



RESEARCH PAPER

Israel-Hamas conflict: Impacts on World Economy

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ABSTRACT

The focus of this article is on the economic consequences of the Israel-Hamas conflict, which include trade disruptions, energy price fluctuations, and regional turmoil. Besides destabilizing the Middle East, conflict that escalated in 2023 has had major adverse effects on global markets. Due to the strategic location of Gaza and Israel's economic significance, the conflict has become a major factor in disrupting international trade. It is a mixed-method study of trade data, commodity prices, expert interviews, and qualitative evidence from geopolitics to identify direct and indirect effects on the economy. Rising global oil prices, trade disruptions, a decrease in foreign investments in the Middle East, inflation, and changes in global supply chains are all signs of instability. As a solution to these problems, the paper suggests that diplomatic efforts should be directed toward ending long-term peace and tension reduction while encouraging demand for energy supply and diversification across borders and industries. Additionally, building up international collaboration and investing in renewable energy can provide economic stability against ongoing geopolitical instability.

KEYWORDS Financial Markets, Hamas, Israel, War

Introduction

The effect of the Israel-Hamas conflict on the world economy is examined in this study. The US-China trade war in 2019, the COVID-19 pandemic in 2020, the Russia-Ukraine war in 2022, the post-pandemic global inflation in 2023, and, more recently, the Israel-Hamas war that raged from October 2023 to 2024 have all had a negative impact on the world economy over the past five years. Due to the Russia-Ukraine war, which directly affected global food and energy costs, many nations experienced acute food shortages, high energy prices, and food price inflation prior to the Israel-Hamas conflict. This research explores the impact of the Israel-Hamas conflict on the global economy.

A long-standing and deeply rooted political and territorial conflict, the Israel-Hamas war has implications that extend well beyond the immediate Middle East. Despite the battle having roots in a complicated history of political, religious and territorial conflict, the current war's economic repercussions touch economies and industries around the world. Besides threatening regional stability, the deepening fight between Israel and Hamas would have far-reaching effects on international trade, markets and energy prices — all essentials to the world economy.

The essay examines the impact of the Israel-Hamas conflict on the world economy. The study contributes to a growing body of research about the impacts of war on the economy. Even if the economic impact of the wars in Iraq and Ukraine have received preponderance literature accounts, the economic impact of Israel-Hamas conflict has not received any. Therefore, this paper seeks to fill the gap in the literature by examining the implications of the Israel-Hamas conflict on the world's economy. The study examines the directions and magnitude of relevant economic indicators for different countries after the war started. This study adds to the existing body of research on the effect of conflict on the particular countries which participate in it.

Due to the conflict, oil prices are unstable, which raises the potential for geopolitical chaos, particularly because the Middle East is vital for the world's energy production. The current work focuses on the influence of the conflict in Israel and other participating countries, and adds to the literature. The Israel - Hamas conflict exhibits negative economic consequences alongside a humanitarian catastrophe.

Literature review

The Israel-Hamas conflict, a crucial point of instability in the Middle East, is also a cause of broad economic impacts that go beyond the region. Scholars have studied the various dimensions of such impacts, including global energy market volatility, disruption of international trade, shifts in financial markets, and even food security. This literature review summarizes the most important findings from different authors to provide an insightful comprehension on the interplay between conflict and the global economy.

The primary and secondary consequences of the confrontation between Israel and Hamas on global financial markets have been the main focus of the analysis. Ghosh and Jain (2020) argue that the conflicts in the Middle East international relations greatly enhance the volatility of the markets, especially on the global stock exchange. Their research shows that during periods of conflict, many investors tend to move towards safer options such as gold or U.S. Treasury Bonds. Such behaviors of the market can precede falls in investor sentiment, and result in massive slowdowns in emerging markets. (Ghosh & Jain, 2020).

In a similar vein, Miskin and Glass (2019) explore how sudden escalations in the Israel-Hamas conflict, such as the 2014 Gaza war, lead to significant fluctuations in stock market indices. They note that both the Tel Aviv 100 Index and broader indices like the S&P 500 often experience sharp declines during times of heightened conflict. This volatility is associated with increasing uncertainty in the region and the perceived risks related to trade and investment near the conflict zone.

