UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE IMPACT ON TRADE AND DEVELOPMENT OF THE WAR IN UKRAINE

UNCTAD RAPID ASSESMENT

16 March 2022

UNITED NATIONS
UNCTAD

UNCTAD has prepared a rapid assessment of the impact of war in Ukraine on trade and development, and interrelated issues in the areas of finance, technology, investment and sustainable development.

The results confirm a rapidly worsening outlook for the world economy, underpinned by rising food, fuel and fertilizer prices, heightened financial volatility, sustainable development divestment, complex global supply chain reconfigurations and mounting trade costs.

This rapidly evolving situation is alarming for developing countries, and especially for African and least developed countries, some of which are particularly exposed to the war in Ukraine and its effect on trade costs, commodity prices and financial markets. The risk of civil unrest, food shortages and inflation-induced recessions cannot be discounted, particularly given the fragile state of the global economy and the developing world as a result of the COVID-19 (coronavirus disease) pandemic.

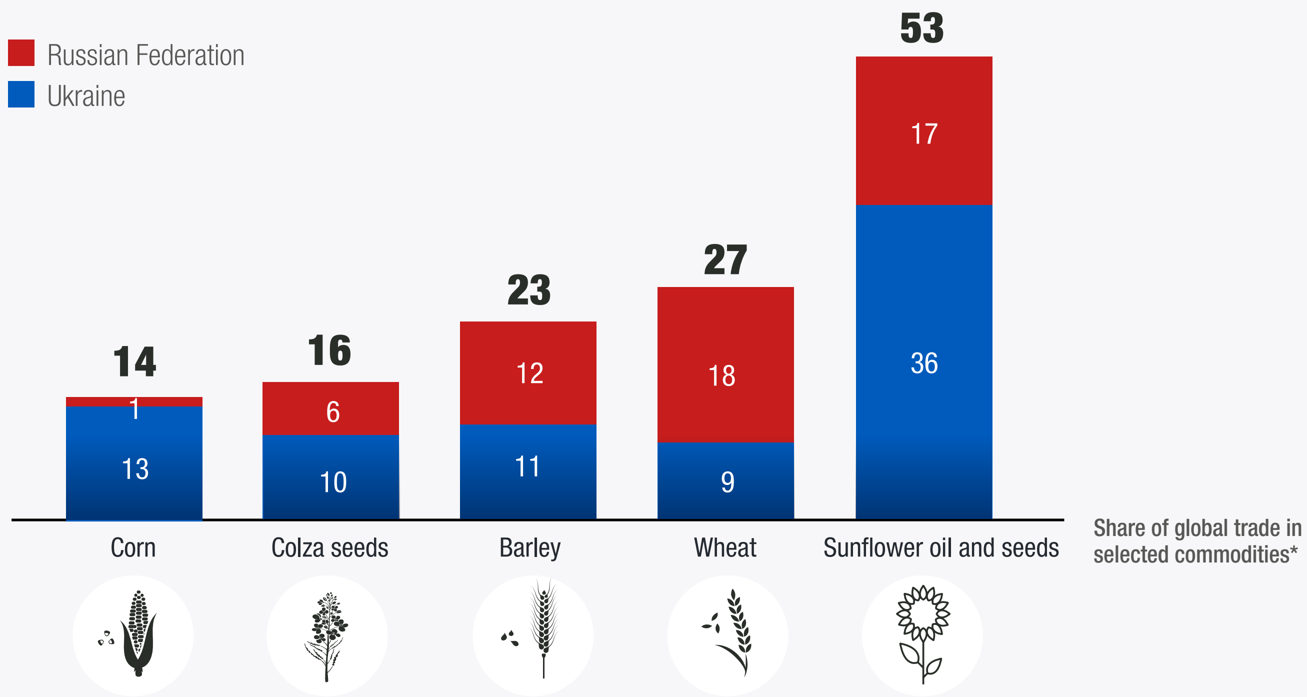
A key area of concern is the two fundamental “Fs” of commodity markets: food and fuels. The Russian Federation and Ukraine are global players in agrifood markets (figure 1). Together, the countries represent 53 per cent of the share of global trade in sunflower oil and seeds, and 27 per cent of the share of global trade in wheat.

