The Impact of the Russian Invasion of Ukraine on the Economic Sector in Indonesia

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Abstract

This research discusses the impact of Russia's invasion of Ukraine on the Indonesian economy, focusing on the energy sector. Amidst the increasing complexity of global geopolitical issues, international events such as Russia's invasion of Ukraine have significant global consequences, even for countries not directly involved in the conflict. This study is grounded in the theory of the political economy of war, serving as the analytical framework to understand how these dynamics affect Indonesia's economic sector. As a direct consequence of the invasion, the global energy sector distribution has been disrupted. Nations that previously imported energy from Russia must now seek alternative sources to meet their energy needs. Indonesia, being one of the world's largest producers of non-oil and gas energy, emerges as a primary choice of alternative energy export source. The research findings indicate a substantial increase in the export of non-oil and gas energy from Indonesia, which, in turn, has a positive impact on the growth of the country's economic sector. The research employs a descriptive-qualitative approach, collecting data from literature reviews and online research to complement secondary data. The results of this study offer insights into how changes in global geopolitical dynamics can affect a country's economy, even when not directly involved in such events. Indonesia, for instance, has seized the opportunity to boost its non-oil and gas energy exports, thereby influencing the growth of a specific economic sector in the country. This research provides valuable contributions to understanding the interplay between geopolitical events and the global economy.

Keywords: economic, Indonesia, invasion, Russia, Ukraine

Abstrak

Penelitian ini membahas bagaimana dampak invasi Rusia ke Ukraina terhadap sektor ekonomi Indonesia dengan fokus pada sektor energi. Di tengah meningkatnya kompleksitas isu geopolitik di dunia, peristiwa-peristiwa internasional seperti invasi Rusia ke Ukraina memiliki konsekuensi global yang signifikan, bahkan untuk negara-negara yang tidak secara langsung terlibat dalam konflik. Penelitian ini didasarkan pada teori ekonomi politik perang, yang menjadi kerangka analisis untuk memahami bagaimana dinamika ini mempengaruhi sektor ekonomi Indonesia. Sebagai dampak langsung dari invasi tersebut, distribusi sektor energi global mengalami gangguan. Negara-negara yang sebelumnya mengimpor energi dari Rusia sekarang harus mencari sumber alternatif untuk memenuhi kebutuhan energi mereka. Indonesia, yang merupakan salah satu produsen energi non-migas terbesar di dunia, menjadi pilihan utama sebagai sumber alternatif ekspor energi. Hasil penelitian menunjukkan peningkatan signifikan dalam ekspor energi non-migas dari Indonesia, yang tentunya memberikan dampak positif pada pertumbuhan sektor ekonomi di negara tersebut. Metode penelitian yang diterapkan adalah pendekatan deskriptif-kualitatif dengan pengumpulan data dari studi...
INTRODUCTION

The Russian invasion of Ukraine officially erupted on Thursday, February 24, 2022 after simmering tensions between Russia and Ukraine since late 2021. Both countries have a historically strained relationship. In 2014, Russia annexed disputed territory between Russia and Ukraine and supported separatists in Eastern Ukraine, namely Donetsk and Luhansk, to oppose the Ukrainian government (CNBC Indonesia, 2022). The issue of Ukraine's proximity to Western countries and its bid to join NATO (North Atlantic Treaty Organization), an international political and military security alliance organization in which North America and Europe are members, became one of the triggers for the invasion. Ukraine's membership in NATO raised concerns for Russia, perceiving Western countries used NATO to encircle Russia. These concerns ultimately culminated in Russia's attack on approximately 70 public facilities and the seizure of the former Chernobyl nuclear power plant along the route between Belarus and Kiev in Ukraine (CNBC Indonesia, 2022).

