

Economic Impacts of West Asia Conflicts: A Comprehensive Analysis

Dr. P. Govindaraj¹, Dr V. Murugesh²

¹Assistant Professor, Department of Commerce, PSG College of Arts & Science, Coimbatore. govindaraj@psgcas.ac.in

²Assistant Professor, Department of Commerce, PSG College of Arts & Science, Coimbatore. murugesh@psgcas.ac.in

DOI: DOI: <https://doi.org/10.63001/tbs.2026.v21.i01.pp1926-1929>

KEYWORDS

West Asia, Middle East conflicts, oil prices, economic impact, trade disruption, geopolitical risk, inflation, food security, Iran

Received: 26-01-2026

Revised: 17-02-2026

Accepted: 07-03-2026

Published: 15-03-2026

Abstract

The West Asian region, often referred to as the Middle East, has been at the epicentre of geopolitical turbulence for decades. This paper examines the multidimensional economic consequences of ongoing and recent conflicts in West Asia, with a focus on their regional and global ramifications. Drawing on empirical data and existing literature, this study analyses the impact on energy markets, international trade routes, foreign direct investment (FDI), food security, inflation, and reconstruction costs. The findings reveal that West Asian conflicts function as systemic economic shock transmitters, with consequences that extend far beyond the immediate conflict zones. This paper concludes with policy recommendations for mitigating economic disruptions arising from regional instability.

1. INTRODUCTION

West Asia, encompassing nations such as Iraq, Syria, Yemen, Lebanon, Israel, Iran, and the Gulf Cooperation Council (GCC) states, is a region of immense strategic and economic importance. Home to over 50% of the world's proven oil reserves and key maritime trade routes, the region's political stability or lack thereof has profound consequences for the global economy (BP, 2023). Over the past three decades, the region has witnessed a series of devastating conflicts including the Gulf War (1990-1991), the Iraq War (2003), the Syrian Civil War (2011-present), the Yemeni Civil War (2014-present), the Israeli-Palestinian conflict, and ongoing tensions involving Iran. Each of these conflicts has introduced distinct economic shocks, both locally and globally.

The economic impact of these conflicts is not confined to direct destruction of physical infrastructure and loss of human capital. Rather, it cascades through global supply chains, energy

markets, currency systems, and humanitarian infrastructure. The International Monetary Fund (IMF, 2023) has repeatedly flagged West Asian instability as a key downside risk to global economic forecasts. Understanding the mechanisms through which conflict translates into economic disruption is essential for policymakers, international organizations, and businesses operating in or dependent on the region.

2. LITERATURE REVIEW

The intersection of conflict and economics has been extensively studied. Collier and Hoeffler (2004) established a foundational framework linking civil war to economic stagnation, demonstrating that conflict reduces GDP growth by approximately 2.2% annually in affected countries. More specifically in the West Asian context, Makdisi and Elbadawi (2011) argued that political instability in the Arab world has suppressed long-run growth by undermining institutional quality and deterring investment.

With respect to energy markets, Hamilton (2009) demonstrated that oil price shocks originating from geopolitical events in the Middle East have historically precipitated recessions in oil-importing nations. More recently, Baumeister and Hamilton (2019) refined this analysis, showing that the transmission mechanism of oil shocks depends heavily on whether the supply disruption is perceived as temporary or permanent.

The role of critical maritime chokepoints has been examined by Rodrigue (2020), who highlighted the Strait of Hormuz and the Bab-el-Mandeb as among the most strategically vulnerable trade corridors globally. The 2024 Houthi attacks on Red Sea shipping lines renewed academic and policy interest in chokepoint vulnerability, with several studies estimating cost increases of 10-15% for affected shipping routes (UNCTAD, 2024).

On the humanitarian and fiscal dimensions, the World Bank (2022) documented that conflict-affected states in West Asia face post-war reconstruction costs ranging from 200% to 400% of their pre-conflict annual GDP. Becker and Ahearn (2021) further highlighted the disproportionate burden placed on neighbouring countries that absorb refugee populations, with Jordan and Lebanon cited as particularly vulnerable cases.

