
| RESEARCH ARTICLE**Navigating the Middle East Crisis: Economic Implications of the Iran War and Policy Responses for Global Stability****Deepto Chakraborty***University of Dhaka, Bangladesh***Corresponding Author:** Deepto Chakraborty, **E-mail:** chakrabortydeepto85@gmail.com

| ABSTRACT

The contemporary Middle East crisis, particularly the escalation involving Iran, has evolved into one of the most consequential geopolitical and economic challenges facing the international community. Although military confrontations have historically been concentrated within the region, their consequences increasingly extend across global markets because of the Middle East's central role in energy production, maritime trade, financial stability, and international security. Iran occupies a unique strategic position due to its vast hydrocarbon reserves, its influence over regional political dynamics, and its geographical control of the Strait of Hormuz, through which nearly one-fifth of globally traded crude oil passes. Consequently, any escalation involving Iran generates immediate repercussions for energy prices, inflation, investment flows, supply chains, and economic growth worldwide. The recent intensification of hostilities has demonstrated the interconnected nature of the global economy. Oil prices respond rapidly to geopolitical uncertainty, shipping costs increase as maritime security deteriorates, financial markets experience heightened volatility, and governments face growing fiscal pressures to protect domestic consumers from rising energy and food prices. These effects are particularly pronounced in developing countries that depend heavily on imported fuel and possess limited fiscal capacity to absorb external shocks. Beyond immediate economic disruptions, prolonged conflict risks undermining investor confidence, delaying sustainable development initiatives, increasing military expenditure, and diverting resources away from health, education, and climate adaptation. This paper argues that the Iran war should not be viewed solely through a military or security lens. Rather, it represents a multidimensional economic crisis requiring coordinated international policy responses. Diplomatic engagement, diversification of energy supplies, protection of maritime trade routes, expansion of renewable energy investment, strengthening of strategic petroleum reserves, and enhanced cooperation among international institutions are essential components of a comprehensive strategy for mitigating the conflict's global economic consequences. Without sustained diplomatic efforts, continued escalation threatens not only regional stability but also the resilience of the international economic system.

| KEYWORDS

Middle East Crisis; Iran War; Geopolitical Risk; Global Economy; Energy Security; Oil Prices; Strait of Hormuz; International Trade; Inflation; Supply Chain Resilience; Economic Policy; Global Stability

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1. Introduction

The Middle East has long occupied a central position in international politics because of its strategic geography, abundant natural resources, and complex political landscape. Throughout modern history, conflicts originating within the region have repeatedly generated consequences extending well beyond national borders. Unlike many regional disputes that remain geographically contained, instability in the Middle East rapidly influences global energy markets, international trade networks, financial systems, and diplomatic relations. The current confrontation involving Iran illustrates this dynamic with exceptional clarity, demonstrating how military escalation in one region can create widespread economic uncertainty across the international system.

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Iran's strategic significance extends beyond its military capabilities or regional political influence. The country possesses one of the world's largest proven reserves of oil and natural gas, while its coastline borders the Persian Gulf and the Strait of Hormuz, one of the world's most strategically important maritime passages. Approximately one-fifth of internationally traded crude oil and a substantial proportion of liquefied natural gas exports transit through this narrow waterway each day, making its uninterrupted operation essential for global energy security. Even limited disruptions to shipping through the Strait have historically generated immediate increases in global oil prices, illustrating the vulnerability of international markets to geopolitical developments in the Gulf.

The current conflict also reflects broader transformations within international politics. Competition among regional powers, evolving security alliances, disputes surrounding Iran's nuclear programme, proxy conflicts, cyber warfare, and increasing involvement by external powers such as the United States, Russia, and China have collectively contributed to a highly volatile regional environment. Economic globalization has further amplified these risks because international production networks now depend upon stable transportation systems, predictable energy supplies, and integrated financial markets. Consequently, the economic costs of regional conflict are no longer confined to neighbouring states but instead affect consumers, businesses, and governments across every continent.

