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Geopolitical Conflict and Global Economy: A Study of the Long-Term Impact of the Iran–Israel War

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Abstract

This research paper provides a comprehensive analysis of the long-term economic consequences of the Iran–Israel War, incorporating both the June 2025 twelve-day military engagement and the broader US–Israeli Operation Epic Fury launched on 28 February 2026. The conflict has precipitated the most severe disruption to global energy supply since the 1973 Oil Embargo, with Brent crude oil prices surging from $72 to a peak of $120 per barrel, approximately 19% of global LNG trade halted, and the Strait of Hormuz through which one-fifth of the world's oil passes rendered commercially non-functional for weeks. The paper examines cascading macroeconomic effects across key dimensions: energy and commodity markets, global trade and shipping, fiscal positions of belligerent nations, inflationary transmission mechanisms across Asia and Europe, and geopolitical realignments with long-term structural consequences. Using data from J.P. Morgan, Oxford Economics, the International Energy Agency (IEA), World Economic Forum, Chatham House, the Stimson Center, and the Congressional Research Service, the paper argues that this conflict represents a watershed event in the global economic order one whose reverberations in energy policy, supply chain architecture, financial markets, and multilateral diplomacy will shape the global economy for a decade or more.

Keywords: Iran–Israel War, Strait of Hormuz, Energy Security, Oil Price Shock, Geopolitical Risk, Global Trade Disruption, Inflation, LNG Markets, Operation Epic Fury, Middle East Economy

1. Introduction

The Middle East has long been regarded as the world's most geopolitically consequential energy corridor. Home to over 48% of the world's proven oil reserves and serving as the transit hub for approximately one-fifth of global petroleum trade, the region has historically been subject to cycles of geopolitical tension with profound economic repercussions. The Iran–Israel conflict represents the most dangerous escalation in this tradition one that has evolved from decades of proxy warfare into direct, high-intensity military confrontation.

The roots of the conflict stretch back to the 1979 Iranian Revolution, which displaced a US-aligned Shah with an openly anti-Zionist theocracy. Decades of proxy competition followed, with Iran arming Hezbollah in Lebanon, Hamas in Gaza, and Houthi forces in Yemen as instruments of strategic pressure against Israel and its American patron. The October 7, 2023 Hamas attack on Israel which killed over 1,200 Israelis marked a pivotal inflection point, as it was widely linked to Iranian direction, training, and financing.

The June 2025 twelve-day war between Iran and Israel in which Israel struck Iran's nuclear infrastructure at Natanz, Fordow, and Isfahan with US-supplied bunker-buster munitions served as a tactical precursor to a far more transformative confrontation. When the United States and Israel jointly launched Operation Epic Fury on 28 February 2026, assassinating Supreme Leader Ali Khamenei and targeting Iran's entire military-industrial base, the conflict crossed from bilateral confrontation into a global economic emergency. Iran's retaliatory closure of the Strait of Hormuz which the IEA described as the "greatest global energy security challenge in history" sent shockwaves through every dimension of the global economy.

This paper examines those shockwaves systematically, with particular attention to long-term structural consequences that extend well beyond the immediate military and energy price effects. Section 2 traces the historical background. Section 3 analyses energy market disruptions. Section 4 examines the direct economic costs to belligerent nations. Section 5 addresses global macroeconomic and trade consequences. Section 6 examines food and commodity security. Section 7 considers financial market volatility. Section 8 addresses the geopolitical realignments the conflict has accelerated. Section 9 offers a long-term outlook. Section 10 concludes.

2. Historical Background: From Proxy Conflict to Direct War

2.1 The Architecture of Proxy Conflict (1979–2023)

The foundational antagonism between Iran and Israel is rooted in the 1979 Islamic Revolution's explicit adoption of anti-Zionism as a pillar of state ideology. For over four decades, the two states waged a hybrid war through proxies, cyber operations, and covert assassinations. Iran's "Axis of Resistance" encompassing Hezbollah (Lebanon), Hamas (Gaza), and Houthi forces (Yemen) served as a forward-deployed deterrent and offensive apparatus against Israel.