In the area of fuels, global energy prices are skyrocketing with the prospect of reductions in purchases of oil, gas and coal from the Russian Federation. The country is the second-largest oil exporter in the world, selling about 5 million barrels of oil daily.

The Russian Federation is also a major global supplier of chemical products – including fertilizers, as well as metals and wood products.

1. Food items and countries exposed to supply shocks

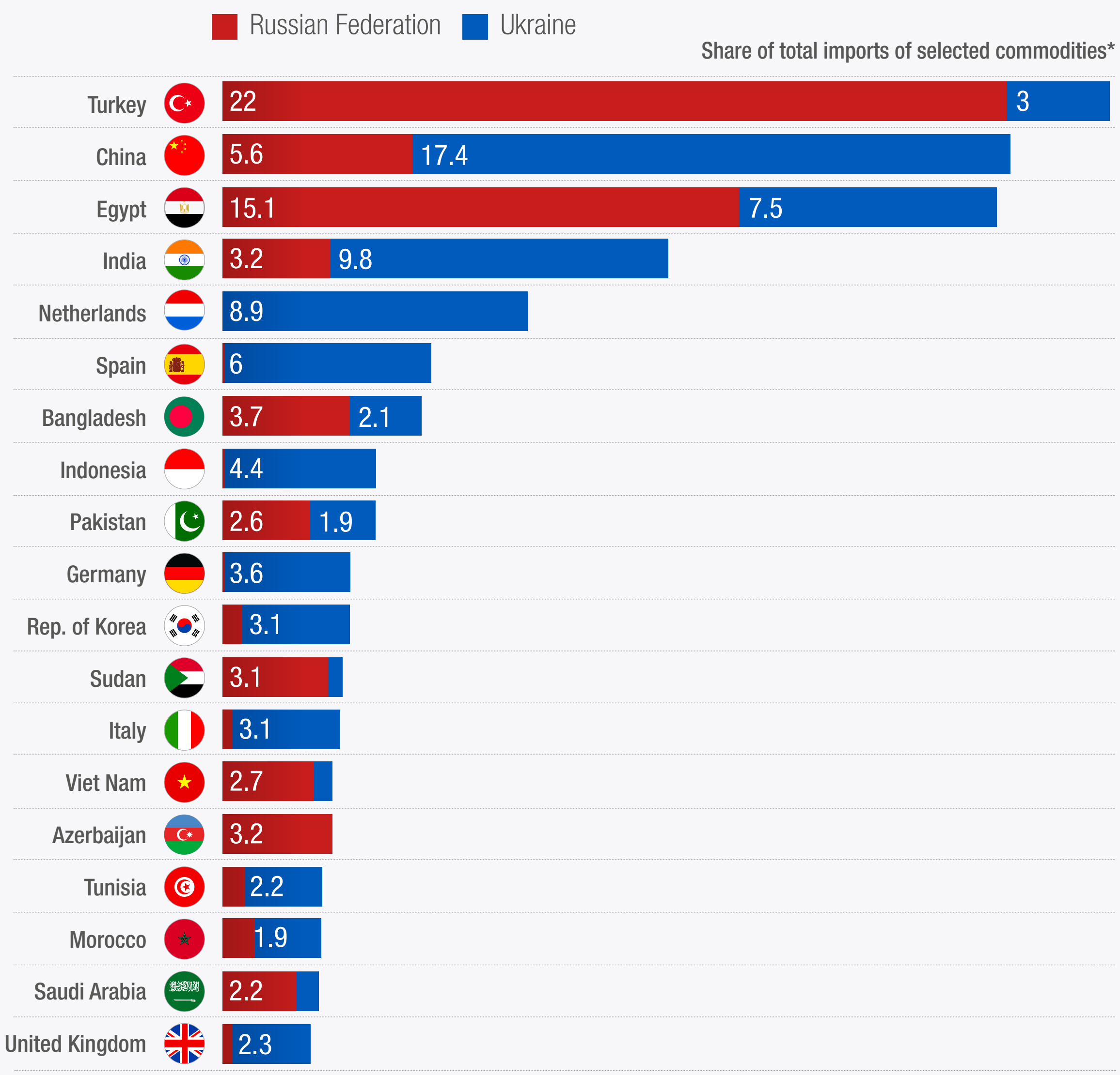
Figure 1. Russian Federation and Ukraine: Global players in agrifood markets
(Percentage)



