Analysis of the Iran-Israel War Conflict on Economic Implications in Indonesia

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Abstract

The conflict between Iran and Israel has been one of the flashpoints in the Middle East. However, in recent years, the conflict between these two countries has transcended regional boundaries and triggered turmoil at the global level. This study aims to analyze the Iran-Israel war conflict and examine the implications for the economy in Indonesia. The approach used is normative juridical by utilizing the method through library studies. The results show that Indonesia, as a developing country with the implementation of an open economic system that relies on the imported power sector, has an indirect relationship to the war conflict between Iran and Israel. The conflict has significantly impacted the Indonesian economy, especially with rising energy prices, inflation in international trade, and a significant decline in foreign investment. This study also emphasizes the importance of Indonesia maintaining a free and active foreign policy, as well as prioritizing diplomacy and peaceful conflict resolution in dealing with the implications of the war between Iran and Israel.

Keywords: conflict; economy; implications; war

Abstrak

Konflik antara Iran dan Israel telah menjadi salah satu titik api di Timur Tengah. Namun, dalam beberapa tahun terakhir, konflik antara kedua negara ini telah melampaui batas regional dan memicu gejolak di tingkat global. Penelitian ini bertujuan untuk menganalisis konflik perang Iran-Israel dan mengkaji implikasi terhadap perekonomian di Indonesia. Pendekatan yang digunakan yuridis normatif dengan menggunakan metode melalui studi perpustakaan. Hasil penelitian menunjukkan bahwa Indonesia sebagai negara dengan berkembang dengan penerapan sistem perekonomian terbuka yang bergantung pada sektor tenaga impor, memiliki keterkaitan tidak langsung pada konflik perang antara Iran dan Israel. Konflik tersebut menimbulkan dampak yang signifikan terhadap perekonomian Indonesia, terutama terhadap kenaikan harga di bidang energi, terjadinya inflasi pada perdagangan internasional dan investasi asing yang mengalami penurunan yang signifikan. Penelitian ini juga menekankan pentingnya Indonesia untuk
1. INTRODUCTION

In social life and life within the scope of the state, anywhere and anytime. Indeed, it will never be separated from what is called conflict. Conflict in organizations often occurs and is also something that cannot be avoided. The term "conflict" comes from the Latin "con," which means together, and "figure," which means collision or collision. Thus, "conflict" means a clash of interests, desires, and opinions that do not involve two or more parties.\(^1\) Conflict is an opposition of interests or differences in views on something between groups and between individuals in an organization. In other words, it is an opposition between groups or individuals with different interests in an organization or country.\(^2\) In international relations, conflict often involves states competing for power, influence, and resources. According to Watkins, conflict arises when there are two things. Namely, two parties have capabilities and realities/activities that hinder each other. This means they have inhibitory capabilities. In practical/operational terms, these possibilities can be realized and exist in conditions that allow them to be easily discovered.\(^3\)

Conflict can take many forms, such as conflict of interests, conflict of values, structural conflict, data conflict, and relationship conflict. In the case of Iran-Israel, their conflict includes almost all of these forms, especially conflict of interests (regional influence), conflict of values (ideological differences), and structural conflict (military

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The conflict between Iran and Israel has been ongoing for decades and is one of the most significant geopolitical tensions in the Middle East region. In particular, the role of the two great powers between the State of Iran and Israel. Both countries have a long history characterized by the emergence of ideological, political, and military conflicts. With its Islamic solid republic identity, the state of Iran is often antagonistic towards the state of Israel, which is the only Jewish state in the world.

In a historical context, since the establishment of the state of Israel in 1948, it has not always been hostile to Iran. The state of Israel had good relations with Iran, at least diplomatically, during the period 1948-1979, when Iran was a monarchy. During this time, Iran gave de facto recognition to the state of Israel. The good diplomatic relations between Iran and Israel turned hostile during Iran's Islamic Revolution in 1979. Iran consistently expressed its opposition to Israel's existence and provided support to various militant groups operating in Lebanon and Palestine. In contrast, Israel sees Iran as an existential threat, mainly because of its growing nuclear program and influence in the Middle East region. Although Iran claims that its nuclear enrichment is only for peaceful purposes, Israeli leaders, especially Benjamin Netanyahu, claim that Iran is serious about developing nuclear weapons to produce atomic weapons.

In response, Iran counterattacked Israel by releasing data showing that Israel also has nuclear weapons. In this case, it can be clearly seen that these attacks violate international law and also fall under Article 51 of the UN Charter, which allows legitimate defense. Iran defends its actions as necessary in the face of threats. Israel's role in Middle Eastern politics also depends on the involvement of global states such as the US and Russia. Often, the military and diplomatic support of these major powers exacerbates ongoing conflicts and results in cycles of tension that are increasingly difficult to resolve.

