THE GLOBAL ECONOMIC IMPACT OF CONFLICTS

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ABSTRACT: *From Adam Smith perception that conflicts are a waste of society's resources to more recent realistic approaches that try to analyze both the advantages and disadvantages that conflicts generate, economy and war have always been intertwined, economic reasons being one of the major starters of wars, while wars have always had long-lasting effects on states' economies.*

The literature regarding the economic effects of conflict has significantly developed in the past decades, after it became clear that the impact of contemporary wars is no longer local or regional, but the ramifications and rippling effects can also touch countries or regions that are not directly involved or do not even have significant direct economic ties with the belligerents.

After a brief introduction into conflicts and their recent development, we analyzed the specialized literature to see the theoretical models through which modern wars affect the global economy. We then applied the models to one of the most recent armed conflicts, the one in the Middle East, as we considered it a quintessential example on how the multi-channel shock rewrites trade rules, triggers inflation and drives structural economic divergence.

We concluded that the global consequences can easily spiral out of control and beyond the initial will of engaged states which, in our vision, should become a deterrent and, hopefully, lead to better international mediation mechanisms.

Keywords: conflict, war, global economy, supply chains, inflation

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1. INTRODUCTION

At the turn of the 21st century, early predictions seemed rather optimistic about the situation of world peace and security. After the horrors of the first half of the 20th century and fragile balance of the Cold War, the new context of the acquisition of independence by most developing states and the lack of need for world powers to support opposition movements in each other's sphere of influence made the international community to believe in its abilities to address deadly conflict through mediation, arbitration and the development of international institutions to promote reconciliation (Carnegie Commission, 2000).

Despite this, the 21st century did not bring the envisioned stability, with a significant resurgence of wars throughout the first two decades. After 2022 has been considered by the United Nations Secretary General as the year with the highest number of violent conflicts since 1945, the situation has only worsened, with deteriorations in the Middle-East, Africa, Latin America and Asia.

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In his latest report on global military spending, the same UN official observed that military expenditures have increased for 10 years continuously, to reach a staggering all time high of $2.7 trillion in 2024 and on a continuous rising path (The Security We Need, 2025). At the same time, UN Peacekeeping and Peacebuilding activities are plagued by financial constraints, only reaching less than 0.52% of that amount, compared to 0.83% a decade ago (Global Peace Index, 2025).

At this moment, it is estimated that 130 armed conflicts are taking place worldwide (Statistics and facts, 2026). While this is a significant numeric increase, it is also relevant that the structural aspects of conflicts have changed, as they are no longer isolated, but layered, transnational and increasingly difficult to end (PRIO, 2025).

Countries seem to have spiraled into an arms race, consistent with the realist principle of the “security dilemma”, where states feel threatened and pressured into investing into their defense sectors for enhancing their own security, thus being perceived as threats for other states and triggering escalation and eventually conflict (Hertz, 1950).

Amongst the contemporary factors that lead to this situation are the increase in geopolitical fragmentation, the reduction in global integration for economics, trade, diplomacy and military cooperation, rising wealth of many countries and expansion of their international influence, development of nuclear arsenals and internationalized interstate conflicts (Global Peace Index, 2025).

One of the direct effects is that, while more is being spent on militaries, less resources are allocated for social investment, poverty reduction, education, health, environment protection and infrastructure. This mobilization of resources has deep economic consequences, shaping output, inflation, debt and external balances (Barro, 1987).

The indirect effects are more insidious and far-reaching, as the high-level of global interdependence causes events with economic impact in on region to rapidly affect others, by perturbing the movement of goods, capital, technology and labor. These outcomes are not only confined to the conflict period, but can persist and even deepen for at least a decade after peace is achieved (Benmelech and Monteiro, 2025). From the economic perspective, wars, regime changes and financial crises have key traits in common, with significant impacts on the growth rate and strong association with recession (Cerra and Saxena, 2007).

2. THE MECHANISMS THROUGH WHICH CONFLICTS AFFECT THE GLOBAL ECONOMY

Contemporary wars disrupt the global economy through the destruction of infrastructure, severing of supply chains and inflation growth, while triggering financial volatility, heightening risks and reducing global Gross Domestic Product (GDP), sometimes for long periods of time.

These mechanisms and their consequences are highly influenced by the nature of the conflict and the solidity of the affected states’ economies. The magnitude of the conflict is also extremely relevant, on both a localized and on a global scale. Some high magnitude conflicts have decreased the affected country’s GDP by up to a catastrophic 54%, as is the case in Syria, while others had a lesser effect, with an average of about 12% GDP medium decrease for countries directly affected (Benmelech, Monteiro, 2025). Significant differences are identified between intrastate wars (fought between a government and one or more rebel parties) and interstate wars (between two or more states), with the former being more destructive to physical capital, but localized, while the latter more global and creating a domino effect. Also, the impact on low-income countries tends to be more long-lasting, given their limited recovery capabilities, and more profound, as investments plummet, that the one on high-income countries.

