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Geopolitical Escalation as a Systemic Business Shock: Energy Markets, Supply-Chain Fragility, and Migration Spillovers in the Global Economy

Alieu Stephen Kafoe[1], Bernadette Mualumatweh Foh[2]

[1]*DBA Candidate, Doctor of Business Administration Program, Marymount University, USA*
stephenkafoe@yahoo.com
[2]*EdD Student, Department of Education, Marymount University, USA, berniefoh816@gmail.com*

Abstract: Escalating military confrontation in the Gulf and adjacent maritime corridors has re-emerged as a defining source of systemic risk to the global economy. While geopolitical analyses typically emphasize security and diplomacy, scholarly attention has been less directed to how regional conflict propagates through global business systems. This commentary examines how Gulf escalation transmits macroeconomic instability and population movements through three interdependent channels: global energy markets, international supply-chain networks, and migration systems. Drawing on recent peer-reviewed research (2021-2026), multilateral institutional analyses, and contemporaneous conflict documentation, the paper synthesizes insights from international business, supply-chain operations, and political economy. The 2023-2025 Red Sea crisis serves as the primary empirical foundation, documenting approximately a 70% reduction in Bab-el-Mandeb transit volumes, freight rate increases of up to 400% on key corridors, projected global inflation increments of up to 0.23 percentage points for 2025, a 90% decrease in Red Sea container shipping between December 2023 and February 2024, and a deepening humanitarian crisis affecting Yemen's 4.8 million internally displaced persons. These documented patterns demonstrate how localized asymmetric conflict generates system-wide economic disruption. The kinetic escalation on February 28, 2026, involving Iran, the United States, and Israel provides real-time validation of the framework's predictive claims, thereby simultaneously activating the energy, supply-chain, and migration channels theorized herein. The commentary advances four testable theoretical propositions and a research agenda that connect geopolitical risk to energy price formation, supply-chain network fragility, migration-linked labor market outcomes, and the nonlinear, interactive effects across all three channels. It advances international business scholarship by conceptualizing geopolitical escalation as a multichannel, systemic-level shock transmitted through interdependent markets, and by integrating migration and labor mobility as central business-relevant outcomes. Actionable implications are developed for multinational enterprises, international financial institutions, and policymakers seeking to construct a risk-smart global trade architecture.

Keywords: Geopolitical Risk, Gulf Conflict, Energy Market Volatility, Supply-Chain Resilience, Migration, Multinational Enterprise, Red Sea Crisis, International Business

1. Introduction

On February 28, 2026, Iran confirmed strikes on United States military assets across eight countries spanning the Gulf and the broader Middle East region: Bahrain, where missiles targeted the headquarters of the U.S. Navy's 5th Fleet; Kuwait, home to U.S. Central Command's regional headquarters; Qatar, where the Defense Ministry reported thwarting multiple incoming missiles; the United Arab Emirates, where at least one person was killed in Abu Dhabi after Iranian missiles were intercepted; Saudi Arabia, which vowed to take "all necessary measures" to defend itself following Iranian retaliatory strikes directed at its territory; and Jordan, Syria, and Iraq, where strikes on U.S. military installations and allied infrastructure were confirmed by multiple international news sources (Al Jazeera, 2026; Edwards & Tsui, 2026; Trump, 2026). Qatar, Kuwait, and the UAE simultaneously closed their airspaces. Iran's Islamic Revolutionary Guard Corps declared that "this operation will continue relentlessly until the enemy is decisively defeated," and stated that all U.S. assets throughout the region are considered legitimate targets (Al Jazeera, 2026). These attacks were launched in retaliation for a joint U.S.-Israeli military operation against Iran that began hours earlier, an operation President Trump described as "major combat operations" (Trump, 2026). Diplomatically, the strikes extinguished what Oman's foreign minister had described only the previous day as a peace process "within reach," following indirect talks in Oman and Geneva (Al Jazeera, 2026). These events are not background conditions for the analysis that follows; they are its empirical validation. The theoretical framework advanced in this commentary, that Gulf escalation propagates systemic business disruption through energy markets, supply-chain networks, and migration systems, has moved, in real time, from scholarly proposition to observable reality.

These developments represent the latest chapter in a disruption cycle that began its most recent acute phase with the Houthis' maritime campaign against commercial vessels in the Red Sea and Gulf of Aden, initiated in October 2023 in declared solidarity with Palestinian civilians in Gaza. By early 2024, traffic volumes through the Suez Canal and Bab el-Mandeb Strait had fallen sharply, approximately halving relative to previous norms as ships rerouted to avoid security risks in the Red Sea, resulting in disruptions to global maritime trade flows (World Bank, 2024). The United States Defense Intelligence Agency subsequently reported a 90% decrease in container shipping through the Red Sea from December 2023 to February 2024, with 29 energy and shipping companies across 65 countries forced to alter their routing strategies (CSIS, 2024). The systemic disruption of chokepoint-dependent trade documented during this period has since been formalized in network-level analysis demonstrating that maritime chokepoint disruptions produce nonlinear global trade and welfare losses far exceeding the direct costs of rerouting alone (Verschuur et al., 2025).

For international business scholarship, the Gulf occupies a uniquely strategic position. It simultaneously functions as the world's primary hydrocarbon supplier, a critical logistics corridor linking Europe and Asia, a major hub for migrant labor from Africa and South Asia, and an increasingly contested theater of asymmetric military conflict. Instability in this region, therefore, propagates through multiple economic channels, influencing inflation dynamics, supply-chain reliability, investment decision-making, and labor mobility. Despite growing recognition that geopolitical risk materially affects multinational enterprise (MNE) behavior and performance (Caldara & Iacoviello, 2022; Reuters, 2026), literature has frequently treated conflict as a contextual background condition rather than as a systemic shock transmitted through and amplified by global market structures.

This commentary addresses the question: How does escalating conflict in the Gulf and adjacent corridors propagate macroeconomic instability and population movements

through globalized energy markets, supply-chain networks, and migration systems? By synthesizing recent scholarship with documented empirical evidence from the 2023-2026 crisis, the paper reframes Gulf escalation as a systemic business shock transmitted through interdependent economic channels that collectively reshape the conditions within which MNEs operate, invest, and compete. The analysis concludes with four formally stated theoretical propositions and a research agenda designed to advance empirical inquiry in this domain.

2. Relevance for International Business Theory

Scholars have progressively emphasized the role of uncertainty, nonmarket forces, and systemic shocks in shaping MNE strategy and global value chain governance. This commentary advances that agenda through three specific theoretical contributions.

