



The war in the Middle East – the long-term consequences

Markets are focused on when the war with Iran will end and the Strait of Hormuz will reopen. But the war is also likely to have significant long-term consequences – similar to the oil price shock of the 1970s.

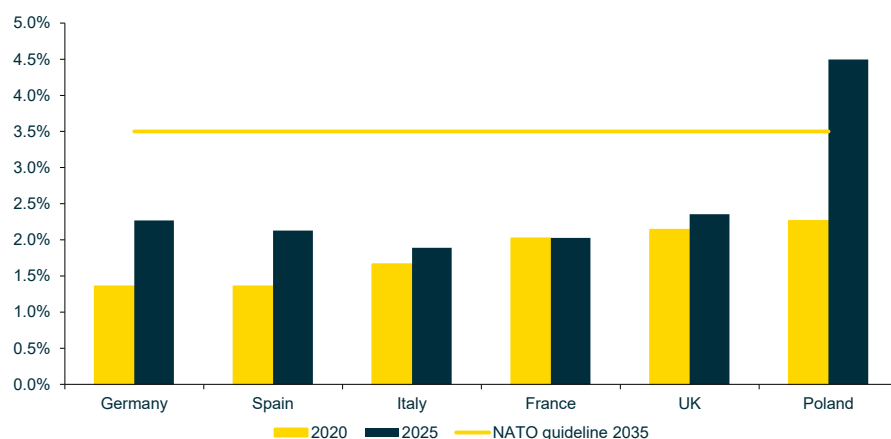
Dr. Jörg Krämer^{AC}

Increased Defense Spending

Despite U.S. air superiority, Iran has caused significant damage in the Gulf states and at regional U.S. bases using inexpensive drones deployed en masse. As the war in Ukraine has already shown, these weapons are becoming increasingly important. It is not only the U.S. and the Gulf states that are forced to respond and radically restructure their armed forces. This reinforces the global trend toward increased defense spending, which is already evident in 2025 in areas such as German defense spending and has been increasingly reported by defense contractors since the start of the Middle East war. NATO member states are already aiming to increase their defense spending in the narrow sense to 3.5% of GDP by 2035 in order to defend themselves more independently of the U.S. against an increasingly aggressive Russia (Chart 1). Western countries are likely to finance the rising expenditures primarily through new debt, as they wish to avoid cuts in areas such as social services. This increases aggregate demand, which ultimately acts as a structural inflation driver.

Chart 1 - Defense spending is on the rise

Defense spending in % of GDP



Source: NATO, SIPRI, Commerzbank Research

The Middle East Is Becoming Permanently More Unstable

The Iranian leadership ultimately emerges stronger from the war with the U.S. and Israel. While the U.S. held air superiority and was able to destroy many targets, Iran was nonetheless capable of attacking the Gulf states with drones and missiles, while also dealing a significant blow to U.S. military facilities. Furthermore, by closing the Strait of Hormuz, Iran holds enormous economic leverage.

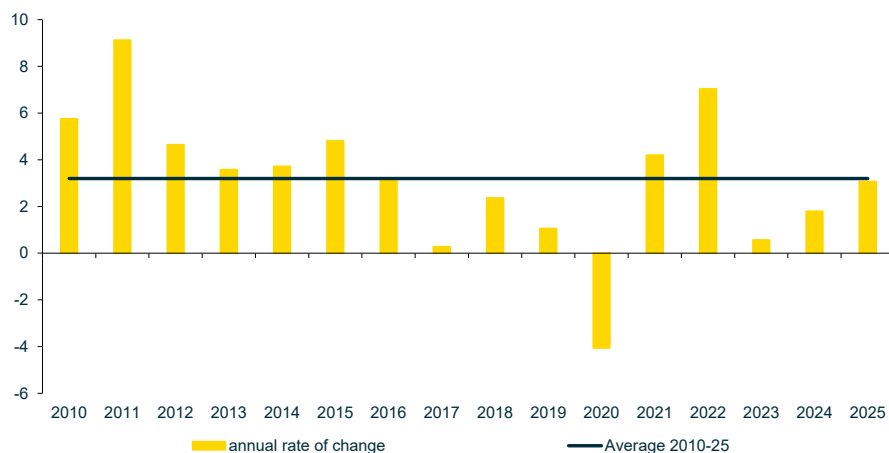
This strength of Iran, a political troublemaker, makes the Middle East permanently more unstable. Added to this is the fact that the Middle East war escalated much more severely than the conflicts of the past two decades; in future wars, the parties involved will have fewer reservations about resorting to large-scale military force again. This makes the resource-rich region more unstable and makes renewed closures of the Strait of Hormuz more likely, which has significant economic consequences:

- The Gulf states, which were once viewed by many as the Switzerland of the Middle East, will face far greater difficulties in the future in attracting capital, skilled workers, and tourists, and in maintaining their comparatively strong growth (Chart 2). This undermines their plans to position themselves beyond oil production and petrochemicals as aviation hubs, in the financial sector, or in the field of artificial intelligence.
- Countries that, like the U.S., depend little or not at all on imported fossil fuels will benefit in the competition for capital and labor. Asian developing countries that import large amounts of oil and gas from the Middle East, on the other hand, are likely to face greater challenges in the future if the likelihood of supply disruptions from the Gulf states increases.