Impact on Global Energy Markets

Oil Price Volatility

West Asia accounts for approximately 33% of global crude oil production, with Saudi Arabia, Iraq, Iran, the UAE, and Kuwait among the top ten producers globally (International Energy Agency [IEA], 2023). Armed conflict in this region directly threatens production capacity, creating supply disruptions that trigger sharp increases in global oil prices. For instance, Iraq's oil production dropped by over 2.5 million barrels per day (mb/d) following the 2003 invasion, contributing to a sustained oil price increase from approximately \$30 to over \$100 per barrel by 2008 (World Bank, 2023).

The Iranian nuclear standoff and subsequent international sanctions serve as another illustration of how geopolitical conflict translates into energy market volatility. Between 2011 and 2015, Iran's oil exports fell from approximately 2.5 mb/d to under 1 mb/d, tightening global supply and elevating Brent crude prices (IEA, 2023). Oil price spikes of this magnitude generate inflationary pressures across all sectors of the global economy most notably transportation, agriculture, and manufacturing by raising input costs.

Natural Gas and LNG Markets

Beyond oil, West Asia holds approximately 40% of global natural gas reserves, with Qatar being the world's largest exporter of liquefied natural gas (LNG) (BP, 2023). Conflict in neighbouring territories, combined with diplomatic rifts such as the 2017 Qatar blockade, has highlighted the fragility of LNG supply chains. The European energy crisis of 2022, partly driven by geopolitical disruptions in both Eastern Europe and West Asia, underscored the interdependence of global energy systems and the cascading effects that regional instability can trigger (European Commission, 2023).

Trade Disruption and Maritime Chokepoints

West Asia sits at the intersection of three continents and hosts some of the world's most critical maritime chokepoints. The Strait of Hormuz, through which approximately 21 million barrels

of oil transit daily, and the Bab-el-Mandeb Strait, a gateway to the Suez Canal, are both susceptible to disruption by regional conflicts (U.S. Energy Information Administration [EIA], 2023). Any significant closure or restriction of these routes would force vessels to reroute around the Cape of Good Hope, adding approximately 10-14 days to journey times and substantially increasing shipping costs.

The Houthi-led attacks on commercial vessels in the Red Sea in late 2023 and throughout 2024 exemplify this vulnerability. UNCTAD (2024) reported that container ship transits through the Red Sea fell by 67% between November 2023 and February 2024, while freight rates on Asia-Europe routes increased by over 300%. These disruptions not only increased costs for businesses but also contributed to renewed supply chain bottlenecks reminiscent of the COVID-19 pandemic era.

Furthermore, regional conflicts obstruct overland trade routes, including the Trans-Arabian Pipeline and road networks connecting Turkey, Iraq, Syria, and Jordan. The closure of these routes disrupts intra-regional trade and forces economies to rely more heavily on expensive air freight, increasing logistical costs across sectors (World Bank, 2022).

Foreign Direct Investment and Financial Market Effects

Conflict significantly deters foreign direct investment. Investors typically require a stable political environment, predictable regulatory frameworks, and physical security of assets conditions that are fundamentally undermined by armed conflict. UNCTAD (2023) reported that FDI inflows to conflict-affected countries in West Asia, including Syria, Yemen, Iraq, and Lebanon, declined by over 80% compared to pre-conflict levels.

Even countries not directly involved in hostilities experience investment hesitancy due to regional risk perception what economists term "neighbourhood effects" (Collier & Hoeffler, 2004). Jordan, for example, experienced a significant slowdown in FDI following the outbreak of the Syrian Civil War, despite maintaining domestic stability, as investors perceived elevated risk across the Levant region (IMF, 2023).

In financial markets, geopolitical escalations in West Asia frequently trigger "flight to safety" behaviours, with investors shifting capital toward assets such as U.S. Treasury bonds, gold, and the Swiss franc. These capital flows exert downward pressure on emerging market currencies, including those of neighbouring countries in South Asia and Africa, compounding the economic transmission of West Asian instability (Baumeister & Hamilton, 2019).

Lebanon's financial crisis, which culminated in the near-total collapse of its banking system in 2019-2020, illustrates the devastating fiscal consequences of sustained political instability and regional conflict. The Lebanese pound lost over 95% of its value, while bank deposits became largely inaccessible a crisis the World Bank (2021) described as one of the worst in modern history, exacerbated by the destruction wrought by the 2006 and 2024 conflicts with Israel.