First, it extends research on geopolitical risk by conceptualizing conflict escalation as a multichannel transmission process rather than a discrete, bounded event. The canonical measurement framework established by Caldara and Iacoviello (2022) treats geopolitical risk as a unitary index; the Gulf crisis reveals that risk transmission operates through distinct but interacting channels: energy markets, physical logistics, and migration systems, each with its own propagation speed, amplification mechanisms, and sectoral exposure. Modeling these channels separately, and their interactions jointly, enriches the theoretical architecture available to international business scholars.

Second, the commentary integrates the supply-chain resilience theory literature historically focused on natural disasters and pandemic disruptions into the analysis of armed conflict as a persistent, recurrent, and strategically motivated risk condition. The structural vulnerabilities identified across multiple disruption contexts, over-reliance on single-source suppliers, just-in-time inventory philosophies that sacrifice buffer capacity for efficiency, and inadequate scenario planning for low-probability, high-impact events recur consistently across geopolitical disruption episodes (Sheffi, 2005; Tang, 2006; Dolgui & Ivanov, 2021; Ivanov & Keskin, 2023). Kafoe (2024), examining healthcare supply-chain vulnerabilities during COVID-19, identifies analogous structural sources, though it is critical to note an important contextual distinction: COVID-19 created a demand-side shock in which demand for medical supplies surged while supply infrastructure remained structurally intact, whereas the Red Sea crisis and Gulf escalation constitute supply-side and infrastructure-targeting shocks in which the demand environment is broadly unchanged but supply infrastructure faces physical threat. This distinction affects which resilience mechanisms are theoretically applicable: demand-surge responses (e.g., emergency procurement, stockpiling) differ structurally from supply-disruption responses (e.g., rerouting, near-shoring, supplier diversification). Within those limits, the cross-contextual observation that optimization-driven network designs consistently produce fragility under shock conditions remains analytically relevant and is corroborated by the network-level analysis of Verschuur et al. (2025), which examines 1,300 global chokepoints and confirms that localized maritime disruptions generate nonlinear global welfare losses that propagate across interconnected supply-chain nodes.

Third, by incorporating migration and labor mobility as central business-relevant outcomes rather than purely humanitarian variables, the commentary connects political instability to workforce availability, remittance economies, and firm-level operational risk in ways that conventional international business frameworks underweight. Geopolitical escalation affects not only the cost and reliability of material flows but also the availability and cost of the human capital on which global operations depend.

The World Economic Forum's (2025) Global Risks Report identified state-based armed conflict as the top risk for 2025, ranking it above climate change and cybersecurity

among global risk experts. That assessment reflects a growing consensus, also evident in the management literature (Sheth & Uslay, 2007), that geopolitics has re-emerged as a structural determinant of global business conditions, not an occasional perturbation but a persistent operating environment. This commentary responds to that challenge by providing an integrated theoretical framework, empirical documentation of how the environment operates, and a set of testable propositions to guide future research.

3. Energy Markets as the Primary Transmission Channel

3.1 Geopolitical Risk and Price Formation

Energy markets represent the most immediate and theoretically well-documented mechanism through which Gulf conflict affects the global economy. The region's concentration of oil and gas production infrastructure means that even limited escalation can generate substantial price volatility through risk premia without necessarily producing physical supply disruption. Caldara and Iacoviello's (2022) geopolitical risk (GPR) index provides the foundational measurement framework; subsequent research has confirmed that GPR exerts a negative shock to oil supply (reducing producer confidence and forward investment), a positive shock to oil consumption demand (through precautionary stockpiling), and a negative shock to oil inventory demand as uncertainty induces defensive behavioral changes among market participants (Olaniran, 2025; Hamilton, 2009; Kilian, 2009, 2014).

Liu et al. (2025) demonstrate that geopolitical risk renders energy markets structurally more vulnerable over time, amplifying volatility spillovers across interconnected commodities, shipping, and financial markets. Research on GCC equity markets confirms that during the Gaza war period (beginning October 7, 2023), geopolitical risk emerged as the primary transmitter of volatility shocks across all six GCC stock markets simultaneously, with interconnectedness strengthening relative to pre-conflict baselines (Bouri et al., 2025). Chi et al. (2025) quantify the bidirectional volatility spillovers between geopolitical conflict risk, international shipping markets, and crude oil markets, demonstrating that these markets function as a coupled system in which a shock to any node propagates nonlinearly through the others.

The Strait of Hormuz scenario provides the theoretically relevant counterfactual for understanding the tail risk embedded in current Gulf tensions. The Federal Reserve Bank of Dallas (2025) calculates that closure of the Strait, which carries approximately 20% of global petroleum liquids daily, would, under a severe scenario, drive WTI prices toward $100 per barrel, generate a cumulative 1.3 percentage-point increase in annualized U.S. headline inflation, and sustain above-baseline inflationary effects through mid-2026. The Columbia University Center on Global Energy Policy (CGEP, 2026) similarly models significant oil market disruption from a direct U.S.-Iran kinetic conflict that affects production infrastructure. Zaghdoudi (2025) documents bubble dynamics in both WTI and Brent prices during periods of geopolitical tension, finding that explosivity in Brent prices precedes and systematically influences WTI price behavior.

3.2 The Oil Price Paradox and the New Geopolitics of Energy

The 2023-2025 Red Sea crisis introduces an instructive paradox for energy market theory. Despite unprecedented disruption to a maritime corridor that carries 12% of global commerce, crude oil prices remained within a relatively narrow $70- $90 per barrel band throughout the crisis (Young, 2024). Attinasi et al. (2024) documented a limited impact of Red Sea disruptions on oil prices, specifically because relatively few oil companies fully

suspended operations and because initial Brent price increases following Houthi attacks were quickly reversed.

Three structural explanations account for this apparent anomaly. First, the Red Sea crisis did not threaten upstream production infrastructure in the major Gulf exporters, Saudi Arabia, Kuwait, UAE, and Iraq, whose output remained unimpaired. Second, the global oil market in 2024 was characterized by ample spare capacity, particularly within Saudi Arabia, providing a substantial price cushion against demand-side disruption. Third, and most theoretically consequential for international business scholarship, a structural realignment in the geopolitics of energy has partially decoupled oil price formation from regional risk in the Middle East (Young, 2024): major Gulf exporters have deepened economic ties with Asian consumers whose demand calculus is less sensitive to Western-aligned security narratives.