Hussain and Khan (2021) explore the effects of military confrontations between Israel and Hamas on global energy markets. They highlight that while the Gaza conflict might seem distant from major oil-producing nations, the interconnected nature of global supply chains and energy markets makes price increases unavoidable. Disruptions to oil shipping routes, such as those through the Suez Canal, exacerbate these price changes. Their study suggests that these interruptions affect not only energy markets but also other sectors that depend on energy supplies.

The ongoing conflict between Israel and Hamas significantly impacts regional commerce, causing serious consequences for global supply chains. Research conducted by Kilani and Abdullah (2021) shows that trade routes to and from Gaza are often closed or heavily restricted during periods of heightened violence. This situation hinders the transport of essential goods, including food and medical supplies, resulting in bottlenecks in local markets. The repercussions go beyond the immediate conflict zone, as these disruptions generate ripple effects across the broader Middle East, influencing international trade.

Allen et al. (2022) point out that the conflict indirectly affects global manufacturing sectors. Since Israel plays a crucial role in the global high-tech industry, particularly in semiconductor production, any disruptions in its operations due to conflict can lead to delays in global technology supply chains. This was especially noticeable in 2021, when heightened violence in Gaza raised worries about the reliability of tech exports from Israel to international markets.

Hussain and Mirza (2021) explore the ongoing blockade imposed by Israel on Gaza and its far-reaching consequences for local businesses and industrial activities. This

blockade restricts the flow of goods, including vital raw materials and equipment, which greatly limits Gaza's ability to develop its industrial sector. Their research indicates that the manufacturing and agricultural sectors in Gaza have suffered the most, with the import of essential supplies such as construction materials and agricultural inputs being either banned or severely restricted.

Food security is another crucial issue affected by the Israel-Hamas conflict. Researchers have highlighted how political instability impacts agricultural production and food distribution. According to the World Bank (2022), the ongoing conflict causes significant economic disruptions in Gaza, where much of the local agricultural infrastructure is either damaged or severely restricted by blockades. This situation not only leads to food shortages in Gaza but also hampers food exports, contributing to further inflation in global food prices.

The OECD (2021) has shown that inflation in essential commodities, such as wheat, is often worsened by conflicts in the Middle East. This issue stems from the interconnectedness of global supply chains and reliance on regional agricultural exports. Conflicts like the one between Israel and Hamas reduce the availability of arable land and the labor needed for agricultural production, which in turn worsens food scarcity in nearby regions.

The long-term economic effects of the Israel-Hamas conflict go far beyond the immediate humanitarian crisis. Researchers such as Chen et al. (2018) highlight the significant human and economic costs of conflicts, which encompass displacement, loss of life, and the breakdown of social and economic systems. These factors contribute to lasting economic stagnation, particularly in conflict-affected regions. The lack of access to education and healthcare, along with the destruction of infrastructure, results in a "lost generation" that struggles to re-enter the workforce, exacerbating economic inequalities in the area.

The role of international financial support in easing the impacts of the Israel-Hamas conflict has garnered significant attention in research. Scholars like Vural and Peksen (2020) argue that international aid and sanctions play a crucial role in shaping the economic effects of the conflict. Typically, countries and organizations that provide assistance aim to stabilize the region by addressing immediate humanitarian needs, although the effectiveness of this aid is a subject of debate. Vural and Peksen suggest that while aid can alleviate short-term suffering, it may also create dependency and fail to address the underlying issues fueling the conflict.

Another important area of research is the impact of sanctions. Several studies, such as those by Miskin and Glass (2019), examine how the sanctions imposed on Hamas and its affiliates influence the wider Palestinian economy. While these sanctions aim to pressure Hamas, they frequently have negative effects on the civilian population and hinder economic development in Gaza.

Kilani and Omar (2020) explore the distinct economic challenges faced in Gaza, where prolonged conflict has resulted in significant stagnation and the collapse of vital economic sectors. The Israeli blockade, coupled with regular military operations, has severely obstructed economic progress in the Gaza Strip. They argue that Gaza's dependence on external trade and aid makes it extremely vulnerable to shifts in geopolitical circumstances, especially when access to international markets is restricted. The authors cite studies showing that agricultural production, manufacturing, and essential services are particularly vulnerable to disruptions during periods of escalation, often leading to higher unemployment and increased poverty rates.