Food Security and Humanitarian Costs

Conflict in West Asia has severe implications for food security, both within the region and globally. Yemen presents the most acute case: the ongoing civil war, combined with blockades and infrastructure destruction, has created what the United Nations (2023) has described as one of the world's worst humanitarian

disasters, with over 17 million people facing food insecurity. Agricultural production in Yemen has collapsed by an estimated 40% since the war's intensification in 2015 (Food and Agriculture Organization [FAO], 2023).

Syria's agricultural sector, once a significant contributor to the country's GDP and a net exporter of several commodities, has been devastated by the civil war. The World Food Programme (WFP, 2023) estimated that over 12 million Syrians were food insecure in 2023, while wheat production fell by over 50% compared to pre-war levels. This decline not only threatens domestic food security but also contributes to upward pressure on regional and global grain prices, given Syria's historical role as an agricultural exporter.

The intersection of West Asian conflicts with the Russia-Ukraine war has further amplified global food insecurity. Both Ukraine and Russia are major wheat exporters, and their war-induced supply disruptions compounded with West Asian demand shocks to push global wheat prices to decade-high levels in 2022 (FAO, 2023). Countries in the Middle East and North Africa (MENA) that rely heavily on wheat imports including Egypt, Tunisia, and Morocco were particularly vulnerable to these price spikes.

Reconstruction Costs and Fiscal Burdens

The costs of post-conflict reconstruction in West Asia are staggering. The United Nations Economic and Social Commission for Western Asia (ESCWA, 2022) estimated that Syria alone requires between \$250 billion and \$400 billion for reconstruction a figure that dwarfs the country's pre-war GDP of approximately \$60 billion. Iraq's reconstruction needs following the 2003 war and subsequent ISIS conflict were estimated at over \$88 billion (World Bank, 2018). Yemen's reconstruction, should a sustainable peace be achieved, is projected to cost in excess of \$25 billion (United Nations Development Programme [UNDP], 2021).

These reconstruction costs are typically financed through a combination of international aid, sovereign debt, diaspora remittances, and oil revenues where available. However, aid pledges frequently fall short of needs, while debt-financed reconstruction imposes long-term fiscal burdens that constrain investment in education, healthcare, and infrastructure for decades (Becker & Ahearn, 2021). In countries with limited hydrocarbon revenues such as Lebanon, Jordan, and Syria the fiscal consequences of conflict are particularly severe and long-lasting.

Neighboring countries that absorb large refugee populations face their own fiscal pressures. Jordan has hosted over 1.3 million Syrian refugees, and the associated costs in education, healthcare, water, and public services have been estimated at approximately \$10 billion over the past decade (UNHCR, 2023). While international donor support has partially offset these costs, the burden on host country budgets and public services remains substantial.

Policy Recommendations

In light of the extensive economic consequences documented above, several policy recommendations emerge for national governments, international organizations, and regional bodies:

1. Diversification of energy sources: Oil-importing nations should accelerate the transition to renewable energy and diversify their supplier base to reduce dependence on West

Asian oil and gas, thereby insulating their economies from regional supply shocks (IEA, 2023).

2. Investment in alternative trade infrastructure: Developing and funding alternative maritime routes, trans-African corridors, and overland connections through Central Asia can reduce the global economy's vulnerability to West Asian chokepoint disruptions (Rodrigue, 2020).
3. Enhanced multilateral peacekeeping and conflict prevention: Investment in early conflict prevention mechanisms, including diplomatic engagement, economic incentives for de-escalation, and United Nations peacekeeping operations, generates significant long-term economic savings compared to post-conflict reconstruction (Collier & Hoeffler, 2004).
4. Strengthened food security reserves: Nations vulnerable to food price volatility should build strategic grain reserves and diversify agricultural import sources to buffer against conflict-induced supply disruptions (FAO, 2023).
5. Coordinated international reconstruction financing: Establishing dedicated multilateral reconstruction funds with transparent governance and conditionality tied to peacebuilding milestones can improve the efficiency and accountability of reconstruction efforts (ESCWA, 2022).

3. CONCLUSION

This paper has demonstrated that the economic impacts of West Asian conflicts are both deep and wide-ranging, spanning energy markets, global trade routes, investment climates, food systems, and fiscal balances across multiple continents. The region's structural importance to the global economy as a primary energy supplier, a hub of critical maritime trade routes, and a major market for international goods and services means that conflict there is never merely a local phenomenon. Each episode of instability ripples outward through interconnected economic systems, with effects felt most acutely in developing nations dependent on stable energy prices and food imports.