This decoupling did not eliminate the tail risk; it redefined its trigger conditions, and on February 28, 2026, those conditions materialized. As the Georgetown Journal of International Affairs analysis confirmed in advance, oil price sensitivity is precisely focused on threats to specific production facilities and transit nodes, and an overt escalation drawing Iran into kinetic conflict with the United States and Israel could rapidly translate a moderate risk premium into a severe supply shock (Young, 2024). That escalation has now occurred. Iranian strikes confirmed on Bahrain, Kuwait, Qatar, the UAE, Saudi Arabia, Jordan, Syria, and Iraq collectively hosting critical U.S. military infrastructure and representing the geographic breadth of Iranian targeting doctrine represent the exact scenario that prior modeling identified as the threshold between managed disruption and systemic crisis (Al Jazeera, 2026; CGEP, 2026; Edwards & Tsui, 2026). The Federal Reserve Bank of Dallas (2025) modeled that a Strait of Hormuz closure under a severe scenario would drive WTI prices toward $100 per barrel and lead to a cumulative 1.3 percentage-point increase in U.S. headline inflation. With Iran now declaring all U.S. regional assets legitimate targets, that scenario has ceased to be a stress-test counterfactual and must be treated as an active operational risk requiring immediate corporate and policy response.

3.3 February 28, 2026: Tail Risk Becomes Baseline Risk

The events of February 28, 2026, represent a qualitative regime change in the Gulf risk environment that warrants direct theoretical attention. Iranian strikes on U.S. military installations across Bahrain, Kuwait, Qatar, the UAE, Saudi Arabia, Jordan, Syria, and Iraq constitute the first direct Iranian kinetic engagement with GCC sovereign territory and neighboring states at this scale, shifting the analytical baseline from probabilistic risk to an operational threat environment requiring immediate corporate and policy response (Al Jazeera, 2026; Edwards & Tsui, 2026; Trump, 2026). The strategic logic embedded in the IRGC's targeting doctrine, which exempts Oman, the primary U.S.-Iran diplomatic intermediary, while striking all U.S. partner states, signals a calibrated coercive signaling strategy rather than uncontrolled escalation, implying deliberate and sustained engagement rather than an impulsive military action. For international business scholarship, this matters because it removes the expectation of rapid de-escalation that had previously anchored risk-premium models: when an adversary demonstrates both the capability and the strategic calculation to sustain strikes across multiple GCC states simultaneously, the distributional assumption underlying standard geopolitical risk models that extreme events revert rapidly toward a moderate mean is empirically violated. The transition from the Houthi maritime campaign to direct Iranian-U.S. kinetic exchange is not a linear escalation but a structural regime change. This constitutes a qualitative departure from the graduated escalation dynamics that characterized the Houthis'

maritime campaign, and one that risk models that treat geopolitical events as mean-reverting processes are structurally unequipped to capture.

The immediate business consequences are simultaneously operational and structural. Operationally, the airspace closures in Qatar, Kuwait, and the UAE directly disrupt cargo and passenger routing for every airline connecting Europe, South Asia, East Africa, and East Asia through Gulf hubs. Logistics firms maintaining GCC-based regional distribution centers face immediate access constraints. MNEs with regional headquarters in Dubai, Doha, or Kuwait City face real-time personnel safety obligations and force-majeure decisions. The collapse of ongoing U.S.-Iran nuclear talks, which Oman's foreign minister had characterized the prior day as yielding a "major breakthrough" on uranium enrichment commitments, eliminates the diplomatic pathway that had previously moderated market risk premia (Al Jazeera, 2026). Structurally, the IRGC's stated doctrine that all U.S. assets in the region are legitimate targets poses a risk to the military-commercial infrastructure nexus throughout the GCC. U.S. airbases co-located with civilian aviation facilities in Bahrain, Qatar, and Kuwait create dual-use exposure. The political economy of energy transit has changed: the Strait of Hormuz, through which Saudi, Kuwaiti, Emirati, and Iraqi oil exports pass, is now operated under conditions of active rather than theoretical military threat.

In the supply-chain resilience literature, the February 28 events validate a critical theoretical proposition: that geopolitical risk cannot be adequately modeled as a continuous probability distribution centered on a stable mean. The transition from the Houthi maritime campaign to direct Iranian-U.S. kinetic exchange is not a linear escalation but a structural regime change, one that activates qualitatively different disruption mechanisms, affects a wider and more critical set of production and transit infrastructure, and eliminates the diplomatic pressure-relief valves that had previously contained escalation dynamics. The analytical frameworks that served for the Red Sea crisis rerouting around the Cape of Good Hope, war risk insurance repricing, and supplier diversification are necessary but insufficient for the current threat environment. A Hormuz closure admits no comparable maritime alternative; the Cape of Good Hope bypasses the Bab-el-Mandeb but cannot reroute Iraqi or Kuwaiti crude, which can exit only westward through the Gulf. This is the sense in which February 28 represents not a further data point in an established trend but a new analytical baseline.

3.4 Energy-Adjacent Disruptions: Shipping, Insurance, and Environmental Risk

Even where direct oil price impacts were muted, the Red Sea crisis generated severe disruptions to the energy-adjacent systems that transport oil, LNG, and refined products. The July 2024 attack on the Sounion tanker, carrying 922,000 barrels of Iraqi crude, illustrated both the direct financial stakes and the systemic environmental liability exposure created by unmitigated maritime insecurity (Vij, 2025). War risk insurance premiums rose to approximately 1% of cargo value by mid-2025, a figure that fundamentally alters the economics of tanker operations. The UN's $20 billion cleanup cost estimate for a comparable oil spill established a new category of catastrophic liability that insurers had not previously priced into maritime risk models.

These energy-adjacent disruptions compound macroeconomic instability through channels that standard oil-price analyses systematically miss. Elevated shipping costs for energy commodities translate into higher industrial input costs across manufacturing, chemical, and agricultural sectors. Increased insurance premiums function as a quasi-tax on global trade that falls disproportionately on smaller emerging-market economies with limited hedging capabilities. The interaction between fuel cost volatility, shipping insurance markets, and broader commodity inflation creates feedback loops whose aggregate effect

exceeds the sum of their individual components, a systems-level phenomenon that confirms the theoretical framework advanced in this commentary.

4. Supply-Chain Networks and Chokepoint Vulnerability

4.1 Structural Vulnerability and the Ripple Effect

Beyond energy price effects, the Gulf conflict disrupts physical trade flows by increasing risk along maritime and air corridors linking Europe, Asia, and Africa. The supply-chain resilience literature has established primarily through analysis of natural disasters and the COVID-19 pandemic that globally optimized networks exhibit characteristic structural vulnerabilities: geographic concentration of suppliers, single-source dependencies, just-in-time inventory philosophies that sacrifice buffer capacity, limited sub-tier visibility, and inadequate scenario planning (Sheffi, 2005; Tang, 2006; Dolgui & Ivanov, 2021; Ivanov & Keskin, 2023; Kafoe, 2024). These vulnerabilities are not sector-specific idiosyncrasies; they are the predictable consequences of efficiency-maximizing network design under the assumption of geopolitical stability. Importantly, while much of this foundational literature developed in the context of demand-side disruptions (pandemic-driven demand surges) or natural disasters, the Gulf crisis illustrates that the same structural fragilities are fully activated by supply-side, infrastructure-targeting geopolitical shocks, a contextual distinction that informs both the theoretical interpretation and the managerial prescriptions that follow.

