

Economic Issue Analysis

IV

Risks of Middle East Conflicts and Risks to Our Economy

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Risks of Middle East Conflicts and Risks to Our Economy

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01 Background of Review

■ An armed conflict occurred when Israel attacked Iran's nuclear facilities and Iran retaliated.

- In the early morning of June 13, 2025, Israel launched pre-emptive strikes on Iran's nuclear and military facilities, to which Iran retaliated with missiles and drones.
- On June 22, the U.S. bombed three Iranian nuclear sites, which appeared to intensify the situation, but on June 24, President Trump of the U.S. announced a ceasefire, dramatically reversing the situation.

■ This conflict has once again revealed the geopolitical risks in the Middle East and the vulnerability of the oil supply chain.

- Approximately 27% of the world's sea-borne oil transportation passes through the Strait of Hormuz (2024 daily average of 7,550,000 barrels, of which 2,030,000 barrels are exported via Hormuz); this is a key route for Korea's oil imports (72.7%).^[1]
 - Furthermore, 84% of the total transportation through Hormuz is delivered to China, India, Japan, South Korea, etc.^[2]
- Concerns were raised that if Iran blocks the Strait of Hormuz, international oil prices may exceed 100 dollars per barrel.^[3]

[1] Proportion of oil imports by source: Middle East (72.7%), U.S. (16.7%), Australia (2.5%), Mexico (2.4%) etc.

[2] EIA, Today in Energy, 2025.6.16.

[3] According to a Bloomberg Intelligence analysis, international oil prices may soar to 130 dollars per barrel depending on the severity of conflicts (June 13, 2025).

■ The following examines the major pathways through which the Israel-Iran conflict may impact our economy and analyzes the economic effects.

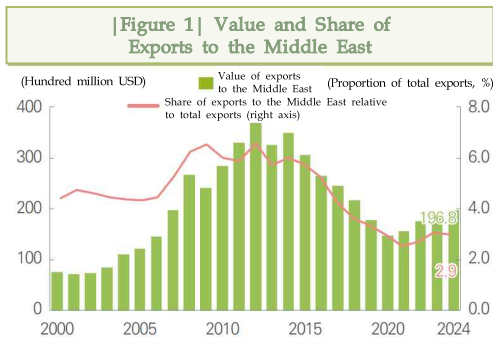
- The analysis is divided into two scenarios: one where the conflict remains at a stalemate and another where it escalates and prolongs due to additional attacks on oil export facilities.

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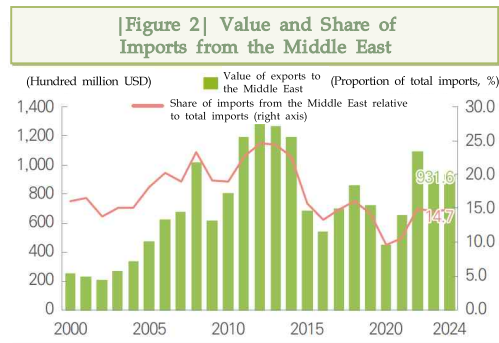
02 Trade Status With the Middle East

■ Korea’s trade with the Middle East is characterized by a low share of Korean exports but a considerably high share of imports

- 2024 data show that exports to the Middle East totaled 19.68 billion dollars, accounting for 2.9% of total exports (683.6 billion dollars).
 - Exports to the Middle East peaked in 2012 (36.66 billion dollars) and gradually declined but have slightly increased since 2020.
- Imports from the Middle East reached 93.16 billion dollars, accounting for 14.7% of total imports (632.1 billion dollars).
 - Imports from the Middle East also peaked in 2012 (127.78 billion dollars) and have shown fluctuations according to international oil price trends.



Source: Korea International Trade Association

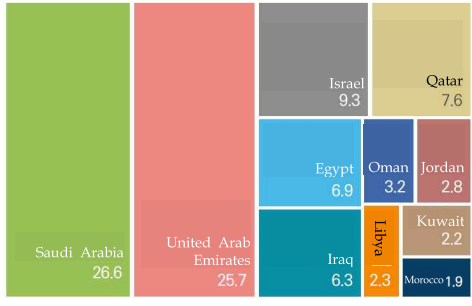


Source: Korea International Trade Association

■ By country, both exports and imports were predominantly with Saudi Arabia and the United Arab Emirates.

