



(REVIEW ARTICLE)



Strategic review of the impact of the Russia-Ukraine war on Indonesian national economy

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Abstract

The tension between the two countries between Russia and Ukraine will have a detrimental impact on the global economy and disrupt the recovery process of the world economy, including Indonesia. Global economic growth will slow down if peace efforts between the two countries do not take place immediately, the impact of the conflict between Russia and Ukraine as well as European Union sanctions against Russia can occur through several transmissions including a spike in commodity prices, a spike in energy prices and a supply chain shock, this will have an impact on the economy. including the Indonesian economy, which is currently still experiencing the impact of the Covid-19 pandemic. The main purpose of this research is to get answers about the impact of the Russian-Ukrainian war on the Indonesian national economy. This study uses descriptive qualitative research methods, namely research methods based on the philosophy of post positivism, data collection techniques are carried out by triangulation and summarizing various conditions, and situations from various data collected in the form of interviews, literature studies, and observations in the field. The results obtained are that in the current conflict between Russia and Ukraine, global inflation can occur because the first target of the conflict is the obstruction of global supply chains, thus disrupting the ongoing global economic recovery. Global economic growth will be significantly contracted, the rest will result in sloping consumption and investment due to disruption of international flows of goods and services so that the export-import and economic commodity sectors experience declining performance and have a significant impact on the Indonesian economy.

Keywords: Strategic Review; Russia-Ukraine War; Global; Indonesian Economy

1. Introduction

The heat of the Russian offensive on Ukraine has been rolling since November 2021, a satellite image shows a new buildup of Russian troops on the border with Ukraine, Moscow believes the West is mobilizing 100,000 troops along with tanks and other military hardware. Western intelligence says Russia will attack Ukraine, Russia denies this, but it is widely circulated that Putin's country will attack on February 16, especially when large-scale military exercises are also carried out, including in the sea and neighboring Belarus, although the first prediction did not happen, Estonian intelligence - a NATO country in Eastern Europe- keep warning. Attacks may be limited, using militia groups in Donbas, Eastern Ukraine, which rebelled against the government and have been supported by Russia, culminating on February 21, 2022. Putin announced recognizing the independence of the militias of the Donbas, Donetsk People's Republic (DPR), and the Luhansk People's Republic. (LPR), at that time, the decree on sending troops under the pretext of "maintaining security" was also signed. The day after the Russian parliament approved Putin's proposed army mobilization, on February 24, Putin suddenly announced a "military operation". Attacks were carried out in several cities. The West calls it a military invasion.

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Previously, Ukraine had a meeting with Russia. However, the current Ukrainian leader is closer to the West and wants to be part of NATO. When the Cold War broke out, before 1990, the Ukrainians and Russians were united in a federation called the Soviet Union. A strong communist state at that time. The Soviet Union after Germany lost and WWII ended, had influence in eastern Europe. Not surprisingly, countries in eastern Europe also became communist countries, in 1991, the Soviet Union and the Warsaw Pact dissolved, and in the same year, Ukraine voted for independence from the Soviet Union in a referendum. Russian President Boris Yeltsin that year agreed to this. Subsequently, Russia, Ukraine, and Belarus formed the Commonwealth of Independent States (CIS), but the split occurred, Ukraine considered that the CIS was Russia's attempt to control the countries under the Russian Empire and the Soviet Union (Umbach, 2010).

In May 1997, Russia and Ukraine signed a friendship treaty. It is an attempt to resolve disagreements. Russia is allowed to retain majority ownership of ships in Ukraine's Crimea-based Black Sea fleet. Russia also has to pay Ukraine a rental fee for using the port of Sevastopol. Relations between Russia and Ukraine have been heating up again since 2014. At that time there was a revolution against Russian supremacy. The anti-government mob succeeded in overthrowing the pro-Russian former president of Ukraine, Viktor Yanukovich. Riots even broke out before making peace in 2015 with the Minsk deal. The revolution also opened up Ukraine's desire to join the European Union (EU) and NATO. This, citing Al-Jazeera, made Putin angry at the prospect of establishing a NATO base next to its borders. This is also supported by the increasingly close relations of several Eastern European countries with NATO, such as Poland and the Balkan countries, when Yanukovich fell, Russia used a power vacuum to annex Crimea in 2014. Russia also supports separatists in eastern Ukraine, namely Donetsk and Luhansk, to oppose the Ukrainian government (Davis, 2016).