A common trait of all violent conflicts is the destruction of infrastructure. War causes rippling effects that undermine a society's development across multiple dimensions, including health, education, livelihoods and access to basic necessities (PRIO, 2024). Though the Geneva Conventions label the deliberate targeting of civilian infrastructure as a war crime, the line between civilian and military use has somewhat blurred in the most recent conflicts. The introduction of terms such as "dual-use infrastructure" tends to give a certain legitimacy to the destruction of civilian targets, as long as they support the war effort. This refers to either objects that, by their nature, serve or have the potential to serve civilian and military purposes alike (transportation infrastructure like bridges, roads, trains, and airports) or civilian objects that become dual-use because they are used by armed forces, like apartment buildings. Another category consists in objects that are civilian in nature, but at least in part support or sustain armed forces, like banks, bakeries and other food-production facilities, or oil wells (Hathaway, Khan and Revkin, 2025). Examples in the recent years are the targeting of Ukrainian electrical power plants by the Russian Federation in the conflict that started in 2022, in order to disrupt the military industrial complex (Human Rights Watch, 2022) or the destruction of hospitals in the Gaza conflict, which were reportedly used by Hamas in military operations (World Health Organization, 2025).

Beyond the disastrous direct effects on human lives and the localized toll on economies given by long-term damage on human capital, which can sometimes last for generations (World Bank, 2026), the rippling effects of conflict surpass the borders of the affected states and their neighbors, to have global consequences.

The disruption of supply chains is one of the most direct and visible ways conflicts affect global economy. Modern production systems rely on complex transnational networks which are highly vulnerable to geopolitical shocks (Holst and Besiou, 2025).

Most recent international conflicts, like the Russian war on Ukraine, the military operation in Venezuela (which only caused a limited disruption) and the conflict in the Middle East have affected the energy markets in both direct and indirect ways. With Russia being a major supplier of oil and natural gas, the sanctions imposed after the invasion in Ukraine have forced countries, especially in Europe, to find alternative energy sources and reconfigure their supply chains, which led to a spike in energy prices (International Energy Agency, 2023). This adaptation effort and transition away from the Russian energy dependence has also added significant long-term adjustment costs to economies, which further leads to surges in commodity prices.

Another clear example of supply chain disruption was the severe impact of the conflict in Ukraine on global agricultural markets, both countries being key exporters of wheat, maize and fertilizers. Global food prices increased substantially as the Black Sea shipping routes were interrupted, which disproportionately affected low-income and import-dependent countries (World Bank, 2023).

Inflation growth is mainly driven by the two causes explained above, namely the destruction of infrastructure and disruption of supply chains, leading to rising commodity prices. In 2022, after the Russian invasion, the United States (US) Federal Reserve noted that investors, market participants, and policymakers expect that the war would exert a drag on the global economy while pushing up inflation, with a sharp increase in uncertainty and risks of severe adverse outcomes.

This higher geopolitical risk has been historically associated with sizable effects on global economic activities. Wars tend to change investors' perception, to make firms suspend investment and hiring, to erode consumer confidence and to tighten financial conditions. This puts downward pressure on global activities and upward pressure on inflation. At a national level, conflict increases the risk of sovereign debt. Since investors become reluctant in holding long-term assets, governments tend to issue short-term instruments, with carried costs, further contributing to macroeconomic fragility (Benmelech and Monteiro, 2025).

The so called "investor panic" is the phenomenon of panic selling, in which investors rapidly sell financial securities due to fear or uncertainty, often causing asset prices to plummet (Bawalle, Khan and Kadoya, 2025). Though not triggered exclusively by conflicts, it is mostly generated by major events that create instability, which sparks sudden, sharp fluctuations in asset prices. New geopolitical conflicts often caused an immediate market reaction, frequently a negative one. If events are seen as disruptive to the global economy, investors may suddenly reduce portfolio risk and pursue a so-called "flight to quality." This approach often results in a sell-off in stocks, with increased interest in bonds or *safe haven* assets like gold (US Bank, 2026).

3. CASE STUDY – THE RECENT CONFLICT IN THE MIDDLE-EAST AND ITS ECONOMIC CONSEQUENCES

Perhaps none of the elements theorized above could have been more soundly demonstrated than they were by the joint US-Israeli military operations in Iran. The operations, codenamed "Epic Fury" by the US and "Roaring Lion" by Israel, started on February 28th 2026, after the most significant US military build-up in the region since 2003, when strikes with missiles, drones and from fighter jets hit a large number of military and dual-use targets in Iran. In immediate retaliation, the Islamic Republic targeted US military facilities in the region, Israel and civilian infrastructure in the Gulf States. Israel also launched a ground offensive in southern Lebanon, in response to Iranian-backed Hezbollah missile launches, while the Houthi rebels in Yemen also launched missiles at Israel. The initial limited military operation quickly escalated into a regional conflict with widespread ramification, especially after the closure by Iran of the Strait of Hormuz (Council on Foreign Relations, 2026).

