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GEOPOLITICAL RISK OBSERVATORY

The Gulf

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Luiss Guido Carli University

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Luiss
Libera Università Internazionale
degli Studi Sociali Guido Carli
Viale Romania 32, 00197 Roma
T +39 06 85222350
www.luiss.it

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 has moved from fragile stability to open regional war. Since the US–Israeli strikes on Iran of 28 February 2026, Iranian retaliation has hit all six GCC states and the Strait of Hormuz has been effectively closed to normal commercial traffic. Three drivers now shape the risk profile: the unresolved US–Iran confrontation, with a ceasefire and a memorandum of understanding that have both collapsed and signals of a renewed US campaign after the US midterm elections; the extension of the conflict to the Red Sea, where the Houthi offensive around Bab al-Mandab and attacks on Saudi territory threaten the main alternative export route; and the fragmentation of the regional security order, as Gulf states hedge on US guarantees through new alignments (notably the Saudi–Turkish–Pakistani Mecca Alliance) and diverge among themselves. Exposure channels are no longer potential but realised: physical damage to energy infrastructure, disrupted shipping and insurance, sanctions exposure linked to Iran's Hormuz transit regime, and a sharp GCC recession. Over the next 6–12 months, the most likely trajectory is a contested stalemate with a high risk of renewed escalation; a negotiated reopening of Hormuz is possible but would not by itself restore pre-war conditions.

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, is the world's most critical energy chokepoint: before 2026 it carried close to a fifth of the world's oil and a comparable share of global liquefied natural gas trade.

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 Gaza ceasefire reached in October 2025.

The respite was short-lived. Between December 2025 and January 2026, a Saudi–Emirati confrontation over UAE-backed separatists in eastern Yemen exposed the GCC's internal fractures, while in Iran a currency collapse was followed by the violent repression of protests. On 28 February 2026, after the breakdown of nuclear talks, the United States and Israel launched a large-scale campaign against Iran that killed Supreme Leader Ali Khamenei, who was succeeded by his son Mojtaba. Iran retaliated against Israel and against US bases, civilian and energy infrastructure across the GCC, including Qatar's Ras Laffan LNG complex, and closed the Strait of Hormuz. A ceasefire agreed on 8 April was followed by the failure of the Islamabad talks and a US naval blockade of Iran from 13 April; a US–Iran memorandum signed in mid-June collapsed in July. Since July the Houthis have extended the confrontation to the Red Sea, declaring a blockade of Saudi Arabia and, in September, seizing positions overlooking Bab al-Mandab.

Today, the Gulf is an active theatre of war rather than a crossroads at risk. Saudi Arabia remains the world's leading oil exporter, but its exports are squeezed between a closed Hormuz and a contested Red Sea. Iran, weakened militarily and economically and led by a leadership consolidated around hardliners, has nonetheless shown it can hold the Strait of Hormuz hostage and is seeking to institutionalise its control through a permit-and-toll regime. Mediation has shifted: Pakistan, Qatar and Oman have carried the US–Iran track, while Saudi Arabia, through the Mecca Alliance, has opened its own channel to Tehran; the UAE, by contrast, has moved closer to Washington and Israel and has reportedly struck Iran directly. Great-power roles have also changed: the United States is now a belligerent as well as the primary security provider; China remains the main economic partner of both shores and has secured passage for some of its vessels; and the UAE's exit from OPEC and OPEC+ in May 2026 has weakened the producers' framework through which Russia cooperated with Gulf exporters.

Global implications

Because of its centrality to energy supply chains and shipping routes, the Gulf has turned a long-feared tail risk into reality. The closure of Hormuz produced what the IEA called the largest supply disruption in history: oil and gas output from the affected exporters fell from about 33 million barrels per day in February to around 19 million in May, Qatar's LNG production was halted and partly damaged, and Brent peaked at about $126 a barrel at the end of April, remaining above $110 in late October. The shock has spread to fertilisers, aviation, tourism and import-dependent economies in South Asia and the wider Middle East, and it has

largely locked in the spare production capacity the region normally holds for the world, since most of it sits behind the strait.

These vulnerabilities are compounded by a security architecture under strain. The United States remains the primary security actor, but its role has changed in nature: it is now a party to the war, and Gulf capitals have discovered both the limits of its protection against missiles and drones striking airports, ports and energy sites, and the extent to which its presence makes them targets. Gulf states have not abandoned Washington but are layering new arrangements on top of it. Saudi Arabia has expanded its 2025 defence pact with Pakistan into the Mecca Alliance with Turkey, activated in October with commitments to deploy forces to the Kingdom; the UAE has deepened cooperation with the United States and Israel; Qatar and Oman have invested in mediation. These choices are diverging rather than converging: Saudi–Emirati rivalry, visible in Yemen, Sudan and the UAE's unilateral exit from OPEC, limits GCC strategic cohesion. Washington, meanwhile, is pressing Saudi Arabia and Qatar to normalise relations with Israel as part of any settlement with Iran, a demand Riyadh has so far resisted.

