

A New Middle East Chessboard

Overview

After coming dangerously close to all-out war in 2024, the Middle East now finds itself on the cusp of several potential gamechangers—developments that, if realized, could fundamentally reshape the region and usher in a new era of stability and prosperity. Seizing this moment demands more than bombs and bravado. For the U.S. to pull off a diplomatic hat trick—(1) neutralizing Iran, (2) advancing regional integration, and (3) setting Palestine on a credible path to statehood—it must secure the enlightened self-interest of transactionally-minded stakeholders and restore confidence in America's staying power amid growing talk of U.S. troop withdrawals and shrinking foreign assistance. 2025 is a pivotal year for the region as multiple critical issues come to a head.

Gamechanger 1: Iran in the box

No actor shapes the Middle East's security environment for the worse more than Iran—its malign behavior is the organizing principle defining alliances, rivalries, and threat perceptions. After a series of bold, high-risk Israeli military actions last year, **Tehran now finds itself at its weakest point since the 1979 Islamic Revolution.** Its “axis of resistance”—including Hezbollah, Hamas, and other Iranian-aligned militant groups—is reeling. Deterrence has been undermined and air defenses shattered after two failed missile attacks on Israel. New leadership in Syria and Lebanon seem intent on resisting its influence. Russia, once a reliable backer, is focused on Ukraine. At home, the regime faces deepening unrest, a spiraling economy, an energy crisis, and a looming leadership transition. And yet, Iran still holds a powerful card: its nuclear program.

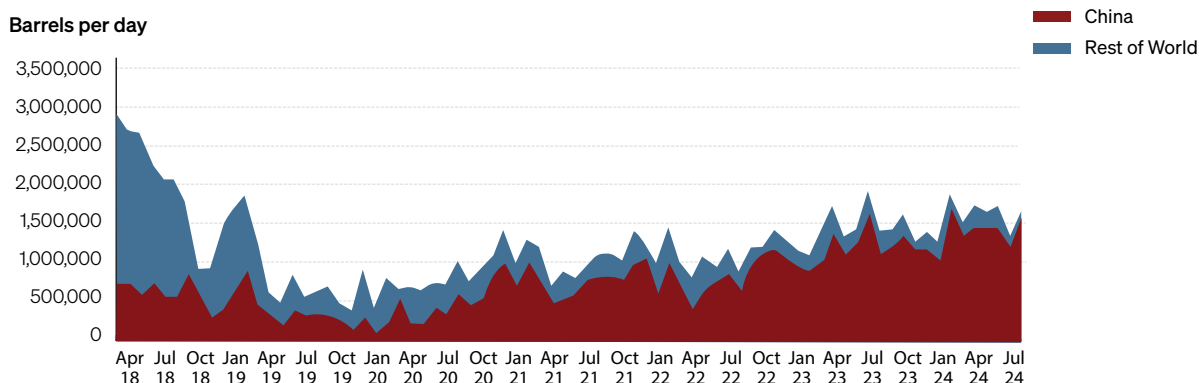
The diplomatic window is cracked open, but likely not for long. Iran's leadership, fully aware of their exposed position (and working to overcome it), may feel pressure to negotiate—especially with President Trump stating his preference for a deal over “doing the obvious,” while visibly ramping up U.S. military presence into the region. But Iran won't accept just any deal; demands for zero enrichment that resemble Israel's preferred “Libya solution” will be rejected. More doable is something that looks like the Obama-era “JCPOA,” perhaps without the detested sunset clauses. Such an agreement would be enough for the Administration to declare victory and move on – as some Administration officials are hinting they are ready to do.

The looming October 18, 2025, expiration of UN sanctions relief adds more urgency. **If Iran is still pursuing a bomb by late summer or fall, the UK, France, and Germany are expected to allow for the “snapback” of UN sanctions that include an arms embargo, targeted global asset freezes, travel bans on Iranian leadership, a ban on uranium enrichment and reprocessing, a ban on ballistic missile technology, and authorization for cargo inspections.** In response, Iranian officials have said they would consider leaving the Non-Proliferation Treaty (NPT) regime, which would remove virtually all nuclear inspection mechanisms. This tit-for-tat would be lose-lose for all sides. Sanctions relief, on the other hand, as part of any deal would lift Iran’s economy, re-open the country’s access to markets and trade, and allow it to re-capture some market share within the energy sector. One of the hardest issues to reconcile is how to prevent Tehran from using any sanctions relief to refuel its war machine (as happened a decade ago with the JCPOA).

Despite the incentives pushing toward a deal—including, importantly, the Gulf states’ shift toward reproachment over confrontation in service of transforming their economies—miscalculation remains a serious risk. Communication channels are shaky and mutual distrust runs deep. Israel, possibly backed by Iran hawks in the U.S. pushing for “maximum pressure” or “escalate to deescalate,” now sees this as the perfect moment to strike. Iran might double down and sprint for a bomb. Either side could misread the other’s intentions. Escalation, whether by design or mistake, could come fast—and spiral into a wider regional war.

