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The Global Effects of the Russian-Ukrainian War and its Repercussions on the Iraqi Economy

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The Global Effects of the Russian-Ukrainian War and its Repercussions on the Iraqi Economy

Ali Abdel Rahim Al-Aboudi*

Executive Summary:

- The sanctions against Russia that the United States and the European Union have already taken on the energy sector will result in a global crisis and a shortage of oil and gas supply.
- Global growth will decline from 2022-to 2023; Given the uncertainty and chaos that the global economy is witnessing now, according to a British study that confirmed a drop in global growth at a rate of 1%.
- Iraq’s financial revenues will grow by nearly 200% compared to last year, in which the average price of a barrel was about \$74. While it will grow by about 375% compared to 2020 when the average price of a barrel of oil reached \$40.
- Global inflation will decrease, especially in foodstuffs, compared to the Iraqi economy. If we know that Iraq imports from abroad about 80% of its food imports.
- The bleeding of foreign currency from Iraq will increase. Especially the dollar, as a result of the rise in food prices in the world, and the need to compensate for the lack of supplies in iron and materials used in infrastructure.

* researcher in political economy.

Introduction:

The world is witnessing a political, security, and economic crisis today, similar to the crisis of the Cold War from 1947–to 1989. After the tension over the last decade between Russia on the one hand, and Ukraine and its allies – the European Union and the United States – on the other. Russia did it by declaring war on Ukraine after the crisis reached its peak. In view of the complex intertwining and interdependence that characterizes the current world order, which some writers have called the “global village,” this war cast a shadow over the entire global system, in both its political and economic aspects. But this influence was not of a single degree of strength at the state level. As some of them suffered a direct impact on their economy with the start of the war, while the impact was slight and indirect on others.

The crisis heading for escalation, expansion, and complexity, to the point of threatening the current global order. Countries are starting to sense a new global economic crisis. Here, many questions come to mind for every specialist in Iraqi economic affairs, most notably: What is the impact of the Russian–Ukrainian war on the Iraqi economy? And if there is an impact, what are the most important economic sectors that will be greatly affected, whether positively or negatively?

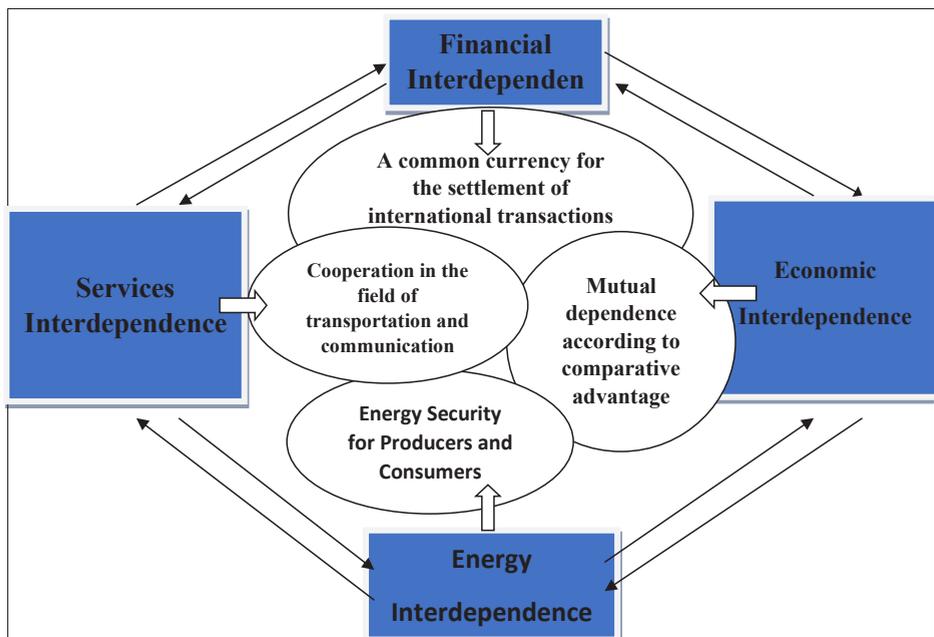
Giving a scientific and objective answer to these questions requires giving a glimpse into how the global economy works first, and secondly, the repercussions of the war on it.