Before the war broke out, Russian President V. Putin had made detailed security demands to the West. One of his points asked NATO to stop all military activities in Eastern Europe and Ukraine. Russia asked the alliance never to accept Ukraine or other ex-Soviet countries as NATO members. Ukraine has been interested in NATO since 1992. NATO even formed a special commission for its dealings with Ukraine in 1997, which provided a forum for discussion on security issues to promote relations between the two sides, and former Ukrainian President Leonid Kuchma reiterated his desire to enter NATO, whose leadership ended in 2005. Unfortunately, when former President Viktor Yanukovich a pro-Russian politician came to power in 2010 the process stopped. In 2014 the desire to become a member again increased. One of the reasons is Russia itself. In just a few days, Russian troops managed to occupy the entire Crimean peninsula with the help of anti-government rebel forces (Junaedi, 2022). Putin initially denied the group was Russian soldiers, but eventually admitted the 'rebels' were part of the Moscow army, after the occupation Russia held a referendum in Crimea. Unfortunately, no international observers or journalists are monitoring that, for Ukraine, becoming a member of NATO will significantly increase Ukraine's military support from outside parties, including the US. Although, this allows NATO to carry out military activities in Ukraine or on behalf of Ukraine which Russia certainly does not like.

On February 24, 2022, Russia begins its invasion of Ukraine. This was immediately responded to by an increase in world oil prices to a level above US\$ 100 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%. Not only oil prices, but this conflict also led to rising wheat prices where wheat futures prices rose about 5.35% to US\$9.84 per bushel, the highest price since 2008. Russia and Ukraine are also major players in global wheat exports. 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 (Overland et al, 2019). 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 and will disrupt the global economic recovery, including in 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 Fed's scenario of 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, and rising inflation due to shocks from the commodity market (Wicaksana & Ramadhan, 2022).

The main purpose of this research is to get answers about how the impact of the Russian-Ukrainian war on the Indonesian national economy. Based on these objectives, the problem statements that will be resolved in this paper are as follows:

- What is the impact of the Russian-Ukraine conflict on Trade Performance in Indonesia
- What is the impact of the Russian-Ukraine conflict on Commodity Prices in Indonesia
- What is the impact of the Russia-Ukraine conflict on the Economic in Indonesia
- What is the impact of the Russia -Ukraine conflict on Food and Energy?

- What is the impact of the Russia-Ukraine conflict on non-oil and gas commodities?
- What is the impact of the Russia - Ukraine conflict on the G-20?

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 Indonesia's trade with the two countries where Indonesia's main export commodities, namely Crude Palm Oil (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 intends to discuss how the impact of Russia's war against Ukraine on Indonesia's trade performance between the two countries and how the impact of rising energy and food prices for Indonesia.

2. Material and methods

2.1. Aspects of Indonesia's Trade Performance

Indonesia's international trade has now played an important role in the world economy. The opening of global countries to Indonesia's international trade makes the opportunity for export and import of commodities from Indonesia to foreign countries higher, increasing Indonesia's income.

Indonesia's International Trade Performance is a set of results achieved in the Indonesian economic sector which refers to the achievement and implementation of a trade or export-import commodity requested. Indonesia's export-import trade performance is very good, one of which is reflected by the relatively high average annual growth rate compared to surrounding countries, or by the positive or increasing trend of long-term growth in Indonesia's trade. The increasing long-term growth trend reflects a long-term change in the level of competitiveness of these products in global trade.

2.2. Aspects of Economic

The national economy is organized based on economic democracy with the principle of togetherness, efficiency, justice, sustainability, environmental insight, independence, and maintaining a balance of progress and national economic unity. Economic growth is a condition of an increase in income that occurs due to an increase in the production of goods and services. The rate of economic growth shows the percentage (Hanifah, 2017). Economic growth is an increase in the ability of an economy to produce goods and services.

The trend of consumption growth is always in line with the rate of economic growth. Economic growth is an increase in the value and amount of production of goods and services calculated by a country in a certain period based on several indicators, for example, the increase in national income, per capita income, the number of workers, which is greater than the number of unemployed and the poverty reduction. This can be measured in nominal or real terms, adjusted for the inflation rate that occurs in a country (Khudaykulova et al, 2022).

