



## THE IMPACT OF THE REGIONAL CONFLICTS ON ECONOMIC DEVELOPMENT IN ASEAN

Jonkenedi<sup>1</sup>, Lita Arfah<sup>2</sup>

*Al-Kifayah Islamic Collage, Indonesia<sup>1</sup>, Al-Kifayah Islamic Collage, Indonesia<sup>2</sup>,  
[jonkenedi.official@gmail.com](mailto:jonkenedi.official@gmail.com)<sup>1</sup>, [litaarfah25@gmail.com](mailto:litaarfah25@gmail.com)<sup>2</sup>*

### ABSTRACT

**Introduction:** Occurred the conflict between Rusia and Ukraine can be influencing the economic development in the worldwide, also the conflict between Israel-Palestine, caused geopolitical as well as the global economic are not stable. By reason of the Russia is the country that one of the supplies the oil for the world as well as trade routes in the Middle East are experiencing a slowdown in the distribution of good dan services. Impact of globalization, the ASEAN has quickly influenced the economic sectors such as: exchange, inflation and export growth. The purpose of this study is to understand and know how impact the regional conflicts that caused by conflict between Rusia-Ukraine as well as Israel-Palestine.

**Research Methods:** The data is secondary data that collected from <https://data.worldbank.org/>. This study uses the quantitative method as research methodology and by using *Eviews* as statistic tool.

**Finding/Result:** this study found out that influence from regional conflicts between Rusia-Ukraine also Israel-Palestine causing the economics of ASEAN experiencing slow-down. Exchange Rate is only has not effect on the economic development during the regional conflicts. The Inflation and export growth had been influenced by GDP as measurement of the economic developments that caused by regional conflicts. The result of this study will be expected become the one of the consideration analyses for the president in each of the ASEAN countries into take a policy.

**Keywords:** Regional Conflict, exchange rate, inflation, export growth, economic development

**JEL Code:** D13, I31, J22, K31

## INTRODUCTION

The Russian had been conducted an invasion of attack on the Ukraine on 24 February 2022, which is the Ukraine is one of the Russian's neighbor countries (Surya et al., 2023). Occured this conflict caused by the Ukraine like to join becoming the member of NATO (Nida et al., 2023). Thus, its problem occur a concern from the Russian for its territory, ideology and geopolitic. The Russian as one of the larges a petroleum producing country and as well as the Ukraine as the world's largest wheat and foods producer (Nida et al., 2023) and (Ali et al., 2022). Therefore, For other countries that having a cooperation relations, will be effected on growth economic global slow down, invesments and consumptions, supply of goods and services, and export-import sector (Surya et al., 2023).

The Russian and Ukraine have a play central roles in specific commodities in the global economy (Ali et al., 2022). Therefore, the Russia-Ukraine conflict can be impact on the developing countries especially on long-term and short-term (Estrada & Koutronas, 2022). Furthermore, on the economic global had a significant impact that caused by the Russian-Ukraine war (Balbaa et al., 2022). The Russian and Ukraine are large grain exports, thus worldwide concerns on this conflict (Lin et al., 2023).

**Table 1** Main Ukraine and Russian exports and their shares of global trade

TOP 10 UKRAINIAN EXPORTS	SHARE OF GLOBAL IMPORTS (%)	SAHRE OF UKRAINIAN EXPORTS (%)	TOP 10 RUSSIAN EXPORTS	SAHRE OF GLOBAL IMPORTS (%)	SHARE OF RUSSIAN EXPORTS (%)
Vegetable oils	6.7	9.3	UN Special code*	14.2	13.0
Cereals	6.0	20.0	Manufactured fertilizers	12.5	2.0
Oil and fruit seeds	3.1	5.0	Coal/coke/briquettes	11.6	4.0
Iron and steel	2.3	18.8	Petroleum and products	10.9	45.5
Animal feed	1.8	3.0	Gas Natural & manufactured	8.7	6.8
Metal ores/metal scrap	1.1	8.3	Cork and wood	8.4	1.5
Meat & preparations	0.5	1.4	Non-ferrous metals	5.3	4.4
Railway & tramway	0.2	1.5	Cereals	5.2	2.0

equipment					
Electrical equipment	0.1	4.8	Iron and steel	4.7	4.5
Industrial equipment	0.1	1.4	Metal ores/ metal scrap	1.7	1.5
<b>Total exports by country in billions of \$</b>		<b>50.1</b>			<b>426.7</b>

*Source: policy center for the new south*

The conflict between Israel and Palestine had been occurring a long time ago, but heating up since 2000 until now. However, its conflict sometimes abates and also ignites. One of the impacts from its conflict is increasing the crude oil price, due to petroleum-producing countries in the Middle East will be difficult in distributing the crude oil as well as world trade routes (Yulivan et al., 2024). Therefore, a peace agreement is needed between the two countries in conflict to maintain world peace and the continuity of life as well as maintain the stability of the world economy. Actually, The United Nations (UN) has mediated between Israel and Palestine by creating the Oslo Agreement (Yulivan et al., 2024). Furthermore, the countries must be following and obey the agreement that have been agreed. However, the Israel always violates the agreement that has been agreed upon.

