

BRIEF NO.1

Global Impact of war in Ukraine on food, energy and finance systems

13 APRIL 2022

A three dimensional crisis

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Introduction

The war in Ukraine, in all its dimensions, is producing alarming cascading effects to a world economy already battered by COVID-19 and climate change, with particularly dramatic impacts on developing countries. Recent projections by UNCTAD estimate that the world economy will be a full percentage point of GDP growth lower than expected¹ due to the war, which is severely disrupting already tight food, energy, and financial markets.

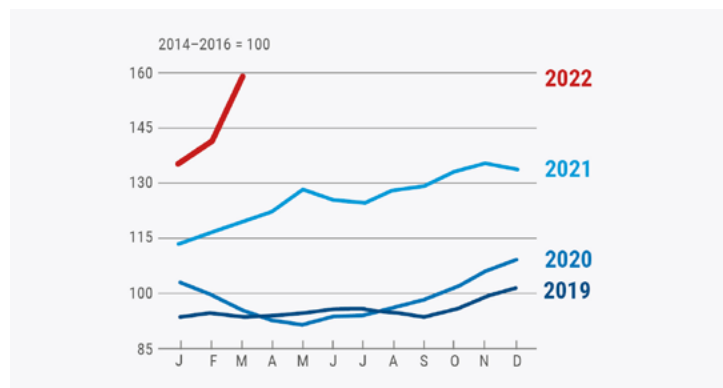
Ukraine and the Russian Federation are among the world's breadbaskets. They provide around 30 per cent of the world's wheat and barley, one-fifth of its maize, and over half of its sunflower oil². At the same time, the Russian Federation is the world's top natural gas exporter, and second-largest oil exporter. Together, neighbouring Belarus and the Russian Federation also export around a fifth of the world's fertilizers.

As a result, commodity prices are reaching record highs across the board. On the 8th of April 2022, the United Nations Food and Agriculture Organization (FAO) published its third consecutive record food price index. Food prices are 34% higher than this time last year and have never been this high since FAO started recording them (see figure 1).

Similarly, crude oil prices have increased by around 60%, and gas and fertilizer prices have more than doubled³.

Vulnerable populations in developing countries are particularly exposed to these price swings, as they dedicate the larger share of their income to food and energy. The world's poorest countries tend to be net food importers and export and import measures on trade can further exacerbate rising food prices. At current price levels, FAO worst-case estimates of increases in undernourishment and food insecurity are also highly likely.

Figure 1. FAO Food Price Index⁴



In an environment of already levels of socio-economic stress due to the impacts of COVID-19, the rise in food prices threatens knock-on effects of social unrest. An UNCTAD analysis of historical data reveals that, in general, civil unrest and increases in agri-food commodity prices are highly correlated (Figure 2).

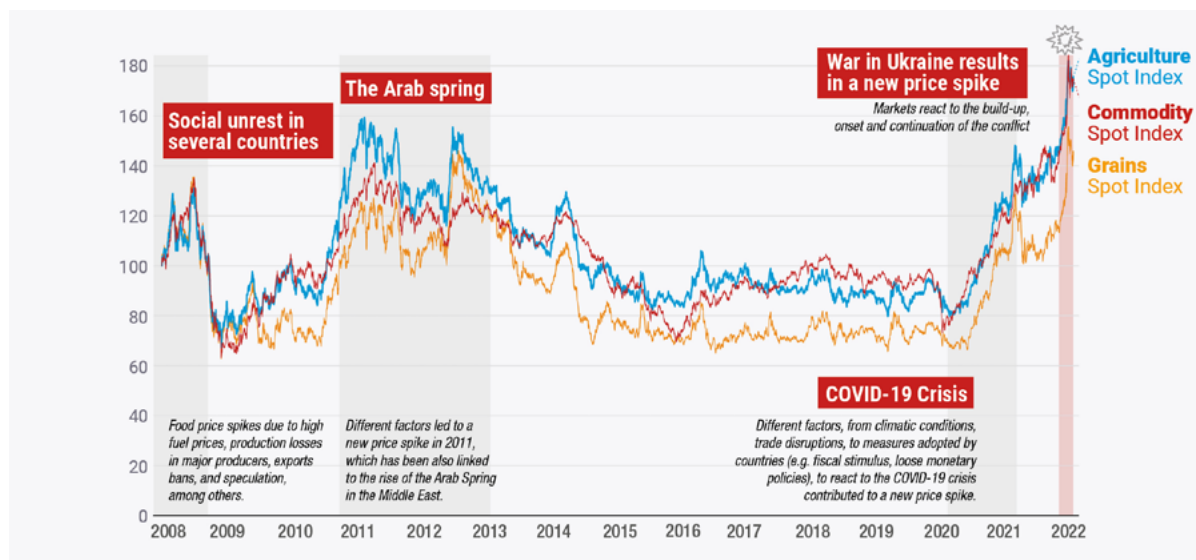
¹ UNCTAD (2022). Trade and Development Report 2021, March update