Odds:
65%
chance of a nuclear
deal with Iran

Reported Iranian Petroleum Exports

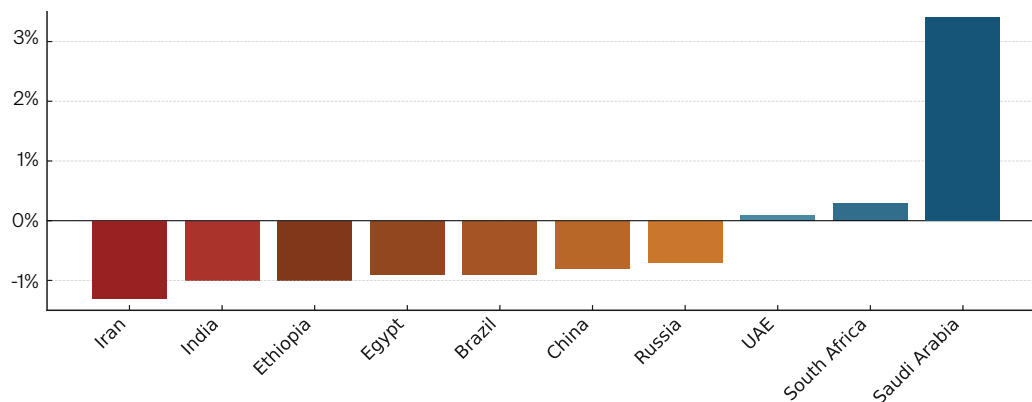


Source: United Against Nuclear Iran

Data through September 2024

Note: "Rest of World" includes some exports to unknown destinations, which may eventually reach China.

Iran Losing Ground: BRICS GDP Growth Rate Difference from 2023 to 2024



Source: IMF WEO April 2024

Gamechanger 2: Regional integration realized

2025 marks five years since the landmark Abraham Accords—a tectonic shift that opened up relationships, travel, trade, and cross-border investment between Israel and several Arab states, and three years since the launch of the Negev Forum, which aimed to deepen these relationships further. While the October 7 attacks and Israel's military response in Gaza stalled that momentum, it remarkably didn't stop it, and further normalization isn't off the table. With the right peace deal—namely one that includes a credible path to Palestinian statehood—the door remains open to reignite regional integration. **The ultimate prize: normalization between Saudi Arabia and Israel.** Both parties want it and, in late 2024, were closer than ever to a deal, backed by quiet but intensive U.S. diplomacy.

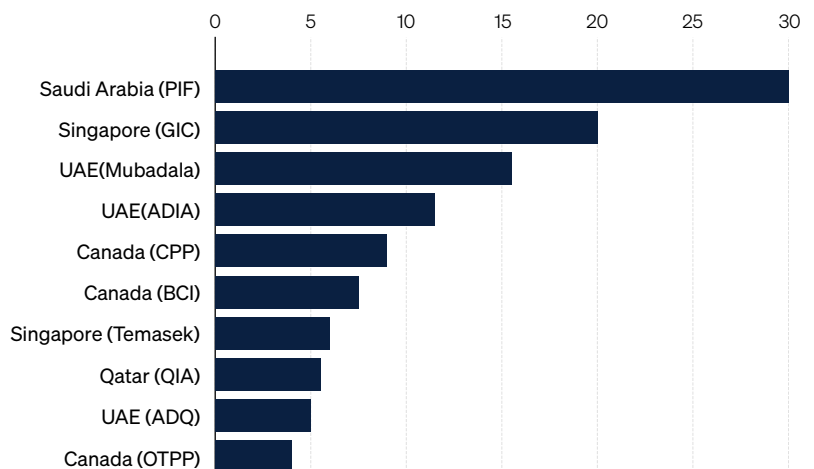
For Riyadh, normalization is not about Israel per se—it's about business. Vision 2030, Crown Prince Mohammed bin Salman's sweeping modernization plan, hinges on global economic integration. Powered by the financial engine of its \$700+ billion sovereign wealth fund (the Public Investment Fund, or PIF), Saudi Arabia is actively repositioning itself from a petrostate to a diversified investment hub, with a focus on:

- **Tourism and infrastructure:**

Multibillion dollar developments include NEOM, Red Sea resorts, and cultural heritage sites in Al Ula and Rua Al Madinah. Saudi Arabia has led the G20 in international tourist growth rate since 2023, when it welcomed over 100 million tourists and surpassed Vision 2030 expectations seven years ahead of schedule.

