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# ECONOMIC CONSEQUENCES OF THE GULF WAR: A GLOBAL PERSPECTIVE

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***Abstract***
*Wars have a direct impact on economies by destroying infrastructure, interfering with trade, and raising inflation and national debt. Even though defense expenditure could momentarily help certain businesses, it frequently takes funds away from other areas like healthcare and education, which exacerbates long-term economic problems. Prolonged hostilities exacerbate these issues by decreasing job prospects, raising debt levels, and impeding essential economic processes. Furthermore, conflict destroys the environment by destroying ecosystems, producing pollution, and making recovery more difficult, all of which endanger the stability of the economy as a whole. Economic issues include rivalry for scarce resources, access to international markets, economic interconnectedness, imperial aspirations, and population pressures can lead to global wars. One well-known example is the Gulf War, which had a substantial impact on the world economy by driving up oil prices, causing inflation, upsetting currency values, and generating uncertainty in financial institutions and international trade. Because of their precarious economic systems and reliance on imported oil, emerging nations were especially vulnerable to the effects. This emphasizes how governments, businesses, and communities must work together to develop long-term plans and strict laws that can prevent instability, promote equality, and ensure everyone has a safe future. The report emphasizes how important it is for governments, central banks, and international financial organizations to work together in order to carry out stabilization and policy initiatives. It concludes that proactive policy planning, energy source diversification, financial stability, and increased international cooperation are essential to addressing the long-term economic issues brought on by geopolitical wars like the Gulf War. The results greatly advance our collective understanding by offering a thorough worldwide evaluation of the Gulf War's economic effects. Additionally, they provide governments, international organizations, and academics with crucial insights that help them navigate the intricate geopolitical and economic issues that lie ahead.*

***Key Words: Gulf War, Global Economy, International Trade, Economic Growth.***

## Introduction

The severe supply interruption struck quickly and forcefully, driving up the price of crude oil and igniting global inflation. The problems of the early 1990s recession were largely caused by this ripple effect, which had a significant impact on economies in Europe, Asia, and many developed nations, particularly the United States. Unfortunately, it brought economic uncertainty to countless people and communities during that time. Rebuilding the war-torn regional economies needed a lot of financial backing, highlighting the huge international financial strains linked to modern coalition warfare, as countries dealt with massive military costs and debts. Plus, in light of the economic issues caused by the 2020 pandemic, the Federal Reserve stepped in by cutting interest rates to help ease the downturn and support recovery efforts. The bleak prospects for the Gulf Cooperation Council (GCC) nations in their efforts to diversify their economies amidst persistently low oil and gas prices underscore the critical role of Asia in reviving global demand for these resources as the world begins to recover from Covid lockdowns. The growing significance of China, one of the largest oil and gas importers and a key capital investor in the region, along with the anticipated policies of a Biden administration, are pivotal elements that will shape the economic landscape for the GCC countries and the geopolitical dynamics of the Middle East.

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**Review of Literature**

In the opening chapter of Ulrichsen (2017), initial section emphasizes the historical interconnectivity of transnational flows that integrated the region into a wider economic landscape encompassing the Indian Oceanic world. However, these processes were inconsistent and faced partial reversals during the early oil years. Consequently, the second section of this chapter delves into the entrenched dynamics that have also constrained the Gulf States' interactions with the international system, both politically and economically.

Frank (2018) suggests that the Gulf War could be seen as the harsh start of the Third World War, following the First and Second World Wars. This chapter looks into the Gulf War and the new global order. It focuses on the political and economic reasons, actions, and outcomes of the key players involved in this tragic event. The Gulf War, fought against a cruel dictator in the South by the major democracies of the West, undermined the core principles and institutions of democracy.

