

The Economic Impact for Indonesia from The War Between Russia and Ukraine

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Abstract. The war between Russia and Ukraine which occurred from the early of 2022 has given shock among global economic stability. The ongoing conflict also has the potential to disrupt Indonesia's economic and trade performance between the two countries. Hence, the purpose of this research is to analyze the economic impact for Indonesia from the war between Russia and Ukraine, especially in the field of export and import. The methodology in this studies employed by literature studies. The results shows that Indonesia's trade balance has affected for the period January to March 2022 with Russia and Ukraine which experienced a deficit because the Republic of Indonesia remains one of Ukraine's largest trade partners in the Southeast Asian region. Another findings also imply the impact on Indonesia's non-oil and gas exports and hamper wheat imports, and economic inflation were increase the price of a number of domestic foodstuffs and energy prices. Therefore, Indonesia should prioritize preserving economic stability in the real sector, ensuring the community's access to basic necessities, and fostering financial independence through promoting more local production to avoid interdependency and shocks from the global economy.

1. Introduction

Russia launched an invasion of attack on the territory of Eastern Ukraine on February 24 2022, Ukraine is one of its neighbors to the southwest. This invasion signifies a reemergence of events that have taken place in the Russian-Ukrainian war that began in 2014. The crisis in Ukraine is the single most important international issue today. The conflict involves Crimea, an autonomous community in the Southern Mountains that is home to chaos, which chose to join the Russian federation [1]. The Ukrainian government began to counter-strike the invasion by sent troops and invited international legion forces to end the violence [2]. Widespread worldwide criticism of the invasion resulted in sanctions and an embargo being placed on Russia. This war will cause a financial crisis, and trade sanctions with other countries. The effects of the conflict has ignited global economic slow down, and the rest will have an impact on investment and consumption policies due to disruptions to the flow of international goods and services, which will have a negative impact on the performance of the export-import sector. It is necessary to take into account the outlook for worldwide inflation as a result of the conflict between Russia and Ukraine, because this is

exactly what will happen given that the original goal of the fight was the disruption of global supply networks that disrupted the ongoing processes of economic recovery around the world [3].

To understand further studies, previous research is needed to help understand the case of this study. A study by Zehfri (2022) entitled "The Impact of the Russian-Ukrainian Conflict on the Indonesian Trade System" states that national and international legal instruments underlie trade actions between Indonesia-Russia and Indonesia-Ukraine. Zehfri (2022) also explained that the Russian-Ukrainian war had positive and negative impacts on the Indonesian economic system. However, in this study Zehfri did not explain the correlation between the impact of the Russia-Ukraine war on regulations that affected Indonesia's trade balance between the two warring countries. The data used by Zehfri (2022) is limited to the first quarter of 2022 at the time of the escalation of the war [1]. Junaedi's study (2022) entitled "The Impact of the Russia-Ukraine War on the Indonesian Economy" explains that there was a significant impact on the Russian-Ukrainian war on the Indonesian economy. Junaedi analyzed that the Ukraine-Russia war had an impact on rising prices for several commodities. However, Junaedi did not analyze the overall trade balance for the impact of the war. Just like Zuhri, the data used by Junaedi is limited to the first quarter of 2022 at the time of the escalation of the war [4]. An article titled "The economic effects of violent conflict: Evidence from asset market reactions" from Guidolin & la Ferrara (2010) shows that the start of conflict has had a significant impact on stock market indices, exchange rates, oil and commodity prices. According to the article, most of the results are significantly higher for international wars. The results are unaffected by a widening of the time span in which conflict occurrences are defined [5]. The same narration also examined by Ozili (2022) that shows the invasion of Ukraine by Russia and the COVID-19 pandemic together significantly raised the price of food and crude oil all across the world. The spike in the international food price index following the invasion was mostly due to an increase in the price of dairy and oils. On the invasion date, stock markets dropped. Following the invasion, inflation increased in nations that imposed serious sanctions on Russia, as well as in countries that were not involved in the conflict in any manner. Ultimately, the invasion had an impact on both combatant and non-combatant countries [6].

