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GEOPOLITICAL RISK OBSERVATORY

The Gulf

Luiss Report

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GRO Overview: The Gulf

GRO Overviews are neither extensive analysis nor news updates. Instead, they offer a general perspective over areas and issues, trying to provide a series of factors and variables that organizations should monitor to anticipate risks. For in depth analysis or day to day updates you should contact the observatory at strategicchange@luiss.it

Summary

The Gulf remains a core geopolitical region, where fragile security dynamics coexist with structural energy and financial importance. Three drivers shape the current risk profile: the fragility of the Gaza ceasefire and potential spillover into the Gulf; uncertainties surrounding Iran’s nuclear trajectory; and shifts in U.S. security commitments. Exposure channels include energy supply, vulnerability of maritime routes, financial flows linked to sovereign wealth funds and economic diversification agendas, as well as potential sanctions. Over the next 6–12 months, the most likely trajectory is one of managed tension. Washington is expected to balance pressure on Arab partners to engage with Israel while attempting to reopen diplomatic channels with Tehran, supported by Iran-GCC dialogue and Chinese economic leverage, which will likely be enough to contain major risks but not deliver full stability.



Historical and Geopolitical Context

The Gulf is a basin of the Indian Ocean bordered by Oman, the United Arab Emirates (UAE), Saudi Arabia, Qatar, Bahrain, Kuwait (all part of the Gulf Cooperation Council, “GCC”), as well as Iraq and Iran. Its vast oil and gas reserves have turned the region into a global energy hub, central to hydrocarbon supply chains and maritime trade. The Strait of Hormuz, between Oman and Iran, represents the world’s most critical oil chokepoint, through which almost one-third of seaborne oil and a significant share of global liquefied natural gas transit.

Beyond its economic and geographical centrality, the Gulf has long been shaped by deep political, ethnic, and religious rivalries. The 1979 Iranian Revolution marked the beginning of a regional

polarization between the Shia-led Iran (supported by proxies in Iraq, Lebanon, Yemen and Syria) and the Saudi-led Sunni monarchies. The 2003 U.S. invasion of Iraq entailed a lasting American military presence in the region, while the conflict in Yemen started in 2015, evolved into an indirect confrontation between Iran and Saudi Arabia, culminating in Houthi attacks on Saudi oil infrastructure. The 2023 Saudi-Iranian rapprochement, mediated by China, lowered tensions and signaled China's rising diplomatic weight alongside a shifting U.S. regional posture. Since 2023, the Israel-Hamas war has further intensified security instability, turning parts of the Gulf into an arena for direct Iran-Israel confrontation. This escalation included Israeli operations against sensitive Iranian facilities (notably nuclear sites in June 2025, struck with U.S. support) and Iranian retaliation on U.S. bases in Qatar, followed by Israeli strikes against Hamas targets on Qatari territory. These dynamics preceded the fragile ceasefire reached in October 2025.

Today, the Gulf remains a focal geopolitical crossroads. Saudi Arabia is the world's leading oil exporter and a major OPEC actor, whereas Iran, under heavy international sanctions, maintains an influential (though increasingly contested) regional relevance. Qatar, the UAE, and Oman are attempting to position themselves as mediators. Great power competition also shapes the region: the United States remains its primary security provider; China has emerged as the main economic partner both for GCC states and Iran; and Russia cooperates closely with Gulf producers within the OPEC+ framework.

Global implications

Due to its centrality in energy supply chains and international shipping routes, any major disruption in the Gulf could trigger rapid rises in global energy prices, disrupt maritime trade, limit most of the world's spare production capacity and strain international diplomatic relations.

These vulnerabilities are exacerbated by fragile security architecture and increasingly competitive great-power dynamics. As anticipated, the United States remains the primary security actor (confirmed by its decisive role in the Gaza ceasefire and the recent presidential executive order reaffirming its defense commitment to Qatar), yet its broader strategic focus is being recalibrated. Gulf partners have responded by balancing U.S. protection with diversified partnerships (e.g., UAE in BRICS+, Saudi-Pakistan defense pact and China's expanding regional presence). This reflects a pragmatic drive to preserve stability while integrating the Gulf more deeply into the emerging multipolar competition.

Looking ahead, three possible scenarios deserve particular attention. A renewed breakdown of the Gaza ceasefire could generate spillovers into the Gulf (including Israeli actions against Hamas affiliates abroad or direct Israeli Iranian confrontation) with high global impact but low probability. A second pathway involves a renewed acceleration of Iran's nuclear program, which would entail regional anxiety and increase the risk of unilateral Israeli action against Iranian facilities. While the likelihood remains limited, the global impact would be significant. A short-term trajectory is a phase of managed tension, shaped by U.S. efforts to stabilize the ceasefire, reopen diplomatic channels with Tehran, and encourage cautious re-engagement between Israel and Arab partners, while Iran-GCC dialogue and China's economic leverage would not deliver full stabilization but could contain risks and prevent major shocks.

Practical implications for businesses and interests

For businesses and investors, the Gulf offers substantial opportunities with persistent sources of risk. Energy demand in the region is expected to rise sharply over the next decade, keeping the Gulf central to global supply strategies. Yet, any escalation in regional tensions or disruption at key maritime chokepoints would immediately affect prices, export volumes, and shipping schedules, with direct implications for operating costs and supply continuity. At the same time, sovereign wealth funds and large-scale economic diversification plans (e.g., Saudi Arabia's Vision 2030) are opening new entry points for foreign companies and investors across infrastructure, industry, technology, and energy sectors. However, recent adjustments, including revised budgets and timelines, to flagship projects (such as Neom) signal rising vulnerabilities. Firms engaged in these initiatives could face contract renegotiations, delayed revenue flows, or stranded assets if delays become structural.

On a macro-fiscal level, growth expectations across the GCC coexist with rising public debt, driven by volatile oil revenues. As a result, some governments are introducing new taxes or reducing subsidies. If these measures are expanded, margins for private operators may shrink, although, to date, the effects have remained limited (e.g., the 2025 introduction of a Domestic Minimum Top-up Tax in the UAE and tax reforms planned in Kuwait and Bahrain). Finally, regulatory uncertainty remains significant. As Iran is likely to stay under Western sanctions over the next 6–12 months, companies with exposure across both the Gulf and Iran face potential legal, financial, and reputational risks, including the possibility of secondary sanctions. Firms should therefore ensure that risk-management and compliance frameworks are sufficiently robust to navigate these constraints.

What to monitor

To effectively navigate this complex environment, the following indicators should be continuously monitored for signs of escalation or change:

- Israel– Hamas ceasefire: durability of the ceasefire, progress on the peace plan, internal dynamics in Israel, Gaza and the West Bank, and any signs of spillover into the Gulf through external operations against Hamas affiliates or friction involving Iran.
- Iran's regional strategy: signals of renewed acceleration in the nuclear program, proxy mobilization, or conversely diplomatic engagement with the US and Gulf states; potential adjustments in Tehran's posture following domestic, regional or global pressure.
- US direction policy: adjustments in Washington's regional priorities, including the credibility of security guarantees to Israel and Qatar, adjustments in military presence in Iraq, and efforts to reopen diplomatic channels with Tehran while engaging Gulf partners on regional stabilization.
- Gulf diversification agendas (Vision 2030 and equivalents): implementation trajectories of Vision 2030 and equivalent strategies, with particular attention to funding revisions, project timelines, and investors' appetite.
- OPEC+ coordination: production decisions, internal cohesion and signaling that may influence global energy market volatility and supply expectations.

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