Khudaykulova et al (2022) Since the conclusion of the Cold War, the sanctions levied against Russia have been the most severe and financially burdensome ever placed on a significant economy. They seem to be unparalleled in their rapid implementation, extensive reach, and worldwide collaboration. The current circumstances amplify the risks associated with cross-border financial and operational vulnerabilities. Even if future embargoes on oil and gas are enacted, Russia's economy will likely depend on its existing export strategy, which may prove difficult to undermine. Key considerations at the war's outset include the opportunity costs of military spending, the humanitarian toll on the financial system, and the challenges of post-war reconstruction. In this paper, we analyze the economic repercussions of war and explore the potential effects of the Russia-Ukraine conflict on both local and global economies. The human toll of war is significant, alongside the negative economic consequences such as destruction, inflation, service limitations, rising debt, and the disruption of daily economic activities.

Alotaibi & Morales (2022) the onset of the COVID-19 pandemic resulted in unprecedented financial losses in the first quarter of 2020, marking a downturn not seen since the futures market crisis of 1987. As the situation escalated, governments around the globe had to implement measures that led to economic lockdowns and major disruptions. This research paper explores how these dual shocks affected the economies of the GCC, highlighting the significant implications for the Gulf region due to its heavy dependence on oil. The main findings indicate that the dual shock led to considerable turmoil in the GCC stock exchanges, with the exception of Bahrain stock market, which remained relatively stable.

Al-Bayati et al. (2022) concluded that due to the coronavirus outbreak, many economic projects faced disruptions, and the Iraqi government's prices fell because of reduced oil balance and revenues. One proposed solution is to devalue the local currency by managing the nominal exchange rate. Currently, the Iraqi Monetary Authority suggests maintaining the Managed Flexible Exchange System as a viable strategy to shield the Iraqi economy from external shocks, enabling continuous necessary adjustments.

Yalta (2022) uses a partial adjustment model in a system setting estimated with the three-stage least squares (3SLS) approach to investigate the factors influencing military spending in the six Gulf Region nations. Our results, which are based on yearly data from 1980 to 2016, show that military spending is very heterogeneous between nations and is driven by both strategic and economic considerations. Our findings also demonstrate that the GCC members do not take advantage of one another's military spending. Furthermore, a significant factor influencing defense spending in the area is the US military presence.

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Ulrichsen (2023) notes that the Russia-Ukraine conflict has influenced security dynamics in the Persian Gulf region, which includes Iran, the six Gulf Cooperation Council members (the "Arab Gulf" states—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, or UAE), and Yemen, the seventh Arabian Peninsula state. The shift in Europe away from Russian energy has highlighted the importance of the Arab Gulf states in energy security and temporarily reduced the pressures that were mounting prior to 2022 regarding climate action and the energy transition. On the other hand, it has become increasingly challenging for the Arab Gulf states to navigate international relations amid rising great-power competition and strategic rivalries, while Iran's provision of drones to Russia has raised alarms about their possible deployment in nearby battlefields.

Khudhair & Ghadeer (2023) The rapid decline in the size of Iraq's exchange reserve may be explained by the systemic issue of global petroleum price declines that offer longer-term forecasts to estimate the reduction in petroleum prices on global oil markets. Iraq's foreign reserves meet international norms, mostly due to oil exports. The Central Bank's direct foreign exchange sales determine Iraq's exchange rate policy. By reducing foreign money diversion from Iraq, this strategy hinders the central bank's capacity to maintain stable currency rates.

According to Akhtar et al. (2023) there was no significant correlation between the first Gulf War and either a secular trend or a short-term shift in Kuwaiti population-level MS risk. In addition to identifying physiologically plausible mechanistic pathways, further research may establish the involvement of stress connected to conflict or other stressful life events in possible worsening of MS risk.

Mahajneh (2024) this was accomplished following many rounds of talks between the parties since 2019, with Iraq and then Oman serving as sponsors. Among these are memorandums of understanding designed to harmonize Saudi Arabia's Vision 2030 with the Chinese Belt and Road Initiative. The same is true for Iran, which has a 25-year "Comprehensive Strategic Partnership" with China that was signed in 2021. Infrastructure, energy, and transportation—particularly rail transport is all included in this collaboration.