The Red Sea crisis operationalized each of these vulnerabilities on a global scale, providing what is arguably the most consequential real-world test of supply-chain resilience theory in the post-COVID-19 period. The 'bullwhip effect,' in which a modest upstream disruption amplifies into disproportionately large downstream volatility as information asymmetries and ordering behavior interact, manifested clearly across multiple sectors. Tesla suspended most production at its Berlin Gigafactory from January 29 to February 11, 2024, attributing the halt directly to supply disruptions caused by Red Sea rerouting: 'The armed conflicts in the Red Sea and the associated shifts in transport routes between Europe and Asia via the Cape of Good Hope are also having an impact on production in Gruenheide. The considerably longer transportation times are creating a supply chain gap (Waldersee et al., 2024). Simultaneously, Volvo Cars halted production at its Ghent, Belgium, plant for three days due to delayed gearbox deliveries caused by the security situation in the Red Sea (Waldersee et al., 2024). Marks and Spencer warned publicly of seasonal inventory failures in its apparel business as time-sensitive spring collections arrived too late to capture full-price sales (Vij, 2025). These are not idiosyncratic corporate failures but structural manifestations of supply chains optimized for efficiency at the systematic expense of resilience. At the network level, Verschuur et al. (2025) demonstrate, through a systemic analysis of 1,300 global chokepoints, that localized maritime disruptions generate nonlinear cascade effects and welfare losses that propagate through interconnected supply-chain nodes in ways that standard bilateral trade models consistently underestimate.

Dolgui and Ivanov (2021) define the ripple effect as the propagation of one or more disruptive events through a supply-chain network, thereby impacting overall resilience and performance beyond the initial point of disruption. Their framework, developed primarily in the context of pandemic and natural disaster disruptions, predicts nonlinear propagation, amplification of downstream delays, and inventory shortages, all of which were empirically documented during the Red Sea crisis. Importantly, the framework also predicts that the severity of ripple effects increases with the duration of disruption and the degree of supply-chain concentration, both of which characterized the Gulf crisis environment.

4.2 The Rerouting Cost Cascade and Macroeconomic Aggregation

The primary adjustment mechanism for commercial shipping was large-scale rerouting via the Cape of Good Hope. By late 2024, Cape transits had doubled relative to normal levels, as 29 energy and shipping companies across 65 countries altered their routing strategies (CSIS, 2024). This seemingly straightforward adjustment carries cascading cost implications that extend far beyond the shipping sector. Each Cape of Good Hope diversion adds about 11,000 nautical miles and 1-2 weeks of transit time and imposes approximately $1 million in added fuel costs per voyage (Defense Intelligence Agency, 2024), while rerouting can raise GHG emissions per trip by over 70% on key Asia-Europe round-trip itineraries (UNCTAD, 2024a).

Freight rates rose sharply during the Red Sea disruption window: UNCTAD reports that average container spot rates from Shanghai more than doubled (+122%) between early December 2023 and early February 2024, while the OECD's ITF estimates global container freight rates increased by about 130% from early November 2023 to early March 2024. Shanghai-origin spot rates to Europe rose more than threefold (+256%) during the Red Sea disruption window (UNCTAD, 2024a; CSIS, 2024). War risk insurance transformed from a negligible cost factor to a material determinant of trade economics. Maersk's preemptive multi-month diversion orders, including vessels not yet approaching the Red Sea, demonstrated how geopolitical risk is internalized into operational planning horizons well beyond immediate threat exposure.

Attinasi et al.'s (2024) scenario modeling, drawing on the European Central Bank's macroeconomic projection methodology, provides a rigorous quantification. Under a protracted disruption scenario that approximated the actual trajectory of the 2023-2025 crisis, global trade decreased by 1.3 percentage points in 2024 and 0.5 percentage points in 2025. Euro area export growth was depressed by 1.6 percentage points in 2024, reflecting the bloc's greater exposure to the Suez Canal and deeper integration into the global value chain. Global inflation increased by 0.18 percentage points in 2024 and was projected to rise 0.23 percentage points in 2025 under protracted disruption, with euro area harmonized consumer prices showing even larger impacts of approximately 0.30 percentage points in both years.

4.3 Sovereign Exposure and the Socialization of Security Costs

The macroeconomic distribution of crisis costs was highly unequal across affected economies. Egypt's case is instructive: Suez Canal Authority revenues reached about $9.4 billion in FY2022/23 (Reuters, 2023), and IMF program documentation characterizes Egypt's macro position as constrained by elevated government debt/gross financing needs and recurring foreign exchange shortages/FX liquidity pressures, with disruptions to Suez receipts reducing foreign exchange inflows (International Monetary Fund, 2024). The 40% revenue decline documented as of January 2024 compounded existing macroeconomic fragility, illustrating how chokepoint economies face amplified vulnerability to disruptions they neither created nor can independently resolve (CSIS, 2024). Israel's Port of Eilat, which declared bankruptcy in July 2024 following an 85% decline in activity directly attributable to Houthi attacks and whose operations were terminated by July 2025, represents the extreme end of geographic exposure (Vij, 2025; CSIS, 2024).

The militarized response introduced a fiscal dimension that is often collapsed into misleading "cost-per-shot" figures: FY2025 budget documents show that interceptor acquisition costs alone can range from under $1 million per Rolling Airframe Missile (RAM) to several million dollars per engagement for larger interceptors, while the effective cost of an interception is higher once ship operations, crew, readiness, and sustainment are

included (Office of the Under Secretary of Defense [Comptroller], 2024; War on the Rocks, 2025 [practitioner analysis]). This cost structure socializes the burden of protecting private commercial shipping across the public treasuries of a small number of militarily capable states, creating a collective action problem in which the full cost of global trade protection is externalized onto a narrow coalition of providers. This institutional deficit in global trade governance, the absence of any multilateral cost-sharing mechanism commensurate with the distribution of trade benefits, represents a structural vulnerability that the Red Sea crisis has exposed and that international business literature has not yet theorized adequately.

The World Economic Forum (2025) explicitly identifies weaknesses in multilateral security frameworks, including the UN Security Council's inability to halt the Red Sea crisis despite Resolution 2722 (January 2024), as a core component of the global risk landscape. Supply chain management practitioners at Maersk have similarly identified the need for proactive geopolitical contingency planning, real-time information channels, and flexible routing options as essential operational responses to this new environment (Maersk, 2025).

