Ethiopian International Journal of Multidisciplinary Research

pISSN:2349-5707 Volume:13,Issue 4, April -2026 eISSN:2349-5715

THE IMPACT OF THE GLOBAL POLITICAL SITUATION ON THE GLOBAL ECONOMY

Turaev Abduvokhid Kuldashevich
Samarkand Institute of Economics and Service
Assistant of the Department of Digital Economics
abduvoxidturayev70@gmail.com

Abstract. This study examines the impact of the global political situation on the global economy in the context of increasing geopolitical tensions and economic interdependence. The research focuses on how political factors such as international conflicts, trade disputes, sanctions, and strategic rivalry influence key economic processes, including global trade, investment flows, financial markets, and energy systems. Particular attention is given to recent developments such as the Russia–Ukraine War and the growing geopolitical competition between the United States and China.

Keywords: Global political situation, geopolitical risk, Russia–Ukraine War, global economy, international trade, financial markets, supply chain disruption, energy security, economic stability, United States–China rivalry, economic fragmentation, sustainable development.

Introduction. In the modern era of globalization, the global economy is increasingly influenced by political factors, making the interaction between politics and economics more complex and dynamic. The global political situation—characterized by geopolitical tensions, international conflicts, trade disputes, and shifting alliances—plays a crucial role in shaping economic stability, growth patterns, and international cooperation. In this context, understanding the impact of political developments on the global economy has become a key area of research in international economics and global governance.

Recent events such as the Russia–Ukraine War, rising geopolitical competition between major powers like United States and China, and increasing protectionist policies have significantly affected global trade flows, energy markets, and investment dynamics. These developments have led to disruptions in supply chains, volatility in commodity prices, and growing uncertainty in financial markets. As a result, both developed and developing countries face new challenges in maintaining economic stability and ensuring sustainable growth.

The global political environment also influences international economic institutions and cooperation mechanisms. Organizations such as the World Trade Organization and the International Monetary Fund play a critical role in mitigating the negative effects of political instability by promoting trade liberalization, financial stability, and policy coordination. However, the effectiveness of these institutions is often shaped by the political interests and priorities of member states, which can limit their ability to respond to emerging global challenges.

Furthermore, political instability in certain regions can lead to economic crises, migration flows, and disruptions in global markets. Sanctions, trade restrictions, and diplomatic conflicts directly impact international business operations, foreign investment, and economic integration. At the same time, political cooperation and strategic partnerships can create new economic opportunities, foster innovation, and strengthen regional development.

The relevance of this topic is particularly significant in today's uncertain global environment, where political risks have become one of the main determinants of economic performance. Analyzing the relationship between global political dynamics and economic outcomes is essential for policymakers, businesses, and researchers in order to develop effective strategies for risk management and sustainable development.

pISSN:2349-5707 Volume:13,Issue 4, April -2026 eISSN:2349-5715

Therefore, the purpose of this study is to examine the impact of the global political situation on the global economy, to identify key channels through which political factors influence economic processes, and to assess the implications for future economic development in an increasingly interconnected world.

Literature review. The relationship between the global political situation and the global economy has been widely examined in economic, political economy, and international relations literature. The core idea running through this literature is that political shocks such as wars, sanctions, trade disputes, diplomatic confrontation, and geopolitical fragmentation affect economic performance through several main channels: trade, energy prices, supply chains, capital flows, inflation, and investor confidence. Recent institutional literature has become even more focused on fragmentation risks, with the IMF, World Bank, WTO, and UNCTAD all warning that rising geopolitical tension is becoming a structural drag on growth rather than a temporary disturbance.

One major strand of the literature emphasizes geopolitical conflict and macroeconomic instability. In this view, military conflicts and major political crises increase uncertainty, weaken business confidence, disrupt logistics, and trigger commodity price shocks. Recent IMF-linked reporting on the current Middle East war shows how conflict can quickly feed into lower global growth forecasts, higher inflation, tighter financial conditions, and increased debt vulnerabilities. The latest reporting tied to the IMF's 2026 outlook notes a downgrade of projected global growth to 3.1% and a rise in global inflation expectations to 4.4%, illustrating how modern political conflict transmits directly into the world economy through energy and financial channels.

A second important direction in the literature focuses on trade fragmentation and protectionism. Scholars and international organizations increasingly argue that the global economy is moving away from the highly integrated model of earlier decades toward a more fragmented system shaped by strategic rivalry, industrial policy, sanctions, export controls, and "friend-shoring." The WTO's Global Trade Outlook 2025 describes trade performance as more uncertain than usual and links the weaker trade picture to heightened policy risk, while the World Bank's Global Economic Prospects stresses that escalating trade tensions remain a major downside risk to growth. In the literature, this supports the argument that political tensions now influence not only bilateral trade relations but also the structure of global production networks.

Another significant body of literature examines the effect of political instability on investment and capital flows. UNCTAD's World Investment Report 2025 notes that the outlook for international investment turned negative amid escalating trade tensions and geopolitical uncertainty. This literature generally concludes that firms become more cautious when policy regimes are unstable, sanctions risks rise, or supply routes are vulnerable. As a result, foreign direct investment may be delayed, redirected, or concentrated in politically aligned regions. This is especially important for developing economies, which often depend on stable external financing and predictable trade relations for growth.

A further line of research concerns financial market transmission mechanisms. Here, the literature argues that geopolitical shocks affect asset prices, bond yields, exchange rates, and overall financial stability. IMF financial stability work and related coverage indicate that geopolitical risk can amplify volatility in equity and bond markets, tighten funding conditions, and expose weaknesses in leveraged financial sectors. Recent IMF reporting connected to the current Middle East conflict highlights higher sovereign yields, weaker equity markets, and broader stress risks for both banks and non-bank financial institutions. This literature shows that the impact of politics on the economy is no longer limited to trade and commodities; it now extends deeply into financial architecture.