Source: UNCTAD calculations, based on 2020 data from United Nations Comtrade Database.
* Harmonized System codes are 1001 (wheat), 1003, (barley) 1005 (corn), 120510 (colza seeds) and 120600 and 151211 (sunflower seeds and oil).

The crisis' effect on the food front is particularly worrying. Some countries are particularly dependent on agrifood commodities coming from the Russian Federation and Ukraine.
For example, the share of imports from the Russian Federation and Ukraine – as a percentage of total imports of wheat, corn, barley, colza, sunflower oil and seeds – is 25.9 per cent for Turkey, 23 per cent for China and 13 per cent for India (figure 2). Troublingly, lower income countries are the most exposed. Based on UNCTAD calculations, on average, more than 5 per cent of the import basket of the poorest countries are products that are likely to face a price hike resulting from the ongoing war in Ukraine. The share is below 1 per cent for richer countries.

Figure 2. Food front line: Dependence on agrifood commodities from the Russian Federation and Ukraine
(Percentage)



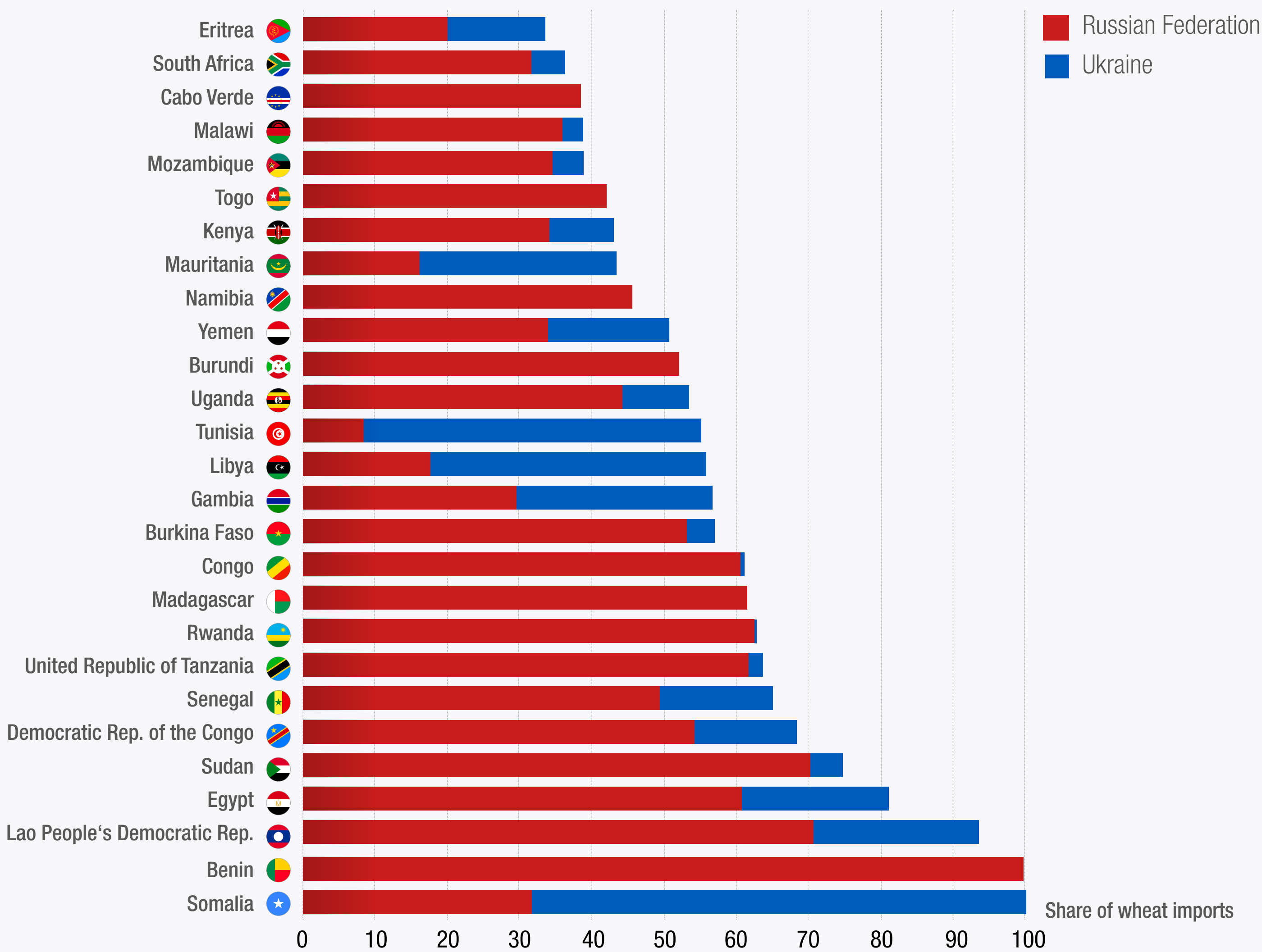
Source: UNCTAD calculations, based on 2020 data from United Nations Comtrade Database.
* Commodities represented are wheat, barley, corn, colza seeds and sunflower oil and seeds.

