

## THE NEGATIVE EFFECTS OF TWO-STATE CONFLICTS ON THE GLOBAL ECONOMY

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### ABSTRACT

This article talks about the factors affecting the world economy behind the current problems between the two countries. Opinions were also given on the extent to which this conflict is rapidly escalating and on the important areas that will not have negative effects in the future.

**Keywords:** globalization, crisis, Russia, Ukraine, GDP, inflation, World Economic Forum, humanitarian, price index, foreign trade, restrictions, diversification, Europe, industry.

In the conditions of deep globalization, the economic consequences of war are not limited only to the participating countries. This war was a significant blow to the entire global economy, which is on the verge of recovery after the pandemic crisis. Below, we will dwell on the economic consequences of this war, which two countries, that is, Russia and Ukraine, are experiencing, but the whole world community is paying for.

Slowing global growth - 2022 saw a slowdown in the global economy due to a number of factors, including the energy crisis, inflationary pressures and declining real incomes of the population, and the global growth rate decreased from about 6 percent in 2021 to 3 percent. According to World Bank research, global GDP growth is expected to slow to 1.7 percent in 2023 amid continued war in Ukraine, high energy and food inflation, and possible commodity shortages. Economic Cooperation and Development according to the organization (OECD), global growth in 2023 will be achieved mainly due to economic growth in developing Asian countries. While the economies of the USA and European countries are slowing down, three-quarters of the global growth is expected to be contributed by developing Asian countries.

Record Inflation - In October 2022, the International Monetary Fund (IMF) forecast annual global inflation to rise to 8.8% by the end of 2022 from 4.7% in 2021 and to decline to 6.5% in 2023. . The Organization for Economic Cooperation and Development (OECD) estimated this figure at 9.4 percent (6.6 percent in 2023). of the

world in 2022 Double-digit inflation was recorded in dozens of countries, and triple-digit inflation was recorded in countries such as Venezuela, Sudan, Zimbabwe, Turkey and Argentina. had begun to grow. Disruptions in energy and food markets and supply and value chains caused by the war in Ukraine have further accelerated existing inflation. It is worth noting that although the economies of Russia and Ukraine do not have a large share of the global economy in terms of scale (3.2 percent and 0.3 percent in 2022, respectively), both countries are energy and staple food on the world market. plays an important role in the supply of goods. In this context, the war in Ukraine caused serious short-term shocks in the energy and food markets.

Goods intended for primary needs in 2020–2022:

1. Consumer price index;
2. food and soft drinks;
3. housing, drinking water, electricity, gas and other fuels;

price growth across countries by different income groups. The war in Ukraine has caused energy prices to rise at a rate not seen since the oil crisis of the 1970s. According to experts of the World Bank, in 2023, energy prices are expected to remain 46 percent higher than average. The OECD forecasts that continued rising energy prices could lead to a 0.5 percent loss in global GDP and 0.7 percent higher global inflation in 2023. The Food Price Index of the UN Food and Agriculture Organization (FAO) is expected to grow by 14.7 percent in 2022, the highest level in the last 30 years. According to the World Bank, food price inflation remains high in domestic markets around the world. Data on food price inflation for the latest months from October 2022 to January 2023 show that almost all low- and middle-income countries are experiencing high inflation. Africa, North America, Latin America, South Asia, Europe and Central Asia are among the regions most affected by the increase in food prices. Energy resources and food prices The cost of living crisis, which has begun to deepen after record growth, has been assessed as the most serious global risk in 2023 and the next two years, according to the World Economic Forum (WEF) study on global risks. As a result of the cost of living crisis, the most vulnerable sections of the population may be deprived of the opportunity to meet their basic needs. In particular, the rapid growth of inflation will not fail to affect the population of retirement age. In addition, rising food, energy, and housing prices may reduce real incomes of the population, leaving them with a choice between spending on the most basic needs, and as a result, the level of health and well-being in society may decrease. It should be noted that food security, energy security and diversification are on the agenda following the record price increase. However, the government's measures in this regard are causing negative effects. In particular, as of December 2022, more than 30 countries have imposed various restrictions on the export of a number of basic food products. This, in turn, causes a certain level of

pressure on the formation of prices in the global market. The potential impact of the ongoing war in Ukraine on the spring planting season is also noted as one of the factors threatening global food security. Also, a number of countries are forced to return to coal and other types of fossil fuels in order to ensure energy security.

Deepening humanitarian crisis - In 2022, the global humanitarian crisis has significantly deepened. In the first half of the year, people who left their homeland due to various persecutions, conflicts, violence, human rights violations or political unrest around the world, as well as were forced to leave their homes, but in their homeland the number of those who continued to live exceeded 100 million. According to the UN, the number of people in need of humanitarian assistance and protection in 2022 was 274 million (235 million in 2021). According to WEF estimates, the number of people in need of humanitarian assistance is expected to reach 340 million by 2023. According to the UN Refugee Agency, Russia's invasion of Ukraine has deepened the global humanitarian crisis, making it the worst post-World War II crisis caused the fastest and largest refugees and internally displaced persons crisis observed in the period. Currently, more than 40 percent of Ukraine's population — 17.6 million civilians — are in need of humanitarian assistance. Among them, more than 8 million Ukrainians were forced to leave their homeland and sought refuge in European countries, while 6.5 million Ukrainians left their homes and are living in other regions of the country. Most of the refugees - more than 60 percent adopted by Russia, Poland and the Czech Republic. The arrival of a large number of refugees in a short period of time creates a need for the host country to provide them with basic necessities, in particular, shelter, food, and necessary medical services and facilities. In addition, it can create certain pressures on the labor market of the host country.

According to the WEF, the following five factors will have the greatest impact on supply chain disruptions in 2022 (at least three of which are directly related to the consequences of the war in Ukraine):

- Rising cost of living — high inflation makes it difficult to predict consumer demand;
- Strikes - following a decrease in real incomes, workers demand higher wages, and the response of manufacturers affects supply chains;
- Energy shortage - due to the lack of energy, business representatives faced choices such as finding alternative energy sources, reducing the scale of production or stopping the activity;
- Geopolitical uncertainties — tensions between Ukraine and Russia, the United States and China have put important trade routes at risk;
- Extreme weather conditions—droughts and low water levels—have hampered transportation along important trade routes.

Despite the fact that Ukraine has a relatively small share in the world GDP, it is a major supplier of agricultural products, in particular grain products, on a global scale. In addition, Ukraine's export of certain types of critical elements and low-tech semi-finished products used in automotive and semiconductor production is important, especially in the automotive industry value chain in Europe. Russia, in turn, is a leader in the export of fertilizers, energy resources and a number of raw materials (metals) widely used in industrial production, which are necessary for the production of agricultural products.

### **SUMMARY**

In this context, the disruption in food supply chains and the sharp increase in prices in the first days of the war reverberated in the global market. As a result of the war in Ukraine, the agricultural infrastructure of the country was seriously damaged. In addition, sanctions against Russia, including restrictions on foreign trade, closure of trade corridors through Russian territory, blockade or seizure of sea routes that ensure the delivery of Ukrainian food exports to the world market, and , geopolitical turmoil and uncertainties in general have negatively impacted all stages of supply and value chains and logistics globally. An increase in transportation costs was observed in international trade.

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