



Faultlines of Containment

US-Israel vs Iran Conflict: Strategic Pathways and
Economic Implications for the GCC and Iraq

Executive Summary

This report assesses **how the US–Israel vs Iran conflict is most likely to evolve** from its current state and what that means economically for the GCC and Iraq. It applies **Management Partners’ foresight methodology** to move beyond event tracking and assess conflict evolution through stakeholder incentives, external drivers, pathway logic, and action–reaction dynamics. The purpose is to identify the most likely pathways, the main strategic danger, the most relevant alternatives, and the implications for governments, businesses, and investors operating in the region facing maritime disruption, corridor insecurity, and a structurally higher cost of risk.

The central judgment is that the conflict is moving toward **managed instability**, not toward rapid resolution. The current state is best described as **militarized maritime containment, with fragile diplomacy in the background and regional spillover rising at the edges**. From that starting point, the most likely pathway from the **current state is** → **Competitive Maritime Containment** → **Stabilized Armed Truce**. This remains the strongest pathway because it best fits the structure of the conflict: severe Hormuz disruption, rising Red Sea risk, weak but active diplomacy, tightening U.S. political tolerance, and an Iran that is damaged but still resilient enough to sustain selective coercion. Alliance divergence remains the main medium-term danger, because a wider gap between U.S. conflict-capping preferences and Israeli degradation aims would make the conflict harder to control and terminate coherently.

For the GCC and Iraq, the economic implications are broader than oil price alone. The conflict now transmits through four channels simultaneously: **Hormuz disruption, Red Sea risk, higher freight and insurance costs, and weaker confidence across aviation, tourism, logistics, trade finance, and real estate**.

For businesses and investors, the core implication is to **plan for persistent friction rather than rapid normalization**. Businesses should prioritize liquidity, routing redundancy, supply-chain resilience, counterparty quality, continuity planning, and disciplined capital expenditure. Investors should remain selective, favouring sovereign-linked cash-flow resilience, essential sectors, and route-flexible logistics, while demanding higher return thresholds for corridor-sensitive, sentiment-led, or leverage-heavy exposures.

Taken together, the report points to a clear conclusion: **the region is entering a period in which strategy, endurance, and continuity matter more than reaction speed to any single escalation cycle**. The right mental model is not crisis followed by normalization, but recurring disruption within a still-functioning regional order. In that environment, the main differentiators of performance will be corridor resilience, infrastructure protection, routing flexibility, liquidity discipline, and selective capital allocation. The region remains investable, but under a higher and more persistent premium, with resilience increasingly separating relative winners from losers.

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1) Report Context & Objectives

The US–Israel vs Iran conflict matters not only because of its security implications, but because it is increasingly shaping the economic operating environment of the GCC and Iraq. Its effects are transmitted through shipping routes, energy flows, insurance costs, logistics reliability, investor confidence, infrastructure risk, and the wider regional cost of doing business. In that sense, the issue is not simply whether the conflict escalates or de-escalates at any single moment. The more important question is how it evolves over time, through which pathways it is most likely to move, & what those pathways imply for regional stability & economic continuity.

This makes structured foresight analysis necessary. A conflict of this kind cannot be understood well through event tracking alone, because its significance lies in the interaction between military choices, political constraints, alliance dynamics, external drivers, and economic transmission channels. Leadership therefore needs more than a snapshot of the current situation or a static set of scenarios. It needs a framework for understanding how different pathways may emerge, how they may transition over time, and which end-states are more or less plausible.

The purpose of this report is to provide that framework. It is designed to help decision-makers assess the conflict as a dynamic system rather than a series of isolated incidents, and to translate that dynamic into practical implications for the GCC and Iraq.

This report has four objectives:

1. **Clarify the pathway logic of the conflict:** Identify the main strategic pathways through which the conflict could evolve, including how different forms of escalation, containment, divergence, and stabilization relate to one another.
2. **Assess pathway probabilities and transitions over time:** Evaluate which pathways are more likely, how they may shift across phases, and which end-states they are most likely to produce.
3. **Translate conflict pathways into regional economic implications:** Show how different pathways would affect the GCC and Iraq in the short and long term, including implications for trade, energy, logistics, investment, confidence, and state resilience.
4. **Identify mitigation priorities for decision-makers:** Set out the implications of the pathway analysis for governments, businesses, and investors, with a focus on resilience, continuity, and risk mitigation.

The report is designed to answer four practical leadership questions:

- **Which conflict pathways are most likely**, and which end-states do they point toward?
- **How are those pathways connected**, and how could the conflict transition from one phase or operating model to another over time?
- **What are the most important short- and long-term economic implications** for the GCC and Iraq under different pathways?
- **What mitigation measures should governments, businesses, and investors prioritize?**

The overall aim is not to predict a single outcome with false precision. It is to provide a structured basis for judging probability, transition risk, economic exposure, and decision priorities in a conflict environment where timing, sequencing, and pathway interaction matter as much as the individual events themselves.

2) MP Foresight Engine & Methodology

This report is built using **Management Partners’ Foresight Engine & Methodology**, a structured approach designed for situations where uncertainty is high, multiple actors interact strategically, and outcomes evolve through **action, reaction, and pathway transition over time**. In conflicts of this kind, static scenario lists are not enough. What matters is not only what could happen, but **how one pathway leads to another**, which actors are incentivized to move the system, where transition points sit, and how those shifts change the economic outlook for the market participants.

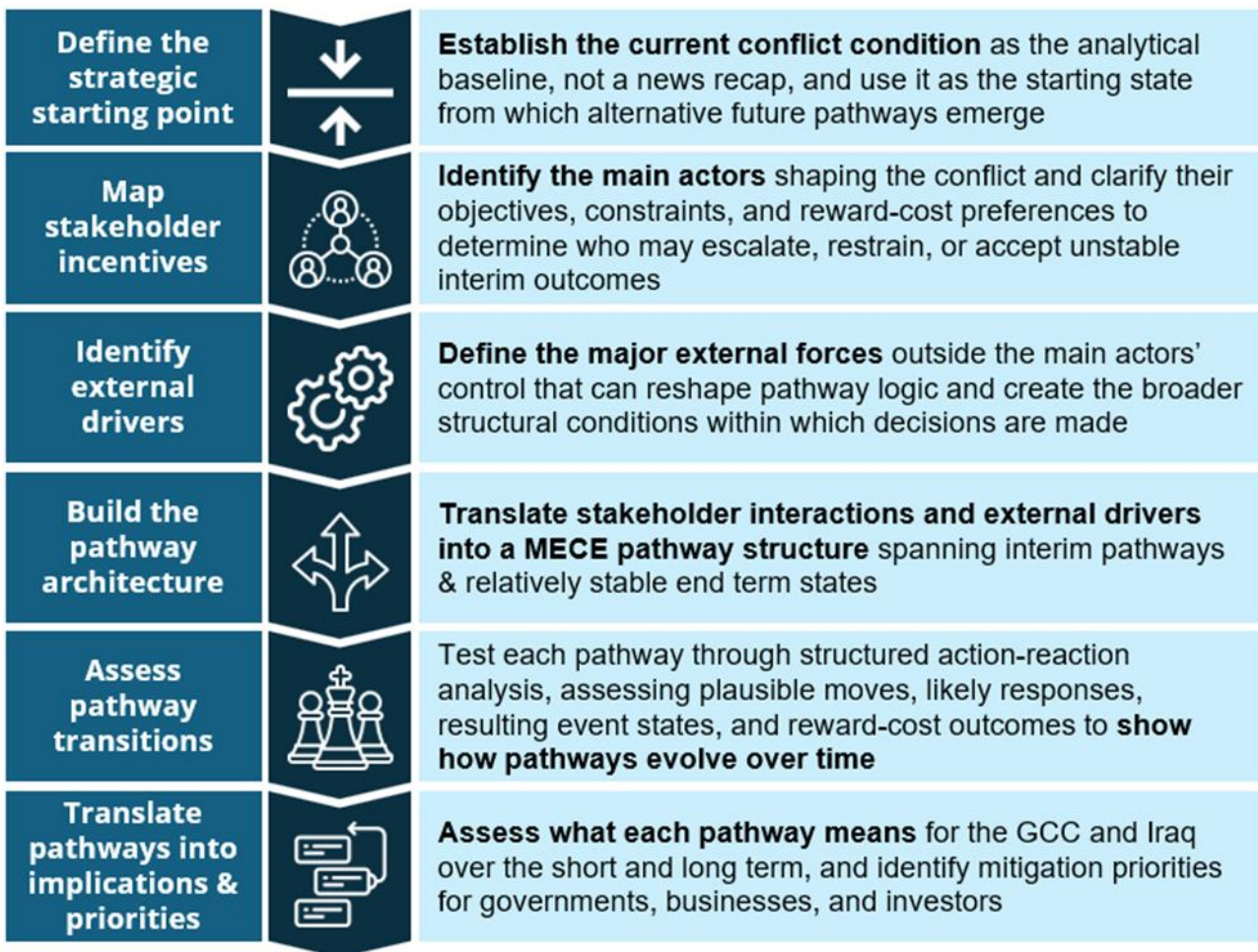


Figure 1: MP Foresight Methodology,

The methodology is therefore designed to analyze the conflict as a **dynamic pathway system** rather than as a sequence of isolated events. It begins by identifying the main stakeholders, their objectives, constraints, and cost-reward logic. It then isolates the external drivers that

shape the conflict but are not fully controlled by any one actor. On that basis, it constructs a set of coherent and mutually exclusive pathways, tests how those pathways evolve through stakeholder action–reaction cycles, and translates the resulting end-states into short- and long-term implications for the GCC and Iraq.

This methodology is particularly well suited to this conflict because the conflict is **multi-actor, non-linear, and path-dependent**. Its future direction depends less on a single event than on how stakeholders respond to each other under changing constraints. Military choices affect political tolerance. Political tolerance affects alliance discipline. Alliance discipline affects the probability of escalation, containment, or spillover. Those changes then alter the economic transmission to trade, energy, logistics, confidence, and state resilience.

A simpler forecasting approach would describe possible scenarios. This methodology goes further by explaining **how those scenarios emerge, how they connect, how likely they are relative to one another, and what could cause movement between them**. That makes it better suited for a conflict in which **sequencing, transition risk, and actor interaction** matter at least as much as headline events.

The probabilities used in this report are therefore **judgment-based pathway weights**, not statistical forecasts. Their purpose is not to create false precision, but to support decision-making by indicating:

- **the relative structure of the pathway map,**
- **the dominant or base-case pathway,**
- **the most important transition risks between pathways, and**
- **the pathways that would most materially alter the regional economic outlook.**

The value of the methodology lies in turning uncertainty into a structured decision framework. It helps decision-makers understand not only **where the conflict may go**, but also **why it may move there, through which transitions, and with what economic consequences for the GCC and Iraq**.

3) Strategic Baseline

Three structural realities matter more than daily headlines.

Maritime disruption is the main economic transmission channel

Military capacity and political tolerance are diverging

Iran retains enough capability to keep the conflict strategically costly

First, **maritime disruption is the main economic transmission channel**. Hormuz remains the world's most important oil chokepoint. Alternative routes through Saudi Arabia and the UAE help, but they do not remove regional exposure. The IEA estimates only 3.5 to 5.5 million barrels per day of alternative crude export capacity outside Hormuz against normal Hormuz flows of about 20 million barrels per day. LNG is even more constrained, because a large share of global LNG trade also transits the strait. At the same time, Houthi entry raises the possibility that a Gulf-centered maritime shock turns into a two-chokepoint problem spanning Hormuz and Bab-el-Mandeb.

Second, **military capacity and political tolerance are diverging**. The U.S. still has meaningful escalation capacity, but domestic scrutiny is rising, lawmakers are pressing for clearer war aims and an exit architecture, and allies remain much more comfortable with defensive support and maritime security than with a wider offensive role. The current U.S. posture — broad military objectives paired with delayed energy-sector escalation and continued diplomacy — reinforces the view that Washington is trying to preserve coercive leverage without committing to indefinite war ownership.

Third, **Iran retains enough capability to keep the conflict strategically costly**. Recent analysis indicates that Tehran is using insurgent-style, asymmetric methods to offset conventional losses, while preserving leverage through selective maritime denial, missile and drone pressure, and proxy activation. This is not the behaviour of a collapsing state. It is the behaviour of a damaged but coherent actor trying to survive, raise costs, and prevent a clean strategic defeat.