Wheat markets are a case in point. In 2018–2020, Africa imported $3.7 billion in wheat (32 per cent of total African wheat imports) from the Russian Federation and another $1.4 billion from Ukraine (12 per cent of total African wheat imports). The corresponding imports of wheat from the two countries by the least developed countries were, respectively, $1.4 billion (29 per cent) and $0.5 billion (10 per cent).
A look at specific African countries, including some least developed countries, reveals a far higher degree of dependence for many on wheat imports from the Russian Federation and Ukraine than these overall percentages. As many as 25 African countries, including many least developed countries, import more than one third of their wheat from the two countries, and 15 of them import over half (figure 3).

The figure includes mainly North African and East African economies, as well as a few countries already struggling with internal conflicts and precarious food security situations.

Furthermore, there is limited scope to replace imports from the Russian Federation and Ukraine through intra-African trade, as the regional supply of wheat is comparatively small, and many parts of the continent lack efficient transport infrastructures and storage capacity. In this context, and considering country-specific shocks, climate change, export restrictions and stockpiling, there might be a potential for food insecurity crises in some regions, especially if increased costs of fertilizers and other energy-intensive inputs negatively impact the next agricultural season. A further rise in the costs of inputs is a significant risk factor in Africa, as the costs of urea and phosphate – two major components of fertilizer – had already risen by 30 per cent and 4 per cent, respectively, by the end of 2021.

Figure 3. **Wheat Dependence in African and Least Developed Countries**
(Percentage)

