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POLICY BRIEF

26-15 The Iran War Is Raising Doubts over Trump's "America First" Foreign Investment Goal

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September 2026

Note: The authors thank Olivier Blanchard, Chad Bown, Kim Clausing, Joseph Gagnon, Cullen Hendrix, Gary Hufbauer, Nicholas Lardy, and Maury Obstfeld for helpful comments; Nell Henderson, Steve Weisman, Barbara Karni, and Madona Devasahayam for editorial assistance; Samantha Elbouez for graphic design; and Ariya Baldansenge for checking the underlying data. Generative AI was used to assist with background research for this Policy Brief and to compile replication materials. All AI–generated output was subjected to careful human review.

As part of President Donald J. Trump's widely touted "America First" investment agenda, foreign governments committed nearly $6 trillion to investments in the United States and economic exchange, with the stated goal of supporting US jobs and manufacturing (Auclair and Mazarei 2026).[1] Almost $4 trillion of this amount was pledged in 2025 by Saudi Arabia, Qatar, and the United Arab Emirates (UAE),[2] three of the six members of the Gulf

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1 The US stock of inward foreign direct investment (FDI)—the accumulated value of foreign investments over many decades—stood at $5.9 trillion in 2025 (US BEA 2026).

2 The totals have changed over time, and there is a margin of uncertainty. Saudi Arabia initially pledged $600 billion and later increased to almost $1 trillion. The UAE announced $1.4 trillion for US investment in March 2025; the White House later announced

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Cooperation Council (GCC).[3] Since then, the war with Iran has raised serious questions about their ability—and perhaps willingness—to fulfill these commitments.

The war has imposed considerable economic costs on the GCC countries and exposed the vulnerability of their populations, energy infrastructure, and export routes to attack. It has heightened unease among Gulf leaders, who increasingly view the US response to the conflict as inadequate. It has also complicated their economic diversification agendas, which aim to reduce their countries' dependence on oil exports and expand domestic employment. As Gulf governments redirect resources toward reconstruction, alternative trade routes, and defense, domestic demands may crowd out their US investment commitments.[4]

If fully implemented, the GCC pledges would put considerable strain on their economies. As a result of the Iran war, delays in fulfilling the commitments—and outright reductions in investments—are now more probable. Because the original arrangements were loosely specified, Gulf governments may be able to alter the composition of their commitments without formally abandoning them. They might, for example, increase the share of their commitments through imports and contracts with US firms for projects in the Gulf.

more than $200 billion in "new" commercial deals with the UAE. The degree of overlap is unclear. In our earlier Policy Brief, we reported their combined total. Qatar pledged $1.2 trillion for "economic exchange" with the United States.

3 The GCC member countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.

4 The Iran war has also hurt other economies, such as Japan, South Korea, and Taiwan, that made America First investment pledges to the United States, weakening their ability to fulfill their commitments, albeit to a much more modest extent.

THE ECONOMIC RELATIONSHIP BETWEEN THE UNITED STATES AND THE GCC HAS SHIFTED FROM OIL TO CAPITAL

The United States and the Gulf countries have long depended on each other.[5] Until recently, the United States relied heavily on imported oil, including supplies from Gulf producers, making the protection of Persian Gulf oil fields and shipping routes a concrete US security objective.

The United States is now a net petroleum exporter and imports much less oil from GCC countries than it once did (figure 1).[6] Its exposure to Gulf supply disruptions remains via consumer and business costs: Disruptions raise world oil prices, which quickly pass through to US gasoline prices.

Given their scale, the oil shocks resulting from the Iran war have had a relatively muted effect. Russia's invasion of Ukraine in 2022 raised monthly Brent crude prices above their recent peak in April 2026, even though Russia exports much less oil than the GCC countries. A reduction in Chinese oil imports since the Iran war began, together with higher global production, have acted as significant shock absorbers. The June deal to reopen the Strait of Hormuz also helped stabilize prices as some shipments resumed.