The conflict that occurred between Israel and Palestine caused several economic aspects to be hampered in the distribution of imported goods (Bar-Nahum et al., 2020). The resulting from this conflict is such as a decline in world oil prices, disruption of international trade, impact on the financial sector, loss of investment, and geopolitical uncertainty (Dewi, 2024).

Those conflicts between the Russian and the Ukraine as well as the Israel and the Palestine causing a financial crisis, the sanctions by other countries, disruption of global trade, etc. (Surya et al., 2023) and (Yulivan et al., 2024). The United Nations had warned to other countries pertaining the conflict regional that caused by some countries which is the Russia-Ukraine has main roles in the global grain market, export-import, growth and productions (Lin et al., 2023).

Based on the explanation above, the researchers interesting to understand and analyze the development economy of the member countries of ASEAN were caused by regional conflicts such as Russian with Ukraine as well as Israel with Palestine. Thus, we are interesting to research pertaining the exchange rate, inflation and import growth on the development economy in ASEAN.

## LITERATURE REVIEW

Commonly, the international trade theory is a form of economic cooperation between two or more countries that has direct benefits, such as meeting the needs of each country that cannot be met by domestic production (Purba et al., 2023). Meanwhile according to (Chen, 2022) stated that the international trade theory is cooperation between some countries to solve their problem pertaining products such as goods and services which they unable to provide it for their country. Thus, each country like to improve and increase the living standar as well as resulting the good economy growth. Basically, a country unable establish by itself, therefore each countries is urgently require other countries to supply their demand.

International trade theory provides an important conceptual foundation for understanding the patterns, mechanisms and benefits of trade between participating countries (Purba et al., 2023). This theory places great emphasis on an open and transparent trading system without any intention of monopolizing the economy by developed countries towards developing countries.

Lin et al. (2023) shows that the conflicts will be a negative implication on market changes that reflect will changes the exchange rate volatility. Moreover, Umar et al. (2022) stated that during the regional conflicts causing the exchange rate changes quickly. One of the impacts from the conflict regions is already evident in the volatility in finacial and commodity market which will be affecting in inflation aggregates and forcing the central bank to make a monetary policy (Ali et al., 2022). Also, Lin et al. (2023) shows that the conflicts will be giving a negative impact on the inflation which increasing the price of goods and services, especially on the developing countries.

Furthermore, Mbah & Wasum (2022) stated that this conflicts will be causing higher inflation causing increasing the price of goods and services, thus reduction in household consumption. Also the study conducted by Junaedi (2022) stated that the conflicts will be occuring risk on increasing inflation, which is affected on incresing the commodity price. Moreover, Irtysheva et al., (2022) found out that the Russia-Ukraine conflicts have led to extremely increasing the inflation. Also, Tank (2022) stated that the inflation had experienced increasing that caused by the conflicts which increasing the consumer price. Moreover,

increasing the inflation causing some goods price had increasing due to the Russia-Ukraine taking control on the supply the goods and services (Orhan, 2022).

The some of countries had been thinking pertaining the impact of conflicts in some regionals were happened such as the Russia-Ukraine and Israel-Palestine, which is influencing on inflation (Khudaykulova et al., 2022) so increasing the product prices (Ozili, 2024). Hence, Junaedi (2022) stated that for the Indonesia also had impacted from this conflict, which caused increasing the inflation rate. Meanwhile, the study conducted by Mbah & Wasum (2022) stated that increase the inflation rate due to an increas in the price of oil and food worldwide.

The impact of the conflict caused several aspects of international trade in the procurement of goods and services such as restrictions on the movement of goods, impacts on logistics and supply chains, disruptions at ports and borders and uncertainty in prices and supply of goods (Dewi, 2024) and (Ozili, 2024). The study conducted by (Surya et al., 2023) shows that the conflict has impact on the global supply chain decline and affect to trade balance values. Also, (Estrada & Koutronas, 2022) findings that the country involved conflicts has impact on agriculture exports, industrial and manufacturing exports, services exports and FDI flows.

Furthermore, the study that counducted by (Balbaa et al., 2022) stated that the military action by the Russian invation of Ukraine has impact many sectors by distruping the global supply chain. Which is the Russian to carry out prohibited other countries conducting export and import through its airplane and waterways during the conflict.

