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The Gulf's New Normal: Managed Instability and Recurrent War?

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The Gulf is not becoming more stable. It is becoming better at absorbing instability without breaking. The more consequential possibility is recurrent war: contained enough to avert systemic collapse, unresolved enough to return. The balance of risk still points towards renewed military action. A reasonable assessment puts the probability of another round of U.S. strikes on Iran this fall at roughly 60 percent, not because Washington wants a major war, but because the space for compromise is narrowing. U.S.-Iran diplomacy has stalled, Tehran has threatened a more offensive posture around Hormuz, and Washington says it can sustain pressure indefinitely. The approaching U.S. midterms make a prolonged campaign politically and economically harder, while bounded punitive strikes remain easier to contemplate than a decisive war. The paradox is that constraints on total war can raise the risk of limited war. And another round of strikes would not settle Hormuz: military punishment can degrade Iranian capabilities without deciding who sets the terms of commercial passage. The more uncomfortable implication is that the familiar binary of war versus peace is becoming analytically misleading. The Gulf is entering a strange intermediate condition: no peace, no war in the conventional sense, but coercion, interrupted commerce, bounded violence, and negotiation operating simultaneously. Stability can no longer be measured simply by the absence of open war; nor should renewed trade be mistaken for political normalization.

Six months into the Iran war, the central fact is how quickly states and markets have learned to operate around conflict. Tanker traffic collapses and recovers; refiners draw inventories; Gulf monarchies add security partners without abandoning Washington; China absorbs an energy shock without policing the sea lanes on which it depends. This is armed hedging: enough redundancy to survive disorder, without the institutions needed to end it.

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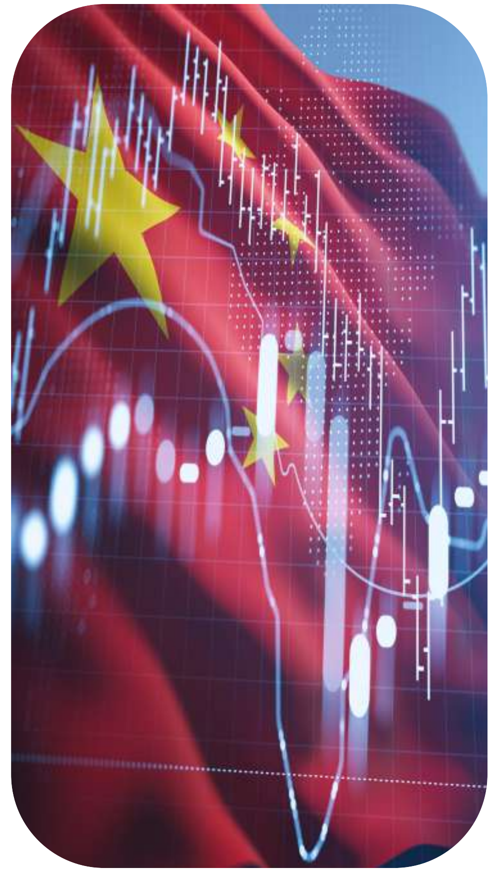
Hormuz and the Economics of Recurring War

Hormuz remains the hard constraint. Before the war, roughly 20mn barrels a day of oil passed through the strait; at the crisis low, flows approached 2mn b/d, a roughly 90 percent contraction. Saudi and Emirati bypasses have softened the shock, but larger alternatives will take years and solutions such as Iraq’s proposed 2mn b/d Syrian route alone would cost billions. Pipelines can erode Iran’s leverage over time, but they cannot solve the present crisis.

Still, markets have absorbed the shock better than the physical constraints imply. Brent is now trading in the high $80s a barrel, settling at $89.31 on 28 August, even as the political settlement remains elusive and Hormuz traffic remains severely restricted. That combination is more revealing than a single price point: markets are no longer pricing disruption as an exceptional event but increasingly as a condition to be managed. Inventories, weaker demand, rerouting, and intermittent reopenings have changed how geopolitical disruption affects prices. The Gulf is physically more fragile but economically more adaptable.