The economic crisis is a general word that represents an economic recession and an economic depression or is called an economic slowdown. The meaning of the word recession can also be interpreted as a significant slowdown or contraction in economic activity. Generally, what causes an economic slowdown or recession is the economic cycle that exists in the region's country. The slowdown in economic activity can last for several quarters and even hamper economic growth. In other words, economic growth refers to changes that are quantitative in nature and are usually measured using data on gross domestic product or per capita output income (Skalamera, 2016). When consumption slows, it will almost certainly affect aggregate economic growth. The reason for the economic slowdown in a country is the weakening of national export capacity due to slowing global economic growth.

2.3. Aspects of Food and Energy

Today food security is a strategic issue in meeting consumption needs and people's welfare because it will determine economic, social, and political stability in a country. Fulfilling food needs is a challenge for Indonesia, which is an archipelagic country. The geographical location and area of Indonesia are the causes of differences in soil conditions and suitability for types of plants, including sources of food produced. Cultural differences in farming and staple foods between regions also contribute to influencing people's choices in choosing food commodities to be consumed (Bradshaw et al, 2019).

Food security and energy security are an important part of Indonesia's national development. In the National Long-Term Development Plan (RPJP) 2005-2025, these two things are included in the pillars of natural resource development and the environment. This indicates the importance of sustainability in achieving food and energy security. In the last

five years, the government of President Jokowi has endeavored to strengthen Indonesia's food security, both in agriculture and in the marine and fisheries sector, by focusing on three things: food availability, food access, and food utilization. One of its achievements is the increase in the global ranking of Indonesia's food security to rank 62 in 2019 in the Global Food Security Index (Kutcherov et al, 2020).

2.4. Research Methods

This research uses Descriptive Qualitative research methods. The qualitative descriptive method is a research method based on the philosophy of post positivism used to examine the condition of natural objects (as opposed to experiments) where the researcher is the key instrument of data collection techniques carried out by triangulation. The qualitative descriptive analysis method is to analyze, describe, and summarize various conditions, and situations from various data collected in the form of interviews or observations about the problems studied that occur in the field.

This type of qualitative descriptive research is a research method that utilizes qualitative data and is described descriptively. This type of qualitative descriptive research is often used to analyze social events, phenomena, or circumstances. This type of qualitative descriptive research is a combination of descriptive and qualitative research. This type of qualitative descriptive research displays the results of the data as they are without any manipulation process or other treatment, Especially in research that produces a Strategic Review of The Impact of The Russia-Ukraine War on the Indonesian National Economy.

3. Results and discussion

3.1. Impact of Conflict on Indonesia's Trade Performance

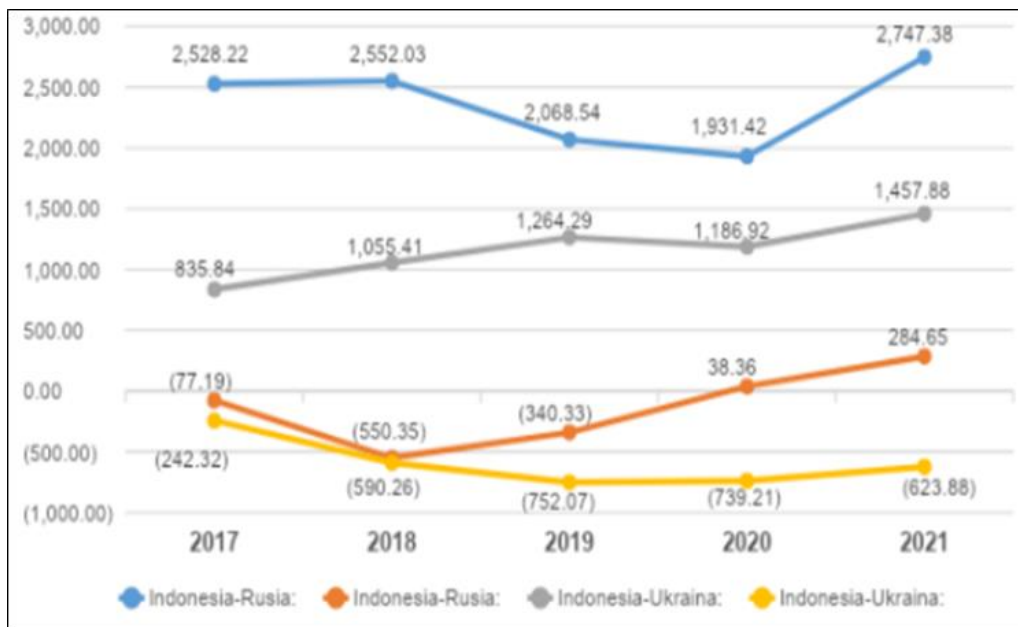


Figure 1 Development of Indonesia's Trade Performance with Russia and Ukraine (Million US\$)