The conflict between Russia and Ukraine has undoubtedly global dynamics with systemic impacts around the world. Humanitarian, economic, and monetary crises are significant consequences of the military conflict (Dano, 2022). Russia, contributing 3.5% to the global GDP, undeniably plays a crucial role, thereby affecting substantial trade exposure to the European Union and the United Kingdom (Liadze, Macchiarelli, Lee, & Juanino, 2022). This conflict has led to an increase in energy prices because Russia is a major player in the energy market. Soaring oil prices and sanctions against Russia for its invasion of Ukraine resulted in the cessation of Russian coal imports by the European Union. The sanctions, including the halt of Russian coal imports by the European Union (to generate electricity), have prompted the search for alternative exporters to meet domestic energy supply needs. Thus far, Russia has contributed 70% of thermal coal imports in the European Union (DW, 2022). Energy supply still has to be met despite the steadfastly held sanctions. The European Union has finally found alternative energy sources from Colombia, Australia, the United States, and Indonesia. Since the outbreak of this invasion, Indonesia has reached 5.85 million tons of coal production between January through December 2022, marking a 1.373% increase of from that in 2023 (Maesaroh, 2023).

Coal is a popular energy commodity in Indonesia due to its vast reserves and abundant utilization across the country. Accordingly, coal price is competitive and it remains a major commodity for international trade. Economically, coal is perceived to make a significant contribution to national development.
and is the largest contributor to non-tax state revenue (KH, 2021).

This study departed from three previous research for literature review, independently examining the impact of Russia-Ukraine conflict on Indonesia, Indonesia's position in capturing opportunities arising from the conflict, and the strategies implemented by Indonesia due to the conflict. These three studies are relevant to how Indonesia responds and promptly adopts strategies and opportunities amidst the conflict to achieve positive impacts. Generally, invasions, wars, and conflicts have negative domino effects on other countries due to interdependence and international cooperation. This research discusses the increase in domestic income from coal exports as a result of European Union countries' shifting focus to meet their domestic energy needs after facing energy constraint from Russia.

The first study is entitled "The Influence of the Russia-Ukraine War on the Economies of Southeast Asian Countries" by Connie Rahakundini, Mariane Olivia Delanova, and Yanyang M Yani. This study aims to explain and analyze the influence of Russia-Ukraine war on the economy of Southeast Asia countries, as these countries are supplied with commodities by Russia and Ukraine, resulting in disruptions to the global supply chain and an increased price of energy and food (Bakrie, Delanova, & Yani, Pengaruh Perang Rusia dan Ukraina Terhadap Perekonomian Negara Kawasan Asia Tenggara, 2022). The second study is "Indonesia Amidst the Pressure of the Trade War Between the United States and China" by Sonny. This research examines the trade war between the United States and China, which imposed relatively insignificant impact on Indonesia. This is because the products subject to trade war tariffs are not the main focus of Indonesia's exports to both countries. The study also discusses the opportunities that Indonesia can seize in filling the market gap left by both countries (Sonny, 2020). The last study is "Indonesia’s Foreign Policy Direction Post-Russia-Ukraine War Based on the Perspective of National Interest" by Grace Frestisa Irena Hutabarat. This research examines how Indonesia's foreign policy principles of active non-alignment is influenced by the Russia-Ukraine war. Implementing active non-alignment principles, Indonesia can independently determine its stance and not align itself with specific powers. In other words, Indonesia does not take sides with either Russia or Ukraine (Hutabarat, 2022). While previous research discussed the impact of Russia's invasion of Ukraine on Indonesia, they primarily focused on the disruption of commodity supplies and Indonesia's political stance in the conflict between the two countries. The impacts on other sectors of Indonesian economy resulting from the geopolitical tension remain inconclusive. Therefore, this research aims to investigate the economic impact of Indonesia's non-oil and gas energy sector due to Russia's invasion of Ukraine.

Russian invasion of Ukraine, which resulted in energy supply crisis, has made previously readily available commodities disrupted, so countries, especially those supplied by Russia and Ukraine, now seek alternative routes. One of the solutions is found through alternative exports from other countries, namely Indonesia, which leads to the escalating value of non-oil and gas energy exports. Non-oil and gas energy, particularly coal, has been a
major commodity for the country’s revenue.

**Theoretical Framework**

**Political Economy of War**

This research used the theory of the political economy of war as its foundation. The political economy of war theory itself is derived from political economy theory, which is the study of the role of public policy in impacting economic and social welfare in a political context. Specialized knowledge is required in developing this theory of political economy (Purba, et al., 2020). International political economy is a subdiscipline of international relations. This subdiscipline is referred to as international political economy (IPE). It deals with the political and economic factors within the scope of international relations that are influenced by interactions, interplay, interrelatedness, and interconnections. The relationship between politics and economics has the function of linking economic and political factors, markets, and states in the international arena (Maiwan, 2015).

