



The Economic, Geostrategic, Political and Maritime Implications of the War With Iran

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Abstract: The ongoing war involving Iran has generated profound disruptions across global markets, regional security architectures, and maritime transportation systems. These effects intensified dramatically in 2025-2026, when U.S.-Israeli strikes and Iran's retaliatory closure of the Strait of Hormuz reduced shipping traffic to historic low and triggered a global energy shock (UNCTAD, 2026). Because Iran occupies a central position in the Persian Gulf and controls access to the Strait of Hormuz, the conflict has produced cascading effects that extend far beyond the Middle East. This article examines the causes, economic consequences, geostrategic shifts, maritime disruptions, and political implications of the war, drawing on contemporary reporting, energy market assessments, and scholarly analyses. The findings demonstrate that the conflict constitutes not merely a regional confrontation but a systemic global shock with long-term implications for energy security, supply chain resilience, and international order.

INTRODUCTION

Iran's geopolitical position—anchored by its coastline along the Persian Gulf and its control over the Strait of Hormuz—makes any war involving the country uniquely consequential. Approximately one fifth of global oil and a significant share of global liquefied natural gas (LNG) transit through this chokepoint (U.S. Energy Information Administration [EIA], 2023). These vulnerabilities become more acute in early 2026, when Iran declared the Strait of Hormuz closed following U.S.-Israeli air strikes on February 28, reducing daily ship transits from roughly 130 to as few as six (IMO, 2026). Indeed, as can be seen in Figure 1 below, average monthly ship arrivals at the Strait of Hormuz fell into single digits in the months immediately following the onset of hostilities. This near-shutdown intensified global energy volatility, disrupted maritime trade and forced major powers to reassess their strategic postures. In fact, the military escalation in or around Iran reverberates across global markets, shipping routes, and strategic alliances. This article examines the economic, geostrategic, political and maritime impacts of the war with Iran, arguing that the conflict represents a structural shock to the global system rather than a localized regional crisis.

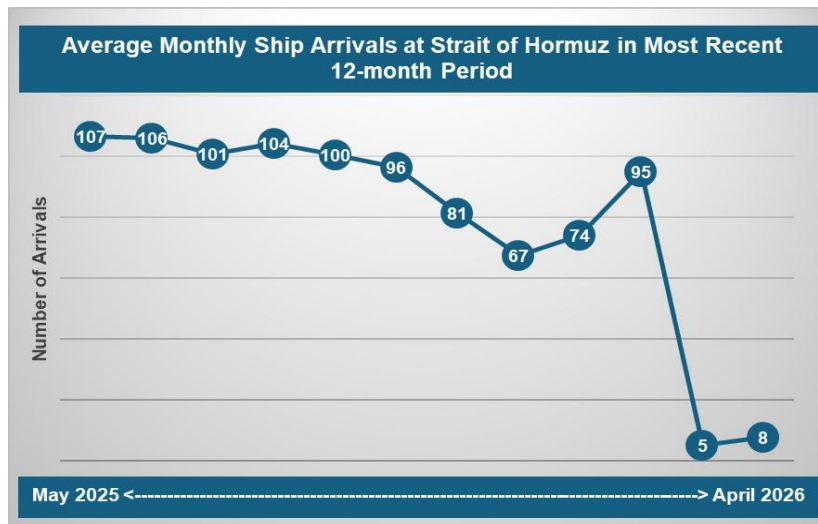


Figure 1: Average Monthly Ship Arrivals at Strait of Hormuz

Source: UN Global Platform; IMF PortWatch

CAUSES OF THE WAR

The war with Iran did not arise from a single precipitating event but rather emerged from the convergence of multiple, mutually reinforcing pressures that accumulated over several decades. These pressures include protracted diplomatic friction over nuclear proliferation, the destabilizing effects of comprehensive economic sanctions, the intensification of regional proxy conflicts, and a series of strategic miscalculations by the principal actors involved. Each of these factors contributed to an escalatory dynamic that progressively narrowed the space for peaceful resolution.