The ongoing conflict between Russia and Ukraine has the potential to disrupt Indonesia's trade performance with the two countries. The conflict can reduce Indonesia's non-oil and gas exports and hamper imports of wheat, thereby potentially increasing the price of several food ingredients in the country. Indonesia's trade portion with Russia and Ukraine is 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. However, trade commodities to the two countries are commodities that are quite important for Indonesia, such as Crude Palm Oil (CPO) and its derivative products (Pratama, 2022). Based on data from the Ministry of Trade, the total value of Indonesia's trade with Russia in 2020 and 2021 is US\$ 1.93 billion and US\$ 2.74 billion, respectively. This figure improved after a downward trend began in 2018. Indonesia's export commodities to Russia include CPO and its derivatives, rubber, and rubber products, shoes, electronics, chocolate, and coffee. Meanwhile, Indonesia's imported commodities from Russia include steel and chemical products. Furthermore, the total value of Indonesia's trade with Ukraine in 2020 and 2021 will reach US\$ 1.18 billion and US\$ 1.45 billion, respectively. On the other hand, the trend of trade between Indonesia and Ukraine tends to increase. The total trade amount in 2017

was only US\$ 835 million. Indonesia's export commodities to Ukraine include CPO and its derivative products, paper, and cocoa powder (Mbah & Wasum, 2022). Meanwhile, Indonesia's imported commodities from Ukraine are wheat seeds and flour, as well as iron.

3.2. Impact of Conflict 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. Even Indonesia's trade balance is often in deficit due to the high value of petroleum imports. 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.

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 US\$ 95.45 per barrel, while the price of West Texas Intermediate (WTI) oil had reached US\$ 96.27 per barrel and the price of Brent oil reached US\$ 101.86 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 US\$ 196.20 billion or equivalent to IDR. 2.805 trillion using an exchange rate of Idr.14.300 per US Dollar.

This 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 oil and LPG which is borne and has the potential to exceed the assumptions of the 2022 State Budget. Rp1.47 trillion, kerosene subsidies Idr. 49 billion, and fuel compensation expenses of more than Rp2.65 trillion. In addition, the increase in ICP also has an impact on electricity subsidies and compensation, where every increase in ICP of US\$ 1 per barrel has an impact on additional subsidies and electricity compensation of IDR. 295 billion.

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 still one of the cheapest compared to other countries in the ASEAN region. As an illustration, the price of non-subsidized fuel in Singapore is Idr. 28,500 / liter, Thailand Idr. 19,300 / liter, Laos Idr. 19,200 / liter, Philippines Idr. 18,500 / liter, Vietnam Idr. 16,800 / liter, Cambodia Idr. 16,500 / liter, and Myanmar Idr. 15,300/liter.

The impact of the Russia-Ukraine 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 producing about 13% of global wheat production. This price increase will certainly be very influential for Indonesia, which is currently a wheat importing country. Indonesia's total wheat imports in 2021 reached US\$ 3.54 billion, of which 25.91% or US\$ 919.43 were imports from Ukraine. 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 a stock of raw materials. The Indonesian Food and Beverage Entrepreneurs Association is still considering a plan to increase the price of processed food made from wheat due to the disruption of the wheat supply. However, if the war lasts for a long time, the price increase 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 economic conditions that have not improved due to the Covid-19 pandemic, thus adding to the burden on the people of Indonesia.

3.3. Impact of Conflict on Economic Aspect

Although direct trade between Indonesia and Ukraine or Russia is relatively limited, it does not mean that the impact of the war will not be felt, one of the impacts that Indonesia may have to face is the potential for an economic slowdown, the Russia-Ukraine war has a systemic impact on the global economy even before the outbreak conflict. The (prospect) is also not very encouraging because of the COVID-19 pandemic, the world economy which is still limping due to the pandemic will slow down even more, and that will certainly have an impact on Indonesia, the International Monetary Fund (IMF) predicts that global growth will slow down from 5.9% in 2021 to 4.4% in 2022. Apart from the pandemic, this figure reflects a decline in conditions in the world's two largest economies, namely the United States (US) and China,

although there is no definite estimate of how much influence the war will have on global economic growth, The Wall Street Journal stated that soaring commodity prices, widespread financial sanctions, and a potential ban on energy imports from Russia after the invasion of Ukraine will cripple the global economy, which is still weakened by the COVID-19 pandemic.

