HORMUZ AND THE INVISIBLE FRACTURES: THE PRICE OF A DISTANT WAR

VIEWS FROM THE NEW SOUTH

POLICY CENTER FOR THE NEW SOUTH

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ABOUT THE POLICY CENTER FOR THE NEW SOUTH

The Policy Center for the New South (PCNS) is a Moroccan think tank aiming to contribute to the improvement of economic and social public policies that challenge Morocco and the rest of Africa as integral parts of the global South.

The PCNS pleads for an open, accountable and enterprising "new South" that defines its own narratives and mental maps around the Mediterranean and South Atlantic basins, as part of a forward-looking relationship with the rest of the world. Through its analytical endeavours, the think tank aims to support the development of public policies in Africa and to give the floor to experts from the South. This stance is focused on dialogue and partnership, and aims to cultivate African expertise and excellence needed for the accurate analysis of African and global challenges and the suggestion of appropriate solutions.

As such, the PCNS brings together researchers, publishes their work and capitalizes on a network of renowned partners, representative of different regions of the world. The PCNS hosts a series of gatherings of different formats and scales throughout the year, the most important being the annual international conferences "The Atlantic Dialogues" and "African Peace and Security Annual Conference" (APSACO).

Finally, the think tank is developing a community of young leaders through the Atlantic Dialogues Emerging Leaders program (ADEL) a space for cooperation and networking between a new generation of decision-makers from the government, business and civil society sectors. Through this initiative, which already counts more than 300 members, the Policy Center for the New South contributes to intergenerational dialogue and the emergence of tomorrow's leaders.

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TABLE OF CONTENTS

INTRODUCTION

Driven by its mission to reflect on and analyze the major geopolitical, economic, and societal transformations shaping the contemporary world, and with a view to contributing to knowledge-sharing and disseminating the main outcomes of its research program, the Policy Center for the New South regularly publishes collective volumes addressing issues of particular importance to Morocco, Africa, and the broader Global/New South. In this spirit, the Center has recently released two volumes entitled "The 2022 EU–AU Summit: Towards a Renewed Partnership" and "The State Through the Lens of COVID-19". Today, the Center presents a new contribution examining the impact of the conflict between the United States, Iran and Israel on different regions of the world, with a particular focus on Morocco and Africa.

This conflict, together with the tensions surrounding the Strait of Hormuz, represents far more than a regional crisis: it reveals a profound transformation of the international order, energy security, and global economic interdependence. The contributions gathered in this volume seek to apprehend the consequences of these overlapping conflicts from different angles, geographical perspectives, and intellectual sensibilities. They collectively demonstrate that the Strait of Hormuz—through which a vital share of the world's oil, gas, fertilizers, maritime trade, and strategic infrastructure flows—has become a symbol of a vulnerable globalization in which the capacity to disrupt global flows now matters as much as conventional military power.

At the global level, several contributions underline the systemic nature of the crisis and its implications for the evolving international order. in "Dire Strait of Hormuz: A Chokepoint for Global Food and Energy," Otaviano Canuto argues that the Middle East conflict and disruptions in the Strait of Hormuz have produced a major global economic shock extending far beyond oil markets. The crisis affects food supplies, industrial inputs, and global supply chains, while intensifying inflationary pressures and financial volatility, especially in developing and energy-importing countries. According to the author, a prolonged disruption could lead to stagflation, slower global growth, and major shifts in trade patterns, while also accelerating long-term transformations in energy diversification, trade routes, and geopolitical competition.

Ferid Belhaj, in "The Hormuz Test: Power, Law and the Fragmentation of Trade and Connectivity: A Triple Fracture", also interprets the 2026 Iran–U.S.–Israel war as a systemic turning point rather than a purely regional conflict. Centered on the militarization of the Strait of Hormuz, the essay highlights the weakening

of globalization, alliance solidarity, international law, and traditional deterrence mechanisms. The author argues that the international system is evolving toward fragmented and transactional alliances, where power is increasingly measured not by territorial domination but by the capacity to disrupt strategic networks related to energy, trade, finance, and digital infrastructure.

This transformation of the global order is further explored in Marcus Vinicius De Freitas's "The US–Israel War Against Iran: China's Strategic Calculus and Diplomatic Imperatives". The author contends that the conflict signals the decline of the rules-based international order and the emergence of a fragmented system in which conflicts are managed rather than resolved. China's response is presented as central to this transition: Beijing adopts a position of "qualified neutrality", condemning the strikes while maintaining pragmatic relations with all regional actors and avoiding direct military alignment. The study concludes that the global system is increasingly multipolar, fragmented, and governed by flexible coexistence rather than stable rules.

Beyond the global order, the conflict has also deeply affected major geopolitical alliances and strategic balances, particularly within the transatlantic relationship. Addressing "the impact of the war on transatlantic relations", Ian Lesser argues that the Iran war has significantly strained relations between the United States and Europe by exposing profound disagreements over the use of force, strategic priorities, and global leadership. While both sides recognize the threat posed by Iran, they diverge sharply on the appropriate response: the United States favors military escalation, whereas most European states view such actions as legally questionable and strategically risky. According to the author, the conflict has heightened Europe's exposure to security and economic vulnerabilities, intensified tensions within NATO, weakened transatlantic trust, and reinforced European doubts regarding U.S. reliability and alliance cohesion.

At the strategic and military level, Abdelhak Bassou's "Chess vs. Poker: Military and Strategic Lessons from the U.S.–Iran War (February–April 2026)" examines the conflict through the lens of military doctrine and strategic culture. The study highlights the growing gap between tactical military superiority and strategic victory. Despite overwhelming technological and military advantages, the United States failed to secure a decisive political outcome against a weakened but resilient Iran. Tehran's endurance relied on a "mosaic defense" doctrine, asymmetric cost strategies, decentralized security structures, and ideological resilience. Bassou contrasts Iran's "chess-like" strategy—based on patience, planning, and strategic depth—with the United States' "poker-like" approach characterized by uncertainty, bluff, and shifting objectives. The article ultimately demonstrates that in the 21st century, battlefield dominance alone

no longer guarantees lasting political or strategic success.

As to the impact of this conflict on Africa, Hafez Ghanem presents a policy discussion on how the Iran conflict may affect Africa's energy security, emphasizing the central challenge of expanding reliable energy access while strengthening resilience to external shocks such as global supply disruptions and price volatility. He suggests key policy directions likely focused on diversifying energy sources, improving infrastructure and investment capacity, and reinforcing institutional frameworks to manage uncertainty.

According to Hinh T. Dinh, the regional economic repercussions of the crisis are particularly visible in North Africa. In "Oil Shocks and Structural Resilience in North Africa", the author analyzes the impact of the 2026 oil shock on Morocco, Tunisia, and Egypt using an input-output model. The study shows how a 20% increase in oil prices affects value added and employment across interconnected sectors, revealing hidden vulnerabilities in agriculture, construction, transport, and other downstream industries. The effects vary significantly across countries: Morocco emerges as the most vulnerable economy, Tunisia experiences a near balance between gains and losses despite important internal disparities, while Egypt records net national gains due to state oil revenues, even though the private sector remains under pressure. Overall, the article highlights important structural differences in economic resilience across North African economies.

Further South, in the Sahel region, Rida Lyammouri considers that, despite the geographical distance, the crisis risks further isolating Sahelian states as Western powers redirect their strategic attention toward the Middle East and NATO priorities. This evolving context may compel Sahel countries to diversify their partnerships beyond traditional Western allies in order to address persistent security threats and maintain regional stability.

Finally, the repercussions of the Hormuz crisis extend beyond the Middle East and North Africa to other regions integrated into global commodity and energy networks. In "The Hormuz Shock and South America's Mineral Reckoning", Otaviano Canuto and Hugo A. Mansilla explain that the 2026 Strait of Hormuz crisis generated a global energy shock with mixed consequences for South American economies. Higher commodity prices benefited exporters such as Brazil, Chile, Peru, Colombia, and Guyana, but rising costs for imported energy, fertilizers, and industrial inputs also created major economic pressures. The article highlights uneven national vulnerabilities, particularly Brazil's dependence on imported fertilizers, and warns that temporary export gains may ultimately be offset by stagflation, weaker global demand, and supply-chain disruptions.

More broadly, the study underscores South America's strategic role in supplying critical minerals necessary for the global energy transition, while emphasizing the need for long-term structural policies capable of transforming short-term commodity booms into sustainable development.

This collective endeavour should be understood as a provisional and immediate intellectual snapshot of an evolving geopolitical moment. Far from constituting a definitive assessment, it reflects an ongoing historical process whose strategic, political, economic, and security implications are likely to unfold over an extended period of time. The dynamics generated by this confrontation are expected to leave enduring marks on the international order, reshaping regional balances of power, altering patterns of alliance formation, and intensifying debates surrounding sovereignty, deterrence, and the legitimacy of military intervention. Beyond the immediate theater of conflict, the consequences are likely to provoke profound transformations in both the domestic and foreign policies of states, compelling governments from the Global north to the Global South to reassess security doctrines, energy strategies, economic dependencies, and diplomatic alignments.

While this volume does not claim to exhaust the key dimensions and implications of the issues addressed, it seeks above all to stimulate reflection and foster informed debate on the policies and strategies required to manage and respond effectively to similar crises in the future.

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01

CHESS VERSUS POKER : MILITARY AND STRATEGIC LESSONS OF THE USA-IRAN WAR (February-April 2026)

Abdelhak Bassou

The lessons of the 40-day war between the United States and Iran are already redefining modern strategy, revealing a total decoupling between tactical superiority and political victory. The most salient effect is of a cognitive nature, opposing Iran's planning (chess player) to American unpredictability (poker player). By relying on a decentralized mosaic defense and on cost asymmetry, the Iranian regime survived the death of its Supreme.

Leader and the destruction of its conventional capabilities. Simultaneously, the conflict highlights the paradox of existential risk: Iran's ideological resilience allows it to negotiate on equal terms with the world's leading power, eroding the credibility of Western deterrence. Finally, as the situation leads to a hurting stalemate in Islamabad, this war demonstrates the impotence of pure military force to impose a political will, thus opening an unprecedented strategic game.

INTRODUCTION

The armed conflict that opposed the United States and Israel to Iran between February 28 and April 8, 2026, leaves us with a series of military and strategic observations whose implications extend far beyond the regional theater. These findings have prompted strategists and experts to reflect, analyze and, above all, draw conclusions.

Among these observations is the one considered to be central to the landscape of the theater of operations after 40 days of war: the overwhelming tactical and technological superiority of a belligerent does not seem to automatically imply a strategic victory, especially when the adversary plays on duration, decentralization, asymmetry of costs and ideological will, in the face of a risk he considers existential.

To give an illustrative image to the reflection, it will be articulated around an analytical metaphor that opposes the Iranian (chess player) to the American (poker player):

- the first plans, organizes and thinks several moves ahead and ;
- the second bluffs, creates uncertainty and can redefine the rules of the game afterwards.

Far from being purely rhetorical, this opposition structures a fundamental cognitive asymmetry with profound strategic consequences.

In the same vein, there is the problem of explaining the paradox that emerged at the end of forty days of war, a paradox that classical strategists are struggling to formalize: how can a state survive the death of its supreme leader, the destruction of its navy, the degradation of its nuclear program and the decapitation of its security apparatus, and yet find itself in a position to negotiate on an equal footing with the world's leading military power?

This problematic is extended by a rhetorical question: has the war been tactically lost by Iran? But not strategically resolved by the United States? Does this dissociation between military victory and political victory constitute the guideline for a reliable answer?

The subject will be approached here as an attempt to answer three questions:

- What lessons can be drawn from the 40-day war, and to what classical principles of strategy does it refer?

- Who bears the heaviest strategic pressure, Iran or the United States, and why is the asymmetry of existential risk the determining factor?
- Does the survival of the Iranian regime following the death of its Supreme Leader mark the end of a game, or the opening of a fundamentally new strategic game?

I. THE MILITARY LESSONS OF THE 40 DAYS: A READING GRID

1. At the strategic level: coercion based exclusively on military means

The first lesson is that coercion can serve as a substitute for occupation. Operations *Epic Fury* and *Roaring* Lion were not, as many media outlets and analysts argue, designed to bring about the immediate collapse of the Iranian regime, but to create lasting leverage by destroying Iran's force projection capabilities, and by strikes against its key economic targets. This approach is reminiscent of the post-1991 Iraq containment model (after the first Gulf War): military pressure combined with economic pressure, without immediate regime change.

However, this strategy seems to come up against a structural limit that successive operations in Iraq and Afghanistan had already revealed: the destruction of opposing military capabilities is not enough to impose political will. While Clausewitz asserted that war is the continuation of politics by other means, and that the latter remains present even during combat, the Americans seemed for 40 days to be waging war as if it were an emanation of itself, and as if the USA had only one instrument of national power: military force. Iran, on the other hand, was fighting on several fronts and with multiple and diverse means: the diplomatic aspect met the informational one (propaganda), and the economic aspect was combined with the legal one.

American military success runs the risk of being transformed (in the long term) into strategic failure, in the face of Iran's hybrid and asymmetric methods.

2. The drift in objectives: the original sin of the American campaign

American strategic communication was a structural weakness. The US Administration had claimed that the war would be over in two or three days, before asking the Pentagon for an additional $200 billion.

The declared objectives evolved continuously: nuclear disarmament, missile degradation, regime change, unconditional surrender, then the opening of the Strait of Hormuz.

The Allies reported having no idea what the Administration ultimately intended to accomplish. When Special Envoy Witkof was asked about his vision for the end of the war, he replied, "I don't know."

This drift in objectives[1], referred to in American strategic doctrine as "*mission creep*," is not simply a communication error. It reveals the absence of a coherent conception of victory, which is an indispensable prerequisite for any serious military campaign. While the objectives of a coercive war may remain flexible depending on tactical outcomes, timing, and the adversary's behavior, they cannot continuously shift and evolve at every stage of the campaign.

