



# **The Echoes of Conflict: Analyzing the Potential Impacts of the Russia- Ukraine War on Africa**

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## **Introduction**

The recent Russia-Ukraine conflict has brought to the forefront the intricate links and dependencies within global economies. In 2019, Russia stood as the world's third-largest energy producer and was responsible for roughly one-fifth of global fertilizer exports. Furthermore, in 2021, both Russia and Ukraine together accounted for 30% of global wheat exports. Given the significant reliance of around fifty countries, especially food-deficient nations in Africa and Asia, on Russia and Ukraine for over 30% of their wheat supply, the ongoing war poses substantial risks. Disruptions in wheat, fertilizer, crude oil, and edible

oil supplies can have cascading effects, impacting inflation and growth trajectories across these countries. Specifically, fuel and food grain prices form over one-third of the consumer price index in many African countries. The crisis has already manifested in trade disruptions, surges in food and fuel prices, macroeconomic instability, and heightened security challenges.

Our study analyzes the potential repercussions of the war on 44 African nations, focusing on the resulting surges in global prices of food, oil, and fertilizers. The findings project that following these price shocks, most African countries will grapple with challenges like deterioration in commodity terms of trade, rising consumer price inflation, declining real GDP, and a weakened domestic purchasing power of the U.S. dollar. Such impacts could persist for over 3 years. While emphasizing Africa's susceptibility to global commodity price shifts, the study also spotlights a significant opportunity: the potential for Africa to pivot towards reduced import dependency and champion self-sufficiency in key sectors. This narrative underscores the broader implications of global disturbances on African economies and the pressing need for a more resilient economic trajectory.

## Method

We use a global vector autoregressive (GVAR) model to simulate the impulse responses of commodity terms of trade, consumer price inflation, real GDP and the domestically deflated dollar exchange rate to global food, oil, and fertilizer price shocks. GVAR models have emerged as powerful tools for capturing the international transmission of shocks in an increasingly interconnected global economy. They are designed to take into account not just domestic economic conditions but also the influence of foreign economies.

## Key findings

During the first quarter of Russia's invasion of Ukraine, global prices of oil, food, and fertilizers rose by 15%, 8%, and 24%, respectively (Figure 1).

**Figure 1: Global Commodity Prices**



The study assumes that these price increases are entirely due to the war, and our predictions are as follows:

- Following the oil-price shock:
  - o Oil-exporting countries will experience an improvement in their commodity terms of trade persisting beyond 3 years. However, the negative growth spillovers from the global economy will likely counterbalance the resulting increase in oil export revenue, leading to a net decrease in real GDP.
  - o On the other hand, oil-importing countries will face a deterioration in their commodity terms of trade, lasting anywhere from 3 quarters to over 3 years.
  - o Inflation is expected to increase in most countries and to persist beyond 3 years.
  - o The domestic purchasing power of the U.S. dollar (as measured by the domestically deflated exchange rate), is expected to decrease in most countries as a result of the combined effect of inflation and commodity terms-of-trade deterioration.

- Regarding the food price shock:
  - most countries will face a prolonged deterioration in their commodity terms of trade because they are net food importers. This effect will likely persist for more than 3 years.
  - Inflation will increase in approximately half of the countries with available data, while all countries will experience a minor decrease in real GDP.
  - As with the oil price shock, the domestic purchasing power of the U.S. dollar will decrease in almost all countries.
- Lastly, the fertilizer price shock will lead to:
  - insignificant effects on the commodity terms of trade for most countries.
  - increased but transient inflation in a few countries.
  - mild effects on real GDP in the short-run, but they become more pronounced in the long-run.

Overall, these findings underscore the heightened vulnerability of African nations to external shocks, particularly in the face of global price hikes in critical commodities like oil, food, and fertilizers.

## Policy recommendations

Given these potential economic implications of the Russia-Ukraine war on African nations, it's imperative to adopt strategies that enhance resilience and reduce vulnerabilities:

- **Promote Agricultural Self-sufficiency:** The war has highlighted the significant reliance of many African nations on global food supply chains. To buffer against such vulnerabilities, countries should focus on becoming self-sufficient in agriculture. This involves not only investing in research and technology but also in strengthening the capacities of smallholder farmers, who play a pivotal role in the agricultural landscape of many African countries.
- **Diversify Energy Sources:** The shock to global oil prices has underscored the need for energy diversification. By transitioning towards a mix of traditional and renewable energy sources, African countries can shield themselves from volatile oil markets and ensure a stable energy supply.

- **Encourage Local Fertilizer Production:** The sharp increase in fertilizer prices necessitates a shift towards local production. By promoting local fertilizer industries and exploring organic alternatives, nations can reduce their dependency on global fertilizer markets. Additionally, training farmers on efficient fertilizer use can optimize yields while using resources judiciously.
- **Implement Proactive Monetary Policies:** The looming inflationary pressures require central banks to be proactive. Monetary policies that not only counter inflation but also support economic growth are crucial. Policymakers should also be vigilant about the domestic implications of such policies, ensuring they cater for the unique economic landscapes of their respective countries.
- **Strengthen Regional Trade:** The current global scenario has brought to light the benefits of regional trade. By fostering stronger regional trade partnerships, African countries can insulate themselves from global market shocks, ensuring economic stability even in turbulent times.

## Conclusion

The Russia-Ukraine war has unveiled the delicate balance and interdependencies within the global economic ecosystem. For African nations, the repercussions could be profound, but they have the potential to reshape their economic futures. The challenges brought forth by the conflict, from skyrocketing commodity prices to disruptions in critical supply chains, highlight the urgent need for adaptive strategies. By acknowledging these challenges and acting upon the recommendations, African nations can navigate these tumultuous times. Embracing self-sufficiency, diversifying economic dependencies, and fostering regional collaborations can serve as steppingstones toward a resilient and prosperous future for the African continent.

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