



THOUGHT LEADERSHIP BRIEF

2026 Middle East Conflict and Its Ripple Effects on the Global Economy: Potential Supply Chain Chaos Beyond Oil

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KEY POINTS

- ▶ The ongoing geopolitical conflict in the Middle East, escalating in early March 2026, has disrupted global supply chains, limiting transit through the Strait of Hormuz and delaying international energy exports.
- ▶ Beyond crude oil prices, a broader structural economic impact involves the sudden constraint of refined industrial inputs, notably elemental sulphur, agricultural nitrates, and semiconductor-grade helium.
- ▶ The widespread suspension of maritime shipping has created logistics bottlenecks, generating a dual macroeconomic shock: a negative supply shock driving headline inflation, paired with demand moderation as escalating input costs compress corporate profit margins.
- ▶ Central banks confront a complex policy dilemma reminiscent of the 1970s. Extensive monetary tightening to combat commodity-driven inflation carries the risk of tipping a transitioning global economy into a prolonged economic contraction.

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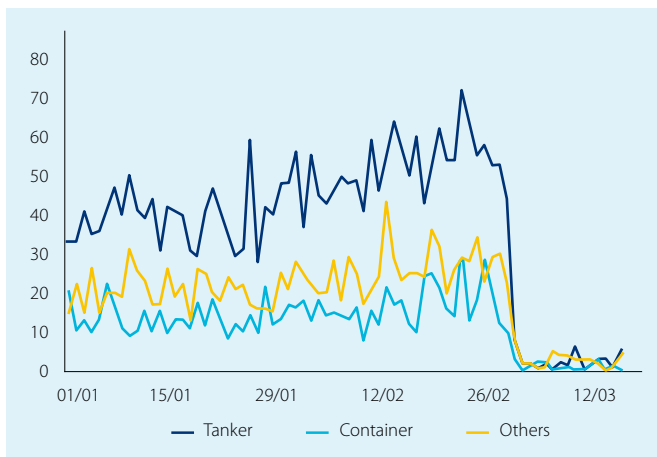
ISSUE

The geopolitical conflict in the broader Middle East, escalating in early March 2026, has triggered one of the most complex supply disruptions in modern macroeconomic history. Shipping disruption of the Strait of Hormuz — a strategic global chokepoint historically carrying 20% of global seaborne oil and significant volumes of liquefied natural gas (LNG) — has interrupted regional exports and broadly paused industrial production across the Persian Gulf.



While macroeconomic analysis frequently focuses on rising crude oil prices, the structural shifts in the global economy extend deeper into specialized industrial inputs. Pre-war, roughly 14 to 20 million barrels per day routinely flowed through the Strait. With commercial shipping traffic decreasing by more than 85%, the International Energy Agency estimates an 8 million barrel-per-day reduction in global supply this month alone. Consequently, Brent crude has surpassed the \$120 per barrel threshold. Energy-intensive industries face immediate cost increases, and developing economies reliant on Hormuz are managing rapid expansions in their manufacturing input costs. Yet, crude oil is merely the headline indicator. The conflict’s deeper structural effects lie in the persistent disruption of vital chemical by-products and refined intermediate streams.

Figure 1. Strait of Hormuz Arrivals of Ships



N.B. Data as of March 15 2026.
Source: Natixis, Portwatch

ASSESSMENT

The Cascading Chemical Constraint: Sulphur and Nitrates

Elemental sulphur represents a broadly overlooked macroeconomic factor in the current Gulf conflict. The Middle East region exercises a profound influence over this market, originating fully 45% of the global seaborne sulphur trade. Recovered during the industrial desulphurization of oil and gas, raw sulphur is fundamentally converted into sulphuric acid—an essential input for phosphate fertilizers, heavy metal processing, and semiconductor wafer fabrication. With transport vessels experiencing delays, seaborne exports have largely paused.

Mining operations in Chile and Australia extracting copper and battery metals will face higher operational costs, limiting potential output. The electric vehicle battery and semiconductor sectors will equally see foundational input costs steadily rise. Alternative global producers face substantial logistical challenges in organically ramping up extraction fast enough to fill a 45% global supply gap.

Nitrates follow closely, further amplifying the industrial squeeze. Nitrogen-based chemicals, particularly nitric acid and nitrate derivatives, are overwhelmingly synthesized in Gulf-based facilities relying on natural gas feedstocks. Iran ranks among the top global exporters of nitrate intermediates, while the broader Gulf region reliably supplies roughly 30% of internationally traded commercial ammonia. With regional LNG production curtailed and chemical plants idled by infrastructure constraints, aggregate nitric acid output has rapidly declined.

The Global Fertilizer and Food Security Impact

These chemical supply chain disruptions compound one another because sulphuric acid is frequently paired with synthesized nitrates in mixed-nutrient agricultural fertilizer blends. The immediate macroeconomic effect is highly visible in global spot urea markets, where regional exporters normally account for nearly half of global urea exports. With nearly one-third of all internationally traded fertilizer physically transiting the restricted Strait, commodity market analysts are forecasting a sustained global fertilizer supply constraint coinciding with the Northern Hemisphere’s crucial spring agricultural planting season.