3. Iran's mosaic defense: twenty years in the making

The most significant tactical lesson, on the Iranian side, is the operational validation of the Mosaic Defense doctrine, formulated in 2005 under General Jafari[2]. By restructuring the Islamic Revolutionary Guard Corps (IRGC) into 31 separate commands capable of acting independently, Iran has rendered any attempt at decapitation structurally insufficient. Foreign Minister Araghchi summed it up with striking clarity: "*We've had two decades to study defeats of the U.S. military to our immediate east and west. Decentralized Mosaic Defense enables us to decide when—and how—war will end*." In this sense, strikes concentrated on Teheran had no effect on resistance capabilities in other regions and provinces. Victory then requires wiping out the units of all 31 commands.

Added to this doctrine is the war of asymmetric costs: cheap Iranian drones exhaust extremely expensive THAAD and Patriot missile batteries. In this respect, the Iran war recalls the Ukrainian conflict: the asymmetric cost of defense against saturation attacks constitutes a structural advantage for the weaker attacker facing a technologically advanced defender.

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1. In American strategy, "mission creep" is a double-edged sword: it allows theoretical objectives to be adjusted along the way to the realities on the ground and enables the adversary to be immersed in the fog of war; however, it also disrupts military planning in the execution of tactical tasks.

2. General Mohammad Ali Jafari, former commander of the Iranian Revolutionary Guards (2007–2019), is the architect of the "Mosaic Defense" doctrine.

4. Clausewitzian resistance between means and will

Resistance is the product of Means (M) and Will (R = M × W). Faced with an existential threat, Iran displays a tenacious will. The Guardians of the Revolution firmly believe that as long as the cohesion of the regime holds and the IRGC controls the population, their capacity for resistance remains intact. Faced with this solidity, the United States and Israel find themselves faced with the need to escalate to the point of imagining the deployment of ground forces, an option that is almost politically impossible, if not extremely complicated. This is the tactical genius of a strategy of attrition: forcing the adversary to choose between unacceptable escalation and negotiation with a tactically defeated state.

It must therefore be acknowledged that ideological asymmetry remains the most underestimated factor in this conflict. Iran's ability to subordinate its population, economy and military losses to its revolutionary mission constitutes an advantage that a military system based on simple superiority in weaponry was unable to neutralize.

II. CHESS VERSUS POKER: A WAR OF THOUGHT SYSTEMS

1. A founding metaphor

The USA-Iran 2026 conflict can be read as the opposition of two radically different systems of strategic thought:

- **Iran is compelled to play chess: it plans, anticipates, builds multi-layered decision trees, and operates within a stable set of rules in order to compensate for its weaker position within the strategic equation ;**
- **The United States, by contrast, appears to play poker: it creates uncertainty, bluffs, uses incomplete information as a weapon, and can redefine the rules of the game after the fact.**

Far from being purely rhetorical, this opposition structures a cognitive asymmetry with far-reaching consequences. Classical international relations theory is based on a fundamental premise: actors are rational and coherent. Their threats are credible because they are predictable. This is the basis on which the deterrent mechanism operates.

American President D. Trump is shattering this certainty. This is neither a strength nor a weakness, but simply a kind of strategy that Americans refer to as the "*Madman Theory*". A theory developed by Nixon and Kissinger, it consisted in leading the adversary to believe that the American president was, on the one hand, capable of irrational behavior and, on the other, unconstrained by any predictable logic. Nixon employed it in a highly calculated manner against the USSR; the current president practices it more naturally and almost spontaneously, which makes it even more destabilizing for his adversaries.

2. Poker players don't need good cards to win

The decisive asymmetry between the two players lies in the nature of what each is willing to risk. The poker player (the USA) only needs a narrative of victory, not an actual victory. All he needs to do is get his opponent to firmly believe that he has the right combination of cards. Politically, he can sell any deal to his electorate as a success, regardless of the actual concessions made. He can even "draw the gun" on failure and accuse his opponent of cheating, thereby nullifying the value of any defeat.

In the diplomatic practice of this conflict, this translated into the ability to threaten the adversary with annihilation a few hours before announcing a ceasefire presented as a victory, while at the same time engaging in negotiations on the basis of the Iranian ten-point plan. Contradiction is not a mistake. It's poker. By agreeing to negotiate on the basis of Iran's 10-point plan, the Americans are suggesting that they hold stronger cards for ultimate victory, even if Iran believes it is winning by imposing its point of view on the talks.

3. The Chess Player Confronting an Opponent Who Ignores the Rules

The Iranians have spent twenty years studying and modeling a rational, coherent adversary: institutional America, that of the NSC, the Pentagon, the State Department. An adversary who plays chess with them, on the same chessboard, with the same rules. But what they have in front of them today is someone who :

- deliberately dismantles its own strategic planning apparatus (through cuts to the State Department and the merger of the Iran and Iraq offices);
- uses social medias as instruments of negotiating pressure in real time, without institutional filters or consistency with official positions;
- can redefine the outcome after the fact, presenting any outcome to its electorate as a victory.

Faced with this, the chess player is in a nightmarish situation: how to plan a defense when the opponent doesn't know what he wants and is able to appropriate what happens as his own success. Iran can never say that the USA has not achieved its goals, because these are never defined in a fixed and rigid way, and all final outcomes can ultimately be interpreted and presented as victories.

The chess player's only chance lies in the moment when the poker player eventually runs out of chips – after bluffing too often and losing. Indeed, if the United States claims to be confronting an existential threat without following through to the end, or settles for an agreement falling short of its real or declared objectives, the cost of issuing the next threat inevitably increases. The credibility of American deterrence is eroded, and this capital is difficult to rebuild once it has been dissipated.

III. WHO RISKS THE MOST? THE ASYMMETRY OF EXISTENTIAL STAKES

1. The Shah "Mate", but the game goes on

In classical chess, the death of the King ends the game. What this conflict has demonstrated, however, is that a regime can survive the death of its supreme leader, regardless of the degree of sacrality attached to that figure. This survival becomes the opening move of a new game. In strategic terms, the logic of chess translates into a game that renews itself indefinitely, so long as the king who has been killed or placed in check is able to prepare for what comes "after him".

Survival in reality is never guaranteed; it is the product of methodical institutional preparation. Ali Khamenei had transformed the Office of the Supreme Leader into an institution not dependent on a single individual. The death of the king, therefore, did not amount to checkmate. Rather, it constituted a test of institutional resilience – one that the regime managed to withstand, albeit at the cost of significant concessions, while maintaining political continuity.

2. Risk hierarchy (Matrix)

Risk dimension	Iran	United States
Regime survival	**Existential:** defeat = possible end of the Islamic Republic	**Null:** Vietnam, Iraq, Afghanistan did not undermine American power
Domestic pressure	**Triple convergence:** military + economic + social protest (31 provinces)	**Simple:** unfavorable public opinion (27%), pressure of midterms 2026
War on national territory	**Total:** strikes on Tehran, Isfahan, infrastructure and leadership	**Null:** the U.S. homeland remains beyond Iran's reach
Cohesion of the security apparatus	**Under strain:** IRGC vs. civilian government, with a new Supreme Leader whose legitimacy remains fragile	**Solid:** professional military and intact chain of command
Exit options	**Limited:** an agreement perceived as a capitulation weakens the regime internally	**Wide:** Trump can present virtually any agreement as a victory to his electorate
Long-term credibility	**Paradoxically strengthened:** its survival beyond decapitation has been proven	**Eroded:** each threat not followed through reduces deterrence credibility

3. Differential pressure and the "pain impasse" concept

The situation at the first talks in Islamabad (the venue for potential negotiations) presented a structure that negotiation theorists call a "*hurting stalemate*": both parties were suffering enough to seek an exit from the conflict, yet not enough to make concessions on their vital interests. The prospect of convergence toward a minimal agreement was real, but the Israeli variable in Lebanon remained the most immediate powder keg, while the disagreement over the nuclear issue continued to constitute the underlying fault line.

The Americans believed they needed to exit the war without exposing Israel to the danger of a still-powerful Iran; Iran, for its part, could make concessions to the United States, but would never accept a situation in which Israel emerged as the ultimate beneficiary.

Moreover, although Iran bears the heaviest pressure across every material dimension, territory, economy, and the physical security of the regime, it retains a decisive intangible

advantage: ideological will and the conviction that its mere survival constitutes a political victory. While the realities of war and material losses may push it toward compromise, its ideological resilience encourages it to entrench itself in rigid positions.

CONCLUSION: THE IMPOSSIBLE VICTORY AND ITS LESSONS

This war has confirmed a truth that history has been accumulating for over a century:

In the 21st century, even the most powerful nations find it first difficult, and eventually impossible, to overthrow their enemies through military force alone. Russia in Ukraine and America in Iran both provide contemporary illustrations of this reality. Yet the conflict has also revealed something more subtle: overwhelming tactical and technological superiority can coexist with a structural strategic inability to translate that superiority into political outcomes.

The United States has demonstrated unquestionable tactical mastery: decapitation strike, tactical surprise, cyberwarfare, air dominance. Iran, meanwhile, demonstrated remarkable strategic resilience: mosaic defense, cost asymmetry, economic attrition warfare, and institutional survival beyond decapitation. These two realities do not contradict one another; they coexist within a conflict in which neither protagonist possesses the means to impose a final decision.

In Islamabad, on Saturday April 11, 2026, the two delegations therefore found themselves in a situation that classical theorists would struggle to define through their conventional categories. It was neither a capitulation nor a victory. It was the opening of a new phase of confrontation.

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02

THE HORMUZ TEST: POWER, LAW AND THE FRAGMENTATION OF TRADE AND CONNECTIVITY
A Triple Fracture

Ferid Belhaj

The Iran–U.S.–Israel war of 2026 exposes a fundamental shift in the global order. Rather than signaling systemic collapse, the crisis reveals a transition toward a more fragmented and explicitly realist international system. This essay identifies four interconnected fractures shaping this transformation: (1) alliances that persist but no longer align; (2) legal frameworks that endure but divide; (3) deterrence models that shift from dominance to disruption; and (4) a global political economy increasingly defined by fragility rather than resilience. At the core of this transformation is a change in how power is exercised. Control over flows—such as energy, trade, finance, and data—has become more consequential than control over territory alone. The disruption of the Strait of Hormuz highlights the vulnerability of global energy markets, while the concentration of digital infrastructure around Bab el-Mandeb underscores the risks to global connectivity. The essay concludes that globalization is not reversing, but fragmenting. In this emerging order, resilience, diversification, and the management of vulnerability will define effective statecraft, as interdependence itself becomes a primary source of strategic competition.

INTRODUCTION: FROM SYSTEM STRESS TO SYSTEM RUPTURE

The Iran–U.S.–Israel war of 2026 is not simply another episode in the long cycle of Middle Eastern conflicts. It marks a turning point in the structure of the international system itself. What began along familiar lines—retaliatory strikes, proxy engagements, calibrated deterrence—has evolved into something qualitatively different: a rupture extending beyond the region into the foundations of global order.

At the core of this shift lies a reconfiguration of strategic space. The United States' naval blockade of Iranian ports, coupled with constraints on navigation through the Strait of Hormuz, signals more than escalation—it reflects a structural transformation.

For decades, Hormuz embodied a central paradox of globalization: a narrow and exposed passage carrying a large share of global energy flows, yet one that remained largely insulated from sustained disruption. In 2026, that paradox collapsed. Exposure became leverage.

This moment exposes the erosion of long-standing, largely implicit assumptions that have shaped international behavior since the late 20th century—assumptions never codified in a single framework, but embedded in practice and reinforced through repetition.

The first concerned the functional openness of global arteries. Maritime chokepoints, energy corridors, and trade routes were expected to remain operational even during crises—not by legal guarantee, but through a shared understanding that systemic disruption would impose prohibitive costs on all parties. The partial closure and militarization of Hormuz shows that this equilibrium no longer holds.

The second assumption concerned alliance cohesion. Differences within Western and partner alliances were historically contained within a broader framework of strategic alignment under U.S. leadership. The responses to the 2026 war instead point to fragmentation: European caution, calibrated Gulf positioning, varied risk calculations across Asian importers. Alignment has become situational.

A third assumption rested on the restraining function of international law. Even when breached, legal norms governing force, navigation, and proportionality provided a common vocabulary influencing legitimacy and behavior. Today, competing legal

narratives around the blockade—framed variously as self-defense, countermeasures, or coercion—illustrate a different reality: law no longer anchors consensus; it is increasingly mobilized as an instrument within strategic competition.

The disruption of Hormuz—through which roughly one-fifth of globally traded oil passes—thus points to a deeper transformation.

The infrastructure of globalization is no longer shielded from coercion; it is becoming a central tool of it. Energy flows, shipping lanes, financial systems, and digital networks are progressively integrated into strategies of pressure and control.

Four fractures structure the analysis that follows:

1. Alliances are fragmenting, as national calculations of risk reassert themselves over collective discipline.
2. The rule of law is fragmenting, as foundational norms governing force and maritime space are reinterpreted and selectively applied.
3. The global political economy is fragmenting, with energy markets, trade routes, and financial systems adjusting through volatility, rerouting, and segmentation.
4. Beneath this third fracture lies a fourth, less visible but no less consequential: the exposure of digital infrastructure, concentrated most critically around the Bab el-Mandeb corridor.

These fractures interact and reinforce one another. Fragmented alliances weaken the capacity to uphold norms. The erosion of legal consensus reduces the costs of coercion. Economic systems, once stabilizing, become instruments of leverage. Economic disruption, in turn, reshapes alignments as states recalibrate dependencies. What emerges is not disorder in the conventional sense, but a reconstituted form of order—grounded in realist logic, organized not around shared rules but around the capacity to control flows: of energy, goods, capital, and information.

I. ALLIANCES WITHOUT ALIGNMENT

The first and most visible fracture is in the domain of alliances. The 2026 crisis does not announce the collapse of alliance systems so much as their transformation. Alliances persist, but they no longer function as cohesive blocs governed by shared doctrine or automatic solidarity. They operate instead as flexible, interest-driven arrangements—what might be termed alliances without alignment.

1. The Transatlantic Fault Line

The Western alliance system, long portrayed as a unified geopolitical actor anchored in shared values and institutional density, reveals in 2026 a more conditional reality. The response to the U.S. naval blockade illustrates a divergence structured along three axes.