Although oil has become less important to its bilateral relationships, the United States retains close ties with GCC countries for several reasons. First, many other economies remain dependent on oil imports from the Persian Gulf. The US military presence helps protect regional energy flows, allowing the United States to project power abroad. Second, most GCC oil and gas exports are priced in US dollars, and part of the resulting export earnings are recycled into dollar-denominated assets. The United States has an interest in maintaining the dollar's status as the principal global reserve currency. Third, the US administration continues to pursue broader trade and investment relationships with GCC countries. These interests reflect the

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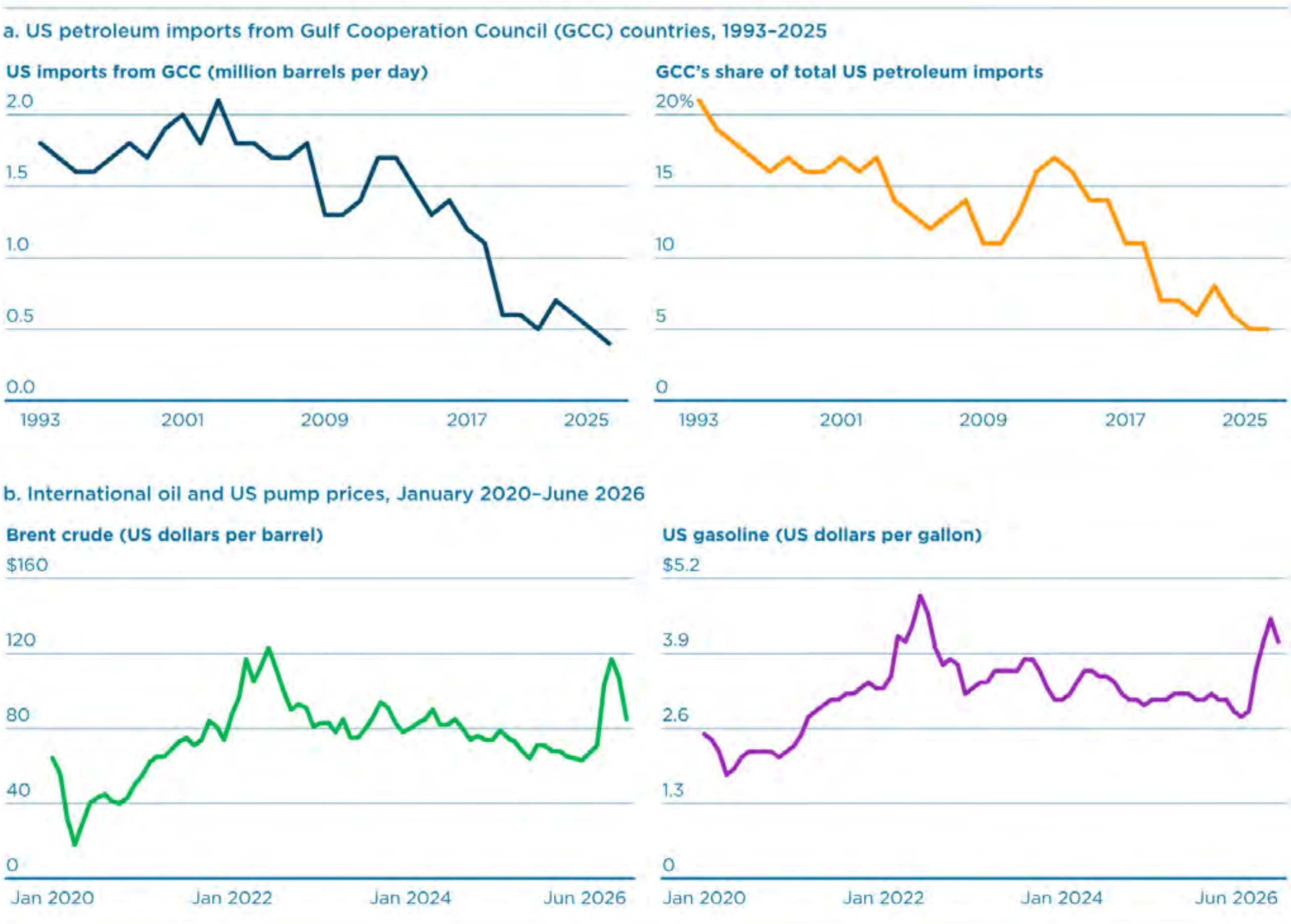
5 The 2025 US National Security Strategy outlines the changing US foreign policy approach to the Middle East and emphasizes several of the shifts discussed here.