A fourth baseline point has become more important: **the conflict now has a two-chokepoint character**. Hormuz remains the central node, but Houthi activity raises the risk of renewed Red Sea disruption, which widens the economic transmission beyond Gulf export routes into Europe-bound trade and broader maritime insurance costs. That makes route diversification more valuable, but also more contested.

The strategic baseline is therefore not one of imminent resolution. It is one of **coercion under constraint**: enough military capability to keep fighting, but not enough political freedom on any side to convert that into a clean strategic end-state.

4) Key Stakeholders

A relatively small set of actors is shaping the conflict, but they are no longer optimizing for the same outcome. That divergence is the core source of pathway instability.



United States

Objective

Reopen shipping, degrade Iranian coercive capacity, protect U.S. forces and partners, and avoid a prolonged war

Constraint

Domestic scrutiny, casualty risk, potential energy-price shocks, and limited allied appetite for an offensive war

Implication

This pushes the United States toward bounded coercion, followed by efforts to cap and contain the conflict



Israel

Objective

Sustain pressure on Iran’s missile, nuclear, and proxy infrastructure

Constraint

Dependence on U.S. support, exposure across multiple fronts, and finite operational endurance

Implication

This pushes Israel toward continued degradation of Iranian capabilities even after others prefer conflict capping



Iran

Objective

Regime survival, retain deterrence, & maintain leverage over shipping & escalation.

Constraint

Infrastructure damage, economic stress, and ongoing attrition.

Implication

This pushes Iran toward selective coercion rather than maximal overreach.

Iran’s Proxies (Hezbollah, PMF, Houthis)

Objective

Expand pressure on Israel, the U.S., and their partners while preserving survivability.

Constraint

Retaliation risk, local political limits, and command-discipline requirements.

Implication

This pushes them to widen pressure geographically without triggering annihilating.



GCC States

Objective

Protect territory, infrastructure, ports, desalination assets, and trade continuity.

Constraint

Exposure to strikes and export disruption.

Implication

Pushes GCC states to seek insulation and maritime reopening without escalation.



Iraq

Objective

Preserve internal stability, protect exports, & avoid becoming principal proxy battlefield

Constraint

A fragmented security environment, oil dependence, and militia autonomy.

Implication

This makes Iraq the most vulnerable actor to spillover and corridor insecurity.

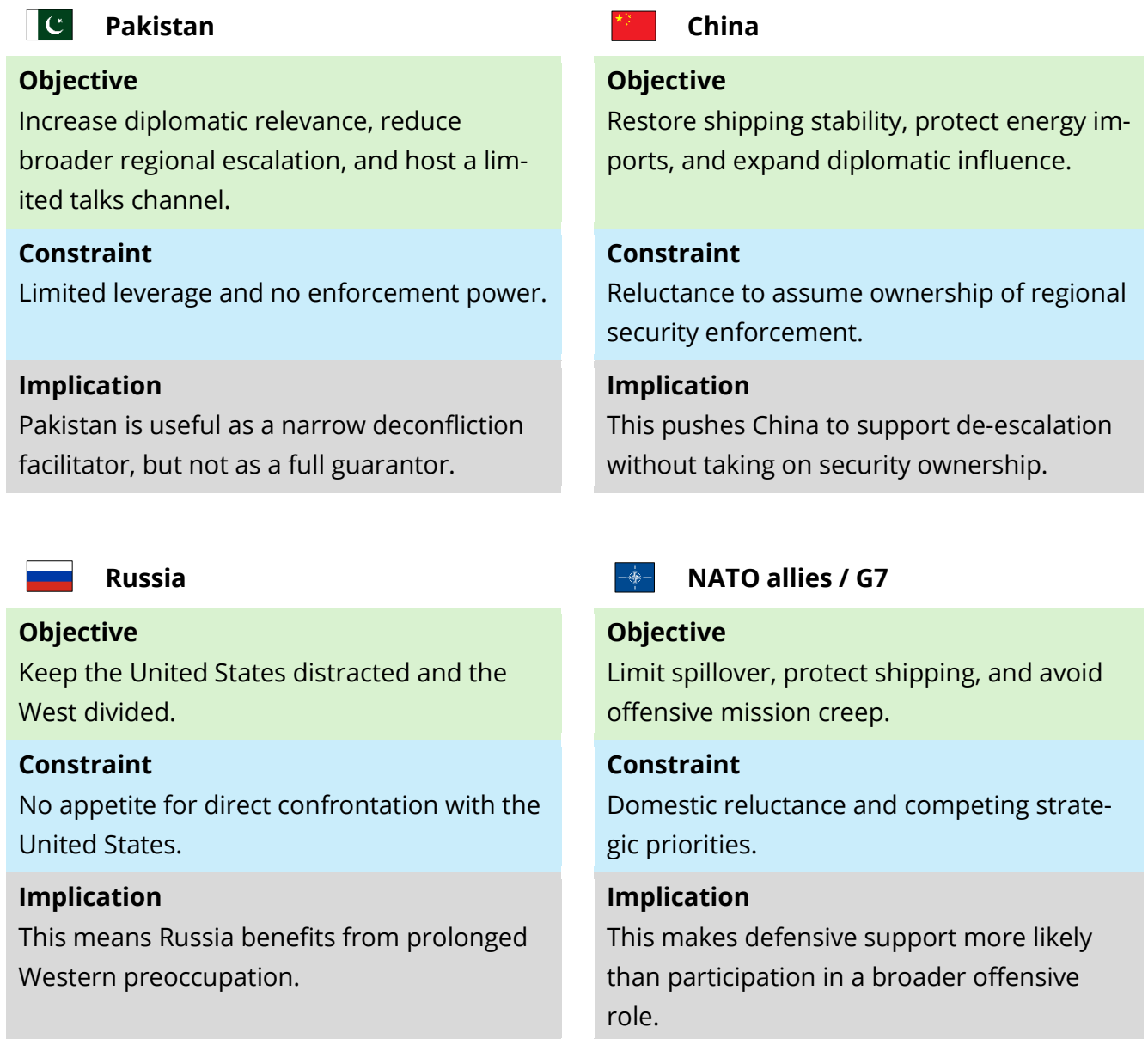


Figure 2: Stakeholder Overview

The important point is not simply that these actors disagree, it is **how** they disagree. Washington increasingly values conflict capping. Israel still values continued degradation of Iranian capability. Iran values survival plus leverage. Proxies value widened but survivable pressure. Gulf states value insulation. Pakistan values mediation relevance. China values stability without security ownership. That structure makes a fully synchronized coalition pathway harder to sustain over time.

A second implication is that no major actor clearly prefers a true **fragmented disorder** outcome. But several actors could tolerate prolonged disorder if they judge it cheaper than occupation, formal settlement, or uncontrolled escalation. That is why chronic spillover and

fragmentation matter so much in the end states (defined later): they are not preferred, but they can become tolerated unresolved regimes.

5) Key External Drivers

The conflict's pathway is not determined only by what the main actors want to do. It is also shaped by a small set of external drivers that no single actor can fully control, but which materially influence incentives, constraints, escalation tolerance, and the relative probability of different interim pathways and end states. These drivers do not by themselves decide the outcome. Rather, they shape which actor choices are more feasible, more costly, or more attractive at a given moment.

The six most relevant external drivers are: **U.S. political tolerance, U.S.-Israel alignment, diplomatic credibility, GCC-U.S. alignment, Iranian regime cohesion, and Iran-proxy alignment**. Each should be understood not as a fixed trend, but as a scenario variable with distinct possible states. Together, they define the structural environment within which stakeholder action–reaction cycles unfold. This makes them more analytically useful than operational outcomes such as shipping disruption, which are better treated as manifestations of actor choices and conflict behaviour rather than as external drivers in their own right.

- **U.S. political tolerance** determines how long Washington can sustain a broad coercive role and how much escalation risk it is willing to bear. In a **high-tolerance** state, the United States can sustain pressure over a longer period. In a **moderate-tolerance** state, it can continue but under tighter limits and stronger pressure for an off-ramp. In a **low-tolerance** state, domestic scrutiny, casualty sensitivity, and energy-price concerns narrow options materially and push policy toward conflict capping.
- **U.S.-Israel alignment** determines whether the conflict remains strategically coordinated. In a **high-alignment** state, both actors remain broadly synchronized on aims, tempo, and escalation thresholds. In a **strained-but-functional** state, differences grow but coordination still holds. In a **low-alignment** state, divergence over acceptable costs and desired end states weakens coalition discipline and makes harder-to-control pathways more likely. This matters because alliance divergence is already identified elsewhere in the report as a core source of pathway instability.
- **Diplomatic credibility** refers to whether indirect talks, mediation channels, and deconfliction mechanisms are credible enough to shape behavior. In a **strong** state, diplomacy can support restraint and corridor understandings. In a **limited but functional** state, it can still enable narrow deconfliction. In a **weak or collapsed** state, diplomacy remains formal but has little behavioral effect, making coercive pathways more likely. The current report already notes that diplomacy remains active, but narrow and fragile rather than settlement-grade.
- **GCC-U.S. alignment** shapes how far Gulf partners support U.S. conflict objectives, maritime security efforts, and escalation management. In a **high-alignment** state,

coalition containment is easier to sustain. In a **selective-alignment** state, Gulf partners support defensive and maritime-security goals but resist wider offensive ownership. In a **low-alignment** state, they prioritize insulation and hedging, which weakens coalition coherence. This is consistent with the stakeholder logic that GCC states seek insulation and maritime reopening without escalation.

- **Iranian regime cohesion** determines whether Tehran remains a damaged but coherent strategic actor. In a **high-cohesion** or **stressed-but-resilient** state, Iran can sustain selective coercion and conflict endurance. In a **fragile or fracturing** state, internal instability begins to shape external behavior directly, increasing volatility and miscalculation risk. The report already notes that Iran remains damaged but resilient rather than collapsing.
- **Iran-proxy alignment** determines how tightly Tehran can calibrate the behavior of Hezbollah, Iraqi militias, the Houthis, and other aligned actors. In a **high-alignment** state, proxy pressure remains disciplined and strategically synchronized. In a **partial- or weak-alignment** state, proxies act with greater autonomy, widening spillover risk and making escalation harder to control.

Taken together, these six drivers form the external scenario structure around the conflict. Their importance lies not in mechanically determining a single pathway, but in shaping the incentive environment in which actors choose. The more these drivers deteriorate simultaneously, the greater the probability of harder, less controllable, and more fragmented pathways.

6) Pathway Evolution Across Stages

The purpose of this chapter is not to list every possible scenario. It is to show **how the conflict is most likely to evolve from the current state**, which branches matter most, and where the main strategic forks sit.

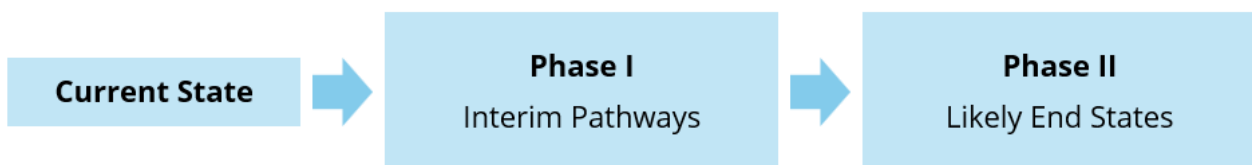


Figure 3 Pathway Evolution Across Two Stages

Current State

The conflict is best understood as a **fragile coercive equilibrium** centered on maritime access, selective coercion, and escalation control. The Strait of Hormuz remains the main transmission mechanism of the crisis: Iran has formalized a de facto toll-and-screening regime, traffic through the strait has fallen sharply, and bypass capacity outside Hormuz remains limited relative to normal flows. At the same time, Houthi entry has widened the crisis from a Gulf chokepoint problem into a broader **two-chokepoint system** spanning Hormuz and Bab el-Mandeb / the Red Sea. Diplomacy remains active through indirect channels, including Pakistan-facilitated mediation, but it is still functional and narrow rather than settlement-grade.

The best description of the current state:

militarized maritime containment, with fragile diplomacy in the background and regional spillover rising at the edges.

The current state is therefore **neither frozen nor unconstrained**. The United States continues to define broad conventional objectives, while Iran remains damaged but resilient enough to sustain missile, drone, proxy, and maritime pressure. That keeps the conflict inside a bounded but dangerous operating pattern: too intense for normalization, but still short of the kind of unbounded interstate war that would make immediate decisive resolution the base case.