The failure of deterrence became even more evident in 2025-2026. The February 2026 U.S.-Israeli strike that killed Iran's Supreme Leader reflected a profound misreading of Iran's likely response. Iran's subsequent closure of the Strait of Hormuz and coordinated attacks on regional shipping demonstrated its willingness to escalate asymmetrically despite the overwhelming U.S. naval superiority (UNCTAD, 2026). These event underscores how misperception, incomplete information, and compressed decision-making timelines - identified by Jervis (1976) - continue to shape the conflict's trajectory. Understanding the origins of war therefore requires an examination of each contributing cause and the way they interacted to produce conditions conducive to large-scale military conflict.

Strategic Miscalculation and the Failure of Deterrence

Deterrence theory suggests that conflicts arise when one or both parties misjudge the resolve, capabilities, or intentions of their adversaries, leading to risk-taking behavior that exceeds the thresholds for containment (Jervis, 1976). In the case of Iran, multiple signals suggest that both sides engaged in escalatory actions predicated on flawed assumptions about the other's willingness to absorb costs and refrain from further retaliation. Iran's leadership may have overestimated its capacity to absorb military strikes while maintaining domestic political stability and regime cohesion, drawing on a national narrative of resilience forged during the Iran-Iraq War of the 1980s.

Conversely, external actors may have underestimated Iran's willingness to retaliate asymmetrically through proxy forces, maritime disruption, and cyberattacks—capabilities that could impose disproportionate costs without triggering the full weight of conventional military response. The resulting spiral of escalation—characterized by tit-for-tat strikes, retaliatory provocations, and incremental crossings of previously observed red lines—ultimately exceeded the thresholds for containment (Kaplan, 2019). Each side's perception of the other's intentions was shaped by cognitive biases, institutional pressures, and incomplete information, consistent with the dynamics that Jervis (1976) identified as central to the onset of unintended conflicts. The failure of deterrence in this case underscores the inherent fragility of strategic stability in regions characterized by multiple armed actors, overlapping security commitments, and limited channels for direct communication.

Nuclear Proliferation and the Collapse of Diplomacy

Iran's nuclear program has been a central source of international tension since the early 2000s, when revelations about undeclared enrichment facilities prompted sustained scrutiny from the International Atomic Energy Agency and Western governments. The 2015 Joint Comprehensive Plan of Action (JCPOA) represented the most significant multilateral effort to constrain Iran's enrichment activities, imposing strict limits on uranium stockpiles, centrifuge operations, and facility inspections in exchange for phased sanctions relief (Samore, 2015). However, the United States' withdrawal from the agreement in 2018 under the Trump administration removed the primary diplomatic framework for managing nuclear risks, leaving no viable institutional mechanism for monitoring or constraining Iran's nuclear trajectory (Samore, 2015). In the years following the withdrawal, Iran progressively accelerated uranium enrichment beyond JCPOA-mandated limits, expanding its stockpile of enriched material to levels that raised acute proliferation concerns among Western intelligence agencies and regional adversaries alike (Fitzpatrick, 2021). European signatories to the JCPOA attempted to preserve the agreement through alternative economic channels, but these efforts proved insufficient to offset the impact of reimposed U.S. secondary sanctions. The collapse of diplomacy thus narrowed the range of available policy options to a dangerous degree, increasing the likelihood that military confrontation would become the dominant response to nuclear proliferation concerns. By eliminating the most credible diplomatic pathway, the unraveling of the JCPOA set the stage for escalation dynamics that proved exceedingly difficult to reverse.

Sanctions, Economic Pressure, and Escalation

The reimposition of comprehensive U.S. sanctions after 2018 targeted Iran's oil exports, banking sector, and industrial base with unprecedented severity, producing sharp economic contraction and fiscal distress across all sectors of the Iranian economy (Nephew, 2018). Iran's gross domestic product contracted by significant margins in successive years, while inflation surged to levels that eroded the purchasing power of ordinary citizens and deepened public discontent with the governing authorities. The resulting economic hardship created domestic political pressures that favored confrontational foreign policy postures, as hardline factions within the Iranian leadership argued that diplomatic engagement had yielded no tangible benefits and that resistance offered the only viable path forward.