First: An overview of the global economy’s pattern and how it functions

The global economic system has gone through many stages until it reached what it is now synaptic, integration, and complexity. This global economic system that we are witnessing today with its

foundations, rules, elements, and actors did not come randomly but came according to a very deep intellectual and theoretical development. Therefore, the current global economic system can be defined as “a system consisting of a set of intellectual foundations and rules that govern economic relations between states and non–state actors.” These economic relations between countries run within the framework of interdependence and economic integration, and accordingly, the global economy operates according to the intertwining and integration of economic, financial, and service integration between countries. It can be explained according to the following diagram:

Diagram No. 1 integrative work of the global economic system



Source: Diagram prepared by the researcher.

1. Financial interdependence: The post-World War II world order was able to link countries together with a strong financial interdependence, by imposing a major currency for all international settlements. All commercial, economic, and service transactions between countries of the world are valued in US dollars. Therefore, the dollar is used as a unifying currency for external settlements between countries, and as a financial cover for local currencies¹. Accordingly, today there is a financial system in which all financial transactions between countries are settled. Countries settle their financial transactions resulting from commercial and investment operations with the outside world through the Society for Worldwide Interbank Financial Telecommunication. Better known by the acronym SWIFT².
2. Economic interdependence: This interdependence lies easily through the exchange and trading of goods and merchandise between countries. Trade between countries is based on the percentage advantage brought by David Ricardo. We find that country A has a proportional advantage in wheat production, so it exports it to country B, which suffers a low wheat production. While we find that country (A) itself imports clothes from the country (C), which has an advantage in the production of clothes but suffers from weakness in the production of edible oil, which it imports from the country (B). Accordingly, the foundations of the World Trade Organization (WTO) were based on the idea of interdependence

1. Abdellateef Mustafa, *Financing for Development in Third World Countries between the Debt Economics and the Economics of Financial Markets: A Comparative Study between Algeria and Egypt*, (University of Algiers, College of Economics and Management Sciences, Department of Economics, 2008): p. 165.

2. Susan V. Scott and Markos Zachariadis, *Origins and Development of SWIFT, 1973–2009*, (London School of Economics and Political Science, 2012), p.p. 5–6.

among all countries³.

3. Energy interdependence: it comes as the main focus of economic interdependence. Energy sources are the main engine in the production process at the global level, especially oil and gas, which have dominated other energy sources. In view of the uneven distribution of oil and gas globally. We find that these energy sources are abundant in certain countries, and other countries lack them, while they are found in small quantities in other countries of the world⁴. Therefore, interdependence is easy if we know that most countries with abundant energy suffer from a weakness in the technological component, which other countries possess, especially the major industrial countries, which are in dire need of energy sources, especially oil and gas, to sustain and develop their industries. Which in turn exports its products to other countries, including the countries from which it imported energy sources⁵. Therefore, the link lies in the energy security of both the exporter and the importer of energy sources.
4. Service interdependence: The services sector overlaps with all other sectors. But its importance is clearly visible in the transport and communications sector. The world is divided into states, and each state has certain borders that do not allow it to be breached without permission. In order to achieve global interdependence in the economic, commercial, financial, and energy fields, interdependence and coordination must be achieved between countries in the field of transport and communications. Whether shipping via sea lanes or air transport. Therefore, interdependence

3. For more: check the World Trade Organization Agreement.

4. Abd al-Samad Saadoun, and Ziyad Abd al-Rahman, Depleted Energy and Regional Conflicts, The Hashemite Kingdom of Jordan: Dar Degla Publishers and Distributors, 2016: 42.

5. Same source: pg. 46.

lies in mutual cooperation in accordance with the common interest among all countries, by providing communications and distributing tasks. This is what has been consolidated by the international agreements and conventions regulating this interdependence and signed by most of the countries of the world. The most important of them is the United Nations Convention on the Law of the Sea⁶, the Convention on International Civil Aviation⁷, which includes 191 member states⁸, and the United Nations Convention on Electronic Communications⁹.

