

The Effect of the Russia-Ukraine Crisis on South African Entrepreneurs

Nokwethemba Ngwane*

Discipline of Management & Entrepreneurship, School of Management, IT and Governance,
Faculty of Law and Management, University of KwaZulu-Natal, Durban, South Africa

[*Corresponding author]

Andrisha Beharry-Ramraj

Discipline of Management & Entrepreneurship, School of Management, IT and Governance,
Faculty of Law and Management, University of KwaZulu-Natal, Durban, South Africa

Abstract

South Africa's delayed recovery from COVID-19 is being hampered by the Russia-Ukraine situation. The true impact on any economy is determined by its reliance on oil and gas exports or imports, tourism, imported grain, and fertilizer, among other things. Long-term consequences include a probable geopolitical realignment, social and economic upheaval, and debt insolvency. This will very certainly lead to increased inequality and poverty. Rising gasoline and food costs, inflation, and financial instability are the most evident consequences of the war in Africa. The poor are the severely affected because food and transportation account for a major amount of their consumption expenditure. The world economy was starting to recover from the COVID-19 pandemic before the war in Ukraine, but now there is doubt about how well it will do. Due to Russia's position as the world's third-largest producer of oil, second-largest producer of natural gas, and one of the top five producers of iron, copper, and aluminium, any significant decrease in energy supplies and metal shipments will almost certainly result in a sharp increase in the price of these commodities on a global scale. As a result, on the day the invasion started, financial markets worldwide experienced a steep collapse and the prices of commodities, petroleum, and Nat gas all rose substantially.

Keywords

Entrepreneur, Covid-19, Inflation, Russia-Ukraine, Imports

INTRODUCTION

In South Africa, the situation is a little different than it is in most other African nations, at least in terms of the availability of food. There won't be a lack of food, according to them. Price transmissions will have the biggest impact from the disturbances in the world's agricultural markets (Prohorovs, 2022). South Africa has experienced significant harvests in recent years, and a healthy crop is anticipated in the growing season of 2021/22. The country is normally a net exporter of food and agricultural goods (Mbah and Wasum, 2022). Wheat, rice, palm oil, and poultry products are the main imported dietary essentials. They feel that the nation has secured enough supply to endure for a while based on conversations with significant importers of these products (United Nations, 2022). Due to its close ties to the world's agricultural markets, South Africa has also seen an increase in the cost of agricultural commodities (Guenette, Kenworthy and Wheeler, 2022). Thus, the consumer food-price inflation basket may see an increase in the cost of cereals as well as goods made of oil and fat. The increase in fuel prices also presents an additional upside risk to the domestic market. South Africa has a substantial harvest of fruits and vegetables, and the interruption of fruit exports within the Black Sea region could potentially exert downward pressure on domestic pricing due to additional supplies that would have typically gone to exports. Meat is one item whose price trend is still a mystery. Worries over whether crops will be gathered because of the ongoing conflict. Oilseed-crushing businesses and ports have already been forced to close as a result, which has an impact on export-oriented goods (Abbassi, Kumar and Pandey, 2022). This is negatively impacting the nation's exports of cereals and vegetable oils. Given the financial and economic restrictions imposed on Russia, the prospects for exports are equally questionable (Prohorovs, 2022).

BACKGROUND OF THE STUDY

Determining the route most suitable for the successful growth of a bilateral relationship between Russia and South Africa is crucial. But to do that, it is crucial first to comprehend the background and nature of relations between South Africa and Russia (United Nations, 2022). This entails determining the primary channels of communication between the two nations as well as the kinds of obstacles and opportunities that could improve their mutually beneficial relationship. Both South Africa and Russia were undergoing major transformations during the beginning of the 1990s, which significantly impacted their relations with one another. Russian Foreign Minister Andrei Kozyrev signed a joint statement on establishing diplomatic ties on February 28, 1992, while in Pretoria (Mhlanga and Ndhlovu, 2022).