1. **The first is material.** As a global naval hegemon with unmatched expeditionary capabilities, the United States can instrumentalize coercion at a distance while remaining relatively insulated from the immediate economic consequences of disruption in Hormuz. Europe, by contrast, remains structurally dependent on external energy flows. For European economies, the disruption of the strait is not a strategic abstraction—it translates into inflation, industrial slowdown, and political instability.
2. **The second axis is temporal.** Washington operates within a framework of strategic signaling and long-term deterrence; European actors are driven by short- to medium-term economic stabilization and domestic political constraints.
3. **The third is legal-strategic.** The United States invokes the United Nation's Convention on the Law of the Sea (UNCLOS) provisions on transit passage as a basis for enforcement. European states, drawing on the same framework, arrive at different conclusions—seeing in this crisis not legitimacy for action, but evidence of the fragility of the legal order itself.

The transatlantic alliance thus remains, but its cohesion is increasingly procedural rather than substantive—sustained through consultation mechanisms, but lacking a unified operational logic.

2. The Gulf Reconfiguration

A similar but more fluid transformation is unfolding across the Gulf. Historically, Gulf alignments were read through binary lenses—pro- or anti-Iran, aligned or not with the United States. The 2026 crisis renders this simplification obsolete.

What emerges is a landscape of strategic pluralism.

Saudi Arabia now operates within an even more explicit dual logic. It remains structurally anchored to U.S. security guarantees—especially in air and missile defense, intelligence, and maritime protection—yet it has doubled down on calibrated de-escalation with Iran, even as the current crisis strains the 2023 Chinese-brokered rapprochement. Rather than abandoning that channel, Riyadh

is using it as a pressure valve, seeking to contain spillovers—particularly around energy infrastructure and Red Sea routes—while quietly reinforcing its deterrence posture. This is no longer simple hedging; it is layered risk management in a system where security assurances are less absolute, and escalation costs are higher.

The United Arab Emirates (UAE) has moved a step further, and more decisively, with its announced exit from Organization of the Petroleum Exporting Countries (OPEC), effective May 1. This is not a technical adjustment—it is a structural signal. By stepping outside the cartel framework, Abu Dhabi is reclaiming full sovereignty over its production strategy at a moment of acute market volatility. The move weakens the cohesion of coordinated supply management precisely when markets are already destabilized by conflict-related disruptions, and it introduces a new source of uncertainty into global pricing dynamics. It also carries a geopolitical message: the UAE is no longer willing to subordinate its economic optimization to collective discipline shaped largely by Saudi leadership. Combined with its continued security ties to Washington and its alignment with Israel, this decision underscores a broader shift toward strategic autonomy—where energy policy becomes an instrument of statecraft rather than a component of bloc coordination.

Qatar, for its part, has consolidated its role as a diplomatic intermediary. Leveraging its channels with Iran, the United States, and non-state actors, it positions itself as an indispensable broker in crisis management—whether in hostage negotiations, ceasefire facilitation, or backchannel communication. Its strategic value lies less in military weight than in its ability to remain connected to all sides in a fragmented environment.

What emerges is not merely a less cohesive Gulf, but a qualitatively different strategic landscape. The UAE's departure from OPEC crystallizes a broader transformation: the erosion of collective economic governance in favor of national optimization strategies. The Gulf is no longer a bloc capable of synchronizing policy across security and energy domains. It has become an arena of parallel strategies—where deterrence, de-escalation, and diversification coexist without alignment, and where even the management of oil markets, once the region's most coordinated lever of power, is now subject to fragmentation.

3. The Saudi–Iranian Rapprochement and Its Limits

The normalization between Mohammed bin Salman's Saudi Arabia and the Iran of the late Ali Khamenei—facilitated by Xi Jinping—was less a strategic realignment than a

calibrated de-escalation. It must be read in the context of Riyadh's growing unease during the Joe Biden years, when tensions over oil policy, security commitments, and political pressures exposed the limits of reliance on Washington. The opening to China was not a pivot away from the United States, but a hedge against uncertainty.

The agreement itself was narrow by design: restore diplomatic ties, reduce immediate risks, and buy strategic space. It deliberately avoided core issues—proxies, missiles, and regional influence—leaving the underlying rivalry intact. What emerged was coexistence without trust.

The events of February 28, 2026 revealed these limits. At the first major test, the framework did not hold as a mechanism of restraint. Channels remained open, but escalation dynamics—driven by hard security interests—overran diplomatic understandings. The rapprochement did not collapse formally; it became irrelevant in crisis.

China's role helps explain why. Beijing acted as a convening power, not a guarantor—seeking stability for energy flows and trade, not enforcement of security commitments. The result was a decoupled system: U.S.-anchored security, China-facilitated diplomacy, and globally integrated economic ties.

Trust, in this configuration, was never restored—it was managed. The rapprochement created a buffer, not a bridge, and under the pressure of war, that buffer proved too thin.

4. From Alliance Systems to Alignment Markets

Beyond these specific arenas, the crisis accelerates the emergence of what might be called **multiplex diplomacy**—a system in which multiple actors operate simultaneously as partners, competitors, and intermediaries. China, India, Turkey, and a range of smaller states position themselves opportunistically in this fragmented landscape, shifting roles across issues and timeframes.

The cumulative effect is a redefinition of alliances themselves. They no longer operate as stable structures anchored in shared identity or doctrine. They resemble instead what might be called alignment markets—arenas in which states continuously recalibrate their positions based on shifting assessments of risk, opportunity, and dependency. In realist terms, this is not the failure of alliances. It is their normalization—stripped of normative overlay, alliances reveal their underlying logic: instruments of statecraft,

contingent in application, reversible in form. Nowhere is this more obvious than when it comes to the rule of law.

II. THE FRACTURE OF LAW: THE RISE OF CONTESTED PRACTICE

If alliances no longer align as they once did, law no longer binds in the same way. What the events of 2026 reveal is not the collapse of international law, but something more consequential: the erosion of a shared understanding of what the law means in practice.

For decades, international law operated as a kind of common grammar. States disagreed, stretched interpretations, and at times openly violated rules—but they did so within a broadly accepted framework. Law shaped legitimacy, influenced alliances, reassured markets, and imposed reputational costs even when breached. Today, that common ground is thinning. Law is everywhere invoked, but rarely in agreement.

1. Hormuz as a Legal Fault Line

At the heart of the dispute lies the interpretation of the United Nation's Convention on the Law of the Sea (UNCLOS), particularly the regime governing straits used for international navigation. On paper, the balance is carefully constructed: coastal states retain sovereignty over their territorial waters, but that sovereignty is limited by the right of transit passage, which allows vessels—commercial and military alike—to move without interference through strategic straits.

Iran, which signed but never ratified UNCLOS, has consistently rejected the logic of transit passage as applied to Hormuz. Tehran views the strait as a sensitive security environment in which coastal state authority remains primary, emphasizing the narrower concept of innocent passage, under which navigation may be conditioned on not threatening the coastal state's peace and security.

The United States, not itself a party to UNCLOS, treats these provisions as customary international law and operationalizes this position through freedom of navigation operations designed to assert that no coastal state may unilaterally restrict passage through such straits.

These positions are legally coherent and longstanding. They are also irreconcilable

in the absence of a common authority. The result is worse than legal void, it is legal duplication: two parallel readings of the same maritime space, each aligned with a different conception of order—one privileging sovereignty, the other circulation.

2. Grey Zone Coercion and the Elasticity of Self-Defense

The situation around Hormuz resists classification under traditional categories of international law. The measures taken—such as restrictions on shipping, naval interdictions, and effective control over maritime flows—do not constitute a formal blockade: there is no declaration of war, yet the effects closely resemble one. Both parties exploit this ambiguity. The United States frames its actions as security measures linked to self-defense and the protection of global shipping; Iran characterizes them as unlawful coercion. Both draw on legal arguments without accepting the full constraints under international law of war those arguments normally imply.

This elasticity extends to the UN Charter's framework on the use of force. Washington invokes a broad conception of self-defense, one that may encompass anticipatory action, collective protection of partners, and the safeguarding of global commons. Tehran invokes its own right to defend sovereignty under conditions of encirclement. Legal categories under these circumstances are multiplied. Concepts such as necessity, proportionality, and self-defense sustain competing narratives, each legally argued, each politically grounded.

3. Bab el-Mandeb and the Fragility of Digital Infrastructure

Beyond Hormuz, the Bab el-Mandeb strait connects the Red Sea to the Gulf of Aden, and along its seabed runs a dense network of subsea cables carrying a substantial share of global internet traffic, financial transactions, and communications between Europe, Asia, and Africa. These cables are not peripheral assets. They are the backbone of globalization.

The legal frameworks governing them are even less developed than those governing maritime navigation. Although UNCLOS contains provisions on submarine cables, these were initially negotiated from 1958 and finalized in 1982. They were designed for another era. They do not adequately address a strategic reality in which cables have become critical nodes of economic and political power. Is interference with such cables an act of war? A sovereignty violation? A matter for civil liability? The law offers fragments of answers, not a comprehensive framework. The result is the same as in Hormuz: ambiguity—and with it, opportunity for strategic maneuver.

4. Law as Instrument, Not Constraint

Taken together, these developments point to a transformation in the function of international law. Law, again, has not disappeared; it is invoked more than ever. But it is no longer primarily a constraint on behavior; it is increasingly a tool within it. States deploy legal arguments to justify actions, shape narratives, and influence third parties. Legal reasoning becomes part of strategic communication, its effectiveness depending less on coherence than on persuasion.

As shared interpretations erode, the costs associated with stretching or bypassing legal norms diminish. Actions that would once have been exceptional become routine. The threshold for coercion lowers, even as the risk of miscalculation rises. What has weakened is not the existence of law per se, what has become fragile and dangerous is its shared meaning.

III. DETERRENCE UNDER STRAIN: THE RISE OF DISRUPTION

The third fracture lies in the domain of deterrence. If alliances no longer align and law no longer constrains, deterrence—the traditional stabilizing mechanism of international order—enters a phase of profound transformation.

The 2026 conflict reveals that not the deterrence is mutating under conditions of asymmetry and interdependence.

1. From Dominance to Disruption

The imbalance of capabilities remains stark. The United States retains overwhelming military superiority: naval power, air projection, surveillance, precision strike. In classical terms, such superiority should reinforce deterrence by making escalation prohibitively costly for weaker actors. Yet, the disruption of maritime flows through Hormuz and the potential of the same around Bab el-Mandeb demonstrates the limits of this model.

Iran, from a position of material inferiority, has not sought to match U.S. capabilities symmetrically. Fast-attack craft, mines, missile systems, and proxy networks are not designed to defeat a superior navy—they are designed to complicate, delay, and raise costs. When direct confrontation is unwinnable, the objective becomes systemic impact rather than battlefield victory.

This reflects a broader shift: from deterrence by dominance to deterrence by disruption. In an interconnected system, power is increasingly defined by the ability to affect critical nodes of circulation—energy corridors, shipping lanes, financial networks, digital infrastructure. These nodes function as the operating system of globalization. Their disruption generates effects far exceeding the immediate theater of conflict. Weaker actors gain leverage by exploiting interdependence itself as a vector of coercion rather than by overcoming superior force. The threat is no longer territorial conquest, but functional paralysis.

2. The Blockade Paradox

The U.S. naval blockade of Iranian ports illustrates the paradox at the heart of contemporary deterrence. On one level, it represents an assertion of control—a demonstration of capability and resolve. On another, it signals that deterrence has already failed at the preventive stage. The need for enforcement arises precisely because prior mechanisms—credible threat, signaling, restraint—proved insufficient.

Enforcement is inherently more escalatory. It requires sustained presence, continuous monitoring, and the willingness to act. It transforms deterrence from a latent condition into an active and resource-intensive process. Moreover, enforcement generates countermeasures, creating a cycle in which each attempt to stabilize the system introduces new sources of instability.

3. Distributed Vulnerability and Persistent Contestation

The broader implication is a redefinition of power itself. In a system structured by interdependence, vulnerability becomes both a liability and a resource. Highly connected actors possess significant capabilities but face exposure across multiple domains. Less connected actors may lack comparable capabilities but can exploit specific points of leverage with disproportionate effect. Superiority in one domain does not eliminate exposure in another.

The cumulative effect is a system characterized by persistent, low-intensity contestation rather than stable deterrence. Actions fall below the threshold of full-scale war, yet above the threshold of routine competition. Disruption is normalized as a tool of statecraft. Escalation goes beyond clear red lines and appears through continuous adjustment—a new equilibrium in which stability is provisional, contingent, and constantly renegotiated.

IV. THE POLITICAL ECONOMY OF FRAGMENTATION: FLOWS UNDER STRESS

The fourth fracture is economic. The disruption of the Strait of Hormuz exposes the vulnerability of energy markets and the deeper structural fragility of globalization itself. For decades, globalization was organized around a simple premise: efficiency through integration. Energy flows, trade routes, supply chains, and financial networks were optimized for cost, speed, and scale. The events of 2026 reveal the limits of this model.

1. Energy, Trade, and Finance

The immediate effect of disruption in Hormuz is price volatility—sharp increases driven by perceived supply risk. Yet, the more consequential impact lies in uncertainty. Market actors must now price not only supply and demand, but the probability of sustained disruption, escalation, or rerouting. This introduces a structural premium into energy markets. Insurance costs rise, long-term contracts are reassessed, strategic reserves become more politically salient. Energy is no longer merely a commodity; it is once again a strategic variable.

Beyond energy, the disruption quickly spreads to global trade. Shipping routes are forced to adapt, avoiding risky areas and taking longer, more expensive paths. As a result, delivery times increase and logistics become more complex. A system once built on just-in-time efficiency now shifts toward just-in-case resilience—accepting higher costs to reduce risk. The effects are uneven. Export-driven economies face delays. Import-dependent countries see rising prices. Fragile states are hit the hardest, as they have the least capacity to absorb shocks.

Over time, supply chains begin to change shape. Instead of one highly integrated global system, they become shorter, more diversified, and more regional, forming several overlapping networks rather than a single one.