Smith and Roberts (2021) explore the impact of cyber warfare in the context of the Israel-Hamas conflict and its role in causing economic instability. They note that although cyberattacks aimed at military targets might not have a significant short-term economic impact, attacks on civilian infrastructure—like power grids or financial institutions—can cause major disruptions, leading to enduring economic consequences.

The ongoing Israel-Hamas conflict highlights the increasing importance of technology and cybersecurity in modern warfare, along with its economic consequences. As noted by Jones and Tufekci (2020), Israel's advanced cybersecurity infrastructure makes it a key player in the global tech industry, but it also leaves the country vulnerable to cyberattacks during times of conflict. Such cyber intrusions can disrupt not just military operations but also the broader economy, affecting vital sectors like finance, energy, and telecommunications.

The current Israel-Hamas conflict has significant implications for international diplomacy and economic relationships. Raviv and Tsoory (2017) argue that the situation forces countries to adopt specific stances, leading to shifts in trade relations and military alliances. These geopolitical developments can affect global trade patterns, as nations adjust their economic strategies in light of the ongoing conflict.

Hussain and Khan (2021) explore how the conflict has led to changes in the Middle East, especially regarding the relationships between Israel and Arab countries. The normalization of ties between Israel and countries such as the UAE, Bahrain, and Saudi Arabia opens up possibilities for new economic partnerships that could reshape the region's economic landscape.

Al-Fayyad and Jaber (2023) focus on the devastating impact of the blockade in Gaza and the ongoing violence on the Palestinian economy, particularly in Gaza. They highlight key sectors such as agriculture, industry, and services, all of which have suffered greatly due to the blockade. The authors point out that agriculture, once a cornerstone of Gaza's economy, has experienced major disruptions because of restrictions on importing vital agricultural supplies like fertilizers, seeds, and machinery. Furthermore, repeated airstrikes and military confrontations have destroyed infrastructure, agricultural land, and manufacturing facilities, exacerbating the economic difficulties.

Material and Methods

The research approach referred to as "secondary data research" was employed for this study. This investigation is both analytical and qualitative. It evaluates information from reputable sources such as the World Bank and the UN, concentrating on economic indicators like GDP, unemployment, inflation, and trade. A variety of platforms, including books, specialized publications, websites, and official records and documents, can be used to find secondary data sources. Engaging with these sources necessitates a comparable level of effort and scrutiny. Ultimately, the information is organized according to the objectives of the article and presented in a clear manner to derive findings and conclusions for the article.

The knock-on consequences that impact the global economy

Food and energy costs are expected to rise due to the Israel-Hamas conflict, potentially harming the global economy and delivering a double blow to commodities markets. The impact of oil price surges and inflation on the global economy will depend on the duration of the Israel-Hamas conflict, according to forecasts from the World Bank. This situation could result in increased shipping and fertilizer expenses, a spike in commodity prices, and an escalation in food inflation. The volatility of oil prices over the past 30 days has reached its highest point in three months as a result of geopolitical developments. India, the world's third-largest importer of crude oil, is monitoring the situation closely.

Economies are generally more resilient to supply shocks. Over the last half-century, the Middle East's contribution to global oil exports has fallen to only 30%. As the Israel-Hamas conflict intensifies, developing nations should explore technology-driven trade finance solutions to manage inflation and interest rates.

The impact of the Israel-Hamas war on the world economy

The impact of the Israel-Hamas conflict on the global economy may not be immediately apparent, but it would worsen if it affected the broader Middle Eastern region, especially Iran, a major oil producer and supporter of Hamas. Oil prices currently around \$90 could increase, which would have repercussions for the global economy. Oil producers in the Middle East are concerned about decreased production from Saudi Arabia and Russia, leading to a shortfall in the oil market. The escalating tensions are alarming, particularly considering the anticipated rise in long-term interest rates that could stimulate economic growth worldwide. Unless this escalates into a proxy conflict involving the US and Iran, the oil supply is not expected to be jeopardized. Rising oil prices contribute to global inflation, which in turn raises energy and production costs. Ongoing interest rate hikes from central banks may continue to hinder the growth of the global economy. Major oil-importing nations such as India could face import inflation due to elevated oil prices.