The above interdependencies complement each other according to a process of international coordination and integration. Therefore, any impact or disruption that affects one of the global economic interdependencies will be immediately reflected on all others. There are many examples of this, but the most prominent in the current century are the financial crisis of 2008¹⁰ and the global health crisis (Covid 19), which paralyzed the global economy.

6. United Nations Convention on the Law of the Sea. look at the link: https://www.un.org/depts/los/convention_agreements/texts/unclos/unclos_e.pdf

7. The Assembly of the International Civil Aviation Organization (ICAO), Resolutions in force of the 1944 Chicago Convention, (Canada, 2011). Available at: https://www.icao.int/publications/Documents/9958_en.pdf

8. UN, International Civil Aviation Organization (ICAO). Available at the link: <https://tfig.unece.org/AR/contents/org-icao.htm>

9. UN, Electronic Communications Convention 2005. Available at: <https://tfig.unece.org/AR/contents/convention-use-e-communication.htm>

10. For more: Paul Mason, *The Collapse of the Global Economy, Arabization: Antoine Basel, 2nd Edition*, (Beirut: Publications Company for Distribution and Publishing, 2012).

Second: The repercussions of the Russian–Ukrainian war on the global economy

Since the first week of the war, a number of effects have begun to float and cast a shadow on the global economy. This is clearly demonstrated by the chaos and confusion that the global markets are witnessing now. This is due not only to the fact that the ongoing war is in fact crossing the Russian–Ukrainian border but also to Russia’s size and position in the global economy. Russia is the third-largest oil producer in the world, and both Russia and Ukraine supply the world with about 30% of wheat grain and vegetable oils. In addition, Russia is the world’s largest exporter of minerals and agricultural fertilizers, and a powerful trading partner for half of the world’s countries¹¹.

Accordingly, it is possible to monitor the possible economic effects on the global economy, according to macroeconomic indicators, which we summarize in several points:

1. A crisis in the supply of energy sources: Russia, together with the OPEC countries, owns the world energy market – oil and natural gas. These two parties coordinate to supply the oil market with the oil and natural gas it needs¹², so Russia’s strength lies in this aspect. And it’s known that the European Union countries depend on about 31% of oil supplies, about 30% of natural gas supplies, and about 30% of coal from Russia¹³. The increase in sanctions against Russia, which has already been taken by the United States and the

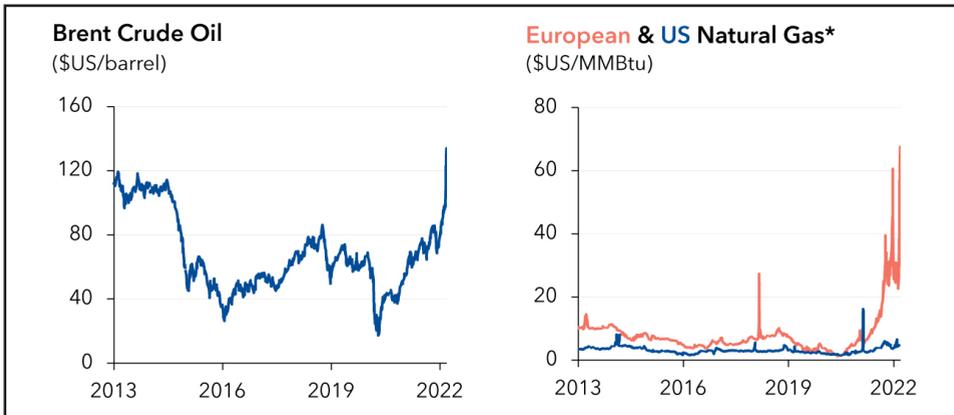
11. Pablo Ogawa, Will war lead to a global recession? (BBC News Arabic, March 11, 2022). Available at the link: <https://www.bbc.com/arabic/business-60690789>

12. OPEC, Annual Statistical Bulletin, (Vienna, Austria, 2020), p.38.

13. dinfar safia, The Repercussions of the Ukrainian Crisis on Russian–Western Relations, Master Thesis, (Algeria: University of Mohamed Khider–Baksra, Faculty of Law and Political Science, Department of Political Science and International Relations, 2018): p. 45.