Phase I: Interim Phases

Phase I captures the **dominant interim operating logics** through which the conflict can evolve before reaching a more stable terminal condition. Together, they provide a map of how the conflict can mature from the current state into qualitatively different transition routes.

The most likely interim pathway remains **Competitive Maritime Containment**, reflecting the continued centrality of shipping access, chokepoint leverage, and selective coercion. **Decoupled Allied Campaign** remains the second most important pathway because U.S.–Israeli preference divergence could materially reshape the tempo and controllability of the conflict. **Managed Deconfliction Window** remains a meaningful third pathway because indirect diplomacy and restraint mechanisms are still active, even if they are fragile and reversible.

Limited U.S. Littoral / Ground Coercion remains less likely but strategically important because it would move Washington toward a more direct coercive role tied to access restoration and deterrence credibility. **Internal Iranian Instability** remains the smallest interim pathway, but it is distinct because internal regime or command erosion could become a primary driver of external conflict behaviour rather than merely a background condition.

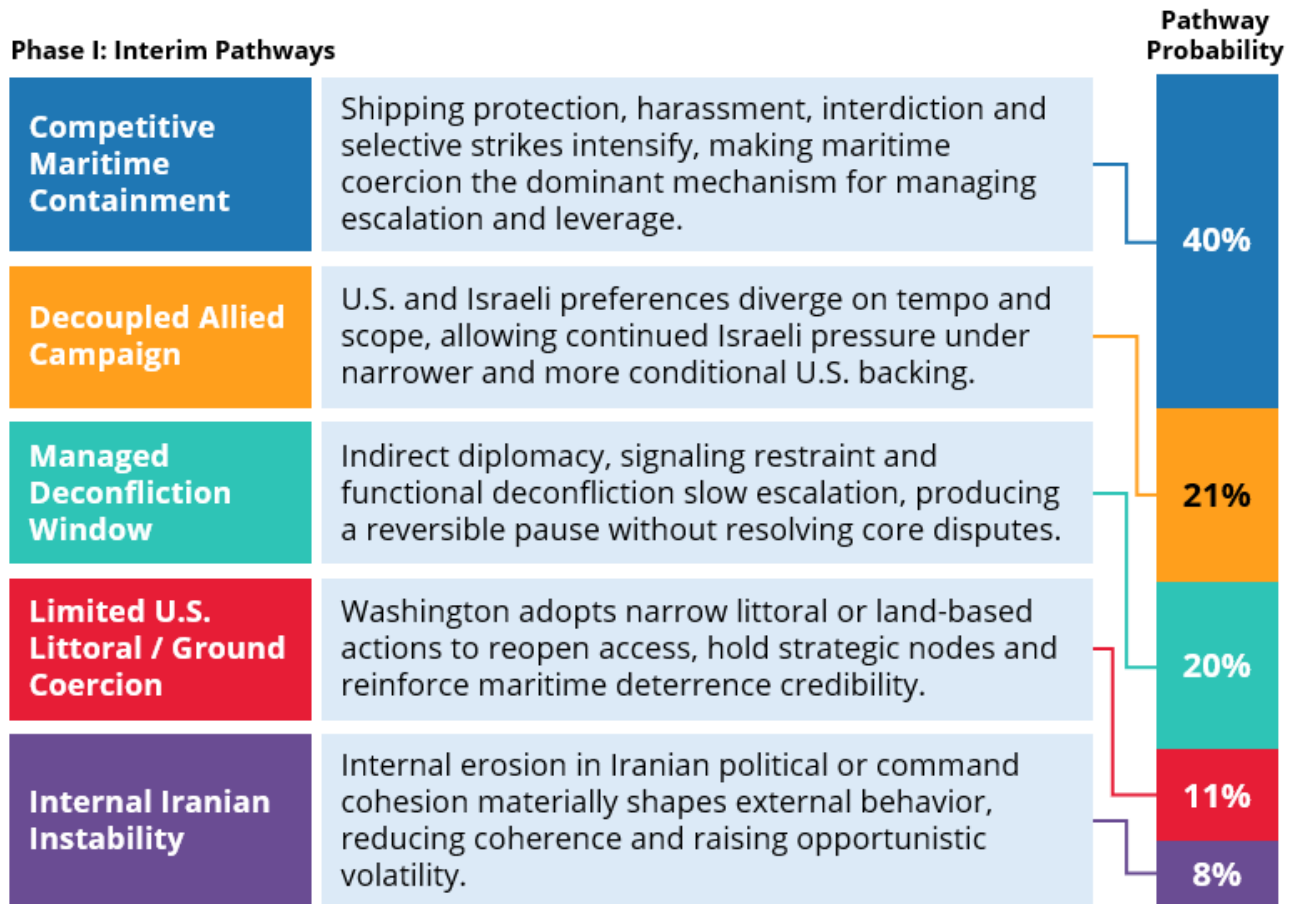


Figure 4: Interim Phase Pathways & Probabilities

Phase II: End States

Phase II captures the **relatively stable end-states** into which the conflict can ultimately settle once interim pathways have run their course. Unlike Interim Phase, which describes transitional operating logics, this phase defines the terminal forms of regional order or disorder that emerge after repeated action-reaction cycles have played out. The purpose is therefore not to describe near-term movement, but to identify the most plausible durable outcomes of the conflict.

The most likely end-state remains **Stabilized Armed Truce**, because it requires less trust, less verification, and less decisive victory than the alternatives. **Occupation / Imposed Control Order** remains the second-largest end-state and captures the harder coercive branch in which violence is suppressed through force-backed control rather than mutual restraint.

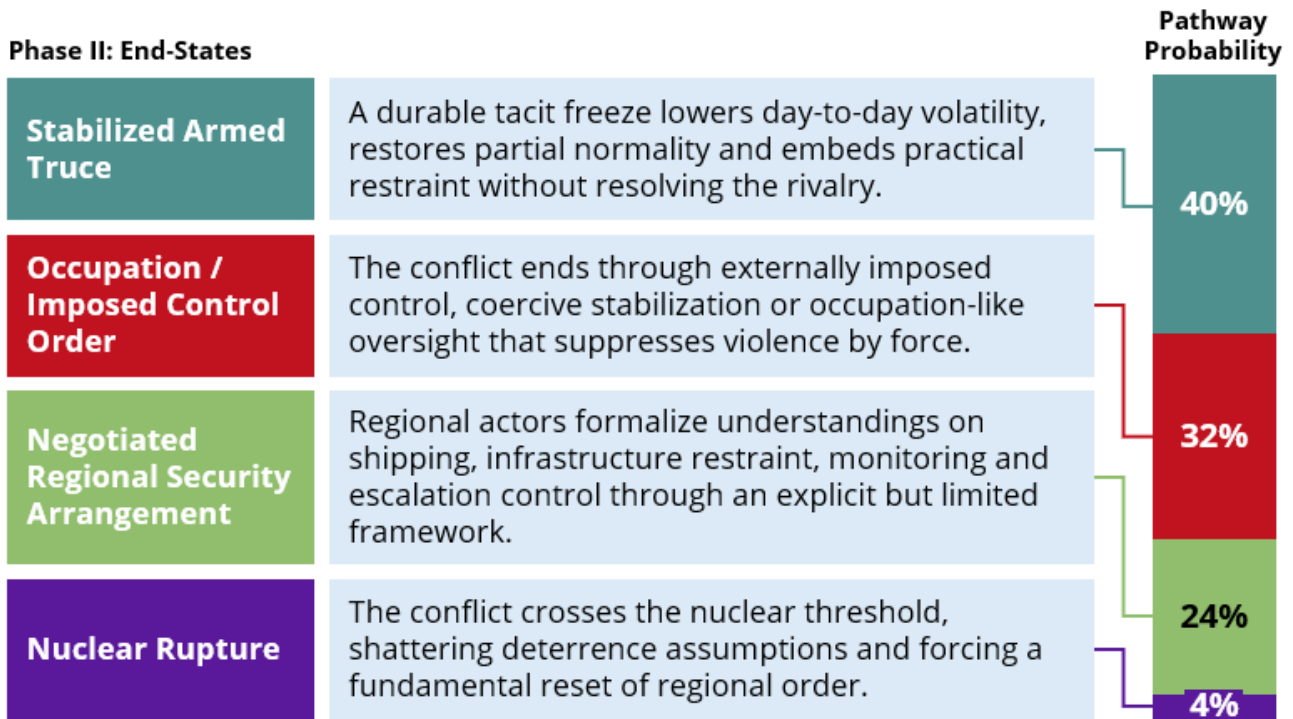


Figure 5: End States & Probabilities

Negotiated Regional Security Arrangement remains a meaningful but less likely outcome because it requires a stronger monitoring and enforcement architecture than currently exists, even though a shipping- and infrastructure-focused framework remains plausible over time. **Nuclear Rupture** remains the least likely end-state and should still be treated as a tail risk rather than a planning baseline, even though its systemic consequences would be the most severe.

All Pathways Map View

Each interim pathway can transition into more than one end-state if certain conditions, decisions, or escalatory events occur. The model therefore does not assume a single fixed route from Interim Phase to End States; instead, it shows a set of conditional transitions, each with its own probability. The **all-pathways view shows where probability mass concentrates**, where it branches, and which interim pathways most strongly pull the conflict toward stabilization, imposed control, negotiated restraint, or extreme rupture.

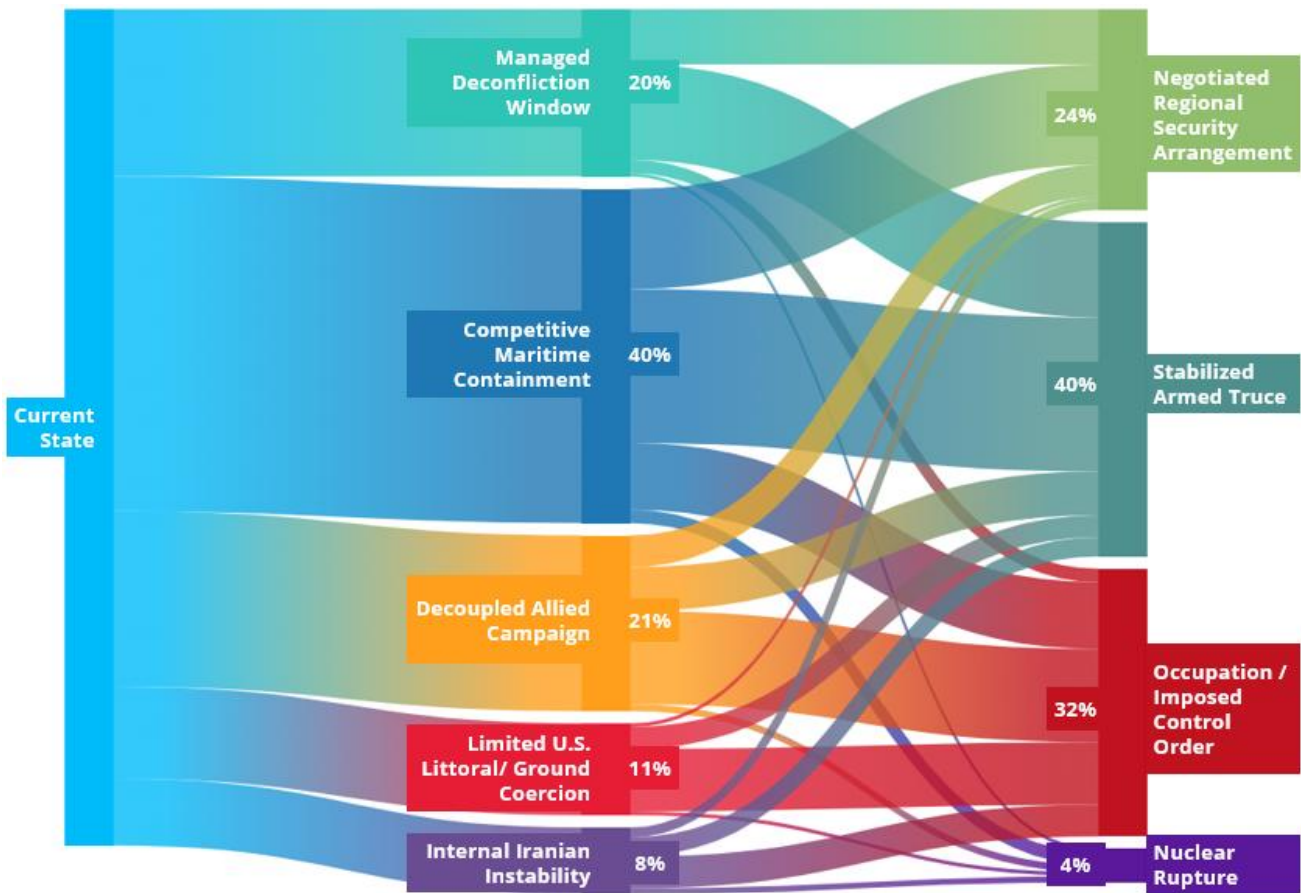


Figure 6: Pathway Overview

Most Noteworthy Pathway Families

The model contains a full set of possible pathway combinations from the current state through Interim Phase to End States, each with a different probability weight and timing profile. The pathway families below therefore highlight not only the **top three highest-probability chains**, but also the **best-case diplomatic route** and the **main strategic danger**. This framing is especially relevant under the current conflict picture, where a ceasefire proposal and reopening package remains under discussion even as military pressure, Hormuz-related coercion, and wider escalation risks persist. The **top three highest-probability chains**: Most probable chain, 1st alternative & 2nd alternative chains selected on pathway family weight/ combined probability.