The more durable consequence may be a structurally higher risk premium, not permanently higher spot oil. Wartime tanker pricing has repeatedly moved into extraordinary territory: fixtures through Hormuz reached roughly $470,000 a day in June, while by mid-August, Oman–China VLCC rates were around $140,000 a day, roughly four times pre-war levels, as Chinese state shippers kept vessels out of Hormuz and relied increasingly on loadings and ship-to-ship transfers outside the Gulf. That is a repricing regime, not a freight anomaly. The balance-sheet channel is already large: GCC bond and sukuk issuance reached about $102.7bn in the first half of 2026, while banks and corporates kept tapping markets throughout the war, QNB issued a QAR1bn bond, Emirates NBD reopened the public GCC market with a $750mn AT1, and QatarEnergy, FAB, AviLease, Dukhan, and Burjeel were among issuers raising a combined $7.5bn in one late-June week. If limited war becomes recurrent, the premium will spread beyond freight and insurance into corporate funding, project finance, sovereign borrowing, tourism, and the hurdle rates demanded for Gulf assets. Adaptation can prevent collapse; it cannot persuade capital to treat repeated war as temporary.



China as Shock Absorber, Not Security Guarantor

China is also beginning to normalize parts of its energy system. Refined-product exports rose 6.7 percent in July; diesel exports jumped 88 percent from June and gasoline exports more than quadrupled. Stock releases, refinery controls, export quotas, and domestic production let Beijing shift the burden of disruption across time. China is an economic shock absorber, not a substitute security guarantor.

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The resulting division of labor is unstable. Washington retains the military capacity to shape access to Hormuz; China is more exposed to its energy consequences but has little appetite for the accompanying security liabilities. Gulf states sit between them, reliant on American coercive power and Asian demand while refusing an exclusive choice. Multipolarity here means military power, commercial power, and energy dependence increasingly reside with different actors.

The Gulf Rearms, but Integration Lags

Saudi Arabia's ties with Turkey and Pakistan show how quickly Gulf deterrence is diversifying. Pakistan has already supplied operational weight, deploying about 8,000 troops during the 2026 war and a full squadron of roughly 16 aircraft, mostly JF-17 fighters, alongside two drone squadrons and an HQ-9 air-defense system. Turkey adds a large NATO-trained military and growing defense industry. But a pact is not an integrated alliance. It still must be battle-proven. Saudi, Pakistani, and Turkish forces use different equipment and doctrines; the test is whether they can integrate command, targeting, and air defense under fire. For now, the Gulf is adding deterrence faster than common military architecture.

A second, looser alignment is emerging around Israel, the UAE, India, and the Horn of Africa. It is better understood as a transactional security network than a formal four-state defense pact: ports, surveillance, intelligence, defense technology, and maritime access bind the participants more than treaty obligations. The UAE–Ethiopia partnership adds a Red Sea/Horn of Africa dimension, while Israel's defense relationship with India and security ties with the UAE give the network operational weight. Its significance is also its risk: alongside the Saudi–Turkey–Pakistan axis, overlapping but unreconciled coalitions may deepen deterrence while making GCC coordination, and especially integrated air defense, harder. The region is gaining redundancy without a common security architecture.

That distinction matters because the principal weakness is no longer hardware but integration. Gulf states can add troops, drones, air-defense systems, ports, and bypass routes faster than they can build shared command structures, interoperable targeting, common doctrine, or reconciled alliance commitments. The region is accumulating the hardware of deterrence faster than its software. Hedging also carries a fiscal cost: Saudi public debt is projected at roughly 34 percent of GDP in 2026, illustrating how security redundancy, infrastructure, and diversification increasingly compete for sovereign balance-sheet space. Individual states may become harder to coerce without making the region easier to govern; indeed, competing Saudi- and UAE-centered networks could turn redundancy into fragmentation during the next crisis.

The periphery shows both the reach and limits of Gulf capital. Saudi and Qatari pledges to Syria total roughly $22.7bn against an estimated $216bn reconstruction bill. Yet Syria still struggles to provide credible payment guarantees, predictable contract enforcement, or durable investment

"Syria still struggles to provide credible payment guarantees, predictable contract enforcement, or durable investment security"

security: capital can be pledged faster than projects become bankable. Libya offers a similar lesson as oil companies return despite institutional division. Economic engagement can outrun political settlement—but only until guarantees, enforceable contracts, and physical security become indispensable.