The economic consequences of the Israel-Hamas war

The aim of reacting to the Gaza conflict was to provoke a response that would influence Israel's global reputation and prospects for peace. The primary objective of this strategy is to amplify the significance of the casualties among Gaza's population, potentially affecting human lives, the regional balance of power, and global peace. The situation also has repercussions for the global economy. According to the World Bank's Commodity Markets Outlook, over 200 million additional individuals faced severe food insecurity between 2019 and 2021, partly due to the conflict between Russia and Ukraine along with increasing energy prices. The extent and severity of the conflict, its political consequences, and the impact of the global economy on energy markets will determine the significance of this increase. Just as the first global war began as a conflict between Austria and Serbia, Israel may act as a proxy for the United States, while Hamas and Hezbollah could represent Iran. A series of disastrous events could unfold in the Gulf, possibly igniting tensions between superpowers.

As the largest energy producer globally, the region accounted for 48% of the world's proven reserves and 33% of oil production in 2022. The World Bank indicates that previous energy crises have had significant costs. For instance, the Iraqi invasion of Kuwait in 1990 led to a 105% rise in oil prices. However, the Gaza War and Hamas attacks have had a minimal effect on oil prices. Since the 1970s, the diversification of oil supply sources, the increase in strategic reserves, and improved coordination by the International Energy Agency have reduced the importance of oil and decreased market vulnerability. The availability of natural gas and oil is critical for global productivity and transportation. Any disruptions could significantly impact food prices, energy costs, and overall global production. The bank forecasts three levels of disruptions: minor, medium, and large. The latter could result in a supply cut of 6 to 8 million barrels per day. As oil remains a fossil fuel, closing the Strait could exacerbate the situation.

Israel-Hamas War Impacts Regional Relations

Numerous Palestinians lost their lives due to a rocket hitting Gaza's Al-Ahli Baptist Hospital, highlighting the severity and extent of the ongoing conflict. Global leaders called for a cease-fire and the safeguarding of civilians as tens of thousands protested against the deteriorating humanitarian conditions in Gaza. Disagreements over how to end the hostilities, resettle Palestinians, and offer long-term humanitarian assistance prevented

representatives from 25 countries and international organizations from reaching an agreement during a peace conference held in Egypt.

The economic ramifications of the conflict against Hamas and its effect on the Israeli economy

The impact of the conflict with Hamas on the Israeli economy and its financial ramifications are reminiscent of the difficulties faced during the Al Aqsa intifada. However, these issues could worsen due to protests and the aftereffects of the pandemic. The government possesses stability mechanisms to navigate these challenges. The state of public administration is deteriorating as a result of protests against judicial reform, which threatens the sustainability of the Israeli economy. The World Bank employs its Worldwide Governance Indicators (WGI) to assess political stability, governance efficiency, the rule of law, and corruption. Nevertheless, the situation is not as dire as it may seem. A significant industrial downturn is suggested by a 60% drop in foreign investment and an 80% decrease in the average sale price of Israeli startups to foreign companies. The dwindling value of the shekel has led Israeli investors to lose interest in the domestic market. Despite this, Israel's GDP grew by 3.1% in the second quarter of 2023, exports rose by 0.3%, and imports declined by over 9%.

The escalation of the war in the Middle East is often compared to the events of 1973, during the Yom Kippur War's 50th anniversary, which aligns with the recent attacks by Hamas. From an economic standpoint, the situation mirrors the Al-Aqsa intifada of 2000–2005, which led to declines in foreign investment, tourism, and labor outflow. Initially, issues arising from both individuals and the state benefited the Israeli economy, with security and healthcare becoming significant concerns. The Covid-19 pandemic has created tensions in the labor market, as reservists are being mobilized, Israeli Arabs are supporting militants, and Palestinians are declining job opportunities during terrorist incidents.