² UNCTAD (2022). The Impact on Trade and Development of the War in Ukraine

³ Bloomberg & MarketWatch Data. 8th of April 2022

⁴ FAO (2022). March 2022 FAO Food Price Index

Figure 2. Rising prices elevate the alarm for food security and political stability⁵
(Price index, base year =2008)



Ongoing disruptions in global supply chains and financial markets further complicate current outlooks. Freight costs even before the war started where at multiples of their historical averages, complicating rerouting efforts and increasing consumer prices and import costs across the board⁶. Furthermore, global inflation rose to a decade high of 5.2% last year⁷, forcing many central banks to signal sooner-than-expected increases in interest rates, leading to higher debt servicing costs for the developing world. According to the Financing for Sustainable Development Report 2022, “60 per cent of least developed and other low-income countries are already at high risk of, or in, debt distress⁸.”

This ‘perfect storm’ comes atop the great social and economic scarring produced by the COVID-19 pandemic.

Since 2019, the number of people experiencing hunger has increased by 46 million in Africa, around 57 million in Asia, and about 14 million more in Latin America and the Caribbean⁹; an additional 77 million more people are living in extreme poverty¹⁰; school closures have led to losses of up to 17 trillion dollars in lifetime earnings for this generation of students¹¹; and more than six million lives have been lost to the COVID-19 disease¹².

At the same time, the absence of COVID-19 vaccine equity around the world has contributed to dramatic inequalities, deepened

⁵ UNCTAD (2022). The Impact on Trade and Development of the War in Ukraine

⁶ UNCTAD (2021). Review of Maritime Transport 2021

⁷ United Nations, Inter-agency Task Force on Financing for Development (2022). Financing for Sustainable Development Report 2022

⁸ Ibid. Page xiii

⁹ FAO (2021). The State of Food Security and Nutrition in the World 2021

¹⁰ Financing for Sustainable Development Report 2022

¹¹ The World Bank, UNESCO and UNICEF (2012). The State of the Global Education Crisis: A Path to Recovery

¹² World Health Organization. WHO Coronavirus (COVID-19) Dashboard

by uneven access to the financial resources countries need to recover from the pandemic. At present, vaccine doses per 100 people stand at 193.6 in high-income countries and at just 22.1 in low-income countries¹³.

In combination, global levels of exposure are alarmingly high to this crisis of triple vulnerabilities, which threatens to negatively affect the lives of billions of people around the world.

Overall recommendations

The world needs to act with urgency to support countries affected by the crisis.

The proposed recommendations recognize the response will need to be phased and, as such, focuses first on areas for action based on existing policies and instruments that can be enacted immediately, if needed adjustments and flexibilities are introduced.

This crisis will leave deep and long-lasting scars, and therefore further medium and long-term policy proposals will be needed subsequently.

1. **Call on all countries to keep engaging in multilateral fora** to address urgent global food, energy and financial issues. Delays in collective action will exacerbate already troubling prospects for the world economy.
2. **Call on all countries and stakeholders to recognize that the very nature of increasingly common global shocks is such that countries are not individually responsible**, and that therefore solutions must be based on global, and not solely country-based, risk.

3. **Make immediate and efficient use of all the existing mechanisms** to address both, the countries directly suffering from the war (Ukraine and the neighbouring countries) but also, as shown in the analysis, the global consequences of the war in developing countries.