Almutairi et al. (2024) The results can be used by policymakers to comprehend how exchange rate policies could affect economic indicators. Investors can use the findings to guide their choices while taking the subtleties of exchange rate fluctuations into account. According to the study, there is a significant link between the Kuwait Stock Index and the Saudi Tasi Index, and both nations peg their currencies to major global currencies, mainly the USD. Bouzidi et al. (2024) study how fluctuations in oil prices influence the banking industry through inflation, differentiating between the direct and indirect effects on bank stability and efficiency.

**Objectives of the Study**

1. Examine how the Gulf War influenced the economy of significant actors and developing nations throughout the world.
2. Consequences on currency values, inflation, and financial market stability in various countries.
3. Propose strategies to fortify the global economy against potential geopolitical turmoil and energy issues.

**Reseaech Methodolody**

The Gulf War's consequences on inflation, exchange rates, financial market stability, international commerce, and economic development in both developed and developing countries are the main topics of this study's quantitative investigation of the war's implications on the world economy. Participants' opinions on the economic effects of the Gulf War are methodically gathered and analyzed using a descriptive study technique. This methodology works effectively for examining the connections between economic factors and learning about respondents' opinions on the effects of the Gulf War on the world economy. It enables the researcher to present an unbiased evaluation of the information gathered.

Because it makes it easier to quantify respondents' impressions using structured questionnaires and permits statistical analysis of the data gathered, a quantitative research technique is used. Both primary and secondary sources of information are used in the study. Primary Data: A systematic questionnaire is used to gather primary data from the chosen respondents. Secondary Data: Books, research papers, journals, reports from international organizations. This number of participants is considered suitable for descriptive and inferential statistical analysis. A simple random selection method is utilized to choose study participants depending on their availability and desire to engage in the form.

Respondents are informed of the purpose of the study, and participation is completely voluntary. Confidentiality and anonymity are maintained throughout the whole research process. The collected data is coded and assessed using IBM SPSS Statistics. The following statistical techniques are applied:

1. Reliability Analysis (Cronbach's Alpha).
2. Chi square.
3. Multiple Regression Analysis.
4. Exploratory Factor Analysis (EFA).

The study intends to generate credible and trustworthy results that advance knowledge of how geopolitical conflicts affect the world economy by utilizing a quantitative, descriptive research methodology, a structured questionnaire, a sample of 200 respondents, and statistical analysis using SPSS.

**Analysis**

**Table 1: Reliability Statistics**

| **Reliability Statistics** | |
|---|---|
| Cronbach's Alpha | N of Items |
| .881 | 36 |

Good dependability is shown by the 36 items' Cronbach's Alpha rating of 0.881. The questionnaire's high internal consistency attests to its dependability as a tool for gathering data and doing statistical analysis.

