



Geopolitical Conflicts in the Middle East and Nigeria's Oil-Dependent Economy

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Abstract

Nigeria's heavy dependence on crude oil exports makes its economy highly vulnerable to geopolitical disruptions in the global energy market. Conflicts in the Middle East have historically generated fluctuations in global oil supply, prices, and investment patterns. This study examines the implications of geopolitical conflicts in the Middle East for Nigeria's oil-dependent economy. Using a qualitative approach based on documentary sources and content analysis, the study evaluates major episodes of Middle Eastern geopolitical tensions and their transmission effects on Nigeria's petroleum revenue and economic planning. The findings indicate that although geopolitical conflicts often lead to short-term increases in global oil prices—temporarily boosting Nigeria's export earnings—the long-term consequences are largely destabilizing. Volatility in oil prices creates uncertainty in government revenue projections, disrupts budgetary planning, and exposes the structural weaknesses of Nigeria's mono-product economy. The study further argues that Nigeria's persistent reliance on crude oil exports amplifies its vulnerability to external geopolitical dynamics beyond its control. Consequently, the paper recommends strategic economic diversification, strengthened energy diplomacy, and investment in alternative energy sectors as critical measures for reducing Nigeria's exposure to global geopolitical shocks.

Keywords: Geopolitical conflicts, Nigeria, Middle East, Oil-dependent economy, Oil price volatility

Introduction

The strategic importance of the Middle East has historically dominated the global political economy of energy. The region possesses a high share in world crude oil reserves and continues to be a vital source of oil to global markets, notwithstanding new energy players increasingly emerging in other parts of the world. Since oil is still one of the most critical energy resources for industrial production, transportation, and electricity provision, the role of Middle Eastern oil-producing states is widely regarded as essential to global economic stability. Consequently, geopolitical tensions within the region often reverberate far beyond its borders, influencing global oil prices, investment flows, and the economic performance of energy-dependent countries (Yergin, 2011).

Middle East's strategic role in global oil production is more pronounced because of its control over critical energy infrastructure and maritime. U.S. Energy Information Administration. (2023) identified one of the most important being the Strait of Hormuz, a narrow strait through which a significant amount of the world's seaborne oil is transported. Geopolitical crises, including the 1979 Iranian Revolution, the 1980s Iran–Iraq War, the 1991 Gulf War, and more recent tensions between Iran and other regional powers have in the past underlined how Middle East conflicts can lead to unexpected oil price spikes and global market anxiety (Hamilton, 2009). These events illustrate how much global financial stability is still reliant on the political stability of the region. While new oil producers are coming online and renewable energy technologies are expanding, Middle Eastern oil still serves a key role in the global energy system.

For nations culturally and economically tied to oil, i.e. Nigeria, world oil markets carry deep macroeconomic meaning. Oil exports constitute the lion's share of what Nigeria earns from exports and a large portion of government revenue. Over time, this dependence engenders an oil-dependent economy where the economic health of a nation is tied to the global price of oil (Ajakaiye & Fakiyesi, 2018). Consequently, changes in the global oil market are likely to have a direct impact on Nigeria's ability to generate revenue, balance of payments and overall macroeconomic stability.

The significance of crude oil in the Nigerian economy can be seen in its public finances and foreign trade. Since government budgets are often formulated on the basis of expected oil prices and production, fiscal plans are quite sensitive to shifts in international market conditions. When oil prices rise, the government has additional revenue for public services and development. Conversely, a fall in prices significantly cuts government revenues, and this can lead to budgetary deficits, borrowing and reductions in public investment (Iyoha & Oriakhi, 2012). In the same way, Nigeria's export of crude oil accounts for a majority of the country foreign exchange earnings which are used to finance imports, stabilize the national currency, and support economic activity.

Yet Nigeria's reliance on oil has also engendered structural weaknesses, despite the oil export windfalls. Among these vulnerabilities is the country's susceptibility to external shocks emanating from the world oil market. Nigeria's economy is still heavily reliant on expanding crude oil exports; oil contributes a large proportion of its export earnings and of its earnings in foreign exchange. Nigeria is a price taker in the global energy market" and "the price has to be accepted that is dictated by global oil market as determined by global supply and demand forces and by decisions of major producers among which Nigeria is one and geopolitical considerations" – Alabi & Ojediran (2024). This constrains Nigeria's chances to assert itself in the pricing of crude oil,

exposing its fiscal and economic projections to the risk of price shocks in and volatility of the global energy market. Geopolitical developments elsewhere in oil-producing areas, notably the Middle East, frequently shift supply expectations and investor sentiment, triggering volatility in global prices. These have an immediate impact on Nigeria's fiscal health, the performance of its exchange rate, and its gross domestic product growth. For instance, geopolitical tensions that interrupt oil flow from the Middle East cause prices to rise that in turn temporarily increase Nigeria's revenues, while geopolitical ease or increased production in other areas of the world cause prices to decline potentially taking down a nation's export earnings (Obinet al., 2019).

Such dynamics are vital for a country like Nigeria, which has its fiscal and external accounts tied to oil export earnings. Many have studied the domestic effects of oil dependence in Nigeria, but fewer have addressed in a comprehensive manner how regional geopolitical conflicts in the Middle East translate into macroeconomic effects for Nigeria via the global oil market. The integrated energy market means that political risk in one region can challenge the economies of oil-exporting countries in other parts of the world. But the channels through which such conflicts impact the economic performance of Nigeria have not been adequately explored among existing studies. Filling this gap is particularly timely given the evolving nature of global energy markets and the increasing occurrence of geopolitical tensions in oil-producing areas.