Financial markets do not just react—they amplify these pressures. Beyond short-term volatility, a deeper shift is underway: the cost of global interdependence is being reassessed. Investors are now factoring geopolitical risk into their decisions. As a result, capital flows become more cautious and more selective. This builds on trends already in motion, such as sanctions, efforts by countries to diversify their reserves, and a growing awareness that financial systems can be used as tools of pressure. What was once seen as a neutral global financial system is now increasingly viewed as political—shaped by

power, influence, and strategic interests.

Legal fragmentation amplifies all of this. When the rules governing maritime transit are contested, economic actors face uncertainty not only about physical risk, but about legality itself. Insurance premiums rise not simply because of danger, but because of legal ambiguity. Investment decisions contract; the time horizon of economic planning shortens as predictability declines. Law becomes an economic variable.

2. The Structural Paradox

All of this points to a central paradox: the global economy is deeply connected, yet surprisingly fragile. For years, the focus was on efficiency—moving goods, money, and energy as quickly and cheaply as possible. But resilience was overlooked. There are not enough buffers to absorb shocks. This is made worse by concentration. Key systems rely on a few major energy routes, manufacturing hubs, and financial centers. These create power—but also vulnerability. The result is a slow rebalancing rather than a total collapse. The system is becoming more cautious, more diversified, and more focused on reducing risk, even if that comes at a higher cost.

3. Digital Vulnerability at Bab el-Mandeb

The legal fragility of subsea cable infrastructure, examined earlier in the context of UNCLOS and its silences, finds its full expression in the economic domain. Legal ambiguity is not merely a jurisprudential problem—it is a risk multiplier. When no authoritative framework governs interference with cables, economic actors cannot price protection, insurers cannot calibrate liability, and states cannot credibly deter disruption. The gap between legal recognition and legal enforcement becomes, in material terms, a structural vulnerability

Beneath the visible layers of energy and trade lies a less apparent but equally critical dimension. The Bab el-Mandeb corridor is not only a maritime chokepoint; along its seabed runs a dense concentration of subsea cables carrying a substantial share of global internet traffic, financial transactions, and intercontinental communications. These cables are physically fragile—susceptible to accidental damage, natural hazards, and deliberate interference—and their repair requires time, coordination, and secure conditions that cannot be assumed in a conflict environment. The disruption of these cables would have cascading effects: financial systems depend on real-time data transmission for transactions, clearing, and settlement; communications networks—from government channels to commercial platforms—would face degradation.

The digital economy, often perceived as decentralized and resilient, reveals its dependence on a highly centralized physical backbone. Energy flows depend on digital systems for monitoring and control; shipping relies on satellite navigation; financial transactions underpin trade and investment. Disruption in one domain transmits into others. Bab el-Mandeb becomes a point of convergence not only of maritime traffic, but of multilayered flows—goods, energy, capital, and information—whose intersection both amplifies its strategic importance and its vulnerability.

CONCLUSION: THE GEOPOLITICS OF FLOWS IN A FRAGMENTED ORDER

The Iran–U.S.–Israel war of 2026 does not mean the international system is collapsing. It shows that the system is changing. Alliances still exist, but they are less solid and more conditional. International law is still used, but countries interpret it differently. Deterrence still works, but it can also create more instability. The global economy continues to function, but it is clearly more fragile.

This change reflects a deeper shift in how power works. In the past, geopolitics focused on territory and military strength. Today, power is also about controlling flows—such as energy, trade, finance, and data. This idea goes back to Alfred Thayer Mahan, who showed the importance of sea routes. Today, these routes are part of a much larger and more complex global system[1].

At the same time, international law is under pressure. The law of the sea, for example, works best when countries agree on how to apply it. When their interests diverge, the same rules are used in different ways[2]. As Martti Koskenniemi explains, international law often moves between two roles: setting rules and justifying power[3]. In the current situation, law is less a constraint and more a tool in political and strategic competition. The global economy is also changing. Recent International Monetary Fund (IMF) work shows that trade and investment are becoming more divided along geopolitical lines[4]. Companies are adapting. Instead of focusing only on efficiency, they now also focus on security and resilience. As noted by the Financial Times, supply chains are being

1. Alfred Thayer Mahan, The Influence of Sea Power upon History, 1660–1783 (Boston: Little, Brown, 1890).

2. Donald R. Rothwell and Tim Stephens, The International Law of the Sea, 2nd ed. (Oxford: Hart Publishing, 2016); Natalie Klein, Maritime Security and the Law of the Sea (Oxford: Oxford University Press, 2011).

3. Martti Koskenniemi, From Apology to Utopia: The Structure of International Legal Argument (Cambridge: Cambridge University Press, 2005 [1989]).

4. International Monetary Fund, "Changing Global Linkages: A New Cold War?" IMF Working Paper, 2024; International Monetary Fund, World Economic Outlook, April 2026, Chapter 1.

reorganized to reduce risk, even if this increases costs[5].

This trend is confirmed by other studies. Investment flows are shifting, and global trade is becoming more regional and more cautious[6]. The Economist describes this as a new phase of globalization—less open, more fragmented, and more political[7]. These changes are not random. As Farrell and Newman show, global networks can be used as tools of power[8]. Countries can use financial systems, trade routes, and technology to put pressure on others. The Strait of Hormuz is a clear example of this. It shows how control over a key route can influence the global system.

What we see in Hormuz is now appearing in other places. Disruptions in the Red Sea and other regions are forcing ships to take longer routes. This increases costs and delays[9]. As The Economist notes, these chokepoints are becoming central to global risk[10].

The main conclusion is simple. Stability is no longer automatic. It does not come just from being connected. It must be managed. Countries and companies now focus more on resilience—diversifying supply, building buffers, and reducing dependence. This does not change the basic logic of international politics. As Morgenthau and Mearsheimer argue, power and national interest remain central[11]. What has changed is how power is used. It is now exercised through global systems and networks.

The world of 2026 is not without rules, but it is more political and more fragmented. It is also more vulnerable to shocks. Chokepoints are now central to global stability. Interdependence is no longer always stabilizing. And vulnerability is no longer just a weakness—it can also be a source of power. The "Strait of Hormuz Test" is no longer about the passage of oil, it is a benchmark—a stress indicator—for how states manage chokepoints, weaponize interdependence, and exercise power in a fragmented global system.

5. Financial Times, "How Supply Chains Are Being Rewired for Security, Not Efficiency," September 2024; Financial Times, "The Fragmentation of Global Trade Is Becoming a Reality," June 2024.

6. Federal Reserve System, "How Is Geopolitical Fragmentation Reshaping U.S. Foreign Direct Investment?" FEDS Notes, April 2025; United Nations Conference on Trade and Development, Trade and Development Foresights 2025 (Geneva: UNCTAD, 2025).

7. The Economist, "Globalisation Is Changing, Not Ending," February 2024; The Economist, "The New Age of Economic Fragmentation," October 2023.

8. Henry Farrell and Abraham L. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion," International Security 44, no. 1 (2019): 42–79.

9. United Nations Conference on Trade and Development, reports on shipping disruptions and rerouting trends, 2025; Financial Times, "Red Sea Shipping Disruption Forces Costly Rerouting Around Africa," January 2025.

10. The Economist, "The World's Chokepoints Are Becoming More Dangerous," March 2025.

11. Hans J. Morgenthau, Politics Among Nations (New York: Knopf, 1948); John J. Mearsheimer, The Tragedy of Great Power Politics (New York: W. W. Norton, 2001).

03

THE IRAN WAR AND THE TRANSATLANTIC CRISIS

Ian O. Lesser

This essay explores the significance of the ongoing Iran War for transatlantic relations. It examines the reasons for European ambivalence and, in some cases, outright opposition to Operation Epic Fury. The analysis highlights sharp transatlantic differences in capability, but also gaps in strategic culture and attitudes toward the use of force. Washington has been frustrated by Europe's stance, and European allies, for their part, are reluctant to join a war they did not choose, and the course of which they have little ability to shape. Transatlantic dynamics with regard to the war must also be understood in the context of multiple disputes on other fronts, from trade to security, and a discourse reinforcing existing anxieties about the future of the relationship. The only clear element is a shared stake in the outcome of the conflict.

The Iran war and its ongoing effects have deepened an existing crisis in transatlantic relations. Differences over the war have contributed to a further erosion of trust, already badly affected by disputes over trade, political interference, the future of the North Atlantic Treaty Organization (NATO), and flashpoints from Venezuela to Greenland. Beyond differences over the current crisis in the Gulf, the conflict highlights a set of larger gaps in perspective, policy, and capacity across the Atlantic. Above all, the Iran war underscores the shared transatlantic—indeed global—stake in the outcome, alongside the relative inability of international partners to shape, or even predict, American behavior.

I. THE IRONY OF AGREEMENT

The widely shared European view that the conflict with Iran is an ill-considered war of choice, masks the reality of long-standing transatlantic convergence with regard to the nature and behavior of the Iranian regime. American and European leaders and observers tend to agree on the challenges Tehran poses to the international order. The list of grievances is broadly similar, from the regime's nuclear ambitions, and its arsenal of longer-range ballistic missiles, to its support for destabilizing regional proxies, and sponsorship of international terrorism. Democracy promotion may not be at the top of the Trump administration's agenda, but leaderships on both sides of the Atlantic bemoan the brutal authoritarian character of Iran's theocratic government and the regime's violent suppression of dissent. Tehran's domestic and international policies have made it a transatlantic pariah, even if the regime can count on support, or at least tolerance, in Moscow, Beijing and parts of the global south.

But what are the priority challenges posed by Iran and what are the appropriate strategies in response? Here, the gap between Washington and its transatlantic partners has widened, dramatically so since the Trump administration's second time in office. Preventing Iran's emergence as a nuclear weapons state is arguably the leading priority in this setting. This is partly about the consequences of a nuclear-armed Iran, but it is also about the potential implications for nuclear proliferation around the Middle East and further afield. From the Israeli point of view, and for understandable reasons, this is clearly the overriding concern. But it has also been a driver in the Iran policy of successive American administrations, for the European Union, and even at times for Moscow.

The Joint Comprehensive Plan of Action (JCPOA), negotiated by the P5+1 (the U.S., the UK, France, China, Russia plus Germany) and signed with Iran in 2015, can be seen as the high-water mark for transatlantic cohesion on Iran policy. The agreement limited Iran's ability to enrich uranium and placed the country's civil nuclear activities under strict International Atomic Energy Agency (IAEA) monitoring, in exchange for lifting United Nations (UN), U.S., and European Union (EU) sanctions related to the nuclear issue. It offered a 10-year window of constraint on Tehran's nuclear ambitions. The Trump administration's withdrawal from the agreement in 2018 was driven by a more hawkish approach (evident in some Democratic as well as Republican circles), and a concern that the JCPOA did nothing to address Iran's growing missile arsenal and its destabilizing regional activities. Many European policymakers and analysts shared these concerns, not least about Iran's support for terrorism and violent proxies. Some of the highest profile terrorist attacks conducted by Iranian-supported networks have

taken place in Europe, or targeted Europeans abroad. But the consensus view held that it was better to address these challenges without the near-term risk of Iran acquiring nuclear weapons. Some in Israel's strategic establishment agreed with this assessment, arguing that it was better to take the nuclear issue off the table, if only for a decade.

Following the IAEA determination that Iran was in noncompliance with the terms of its nuclear-related commitments (the JCPOA itself actually remains in place, although the Iranian side considers the U.S. withdrawal as essentially invalidating the agreement), the U.S. and Israel launched a wave of airstrikes against known Iranian nuclear facilities. The precise effect of these strikes during the "Twelve Day War" has been the subject of debate. Without question, a great deal of damage was done to the country's nuclear infrastructure. Less clear is the fate of the roughly 400 kilograms of highly enriched uranium (i.e., close to weapons grade) that Iran was assumed to possess at Fordow and Natanz. The American strikes with powerful earth-penetrating munitions apparently buried much of this stockpile, and further strikes have been launched against these and other nuclear-related targets in the context of Operation Epic Fury, beginning in April 2026. European reaction to the 2025 strikes was relatively muted and reflected the widely shared concern about Tehran's nuclear program.

II. EXPOSURE WITHOUT INFLUENCE

European states' reactions to the launch of Operation Epic Fury in April 2026 have ranged from ambivalence to active opposition. Coming on the heels of widespread public protests across Iran, and their violent suppression in early 2026, many in Europe were inclined to take a hard line on Tehran. Some shared the view that the Iranian regime was ripe to be overthrown via public revolt, a coup, or both. This may have been part of the calculus in Washington. Yet, so soon after the U.S.'s intervention in Venezuela, threats over Greenland, and hints of action elsewhere, European leaders and public opinion were poised to be critical over the intensive joint American–Israeli strikes against Iran. Spain's government has been the most critical of an action it views as contrary to international law. More broadly, most European officials and observers have been critical of what they see as an ill-advised war of choice.

European allies have confronted difficult choices with regard to base access and overflight for American aircraft involved in operations in and around Iran. Spain has refused to allow the use of bases on its territory to support the war. France has limited overflights. The UK and Italy have tried to distinguish between the use of their facilities to support offensive versus defensive air operations; a jesuitical endeavor, balancing a sense of allied responsibility with the political reality of widespread public opposition.

The question of whether and how to support American operations becomes more complicated further eastward, around the Mediterranean. Greece hosts a significant American military presence, notably at Suda Bay on Crete. These facilities are within range of Iranian ballistic missiles. As in the Gulf, "Western" partners have also been attacked. The British sovereign bases in Cyprus have been targeted by drones launched by pro-Iranian militias in Lebanon. Iran has launched two, possibly three, missiles toward Turkey, likely aimed at Incirlik Air Base, near Adana. Turkey has not allowed the U.S. to use its facilities for offensive air operations against Iran, but the large American presence at the base offers a tempting target. Missiles launched against Turkey were intercepted by NATO (most likely American) air defenses afloat in the Mediterranean. Iran's deployment and use of ballistic missiles with a potential range of some 3,000 km or more poses a direct threat to Europe. It also reinforces concerns about Iran's nuclear ambitions. Arguably, Iran's large investment in missile systems of increasing range and accuracy makes little sense simply as a means of delivering a few hundred kilograms of conventional explosive, with a high likelihood that many of these warheads will be intercepted. Coupled with nuclear weapons, the calculus is clearly very different.