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5 Ibid.
6 Riska Alifia El Shidiq, "Iran's Nuclear Progress is Accelerating Amidst the Conflict between Iran and Israel, Who is the Strongest?" Journal of International Relations LINO 2, no. 1 (2021): 12-17.
Although the conflict appears limited to the region, its impact and implications can transcend regional boundaries. Indonesia, as the world's largest Muslim country and an essential player in the Southeast Asian region, as a country with diplomatic relations with both countries, is not immune to the effects of this conflict, especially in the economic aspect. Indonesia may be geographically distant from the Middle East, but its global connectedness means it cannot ignore the implications of the Iran-Israel conflict. As a country with an open economy and dependence on international trade, Indonesia is vulnerable to shocks caused by disputes in strategic regions.

Previous researched written by Farshad Roomi with the title "The Iran-Israel Conflict: An Ultra-Ideological Explanation". The research aims to provide a non-ideological critique of Iran's decades-long strategy to eradicate Israel and Zionism, even though this has consequences for Iran's national interests both internally and in its relations with Western, Arab, and neighboring countries. Historical knowledge is essential in politics to avoid unwanted experiences. Slogans and empty assurances tend to fail in this communicative modern world, where a detailed understanding of a country's economic, military, and political capabilities is crucial. Zionism, as an ideology, managed to create tremendous change in the world by galvanizing global Jewish solidarity and winning the support of major powers like Moscow, Paris, and Washington.

Iran is considered a significant threat to Israel in all aspects of security. Iran's nuclear program, its regional influence, and its support for Hamas, Islamic Jihad, and Hezbollah are direct strategic threats to Israel that strengthen Israel's far-right wing. With the Likud Party's victory in Israel's 2022 parliamentary elections and Netanyahu's return to power as an opponent of the nuclear deal or normalization of US-Iran relations, we can expect an escalation of the Tehran-Tel Aviv conflict. Netanyahu plans to expand the Abraham Treaty to more countries to set the pattern of friendship and hostility in the

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region. Moderation of anti-Israel sentiment and the spread of Iranophobia among Arab countries are part of Netanyahu's plan in his sixth term as prime minister.

Based on previous research, this research has a very significant difference because the last research focused on the global conflict between Iran and Israel. While this research is aimed at analyzing the economic implications of the Iran-Israel conflict on Indonesia, this analysis will include the impact of the conflict on Indonesia. In this context, the study will consider how tensions and potential conflicts between Iran and Israel may affect global economic stability, including Indonesia. The research may also explore how Indonesia, as a country with the world's largest Muslim population, manages the political and economic dynamics associated with the conflict in the Middle East. In addition, energy security implications will also be an essential aspect, given Indonesia's dependence on energy imports from the region. Overall, this research is expected to provide deep insights into how distant regional conflicts can affect the economies of countries outside the area, including Indonesia, as well as strategies that can be taken to reduce vulnerability to global geopolitical fluctuations.

2. RESEARCH METHODS

This research uses normative juridical research methods. Normative juridical research refers to a type of legal research that focuses on understanding the existing laws, regulations, and legal principles within a given jurisdiction or area of law. It involves analyzing and interpreting legal norms, statutes, case law, and other authoritative sources to determine the current state of the law on a particular issue. This research is conducted by analyzing library materials or secondary data. This research was conducted in literature (library research). Library research is a study conducted by collecting data and information with the help of various kinds of literature in the library. The literature studied is not only in books but can also be in the form of magazine materials, documentation, 

journals, and newspapers. Using normative juridical research methods, library research, and social media data, this research aims to provide an in-depth understanding of the implications of the Iran-Israel conflict for Indonesia from the perspective of relevant laws and policies.

3. RESULTS AND DISCUSSION

3.1. Indonesia's Economic Implications of the Iran-Israel War

The roots of hostility between the two countries stem from Iran's Islamic Revolution in 1979, which overthrew the pro-Western regime of Shah Mohammad Reza Pahlavi. This revolution brought about a drastic change in the relationship between the two countries under the leadership of Iran, which embraced a strong anti-Zionism and anti-Israel ideology. After the Islamic Revolution, Iran severed diplomatic relations with Israel and became a supporter of the Palestinian cause, Khomeini. During the Iran-Iraq War (1980-1988), Israel allegedly provided arms and intelligence assistance to Iraq to fight Iran. Iran considered this act a betrayal and worsened relations between the two countries. In the 1990s, Iran began supporting Palestinian militant groups such as Hamas and Islamic Jihad, as well as Hezbollah in Lebanon that opposed Israel. In response, Israel carried out airstrikes on Iran's suspected nuclear facilities in Iraq in 1991.

