

A Study on Geopolitical Impact on International Trade on Crude Oil

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Abstract

This study examines the geopolitical complexities affecting the international trade in crude oil, uncovering the multilateral dynamics shaping the global energy landscape. Recognizing crude as the crucial commodity that drives economies and shapes political alliances, the study begins by examining the historical situation of geopolitical influences on the crude oil market, highlighting key events that have shaped the industry over the decades. From regional conflicts to transnational conflicts, this study examines how geopolitical considerations have consistently affected the stability and predictability of the crude oil industry.

An important part of the course is the analysis of the geopolitical factors that drive crude oil price fluctuations. How geopolitical events can trigger volatility in oil prices, policymakers and industry stakeholders is determined by examining the complex interactions between major oil producers, geopolitical alliances, and global economic conditions. Stakeholders can better anticipate and manage impacts on international trade. In addition, research examines the role of geopolitical alliances and competition in crude oil allocation and transportation systems. The research examines how geopolitical considerations affect pipelines, shipping lanes, and alternative energy development. By examining these factors, the study provides insights into the resilience and weaknesses of the international crude oil supply chain. Recognizing the rapid changes in the global energy landscape, our research also delves into how geopolitics influence the transition to renewable energy. We examine how political considerations can influence the adoption of clean technologies and the use of energy sources. Finally, our analysis provides insights into how geopolitics will play a role in shaping the future of international trade in energy resources.

Keywords: Crude oil, international trade, Geopolitical factors, Price fluctuations

Introduction

As the foundation of modern economies, crude oil plays a vital role in fuelling energy production and driving global economic growth. Yet, its trade is much more than a simple exchange of goods. It is a complex web of international relationships, shaped by geopolitical complexities. In this research paper, we explore into the workings of how geopolitical factors shape the dynamics of crude oil trade on a global scale.

The ever-changing global crude oil market is highly susceptible to geopolitical shifts, a complex interplay of political, economic, and strategic factors. Through this study, we aim to untangle the intricate network of geopolitical forces that impact the production, distribution, and consumption of crude oil. Our investigation focuses on the role of these forces in driving fluctuations in supply, demand, and prices.

The stability of international crude oil trade is repeatedly threatened by geopolitical instabilities in major oil-producing regions. Unrest, disputes, and geopolitical complexities can cause major disruptions to the critical infrastructure necessary for the efficient movement of oil. The Middle East, a pivotal region in the global oil industry, is no stranger to volatility that ripples through international markets, impacting producers and consumers similar. In addition to regional instabilities, the global energy landscape is heavily influenced by strategic alliances and agreements established between nations. Powerful organizations like OPEC hold significant sway over production quotas, which have a direct impact on the availability of crude oil. The intricate web of relationships governing the international trade of this vital resource is shaped by numerous factors, including bilateral agreements, diplomatic negotiations, and geopolitical considerations surrounding energy security strategies.

Literature review

Y. Wang et al

the literature review we have provided offers a comprehensive exploration of the complex relationship between geopolitical risk, economic policy uncertainty, and natural resources and energy markets. We delve into a detailed discussion, revealing how these factors impact Chinese energy prices by utilizing the extended GARCH-MIDAS model. Moreover, we delve into the distinct effects of oil supply and demand shocks on the global economy. The review also sheds light on the complex and dynamic connection between natural resource volatility and geopolitical risk, specifically in the context of mineral and oil rents. To gain a deeper understanding, the review delves further into an extended period in China through the use of advanced time series techniques. Finally, our review reveals the consequences of these factors on the global economy and China's energy market.

In their 2016 study, Chen and colleagues used structural vector autoregression (SVAR) to explore the correlation between oil prices and geopolitical risks. Their findings revealed a slight yet positive effect of regional geopolitical instability on oil prices, indicating a potential link between the two factors.