In the era of globalization and economic liberalization, the global economic slowdown can harm the national economy, the global economic slowdown can affect Indonesia through three channels, namely trade channels, investment channels, financial channels and capital markets, investors from large countries, for example, will find it difficult to invest or withdraw their investment during a global economic slowdown. While earlier this year the IMF cut its projection for Indonesia's economic growth in 2022, Indonesia's economic growth forecast this year is 5.6%, or 0.3% lower than the previous estimate of 5.9%.

3.4. Impact of Conflict on Food Aspect

Ukraine and Russia are each of the world's largest wheat producers, this will have an impact on global food security, especially in countries whose food sources come from these two countries, unfortunately, many developing countries and even countries that are still in crisis depend on wheat from the two countries, such as Egypt, Lebanon, or Yemen, this may also have an impact that can be felt on Indonesia. The conflict in Ukraine will affect the supply and distribution of wheat to the buyer's country and in the international market. We know that the Indonesian people are large consumers of wheat in the form of bread, cakes, and noodles. As one of the largest instant noodle producers in the world, Indonesia imports wheat with a significant amount recorded throughout 2021 imports of Indonesian wheat flour reached 31.34 thousand tons with a total value of US \$ 11.81 million (IDR. 169 billion). Even though Ukraine is not included in the top five suppliers of Indonesian grain or wheat flour, we still need to be aware of the potential increase in commodity prices due to disruptions to global supply chains

3.5. Impact of Conflict on Energy Aspect

Russia and Ukraine are important oil and gas producers. Many countries in Europe depend on gas supplies from Russia, which are channeled through several important pipelines, although it is impossible to completely stop the flow of gas from Russia to Europe, a small supply disruption can have a significant impact, currently, global gas reserves are sufficient low due to the pandemic and led to a spike in energy prices that had an impact on consumers and industry.

Given the position of gas as an important commodity in global supply chains, disruptions can have far-reaching economic consequences. Indonesia's energy supply comes from imports. The Central Statistics Agency (BPS) noted that Indonesia's oil and gas (oil and gas) imports reached US\$ 196.20 billion (Idr. 2.805 trillion) or an increase of 38.59 percent compared to 2020, the increase in global energy prices could deepen Indonesia's oil and gas trade balance deficit and trigger inflation.

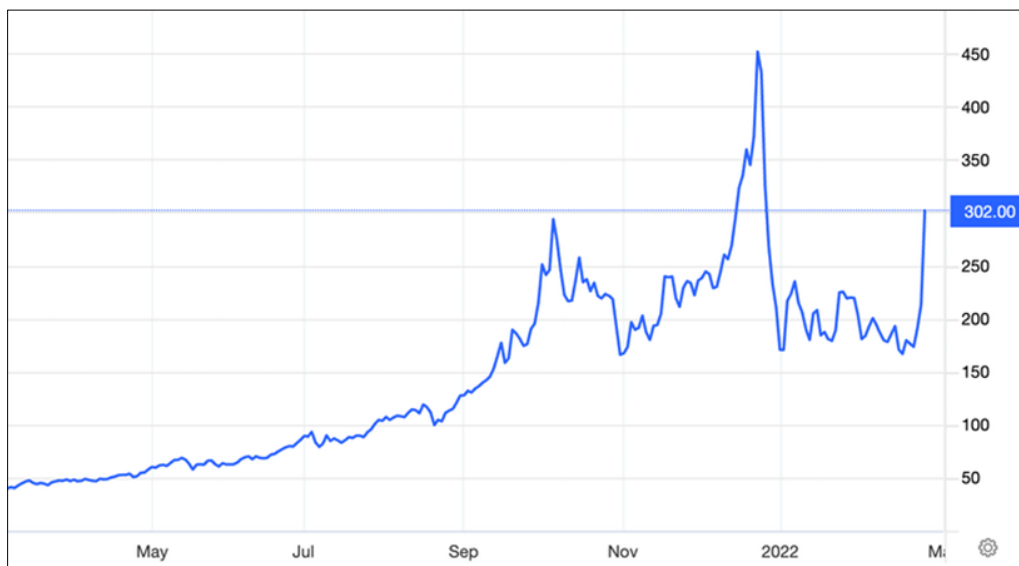


Figure 2 World Natural Gas Prices (UK spot, pence per unit of thermal energy)