These developments underscore the reality that Europe, including Turkey, is directly exposed to the kinetic aspects of the Iran war. This has already had a number of policy consequences. It has spurred an active debate over the application of Article 42(7) of the EU Treaty under which member states can request support in the face of armed aggression. The clause, which does not necessarily require military support, has only been invoked once, by France in 2015 in response to a series of terrorist attacks. There is a parallel here with NATO's decision to invoke Article 5 in the wake of the September 11 attacks. In both cases, terrorism, rather than a conventional territorial threat, was the cause for action. At a time of uncertainty regarding the future of the American commitment to NATO, potential EU responses have acquired much greater significance, all the more so for non-NATO members like Cyprus.

Iran's missile and drone strikes have also had an effect on thinking about strategic priorities within NATO. For the past decade, these have been driven by conflict in Ukraine and the need to deter an increasingly aggressive Russia. There are some southern aspects to this challenge, notably around the Black Sea and Moscow's activities in Libya and the Sahel. But the thrust of NATO planning, with regard to Russia, has been focused overwhelmingly on defense in the Baltic and Europe's east. Missile and drone threats around the Mediterranean are unlikely to alter this focus in fundamental ways, but the alliance will face pressures from its southern members to address a more diverse set of challenges across a broader geography. These issues are likely to be prominent in discussions when NATO holds its next summit in Ankara in July

2026—notably at a venue within easy range of Iranian missiles.

More obviously, European economies have been affected by the energy security consequences of the conflict[1]. Indeed, their exposure is generally greater than that of the U.S., given the continent's heavy reliance on energy imports. American oil and gas exports may fill some of the gap, but at a price reflecting a highly competitive global energy market, in which Europe risks being outbid by Asian purchasers. At a time of sluggish growth, this reality only adds to European resentment of the conflict and its consequences. European discomfort extends to the strategic consequences of growing dependence on LNG exports from the U.S. Successive American administrations have been keen to encourage these exports as an alternative to Russian supply, and for more prosaic commercial reasons. But there is now a growing European debate about the reliability and political costs of an ever-closer energy security relationship with the U.S. In the past, such concerns would have been virtually unthinkable. The prevailing perceptions reflect a much broader crisis of trust across the Atlantic spanning trade, security, politics, and energy policy[2].

The Trump administration's early requests for allied assistance—or at least support—for the war with Iran presented European partners with a difficult conundrum. On the one hand, grievances against Tehran are widely shared across the Atlantic, and most European leaders have been keen to avoid further American actions against their interests, whether on security or trade. On the other hand, with few exceptions, European governments are doubtful about the legality and utility of the war. They are also aware of public opinion which is ill-disposed toward the war and increasingly distrustful of Washington. Some would even question whether the U.S. really wants the additional political and operational complications implicit in a coalition campaign. Two further considerations weigh heavily in the European calculus. First, even the more capable European allies have only limited capabilities for power projection in the Gulf region, especially under conditions of active hostilities. Some of the smaller NATO members, notably Belgium and the Netherlands, have significant minesweeping capabilities. These might be useful in helping to clear passage through the Strait of Hormuz. But deploying these assets would take time and would need relatively secure conditions to operate, established in advance. Given this reality, it is not surprising that

1. With Brent oil prices well in excess of US$ 100 at the end of April 2026, analysts suggest that a more serious energy crisis looms as commercial stocks are drawn down. The release of some strategic stocks in the U.S. and elsewhere has so far had little effect on prices. Absent a serious de-escalation of the crisis over Hormuz, prices in the US$ 150–200 range are not unthinkable. See Verity Ratcliffe and Malcolm Moore, "Oil Market Four Weeks from Crunch", *Financial Times*, May 3, 2026, p.1. See also, "Times Up: Global Energy Markets Are on the Verge of a Disaster", *The Economist*, April 25, 2026, p. 68.

2. See "Low Trust: Navigating Transatlantic Relations Under Trump 2.0", *Chaillot Paper* 187, EUISS, October 2025.

European discussions around coalition support for maritime security in the Gulf have focused on post-conflict scenarios for the escort of shipping. Prime Minister Starmer and President Macron have both convened summits to discuss the potential for joint European maritime security operations in and around Hormuz. As many as 30 countries have been engaged in preliminary discussions of this kind.

The EU has also explored the idea of broadening the mandate of its existing maritime security force in the Red Sea, Operation Aspides, to allow for operations relevant to the current crisis with Iran. An expanded mandate, including more aggressive rules of engagement, likely necessary to operate in the Gulf, has not been agreed. Under conditions of a negotiated settlement with Iran and a reopening of the Strait of Hormuz, an EU contribution of this kind, potentially alongside NATO, could be envisioned as an ongoing reassurance operation for commercial shipping. As of early May 2026, the conditions to allow for this sort of maritime "coalition of the willing" do not yet exist.

III. UNCLEAR AIMS, DOUBTFUL RESULTS

The Trump administration's unclear messaging about the aims of the Iran war has further complicated the European response. Washington's stated objectives have been an amalgam of possible outcomes, from ending Tehran's nuclear ambitions to regime change, from a reduction in Iranian military capacity to reopening of the Strait of Hormuz. The last of these aims flows entirely from the conflict as it has evolved. Widespread protests in the months leading up to Operation Epic Fury and the violence of the regime in the face of this challenge may have encouraged the administration to believe that regime change was imminent. So too, American policymakers may have seen the threat to Hormuz as something manageable. Both judgments are surprising. Unquestionably, the Iranian economy has been weakened by sanctions and its own mismanagement. Yet, the history of economic sanctions as a means to change the behavior of this and other regimes is discouraging. The threat to shipping in Hormuz and adjacent waters has been a fixture of strategic analysis for decades, reinforced by the most recent experience in the Red Sea. It was in every sense a "known unknown". Observers on both sides of the Atlantic have suggested that Washington's rapid operational success in Venezuela may have encouraged a degree of strategic hubris in Iran.

Beyond the evident degradation of Iran's military capacity, is it hard to identify any area in which military intervention has improved the political, economic, or security situation in and around the Gulf. Allies have been attacked, thousands of civilians have been killed and injured, a critical waterway has been blocked, global energy and economic

security have been harmed, and supply chains disrupted. The U.S. has reportedly depleted expensive and hard-to-replace stocks of critical weapons, compromising its ability to respond to potentially more existential conflicts in Europe and Asia. Unless the war ultimately leads to a durable resolution of nuclear and other disputes with Tehran, it is hard to see how it can be judged a success from any broader perspective.

The Trump administration has been unclear about what it wants from European allies, beyond the straightforward desire for rhetorical support. The U.S. has been accustomed to more or less unfettered access to European bases and the ability to overfly allied territory as needed to support routine operations in the Middle East. In times of crisis, with the exception of operations with a clear UN mandate, as in the first Gulf War and after 9/11, allies have frequently differed in their response to American requests. Not all NATO allies were willing to provide logistical support to the American resupply of Israel in 1973, and the second Gulf war was highly divisive. As noted above, European allies have grown increasingly reluctant to provide operational support for Operation Epic Fury. That said, it would not be surprising if some allies choose to hedge by providing less visible support, including backfilling for American forces in the Mediterranean and elsewhere.

At base, European allies, including those relatively well disposed toward the Trump administration, such as Poland and Italy, are uncomfortable joining a war over which they had no say, and the conduct of which they are largely unable to shape. They are stakeholders in the outcome, but their ability to contribute is marginal and their political exposure is significant, given the widespread anti-American sentiment prevalent across Europe. Moreover, Europe's diplomatic instincts encourage a less hawkish posture toward Iran, however abusive and aggressive its behavior. In the search for a durable resolution to the crisis over Hormuz, and relations with Iran more generally, European policymakers and analysts are more likely to argue for carrots alongside sticks in negotiating with Tehran[3].

IV. GAPS IN STRATEGIC CULTURE

The war in Iran comes against the backdrop of an ongoing, major conflict in Europe. The Ukraine war has compelled Europe as a whole to revisit questions of security and defense that the continent had largely left behind since the end of the Cold War. The resistance to rearmament and the reluctance to think strategically can be traced even

3. For a notable recent argument along these lines, see Federica Mogherini and Sahil V. Shah, "How To End the Iran Crisis", *Foreign Affairs*, April 13, 2026.

more directly to the searing experience of two world wars. Now, NATO's European members look to bolster their defense capabilities to meet a resurgence of threats to their territory and an increasingly unreliable security partnership with Washington. European allies will spend more on defense in line with current NATO commitments. Whether they fully meet the target of 3.5% of GDP (plus 1.5% in other relevant spending) is an open question. Some, such as Poland, surely will. Many in Europe seem more comfortable in justifying large new defense investments as contributions to innovation and industrial policy than to defense *per se*.

But having new defense capability is not the same as having a strategic culture comfortable with the use of force. Here, the gap between Europe and the U.S. remains large, and recent American military operations, not least in Iran, offer a stark reminder of these differences. There are exceptions across NATO Europe, but these are driven by historic anxieties over the defense of territory and proximity to threats. The willingness to put forces in harm's way, and at large scale, to shape the security environment is largely alien to current European security policy. Even those more inclined to act in this way, including Britain and France, have only limited capacity for power projection outside their immediate neighborhood. Their motives in doing so are often more political and symbolic than defense-driven in the narrow sense. Despite new defense investments and tougher talk on Russia (and to some extent on China), Robert Kagan's famous description of Americans being from Mars and Europeans from Venus remains a useful starting point for understanding transatlantic differences over the Iran war[4].

Beyond differences of judgment and policy, the ongoing conflict in the Gulf underscores the very real differences in strategic culture and attitudes toward the use of force on both sides of the Atlantic. European leaders, analysts, and public opinion are simply not on the same page as Washington when it comes to military intervention. This affects everything from decisions about military deployments to rules of engagement, and attitudes toward international law in times of conflict. Moreover, these are not superficial differences or a matter of foreign policy style, although the stark, bellicose language of the current American administration puts these differences in sharp relief. As Sir Michael Howard noted in in his book on the Franco–Prussian War, the military system of a nation is a reflection of society in its totality[5]. It is not something that exists in isolation, although it could be argued that America's scale allows for a certain degree of separation between the defense establishment and society as a whole. But this, too, has its limits, as the Vietnam experience suggests.

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4. Robert Kagan, *Paradise and Power: America and Europe in the New World Order* (Atlantic Books, 2004)

5. See Michael Howard, *The Franco–Prussian War, 1870–1871* (London: Taylor and Francis, 2001, first published 1961).

American leaders on both sides of the aisle have been hawkish on Iran, a longstanding tendency flowing from the experience of the Iranian revolution, the hostage crisis and numerous instances of direct and indirect Iranian attacks on Americans and American interests. In the context of the current crisis, Democrats have been sharply critical while Republicans have largely lined up behind the administration. But Republican support is not uniform, and with midterm elections looming, even some erstwhile supporters see the administration's pattern of foreign intervention as incompatible with the "America First" spirit. European observers, broadly concerned about the style and substance of Washington's policy across a range of issues, are watching the evolution of the American debate over Iran as a bellwether of potential shifts in November 2026, and after.

V. A RELATIONSHIP WITHOUT LANES

Transatlantic attitudes and policies vis-à-vis the Iran war have multiple sources. Differences in strategic culture, the capacity and inclination for power projection, public opinion, and judgments about the wisdom and legality of the operation all play a part. To these must be added the relatively new reality of a transatlantic relationship in which traditional policy "lanes" no longer apply. European allies are concerned about the Trump administration's tendency to hold (as they see it) trade, and other aspects of the relationship, hostage to cooperation on other fronts—and vice versa. Even in the security realm, policies have become increasingly contingent. Washington's displeasure with Germany over its Iran war stance has spurred new efforts to reduce the American troop presence in the country. Similar threats have been issued to Rome and Madrid. As a result, differences over Iran now interact with existing debates over America's reliability as an ally in Europe.

Operation Epic Fury also reminds leaders and observers on both sides of the Atlantic of the gap between America's unquestioned operational ability and the uncertain quality of American strategic judgment. To be sure, this is not a problem unique to the American experience, and there are endless examples from Europe's own troubled history. But recent American experience provides a string of relevant examples, from Vietnam to Afghanistan and Iraq. Iran could be different. Will it be different?

The discourse over the Iran war cannot be separated from the extraordinary stresses in transatlantic relations over the past year, some integral to European interests, others less so, but all signaling a sharp departure from the relative predictability and cohesion that Europe seeks in relations with Washington. Unresolved trade disputes, differences over climate policy, and international development are part of

this troubled equation. So are the Trump administration's open distaste for the EU and ambivalence toward NATO. Add the controversial intervention in Venezuela and armed action in the Caribbean, threats against Greenland, and overt support for hard-right movements in Europe, and the stage is set for a contentious and volatile transatlantic relationship. Finally, there is the less tangible but important issue of style and language. References to civilizational erasure are not reassuring to a continent well-versed in the consequences of this outlook. The Iran war illustrates the intertwined nature of European and American interests. It also illustrates substantial differences in political and strategic culture against a backdrop of anxieties about power, prosperity, and the lessons of history for contemporary policy.

04

THE U.S.–ISRAEL WAR AGAINST IRAN: CHINA'S STRATEGIC CALCULUS AND DIPLOMATIC IMPERATIVES

Marcus Vinicius De Freitas

The ongoing confrontation between the United States, Israel, and Iran extends beyond regional escalation and constitutes a significant test for the already fragile international order. For China, this crisis presents a direct challenge to core interests such as energy security, infrastructure investments, and the stability of critical maritime and continental corridors. At the same time, the situation offers China an opportunity to position itself as a custodian of balance within an increasingly unstable global environment, rather than as a participant in the conflict.

Beijing's response is guided primarily by pragmatism rather than ideology. Three imperatives underpin this approach: (1) preserving energy flows, (2) safeguarding Belt and Road Initiative assets, and (3) preventing fragmentation in a region vital to global stability. Unlike previous great power interventions in the Middle East, China's strategy emphasizes restraint, noninterference, and the gradual expansion of diplomatic influence.