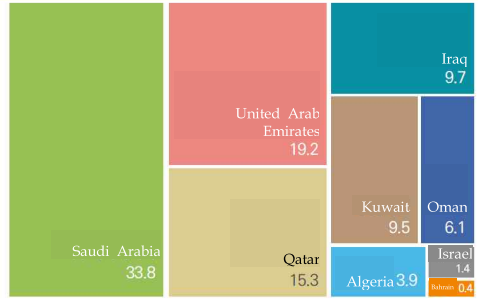
- For exports, the share of each country in the export value to the Middle East was highest for Saudi Arabia (26.6%), the United Arab Emirates (25.7%), and Israel (9.3%) in that order.
- Imports were recorded in the order of Saudi Arabia (33.8%), the United Arab Emirates (19.2%), and Qatar (15.3%).

|Figure 3| Share of Exports to the Middle East by Country (%)



Note: As of 2024
Source: Korea International Trade Association

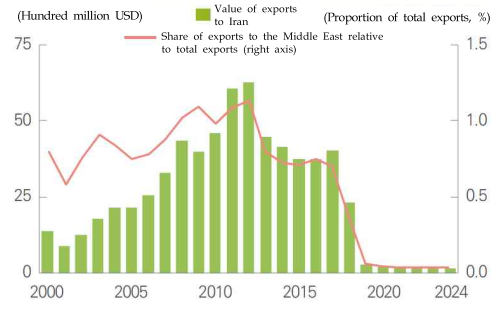
|Figure 4| Share of Imports from the Middle East by Country (%)



Note: As of 2024
Source: Korea International Trade Association

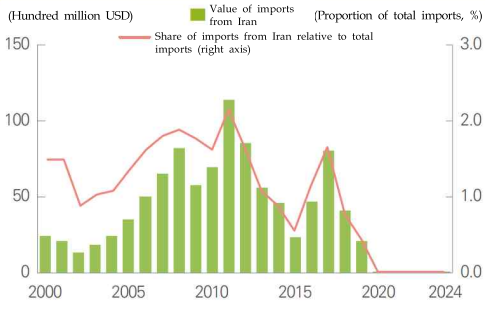
- Trade with Iran has essentially ceased following the increased sanctions on Iran by the U.S. in 2018.
 - Exports of petroleum and petrochemical products, etc. included in the economic sanctions of the U.S. against Iran have sharply declined, and crude oil imports from Iran have been fully suspended since May 2019.

|Figure 5| Value and Share of Exports to Iran



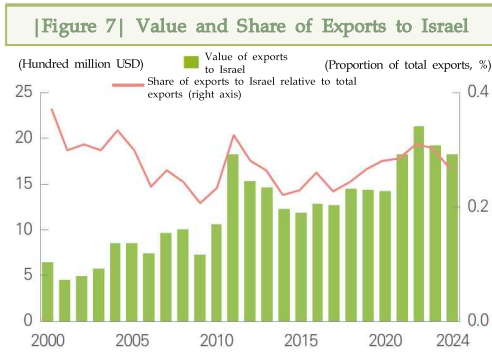
Source: Korea International Trade Association

|Figure 6| Value and Share of Imports from Iran

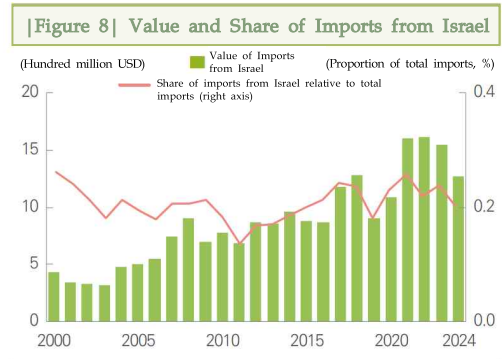


Source: Korea International Trade Association

- Trade with Israel increased following the conclusion of the FTA in 2019 until 2022, but slightly decreased thereafter.
 - Major export items include automobiles and parts, semiconductors, aircraft and parts, instant coffee, and machinery in this order.
 - Major import items include semiconductor testing equipment, medical equipment, copper, potassium fertilizers, etc.