Nelson Mandela, a national hero, and an icon of liberation for the people of South Africa, was not welcomed at the time President Frederik Willem de Klerk's official visit to Russia in June 1992. With the visits of President Mandela in April 1999 and Deputy President Thabo Mbeki in November 1998, the two countries' bilateral relations entered a new phase (Nagy and Beng, 2022). The Declaration on Principles of Friendly Relations and Partnership between Russia and South Africa was signed by Mandela while he was there. The Treaty of Friendship and Partnership, which was based on the Declaration, was initially signed in 2000, but it wasn't until President Vladimir Putin's first trip to Africa south of the Sahara, in South Africa on September 5 and 6, 2006, that it was signed. Several intergovernmental accords and contracts between large business agreements between the two nations were also made during the visit. These days, South Africa and the Russian Federation frequently coordinate their stances on major international problems. Politically speaking, South Africa and Russia agree that it is necessary to establish a more just system of international relations based on the sovereign equality of all governments and peoples and the supremacy of the law under the primary responsibility of the United Nations Organization." There are only a few small discrepancies between the two nations, such as Russia's decision to abstain from the Ottawa Anti-Personnel Mine Ban Convention (United Nations, 2022). One of Russia's top allies in Africa is South Africa. Bilateral commerce was worth over 138.1 million in 2002 and almost 1 billion in 2012. 4 South Africa's trade balance is favourable (Mbah and Wasum, 2022). In 2012, Russian exports totalled roughly 278.7 million. Oil products, chemical industry manufacturing, equipment, transportation, machinery, food and agricultural products, and wood make up most of these exports. About 685.6 million dollars' worth of metals, aluminium, wood, and fertilizers were imported into Russia in 2012. Fruits and vegetables, raw materials, metals, and alcoholic and non-alcoholic beverages are among the imports from South Africa (United Nations, 2022).

PROBLEM STATEMENT

The ongoing conflict between Ukraine and Russia has produced a new, complex risk to the South African economy, economic outlook, and therefore the formulation of monetary policy. Higher energy and food prices caused by the war increase supply chain constraints and inflationary pressures, which may prompt a more rapid tightening of monetary policy and contribute to budgetary pressures. Rising interest rates and escalating inflationary pressures will reduce disposable income and negatively affect business expenditure, consumer spending, economic growth, employment, poverty, and food security. The difficulty lies in developing and putting into place practical strategies to lessen the impact of the war on South Africa's most vulnerable entrepreneurs. Entrepreneurs now have the chance to help South Africa's inclusive and resilient green recovery, which simultaneously and methodically addresses the country's ongoing problems with poverty, inequality, unemployment, and climate change and generates opportunities that are inclusive so that disadvantaged population groups are not left behind.

At a time when African nations are still battling to recover from the destabilizing effects of the worldwide COVID-19 pandemic, which resulted in a severe economic downturn, a substantial loss of productivity, worsening inequality, planetary pressures, and, in some cases, security issues, the war in Ukraine has come at a bad time. It poses a threat to halt the advancement of development in African nations. Trade disruption increases in food and fuel prices, financial instability, and security issues are only a few of the immediate effects of the crisis in Africa. For the first time since 2014, the crisis caused the price of a barrel of Brent oil to surpass \$100. Food grain costs increased even further at the same time as supply interruptions brought on by Russia and Ukraine shook international markets (Guenette, Kenworthy and Wheeler 2022). In most African nations, food and gasoline make up more than one-third of the consumer price index. For vulnerable groups like women and children, the resultant inflation's pass-through will be quick and harsh.

LITERATURE REVIEW

Global economies may experience yet another surge in energy prices and "supply chain chokeholds" at a time when many nations are still struggling to recover from the economic effects of the COVID-19 epidemic. The recent war on Ukraine by Russia in 2022 could make matters worse. Russia is recognised as the 'world's widest provider of wheat and in combination with Ukraine, both countries account for almost a quarter of the sum of world-wide export (Cohen & Ewing, 2022). Although Russia's attack on Ukraine is progressing several thousands of miles away from even the proximity American city, its economic implications will be experienced by millions of USA households since the global economy and financial markets are intertwined (Egan, 2022). The ordinary American household will be responsible for bearing the cost of Vladimir Putin's invasion of Ukraine, according to RSM economist Joe Brusuelas, who made the statement in Egan 2022, a CNN report.