Theoretical Underpinnings

Understanding the economic vulnerability of Nigeria's oil-dependent economy to geopolitical conflicts in the Middle East requires a theoretical lens that connects external shocks to domestic economic outcomes. Two complementary approaches are particularly relevant. Integrating Dependency Theory and Resource Curse Theory in this study provides a robust analytical framework for examining how geopolitical conflicts in the Middle East propagate through global oil markets impact Nigeria's domestic economic structures.

Dependency Theory

Dependency Theory provides a critical perspective on how developing countries' economies are shaped and constrained by global structures and power relations. Developed by Frank (1967), the theory posits that peripheral economies are structurally dependent on core economies for capital, technology, and market access. It posits that the global economic system is structured to benefit industrialized "core" countries at the expense of resource-dependent "peripheral" countries, which are typically reliant on primary commodity exports and constrained in their capacity to determine autonomous economic policies (Dos Santos, 1970; Cardoso & Faletto, 1979). Within this framework, Nigeria's reliance on oil renders its economic performance highly contingent on decisions, disruptions, and crises that occur in distant, more powerful economies and regions, particularly in the Middle East.

Within this context, the exposure of Nigeria to the world market for oil, whose prices and supply are being influenced to a large extent by external operators, among which the Middle East and large industrialized countries emerge, is too high. This reliance reduces Nigeria's policy space and makes its economy more susceptible to global oil market-driven shocks, including those emanating from geopolitical tensions (Ake, 2000). The Theory also exposes how global trade and investment relations are not only structured but also mediated in asymmetric ways. As a major exporter of primary commodities, with a heavy dependence on crude oil, Nigeria is

therefore rendered structurally subordinate within the global political economy. Therefore, external disruption such as war, sanctions, or regional rivalries in the Middle East so much have a direct and profoundly disproportionate effect on its fiscal stability and development prospects (Cardoso & Faletto, 1979).

The fact that the major source of oil production is located in the Middle East, which is the global center of geopolitical unrest including the Iran–Israel tensions, US–Iran confrontations and multiple civil wars and insurgencies, has unique influences on oil-exporting nations. War, sanctions and turmoil in leading oil producers can send crude oil prices spiraling, which is revenue uncertainty for Nigeria because more than 70 percent of its federal government revenue and more than 90 percent of its foreign exchange earnings come from oil exports (Central Bank of Nigeria [CBN], 2020). As temporary rise in oil prices raise the export revenue, such volatility also disturbs the domestic formation of price by inducing inflation and it cause the disorder of government fiscal planning (Iyoha & Oriakhi, 2012). Disruptions of the supply route, notably strategic points like the Strait of Hormuz, makes Nigeria more vulnerable as higher global transportation costs and increased market uncertainty, even though Nigeria itself is far removed geographically from these zones of conflict.

Nigeria's location in the periphery of the world economy makes it even more vulnerable to these external shocks. Since its economy is based on oil exports with little development of manufacturing, agriculture, or services, domestic policy has limited role in protecting the country from price swings or geopolitical turbulence. As a result, the Nigerian fiscal and monetary policy are often more reactive than proactive and are subjected to forces beyond national control (Akinlo, 2004). Past trends reveal that periods of unrest in the Middle East such as the Gulf Wars, Iran–Iraq War and sanctions on Iran were associated with more volatile oil prices, budgetary shortfalls and decelerated domestic investment in Nigeria, demonstrating the structural reliance as signified in Cardoso & Faletto (1979) & Dos Santos (1970).

The ill effects of this dependency have played out in various ways. First, the fiscal fragility is exacerbated by the fact that oil revenue accounts for the majority of government revenue, and sudden plunges in world oil prices precipitated by Middle East warfare can temporarily compromise financing of social programs, infrastructure investment, and measures to diversify the economy (Sala-i-Martin & Subramanian, 2013). For a second time, fluctuations in the oil revenue have a direct bearing on the naira and domestic prices which in turn results to macroeconomic instability and this instability restricts the government's ability to pursue steady development policies. Besides, with mono-economy in place, room for diversification is limited, which in turn perpetuates long-term structural vulnerabilities. In a corresponding development, Nwachukwu (2023), contended that Nigeria's peripheralisation in the global order diminishes its policy space, because its economic decisions are conditioned by the interests of more powerful states as well as by structural dependencies in global energy markets.

Resource Curse Theory

Complementing the dependency perspective, Auty (1993); Sachs & Warner (2001) noted that Resource Curse theory explains the paradox whereby countries endowed with natural resources, such as oil, often experience slower economic growth and greater volatility than resource-poor countries. Nigeria exemplifies this phenomenon: while oil wealth generates substantial revenue, it also fosters economic overreliance, rent-seeking behavior, and vulnerability to external shocks. The theory assumes that resource-dependent

economies are more sensitive to price volatility and supply disruptions in global markets, which can exacerbate macroeconomic instability during periods of geopolitical conflict in key oil-producing regions. The Theory, also known as the paradox of plenty, assumes that countries with abundant natural resources, particularly oil, often experience slower economic growth, weaker institutions, and increased susceptibility to economic and political instability due to overreliance on resource rents (Auty, 1993; Ross, 2012).

In the case of Nigeria, the already glutted national income and export receipts from the oil sector make the economy prone to external shocks in the global oil market, which are frequently precipitated by wars in the Middle East. Despite the fact that geopolitical tensions in the Middle East (Iran vs. Israel, Gulf Wars, Iraq and Syrian civil wars, sanctions to main oil producers) affect directly the supply and price of oil in the world. For Nigeria, such disturbances mean fluctuating export receipts as crude oil accounts for more than 90 per cent of the country's foreign exchange earnings and about 70 per cent of the total consolidated revenue of the federal government (Central Bank of Nigeria [CBN], 2020).