Israel, in turn, conducted hundreds of covert strikes against Iranian weapons convoys in Syria, assassinated Iranian nuclear scientists, and deployed the Stuxnet computer worm to sabotage Iranian centrifuges. The conflict was broadly contained within a framework of strategic ambiguity and plausible deniability, allowing both sides to pursue their objectives while avoiding the political and economic costs of open warfare.

2.2 Escalation Triggers (2023–2025)

The October 7, 2023 Hamas attack and Israel's subsequent war on Gaza fundamentally altered the escalation calculus. With Hezbollah entering the conflict in 2024 and Iran launching direct ballistic missile attacks on Israeli territory in April and October 2024, the conflict crossed into overt state-on-state confrontation. The June 2025 twelve-day war which resulted in Iran firing 550 missiles and 1,000 drones at Israel while Israel struck Iran's nuclear and energy infrastructure demonstrated that the two states had crossed the threshold into direct high-intensity conflict. During that engagement, Iran's oil exports fell to 102,000 barrels per day (bpd), less than half their previous average, while Israel incurred an estimated $6 billion in direct economic costs.

This 2025 engagement, though contained, normalized the logic of direct military confrontation and set the stage for the far more catastrophic 2026 escalation. The IEA's characterization of the subsequent 2026 crisis as the "greatest global energy security challenge in history" reflects just how dramatically the stakes had risen.

3. Energy Market Disruption: The Strait of Hormuz and the Oil Price Shock

3.1 The Strait of Hormuz as a Global Chokepoint

The Strait of Hormuz an 80-kilometer-wide waterway between the southern Iranian coast and Oman is the world's single most consequential energy chokepoint. Prior to the 2026 conflict, approximately 20 million barrels per day of crude oil and petroleum products transited the Strait daily, equivalent to roughly one-fifth of global petroleum liquids consumption and more than one-quarter of global seaborne oil trade. Approximately 19% of global LNG trade predominantly Qatari exports destined for Asian markets also transited the Strait.

Iran's declaration of the Strait's closure on 4 March 2026, backed by 21 confirmed IRGC attacks on merchant vessels, sea mine deployment, and electronic warfare operations, transformed the Strait from a geopolitical premium into a genuine supply disruption. Major container shipping companies including Maersk, CMA CGM, and Hapag-Lloyd suspended transits. The US Maritime Administration and UK Maritime Trade Operations Center issued formal high-threat warnings. By mid-March 2026, J.P. Morgan projected production shut-ins of approximately 7 million barrels per day (mbd) rising to 12 mbd by 22 March — potentially reaching 16 mbd if the closure persisted.

3.2 Oil Price Timeline and Market Impact

The oil price trajectory of the 2026 conflict represents one of the most dramatic commodity price shocks in modern history. Brent crude, trading at approximately $72 per barrel on 27 February 2026, surged 10–13% to $80–82 per barrel within days of the initial strikes. On 9 March, prices broke above $100 per barrel for the first time since 2022. By mid-March, prices had reached $120 per barrel a 55% increase from the pre-war level with some analysts projecting $150 or higher under a sustained disruption scenario.

Brent crude recorded its largest single-month gain in decades in March 2026, posting a 51% increase a price movement that rivals the 1973 Oil Embargo in its scale and velocity. The International Energy Agency released emergency strategic reserves, and multiple nations activated national petroleum stockpiles to buffer the shock.

Table 1: Key Energy and Commodity Market Indicators — Pre-Conflict vs. During Conflict

Indicator	Pre-Conflict (2024–25)	During Conflict (2025–26)	Change
Brent Crude Oil (USD/barrel)	$72	$80–120 (peak)	+55% at peak
Global LNG Disruption (% of trade)	~0%	~19%	+19 pp
EU TTF Gas Benchmark (€/MWh)	~€32	>€60	+88%
Iran Oil Exports (bpd)	~242,000	~102,000	−58%
Global Supply Disruption (mbd)	~0	8–16 mbd	Unprecedented

War-Risk Insurance Premium	Standard	+$5–15/barrel	Sharp surge
Gold (USD/oz)	~$2,800	>$5,400	+93%

Source: IEA, J.P. Morgan, Chatham House, Stimson Center, CNBC (2026)