6 Between 2013 and 2025, Canada's share of US petroleum imports rose from 32 to 57 percent (US EIA 2026).

increasingly transactional character of US foreign policy and the US administration's goal of channeling foreign capital into the US economy.

Figure 1

The US imports much less oil from Gulf countries, but supply disruptions still hit US gasoline prices



Notes: Panel a shows total US petroleum imports from all GCC countries, including Bahrain, Kuwait, and Oman; the GCC share is this sum as a percentage of total US petroleum imports. The average 12-month rolling correlation between the monthly Brent and US gasoline prices in panel b has been 0.71 since 2020.

Source: US Energy Information Administration and authors' calculations.

For the GCC countries, the United States remains a vital commercial and strategic partner, a source of technology, and an important investment destination. Foreign direct investment (FDI) into the US economy from the GCC countries is relatively small, but they held at least $1.3 trillion in US portfolio assets, including around $320 billion in US Treasuries in 2025, around 4 percent of total foreign portfolio holdings of US assets, up from 2 percent in 2005.[7] These figures likely understate the true value of GCC asset holdings, as international ownership chains are often indirect and pass through offshore intermediaries. The UAE's recent request for a Federal Reserve swap line during the war—and the US administration's willingness to consider it—further illustrates the importance of dollar-based financial ties to the broader relationship (Mazarei and Obstfeld 2026).

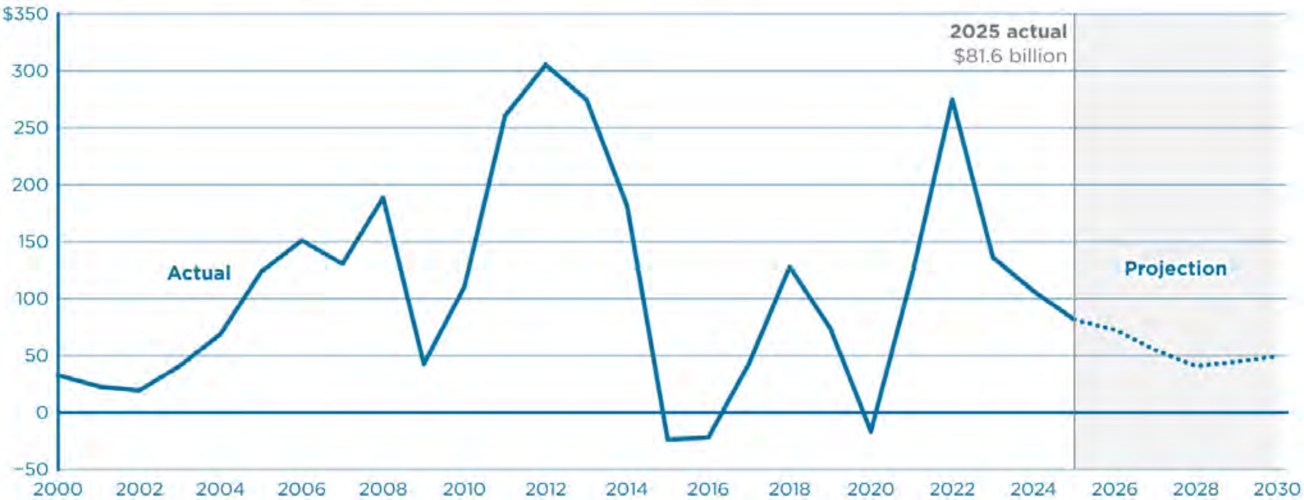
The combined (as well as individual) current accounts of Qatar, Saudi Arabia, and the UAE closely track global oil prices. The three countries had a combined surplus of around $80 billion in 2025 (figure 2), which may taper over the next few years. In balance of payments accounting, net financial outflows mirror the current account surplus. Among financial account components, most of the 2025 surplus was devoted to reserve accumulation in net terms. Nevertheless, gross FDI and portfolio outflows totaled more than $200 billion, financed by equally large financial inflows. The GCC countries are thus highly financially integrated. Although reserve accumulation can include the purchase of US Treasuries, financial inflows underpin international investment in other asset classes. As a corollary, these countries' ability to meet US investment commitments depends on maintaining financial inflows, which may become more difficult. For example, the number of greenfield FDI announcements in Saudi Arabia, Qatar, and the UAE fell by 70 percent in March–May 2026 compared with the same period in 2025.

