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Insights

US & Israel's War Against Iran

"This war is going to sweep the US out of the Persian Gulf".

Col. Douglas Macgregor

What are the unintended repercussions of US & Israel's war against Iran?

A US–Israel war with Iran that devastates Gulf energy infrastructure and triggers a prolonged closure of the Strait of Hormuz would not be a "regional crisis." It would be a systemic shock that tests the resilience of global markets, multilateral institutions, and the US-centric financial order, while inflicting its harshest costs on populations far removed from the battlefield. This article lays out the strategic context of such a conflict, the mechanics of an energy and trade shock on a scale without precedent in the hydrocarbon era, and the likely consequences for global food security, regional stability, and the future of dollar hegemony.

Strategic context: from limited strikes to systemic war

For decades, the Persian Gulf has been both a vital artery of the global economy and a focal point of US security strategy. Even as US direct reliance on Middle Eastern oil has declined—with North American production and Canadian imports reducing the Gulf share of US crude imports—the region still anchors global energy flows and prices. Around one-fifth of global petroleum liquids and roughly one-third of seaborne crude transit the Strait of Hormuz, along with close to one-fifth of the world's seaborne natural gas.

The 2026 US–Israel–Iran war represents the most dangerous inflection point in this strategic theater since the 1980s. Major combat operations inside Iran were personally authorized and announced by President Donald Trump, following a rapid buildup of US forces and a series of escalatory exchanges with Iranian proxies and naval units. The formal US objectives, as stated publicly and analyzed by independent observers, include degrading Iran's nuclear and missile programs, weakening its regional power projection, and putting heavy pressure on the Islamic Republic's leadership—objectives that imply operations deep inside Iranian territory and against critical infrastructure.

On the Israeli side, Prime Minister Benjamin Netanyahu has framed the campaign in even more maximalist terms, explicitly presenting it as an opportunity to create "optimal conditions" for regime change in Tehran. Israel's leadership has embraced

decapitation strikes on senior IRGC figures linked to the Hormuz closure, alongside broader attacks on Iranian command, control, and coastal assets. In other words, both Washington and Jerusalem have defined their goals in ways that make the destruction or crippling of Iranian and Gulf energy systems not just a byproduct of war, but a plausible instrument of coercion.

The result is a war fighting strategy whose center of gravity is precariously close to the central nervous system of the global economy: *Gulf hydrocarbons and the maritime chokepoint through which they flow.*

Who is driving strategy? US and Israeli war leadership

The American inner circle

The architecture of US strategy in this war is unusually personalized and centralized around the Trump White House.

President Donald Trump is the primary decision-maker on escalation and war termination, having personally ordered the initial waves of strikes against Iranian nuclear, missile, and IRGC facilities and publicly characterized them as the start of "major combat operations." Analyses of the 2026 military buildup indicate that his decisions followed contested intelligence assessments regarding Iranian threats, with some Pentagon officials reportedly more cautious than the political leadership.

Steve Witkoff, appointed as a special envoy for the Middle East, has emerged as Trump's lead negotiator on the Iran file, heading a small team that manages diplomacy with Tehran and key regional players. Reports suggest that he is one of only three individuals formally empowered by Trump to conduct substantive negotiations in this crisis.

Jared Kushner, the president's son-in-law, again plays a central back-channel role, working closely with Witkoff while remaining tightly wired into Trump's political and strategic instincts.

Secretary of State Marco Rubio and Vice President JD Vance round out the political apex. Rubio's State Department is responsible for alliance diplomacy and public messaging of US objectives, while Vance is cited as a potential high-level emissary who can be deployed in negotiations or coalition management.

Below this political layer, the Pentagon and intelligence community execute a campaign whose overall goals and escalation thresholds are set at the top. This creates an environment where strategic choices about striking energy infrastructure, tolerating risk to Gulf shipping, or pushing for a cease-fire are driven less by institutional consensus than by a narrow political circle.

The Israeli war cabinet and Hormuz

Israel's response to the war and to Iran's use of the Strait of Hormuz as leverage is shaped by a tight political-security core around Prime Minister Netanyahu.

Benjamin Netanyahu – Prime Minister chairs the key war-decision forums and is the central architect of Israel's Iran strategy. His office has released footage of high-level war meetings, underscoring that he personally directs the Iran front, including decisions on deep strikes in Iran and operations tied to Hormuz.

Israel Katz – Defense Minister has emerged as the principal civilian authority over the IDF's operational response. He publicly claimed responsibility for authorizing a pivotal strike on IRGC Navy commander Alireza Tangsiri, whom Israel identified as "directly responsible" for closing the Strait of Hormuz via mines and attacks on shipping. Katz cast the killing as a warning that those orchestrating Hormuz's closure would be "hunted down and eliminated," signaling a doctrine focused on leadership decapitation and coercive signaling. IDF high command and specialized branches are executing intensive campaigns against Iranian

naval assets, mine-laying capabilities, and coastal infrastructure. The decision to prioritize command-and-control targets in Bandar Abbas and other coastal nodes, rather than only attacking vessels and platforms, reflects a strategic choice agreed between political leaders and the IDF General Staff.