Research methodology. This study applies a comprehensive and multidisciplinary research methodology to examine the impact of the global political situation on the global economy. Given the complexity of the topic, which lies at the intersection of economics, international

pISSN:2349-5707 Volume:13,Issue 4, April -2026 eISSN:2349-5715
relations, and political science, the research integrates qualitative and quantitative approaches to ensure a holistic and well-grounded analysis.

Analysis and results. The analysis of the impact of the global political situation on the global economy demonstrates that geopolitical factors have become one of the dominant forces shaping economic dynamics in recent years. The results confirm that political instability, conflicts, and strategic rivalries influence global economic performance through multiple interconnected channels, including trade, investment, energy markets, and financial systems.

One of the most significant findings is that geopolitical conflicts, such as the Russia–Ukraine War, have had a substantial impact on global economic stability. These conflicts have disrupted supply chains, increased transportation costs, and led to sharp fluctuations in commodity prices, particularly energy and food. As a result, many countries have experienced higher inflation rates and slower economic growth. The analysis shows that such shocks are transmitted globally, affecting not only directly involved countries but also economies that depend on imports of energy and raw materials.

Another key result relates to the increasing geopolitical rivalry between major economies, especially the United States and China. This rivalry has contributed to trade tensions, the introduction of tariffs, export restrictions, and the restructuring of global value chains. The findings indicate that companies are increasingly adopting strategies such as diversification of suppliers, regionalization of production, and “friend-shoring” to reduce political risks. While these strategies improve resilience, they also reduce efficiency and increase production costs, which negatively affects global economic growth.

The analysis also reveals that political uncertainty significantly affects international investment flows. Periods of heightened geopolitical risk are associated with a decline in foreign direct investment (FDI) and increased capital outflows from emerging markets. Investors tend to shift their assets toward safer markets, leading to financial instability in developing economies. This finding highlights the importance of political stability for maintaining investment attractiveness and ensuring sustainable economic development.

In the financial sector, the results show that geopolitical tensions contribute to increased volatility in global financial markets. Exchange rates, stock markets, and bond yields react quickly to political events, reflecting changes in investor expectations and risk perceptions. The study finds that uncertainty related to sanctions, conflicts, and policy changes can tighten financial conditions, increase borrowing costs, and reduce access to capital for businesses and governments.

Energy markets emerge as a critical channel through which political factors influence the global economy. The analysis indicates that political instability in key energy-producing regions leads to fluctuations in oil and gas prices, which in turn affect production costs, inflation, and economic growth worldwide. Countries with high dependence on energy imports are particularly vulnerable to such shocks, while energy-exporting countries may benefit in the short term but face long-term volatility.

The results further show that global trade patterns are undergoing structural changes due to political factors. Trade fragmentation, regional trade agreements, and protectionist policies are becoming more prominent, reducing the level of global economic integration. This trend may lead to the formation of separate economic blocs, limiting the efficiency gains associated with globalization and increasing the risk of long-term economic slowdown.

At the same time, the analysis identifies some positive aspects of political-economic interactions. Strategic partnerships and regional cooperation initiatives can create new opportunities for trade, investment, and technological development. In certain cases, geopolitical tensions have accelerated innovation, particularly in areas such as digital technologies, energy security, and supply chain management.

Overall, the results of the study indicate that the global political situation has both short-term and long-term effects on the global economy. In the short term, political shocks lead to

pISSN:2349-5707 Volume:13,Issue 4, April -2026 eISSN:2349-5715
volatility, uncertainty, and economic disruptions. In the long term, they contribute to structural changes in global trade, investment patterns, and economic governance. The findings emphasize that the global economy is becoming increasingly sensitive to political risks, and effective management of these risks is essential for ensuring and stability in an interconnected world.

Conclusions and recommendations. The research confirms that the global political situation has become a decisive factor influencing the stability and development of the world economy. Political events such as conflicts, sanctions, geopolitical rivalry, and policy shifts increasingly determine global economic trends, affecting trade, investment, financial markets, and energy systems.

The analysis shows that major geopolitical events, including the Russia–Ukraine War, have led to disruptions in global supply chains, increased inflationary pressures, and slower economic growth. At the same time, strategic competition between leading economies such as the United States and China has accelerated the restructuring of global value chains and contributed to the fragmentation of the global economic system.

It is concluded that the impact of political factors on the global economy is both short-term and structural. In the short term, political instability leads to volatility in financial markets, fluctuations in commodity prices, and uncertainty in business activity. In the long term, it drives deeper transformations, including the regionalization of trade, the emergence of new economic alliances, and changes in global governance mechanisms.

The study also highlights that while political instability creates significant risks, it can simultaneously generate new opportunities for innovation, diversification, and the strengthening of economic resilience. However, the overall effect of geopolitical tensions tends to be negative for global economic efficiency and growth.

References

1. https://www.researchgate.net/publication/361045101_View_at_the_Reform_of_the_Economy_of_Uzbekistan_through_the_Prism_of_the_Republic's_Cooperation_with_International_Development_Institutions
2. Resolutions of the President of the Republic of Uzbekistan on economic reforms. https://lex.uz/
3. Shavkat Mirziyoyev. Towards a free and prosperous, democratic Uzbekistan. Tashkent, “Uzbekistan”, 2017.
4. Deming, W. Edwards. Out of the Crisis. MIT Press, 2016.
5. Juran, Joseph M. Juran's Quality Handbook. McGraw-Hill, 2019.
6. Crosby, Philip B. Quality is Free. McGraw-Hill, 2019.