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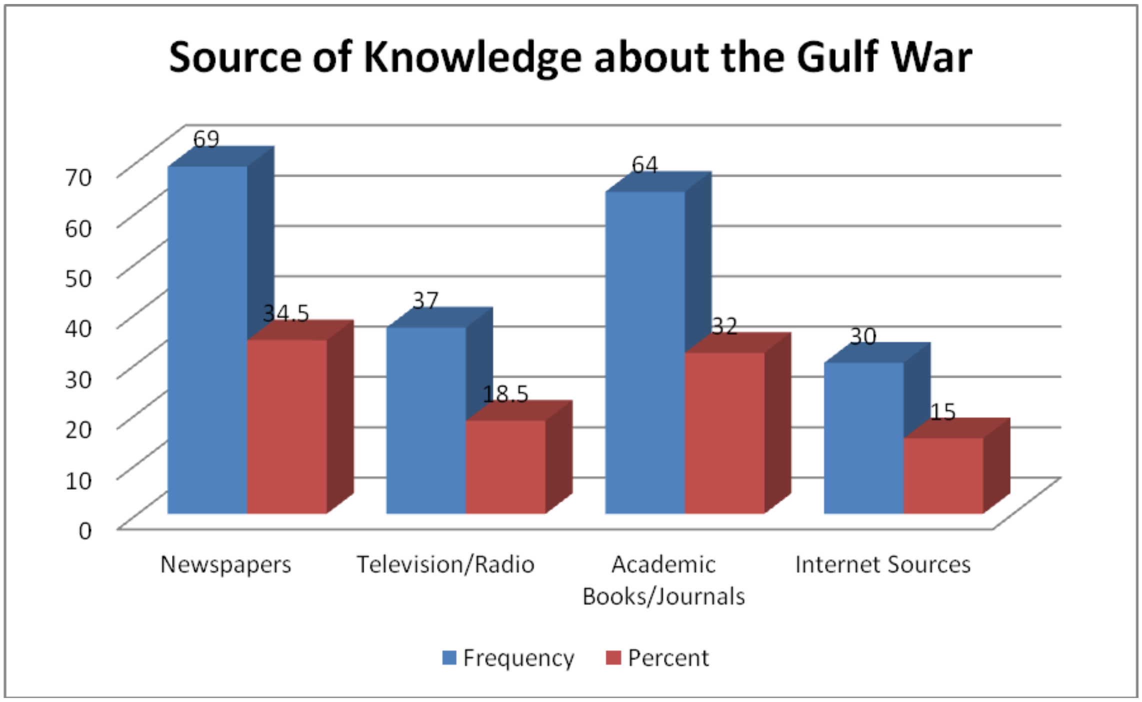


**Figure 1: Source of Knowledge about the Gulf War**

**Table 2: Cross tab- Source of Knowledge about the Gulf War and the Gender of the respondents**

| **Source of Knowledge about the Gulf War * Gender** | | | | |
|---|---|---|---|---|
| | | **Gender** | | **Total** |
| | | **Male** | **Female** | |
| Source of Knowledge about the Gulf War | Newspapers | 36 | 33 | 69 |
| | Television/Radio | 20 | 17 | 37 |
| | Academic Books/Journals | 24 | 40 | 64 |
| | Internet Sources | 22 | 8 | 30 |
| Total | | 102 | 98 | 200 |

| **Chi-Square Tests** | | | |
|---|---|---|---|
| | **Value** | **df** | **Asymptotic Significance (2-sided)** |
| Pearson Chi-Square | 10.831[a] | 3 | .013 |
| Likelihood Ratio | 11.131 | 3 | .011 |
| Linear-by-Linear Association | .261 | 1 | .609 |
| N of Valid Cases | 200 | | |
| a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 14.70. | | | |

According to the research, respondents' sources of information on the Gulf War are substantially influenced by their gender ($\chi^2 = 10.831$, DF = 3, p = 0.013). Male respondents were more likely to get knowledge from online sources, whereas female respondents were more likely to depend on scholarly books and journals. For both sexes, newspapers continued to be the most popular information source.

**Table 3: Impact of The Gulf War On Inflation, Exchange Rates, And Financial Market Stability Across Different Countries**

| Variables Entered/ Removed[a] | | | |
|---|---|---|---|
| **Model** | **Variables Entered** | **Variables Removed** | **Method** |
| 1 | IGW[b] | . | Enter |
| a. Dependent Variable: Source of Knowledge about the Gulf War | | | |
| b. All requested variables entered. | | | |

According to the research, respondents' sources of information on the Gulf War are substantially influenced by their gender ($\chi^2 = 10.831$, df = 3, p = 0.013). Male respondents were more likely to get knowledge from online sources, whereas female respondents were more likely to depend on scholarly books and journals.

**Table 4: Model Summary**

| Model Summary | | | | |
|---|---|---|---|---|
| **Model** | **R** | **R Square** | **Adjusted R Square** | **Std. Error of the Estimate** |
| 1 | .126[a] | .016 | .011 | 1.087 |
| a. Predictors: (Constant), IGW | | | | |

The regression analysis reveals a weak connection between IGW and respondents' sources of knowledge about the Gulf War, with a correlation coefficient of 0.126.