The economic case for sustained international engagement in conflict prevention, peacekeeping, and post-conflict reconstruction in West Asia is, therefore, overwhelming. The costs of inaction measured in oil price shocks, trade disruptions, food insecurity, refugee crises, and collapsed financial systems far exceed the costs of proactive diplomatic and economic engagement. Future research should focus on quantifying the indirect and long-run economic costs of West Asian conflicts with greater precision, as well as exploring the distributional effects of these impacts across different income groups and nations.

4. REFERENCES

- Baumeister, C., & Hamilton, J. D. (2019). Structural interpretation of vector autoregressions with incomplete identification: Revisiting the role of oil supply and demand shocks. *American Economic Review*, 109(5), 1873-1910. <https://doi.org/10.1257/aer.20151569>
- Becker, C., & Ahearn, R. (2021). Conflict, displacement, and economic burden-sharing: Evidence from the Syrian refugee crisis. *Journal of Development Economics*, 148, 102580. <https://doi.org/10.1016/j.jdeveco.2020.102580>
- BP. (2023). BP statistical review of world energy 2023. British Petroleum. <https://www.bp.com/statisticalreview>
- Collier, P., & Hoeffler, A. (2004). Greed and grievance in civil war. *Oxford Economic Papers*, 56(4), 563-595. <https://doi.org/10.1093/oep/gpf064>
- European Commission. (2023). EU energy security strategy: Diversification and resilience. Publications Office of the European Union. <https://energy.ec.europa.eu>

- Food and Agriculture Organization of the United Nations. (2023). The state of food security and nutrition in the world 2023. FAO. <https://www.fao.org/publications>
- Hamilton, J. D. (2009). Causes and consequences of the oil shock of 2007-08. *Brookings Papers on Economic Activity*, 2009(1), 215-261. <https://doi.org/10.1353/eca.0.0047>
- International Energy Agency. (2023). World energy outlook 2023. IEA. <https://www.iea.org/reports/world-energy-outlook-2023>
- International Monetary Fund. (2023). Regional economic outlook: Middle East and Central Asia. IMF. <https://www.imf.org/en/Publications/REO>
- Makdisi, S., & Elbadawi, I. (2011). Why has economic growth been so slow in the Arab world? In T. Yousef & N. Chamlou (Eds.), *The Arab world competitiveness report* (pp. 25-51). World Economic Forum.
- Rodrigue, J. P. (2020). *The geography of transport systems* (5th ed.). Routledge. <https://doi.org/10.4324/9780429346323>
- United Nations. (2023). Global humanitarian overview 2023. United Nations Office for the Coordination of Humanitarian Affairs. <https://humanitarianaction.info>
- United Nations Conference on Trade and Development. (2023). World investment report 2023. UNCTAD. <https://unctad.org/wir2023>
- United Nations Conference on Trade and Development. (2024). Red Sea crisis disrupts global trade. UNCTAD. <https://unctad.org/news/red-sea-crisis>
- United Nations Development Programme. (2021). Yemen: Pathways for peace and development. UNDP. <https://www.undp.org/yemen>
- United Nations Economic and Social Commission for Western Asia. (2022). Syria reconstruction: Assessment of needs and priorities. ESCWA. <https://www.unescwa.org>
- United Nations High Commissioner for Refugees. (2023). Jordan: Country overview. UNHCR. <https://www.unhcr.org/countries/jordan>
- U.S. Energy Information Administration. (2023). World oil transit chokepoints. EIA. https://www.eia.gov/international/content/analysis/special_topics/World_Oil_Transit_Chokepoints
- World Bank. (2018). Iraq reconstruction and investment. World Bank Group. <https://www.worldbank.org/iraq>
- World Bank. (2021). Lebanon economic monitor: Lebanon sinking (to the top 3). World Bank Group. <https://openknowledge.worldbank.org>
- World Bank. (2022). The economic effects of war and some policy responses. World Bank Group. <https://www.worldbank.org>
- World Bank. (2023). Commodity markets outlook: Implications of the conflict in the Middle East. World Bank Group. <https://openknowledge.worldbank.org>
- World Food Programme. (2023). Syria emergency. WFP. <https://www.wfp.org/countries/syria>
- Transforming agriculture under viksit bharat 2047: pathways policy reforms and structural challenges