Hormuz is therefore more likely to reopen as a process than an event. Iran and Oman are now negotiating a joint temporary navigational corridor, mine-clearing arrangements, and eventually a permanent corridor and the future administration of the strait. That is not peace in the conventional sense. It is an attempt to make commerce function inside an unresolved conflict. The likeliest end-state is therefore not restoration of the old status quo, but a negotiated mechanism that leaves sovereignty, coercion, and strategic leverage unsettled. Hormuz may become open enough for markets while remaining politically and militarily contested.

Iran's Strategy: Divide, Pressure, Deal Bilaterally

Iran has little incentive to confront the Gulf as a unified bloc; its advantage lies in differentiation. The GCC entered the war with different threat perceptions, relationships with Israel and Washington, and appetites for confrontation. Oman and Qatar stressed mediation, Bahrain was more hawkish, Kuwait pursued engagement, and Saudi Arabia and the UAE hedged between deterrence and accommodation. Tehran need not turn any Gulf capital into an ally. It needs only to make collective action costlier than bilateral accommodation.

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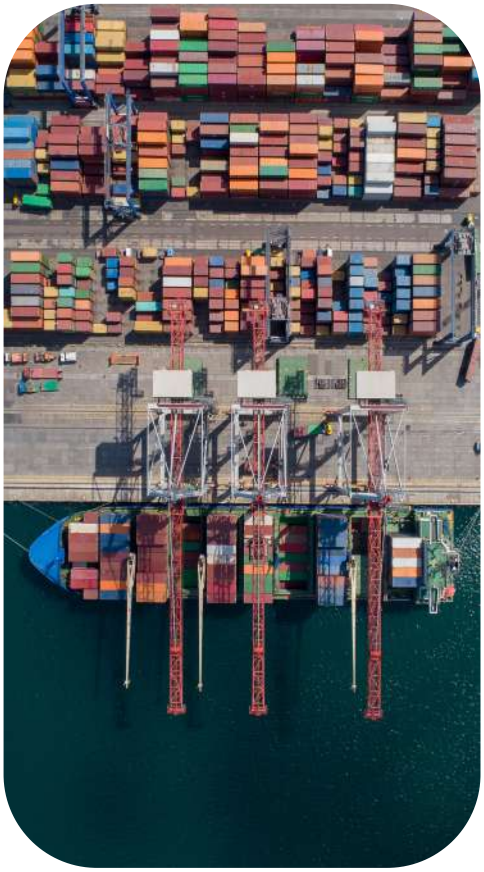
Bilateralism is therefore a strategic instrument, not a concession. Tehran can threaten the region collectively while offering individual states narrower bargains over shipping, trade, security, or mediation. Oman is the clearest case. Any Gulf state that can reduce its own exposure has an incentive to do so even if neighbors remain vulnerable. Iran does not need to dissolve the GCC; it needs to stop shared vulnerability becoming shared deterrence.

Iran's Economy: Sanctions as Attrition

Iran has demonstrated that sanctions can be circumvented; it has not demonstrated that they can be economically neutralized. By 2025, the more important vulnerability was not the absence of trade but the concentration of the channels through which it could still trade. China remained the dominant destination for Iranian oil, taking approximately 1.38mn barrels a day in 2025, while the UAE, Turkey, Iraq, and Iran's other neighbors continued to provide critical channels for non-oil trade, imports, payments, and transshipment.

The structure of that dependence is visible in the latest detailed WTO partner data. The UAE supplied $21.0bn, or 30.6 percent, of Iranian merchandise imports; China $17.8bn (26.0 percent) and Turkey $11.2bn (16.3 percent). Together those three economies supplied almost 73 percent of Iran's imports. On the export side, China, Iraq, the UAE, and Turkey accounted for just over 70 percent. These WTO partner figures refer to 2024, but they provide the latest internationally comparable bilateral baseline for understanding the structure Iran carried into 2025.