Assessment category	Pathway family	Absolute Probability	Est. total duration from current state
Base case	Current state → Competitive Maritime Containment → Stabilized Armed Truce	18.5%	4–7 months
First alternative	Current state → Competitive Maritime Containment → Negotiated Regional Security Arrangement	12 %	5–10 months
Second alternative	Current state → Managed Deconfliction Window → Stabilized Armed Truce	11.5 %	2.5–4.5 months
Best-case diplomatic route	Current state → Managed Deconfliction Window → Negotiated Regional Security Arrangement	6.5 %	2–6 months
Main strategic danger	Current state → Decoupled Allied Campaign → Occupation / Imposed Control Order	11 %	6–18 months

Table 1: Most Noteworthy Pathway Families

A key implication follows from this ranking of the **three most likely pathways** remain variants of managed maritime containment or deconfliction rather than immediate large-war resolution. At the same time, the fastest credible route to a more positive formal outcome is the **best-case diplomatic route**, while the most dangerous plausible branch remains the one in which coalition discipline weakens as coercive pressure continues.

Base Case - Most Probable Chain: Maritime containment hardens into a stabilized armed truce

Pathway: Current state → Competitive Maritime Containment → Stabilized Armed Truce

Estimated duration: 4–7 months

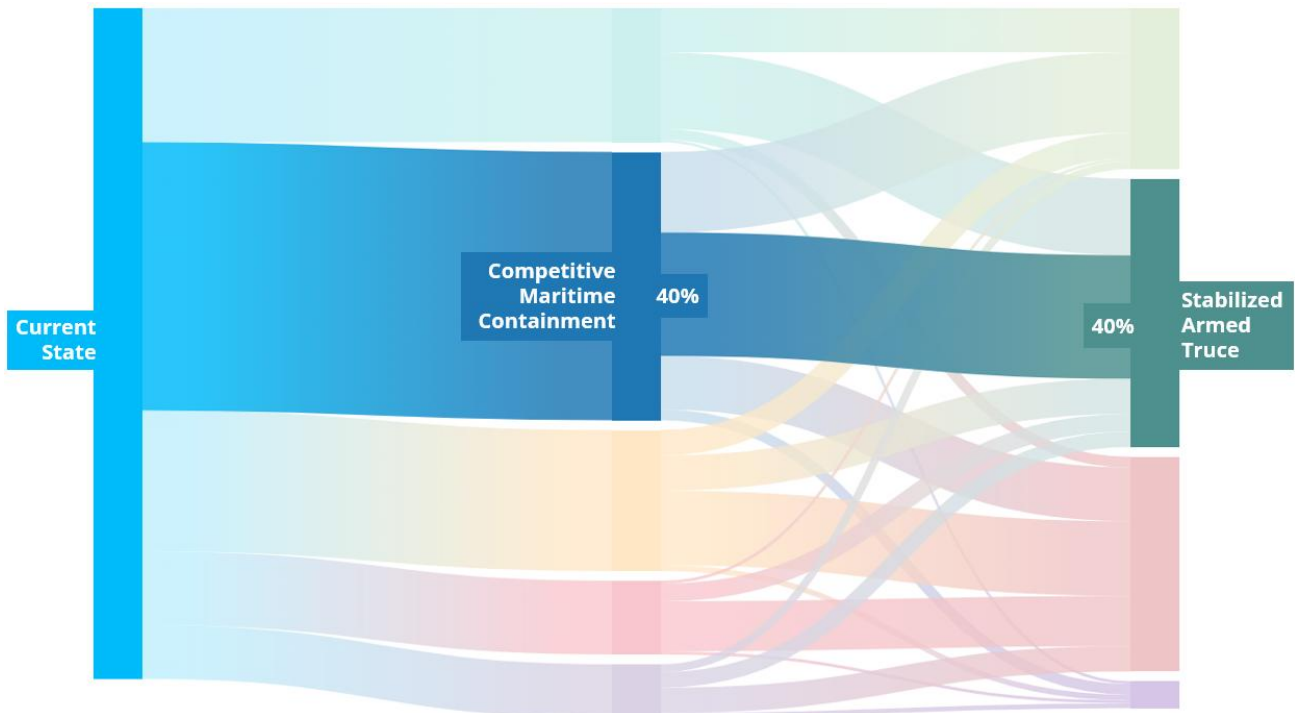


Figure 7: Base Case Maritime containment hardens into a stabilized armed truce

This remains the report’s **base case**. It best matches the current incentive structure of the conflict: the maritime domain remains central, pressure stays intense, and no main actor is yet positioned to impose a decisive outcome at acceptable cost. The pathway begins with several weeks in which maritime contestation remains the dominant mechanism, then moves into a longer period of indirect bargaining, tested restraint, and repeated attempts to cap escalation without formal settlement.

The timing logic is therefore sequential rather than abrupt. Maritime containment must first harden as the operating pattern, after which negotiation and deconfliction efforts can begin to reduce violence. In this pathway, those efforts do not disappear; rather, they prove sufficient to produce a **durable tacit freeze** but not strong enough to generate a formal regional framework. The result is the most likely medium-term outcome in the model: a more organized form of instability that eventually cools into practical restraint.

1st Alternative Chain: Maritime containment evolves into a negotiated regional arrangement

Pathway: Current state → Competitive Maritime Cont. → Negotiated Regional Security Arrangement

Estimated duration: 5–10 months

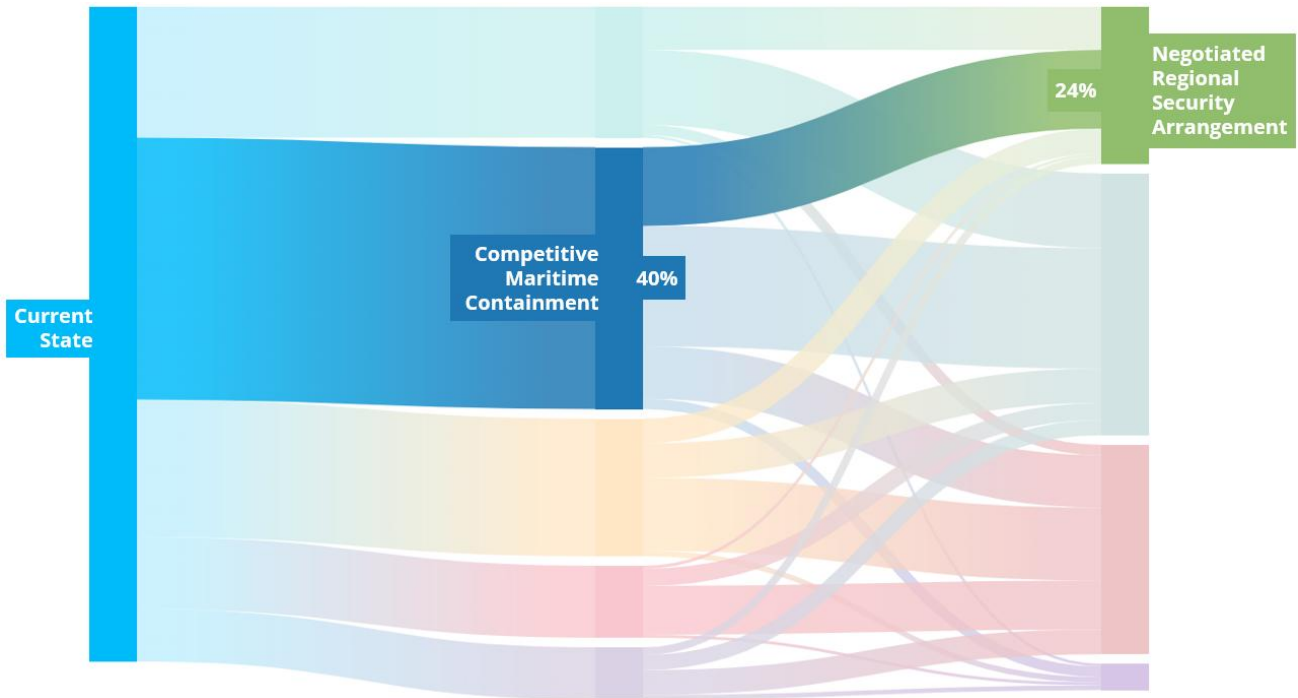


Figure 8: 1st Alternative Chain - Maritime containment evolves into a negotiated regional arrangement

This is the **first alternative by absolute weight** and the most important structured diplomatic branch emerging from the maritime base case. It starts from the same initial conflict logic as the base case: Hormuz-centered coercion, repeated operational friction, and sustained pressure on corridor access and infrastructure. The difference is that bargaining does not stop at a tacit freeze and instead matures into a more explicit rules-based process.

Its longer duration reflects the fact that a negotiated arrangement requires more than reduced violence. The actors would need enough time to translate deconfliction into more formal understandings on shipping access, restraint around strategic infrastructure, monitoring, and escalation-control mechanisms. This remains less likely than the armed-truce base case because it demands more structure, more verification, and more political durability, but it is still the clearest route through which persistent operational friction could eventually produce a limited formal security framework.

2nd Alternative Chain: Managed deconfliction produces an earlier truce

Pathway: Current state → Managed Deconfliction Window → End State: Stabilized Armed Truce

Estimated duration: 2.5–5 months

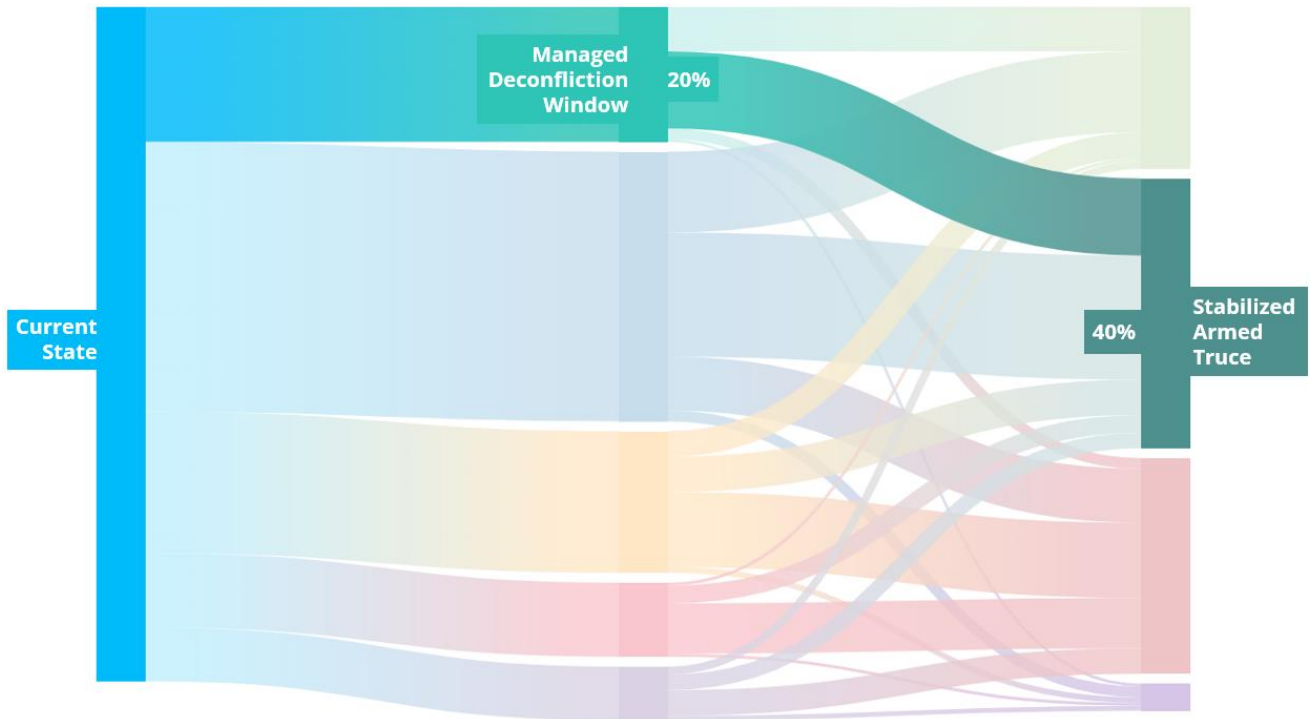


Figure 9: 2nd Alternative Chain - Managed deconfliction produces an earlier truce

This is the clearest **functional diplomacy** pathway among the top three. It becomes viable if indirect talks, restraint signaling, and practical corridor-focused crisis management gain traction early enough to slow the conflict before the maritime contest hardens further. Because a deconfliction opening can emerge relatively quickly under active mediation, this pathway reaches a stabilizing outcome faster than the two maritime-containment-led branches.