3.3 LNG Markets and the Asian Energy Crisis

The LNG dimension of the crisis was particularly severe for Asian economies. More than 80% of oil and LNG shipped through the Strait in 2024 went to Asian markets, with China, India, Japan, and South Korea as the primary destinations. According to Columbia University's Center on Global Energy Policy, approximately 110 billion cubic meters (bcm) of annual net LNG exports passing through the Strait of Hormuz were halted from 28 February equivalent to roughly 19% of global LNG trade in 2025. Europe's Dutch TTF gas benchmark jumped 59% after the conflict began, rising above €60 per MWh, coinciding with historically low European gas storage levels of approximately 30% capacity following a harsh 2025–2026 winter.

War-risk insurance premiums added $5–15 per barrel in additional costs for any shipment attempted through the region, with QatarEnergy, BAPCO, and Kuwait Petroleum Corporation all declaring force majeure. The consequence was not merely higher prices it was a fundamental questioning of the reliability of Middle Eastern energy supply for decades to come, accelerating long-term energy diversification strategies across every major importing nation.

4. Direct Economic Costs to Belligerent Nations

4.1 Iran: Structural Economic Devastation

Iran entered the 2026 conflict in a position of severe economic vulnerability. Decades of sanctions had restricted access to foreign markets, technology, and financial systems. The Iranian rial had depreciated catastrophically trading above 1,000,000 IRR per USD in street markets by late June 2025. Inflation exceeded 40% annually in 2025, food inflation had surged to 105%, and the unemployment rate had been elevated by widespread enterprise closures linked to sanctions-induced supply chain disruptions.

Operation Epic Fury inflicted catastrophic additional damage. Israeli and US strikes targeted Iran's nuclear infrastructure (Natanz, Fordow, Isfahan), military command centers, the IRGC headquarters, ballistic missile stockpiles, naval assets, fuel depots, the Shahr Rey refinery outside Tehran, the South Pars gas field (which provides approximately 80% of Iran's gas), and industrial facilities including the Mobarakeh and Khuzestan steel complexes. A company director at Khuzestan Steel stated that "all modules and steelmaking furnaces had been damaged" and that repairs would require at minimum six months.

Based on analogous war scenarios, economists project Iran's GDP contraction at over 10% potentially far higher given the combined effect of sanctions, military destruction, and energy sector damage. The Iranian central bank issued the largest-ever denomination banknote (10 million rial) as inflation surged to unprecedented levels. The Tehran Stock Exchange saw widespread sell-offs across all sectors. Iran's oil exports, averaging 3.4 million bpd in 2025, effectively halted during peak conflict costing tens of millions of dollars per day in lost revenue.

4.2 Israel: Fiscal Overextension Under Sustained Warfare

Israel's economy had already been under significant pressure prior to the 2026 escalation. The 2023–2025 Gaza campaign, combined with conflicts in Lebanon and preparation for Iranian contingencies, had driven

Israel's defence budget from 60 billion shekels ($17 billion) in 2023 to a projected 118 billion shekels ($34 billion) in 2025. Approximately 60,000 Israeli companies closed in 2024 due to manpower shortages, logistics disruptions, and subdued business sentiment.

During the June 2025 twelve-day war, Israel's economy contracted by approximately 1% in the relevant quarter, with the direct economic burden estimated at $6 billion. Moody's signaled a potential downgrade of Israel's credit rating from A to A, warning that sustained military engagement could raise borrowing costs and erode investor confidence. Israel's 2025 growth forecast was already revised down from 4.3% to 3.6% before the 2026 escalation began. Tourism, agriculture, and portions of the high-tech industry faced sustained disruption, while missile damage to the Haifa refinery caused significant industrial interruption.

4.3 United States: Macroeconomic Spillovers and War Financing

The United States, as the co-belligerent in Operation Epic Fury, faced both direct military costs estimated at over $200 billion and significant macroeconomic spillovers through energy markets. J.P. Morgan estimated that under a persistent risk premium scenario with Brent prices at $80/bbl through mid-year, global GDP growth in the first half of 2026 could be depressed by an annualized rate of 0.6%. US equity markets experienced significant volatility, with multiple circuit-breaker events in energy, insurance, and transportation sectors. The 10-year bond yield jumped to 4.46% on 27 March its highest since July 2025 while the 30-year mortgage rate climbed to 6.38%.

