THE IMPACT OF THE RUSSIA – UKRAINE WAR ON INDIonesian ECONOMY

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Abstract

The conflict between Russia and Ukraine has an impact on the global economy, and Indonesia is no exception. This conflict has an impact on trade performance between Indonesia and the two countries. The main export commodity to the two countries is Indonesia’s main commodity, namely CPO and its derivatives, while 25.91% of wheat flour imports come from Ukraine. This paper aims to discuss how the impact of the Russian war against Ukraine for Indonesia. One of the severe impacts is the increase in global energy prices. This increase put pressure on fiscal conditions due to increased subsidies for the use of fuel and LPG. Each increase in the price of crude oil of US$1 per barrel has an impact on the increase in subsidies for LPG by around IDR1.47 trillion, kerosene by IDR49 billion, and fuel compensation expenses of more than IDR2.65 trillion. In addition, an increase in ICP of US$1 per barrel has an impact on additional subsidies and electricity compensation of IDR295 billion. The House of Representatives needs to encourage the Government to take anticipatory steps so that the inflation rate is controlled amidst rising global commodity prices.

Introduction

On February 24, 2022 Russia begins its invasion of Ukraine. This was immediately responded by an increase in world oil prices to a level above USD100 per barrel, the highest since 2014. The increase in world oil prices is because Russia is one of the largest countries that supply the world’s oil needs, which is 10% (Kompas, 25 February 2022). Not only oil prices, this conflict also led to an increase in wheat prices where wheat futures prices rose about 5.35% to USD9.84 per bushel, the highest price since 2008. Russia and Ukraine are also major players in global wheat exports (Kompas. com, March 2, 2022).

The increase in commodity prices due to the conflict between Russia and Ukraine will have an impact on the global economy, where global economic growth will be restrained due to rising commodity prices, especially oil and processed products of the mining industry. This conflict
will also hamper the distribution of food raw materials throughout the world. In addition, the possibility of prohibition sanctions against Russian commodities will also make commodity prices more expensive.

Furthermore, the increase in energy and food prices will increase global inflation so that it will disrupt the global economic recovery, including the United States. Economic sanctions imposed by the United States and other countries against Russia also have the potential to disrupt financial markets. This will have an impact on the scenario of the Fed raising interest rates, which will have an impact on the global economy. Various countries, especially developing countries will face the threat of exchange rates, fluctuations in the composite stock price index or JCI, and rising inflation due to shock from the commodity market (temp.co, 27 February 2022).

Indonesia as a global economic community will certainly be greatly affected by this conflict. It is feared that this conflict will have an impact on Indonesian trade with the two countries where Indonesia's main export commodities, namely CPO and its derivatives, are commodities traded to both countries. In addition, the supply of Indonesian wheat flour imports from Ukraine is also feared to be disrupted. This paper aims to discuss how the impact of Russia's war against Ukraine on Indonesian trade performance with the two countries and how the impact of rising energy and food prices for Indonesia.

**The Impact of Conflict on Indonesian Trade Performance**

The ongoing conflict between Russia and Ukraine has the potential to disrupt Indonesian trade performance with the two countries. This conflict can reduce Indonesia's non-oil and gas exports and hamper imports of wheat, thereby potentially increasing the price of a number of food ingredients in the country. Indonesian trade portion with Russia and Ukraine is actually not very large. The current conflict that occurs is estimated to only have an impact in the range of 1%, both for exports and imports (Media Indonesia, 26 February 2022). However, the trade commodities to the two countries are commodities that are quite important for Indonesia, such as crude palm oil (CPO) and its derivative products.

![Graph showing Indonesian Trade Performance](chart.png)

**Table 1. Development of Indonesian Trade Performance with Russia and Ukraine (in Million USD).**

*Source: Kompas, 2022.*
Based on data from the Ministry of Trade, the total value of Indonesian trade with Russia in 2020 and 2021 is USD1.93 billion and USD2.74 billion, respectively. This figure improved after a downward trend began in 2018 (Figure 1). Indonesia's export commodities to Russia include CPO and its derivatives, rubber and rubber products, shoes, electronics, chocolate and coffee. Meanwhile, Indonesian imported commodities from Russia include steel and chemical products. Furthermore, the total value of Indonesian trade with Ukraine in 2020 and 2021 will reach USD1.18 billion and USD1.45 billion, respectively. On the other hand, the trade trend between Indonesia and Ukraine tends to increase. The total amount of trade in 2017 was only USD835 million (Figure 1). Indonesian export commodities to Ukraine include CPO and its derivative products, paper and cocoa powder. Meanwhile, Indonesian imported commodities from Ukraine are wheat seeds and flour, as well as iron (Kompas, February 26 2022).

**The Impact of Conflicts on Commodity Prices in Indonesia**

The crisis that occurred between Russia and Ukraine also had an impact on the increase in global energy prices. This price increase will greatly affect Indonesia. On the one hand, as the world's largest exporter of thermal coal, the increase in coal prices will significantly increase the value of Indonesia's exports. But on the other hand, rising oil prices will be a problem because currently Indonesia is a net importer of crude oil. In fact, Indonesian trade balance is often in deficit due to the high value of petroleum imports (Bisnis Indonesia, February 25, 2022).

Currently, national fuel consumption reaches 1.4 million-1.5 million barrels per day, but Indonesia's oil production capacity is less than 700,000 barrels per day (Kompas, February 25, 2022).

