

IMPACT OF RUSSIA AND UKRAINE CIVIL WAR ON INDIAN MSME EXPORT ORIENTED UNITS (EOU)'S FINANCIAL HEALTH.

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Abstract

India's MSME Export Oriented Units sectors are primary focus area in this study. Majority of the MSME industries in India are dependent on the export. The opportunity to export with profitable margin have been affected due to Geopolitical conflicts between the Russia and Ukraine. The change in the political Environment have affected the India's MSME industries. Non-payments of dues and agreements cancelation are some of the impacts of war. A mixed method of data collection and analysis have been applied in this study. Total sample size has been 45 and collection of secondary data have been on four research paper. The Pearson correlation analysis suggesting that there is positive correlation between the war and export condition. Similarly, thematic analysis has identified that trade polies have been affected. The sig value has been observed as >0.05 and correlation value is 0.987.

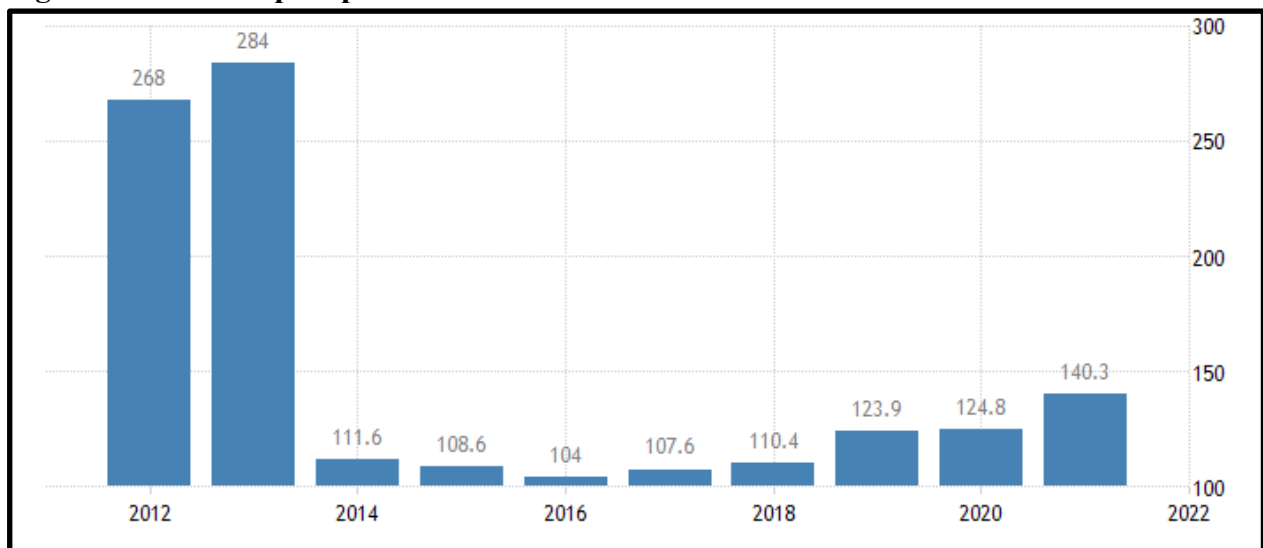
Key words: India, Russia, Ukraine, MSME,EOU

1. Introduction

1.1 Background

The Russo-Ukraine civil war started in 2014 due to the Ukrainian revolution of dignity. This has taken a violent turn in 2022 after the Russian invasion of Ukraine. India's export-oriented unit (EOU) is defined under the foreign trade policy and recognized as those units that rely entirely on the export of their products and services to foreign locations. The two graphs suggest that India's export prices have been heavily affected by the exchange rates (Trading Economics, 2022).

