How the war in Ukraine is affecting international trade and emerging economies

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Cocoa and Cocoa Products, Coffee, Fish and Seafood, Fresh Fruit and Vegetables, Grains, Pulses and Oilseeds, Natural Food Additives, Natural Ingredients for Cosmetics, Natural Ingredients for Health Products, Processed Fruit and Vegetables and Edible Nuts, Spices and Herbs, Apparel, Home Decoration and Home Textiles, Outsourcing (ITO/BPO), Tourism

The effects of the war in Ukraine can be felt around the world, but especially among the Ukrainian people. The effect on trade is already clear. It has disrupted supply chains and resulted in increasing prices and inflation, among other things. This article focuses on these effects.

The war in Ukraine and the sanctions imposed on and by Russia and Belarus have had a huge effect on international trade. They have affected direct trade with these countries and trade further down the chain. Effects range from a shortage of food products, raw materials and components to cancelled trade routes, changes in demand and price increases.

Increasing inflation

From a trade perspective, the biggest consequence of the war is the rise in commodity prices. There are 3 main categories of commodities: energy, agriculture, and metals. The war has affected all 3. The considerable price increases have an effect on international supply chains and markets. The result is higher inflation rates worldwide. This may cause shifts in demand, as consumers are not willing or able to buy what they usually would.

Disruptions to international transport

Freight rates reached record highs during the COVID-19 pandemic. The current increasing fuel costs are causing inflation and may result in higher freight rates. Besides this, sanctions against Russia and safety concerns have disrupted land and air transport routes via Ukraine and Russia. Rerouting these connections is expensive. And there are limited options to divert shipments via the already disrupted maritime transport sector. Also, there are fewer Black Sea trade routes. This means that even countries that do not have trade restrictions may struggle to import from the region.

Emerging economies' food security affected

Ukraine and Russia are among the world's main suppliers of agri-food commodities, particularly grains and oils. Together, they provide over 30% of world trade in wheat, 32% of barley, 17% of corn/maize and over 50% of sunflower oils, seeds and meals. Many emerging or vulnerable economies rely on these supplies for their food security, especially in the Middle East and Africa. For example, countries such as Benin, Egypt and Sudan source nearly all their wheat imports from Ukraine and Russia. Options to replace these with regional trade are limited.

In its report, the Food and Agriculture Organization of the United Nations (FAO) estimates that 20-30% of the Ukrainian areas used for winter cereals, maize and sunflower seed will remain unused or unharvested during the 2022/23 season. The yields of these crops are also likely to be lower. Processing and transport have been disrupted too. Decreased availability of crops further increases prices and competition for alternative sources. In such a difficult market, developing countries may struggle to compete for supplies with developed countries. For example, Indonesia has banned palm oil exports to reduce domestic cooking oil shortages and price increases. Indonesia will lift the ban when prices have dropped below 14,000 rupiahs (€0.92) per litre.

Russia is also a leading exporter of nitrogen and potash fertilisers. Many emerging economies rely on these fertiliser supplies for their yields. Disruption of this market may affect their food production for domestic consumption and exports.

Considerable challenges for exporters

Besides its effect on imports, the war has also affected exports to Ukraine and Russia. Disrupted access to these markets is an urgent issue for perishable goods, such as fresh fruit and vegetables. Some products that exporters cannot ship to Ukraine and Russia could be redistributed to other (European) markets. Still, exporters may not be able to avoid oversupply. Redistribution also causes increased competition and price reductions. At the same time, rising energy and fertiliser prices are causing higher production costs. This creates a considerable challenge for exporters.

Source - Globally Cool B.V. wrote this news article for CBI >>>