- **Aviation and logistics:** Two new global carriers (Riyadh Air and a rebranded Saudia) aim to serve over 190 destinations combined, with new Boeing aircraft worth nearly \$37 billion (the fifth largest commercial package in company history). They will fly out of the new King Salman International Airport, which will be one of the world's largest designed to serve 120 million passengers annually by 2030 (by comparison, Dubai handled 92 million last year).
- **Entertainment and sports:** Saudi Arabia is hosting the 2025 Esports World Cup, 2030 World Expo and 2034 FIFA World Cup, bidding for the 2036 Summer Olympics, leading the high-stakes merger between LIV Golf and the PGA, investing even more in soccer and mixed-martial arts, and developing the \$350 billion Qiddiya entertainment megaproject in Riyadh.
- **Technology and capital markets:** Riyadh is expanding PIF-backed investments in AI, fintech, clean energy, global real estate, healthcare, and biotech. It aims to establish itself as a biotech hub in the region by 2030 and globally by 2040.

Public investment funds, capital deployed, \$bn 2023

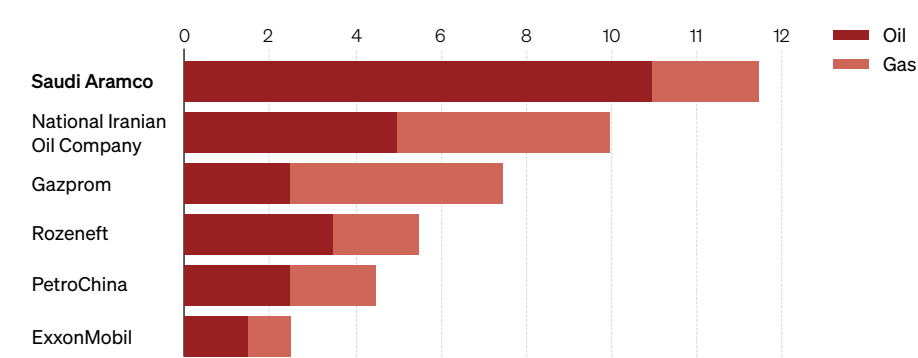


Source: Global SWF

The speed and scale of the Kingdom's transition is jaw-dropping. However, for its ambitions to be fully realized, key changes are still needed. Although the economy is rapidly diversifying, many businesses still find it more difficult to operate there than in many of its neighbors. For example, the regulatory environment remains too challenging, which hampers growth. The Kingdom's complex bureaucracy remains opaque and often arbitrary, which stifles

innovation. And the comparative tax regime remains less attractive when compared with many of other Gulf states, which hinders investment.

Oil and gas production, 2023, million barrels of oil equivalent per day



Source: Wood Mackenzie

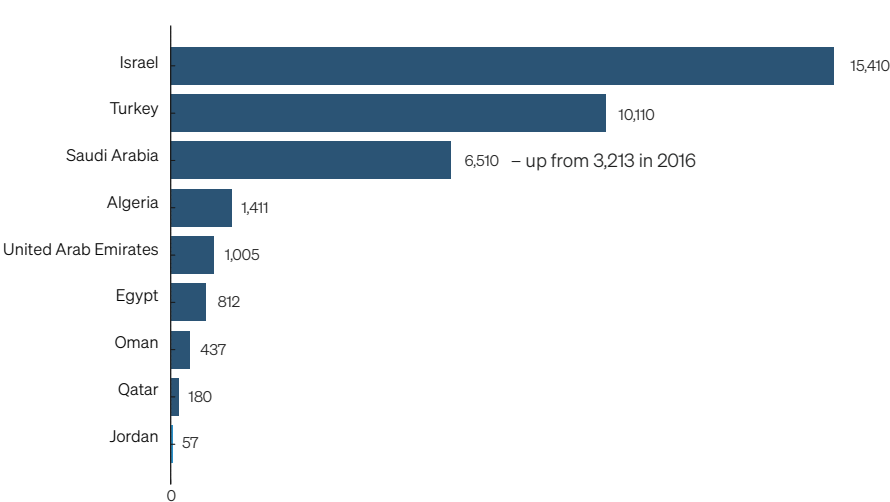
As Saudi Arabia ramps up, it's not just transforming its own economy—it's recalibrating the region's economic gravity. For smaller Gulf players like the UAE, Qatar, and Bahrain, the challenge is maintaining their first-mover advantage and competitive edge as the Saudi juggernaut hits full stride. In this emerging Middle East 2.0, regional integration isn't just a peace dividend—it's a business model. The stakes are high, and the window for U.S. leadership in shaping the economic architecture of the region may not stay open for long. **Saudi Arabia's Vision 2030 will move ahead with or without the United States.** President Trump's May 2025 visit to the region accelerated the momentum toward greater integration, emphasizing the tremendous growth opportunities and potential for U.S. partnerships in the region, pledging a reported \$2 trillion in investments over the next several years in such areas as defense and cutting-edge technologies.