The Theory postulates that such dependence on oil revenue generation leads to fiscal rigidity, weak diversification and vulnerability to inflationary pressures among others, structural economic weaknesses within the Nigerian economy which are amplified when external geopolitical contingencies influence global oil markets (Iyoha & Oriakhi, 2012). In addition, it implies that resource dependency can lead to policy complacency and rent-seeking activities and weakens institutions, constraining the country's capacity to pursue counter-cyclical policies in the face of external shocks. In Nigeria, swings in world oil prices caused by tensions in the Middle East frequently compel the government to revise budgets, to borrow from abroad, or to reduce spending in a way that shows how the economy is subject to whims over which it has no control (Sala-i-Martin & Subramanian, 2013). Another consequence is volatility in the exchange rate because the value of the naira is affected by abrupt drops or booms in oil revenue, resulting in higher prices for imports and influencing patterns of consumption within the country.

The emphasis on oil has traditionally diverted focus and resources away from agriculture, manufacturing, and other productive areas, leading to a shallow economic base. As a result, geopolitically-induced tensions in far-away oil-producing regions may induce domestic economic turmoil, given that alternative sources of revenue are nascent and ill-equipped to absorbing the effects of oil revenue shocks (Akinlo, 2004). In this respect, Nigeria's dependence on oil exports parallels the core principle of the resource curse. That is to say, the wealth of natural resources does not necessarily bring sustainable development and may, in external volatile conditions, increase economic vulnerability.

Overview of Geopolitical Conflicts in the Middle East

Ahmed & Bashir (2026) noted that Geopolitical conflicts in the Middle East have long been central to the dynamics of international politics and global economic stability. The region occupies a strategic geographic position linking Africa, Europe, and Asia, and it possesses some of the largest proven reserves of petroleum and natural gas in the world. These characteristics have historically attracted external powers and fostered competition among regional actors, producing a complex pattern of alliances, rivalries, and conflicts that continue to shape global security and economic systems. Understanding the origins and evolution of these conflicts requires an examination of historical legacies, colonial interventions, ideological struggles, resource competition, and the involvement of

external powers. These factors have interacted over time to create a geopolitical environment characterized by persistent instability and periodic outbreaks of violence.

Historical Legacies of Geopolitical Conflicts in the Middle East

According to Saeed (2025), the historical roots of geopolitical conflicts in the Middle East are deeply embedded in the region's transformation from imperial governance to a fragmented system of modern states shaped by external intervention and internal contestation. A critical starting point is the decline and eventual collapse of the Ottoman Empire, which had long provided a centralized political framework that accommodated diverse ethnic, religious, and linguistic communities. Its disintegration at the end of World War I dismantled established administrative systems and created a power vacuum that external actors quickly exploited. The transition from imperial rule to statehood was neither organic nor inclusive, thereby laying the foundation for enduring instability (Cleveland & Bunton, 2016).

Youvan (2024), The borders, of course, were not left natural, but shaped and carved through the Sykes–Picot Agreement that was reflective of British and French imperial ambitions to divide among themselves Ottoman lands into spheres of influences, without ever taking into consideration the ethnic, religious, and tribal make-up of the region — a legacy that has caused wobbly geopolitics in the Middle East ever since. These externally defined borders grouped diverse peoples together within political units, often with fragile institutional structures. For this reason, a large number of states in the area have endured legitimacy crises, internal dissension, and chronic violence, conditions which are still influencing geopolitical rivalries (Gelvin, 2016). One more lasting cause of disagreement was born out of British wartime diplomacy, and particularly the Balfour Declaration, which favored the foundation of a Jewish home in Palestine. This statement triggered a series of events leading to the establishment of the state of Israel in 1948. The forced expulsion of Palestinian communities and the ensuing Arab–Israeli wars cemented a long- running struggle that is at the heart of regional geopolitics. The continuing legacy of unmediated territorial disputes and competing national identities has perpetuated instability and international engagement (Smith, 2014).

In the middle of the 20th century, nationalist and ideological currents claiming to offer the political modernisation of the state gained traction in the region. Arab nationalism, promoted by figures like Gamal Abdel Nasser, sought to bring the Arab world together and stand up to Western domination. But internal rivalries, conflicting national priorities and ideological competition worked to frustrate these ambitions and instead created interstate tensions and internal chaos. These changes consolidated autocratic forms of rule and diminished possibilities for regional unity (Dawisha, 2016). Also, the Cold War stylized sensitivity of the Middle East was growing as global superpowers struggled for regional supremacy. The competition between the US and the USSR turned many local conflicts into confrontations by proxy, as the two superpowers sought to expand their spheres of influence by providing financial and military assistance to friendly governments and insurgent groups to compete for strategic positions rather than directly clashing. (Tursynova, 2025). This foreign interference cemented militarization, and authoritarian rule, as well as ideological polarization. The legacy of these interventions remains in today's foreign influence and security competition (Halliday, 2005).

Later events, the Iranian Revolution among them, would complicate the geopolitical terrain further by adding a strong ideological and sectarian aspect. The rise of a revolutionary Islamic state in Iran

changed the competition for power in the region and the rivalry with Sunni-majority states most notably Saudi Arabia (Saeed, 2025). This rivalry has played out in a number of other proxy conflicts, hardening sectarian fissures and leading to violence in several other states (Nasr, 2016). The extraction and sale of oil introduced yet an additional dimension to the region's geopolitical complexities. Significant reserves located in the likes of Saudi Arabia has elevated the strategic significance of the Middle East region within world politics thereby generating periodic external attention and interference. Though oil wealth creates opportunities for the economy, it also brings with it challenges for governance, rentier state dynamics, and growing battles for control of resources. Both have been made stronger as a result of turmoil inside countries and across borders (Yergin, 2011).