European Union, especially on the energy sector, will result in a global crisis and a shortage in the supply of oil and natural gas. This leads to very high energy prices. It may not be possible to control this rise in the long run, if the price of a barrel of oil rises by 35%, and natural gas by about 200%, with the start of imposing sanctions on Russia¹⁴. As shown in Figures (1 and 2).

Figures (1 and 2) Oil and natural gas prices before and after the war (2013–2022)



Source: Alfred Kammer, and others, How War in Ukraine Is Reverberating Across World's Regions, (IMF Blog, 15 MARCH, 2022). link: <https://blogs.imf.org/2022/03/15/how-war-in-ukraine-is-reverberating-across-worlds-regions/>

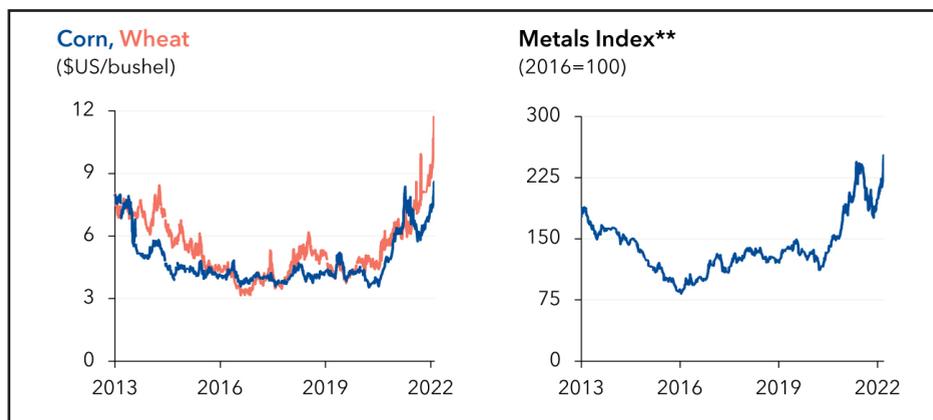
Global inflation: The energy crisis will extend to all sectors. In addition, Russia and Ukraine are major producers and exporters of basic commodities, especially wheat, corn, and metals¹⁵. The prices of these commodities have indeed risen significantly, and are still rising; This portends high global inflation, especially

14. Alfred Kammer, and others, How War in Ukraine Is Reverberating Across World's Regions, (IMF Blog, 15 MARCH, 2022). look at the link: <https://blogs.imf.org/2022/03/15/how-war-in-ukraine-is-reverberating-across-worlds-regions/>

15. I bid.

with countries rushing to buy and store wheat. As shown in Figures ۳ and ۴.

Figures (3, and 4) Comparison of wheat, corn, and metal prices before and after the war (2013–2022)



Source: Alfred Kammer, and others, How War in Ukraine Is Reverberating Across World’s Regions, (IMF Blog, 15 MARCH, 2022). link: <https://blogs.imf.org/2022/03/15/how-war-in-ukraine-is-reverberating-across-worlds-regions/>

In a study conducted by the British Institute of Social and Economic Research. According to standard analysis, global inflation may rise to more than two percentage points by 2023¹⁶.

2. The downturn in global economic growth: Due to the uncertainty and chaos in the global economy now, global growth will decline from 2022 to 2023. According to the same British study. The Institute for Social and Economic Research asserts that global growth will decline at a rate of 1%. The reason for this is due to the shortage of energy supplies that the world will witness with the increase in sanctions against Russia, and to the reduction in the volume of international investments resulting from the uncertainty

16. National Institute of Economic and Social Research, What is the Economic Impact of the Russia–Ukraine Conflict, (London, 07 March, 2022). look at the link: <https://www.niesr.ac.uk/blog/what-economic-impact-russia-ukraine-conflict>

in the global arena¹⁷. In addition, the war has disrupted commercial supply chains (land and sea) as transit through Russia will be more difficult and more restrictive. Ukraine also recently suspended commercial transit through the Black Sea. Turkey has also moved to restrict transit through the Bosphorus Strait. This situation will significantly weaken and constrain global economic growth¹⁸.

