

US-Israeli War on Iran Upends Gulf States' Safe-Haven Image, Plans for Post-Oil Economies

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Tushar Gagerna, an Indian marketing professional based in Dubai, had been waiting for two hours for his plane to take off from the city's international airport when Iranian missiles and drones [began](#) hitting the United Arab Emirates, forcing the country to close its airspace.

The attacks, which followed initial airstrikes by the US and Israel on Iran on Feb. 28, were part of Tehran's retaliation against several Gulf states that host US military bases, pulling them into a conflict they did not want to be part of and had tried [to avoid](#).

Now, the UAE, Qatar and other countries are rushing to mitigate the damage.

Gagerna [described](#) how the airport officials "kicked into gear immediately," offering stranded passengers food and drink and issuing them emergency visas. "This is what separates world-class nations from the rest," he said. "It's how a country responds under pressure. When things go sideways – and in geopolitics they sometimes do – the UAE doesn't scramble, it executes."

That's because at stake is the Gulf's reputation for stability and security, the foundation of its effort [to build](#) economies based on tourism, aviation and global commerce rather than oil. Those ambitions now face a severe test as the war reverberates across the Middle East.

The Middle East and North Africa ([MENA](#)) region stretches from Morocco and Egypt in North Africa to Iran and the Gulf states in the Middle East and includes some of the world's most critical shipping lanes, energy routes and aviation corridors. Already, images from the conflict are shaking perceptions of security and stability across the region.

"Videos of explosions in Dubai, Doha and Manama – and stranded tourists attempting long overland escapes – have pierced the Gulf's carefully cultivated image of security," [wrote](#) the Middle East Council on Global Affairs.

Nowhere has that shock been felt more acutely than in Dubai, long serving as a global crossroads for shopping, tourism and business. The emirate has taken the bulk of Iran's missile barrage, with roughly two-thirds of the strikes [hitting](#) hotels, energy infrastructure and the [airport](#). One of the first Iranian retaliatory salvos on Feb. 28 [struck](#) the symbolic heart of the region's luxury tourism boom – the opulent Fairmont hotel on the artificial island of Palm Jumeirah.

Investors reacted almost immediately. Scores moved money out of Dubai or began making inquiries about doing so within days of the conflict's outbreak – without waiting to see how long it might last – suggesting Dubai's reputation for stability had already taken a hit. "Dubai was always about tax benefits but now I think the tax benefits may not be the top priority for them," Iris Xu, a principal at tax advisory firm Andersen Global, [told](#) Reuters.

Meanwhile, across the Gulf Cooperation Council states – the six-nation political and economic bloc that includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE – governments have [spent](#) decades and trillions of dollars [pursuing](#) ambitious "Vision" programs aimed at remaking their economies and societies.

"Their 'Vision' strategies, already fragile, are based on the premise that they can leverage their hydrocarbon wealth, strategic location and expanding domestic markets to attract foreign capital and talent, diversify away from oil exports and build world-class service- and knowledge-based economies," the analysis [noted](#). "That premise ultimately rests on the perception of stability, which the events of the past days have put under severe, and perhaps lasting, strain."

Tourism sits at the heart of that strategy. One of the Gulf's fastest-growing sectors, the industry [generates](#) roughly \$367 billion annually across the Middle East but depends heavily on perceptions of safety in a volatile region. Inbound tourism to the region could fall between 11 percent and 27 percent this year, [according](#) to advisory firm Oxford Economics. That could mean up to 38 million fewer visitors and roughly \$56 billion in lost tourism spending.

Meanwhile, tourism [accounts](#) for about 8.1 percent of GDP in North Africa, the World Bank [says](#). That leaves economies such as Morocco, Tunisia and Egypt vulnerable to travel disruptions. "History shows that such crises can trigger steep declines in visitor numbers that take years to recover," [said](#) analytics firm Capital Economics.

The aviation sector – another pillar of the Gulf's economic strategy – has also been shaken. The conflict has [disrupted](#) the region's role as a global aviation crossroads. More than 46,000 flights in and out of the Middle East were [canceled](#) between Feb. 28 and March 11. Dubai International Airport [was](#) the world's second-busiest airport in 2024 by passenger traffic, after Atlanta in the US, and ranked first for international passenger volume.

Oil markets began [reacting](#) as soon as trading reopened Monday after the attacks began over the weekend. Since Feb. 28, prices have surged and [swung](#) wildly, climbing above \$100 a barrel on March 11 from [around](#) \$72 the day before the attack as tankers [stalled](#) near the Strait of Hormuz. The narrow waterway between Iran and Oman is one of the world's most critical energy chokepoints, carrying roughly one-fifth of the global oil supply.

While higher oil prices may offer Gulf producers a brief windfall, the volatility carries longer-term risks, economists warn. "Even a short-term price spike stemming from a US-Iran conflict would jeopardize the foundations of non-oil growth and diversification...," the Center on Global Energy Policy at Columbia University [said](#) in January. Additionally, many North African countries could face higher oil costs that strain budgets, push up food and transport prices and threaten supply chains through the Suez Canal and the Red Sea, [noted](#) the Institute for Security Studies.

For the millions of expat workers from South Asia and elsewhere who depend on the Gulf's tourism economy, the consequences are already becoming clear. On the day the war began, a Pakistani taxi driver in Dubai, Zain Anwar, returned from prayers to find the car he had parked near the Fairmont destroyed in a strike.

"I don't want to be in Dubai any more. There is no business. We are earning nothing since this war and I don't see the tourism coming back," he [told](#) the Guardian. "A lot of taxi drivers like me – we are thinking to go to a different country now. Everybody knows that Dubai is finished."

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