The invasion of Kuwait by Iraq and the international response to it reshaped regional alliances and established a foreign military presence in the Middle East. The degradation of state structures in these wars' wake led to opportunities for insurgency, sectarian violence, and the rise of extremist outfits, thus perpetuating cycles of instability (Tripp, 2007).

Nevertheless, in the 2020s these tensions boiled over into direct military skirmishes, such as during the Twelve Day War in June 2025, when Israel launched a battery of strikes on Iranian military and nuclear sites, and a second round in early 2026 in which joint U.S.-Israeli operations struck Iranian regime targets in an operation U.S. officials characterized as seeking to degrade Iran's nuclear and military capabilities (Center for Preventive Action, 2026). Iran retaliated with missile and drone attacks on Israeli soil and US bases in the Gulf, causing high regional tensions and fears of spilling over wars including allied militias and neighboring states (CPC 2026). And these events demonstrate how the squabble—which was once mostly strategic and proxy-based—has escalated into bare-knuckle confrontation, characterized by deep mistrust, dispute over nuclear activities, and competition for influence regionally in the Middle East.

Colonial Interventions in the Middle East Conflict

Colonial interventions constitute one of the most decisive historical forces shaping geopolitical conflicts in the Middle East. The transition from imperial rule to European colonial domination in the early twentieth century fundamentally reconfigured political authority, territorial boundaries, and patterns of governance across the region. Fromkin (2001) noted that following the collapse of the Ottoman Empire, Britain and France assumed control over large parts of the Middle East under the mandate system established by the League of Nations. Although framed as a mechanism for guiding territories toward self-governance, the mandate system functioned in practice as an extension of imperial control, prioritizing European strategic and economic interests over local aspirations (Cleveland & Bunton, 2016).

The Sykes–Picot Agreement divided the region into British and French spheres of influence without regard for ethnic, tribal, or religious configurations. Consequently, states such as Iraq and Syria which were born lacked a common political identity were home to wildly disparate peoples. Such structural deficiencies encouraged internal fractures and periodic instability that continue to this day. This misalignment of state borders and social realities continues to be the source of many of the conflicts in the region (Gelvin, 2016).

Mamdani (1996), observed that colonial administrations depended upon indirect rule and selective empowerment of local elites, in many instances favoring certain groups over others as a mode of control. This policy of segregation enabled the widening of

sectarian and ethnical disparities inside communities. In countries such as Iraq, colonial powers bolstered minority control over political institutions, provoking long-held resentments among dispossessed groups. Such patterns of exclusion contributed to cycles of political instability, coups, and violent contestation post-independence (Dawisha, 2016).

The Balfour Declaration had seemed to represent support for the creation of a Jewish Homeland, while also recognizing the rights of Arab populations. This contradictory policy fueled heated Jewish-Arab antagonisms that culminated in the creation of the State of Israel in 1948. The exodus of Palestinians and the subsequent Arab-Israeli conflict constitute one of the most lasting legacies of colonial-era decisions and continue to inform regional geopolitics as well as international diplomacy (Smith, 2014).

Yergin (1991) stated that alongside political restructuring, manipulation of dercolon rights was closely linked to economic exploitation, including access to critical resources such as oil. European powers in turn obtained concessions and influence over oil-bearing areas, and thus began the region's insertion into the global capitalist system on highly unequal terms. This resource-related engagement received sustained foreign attention and intervention, and institutionalized foreign influence in the domestic politics. And the concentration of oil wealth in a handful of states also led to uneven development and state fragility, which in turn has contributed to internal and external conflicts (Yergin, 2011).

Ideological Struggles and Geopolitical Conflicts in the Middle East

Ideological struggles have played a central role in shaping geopolitical conflicts in the Middle East, influencing both domestic political orders and interstate relations. These struggles are rooted in competing visions of governance, identity, and legitimacy, which have evolved over time in response to colonial legacies, global power dynamics, and internal socio-political transformations. One of the earliest ideological contestations in the modern Middle East emerged in the form of Arab nationalism, which developed as a response to foreign domination and the decline of imperial authority following the collapse of the Ottoman Empire. Arab nationalism sought to unify Arabic-speaking populations under a shared cultural and political identity, emphasizing sovereignty and resistance to Western influence. However, despite its initial appeal, the movement was undermined by internal divisions and competing national interests, limiting its capacity to achieve lasting regional unity (Dawisha, 2016).

Champs of Arab nationalist thought in the mid-twentieth century such as Gamal Abdel Nasser espoused similar anti-imperialist, state-centric development policies. While these notions found sympathy throughout the region, they also fueled rivalries between states and ideological splintering, most notably to the extent some regimes abided far more conservative or monarchic arrangements. The failure to bridge these divergent political templates further exacerbated tensions and conflicts between Middle Eastern states and regional geopolitics more generally (Cleveland & Bunton, 2016). Significant ideological stratification in the Middle East reflects at least the tension of secularism vis-à-vis political Islam, if nothing else. Anderson (2010) claimed that secular nationalist regimes, such as those that came to power in Egypt, Syria, and Iraq, in many cases were compelled to restrict the role of religion in government, and to promote a political ideology that was modernist and state-centric. In contrast to this, Islamist groups championed the inclusion of Islamic tenets into political affairs, and considered secularism to be at odds with social ethics. This ideological split has

contributed to long internal struggle, as governments have routinely repressed Islamist factions, resulting in escalation of cycles of instability and resistance (Gelvin, 2016).