According to Smialek and Swanson (2022) of the New York Times, a potential impact of the Russia-Ukraine situation might be an increase in inflation because of rising food and oil prices globally and increased apprehension in the

USA. Bounboua and Yatié (2022) and Kumari (2022), two early studies on the Russia-Ukraine conflict, show the varied consequences of the war event on financial markets around the world. Boubaker provided evidence of various country-specific factors significantly influencing these impacts (2022). Similar firm-level evidence on the G7 stock markets and the global tourist industry is presented by Pandey (2022) and Pandey and Kumar (2022), respectively. The results show that the Russia-Ukraine war had a negative impact on world currencies. A geographical examination, however, reveals that although Pacific currencies notably strengthened in comparison to the USD, European currencies sank. We also demonstrate that Poland and the Czech Republic's currencies have experienced significant depreciation against the US dollar because of the financial and economic sanctions placed on Russia as well as the countries' closeness to the conflict area. Additionally, the announcement by the Russian Central Bank has significantly benefited the currencies of the ME&A, Europe, and North America. These results have important ramifications for researchers. Researchers from all over the world have investigated various investment strategies to protect against equities market losses. Still, no one has considered the potential financial risks associated with a human-caused calamity (Xie, Wang, & Huynh, 2022). The most significant refugee catastrophe since World War II is thought to have resulted from the Russia-Ukraine war in 2022, though. It is anticipated that new trade barriers in the shape of Western sanctions and Russian retaliation will substantially affect global trade. Disruptions in the gas and energy supply are among the war's other effects. Major commodity supplies are also impacted. Although bilateral and multilateral commerce is anticipated to change significantly, some currencies are anticipated to perform better versus the US dollar (USD). Trade is anticipated to have an influence on market connections because of economic sanctions against Russia, increasing the volatility of currencies (Boubaker, 2022). In addition, demand, and supply shocks to oil prices also cause variations in foreign exchange values even though fiat currencies are net recipients of shocks during crises (Umar, Jareo, & González, 2021). (Aziz, Umar, Gubareva, Sokolova, & Vo, 2022). International trade is never a good fit for war or conflict, especially when those parties are at odds (Schultz, 2015).

While nations' economies battled the COVID-19 outbreak, several border and political disputes erupted, including the Israel-Palestine conflict, the Taliban's seizure of Kabul, battles between Kyrgyzstan and Tajikistan, and border disputes between China and India. The confrontation between Russia and Ukraine is crucial for several reasons, even though not all conflicts influence the world economy. Firstly, Russian-Ukrainian commodities are used extensively over the world. Most Western countries have also implemented financial and economic sanctions. The worst refugee crisis since World War II has resulted from this war, third. The event is more likely to affect currencies because of financial sanctions. The financial iron wall is about to reappear, according to Krane (2022). Further, Krane (2022) argued that it might be a devastating turn of events, with Europe bearing the brunt of the consequences if trade barriers between Russia and the West are reinstated and Russia turns its attention to friendlier nations like China. On the other hand, Russia has long been the backbone of Europe's energy supplies. Geographically, it is related to Europe. Excellent east-west trade routes connect it to Europe. And losing each other as business partners would be a huge loss for these two (Krane, 2022). The second-largest economy in the world, China, is a significant wild card. Even though relations between China and Russia appear to be at their best in many years, some analysts assert that Chinese President Xi Jinping was shocked by Putin's invasion of Ukraine. According to Lardy (2022), Xi believes that Putin tricked him. He's been put in a perilous situation. This could limit Beijing's willingness to back Russia. Additionally, if an embargo is put in place, China might not be able to increase its current energy purchases to make up for any lost exports to the West.