Its timing is still longer than the best-case diplomatic route because it usually assumes that negotiation helps reduce escalation but does **not** mature into a formal agreement. In other words, this pathway includes an intermediate period in which talks prove useful but insufficient: they cap escalation, narrow the conflict, and create a practical freeze, yet stop short of institutionalized regional arrangements. The result is a stabilized armed truce reached through partial success in diplomacy rather than full formalization.

Best-case diplomatic route: Deconfliction develops directly into a negotiated regional arrangement

Pathway: Current state → Managed Deconflict Window → Negotiated Reg. Security Arrangement

Estimated duration: 2 – 6 months

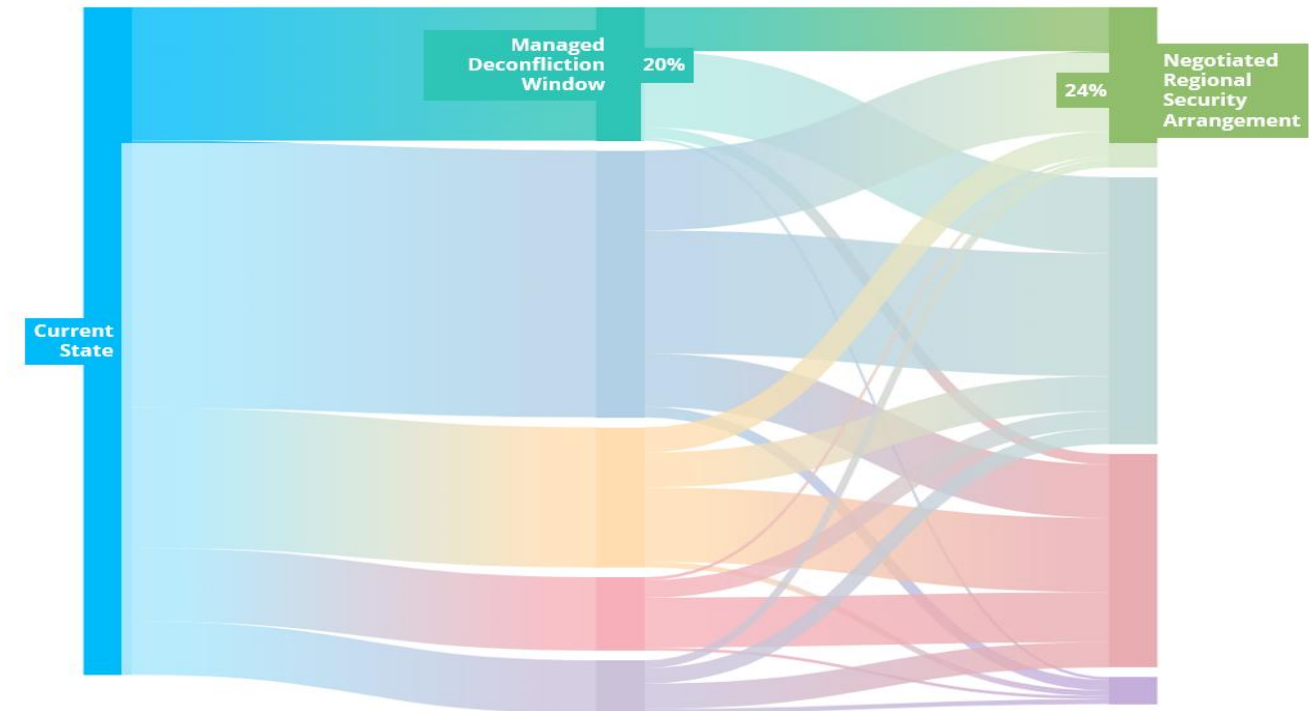


Figure 10: Best-case diplomatic route - Deconfliction develops directly into a negotiated regional arrangement

This is the model's **best-case diplomatic route**. It is not one of the top three by absolute weight, but it remains strategically important because it is the fastest credible route from the current state to a formalized and more durable stabilizing outcome. Its core logic is that a deconfliction opening emerges early and, rather than degrading into a merely tacit freeze, is converted quickly into explicit regional understandings.

The timing can be shorter than the second alternative because this pathway does **not** require a failed or incomplete negotiation cycle before stabilization occurs. In the best case, the same early mediation and restraint mechanisms that open the deconfliction window are directly translated into rules on shipping, restraint, monitoring, and crisis-management procedures. That makes it the fastest best-case route to a formal agreement, even though it remains less likely than the three heavier-probability pathway families overall.

Main strategic danger: Alliance decoupling drives the conflict toward imposed control

Pathway: Current state → Decoupled Allied Campaign → Occupation / Imposed Control Order

Estimated duration: 6 – 18 months

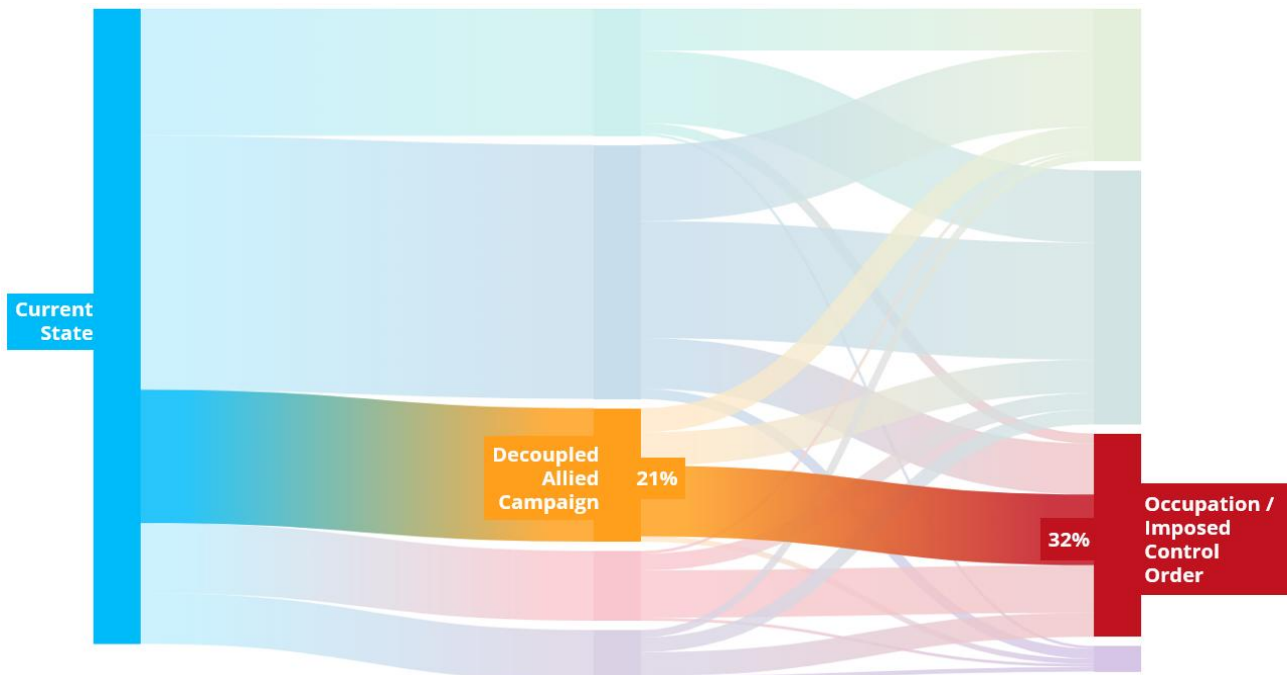


Figure 11: Main strategic danger - Alliance decoupling drives the conflict toward imposed control

This remains the **main strategic danger** because it combines a meaningful probability with the most damaging medium-term strategic logic. The danger is not simply that the conflict becomes more violent. It is that coalition discipline erodes while coercive pressure continues. In this pathway, Washington increasingly prioritizes escalation management, political sustainability, and bounded ownership, while Israel continues to prioritize deeper and more persistent degradation of Iranian capabilities. That divergence makes the conflict harder to terminate coherently: it weakens shared limits, reduces clarity on acceptable end-states, complicates diplomacy, and raises the probability that repeated coercion eventually resolves not through mutual restraint, but through a harder **Occupation / Imposed Control Order**. It also carries a broader regional cost: misaligned coercion increases uncertainty for partners, reduces confidence in off-ramp credibility, and raises likelihood for preference of harsher externally enforced order.

Its timing is likely to be the most extended among the major pathway families as this branch prolongs the military conflict rather than stabilizes it early through tacit restraint or negotiated structure. Negotiation may still be attempted, but it is more likely to be overtaken by diverging campaign logics and failed conflict-capping efforts. As a result, the conflict is more likely to move through a longer phase of sustained coercion, operational drift, and progressive externalization before a new order is imposed and the end-state is established.

7) Economic Implications by Country

This economic prognosis is anchored on the most probable **Base Case pathway - Maritime containment hardens into a stabilized armed truce**, which is expected to take about 4 – 7 months to resolve in a new End state order of Stabilized Armed Truce. While the economic implication could be less or more severe in the other key probable alternative pathways, the key structural economic implications remain similar.

Based on the analysis in this report, the regional economic impact is no longer defined by oil prices alone. The conflict transmits through four channels at once: maritime disruption in Hormuz, rising Red Sea risk, higher insurance and freight costs, and weaker confidence across aviation, tourism, trade finance, and real estate. Countries with stronger sovereign balance sheets, export-routing alternatives, and lower dependence on confidence-sensitive sectors are better positioned. Countries with concentrated export corridors, refining bottlenecks, fragile fiscal space, or heavier reliance on logistics and investor sentiment are more exposed.

A second important distinction is that the shock is no longer purely Gulf-facing. The Red Sea channel now matters more because Houthi activity can raise transit risk for westbound trade and energy flows even when the main conflict remains centered on Iran. That makes the overall regional risk picture more complex: the Gulf side is dominated by Hormuz and infrastructure security, while the westbound trade side is increasingly influenced by Bab el-Mandeb and Red Sea corridor risk.

Across the country analysis, five cross-cutting themes stand out.

- **Balance-sheet strength is not the same as operational resilience:** Fiscal buffers help absorb shocks, but they do not by themselves protect export corridors, refinery throughput, LNG continuity, logistics nodes, or trade-finance channels if maritime disruption persists.
- **Exposure is increasingly shaped by economic structure:** Hydrocarbon exporters benefit from price support, but gains are often capped where export-logistics constraints limit the sale of any current or incremental capacity; economies more exposed to logistics, aviation, tourism, trade finance, and sentiment-sensitive property face faster transmission through volumes, margins, and confidence.
- **Geometry is now a strategic economic differentiator:** Access to alternative corridors, ports outside Hormuz, Red Sea hedges, and inland distribution resilience increasingly determines which countries can convert macro strength into practical continuity under stress.
- **Subnational differences matter more than national averages:** Within-country exposure is no longer uniform; energy provinces, logistics hubs, tourism centers, and

financial districts face distinct transmission channels, making city- and corridor-level analysis essential for decision-making.