In this context, China has adopted a posture of qualified neutrality: it is not equidistant on the legal question, having condemned the U.S.–Israeli strikes as unlawful, but remains nonaligned in mediation by maintaining access to all parties. This approach directly rebuts critiques that Chinese neutrality serves as a rhetorical cover for an anti-Western stance. China's expanding

relationships with actors across the Gulf, Iran, and Israel provide Beijing with access unavailable to more polarized states, positioning it as a potential broker of de-escalation rather than a traditional security guarantor.

Beyond diplomacy, the conflict has produced a significant financial consequence: it is accelerating the international use of the Renminbi (RMB), particularly in energy markets. Although the dollar remains dominant, the conflict has prompted a series of yuan-denominated settlements, providing Beijing with a strategic foothold in the ongoing transition toward a multipolar currency order.

The central policy challenge is not whether China should act, but how it should do so. This Policy Brief recommends four key steps for China: (1) advocate for de-escalation, (2) protect its economic and human assets, (3) engage all parties neutrally and without alignment, and (4) promote a broader framework for regional security dialogue. Through these measures, China has tested both its diplomatic capacity and its claim to responsible great-power status within a multipolar international system.

INTRODUCTION: A WAR OF CHOICE

The U.S.–Israel war against Iran is fundamentally about the disappearance of enforced order, rather than solely about Iran itself.

For decades, the international system functioned, albeit imperfectly, on the assumption that power could impose limits on escalation and that law could structure the use of force within those limits. This assumption no longer holds. While the rules, institutions, and language of legality persist, the willingness and, increasingly, the ability to enforce them have eroded.

This transformation does not result in immediate disorder but rather produces a more complex system in which conflict persists without resolution, escalation is managed rather than prevented, and stability is provisional rather than guaranteed. Power remains abundant but lacks coherence, and authority persists without producing decisive outcomes.

The confrontation between the United States, Israel, and Iran exemplifies this shift with unusual clarity. Each actor operates according to a rational strategic logic. However, in

the absence of a central arbiter capable of reconciling these logics, interactions tend toward instability rather than equilibrium. The crisis arises from familiar patterns such as cycles of retaliation, miscalculation, and the persistent lack of a security framework to contain escalation. This moment is distinguished by its unique context.

Currently, the Middle East is no longer dominated by a single external power but has become a region of overlapping influences. The United States remains a key security actor, although its attention is divided. Israel has demonstrated increased strategic autonomy. Iran, leveraging its capacity and proxy networks, has become a pivotal, though contested, force. This dynamic creates a volatile balance in which deterrence and escalation coexist uneasily.

The conflict unfolded in two distinct phases: the "TwelveDay War" of June 2025 – Operations Rising Lion (Israel) and Midnight Hammer (United States) – and Operation Epic Fury (United States) and Roaring Lion (Israel) launched late February to early April 2026. Events in early 2026 have supplied an answer to whether China could continue to rely on strategic distance: China has already moved from distance to discreet, highfrequency mediation. As of late April 2026, the Pakistanbrokered ceasefire that took effect on April 8 has been extended indefinitely, though tensions remain high and the underlying disputes are unresolved. With no diplomatic process to address the nuclear and security issues, the ceasefire remains highly fragile.

It is within this environment—not its collapse, but its transformation—that China is positioning itself. Beijing is not seeking to restore the enforcement model that is fading, nor to replace it with a new hegemonic structure. It is adapting to a system in which order is no longer imposed from above but negotiated continuously among competing centers of power. Its posture—what may be described as qualified neutrality—is not an expression of passivity, but a strategic response to fragmentation.

Amid this landscape, China has emerged as militarily light-footed, but centrally engaged, both economically and diplomatically. As a permanent member of the UN Security Council, a leading trading partner for Iran and the Gulf states, and a major importer of Middle Eastern energy, China could not remain indifferent. Historically, China has prioritized stability over alignment in the Middle East, adhering to noninterference, respecting sovereignty, and avoiding entanglement in regional rivalries. But the current crisis has forced a recalibration: China has moved from distance to active, if discreet, mediation.

The central question, therefore, is no longer whether the United States can enforce

order. It is whether order can survive without enforcement—and what form of power emerges in its absence. China's response to the U.S.–Israel war against Iran offers an early, imperfect, but revealing answer.

I. THE ILLEGALITY OF THE U.S.–ISRAEL WAR AGAINST IRAN UNDER INTERNATIONAL LAW

The contemporary international legal order rests upon a foundational prohibition: the use of force between states is unlawful except under narrowly defined conditions. Enshrined in Article 2(4) of the UN Charter, this principle prohibits any use of force against the territorial integrity or political independence of another state. The military actions undertaken by the United States and Israel against Iran fall outside the recognized exceptions of the Charter, and thus constitute a breach of international law.

Absence of Security Council Authorization. The first and clearest legal basis for the use of force—authorization by the Security Council under Chapter VII—is absent. No resolution has been adopted permitting military action against Iran. In the absence of such authorization, any recourse to force must rely exclusively on the second exception: selfdefense.

The threshold of selfdefense and the problem of imminence. Article 51 permits the use of force only "if an armed attack occurs." This threshold is deliberately high, reflecting a conscious effort to prevent the normalization of discretionary or preventive warfare. The jurisprudence of the International Court of Justice has consistently reinforced this restrictive interpretation, emphasizing that selfdefense must meet the cumulative criteria of necessity, proportionality, and immediacy. In the case of Iran, the central legal difficulty lies in the absence of a clearly attributable armed attack that would trigger this right. Longstanding tensions, proxy engagements, or perceived strategic threats do not satisfy the threshold.

The collapse of the distinction between preemption and prevention. The justification advanced by Washington and Tel Aviv rests on an expanded notion of anticipatory selfdefense. If such an interpretation were to gain acceptance, the already fragile distinction between preemptive and preventive force would effectively collapse. The threshold established by Article 51 would be lowered from the occurrence of an armed attack to the anticipation of a future capability. In doing so, the prohibition on the use of force would cease to function as a legal constraint

and become contingent upon subjective threat assessments. This would represent not merely a deviation from established law, but a structural transformation of the legal order itself.

Sovereignty and the prohibition of unilateral enforcement. Beyond the Charter framework, the strikes constitute a violation of state sovereignty. Military operations conducted within the territory of another state, absent consent or lawful justification, amount to a breach of that state's sovereign integrity. Arguments grounded in deterrence, regime character, or strategic necessity do not alter this legal assessment.

The implications extend beyond the immediate conflict. When major powers reinterpret the conditions under which force may be used, they do not merely violate a rule—they recalibrate the system that sustains it. The present conflict is, therefore, not simply a test of compliance but a test of whether international law remains a meaningful constraint on power, in an era increasingly defined by unilateral calculation.

II. CHINA'S CORE INTERESTS IN THE MIDDLE EAST

To understand why Beijing viewed the U.S.–Israel war against Iran as more than just a humanitarian or geopolitical issue, one must appreciate the material and strategic interests that tie China to the region.

Energy security. China is the world's largest crude oil importer, and about 40% of its imports come from the Middle East[1]. The Strait of Hormuz is the chokepoint that compounds China's anxiety, since nearly onefifth of global oil passes through it. Any military conflict that closes or mines the Strait would cause immediate price volatility, supply disruption, and inflation in China. China's total oil stockpiles (including strategic, commercial, and refinery stocks) are estimated at roughly 1.3 to 1.4 billion barrels. This corresponds to about 120 days of net import cover—

1. Erica Downs, "Where China Gets Its Oil: Crude Imports in 2025 Reveal Stockpiling and Changing Fortunes of Certain Suppliers—Including Those Sanctioned," Columbia University Center on Global Energy Policy, January 29, 2026; "Mapped: Where China Gets Its Oil," Visual Capitalist, March 6, 2026.

approximately four months[2]. This reserve provides a meaningful but not limitless buffer. Meanwhile, China is building renewable energy infrastructure (nuclear, solar, wind, hydro) to reduce longterm vulnerability. China's crude oil import dependence is about 72%–74%, but its overall primary energy selfsufficiency is around 84%–85%[3].

Belt and Road Initiative (BRI) investments. The BRI has turned the Middle East into a hub of infrastructure connectivity[4]. In Iran, China has invested in transport corridors, energy, and telecom—though the widely cited "US$ 400 billion, 25year agreement" should be treated with caution. That figure originated in a single 2019 Petroleum Economist article and was explicitly disavowed by the Chinese Ministry of Foreign Affairs (MFA) spokesperson Zhao Lijian in March 2021. Actual realized BRI engagement in Iran is closer to US$ 12 billion[5]. In Iraq, Chinese firms focus on oil and power. In Saudi Arabia and the United Arab Emirates (UAE), projects span from industrial zones to smart cities. These assets are not just financial; they are real facilities staffed by Chinese engineers, managers, and security personnel. The U.S.–Israel war put them at risk of attack, sabotage, and retaliation, with resultant delays, higher insurance costs, and reputational damage.

Strategic stability and antiinterventionism. China's policy is guided by the Five Principles of Peaceful Coexistence, which include respect for sovereignty and noninterference. Beijing opposes unilateral military action, as seen with U.S. moves in Iraq, Libya, or Syria, and views the U.S.–Israel campaign against

2. According to energypolicy.columbia.edu (accessed April 22, 2026), China imported roughly 42% of its crude oil from Middle Eastern nations (Saudi Arabia, Iraq, UAE, Oman, Kuwait) in 2025, and aa.com.tr reports similar figures (45% of oil) and 30% of LNG coming from the Gulf. As of early 2026, China's total oil stockpiles (including official strategic reserves, commercial stocks, and refinery stocks) are estimated by analysts such as Kpler to hold roughly 1.3 to 1.5 billion barrels. This is sufficient to sustain China for 100 to 130 days of net imports, according to industry reports, CNN, "China's Energy Fortress Was Built to Withstand Just This," April 21, 2026, https://www.cnn.com/2026/04/20/china/china-energy-security-global-oil-crisis-iran-intl-hnk

3. The distinction between crude oil import dependence (~72%–74%) and overall primary energy selfsufficiency (~84%–85%) is drawn from Energy Policy Institute at Columbia University, "China's Oil Imports and Energy Security," accessed April 22, 2026, https://www.energypolicy.columbia.edu/

4. "The Iran–China Corridor: A Strategic Shift in Regional Connectivity," Matrix Report, June 24, 2025; and "The Belt and Road Initiative 2.0," Gulf Research Centre, October 27, 2025, which document the shift toward deep energy, digital, and logistical integration in the Middle East.

5. Regarding Iran: the widely cited US$ 400 billion, 25year deal figure originated in a single 2019 Petroleum Economist article and was explicitly disavowed by MFA spokesperson Zhao Lijian in March 2021. Actual BRIrelated investment and financing in Iran is substantially smaller, estimated at roughly US$ 12 billion in realized projects. For the disavowal, see Ministry of Foreign Affairs of the People's Republic of China, regular press conference, March 2021. With regard to Iraq: Chinese companies dominate the country's energy sector, controlling or operating fields that produce 50%–67% of Iraq's oil. Saudi Arabia and the United Arab Emirates: China is developing industrial capacity zones (e.g., at Abu Dhabi's Khalifa Port) and partnering with Huawei and other firms on "smart city" technologies.

Iran similarly. Pragmatism is also at play: regional wars cause spillover effects—terrorism, refugees, failed states, proxy conflicts—that no external power can fully contain. Instability directly opposes China's development model.

Diplomatic influence and great power status. The 2023 Saudi–Iran rapprochement, brokered by China, was a milestone. In the current crisis, China has already advanced diplomatically. Special Envoy Zhai Jun conducted visible shuttle diplomacy through March 2026. Foreign Minister Wang Yi held 18 phone calls in a single month. The China–Pakistan fivepoint initiative of March 31 was publicly credited by White House Press Secretary Leavitt as a contributing factor to the ceasefire that took effect on April 8 and was extended indefinitely on April 20–21[6]. A successful mediation effort in the U.S.–Israel–Iran triangle would undoubtedly elevate China further. Yet, even without a final breakthrough, it would be a mistake to interpret limited direct involvement as diplomatic irrelevance. China does not conceive of international engagement through the rigid lens of military alliances. Its external strategy is built instead on flexible partnerships, economic interdependence, and political nonalignment.

Nonproliferation and the Joint Comprehensive Plan of Action (JCPOA) legacy. China opposes Iran acquiring nuclear weapons, not only on nonproliferation grounds but because such an outcome would almost certainly trigger a cascading regional arms race. At the same time, Beijing rejects military strikes against Iran's nuclear infrastructure, viewing them as destabilizing, legally contentious, and strategically counterproductive. Its approach is one of structured restraint: preserve what remains of the nonproliferation regime, encourage continued engagement with the International Atomic Energy Agency (IAEA,) and resist the normalization of force as an instrument of nuclear governance.

6. "China backs diplomatic push to end U.S.–Iran conflict after ceasefire extended," Anadolu Agency, April 22, 2026, https://www.aa.com.tr/en/asia-pacific/china-backs-diplomatic-push-to-end-us-iran-conflict-after-ceasefire-extended/3914215; and "Five-Point Initiative of China and Pakistan For Restoring Peace and Stability," Ministry of Foreign Affairs of the People's Republic of China, March 31, 2026, https://www.fmprc.gov.cn/eng/wjbzhd/202603/t20260331_11884511.html.

III. CHINA'S OFFICIAL STANCE AND QUALIFIED NEUTRALITY

China's official response to the crisis has been calibrated, incremental, and carefully worded. In the immediate aftermath of Israeli airstrikes on Iranian nuclear or military facilities (and subsequent U.S. logistical support), China's initial reaction emphasized "concern" and urged "all parties to exercise maximum restraint."[7] As the conflict deepened, Chinese statements began to explicitly reference "respect for the sovereignty and territorial integrity of Iran" and "opposition to any acts that would lead to an escalation of tensions." In UN Security Council emergency sessions, China's representative consistently called for a ceasefire, a return to political dialogue, and the resumption of JCPOArelated talks. China abstained from or voted against resolutions that would have imposed additional unilateral sanctions on Iran[8].