Figure 1: India's export prices forecast



Russia and Ukraine conflict has significantly affected the foreign exchange rates, and one of the highly affected sectors in India is the MSME. The SMEs that entirely rely on export is negatively affected due to increased crude oil prices, geopolitical conflicts and multiple sanctions on Russia. The current geopolitical crisis is affecting the MSME exporters with delays in shipments, *“late payments”* and *“damage to the consignments”*. Currently, India's bilateral trade with Russia is \$11.9 billion and \$3.1 billion with Ukraine (Soni, 2022). The majority of the portion comes from the MSME exports of products and services. Among all the businesses that have been affected due to the conflicts, MSME would be the highest to take the financial blow. Pharmaceuticals, machinery, and apparels are the EOU based MSME sectors that should be addressing their financial health in the current crisis.

1.2 Research Objectives

The *“aim of this study”* is to identify the impact of the Russia - Ukraine conflict on the Indian MSME Export Oriented Units (EOU,s) that comes within this research.

RO1. To evaluate the impact of the Russia-Ukraine war on India's MSME Export Oriented Units (EOU,s).

RO2. To analyse the impact of geopolitical conflicts between different nations of world on export-oriented business.

1.3 Research Questions

How has the Russia-Ukraine war-affected Indian economy ?

Is there any effect on the financial health of the Indian MSME Export Oriented Units sector that completely rely on export?

2. Literature Review

2.1 Critical analysis of the impact of geopolitical conflicts on small and medium-size business

India's exports largely depend on pharmaceuticals, chemicals, apparel, agricultural products, and garments. Gupta et al. (2019) mentioned that India's Small and micro-exporters operate in the chemicals and garments whereas medium-size exporters export pharmaceutical products. The trade impact can be seen within the business deals and consignments handling due to threats and risks of massive export failures. Steinbock (2018) mentioned that the impact of geopolitical conflicts on global trade and security is always negative. The disintegration of the global trading system gets affected due by the sudden shifts in the national policies and relations. MSME sectors that massively rely on international policies to stay in profitability get negatively affected due to the geopolitical conflicts.

Most of the MSME units send their consignments every quarter. The impact of conflict would be hampering the natural flow of the consignments. Nitoiu (2016) mentioned that geopolitical conflicts increase the price of oil and natural gas. The result of such a price increase would be reflected in the increase in raw materials prices. The MSME players that highly rely on low-margin can get significantly affected due to the increase in raw material prices. The higher cost of the products should result in a reduction of the buying power among the customers in conflict-affected countries. In such cases, many of the consignments get cancelled and deals revoked, resting in a massive loss for the EOU.

2.2 Critical analysis of the effect on the financial health of the business relied on exports

The linear stages of the Growth Model are one of the models that should be used in terms of addressing a nation's economic growth during a conflict or wartime. Balta (2019) opined that economic growth could only stem from small and medium-size industrialization. However, conflicts can directly affect the linear growth of the small and medium-size industries. The sanctions and counter-sanctions that get imposed by countries during war significantly affect the exchange rates. Balta (2019) suggested that sanctions affect the dollar value, and most of the time, lower-level economies get negatively affected due to the exchange rates. The production of the different MSMEs gets halted due to exchange rate difficulties.

The frights and the raw material cost spiking can also create huge trade challenges for the small and micro-level companies. Ghose (2017) commented that payments of the exports got stalled due to the foreign partners' delay in the payments. There is always uncertainty regarding the new purchase and agreements during a conflict situation. Exchange rates have become a critical concern for the automobile sector. The war increases the price of the materials like steel and nickel, which affects automobile SMEs. This implies that conflicts only negatively affect the financial health of the micro and small industries. The price of materials increases, deals cancel, increase delivery charges, and negatively affects the economic growth of small industries.

3. Methodology

3.1 The context

The Indian MSME industries are highly diverse, and therefore a collection of the data needs rigorous contexts. In this study, primary data and secondary data has been applied. Here sample size is 45, and all belong to the Indian MSME Export Oriented Units sectors. The majority of them are managers or owners of small and medium-sized companies. A snowball sampling has been applied for a faster primary data collection process.