3.6. Impact of Conflict on Non-Oil and Gas Commodities

Russia and Ukraine are the largest producers of metals such as nickel, copper, and iron. Both are also involved in the export and manufacture of other important raw materials such as neon, palladium, and platinum. Concerns about economic sanctions against Russia have pushed up the price of this metal commodity, the price of palladium, for example, has increased 80% from mid-December to now touching the range of US\$ 2,700 per ounce. Palladium is a component of a wide variety of goods, from automotive exhaust systems to cell phones to dental fillings, while prices for nickel and copper, which are used in manufacturing and building, respectively, have also started to soar. Producers need to anticipate disruptions and shortages in the supply of these materials, which is likely to lead to price increases for various goods and services, beyond the bans and restrictions on exports of raw materials, as the largest nickel producer and one of the world's top copper producers, Indonesia may benefit from this potential price spike, but Indonesia must also be wary of rising prices for goods and services that are affected by the disruption in the distribution of metal commodities, especially since Indonesia is still recorded to have imported a total of US\$ 506.2 million of iron and steel from Russia and Ukraine throughout 2020.

3.7. Impact of Conflict on G-20

Indonesia will host the G20 meeting - a group of countries that represent 85% of the economy - this year, although the direct impact may still be limited, various potential opportunities are threatened, one of which is a plan to take advantage of Indonesia's G20 presidency to encourage development and economic recovery due to pandemic, which may increase discussion tension because the forum involves Russia as well as member countries of the North Atlantic Treaty Organization (NATO) military alliance (Ibrahim, 2022). Ukraine had urged to become part of NATO, which was originally formed at the beginning of the Cold War to protect allied countries from the Soviet Union. Russian President Vladimir Putin is reportedly furious and does not want Ukraine to join NATO. Later, NATO did expand to the east and took the countries of the former Soviet bloc to anger the Russian Government. NATO member countries that are also members of the G20 include the US, Italy, Germany, Canada, France, and the UK.

4. Conclusion

The occurrence of the Russia and Ukraine War greatly affected the Indonesian National Economy. The Indonesian economy that was affected included Indonesia's trade performance, where the war reduced Indonesia's non-oil and gas exports and hampered imports of wheat. The Russo-Ukrainian war also affected commodity prices in Indonesia, such as coal, oil, and wheat prices. The war also affected Indonesia's economic slowdown, as well as food, energy, and non-oil and gas commodities. The Russia and Ukraine war will also usually affect the G-20 meeting to be held in Indonesia.

In the escalation of the conflict which is still full of uncertainty due to the Russia and Ukraine war, Indonesia has the opportunity to become an alternative supplier country left behind by Russia and Ukraine. However, the Government needs to be aware of domestic producers so that they are not only tempted to export. They still have to pay attention to fulfilling their domestic market obligations for stability and continuity of domestic supply of palm oil and coal.

Suggestion

- Indonesia immediately looked for alternative wheat suppliers besides Ukraine. Wheat prices are expected to continue to climb amidst the escalation of the Russia-Ukraine conflict, as a result, wheat derivative products such as wheat flour, noodles, bread, and cakes are feared to also increase.
- Indonesia can take advantage of this moment as an alternative world supply country to replace Russia or Ukraine in the Indonesian palm oil sector, for example, it can be an alternative supply of sunflower seed oil for the EU region which has been relying on Russia and Ukraine. Indonesia also has the opportunity to increase shipments of palm oil to India and China to replace imports of sunflower seed oil which account for 79.6 percent and 56.6 percent of the two countries national needs, respectively.
- Indonesia can take over the share of Russian coal imports for the countries of Poland and Morocco. The increase in world crude oil prices and the disruption of oil and gas supply from Russia will also push up the demand for coal. So far, Poland has recorded 56.6 percent of its energy needs for coal imports from Russia. Meanwhile, Morocco's energy supply from coal with a share of 70.2 percent is also shipped from Russia.
- Indonesia can divert exports of steel products to Russia and Ukraine to countries such as Italy, Turkey, Belgium, and the Philippines for their construction needs. These countries recorded import shares of 54.1 percent, 56 percent, 79.6 percent, and 50.6 percent of national needs, respectively. Meanwhile, exports of aluminum/stainless steel products can be increased to EU countries, the Balkans, and Turkey.

Compliance with ethical standards

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