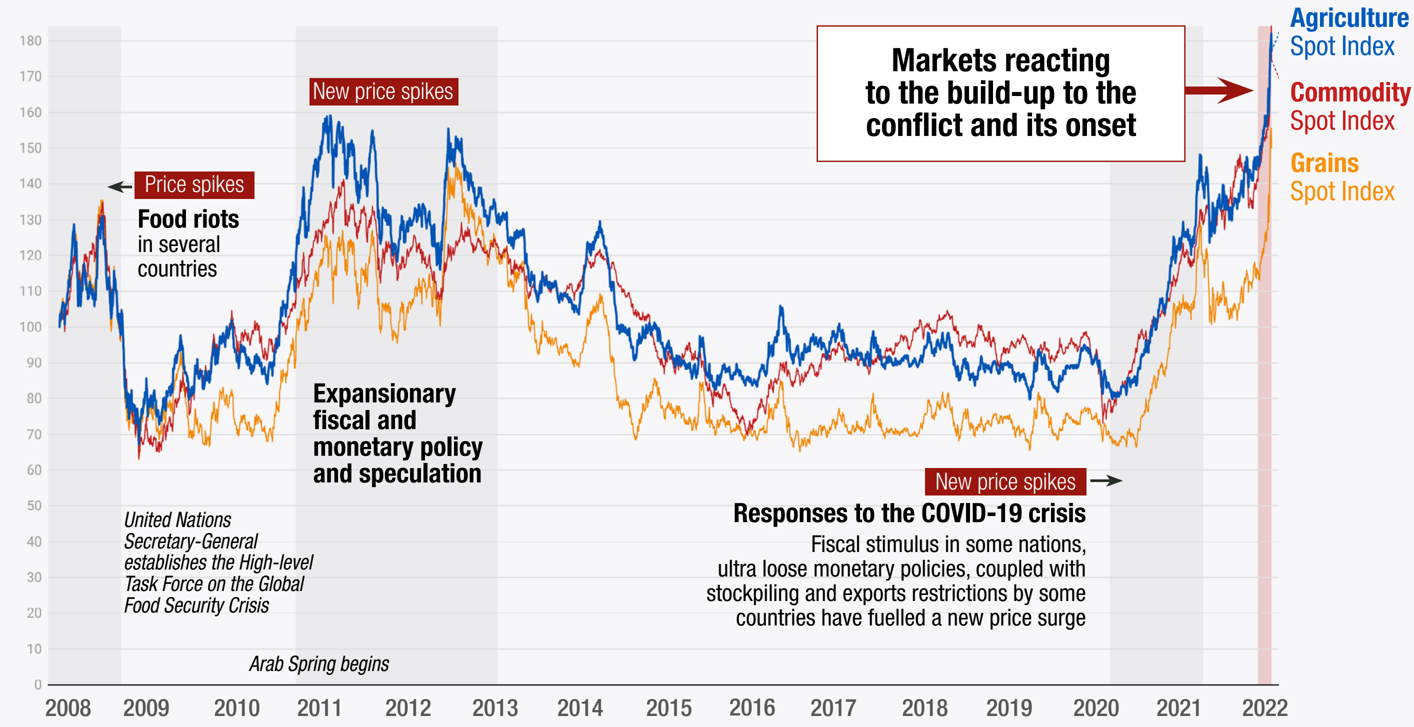


Source: UNCTAD calculations, based on data from the UNCTADstat database (accessed 4 March 2022).

Long-standing effects of rising food prices are hard to predict, but an UNCTAD analysis of historical data sheds light on some troubling possible trends. In general, political instability and increases in agrifood commodity prices are highly correlated.

Agrifood commodity cycles have coincided with major political events, such as the 2007–2008 food riots and the Arab Spring (figure 4).

Figure 4. **Rising prices elevate the alarm for food security and political stability**
Price index (Base year =100)



Source: UNCTAD Secretariat based on data from Thomson Reuters (Bloomberg Commodity Index).

2. Impact on transport

It is unclear to what extent the war will reduce commodity supplies from the Russian Federation and Ukraine, but initial assessments point to a substantive reduction despite some efforts from the West to not disrupt commodity supplies. Most economic restrictive measures have explicitly avoided commodities. However, restrictive measures on airspace, contractor uncertainty and security concerns are complicating all trade routes going through the Russian Federation and Ukraine. The two countries are a key geographical component of the Eurasian Land Bridge.

While Russian airspace is closed to 36 countries and vice versa, some freight forwarders currently recommend not booking overland shipments between Asia and Europe. The war will have a negative impact on global air freight capacity and raise air cargo prices as carriers are forced to take longer routes and spend more money on fuel.