However, some countries that support the war between the Russian-Ukraine also impacted for their supply goods and services (Surya et al., 2023). Out of the Russian and Ukraine has together major role players in the energy, food and fertilizers industries to supply for other countries (Ali et al., 2022). Which are some member countries of the ASEAN has a cooperation aggrement pertaining international trade and supply the goods and services to ASEAN countries. (Lin et al., 2023) Found out that the conflicts could be affcted on increasing the cost imports or tariff imports, also limited supply the goods and services on the global market. Out of scarcity the imports causing increasing the cost or tariff and also increasing the price itself.

The impact of the Russia-Ukraine conflict is not only felt by the two countries and their supporters, however also globally (Junaedi, 2022). Mbah & Wasum (2022) shows that the

Russian-Ukraine conflict has a negative impact on macroeconomy, one of which is economy growth. Also, Irtysheva et al., (2022) stated that the conflicts causing changes the world economic, which the development economy experienced slow-down growth.

Some countries already affected by existing the conflicts recently on develop economic sector namely GDP experienced decline (Khudaykulova et al., 2022). Moreover, Tank (2022) shown that the GDP global has been down that caused by conflict. Dificult the other countries to keep their economic, they had been faced some challanges yet they still depends on the russia-ukraine and Israel-palestine. Based on the global economic perspectives that the economy had felt down, which the Russia-Ukraine has supply main keys for other countries (Orhan, 2022).

## RESEARCH METHODOLOGY

The data is secondary data that collected from <https://data.worldbank.org/>. This data was collected during the regional conflicts, which is the data taken two decades. This study uses the quantitative method as research methodology and by using *Eviews* v.12 as statistic tool. The hypothesis test uses multiple regression by using Chow test and Hausman test to choose the model of hypothesis test.

## RESULT AND DISCUSSION

### Chow Test

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.346577	(7,77)	0.0317
Cross-section Chi-square	17.016090	7	0.0173

Based on the result of Chow test, that this data is more suitable between a common effect model and a fixed effect model with the results of  $p= 0.01 < 0.05$ . Thus, for this model is suitable by using the fixed effect model.

### Hausman Test

Correlated Random Effects - Hausman Test  
Equation: Untitled  
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.588172	3	0.4596

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
EXCHANGE_RATE	0.000225	0.000065	0.000000	0.5901
IMPORTS	0.154082	0.148219	0.000040	0.3536
INFLATION	0.318372	0.335497	0.010384	0.8665

This test to compare the model between the fixed effect model and random effect model to the hypothesis test is more suitable using a random effect model effect model with the results.

### Hypothesis Test

**Tabel 3.** Hypothesis test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.058824	0.690689	2.980824	0.0038
EXCHANGE_RATE	6.46E-05	6.46E-05	0.999661	0.3203
IMPORTS	0.148219	0.033262	4.456142	0.0000
INFLATION	0.335497	0.145243	2.309895	0.0233
Effects Specification				
			S.D.	Rho
Cross-section random			1.130875	0.1319
Idiosyncratic random			2.901691	0.8681
Weighted Statistics				
R-squared	0.287792	Mean dependent var	2.525087	
Adjusted R-squared	0.262356	S.D. dependent var	3.370237	
S.E. of regression	2.894569	Sum squared resid	703.7963	
F-statistic	11.31436	Durbin-Watson stat	1.827076	
Prob(F-statistic)	0.000003			
Unweighted Statistics				
R-squared	0.315708	Mean dependent var	4.126630	
Sum squared resid	790.2563	Durbin-Watson stat	1.627180	

Source: Eviews v.12

Based on the results of the hypothesis test above, we get the results of the multiple regression equation using panel data of  $Y = 2.05 + 6.46 + 0.14 + 0.33$ . Thus, from the results of the hypothesis test on the impact of regional conflict on economic development in ASEAN, this hypothesis is accepted with the results  $p = 0.00 < 0.05$  ( $\alpha$ ). The GDP as a

measurement The development economic. Hence, the GDP in ASEAN countries were effected by the regional conflicts. Moreover, Khudaykulova et al., (2022) showed that the conflicts has huge impact on the economic development, especially in the developing contries as well as also impact on the economic global (Orhan, 2022).

The result of tabel 3, we can be concluded that during the regional conflicts could be influencing the GDP's ASEAN in commonly, which suggestion the individual must be making a policy is a substitution the product (Góes & Bekkers, 2022). Moreover, as effect the economic sanctions from other countries causing the GDP's countries had slow growth as well as difficult to serach substitution products (Estrada & Koutronas, 2022).

The result of  $H_1$  is  $p = 0.32 > 0.05$  ( $\alpha$ ) shown that the regional conflicts has not impactly on the development economic from sector exchange rate. Basically, the ASIAN members is only a few contries who a cooperation agrrement with Russia-Ukraine and Israel-Palestine, also the exchange rate during the regional conflicts has no inflenced on the economic development. Junaedi, (2022) stated that the impact of the conflicts can decrease the exchange rate.