The previous overview considered a renewed confrontation over Iran's nuclear programme a low-probability, high-impact scenario. It is this scenario that materialised, and beyond expectations: rather than unilateral Israeli action, the United States joined Israel in a military campaign aimed at dismantling Iran's nuclear programme and striking its leadership, while the "managed tension" baseline did not hold. Looking ahead, three scenarios deserve particular attention over the next 6–12 months. The first, and currently the most likely, is a contested stalemate: Hormuz remains largely closed or subject to an Iranian permit regime contested by a US blockade, attacks on shipping continue intermittently, and the Houthi–Saudi front in the Red Sea stays active, imposing a slow but cumulative economic attrition on the Gulf. The second is a renewed high-intensity US and Israeli campaign against Iran, which Washington has signalled to Gulf partners could follow the US midterm elections; its likelihood is significant and its impact very high, as Iran would be expected to retaliate again against Gulf infrastructure and could tighten its hold on the strait. The third is a negotiated de-escalation, built on the Pakistani, Qatari and Mecca Alliance channels, trading a reopening of Hormuz for the lifting of the US blockade and some sanctions relief. Even then, the fate of Iran's highly enriched uranium, the future administration of the strait and Israel's freedom of action would remain unresolved, so any de-escalation would be partial and reversible rather than a return to the pre-war order.

Practical implications for businesses and interests

For businesses and investors, the Gulf still offers substantial long-term opportunities, but the risks the previous overview described as potential have materialised. Energy assets and logistics have been physically hit: Qatar's Ras Laffan complex faces years of repairs, refineries and ports in Saudi Arabia and the UAE have been struck, and exporters have rerouted volumes through Yanbu on the Red Sea and Fujairah outside the strait, routes that are themselves exposed to Houthi attacks or limited capacity. Firms should expect force majeure

claims, war-risk insurance premia, higher crew costs and congestion at alternative ports to persist as long as the strait remains contested, followed by a recovery period after it reopens. Sovereign wealth funds and diversification plans remain the main entry points for foreign companies, but priorities have been reset. Saudi Arabia's Public Investment Fund adopted a 2026–2030 strategy shifting from rapid growth to "sustained value creation", redirecting capital towards defence, AI, logistics and the deadlines of Expo 2030 and the 2034 World Cup, while NEOM's 2026–2030 budget reportedly includes around $16 billion to terminate long-term contracts. The risk of renegotiation, delayed payments or stranded assets flagged in the previous overview is now concrete for firms exposed to giga-projects.

On a macro-fiscal level, the outlook has turned from growth with rising debt to recession. The IMF now projects the GCC economy to contract by 4.8% in 2026, against the 2% growth it expected in April, with the sharpest falls in the states most dependent on Hormuz (Kuwait, Qatar and Bahrain) and Oman the only member still growing; non-oil activity is also set to shrink. A strong rebound in 2027 is projected but hinges on an end to hostilities and a gradual reopening of the strait, and output is expected to remain below its pre-war path even in 2030. Fiscal deficits are widening as revenues fall and defence and reconstruction spending rise, and sovereigns have returned to borrowing, initially through private placements rather than public markets. Governments are therefore likely to lean further on new revenue measures and subsidy reform, building on steps such as the UAE's 2025 Domestic Minimum Top-up Tax and Bahrain's January 2026 package raising fuel, electricity and water charges, which may squeeze private-sector margins and household demand.

Finally, regulatory and sanctions risk has widened in scope. Iran remains under reimposed UN sanctions and an expanding US sanctions and blockade regime, and is unlikely to see meaningful relief over the next 6–12 months without a settlement. The exposure is no longer limited to companies doing business with Iran: since May 2026 the US Treasury has sanctioned Iran's Persian Gulf Strait Authority and warned that paying transit "tolls", or even accepting Iranian guarantees of safe passage without payment, can expose shipowners, insurers, banks and traders, including non-US ones, to secondary sanctions. Any company moving goods in or out of the Gulf therefore needs compliance frameworks that cover transit arrangements, charter and insurance terms, and counterparties' dealings with Iranian authorities, alongside the established risks of Iran-related trade.

What to monitor

Factors that might lead to considerable changes in the current situation include:

- **US–Iran confrontation:** whether diplomacy gains traction (the Pakistani, Qatari and Mecca Alliance channels, Iran's seven conditions, custody of its highly enriched uranium), or whether signals of a renewed US–Israeli campaign after the US midterms turn into operations; cohesion of the leadership in Tehran.

- **Strait of Hormuz:** daily transits against the pre-war baseline (about 85 a day), how Iran's permit-and-toll regime operates and is enforced, the US blockade and escort arrangements, mine and missile incidents, and war-risk insurance pricing.
- **Red Sea and Yemen:** control of the Bab al-Mandab coastline, Houthi strikes on Saudi territory and shipping, and the scale of Mecca Alliance deployments to Saudi Arabia.
- **Energy infrastructure and supply policy:** restoration of Ras Laffan and damaged refineries; capacity of bypass routes (the East–West pipeline to Yanbu, and ADNOC's line to Fujairah, expected in 2027); OPEC+ decisions by the remaining core producers; and the UAE's output policy outside OPEC.
- **Gulf alignment and cohesion:** the credibility and terms of US security guarantees, Saudi–Emirati divergence, US pressure for normalisation with Israel, the course of the Gaza ceasefire, and the next Israeli government after the 27 October elections.
- **Fiscal resilience and diversification:** IMF and national forecast revisions, sovereign borrowing and spreads, PIF reprioritisation, and contract terminations or payment delays on giga-projects.
- **Sanctions and compliance:** updates to US guidance on Hormuz transit arrangements, and enforcement against shipping companies, insurers and banks.

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