The political economy approach to war examines how the distribution of wealth and power is affected during war. There are always groups that benefit and groups that are disadvantaged (Billon, Macrae, Leader, & East, 2000). By definition, the group that benefits can mean either the actual winners of the war or those who gain advantages among the two warring parties. On the other hand, the disadvantaged group means those who incur losses as a consequence of losing the war or those who are affected by the domino effect of the warring parties.

The political economy of war is an approach in the analysis of international relations that emphasizes the interplay between economic and political aspects in situations of conflict and war between countries. This concept aims to explain how the economic factors and economic policies of a country can influence political decisions related to conflict and war, as well as the impact of war on the economic aspects of the involved countries. In certain discussions, the political economy of war only focuses on the interactions between two conflicting actors. In this discussion, the political economy of war addresses the domino effects of two major conflicting nations on interrelated systems such as the economy. Economic vulnerability is always a primary topic of discussion following humanitarian issues arising from war.

The weakening of all political, economic, and security systems is a normal occurrence felt by the attacked country. The attacking country also experiences this weakening but on a different scale. The attacking country has undoubtedly prepared various considerations with economic, political, and security strategies to maintain balance within their nation before launching an attack on the attacked country. The attacked country, with minimal preparation, will periodically be crippled as it continues to be weakened from various sides. The relationships between various countries on both sides also feel this weakening. Political, economic, and security weakening will be experienced. The needs of one country with another have now become a system that must be continuously balanced, especially the commodity needs of each country.

In conflicts, there will always be second, third, and subsequent parties
that are interconnected with the impacts of the conflict. The first and the second party, respectively in this case, are Russia which launched the invasion, and Ukraine, the invaded end. The third party is a country that has a direct cooperation, and the subsequent parties are countries engaged in relationship that also feel the impact of the invasion. For example, countries deemed the largest importer of energy commodities, or in this case are the European Union that need enormous amount of energy and rely heavily on coal import from Russia.

The systemic impact of Russian invasion of Ukraine has resulted in an economic crisis for countries worldwide, including Indonesia. Sanctions imposed on the cessation of Russian coal imports to recipient countries have forced them to strategize to meet their domestic needs by sourcing supplies from Indonesia.

Based on the explanation above, in the context of the potential impact that Indonesia may experience from the conflict between Russia and Ukraine, the theory of the political economy of war can be used as a framework for analysis to understand various aspects. This theory was set as the basis of the current study to explain the impact of Russia's invasion of Ukraine on Indonesia's economic sector. The key question to be answered is “what are the impacts of the invasion on Indonesia’s economic sector?”

Research Methods

In this study, the authors used a qualitative research approach. Qualitative research is also referred to as naturalistic research because it uses data in nature instead of measuring instruments. Qualitative research aims to obtain general social reality from understanding of various perspectives (Rahmat, 2009). The method used in this research was descriptive-qualitative, collecting data from literature reviews and online searches to complement secondary data, including journal articles, books, and online news. Data were gathered from these sources, then organized, summarized, analyzed, and drawn into conclusions in accordance with the issues examined in the article.

RESULTS AND DISCUSSION

Russian Invasion of Ukraine and Its Impact on The World Economy

The impact of Russian invasion of Ukraine on the global economy is quite significant. Erupted in 2022, Russian invasion changed the geopolitical landscape of the world and influenced the economies of countries. A significant impact is evident on the economic sector because Russia is an important producer of energy for many crucial supply chains. Figure 1 shows that there has been a significant decline in the export of thermal coal and metallurgical coal from Russia, from 6 million metric tons (Mt) in 2021 to a negative value of -15 Mt in 2022. Metallurgical coal, on the other hand, was valued at 3 Mt in 2021 and dropped to -2 Mt in 2022 (IEA, 2022).
In addition to energy, Russia and Ukraine contribute a quarter of the world's wheat, and Ukraine's sunflower oil production accounts for over half of the global exports. The invasion has disrupted export routes, leading to the potential increased prices of these commodities (The Conversation, 2022).