On top of this, already expensive and overstretched maritime trade will find it difficult to replace these suddenly unviable land and air routes.

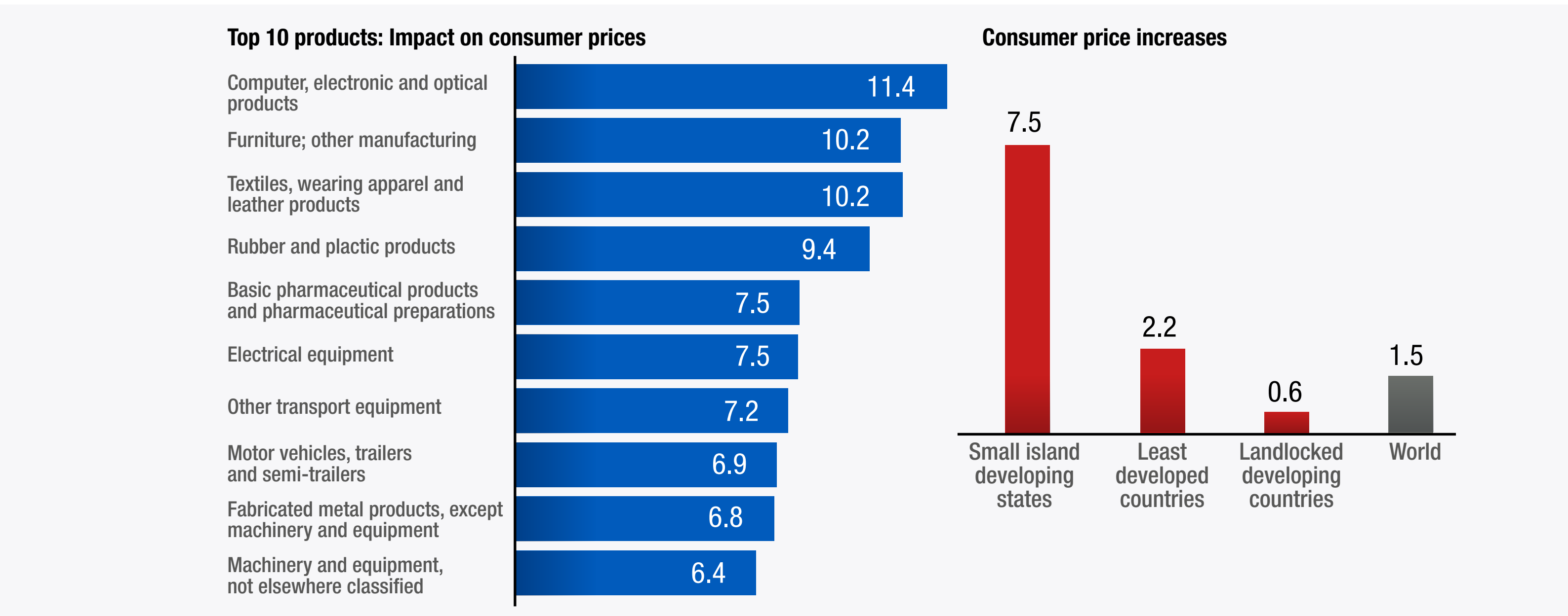
In 2021, 1.5 million ocean containers of cargo were shipped by rail west from China to Europe. If the volumes currently going by container rail were added to the Asia–Europe ocean freight demand, this would mean a 5 to 8 per cent increase in an already congested trade route.

Indeed, due to higher fuel costs and rerouting efforts, current container shipping carrying capacity is being constrained. This is evident from the ongoing supply chain crisis and a potential shift from land to maritime transport (between Asia and Europe). The impact of the war in Ukraine can be expected to lead to even higher freight rates. Nevertheless, it must be noted that, so far, global container freight rates seem to have not risen, but rather continued their most recent slightly downward trend from earlier record highs. This is related more to a global trend in the easing of pandemic lockdowns and phasing out of stimulus packages, vis-à-vis slowly improving congestion in some port areas of the world. Upward pressure on prices, however, may soon win out on balance.