These two stances—condemning the strikes as unlawful while positioning itself as a neutral mediator—are not contradictory. They reflect qualified neutrality, a concept with precedent in international law. A state may hold a firm opinion on the illegality of force while remaining nonaligned in mediation, refusing to join a belligerent coalition. This framing explicitly rebuts the Western critique that Chinese neutrality is a rhetorical cover for antiWestern partisanship. Beijing's position is legally coherent and diplomatically distinct.

IV. REGIONAL PERSPECTIVES THROUGH CHINA'S LENS

China does not view the Middle East as a monolith. Its policy is disaggregated, responding to the distinct interests and relationships it has cultivated with each regional actor.

Iran: a strategic partner but not a proxy. The 25year Comprehensive Strategic Partnership (signed in 2021) remains the foundation of the relationship, though

7. Ministry of Foreign Affairs of the People's Republic of China, "Foreign Ministry Spokesperson Mao Ning's Regular Press Conference," March 3, 2026, https://www.fmprc.gov.cn/eng/xw/fyrbt/lxjzh/202603/t20260303_11867987.html (accessed April 22, 2026).

8. Al Arabiya English, "China's UN Envoy Condemns Israeli Strikes on Iran," June 14, 2025, https://english.alarabiya.net/News/middle-east/2025/06/14/China-s-UN-envoy-condemns-Israeli-strikes-on-Iran (accessed April 22, 2026).

with actual investment far below the discredited US$ 400 billion figure[9]. For Iran, China is a crucial economic lifeline under sanctions. For China, Iran is a gateway to Central Asia and a counterweight to U.S. influence. However, China does not endorse Iran's regional proxy strategy (supporting Hezbollah, Houthis, Iraqi militias). Beijing views these networks as sources of instability that could entangle Chinese interests. Nor does China support Iran's nuclear ambitions beyond civilian energy. The relationship is transactional and pragmatic, not ideological.

Gulf Cooperation Council (GCC). Saudi Arabia, the UAE, and Qatar are China's primary energy suppliers and major BRI partners. The Gulf states are also important markets for Chinese construction, electronics, and military equipment. China's rapprochement with Iran, while welcomed by Riyadh as a deescalation mechanism, is viewed with underlying suspicion—Gulf states worry that China's balancing act may tilt too far toward Tehran. In the current crisis, China reassured its Gulf partners that it does not support Iranian aggression, while also urging them not to join any U.S.led military coalition against Iran. This is a delicate balancing act, but China's longstanding avoidance of military alliances gives it credibility.

Israel: a technological partner, not a strategic ally. China–Israel relations are robust across technology, agriculture, water management, and innovation. Israel is a source of advanced technology that China seeks; China is a vast market and a counterweight to European and U.S. dominance. However, China does not endorse Israel's settlement policies or its unilateral military actions against Iran. In the current crisis, China privately urged Israel to show restraint—out of fear that Israeli escalation could trigger a wider war that would disrupt Chinese interests. Israel has noted China's role in the Saudi–Iran deal and sees potential utility in a Chinese intermediary, though skepticism remains high.

Turkey and nonArab regional powers. Turkey, though a NATO member, opposed U.S.–Israeli strikes on Iran, viewing them as destabilizing and as an infringement of regional sovereignty. This aligns with China's position, but Beijing avoids overt coordination with Ankara due to Turkey's alliance with the West, and its complex relationship with Uyghur issues. Other regional actors (Egypt, Jordan) are primarily concerned with spillover effects—refugees, terrorism, and economic disruption. China shares these concerns but has limited influence on their policies.

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9. Nader Habibi and Henry J. Barkey, "The IranianChinese Strategic Partnership: Why Now and Why Here?," Crown Center for Middle East Studies, Brandeis University, April 28, 2021,https://www.brandeis.edu/crown/publications/crown-conversations/cc-8.html, accessed April 22, 2026. On the disavowal of the US$ 400 billion figure, see MFA press conference, March 2021

Nonstate actors. China officially condemns nonstate armed groups and does not provide them with support. However, Beijing is acutely aware that these actors could retaliate against U.S. or Israeli targets by attacking Chinese assets—either inadvertently or as pressure on China to restrain Iran. Chinese diplomatic engagements with Iran, therefore, include quiet requests to ensure that Iranianaligned militias avoid targeting BRI infrastructure.

V. GEOPOLITICAL IMPLICATIONS FOR CHINA

Beyond immediate crisis management, the war carries profound implications for China's position in the international system.

U.S.–China competition intensified. In the short term, the war diverted American military, intelligence, and diplomatic attention away from the IndoPacific, creating breathing space for China in the South China Sea, across the Taiwan Strait, and in its competition with U.S.led alliances – Australia, United Kingdom and the United States – (AUKUS) and the Quadrilateral Security Dialogue (QUAD). However, this is a tactical, not a strategic, benefit. The U.S. has already responded to Chinese neutrality by designating four Shandong "teapot" refineries and six port operators under the Office of Foreign Assets Control (OFAC) between March and October 2025. What remains a threat (rather than a reality) is the designation of major Chinese stateowned banks—something Treasury Secretary Bessent gestured toward on April 15, 2026 through unnamed warning letters.

Secondary sanctions and settlement channels. Contrary to some claims, the main conduit for Iranrelated trade settlement does not run through China's CrossBorder Interbank Payment System (CIPS). An October 2025 Wall Street Journal investigation documented that actual settlements occur outside CIPS precisely because CIPSconnected banks fear secondary sanctions. China's hedging strategy—developing alternative payment systems and deepening trade in Renminbi—remains a work in progress.

Energy rerouting and Eurasian connectivity. If Gulf shipping lanes become unsafe, China's reliance on landbased energy imports via Russia and Central Asia will increase. This strengthens the strategic logic of the China–Pakistan Economic Corridor (CPEC) and the TransCaspian routes. It also deepens China's energy partnership with Russia—though Beijing is careful not to become overdependent on Moscow.

Multipolarity narrative strengthened. China has long argued that the U.S. unipolar moment is over and that a multipolar world is both inevitable and desirable. A U.S.led war against Iran, opposed by most of the Global South, reinforces that narrative. China can point to the crisis as evidence that U.S. military intervention produces chaos, while Chinese development and dialogue produce stability. This narrative is amplified through Chinese state media (CGTN, Xinhua) and through diplomatic engagements with the NonAligned Movement, the Arab League, and the African Union.

The Renminbi opportunity: currency shifts and financial decoupling. The war is accelerating the international use of the Renminbi, particularly in energy markets. Iran, facing severe pressure on its financial system, has used its leverage over the Strait of Hormuz to make the yuan a central part of its survival strategy. Reports indicate that Tehran is requiring oil tankers to pay "passage fees" or settle transactions in Chinese yuan to secure safe passage. More significantly, Iran has announced that 100% of its crude oil exports to China are now settled in yuan, fully bypassing the SWIFT system. This is not a theoretical possibility but an operational reality. The trend extends beyond Iran. Saudi Aramco, the world's largest oil company, has reportedly used the yuan for an estimated 45% of its crude exports to China. Meanwhile, China's CrossBorder Interbank Payment System (CIPS) recently processed a record 1.22 trillion yuan in a single day, signaling a sharp increase in its use.

By 2026, CIPS reportedly covered 185 countries, and the (Brazil, Russia, India, China and South Africa Plus (BRICS+) digital currency bridge is being used for direct, nondollar exchanges among member states. Nevertheless, the yuan is not about to displace the dollar as the primary global reserve currency. The dollar remains entrenched in a selfreinforcing cycle: oil is priced in dollars, and the proceeds are reinvested into U.S. assets, creating sustained demand. The dollar still accounts for about 57% of global reserves, compared to the yuan's roughly 2%. China maintains capital controls, and the People's Bank of China does not set interest rates independently—both factors that limit full internationalization[10]. The current push for yuan settlement has been more "politically than economically motivated," as it creates alternatives in a weaponized financial system.

The move toward yuan settlement carries immediate risks. To counter this trend,

10. International Monetary Fund (IMF), "Currency Composition of Official Foreign Exchange Reserves (COFER)," data updated Q3 2025; see also St. Louis Fed, "The U.S. Dollar's Role as a Reserve Currency," February 25, 2026.

the U.S. Treasury has ramped up its use of secondary sanctions. Formal warning letters have been sent to two unnamed Chinese banks, threatening to cut them off from the U.S. financial system if evidence is found of Iranian money in their accounts. So far, China's major stateowned banks have not been designated, but that possibility looms. In sum, the U.S.–Israel war with Iran is accelerating the use of the yuan in a tangible way, but these developments represent a foothold rather than a breakthrough. For China, the immediate benefit is the creation of precedents and alternative pathways that reduce longterm vulnerability to U.S. financial coercion. This aligns with Beijing's broader strategy of "managed internationalization" of the RMB.

The Russia dimension: a division of labor. The China–Russia division of labor in the Middle East is what enables China's mediator posture. Moscow occupies the antiWestern security position—providing militarytechnical cooperation with Iran and taking a confrontational stance at the UN—which frees Beijing to occupy the balancer position. Russia shields Iran from Western pressure; China offers economic engagement and diplomatic access to the Gulf. This tacit specialization allows China to maintain relationships with all sides without being pushed into a partisan role.

China's military footprint: light presence, not absence. The PLA Navy conducts routine Gulf of Aden escort missions (rotating since 2008), maintains the Djibouti support base (logistics, not combat), and executed civilian-led evacuations of Chinese nationals from Iran and the Gulf during the crisis. There was no surge deployment in response to the war. The accurate formulation is light-footprint presence—routine rotations, modest base activity, no expeditionary combat operations.

Risk of entrapment. The greatest danger for China remains entrapment: being pressured by Iran to provide military or financial support and simultaneously pressured by the U.S. to join sanctions. So far, China has avoided both by maintaining that its relationship with Iran is economic, not securityoriented. But a prolonged, highintensity war could erode this distinction. China may need to make uncomfortable choices—and its strategic discipline will be tested.

The Chinese pattern of engagement—simultaneously present, yet deliberately uncommitted—reveals a broader strategic logic. China is not positioning itself as a guarantor of order, but as an actor capable of functioning in its absence.

VI. FROM ACCESS TO INFLUENCE: THE LIMITS OF CHINA'S MEDIATING POWER

China's role in the current crisis is often framed in terms of opportunity—an opportunity to demonstrate diplomatic leadership, to consolidate its position in the Middle East, or to present itself as an alternative to Western interventionism. These interpretations, while not entirely misplaced, risk overstating both China's intentions and its capacity.

China's greatest asset is access. It maintains working relationships with Iran, the Gulf states, and Israel simultaneously, without the constraints imposed by formal alliances. This allows Beijing to operate across divides that limit other actors. Yet, access does not automatically translate into influence.

The challenge China faces is not one of presence but of conversion: how to translate relational access into outcomes without assuming the burdens of enforcement. Its diplomatic engagements—shuttle diplomacy, backchannel communication, and coordination with regional intermediaries such as Pakistan—have contributed to de-escalation. But they remain facilitative rather than decisive.

This reflects a structural limitation. China's strategy is designed to operate within instability, not to resolve it. It seeks to preserve equilibrium, not to impose it. This distinction is critical. It allows China to remain engaged without becoming entangled, but it also constrains the extent to which it can shape outcomes.

In this sense, China's approach represents a different model of influence—one that prioritizes continuity over resolution, access over alignment, and flexibility over control. If the current crisis has tested China's strategic maturity, it has also exposed the limits of its engagement model. The challenge is no longer confined to preserving principles such as noninterference and sovereignty, but to operationalizing them in a manner that allows China to shape outcomes without assuming the burdens of enforcement.

1. From Access to Influence: Structured Mediation

China's greatest diplomatic asset is its access to all sides of the conflict. Yet, access does not constitute influence. Beijing now faces a strategic choice: persist as a stabilizing presence that mitigates risks without decisively shaping outcomes, or leverage its network of relationships into structured mediation. Advancing resolutions at the United Nations remains necessary but insufficient. The more consequential step would be the

quiet construction of parallel diplomatic channels—less formal, less visible, but more adaptable—capable of sustaining dialogue where formal mechanisms have stalled. China has already begun this. The next phase requires institutionalizing these channels before the next crisis.

2. Energy Security as Strategic Signaling

Energy security must be treated not merely as a defensive concern but as an instrument of strategic signaling. China's dependence on Middle Eastern energy flows provides both vulnerability and leverage. Beijing should communicate—discreetly but unequivocally—that sustained disruption to critical supply routes would carry systemic consequences extending beyond the region. Such signaling need not be coercive; its effectiveness lies in credibility and clarity. Simultaneously, China should persist in diversifying supply sources, expanding strategic reserves (around 120 days), and reinforcing contingency planning.

3. Protection without Militarization: LightFootprint Resilience

The geographic dispersion of Chinese assets across the Middle East requires a more sophisticated riskmanagement approach. The objective is not to project military force, but to ensure operational continuity amid instability. This implies integrated protection frameworks: enhanced coordination with host governments, contingency planning for evacuation and disruption, and logistical resilience mechanisms. China's existing lightfootprint presence—Gulf of Aden escorts, Djibouti base, civilian evacuation capabilities—provides a foundation. The line between protection and entanglement must be carefully maintained.

4. Narrative Discipline and Systemic Framing

China's narrative advantage derives from its consistency: sovereignty, restraint, and dialogue. Beijing should refine its messaging to articulate a clearer systemic contrast—not between East and West, but between two models of order: one based on intervention and enforcement, the other on equilibrium and negotiated stability. The qualified neutrality framing should become a standard element of Chinese diplomacy, preempting critiques while maintaining legal coherence.

CONCLUSION: THE END OF ENFORCED ORDER

The U.S.–Israel war against Iran does not simply expose a regional imbalance. It reveals the exhaustion of a model of order that depended on enforcement.

For decades, stability in the international system rested—however imperfectly—on a dual assumption: that power could impose limits on escalation, and that law could structure the use of force within those limits. That interaction is now breaking down. Power remains abundant, but it is no longer coordinated. Legal frameworks persist, but their application has become selective. The result is not the disappearance of order, but its fragmentation.