3.2 Data collection process

Primary and secondary, both types of data were collected in this research. Primary data was collected on the basis of a survey process. Mohajan (2018) mentioned that closed-ended questionnaires help to collect data for the primary data. A referral system applied through snowball sampling allowed a higher relevance and validity in the survey process. A ten questions-based questionnaire that had demographics and variable sections was applied in the primary data collection process. Similarly, for the secondary data collection, large databases like Google Scholar and ProQuest have been used in terms collecting journals and articles. A total of two articles have been selected and analysed with the help of Boolean keywords.

3.3 Data Interpretation process

There have been both qualitative and quantitative data interpretation approaches being implemented in this study. The analysis is done through correlation and regression analysis. The hypothesis is developed and tested through Pearson correlation value and sig value in the regression table. The approach is to analyse the issues with quantitative data. On the other hand, Basias & Pollalis (2018) mentioned qualitative analysis is done with the help of thematic analysis. Two of the research articles are analysed and evaluated in terms of pattern and similarity identification. Themes delivered a qualitative understanding of the impact of war on trade and business in India.

4. Findings and discussion

The findings and analysis section has been based on primarily two sections. The first section is the quantitative analysis of the survey data through correlation and regression tests done via SPSS. The second section is the thematic analysis of the secondary data. The hypotheses that have been tested are as follows.

H (0) Russia- Ukraine war has a significant impact on the financial health of Indian MSME Export Oriented Units.

H (1) Russia- Ukraine war has no impact t on the financial health of Indian MSME Export Oriented Units.

Quantitative analysis

Reliability test

“Reliability S “Reliability test”

“Table 1: Reliability test “statistics”

Cronbach's Alpha	N of Items
.773	10

In the above table, the reliability of the data is tested through the Cronbach Alpha value. The value suggests that the data set has $\alpha=0.773$. Purwanto et al. (2021) mentioned that the value must be >0.5 in order to project good reliability of the data. Similarly, $0.7 > \alpha > 0.8$ only depicts that data have good acceptability and reliability for further tests.

Correlation test

Table 2

Correlation

“Correlations

		Conflict Impact	Exporting
Conflict Impact	Pearson Correlation	1	.002
	Sig. (2-tailed)		.987
	N	45	45
Exporting	Pearson Correlation	.002	1
	Sig. (2-tailed)	.987	
	N	45	45”

In the above table, Pearson correlation values have been analysed in terms of analysing the relation between the exporting condition and war as geopolitical conflicts. The Pearson correlation between the export and conflict impacts has been recognized as positive. Purwanto et al. (2021) mentioned that the correlation value should be within 0 to 1. The closer the value to 1, the stronger relation beats the dependent and independent variables. Here, the value is 0.987, which depicts that exporting to foreign countries is strongly correlated with wars and conflicts. Hence, an increase in the Russia-Ukraine conflict would affect the exporting conditions of the MSME. Therefore, alternative hypothesis *H (0) Russo-*

the Ukraine war has a significant impact on the financial health of Indian MSME should be accepted in this regard.

It is evident that the increase in the Russia-Ukraine conflict has increased the chances of exporting delays. Similarly, exporting conditions have worsened due to the affected exchange rate. The trade deals have been affected by the foreign currency exchange rates. Carvalho et al. (2019) opined that war and conflicts negatively affect the financial health of exporting companies. Similarly, the correlation analysis has accepted the alternative hypothesis suggesting that conflicts only increase exporting difficulties among the MSME companies in India.