The supply of commodity markets in Europe, particularly energy which rely on gas and coal supplies from Russia, has been affected by Russia's military attack on Ukraine. The disrupted flow of energy led to very low energy supplies in Europe, and brought detrimental impacts on consumers and industries. Energy flow decreased from 55 million metric tons (MMt) to 44 MMt in 2019-2020 due to the Covid-19 pandemic. While it climbed again to 51.3 MMt, it dropped nearly half to 25.6 MMt the following year. In response to the war in Ukraine, the EU banned coal imports from Russia starting in 2022 (Statista, 2023).
Obstacles to commodities are not unrelated to the condemnation of the world countries that aimed at stopping Russia's invasion by imposing economic sanctions, especially from Western countries and their allies. These sanctions are in accordance with international law provisions which stipulated that a punishment that can be imposed by one country or a group of countries within the scope of global or international organizations against another country or individuals is deemed to have violated international law provisions. Economic sanctions are expected to weaken Russia's economy and eventually cease Russian invasion of Ukraine. These economic sanctions included freezing of state assets and individual assets and property, cessation of import-export activities, suspension of tourism travel, and many others (Wigell, Scholvin, & Aaltola, 2019). Significant sanctions impacting commodities include economic sanctions such as the suspension of basic needs import-export relationships by the United States, the European Union, Canada, and the United Kingdom. Additionally, cooperation for oil and coal drilling is suspended, and oil and natural resource purchases from Russia are suspended by the United States, the European Union, the United Kingdom, and Japan (Zulfa, Arisanto, & Mahadana, 2022).

This cascading impact is a specific point of discussion arising from Russian invasion of Ukraine on the global economy. While countries still struggle to fully recover from the pandemic impacts, they must suffer from the impacts of the invasion. The availability of energy supplies for European countries is a major concern for the European Union, which depends on supplies from Russia. This shortage has resulted in higher oil and gas prices due to the abnormal situation. Rising prices have affected production activities that rely on energy as a raw material for production. Inflation has forced people to reduce economic activities as they need to save their income for uncertain situations. The decline in economic activities has partly disrupted the economic recovery and growth process. Political instability also brings uncertainty to the global finances. Some exchange rates will depreciate and disrupt price stability in international stock and bond markets.

Trade barriers due to sanctions resulting from this invasion have cost the world at least $29 million, and this calculation does not include the loss of life, geography, biology, and demographics that the warring countries, as well as neighboring countries, have had to bear. The negative international market reaction to the invasion is understandable because the basic concept of economics is to meet needs in the safest way possible. The disruption of the normal flow of commodity needs among countries due to sanctions and disrupted supply has caused spikes in commodity prices in the international trade market, leading to volatility in the global financial markets. Rising commodity prices has also created the potential for stagflation, where inflation and unemployment rates are high, but economic growth slows down (Bachtiar, 2022). The commodities most highlighted as being impacted by this invasion are energy commodities such as coal, oil, and food. Two of these, coal and oil, have had an impact on the Indonesian economy.
The Impact of Invasions on The Economic Sector in Indonesia

Serious implications have occurred in the global market due to Russian invasion of Ukraine. Russia is the world’s third-largest producer and exporter of oil, the second-largest exporter of natural gas, and the third-largest exporter of coal. On the other hand, Ukraine is one of the world’s largest producers and suppliers of food products. One of the absolute implications of this invasion is the increase in global oil prices, and changes in availability of food and energy which directly impact people and countries worldwide. The disruption of supply chains has led to excessive inflation because the restructured supply chains also shifted the focus and constrained distribution due to invasion sanctions; as a result, the international is restructured (Bakrie, Delanova, & Yani, Pengaruh Perang Rusia dan Ukraina Terhadap Perekonomian Negara Kawasan Asia Tenggara, 2022).

In Southeast Asia, particularly in Indonesia, the impact of the invasion has had a significant effect on commodity prices influenced by the global increase in commodity prices and the geographical proximity compared to the United States. Global economic challenges have pushed Indonesia to achieve energy surplus (primarily coal) and develop strategies to defend against the surge in energy prices resulting from the Russian invasion of Ukraine.