Netanyahu's broader war forum includes Katz; Foreign Minister Gideon Sa'ar; Finance Minister Bezalel Smotrich; National Security Minister Itamar Ben Gvir; Shin Bet chief David Zini; acting National Security Adviser Gil Reich; and his military secretary, Maj. Gen. Roman Gofman. This group collectively shapes not only military targeting, but also Israel's willingness to accept escalation risks around Hormuz and Gulf shipping, and its alignment—or divergence—with US preferences.

The net effect is that a very small group of political leaders in Washington and Jerusalem are making choices that could determine whether the world faces a manageable regional conflict or a prolonged global economic shock.

The mechanics of a Gulf energy collapse

Scale and concentration of Gulf energy flows

Despite diversification efforts, the Gulf remains irreplaceable in the short to medium term. Recent analyses and official data show:

The broader Middle East still contributes a substantial share of world oil supply, with Gulf Cooperation Council (GCC) producers responsible for a large proportion of low-cost, flexible output.

Roughly 21% of global petroleum liquids consumption and close to a third of seaborne crude flows transit the Strait of Hormuz.

Nearly 90% of crude volumes passing through Hormuz head to Asian buyers, with China taking close to 38%, and India, Japan, and South Korea accounting for most of the rest.

Middle Eastern exporters supply a large share of flexible LNG cargoes, and conflict-driven disruptions have already pushed forecasts of regional LNG exports down by about 70% in some recent months, implying an effective loss of around 14% of expected global LNG supply for that period.

The war has already inflicted tens of billions of dollars in damage to energy infrastructure across the Middle East, with industry estimates warning of multi-year disruptions to supply chains and capacity. Even without worst-case destruction, markets have seen sharp price spikes in regional benchmarks, with Dubai crude and other Gulf-linked grades rising much faster than global averages during early waves of disruption.

In the scenario you are concerned with—systemic damage across Gulf infrastructure and a durable Hormuz closure—the world could lose on the order of 20% of global oil production, plus a significant share of LNG, for an extended period. There is no realistic spare capacity, pipeline rerouting, or alternative shipping route that can fully offset such a loss in the near term.

From oil shock to multi-sector disruption:

It is a mistake to treat this as a "fuel shortage" issue alone. The Gulf exports an integrated suite of energy and industrial inputs:

Crude oil and refined products (diesel, gasoline, jet fuel, fuel oil) that power transport, aviation, shipping, and many power plants.

Natural gas and LNG used for electricity, heating, and as feedstock in industry and petrochemicals.

Petrochemicals that underpin plastics, synthetic fibers, solvents, and a vast range of industrial and consumer goods.

Fertilizer inputs derived from natural gas (notably nitrogen fertilizers), along with energy-intensive phosphate and potash production and transport.

Destroying or disabling this infrastructure, and cutting off the main export route, would trigger:
Spiking prices for oil, gas, and refined products globally, with pronounced volatility and persistent risk premia.

Sharp increases in industrial input costs for chemicals, metals, construction materials, and manufactured goods.

Tighter fertilizer markets and higher farm production costs, feeding directly into food inflation.

Recent analytical work and historical IMF research show that oil price spikes have statistically significant, asymmetric effects on food inflation, with developing countries particularly vulnerable due to high food shares in consumer baskets and weaker safety nets. The net result would be a simultaneous energy and food crisis.

Food security, livelihoods, and indirect casualties

Energy–food transmission

Modern food systems are energy-dependent at every stage:
Farm operations rely on diesel for machinery, fuel for irrigation pumps, and energy-intensive fertilizers to maintain yields.

Post-harvest processing, refrigeration, and transport rely on electricity, fuel, and efficient logistics.

International grain trade depends on shipping costs, insurance, and port operations, all of which respond quickly to fuel prices and risk assessments.

A sustained loss of 20% of global oil output and a large LNG supply shock would therefore drive:
Higher domestic currency costs for imported staples (wheat, maize, rice) across net-importing countries.

Rising costs for local production due to more expensive fuel and fertilizers, cutting farm margins and discouraging planting.

Elevated prices in wholesale and retail food markets, with strongest effects in countries where food is a large share of household expenditure.

IMF analysis of previous high food and fuel price episodes found that such shocks worsened current accounts by over 1% of GDP in some low-income countries, strained fiscal balances via subsidy pressures, and helped trigger social unrest in parts of Africa and Asia. The 2026 war could replicate—and intensify—these dynamics on a larger scale.