The Iranian Revolution altered the ideological map of the Middle East by showing the political feasibility of an Islamic form of government, inspiring movements throughout the region, and confronting secular and monarchic rule. (Keddie, 2006). The creation of an Islamic republic in Iran challenged the predominance of secular, pro-Western regimes and added a powerful ideological element to regional competition. It also exacerbated tensions between Iran and other states, especially those tied to the West, and helped to politicize sectarian identities throughout the region (Nasr, 2016).

The impact of competing global ideologies has been particularly pronounced, especially in the Cold War where the Middle East became a battleground for the US and the USSR. Rival capitalist and socialist ideologies influenced alliances and internal politics, as regional players aligned with one bloc or the other. This external ideological competition further entrenched authoritarian, militarized, and proxy aspects of governance, and its legacy can still be seen in the political character of the region (Halliday, 2005).

Resource Competition in the Middle East

Resource competition has been a fundamental driver of geopolitical conflicts in the Middle East, shaping both domestic political dynamics and interstate relations. The region's vast endowment of natural resources, particularly oil and natural gas, has elevated its strategic importance in global politics while simultaneously generating intense rivalries over control, distribution, and access. These dynamics are deeply intertwined with historical processes of state formation, external intervention, and economic dependency, making resource competition a persistent source of instability.

The discovery and commercialization of petroleum resources in the early twentieth century transformed the Middle East into a central hub of global energy production. Countries such as Saudi Arabia, Iraq, Iran, and Kuwait became key actors in the international oil market, attracting the attention of foreign powers seeking to secure stable energy supplies. This external interest often translated into political and military involvement, as major powers attempted to influence domestic policies and regional alignments in ways that would protect their strategic interests. Consequently, resource wealth has frequently been linked to external interference, which has, in turn, exacerbated regional tensions (Yergin, 2011).

At the domestic level, the concentration of oil revenues within state structures has contributed to the emergence of rentier economies, where governments rely heavily on resource income rather than taxation. This economic model has significant political implications, as it reduces the accountability of governments to their populations and often reinforces authoritarian governance. In many Middle Eastern states, the distribution of oil wealth has been uneven, leading to socio-economic inequalities and grievances among marginalized groups. These internal disparities have, at times, escalated into protests, insurgencies, and broader conflicts, thereby linking resource management to political instability (Ross, 2012).

Control over oil-rich territories and strategic transit routes has been a recurring source of tension among states. A notable example is the Gulf War, which was triggered in part by disputes over oil production and territorial claims. Iraq's invasion of Kuwait reflected broader concerns about access to resources and economic survival, while the international response underscored the global significance of maintaining stability in oil-producing regions (Tripp, 2007). Such

conflicts highlight how resource considerations can intersect with political ambitions to produce large-scale military confrontations.

In addition to oil, competition over water resources has become an increasingly significant dimension of geopolitical conflict in the Middle East. The region is characterized by arid and semi-arid conditions, making access to freshwater a critical issue for both survival and development. Trans Boundary Rivers such as the Tigris and Euphrates have been sources of tension among countries like Turkey, Syria, and Iraq, as upstream developments can significantly affect downstream availability. Disputes over water allocation and management have the potential to intensify existing political rivalries, particularly in the context of population growth and climate change (Allan, 2001).

Natural gas has further expanded the scope of resource competition in the region, particularly with the discovery of significant reserves in the Eastern Mediterranean. These developments have generated new geopolitical alignments and disputes over maritime boundaries, as states seek to assert control over offshore resources. The intersection of energy exploration with unresolved territorial issues has increased the risk of conflict, while also drawing in external actors interested in securing energy supplies and investment opportunities (Shaffer, 2013).

Resource competition in the Middle East is also closely linked to broader patterns of economic dependency and global market fluctuations. Oil price volatility can have profound effects on the fiscal stability of resource-dependent states, influencing their domestic policies and external behavior. Periods of high prices may enable governments to expand spending and consolidate power, while downturns can lead to economic crises and social unrest. These cyclical dynamics contribute to political instability and may heighten the likelihood of conflict, particularly in states with weak institutional frameworks (Yergin, 2011).

External Powers in Geopolitical Conflicts in the Middle East

According to Halliday (2005), the involvement of external powers has been a defining feature of geopolitical conflicts in the Middle East, significantly shaping the region's political trajectory and conflict dynamics. Owing to its strategic location and vast natural resources, the Middle East has long attracted the attention of global powers seeking to secure economic interests, political influence, and military advantage. These external interventions, which began during the colonial period and continued through the Cold War into the contemporary era, have contributed to the persistence and complexity of conflicts across the region.

In the early twentieth century, European powers such as Britain and France established a strong presence in the Middle East following the collapse of the Ottoman Empire. The political structures they established often lacked legitimacy and were designed to serve external interests, thereby creating fragile states prone to internal unrest and external manipulation (Cleveland & Bunton, 2016).

The significance of external involvement intensified during the Cold War the United States and the Soviet Union. Both powers sought to expand their spheres of influence by supporting allied regimes with military aid, economic assistance, and diplomatic backing. In the post-Cold War era, the role of external powers has remained significant, particularly through the continued involvement of the United States in regional security affairs. The U.S. has maintained a strong military presence in the Middle East, motivated by concerns over energy security, counterterrorism, and the protection of key allies such as Israel. Interventions such as the 2003 Iraq War reflect the extent to which external actors have influenced regime change

and state restructuring in the region. However, such interventions have often had unintended consequences, including the weakening of state institutions and the emergence of insurgent and extremist groups (Tripp, 2007).

Other global and regional powers have also played important roles in shaping Middle Eastern conflicts. Countries such as Russia and China have expanded their engagement in the region through military cooperation, economic investments, and diplomatic initiatives. Russia's involvement in the Syrian conflict, for instance, has been instrumental in sustaining the government and altering the balance of power on the ground. These developments highlight the multipolar nature of contemporary external involvement, where multiple actors pursue competing interests, thereby complicating efforts to achieve conflict resolution (Gause, 2019).