7 The total includes both short- and long-term debt, as reported in the US Treasury's Treasury International Capital System. GCC countries held nearly $900 billion in US equities in 2025. Official statistics from the US Bureau of Economic Analysis indicate that GCC countries held just $61 billion in FDI in the United States in 2025, a small fraction of the $5.9 trillion of total US FDI liabilities.

Figure 2

The external positions of Qatar, Saudi Arabia, and the UAE are not expected to improve

a. Combined current account balance, billions of US dollars, 2000–2030



b. Components of combined financial account in 2025, billions of US dollars

Source: IMF (2026b) for panel a and IMF Balance of Payments database for panel b.

In our earlier Policy Brief (Auclair and Mazarei 2026), we noted that the nearly $4 trillion in GCC trade and investment commitments was ambitious and unlikely to be fully implemented. These commitments are loosely specified and leave considerable flexibility over their composition and timing. Qatar's $1.2 trillion headline commitment refers broadly to "economic exchange" with the United States and has no specified timeframe. The UAE's 10-year $1.4 trillion investment commitment lacks annual targets or a formal verification mechanism. Saudi Arabia's $600 billion package includes a four-year horizon, but it lacks annual targets and formal verification. This flexibility has become more important since the war, as Gulf governments may redirect capital toward more immediate security and reconstruction needs.