The increase in world oil prices was reflected in the price of Indonesian crude oil or Indonesian Crude Price (ICP) on February 24, 2022, which reached USD95.45 per barrel, while the price of West Texas Intermediate (WTI) oil had reached USD96.27 per barrel and the price of Brent oil reached USD101.86 per barrel based on Bloomberg data on February 28, 2022. This price increase has the potential to increase the cost of importing energy commodities, where Indonesia's oil and gas imports in 2021 have reached USD196.20 billion or equivalent to IDR.2.805 trillion using an exchange rate of IDR.14,300 per US dollar (Bisnis Indonesia, March 1, 2022).

The increase in oil prices will put pressure on Indonesia's fiscal conditions due to the increase in the burden of subsidies, especially for the use of fuel and LPG which is covered and has the potential to exceed the assumptions of the 2022 State Budget. Based on data from the Ministry of Energy and Mineral Resources, every increase in the price of crude oil of USD1 per barrel will have an impact on an increase in LPG subsidies of around IDR1.47 trillion, kerosene subsidies IDR49 billion, and fuel compensation expenses of more than IDR2.65 trillion. In addition, the increase in ICP also has an impact on electricity subsidies and compensation, where every increase in ICP of USD1 per barrel has an impact on additional subsidies and electricity compensation of IDR295
The increase in oil prices also has an impact on other sectors, particularly transportation and industries that consume non-subsidized fuel. This increase in oil prices will increase the economic price of fuel so that it has the potential to increase the price of non-subsidized fuel in Indonesia, which is currently one of the cheapest compared to other countries in the ASEAN region. As an illustration, the price of non-subsidized fuel in Singapore is IDR28,500/liter, Thailand IDR19,300/liter, Laos IDR19,200/liter, Philippines IDR18,500/liter, Vietnam IDR16,800/liter, Cambodia IDR16,500/liter, and Myanmar IDR15,300/liter (CNBCIndonesia.com, 28 February 2022).

The impact of the Russian-Ukrainian conflict also has the potential to increase the prices of other commodities, particularly wheat. Currently Russia and Ukraine are among the largest wheat producing countries, with Russia and Ukraine accounting for about 13% of global wheat production (Kompas, 2 March 2022). The price increase will certainly be very influential for Indonesia, which is currently a wheat importing country. Indonesia's total wheat imports in 2021 will reach USD3.54 billion, of which 25.91% or USD919.43 are imports from Ukraine (Kompas, 26 February 2022). The existence of a conflict between Russia and Ukraine will have a direct impact on the disruption of the supply of imported wheat from Ukraine. In addition, this conflict will also cause an increase in global wheat prices which in turn will have an impact on the domestic food industry which requires wheat as its raw material such as noodles, wheat flour, bread, cakes, and others.

Currently, the increase in wheat prices has not had a direct impact on the prices of processed products at the consumer level because the industry still has stock of raw materials. The Indonesian Food and Beverage Entrepreneurs Association (Gapmmi) is still considering a plan to increase the price of processed food made from wheat as a result of the disruption in wheat supply (Bisnis Indonesia, 26 February 2022). However, if the war lasts a long time, the price of processed food made from wheat will be inevitable.

The increase in the prices of energy and food commodities, especially wheat, will also affect the prices of these commodities in the country. It is feared that high dependence on these two commodities will also push up prices for other commodities, thus triggering uncontrolled inflation. The government must be aware of this, especially in the midst of economic conditions that have not improved due to the Covid-19 pandemic, thus adding to the burden on the people of Indonesia.

Closing

Russia's invasion of Ukraine will have a huge impact on the global economy, and Indonesia is no exception. This conflict will result in disruption of global supply of energy and food commodities, in this case wheat, because both countries are major global players and these two commodities. The conflict will have an impact on trade performance between Indonesia
and the two countries. Although currently Indonesian trade volume with the two countries is not so large, the main trade commodities are important commodities for Indonesia.

Another impact that is quite severe for Indonesia will be an increase in energy prices, especially oil and gas globally, where Russia is an exporter of 10% of the world's total oil. This price increase will put pressure on Indonesia's fiscal condition due to the increase in the burden of subsidies, especially for the use of fuel and LPG. Every USD1 per barrel increase in crude oil prices will result in an increase in LPG subsidies of around IDR1.47 trillion, kerosene subsidies of IDR49 billion, and fuel compensation expenses of more than IDR2.65 trillion. In addition, every increase in ICP of USD1 per barrel has an impact on additional subsidies and electricity compensation of IDR295 billion. This will also lead to an increase in transportation costs, logistics, and industries that consume non-subsidized fuel, which in turn can increase the prices of other commodities.

This condition needs to be a concern for the House of Representatives, especially the impact of the war crisis between Russia and Ukraine on the increase in commodity prices in the country. The House of Representatives also needs to encourage the Government to take anticipatory steps so that the inflation rate remains under control amidst rising prices of several commodities and crude oil on the global market. To anticipate the increase in wheat prices, the House of Representatives needs to encourage the government to look for alternative wheat suppliers from other countries with long-term contracts to ensure that the supply and prices of wheat remain stable. Meanwhile, the House of Representatives also needs to continue to encourage the government to optimize the use of energy from natural gas for domestic industrial needs so as to reduce dependence on oil.

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