Tensions have increased as Israel suspects that Iran is developing a nuclear weapons program that threatens its security. Iran continues to provide arms and financial support to Hezbollah in Lebanon, which fought against Israel in 2006. In the Gaza Strip, Iran supported Hamas in its conflict with Israel in 2008-2009 and 2014. Iran's involvement in supporting these militant groups increased tensions with Israel. Since the early 2000s,
Israel has been increasingly concerned about Iran's suspected nuclear program aimed at developing atomic weapons. Israel allegedly engaged in cyberattacks on Iranian nuclear facilities and assassinations of Iranian nuclear scientists in the 2010s to hinder the program. In the Syrian Civil War, Iran and Israel are engaged in a proxy war by supporting different sides. Iran supported the regime of President Bashar al-Assad. At the same time, Israel conducted airstrikes against Iranian military targets in Syria to prevent the strengthening of pro-Iranian militias near the Israeli border. Tensions reached a peak in January 2020 when Iranian General Qasem Soleimani was killed in a US drone strike in Iraq. The killing sparked threats of revenge from Iran against Israel and the US and increased the risk of open warfare in the Middle East region.  

Then, the conflict continued in early April 2024. It began with an Israeli attack on April 1, 2024, on the Iranian embassy in Damascus. Syria people were killed in the attack, including senior Iranian military commanders. About its conflict with the Palestinians, Israel has continued to target Hezbollah militias in recent months. Israel claims that Iranian forces in Syria support Hezbollah militias, so they target Iran. Iran suffered losses in the Israeli attack, which resulted in the death of an Islamic Revolutionary Guard leader. According to Iranian authorities, Israel's attack on its embassy violated various international laws. However, data and information show that Israel did not recognize the attack on the embassy. The United States is also accused of encouraging Israel to accuse Iran of cooperating with Syria to launch the attack.  

The Iranian government was angered by this and made it clear that they would retaliate against Israel. Other countries tried to prevent the conflict between Israel and Iran from escalating in the Middle East. Certain countries, such as Russia, Japan, and the United Arab Emirates, had called on all parties to exercise restraint. However, Iran's attack on Tel Aviv on Saturday shows that Iran does not want to achieve peace with Israel.

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Camera footage of the Iranian attack on Tel Aviv spread on social media. The footage shows Israel's air security system destroying several Iranian drones in Tel Aviv's night sky. There was reportedly no damage or casualties in the attack. Iran described the attack as retaliation for the destruction of their "diplomatic premises" in Syria.

The conflict between Iran and Israel over the past few decades has continued, with various escalations disrupting regional and global stability. The escalating conflict in the Middle East is increasingly dangerous for the global economy, especially regarding inflation and economic growth. As a country with an open (developing) economy and dependent on imported power, Indonesia has an indirect link to the conflict. The Iran-Israel conflict significantly impacts the Indonesian economy, primarily through energy prices, inflation, international trade, and foreign investment.

The first impact felt in Indonesia is the rise in world oil prices. Iran is one of the world's largest oil producers, while Israel has significant influence in the Middle East region, which is rich in oil reserves. The conflict between the two countries could disrupt the world's oil supply, either directly or indirectly, as it creates doubt and increased risk for investors and business people in the oil industry.¹³ In 2022, Indonesia imported 22.7 million kiloliters of crude oil and 22.9 million kiloliters of finished oil products. With such a high dependence on oil imports, global oil prices will increase the government's energy subsidy burden and pressure the state budget. In addition, the spike in oil prices due to the Iran-Israel conflict can potentially revise global inflation further, which will have implications for higher interest rates.

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The second impact that can affect the economy in Indonesia is the global financial market shocks that occur due to the Iran-Israel war, which has the potential to shake the global financial markets in Indonesia. Investors tend to be more interested in finding assets that are considered the safest assets, such as the US dollar and US government bonds, in situations of conflict and uncertainty. This can cause a weakening of the rupiah exchange rate against the US dollar, so the cost of foreign loans for Indonesia has increased significantly. Empirically, the rupiah exchange rate has often experienced a decline after the Eid al-Fitr holiday in the past decade. Based on historical data, the rupiah has weakened at an average rate of around 0.44 percent compared to the value before the Eid holiday. However, an increase in the US dollar index does not always correlate with
a weakening rupiah, but global and domestic sentiment significantly impacts rupiah exchange rate movements.