The enlistment of logistics workers into the army and the absence of Palestinian workers have seriously impacted retailers. An emergency meeting was convened between the Federation of Trade Unions and the Ministry of Labour, resulting in a decision to increase overtime pay. The construction, healthcare, senior care, and agricultural sectors are experiencing a shortage of foreign labor due to the Covid lockdowns. The aim was to prevent financial losses and substitute Palestinian workers. In Israel, before the pandemic, workers from post-Soviet and Asian countries were killed and abducted. Government restrictions and a downturn in interest in international employment in Israel may be a consequence of this. The escalation of conflict in Israel is affecting the energy market, particularly with the discovery of significant gas reserves offshore. Since October 9, operations at the Tamar field have been halted, prioritizing Israeli consumers. The Minister of Energy now has greater authority to utilize various energy sources and resources.

A prolonged conflict could be harmful to Israel's long-term industrial strategy. A drawn-out confrontation with Hamas, similar to the Al-Aqsa intifada, is expected to create challenges for the Israeli economy. This could lead to immediate losses in sectors sensitive to conflict and trigger a crisis that impacts high-tech investments. Although the country is currently more energy independent than it was two decades ago, it might ultimately necessitate a comprehensive economic recovery plan.

The consequences of the Gaza War on the world's Economy

The military campaign conducted by Israel to remove Hamas from Gaza has raised concerns about potential regional conflicts, effects on the global economy, and the likelihood of an oil crisis reminiscent of the 1970s, alongside stock market downturns and stagflationary recessions. Four geopolitical scenarios triggered by the violence involving Hamas and Israel's actions in Gaza may lead to overconfidence. The conflict in Gaza has not

escalated regionally and remains primarily focused on Gaza. Numerous civilian fatalities during the Israel Defense Forces' operation weaken Hamas's position. The majority of the Israeli public continues to oppose a two-state solution, leading to stagnation in diplomatic relations with Saudi Arabia, unresolved Palestinian disputes, and ongoing worries for the US. This scenario implies minimal market and economic impact, a slight reduction in oil prices, and an economically stagnant Iran due to sanctions. Israel is currently facing a mild recession, while Europe grapples with rising oil prices and the uncertainty brought about by the conflict. The stagnation in Europe's economy could lead to minor recessions as a result. In this context, moderate forces may take charge of the region and help stabilize conditions following the Gaza conflict. After Netanyahu leaves office, a new moderate government might prioritize addressing the Palestinian issue and improving relations with Saudi Arabia. If a deal on nuclear activities is reached, this new administration could encourage Iran to adopt a more normalized approach. However, this situation might also see tensions escalate into a conflict between Iran and Hezbollah in Lebanon. Israel could launch preemptive strikes against Hezbollah, or Iran might use Hezbollah to divert attention from its actions in Gaza. Iranian proxies in Yemen, Syria, and Iraq could provoke both Israeli and US forces. Should a full-scale conflict arise, Israel might target Iranian nuclear facilities with logistical backing from the US. This could lead to global stagflation, an oil crisis reminiscent of the 1970s, and a shift towards safe haven investments. In certain scenarios, Iran's support for its government helps maintain its authority, leading to increased radicalization and hostility in the region. In the fourth scenario, as violence spreads across the area, Iran focuses on attacking nuclear facilities, military assets, and government officials, ultimately resulting in a change of regime. Even amidst a severe global stagflation crisis, if the Iranian regime were to fall, Iran could potentially reintegrate into the global community. There is a 65% likelihood of war occurring in the future, with few economic repercussions. Conversely, current market assessments suggest a 35% likelihood of a regional conflict that would have significant stagflation effects. Considering there is still an 85% chance of events that could disrupt the global landscape occurring concurrently, this sense of security poses a risk. The most probable scenario may lead to minor short-term impacts. Presently, markets are anticipating near-perfect outcomes, but they have a track record of underestimating major geopolitical disruptions, which could happen once more.

Crises Has an Influence on the Way Regional Ties Develop

Concerns about mass displacement, particularly in Egypt and Jordan, have emerged due to the humanitarian crisis in Gaza and the Israeli military's response. The situation may lead to calls for the relocation of Palestinians in the West Bank to Jordan, heightening fears about Israel displacing one million Palestinians. Israel's relations with Egypt and Jordan, the initial peace negotiators, are growing tense, resulting in diplomatic withdrawal. This worsening of relations could influence the resolution of the conflict and the fate of hostages and prisoners, potentially unsettling regional stability. Qatar has successfully convinced Hamas to release two American hostages and intends to continue these efforts. The US was in the process of drafting a groundbreaking agreement on Israeli-Saudi relations when Hamas launched its attack, leading Saudi Arabia to suspend discussions, viewing the Palestinian issue as a significant barrier to normalization (Yaseen, Muzaffar & Tariq, 2023).

