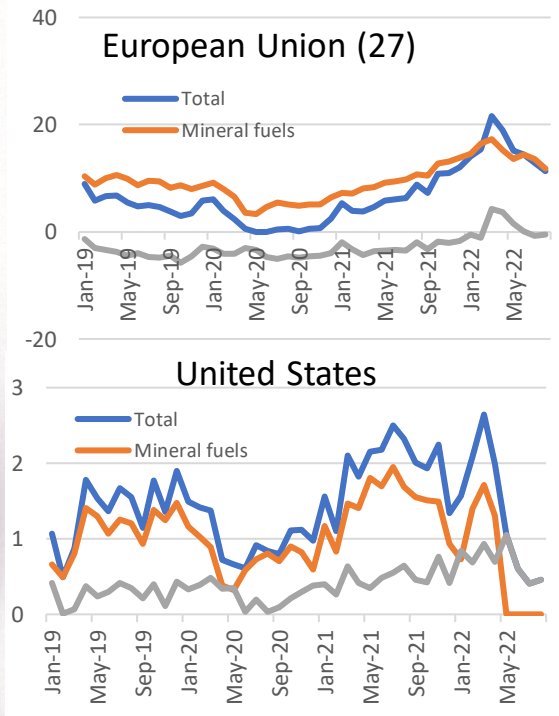


## Russia's trade balance relative to 34 countries, January 2019 - August 2022 (USD billions)

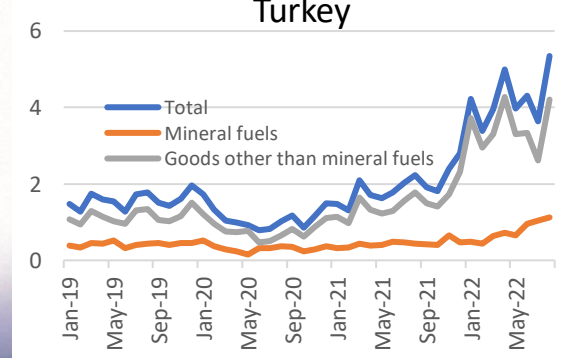
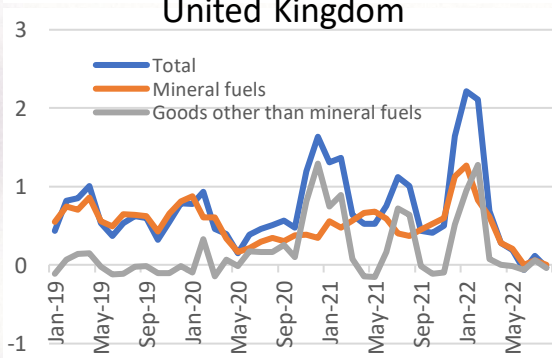
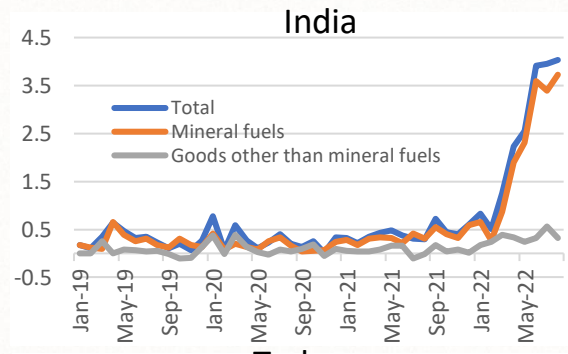
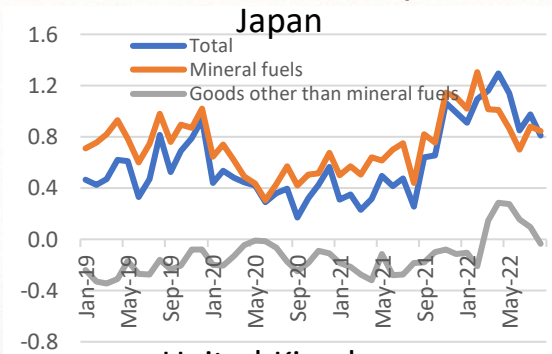


34 countries are:  
27 European Union countries, China, India, Japan, South Korea, Turkey, the United Kingdom and the United States