The importance of this supply chain choke-point became immediately relevant after its *de facto* closure. The Strait of Hormuz is a vital passage for world trade, carrying around 38% of the global crude oil, 29% of Liquefied Petroleum Gas (LPG), 19% of Liquefied Natural Gas (LNG), 19% of refined oil products, 13% of chemicals (including fertilizers) and 3% of container shipping before the crisis erupted (UNCTAD, 2026). Other affected segments are the shipping lanes for pharmaceuticals, batteries and electronics from Asia, with delays and reroutes that add an average of 14 days/ship and additional costs. Insurance rates for ships transiting the region have sky-rocketed, with prices increasing between 400% - 1200%, or were cancelled due to war clauses (Pillsbury, 2026).

After a slight increase during the military build-up, global prices in crude oil have spiked following the beginning of the conflict, to reach a record 120 United States Dollars/Brent Barrel (USD/Bbl) on the 20th of March (more than 80% increase from the 2026 average prior to the conflict), after which it stabilized at around 95 USD/Bbl on the 8th of April, when a ceasefire was agreed. Gold and silver prices also sharply increased, after initially decreasing throughout the beginning of 2026, given the investor reorientation for *safe heaven* assets (Trading Economics, 2026). The fertilizer market, especially nitrogen-based fertilizers, also saw a 40% increase in prices due to the fact that ammonia, urea and phosphates could not be traded through the Strait (CSIS, 2026).

Though we can only speculate at this point on exactly when and how the conflict will be over, prognosis from the World Trade Organization (WTO) confirms that, if global oil prices remain high throughout the year, this would impact the 2026 forecasted GDP growth of 2.9% by as much as 0.3%, with some regions being hit worse than the others (WTO, 2026). Oxford Economics is even more pessimistic, stating that a quick reopening of the Hormuz Strait would still take up to 6 months to reach the initial traffic and the global GDP growth could be reduced to 1.4%, also adding that a prolonged war could tip the global economy into recession, comparable to the pandemic or the world financial crisis (Oxford Economics, 2026).

The International Energy Agency (IEA) has taken active measures to stabilize the soaring fuel prices, including releasing 400 million barrels form member emergency oil reserves in March 2026 and has provided a 10 point plan for oil demand reduction (IEA, 2026), but with little potential to fix the long term situation.

Unlike the case of conflicts in the previous century, effects are more than transnational, they are global.

The most immediate impact was that on the belligerents and neighboring states. Iran's economy, already crippled by the years of international sanctions, has now faced significant downward pressure caused by the severe industrial damage, attacks on infrastructure, hyperinflation and food crisis (Fortune, 2026).

Like Iran itself, Arab states of the Persian Gulf rely heavily on the Strait of Hormuz for both exporting the products of their oil industry and for importing, mostly food products (Goldman & Sachs, 2026). Halting traffic through the strait had a strong impact on the Gulf Cooperation Council economic model, to which we can add the destruction of oil and port infrastructure caused by Iranian missiles and drones and the halt of investments due to Iran's threat to target data centers and other major Western and Chinese investments in the Gulf Region. Higher borrowing costs for these countries will add to the economic burden (UNCTAD, 2026). A major source of income, tourism in the entire vicinity, including the Eastern Mediterranean, has taken a significant blow. This might be prolonged by an aviation crisis, initially local, caused by security concerns, and with possible global longer term implications, due to the unavailability and increasing prices of kerosene-derived products which cannot be managed by increasing air transport fares alone (BBC, 2026).

In this context, the Gulf States are accelerating projects to by-pass the Hormuz Strait, through pipeline expansion or freight rails through Jordan. Some alternatives have been exploited by Saudi Arabia and the United Arab Emirates, but with limited success on the overall decline in oil and LNG exports (CNN, 2026).

The US is also paying for the cost of war, to such an extent that it even partially waived sanctions for Iranian and Russian oil during the war, in order to keep the global prices at a manageable level. This is because the rising global price has indirectly affected the US, even if it is not directly dependent on oil from the Gulf. The Unites States' limited military operation in Venezuela and the following open talks with the new and more favorable Caracas leadership have secured alternative energy supply chains in the wake of the intervention in the Middle East. Even so, prices for gas in the US have risen by almost 40% since the beginning of the war, influencing consumer behavior, who are spending less on other goods as gas eats up a bigger share of household budgets (Hyatt, 2026). But oil is just a part of the equation. On September 17, Belarus announced that it would release 250 political prisoners, as part of an agreement with the US, who would lift sanctions for 3 Belarusian companies that export certain fertilizer ingredients. This shows the efforts made to contain a food crisis and the existing fear of inflation, given the Federal Reserve's limited ability to simultaneously fight supply-driven inflation and support growth. It is also noted that Oxford Economics also cut its forecast for U.S. GDP growth by a third to 1.9%.