Furthermore, external actors frequently engage in the Middle East through alliances and proxy relationships with regional states and non-state actors. These relationships are often shaped by ideological, strategic, or security considerations, and they can intensify existing conflicts by providing resources and legitimacy to local actors. The involvement of external powers in conflicts such as those in Syria and Yemen demonstrates how proxy dynamics can prolong violence and hinder diplomatic solutions. Such interventions not only exacerbate regional rivalries but also internationalize conflicts, making them more difficult to resolve (Gause, 2019).

Proxy Conflicts in the Middle East

Proxy conflicts in the Middle East are closely linked to the strategic rivalry between major regional powers, particularly Iran and Saudi Arabia, as well as the involvement of global actors such as the United States and Israel. These rivalries manifest in conflicts in Yemen, Syria, Iraq, and Lebanon, where competing powers support local militias or governments aligned with their geopolitical interests. The involvement of external actors intensifies local conflicts and creates complex security environments in which oil facilities become vulnerable to sabotage, missile attacks, and drone strikes. Scholars note that contemporary proxy warfare is characterized by high-frequency, low-intensity confrontations carried out through non-state actors, which can produce significant geopolitical and economic consequences despite limited conventional military engagement.

The strategic importance of oil infrastructure explains why it often becomes a primary target in proxy conflicts. Oil facilities represent both economic lifelines and geopolitical leverage for states in the region. Disrupting oil production or export capacity can impose severe economic costs on rival states while simultaneously influencing global energy markets. In many Middle Eastern conflicts, armed groups have targeted pipelines, refineries, and processing facilities to undermine state authority, disrupt government revenues, or signal political strength.

Global Oil Market Volatility

Global oil markets are inherently volatile due to the interplay of supply-demand imbalances, geopolitical events, macroeconomic conditions, and financial speculation. Oil price fluctuations often reflect not only changes in production levels but also expectations regarding political instability, conflicts in major producing regions, and shifts in global economic growth. For example, supply disruptions in the Middle East, such as conflicts affecting Saudi Arabia, Iran, or Iraq, have historically triggered sudden price spikes in Brent and West Texas Intermediate crude, reflecting the market's sensitivity to geopolitical risks (Hamilton, 2009). Similarly, macroeconomic shocks—such as recessions, changes in industrial

activity, or monetary policy shifts—directly influence demand for crude oil, exacerbating price volatility (Baumeister & Kilian, 2016).

Financial market activities also contribute to oil price instability. Futures trading, speculative positions, and hedge fund activities can amplify short-term price swings, especially during periods of uncertainty (Considine & He, 2015). Additionally, the increasing role of renewable energy, technological innovations in oil extraction, and shifts in OPEC production decisions have further complicated global price dynamics. Oil market volatility not only affects energy producers and consumers but also has broader macroeconomic implications, including inflationary pressures, currency fluctuations, and impacts on stock markets in oil-importing and oil-exporting countries (Sadorsky, 2014).

The ongoing military conflict involving the United States, Israel, and Iran has triggered significant disruptions in global oil markets and heightened volatility in energy prices and financial systems. According to Basdekis et. al (2026), tail risk increases in the crude oil market after the most important geopolitical events in all the model specifications across the market characteristics, and the Russia–Ukraine war considerably elevated the downside risk of crude oil markets including in Nigeria where fuel prices are adjusted repeatedly within in March. 2026. Beyond immediate price effects, the war has influenced global inflation expectations and macroeconomic sentiment. Elevated energy prices raise transportation and production costs worldwide, contributing to upward pressure on consumer prices and complicating monetary policy decisions in several countries. Investors have responded with risk-off positioning, often selling risk assets and reallocating to assets perceived as safer during geopolitical crises. Financial market analysts warn that sustained high oil prices and continuing conflict could dampen global economic growth, erode investor confidence, and further entrench volatility across markets, as heightened geopolitical risk feeds through energy costs, inflation expectations, and risk sentiment. (International Monetary Fund, 2025)

Macroeconomic Effect of Oil Price Volatility

Oil price volatility has long been recognized as a critical determinant of macroeconomic performance across both oil-exporting and oil-importing economies. Sora (2025) noted that the macroeconomic consequences of oil price volatility are not uniform but depend on structural characteristics of economies, including their level of dependence on oil exports or imports, institutional capacity, and policy responses. As a result, oil price volatility is often viewed as a major source of macroeconomic instability, particularly in developing and resource-dependent economies (Aladwani, 2024; Chon, 2025).

In many oil-importing countries, rising oil prices tend to increase production costs, reduce aggregate demand, and ultimately slow economic growth. For instance, Ritahi & Echaoui (2025) noted that increases in oil prices have a persistent negative impact on gross domestic product, reflecting the burden of higher energy costs on economic activity in Morocco. Similarly, Ngobeni & Dagume (2026), posited that oil price increases are associated with adverse long-term effects on growth and employment, suggesting that sustained volatility undermines overall economic performance in South Africa. However, in oil-exporting economies, the relationship can be more complex, as higher oil prices may initially stimulate growth through increased export revenues, although volatility still introduces uncertainty that can dampen long-term investment and stability. Oil price increases lead to higher inflation rates, as production costs rise and are passed on to consumers. In addition, oil price shocks have been found to significantly increase inflation

variability and contribute to macroeconomic uncertainty, particularly in economies with weak monetary policy frameworks. This inflationary pressure often reduces purchasing power and can trigger contractionary policy responses, further influencing economic outcomes.