- **The policy challenge is continuity, not stimulus:** The most effective response is not broad economic support, but targeted protection of shipping, infrastructure, inventories, trade finance, and confidence-critical sectors so that economies can function inside recurring disruption.

Taken together, the regional picture is best understood not as a simple oil-price story, but as a test of corridor resilience, operational flexibility, and confidence management. Countries with stronger buffers and more route optionality should remain more resilient, but even they face material friction if both Hormuz and Red Sea stress persist. Countries with narrower export architectures, higher dependence on confidence-sensitive sectors, or weaker institutional resilience are likely to experience faster and more uneven economic transition.

Summary of findings by country

	Saudi Arabia: Strong macro buffers and ample external and fiscal space make Saudi Arabia one of the region's most resilient economies, but its exposure is split between Gulf-side energy concentration and a Red Sea hedge that becomes less reliable if the second chokepoint also remains stressed.
	United Arab Emirates: The UAE enters from a position of diversification and financial strength, but the conflict hits its connectivity-led model directly. Abu Dhabi remains the stabilizing anchor, while Dubai, Sharjah, and Fujairah face different combinations of aviation, logistics, trade-finance, and strategic-node exposure.
	Qatar: Qatar retains one of the strongest macro positions in the region, but its vulnerability is concentration. The key risk is not domestic weakness, but the strategic exposure of LNG exports and associated infrastructure to persistent maritime stress.
	Oman: Oman's geography gives it more upside than most peers from re-routing and logistics substitution. That opportunity is real, but it is constrained if simultaneous Gulf and Red Sea disruption slows regional trade and weakens broader external demand.
	Kuwait: Kuwait remains fiscally strong, but its operational exposure is high. Its main vulnerability lies in concentration around Gulf-side export, refining, and industrial continuity, with fewer practical alternatives if disruption intensifies.
	Bahrain: Bahrain is the most confidence-sensitive GCC case. Its key vulnerabilities run through sovereign funding conditions, finance, services, and investor sentiment rather than direct hydrocarbon disruption, making prolonged regional premium especially costly.
	Iraq: Iraq is the most fragile case overall because external disruption interacts with internal fragmentation, militia autonomy, and export dependence. The main risk is not only economic deterioration, but spillover into a broader state-capacity and governance problem.

Table 2: Summary of findings by country

Saudi Arabia

Saudi Arabia remains one of the region's most resilient economies, but resilience should not be confused with insulation. Strong sovereign buffers, financing capacity, and state implementation strength give the Kingdom more room than most peers to absorb prolonged disruption. The main question is not whether Saudi Arabia can withstand the shock in aggregate, but how far it can preserve operational continuity if both Gulf and Red Sea stress persist.

Starting position

Saudi Arabia enters this phase from a position of substantial macro strength. Non-oil activity remains an important stabilizer, public finances retain flexibility, and sovereign balance-sheet depth provides room for targeted intervention if required. This makes Saudi Arabia more resilient than most peers at the macro level.

Main transmission channels

The main transmission channel is operational rather than purely fiscal. The Eastern Province concentrates energy, refining, petrochemicals, and desalination, making Gulf-side escalation the main direct vulnerability. Saudi Arabia's westbound hedge through Yanbu and Red Sea logistics remains strategically important, but its value falls if Red Sea disruption also persists.

Economic outlook and sector implications

The likely pattern is resilience with rising friction. Higher oil prices support revenues, but export continuity, insurance, and routing constraints limit the upside. Refining, petrochemicals, construction, and industry are more exposed because they depend on throughput, imported inputs, and delivery reliability. Banking should remain resilient, though trade- and project-sensitive exposures may face tighter risk screening.

Regional or subnational implications

The internal geography matters. The Eastern Province carries the main strategic risk concentration. Riyadh is more insulated physically, but still exposed through funding costs, procurement delays, and weaker private capex momentum. Yanbu and Red Sea assets remain important hedges, but not full substitutes in a two-chokepoint environment.

Strategic priorities

Saudi Arabia's priority should be operational continuity: hardening Eastern Province infrastructure, strengthening repair and redundancy capacity, building larger inventories of critical industrial inputs, & avoiding any assumption that westbound routing fully solves the problem.

Overall, Saudi Arabia is likely to remain one of the strongest regional performers under prolonged instability, but with meaningful pressure on its operational resilience. Its relative success will depend on whether it can convert macro strength into corridor continuity and infrastructure protection across both coasts.

United Arab Emirates

The UAE enters this phase from a position of diversification and financial strength, but the conflict strikes directly at the federation's connectivity-led model. The central challenge is not solvency, but protecting transaction volumes, logistics continuity, investor confidence, and mobility-sensitive sectors under recurring corridor disruption.

Starting position

The UAE begins from a position of notable strength. Abu Dhabi's sovereign backing, the federation's diversified growth base, & continued financial-system resilience provide a strong macro cushion. This gives UAE high absorptive capacity compared with most regional peers.

Main transmission channels

The UAE's main vulnerability is its dependence on aviation, tourism, logistics, trade finance, and investor-led real estate. Shipping disruption, higher freight and insurance costs, and corridor uncertainty affect trade and logistics directly. Fujairah's value rises because it sits outside Hormuz, but that also makes it a more strategically exposed node.

Economic outlook and sector implications

The federation should remain macro-resilient, but the effect will be uneven. Abu Dhabi is best placed to absorb volatility through sovereign strength and hydrocarbon support. Dubai faces the clearest downside through aviation, tourism, logistics, and sentiment-sensitive property. Sharjah is more exposed through industrial zones, airport activity, cargo, & SME cost pressure.

Regional or subnational implications

Abu Dhabi is likely to remain the federation's stabilizing anchor. Dubai is more exposed to slower volumes and weaker confidence before broader price stress emerges. Sharjah may hold up better in some end-user segments but is more vulnerable through industrial and cargo channels. Fujairah's strategic relevance rises further as alternative routing becomes more important for the wider GCC.

Strategic priorities

The UAE need to expand redundancy around Fujairah, Jebel Ali, and core logistics corridors; accelerate the establishment of land-based transit corridors via Oman to Salalah and via Saudi Arabia to the Red Sea to reduce dependence on maritime chokepoints; prepare targeted support for aviation, tourism, logistics, and trade finance; and maintain strong communication on liquidity, transport continuity, and supply security.

The UAE can remain one of the most resilient economies in the region, but with sharper internal divergence than headline performance may suggest. The key test will be whether the federation can protect its connectivity-based growth model while preventing strategic logistics nodes from becoming concentrated points of vulnerability.

Qatar

Qatar retains one of the strongest macro positions in the region, but its vulnerability is concentration rather than weak fundamentals. The core issue is whether a highly successful but narrowly concentrated export system can maintain reliability under prolonged maritime disruption and elevated strategic risk.

Starting position

Qatar enters this phase with strong fiscal and external buffers, low inflation, and a solid growth base. Its macro position is among the strongest in the region, giving it substantial room to absorb stress without immediate domestic instability.

Main transmission channels

The main transmission channel is maritime concentration around LNG and associated infrastructure. Qatar's export system is highly dependent on continuity through exposed energy and shipping corridors. Even where price support is positive, the strategic issue is whether export reliability, insurance, and infrastructure security remain intact.

Economic outlook and sector implications

Qatar should remain financially resilient, but its export engine is vulnerable to persistent corridor stress. Sovereign finances and banking are strong, while aviation, hospitality, and externally linked real estate face more moderate downside through connectivity and confidence channels. The risk is concentrated rather than economy-wide.

Regional or subnational implications

Doha remains comparatively resilient, but Ras Laffan and North Field-linked infrastructure are the real strategic exposure. Regionally, Qatar matters beyond its own economy because sustained pressure on its LNG system would raise risk premiums across gas markets and energy-sensitive industrial supply chains.

Strategic priorities

Qatar should prioritize hardening and continuity planning around Ras Laffan, storage, power, desalination, and industrial logistics; preserve fiscal flexibility; and strengthen customer communication and export reliability mechanisms for LNG buyers.

Qatar is therefore likely to remain stable domestically, but strategically exposed externally. Its economic outlook depends less on broad macro management than on protecting a concentrated export architecture whose reliability is central not only to Qatar, but to wider regional and global energy confidence.

Oman

Oman is better positioned than many peers to benefit from rerouting and logistics substitution, giving it more upside than most neighbouring economies in a stressed maritime environment. But that opportunity is conditional: geography creates strategic value, not immunity from weaker regional trade, higher insurance costs, and softer external demand.

Starting position

Oman enters with improving resilience, supported by reforms, firmer fiscal management, and stronger nonhydrocarbon growth. Its macro position is more stable than in earlier periods, creating room to benefit from regional trade shifts if disruption persists.

Main transmission channels

Oman experiences the conflict through both opportunity and friction. Duqm and Salalah become more valuable if firms and governments seek alternatives outside the Gulf bottleneck, but higher insurance costs, weaker confidence, and slower regional trade still weigh on activity if both Hormuz and the Red Sea remain stressed.

Economic outlook and sector implications

Ports, logistics, and rerouting-linked infrastructure could benefit materially. Oil and gas revenues may also find support through prices. But aviation, tourism, and broader trade-sensitive activity remain vulnerable if regional sentiment deteriorates. The overall picture is mixed to positive for strategic nodes, but not uniformly positive for the whole economy.

Regional or subnational implications

Muscat is more exposed to macro and demand effects, while Duqm and Salalah are more directly tied to rerouting upside. That makes Oman one of the clearest cases where subnational geography shapes outcomes. Regionally, Oman's role as a resilience platform rises if it can capture diversion flows efficiently.

Strategic priorities

Oman should position Duqm more aggressively as a resilience platform, protect Salalah and other coastal nodes through continuity planning, support freight-intensive SMEs facing working-capital stress, and improve customs and corridor management to capture diversion flows.

Oman could emerge as one of the relative strategic beneficiaries of prolonged disruption, but only if it converts geographic advantage into operational execution. Its upside lies in becoming a regional resilience platform rather than merely a bystander to diverted trade.

Kuwait

Kuwait remains fiscally strong, but its operational exposure is high. The central issue is that sovereign resilience is stronger than logistical flexibility, leaving the country relatively well protected at the macro level but more vulnerable if export, refining, and industrial continuity come under sustained pressure.

Starting position

Kuwait enters this phase with strong fiscal buffers, low inflation, and large external reserves. That provides a meaningful cushion against external shocks and gives the state capacity to absorb disruption more effectively than more fragile regional peers.

Main transmission channels

Its vulnerability is operational concentration. Kuwait's export, refining, & industrial system remains heavily exposed to Gulf-side disruption, with fewer practical alternatives if shipping or energy infrastructure stress intensifies. This makes logistical resilience weaker than sovereign resilience.

Economic outlook and sector implications

Crude revenues may still benefit from higher prices, but refining and petrochemicals face greater downside because throughput, timing, and shipping reliability matter as much as price. Banking should remain stable, though growth momentum could weaken. Consumer sectors are likely to see only mild pressure, with essentials more resilient than discretionary demand.

Regional or subnational implications

Kuwait has less route flexibility than some neighbours, so Gulf-side disruption matters more directly. The country can absorb stress fiscally more easily than it can reroute around it operationally. In regional terms, it sits between the stronger, more flexible GCC economies and the more confidence-sensitive cases.

Strategic priorities

Kuwait should focus on refinery continuity, export-routing contingency, storage resilience, and tighter oversight of shipping-linked finance and insurer capacity. Targeted liquidity support for import- and logistics-dependent firms would likely be more useful than broad-based support measures.

Kuwait is therefore likely to remain stable in macro terms, but more exposed than headline fiscal strength suggests. Its performance under prolonged stress will depend on whether it can offset structural route dependence with stronger continuity planning and industrial resilience.

Bahrain

Bahrain is the most confidence-sensitive GCC case in this group. Its vulnerability runs less through direct hydrocarbon disruption and more through sovereign funding conditions, financial-sector sentiment, services activity, and the broader cost of operating under a prolonged regional risk premium.

Starting position

Bahrain enters from a weaker structural position than the stronger GCC peers. While macro-financial stability has so far been maintained, debt dynamics and financing conditions remain more sensitive to external stress, leaving less room for policy error.

Main transmission channels

The main transmission channel is not export disruption first, but sovereign funding conditions, financial-sector confidence, investor sentiment, and services demand. That makes Bahrain especially exposed to a longer-lasting regional premium even without major direct infrastructure losses.