The purpose of this policy paper is to examine the origins of the contemporary Middle East crisis, analyse the economic implications of the Iran war for both regional and global economies, and evaluate policy options capable of reducing economic vulnerability while promoting long-term stability. The paper adopts an interdisciplinary perspective that integrates political economy, international relations, and development economics to demonstrate that effective conflict management requires economic as well as diplomatic solutions. Rather than focusing exclusively on military developments, the analysis emphasises the interconnected mechanisms through which geopolitical instability influences international economic performance.

2. The Middle East Crisis and the Emergence of the Iran War

Understanding the contemporary Iran war requires recognition that the present crisis is rooted in decades of political transformation rather than isolated military incidents. The modern geopolitical landscape of the Middle East was profoundly reshaped by the Iranian Revolution of 1979, which replaced the pro-Western monarchy with an Islamic Republic committed to pursuing an independent foreign policy and challenging existing regional power structures. This transformation fundamentally altered Iran's relationships with neighbouring states and Western governments, particularly the United States, while simultaneously introducing ideological dimensions into regional politics.

Throughout the following decades, competition for regional influence intensified as Iran sought to expand its diplomatic, political, and strategic presence across the Middle East. Successive conflicts, including the Iran–Iraq War, the Gulf Wars, the Syrian civil conflict, and instability in Yemen, Iraq, and Lebanon, created opportunities for multiple regional actors to strengthen alliances and pursue competing strategic objectives. These developments contributed to the emergence of an increasingly fragmented regional security environment characterised by proxy warfare, sectarian divisions, and persistent diplomatic tensions.

Iran's nuclear programme became another major source of international concern during the early twenty-first century. Iranian authorities consistently maintained that uranium enrichment activities were intended for peaceful civilian purposes, including electricity generation and scientific research. However, several Western governments argued that continued enrichment could provide Iran with the technical capacity necessary to develop nuclear weapons. These concerns prompted extensive negotiations culminating in the Joint Comprehensive Plan of Action (JCPOA) in 2015, under which Iran accepted significant limitations on its nuclear activities in exchange for sanctions relief.

Although the JCPOA temporarily reduced tensions and improved economic prospects for Iran, subsequent political developments undermined the agreement. The reimposition of economic sanctions significantly constrained Iranian exports, reduced foreign investment, and intensified economic pressures within the country. At the same time,

regional rivalries continued to deepen through proxy conflicts, missile exchanges, cyber operations, and maritime incidents in the Persian Gulf. The cumulative effect was the gradual erosion of diplomatic trust and the increasing likelihood of direct military confrontation.

The recent escalation involving Iran therefore represents the culmination of multiple interconnected political, strategic, and economic disputes rather than a sudden or unexpected crisis. Military exchanges have occurred within a broader context of deteriorating diplomatic relations, expanding regional competition, and declining confidence in multilateral security arrangements. As geopolitical tensions increased, global markets responded by incorporating higher levels of uncertainty into commodity prices, investment decisions, and financial risk assessments.

From an economic perspective, geopolitical uncertainty functions as a significant market shock because businesses and investors must make decisions under conditions of incomplete information. Energy companies reconsider investment strategies, shipping firms increase insurance premiums, airlines modify flight routes, and multinational corporations reassess supply chain vulnerabilities. Consequently, the economic consequences of conflict begin long before physical destruction occurs, reflecting changes in expectations regarding future political stability.

The strategic importance of Iran further amplifies these effects. Unlike many regional conflicts, military escalation involving Iran directly threatens infrastructure essential for the functioning of the global economy. Oil production facilities, export terminals, maritime shipping lanes, telecommunications infrastructure, and financial networks all become potential sources of disruption during periods of heightened conflict. As these risks increase, commodity markets rapidly adjust expectations regarding future supply conditions, leading to increased price volatility across multiple sectors.

Moreover, the contemporary Middle East crisis unfolds within an international economy already facing significant structural challenges, including persistent inflationary pressures, post-pandemic debt burdens, slowing productivity growth, and ongoing supply chain adjustments. Consequently, the Iran war acts not as an isolated economic disturbance but as an additional shock interacting with pre-existing global vulnerabilities. This interaction significantly magnifies the potential economic costs of prolonged conflict while increasing the complexity of policy responses required to maintain macroeconomic stability.