Source: Korea International Trade Association



Source: Korea International Trade Association

■ **Key items exported to the Middle East include automobiles, devices, and machinery, while imports mainly feature energy such as crude oil, petroleum products, and natural gas.**

- Top export items to the Middle East (as of 2024) are automobiles, electrical equipment, and other industrial machinery.
 - In particular, other industrial machinery and weapons account for a high proportion of exports to the Middle East at 26.7% and 18.4%, respectively.

|Table 1| Top Export Items to the Middle East (as of 2024)

(Unit: Hundred million dollars, %)

Item (MTI3 units)	Exports to the Middle East		
	Amount	Itemized Percentage (%)	Share of the Middle East Relative to Total Export Value by Item (%)
Automobile	52	26.2	7.3
Electrical Equipment	10	5.0	13.8
Other Industrial Machinery	9	4.5	26.7
Auto Parts	9	4.4	3.8
Weapons	7	3.8	18.4
Synthetic Resin	7	3.6	3.0
Petroleum Products	7	3.6	1.4
Steel Plates	5	2.6	2.6
Air Conditioners and HVAC Systems	5	2.4	13.8
Engines and Pumps	5	2.3	5.5

Source: Korea International Trade Association

- Top import items from the Middle East based on value (as of 2024) include crude oil, petroleum products, and natural gas in this order. This highlights Korea's high dependence on the Middle East for crude oil imports.
 - Crude oil imports from the Middle East amounted to 62 billion dollars being the highest, followed by petroleum products (15.6 billion dollars) and natural gas (10.4 billion dollars) indicating significant energy imports.
 - Reliance on the Middle East for imports was particularly high for crude oil at 72.7% in 2024.

| Table 2 | Top Import Items from the Middle East (as of 2024)

(Unit: Hundred million dollars, %)

Item (MTI3 units)	Imports from Middle East		
	Amount	Itemized Percentage (%)	Share of the Middle East Relative to Total Import Value by Item (%)
Crude Oil	620	66.6	72.7
Petroleum Products	156	16.7	62.2
Natural Gas	104	11.1	35.5
Aluminum	10	1.1	11.6
Precision Chemical Materials	4	0.4	3.3
Copper Products	4	0.4	5.5
LPG	3	0.3	5.8
Other Petrochemical Products	3	0.3	8.8
Semiconductor Manufacturing Equipment	3	0.3	1.2
Marine Structures and Parts	2	0.2	5.2

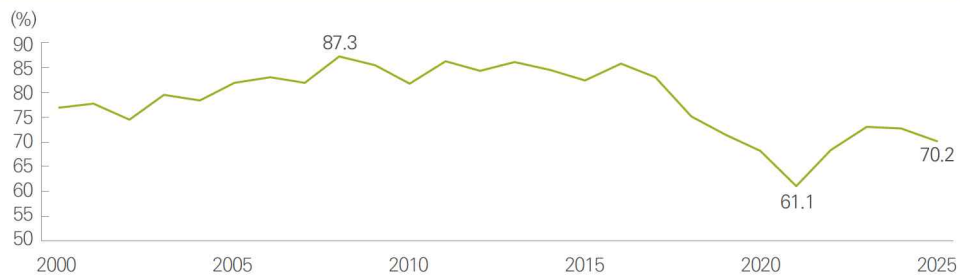
Source: Korea International Trade Association

[BOX 2] Trends in Dependency on Middle Eastern Crude Oil

■ The proportion of the Middle East in crude oil imports has somewhat decreased compared to the past.

- The share of crude oil imports from the Middle East gradually decreased after 2018, but has risen again since 2021 (61.1%).
 - Over the recent 25 years, the proportion of Middle Eastern crude oil was highest in 2008 at 87.3% and lowest in 2021 at 61.1%
 - Meanwhile, as of January to June 2025, the proportion of Middle Eastern crude oil proportion is recorded at 70.2%.

Trends in the Proportion of Crude Oil Imports from the Middle East (2000 - 2025)



Source: Korea International Trade Association

- By examining individual Middle Eastern countries, the proportion of crude oil imports was high from Saudi Arabia and the United Arab Emirates, but proportions from Qatar, Kuwait, and Iran have decreased
 - As of 2025 (January - June), Saudi Arabia accounts for the largest share of total crude oil imports at 33.7%.
 - However, since 2018, U.S. crude oil imports have rapidly increased, leading to a gradual decrease in the share of Middle Eastern crude oil.
 - In particular, crude oil imports from Iran were fully suspended due to the impact of the economic sanctions of the U.S. against Iran (from May 2019).