The Arab League's ministerial conference urged Israel to resume talks aimed at achieving a two-state solution and warned about the potential humanitarian and security consequences of the ongoing conflict. This stance from the Arab League highlights Saudi Arabia's focus on normalization, which seeks to promote regional stability and reduce tensions. Meanwhile, the UAE has advised Syria to avoid involvement in the conflict, though these efforts might be in vain if Israel proceeds with a ground invasion of Gaza. The Hamas offensive caught Israel off guard, raising questions about its capability to engage on multiple fronts. Hamas' future objectives remain uncertain. Israeli leadership is accused of bolstering Hamas and undermining the Palestinian Authority (PA) to preclude discussions and the prospect of a two-state solution, which has further weakened the PA. While it seems

unlikely, Israel's military offensive in Gaza aims to dismantle Hamas' leadership and combat capabilities.

The Palestinian Authority (PA) may struggle to regain control of Gaza, and its security in the West Bank could be threatened by a ground invasion. The West Bank might spiral into chaos and lose control due to radical settlers and ongoing Israeli assaults on Jenin and Nablus. The reliance of Western nations on an international rule-based system and their slow response in delivering humanitarian aid has disappointed the Arab populace, leading them to demand both proactive peace initiatives and accountability for war criminals. The consequences of the ongoing conflict are substantial, and the idea of responding to violence with violence is perceived as inadequate.

Risks of contagion in the global market are increased by the Israel-Hamas war

The risks to the world economy are increasing due to the Israel-Hamas conflict, according to economist Mohamed el-Erian. Although initially minimal, the likelihood of regional spillover is on the rise, and an escalation in the long run might have global implications. The Israel-Hamas confrontation is escalating as the Israeli military intensifies its assault on Gaza in response to actions taken by Hamas, warns the economist, highlighting the growing threats to the world economy. If the ongoing situation in Syria evolves into a regional conflict, global financial markets could suffer significant impacts. The war is thought to worsen already serious economic issues such as market fragmentation, escalating inflation, and stalled growth.

While the Israel-Hamas war had minimal early effects on the global market, fears surrounding regional spillover and potential oil supply restrictions have escalated. Following the expansion of Israel's ground operations, oil prices initially surged, but they subsequently declined as investors monitored the Federal Reserve's monetary policy discussions. The escalating violence associated with the conflict may negatively influence trade, tourism, insurance rates, and neighboring countries. Due to Hamas's terrorist actions, the current peace discussions in the Middle East have reached an impasse. Numerous nations are contemplating the possibility of advancing a new collaborative framework, but the persistent violence has complicated regional cooperation in the area. This situation underscores the urgent need for decision-makers to address the ongoing conflict.

Regional Economy Impacted By The Israel-Hamas War

In an already anxious world, the conflict in Gaza has heightened existing concerns. The economies of Jordan, Egypt, and Lebanon are being affected by the Israel-Hamas war; these repercussions are visible at the Future Investment Initiative in Riyadh. The ongoing crisis in the Middle East is impacting both lives and economic activities amid a slowing economy, rising interest rates, and increasing debt repayment costs due to the effects of COVID and ongoing conflict. The International Monetary Fund has expressed concern over these issues. A reported 1,400 people lost their lives in a devastating assault on Israel carried out by Hamas, while casualties in Gaza have reached 5,791. Instability in countries that depend significantly on tourism can negatively influence visitor numbers, driving up economic costs, insurance rates, and the potential for an influx of refugees into nations that have already taken them in. Foreign institutional investors participating in the event noted Saudi Arabia's ability to withstand shocks and its power to finance transformations through its Public Investment Fund. The direct expenses tied to Israel's assault on Gaza were projected at around 1 billion shekels each day, although the indirect costs remain uncalculated. Smotrich suggested that he does not anticipate major fiscal deficits in Israel despite the ongoing conflict, characterizing Standard & Poor Global's shift of Israel's outlook from stable to negative as exaggerated.