Economic outlook and sector implications

Financial services face the clearest downside through risk repricing and liquidity sensitivity. Sovereign financing costs also matter directly. Tourism, hospitality, and investment-led real estate are vulnerable to weaker confidence and mobility. Consumer sectors should prove somewhat steadier, but the overall picture remains more fragile than elsewhere in the GCC.

Regional or subnational implications

Manama is the key concentration point because Bahrain's exposure runs through finance and services more than through dispersed industrial geography. Regionally, Bahrain is the clearest example of how persistent geopolitical premium can become macroeconomically costly even in the absence of major direct physical disruption.

Strategic priorities

Bahrain should prioritize liquidity assurance, sovereign funding-cost management, and strong communication to preserve financial-system confidence. Targeted support for finance-, retail-, and tourism-linked SMEs makes more sense than broad fiscal loosening that could undermine credibility.

Bahrain is therefore less exposed to corridor disruption in a narrow physical sense than some neighbours, but more exposed to the financial and confidence effects of prolonged instability. Its challenge is to preserve credibility and liquidity in an environment where sentiment can deteriorate faster than underlying activity.

Iraq

Iraq is the most fragile case in the group because external disruption interacts directly with internal fragmentation, militia autonomy, export dependence, and weak state capacity. The main risk is not only economic deterioration, but the possibility that regional spillover deepens into a broader governance and stability problem.

Starting position

Iraq enters this phase with a weaker and less resilient foundation than the GCC states. Fiscal and external risks were already elevated, and the economy remains heavily dependent on oil exports while facing structural governance and institutional constraints.

Main transmission channels

The conflict reaches Iraq through several reinforcing channels: export vulnerability, militia-linked insecurity, corridor stress, weak investor confidence, and fragile transaction chains. The central issue is not only economic deterioration, but the possibility that spillover becomes a broader state-capacity challenge.

Economic outlook and sector implications

Oil exports remain the critical vulnerability because fiscal stability still depends on them. Banking, payments, construction, & services are more exposed than in the GCC because fiscal stress & insecurity transmit quickly. Erbil, while economically more diversified, is also exposed as Iranian strikes linked to the U.S. military presence there make it less insulated than before.

Regional or subnational implications

Basra anchors exports & fiscal stability, making it the most critical economic node. Baghdad is the political center and the main focal point for militia & governance risk. Erbil is no longer the clear safe haven; however, the KRG-Turkey route, including pipeline and trucking links, remains one of Iraq's most important alternative export and logistics channels.

Strategic priorities

Iraq's top priority is to protect Basra export infrastructure and logistics while reducing militia spillover around Baghdad and critical corridors. It should also build alternative oil transport routes via the KRG-Turkey pipeline and trucking network, explore pipeline and truck routes via Syria and Jordan, open resilience discussions with Saudi Arabia, and use diplomatic channels with Tehran to secure safer passage for its oil export and reduce disruption risk.

Iraq is likely to face the most severe and uneven economic consequences in the group if the conflict persists. Its vulnerability lies not only in narrow economic exposure, but in the risk that external pressure accelerates internal instability, making economic continuity inseparable from state stability itself.

Regional Trade and Logistics Implications: Hormuz Base Case, the Additional Bab al-Mandab Shock, and the Opportunity Window for GCC–Iraq Corridor Alignment

The regional logistics problem is best understood in two layers. The **base case** is a **Hormuz-focused disruption**, which primarily affects Gulf-loaded energy exports and import-dependent Gulf and Iraqi markets. The more severe variant adds **Bab al-Mandab / Red Sea disruption** as a second choke point. That second shock does not create a wholly new map; it mainly **weakens the most important fallback options** available in the Hormuz-only case. Current carrier contingency planning already reflects this logic, with rerouting centered on **Jeddah, King Abdullah Port, Fujairah, Khor Fakkan, Sohar, Salalah, Aqaba, and Mersin**, supported by inland trucking and land-bridge solutions where feasible.

Hormuz base case

In a **Hormuz-only disruption**, the markets most directly affected are the Gulf's **energy export flows** and the **import-dependent consumer and industrial markets** of the upper Gulf and Iraq. On the export side, the most exposed flows are Gulf-loaded crude, refined products, petrochemicals, and LNG that normally depend on reliable access through Hormuz. On the import side, the pressure falls most heavily on food, industrial inputs, project cargo, and time-sensitive containerized goods serving **Kuwait, Bahrain, Qatar, and Iraq**, as well as Gulf-side distribution systems more broadly. Iraq is especially exposed because its southern oil and port system remains concentrated around Basra and Umm Qasr, while oil still accounts for the overwhelming majority of state revenue.

The reroute logic in this base case is still difficult but workable. The most important reroute ports are those that either sit **outside Hormuz** or connect efficiently to **westbound alternatives**. For energy, Saudi Arabia's **East-West pipeline** and the UAE's **Abu Dhabi pipeline** provide combined bypass capacity of roughly **4.7 million barrels per day**, supporting diversion toward **Yanbu** on the Red Sea and **Fujairah** on the Gulf of Oman. For containerized and general trade, the main resilience nodes are **Jeddah** and **King Abdullah Port** for westbound trade, **Fujairah** and **Khor Fakkan** for UAE-linked open-ocean access, and **Sohar, Duqm, and Salalah** for Arabian Sea access and onward redistribution. For Iraq, **Aqaba** and **Mersin** matter as partial contingency options for some container and dry-cargo flows, especially when southern concentration becomes a binding constraint. In relative terms, the ports and corridors with the most resilience value in this scenario are therefore Saudi Red Sea gateways, UAE open-ocean terminals, Omani Arabian Sea ports, and Iraq's overland alternatives.

Additional Bab al-Mandab shock: what changes relative to the base case

If **Bab al-Mandab is also disrupted**, the main change is that several of the strongest Hormuz workarounds become **less effective, slower, or more expensive**. The most affected markets are the ones that were relying on **Red Sea-linked substitution** in the base case. That means the additional pressure falls especially on **westbound trade**, on **Saudi Arabia's Red Sea-**

linked contingency role, because one of the principal alternatives for moving cargo around Hormuz is now also under strain. The same applies, by extension, to the upper-Gulf import markets that were depending on Red Sea entry and onward land-bridge or feeder solutions.

The reroute map does not disappear, but it shifts further toward the **Arabian Sea and inland corridors**. **Oman's Sohar, Duqm, and Salalah** gain additional importance because they sit outside both Hormuz and the Red Sea itself. **Fujairah and Khor Fakkan** remain important for UAE-linked and eastbound trade, but they cannot fully replace impaired westbound throughput. **Jeddah and King Abdullah Port** still matter, but their contingency value is lower than in the base case because Red Sea passage is also under pressure. For Iraq, the value of **Turkey-linked inland routing** rises further, because the region's maritime fallback capacity is tighter and southern Iraqi concentration becomes more costly. In practical terms, the second choke point does not remove alternatives; it turns them from workarounds into **scarcer and more expensive resilience tools**.

Opportunity window: GCC-Iraq corridor alignment and a more resilient regional logistics system

The broader lesson from this crisis is that the region can no longer optimize logistics mainly around **narrow cost efficiency**, port-by-port competition, or purely national revival and protection goals. A system designed only for the cheapest normal-time route is too brittle when Hormuz is stressed and Bab al-Mandab can also come under pressure. The current shock — and the likelihood of its longer after-effects — creates an **opportunity window** to reshape the regional logistics system around **strategic resilience, redundancy, and corridor interoperability**. This is not only a crisis response. It is also a chance to build a more durable regional architecture for trade, energy movement, and supply security.

That is why **broader GCC-Iraq logistical alignment** now matters more. The region needs more than emergency port switching; it needs a coordinated corridor system linking **Saudi land bridges, UAE and Omani open-ocean gateways, Jordan-linked fallback access, and Iraq's northbound routes** into a shared resilience architecture. Iraq is central to this logic, not peripheral to it. Its vulnerability under the current system is clear, but so is its strategic potential through the **Development Road** concept.

The practical agenda is therefore straightforward: align customs and border procedures, expand bonded trucking and warehousing, improve cross-border digital documentation, coordinate emergency feeder and land-bridge protocols, and accelerate pipeline, rail, road, and dry-port investments that reduce dependence on single maritime passages. The strategic case is not that such a system eliminates chokepoint risk. It is that it **broadens reroute capacity, protects more import and export flows, and gives GCC and Iraqi markets a larger buffer against future shocks**. In that sense, the present crisis is not only a warning. It is also a window to move from a fragmented logistics model toward a more integrated regional corridor system built for both crisis resilience and long-term trade competitiveness.

8. Recommended Actions for Businesses and Investors

The right private-sector response is not to assume rapid normalization. The current conflict pattern still combines severe shipping disruption, widening Red Sea risk, continued proxy pressure, and a U.S. campaign framed around broad conventional objectives rather than near-term disengagement. That makes **persistent friction, route uncertainty, and confidence volatility** the central planning assumptions.

Actions for businesses

For operating companies, the core issue is less “top-line demand collapse” than **timing, cost, routing, and counterparty reliability**. The sectors most exposed remain shipping, logistics, aviation, tourism, trade-finance-heavy activity, import-&-export-dependent industry, and investor-led real estate. The sectors most resilient remain essential services, regulated infrastructure, sovereign-linked demand pools, and businesses with strong pricing power or contract defensibility.

- **Liquidity protection:** Increase cash buffers, extend committed lines, and shorten internal stress thresholds for cash preservation, because working-capital strain is likely to appear before balance-sheet distress.
- **Supply-chain redesign:** Build routing redundancy, dual-source critical inputs, and hold contingency inventory for bottleneck-sensitive goods, because maritime disruption now spans both Hormuz and, increasingly, Red Sea exposure.
- **Insurance and hedging review:** Reprice assumptions for freight, cargo, political risk, energy, and interest-rate exposure, because margin pressure is now more likely to be cost-led before it becomes volume-led.
- **Counterparty quality management:** Reassess customers, suppliers, tenants, and distributors by payment reliability and geographic exposure, because stress will not be evenly distributed across the region.
- **Continuity planning:** Upgrade cyber, physical-security, backup-site, and workforce-mobility plans, because spillover risk is widening through Iraq, Yemen, and infrastructure-linked disruptions.
- **Capital-expenditure discipline:** Prioritize resilience capex, maintenance, and essential productivity capex over discretionary expansion, because flexibility is now more valuable than peak-cycle growth assumptions.

- **Commercial repricing discipline:** Introduce faster repricing mechanisms where possible, especially in logistics, contracting, and imported-input sectors, because fixed-price structures become more dangerous when route and insurance costs change rapidly.
- **Management reporting:** Move to higher-frequency dashboards for route disruption, insurance cost, delivery time, counterparty risk, and cash conversion, because traditional monthly reporting is too slow for this environment.

The business response should be differentiated by sector.

Logistics, shipping, and trade-intensive businesses should shift from pure efficiency models toward route resilience and controllable throughput.

Aviation, tourism, and hospitality businesses should focus on scenario-based demand management, cost flexibility, and balance-sheet preservation.

Industrial and construction businesses should stress-test imported input chains and fixed-price obligations.

Banks and non-bank lenders should tighten exposure review for trade finance, shipping-linked borrowers, real estate leverage, and weaker SMEs.

Real estate developers and operators should distinguish clearly between income-producing core assets and purely transaction-driven inventory.

The companies most at risk are not necessarily those with the weakest current performance. They are those whose business model depends on stable routes, stable insurance costs, stable foreign confidence, and uninterrupted transaction flow.

Actions for investors

For investors, the regional question is no longer whether oil prices are supportive. The more important issue is whether current pricing already reflects a **higher-for-longer regional risk premium**. The conflict is still most likely to end in an eventual stabilized armed truce or negotiated arrangement, but that does not imply a smooth path to resolution.

- **Country allocation:** Favor stronger-balance-sheet markets with policy flexibility and some route resilience, while remaining cautious on markets where funding confidence is the key vulnerability, because sovereign strength and operational resilience now matter more than headline growth alone.
- **Sector allocation:** Overweight infrastructure resilience, essential retail, top-tier banks, sovereign-linked demand, and route-flexible logistics, because these sectors are better positioned under managed instability.