4.4 Strategic Implications for Multinational Enterprise

For MNEs, the Red Sea crisis operationalizes the strategic imperative that the supply-chain resilience literature has advanced theoretically: the transition from efficiency-driven optimization toward resilience-oriented network design. Aastveit et al. (2017) confirm that high-uncertainty environments dampen the effectiveness of conventional stabilization mechanisms, including monetary policy, underscoring the need for proactive rather than reactive organizational adaptation.

Cohen et al. (2026) document, through qualitative research with 13 large MNEs across multiple sectors, that the conventional playbook for supply-chain risk management, reactive, event-driven, and focused on known risk categories, is systematically inadequate for geopolitical disruption. The authors identify a three-part framework for understanding geopolitical signals through scenario planning, anticipating risks by creating flexible options, and adapting quickly to on-the-ground disruptions. This framework converges with the adaptive resilience principles developed across multiple strands of the supply-chain literature (Sheffi, 2005; Tang, 2006; Ivanov & Keskin, 2023), as well as with the structural vulnerabilities documented in the healthcare supply-chain context (Kafoe, 2024) noting again that the supply-side targeting character of geopolitical disruptions calls for contingency mechanisms emphasizing rerouting, geographic diversification, and infrastructure redundancy rather than demand-surge responses such as emergency procurement prioritization.

5. Migration Systems and Labor Market Spillovers

5.1 Yemen's Compound Displacement Crisis

A third, frequently under-theorized transmission channel is population movement. Conflict escalation affects migration systems through direct displacement (e.g., large-scale internal displacement in conflict-affected states) (UNHCR, 2025b) and through indirect economic mechanisms that shape mobility incentives and household coping strategies, including remittance disruption and macroeconomic stress (World Bank, 2024). These dynamics can also degrade absorptive capacity in transit and host states when services for refugees and host communities are constrained by funding shortfalls and deteriorating economic conditions (UNHCR, 2025a). For international business, migration-linked shocks constitute a material operational variable rather than a peripheral humanitarian concern. The Gulf Cooperation Council's labor markets provide the most

direct illustration: migrant workers constitute approximately 70% of the total employed population across GCC states, rising to over 95% of private-sector workers in Qatar and the UAE (ILO, 2024a). This extraordinary structural dependency means that any disruption to migrant labor flows, whether through conflict-driven displacement, deteriorating economic conditions in origin countries, or tightened border securitization, directly affects the human capital foundations on which GCC-based MNE operations depend (Fasani & Mazza, 2023; ILO, 2024a). Beyond workforce availability, geopolitical escalation affects sectoral labor supply (ILO, 2024a) and increases compliance exposure in supply chains where migrant workers face heightened risks of labor rights violations (UN Global Compact, n.d.).

Yemen represents the most acute case of conflict-driven humanitarian system collapse in the contemporary world, and its simultaneous roles as a conflict generator, a displacement state, and a migration transit corridor make it a critical node in understanding how Gulf conflict propagates through migration systems. By 2025, an estimated 19.5 million people, over half the population, required humanitarian assistance, including 4.8 million internally displaced persons, making Yemen the world's fifth-largest internal displacement crisis (UNHCR, 2025). The Yemeni rial depreciated 34% between July 2024 and July 2025, reaching YER 2,890 per USD, dramatically eroding household purchasing power. Yemen's GDP was projected to contract 1.5% in 2025, with stagnation extending through 2026 (World Bank, 2025).

The Houthi maritime campaign is not independent of Yemen's internal displacement crisis but causally connected to it. The decade-long conflict environment that enabled Houthi territorial consolidation and Iranian weapons acquisition, sustaining their maritime campaign, simultaneously perpetuates the conditions that produce mass displacement. The maritime campaign's geopolitical prominence generates international military and diplomatic attention that has historically reduced pressure for political resolution of Yemen's internal conflict, creating a circular causality between domestic conflict, proxy support, maritime aggression, and international distraction that policy responses must address at multiple levels simultaneously.

5.2 The Eastern Route and Mixed Migration Dynamics

Yemen's additional role as a transit corridor for mixed migration from the Horn of Africa toward Saudi Arabia and GCC labor markets adds further complexity. The Eastern Route connecting Ethiopia and Somalia through Yemen toward Gulf labor markets is consistently documented as one of the deadliest migration corridors in the world (IOM, 2025). Yet the route continues to attract large flows driven by economic desperation and political instability in origin countries, illustrating the fundamental resilience of migration systems even under extreme adverse conditions.

IOM's Displacement Tracking Matrix registered 97,210 migrant arrivals in Yemen in 2023, declining to 60,897 in 2024, a 37% decrease attributable primarily to intensified military operations and related enforcement (IOM, 2025). Yemen simultaneously hosts approximately 308,000 migrants with irregular status and 50,000+ refugees and asylum-seekers from Somalia and Ethiopia (ACAPS, 2024; UNHCR, 2025). Available evidence indicates a sharp rise in migrant fatality cases along the Eastern Route in 2025 relative to 2024, driven by intensified conflict and increased enforcement actions against migrants crossing conflict lines (IOM, 2025).

Heightened border securitization in key Gulf destination states, especially along Saudi Arabia's Yemen frontier, where border forces have been explicitly oriented toward preventing cross-border infiltration amid Houthi-linked security threats, has narrowed viable regular entry options for many low-wage migrants. As legal pathways contract,

migrants are increasingly funneled into smuggler-mediated, irregular routes through Yemen along the Horn of Africa-Yemen-Gulf Eastern Route (Human Rights Watch, 2023; IOM, 2025). IOM's Displacement Tracking Matrix and ACAPS (2024) corroborate patterns of intensified enforcement along this corridor, documenting deteriorating conditions and rising migrant fatality rates consistent with the securitization pressures documented by Human Rights Watch (2023). The economic instability generated in Egypt and smaller Red Sea-adjacent economies through shipping revenue losses further reduces those states' absorptive capacity for displaced populations, creating secondary spillover pressures on migration management systems throughout the region.

