

Research Article

The Potential Economic Impact of the India-Pakistan Conflict on Indonesia: A Growing Threat to Stability and Growth

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Abstract: The potential war between India and Pakistan poses significant risks to the Indonesian economy, as it is expected to exacerbate uncertainty in the global financial market. Such geopolitical tensions often trigger a 'flight to safety,' where capital flows shift to countries considered stable, leading to reduced foreign direct investment (FDI) in emerging markets like Indonesia. This scenario is likely to place additional pressure on Indonesia's exchange rate, further destabilizing its financial position. One of the key impacts of the looming India-Pakistan war on Indonesia is its effect on monetary and fiscal management. The Indonesian government is already facing significant challenges, including managing a large amount of maturing debt and grappling with a growing budget deficit. The war would complicate these efforts, making it more difficult for the government to stabilize the economy and implement effective policies. Indonesia's export sector will also be affected, as India and Pakistan are two of the country's main trading partners, especially for key commodities like crude palm oil (CPO) and coal. India is Indonesia's 4th largest export destination, accounting for approximately 9% of total exports, while Pakistan represents around 1.9%. Any disruption in trade with these countries, due to the war or political instability, could significantly hurt Indonesia's export revenues and negatively affect industries reliant on these markets. Moreover, Indonesia is already facing challenges from the United States, which has imposed reciprocal tariffs worth 32% on Indonesian products. This trade tension, combined with the geopolitical instability from the India-Pakistan conflict, will add further strain to Indonesia's trade balance. The combination of these factors could lead to slower economic growth, reduced investor confidence, and potentially higher inflation, as the country faces multiple external and internal economic pressures.

Keywords: Danger of War; India vs Pakistan; Indonesian Economy; Flight to safety; Trade disruption

Received: July 02, 2025
Revised: July 16, 2025
Accepted: July 30, 2025
Published: August 01, 2025
Curr. Ver.: August 01, 2025



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1. Introduction

War broke out in South Asia between India vs Pakistan. They competed fiercely with each other's military strength. Tensions arose after the attack on April 22, 2025 in Kashmir, part of the territory controlled by India. This incident killed 26 tourists, the majority of whom were from India. India accused Pakistan of being involved in the militant attack. However, Pakistan denied this and pushed for an open investigation.

The impact of the India-Pakistan conflict if it gets bigger and escalates for the Indonesian economy will certainly be very large (CNNIndonesia.com, 9/5/2025).

Why is the impact of the India-Pakistan war lurking in the Indonesian economy, because: 1) India and Pakistan are the main export destinations for Indonesia's commodities, especially crude palm oil (CPO) and coal, 2) India is Indonesia's 4th export destination with a portion of around 9%, while Pakistan is around 1.9% of total exports, 3) The conflict does not only disrupt Indonesia's exports to these two countries. Shipments to other export destinations around the world will also be affected. Because the conflict will disrupt the flow of trade and

the global supply chain. This will ultimately also have an impact on Indonesia's exports as a whole, 4) It is a new blow to Indonesia which is being hit by reciprocal tariffs from the United States worth 32%. Deni emphasized that the external conditions faced by Indonesia are already very difficult with the US vs China trade war, 5) The India vs Pakistan War is also certain to add complications to monetary and fiscal management which is currently already very challenging, especially due to large maturing debts and the state budget deficit.

In addition, the India vs Pakistan War is also certain to add uncertainty to the global financial market. He predicts the emergence of a 'flight to safety', where capital flows shift to safe countries and investment instruments.

For Indonesia, of course, it will reduce foreign direct investment (FDI) inflow and increase pressure on the exchange rate. "This adds complications to monetary and fiscal management which is currently already very challenging, especially due to large maturing debts and the state budget deficit".

The government must be able to prepare itself and anticipate it. Primarily by maintaining prudent and good macroeconomic policies, and being more conservative because the challenges are getting bigger. Don't just implement blundering policies and add uncertainty.

Apart from the impact of the war between India and Pakistan on Indonesia, other impacts of the war include: 1) Damage to infrastructure; 2) Decrease in production; 3) Inflation; 4) Increase in unemployment; 5) Decrease in investment; 6) Impact on international trade; 7) Impact on commodity prices.

2. Proposed Method

Based on the background above, the formulation of the problem in this paper is: "The Danger of India Vs Pakistan War Lurking in the Indonesian Economy"?

The Data Collection Technique uses Online Data Search/Internet searching, browsing, surfing or downloading data, Books, magazines, Journals, Theses, Dissertations, online news, media, websites and Sources from Experts related to matters related to "The India Vs Pakistan War Lurking in the Indonesian Economy".