Chart 2 - Gulf nations: unclear growth perspectives

Real GDP growth in the nations of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE), in % vs. previous year



Source: IMF, Commerzbank Research

Shifts in the Energy Market

The war in the Middle East will also have consequences for the energy market. U.S. exports of crude oil and petroleum products have recently surged, particularly to Asia (Chart 3). This effect is partly long-term because, for example, Japan does not want to continue sourcing around 90% of its oil imports from the politically unstable Gulf region indefinitely.

Furthermore, the disruption of oil supplies through the Strait of Hormuz is likely to lead to increased exploration for oil and gas in regions considered safer. Latin America, for example, which lies far from the current crisis hotspots, is likely to benefit from this. In Brazil, Guyana, and Argentina, capacity expansions were already planned before the war. Venezuela could also expand its production capacity. Overall, Latin America could increase its production by up to 2.1 million barrels per day by 2030. This is important for the region, even if it will only increase the global oil supply by 2%.

Russia could also benefit permanently from the problems in the Gulf region. The country has been supplying China with increasing amounts of energy for some time, and it is likely to sell more to other countries as well once the war in Ukraine comes to an end.

The war with Iran is also a factor in the United Arab Emirates' (UAE) decision to leave OPEC on May 1. While there have long been disagreements between Saudi Arabia and the UAE over production quotas, the UAE is now accusing its neighbors of failing to provide sufficient support against Iranian drone and missile attacks.

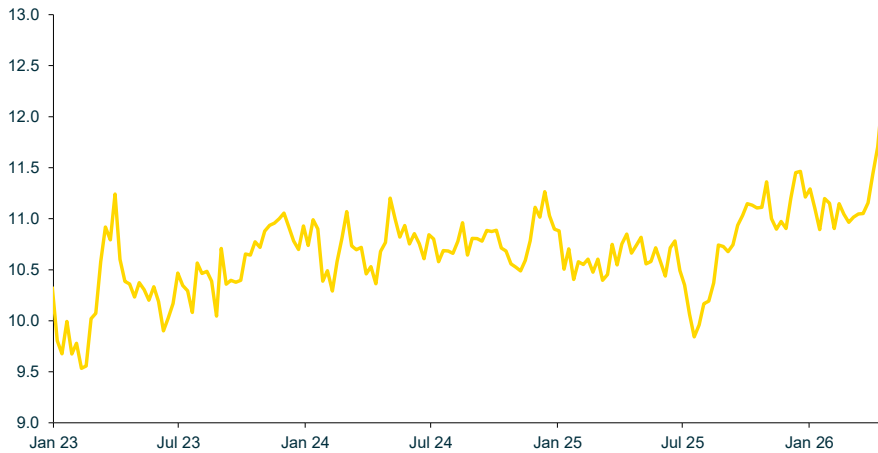
Changes in the energy market also occurred in response to the oil price crisis of 1973–74, when Western nations did everything in their power to become less dependent on the “oil sheikhs.” This led, for example, to the development of oil production in the North Sea.

The pursuit of energy security is also likely to bolster non-fossil energy sources, from which China, as the dominant producer of green technologies, will benefit. Nuclear power is also likely to play a more significant role. This is further supported by the development of new technologies in this field, such as mini-nuclear power plants.



Chart 3 - US oil exports are rising steeply

US exports of oil and petroleum products, thousand barrels per day, 4-week average



Source: EIA, Commerzbank Research

Sea routes are becoming increasingly unsafe

Sea routes have never been safe—just think of the piracy off the Horn of Africa. But with the closure of the Strait of Hormuz and the use of drones, the role of state-sponsored troublemakers is likely to grow. Furthermore, Iran’s example could set a precedent for charging transit fees, even though this is prohibited under maritime law for natural waterways. For instance, Indonesia is considering charging fees for passage through the Strait of Malacca, through which 40% of global trade passes.

All in all, the growing problems with sea routes are increasing the incentive to geographically diversify suppliers and to manufacture key goods in friendly nations or even domestically. All of this raises production costs and represents a structural driver of inflation.

Conclusion: The Middle East War Is Both a Game-Changer and a Trend Amplifier

All in all, the Middle East war is likely to have significant long-term implications. It is a game-changer, particularly regarding the future role of the Gulf states, which are likely to struggle to attract capital and skilled labor as they have in the past following Iran’s attacks. Furthermore, the Middle East war is likely to amplify existing trends. This applies, for example, to the pursuit of energy security and more stable supply chains. The associated costs point to structurally higher inflation, as do the increased likelihood of new supply shocks and higher defense spending—especially since the Federal Reserve and the ECB are, in effect, less independent in taking decisive action against inflation risks due to political pressure and high government debt.



Analysts

^{AC}
Dr. Jörg Krämer
Chief Economist
+49 69 136 23650
joerg.kraemer@commerzbank.com

^{AC}
Bernd Weidensteiner
Senior Economist
+49 69 9353 45625
bernd.weidensteiner@commerzbank.com

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Frankfurt

Commerzbank AG
DLZ - Gebäude 2, Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

London

Commerzbank AG
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York

Commerz Markets LLC
225 Liberty Street, 32nd floor,
New York,
NY 10281-1050
Tel: + 1 212 703 4000

Singapore

Commerzbank AG
128 Beach Road
#17-01 Guoco Midtown
Singapore 189773
Tel: +65 631 10000