Scholars of economic statecraft have argued that comprehensive sanctions regimes, while intended to coerce behavioral change, can paradoxically incentivize escalation by eliminating the target state's perceived benefits of restraint (Drezner, 2022). When a state faces maximum economic pressure regardless of its conduct, the marginal cost of aggressive action diminishes relative to the marginal cost of compliance. The sanctions thus contributed to a cycle of provocation and retaliation—including attacks on regional oil infrastructure, seizures of commercial shipping, and accelerated nuclear enrichment—that progressively eroded the foundations for diplomatic resolution. In this sense, the sanctions regime, far from preventing conflict, became one of the structural conditions that made conflict more likely (Nephew, 2018; Drezner, 2022).

Regional Proxy Conflicts and Escalation Dynamics

Iran's network of regional allies and proxy forces—including Hezbollah in Lebanon, the Houthis in Yemen, and various militia groups in Iraq and Syria—has long served as a mechanism for projecting influence beyond its borders and deterring adversaries without the costs and risks of direct conventional warfare (Vakil, 2022). These proxy relationships enabled Iran to maintain strategic depth across the region, shaping political outcomes in neighboring states and imposing costs on rivals through asymmetric means. However, the expanding scope and intensity of proxy operations in the years preceding the war increasingly drew Iran into direct confrontation with U.S. and allied forces stationed across the Middle East. Targeted strikes against Iranian-linked militia commanders, retaliatory missile and drone attacks on coalition bases, and escalatory cycles involving maritime provocations in the Persian Gulf blurred the line between proxy engagement and interstate conflict. In Yemen, the Houthi campaign of anti-shipping attacks in the Red Sea and Bab al-Mandab Strait introduced a maritime dimension to the proxy conflict that further complicated international efforts to de-escalate tensions. The cumulative effect of these dynamics was to create a security environment characterized by hair-trigger responses, compressed decision-making timelines, and an ever-present risk that a localized incident could cascade into a broader military confrontation (Cordesman, 2021). The progressive erosion of boundaries between proxy warfare and direct engagement thus constituted a critical pathway toward the outbreak of the war.

ECONOMIC IMPACT

Energy Markets and Global Inflation

The most immediate economic consequence of the war has been the disruption of global energy markets. The International Energy Agency (IEA, 2024) reports that attacks on tankers, missile strikes, and naval blockades have reduced oil flows through the Strait of Hormuz to their lowest levels in decades. Brent crude prices have repeatedly surged above \$100 per barrel, contributing to inflationary pressures in the United States, Europe, and Asia (IEA, 2024).

Because energy is a foundational input for transportation, manufacturing, and agriculture, the shock has triggered secondary effects across global supply chains. LNG disruptions from Qatar—whose exports rely on Hormuz—have tightened gas markets in East

Asia and Europe, raising electricity prices and complicating decarbonization strategies (Henderson & Sharples, 2023).

Supply Chain Vulnerabilities Beyond Oil

The conflict has also disrupted the movement of petrochemicals, fertilizers, and industrial gases such as helium and sulfur, which are essential for semiconductor manufacturing and global food production (World Bank, 2024). These disruptions highlight the fragility of post-globalization supply chains and the degree to which they depend on stable maritime transit through the Gulf.

Regional Economic Instability

Gulf Cooperation Council (GCC) states face acute vulnerabilities. Their economies rely heavily on seaborne energy exports and food imports, both of which are jeopardized by maritime insecurity. Rising insurance premiums, port disruptions, and airspace closures have strained diversification initiatives such as Saudi Arabia's Vision 2030 (Kinnimont, 2020). The war thus threatens to reverse a decade of economic modernization in the Gulf.