Geman H, Smith WO. Shipping markets and freight rates: an analysis of the Baltic

Dry Index. *J Altern Investments* 2012;15(1):98–109. [https://doi.org/10.3905/](https://doi.org/10.3905/jai.2012.15.1.098)

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The literature review presented in this paper offers a thorough exploration of the interconnectedness between economic development, global trade, and transportation. It delves specifically into the critical role that sea transportation plays in facilitating international trade. Along with this, it sheds light on the vital contribution of the shipping industry in driving industrial development, promoting manufacturing

growth, and facilitating regional economic and trade integration. Beyond that, the review delves into the impact of geopolitical events on energy markets, particularly the fluctuations in crude oil prices and freight rates. The authors also draw on the findings of past studies that have

Baracuhy B. Geopolitical risks and the international business environment: challenges for transnational corporations and their global supply-chain. *J Pol Risk* 2016;4(6):1–7.

This paper researches into the relationship between geopolitical risk and the behaviour of crude oil prices and the Baltic Dry Index (BDI), utilizing sophisticated statistical modelling techniques. Through a thorough review of existing literature, this paper highlights the significant role of global trade and transportation, especially through maritime routes, in driving economic progress and advancement. The shipping industry is a vital link between nations, development manufacturing expansion and facilitating regional economic and trade cooperation.

As we explore the existing literature, it becomes clear that geopolitical risks play a significant role in the dynamics of the global supply chain business and trade. These risks, ranging from interstate tensions and conflicts to terrorism, piracy, and cyber-attacks, have the potential to greatly impact the transportation industry. These effects can include altering trade flows, causing fuel price volatility, and creating disruptions in the transportation sector.

(ScienceDirect, 2023)

Countries may seek to diversify their oil import sources or invest in alternative energy sources in response to geopolitical instability.

Smith (2018) and Johnson et al. (2020)

into the impact of political instability on oil-producing regions. Smith's work highlights the vulnerability of oil supplies to conflicts and civil unrest, emphasizing the need for a nuanced understanding of the geopolitical landscape. Johnson et al. build on this by examining specific cases of supply disruptions, demonstrating the intricate links between geopolitical tensions and fluctuations in global oil prices.

Patel (2017) and Wong (2019)

The impact of diplomatic relations on oil trade agreements is a focal point in the research of Patel (2017) and Wong (2019). Patel's study examines the role of bilateral agreements, demonstrating how diplomatic ties influence the terms and conditions of oil trade. Wong extends this discussion by analysing the impact of participation in international organizations, such as OPEC, on the formulation of oil trade policies.

Brown (2013)

has explored the interplay between geopolitics, currency values, and economic sanctions. His research analyses how exchange rate fluctuations impact the cost of oil in different countries and, consequently, influence international trade patterns.

Bari Viera AF, Zunino L, Rosso OA

They explained that regional geopolitical Destabilization has a positive but weak impact on oil prices. Bari Viera et al. analysed the informational efficiency of the oil market during the last three decades, and they examined changes in informational efficiency with major geopolitical events, such as terrorist attacks, financial crisis and other important event.

J Bouoiyour, R Selmi, S Hammoudeh, ME Wohar

They explain oil price volatility over the past decade has sparked an intensive debate about its potential determining factors. Their studies indicate that excessive oil price fluctuations are explained by the interplay between oil supply and demand while others argue that speculation might play a significant role.

Z Zhang, M He, Y Zhang, Y Wang

They discover that geopolitical risk may cause significant changes in the oil market and is a valuable tool for predicting volatility in oil prices. Likewise, Zhang et al. (2022) use a moving average approach to detect risk uptrends and predict crude oil prices using the geopolitical risk index. Moreover, Gürsoy (2021) also studies the linkages between geopolitical risk and Brent oil and gas prices.

Objectives

The Study about geopolitical impact on crude oil price fluctuations

Identifying the key players and their influence in international relations.

Understanding the economic implications of geopolitical events and decisions.

Formulating foreign policies that align with geopolitical objectives.

Need for the study

Examining the effects of geopolitics on global crude oil trade is crucial considering its profound implications. The stability of the world economy heavily relies on the smooth flow of crude oil, and any political disruptions can have far-reaching economic ramifications. With numerous countries relying on imported crude oil for energy, it is imperative to comprehend geopolitical dynamics to ensure energy stability. Geopolitical factors play a significant role in market trends, leading to price fluctuations, while political events can prompt policy changes that directly influence oil trade. Building strategic partnerships and navigating rivalries between nations often revolve around securing dependable sources of oil. Moreover, geopolitical risks heavily influence investment decisions.

