



THE ICAT LOGISTICS

Bottom Line Newsletter



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Trade Through Middle East Conflict

SUMMARY

The global economy is facing tremendous uncertainty from the war between Hamas and Israel in the Middle East, on top of the ongoing war between Russia and Ukraine. These conflicts don't just threaten the regions where they're unfolding; they may also fray the weakening interconnectedness that remains among the world's largest economies.

BACKGROUND

The global economy has become more integrated over the past century. International supply chains have grown, and technology has exponentially advanced, boosting the free flow of trade, capital, and information globally. That interconnectedness is known as globalization.

This growth ramped up in the latter half of the 20th century following Germany's reunification after WWII and grew even more as China became an international trade juggernaut. However, since the 2008 global financial crisis, those ties have begun to weaken. Many nations have established protectionist policies to shield their domestic industries from foreign competition and stabilize their economies. The dismantling of those economic ties is called deglobalization.

CURRENT STATUS

Hamas's October 7 attack on southern Israel is the latest chapter in a cycle of violence that has been going on in this region for decades and seems to have no end in sight. While the reasons behind these events are complex, the conflict's potential immediate and long-term economic ramifications are easier to grasp. While in Morocco for annual meetings of the International Monetary Fund and World Bank World Trade Organization, chief Ngozi Okonjo-Iweala said Middle East violence could add to factors already throttling trade growth, including higher interest rates, a strained Chinese property market and Russia's war in Ukraine.

This global uncertainty is reflected in the risk premium in oil markets. The risk premium is the price paid for oil traded ahead of time in the futures markets versus the real-time price of oil. It reflects the profits speculators expect from buying and selling oil during a conflict, the hedging needs of businesses that produce and consume oil, and their concerns about supply and demand. If the conflict between Israel and Hamas spreads to major oil-producing nations in the region, such as





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Iran, the global economy could face severe repercussions. Energy costs for businesses and households could spike if supply is interrupted.

Some countries in the Muslim world may be drawn into the conflict. This fear made the Biden administration undertake high-level missions to several Middle Eastern countries. Secretary of State Antony Blinken went to Egypt and Saudi Arabia and then spent seven hours with the members of the Israeli cabinet.

Countries such as the US and UK are relocating economic activity, including sourcing or manufacturing products from different countries, out of concern about relying on suppliers in potentially hostile regions, as well as the impact of imports from low-wage countries on struggling local labor markets.

IMPACT

Global geopolitical tensions often play a pivotal role in shaping people's perceptions of economic growth. A prolonged conflict between Israel and Palestine, especially with the involvement of major regional powers, could further accelerate global realignment and have detrimental consequences for global economic growth. Research shows that concern about such issues can cause people and businesses to become more cautious about spending and investing, ultimately leading to economic recession.

RESOURCES:

- [Israel-Hamas War Risks Further Deglobalization and Inflation](#) (CNN)
- [Looking at the Impacts of the Israel-Hamas Conflict on Global Trade](#) (Logistics Management)
- [The Wider Impact of the Hamas-Israeli Conflict](#) (MSN)
- [How the Israel-Hamas War Could Affect the World Economy](#) (The Conversation)