Figure 2 and Figure 3 highlight the economic challenges facing Iran during the six-year period preceding the most recent round of military strikes. While GDP plateaued in 2023 before beginning what may prove to be long-term decline, the inflation rate fell in 2023 and 2024 although it remained extremely high. In 2025, inflation returned to a trajectory that may lead Iran to the highest inflation rate in more than a decade. Exacerbating Iran's economic woes further, crude oil production slowed even before outbreak of the current conflict. As shown in Figure 3, the rate of growth in oil production began to stagnate in 2023 when compared to previous years and remained around 3 million barrels per day; about half of that production is exported for foreign consumption.

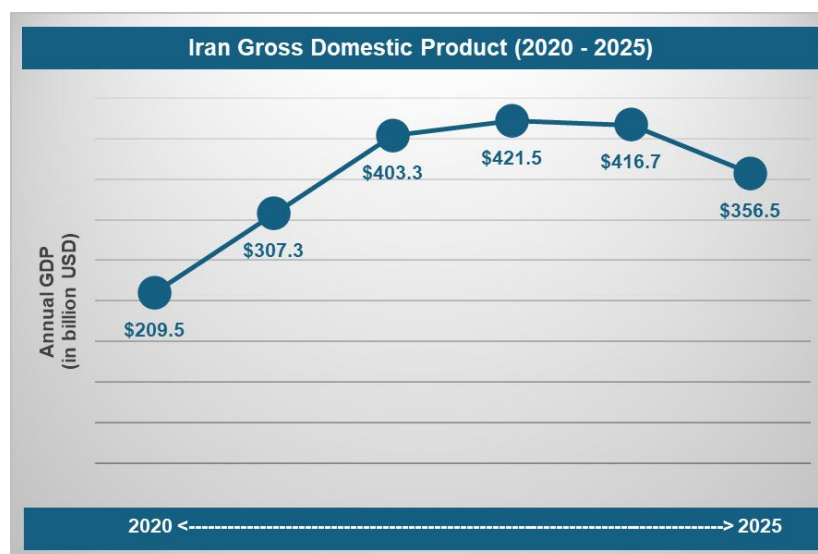


Figure 2: Iran Gross Domestic Product (2020 - 2025)

Source: International Monetary Fund. Middle East and Central Asia Regional Economic Outlook

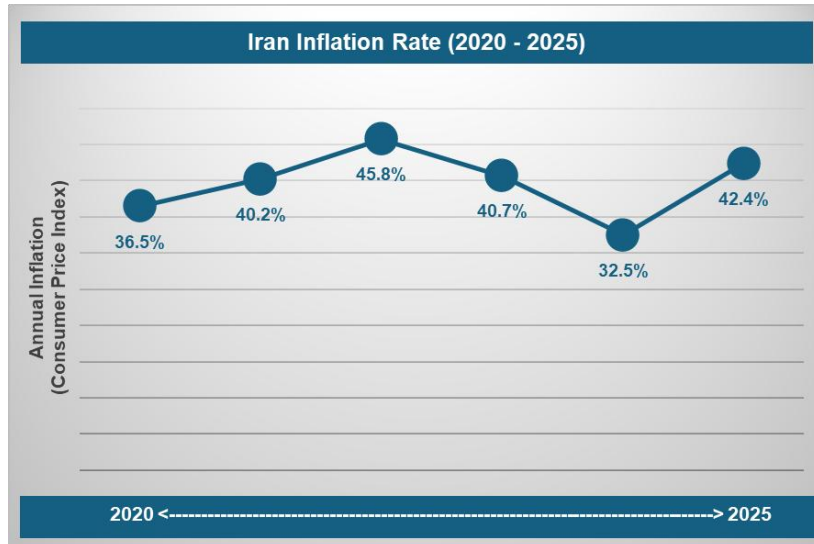


Figure 3: Iran Inflation Rate (2020 - 2025)

Source: International Monetary Fund. Middle East and Central Asia Regional Economic Outlook