Thus, the conflict between Russia and Ukraine also affected the Indonesian economy, particularly in the areas of exports and imports between Indonesia with Russia and Ukraine. Therefore, purpose of this study is to analyse what impact caused by Russo-Ukraine war to Indonesian Economics and how many sectors are got impact by this conflict. The impact will be observe at trade balance rate and several core sector that Indonesia has rely on both countries such as oil & gas and foodstuff price impact and upcoming challenges on facing 2023 global recession using descriptive studies.

2. Method

The method employed in this study is qualitative research through literature studies, which is a study that relies on data from libraries such as books, journals, magazines, and others, then evaluates a number of these data with the goal of describing or reconstructing specific social phenomena in a holistic manner that is objectively and correctly.

To analyse economic impact that cause by Russia-Ukraine war, there are two most used theories on the conflict impact analysis. The are known as "war renewal" and "war ruin" theories. The 'war renewal' theory contends that conflicts may create good consequences by lowering the influence of special interests, introducing technical innovation, and boosting human capital, whereas the 'war ruin' theory regards wars as destructive occurrences with little economic gain [6]. Since the global trade & economic system causing interdependence, Interdependency over the conflict has cause significant impact. As shown by Kang and Meernik (2005) in Ozili (2022) that war and civil conflict has imply various economic consequences. They discover that conflicts have a detrimental impact on economic fundamentals and that the international community's response to civil wars has a significant impact on economic growth.

Therefore, war ruin theories will be used as approach on this studies to imply relevant explanation of economic impact of Russia-Ukraine conflict to Indonesian economy. Following the qualitative analysis, the obtained data will be presented in a descriptive form. This study's data collection process involves visiting websites about the Economic Impact of the Russian-Ukrainian War, as well as international and local media, journals, and online searches.

3. Results and Discussion

3.1. Economic Impact on Indonesian Economy

In the Russia-Ukraine conflict, our economic and trade advantages and losses depended not only on which political side we support (Russia or Ukraine), but also on how interdependent we are in terms of trade, whether with the vast Russian alliance trade network or the Ukrainian-Ukrainian alliance. US-EU trade, as well as especially Indonesian export and import of goods Some analysts claim that the effects of the Russian-Ukrainian war would be felt not just by the two countries and the people who support them but also by the entire world. One of these effects is on the political and economic landscape in Southeast Asia, particularly in Indonesia [4].

The results shows that trade balance Russia-Ukraine Conflict has implication on Indonesia trade balance between Russia and Ukraine. The conflict has trigger global supply chain shut down and imply to trade balance values. Moreover, the COVID-19 pandemic made it worse. According to BPS (2022) that collected by Antara (2022) (see Table 1), Indonesia trade balance between Russia has declined almost 205 million USD in compare from January-March 2021 to January-March 2022. As well as happened with Ukraine trade that Indonesia had trade deficit in 13.5 million USD in compare of January-March 2021 that gain trade surplus in 53.6 USD [7]. As well as showed on Figure 2 and 3 (See Figure 2 and 3), long-term trade balance between Indonesia and Russia & Ukraine has still on the same trend until the end of 2022 compare to previous data that collected from first quarter of 2022. According to Figure 3 (see Figure 3), the trade balance between Indonesia and Ukraine has fairly significant swings, with annual changes of up to -90% in each export and import sector. Meanwhile, there is a discrepancy in the trade balances of Indonesia and Russia, with Indonesia increasing its imports in 2022 compared to 2021. The rise in the value of imports is due to the oil and gas industry [8]. Imbalance trade balance and shut down of supply chain on several commodities has ignite financial inflation toward Indonesia [9].

Table 1 Export-Import of Indonesia between Russia & Ukraine Jan-Mar 2022 (in mill. USD)[7]

| 2022 | Russia | | Ukraine | |
|------|--------|--------|---------|--------|
| Jan | 176.5 | 186.7 | 5.4 | 15.9 |
| Feb | 155.6 | 160.5 | 23.3 | 19.7 |
| Mar | 67.7 | 257.0 | 0 | 6.6 |
| | Export | Import | Export | Import |

Table 2 Export-Import of Indonesia-Russia Annual 2021-2022 (in mill. USD)[8]