# Russia's trade balance increased right after the eruption of the war but started to decline afterwards



# Russia's trade balance increased right after the eruption of the war but started to decline afterwards (except for India and Turkey)

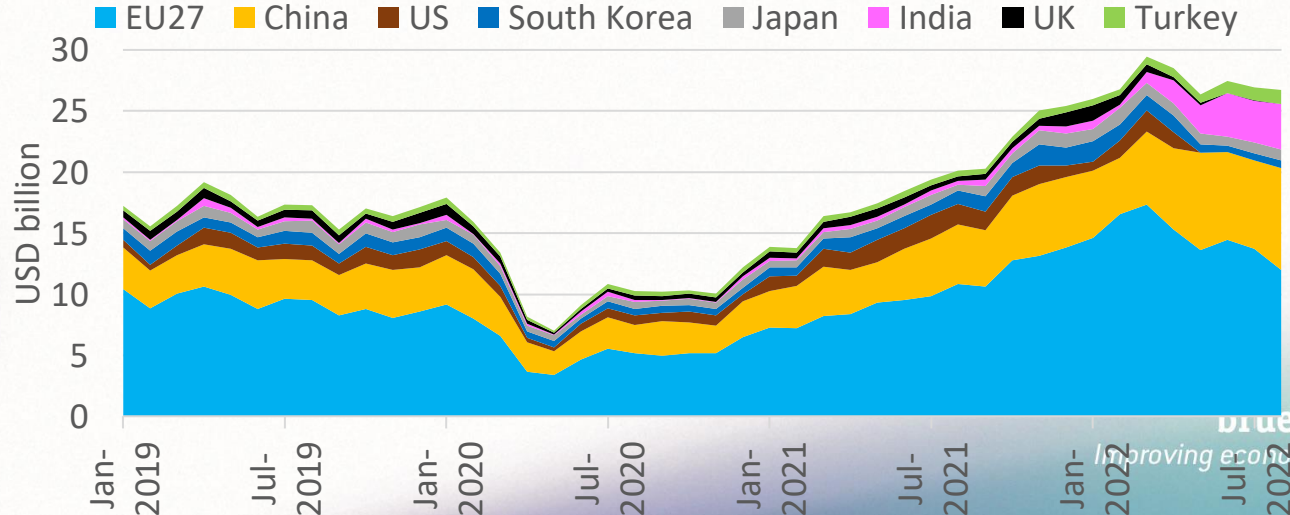


# Russia's mineral fuel exports fluctuated with the oil price and oil demand

## Since the war, more went to China and India



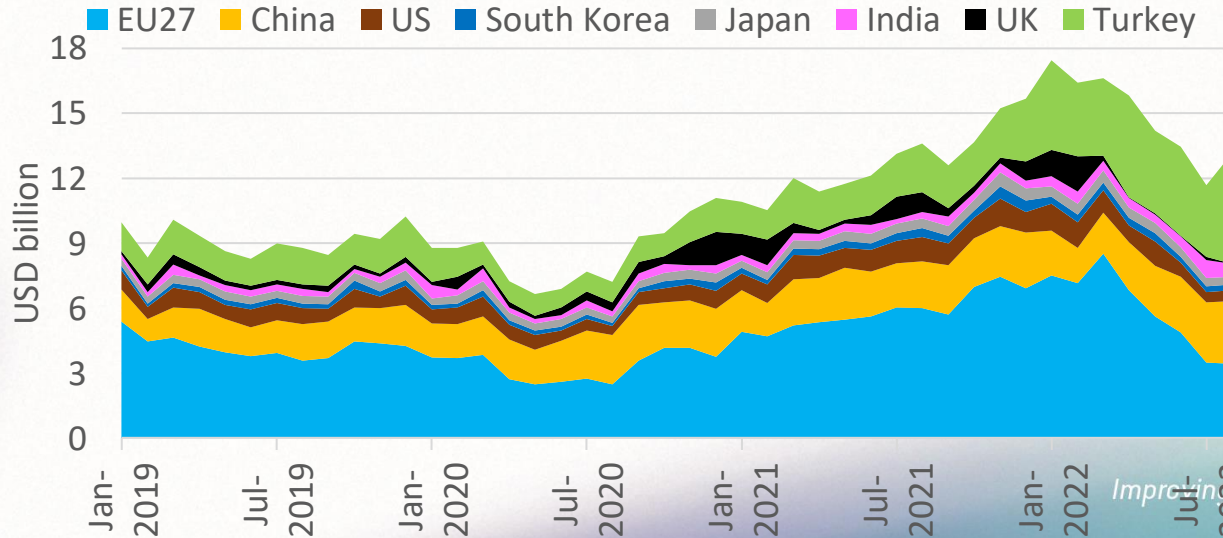
**Russia's mineral fuel exports to 34 countries,  
January 2019 - August 2022 (USD billion)**