As one of the countries with the largest natural resource reserves in the world, Indonesia has coal reserves amounting to 38.84 billion ton, and the annual production is approximately 600 million tons. Therefore, assuming no new coal reserves are discovered, Indonesia is estimated to have coal reserves for the next 62 years. This translates to 3.2% share market of the total global coal reserves. Indonesia’s coal market significantly contributes to the country’s foreign exchange earnings and employs 244,945 workers. It is noted that as of 2020, Indonesia remained the largest coal exporter to China, India, and the Philippines. However, in 2022, there was a significant increase in the volume and value of Indonesian coal exports to the European Union. According to data from the Central Statistics Agency (BPS), there was a percentage increase of 1,373%, amounting to 5.85 million tons recorded in January-December 2022 compared to 2021, which was only 396,582 tons. Throughout 2022, Indonesia’s coal exports to the European Union were valued at USD 1.055 billion, while in 2021 it dropped to only USD 25.044 million. Russia was expected to experience the biggest drop in coal exports in 2022 as a result of international sanctions and the EU’s import ban.
Table 1.
Total Value of Indonesia's Non-Oil and Gas Energy Export Balance with European Union Member Countries (million US dollars)

<table>
<thead>
<tr>
<th>Countries</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>1,632.00</td>
<td>2,138.50</td>
</tr>
<tr>
<td>France</td>
<td>1,005</td>
<td>1,033.90</td>
</tr>
<tr>
<td>Italy</td>
<td>2,805.70</td>
<td>3,128.00</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>39.7</td>
<td>56.7</td>
</tr>
<tr>
<td>Dutch</td>
<td>4,531.40</td>
<td>5,250.90</td>
</tr>
<tr>
<td>German</td>
<td>2,914.60</td>
<td>3,206.10</td>
</tr>
<tr>
<td>Denmark</td>
<td>201.8</td>
<td>709.3</td>
</tr>
<tr>
<td>Greece</td>
<td>228.5</td>
<td>326.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>94.9</td>
<td>96.2</td>
</tr>
<tr>
<td>Spain</td>
<td>2,353.10</td>
<td>2,287.70</td>
</tr>
<tr>
<td>Croatia</td>
<td>42.8</td>
<td>120.1</td>
</tr>
<tr>
<td>Austria</td>
<td>40.3</td>
<td>56.6</td>
</tr>
<tr>
<td>Finland</td>
<td>85.4</td>
<td>92.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>241.1</td>
<td>253.4</td>
</tr>
<tr>
<td>Cyprus</td>
<td>9.2</td>
<td>12.5</td>
</tr>
<tr>
<td>Romania</td>
<td>106.1</td>
<td>121</td>
</tr>
<tr>
<td>Estonia</td>
<td>322</td>
<td>309.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>92.7</td>
<td>91.3</td>
</tr>
<tr>
<td>Latvia</td>
<td>65</td>
<td>61.7</td>
</tr>
<tr>
<td>Lithuania</td>
<td>14.5</td>
<td>11.7</td>
</tr>
<tr>
<td>Malta</td>
<td>7.2</td>
<td>8.3</td>
</tr>
<tr>
<td>Poland</td>
<td>600.6</td>
<td>1,124.00</td>
</tr>
<tr>
<td>Slovakia</td>
<td>31.5</td>
<td>39.2</td>
</tr>
<tr>
<td>Slovenia</td>
<td>128.3</td>
<td>187.5</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>39.8</td>
<td>314.3</td>
</tr>
</tbody>
</table>

Source: (Satudata Perdagangan, 2023). Edited by author

It is noted that the member states of the European Union significantly increased their non-oil and gas energy exports. There was a significantly increased export demand from 2021 to 2022. The Netherlands experienced the highest increase in non-oil and gas exports among other European Union countries, amounting to 719.5 million US dollars. Poland followed with an increase of 523.4 million US dollars, and Denmark was third with 507.5 million US dollars. This increased demand for coal was driven by the sanctions imposed by the EU against Russia due to its invasion of Ukraine. As the supply routes of energy shifted away from Russia, Indonesia met the domestic energy needs of these EU countries (Riyandanu, 2023).