3. Results and Discussion

The wars that are currently happening a lot, actually started from a conflict. The conflict that occurs in a country or between countries is what then causes the war. In fact, to resolve the conflict there are many other ways that can be used. Because war is not the solution to everything, including not being a solution to resolving the conflict.

Therefore, the world community should also know and be aware of the losses caused by the war. In addition to the increasingly brutal wars, the current wars seem to be a murder mission. Therefore, the person who caused the war should be punished and imprisoned.

This was the presentation of Tun Dr. Mahathir Mohammad, when he became the keynote speech at the Mahathir Global Peace School (MGPS) event on Tuesday (15/9/2015) at the Putrajaya International Convention Center, precisely at the Perdana Leadership Foundation Office, Kuala Lumpur - Malaysia. The fourth MGPS with the theme "Justice, Prosperity and Peace for Global Citizens" was again held by the Perdana Global Peace Foundation (PGPF) in collaboration with the Muhammadiyah University of Yogyakarta (UMY) and will last until Friday (18/9/2015).

According to Tun Mahathir, the occurrence of war can destroy a country. Because many lives are lost. Even more sadly, many countries are currently competing in war and do not care who the victims are. "Humans today are very primitive. They fight and kill each other. They fight each other to be the winner. But after they win, what will they get? Instead, they will get victims of war, because the current war is very brutal and it is not clear who the victims are,". Mahathir also explained that conflicts that occur in a country can be made into wars. That is why he invited all elements of world society to no longer resolve conflicts with war. In addition, he also recommended that people who cause war (war initiators) should be punished and imprisoned. "War is a very bad crime. If we can punish people who kill one human life, then we must also be able to punish people who have killed millions of human lives. Those who have killed millions of people must be punished and imprisoned, if we really want to realize peace". Because everyone, continued Mahathir, basically wants peace, not war.

"Peace shows the identity of each person, that they want peace. I believe that all of us have received lessons about peace in our school curriculum. Maybe even the curriculum

about. However, even so, the former Prime Minister of Malaysia also realized that to stop the war and realize peace throughout the countries that are in conflict, it does require a process. But he remains optimistic that peace will be realized, with more patience and being able to take the right steps to stop the war.

"It may take time to realize peace on this earth. But we also have to believe and be more patient about it, and must be able to take the right steps to stop the war. And at least, the first step we can take now is through this peace school, which is a collaboration between Indonesia and Malaysia to realize peace and resolve conflicts without war, ".

The same thing was also conveyed by the Secretary General of PP Muhammadiyah, Dr. H. Abdul Mu'ti. According to him, war is not a way to resolve conflict. There are many ways that a country can do to resolve conflicts that occur, one of which is through dialogue or cultural exchange. "We cannot resolve the conflict through war. Because that is not the right solution. One way that we can do in facing and resolving the conflict is through dialogue or through cultural movement (cultural exchange).

Even though this cultural movement is a pattern, it can be one way for us to realize peace and resolve conflicts, ". In addition to cultural exchange and understanding the culture of other countries, according to Mu'ti, dialogue can also be used as an instrument in resolving conflicts that occur. Learning from the experience of conflicts that have occurred in Indonesia, Mu'ti said that dialogue is also one way to realize peace.

In Indonesia itself, it has never been free from conflict. However, we always try to resolve the conflict not through war, but through dialogue and exchange and understanding the culture of local areas. From that experience, we then learned that indeed through dialogue, the conflict that occurred could be resolved peacefully. This method can certainly be our contribution to the world in realizing peace on this earth.

3.1. India VS Pakistan War

A war broke out in South Asia between India VS Pakistan (two countries that have nuclear powers). They competed fiercely with each other's military strength. Tensions arose after the attack on April 22, 2025 in Kashmir, part of the territory controlled by India. This incident killed 26 tourists, the majority of whom were from India.

India accused Pakistan of being involved in the militant attack. However, Pakistan denied this and pushed for an open investigation. However, India chose to attack Pakistan on Wednesday (7/5) early morning, resulting in the deaths of 31 civilians and dozens more injured. Pakistani authorities said India launched 26 attacks at 6 points and deployed 80 fighter jets.

Pakistan then retaliated. They shot down 5 Indian fighter jets, some of which were Russian-made MiG-29s and Su-30s, and 3 French-made Rafales.

Kashmir as the trigger for the war is a valley area in the Himalayan mountains that has been disputed by India and Pakistan for years. Kashmir is divided into two, where part is managed by India and part belongs to Pakistan.