Exchange rate dynamics represent another important transmission mechanism. Chen & Chen (2007), noted that oil price volatility affects currency values through its impact on trade balances and capital flows. In oil-exporting countries, rising oil prices typically lead to currency appreciation due to increased foreign exchange earnings, whereas declining prices can result in depreciation and external imbalances. Su (2016), argued that for oil-importing countries, rising oil prices tend to worsen the terms of trade and are associated with currency depreciation, consistent with slower export performance and heavier import burdens. Therefore, oil price increases are associated with exchange rate depreciation in oil-importing economies, reflecting increased import bills and pressure on foreign reserves. These exchange rate movements can, in turn, amplify inflationary pressures and contribute to financial instability.

Fiscal performance is also significantly influenced by oil price volatility, particularly in countries that rely heavily on oil revenues. Fluctuations in oil prices can lead to unstable government revenues, complicating fiscal planning and increasing the likelihood of budget deficits. Oduyemi et al. (2025) posited that oil price shocks contribute to fiscal imbalances and public expenditure volatility, especially in developing economies with limited diversification. In such situations, declining oil prices often force governments to cut spending or increase borrowing, thereby exacerbating macroeconomic instability.

According to Aladwani (2024), positive oil price shocks (price increases) tend to have stronger and more destabilizing effects than negative shocks. For example, Ge & Sun (2024), noted that increases in oil price volatility have been found to significantly raise uncertainty in inflation, public spending, and financial markets, while decreases in volatility do not produce equivalent stabilizing effects. This asymmetry implies that economies are more vulnerable to adverse oil market developments than they are able to benefit from favorable ones. Oil price volatility is closely linked to broader economic uncertainty, influencing investment decisions, consumption patterns, and financial market behavior. Oil price volatility shocks can generate spillover effects across macroeconomic and financial variables, reinforcing systemic risk (Aladwani, 2024). Furthermore, financial ambiguity and investor expectations have been shown to influence oil price movements themselves, creating a feedback loop between oil markets and macroeconomic conditions.

The pervasive impact of oil price volatility on macroeconomic performance affects inflation, government revenue, exchange rates, and overall economic stability in both oil-exporting and oil-importing countries (Hamilton, 2009). In Nigeria, for example, oil price fluctuations have been found to significantly affect GDP growth, inflation, and exchange rates, reflecting the country's heavy dependence on oil exports. Similarly, broader analyses indicate that oil price shocks are closely linked to key macroeconomic indicators across different economies, with long-run relationships observed between oil prices and variables such as output, inflation, and external balances. The trends underscore the vulnerability of resource-dependent economies to external shocks originating in global oil markets.

Nigeria's Oil-Dependent Economy

According to Abada et al (2019), Nigeria's economic identity since the mid-twentieth century has been profoundly shaped by petroleum. The discovery of commercially viable oil in Oloibiri in 1956 marked a turning point in the country's economic trajectory. Prior to this discovery, the Nigerian economy was predominantly agrarian, with export earnings derived from commodities such as cocoa, palm oil, groundnuts, and rubber (Akinlo, 2004). Agriculture not only provided employment for the majority of the population but also formed the backbone of government revenue and foreign exchange receipts. However, the emergence of the oil sector catalyzed a reorientation of national economic priorities. Over the ensuing decades, oil became the central driver of economic growth, foreign exchange earnings, government revenue, and national development planning, relegating agriculture and manufacturing to secondary roles. Although the hydrocarbon boom delivered sudden wealth and fiscal capacity, it entrenched Nigeria's dependence on a single commodity and exposed structural weaknesses that have undercut sustainable development.

The oil price surge of the 1970s provided an unprecedented source of external finance, enabling the government to embark on ambitious infrastructure projects, expand public services, and extend patronage networks (Sala-i-Martin & Subramanian, 2013). The federal government's share of oil revenue grew rapidly, and by the mid-1980s, petroleum accounted for the vast majority of export earnings and more than half of total government revenues. The logic of resource abundance appeared straightforward as selling oil at high international prices would generate the necessary capital for economic transformation. Yet, beneath this optimistic premise lay structural distortions that would ultimately weaken the economy's resilience to external shocks.

Discussion and Analysis

Geopolitical conflicts in the Middle East have long-standing and multifaceted effects on Nigeria's oil economy, primarily due to the global integration of oil markets and the country's dependency on crude oil exports for revenue generation. The Middle East, encompassing major oil-producing countries such as Saudi Arabia, Iraq, Iran, Kuwait, and the United Arab Emirates, contributes a substantial portion of the world's oil supply. Disruptions in this region, whether due to armed conflicts, political instability, or sanctions, have the potential to influence global oil prices significantly, thereby affecting Nigeria's fiscal stability and macroeconomic performance (OPEC, 2022).

One of the most direct mechanisms through which Middle Eastern conflicts affect Nigeria is via international oil price volatility. Nigeria, as a member of the Organization of the Petroleum Exporting Countries (OPEC), relies heavily on oil revenues to finance government expenditures, infrastructure projects, and social programs. Fluctuations in global oil prices, often triggered by conflicts in the Middle East, can lead to abrupt shifts in Nigeria's oil revenue, causing fiscal imbalances. For instance, periods of instability in Iraq and Iran have historically contributed to spikes in crude oil prices, which may temporarily boost Nigeria's export earnings but also generate uncertainty in production planning and budget forecasting (Oduyemi et al., 2025). Conversely, when conflicts escalate to the point of international sanctions or trade restrictions, global supply chains may adjust in ways that depress demand for Nigerian crude, adversely affecting revenue inflows as well as induce increased fuel prices. Since Nigeria is integrated into global oil markets, its domestic fuel prices are exposed to the same external shocks. When geopolitical tensions increase the price of

crude oil, petrol, diesel and other petroleum products will be more expensive at wholesale and retail. Imported refined products or crude for local refineries must still be transported domestically via tankers, trucks, or pipelines. When international transport costs rise, domestic marketers factor in higher landed costs, leading to increased petrol, diesel, and kerosene prices nationwide. Dangote Refinery adjusted its petrol prices multiple times with a month, attributing it to global market realities which includes volatility in the crude price, rising cost of shipping – both related to the conflict in the Middle East and the associated risk premiums.