3. A split in the financial system: The United States and the European Union intend to increase economic and financial sanctions against Russia. Both have imposed sanctions targeting Russian companies and the Russian Central Bank. These sanctions will prevent Russia from accessing about \$ 643 billion through Russia's inability to convert its assets in US dollars and euros into rubles. The danger here lies in the extent to which the United States and the European Union can isolate Russia and its internal banks from the global financial payments system "SWIFT"¹⁹. Such a decision could divide the globe in half by developing an alternative system to Russia's financial system "Swift". This is possible, especially if we know that Russia has economic partners that confirm that they have a strong position in the global economic system, such as: China and India. If this actually happened, it would have economic effects and significant financial repercussions. It should be noted here that Russia and China have already established an alternative financial system to "SWIFT", but its transactions are currently very few²⁰.

17. I bid.

18. Economist intelligence (EIU), . look at the link: <https://www.eiu.com/n/global-economic-implications-of-the-russia-ukraine-war/>

19. Mohamed El-Erian, We must tackle the economic fallout of the Ukraine war now, (the Guardian, 8March 2022). Look at the link: <https://www.theguardian.com/business/2022/mar/08/ukraine-war-economic-fallout>

20. Steven Terner, A China-Russia SWIFT Alternative Will Not Undermine Iran Sanctions, (The Washington Institute for Middle East Policy, 25 Feb , 2022) . look at the link: <https://www.washingtoninstitute.org/policy-analysis/china-russia-swift-alternative-will-not-undermine-iran-sanctions>

Third: The possible effects of the Russian–Ukrainian war on the Iraqi economy

Some observers believe that Iraq is safe from the effects of the war in Europe due to the geographical distance between Iraq and Russia–Ukraine. Perhaps they are right about the direct economic effects. Especially when we know that trade relations between Iraq and Eastern European countries, including Russia, constitute only 2% of Iraq’s trade volume²¹. But Iraq is part of the regional system, which is an integral part of the global system. Especially the intertwined, interconnected, and complex economic system. Therefore, Iraq will not be immune from the economic effects that will throw themselves at all countries of the world with varying degrees of force. Accordingly, it is possible to monitor the possible economic effects on Iraq, whether positive or negative, as follows:

1. Positive Economic Effects:

a. Financial abundance: Iraq is one of the oil–exporting countries, as it ranks second in oil production and export within OPEC after Saudi Arabia²². It also ranks second in the Arab world, and fifth globally in the level of oil reserves, according to the reports of international classification organizations. The proven crude oil reserves in Iraq in 2021 amounted to about 149 billion barrels, which is the third–largest reserve in the Middle East after Saudi Arabia and Iran²³. Therefore, Iraq depends for about 90% of its financial revenues on oil exports. Accordingly, the rise in oil prices globally due to the Russian–Ukrainian war will have a

21. Central Bank of Iraq, Annual Economic Report (Department of Statistics and Research, 2020): p. 55.

22. OPEC, Annual Statistical Bulletin, op, cit, p.11.

23. Global fire power (GFP), Proven Oil Reserves by Country, (classification:2021). Look at the link: <https://www.globalfirepower.com/proven-oil-reserves-by-country.php>

positive impact on Iraq's financial revenues. European experts expect the price of a barrel of oil to reach more than \$150 per barrel²⁴. This means that Iraq's financial revenues according to this price will grow by about 200% from last year, in which the average price of a barrel was about \$74 per barrel²⁵. While it will grow by about 375% compared to 2020 when the average price of a barrel of oil reached \$40 per barrel²⁶.

b. **Rising Gross Domestic Product (GDP):** The current rise in oil prices; Because of the war between Russia and Ukraine. And what may happen from US-European sanctions on the Russian energy sector. In view of the oil revenues, which represent 45-60% of the value of the Iraqi GDP²⁷, and assuming the achievement of previous expectations of oil prices in the future, this will result in a significant increase in the value of the GDP in Iraq. As shown in Figure (5).

