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## The high cost of this war

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It has been almost three weeks since the Russo-Ukrainian war began in earnest, unleashing the largest conventional military conflict since World War II. It is truly a tragic situation. We all pray that this unnecessary conflict is peacefully resolved through dialogue, diplomacy and de-escalation.

The Russo-Ukrainian war is nothing short of a human catastrophe. The conflict will pose many challenges to the global economy.

More than anything else, it has served as a wake-up call to countries all around the world. For instance, Europe has now realised the extent of its dependence on Russian energy. Germany, Europe's most prosperous state, imports a third of its natural gas and crude oil from Russia. As a result, German Chancellor Olaf Scholz has, for now, pushed back against American and Ukrainian calls for a ban on imports of Russian gas and oil.

Both Covid-19 and this war in Ukraine have taught us that energy security, food security and the diversification of import/export markets are important factors we must take into consideration in our long-term economic planning.

The world has suffered through 18 months of Covid-19, and now, just as we are beginning to see light at the end of the tunnel, this tragic conflict has erupted.

If the war is prolonged, inflation rates, driven primarily by the soaring prices of crude oil, natural gas, wheat and other commodities, will remain at high levels for some time. Even before the conflict, US and European inflation rates were at 7.5% and 5.1% respectively. Both



**Global effect:** Houses destroyed in Sumy, Ukraine, by Russian shelling on March 8 in this picture from social media. If the war is prolonged, inflation rates will remain high globally for some time. — Reuters

have since increased to 7.9% and 5.8%.

As at the time of writing, the price of Brent crude oil is US\$110 (RM461) – more than five times higher than in April 2020, when the price was about US\$20 (RM84) a barrel.

Due to a possible increase in subsidies, higher oil prices are not completely positive for this country's coffers. For example, while consumers currently pay only RM2.05 per litre for RON95 petrol, the actual price has reached RM3.70 a litre. Assuming there is no change in subsidy, the government has to therefore cover the difference of RM1.65 per litre, meaning that up to 45% will be subsidised.

However, there are some upsides. Higher oil prices will increase the country's revenue. Petronas in particular will benefit from this bump in prices, after suf-

fering through the oil glut brought about by Covid-19.

Besides oil, another commodity that economic planners must keep an eye on is wheat. Almost a quarter of the world's wheat exports are from Russia and Ukraine. Indeed, about 30% of Malaysia's wheat imports are from those two countries.

Globally, the increasing price of wheat has disproportionately affected African and Middle Eastern countries, many of which rely on Russia and Ukraine for their wheat imports. If the Russo-Ukrainian war continues in the weeks ahead, many Middle Eastern governments will find it difficult to sustain their generous subsidies on bread. Historically, high food prices have been a dangerous precursor to violent outbreaks and protests in the region.

Although we in Malaysia are

slightly less affected than other parts of the world, it is a fact that wheat is the country's second staple food, after rice. Consumers may soon feel the pinch in the form of a bump in the prices of supermarket bread, instant noodles and roti canai.

Russia and Ukraine are also major exporters of corn, which serves as animal feed on many Malaysian farms. Since the conflict began, the price of corn has leapt, which may eventually increase the price of meat for Malaysian consumers.

For the past six months, we have been looking forward to the reopening of our international borders as a means to stimulate economic growth. This was with the assumption that the end of the pandemic would see a return to the pre-Covid-19 norms of a thriving global marketplace.

However, this tragic war has shaken our assumptions. If this conflict and its associated uncertainties stretch, say, more than six months, this could have an impact on our growth, inflation rates, and other economic forecasts.

This year may prove to be just as unpredictable and uncertain as 2020 and 2021. Hopefully, the reopening of our international borders come April 1 will neutralise the negative economic implications of the Russo-Ukrainian war. Let us all pray for a swift end to this conflict and for peace to return.

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