Trends in Main Sourcing Countries for Crude Oil Imports

(Unit: %)

Year	Middle East						United States
	Saudi Arabia	United Arab Emirates	Iraq	Qatar	Kuwait	Iran	
2000	30.9	14.4	2	5.2	7.4	8.6	0.6
2005	31	18.3	1.6	6.5	10.6	7.7	0
2010	33.3	12.8	6.4	7.2	12.4	8.1	0
2015	30.1	10.2	11.4	12.8	13.3	4	0.3
2020	32.8	8.1	7.9	5.8	12.2	0	12.1
2025 (January to June)	33.7	12.1	9.7	4.7	7.8	0	16.7

Source: Korea International Trade Association

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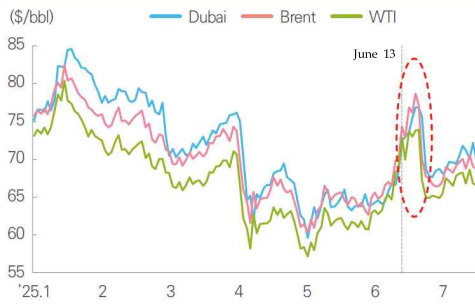
03 Review of Key Impact Pathways

■ Rising international oil prices have heightened the instability of crude oil supply and demand.

- On the day of Israel's first airstrike (June 13), international oil prices rose by approximately 6%, and during heightened conflict (June 19), they rose by 7-8 dollars to trade around 77 dollars per barrel
 - Dubai Oil Prices (USD/Barrel): (June 12) 68.57 → (June 13) 72.49 → (June 19) 76.89
 - Brent Oil Prices (USD/Barrel): (June 12) 70.17 → (June 13) 74.38 → (June 19) 78.69
 - WTI Oil Prices (USD/Barrel): (June 12) 68.82 → (June 13) 72.91 → (June 19) 73.81
- Nonetheless, this is still lower than the projected 2024 average price of 80 dollars per barrel.
- Iran holds a key position in the world's oil market with the third largest proven oil reserves and tenth highest production globally (ranked 4th in OPEC).
 - As of 2023, Iran's proven oil reserves amount to 209 billion barrels, with an average daily production of 4 million barrels, of which 1.4 million barrels are exported.^[4]
 - Confirmed oil reserves (in billions of barrels) as of 2023: Venezuela 303, Saudi Arabia 267, Iran 209, Canada 163, Iraq 145
 - Iran's crude oil export distribution by country: China accounts for 89%, Syria 6%, UAE 3% in order

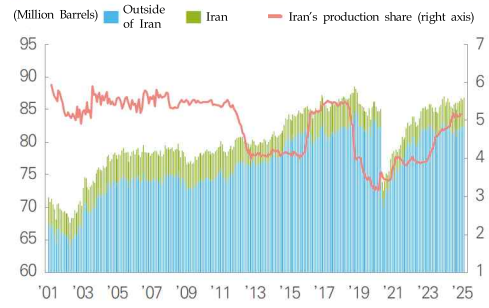
[4] EIA, 「Country Analysis Brief: Iran」, 2024.10.10.

|Figure 9| Recent International Oil Price Trends



Source: Yonhap Infomax

|Figure 10| Global Crude Oil Production (Daily)



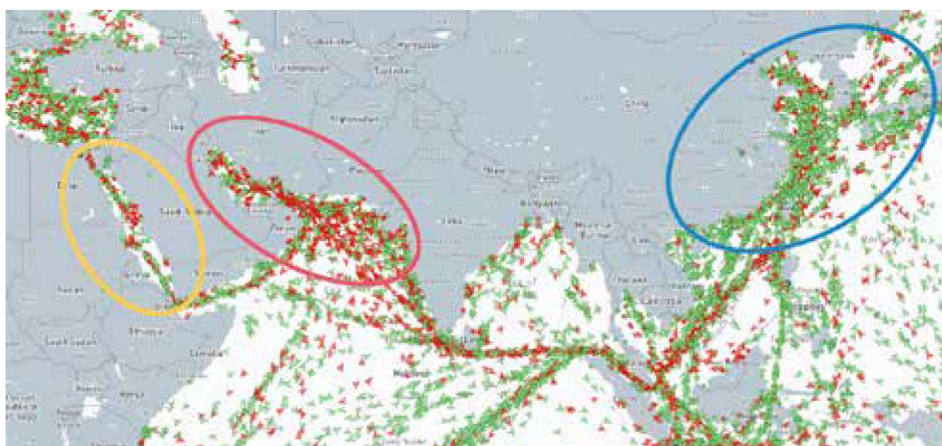
Source: CEIC

- If Israel attacks Iran's oil export facilities, disrupting Iran's crude oil exports, there is concern for significant repercussions in the international crude oil market.
 - Foreign media, among others, warn the potential for severe price spikes if the Kharg Island facilities handling over 90% of Iran's oil exports are paralyzed by airstrikes.
 - Iran's crude oil production accounts for approximately 4-5% of global production (ranked 10th globally in 2023), and market disruption is likely if export facilities are incapacitated.
 - In particular, following the intensification of U.S. sanctions against Iran in 2018, China, which imports about 90% of Iranian oil, may seek alternative sources, potentially causing a temporary surge in international oil prices.