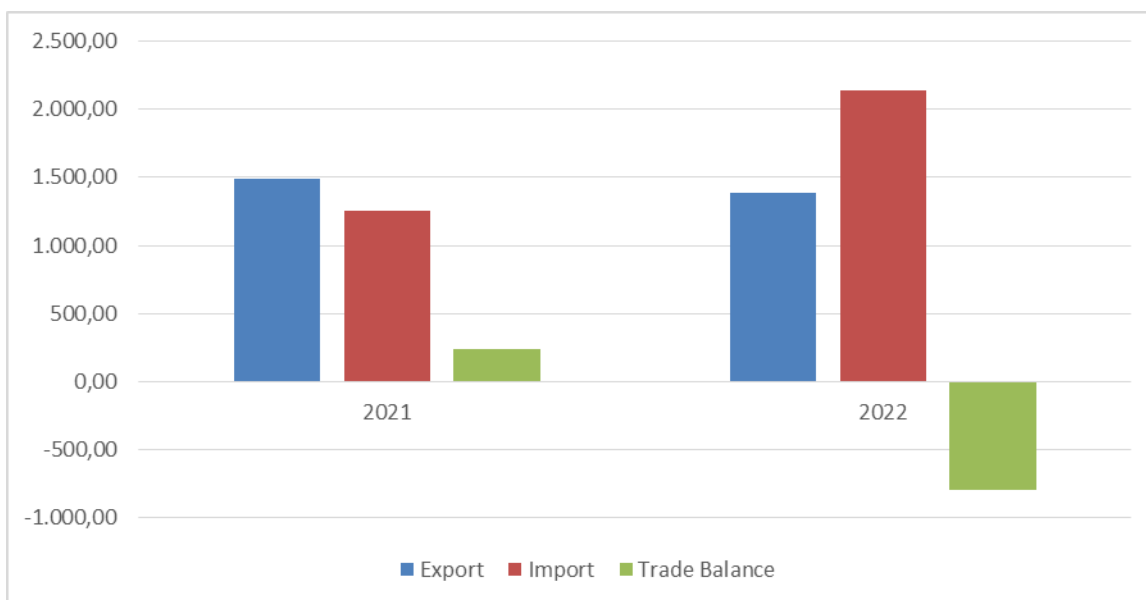
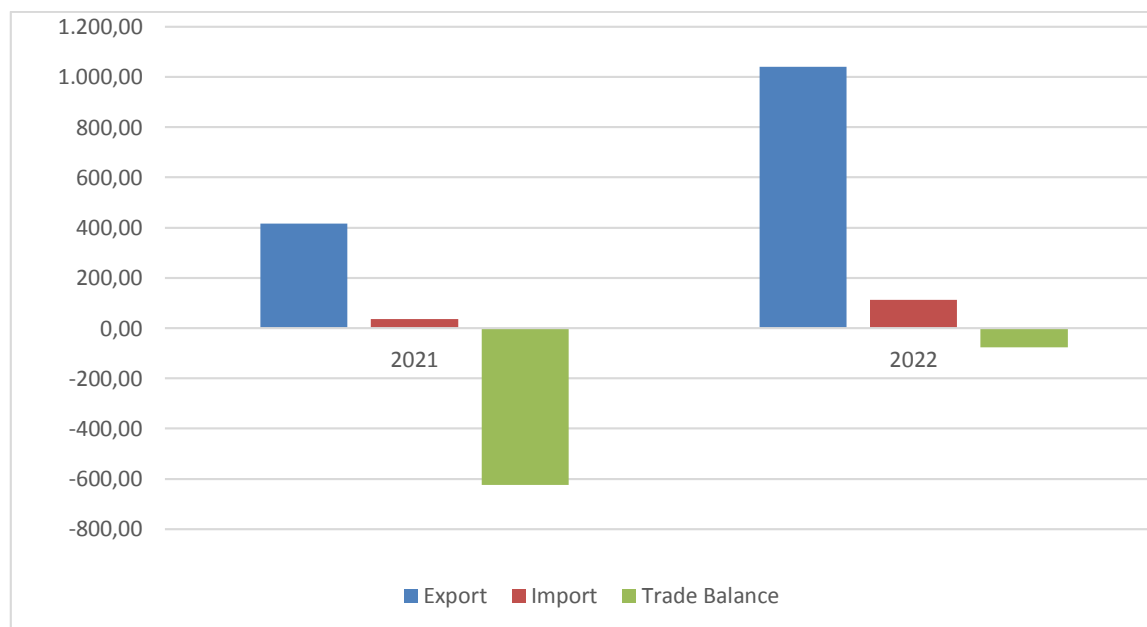


Table 3 Export-Import of Indonesia-Ukraine Annual 2021-2022 (in mill. USD)[8]



Furthermore, Russia and Ukraine are major exporters of wheat and fertilizers in the world. Indonesia as one of country that dependent on Russian & Ukraine wheat and fertilizer are impacted by this conflict.