The problem in 2025 was therefore not whether Iran had trading partners, but how difficult its principal channels were to replace. Russia, Pakistan, Oman, the Caspian states, and Central Asia offer alternative routes, but their scale remains substantially smaller than Iran's principal commercial gateways. Iran's geography gives it sanctions resilience, but not genuine commercial diversification.

The UAE's suspension of trade and financial transactions with Iran on 19 August consequently sharpens an existing vulnerability rather than creates it. Dubai has been more than another market: it has served as a regional entrepôt for consumer goods, machinery, food, foreign currency, re-exports, and informal payment networks. Turkey, Iraq, Pakistan, Afghanistan, Oman, Russia, and the Caspian and Central Asian corridors can absorb or reroute portions of that commerce, but none individually replicates the UAE's combination of finance, logistics, and global connectivity. The composition of 2025 trade also illustrates why complete isolation is difficult: Iran's principal export destinations extended beyond China and Iraq to the UAE, Turkey, Afghanistan, Pakistan, and Oman, while its main suppliers included the UAE, China, Turkey, India, Germany, Russia, and the Netherlands. Each alternative route preserves economic activity, but usually at higher transaction, financing, and sanctions-compliance costs.

Oil illustrates the same mixture of resilience and dependence. Iran averaged about 1.7mn b/d of crude exports in 2025, with China effectively its sole crude customer after shipments to Syria ended. That kept a major revenue channel open, but it also concentrated Tehran's exposure in one market and a relatively narrow group of Chinese refiners and intermediaries. Iran can still move sanctioned barrels; it has far less ability to diversify customers or dictate the terms on which those barrels are sold. The strategic issue is therefore not whether sanctions can stop every cargo, but whether they can progressively worsen the price, financing, and reliability of Iran's remaining outlets.

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This also clarifies what sanctions can realistically achieve. Historically, economic coercion has been much better at imposing costs and creating bargaining leverage than at forcing states to surrender interests their leaders regard as vital. Cuba and North Korea endured prolonged isolation; sanctions devastated Iraq in the 1990s without producing the concessions Washington ultimately sought; and the post-2018 maximum-pressure campaign imposed severe costs on Iran without compelling Tehran to accept its principal demands. The more relevant Iranian precedent is 2012–15: restrictions on oil exports and international finance inflicted substantial economic damage and contributed to the negotiations that produced the JCPOA, but they worked as part of a bargain offering sanctions relief, not as a mechanism of capitulation.

Sanctions are therefore more likely to work against Iran as an instrument of attrition than as an instrument of surrender. Their effect lies in narrowing fiscal space, restricting technology and investment, worsening the terms on which Iran trades and making each additional round of confrontation more expensive. There is also a limit: once Western markets and finance are largely closed, another sanction on an Iranian entity yields diminishing leverage. The critical contest shifts to the remaining gateways around the sanctions regime—Chinese oil purchasers and financial intermediaries, Gulf re-export hubs, Turkish and Iraqi commerce, shipping and informal settlement networks. Constraining those channels would not necessarily force Tehran to capitulate, and excessive pressure could instead strengthen its incentive to escalate in order to create bargaining leverage. But it would make recurrent war progressively harder to finance. In a conflict increasingly resembling strategic attrition, that is the more consequential measure of whether sanctions work.

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If sanctions are intended to become coercive rather than merely punitive, their effectiveness increasingly depends on Iran’s perimeter rather than Iran itself. Tehran has already lost much of its access to Western finance and commerce; additional restrictions therefore produce diminishing returns unless the remaining gateways are also constrained. That means greater pressure on Chinese purchasers and financial intermediaries, Iraqi and Turkish channels, Pakistani and Central Asian routes, Caspian commerce, and the shipping, payment, and transshipment networks connecting Iran to neighboring economies. But an economic cordon carries its own contradiction. The broader secondary sanctions become, the greater the incentives for neighboring states to circumvent them and for Tehran to conclude that sanctions relief is unattainable through negotiation. The more sustainable objective is therefore to raise the cost of sanctions leakage rather than attempt to eliminate Iran's legitimate trade altogether. Iran's vulnerability is not that it has no routes out, but that every route increasingly depends on another state being willing to bear the financial and political cost of keeping it open.