5.3 Remittance Economics as a Business-Relevant Transmission Channel

Remittances represent a critical but underexamined transmission channel connecting Gulf-region instability to firm-level operations and labor-market conditions, because remittance flows act as an important stabilizer for recipient economies (World Bank, 2022) and are measurably affected by economic conditions in Gulf destination countries, including slower growth in GCC economies (World Bank, 2024). The GCC collectively constitutes one of the world's largest remittance-sending regions: outward remittances from GCC countries declined by 13% in 2023 relative to the prior year, driven by a slowdown in oil revenues and post-COVID labor-market adjustments (World Bank, 2024). World Bank estimates place remittances to Yemen at approximately $6 billion annually in 2022 and 2023 a figure corroborated by the World Bank's Migration and Remittances report (World Bank, 2024) though actual flows may substantially exceed this given the large informal Yemeni diaspora, estimated at 1.9 million persons in Saudi Arabia alone (The Policy Practice Ltd. [development consultancy], 2025). For Yemen's 32 million people, this flow constitutes a primary economic lifeline sustaining household consumption and compensating for the collapse of formal public provisioning. From an international business perspective, the remittance transmission mechanism connects Gulf geopolitics to firm-level risk through at least two channels: first, as remittance-dependent households reduce consumption, demand in origin-country markets that MNEs serve contracts; second, as economic deterioration in origin countries accelerates out-migration pressure, labor supply in GCC labor-intensive sectors, construction, hospitality, logistics, faces volatility that feeds directly into MNE operational planning horizons (Fasani & Mazza, 2023; ILO, 2024a).

The Gulf conflict disrupts this remittance economy through multiple pathways simultaneously. Security deterioration in Gulf labor markets reduces employment prospects for migrant workers from Yemen, Ethiopia, Somalia, and other countries of origin, thereby depressing remittance volumes. Research on migrant labor market vulnerability during economic downturns confirms that migrants who are disproportionately employed in temporary, non-teleworkable, and sector-specific occupations experience significantly higher rates of employment loss during crisis periods than comparable native workers, with scarring effects on earnings and employment that persist for years post-crisis (Fasani & Mazza, 2023). In the GCC context, where migrants account for 70% of total employment and over 95% of private-sector employment in some states (ILO, 2024a), even moderate economic instability leads to remittance contractions that ripple through origin-country household economies across the Horn of Africa and South Asia. These dynamics connect Gulf geopolitics to consumer demand, labor availability, and economic stability in markets that many MNEs serve or source from, making migration-system effects a material business risk that requires active monitoring frameworks rather than a purely humanitarian concern.

6. Conceptual Framework

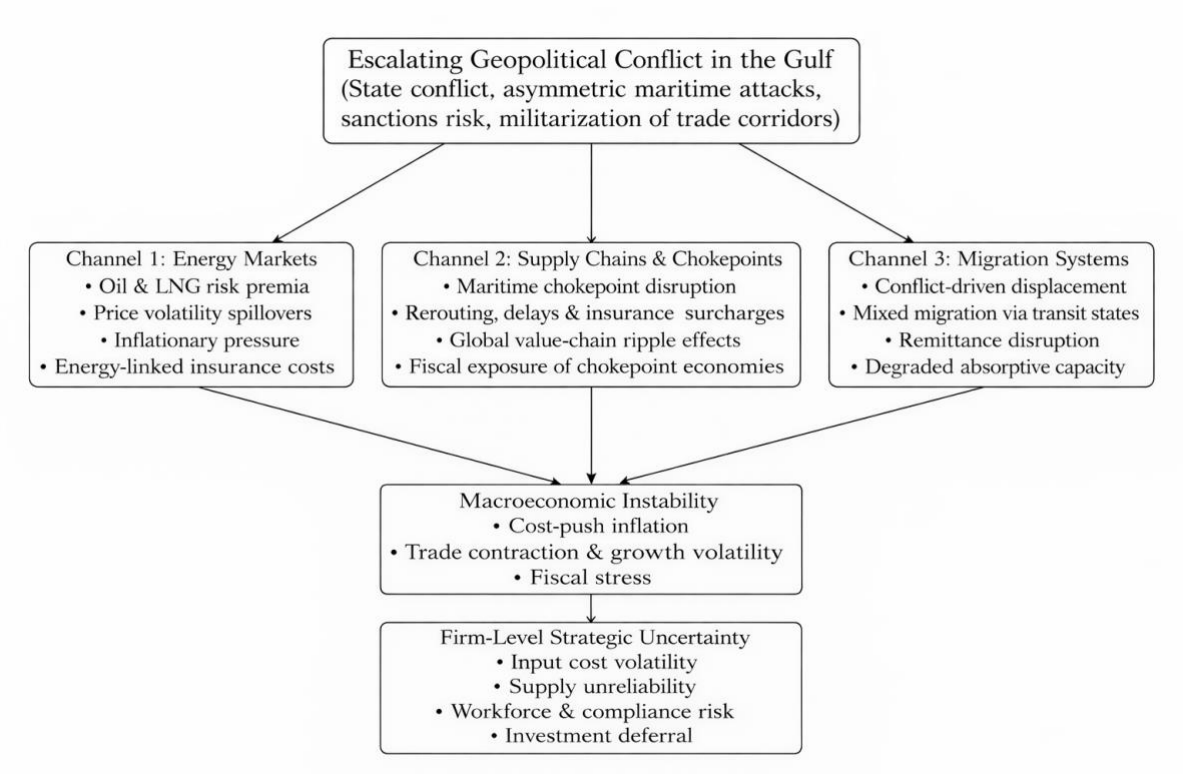

Figure 1. Kafoe's Three-Channel Transmission Framework Linking Geopolitical Escalation in the Gulf to Macroeconomic Instability and Firm-Level Strategic Uncertainty

Figure 1 situates Escalating Geopolitical Conflict in the Gulf at the center of a multichannel transmission model feeding three primary channels. Channel 1 Energy Markets: (a) geopolitical risk premia embedded in oil and LNG prices; (b) volatility spillovers across commodity, equity, and shipping markets; (c) tail-risk scenarios involving Strait of Hormuz closure or direct production facility strikes; (d) energy-adjacent disruptions, including shipping insurance escalation and environmental liability. Channel 2 Supply-Chain Networks: (a) maritime chokepoint disruption (Bab-el-Mandeb, Suez Canal); (b) rerouting cost cascades (fuel, time, insurance); (c) bullwhip and ripple effects across global value chains (Verschuur et al., 2025); (d) sectoral differentiation by cargo type and geographic exposure; (e) sovereign fiscal exposure for chokepoint economies. Channel 3 Migration Systems: (a) internal displacement and humanitarian system collapse (Yemen); (b) Eastern Route mixed migration dynamics; (c) remittance economy disruption and labor market spillovers; (d) secondary displacement cascades affecting GCC labor market absorptive capacity. Bidirectional arrows connect all three channels, illustrating reinforcing feedback loops. All three channels feed into macroeconomic instability and firm-level strategic uncertainty. A second-order feedback arrow returns from macroeconomic instability to Gulf conflict dynamics, capturing the circular causality through which economic deterioration sustains conflict conditions.

This framework extends existing geopolitical risk models by making channel interdependence explicit, by incorporating migration as a coequal transmission mechanism alongside energy and logistics, and by capturing the endogenous feedback between conflict and economic instability that has historically been treated as exogenous in standard international business frameworks.