According to BPS (2022) in Antara (2022), Indonesia has imported fertilizer from Russia in number 203,6 million USD in 2022. Indonesia also became Ukrainian Wheat importers in number 17.2 million USD in 2022. On the other place, Indonesia also importers of Oil & Gas commodities. Russia's invasion of Ukraine has been worsened energy prices rises due to few issues, most notably the COVID-19 pandemic, restricted energy sources, and building tensions between Ukraine and Russia. Prior to the invasion, the price of oil remained constant in the "US\$80 to US\$95" range. After the invasion, oil prices rose to \$100 per barrel [10]. Impact of Oil & Gas prices in global market cause raise fuel & gas prices in Indonesia. Indonesian Crude Oil Price (ICP) prices in global market per March 24th, 2022 had increase more than 56 percent from 73.36 USD per barrel to 114.55 USD per barrel [11].

The rise in the ICP raises the economic price of fuel. Subsidies for fuel and liquefied-petroleum gas (LPG) are IDR 77.5 trillion in the 2022 State Budget. At the time of the ICP, the subsidy was \$63 per barrel. Each \$1 increase in the price of a barrel of oil results in an increase in LPG subsidies of approximately IDR 1.47 trillion. Fuel compensation costs in excess of IDR 2.65 trillion [12]. Estimates imply that rises in global oil prices will have a slight but statistically significant impact on inflation in Indonesia. This was attributable to two factors. The first was that rising commodity prices contributed to the Rupiah's short-term gain. The government sets retail prices in the second case, thanks to fuel subsidies. Both variables mitigate the short-term impact of oil price shocks on domestic CPI, but their impact declines with time [13].

On the other hand, the influence of the Russian-Ukrainian conflict on Indonesia also can be felt in terms of wheat supplies. Wheat consumption in the local consumption is fairly high, despite the fact that it is not a staple food. Wheat flour is the primary ingredient of quick noodles, bread, fried dishes, and a variety of snacks [4]. However, there is no significant price raise on wheat-based commodities referring to global supply chain on wheat imports. Dano (2022) argues food and energy price increases were caused by inflation. It has been followed by monetary and fiscal policy tightening such as interest rates increase and liquidity limitation. The clamping economic policy will almost certainly have an influence on the performance of the global economic recovery in affluent countries, affecting developing markets. Efforts to safeguard the people by stabilizing food and energy costs have resulted in a skyrocketing subsidy budget, despite the fact that their economy and tax revenues have not recovered due to the pandemic and are still recuperating [9].

Further linkages to the 2023 Global Recession Threat, the Russia-Ukraine conflict can be predicted drag down global economy even worse. Yet, Anggresta, et. al. (2023) argues that Global Recession would not make Indonesian economy get worsened that previously occurred by Russo-Ukraine War. With strong economic foundations, Indonesia is thought to be unaffected by the prospect of a worldwide recession. However, as a country dependent on global economic links, Indonesia would be influenced indirectly or directly by the economic volatility and inflation experienced by many countries throughout the crisis [14].

4. Conclusion

This study looked into how Russia's invasion of Ukraine affected the world economy. The disruption of the world supply chain was the invasion's economic impact, according to the study. This manifested itself as shocks in the supply of trade and energy. It led to higher energy and other commodities, all of which fueled a rise in global inflation in numerous countries including Indonesia. Russo-Ukraine war has made trade balance and interdependency between Indonesia and both countries are worsened and cause inflation and price rise in several commodities such as oil and gas. Therefore, Indonesia should therefore prioritize preserving economic stability in the real sector, ensuring the community's access to basic necessities, and fostering financial independence through promoting more local production to avoid interdependency and shocks from the global economy.

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