In addition, pressure on foreign exchange reserves also impacts Indonesia's economy. Indonesia's foreign exchange reserves have also been under pressure due to the significant weakening of the rupiah exchange rate in recent months. In March 2024, foreign exchange reserves fell by USD 3.6 billion to USD 140.4 billion. In this situation, Bank Indonesia (BI) was forced to use forex intervention to stabilize the rupiah exchange rate. The leading cause came from external (global) factors. The external pressure was further amplified by increased demand for the forex from the domestic economy. Based on data from the BCA bank, Indonesia experienced a capital outflow from government bonds of USD 1.3 billion in March 2024. In addition, around IDR 5 trillion (USD 0.3 billion) of foreign funds are also known to have left Bank Indonesia certificates. In facing the economic impact of the Iran-Israel conflict, Indonesia needs to take strategic steps to mitigate risks and maintain monetary stability and national security. Some strategies that can be implemented are maintaining financial system stability, ensuring the availability of foreign exchange liquidity, encouraging repatriation policies, and regulating oil import demand.

3.2. Efforts Made by the Government in the Economic Sector Against the Iran-Israel War

Indonesia, as a country whose economy still depends on other countries, will undoubtedly be significantly affected if the scenario of direct war between Iran and Israel and Arab countries materializes. Therefore, it is essential to build efforts to handle the impact of the implications of the Iranian-Israeli conflict on the economic sector. The first is to maintain the financial system's stability because the state, maintaining the financial system's stability, can maintain global shocks and the possibility of capital outflows regulated by Bank Indonesia (BI) and the Financial Services Authority (OJK). Bank Indonesia (BI) and the Financial Services Authority (OJK) will continue to maintain the stability of the national financial system with appropriate monetary and macroprudential
policies to maintain the rupiah exchange rate and prevent panic in the domestic financial market. Then, the country must ensure the availability of foreign exchange liquidity that can compete with other countries, especially in the US dollar, in the domestic financial market, to be used by foreign investors. Bank Indonesia must be able to create attractive portfolio instruments to encourage foreign investors to invest in Indonesia, even though we need to be aware that domestic liquidity competition is getting tighter. In addition, a country needs to maintain sentiment in the bond market with the confidence of investors to continue to invest in the country, so good cooperation to maintain financial market sentiment is necessary.

Second, regarding the diversification of energy sources, the state must maintain stability in the supply and utilization of energy sources to optimize the energy supply. However, in the context of preserving energy stability in the Iranian war with Israel scenario, it needs to be understood that the impact of the conflict is the increase in world oil prices. So, it is essential to have citizens participate in using petroleum more wisely to reduce dependence on petroleum imports from other countries. On the other hand, the government has also begun to strengthen energy technology development by utilizing the latest energy sources, such as solar, wind, and biomass. The development of renewable energy can reduce dependence on imports.

Third, in diplomacy and international cooperation, a country must have relations with other countries, and in other words, diplomacy is usually related to cultural, economic, and global trade affairs. In the situation of the Iranian-Israeli conflict, Indonesia needs to take an active role in encouraging peace efforts from the two countries to avoid prolonged conflict escalation. So, the participation of kin countries and international organizations must work together to find a peaceful solution to the conflict between Iran and Israel. Implementing these preventive efforts requires strong coordination between various ministries and government agencies and cooperation with the private sector and the community. With careful preparation, Indonesia can minimize the negative impact of a potential Iran-Israel conflict and take advantage of opportunities
arising from changes in global economic dynamics. The key to success lies in preparedness, resilience, and adapting quickly to global geopolitical and economic changes.

CONCLUSION AND SUGGESTION

In this research, it can be concluded that the Iran-Israel war can potentially pose a severe threat to Indonesia's national economic stability. Negative impacts, such as rising world oil prices, global financial market shocks, and pressure on foreign exchange reserves, need to be anticipated with appropriate mitigation strategies so that Indonesia is more vigilant against these impacts. The Indonesian government will act faster and more structured in dealing with these problems. Maintaining financial system stability, verifying energy sources, and diplomacy and international cooperation are the main objectives to minimize the negative impact of the Iran-Israel war. Indonesia will continue encouraging peace efforts and actively preventing significant conflict escalation as a country that consistently applies soft power globally. Only with strong international cooperation and solidarity can we avoid the threat of war and conflict and create sustainable global peace and stability.

As for the suggestions from this research, it is hoped that Indonesia can strengthen its economic resilience in the face of all potential negative impacts from the Iran-Israel conflict and take advantage of opportunities that arise from shifting global economic dynamics by implementing all the efforts that have been described.

REFERENCE


