
# THE ECONOMIC IMPLICATIONS OF THE US/ISRAEL-IRAN CONFLICT IN SOUTHWEST, NIGERIA

# Background

Economic growth and development has spillover effects which goes the same way for shocks such as armed conflict, and its effects are even more intense as they disrupt crucial structures like energy supply, trade routes, and investor confidence. Nigeria remains highly vulnerable to such external shocks due to its structural dependence on imported refined petroleum products, fragile energy infrastructure, and exposure to global commodity price volatility. This suggests that the conflict will probably present major obstruction and increase economic depression.

The US/Israel-Iran conflict has been a long standing regional tension that has fuelled cold hostilities, armed and violent confrontation. This situation intensified over time due to Iran's support for terrorist groups- Hezbollah and Hamas, as well as its nuclear program and ballistic missile development. Through 2024 to 2025, Iran launched hundreds of direct drones and missile attacks against Israel but it facilitated minimal global disruptions. The conflict was deliberately contained in ways that prevented any meaningful disruption to global energy supplies or trade routes. However, the attacks of this time were serious escalations of existing conflict, causing severe economic stress.

The United States, a major ally of Israel, launched air strikes on Iran 28 February 2026, and extended these attacks to Iranian mines. This ultimately led to the disruptions and increased risks through the Strait of Hormuz, which triggered global energy shock. This development is regionally relevant in the sense that the Southwest is the economic hub of Nigeria. The Southwest States have integrated with the global economy and Lagos State alone accounts for over 30% of national GDP through commerce, services, manufacturing, and ports.

This article therefore aims to examine the multidimensional economic impacts of the US/Israel-Iran and how it exacerbates existing vulnerabilities in various sectors across the Southwest region of Nigeria.

## Sectoral Implications in Southwest Nigeria

The escalation of the US/Israel-Iran conflict in late February 2026, and the resulting interruption to oil flows through the Strait of Hormuz, have intensified Nigeria's systemic vulnerabilities by transmitting global shocks into the domestic economy. These implications are especially pronounced in Southwest Nigeria, where production systems rely heavily on imported inputs and energy-intensive operations, amongst others.

Although the region- Lagos, Ogun, Oyo, Osun, Ondo, Ekiti- derives minimal direct revenue from crude extraction compared to the South South, we still bear the brunt of national ripple effects.

- **Energy and Power: The Core Vulnerability**

Energy and power remain the most acute pain point for Southwest Nigeria. The region's industries, SMEs, and households are chronically dependent on diesel and petrol generators due to unreliable grid supply from the Transmission Company of Nigeria. Post-conflict fuel price hikes have inflated operating costs within weeks, forcing factories in Lagos and Ogun industrial corridors to either absorb losses, pass costs to consumers, or scale back production.

The Dangote Refinery in Ibeju-Lekki, the major functional refinery, offers only partial relief. While it improves domestic supply and has at times reduced ex-depot prices, fuel pricing remains closely tied to global crude benchmarks. This is due not only to its need for blended crude inputs, but also to the international pricing structure of oil, meaning domestic pump prices still respond to global shocks.

The real life and lived experiences are dominant in Southwest locations, where the shock showed up first and most visibly. The pattern is clear. The people are not talking about the war in abstract terms. Instead, they are talking about potential fuel scarcity, fuel queues, higher cost of transportation, abandoned cars, reduced generator use, and strained business margins due to increased operation cost.

PwC's March 2026 briefing on the global energy shock warns that without accelerated investment in renewables and gas infrastructure, this sector will continue to amplify second-round inflationary effects across the Southwest economy.

The pattern is now a telltale. Every global energy shock unravels the same structural weakness, an over dependence on imported fuel volatility and diesel generators. The people of the Southwest can no longer afford continuous investment in solar mini-grids, gas-to-power projects, and full domestic refining utilisation. However, it is no longer optional. It is the only sustainable route to insulating Southwest industries and households from the next external price spike.

- **Transport and Logistics: Effects on Daily Mobility and Commerce**

Transport and logistics, the blood and heart of Southwest commerce, have been severely disrupted. Danfo operators, okada riders, and interstate haulage firms serving Ibadan-Abeokuta-Ondo routes have hiked fares to offset petrol and diesel costs, directly squeezing urban commuters and rural farmers moving produce to markets. This has a direct impact on urban workers. In Oyo State, Governor Seyi Makinde approved a N10,000 monthly transport allowance for state workers as a cushion relief, verifying how acutely the shock hit Southwest households.

The ripple effect extends just beyond humans. Higher logistics and transportation costs have transmitted global energy shock into daily life and commerce. On the other hand, surged transport has caused an inflation hitting food and goods prices. Nationally, transport accounts for Consumer Price Index weight, but in the densely populated Southwest, the impact is magnified, higher logistics costs are already feeding into broader inflation, with NESG simulations projecting additional pressure if the conflict prolongs.

- **Manufacturing and Industry: Cost Pressures in Ogun, Lagos, Ondo Corridors**

The Manufacturers Association of Nigeria (MAN) has been vocal that the war poses immediate, severe and multidimensional implications for the sector through increased production costs, higher raw material and logistics expenses. Sectors like food processing, chemicals/pharmaceuticals, basic metals, and iron & steel are particularly vulnerable. Higher global oil prices have also inflated costs for imported fertilizer and chemical inputs, with disruptions via the Strait of Hormuz contributing to fertilizer price surges, feeding directly into agro-processing and related industries.