Table 2: Economic Impact by Region — Dependency, Disruption, and Policy Response

Country / Region	Key Dependency	Impact	Severity
Japan	90% oil from Middle East; 93% via Hormuz	Activated 80M barrel strategic reserve	**Critical**
South Korea	70% crude from Middle East	₩100 trillion stabilization plan	**Critical**
China	~50% crude via Hormuz	Growth outlook under pressure	**High**
India	~60% petroleum from Gulf	LPG shortages; refinery cuts	**High**
Europe	Qatari LNG dependent	TTF gas up 88%; energy crisis looms	**High**
Southeast Asia	High import reliance	+7–27 bps added inflation	**Moderate–High**
Gulf States	Saudi Arabia / UAE bypass routes	Diplomatic & investment disruption	**Moderate**

Source: WEF, Trends Research, Chatham House, Al Jazeera (2026)

Table 3: Macroeconomic Impact on Key Belligerent and Allied Nations

Country	GDP Impact	Defence Budget	Credit Outlook	Key Risk
Israel	−1% (Q2 2025); −3–5% projected 2026	$34bn (2025)	A → A− (risk)	Fiscal overextension
Iran	−10% or more projected	Decimated / degraded	N/A (isolated)	Infrastructure destruction
United States	GDP −0.6% (H1 2026 annualised)	$200bn+ war costs	Stable	Energy inflation; debt
EU Average	−0.5–1.2% projected	Elevated	Mixed	Energy crisis 2026

Source: Chatham House, J.P. Morgan, Al Jazeera, Oxford Economics (2026)

5. Global Trade Disruption and Maritime Security

5.1 Collapse of Strait of Hormuz Shipping Traffic

The effective closure of the Strait of Hormuz created a maritime crisis of extraordinary proportions. Major container shipping companies suspended transits, approximately 200 tankers were left wandering in the Arabian Sea and Gulf of Oman, and 15,000 passengers were stranded on six major cruise ships in the Persian Gulf. Yemen's Houthi forces announced a resumption of Red Sea attacks, further compressing the available maritime routing options and forcing vessels to the much longer Cape of Good Hope route around Africa adding weeks to transit times and significantly increasing shipping costs.

War-risk insurance premiums represented perhaps the most economically insidious transmission mechanism. These premiums adding $5–15 per barrel in transportation costs effectively acted as a hidden tax on every import-dependent economy in Asia and Europe. For energy-intensive manufacturing sectors, these costs fed directly into producer price inflation, squeezing margins and raising the cost of goods across global supply chains.

5.2 Selective Exemptions and Diplomatic Navigation

Iran's management of Strait access became itself a geopolitical instrument. On 26 March 2026, Iranian Foreign Minister Abbas Araghchi announced that vessels from China, Russia, India, Iraq, and Pakistan would be permitted to transit the Strait effectively rewarding strategic partners and neutrals while penalizing US-aligned nations. Subsequent exemptions were granted to Malaysia, Thailand, and the Philippines following bilateral diplomatic engagements. This selective access framework represented a profound shift in the nature of maritime law and freedom of navigation norms substituting geopolitical alignment for established legal principles as the determinant of commercial access.

Iran also agreed to permit humanitarian and fertilizer shipments through the Strait on 27 March, in response to UN warnings about the global fertilizer crisis threatening the spring planting season across the Northern Hemisphere. This humanitarian exemption underscored how the conflict's economic tentacles had extended to food security considerations affecting hundreds of millions of people far beyond the conflict zone.

6. Food Security and Agricultural Commodity Disruptions

6.1 Fertilizer Supply Chain Collapse

Perhaps the most underappreciated economic consequence of the conflict was the disruption to global fertilizer supply chains. The Gulf region accounts for approximately 50% of global urea and sulfur exports, with over 30% of global urea traded through the Strait of Hormuz. The near-total halt of tanker traffic created a significant disruption in sulfur supply Gulf countries account for roughly 45% of global sulfur production with cascading effects on fertilizer costs, copper leaching operations, and sulfuric acid production. The conflict also constrained helium supply, with Gulf states being major helium producers and helium being critical for semiconductor manufacturing.