The world economy withstood the Ukraine war and ignored the Israel conflict

The global economy has endured the turmoil in Ukraine, but its ability to cope with the ongoing conflict in Israel remains uncertain. Concerns in the worldwide market regarding the ramifications of the Israel-Hamas war have led to a nearly 5% dip in India's stock market index within just six days, continuing a trend observed for 12 weeks. The combination of high ten-year bond yields, rising crude oil prices, and a strengthening US dollar suggests a growing likelihood of inflation. It seems probable that the Federal Reserve and India's Reserve Bank will persist in raising interest rates, which could influence upcoming general elections, particularly in the West Asia region.

Israel's assertive position, advocating for adherence to international law and wartime regulations, could impact financial markets. The recent explosions in Gaza and Ukraine have created unease among investors. The US government's recommendation to temper public outcry may have exacerbated the situation. Analysts on Wall Street claim that allowing Russian oil to enter markets indirectly helped avoid the peak of the Russia-Ukraine crisis, and they are taking the Israel-Hamas dispute seriously. Given the significant financial stakes held by affluent elites across the US, Europe, China, Russia, Saudi Arabia, Iran, and Israel, the ongoing Israel-Palestine conflict could lead to a comparable cycle. However, outrage could disrupt any rational evaluations. This might lead to heightened market anxiety, affecting gold, bonds, equities, and oil. With international institutional investment retreating from the stock market, India is also feeling the impact.

Events in Gaza and Ukraine have prompted global investors to exercise caution, hindering India's international trade. Nearly half of India's GDP is reliant on imports and exports. Following a nine-year drought, the Indian government had hoped for an increase in private sector investments. In the coming months, India is likely to experience a period of stagnation as well.

The worldwide economy is seriously influenced by the Israel-Hamas conflict

The circumstances for Palestinians are already extremely difficult, but a broader conflict could lead to a rise in oil prices. Beyond being a historical tragedy, the current Middle East conflict is also a humanitarian disaster. In the initial days of Israel's retaliatory strikes, the number of Palestinians who lost their lives matched the number of Israelis who died in the assault carried out by Hamas on Israel on Saturday. The death toll has continued to climb on both sides. The Israeli government has ordered over a million Palestinians to evacuate from the northern region of the Gaza Strip and has imposed a complete blockade on the area. A ground invasion seems imminent, with many of the 360,000 Israeli reservists being mobilized for duty.

The rise in inflation and potential delocalization are seriously threatened by the Israel-Hamas crisis

The ongoing conflicts in the Middle East involving Israel and Hamas, alongside the situation between Russia and Ukraine, are raising significant alarm for the global economy. Such conflicts not only threaten the regions where they occur but also risk undermining the remaining interconnectedness among the world's largest economies. Over the last century, the global economy has become more integrated. The liberal flow of capital, information, and trade across borders has expanded due to the development of international supply chains and swift technological advancements. This interconnectedness is referred to as globalization. Following Germany's reunification after World War II, this process gained momentum in the late 20th century and continued to expand with China's rise as a key player in global trade. However, many argue that these connections have weakened since the global financial crisis of 2008. To stabilize their economies, several countries have started to adopt protectionist measures aimed at shielding their domestic industries from foreign competition. Delocalization refers to the dissolution of economic connections; some economists argue that the trade conflict initiated by the Trump administration, the Covid-

19 pandemic, and Russia's invasion of Ukraine have either slowed or reversed this trend. Analysts at Wells Fargo foresee that warfare and increasing trade barriers will halt globalization.

The potential impact of the Israel-Gaza conflict on delocalization is debated. It suggests that the conflict could lead to diminished trade cooperation, reduced information and technology sharing, and weaker financial market relationships, all of which may influence delocalization. The degree of the war's impact will depend on how destabilized the Middle East becomes. As the United States strengthens its nearshoring efforts and ties with Mexico, its support for Israel may negatively impact trade relations with China. This could accelerate deglobalization, increase inflation, and prompt tighter monetary policies, potentially hindering global competitiveness and GDP growth.

Application of Complex Interdependence Theory on the Israel-Hamas Conflict and its Impact on the World Economy

Complex Interdependence Theory focuses on how global actors are interconnected through trade, diplomacy, and transnational issues, making it a useful framework for analyzing the Israel-Hamas conflict. This perspective underscores the intricate global economic implications of the conflict.