The disruption has already been felt across smaller tankers, which are key for the Black Sea and Baltic Sea regional oil trade. Black Sea–Med Aframax and Suezmax tanker earnings jumped from about $10,000 per day on 18 February 2022, to over $170,000 per day on 25 February 2022. The underlying freight costs increased by about 400 per cent. By mid-March 2022, tanker rates in the region remained firm, with some spillover into some but not all tanker segments.[1]

These increases in freight rates can have significant impacts on the economy. UNCTAD simulated that the container freight rate increase during the pandemic increased global consumer prices by 1.5 per cent – with particularly oversized effects in vulnerable economies, such as small island developing States, landlocked developing countries and least developed countries (figure 5).

Figure 5: Simulated impact of higher container freight rates*
(Percentage)



Source: UNCTAD, Review of Maritime Transport 2021 (United Nations publication, Sales No. E.21.II.D.21, Geneva).
* The simulation does not reflect consequences of the war in Ukraine. It can only illustrate the prices, by product group and country group, more strongly impacted in general by an increase in maritime freight rates.

1. Clarksons Research Services, 2022, Russia[n Federation]–Ukraine: Shipping context update no. 2, Clarksons Research, 3 March.

3. Key issues related to finance, investment and sustained energy transition

The rise in food and fuel prices stemming from the war is already accelerating inflation in many countries. The adverse distributional impacts will hit the poorest segments of populations, as they tend to spend a disproportionately high share of their income on food. At the same time, fuel- and food-import dependent countries will see worsening balance of payments and rising exchange rate pressure.

In periods of heightened uncertainty and volatility, significant volumes of wealth shift to safe havens. The shift by financial investors from assets perceived as high risk, such as emerging market debt instruments, to safe havens such as the government debt instruments of advanced economies, may exacerbate pressures on developing country exchange rates and external capital account balances. This would force developing economies to tighten domestic monetary conditions and would weaken growth and lower domestic real incomes.

The potential for a vicious circle – driven by asset "fire sales", exchange rate devaluation and rising external debt obligations – cannot be discounted.

Similarly, the significant increase in oil and gas prices may shift investment back into extractive industries and fossil fuel-based energy generation, running the risk of reversing the trend towards renewables documented over the past 5–10 years.

Taken together, these shifts – in investment and asset positions (that is, reversal of capital flows) – imply a serious risk of divestment from greenfield and international project finance in countries in conflict as well as other economies and towards downward pressure on investment in developing countries, especially in infrastructure and sectors relevant for the Sustainable Development Goals.

The war in Ukraine puts macroeconomic policymakers in advanced economies in a difficult situation. Higher inflation raises the pressure to tighten monetary policy by increasing interest rates. However, the short run dislocations caused by the war and the potential for financial disorder could lead central banks to postpone tightening and instead further increase provision of liquidity. A "dual strategy" of liquidity provision in the form of bond purchases alongside higher interest rates could emerge in this scenario. Mounting debt burdens, rising climate change costs and ongoing pandemic effects and the commodity price shocks clearly increase the risk of a debt crisis in developing countries.

Rate hikes alongside financial disorder would be a double blow for developing economies, of "taper-tantrum-like" effects through interest rate rises and greater volatility in commodity futures and bond markets, leading to increased risk premiums on top of exchange rate pressures.

The combination of very high prices of food and fuel and macroeconomic tightening will place severe pressure on households in developing countries: real incomes will be squeezed, and economic growth will be constrained. Even in the absence of disorderly moves in financial markets, developing economies will face severe constraints on growth and development.

@UNCTAD

@UNCTAD

unctad.org/facebook

unctad.org/youtube

unctad.org/flickr

unctad.org/linkedin

UNCTAD/OSG/INF/2022/1