From macro shock to human suffering

The indirect human toll of such a crisis would manifest along several dimensions:

Malnutrition and health impacts. Poor households in Africa, South Asia, and parts of Latin America already spend a large share of their income on food. Sharp price rises force them to cut quantity and quality, increasing rates of undernutrition, particularly among children and pregnant women.

Health system strain. Higher energy costs and disrupted supply chains affect medicines, vaccines, and medical equipment, while budget pressures force governments to cut health spending.

Water and sanitation risks. Power-dependent water treatment and distribution systems in cities may face outages or rationing when electricity becomes more expensive or unreliable, increasing the risk of water-borne disease.

Unemployment and loss of livelihoods. Industries hit by energy and trade disruptions—from factories to logistics and tourism—will shed jobs, pushing more people into informal employment or outright destitution.

None of these casualties will be recorded in battle reports. Yet the connection is direct: the destruction of Gulf energy infrastructure and closure of Hormuz would be the proximate cause of crises that kill by hunger, disease, and social breakdown.

Regional impacts: Africa, South America, Asia, Europe, North America

Africa: exposure without buffers

African economies are highly heterogeneous, but many share three vulnerabilities: net dependence on imported fuel and food, limited fiscal space, and fragile political institutions.

Terms-of-trade shock. Net importers suffer immediate deterioration in their trade balance as fuel and food import bills rise faster than export revenues.

Fiscal stress. Governments must choose between subsidizing essentials (which strains budgets and risks debt distress) and letting prices pass through (which risks unrest).

Social instability. Past episodes show that food and fuel price spikes can trigger protests, riots, and regime-threatening instability in African capitals, particularly where governance is already questioned.

The Gulf war thus risks turning an external conflict into a domestic political and humanitarian crisis across parts of Africa.

South America: inflation and polarization

South America includes both energy exporters and importers, but even exporters are embedded in global markets.

Inflationary pressure. Higher global fuel and fertilizer prices raise domestic production and transport costs, feeding into headline inflation.

Fiscal and political stress. Governments face pressure to increase subsidies or social transfers to protect vulnerable populations, even as rising interest rates and weaker currencies constrain fiscal space.

Polarization. Existing ideological divides regarding resource nationalism, inequality, and foreign influence can deepen when economic hardship rises, empowering populist or anti-system movements.

In debt-burdened countries, the added strain of a Gulf-driven commodity shock could force painful negotiations with creditors or international financial institutions, with all the attendant political risks.

Asia: the manufacturing heartland under pressure

Asia is the primary destination for oil and LNG transiting Hormuz, and much of the world's manufacturing base depends on imported energy.

Energy import dependence. China, India, Japan, South Korea, and Southeast Asian economies rely heavily on Middle Eastern crude and gas; analyses identify countries such as Thailand, Korea, and the Philippines as particularly vulnerable to sustained high oil prices due to energy-trade deficits and limited buffers.

Industrial and export impacts. Higher input costs compress margins for manufacturers and can reduce competitiveness in global markets, particularly if Western demand also softens in a global slowdown.

Policy responses. Governments may revert to coal or delay energy transitions for security reasons, undermining their ecological goals; they may also tighten monetary policy to fight inflation, further slowing growth.

India is additionally exposed on the gas side, with recent reporting noting that it has one of the highest levels of exposure to Middle Eastern LNG among major importers. For populous South Asian states, the combination of higher energy and food prices is particularly dangerous.

Europe: a second energy crisis in a decade

Europe's pivot away from Russian pipeline gas has increased reliance on seaborne LNG and global spot markets.

LNG competition. A drop of around 70% in Middle East LNG exports, even for part of the year, significantly tightens global LNG markets and raises prices in Europe, especially in winter.

Industrial competitiveness. High energy prices hit energy-intensive industries like metals, chemicals, glass, and fertilizers, many of which were already under stress after the Russia–Ukraine shock.

Political consequences. Elevated bills and fears of deindustrialization can strengthen extremist and anti-EU forces, deepen north–south divides over fiscal transfers and energy burden-sharing.

For European policymakers, a Gulf-driven shock would feel like a second front opening in an already difficult energy transition.

North America: illusion of insulation

The US now imports a historically low share of oil from the Middle East, with Canada dominating its import mix. Yet this does not mean the United States and its neighbours are insulated from a systemic Gulf shock.

Price transmission. Oil and refined products are globally traded; higher world prices feed into domestic gasoline and diesel costs, stoking inflation and affecting consumer sentiment.

Financial volatility. Energy price spikes complicate Federal Reserve policy, increase market volatility, and can tighten financial conditions, hitting investment and credit.

Supply chains. North American industries still depend on imported petrochemicals, components, and goods whose production elsewhere is energy-intensive, so global disruptions feed back into domestic manufacturing and retail.