Investor confidence is another critical channel. Geopolitical instability in major oil-producing regions elevates perceived risk in global energy markets. International investors often adopt a risk-averse stance during such periods, leading to reduced investment in oil exploration, production, and refining in Nigeria. This hesitancy can hinder technological transfer, slow down capacity expansion projects, and affect long-term sustainability of the oil sector. Moreover, oil price volatility directly impacts the Nigerian naira, as sudden shifts in crude revenues influence foreign exchange inflows and reserves, which in turn affect inflationary trends and purchasing power (Ge, 2024).

Additionally, the indirect effects of Middle Eastern conflicts on Nigeria's oil economy are evident in energy security and strategic policymaking. Persistent instability in the Middle East encourages Nigeria to recalibrate its production quotas, engage in hedging strategies, and diversify export markets. While these measures are intended to stabilize revenues, they impose additional operational costs on the oil sector. Moreover, Nigeria's ability to leverage favorable oil prices from Middle Eastern disruptions is contingent upon internal governance, infrastructural efficiency, and market competitiveness, highlighting the complex interplay between external geopolitical shocks and domestic economic resilience (Aladwani, 2024).

Conclusion

This study demonstrates that geopolitical conflicts in the Middle East have significant and multifaceted impacts on Nigeria's oil-dependent economy. Disruptions in critical oil transportation routes, coupled with heightened political tensions, create volatility in global oil prices that directly influence Nigeria's revenue, fiscal stability, and foreign exchange reserves. The analysis reveals that while temporary increases in oil prices may offer short-term fiscal relief, the overall effect of geopolitical shocks is destabilizing, highlighting the structural vulnerabilities inherent in a mono-product economy heavily reliant on external markets.

The findings further underscore that Nigeria's economic exposure is not solely a consequence of domestic policy or governance challenges, but also reflects its position within the global political economy, where external actors and international market dynamics exert significant influence over national economic outcomes. This interdependence aligns with the principles of Dependency Theory, illustrating the constraints faced by resource-dependent economies in mitigating the effects of exogenous shocks. While large inflows of foreign exchange from resource exports cause currency appreciation, thereby undermining other productive sectors are indices of resource curse theory, specifically known as Dutch Disease.

Recommendations

Arising from the above, the following recommendations are germane.

Economic Diversification

Nigeria should accelerate efforts to diversify its economy beyond crude oil. This will reduce Nigeria's vulnerability to external shocks arising from geopolitical conflicts in the Middle East. By strengthening sectors such as agriculture, manufacturing, renewable energy, and services, Nigeria can generate alternative foreign exchange earnings and reduce its dependence on volatile global oil markets. This broader economic base enhances resilience by stabilizing government revenue, employment, and economic growth during periods of oil price fluctuations.

Investment in Renewable and Alternative Energy Sources

Expanding domestic clean energy production strengthens energy security by ensuring a more stable and diversified energy supply that is less vulnerable to disruptions in global oil markets caused by geopolitical conflicts in the Middle East. In the long term, the development of renewable energy industries can create new sources of revenue, employment, and technological innovation, thereby enhancing the resilience of Nigeria's economy. This approach is also consistent with global climate pledges and the general shift towards clean energy.

Strategic Petroleum Reserves and Buffer Mechanisms

These allow Nigeria to store excess crude oil and refined products, providing a safeguard against sudden supply disruptions from geopolitical conflicts in the Middle East. By releasing stored oil during periods of global supply shocks, the government can stabilize domestic fuel availability and mitigate price volatility. These reserves act as a short-term shock absorber, ensuring continuity in energy supply and supporting economic stability despite fluctuations in international oil markets.

Enhanced Energy Diplomacy

This enables Nigeria to engage proactively with both regional and global partners to secure stable oil supply agreements and investment flows, reducing vulnerability to disruptions caused by geopolitical conflicts in the Middle East. By participating in international energy forums and bilateral negotiations, Nigeria can diversify its trade partners and strengthen strategic alliances, ensuring access to alternative sources of crude oil and refined products. Such diplomatic efforts help stabilize domestic energy markets, protect government revenues, and maintain economic resilience during periods of global oil supply uncertainty.

Institutional reforms for Improved Governance and Revenue Management

Institutional reforms aimed at improving governance and revenue management can enhance transparency, accountability, and efficiency in Nigeria's oil sector, reducing economic vulnerability to external shocks from geopolitical conflicts in the Middle East. By ensuring that oil revenues are effectively collected, managed, and invested in diversified economic sectors, the government can maintain fiscal stability even during periods of oil price volatility. Strengthened institutions also enable better planning, crisis response, and resource allocation, which collectively support economic resilience and sustainable development.

Macroeconomic Policy Flexibility

Macroeconomic policy flexibility allows Nigeria to adjust fiscal and monetary measures in response to oil price shocks caused by geopolitical conflicts in the Middle East. Flexible policies, such as counter-cyclical budgeting, interest rate adjustments, and exchange rate management, can stabilize inflation, government revenue, and foreign exchange reserves during periods of volatility. This adaptability helps maintain economic growth and reduces the

negative impact of external energy market disruptions on Nigeria's oil-dependent economy.

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