The UN World Food Programme and multiple agricultural analysts warned of long-term food price increases threatening a scenario analogous to the 2022 food crisis that followed Russia's invasion of Ukraine. India, which sources over 40% of its urea and phosphate from the Gulf, reduced production at three urea plants following the LNG output disruption from Qatar. Given India's role as a global agricultural producer accounting for approximately 25% of rice exports in 2024 supply chain disruptions in India's agricultural sector carry global food security implications.

6.2 Iran's Domestic Food Crisis

Within Iran itself, the combination of pre-existing sanctions, wartime destruction, and supply chain collapse produced a humanitarian food emergency of severe proportions. Food inflation surged to 105% on an annualized basis, driven by currency collapse, supply disruption, and energy cost pass-through into agricultural production. The breadth of price increases across all food categories illustrates the systemic nature of the crisis.

Table 4: Food and Commodity Price Impacts — Iran and Global Markets

Food/Commodity	Iran Price Change (Mar 2025–Mar 2026)	Global Implication
Bread & Cereals	+140%	Wheat/grain supply chain pressure
Oil & Fats	+219%	Cooking oil global price spike
Red Meat & Poultry	+135%	Protein supply disruption
Dairy (Milk, Cheese, Eggs)	+116.8%	Livestock feed cost pass-through
Fruits & Nuts	+104.2%	Agricultural export disruption
Fertilizers (Urea/Sulfur)	~50% global export disruption	Threat to 2026 planting season

Source: Wikipedia (Economic Impact of 2026 Iran War), UN WFP, Fertilizer Institute (2026)

7. Financial Market Volatility and Monetary Policy Implications

7.1 Safe Haven Flows and Currency Dynamics

The conflict precipitated a classic flight to safe-haven assets, with gold surging from approximately $2,800 per ounce before the conflict to above $5,400 per ounce in its immediate aftermath a 93% increase

representing one of the largest gold price spikes in recent history. US Treasury yields initially fell as safe-haven demand for dollar-denominated assets surged, but subsequently rose as inflation expectations became embedded, with the 10-year yield reaching 4.46% on 27 March. The dollar strengthened significantly, while currencies of energy-importing emerging economies including Turkey, India, and South Korea came under depreciation pressure, amplifying import cost inflation in these countries.

As J.P. Morgan noted, the conflict generates a particularly damaging form of macro risk a simultaneous supply shock (raising energy prices and inflation) and demand shock (reducing economic activity and investment confidence), creating conditions for stagflation that central banks are structurally ill-equipped to address. The Fed, ECB, and Bank of Japan all still navigating the post-pandemic tightening cycle faced an unwelcome dilemma: a 10% increase in oil prices is estimated to produce a 0.4-percentage-point rise in headline inflation globally, limiting the scope for rate cuts that growth conditions might otherwise warrant.

7.2 Equity Markets and Sector Rotation

Equity markets globally experienced significant volatility, with energy stocks surging while aviation, consumer discretionary, and industrials faced sharp selloffs. Defense stocks particularly US and Israeli defense contractors benefited dramatically as the second Trump administration announced a quadrupling of weapons production to address the depletion of defensive systems. South Korea activated a ₩100 trillion (approximately $68 billion) market-stabilization program to contain the financial fallout from war-related volatility. Aluminum prices moved toward $4,000 per metric ton as the Gulf region's 5 million metric ton net exportable surplus in primary aluminum became inaccessible due to shipping disruptions.

Table 5: Conflict Chronology and Oil Price Evolution (February–April 2026)

Conflict Phase	Duration	Oil Price Range	Key Trigger	Global Response
Initial Strikes	Feb 28, 2026	$72→$82	US-Israeli Operation Epic Fury	Market panic; gold surge
Hormuz Closure	Mar 4–April 2026	$82→$120	IRGC declares strait closed	IEA emergency reserves released
Peak Disruption	Mid-March 2026	~$120 (peak)	16 mbd production shut-ins	Asia energy emergency protocols
Partial De-escalation	Late March 2026	$90–100	Selective shipping exemptions	Diplomatic negotiations
Ceasefire Announced	April 8, 2026	$80–90	US–Iran ceasefire	Markets partially stabilize