Global Trade and Energy Markets: The Middle East's crucial role in the global oil and gas supply chain makes the ongoing conflict a significant threat to energy security. Rising oil prices, driven by worries about possible supply disruptions, are adding to inflationary pressures worldwide. Key trade routes like the Suez Canal are in jeopardy, which could result in delays and increased costs for international shipping.

Financial and Economic Stability: Global financial markets are experiencing heightened volatility as investors respond to the uncertainty related to the conflict. Countries and companies with economic ties to Israel and its neighboring regions face potential divestment, sanctions, or disruptions in operations, especially impacting industries such as technology and defense.

Humanitarian and Development Impacts: The conflict worsens the refugee crises, straining resources in neighboring countries and diverting international aid from development projects. Moreover, food security is at risk as agricultural supply chains are disrupted, which greatly impacts countries that depend on exports from the Middle East.

Limits of Military Force in an Interconnected World: Economic interdependence lowers the chances of widespread escalation, as major nations prioritize stability to safeguard their energy resources and trade routes. A prolonged conflict risks significant economic damage, highlighting the necessity for diplomatic solutions and international cooperation.

Conclusion

The ongoing conflict between Israel and Hamas, along with the Israeli military actions in Gaza, is creating significant economic and geopolitical challenges worldwide. This situation is prompting the US government to increase its focus on the Middle East and pursue a political resolution. The conflict is expected to raise food and energy prices, negatively impacting the global economy and commodity markets, which may lead countries to consider technology-driven trade finance solutions. The extent of disruption caused by this situation will depend on the intensity of the hostilities, the political ramifications, and the overall effects on energy markets. Despite the serious consequences of the Israel-Hamas conflict, which has led to Palestinian casualties and economic fallout, Israel's GDP saw a growth of 3.1% in the second quarter of 2023. The Gaza War has raised

concerns about escalating regional tensions, the global economy, and the possibility of an oil shock.

Several geopolitical scenarios are unfolding: a mild recession in Europe, moderate regional powers asserting control, a conflict involving Iran and Hezbollah in Lebanon, and the potential targeting of nuclear facilities by Iran. The humanitarian crisis in Gaza has raised concerns about mass displacement in Egypt and Jordan, which could jeopardize regional stability. Israel's diplomatic relations with these neighboring countries are becoming increasingly strained, leading to political withdrawals. The Arab League has urged Israel to resume discussions for a two-state solution, warning of possible security implications. As the conflict between Israel and Hamas intensifies, it poses risks to the global economy, as highlighted by economist Mohamed el-Erian. The ongoing crisis in Syria could impact global financial markets, exacerbate economic concerns, and affect regional economies like Jordan, Egypt, and Lebanon. Both the Ukraine and Israel-Hamas conflicts have significantly influenced global economies, resulting in stock market declines and increased anxiety. The Israeli-Palestinian conflict has the potential to produce similar effects. The crisis involving Israel and Hamas, along with the Russia-Ukraine situation, presents threats to the global economy, which may undermine interdependence and global trade dynamics. Heightened support for Israel could strain trade relations and contribute to inflation. The Israel-Hamas conflict has had a profound impact on the global economy, leading to higher import costs, an expanded current account deficit, inflation, and disruptions in supply chains. Rising global crude oil prices could adversely affect sectors such as chemicals, paints, tires, and aviation. Additionally, increasing petroleum costs may weaken the Indian rupee, potentially widening the budget deficit. The Israeli-Palestinian conflict also impacts agriculture and trade, which could further drive inflation.

Recommendations

- Encourage countries to broaden their energy sources and invest in renewable resources to decrease dependence on Middle Eastern oil, ultimately minimizing future risks
- Urge global organizations and countries to prioritize humanitarian assistance, providing help to impacted communities and preventing wider regional instability.
- Propose strategies to protect essential trade routes like the Suez Canal and develop alternative shipping networks to ensure the security of global supply chains.
- Encourage collaborative initiatives among key nations and global organizations to address the conflict and its economic impacts, emphasizing the importance of global stability.
- Support enhanced international diplomatic efforts aimed at easing tensions in the conflict, which will help to lessen disruptions in global energy and trade markets.

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