■ Rising tensions around the Strait of Hormuz have raised concerns over potential disruptions to the global maritime supply chain.

- The Strait of Hormuz handles 11% of the world's maritime trade and 27% of oil transport. It is a critical route for the import of Middle Eastern oil to Korea.

|Figure 11| Maritime Transport and the Strait of Hormuz



Notes 1) The red flow indicates oil tankers, and the green flow indicates cargo ships.

2) The red circle represents Hormuz, the yellow circle represents the Red Sea, and the blue circle represents the Asian route.
Source: Marine Traffic

- If Iran takes extreme actions, such as blocking the Strait of Hormuz, there are concerns about various complex side effects, including disruptions in maritime supply chains leading to soaring oil prices, interruptions in crude oil imports, and rising logistics costs.
 - Just like the attacks on merchant ships by Yemen's Houthi rebels in the Red Sea (November 2023), disruptions in maritime supply chains could significantly increase freight rates and insurance costs, leading to a sharp rise in logistics expenses.
 - Following the Yemen crisis in the Red Sea, the volume of ships operating in the Red Sea and the Suez Canal decreased by 90% and 49% , respectively. Recently, following Israel's attacks on Iran, freight rates on the Middle East-China routes rose by 23.5%.

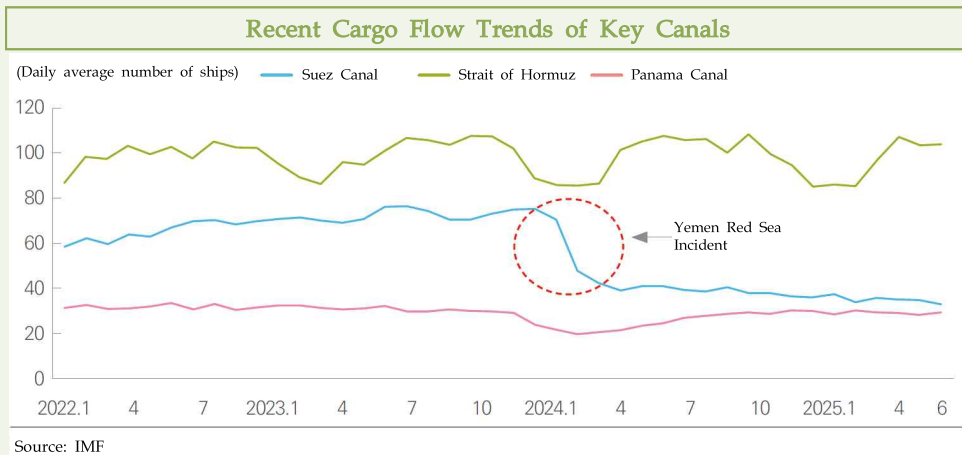
[BOX 3] Examples of Maritime Supply Chain Disruptions due to the Yemen Crisis in the Red Sea

- **Tensions escalated throughout the Red Sea region in November 2023 after Yemen's Houthi rebels attacked merchant ships passing through the Bab-el-Mandeb Strait.**
 - Since the outbreak of the Israel-Hamas war (October 2023), the Houthi rebels have attacked merchant vessels traversing the Red Sea and the Gulf of Aden using drones, missiles, and other means.

- Recently (July 6, 2025), a cargo ship owned by a Greek shipping company (Eternity C) sank due to an attack by the Houthi rebels, intensifying tension across the Red Sea region.

■ **Accordingly, disruptions occurred in the Suez Canal, a maritime route connecting Europe and Asia.**

- The daily average traffic volume of the Suez Canal decreased from 76 ships in October 2023 to 39 ships in March 2024, approximately a 49% reduction
- Additionally, export-import logistics costs, including insurance premiums for ships passing through the affected area and freight rate increases from using alternate routes, have increased significantly overall.
 - After the incident, maritime freight costs rose by more than 2 times; choosing the alternative route around the Cape of Good Hope added an extra 12-14 days (+31 days round trip) compared to the existing route.
 - Some companies are also exploring mid- to long-term alternatives such as rail and air transport.
 - The reorganization of Tesla’s rail-centric logistics supply chain and H&M’s review of strengthened air transportation, among others



04 Analysis of the Impact on Our Economy

■ The analysis is divided into the cases of a prolonged stalemate and a situation escalating and becoming protracted.