4. **Call not only on countries, but also on the private, civil society and the philanthropic sectors to help the most vulnerable populations** around the world and to be proactive actors in the pursuit of coordinated solutions. Fragmented interventions will not lead to the best results.

13 ibid

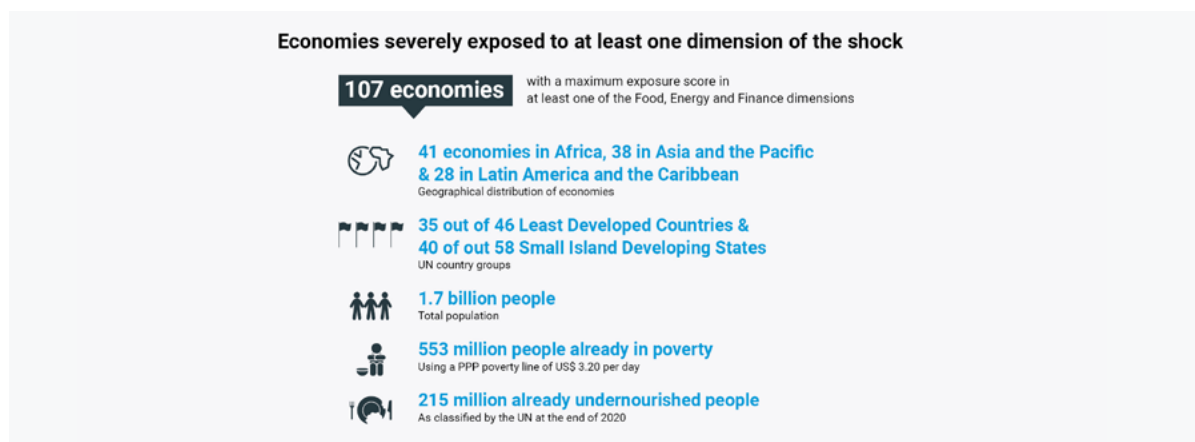
Developing countries under the Sword of Damocles

A crisis with a global reach

According to preliminary assessments of the United Nations Task Team for the Global Crisis Response Group¹⁴, based on six indicators of countries' exposure to the war's ripple effects on global commodity and financial markets, 1.7 billion people in the world live in 107 economies that are severely exposed to at least one of this crisis' three global channels of transmission – rising food prices, rising energy prices, and tightening financial conditions. These are countries where people struggle to afford healthy diets, where imports are essential to satisfy the food and energy needs of their populations, where debt burdens and tightening resources limit government's ability to cope with the vagaries of global financial conditions.

Given elevated levels of socioeconomic stress following the COVID-19 crisis and unfolding impacts of climate change, just one of these channels is enough to trigger collapse – debt distress, food shortages, or blackouts. Of these 1.7 billion people, 553 million are already poor, and 215 million are already undernourished.