The European economies have also been significantly affected, mostly by the supply chain disruptions in oil and LNG, in the context of increased European exports to Ukraine and high winter demands which drive the need to replenish supplies. Qatar's full closure of LNG distribution after an Iranian drone strike, with no predictable date on when it would be restored, added even more pressure, as European storage levels are estimated to be below 30 percent, a five-year low. The scale and cost of this supply gap are further amplified by Europe's decision to phase out Russian pipeline gas and LNG imports by the end of 2027, which could tumble Europe into a new energy crisis (Basquel, 2026).

A more pragmatic approach was that of China, which proved to be more resilient to the short-term crisis. Though it is unofficially considered the largest importer of Iranian oil, China has been well prepared to take the initial shock. Most of its energy needs are produced domestically. Also, China has worked intensively to diversify supply, invested in alternative non-oil reliant sources and pre-planned for a 3 months oil reserve, ensuring enough room for the economy to breathe during the conflict (McCarthy, 2026). Besides energy import, China has a significant footprint in the conflict region, with investments in ports, power plants, refineries, desalinization plants and petrochemical operations, which makes its interests in the region directly impacted by the war.

Other Asian countries are struggling to find short-term remedies, such as conservation measures for fuel and electricity and rationalizing systems in Sri Lanka and Bangladesh, or austerity measures like temporary school and other non-essential government facilities shut downs or reduced work hours in Pakistan and Nepal. Larger economies like Japan are subsidizing fuel costs to reduce the impact on consumers (Deccan Herald, 2026).

African countries have been impacted in various ways by the conflict. For Egypt, the possibility of conflict spillover and the reduction of traffic on the Suez Canal have been cumulative with the effects of initial effects of rising oil prices (Associated Press, 2026). Other countries, like Ethiopia have suffered severe price shocks, due to their reliance on imported refined petroleum. Some of the poorest countries in Africa are already bearing the brunt of the rising prices in fertilizers, given the shortages in raw materials and the increase in energy prices. Sudan gets 54% of its sea borne fertilizers through the Straits of Hormuz and its war-torn economy is foreseen as being the most affected by the crisis, along with other developing nations like Tanzania, Somalia, Kenya or Mozambique. African oil and gas exporters, such as Nigeria and Angola, may see some short-term benefits for the situation, but the impact of rising energy prices on households will limit those benefits (UNCTAD, 2026).

One of the unlikely beneficiaries from the Iran war seems to be the Russian Federation. After years of crippling sanction for the US, European Union and allies, corroborated with Ukrainian attacks on oil infrastructure, which took a heavy toll on oil and gas exports from the Russian Federation, the temporary wavering of these sanctions by the US, along with the high global prices and demand, have brought the net value of exports in April 2026 back to pre-2022 levels (Chattam House, 2026), which could further fuel the war effort in Ukraine. It is not clear though if sustained high oil prices will not have severe long-term consequences on the Russian economy, due to a sustained decline in oil demand, especially if this drives a subsequent global and systemic collapse in oil and commodity prices.

4. CONCLUSIONS

Unlike the optimistic models foreseen at the turn of the century, the contemporary world is seeing a surge in violent conflicts. The global consequences of these wars tend to be far worse than those traditionally envisioned. Beyond the human toll, destruction of infrastructure and adverse effects on national economies, a number of factors are making today’s wars resound around the world. The high global interdependence, complex and transnational supply chain system and global nature of commodity markets means that virtually no country is insulated from the rippling effects of large scale conflicts.

The impact seems to be multi-layered, as one dis-balance between demand and offer leads to price spikes and fractures, while also dis-balancing other complex economic systems. After the global economic crisis, COVID pandemic and the Russian invasion in Ukraine, the

Middle-East conflict seems to be the latest example of how fragile these intricate systems are and how easy they can break under pressure.

Individual countries and even powerful regional organizations like the EU seem unable to cushion the immediate shocks, while sectorial organizations, such as the IEA, can only do damage control to a certain extent.

Developing economies, such as the ones in Africa and South Asia, have the least resources to confront the fallout and they also endure the most long-lasting effects, some of them with extreme social, political and economic implications, even if they are not directly involved in the conflict itself.

The global players will probably have to analyse deeper the real cost of waging war, as it is becoming more difficult to have an accurate prognosis on the insidious aftermath that it brings. Ideally, this will dissuade states from engaging in war and encourage them to develop more efficient international mechanisms for settling disputes.

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