RESEARCH METHODOLOGY

This research employs qualitative methodologies using a descriptive-analytic approach and contextual strategies. The qualitative approach works effectively when examining new business occurrences that happen in a new context. The information gathered is secondary information drawn from studies of the literature and material found in books, government reports, newspapers online, journals, and websites devoted to the idea of digital entrepreneurship. This collection of desktop research examines issues that underpin the conflict and presents analyses of a few historical global powers, conflicts, and humanitarian crises that have lessons for readers. The aim of this thesis is to examine the impact of the Russia-Ukraine war on South African entrepreneurs to understand the ramifications of the conflict that has resulted in a geopolitical power struggle. Since the current debate is filled with biased information and propaganda, this thesis aims to objectively observe both sides' impact to get a comprehensive understanding of their involvement in the crisis. It is a desk study since the data is gathered from books and articles. It is qualitative since it investigates this conflict by using several sources to gain in-depth knowledge of a two-sided perspective.

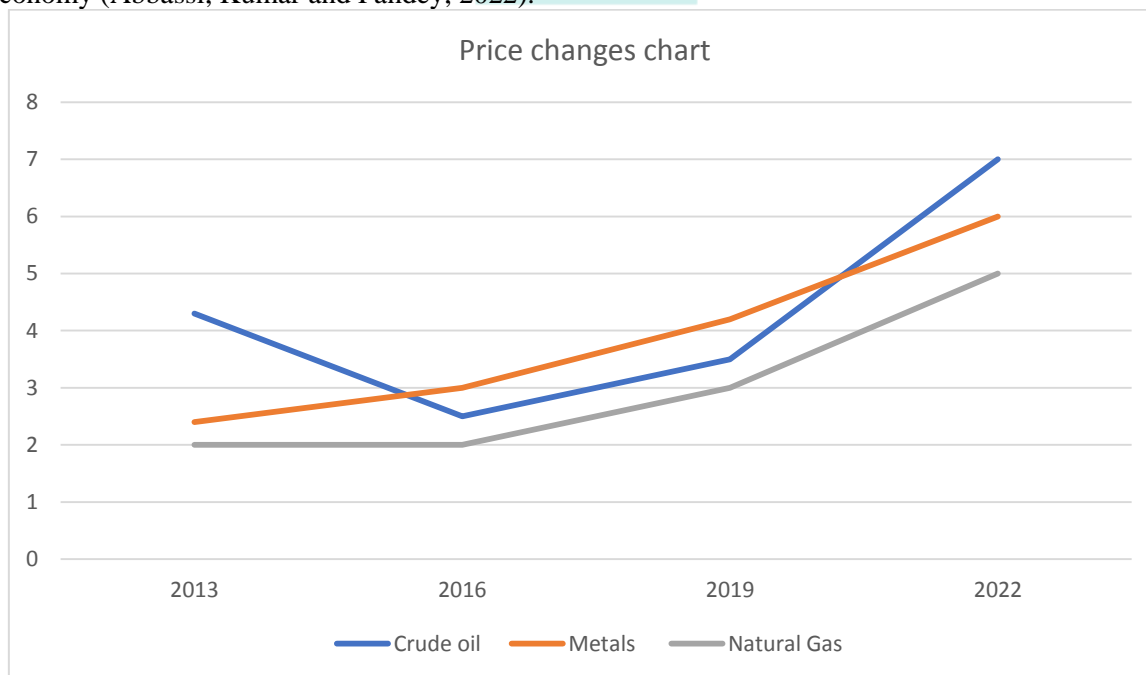
FINDINGS

South Africa's economic recovery in 2021 has been comparatively robust. Due to the improvement in the global economy, stronger commodity prices, the official end of the COVID-19 third wave, and the relaxation of containment measures to level one on October 1, 2021, the National Treasury predicts a 4.7% increase in output. However, despite declining confidence, sluggish private sector investment, and weak credit extension, the recovery has not reduced the unemployment rate, which now stands at 12%. The post-pandemic recovery will be hampered by electricity shortages, which will also cause growth to fall to roughly 2.1% in 2022 and to 1.8% over the medium term. This year's economic growth is predicted to be reduced by as much as 0.5% points by the war, which may have an influence on the budget estimates for 2022–2023 and the post-Conavirus economic recovery. There are three ways that the war will affect the

economy. Inflation will rise in response to higher energy and gasoline prices, eroding disposable income and lowering consumer demand.