**Table 5: ANOVA**

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| **Model** | | **Sum of Squares** | **df** | **Mean Square** | **F** | **Sig.** |
| 1 | Regression | 3.800 | 1 | 3.800 | 3.214 | .050[b] |
| | Residual | 234.075 | 198 | 1.182 | | |
| | Total | 237.875 | 199 | | | |
| a. Source of Knowledge about the Gulf War | | | | | | |
| b. Predictors: (Constant), IGW | | | | | | |

The method of regression is marginally significant (F = 3.214, p = 0.050) based on the ANOVA findings. Consequently, only a tiny percentage of the variance in the dependent variable may be explained by the regression model.

**Table 6: Coefficients**

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | **Unstandardized Coefficients** | | **Standardized Coefficients** | **t** | **Sig.** |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 3.032 | .429 | | 7.064 | .000 |
| | IGW | -.014 | .008 | -.126 | -1.793 | .050 |
| a. Source of Knowledge about the Gulf War | | | | | | |

Regression study found that IGW had a marginally negative impact on plaintiffs' sources of information on the Gulf War ($\beta = -0.126$, B = -0.014, p = 0.050), with a significance level of 0.05. This marginal relevance demonstrates how even little details may influence views and information sources about big historical events such as the Gulf War, even if IGW's influence is minimal.

**Global Economic Consequences of The Gulf War On Major Economies And Developing Countries**

**Table 7: KMO And Bartlett's Test**

| KMO and Bartlett's Test | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .877 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 15735.575 |
| | df | 153 |
| | Sig. | .000 |

Although Bartlett's Test is significant, indicating that the variables are correlated, the KMO value of 0.877 is below the acceptable threshold of 0.50.

**Table 8: Communalities**

| Communalities | | |
|---|---|---|
| | **Initial** | **Extraction** |
| The Gulf War significantly affected the global economy. | 1.000 | .769 |
| Major economies experienced economic disruption due to the Gulf War. | 1.000 | .691 |
| Developing countries were more economically vulnerable to the Gulf War than developed countries. | 1.000 | .741 |
| The Gulf War caused significant increases in global oil prices. | 1.000 | .860 |
| Rising oil prices during the Gulf War increased production and transportation costs worldwide. | 1.000 | .937 |
| International trade was negatively affected during the Gulf War. | 1.000 | .733 |
| The Gulf War disrupted global supply chains and trade routes. | 1.000 | .451 |
| Inflation increased in many countries as a result of the Gulf War. | 1.000 | .646 |
| The Gulf War created uncertainty in global financial markets. | 1.000 | .937 |
| Developing countries faced greater fiscal and economic challenges than major economies during the Gulf War. | 1.000 | .756 |
| The Gulf War affected employment and business activities across many countries. | 1.000 | .698 |
| Governments introduced effective economic policies to reduce the impact of the Gulf War. | 1.000 | .802 |
| International organizations played an important role in addressing the economic consequences of the Gulf War. | 1.000 | .671 |
| The Gulf War highlighted the importance of energy security for national economies. | 1.000 | .622 |
| Lessons from the Gulf War can help countries prepare for future geopolitical and economic crises. | 1.000 | .672 |
| Extraction Method: Principal Component Analysis. | | |

Bestowing to the communalities study, 14 out of the 15 variables have appropriate extraction values (above 0.50), indicating that the extracted components sufficiently reflect them. The communality of just one variable is less than 0.50, indicating that it could need more research or modification. Although the previous KMO value (0.877) suggests that the overall sample adequacy for factor analysis is still insufficient, overall, the variables show good common variance and offer an acceptable basis for interpretation of the extracted factors.