Farmers in major agricultural hubs currently face agricultural input cost increases. Because nitrogen and phosphorus-based fertilizers account for roughly 40% of global crop output gains achieved since the mid-20th century, notable agricultural yield reductions are probable. A sustained nutrient shortfall could consistently reduce global wheat, corn, and rice harvests. This structural agricultural dynamic will systematically drive global food inflation higher, rapidly eroding household discretionary purchasing power, and elevating concerns regarding food security across import-dependent developing nations.



High-Tech Bottlenecks and Semiconductor Vulnerability

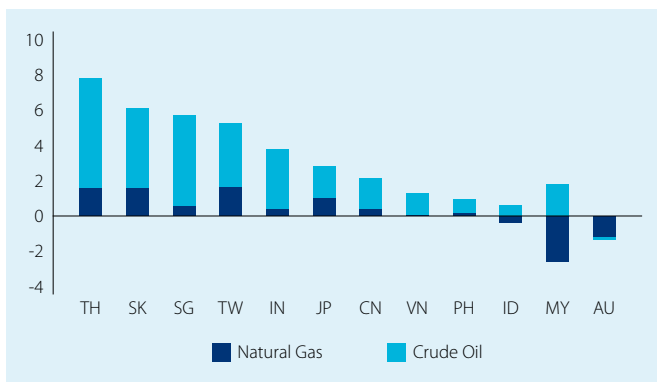
Constraints in the global supply of highly purified helium complete this picture of modern supply chain vulnerability. The state of Qatar reliably supplies approximately one-third of the world’s critical helium requirements, extracted as an integrated byproduct of its natural gas liquefaction operations. The broader Gulf disruptions have hampered production schedules, while restricted Strait access prevents remaining packaged cargoes from reaching vital Asian semiconductor fabrication plants.

Helium remains fundamentally irreplaceable in advanced semiconductor manufacturing processes. It uniquely cools delicate processing equipment during extreme ultra-violet lithography and purges disruptive oxygen during silicon crystal growth. Top-tier consumer chipmakers consequently face unavoidable production adjustments at a historical moment when enterprise demand for computing hardware is steadily expanding.

The Macroeconomic Dilemma: Stagflation Risks

Collectively, these targeted structural industrial disruptions interact through highly integrated modern supply chains. Commercial shipping insurance rates have increased, forcing prolonged maritime rerouting entirely around the African continent. Manufacturing inventory models in Europe and North America now consistently confront simultaneous energy, chemical, and baseline component shortages. This cumulative global effect represents a pronounced negative macroeconomic supply shock: higher baseline production costs steadily push terminal consumer prices upward. Food and energy core inflation will feature prominently in headline Consumer Price Index figures.

Figure 2. Asia's Net Import of Energy (% of GDP)



Source: Natixis, UNCTAD

Crucially, however, the ongoing 2026 Middle East crisis is simultaneously generating a notable global negative demand shock. Higher operating input costs are actively compressing corporate profit margins, directly leading to defensive corporate labor restructuring and delayed capital investments. Consumer households facing elevated grocery and retail fuel bills will rationally curtail their broader discretionary spending. This precise macroeconomic combination, supply-driven headline inflation coupled with aggregate demand moderation, structurally mirrors the stagflationary episodes of the 1970s. Global GDP growth forecasts are subsequently being sequentially downgraded by major financial institutions.

RECOMMENDATIONS

Inherently dual-natured macroeconomic supply and demand shock carefully outlines a profound monetary policy dilemma currently looming over global central banks and sovereign state treasuries. The following strategic actions are recommended to systematically mitigate the structural macroeconomic effects of the ongoing 2026 crisis:

Adopt Data-Dependent, Restrained Monetary Postures

Central banking institutions across advanced and developing economies must objectively evaluate the inherent urge to execute immediate, preemptive monetary tightening. With headline inflation threatening to breach the threshold primarily due to structural energy and food cost pass-throughs, monetary policymakers must analytically separate temporary, conflict-driven commodity supply shocks from core, systemic demand-pull inflation. Extensive benchmark interest rate hikes implemented during a period of moderating aggregate demand carry the underlying risk of tipping a transitioning global economy into a prolonged contraction. Maintaining a strictly flexible, wait-and-see holding pattern is essential to avoid amplifying the global economic moderation.

Implement Highly Targeted Sovereign Fiscal Interventions

Government finance ministries and sovereign state treasuries should exercise profound caution regarding broad-based macroeconomic fiscal stimulus initiatives that would unnecessarily exacerbate systemic global inflationary pressures. Instead, federal budgets should be carefully reallocated to deploy targeted fiscal support programs aimed at structurally securing critical domestic agricultural production stability. Treasuries must strategically insulate the lowest-income demographic deciles from the effects of the dual energy-food retail price shock. Subsidizing specialized agricultural raw inputs or actively passing temporary legislation to systematically reduce crucial agricultural import tariffs will be vital in effectively mitigating domestic crop yield reductions.

Accelerate Strategic Stockpiling and Supply Chain Diversification

National trade ministries and major corporate supply chain executives must structurally transition operations away from the historic structural risks of highly concentrated just-in-time global logistics networks. Comprehensive international regulatory frameworks should be established by global trade bodies to mandate and financially incentivize the heavily localized strategic stockpiling of critical, non-energy industrial inputs — specifically targeting elemental sulphur, vital agricultural nitrogen intermediates, and highly purified semiconductor-grade helium. To systematically dilute regional geographic supply concentration risks over the subsequent decade, federal governments should actively subsidize the development of domestic alternative extraction technologies.



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