# The fall in Russian non-mineral exports: the war and the sanctions might have already damaged the productive capacity of the Russian economy



## Russia's exports of goods other than mineral fuels to 34 countries, January 2019 - August 2022 (USD billion)

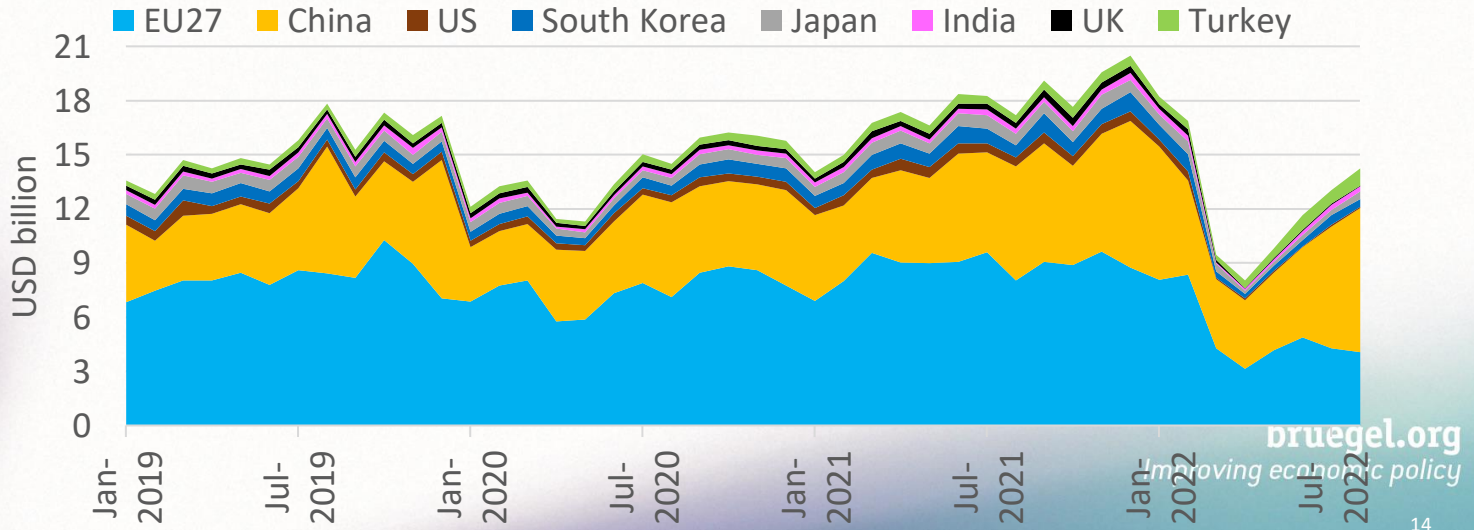


Largest falls in the categories of 'material manufactures', 'chemicals', and 'machinery and transport equipment'

# A dramatic drop in Russian imports after the war, recovery from China (and Turkey) since then



## Russia's imports from selected countries, January 2019 - August 2022 (USD billion)



# Possible explanations for the drop in Russian imports



- Sanctions
- Reduced activities of foreign companies in Russia
- The difficulties Russian companies have in paying for imports (financial sanctions and forced conversion of export revenues)
- The initial substantial depreciation of the Russian ruble