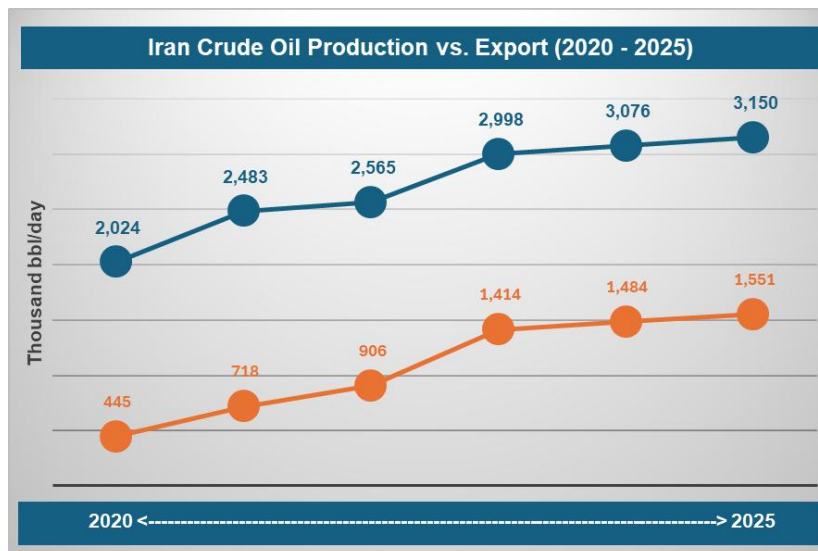


Figure 4: Iran Crude Oil Production vs. Export (2020 - 2025)

Sources: International Monetary Fund, Crude Oil Production for Iran & Crude Oil Exports for Iran

GEOSTRATEGIC IMPACT

Iran as a Chokepoint Power

Iran's ability to threaten or disrupt traffic through the Strait of Hormuz gives it disproportionate strategic leverage relative to its conventional military capabilities. Scholars describe this as "chokepoint power" the capacity of a state to influence global markets through control of narrow maritime corridors (Kaplan, 2019). Iran's use of drones, missiles, and proxy forces amplifies this leverage, allowing it to impose costs on adversaries without engaging in direct conventional warfare.

Great Power Competition and Realignment

The war has intensified great power competition. China and Russia have deepened economic and security ties with Iran, including energy purchases, arms transfers, and intelligence cooperation (Vakil, 2022). Meanwhile, the United States has strengthened security partnerships with Israel, Saudi Arabia, and the United Arab Emirates, deploying additional naval assets to the region. This bifurcation reflects a broader trend toward geoeconomic bloc formation, in which states align based on energy dependencies, sanctions exposure, and technological ecosystems (Farrell & Newman, 2023). The war accelerates this realignment by forcing states to choose between Western sanctions regimes and alternative financial networks centered on China and Russia.

Domestic Political Dynamics

Within Iran, external conflict often consolidates the power of security institutions such as the Islamic Revolutionary Guard Corps (IRGC). Historically, external pressure has strengthened nationalist sentiment and reduced space for political reform (Alfoneh, 2013). The war thus has significant implications for Iran's internal political trajectory.

MARITIME IMPACT

Strait of Hormuz as a Global Chokepoint

The Strait of Hormuz is the world's most strategically significant maritime chokepoint. Prior to the conflict, approximately 20 million barrels per day of oil and petroleum products transited the strait (EIA, 2023). By March 2026, however, the strait was "practically closed" with only four to six vessels per day permitted to pass—those deemed "non-hostile" by Iran (IMO, 2026). Attacks on shipping, mining operations, and drone harassment have sharply reduced these flows, raising insurance premiums to near-prohibitive levels and forcing many carriers to suspend operations. Over 2,000 ships and 20,000 seafarers remain stranded in the Persian Gulf, and more than twenty confirmed attacks on shipping have resulted in multiple fatalities (UNCTAD, 2026).