- (Scenario 1) International crude oil priced at 75 dollars per barrel
 - The stalemate persists for the time being, and Iran's crude oil exports are partially restricted.
- (Scenario 2) International crude oil priced at 100 dollars per barrel
 - Iran partially blocks the Strait of Hormuz, causing partial disruptions in maritime transport.
- (Scenario 3) International crude oil priced at 130 dollars per barrel
 - Iran's oil export facilities (Kharg Island) are paralyzed, and the Strait of Hormuz is completely blocked.

| Table 3 | Expected International Oil Price Scenarios

Scenario	International Oil Price (Dollar/Barrel)	Past Analogous Cases ¹⁾	Crude Oil Supply Disruption (Daily Average Million Barrels)
1	75 dollars approximately	1st and 2nd Sanctions Against Iran (2011, 2018)	0.9~1.5
2	100 dollars approximately	Iraq War (2003)	3~5
3	130 dollars approximately	1st and 2nd Oil Shocks (1973, 1978)	6~8

Note: 1) Past analogous cases and expected scenarios were reconstructed based on analyses of the World Bank.

Source: Compiled by the NABO based on World Bank, Commodity Markets Outlook, "Special Focus: Potential Near-Term Implications of the Conflict in the Middle East" (October 2023)

■ The scenarios were set by referring to recent forecasts from international organizations, overseas media, etc.^[5]

- Iran's position within the global oil supply chain and the importance of the Middle East and the Strait of Hormuz to Korea's crude oil imports were also considered.
- However, note the possibility that the magnitude and duration of international oil price fluctuations may vary significantly depending on bilateral negotiations and the international community's mediating efforts.

[5] Referenced sources include World Bank (2023), Bloomberg (2025) etc.

■ **Analysis results suggest that the Middle Eastern conflict and the consequent increase in global oil prices may considerably worsen the trade balance and provoke inflationary concerns.**

- The trade volume between Korea and Israel constitutes 0.2-0.3% of the total exports and imports, and trade with Iran has essentially been suspended.
 - Therefore, the impact of this conflict on our economy will depend more on how global oil prices and maritime trade dynamics are affected by this conflict rather than on trade relations between Korea and Iran or Israel.
- If the dispute reaches a stalemate and does not escalate further, the ripple effect may be relatively small (Scenario 1), but if the dispute escalates or prolongs due to additional airstrikes on nuclear facilities, it could significantly impact our economy (Scenarios 2 and 3).
 - (Scenario 1) The trade balance surplus decreases by 8.2 billion dollars due to increased import burdens, and the consumer price inflation rate rises by approximately 0.3%p.^[6]
 - (Scenario 2) If the situation deteriorates rapidly due to additional attacks on nuclear facilities, the trade balance would significantly decrease (-40.8 billion dollars compared to baseline), and consumer prices are at great risk of rising sharply (+1.3%p).
 - (Scenario 3) In the event of Iran’s oil export facilities being paralyzed and a complete blockade of the Strait of Hormuz, the trade balance is predicted to decrease (-81.5 billion dollars compared to baseline) and inflation likely to expand further (+2.0%p).

| Table 4 | Estimation of the Economic Impact of the Oil Price Scenarios¹⁾

Scenario	International Oil Price (Dollar/Barrel)	Trade Balance (Billion Dollars)	Consumer Price Index (%p)
1	75 dollars approximately	-82	0.3%p
2	100 dollars approximately	-408	1.3%p
3	130 dollars approximately	-815	2.0%p

Note: 1) Magnitude of change in exports, imports, and consumer prices relative to the baseline scenario for international oil prices (70.2 dollars per barrel in 2025)