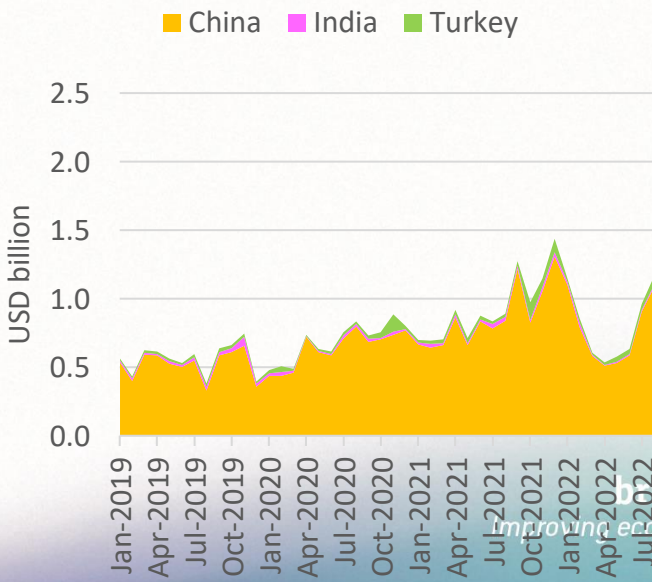
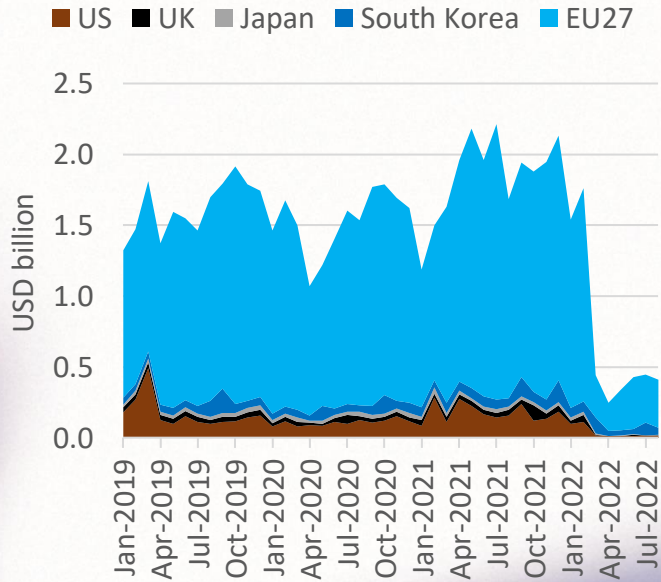
Reasons for Russian import rebound from May 2022:

- Some companies initially went further than sanctions in halting business with Russia
- The ruble's recovery

# Russian imports of sanctioned products fell even more; China does not compensate enough



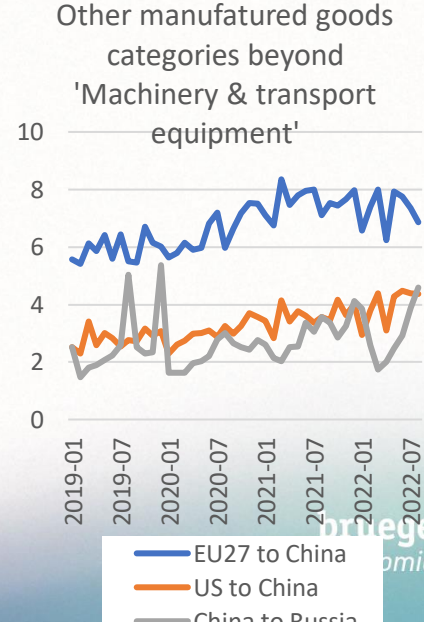
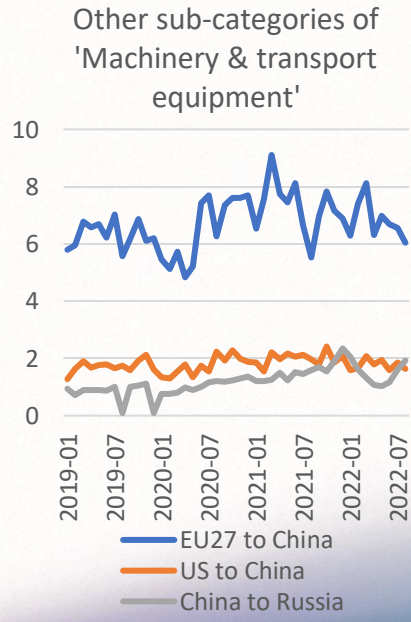
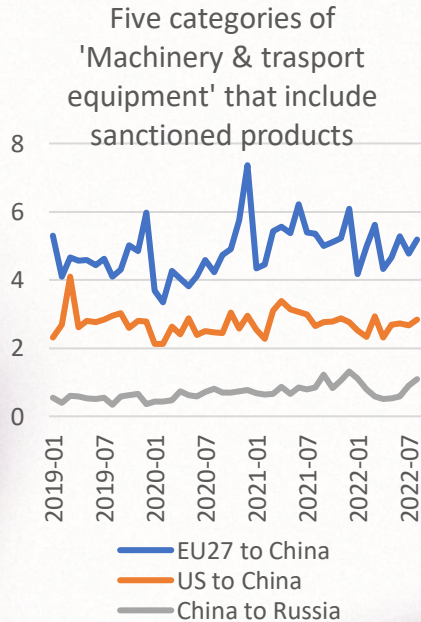
## Russian imports of goods of 5 categories that include sanctioned goods