Regression analysis

Table 3

Model summary

“Model Summary

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.435 ^a	.189	.170	1.108	.189	10.039	1	43	.003

a. Predictors: (Constant), payment delay”

Table 4

ANOVA

“ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.324	1	12.324	10.039	.003 ^b
	Residual	52.787	43	1.228		
	Total	65.111	44			

a. Dependent Variable: Exporting

b. Predictors: (Constant), payment delay”

Table 5
Coefficients

“Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.475	.379		3.895	.000
	payment delay	.442	.139	.435	3.168	.003

a. Dependent Variable: Exporting”

The above table is depicted in the regression analysis of the data. R-squared value can take any values between '0' and '1'. Here, the R-Squared value is 0.189. Purwanto et al. (2021) opined that a higher R-squared value is always good for the fitting of the data to the regression model. However, in this case, only 18% of the data fits the regression table. Purwanto et al. (2021) argued that depending on the variables, the R-square value can be below. Similarly, in this case, 18% R-square has been a good predictor. A significance level of 0.05 indicates that there is a 5% risk of concluding in case of declaring a difference between the variables. Here, $p=0.003 < 0.05$, thus concluding that the alternative hypothesis should be accepted.

Qualitative analysis

Table 6: Data extraction and quality table

Authors	Keywords	Theme
Mishra, R., & Choudhry, 2020 Likhacheva, 2019	Tariffs, real effective exchange rate, Cold War, Diplomatic, Unilateral Sanctions, MSMEs, EOUs	Sanctions and payment delays are negatively correlated with India's MSME sectors.
Nandy 2020 Narada Gamage et al. 2020	Tarde war, geo-economics , Russia, India, Ukraine	India's small and medium industry's financial health has been affected due to Russo-Ukraine Geopolitical conflicts.

Theme 1: Sanctions and payment delays are negatively correlated with India's MSME sectors

Globalization has increased India's dependency on foreign trade. The MSME sectors, particularly agricultural and pharmaceutical, have been affected due to the trade conflicts happening between Russia and Ukraine. Mishra & Choudhry (2020) mentioned that trade conflicts between the two countries have decreased the production of agricultural products.

Increases in fuel prices have impacted the interests of the small and medium-sized exporters in India. Likhacheva (2020) opined that military conflicts between two countries are often accompanied by the imposition of partial as well as complete trade embargoes on the natural exchange of goods. Sanctions from both sides have reduced the trade flow in India. Currency exchange rates have affected the productivity of the companies.

Theme 2: India's MSME export-oriented units' business financial health has been affected due to Russia-Ukraine Geopolitical conflicts

The result of conflict can be seen in the hike in raw material prices. Nandy (2020) mentioned that geopolitical tensions have increased the price of raw materials prices. Labour costs have increased significantly. Some of the damages that Indian MSMEs have experienced are loss of trade deals and reduction in productivity. Narada Gamage (2020) commented that the business environment of the small and medium-sized companies has been negatively affected due to the increase in ongoing trade conflicts. The increase in Dollar value has directly resulted in the raw material price increase; The MSME sectors are highly dependent on a balanced international economy. However, due to increased pf conflicts, product offerings, customer base and financial loans are highly affected.

5. Conclusion

5.1 Contributions to research and managerial implications

Thus $p < 0.05$ and Pearson correlation value of 0.987 only conclude that Indian MSME that relies heavily on exporting have been negatively affected due to sanctions, payment delays, and price increase. The thematic analysis has projected that Russia-Ukrainian conflicts have affected the MSME sectors through sanctions and increased price hikes. In such a case, it is recommended that the Indian government should be implementing robust trade policies to ease the impact. It is important that trade policies are diplomatic and serve as a tool for national interests. MSME Export Oriented Units stakeholders and entrepreneurs should be using this study result as evidence against the ongoing trade conflicts.

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Appendix: 1: Questionnaire

Questions

Are You Indian?

Yes

No

Do you work in MSME sectors?

Yes

No

How old are you?

20-30

30-40

40-50

Above

50

Which sectors your company belongs?

Agricultural

Garments

Chemicals

Stones and gems

Automobile

Your company relies on exporting products to foreign countries?

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

Your company have halted production during the war?

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

The future agreements have affected?

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

Exchange rate have affected the raw material prices and sales got reduced?

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

Your company is experiencing payments delay from the partners?

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

Do think geopolitical conflicts is negatively affecting financial health of the small and medium Enterprises

Strongly disagree

Disagree

Neutral

Agree

Strongly agree