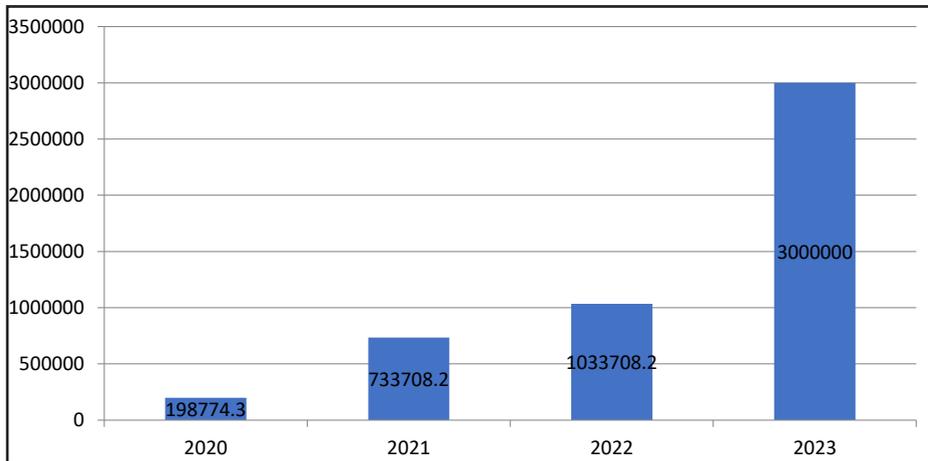
24. Rob Davies, How important is Russian oil and how high could prices go, ((the Guardian, 18 March 2022). Look at the link: <https://www.theguardian.com/business/2022/mar/07/how-important-is-russian-oil-and-how-high-could-prices-go>

25. Report of the Iraqi Oil Marketing Company (SOMO). Link : <https://somooil.gov.iq/exports>

26. Central Bank of Iraq, Annual Economic Report, (Department of Statistics and Research, 2020), p. 1.

27. Republic of Iraq - Ministry of Planning, Preliminary Estimates of Gross Domestic Product for 2021, (Central Statistical Organization, 2021), p. 6.

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Prepared by the researcher based on: Republic of Iraq – Ministry of Planning, quarterly and total estimates of GDP, (Central Statistical Organization, 2020–2021), p. 2–5.

* 2022–2023 forecast based on an average oil price of \$150 per barrel, and a production volume of 3.5 million barrels.

2. Negative Economic Effects:

a. General inflation: The general level of prices in Iraq began to rise since the government’s decision to reduce the value of the Iraqi dinar against the dollar. The inflation rate was recorded at 6.8% in 2021, after it was 3% in 2020²⁸, it is expected to rise to higher levels. The global inflation of foodstuffs will affect the Iraqi economy. Especially if we know that Iraq imports about 80% of its food security from abroad, according to the statement of the government’s financial advisor,

28. Republic of Iraq – Ministry of Planning. Link: <https://mop.gov.iq/news/view/details?id=808>

Mudhar Mohammad Salih²⁹.

b. The contraction of the real sector: the real economic sectors (agriculture, industry, building and construction, transportation, communications, and tourism) account for 31% of the GDP in Iraq³⁰. Therefore, as a result of the rise in imported inflation in the Iraqi economy, as well as the huge financial revenues that will be achieved thanks to the rise in oil prices; resulting from the Russian oil embargo. This, in turn, will push the decision-maker in Iraq to lean on the volume of these revenues, neglect the real sector, and focus on the oil and financial sector, which will lead to:

- Economic stagnation accompanying inflation in local markets.
- An increase in the unemployment rate, as a result of stagflation, could rise from the current³¹ 13.8% to about 30% in the next three years.
- Deepening the imbalance in the components of the gross domestic product (GDP).

