

Prime Comment

Russia-Ukraine War: A Conundrum for Pakistan



PAKISTAN NEEDS TO MAINTAIN A BALANCE BETWEEN TWO CONFLICTING TRADING PARTNERS

The conflict between Russian Federation and Ukraine has morphed into a full-scale war, which has far-reaching consequences throughout the world, not limited to loss of lives and confined to the two countries alone. The world has not recovered from the disruptions and fallout of COVID-19 where supply-chain bottlenecks are still prevalent, commodity prices have risen and petroleum prices have spiraled out of control, Brent crude reached \$105 per barrel as of today, this war will further exacerbate the crises. However, Pakistan is in an intricate position because of its trade ties with both countries.

The current escalation to war is prompted by several geopolitical factors where countries in the region and beyond are pursuing national interests. Russia and the US had been at odds, both trying to expand their influence in the region and beyond.

On one hand, Russia is expanding trade ties with European states, particularly Germany, where both countries were working on the Nord Stream II pipeline which was beneficial to both countries, especially for the energy needs of Germany but the Western countries, in particular the US, believed that it could hamper the energy security of Europe and make it more dependent on Russia for energy.

In contrast, Ukraine was on the move to become a part of the North Atlantic Treaty Organization (NATO) to ensure its sovereignty because of the continuous fear of intrusion from Russia. The inclusion of

Ukraine in NATO would have increased the influence of the US in the close proximity of Russia and threatened its dominance in the region. This led to the invasion of Ukraine by Russia to ensure its dominance and occupy more space in the void created by the absence of the USs' response in conflicts during President Donald Trump's tenure.

With trading partners at war, Pakistan will experience a new wave of inflation due to rising petroleum prices and lower exports earnings from disruption in trade.

The global community started witnessing the consequence of escalation in the form of rising petroleum prices, Russia is the second-largest producer of oil and bearish trends in the stock markets. This would create an additional burden on the developing countries facing rising current account deficits from trade imbalances and fiscal deficits. Pakistan is also struggling from unfettered inflation, which rose to 13% on a Y-o-Y basis in January 2022. Furthermore, the rise in global prices and COVID-19 induced supply-chain disruptions have contributed to soaring Pakistan's current account deficit, which stood at \$11.5 billion in a period of 7 months, July 2021-January 2022, and management of external debt, which rose to Rs.21 trillion till December 2021.

Pakistan is in a difficult position as the country has good relations and trade ties

with both Ukraine and Russia. The country has adopted the policy of growth and development with a clear indication of no intention to choose sides and become associated with any conflict. Pakistan is currently on a path to enhance economic cooperation with Russia including The Pakistan Gas Stream project is also known as the North-South gas pipeline. Moreover, Russia has also shown interest to help Pakistan with the Pakistan Steel Mills. The trade ties between Pakistan and Russia have improved in past years (Figure 1). Total trade between Pakistan and Russia was \$320 million in 2017 and rose to \$758 million in 2021.

The trade balance is tilted in favor of Russia as Pakistan imports cereals vegetables, rubber articles, iron and steel, fertilizers, and minerals. Whereas, Pakistan exports fruits, cotton, clothes, leather and leather products, toys and sports items, footwear, and minerals to Russia.

Pakistan also conducts trade with Ukraine with a trade balance tilted in favor of the latter (Figure 2). In the last five years, trade with Ukraine has increased from \$94 million in 2017 to \$351 million in 2021. Major imports of Pakistan from Ukraine comprise cereals, vegetables, iron and steel, machinery, railway components, dairy products, and wooden articles. In contrast, Pakistan exports staple fibers, fruits, cotton, tobacco, clothes, sports items, and pharmaceutical products.

Countries, especially the developing world, are already struggling to manage domestic and external pressures, which have severely affected the sustenance of the lower-income groups. Pakistan is also experiencing financial troubles with inflation spiraling out of the control. The conflicting parties must

strive to resolve conflicts in a peaceful manner and global leaders must play their part in bringing Ukraine and Russia to the table for dialogue on the issues instead of mere imposing sanctions.

Figure1: Pakistan's Trade with Russia

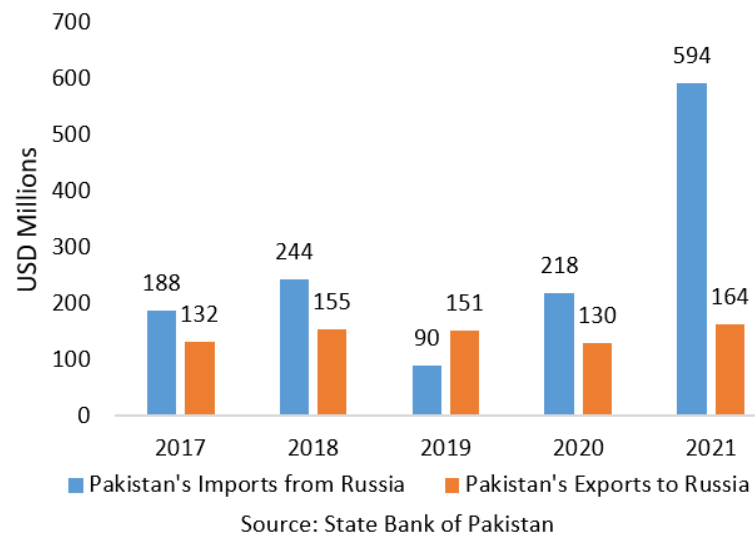
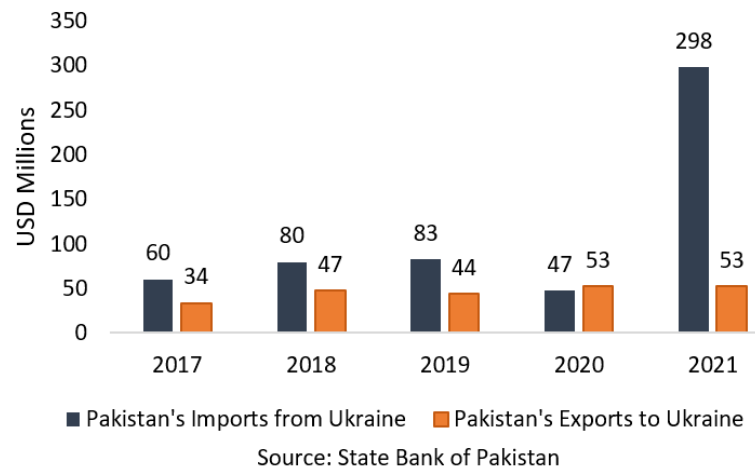


Figure2: Pakistan's Trade with Ukraine



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