7. Propositions and Research Agenda

Consistent with the emphasis on theory development and agenda-setting, this commentary advances the following formal propositions for future empirical examination. These propositions are derived from the multichannel transmission framework and are designed to guide multi-method inquiry that combines econometric analysis, network modeling, and firm-level case studies.

Proposition 1: Escalating geopolitical conflict in energy-dense regions increases oil-market risk premia, thereby amplifying inflationary pressures and tightening financial conditions in energy-importing economies (Caldara & Iacoviello, 2022; Olaniran, 2025; Hamilton, 2009; Kilian, 2009, 2014; Federal Reserve Bank of Dallas, 2025). The magnitude of this effect is moderated by three structural conditions: (a) the degree of available spare production capacity among uninvolved major exporters, which determines the market's ability to absorb supply-side shocks without translating risk premia into realized price increases; (b) the geographic scope and duration of conflict, with threats to multiple production facilities and transit nodes simultaneously triggering nonlinear price responses relative to threats to a single chokepoint; and (c) the degree of energy-import dependence in affected economies, with net importers bearing disproportionate macroeconomic adjustment costs relative to energy-exporting states. The proposition is falsified if escalating conflict in high-GPR environments fails to elevate risk premia controlling for spare capacity and geographic scope, or if energy-import dependence fails to predict differential inflation sensitivity across economies facing equivalent supply disruptions.

Proposition 2: Disruption at maritime chokepoints produces nonlinear ripple effects across global value chains, with disproportionate impacts on firms operating lean, just-in-time supply networks (Sheffi, 2005; Tang, 2006; Dolgui & Ivanov, 2021; Ivanov & Keskin, 2023; Verschuur et al., 2025). The severity of these ripple effects is positively associated with (a) the degree of supply-chain geographic concentration firms sourcing from highly concentrated supplier bases facing greater disruption than those with geographically diversified networks; (b) the duration of chokepoint disruption, which determines whether firms' contingency inventory buffers are depleted before alternative sourcing can be established; and (c) the absence of pre-established contingency routing and inventory buffer mechanisms (Kafoe, 2024). The proposition is falsified if firms with documented geographic concentration and just-in-time inventory structures exhibit no greater disruption-induced performance degradation than firms with diversified, buffer-equipped supply networks during equivalent episodes of chokepoint disruption.

Proposition 3: Energy price shocks and supply-chain disruptions jointly intensify displacement and mixed migration pressures in proximate fragile states through two distinct causal pathways that operate at different speeds and through different mechanisms. Pathway A (energy-price-to-migration): Sustained increases in energy prices reduce fiscal space in remittance-dependent origin countries, accelerating economic deterioration and out-migration pressure, with effects concentrated in countries where remittances exceed 10% of GDP; this pathway operates over a 6-to-24-month lag as fiscal constraints translate into reduced public service provision and household income collapse. Pathway B (supply-disruption-to-migration): Maritime disruptions reduce employment in the GCC-based logistics, construction, and hospitality sectors, directly contracting demand for migrant labor and reducing remittance inflows to origin countries, with effects concentrated in economies with high GCC migrant labor shares and operating over a 1- to 6-month lag as employment contract non-renewals materialize. These feedback effects generate labor-market and political-economy dynamics that further influence trade and investment decisions of MNEs operating in affected regions (UNHCR, 2025a; IOM, 2025; World

Bank, 2025; Fasani & Mazza, 2023; ILO, 2024a). The proposition is falsified if energy price shocks and supply-chain disruptions, separately and jointly, fail to predict displacement intensity and remittance contraction in fragile origin states after controlling for conflict intensity and governance quality.

Proposition 4 (Channel Interaction): The three transmission channels identified in this framework, energy markets, supply-chain networks, and migration systems, interact in ways that produce macroeconomic and firm-level disruption exceeding what single-channel analysis would predict. Specifically, the joint activation of all three channels under conditions of sustained Gulf escalation creates endogenously amplified disruption through at least two reinforcing mechanisms: (a) energy price inflation elevates shipping insurance and fuel costs, which compound supply-chain rerouting costs and simultaneously depress real wages in GCC migrant labor markets, accelerating remittance contraction and origin-country deterioration; and (b) migration system disruption reduces the GCC labor supply available for maritime logistics operations, amplifying shipping delays and compounding supply-chain disruption beyond what rerouting costs alone would produce. This channel interaction hypothesis is the framework's most novel theoretical claim: it predicts that geopolitical escalation episodes in which all three channels are simultaneously activated will generate welfare losses and firm-performance degradation significantly exceeding the sum of individual channel estimates, a prediction that future network-level empirical research, particularly studies combining shipping data, migration flow records, and firm-level financial outcomes, is methodologically positioned to test (Verschuur et al., 2025; Caldara & Iacoviello, 2022). The proposition is falsified if multivariate models that simultaneously incorporate all three channels fail to exhibit significant interaction terms compared with additive single-channel models estimated on equivalent shock episodes.

These propositions invite empirical testing through panel econometric analyses of firm performance during geopolitical shock episodes, network-based simulations of supply chain disruption propagation, and qualitative case studies of MNE strategic adaptation. Methodologically, the multi-channel character of the transmission framework argues for research designs that capture channel interactions, not merely the independent effects of each channel, and that incorporate longitudinal data sufficient to distinguish shock-period effects from structural regime changes.

Future research should also investigate the conditions under which the three channels exhibit substitution versus complementarity in their propagation dynamics. For example, does a severe energy shock suppress migration by reducing the economic attractiveness of Gulf labor markets, or does it amplify displacement by accelerating economic deterioration in origin countries? Such questions connect the international business literature to adjacent fields in development economics, political science, and humanitarian systems research, a multidisciplinary integration that the complexity of geopolitical risk ultimately demands.

8. Implications for Research and Practice

8.1 Implications for International Business Scholarship

The multichannel transmission framework advanced in this commentary yields three broad implications for international business research. First, geopolitical escalation must be theorized as a system-level systemic shock rather than as exogenous contextual uncertainty. The standard practice of controlling geopolitical risk as a covariate in MNE performance regressions underestimates its role as an active shaping force in global market structure, one whose transmission mechanisms are amenable to research at the level of specific channels and their interactions.

Second, supply-chain resilience theory must explicitly incorporate armed conflict and asymmetric geopolitical risk alongside the pandemic and natural disaster frameworks that

currently dominate the literature. The Red Sea crisis demonstrates that the structural vulnerabilities identified in those contexts, geographic concentration, just-in-time exposure, and limited sub-tier visibility, are fully activated by geopolitical disruption. Network-level analysis confirms that the systemic welfare losses from chokepoint disruption exceed those predicted by bilateral trade models, suggesting that supply-chain scholarship must adopt systems-level analytical architectures commensurate with the complexity of the disruptions now confronting global commerce (Verschuur et al., 2025).

