Covid, conflict and China

Predictive conclusions on the economic impact of the Russia-Ukraine conflict run a high error risk. A "sudden stop" to the conflict, through ceasefire or other means, would negate any assumption that present volatile trends would impact the future economic course of the world. Further, and where a lot of extant predictive analysis is getting it wrong, there is an attribution problem as to whether a particular negative economic effect is due to the pandemic or to the conflict.

Take oil prices; they started rising on April 28, 2020, and were 400 per cent higher by the end of October 2021. The 2022 rise has only continued since — the conflict caused a very temporary rise in prices before they reverted to trend. Oil is now back to less than $100 a barrel.

The conflict also impacts prices of food, oilseeds, and fertilisers, since both Russia and Ukraine are major producers of these. But the Food and Agriculture Organization’s price indices of food, (aggregate) vegetable oil, and cereals have been rising continuously since mid-2020, so the conflict at this time at best accelerates, not establishes, this trend. Among fertilisers, the prices of urea, muriate of potash, and phosphoric acid have all risen dramatically over the past year. But 90 per cent of this rise happened before the conflict began.

If the conflict continues without a political settlement that enables resuming logistics and trade arrangements, then this will stoke global inflation and impact access to basic needs of millions of people. But this would be an accelerator effect; the problem was with us before the conflict except that the world was too busy working in partitions to recognise it for what it was.

There is, therefore, little analytical merit in analysing the impact of the conflict from a purely economic lens. But using a political economy lens, the question of impact depends quite critically on where it is being posed.

For the countries of Europe, the conflict poses existential questions. In contemporary times, Europe has thought itself a cultured fortress of democracy, human rights, and peace — this fiction is now at an end. Russia’s withdrawal from the Council of Europe, Germany’s rearmament, and significant movements of European refugees within Europe bring back memories of the 18th, 19th, and 20th centuries, when conflict among Europeans had spillover effects across the world.

The rest of the world is, therefore, legitimately worried about the spillover effects of yet another age of European conflict, particularly since the repeated assertions, across Europe, about the distinctiveness of European refugees from an ethnic and civilisation perspective, establish that European commitment to universalism was a matter of epoche convenience. But a militarising and parochial Europe is no longer the centre of the global economy. The United States, China, Japan, and, to a lesser extent, India, Brazil, and the Association of Southeast Asian Nations have economic systems that are relatively insulated from European woes. European energy dependence on Russia is going to result in greater use of coal in the short run, and a difficult time for European governments in controlling inflation but the effects are unlikely to be contagious. None of the above non-European countries is critically dependent on Russia. Nor is this conflict an existential one for them.

China, unnoticed, is a step ahead. Shortly after the pandemic economic havoc, China massively increased its imports of corn, barley, and soybean, among other things. It also stopped exporting urea. In December 2020, it published a new draft law highlighting the need to enhance its "grain stockpile security", a policy it continued throughout 2021, which, combined with sub-par agricultural output in Brazil, Argentina, Ukraine, and Thailand, in part drove the above-mentioned rise in food and cash crop prices.

To be sure, the conflict will cause suffering in other parts of the world. Central Asia will see a collapse in remittances and employment opportunities in Russia. The MENA (Middle East and North Africa) region will be negatively impacted by rising wheat and vegetable oil prices; much of the African continent will suffer the costs of rising prices of oil, food, and fertilisers. But this suffering will only be exacerbated by the conflict; the pandemic had already impacted the lives and livelihoods of many in these regions, and the refusal to extend the vaccination programme universally, as a public good, to low-income countries has taken a toll on their populations; this conflict will only add to that toll. The recent US Congress decision to divert Covid assistance to Ukraine compounds this error.

From all this, there are three analytical inferences the world outside Europe should make. First, the end of peace in Europe will not have spillover effects as it did in the past and attempts by Europeans to make it seem so should be taken with a pinch of salt. Second, the conflict should not hinder emerging economies’ recovery from the scarring caused by the pandemic as long as macroeconomic management is skilled enough and China and the United States do not try and extract too much political leverage from emerging economies as they navigate a return to growth. It is likely, however, to exacerbate low-income country distress.

Finally, the enigma of China. It has actively prepared for a period of geopolitical turmoil, maintained relations with Russia, and sought to improve relations with Ukraine in anticipation of a post-war political settlement. China is in a position to enable the developing and emerging world to minimise the negative impact of the conflict and accelerate growth and prosperity to pre-pandemic levels. But the political and diplomatic price is too high for many Asian and African countries, already scarred by debt and dependence on Chinese inward investment and commodity demand. How China handles this is, therefore, the key to whether geographies other than Europe are likely to face more fraught geo-economic times, going forward.

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