The increase in exports is a crucial key to driving the trade balance and boosting national income (Kinski, Tanjung, & Sukardi, 2023). In this context, the increased non-oil and gas exports significantly and positively affect Indonesia, because the increased export volume and value substantially contributes to the trade balance and reduces the trade deficit that could drain the country’s foreign exchange reserves.
Indonesia’s economic growth in 2022 increased by 5.31% compared to 3.70% in the previous year. This economic growth is calculated based on the Gross Domestic Product (GDP) amounting to IDR 19,588.4 trillion, and GDP per capita of IDR71.0 million or USD 4,783.9 (Badan Pusat Statistik, 2023). The economic growth value is the result of the trade balance surplus of USD 54.53 billion or 53.96% compared to 2021. This surplus value is an accumulation of the developments in exports, imports, and the trade balance.

From the cumulative trade balance surplus, coal has become one of the flagship commodities in exports with a value of USD 46.74 billion in 2022. In contrast, in 2021, the value of coal exports was only USD 26.53 billion. This increase in coal exports represents the highest surplus of all commodities.

If the sources of economic growth are diversified, the components of goods and services exports contribute to a source of growth (SoG) of 3.60%, with a breakdown of 3.04% for goods exports and 0.56% for services exports. Recording a very significant growth in goods exports by up to 14.41%, non-oil and gas exports dominated by mineral fuels (also coal), accounting for 67.46% in value and 7.17% in volume (Badan Pusat Statistik, 2023).

Indonesia’s economic growth reached 5.31% in 2022, which is an impressive achievement largely driven by the dominance of non-oil and gas exports, particularly mineral fuels of coal. This is concrete evidence of the significant role of the non-oil and gas export sector in the country’s economic growth.

Coal exports have become a major driver of Indonesia’s economic growth, generating substantial foreign exchange earnings. The continued increase in global demand for coal has provided a significant boost to exports and the country’s revenue. Additionally, coal exports have created employment opportunities and revitalized relevant domestic industries. The dominance of non-oil and gas exports not only strengthens Indonesia’s economy but also provides resilience against fluctuations in global oil prices and changes in the global market conditions. This underscores that economic resource diversification, especially through coal exports, has become a crucial pillar in Indonesia’s economic growth.

In the series of events leading to Indonesia’s economic growth in 2022, the increase in coal exports in response to Russian invasion of Ukraine played a central role. This has opened significant opportunities and yielded positive outcomes for Indonesia’s economy. Despite the uncertainty and disruptions caused by Russia’s invasion of Ukraine in the global market, Indonesia successfully leveraged this momentum to optimize coal production and exports. Its positive impact is reflected in increased state revenue, contributions to Gross Domestic Product (GDP) growth, and job creation. Regardless of the challenges that emerged alongside the growth in coal exports, this serves as a valuable lesson for Indonesia on how a nation can intelligently respond to the dynamics of global geopolitics. The economic growth in 2022 is a concrete example of how adaptability and sound strategies can yield positive outcomes, even in the midst of complex international events. This provides optimism and hope that Indonesia can continue to contribute to sustainable economic growth.
CONCLUSION

Russian invasion of Ukraine has disrupted supply markets and caused increased prices of various commodities. Russia, being the world’s largest energy importer, certainly affects energy supplies around the globe, including the European Union countries, which certainly suffer from the disruptions. It is a consequence of the economic sanctions imposed by Western countries such as the United States, the European Union, Canada, and others. The imposition of economic sanctions is aimed at pressuring Russia to cease its invasion of Ukraine.

REFERENCES


One of the sanctions imposed was the halt of energy exports and imports, including coal. This embargo affected the energy supplies of European Union countries. Indonesia, as one of the world’s major coal suppliers, supplemented the energy needs of the European Union. The surge in Indonesian coal exports to the European Union occurred in 2022 as a result of the invasion. This increased export value undoubtedly improved the trade balance and contributed to Indonesia’s economic growth as coal exports were valued at USD 46.74 billion, contributing 67.46% of Indonesia’s economic growth.