Canada and Mexico face similar channels of exposure. The broader point is that a Gulf war is not a "foreign" shock to North America; it directly affects domestic macroeconomic and political dynamics.

The Strait of Hormuz: maritime choke and battlefield

The Strait of Hormuz has long been recognized by energy agencies and analysts as the world's most critical oil transit chokepoint. It is a narrow passage, bordered by Iran and Oman, through which a large share of Gulf oil and gas must pass.

The 2026 crisis has transformed Hormuz from a recognized vulnerability into an active battlefield. Iran's leadership has explicitly framed closure or high-risk constraints on the strait as a source of leverage against the US and Israel, with the new supreme leader vowing in public statements to sustain pressure on shipping as long as core Iranian demands are unmet. Attacks on tankers, mining operations, and direct threats have driven insurance premiums and freight rates sharply higher, even before any full closure.

Israel has responded with targeted killings of Iranian naval leaders associated with the closure and with strikes on coastal infrastructure and bases used for attacks on shipping. The United States has increased naval presence and conducted its own strikes on IRGC assets, while also trying to reassure global markets that freedom of navigation will be maintained.

Yet the underlying reality remains: every day that shipping through Hormuz is constrained or seen as high risk, a critical fraction of global oil and gas flows is at risk, and the global economy operates under the shadow of a sudden supply shock.

The US dollar and hegemony under stress

A crisis of this scale has profound implications for the international monetary system and US hegemony.

Short-term: flight to safety and asymmetric pain

In the immediate phases of a global shock, investors typically rush toward what are perceived as safe assets. The dollar and US Treasuries still occupy this role. The 2026 war and Hormuz crisis have already contributed to periods of dollar strength and elevated demand for US government debt, even as energy prices rose.

For emerging markets, this combination is toxic:

A stronger dollar increases the local-currency burden of dollar-denominated debt.

Higher energy and food import bills widen current account deficits.

Capital outflows and worsening terms of trade raise the risk of balance-of-payments crises.

The result is that the US may temporarily benefit from a safe-haven effect, while many developing and emerging economies suffer intensified financial stress.

Medium-term: erosion of legitimacy and diversification

Over a longer horizon, however, this kind of crisis can erode confidence in US leadership and accelerate efforts to diversify away from dollar centrality.

Several trends are worth noting:

Perception of US policy as a source of systemic risk. If the war is widely seen as US-driven and as having precipitated a global food-and-energy crisis, narratives in the Global South will increasingly portray US hegemony as destabilizing rather than protective.

Alternative financial arrangements. Major economies have already begun experimenting with bilateral settlements in local currencies, regional financial arrangements, and non-dollar commodity trading

platforms. A severe Hormuz shock would provide political impetus to deepen these initiatives within blocs like BRICS and among key Asian importers.

Energy and commodity repricing. If key producers and large importers conclude that dollar-based pricing amplifies volatility and crisis spillovers, they may increase experimentation with alternative benchmarks or currency baskets for commodity pricing and settlement, even if such systems remain partial for years.

US hegemony rarely suffers from a single decisive blow. It erodes through a series of crises in which US-anchored structures seem to generate more risk than stability. A major Gulf war that visibly sacrifices global economic stability for contested strategic gains could be remembered as one of those "hinge" events.

Policy choices: escalation, restraint, and global responsibility

The scenario outlined here is not inevitable, but it is plausible given the war aims and leadership dynamics on both sides. Policy elites in Washington, Jerusalem, and allied capitals need to recognize that:

Strikes on energy infrastructure and operations that endanger Hormuz are not just military actions; they are decisions about whether to accept a potential 20% loss of global oil supply and a major LNG shock with cascading humanitarian consequences.

Crisis-management architecture—IMF facilities, World Bank programs, regional development bank lines must be designed and pre-financed to cushion low-income importers from food-and-fuel shocks in real time, or instability will rapidly spread in Africa, South Asia, and beyond.

Allied cohesion will hinge on how Washington and Jerusalem balance their maximalist goals against partners' exposure to energy and trade disruptions. Asian and European states have domestic political limits on how much economic pain they will bear for open-ended confrontation.

Preserving the dollar's central role requires that US power be seen as a net provider of global public goods stability, open trade routes, macroeconomic backstops—not merely as a source of unpredictable shocks.

At bottom, this is a question of responsibility. A tightly knit group of leaders in Washington and Jerusalem are making decisions that could reshape the global economy, intensify hunger and poverty across continents, and accelerate the gradual unraveling of US financial hegemony. Treating the destruction of Gulf oil infrastructure and the closure of Hormuz as acceptable collateral in a regional strategy is not just short-sighted; it is a gamble with the livelihoods and lives of billions, and with the future of the international order itself.

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