- **Real estate strategy:** Prefer completed, income-producing, well-located assets over speculative, transaction-dependent exposure, because cash flow is more defensible than turnover in a higher-premium environment.
- **Credit discipline:** Demand wider risk premium for transit-sensitive, sentiment-led, and leverage-heavy names, because regional spreads should reflect persistence of disruption, not only near-term volatility.
- **Dry powder management:** Hold deployable liquidity for forced repricing and quality dislocations, because the best opportunities are likely to come from volatility rather than momentum.
- **Geographic differentiation:** Differentiate exposure at the subnational/ city and corridor level rather than relying only on country-level allocation, because resilience and downside risk now vary materially across core cities, logistics nodes, border-linked zones, and export corridors within the same market.
- **Tail-risk overlay:** Maintain explicit downside hedges for shipping disruption, energy shock, and broader regional escalation, because extreme scenarios remain low probability but high consequence.
- **Return hurdle recalibration:** Raise required returns on assets exposed to tourism, discretionary demand, export bottlenecks, or foreign-investor sentiment, because the region should now be priced for a longer period of elevated premium.

The strongest investment logic in this environment is not broad regional optimism or broad regional retreat. It is high selectivity within a still-investable region.

A practical ranking emerges from the analysis:

- strongest resilience in core sovereign-linked and cash-flow-generating assets,
- selective opportunity in strategic logistics and infrastructure nodes with rerouting relevance,
- greater caution in aviation, tourism, trade-sensitive consumer, and investor-led property segments,
- highest caution in fragile political-risk markets or exposures dependent on smooth corridor continuity.

Investors should therefore shift from a “post-shock rebound” mindset to a persistent-premium allocation mindset.

Implication for business and investment strategy

Taken together, the analysis point to one strategic conclusion: this is no longer an environment where the main goal is to recover quickly from disruption. It is an environment where the main goal is to operate and allocate capital effectively inside disruption.

That means:

- **build for continuity** rather than only growth,
- **price for friction** rather than only for demand,
- **favour adaptability** over maximum utilization,
- and **treat resilience as a competitive advantage**, not a defensive overhead.

10) Executive Conclusions

The conflict is no longer best understood as a short escalation cycle moving toward rapid resolution. It is evolving into a **prolonged contest** of coercion, containment, and selective deconfliction **over multiple months**, in which no principal actor can secure a clean strategic victory at acceptable cost, but several can sustain continued pressure under constraint. The report’s central judgment is therefore that the most likely trajectory remains one of **managed instability**: the current state of militarized maritime containment is most likely to harden into competitive maritime containment and, over time, cool into a **stabilized armed truce** rather than a decisive military resolution or full political settlement. At the same time, the conflict is increasingly reshaping the region’s logistics system, not only as a channel of disruption but also as a strategic opportunity to redesign trade resilience around broader corridor optionality.

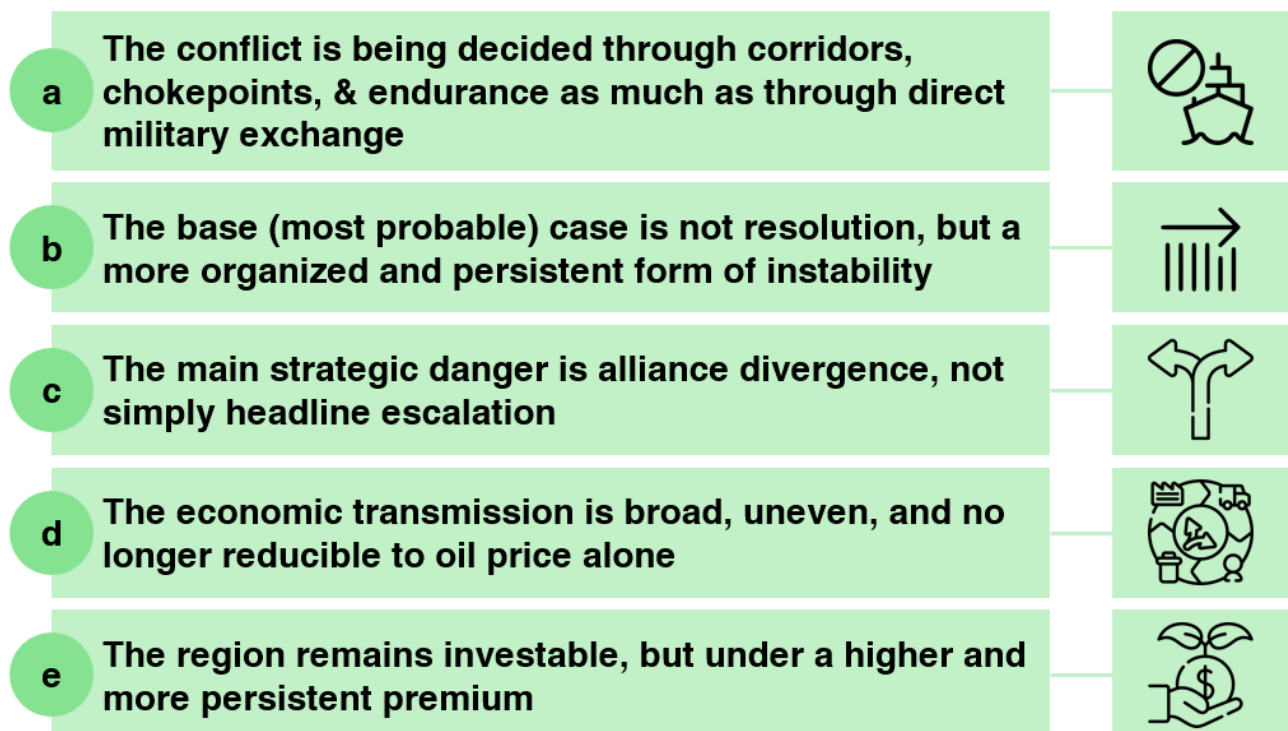


Figure 12: Key Executive Conclusions

a. The conflict is being decided through corridors, chokepoints, and endurance as much as through direct military exchange

The decisive arena is no longer defined only by battlefield exchange or strike intensity. It is increasingly defined by control, disruption, and risk transmission through the region's critical economic corridors. The Strait of Hormuz remains the primary strategic node, while rising Red Sea and Bab el-Mandeb risk has widened the crisis into a two-chokepoint system. This means the conflict now exerts its greatest regional effect not only through military damage, but through shipping disruption, insurance repricing, delivery delays, infrastructure vulnerability, and a structurally higher cost of normal commerce. The key regional implication is that exposure is now determined not only by national balance-sheet strength, but by access to reroute corridors, open-ocean ports, inland connectivity, and alternative export and import channels. In that sense, the conflict is increasingly being decided through logistics geometry and endurance capacity as much as through direct force exchange.

b. The base (most probable) case is not resolution, but a more organized and persistent form of instability

The most likely pathway remains one in which maritime pressure stays central, diplomacy remains narrow and functional rather than transformational, and the conflict settles into a costly but governable coercive regime. This pathway is the most structurally durable because it fits the incentives of the principal actors: the United States seeks to restore access and maintain pressure without assuming indefinite war ownership; Israel continues to prioritize degradation of Iranian capability; Iran seeks regime survival while retaining leverage; and regional actors prefer continuity and insulation over deeper formal belligerency. The result is a conflict pattern that is bounded enough to avoid immediate general war, but active enough to keep generating recurring shocks. Even in this base case, some negotiation and deconfliction efforts are likely to precede the eventual armed truce; the point is not that diplomacy disappears, but that it is more likely to produce a tacit and practical freeze than a formal regional settlement.

c. The main strategic danger is alliance divergence, not simply headline escalation

The most damaging medium-term risk is not necessarily the largest single escalation event. It is the gradual erosion of alignment between the United States and Israel over tempo, acceptable costs, and desired end-state. If U.S. preferences shift more decisively toward conflict capping while Israel continues to favor deeper and more sustained degradation, coalition discipline weakens even as coercive pressure continues. That makes the conflict harder to terminate coherently, reduces clarity around red lines and off-ramps, complicates diplomacy, and raises the risk that the conflict drifts toward harsher and less controllable forms of externally imposed order. This is strategically more dangerous than a single spike in violence because it weakens the discipline needed to convert coercion into a bounded end-state, increasing the likelihood of drift toward occupation-like or externally imposed control logic.

d. The economic transmission is broad, uneven, and no longer reducible to oil price alone

For the GCC and Iraq, the conflict should not be understood as a simple energy-price story. It now transmits simultaneously through four channels: Hormuz disruption, Red Sea risk, higher freight and insurance costs, and weaker confidence across aviation, tourism, logistics, trade finance, and real estate. This creates a more differentiated regional picture. Stronger sovereign balance sheets and hydrocarbon revenues remain important buffers, but they are not enough on their own. Operational resilience now depends increasingly on corridor geometry, route flexibility, infrastructure protection, and the ability to preserve business continuity under repeated disruption. Exposure is therefore becoming more uneven within and across countries, with subnational nodes, ports, industrial clusters, and confidence-sensitive urban sectors playing a larger role in determining outcomes. The refined implication is that the region should now be understood through a market-and-corridor lens: which export flows can be rerouted, which import markets retain fallback access, and which ports and inland corridors gain strategic importance under Hormuz-only disruption versus a combined Hormuz-plus-Bab el-Mandeb shock. This also brings Iraq more clearly into the picture, both as one of the more exposed markets under current maritime concentration and as a potentially important part of future regional corridor resilience.

e. The region remains investable, but under a higher and more persistent premium

The right planning assumption is not crisis followed by normalization. It is a still-functioning regional order operating under recurring disruption, elevated volatility, and a structurally higher premium on resilience. For governments, that means protecting shipping, energy systems, finance, food, water, and critical infrastructure continuity. For businesses, it means redesigning operations around redundancy, liquidity, counterparty quality, and route flexibility. For investors, it means remaining selective: favouring sovereign-linked cash-flow resilience, essential sectors, and strategically relevant logistics nodes, while demanding higher return thresholds for sentiment-led, corridor-sensitive, or leverage-heavy exposures. Strategically relevant logistics nodes now include not only established GCC gateways, but also open-ocean ports, land-bridge corridors, pipeline bypass routes, and the emerging Iraq-linked corridor architecture associated with Al Faw and the Development Road concept. As such the regional strategic re-shift to logistical resilience could also open new potential investment opportunities.

Taken together, the clear strategic conclusion is that **the region is entering a period in which endurance, continuity, and disciplined adaptation matter more than rapid reaction to individual shocks**. The most likely future is neither peace nor breakdown, but a prolonged phase of managed instability in which disruption becomes a recurring feature of the operating environment. In that context, the principal differentiators of performance will be resilience of corridors, protection of critical systems, flexibility of capital and supply chains, and the ability of decision-makers to manage persistent risk without overreacting to each escalation cycle. If acted upon, the **same shock that is exposing the region's bottlenecks** could also become the **catalyst for a more integrated regional logistics system** with stronger alternative pipeline, land-route, and open-ocean trade options for both crisis conditions and long-term regional competitiveness.

About Management Partners

Management Partners is a leading consultancy firm specializing in guiding organizations through complex transformations in today's rapidly evolving business environment. With strong expertise in economic development & strategy development, we support clients in translating uncertainty into practical priorities, stronger resilience, & actionable pathways for growth.

In an era of macro volatility, successful decision-making requires foresight, disciplined strategic planning, and robust risk management. From a country economic development perspective, it means understanding how external shocks affect competitiveness, investment, & continuity. From a business strategy perspective, it means preparing for multiple pathways, protecting performance under stress, and making better capital and operating choices amid uncertainty.

Our teams work closely with public- and private-sector clients to develop actionable, insight-led strategies that strengthen resilience and improve decision quality in uncertain environments. Through Management Partners' Foresight Methodology and Engine, we help clients move beyond static scenario planning to assess pathways, stakeholder dynamics, transition risks, & strategic implications. This enables leaders to not only adapt to disruption, but to navigate it with greater clarity, preparedness, & strategic intent.

As organizations continue to face geopolitical instability, economic shifts, and technological challenges, Management Partners remains a trusted advisor, helping clients harness strategic foresight and agile decision-making to stay ahead of the curve. If you are seeking to build resilience, optimize your business model, or lead in a volatile environment, we invite you to start a conversation with our team. Reach out at contact@m-partners.biz or call +971 4 3589 920 to connect with one of our experts.



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Published by Management Partners, Shangri-La Hotel / Offices - 8th Floor Sheikh Zayed Road, P.O. Box 454390, Dubai, UAE

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