Source: CNBC, Reuters, J.P. Morgan, IEA, Congressional Research Service (2026)

8. Geopolitical Realignments and Long-Term Structural Consequences

8.1 The Fragmenting of the Global Energy Order

The conflict has accelerated a fundamental fragmentation of the global energy order. Iran's selective access framework for Strait of Hormuz transit offering passage to China, Russia, India, and strategic partners while denying it to US-aligned nations has created a geopolitical two-tiered maritime system. This represents a significant precedent: a state using a globally critical waterway as a geopolitical instrument to reward allies and penalize adversaries, effectively weaponizing international trade infrastructure.

For the Gulf Cooperation Council (GCC) states particularly Saudi Arabia and the UAE the conflict has presented a profound strategic dilemma. Both countries have condemned Israeli operations against Iran while simultaneously pursuing deep economic partnerships with the United States in AI, technology, and clean energy. The Saudi Public Investment Fund's partnership with Google Cloud for an AI center near Dammam, and the UAE–US AI Acceleration Partnership framework, represent tens of billions in economic relationships that the regional instability now threatens. The GCC states have been forced to navigate between their condemnation of Israeli actions, their economic dependency on US partnerships, and their vulnerability to Iranian retaliation a geopolitical balancing act of considerable complexity.

8.2 Asian Energy Security Recalibration

For Asian economies particularly Japan, South Korea, China, and India the conflict has demonstrated with painful clarity the danger of over-reliance on a single energy corridor. Japan, which sources approximately 90% of its crude oil from the Middle East with 93% transiting the Strait, activated 80 million barrels from strategic petroleum reserves approximately 45 days of domestic demand as an immediate buffer. South Korea, deriving 70% of its crude from the Middle East, activated a ₩100 trillion stabilization fund.

The longer-term consequence will be accelerated investment in energy diversification: expanded LNG procurement contracts with US, Australian, and African suppliers; accelerated renewable energy deployment; and increased strategic petroleum reserve capacity. South Korea also expressed significant concerns about the US redeployment of THAAD anti-missile systems from South Korea to the Middle East, viewing this as a reduction of US military commitment to peninsula defense at a moment of elevated North Korean threat illustrating how the Iran conflict has generated second-order security consequences in entirely unrelated theaters.

8.3 European Energy Vulnerability Revisited

Europe entered the 2026 conflict with historically low gas storage estimated at just 30% capacity following the harsh 2025–2026 winter creating conditions for the continent's second major energy crisis in four years. The BBC, Financial Times, and Bruegel institute all projected that the disruption of Qatari LNG exports and Strait closure would produce an energy crisis analogous to the 2022 Russia-Ukraine aftermath. The European Commission advised member states to fill gas storages early. This sequence of energy crises 2022 from Russia's war, 2026 from the Iran conflict has fundamentally and permanently altered Europe's energy security calculus, accelerating the transition away from fossil fuel import dependency as a matter of strategic necessity rather than merely climate policy.

8.4 China's Geopolitical Positioning

China's response to the conflict has been characteristically calibrated. As Iran granted Chinese vessels preferential Strait access, Beijing secured a degree of energy supply continuity that US-aligned economies were denied gaining a competitive advantage in energy-intensive manufacturing that may have structural implications for global industrial competitiveness. Higher energy costs feeding into production costs for steel, chemicals, and electronics in Japan, South Korea, and Europe risk widening competitiveness gaps

with Chinese manufacturers whose energy access was partially protected. China's navigation of this crisis maintaining economic ties with Iran while avoiding direct confrontation with the US-led coalition represents a sophisticated application of its stated non-alignment doctrine as a strategic tool.

9. Long-Term Economic Outlook and Policy Implications

9.1 Energy Transition Acceleration

The most enduring structural consequence of the Iran–Israel War may well be an acceleration of the global energy transition. Every major energy-importing region Europe, Asia, South Asia, East Africa has been reminded simultaneously and traumatically of the economic and strategic risks of fossil fuel import dependency. The war has created the economic and political conditions for a generational shift in energy policy: expanded investment in domestic renewable capacity, diversified LNG procurement, upgraded grid infrastructure, and strategic reserve expansion. While this transition will take years to materialize fully, the policy commitments it generates in 2026 and 2027 will fundamentally reshape global energy infrastructure for decades.

