

Ukraine Conflict – Impact on India**5th May, 2014**

The ongoing Ukrainian conflict has created nervousness amongst investors. But as far as India is concerned, it is not expected to face any major impact of this conflict. India's trade with erstwhile USSR, which used to account for 26% of the country's total trade, has now been reduced to less than 1%. The main effects of this conflict are to be seen in Europe and Russia. It has alerted EU countries to Russian threat and it has helped in uniting them, whereas Russia is increasingly getting isolated in international community.

Ukrainian problem started simmering in the region when pro-Russia leader Viktor Yanukovich was ousted on February 21. Putin feared European Union dominance in Ukraine and started supporting pro Russian groups in Ukraine leading to annexation of Crimea to Russia. The situation in Ukraine is deteriorating with pro Russian groups increasingly taking control. The Ukrainian government and its military are not strong enough to take on Russia supported groups and in most probabilities Putin will be able to directly or indirectly take control of substantial parts of Ukraine.

Though this conflict will create economic disturbances at global level, it is not expected to have any major impact on India. The main effects of this conflict are explained below in brief –

Russia's role to be diminished: Russia's role in international affairs is diminished. Moscow has been de facto excluded from the Group of Eight industrialised powers. Its bids to join the Organisation for Economic Cooperation and Development and the International Energy Agency are frozen. Western summits with Moscow are cancelled until further notice.

Energy diversification by countries to reduce risk: The energy map of Europe is being redrawn with accelerated action to reduce dependence on Russian oil and gas. EU states are set to build more liquefied natural gas terminals, upgrade pipeline networks and grids and expand a southern gas supplies through Georgia and Turkey to southern and central Europe. The EU gets a third of its oil and gas from Russia, and 40 percent of that gas is pumped across Ukraine. Europe may now look to tap its own shale gas reserves and expand nuclear power, despite environmental concerns.

China factor: The diplomatic alliance between Russia and China, which often vote together in the U.N. Security Council, could change in one of two directions - either rapprochement through a stronger energy partnership, with new pipelines being built to pump Russian oil and gas spurned by Europe to Beijing; or a cooling if China distances itself more from Putin's behaviour and sees less benefit in closer ties with an economically weakened and relatively isolated Moscow. For now, President Xi Jinping is refusing to take sides in public.

U.S. leadership: Washington's global leadership role, weakened by the rise of emerging powers and by retrenchment under President Barack Obama, has been partially restored. Despite his disengagement from wars in Iraq and Afghanistan and strategic "pivot" towards Asia, events have pushed Obama back into the old-fashioned role of "Leader of the Free World" in an East-West crisis in Europe. In Brussels last week Europeans appealed to Obama to sell them shale gas, and both sides agreed to speed talks on a transatlantic free trade and investment pact.

EU united: The European Union has been reunited, at least for now, by the return of a common external threat. This may have helped EU leaders overcome some long-running disputes.

Contest for Central Asia: Both Putin and the West are wooing central Asian autocrats in energy-rich Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan, drawing a discreet veil over their human rights records. If Russia weakens economically, they will want at least a foot in the Western camp.

Putin's future: Russia's leader is near the peak of his popularity, riding a wave of nationalist pride over Crimea. However, instability may grow if he comes under pressure from Russian business magnates angry at losing value on their businesses, forfeiting foreign investment in Russia and facing travel restrictions and asset freezes in the West. Most are loyal for now, but things may look different in six months' time.

CONCLUSION: Russia may succeed in expanding its control over former soviet territories but the European countries have started ensuring energy security and the final impact on global economies will not be a catastrophic one. India may feel the pinch but it will not affect it strongly.

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