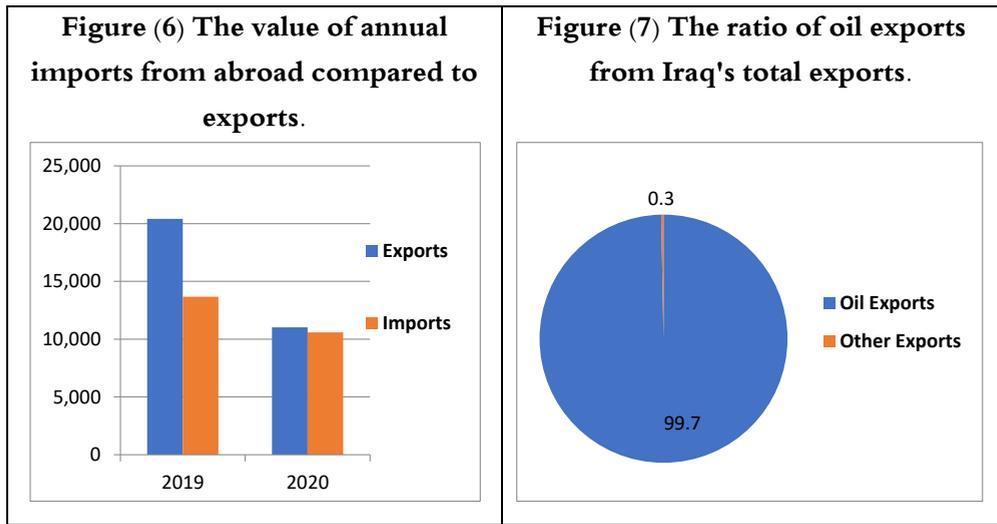
c. Leaking hard currency abroad: At a time when financial revenues are increasing in the public treasury of the Iraqi state as a result of the rise in oil prices, resulting from the shortage of oil supply due to the ongoing war between Russia and Ukraine. On the other hand, there will be an increase in the foreign currency leakage, through an increase in imports, which will be more expensive than before. Iraq relies heavily on importing goods, merchandise, and oil derivatives

29. Quoted from: Al Jazeera News. Link: Quoted from: Al Jazeera News. Link: <https://www.aljazeera.net/ebusiness/2022/3/2>

30. Ministry of Planning, Preliminary Estimates of GDP for 2021, (Central Statistics Organization, 2020): p. 10.

31. Ministry of Planning, Early Warning Indicators, (Central Statistics Organization, 2020): p. 14.

from abroad to meet the needs of the internal market. With the trade balance achieving a surplus in most years, this is achieved thanks to oil revenues, which represent 99.7% of Iraq’s total exports³², as about 70–80% of these revenues are generated from selling crude oil spent on imports from abroad. As shown in Figures (6 and 7).



Source: Prepared by the researcher, based on: Ministry of Planning, Early Warning Indicators, (Central Statistics Organization, 2020): p. 11. And The Central Bank of Iraq, Annual Economic Report, (Department of Statistics and Research, 2020): p. 56.

3. Withdrawal of Russian companies operating in Iraq: A group of Russian oil and gas companies operating in Iraq. But the most important of them are: “Rosneft”, which operates in the northern fields, “Luk oil”, which invests in the Qurna field, and “Gazprom”, which invests in the Badra field in Wasit Governorate and other fields

32. Central Bank of Iraq, Annual Economic Report 2020, previously mentioned source: p. 56.

in the north³³. According to a statement by Maximov, the Russian ambassador in Baghdad, Russia is investing about \$13 billion in the energy sector inside Iraq³⁴. And if the United States and Europe impose comprehensive sanctions on the Russian energy sector, it is possible that these companies will withdraw from Iraq, or restrict their work, which will harm the production capacity of Iraqi oil.

Finally, it can be said that the economic repercussions and effects resulting from the Russian-Ukrainian war, whether those potential effects were on the global economy or on the Iraqi economy. It depends to a large extent on the development and extension of the war, as the longer the war continues, the more severe the economic effects will be. With regard to the Iraqi situation, the effects are still minor as long as the war is on a small scale, and if the war expands to include the whole world, Iraq will incur very large losses, not only on the economic level but on all levels, especially political and human. This is due to the regional balances associated with the two sides of the conflict.

33. Iraq-business news, List of International Oil Companies in Iraq 2022. look at the link: <https://www.iraq-businessnews.com/list-of-international-oil-companies-in-iraq/>

34. Quoted from: Al Jazeera News. Link: <https://www.aljazeera.net/ebusiness/2022/3/13>