

## “A Hormuz Closure Would Trigger the Worst Oil Crisis Ever” Interview with Economist Mamdouh Salameh



Since the outbreak of the Iranian-Israeli war, oil prices have experienced marked volatility, significantly affecting importing countries and reverberating across the economies of the Arab Gulf states despite their status as leading global energy suppliers.

Saudi Arabia produces around 10 million barrels per day, followed by the United Arab Emirates at nearly 4 million barrels, Kuwait at approximately 3 million barrels, Oman at about 1 million barrels, Qatar at roughly 600,000 barrels, and Bahrain at around 185,000 barrels per day.

Despite this substantial level of production which grants Gulf states considerable influence over the global economy they remain vulnerable to political and economic tensions that impact production and export levels, and consequently, price stability in international markets.

In this context, Noon Post spoke with Dr. Mamdouh Salameh, an international economic expert in oil and energy affairs. Salameh holds a PhD in economics, specializing in the geopolitics of oil and energy. He serves as a visiting professor of energy economics at ESCP Business School in London and has worked as a

consultant to the World Bank on oil and energy issues.

Salameh has authored numerous books and specialized studies in this field, including *The Oil Barrel War* (in English), *Is a Third Oil Crisis Inevitable?*, *Energy Prospects and Needs in Jordan Until 2010: The Economic Feasibility of Extracting Oil from Oil Shale*, and *The Causes of the Sharp Decline in Crude Oil Prices: Oversupply or International Politics?*

Q: How are oil prices affected—rising and falling—as a result of war?

Oil prices are influenced by wars and economic developments, rising and falling in response to these variables.

For example, the closure of the Strait of Hormuz halted the export of around 20 million barrels of oil to the global market, driving prices sharply upward as an immediate reaction. This could trigger an oil crisis poised to become one of the largest since oil was first discovered.

Q: How do rising and falling oil prices affect the global market economy? Specifically, how do they impact Gulf economies in terms of goods and services prices?

Rising oil prices have a profound impact on the global economy, curbing growth and, in some cases, leading to contraction. When economies contract, unemployment rises and inflation increases, severely undermining global economic growth.

A significant increase in oil prices raises the cost of industrial and food production, as well as exports and imports, resulting in a higher cost of living across most countries except those with substantial oil reserves.

Q: Does the cost of Gulf oil production increase during war?

The Gulf states' oil production capacity and infrastructure have been significantly affected by Iranian missile strikes. This means that even after peace returns to the region, Gulf countries will need time perhaps three months or more or substantial financial investment to restore production capacity to pre-war levels.

This implies that oil prices will remain high even after the Strait of Hormuz reopens lower than wartime levels, but still ranging between \$85 and \$90 per barrel for Brent crude, which is considered high for the global economy.

Q: Are Gulf oil-producing countries facing difficulties in meeting global demand due to the Iranian-Israeli war?

Certainly, Gulf countries are facing challenges in meeting global oil demand with the suspension of 20 million barrels per day that used to pass through the Strait of Hormuz. Damage to production capacity from Iranian strikes may further

hinder supply. However, they are expected to recover once repairs are completed and the Strait reopens.

This recovery could take more than three months and require significant financial investment, but ultimately, production will rebound, and global economic growth will resume.

Q: Could oil derivative reserves in Arab countries that depend on imports be affected?

During the war with Iran, Gulf oil reserves will be used domestically, as production has been reduced and exports are impossible while the Strait of Hormuz remains closed. These countries are producing only what their economies require, consuming a significant portion of available reserves.

At the same time, they will store additional quantities of oil that cannot be exported, consuming part of existing reserves while stockpiling the rest awaiting the reopening of the Strait to resume exports.

Q: Which oil-producing countries benefit from the closure of the Strait of Hormuz? Has the war created an opportunity to increase profits?

In every war, there are winners and losers, and oil conflicts are no exception. Countries with vast oil reserves that do not rely on the Strait of Hormuz for exports stand to benefit significantly from rising prices.

The biggest winner is Russia, which can export its oil globally without needing to pass through the Strait.

The biggest loser is the United States. Despite producing large quantities of oil, it still imports around 8 million barrels per day. Rising prices will widen its budget deficit, potentially prompting the Federal Reserve to print more dollars to cover the gap pushing U.S. debt to \$41 trillion by 2026. This is an enormous burden, with annual interest reaching \$1.5 trillion exceeding the GDP of many countries.

Q: Can oil crises lead to shifts in political alliances?

Absolutely. Wars, major economic developments, or global recessions often lead countries to form alliances that serve their interests. For instance, many countries including India may be compelled to form strategic alliances with Russia to secure access to oil and gas. The United States may also be forced to ease sanctions to obtain Russian oil, while India is already strengthening ties with Moscow to ensure stable supplies.

This is the nature of global politics alliances shift in times of crisis to safeguard national interests.

Q: Could the impact of this war on the global economy resemble the oil crisis of

the 1970s?

As I noted earlier, the closure of the Strait of Hormuz would represent the largest oil crisis in history. Its impact on the global economy would surpass that of the 1970s oil embargo against the United States and the Netherlands during the 1973 war, and even exceed the economic effects of the 2003 U.S. invasion of Iraq.

I estimate that the closure of the Strait and the resulting oil crisis combined with the war against Iran will lead to a global economic contraction, meaning either no growth or extremely weak growth.

Moreover, the rising cost of industrial and food production, along with the cost of living, could impose an additional burden exceeding \$8 trillion on the global economy depending on how long the Strait remains closed. If the closure lasts two to three months or longer, it could trigger the worst oil crisis in history.

If it extends to six months or more, it may even lead to famine in some parts of the world and extreme poverty in countries unable to secure or finance food supplies for their populations.

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