Source: National Assembly

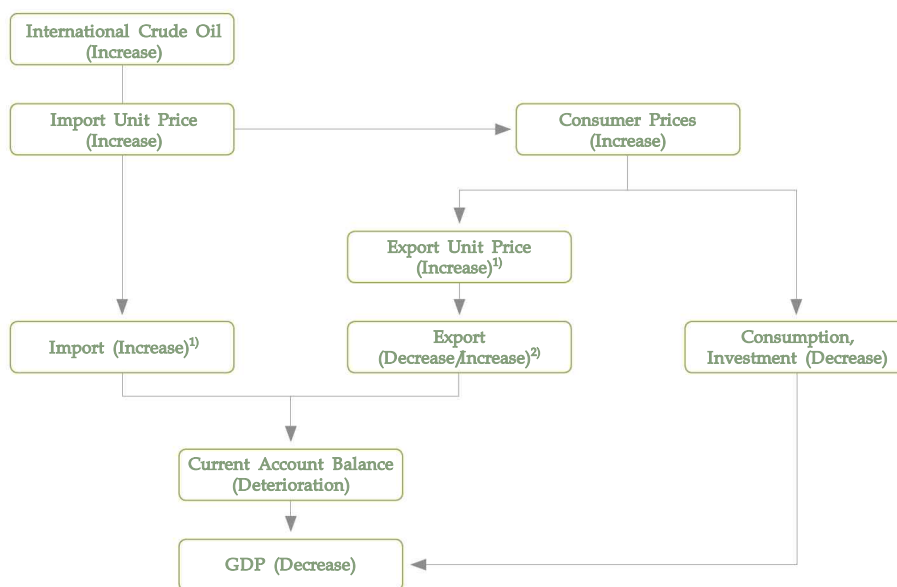
[6] The trade surplus in 2024 amounted to 51.6 billion dollars, and the inflation rate in May 2025 was 2.0%.

[BOX 4] Economic Effects of Rising International Oil Prices

■ The rise in international oil prices initially increases the burden of importing raw materials, leading to a rise in domestic prices. Subsequently, it has the effect of suppressing domestic demand such as consumption and investment.

- A distinction can also be made between the direct effects of increasing the burden of crude oil imports and the indirect effects of reducing consumption and investment through rising prices.
- However, the effects on exports are somewhat unclear.
 - While export items such as petroleum and chemical products may see an increase in export value due to rising unit prices, it is anticipated that in the case of other manufactured goods, the cost increase may not be fully transferred to export prices.

The Economic Ripple Effects of Rising International Oil Prices



Notes: 1) The increase in import value due to higher import unit prices is greater than the decrease in import value due to the lower GDP

2) There are mixed effects on export items, with an increase in exports driven by items like petrochemical products due to unit price increases, as well as a decrease in exports of other industrial products.

Source: NABO

The Economic Impact of Disruptions in Oil Imports and Supply

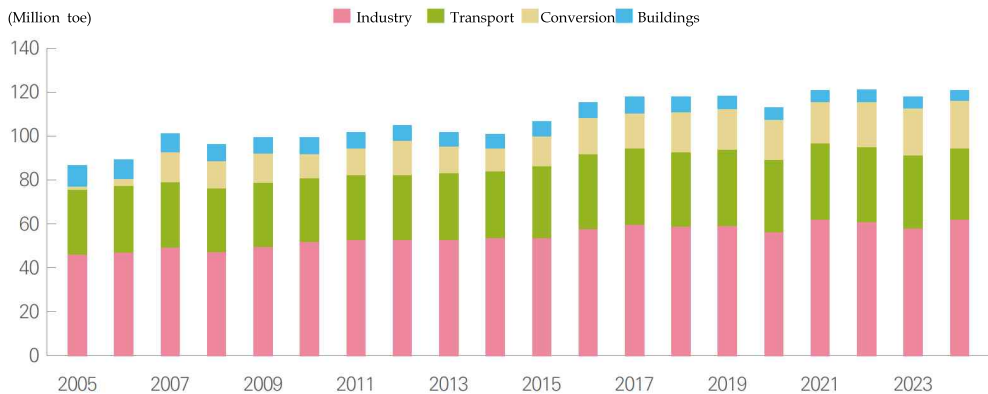
■ High dependence on petroleum for energy consumption and high reliance on external sources for oil supply

- In 2024, the proportion of oil in primary energy (309.6 million toe) was 39.2% (121.3 million toe).
 - In final energy consumption (212.3 million toe), the proportion of petroleum products is 47.0% (99.7 million toe).
- As of 2024, imports of oil (crude oil, refined raw materials, petroleum products) are 202.7 million toe (114.2 billion dollars), exports are 71.2 million toe (48.2 billion dollars).

■ Disturbances in oil import and supply may have a significant impact on production activities.