3. Global Economic Implications of the Iran War

The economic consequences of armed conflict have historically extended beyond the immediate destruction of physical infrastructure and the displacement of civilian populations. In an increasingly interconnected global economy, geopolitical instability rapidly influences commodity markets, international trade, financial systems, and macroeconomic performance across countries that may have no direct involvement in military operations. The contemporary Iran war illustrates this reality with particular intensity because of Iran's strategic position within global energy markets and international maritime trade. Unlike many regional conflicts, the economic repercussions of military escalation involving Iran are transmitted almost instantaneously through oil prices, shipping costs, financial market expectations, and investment decisions. As a result, the conflict has become not only a regional security challenge but also a global economic shock with implications for inflation, growth, fiscal stability, and sustainable development.

Among the various channels through which the conflict affects the world economy, the energy market remains the most significant. The Middle East continues to supply a substantial share of the world's crude oil and liquefied natural gas, making stability within the region indispensable for global energy security. Iran itself possesses one of the largest proven reserves of both crude oil and natural gas, while neighbouring Gulf states collectively account for a considerable proportion of international petroleum exports. Even when sanctions limit Iran's own exports, military confrontation involving the country creates uncertainty regarding production and transportation throughout the wider Gulf region. Commodity markets respond not only to actual supply disruptions but also to anticipated risks. Consequently, the mere possibility of prolonged military escalation frequently generates immediate increases in oil prices as traders incorporate geopolitical risk into future contracts.

Oil prices exert a pervasive influence over the global economy because petroleum remains an essential input for transportation, manufacturing, electricity generation, and agricultural production. Rising crude oil prices increase production costs across virtually every economic sector, thereby reducing corporate profitability while simultaneously increasing consumer prices. Airlines experience higher fuel expenditures, shipping companies face increased operating costs, manufacturing industries pay more for energy-intensive production processes, and agricultural producers encounter rising costs associated with machinery, fertilisers, and transportation. These higher costs are eventually transmitted to consumers through increased prices for food, manufactured goods, and transportation services, contributing to widespread inflationary pressures.

The inflationary effects of higher energy prices present particularly difficult challenges for central banks. Monetary authorities must balance competing objectives of maintaining price stability while supporting economic growth. Increasing interest rates may help reduce inflationary pressures by lowering aggregate demand, yet higher borrowing costs simultaneously discourage private investment, reduce household consumption, and slow economic expansion. Conversely, maintaining lower interest rates may support employment and investment but risks allowing inflation expectations to become entrenched. Consequently, geopolitical shocks originating from the Iran war complicate monetary policymaking across both advanced and developing economies.

The Strait of Hormuz represents another critical mechanism through which the conflict influences the international economy. Situated between Iran and the Arabian Peninsula, this narrow maritime corridor constitutes one of the world's most strategically important shipping routes. A significant proportion of globally traded crude oil and liquefied natural gas passes through the Strait each day before reaching markets in Asia, Europe, and North America. Any disruption to maritime traffic, whether through military confrontation, mining operations, or heightened security concerns, immediately raises fears regarding the continuity of global energy supplies. Even temporary interruptions can generate substantial increases in freight charges, insurance premiums, and delivery times.

Shipping companies operating within the Gulf region respond to heightened geopolitical risk by adjusting operational practices designed to protect vessels, crews, and cargo. Insurance providers increase premiums for ships entering conflict-prone waters, while some firms reroute vessels through longer and more expensive alternative routes where feasible. These adjustments increase transportation costs throughout global supply chains, ultimately affecting consumer prices in countries far removed from the conflict itself. The consequences extend beyond energy markets because container shipping, bulk commodities, and manufactured goods also depend upon secure maritime transportation. Consequently, instability in the Strait of Hormuz influences a broad range of internationally traded products rather than petroleum alone.

Global financial markets similarly demonstrate high sensitivity to geopolitical uncertainty. Investors generally seek stability and predictability when allocating capital, whereas military conflict increases uncertainty regarding future economic conditions, corporate profitability, and government policy. During periods of heightened geopolitical tension, financial markets frequently experience declining equity prices, increasing demand for government bonds issued by advanced economies, appreciation of traditional safe-haven assets such as gold, and greater volatility in currency markets. These movements reflect changing investor expectations rather than immediate changes in underlying economic fundamentals.