Exports and imports will be affected by trade disruptions and the results of the sanctions. Investor apprehension will impact on asset values and Rand depreciation, which might lead to significant capital outflows from South Africa. Rising energy costs have caused in-land gasoline prices to exceed R21 per litre. If the National Treasury and Department of Mineral Resources and Energy don't change the fuel pricing formula, the impact of the war could lead to a further significant hike in April. Along with this, the nation's reliance on open cycle gas turbines for backup power creates a substantial risk to economic growth (Mhlanga and Ndhlovu, 2022). Eskom, the electricity system, is still heavily dependent on coal, so if the price of coal rises and export needs increase, the cost of energy may also climb. In addition, the battle is pushing up food costs worldwide. Since Russia invaded Ukraine on February 24, 2022, prices for wheat, maize, sunflower oil, and seeds have increased because Russia and Ukraine are exporting 26% and 52%, respectively, of the world's supply of these commodities. 19 While the increase in the price of some commodities, such as gold, maize, palladium, platinum-group minerals, and gold, may be advantageous for South Africa, the inflationary impact of the Ukraine war on local food and gasoline prices, as well as a potentially more widespread inflation impact from general global inflationary pressures, are likely to be detrimental, not only eroding consumer incomes to a greater extent. but also, because the predicted inflation rate for this year is higher at roughly 5.7%, which is significantly higher than the South African Reserve Bank's initial prediction of 4.9%.

Hunger and hardship will follow for those that spend the largest percentage of their income on food because of rising food and fuel prices, which will immediately affect the most vulnerable. But the following channels will eventually make everyone aware of the decrease of real expenditure and purchasing power. A 50% reduction in shipping, production, and security issues has already occurred. Russia alone exports 14% of the world's fertilizer, and the inability to export and the rise in the price of oil will have a significant influence on the cost of fertilizer, fuel, and agrochemicals. In South Africa, the cost of primary agricultural inputs has already increased by more than 100% since January 2021. Fuel, agrochemicals, and fertilizers are all more expensive today than they were in 2021. Regulations and trade interruptions will have an impact on imports and exports. Although there is not much direct trade between South Africa and Russia or between South Africa and Ukraine, the shock to world trade will influence the nation's exports and imports (Guenette, Kenworthy and Wheeler, 2022). Less than 1% of South Africa's exports go to Russia and Ukraine combined. Imports from both nations represent a comparable amount. Citrus and other fruits make up most South Africa's agricultural exports to Russia, while copper, wheat, and agrochemicals like fertilizer make up most of its purchases. Roughly 7–10% of South Africa's total citrus production is exported to Russia (Abu Hatab, 2022). For example, the total value of South Africa's agricultural exports to Russia and Ukraine in 2020 was R4.1 billion. The Ukraine conflict may have increased investor risk aversion, which might cause capital to leave South Africa and cause the Rand to weaken, stock prices to drop, and risk premiums on bonds to rise. The country's budget consolidation efforts and goal of approximately R1.2 trillion in new investments over five years would be severely hampered by this. Despite a little boost in value since the war began, the Rand could suffer if perceptions of developing markets in general deteriorate due to rising geopolitical tension on a global scale, which is generally detrimental for the rand which may also cause inflation to affect the economy (Abbassi, Kumar and Pandey, 2022).



The chart above labelled *Price changes chart* shows how vastly prices changed due to Russia-Ukraine war in 2022. the physical effects of barriers, the destruction of productive capacity, the effects of sanctions on trade and production. Major global repercussions are being caused by these sanctions. Numerous goods are exported from Russia and Ukraine. The top exporter of wheat, pig iron, natural gas, and nickel in addition to contributing significantly to the world's exports of

coal, crude oil, and refined aluminium is Russia. Fertilizers are largely supplied by Russia and Belarus. A significant exporter of food products including wheat and sunflower seed oil is Ukraine. Ukraine war exacerbated food prices in South Africa, Crude oil went from 3,4% in 2019 to 7% in 2022, Metals went from 4.2% in 2019 to 6% in 2022 while Natural Gas peaked from 3% in 2019 to 5% in 2022.