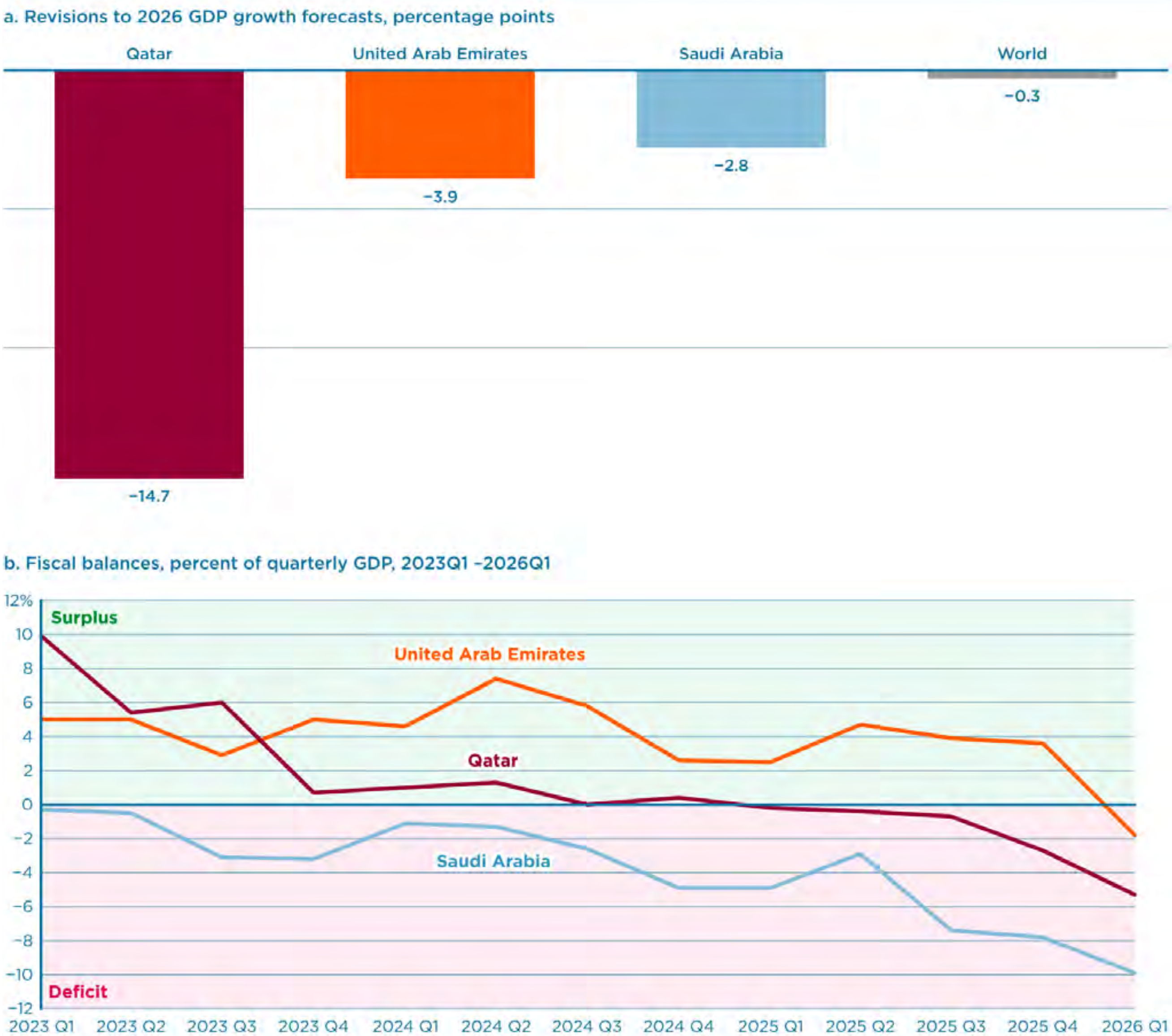
THE WAR HAS PUT NEW ECONOMIC STRAINS ON THE GULF COUNTRIES

The war has severely restricted oil exports from GCC countries. At the same time, higher oil prices have offset lower export volumes, which has cushioned the impact for some of them. The war has also generated expenses that extend well beyond the immediate economic disruption. Governments must repair damaged infrastructure, develop pipelines and trade routes that bypass the Strait of Hormuz, and spend more on defense. They may also need to support businesses affected by the downturn.

Recent growth forecasts show that the shock to the Gulf economies is sizable and much larger than the shock to the world economy (figure 3, panel a). The International Monetary Fund's *World Economic Outlook* has cut its 2026 GDP growth projection for Qatar by 14.7 percentage points, to –8.6 percent. It lowered its forecast for Saudi Arabia from 4.5 percent to 1.7 percent. Likewise, official forecasts for the UAE were lowered from 5.6 percent to 1.7 percent. By comparison, the IMF reduced projected world growth by only 0.3 percentage point. The GCC countries' economic prospects may dim further if they support the new economic sanctions the United States announced against Iran on August 24, 2026.

Figure 3

The Iran war is hitting Gulf economies much harder than the global economy



Notes: In panel a, Qatar's growth revision shows the difference between the October 2025 and April 2026 IMF World Economic Outlook (WEO) forecasts, the UAE revision shows the difference between the central bank forecasts published in March and June 2026, and Saudi Arabia and world growth revisions compare the January and July 2026 WEO Updates. The fiscal ratios in panel b are the quarterly fiscal balance to quarterly GDP. Qatar uses 2025Q4 GDP for 2026Q1.