- In the recent 20 years (2005-2024), the average rate of change in petroleum supply (based on primary energy) is 1.6%, with a volatility of 4.4%p.
 - The average rate of change of oil imports is 2.0%, with a volatility of 3.4%p.
- As of 2024, the consumption of petroleum products by sector consists of 51.2% for industry, 27.0% for transportation, 17.8% for conversion, and 4% for buildings.

|Figure 12| Petroleum Product Consumption (By Sector)



Note: For the industry/transport/buildings sectors, petroleum consumption refers to the products utilized within each sector; for the conversion sector, petroleum consumption is calculated by subtracting the final petroleum products consumed from the primary energy petroleum consumption.

Source: Compiled by the NABO based on the Energy Statistics Monthly Report

■ The economic impacts of reduced petroleum imports may vary by sector and industry.

- Assuming a 5% reduction in petroleum supply due to war, the magnitude of impact was calculated by estimating the reaction of value added per industry and multiplying by the industry share.
 - Considering the volatility of oil supply observed over the past 20 years, the probability of a situation where oil supply decreases by over 5% unfolding is about 7.5%.
- The magnitude of the potential impact on real GDP is -0.60%p.
 - Examining the magnitude of industrial effects reveals: -0.37%p for the Service Industry, -0.12%p for Manufacturing, -0.04%p for Construction, and -0.01%p for Electricity, Gas, and Waterworks.
 - In the service sector, wholesale and retail, accommodations, food services, and transportation are primarily impacted.
 - In manufacturing, adverse effects are seen in the chemical and chemical product manufacturing, transportation equipment manufacturing industries, etc.

■ Exploration of risk management strategies for variations in petroleum import and supply

- There is a need to establish policy-based support measures to mitigate the impacts of rising petroleum product prices on vulnerable groups, and continue efforts to enhance the stability of supply chains by diversifying petroleum import sources.
 - The government extended the reduction in fuel taxes and provision of oil price-linked subsidies for two months until the end of August.^[7]

[7] Joint Publication by Related Ministries, "Current Consumer Price Trends and Measures"2025.6.16

[BOX 5] Environmental Changes in the International Oil Market and Mitigating the Impacts of Middle East Conflicts

■ **Despite the Israel-Iran conflict, international oil prices have maintained a relatively stable trend.**

- Similar to the Israel-Hamas war that began in October 2023
- Some describe it as unusual in view of the past when the international oil price was highly sensitive to political and military changes in the Middle East.

■ **The World Bank suggests various structural and institutional changes in the international oil market as reasons why international oil prices remain relatively stable despite sudden events.**

※ World Bank, Commodity Markets Outlook, “Special Focus : Potential Near-Term Implications of the Conflict in the Middle East for Commodity Markets” October 2023

- The 1st oil shock of 1973 (Yom Kippur War) and the 2nd oil shock of 1978 (Iranian Revolution) acted as an opportunity for oil-importing countries to recognize the economic risks posed by oil supply shortages due to political instability or international political instability of oil-producing countries.
- Since then, various safety measures have been introduced in the international oil market by various countries, such as reducing dependence on oil for energy consumption, diversifying oil supply sources, introducing a strategic reserve oil system, opening oil futures markets, and establishing the International Energy Agency (IEA) (1974).
 - Oil futures trading provides opportunities to eliminate (hedge) the risk of future price fluctuations, and examples include WTI (Western Texas Intermediate, established in 1983) and Brent (established in 1988).
 - The national strategic oil reserve business in Korea started in the early 1980s and is used for price stabilization and addressing supply and demand imbalances (reserve scale: about 9,000 million barrels, reserve days: 115 days).

06 Summary and Implications

■ Checking the risks that international oil prices and oil transportation route instability may pose on the Korean economy

- As Iran occupies a significant portion of the global oil market, concerns about the security of the Strait of Hormuz, a critical maritime transportation route, are increasing, causing international oil prices to fluctuate.

■ The results of the analysis evoke the vulnerability of our economy, which is highly dependent on oil consumption and external oil supply.

- The rise in international oil prices can reduce Korea's trade surplus margin, destabilize prices, and potentially lower the real GDP growth rate.
- Additionally, it is crucial to consider that disruptions in oil imports and supply can significantly affect production activities, with economic impacts varying by sector.

■ To address this, ways to manage risks associated with fluctuations in oil imports and supply are being explored.

- Measures to provide policy-based support to mitigate the impact on vulnerable groups, diversify oil import sources, and strengthen supply system stability are being continually pursued.
 - Considering enhancing the number of reserve days (currently 115 days) and strengthening the ability to respond to sudden oil price changes
- In the mid- to long term, energy transition efforts are being continued to reduce the dependence on oil of energy consumption by considering energy security, economic feasibility, and carbon neutrality.