RECOMMENDATIONS

The issues with the supply chain will worsen and the cost of commodities will rise higher if Russia and Ukraine go to war. The industries that depend most heavily on energy and metal supplies and have extensive worldwide production-supply chains will confront the greatest challenges (S&P Global, 2022). Prices for fertilizer are approaching all-time highs, which could significantly restrict use and reduce harvests. As was evident during the food crisis of 2007–2008, numerous nations imposed export restrictions, driving up market prices globally and escalating the problem. Thirdly, another cascading effect of the war is panic buying, both nationally and among individuals. The war will prevent many nations' food systems from changing in a sustainable way (Abbassi, Kumar and Pandey, 2022).

The war might hinder efforts to achieve the SDGs (Mhlanga and Ndhlovu, 2022). The possibility of physical and monetary disruptions to the food and energy systems grows as the war continues. The likelihood of highly substantial "ripple effects" or "risk cascades" on economies and societies around the world will increase as the war's chances of being resolved quickly decline. These effects may have immediate and serious repercussions in places and sectors removed from the original event (Baffes and Nagle, 2022). The current upheaval occurred after governments and households spent two years grappling with the COVID-19 epidemic, the most serious economic shock since World War II, in contrast to the previous global food-price crisis caused by the 2007–2008 financial catastrophe. Humanitarian needs are unprecedented because of climatic shocks, conflicts, COVID-19, and rising prices that are bringing millions of people closer to famine. Africa might experience severe debt distress because of the war, which would decrease the likelihood that countries would be able to repay their debts. Because the neediest households are often worst hit by increasing food and gasoline prices, it might further widen the income gap. More households would become multidimensionally poor as a result of decreased access to power and cooking fuel and decreasing budgets may lead to households selling off their assets, lowering their capacity to withstand shocks in the future. Overall, these indirect impacts would slow down economic growth and raise the risk of social instability.

CONCLUSION

Russia and Ukraine both have rather meagre agricultural trade relations with South Africa. Wheat and sunflower oil are the main exports of both nations to South Africa (Baffes and Nagle, 2022). South Africa imported approximately 1.8 million tonnes of wheat annually on average over the last five years, or almost half of the country's annual wheat consumption requirements. In addition, between 2016 and 2020, South Africa imported 174,138 tonnes of sunflower oil on average year from the global market (Abbassi, Kumar and Pandey, 2022). The significance of the crisis in Russia and Ukraine has the potential to short-circuit South Africa's imports of wheat and sunflower oil in the near future. Even though South Africa only imports a small amount of agricultural goods from both Russia and Ukraine, this does not lessen the significance of these nations for the country's food supply. Despite not being the biggest exporters of agricultural products to South Africa, Russia and Ukraine have strong linkages to the world market for grains and oilseeds, which significantly impacts commodity pricing.

This means that the trade disruption will affect prices rather than a lack of goods in the short run. Following Covid, significant fiscal stimulus, and accommodatively low interest rates, the economies were just beginning to open. All of this has led to an increase in supply and demand disruptions as well as increased inflation (Nagy and Beng, 2022). Many of these issues are being made worse by the conflict, first through the price effect and then gradually through the real economic effect, which has an impact on actual economic activity. South Africa is affected mainly by the price effect, both positive and negative, but with a net effect (Abu Hatab, 2022.). Increasing commodity prices lead to a current account surplus and an unexpectedly strong rand, which also controls inflation. Additionally, it looks like multilateralism is in danger, which may limit the ability of development partners to consistently support African countries and help them achieve their common goals for global development. Significant development advancements made over the past few decades would be undone by weakened multilateralism, which would also undo efforts made in the worldwide fight against COVID-19. To deliver adequate and timely help across the continent, the development community, including bilateral and multilateral partners, must step up their efforts.