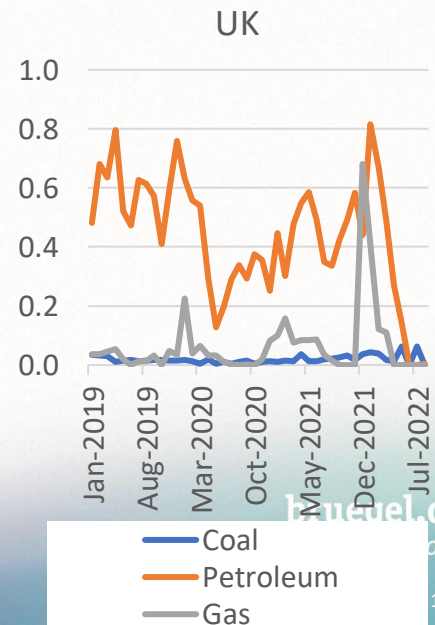
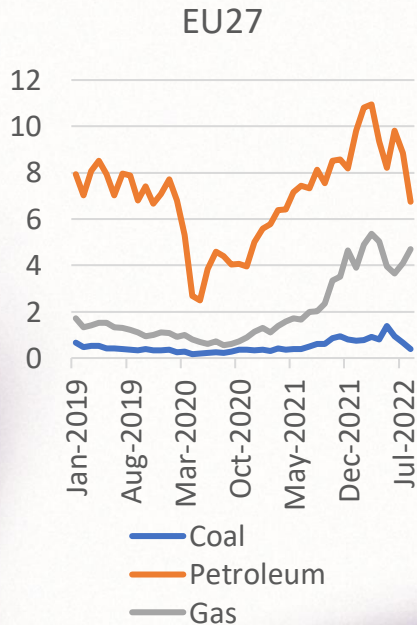
- 1) Electric machinery and parts,
- 2) Transport equipment (other than vehicles),
- 3) Instruments and apparatus,
- 4) Telecom and sound recording equipment,
- 5) Office and automatic data processing machines



# No evidence for EU and US firms circumventing sanctions via China (same for Turkey)



# US and UK already phased out Russian energy, the EU is on its way



# Conclusions, 1



- Russia's aggression: devastating humanitarian consequences, global security implications, major repercussions for the global economy
- The war hit the global economy at a time when its recovery from the COVID-19 pandemic was underway, and inflationary pressures had already emerged. 2021: a record 52% commodity price inflation
- Shortfall in global trade of 3.4% or USD 1 trillion annually
- The war primarily impacted energy prices over 100%, while non-energy commodity prices were revised upward by 8% on average
- Important input costs of industrial production were not impacted by the war
- Soaring energy prices deteriorated the trade balance of countries importing energy

# Conclusions, 2



- There was a large increase in Russia's trade surplus, which helped finance the war, but:
  - About half of the increase is due to higher energy prices
  - The other half is due to reduced Russian imports and falling Russian non-fuel exports
  - This might indicate already weakened Russian productive capacity
  - Russian imports of sanctioned products fell particularly strongly
  - Russia's trade was reoriented from advanced countries imposing sanctions to China, India and Turkey, but this did not compensate sufficiently
  - No evidence for circumventing sanctions via China and Turkey
  - Russian fossil fuel revenues, and Russia's trade surplus, are set to decline with EU's petroleum embargo

# *Thank you!*

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