Source: IMF WEO and WEO Updates and Quarterly Economic Review by the Central Bank of the UAE (panel a). Ministries of finance of Saudi Arabia, Qatar, and the UAE for fiscal balances; relevant national statistical authorities and central bank for quarterly GDP (panel b) and authors' calculations.

The war has also put pressure on public finances in the GCC (figure 3, panel b). Saudi Arabia recorded a first-quarter 2026 budget deficit equivalent to 9.9 percent of quarterly GDP. Qatar's estimated deficit reached 5.3 percent of quarterly GDP. The UAE—which had maintained quarterly surpluses throughout 2024 and 2025—recorded an estimated deficit of 1.8 percent. These figures probably grossly understate the effect, as they cover only the first quarter. The conflict began in late February, and much of the associated fiscal cost is likely to appear in the second quarter and later.

The Gulf governments can finance these deficits by drawing on their ample financial assets, including assets held by sovereign wealth funds, and borrowing in domestic and international capital markets. So far, they have secured international financing without a substantial increase in borrowing spreads. They can also delay planned investment outlays to address immediate financing pressures.

One likely adjustment is to alter the timing and composition of their America First commitments, for example, by increasing US imports and contracting with US firms for projects that support their domestic economies. GCC capital may also be channeled toward a more limited set of sectors that align with their strategic priorities.

Saudi Arabia had already begun rebalancing toward domestic investment before the war; the conflict appears to have reinforced that shift. In its new 2026–30 strategy, the kingdom's Public Investment Fund (PIF) places greater emphasis on developing domestic industries and attracting foreign capital to Saudi Arabia. It targets an international allocation of 20 percent for its portfolio, down from a peak of 30 percent in 2020.[8] Since the war began, the PIF has reached preliminary agreements for up to $15 billion in credit from the US Export-Import Bank for the purchase of US goods and services and $9.5 billion in financing and guarantees from the World Bank Group for projects in Saudi Arabia.

Qatar may continue its strategy of investing in energy assets outside the Persian Gulf. QatarEnergy's Golden Pass LNG facility in

8 The PIF's plan to reduce its international allocation was first announced in 2024 and formalized in 2026.

Texas began producing liquefied natural gas (LNG) in March 2026 and exporting it the following month. In 2026, the Qatar Investment Authority also invested in foreign energy companies, including the US energy firm AES and Germany's RWE.

The UAE has reaffirmed its investment pledge to the United States. ADNOC, the emirate's state-owned oil producer, has expanded its US LNG holdings through its international investment arm and has been ordered to accelerate a $3 billion pipeline that will reduce its dependence on the Strait of Hormuz.

Responses elsewhere in the Gulf have varied. Kuwait is monetizing future revenue from its existing pipeline network through a $16 billion lease-and-leaseback agreement with US investors. The transaction will provide Kuwait with nearly $8 billion upfront for domestic capital spending. Iraq, which is not a GCC member, has announced more than $60 billion in agreements with US companies, including projects to develop alternative export corridors that would reduce its dependence on the Strait of Hormuz. The agreements were signed three days after President Trump abandoned a proposed 20 percent toll on shipping through the strait in favor of what he described as new trade and investment deals.

WILL THE INVESTMENT PLEDGES BE FULFILLED?

The damage to the GCC economies reduces their ability to deliver on their America First commitments. The GCC governments will weigh their external commitments against more immediate demands for reconstruction and defense.

One question is whether progress on the deals will be sufficiently rapid to satisfy the US administration. The Iran war provides a strong rationale for pausing GCC investments, but it cannot explain the limited progress recorded in 2025, before the conflict began. New FDI in the United States from the GCC increased from $1.5 billion in 2024 to $5.2 billion in 2025 (US BEA 2026).[9] This

9 The US Treasury's Treasury International Capital System shows that Kuwait, Saudi Arabia, and the UAE sold a combined $42 billion in US securities in 2025 and another $43 billion in 2026 through May, mostly equities. Their portfolio positions still increased, thanks to valuation gains.

amount was negligible compared with the headline commitments of almost $4 trillion. Many financial transactions involving GCC investors are complex, and their capital contributions are not always public. Without agreed upon milestones—or even a common definition of what counts toward fulfillment—GCC governments and the United States risk serious misunderstandings.