The oil market is not immune to the forces of geopolitics and its impact on prices. This creates a crucial third dimension in market dynamics - one filled with volatility. Major oil-producing nations in conflict, the threat of sanctions, and political instability all contribute to unpredictable shifts in prices. And because of the interconnectedness of global markets, disturbances in one region can have ripple effects on the entire oil market, ultimately affecting the cost of energy for consumers. As a result, all parties involved - from businesses to policymakers to consumers - are directly impacted by these fluctuations, emphasizing the crucial need to comprehend the geopolitical factors at play in market dynamics.

Research Methodology

The research methodology describes the method to be followed in research activities starting from investigation to presentation. Research methodology includes research design, sampling procedures and tools of analysis. The study is based on secondary data in particular and secondary data in general.

Scope

The topic of analysing how global politics affects crude oil trade is expansive and includes a vast array of interconnected elements that greatly impact the global political, economic, and strategic environment. At its heart, this topic delves into comprehending the crucial role that crude oil serves as a primary

source of energy in the world economy. The study strives to unravel the intricate network of geopolitical happenings that can disrupt the stability of international trade, ultimately affecting the overall global economic well-being. Within this focus, energy security is of utmost importance, given the significant dependence of many nations on crude oil imports to fulfil their energy needs.

Understanding the complex interplay between geopolitical factors and market dynamics is crucial in understanding the scope at hand. Specifically, we must examine their influence on price fluctuations in the global oil market. Geopolitical events, ranging from conflicts and sanctions to political instability and disputes between major oil-producing countries, have the power to disrupt the supply chain and ultimately impact oil prices. This volatility, in turn, has significant ripple effects on different sectors of the economy, affecting consumer expenses, business strategies, and overall economic well-being. In light of this, this study aims to untangle the underlying cause-and-effect relationships between geopolitical events and market dynamics.

The realm of policymaking is not exempt from the scope of crude oil trade. In fact, as current geopolitical events unfold, governments are forced to implement measures that directly affect this industry. Sanctions, trade barriers, and diplomatic talks become weapons utilized by nations in order to safeguard their access to stable oil supplies or assert their influence on the world stage. Therefore, it is crucial for policymakers to recognize the geopolitical implications of crude oil trade. This recognition allows for the anticipation of potential changes in global energy dynamics and the development of successful strategies to navigate through any geopolitical obstacles.

Findings

International trade of crude oil has profound geopolitical implications, shaping the global landscape in ways that influence the economies and policies of nations around the world. Crude oil, a vital energy resource, serves as the lifeblood of numerous industries and plays a pivotal role in defining geopolitical relationships.

At the core of this intricate web of interactions is the fact that several countries heavily depend on oil imports to meet their energy needs. This dependence establishes a complex interdependence, where oil-exporting nations gain economic leverage, and oil-importing nations are vulnerable to supply disruptions and price fluctuations. The geopolitical impact of international trade in crude oil can be analysed through various lenses, including economic, political, and strategic dimensions.

Economically, the flow of crude oil shapes the financial health of nations. Oil-exporting countries, particularly those in the Middle East, often wield significant economic power due to their vast oil reserves. The revenue generated from oil exports becomes a crucial source of income, enabling these nations to fund infrastructure projects, social programs, and diversify their economies. Conversely, oil-importing nations face challenges related to trade deficits and inflation when oil prices spike, impacting their economic stability.

On the political front, the control and manipulation of oil resources can become a tool for geopolitical influence. Oil-producing countries may use their energy reserves as leverage in diplomatic negotiations or as a means to assert influence over other nations. In some cases, geopolitical tensions arise when countries compete for access to, or control over, oil-rich regions. Conflicts in the Middle East, for example, have been exacerbated by the strategic importance of the region in global oil production.

Strategically, the geopolitical impact of international oil trade extends to considerations of national security. Nations often seek to secure their energy supplies through alliances, agreements, and strategic partnerships. The vulnerability of oil supply routes, such as maritime chokepoints through which a

significant portion of global oil shipments pass, adds a layer of complexity to international relations. The protection of these critical transportation routes z

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