Rerouting and Extended Transit Times

With Hormuz and the Bab al-Mandab Strait both at risk, shipping companies have rerouted vessels around the Cape of Good Hope. This diversion adds 10-14 days to Asia-Europe transit times and significantly increases freight costs (UN Conference on Trade and Development [UNCTAD], 2024, 2026). The rerouting intensified in 2026 as the U.S., 5th fleet directed dozens of vessels to turn back from the Gulf (IMO, 2026). The result is a tightening of global logistics networks and delays in the delivery of critical goods.

Naval Buildup and Maritime Security

The conflict has prompted a major naval buildup. The United States, United Kingdom, France, and regional partners have deployed additional warships to protect shipping lanes, conduct mine-clearing operations, and deter further attacks. However, Iran's asymmetric

capabilities—particularly low-cost drones and anti-ship missiles—demonstrate the limits of traditional naval power in narrow waterways (Cordesman, 2021). A temporary ceasefire announced on April 8, 2026 raised hopes for reopening the Straits of Hormuz, but no full reopening has occurred (IMO, 2026).

Aviation and Regional Hubs

Airspace closures and strikes on Gulf infrastructure have disrupted major aviation hubs such as Dubai and Doha. These hubs serve as global connectors for both passengers and cargo; their disruption has ripple effects across international travel and supply chains (International Air Transport Association [IATA], 2024). These disruptions intensified in early 2026 as regional airspace became increasingly militarized, affecting global passenger and cargo flows (IATA, 2026).

POLITICAL IMPLICATIONS OF THE WAR

Domestic Political Dynamics in Iran

Analysts note that external conflict often strengthens the authority of Iran's security institutions, particularly the Islamic Revolutionary Guard Corps (IRGC). The 2026 escalation reinforced the IRGC's dominance within Iran's political system. Research suggests that periods of heightened confrontation tend to consolidate elite cohesion, suppress internal dissent, and reduce the political space available to reformist actors (Alfoneh, 2013). Public narratives emphasizing national sovereignty and resistance can also shift domestic political discourse, reinforce hardline positions and limit prospects for diplomatic engagement.

Political Effects in Neighboring States

The war has intensified political polarization across the Middle East. Governments in the Gulf Cooperation Council (GCC) states have increased security coordination with external partners, while also managing domestic pressures related to economic disruptions and public concern over regional instability (Kinninmont, 2020). In Iraq, Lebanon, and Yemen—countries where Iranian-aligned groups hold political influence—the conflict has heightened debates over sovereignty, foreign intervention, and the role of non-state armed actors (Vakil, 2022).

Impact on U.S. and European Policy Debates

The conflict has reshaped policy discussions in the United States and Europe regarding sanctions, military posture, and energy security. U.S. commentators have noted renewed debates over the balance between deterrence and diplomacy, the future of nuclear negotiations, and the strategic costs of dependence on Middle Eastern energy flows (Farrell & Newman, 2023). In Europe, the war has accelerated political conversations about diversification of energy sources, maritime security cooperation, and the resilience of critical supply chains (IEA, 2026). U.S.

Shifts in Global Governance and Multilateral Institutions

The war strained and affected the functioning of international institutions. At the United Nations, Security Council deliberations have reflected broader geopolitical divisions, with member states differing sharply on sanctions, ceasefire proposals, and maritime security mandates (UNCTAD, 2026). These divisions illustrate how regional conflicts can amplify existing tensions in global governance structures, complicating collective responses to security and humanitarian crises.

CONCLUSION

The war with Iran represents a multidimensional global shock. Economically, it has triggered an energy-driven inflationary cycle and exposed vulnerabilities in global supply chains. Geostrategically, it has accelerated great power competition and reinforced the importance of chokepoint control in international politics. Maritime disruptions have reshaped global shipping routes and highlighted the fragility of critical sea lanes.

Understanding these dynamics is essential for policymakers seeking to mitigate the conflict's long-term consequences. As the war continues, its effects will likely deepen, reshaping global markets, alliances, and maritime security architectures for years to come.

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