Third, migration and labor mobility must be integrated into mainstream global strategy and operations research. The IOM's documentation of Eastern Route dynamics, Yemen's displacement crisis, and GCC labor market interdependencies reveals a dimension of geopolitical risk that is simultaneously a humanitarian imperative and a material business variable. Future research should develop frameworks to quantify migration-linked operational risk for MNEs across affected sectors and geographies.

8.2 Implications for Managerial Practice

For MNE managers, the analysis converges on three actionable priorities. First, proactive geopolitical risk governance must be embedded into sourcing, logistics, and human capital strategy, not treated as a specialized function activated only in crisis. A practitioner-oriented synthesis in MIT Sloan Management Review proposes an "understand–anticipate–adapt" structure for the governance of geopolitical supply-chain risk (Cohen et al., 2026); Maersk's (2025) emphasis on real-time information channels and flexible contingency activation offers sector-specific implementation guidance.

Second, supply-chain network redesign should prioritize resilience alongside efficiency, with explicit scenario planning for maritime chokepoint disruptions as a routine rather than an exceptional risk. The resilient enterprise literature provides the foundational framework: Sheffi (2005) establishes the theoretical case for embedding flexibility and redundancy into network design as insurance against low-probability, high-impact events; Tang (2006) operationalizes this through robust supply chain strategies including flexible sourcing, revenue management, and product/process postponement. These frameworks translate directly from their original research contexts into the full architecture of global manufacturing and distribution: network mapping, supplier diversification, strategic inventory management, transportation contingency planning, and collaborative response design. Kafoe's (2024) application of these resilience principles in the healthcare supply chain context illustrates their cross-contextual relevance while again underscoring the importance of distinguishing demand-surge resilience mechanisms from supply-disruption resilience mechanisms when designing responses to geopolitically triggered disruptions.

Third, firms operating in migration-intensive sectors should develop monitoring frameworks for labor market conditions in GCC economies and origin-country migration corridors, recognizing that remittance flows, labor availability, and migration dynamics represent material operational variables rather than peripheral humanitarian indicators.

8.3 Implications for Policy

For states and multilateral institutions, the analysis advances several interconnected priorities. Dedicated trade-security foresight units integrating defense intelligence, commercial logistics expertise, and geopolitical analysis are necessary to shift governance from reactive crisis response to anticipatory risk management. The Red Sea crisis demonstrated that an analytically foreseeable type of disruption still generated enormous preventable costs because no institutional mechanism existed to translate the warning into proactive governance.

Expanded fiscal support mechanisms for chokepoint-exposed economies such as Egypt, whose sovereign vulnerabilities are materially worsened by factors entirely outside their control, would reduce the externalization of systemic risk onto the least-capable absorbers. International financial institutions should develop standardized frameworks to quantify and compensate for chokepoint externalities. Migration-corridor vulnerability should be formally integrated into macroeconomic surveillance frameworks, recognizing that humanitarian-system collapse generates fiscal and economic spillovers that standard macroeconomic monitoring systematically misses.

9. Conclusion

This study was drafted against the backdrop of escalating Gulf tensions and is submitted on the day those tensions crossed into direct kinetic exchange between Iran, the United States, and Israel. That coincidence of timing is not a limitation of the analysis but a confirmation of its premises. The multichannel transmission model advanced here, energy markets, supply-chain networks, and migration systems as the three interdependent vectors through which Gulf conflict propagates systemic business disruption, can no longer be viewed as a forward-looking theoretical construct. It is a real-time analytical tool whose activation conditions, as of February 28, 2026, have all been triggered simultaneously. Iranian strikes on U.S. military assets in Bahrain, Kuwait, Qatar, the UAE, Saudi Arabia, Jordan, Syria, and Iraq; the closure of GCC airspaces; the collapse of diplomatic talks; and the IRGC's declaration of open targeting doctrine against all U.S. regional infrastructure (Al Jazeera, 2026; Edwards & Tsui, 2026; Trump, 2026) have materialized the scenarios that prior scholarship modeled as severe but low-probability outcomes.

The three propositions advanced in Section 7 are not merely theoretical constructs awaiting future validation; they are observable dynamics unfolding in real time. The energy price premia, freight rate escalations, insurance repricing, and displacement pressures documented during the 2023-2025 Red Sea crisis provide the empirical baseline against which the February 28, 2026, escalation is measured. For international business scholarship, this demands an immediate and unconditional shift toward integrated, system-level analysis of geopolitical risk, one that treats conflict escalation not as a contextual backdrop but as a systemic shock transmitted through, and amplified by, the very market structures that globalization has built.

The 2023-2025 Red Sea crisis provided the initial empirical foundation for this theoretical reorientation, documenting nonlinear disruption propagation from Houthi missile launches in the Bab-el-Mandeb to halted production lines in European automobile factories, from Suez Canal revenue losses to Egyptian sovereign debt pressures, from deteriorating Gulf security to deepening displacement crises across the Eastern Route. February 28, 2026, escalation extends that foundation into qualitatively new territory: direct state-on-state kinetic conflict affecting GCC sovereign territory, production infrastructure, and the air and maritime corridors that serve as the circulatory system of global trade. The disruption propagation documented across the Red Sea crisis will now be amplified through these new channels, reaching deeper into energy markets, supply-chain networks, and migration systems than any scenario the pre-February 28 literature had modeled as a baseline. The path forward for scholarship, policy, and business practice lies not in restoring a pre-crisis equilibrium that has structurally ceased to exist, but in constructing the institutional, strategic, and analytical frameworks adequate to the reality now present: a world in which geopolitical risk in the Gulf is not a tail probability but the operating baseline. Building that architecture urgently and on a scale is the defining intellectual and institutional task now before the international business field.

Authors' Note

Alieu Stephen Kafoe is a Doctoral Candidate in the Doctor of Business Administration (DBA) program at Marymount University, Arlington, Virginia, with a concentration in Business Intelligence. He holds an MBA in International Business Management from Furtwangen University of Applied Sciences, Germany. The author has 23+ years of professional experience in international food and beverage operations, supply chain management, process automation, and multinational corporate strategy, including leadership roles at Heineken International and Endress+Hauser.

Bernadette Mualumatweh Foh is a Doctoral Student in the Department of Education at Marymount University, Arlington, Virginia, with a concentration in Educational Leadership and Organizational Development. She holds a Juris Doctorate from the University of Minnesota Law School and a Master of Business Administration from St. Catherine University.

The views expressed are solely those of the authors.
Correspondence: stephenkafoe@yahoo.com and berniefoh816@gmail.com

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