9.2 Supply Chain Restructuring

The conflict has exposed the fragility of global supply chains that route through the Gulf: not only energy, but fertilizers, petrochemicals, aluminum, sulfur, helium for semiconductor manufacturing, and a wide range of industrial inputs. The "just-in-time" model of supply chain management already strained by the COVID-19 pandemic and the Russia-Ukraine war has been dealt another decisive blow. Corporations and governments alike will accelerate supply chain diversification, "friend-shoring," and strategic stockpile building. The semiconductor industry's dependence on Gulf helium, in particular, has elevated the Iran conflict to a technology-sector security concern that extends from energy policy into industrial strategy and geopolitical competition.

9.3 Debt, Inflation, and Monetary Policy Divergence

The conflict's macroeconomic legacy will include elevated inflationary pressures for 12–24 months, even after the immediate energy price spike subsides. Supply chain restructuring is inherently inflationary. Strategic stockpile building absorbs resources. Defence budget expansions crowd out productive investment. The IMF and World Bank will face significant demands from emerging market economies hit by the triple shock of higher energy costs, currency depreciation, and reduced remittances from Gulf migrant workers. The approximately 20 million South Asian workers in the Gulf region whose remittances sustain millions of families in India, Pakistan, Bangladesh, and Sri Lanka face disrupted employment and income as Gulf economies navigate their own conflict-related dislocations.

9.4 Geopolitical Architecture in Transition

The assassination of Ayatollah Khamenei and the destruction of Iran's nuclear infrastructure represent a fundamental rupture in the regional security architecture that has prevailed since 1979. The post-conflict order in Iran whether a successor regime maintains the Islamic Republic's ideology, whether a period of political fragmentation ensues, or whether a negotiated political transition occurs will profoundly shape regional economic relationships, sanctions regimes, and investment prospects across the Middle East for a generation. The Chatham House assessment that "the geopolitical aftershocks will reverberate across Asia for years, and perhaps decades, to come" reflects a broadly held analytical consensus on the transformative scale of what has occurred.

10. Conclusion

The Iran–Israel War encompassing both the June 2025 twelve-day engagement and the February–April 2026 US–Israeli Operation Epic Fury constitutes a watershed moment in the economic and geopolitical history of the 21st century. The conflict has produced the largest oil supply disruption in the history of the global oil market, an LNG crisis threatening Europe's energy security, a global fertilizer shock with food security implications for hundreds of millions, a financial market volatility event of the first order, and a cascade of geopolitical realignments whose full consequences are still unfolding.

The Strait of Hormuz previously a theoretical vulnerability has been revealed as an actual one. Selective maritime access granted on geopolitical rather than legal grounds has demonstrated the weaponization potential of global energy infrastructure. Asian economies are recalibrating their energy security strategies. European policymakers face a second energy emergency in four years. Emerging market economies are navigating a triple shock of inflation, currency depreciation, and reduced remittances. And the political economy of the post-war Middle East a region undergoing its most consequential transformation since the post-colonial settlements of the 1940s remains deeply uncertain.

For policymakers, the conflict's lessons are stark: energy diversification is a security imperative, not merely a climate objective; supply chain resilience requires strategic redundancy rather than cost minimization; and the multilateral institutions designed to manage global economic crises require urgent reinvestment. For investors and corporations, the conflict has permanently elevated the risk premium attached to Middle Eastern energy exposure and global shipping routes. For scholars of international political economy, the Iran–Israel War represents a critical case study in how geopolitical rupture cascades through an interconnected global economy with consequences that no regional containment strategy can fully insulate the world from experiencing.

The long-term costs of this conflict measured in lost growth, accelerated inflation, disrupted trade, and the resources diverted from development to defense and energy resilience will likely exceed $1 trillion in aggregate global economic impact over the decade to follow. Understanding these costs in their full complexity is not merely an academic exercise: it is the essential foundation for the policy choices that will determine how successfully the international community manages the economic consequences of a transformed Middle Eastern geopolitical landscape.

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