Manufacturing and industry are concentrated in Ogun- Nigeria's industrial powerhouse, Lagos, and parts of Ondo State, and they currently face compounded headwinds. Multinational and local players in sectors like food processing, cement, and auto assembly report energy and raw material cost increase, with oil-price driven fertilizer and chemical imports adding further strain. Ogun's emerging investments in agro-processing and energy offer some long-term promise, but short-term volatility has slowed expansion plans.

- **Agriculture and Food Security: Hits to Oyo, Osun, and Ekiti Rural Belts**

Agriculture and food, vital in the Southwest urban and rural economies are experiencing indirect but severe shocks. Elevated global fertilizer and wheat prices, exacerbated by energy market turmoil, have raised input costs for cassava, yam, and maize farmers, while higher transport expenses inflate the price of moving harvests to Lagos and Ibadan markets. Studies confirm that petroleum price volatility significantly affects agricultural productivity, with cost-push effects transmitting quickly into the food Consumer Price Index. Households in these states, already spending a great percentage of income on food, face eroded purchasing power. Long-term, this risks widening rural-urban inequality within the Southwest unless targeted subsidies or local fertilizer production ramps up.

- **Ports & Trade: Mixed Fortunes in the Lagos Hub**

Ports and trade in the Lagos hub display mixed fortunes and greater resilience amid the global energy shock triggered by the US/Israel-Iran war, yet they are far from exempted. Apapa and Tin Can Island ports handle the bulk of Southwest Nigeria's imports and serve as the gateway for the region's commerce. However, disruptions in the Strait of Hormuz have driven up global shipping costs. According to The Guardian and The Business Day NG, freight rates for containers destined for Lagos have surged, with 20-foot units now costing around $4,600 and 40-foot containers reaching $5,600, as lines impose emergency conflict surcharges. War-risk insurance premiums have spiked, significantly raising the landed cost of imported electronics, vehicle spares, industrial chemicals, and fertilizers.

On the ground, freight forwarders and clearing agents have staged protests and temporarily shut down operations at major shipping companies in Apapa, demanding reversal of recent tariff hikes. These actions underscore persistent local logistics frictions that the global volatility has intensified. While port services have shown relative stability compared to the sharp disruptions in energy generation and inland transport, the energy shock risks dampening investor sentiment and slowing capital inflows into these high-value trade and logistics segments. Prolonged conflict could erode the competitive edge of Lagos as West Africa's premier port hub, feeding higher import prices back into Southwest markets and compounding inflationary pressures already felt by industries and households.

## Why Southwest Nigeria Is Especially Exposed

Southwest Nigeria is more exposed to external shocks because it combines high economic concentration with deep structural dependence on imported energy, goods, and logistics. Lagos is Nigeria's commercial centre, while Ogun, Oyo, Ondo, Osun, and Ekiti are tightly linked to trade, manufacturing, transport, and services. Therefore, global disruptions reach the region quickly through fuel prices, freight costs, and intense inflationary pressures.

Compared to oil producing regions, the Southwest does not benefit directly from crude revenue, but it bears the cost of rising transport fares, higher electricity generation expenses, costlier imported inputs, and weaker consumer purchasing power. Its concentrated urban population, heavy road use, and limited grid reliability make the region especially vulnerable to any rise in petrol, diesel, shipping, or exchange-rate pressures. In policy terms, this means the Southwest should not be treated as a passive recipient of national shocks. Instead, it should be treated as a priority zone for resilience planning, infrastructure investment, and rigorous economic diversification.

## Regional Resilience and Adaptation Strategies

Southwest Nigeria should treat the current energy shock as a powerful signal to consider its long overdue economic diversification. This route demands intentional and cooperative actions between the six Southwest States.

## Key Areas / Policy Recommendation:

1. The most urgent priority is the rapid expansion of decentralized and cleaner power options. These should target homes, SMEs, industrial clusters in Lagos and Ogun, schools, and health facilities to reduce chronic dependence on crude oil products.
2. As the most energy intensive business hubs, the Southwest should pioneer the shift to minimal cost, cleaner mass transit systems, while actively encouraging private firms and operators to adopt energy-efficiency measures that cut diesel reliance.
3. State governments should actively support and promote local sourcing of raw materials and inputs, especially for manufacturing and agro-processing industries. This will shield businesses from delay in foreign shipping routes and volatile global commodity prices.
4. These structural efforts must be complemented with immediate relief measures and safety nets, including emergency transport subsidies or allowances like the Oyo State Government, food assistance programmes, and concessional credit facilities for households.

# Conclusion

In summary, the Southwest's sector specific exposures reveal a region caught between national fiscal windfalls from oil revenues and acute local cost of living pressures. Without swift policy measures, these shocks could entrench inequality and stall the non-oil diversification that Lagos, Ogun and neighbouring states have championed. As PwC and NESG analyses emphasize, the current energy crisis is not merely a headline event but a stress test for structural reforms that could determine whether Southwest Nigeria emerges more resilient or more exposed to future global volatility.

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## About DAWN COMMISSION

The Development Agenda for Western Nigeria (DAWN) Commission is the think-tank established in July 2013 by the six Governments of the States of Southwest region of Nigeria to manage their regional integration and development agenda. Our mandate is to strengthen socio-economic competitiveness of the region by facilitating sustainable working relationships among state and non-state development stakeholders. Operating on the five pillars of economic development, social and human development, infrastructure, building inclusive institutions, and homeland affairs, DAWN Commission is a valuable partner to development stakeholders and enthusiasts interested in leveraging the regional integration agenda to promote shared goals and objectives.

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