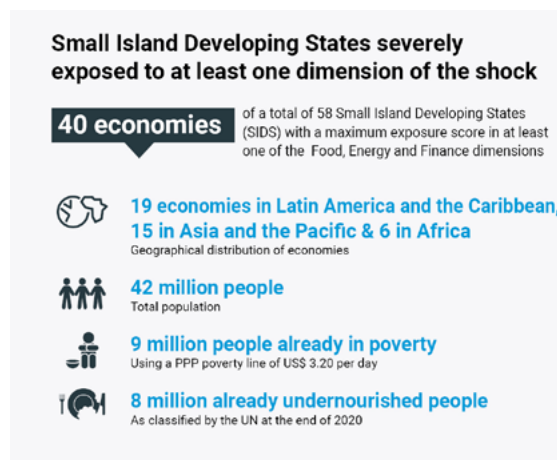
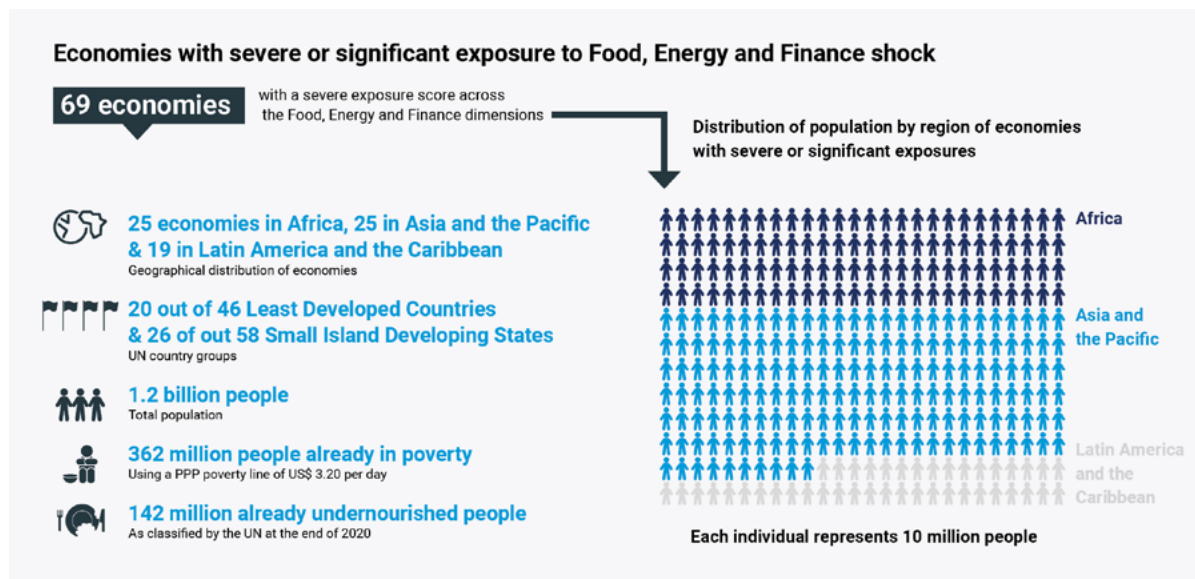
Importantly, exposure is present in the vast majority of developing countries, no matter the level of income or the geographical location. Alarming, for most developing countries, overlapping exposures at higher levels of intensity are the rule, not the exception.¹⁵



¹⁴ This exercise measures the specific exposure of developing countries to the shocks that derive from the war in Ukraine through trade links to global commodity and financial markets. These indicators do not pretend to classify countries by their wider, pre-existing measures of vulnerability. Some countries may be very vulnerable in general – due to higher rates of extreme poverty, for example – and at the same time be less exposed to this crisis if they are less integrated to the world economy. For example, in the case of the energy indicators used, countries with higher use of biomass for final energy consumption appear as relatively less exposed in this exercise

¹⁵ Exposure is measured using six indicators, two for each dimension of food, energy, and finance. In each dimension level of exposure is calculated using thresholds, and measured from 1 to 3, with 1 representing least exposure and 3 representing most exposure

Indeed, there is a group of ‘perfect-storm’ countries who are severely or significantly exposed to all three channels of transmission at once. 69 economies with 1.2 billion of the world’s people live in these countries.



These estimates reveal the depth and scale of this rapidly unfolding global crisis. Exposure is counted in the billions of people living in over a hundred countries, threatened across overlapping dimensions of vulnerability.

Food, energy, and finance in more detail

Food

The impacts of the war in Ukraine are being felt not only regionally, but around the world because of the region's significant contribution to food and energy supplies. In relation to food, there are production and export challenges: these are already associated with reduced availability and price rises. Food (and energy) import bills are already at record levels, and it seems inevitable that these will continue to rise. This will have widespread impacts that could be far-reaching, but the consequences for poorer and vulnerable people, will be particularly severe. Many food producers are not able to access the agricultural inputs they need, so the impact of current market disturbances may be felt through 2023. There is value in urgent coordinated efforts that respond to needs, are human-centred, take advantage of opportunities, adapt to the context, and are implemented with a focus on delivering the 2030 Agenda for Sustainable Development.

Livelihoods are also to be affected, with many food producers, especially small farmers not able to access fertilizers and agricultural inputs they need, increasing the potential that current market disturbances may be felt through 2023.

This situation may worsen if countries react by closing food markets, setting off a domino-effect of trade restrictions and export bans, with potentially catastrophic consequences.

Figure 3. Most exposed countries to wheat from Russian Federation and Ukraine¹⁶
(Share of imports of wheat from Russian Federation and Ukraine as a percentage of total, 2020)



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