**Table 9: Total Variance Explained**

| Total Variance Explained | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Component** | **Initial Eigenvalues** | | | **Extraction Sums of Squared Loadings** | | | **Rotation Sums of Squared Loadings** | | |
| | **Total** | **% of Variance** | **Cumulative %** | **Total** | **% of Variance** | **Cumulative %** | **Total** | **% of Variance** | **Cumulative %** |
| 1 | 4.674 | 31.160 | 31.160 | 4.674 | 31.160 | 31.160 | 3.509 | 23.391 | 23.391 |
| 2 | 2.230 | 14.864 | 46.024 | 2.230 | 14.864 | 46.024 | 2.453 | 16.353 | 39.744 |
| 3 | 1.610 | 10.734 | 56.758 | 1.610 | 10.734 | 56.758 | 2.214 | 14.759 | 54.502 |
| 4 | 1.441 | 9.604 | 66.362 | 1.441 | 9.604 | 66.362 | 1.650 | 11.000 | 65.502 |
| 5 | 1.034 | 6.890 | 73.252 | 1.034 | 6.890 | 73.252 | 1.162 | 7.750 | 73.252 |
| Extraction Method: Principal Component Analysis. | | | | | | | | | |

Five significant components were identified by the factor analysis, and when combined, they account for 73.252% of the variation in the data. The extracted variables offer a decent representation of the dataset since a cumulative variance greater than 60% is often regarded as adequate in social science research.

**Table 10: Rotated Component Matrix**

| Rotated Component Matrix[a] | | | | | |
|---|---|---|---|---|---|
| | **Component** | | | | |
| | **1** | **2** | **3** | **4** | **5** |
| The Gulf War created uncertainty in global financial markets. | .945 | | | | |
| Rising oil prices during the Gulf War increased production and transportation costs worldwide. | .945 | | | | |
| The Gulf War caused significant increases in global oil prices. | .892 | | | | |
| Inflation increased in many countries as a result of the Gulf War. | .601 | | | | |
| The Gulf War highlighted the importance of energy security for national economies | .458 | | | | |
| Developing countries were more economically vulnerable to the Gulf War than developed countries. | | .811 | | | |
| International trade was negatively affected during the Gulf War. | | .749 | | | |
| The Gulf War significantly affected the global economy. | | .597 | | | |
| The Gulf War disrupted global supply chains and trade routes. | | .580 | | | |
| Governments introduced effective economic policies to reduce the impact of the Gulf War. | | | .881 | | |
| International organizations played an important role in addressing the economic consequences of the Gulf War. | | | .772 | | |
| The Gulf War affected employment and business activities across many countries. | | | .694 | | |
| Major economies experienced economic disruption due to the Gulf War. | | | | .763 | |

| | | | | | |
|---|---|---|---|---|---|
| Lessons from the Gulf War can help countries prepare for future geopolitical and economic crises. | | | | .702 | |
| Developing countries faced greater fiscal and economic challenges than major economies during the Gulf War. | | | | | .824 |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Varimax with Kaiser Normalization. | | | | | |
| a. Rotation converged in 9 iterations. | | | | | |

**The factor analysis identified five underlying dimensions of the economic consequences of the Gulf War**

1. Oil Price and Financial Market Impact.
2. Global Economic and Trade Disruptions.
3. Government and Institutional Response.
4. Economic Disruption and Future Preparedness.
5. Developing Countries' Fiscal Challenges.

The questionnaire responses are divided into five significant elements that explain various facets of the Gulf War's effects on the world economy, as the rotational component matrix shows.

**Recommendation And Conclusion**

Countries are advised to expedite their transition to renewable energy sources, therefore lowering their dependency on imports, in order to improve global economic resilience in the face of geopolitical tensions and interruptions in the energy supply. Their vulnerability has been increased by their reliance on imported oil and little economic flexibility, underscoring the critical need for more robust macroeconomic policies and the promotion of economic diversification. The event serves as a poignant reminder of the importance of cultivating resilience and striving towards a more equitable future for all global citizens. The strategic measures implemented by nations and international bodies played a crucial role in mitigating the adverse economic repercussions of the crisis, with governments offering financial assistance to support local economies and consumers, and central banks implementing monetary policies to curb inflation and maintain stable exchange rates.

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