That logic was tested directly on 24 August, when Treasury Secretary Scott Bessent launched "Operation Economic Outcast," a sustained sanctions campaign that designated roughly 60 entities, individuals, and vessels and expanded secondary-sanctions exposure across digital assets, technology, gold, aviation, and shipping. The rollout did not announce immediate penalties on specific countries, but U.S. officials and reporting identified China, India, Turkey, Iraq, and the UAE as central jurisdictions for enforcement. Officials also described expanded secondary sanctions as the primary U.S. instrument of pressure until at least after the midterms—an electoral timetable that adds another layer of unpredictability for the Gulf and Asian intermediaries this section has identified as Iran's remaining gateways. This is the perimeter-pressure logic above turned into policy rather than description, and it sharpens the essay's own warning: the broader the net, the stronger the incentive for those same transit states either to continue quietly and absorb compliance risk, or to withdraw and leave Tehran with an even narrower, more China-dependent economy.

The more consequential question this raises is not only for Iran. Operation Economic Outcast threatens enforcement action against banks and brokers operating from the UAE, Turkey, and Iraq—the same jurisdictions whose re-export, transshipment, and informal-settlement capacity this essay has treated as central to Gulf economic flexibility more broadly, not just to Iran's survival. Dubai's model as a regional entrepôt has never depended on evading U.S. sanctions systematically; it depends on being trusted not to. A sustained American campaign that treats Emirati, Turkish, and Iraqi intermediaries as extensions of Iran's evasion architecture risks raising compliance costs and geopolitical risk premiums across the same hubs the wider Gulf recovery, and the alternative corridors states are now racing to build around Hormuz, both depend on. The likely outcome is not Iranian capitulation, which the historical comparisons above argue against; it is a slower, region-wide tightening—more trade pushed into opaque or informal channels, higher costs for legitimate as well as illicit Gulf commerce, and a regional economic outlook increasingly hostage to a campaign whose near-term political timetable runs through the U.S. midterms rather than through a negotiated resolution of the war.

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From Crisis to a Cycle of Limited War

The more troubling forecast is neither war nor peace, but serial, bounded conflict: missile and drone attacks, maritime coercion, and proxy escalation punctuated by ceasefires and commercial normalization. Iran has reasons to prefer this rhythm. Permanent settlement would diminish Hormuz as leverage; uncontrolled war would threaten the regime. Recurrent confrontation sits between them—imposing costs, testing alliances, and extracting concessions while preserving bilateral deals with Gulf capitals seeking insulation from the next round. This is the region's emerging no-peace, no-war condition: violence is limited enough to coexist with diplomacy and commerce, yet persistent enough to prevent a durable settlement. The normative assumption that de-escalation naturally moves a system back toward peace may therefore be wrong. Here, de-escalation can instead become part of the operating mechanism of conflict—reducing immediate costs just enough to make the next round sustainable.

The Gulf's new equilibrium may endure precisely because it is unstable. Chinese inventories can absorb part of the economic shock; Gulf capital can finance pipelines, air defense, and alternative logistics; and new partnerships can raise the cost of attack. But adaptability also enables repetition. If Iran alternates regional coercion with bilateral accommodation while Gulf states insure themselves separately, conflict need not end to become manageable.

What begins as recurrent limited war may therefore evolve into something more consequential: a war of attrition. Not attrition in the classical sense of continuous battlefield exhaustion, but strategic attrition through repeated, bounded conflict—successive rounds designed to deplete military inventories, strain fiscal capacity, raise shipping and insurance costs, test alliance cohesion, and erode political tolerance without requiring either side to seek decisive victory. Each confrontation remains tactically limited; their cumulative effect is not.

The danger is therefore not simply another war over Hormuz. It is a regional system in which limited wars become the mechanism of a longer war of attrition—interrupted by ceasefires, temporary bargains, and commercial normalization, but never fully resolved. The conceptual challenge is to stop treating ceasefires, reopened shipping lanes, and resumed investment as evidence that peace is returning. In this environment they may signify something more unsettling: the institutionalization of instability. A system can become more resilient and less peaceful at the same time. The Gulf's new normal may therefore overturn a deeply rooted policy assumption—that resilience is inherently stabilizing—because resilience can also lower the cost of living with recurrent war.

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