The flight toward safe-haven assets often creates additional challenges for emerging economies. Capital outflows reduce domestic investment while simultaneously exerting downward pressure on national currencies. Currency depreciation increases the local cost of imported goods, particularly fuel and food, thereby reinforcing inflationary pressures already generated by higher global commodity prices. Governments may respond by increasing interest rates to support exchange rates, yet higher borrowing costs further constrain domestic investment and economic growth. The combined effect frequently produces slower economic expansion accompanied by persistent inflation, a phenomenon commonly described as stagflation.

Developing countries remain particularly vulnerable to these economic transmission mechanisms because they generally possess more limited financial resources and weaker institutional capacity than advanced economies. Many low-income and middle-income countries rely heavily upon imported petroleum products to support transportation, electricity generation, and industrial production. Consequently, increases in international oil prices rapidly worsen trade balances while placing additional pressure on foreign exchange reserves. Governments often attempt to shield households from rising fuel prices through subsidies, yet such measures significantly increase fiscal deficits at a time when public finances may already be constrained by debt obligations and social spending requirements.

Bangladesh provides an instructive example of this vulnerability. As a rapidly growing economy with substantial dependence on imported energy, Bangladesh experiences significant macroeconomic consequences when global oil prices increase. Higher fuel import costs contribute to exchange rate depreciation, widen the current account deficit, and increase inflation across multiple sectors. The country's important export-oriented garment industry also faces higher production and transportation costs, potentially reducing international competitiveness. Furthermore, rising shipping expenses increase the cost of both imported intermediate goods and exported manufactured products, thereby affecting trade performance. These developments illustrate how geopolitical conflicts occurring thousands of kilometres away can significantly influence domestic economic conditions within developing economies.

Food security represents another major area of concern. Modern agricultural systems depend extensively upon fossil fuels for machinery operation, irrigation, fertiliser production, food processing, refrigeration, and transportation. Consequently, increases in energy prices are frequently accompanied by higher food prices. Countries heavily dependent upon food imports become particularly vulnerable because they simultaneously confront rising transportation costs and increasing international commodity prices. For lower-income households, which allocate a substantial proportion of household expenditure to food, these developments significantly reduce purchasing power while increasing poverty and food insecurity.

The relationship between the Iran war and global supply chains extends beyond transportation costs. Modern manufacturing increasingly relies upon internationally fragmented production systems in which intermediate goods cross multiple national borders before final assembly. Heightened geopolitical uncertainty encourages multinational corporations to reassess supply chain resilience, diversify production locations, and reduce dependence upon regions perceived as politically unstable. Although diversification may strengthen long-term resilience, the transition process often increases production costs and reduces efficiency in the short term. Businesses must identify new suppliers, establish alternative transportation networks, negotiate revised contracts, and invest in additional inventory to protect against future disruptions.

The conflict also influences international investment decisions. Foreign direct investment typically declines during periods of heightened geopolitical uncertainty because investors seek environments characterised by political stability, predictable regulatory frameworks, and secure property rights. Regional economies affected by military confrontation, therefore, experience reduced capital inflows precisely when reconstruction and economic development require substantial investment. Even neighbouring countries not directly involved in hostilities may experience declining investment if international firms perceive increased regional risk.

Beyond immediate economic effects, prolonged military conflict has important fiscal implications. Governments frequently increase defence expenditure during periods of regional instability, diverting financial resources away from infrastructure development, education, healthcare, scientific research, and environmental protection. Although military spending may stimulate certain industrial sectors, it generally produces lower long-term economic returns than productive investments in human capital and physical infrastructure. Developing countries face particularly difficult trade-offs because limited public resources require prioritisation among competing development objectives.

Environmental sustainability also becomes increasingly difficult to achieve during prolonged conflict. Damage to energy infrastructure, industrial facilities, and transportation systems may generate significant environmental pollution, while reconstruction activities require substantial financial resources that might otherwise support renewable energy investment or climate adaptation. Furthermore, geopolitical instability often encourages governments to prioritise short-term energy security through expanded fossil fuel production rather than accelerating transitions toward renewable energy sources. Consequently, military conflict may delay progress toward international climate objectives while reinforcing dependence upon carbon-intensive energy systems.