Odds:

85%

chance of greater regional integration in the mid-term

Top countries by patent filing: 2023 total patent applications across MENA countries



Source: WIPO statistics database. Last updated: December 2024

Gamechanger 3: Palestine on a long road to statehood

In a region oversubscribed with tough challenges, this is the hardest to achieve, where progress seems furthest away. A credible, timebound, and irreversible path to Palestinian statehood remains the critical hinge for lasting, long-term regional stability—and for unlocking the full potential of economic integration across the Middle East. The situation in Gaza is tragic, volatile, and unresolved. Hamas is unrepentant and still holds hostages, so the IDF is back on the ground in Gaza and now expanding into the West Bank. But Israel's endgame remains murky. The Netanyahu government has made clear that Hamas cannot be allowed to govern Gaza again—rightly so—but has yet to present a viable alternative. Without a credible post-conflict plan, Gaza risks becoming a long-term quagmire for Israel, draining resources, deepening global isolation, and stalling normalization efforts with Arab states.

A roadmap toward Palestinian statehood—however incremental—would re-energize the Abraham Accords, bolster moderate Arab regimes, and give regional investors and multinationals the confidence they need to commit long-term capital. Without it, normalization risks becoming a glass ceiling: visible, but never fully breakable.

A broader deal could also act to stabilize the Red Sea corridor, vital to global shipping and trade. The current Houthi threat—disrupting one of the world's busiest maritime chokepoints—won't be destroyed by airstrikes alone. A political solution, anchored in reduced regional tensions and Palestinian progress, is the only way to ensure lasting stability—and with it, lower shipping insurance costs, more predictable supply chains, and downward pressure on global prices.

Odds:
10%
chance of interim steps being agreed in mid-term; higher odds if/when leadership changes on both sides

Efforts to end the conflict between Israel and the Palestinians



Source: AFP/JPMorganChase

If President Trump hits a parlay on these three gamechangers, he won't just earn the Nobel peace prize he's long sought—he'll have rewritten the future of the Middle East. But the clock is ticking. The region's tectonic plates are shifting, and the opening may not last.

This is the new Middle East chessboard. The next moves will shape the game for a generation.

What we're watching: Key things to look for in the weeks ahead

→ **Iran Deal 2.0**

The contours of a new deal with Iran would be transformative. How much sanctions relief does Tehran get? Does Iran pump that revenue into rebuilding its proxy network or its economy? Trump has opened the door to reproachment with Iran — could we see steps towards normalizing relations?

→ **Israel's political future**

How long does Netanyahu last politically? With corruption trials ongoing and coalition fractures deepening, Israel's political volatility could spike well before the next scheduled election in 2026—complicating diplomacy and slowing momentum on key regional deals. And if he goes, who's next?

→ **Syria reboot**

A new government under Al-Shara presents a window to re-engage with Damascus. President Trump's ground-breaking meeting with Al-Shara and announced intention to lift all U.S. sanctions presents an opportunity to unlock significant energy, infrastructure, and energy deals. Yet the timeline for sanctions relief remains uncertain (especially because the U.S. Congress will need to act) and Syrian stability is shaky. The next question is when the U.S. will restore diplomatic relations, reopen its embassy, and renew vital assistance.

→ **Lebanon opening**

A new president is challenging Hezbollah's grip in the south and a tenuous calm along the Israel–Lebanon border has kept tensions from boiling over. Efforts to reassert state authority could reshape the security landscape and restore investor confidence. But will it hold long enough for displaced civilians on both sides to return—and for a political settlement to take root?

→ **AI & tech surge**

Saudi Arabia and the UAE are going all-in on AI. With billions flowing into data centers, cloud infrastructure, semiconductors, and climate tech, the region is fast becoming a global AI investment frontier.

→ **Leadership transitions ahead**

Three aging leaders—Palestinian Authority President Mahmoud Abbas, Saudi King Salman, and Iran's Supreme Leader Ayatollah Khamenei—are in all in their late 80s and in fragile health. Two lack clear successors. Their eventual exits will be regional inflection points with unpredictable fallout.

→ **U.S. military posture**

Internal debates in Washington are heating up over the future of the U.S. military footprint in the region. A major redeployment would have wide-ranging strategic and economic implications for American influence.

→ **Kingdom 2.0**

As Saudi Arabia's Vision 2030 unfolds, the Kingdom is racing to rebrand itself, investing heavily in tourism, infrastructure, and mega-projects. The question is: when does Saudi Arabia fully transition from a work-in-progress frontier market to a prestige destination for leisure, culture, and business? Global perceptions—and questions around social openness, including alcohol and entertainment—will shape how quickly any paradigm shift can occur.

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