The Trump administration has already shown limited patience with delays by other partners. In January 2026, Trump threatened to raise tariffs on South Korean goods, citing delays by the Korean legislature in enacting its US investment agreement. Continued frustration over Korea's delayed implementation also appears linked to the recent US decision to scale back joint military exercises there.

A second issue that could complicate implementation of the America First pledges is their lack of transparency and oversight at a time of growing US congressional concerns about some foreign investment. Lawmakers have raised questions about several recent foreign financial transactions involving investors from the GCC over potential conflicts of interest, including benefits to the Trump family and risks to national security. For example, members of Congress scrutinized a UAE state-backed investment firm's use of a Trump-linked stablecoin to buy a $2 billion stake in Binance.[10] The $55 billion leveraged buyout of Electronic Arts by a PIF-led consortium prompted separate scrutiny over the consortium's links to the Trump family and the potential misuse of personal data. Proposed Gulf financing for Paramount's acquisition of Warner Bros. Discovery also raised concerns in Congress about foreign influence.[11]

In a related development, two members of Congress introduced legislation in June to establish an oversight body for the foreign investment commitments negotiated by the Trump administration.

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10 The Trump family partially owns the stablecoin issuer World Liberty Financial (WLF). In addition to WLF's involvement in the Binance deal, an investment vehicle backed by the UAE's national security adviser agreed to purchase a 49 percent stake in WLF for $500 million in early 2025. Of the $250 million paid upfront, 75 percent went to the Trump family and 12.5 percent to the family of Steven Witkoff, the US Special Envoy to the Middle East, through associated entities.

11 CNN, a major US news outlet, is owned by Warner Bros. Discovery.

Under the proposed regulation, the US president, vice president, and Cabinet members would have to disclose whether they or any family member is a beneficiary of investments covered by the legislation.

GCC investments could become subject to such legislation; a more durable framework for the America First commitments would help address these concerns. It would require credible conflict-of-interest safeguards, greater disclosure of financial arrangements, and steps to ensure that investments would not be used for political influence or inappropriate access to personal data.

A third issue is the fact that GCC governments sought to avoid the conflict with Iran but have nevertheless borne much of its cost. They may therefore view the United States as having fallen short as a security partner. Replacing the United States as the Gulf's principal security guarantor would be difficult, however, as no alternative can readily provide the same combination of military capabilities and deterrence. Even so, GCC governments may diversify at the margin by purchasing more weapons and technology from Europe or China and developing regional security arrangements, as illustrated by the recent mutual defense agreement among Saudi Arabia, Pakistan, and Turkey. A more durable US–GCC investment framework would require complementary mechanisms for regional consultation and security cooperation.

CONCLUSION

The Iran war has damaged the economies of the three GCC countries that made large investment commitments to the United States. Even before the war, those pledges appeared ambitious and difficult to fulfill within the envisaged timeframes. The conflict has weakened their fiscal positions and economic prospects and may have lasting effects on their growth models. It has also weakened their confidence in the US security umbrella in the Gulf.

The question now is whether, and in what form, the three countries will implement their commitments. Their large financial assets and borrowing capacity should allow them to avoid an immediate financing crisis. Over time, however, the costs of reconstruction and defense, weaker economic prospects, greater uncertainty for domestic and international investors, higher risk premia, and a desire to diversify their security relationships may lead them to scale back and restructure those commitments.

Political concerns in the United States present another obstacle. Members of Congress have raised questions about the economic and national security effects of Gulf investments, governance, and possible conflicts of interest. Arms sales and civil nuclear cooperation with Gulf governments have generated further objections. The investment agreements need clearer definitions, implementation milestones, and greater transparency and oversight.

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