The cumulative effect of these interconnected transmission mechanisms demonstrates that the economic implications of the Iran war extend far beyond temporary fluctuations in oil prices. Rather, the conflict interacts with existing structural challenges facing the international economy, including elevated public debt, slowing productivity growth, persistent inflation, and ongoing adjustments following recent global economic shocks. The resulting environment increases uncertainty for policymakers, businesses, and households alike while reducing the capacity of economies to absorb additional external disturbances. These realities underscore the importance of coordinated international policy responses designed not only to manage immediate economic consequences but also to strengthen long-term resilience against future geopolitical shocks.

4. Conclusion

The Middle East crisis and the escalation of the Iran war have reinforced the enduring relationship between geopolitical instability and global economic vulnerability. Although the conflict originated within a complex regional environment shaped by historical rivalries, ideological divisions, security concerns, and strategic competition, its consequences have extended far beyond the Middle East. The analysis presented in this paper demonstrates that contemporary conflicts involving major energy-producing regions are no longer isolated security challenges but multidimensional economic shocks capable of disrupting international trade, financial markets, energy security, supply chains, and sustainable development. In an increasingly interconnected global economy, political instability in one strategically important region can rapidly influence inflation, investment, fiscal stability, and economic growth across countries with vastly different political and economic circumstances.

The evidence suggests that the Iran war has intensified uncertainty within global energy markets by increasing concerns regarding oil production, transportation, and maritime security. The strategic significance of the Strait of Hormuz has once again highlighted the vulnerability of international energy supply chains to geopolitical tensions. Even temporary disruptions or heightened security risks have generated fluctuations in oil prices, increased shipping costs, and contributed to inflationary pressures affecting both advanced and developing economies. These developments have placed additional pressure on governments already managing the lingering effects of recent global economic shocks, elevated public debt, and persistent inflation. For many developing countries, particularly those dependent on imported energy, the conflict has worsened external imbalances, weakened exchange rates, increased fiscal burdens, and threatened food and energy security.

Beyond the immediate effects on commodity markets, the conflict has exposed broader structural weaknesses within the global economy. The increasing complexity of international supply chains, combined with the concentration of critical energy infrastructure within geopolitically sensitive regions, has amplified the economic consequences of regional instability. Businesses have faced rising transportation costs, disrupted production networks, greater uncertainty regarding investment decisions, and increased pressure to diversify suppliers and strengthen operational resilience. Financial markets have similarly reflected heightened geopolitical risk through increased volatility, shifts toward safe-haven assets, and changing investor expectations. These interconnected responses demonstrate that geopolitical uncertainty itself has become an important economic variable influencing market behaviour, capital allocation, and long-term growth prospects.

The policy analysis undertaken in this paper indicates that military solutions alone cannot provide lasting stability or reduce the economic costs associated with prolonged conflict. Sustainable peace requires coordinated diplomatic engagement supported by effective international institutions capable of facilitating dialogue, reducing tensions, and

strengthening regional confidence-building measures. At the same time, governments must pursue comprehensive economic policies that enhance resilience against future geopolitical shocks. Diversification of energy sources, investment in renewable technologies, expansion of strategic petroleum reserves, protection of international maritime trade routes, and strengthened regional economic cooperation represent essential components of a long-term strategy for improving global energy security. International organizations, including the United Nations, the International Monetary Fund, the World Bank, the International Energy Agency, the World Trade Organization, and the Group of Twenty, have important roles to play in coordinating financial assistance, promoting macroeconomic stability, supporting humanitarian responses, and encouraging multilateral cooperation during periods of geopolitical crisis.

The conflict also underscores the importance of integrating economic resilience into national security planning. Governments should move beyond reactive crisis management by investing in resilient infrastructure, diversified supply chains, digital logistics systems, and sustainable energy transitions that reduce dependence on vulnerable international markets. Developing economies require particular attention because limited fiscal capacity, high import dependence, and constrained access to international finance make them especially vulnerable to external shocks. Targeted international support, concessional financing, and technology transfer can strengthen their capacity to adapt while promoting inclusive and sustainable economic development.