3.2. Economic Impact on Indonesia Due to the India-Pakistan War

Senior Researcher at the Department of Economics, Center for Strategic and International Studies (CSIS) Deni Friawan asked the Indonesian Government to prepare, there must be anticipatory steps in dealing with the impacts of the war.

- The India vs Pakistan war is also certain to increase uncertainty in the global financial market. He predicts the emergence of a 'flight to safety', where capital flows shift to safe countries and investment instruments.
- For Indonesia, of course, it will reduce foreign direct investment (FDI) inflow and increase pressure on the exchange rate. "This adds complications to monetary and fiscal management which are currently very challenging, especially due to large maturing debts and the APBN deficit".
- The government must be able to prepare itself and anticipate it. Primarily by maintaining prudent and good macroeconomic policies, and being more conservative because the challenges are getting bigger. Don't instead implement blundering policies and increase uncertainty.

3.3. Danger Lurking for the Indonesian Economy if the India vs Pakistan War

Observers say that the India and Pakistan war could disrupt the export traffic of Indonesian products to a number of countries, especially amid the threat of a trade war. War broke out in South Asia between India and Pakistan. They competed fiercely with each other's military strength.

Tensions arose after the attack on April 22, 2025 in Kashmir, a part of the territory controlled by India. This incident killed 26 tourists, the majority of whom were from India. India accused Pakistan of being involved in the militant attack. However, Pakistan denied this and pushed for an open investigation.

Senior Researcher of the Department of Economics of the Center for Strategic and International Studies (CSIS) Deni Friawan told CNNIndonesia.com, Friday (9/5/2025). asked the Indonesian Government to prepare. He said there must be anticipatory steps in dealing with the impact of the war. "The impact of the India-Pakistan conflict if it gets bigger and escalates for the Indonesian economy will certainly be very large,".

3.4. Why is the India vs Pakistan War a Danger Lurking for the Indonesian Economy?

The impacts of the India and Pakistan war for Indonesia include:

- India and Pakistan are the main export destinations for Indonesia's commodities, especially crude palm oil (CPO) and coal.
- India is Indonesia's 4th export destination with a portion of around 9 percent, while Pakistan is around 1.9 percent of total exports.
- The conflict does not only disrupt Indonesia's exports to the two countries. Shipments to other export destination countries around the world will also be affected.
- The conflict will disrupt the flow of trade and the global supply chain which will ultimately also have an impact on Indonesia's exports as a whole.
- A new blow to Indonesia which is being hit by a 32 percent reciprocal tariff from the United States. Deni emphasized that the external conditions faced by Indonesia are already very difficult with the US vs China trade war.

Therefore, the Indonesian government must be able to prepare itself and anticipate it. Primarily by maintaining prudent and good macroeconomic policies, and being more conservative because the challenges are getting bigger. Don't make blundering policies and increase uncertainty,".

In addition to the impact of the war between India and Pakistan for Indonesia, other impacts of the war include: (1). Infrastructure damage; (2). Decrease in production; (3). Inflation; (4). Increased unemployment; (5). Decrease in investment; (6). Impact on international trade; (7). Impact on commodity prices.

4. Conclusions

War between 2 (two) countries that have nuclear (India vs Pakistan). They compete with each other in military strength. The India-Pakistan war if it gets bigger and escalates greatly threatens the Indonesian economy.

In addition, the India vs Pakistan war is also certain to increase uncertainty in the global financial market. He predicts the emergence of a 'flight to safety', where capital flows shift to safe countries and investment instruments.

For Indonesia, of course, it will reduce foreign direct investment (FDI) inflow and increase pressure on the exchange rate. This adds complications to monetary and fiscal management which is currently very challenging, especially due to large maturing debts and deficits APBN.

The impact of the India-Pakistan war on the Indonesian economy is because:

- The India vs Pakistan war is also certain to add complications to monetary and fiscal management, which is currently very challenging, especially due to large maturing debts and the APBN deficit.
- India and Pakistan are the destination countries for Indonesia's main commodity exports, especially crude palm oil (CPO) and coal.
- India is Indonesia's 4th export destination with a portion of around 9%, while Pakistan is around 1.9% of total exports.

- Disrupting Indonesia's exports to India and Pakistan, so that shipments to other export destination countries around the world will also be affected.
- Disrupting the flow of trade and the global supply chain. This will ultimately also have an impact on Indonesia's exports as a whole.
- Becoming a new blow to Indonesia, which is being hit by reciprocal tariffs from the United States worth 32%. Deni emphasized that the external conditions faced by Indonesia are already very difficult with the US vs China trade war.

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