REFERENCES

1. Abbassi, W., Kumari, V. and Pandey, D.K., 2022. What makes firms vulnerable to the Russia–Ukraine crisis?. *The Journal of Risk Finance*, (ahead-of-print).
2. Abu Hatab, A., 2022. Africa's Food Security under the Shadow of the Russia-Ukraine Conflict. *The Strategic Review for Southern Africa*, 44(1), pp.37-46.
3. Avetisova, A., 2015. The Ukraine crisis: A geopolitical power struggle between Russia and the US.
4. Aziz, M.I.A., Umar, Z., Gubareva, M., Sokolova, T. and Vo, X.V., 2022. ASEAN-5 forex rates and crude oil: Markov regime-switching analysis. *Applied Economics*, pp.1-20.
5. Baffes, J. and Nagle, P., 2022. Commodity Prices Surge Due to the War in Ukraine. *Lets' Talk Development*.

6. Ben Hassen, T. and El Bilali, H., 2022. Impacts of the Russia-Ukraine war on global food security: towards more sustainable and resilient food systems?. *Foods*, 11(15), p.2301.
7. Boubaker, S., Goodell, J.W., Pandey, D.K. and Kumari, V., 2022. Heterogeneous impacts of wars on global equity markets: Evidence from the invasion of Ukraine. *Finance Research Letters*, 48, p.102934.
8. Guenette, J.D., Kenworthy, P.G. and Wheeler, C.M., 2022. Implications of the War in Ukraine for the Global Economy.
9. Mbah, R.E. and Wasum, D.F., 2022. Russian-Ukraine 2022 War: A review of the economic impact of Russian-Ukraine crisis on the USA, UK, Canada, and Europe. *Advances in Social Sciences Research Journal*, 9(3), pp.144-153.
10. Mhlanga, D. and Ndhlovu, E., 2022. The Implications of the Russia-Ukraine War on Sustainable Development Goals in Africa. *Available at SSRN 4226510*.
11. Nagy, S. and Beng, P.K., 2022. Ukraine-Russia War.
12. Pandey, D.K. and Kumar, R., 2022. Russia-Ukraine War and the global tourism sector: A 13-day tale. *Current Issues in Tourism*, pp.1-9.
13. Pereira, P., Zhao, W., Symochko, L., Inacio, M., Bogunovic, I. and Barcelo, D., 2022. The Russian-Ukrainian armed conflict impact will push back the sustainable development goals. *Geography and Sustainability*.
14. Prohorovs, A., 2022. Russia's war in Ukraine: Consequences for European countries' businesses and economies. *Journal of Risk and Financial Management*, 15(7), p.295.
15. Sachs, J., Kroll, C., Lafortune, G., Fuller, G. and Woelm, F., 2022. *Sustainable development report 2022*. Cambridge University Press.
16. Salisu, A.A., Vo, X.V. and Lucey, B., 2021. Gold and US sectoral stocks during COVID-19 pandemic. *Research in International Business and Finance*, 57, p.101424.
17. Schultz, K.A., 2015. Borders, conflict, and trade. *Annual Review of Political Science*, 18, pp.125-145.
18. Shah, S.N.A., Majeed, G., Ali, R.A. and Hussain, T., 2022. Russia-Ukraine crisis and its impact on south asia. *Review of Applied Management and Social Sciences*, 5(2), pp.141-148.
19. Stukalo, N.V., Lytvyn, M.V., Petrushenko, Y.M. and Kolinets, L.B., 2021. The concept of sustainable development of Ukraine in the context of global threats.
20. Umar, Z., Jareño, F. and de la O González, M., 2021. The impact of COVID-19-related media coverage on the return and volatility connectedness of cryptocurrencies and fiat currencies. *Technological Forecasting and Social Change*, 172, p.121025.
21. United Nations, 2022. Global Impact of war in Ukraine on food, energy, and finance systems. *Brief No. 1, United Nations, New York, April 13*.
22. Xie, L., Wang, M. and Huynh, T.L.D., 2022. Trust and the stock market reaction to lockdown and reopening announcements: A cross-country evidence. *Finance Research Letters*, 46, p.102361.