Ultimately, the Iran war serves as a reminder that economic security and geopolitical stability are fundamentally interconnected. Persistent conflict imposes substantial opportunity costs by diverting resources away from productive investment, human development, climate action, and technological innovation. While financial markets may gradually adjust to geopolitical uncertainty, repeated episodes of regional instability risk creating a more fragmented and less resilient global economy characterised by slower growth, higher inflation, and greater economic inequality. Preventing such outcomes requires sustained international commitment to diplomacy, multilateral cooperation, and evidence-based policymaking that recognises the shared nature of contemporary global challenges.

Looking ahead, the international community faces a critical choice between continued geopolitical fragmentation and strengthened cooperative governance. The long-term costs of prolonged confrontation are likely to exceed any short-term strategic gains, not only for the parties directly involved but also for the wider global economy. By prioritising diplomatic engagement, accelerating the transition toward diversified and sustainable energy systems, strengthening international economic institutions, and promoting inclusive development, policymakers can reduce the economic consequences of future conflicts while supporting a more stable, resilient, and prosperous international order. The lessons of the Middle East crisis therefore extend beyond the present conflict, offering important guidance for managing future geopolitical risks in an era of deep economic interdependence and increasing global uncertainty.

4.1 Study Limitations and Areas for Further Study

This study has several limitations that should be acknowledged when interpreting its findings. First, the paper is primarily based on secondary data and existing academic literature, policy reports, and publications from international organizations. As a result, the analysis depends on the quality, availability, and timeliness of these sources, which may not fully capture the rapidly evolving nature of the Middle East crisis and the Iran war.

Second, the study adopts a qualitative policy analysis rather than an empirical or econometric approach. Consequently, it does not quantify the precise magnitude of the conflict's economic effects on variables such as gross domestic product (GDP), inflation, trade flows, foreign direct investment, or energy prices. Instead, it provides a conceptual and evidence-based assessment of the principal economic transmission mechanisms.

Third, geopolitical events are highly dynamic and subject to sudden political, military, and diplomatic developments. Changes in ceasefire agreements, sanctions, international negotiations, or military escalation occurring after the

completion of this study may alter the economic outlook presented in the analysis. Therefore, the findings should be interpreted within the specific geopolitical context in which the research was conducted.

Fourth, although the paper discusses global economic implications and includes Bangladesh as an illustrative example of an energy-importing developing economy, it does not undertake detailed country-level comparative analysis. The economic consequences of the conflict may differ significantly across countries depending on their energy dependence, fiscal capacity, trade structure, exchange rate regime, and institutional resilience.

Finally, the study focuses primarily on macroeconomic and policy dimensions of the conflict. Social, humanitarian, environmental, and microeconomic impacts—including household welfare, labor market disruptions, refugee movements, and firm-level adjustments—are discussed only briefly and therefore fall outside the primary scope of this research.

Despite these limitations, the study provides a comprehensive synthesis of current evidence and offers practical policy recommendations for improving economic resilience against geopolitical shocks.

Future research can extend this study in several important directions. First, empirical research employing econometric techniques, time-series analysis, vector autoregression (VAR), or computable general equilibrium (CGE) models could quantify the direct and indirect economic impacts of the Iran war on inflation, GDP growth, exchange rates, commodity prices, and international trade.

Second, comparative country-level studies could examine how different economies respond to geopolitical shocks. Comparative analyses involving energy-importing countries such as Bangladesh, India, Pakistan, Japan, and European economies could identify the institutional and policy factors that enhance economic resilience.

Third, future studies may investigate firm-level and sector-specific impacts, particularly within manufacturing, logistics, aviation, maritime transportation, agriculture, and financial services. Such research would provide a more detailed understanding of supply-chain disruptions and business adaptation strategies during periods of geopolitical instability.

Fourth, additional research should explore the long-term implications of geopolitical conflicts for global energy transition policies. Examining whether conflicts accelerate or delay investments in renewable energy, green technologies, and energy diversification would contribute significantly to both energy economics and climate policy literature.

Finally, interdisciplinary research integrating international relations, political economy, environmental economics, and security studies would provide a more comprehensive understanding of how geopolitical conflicts influence sustainable development, global governance, and international economic stability. Such research could assist policymakers in designing more coordinated and resilient responses to future geopolitical crises.

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