$H_2$  is  $p = 0.00 < 0.05$  ( $\alpha$ ) is indicated that the import sectors has a positively impact by the regional conflicts who conducted by the Russia-Ukraine and Israel-Palestine. Almost of the country members of ASEAN is still depend the supply from the Russia-Ukraine which they has a keep control for the supply of goods and services (). Also the Israel has import varieties on the developing countries, which almost the country members of ASEAN are developing country (Bar-Nahum et al., 2020). Moreover, the impact of Israel-Palestine can be distruping the supply chain in term logistic, farm and manufacturing (Dewi, 2024). The Russia-Ukraine has major players in term supply commodities for the worldwide and making a restriction imports (Ali et al., 2022) and (Orhan, 2022). Thus, its effect will influencing the import costs as reflection of the rise oil price and gas (Junaedi, 2022).

The impact of the regional conflicts has influencing in the global trade which the countries who conflicted has control on their exports to other countries. This effect also influencing the ASEAN, as we can look the impact on the imports. Hence, the Rusia and Ukraine has a control for the imports as well as prohibited foreign imports throught its airspace and waterways as reflection a sanctions from neighbore countries (Balbaa et al., 2022). The Rusia-Ukraine making a trade policy for restriction its exports to other countries, thus drive scarcity of goods and services (Lin et al., 2023). Hence, the ASEAN's members must be looking for the substitutions the goods and services so not depending on the Russia-



Ukraine. Moreover, some countries were faced decline of income from exports due to restriction of exports by the Russia-Ukraine (Junaedi, 2022).

$H_3$  is  $p = 0.02 < 0.05$  ( $\alpha$ ) is indicated the conflicts could be effecting the inflation on the development economic. Several countries has a potentially high inflation after conflicts (Balbaa et al., 2022). Moreover, as impact of increasing oil price and gas were reflected the high inflation, hence the countries especially in the developing countries must be focusing on a prioritize economic stability (Surya et al., 2023) and (Ali et al., 2022). Hence, some countries in ASEAN faced a rise price of goods and services that caused by effecting the inflation (Junaedi, 2022)

Although, other countries were not involved in the conflicts, its had impacted from the rise in inflation during the conflicts (Ozili, 2024). Its impact as result of a rise the oil price and gas, which some countries in ASEAN is only a bit oil producers such as indonesia and brunei darrusalam. Mbah & Wasum (2022) stated that the inflation could influencing the economic development during the conflicts due to as result rise the oil and gas price. Also (Mbah & Wasum, 2022) had evidenced that the inflation in worldwide ravaging on the economic development.

## CONCLUSION

This study examining the impact of regional conflicts on the economic development in the ASEAN. This study uses some independent variables such as exchange rate, import and inflation on the dependent variable is the economic development by using the GDP each countries in ASEAN as a measurement. At this study found out that the GDP in ASEAN countries were effected by the regional conflicts. The result of  $H_1$  is decline, which is indicated that the import sectors has a positively impact by the regional conflicts who conducted by the Russia-Ukraine and Israel-Palestine. Almost of the country members of ASEAN is still depend the supply from the Russia-Ukraine which they has a keep control for the supply of goods and services. Also the Israel has import varieties on the developing countries, which almost the country members of ASEAN are developing country (Bar-Nahum et al., 2020).

Meanwhile,  $H_2$  is accepted, which is indicated that the import sectors has a positively impact by the regional conflicts who conducted by the Russia-Ukraine and Israel-Palestine.

Almost of the country members of ASEAN is still depend the supply from the Russia-Ukraine which they has a keep control for the supply of goods and services. Thus, its effect will influencing the import costs as reflection of the rise oil price and gas (Junaedi, 2022). Futhermore, H<sub>3</sub> is accepted, indicated the conflicts could be effecting the inflation on the development economic. Several countries has a potentially high inflation after conflicts (Balbaa et al., 2022). The other countries were not involved in the conflicts, its had impacted from the rise in inflation during the conflicts (Ozili, 2024).

The first limitation of this study is that the researcher only focuses on the macroeconomic. Hence, future studies can use the variables in term microeconomic. The second limitation of this study is that the research uses independent variables of the exchange rate, import, and inflation. Therefore, future studies will study with a similar topic or scope study same can add other independent variables to examine the impact on the economic developmen. The third limitation of this study is that the period of this study is only that focuses on after conflicts. Hence, the further study extends the period of the study with comparison before the conflicts and after Pandemic, so that the result of the study is more relevant and the researcher can be comparing the result of study after and before conflicts about the the economic development. Furthermore, the researcher hopes future studies will deepen and develop this study to obtain more relevant results.

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