In this environment, none of the principal actors can impose a stable equilibrium. The United States retains unmatched military capability, yet its strategic coherence is constrained by competing priorities and declining willingness to bear the costs of enforcement. Israel demonstrates tactical dominance but operates within a doctrine that privileges immediate security over systemic stability. Iran maintains influence through asymmetry but cannot convert it into durable control.

What emerges is a system in which stability is no longer produced by decisive outcomes, but by continuous adjustment. Conflict is not resolved; it is managed. Escalation is not prevented; it is contained. Order persists, but without guarantees.

It is precisely within this gap—between power and authority—that China positions itself. Beijing does not attempt to restore the fading enforcement model, nor does it seek to replace it with a new hegemonic structure. Its strategy reflects a different logic: to operate effectively in a system where authority is fragmented, and outcomes are negotiated rather than imposed. Through qualified neutrality, China preserves access where others are constrained, engages where others are aligned, and maintains continuity where others generate volatility.

This is not a transitional posture. It is a structural adaptation to a world in which order no longer derives from enforcement, but from the ability to navigate its absence.

The central question, therefore, is not whether China will replace the United States as the guarantor of stability. It will not. The more consequential question is whether stability, in the absence of a guarantor, can be sustained at all.

The answer will not be found in resolving this conflict, but in the pattern it establishes. If the future of international relations is defined not by decisive settlements but by managed tensions, then the ability to operate within instability—to contain it without resolving it—will become the defining measure of power.

China does not impose order. It manages its absence.

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05

WHAT DOES THE MIDDLE EAST WAR MEAN FOR THE SAHEL?

Rida Lyammouri

The impact of the recent war in the Middle East is already affecting the Sahel, despite geographic distance. The most apparent effect is economic, with access to energy and natural resources becoming both challenging and costly. In a region where food security is a constant concern, the region is witnessing, and likely to further witness, food inflation because of the oil prices. Mining is also a key economic activity, and operations could soon be hindered by increased logistical costs and limited availability of the chemicals required to operate certain mines.

Simultaneously, the region is having to deal with the geopolitical transformation caused by the Iran war. The Sahel is likely to face further isolation as its traditional Western allies are embroiled in increased tension among themselves, such as the United States in opposition to NATO countries.

Finally, although the security situation in the Sahel continues to worsen, it is still too early to link it to the Iran war. However, Sahelian states may need to continue to rely on non-Western allies to deter and counter threats from non-state armed groups, even though it is unclear whether the current situation will improve.

INTRODUCTION

The economic, geopolitical, and security consequences of the Middle East war on the Sahel are visible already, despite the geographic distance between the two regions. The world has felt the consequences of the war, and the Sahel is no different. Geopolitically, global powers show little interest in addressing the issues of the Sahel region and appear to see it more as a battlefield to counter the influence of others. For instance, the interests and resources allocated to the region by the United States (U.S.) are particularly concerned with countering Russia's and China's presence in the region.

Economically, the rising price of oil has had a direct and immediate impact on the local economies of Mali, Niger, and Burkina Faso. The impact is acutely felt in these landlocked countries that rely on transporting oil and goods thousands of kilometers by road from the main ports of West Africa. The disruption of supply chains following the closure of the Strait of Hurmuz has increased prices and led to shortages of critical products, notably fertilizer. Food security and food prices are genuine concerns for a region already home to more than 50 million people facing food security. Access to energy has been an ongoing crisis because of insecurity and lack of infrastructure, and this is likely to intensify with increased oil prices, and logistical costs and challenges. The security situation in the Sahel is dire, and the Iran war unlikely to have a favorable impact on it.

This policy brief is based on open sources and the author's own analysis and predictions, and tries to unpack the current visible and expected consequences of the Iran war on the Sahel region of West Africa. For this paper, "the Sahel" refers to the countries of Mali, Niger, and Burkina Faso.

I. A GEOPOLITICAL CHESS GAME WITH FRAGILE SAHELIAN STATES IN THE MIDDLE

The landlocked and isolated Sahelian states of Mali, Niger, and Burkina Faso are facing new challenges because of the Middle East war. To comprehend the relationship between the Middle East crisis and the geopolitical dynamics in the Sahel, it is important to look back at recent developments in the region. For example, the departure of Western allies and the arrival, or increased influence, of somewhat new partners have had significant effects. Undeniably, the roles that regional partners Morocco and

Algeria are playing, or could play, can also not be ignored.

In the last five years Niger, Mali, and Burkina Faso have taken major steps that will almost certainly shape the countries for a very long time, if not forever. The three countries left the Economic Community for West African States (ECOWAS) and no longer rely on traditional Western allies, most notably European Union countries and the United States. The Sahelian states have gone on to create their own confederation: the Alliance of Sahelian States (AES in French). The AES has gradually built, or reinforced, ties with alternative actors such as Russia, China, and Turkey. Simultaneously, Morocco and Algeria have continued to exercise different strategies to position themselves as key players in the region.

Western allies had struggled and, arguably, failed to address the key security, economic, and political issues in the Sahel and have been broadly criticized. However, even since the split the situation has still been concerning and possibly worsened. A few elements in the current situation should be highlighted. Extremist groups affiliated to al-Qaeda and the Islamic State have continued to expand in the region and carry out almost daily attacks against state forces, civilians, and strategic sites. Economically, the region remains underdeveloped and lacks adequate infrastructure to accord with current progress, and simultaneously, insecurity continues to be a major block for the economic aspirations of Sahelian people. Politically, control remains in the hands of military regimes that do not appear to be willing to transition to civilian power any time soon. The list of concerns in the region is long, and assigning blame at this stage is unhelpful. What matters is that the current situation is hindering AES countries' ability to move forward. Unquestionably, the current situation is making the region more vulnerable and sensitive to global shocks, such as the ongoing Middle East war.

How does the Middle East conflict affect the Sahel geopolitically, and what can be expected? The Sahel may remain isolated and continue to serve as a geopolitical arena for global powers, which will not help the region overcome its current instability. Already, the region does not feature as a priority for major global powers, such as the U.S., E.U. countries, Russia, and China, and this is unlikely to change in the future. These actors are themselves consumed by the Middle East crisis and its impact on their own interests. The U.S. likely to continue to focus on Russia's and China's presence and influence in the region, rather than assisting AES countries in addressing their problems. Russia will likely continue low-cost deployments to the region to project power rather than genuinely address the Sahel's issues. China is there to stay and to explore investments that keep AES countries tied and dependent on Chinese investment. The E.U. countries will remain more concerned about the economic and, to some extent,

security impacts of the Middle East war on them, than about the situation in the Sahel. Consequently, the likelihood of other global and regional players getting involved in the Sahel to change the current situation is very slim.

There are two aspects that could provide the region with a glimpse of hope. First, the AES military regimes might decide to transition to democratically elected governments, which would encourage Western allies to return in some capacity. Second, access to natural resources and critical minerals could change the stance of the major global actors toward the region of Sahel.

II. FOOD SECURITY AND ENERGY IMPLICATIONS FOR SAHELIAN STATES

1. Oil Prices, Supply Chain, and Food Security

The global economic shock caused by the Middle East conflict has already been felt worldwide, including in the Sahel, despite the geographic distance between the two regions. The spike in oil prices and the disruption of supply chains, due to the Iran war, have had both indirect and direct impacts on the local economies of AES countries and cannot be downplayed. The withdrawal of the AES coalition from ECOWAS has also been an obstacle, since it prevents them from benefiting from the regional bloc's actions to protect its member states' economies following this global economic crisis.

The local economies of AES countries depend on fuel imports and increased prices have had a direct impact. Because of this dependence, these landlocked countries remain particularly vulnerable to price increases and/or supply disruptions. The AES's fuel supply is entirely dependent on the road corridors connecting the West African ports of Abidjan in Côte d'Ivoire, Dakar in Senegal, and Lomé in Togo[1]. Fuel is transported thousands of kilometers by tanker trucks to cities like Bamako (Mali), Niamey (Niger), and Ouagadougou (Burkina Faso). This long supply chain makes the local economies of AES countries particularly vulnerable to rising oil prices on international markets; increased maritime and road transport costs; and security or logistical disruptions along the corridors. These three reasons are interconnected, and AES authorities are not equipped to address these challenges, making them more susceptible to global shocks. At the time of writing in May 2026, the price of oil continues to increase. This means

1. Chaima Jabbar, "Corridors des Pays de l'Alliance des Etats du Sahel: Vulnérabilités Logistiques, Constraintes Sécuritaires et Dynamiques d'Adaptation," December 2025, https://www.policycenter.ma/sites/default/files/2025-12/PB_67-25_Chaima%20Jabbar%20FR.pdf

the rise of transportation costs for not only oil, but also other necessary goods and foodstuff. Food prices and food insecurity are already of major concern to Mali, Niger, and Burkina Faso and they face repeated and constant food insecurity challenges that might worsen. Prior to the Iran war, the Food and Agriculture Organization (FAO) had already warned in January 2026 of an alarming 2026 outlook and called for action[2]. Reportedly, there were 53 million people food insecure in West Africa and the Sahel by the end of 2025 and the number was expected to increase[3]. This food security crisis is largely due to ongoing armed conflicts, climate shocks, and economic pressures. However, the ongoing Iran war is expected to drive the number of people facing food security even higher, not only due to oil prices and disruption of supply chains, but also because of inaccessibility of fertilizer.

The war in the Middle East has disrupted fertilizer supply chains, shipping routes, and transport costs. Soon after the closure of the Strait of Hormuz, prices of fertilizer started to increase significantly. The closure of the Strait of Hormuz led to an immediate critical threat to the fertilizer market. Nearly half of the world's trade in fertilizers and key raw materials depends on this passage, so its blockage has caused shortages of essential inputs and a surge in agricultural prices[4].

Subsequently, the increased prices of fuel and fertilizer will eventually lead to reduced agricultural output and increased food costs across the Sahel region. Food inflation is expected to continue, with the Middle East crisis unlikely to be resolved in the immediate future, putting further pressure on AES authorities. The cost of critical products such as fertilizers, which is vital for the Sahel's agricultural sector, is closely related to oil and gas prices. Increased logistics and energy costs restrict fertilizer availability, putting the regional farming season, which starts in June of every year, at risk. If the global crisis lingers much longer, the combination of spikes in both fuel and fertilizer prices likely to push additional millions of people toward further food insecurity.

The Middle East war is also having a direct impact on mining operations in AES countries[5]. Industrial chemicals are critical for mining operations for extraction, processing, refining, water treatment, and explosives production. Mali, Niger, and Burkina Faso are genuinely concerned following the closure of Strait of Hurmuz. Lack

2. Food and Agriculture Organization, "West Africa and the Sahel: Nearly 52.8 Million People Could Face Acute Food Insecurity During the 2026 Lean Season (June-August)," 27 January 2026, https://www.fao.org/africa/news-stories/news-detail/west-africa-and-the-sahel--nearly-52.8-million-people-could-face-acute-food-insecurity-during-the-2026-lean-season-(june-august)/en

3. Ibid.

4. Radio Canada Info, 30 April 2026, https://www.youtube.com/watch?v=oNNLLVQWT-I&t=32s

5. Author's discussion with gold mining companies in the Sahel, April 2026.

of access to these critical chemicals could lead to the slow down or shut down of mines, and subsequently reduce exports, and weaken government revenues.

2. Energy Implications

The Middle East crisis came at the worst time possible for AES countries, most notably Mali. The region has faced an energy crisis for years and access to electricity remains limited in most rural areas, while it is still inconsistent and unreliable even in urban centers.

Access to energy in several parts of the Sahel still depend on fuel-powered generators for electricity access. This reliance has been put to test in recent months, especially in Mali, following the fuel blockade imposed by violent extremist organization (VEO) affiliated to al-Qaeda since September of 2025. Between September 2025 and early 2026, the al-Qaeda affiliated group *Jama'at Nusrat al-Islam wal-Muslimin* (JNIM) imposed a strategic campaign on the Sahel. The group increasingly carried out operations to paralyze the logistical systems keeping Mali's economy alive. Fuel convoys, commercial vehicles, transport corridors, and supply infrastructure linking Mali to Senegal, Côte d'Ivoire, Guinea, and Mauritania became central targets in what evolved into a sustained campaign of infrastructural disruption and economic coercion. The economic siege exposed a structural vulnerability at the heart of Mali's economy.

For instance, because of the blockade, along with fuel price increases, residents of the capital Bamako are facing repeated severe electricity shortages, as attacks on fuel transportation convoys disrupt their daily life in general and their livelihood activities in particular. Power outages have sometimes lasted between 24 and 48 hours, forcing businesses to either shut down or depend on costly alternatives, such as solar power. Geographic isolation, remoteness from production areas, and weak energy infrastructure amplify the effects of current global crises. This situation underscores the importance of AES countries diversifying their energy sources. For instance, the development of solar power, tailored to the Sahelian climate, would significantly alleviate dependence on imported hydrocarbons.

3. Security Implications

The ongoing Iran war continues to have an impact on the security situation in the Sahel. The conflict in the region remains domestic and actors do not appear to have global agenda. In their communications campaign VEOs affiliated to al-Qaeda and Islamic State have repeatedly spoken about the Israeli–Palestinian war in their propaganda to gain sympathy for followers. However, both groups seem to have refrained from using

the same tactic with the Iran war.

In a long term, if the Iran war continues, AES countries will struggle to obtain security assistance from international partners, leaving them underequipped in their fight against VEOs. For instance, the U.S. and E.U. countries are more likely to allocate resources to deter Iranian threats than to fight VEOs in the Sahel. This could change, if Iran supporters in the region chose to target Western interests and/or personnel. However, this remains unlikely due to the limited presence, especially armed presence, of Iran proxies in the region.

CONCLUSION

Sahelian states' authorities are now facing a convergence of crises over which they have little control. The Sahel region is already facing major security, political, and economic crises, and this global calamity puts further pressure on governments struggling to contain domestic chaos.

The consequences of the energy crisis are the most evident, since this is a global shock, felt almost everywhere in the world. The main concern for the Sahel is the capability of the governments to contain and manage the inflation due to increased oil prices. This is a particular anxiety as state authorities are unequipped with financial resources to subsidize, and so ease the pressure on local populations, including businesses that depend on imported oil.

The economic outlook for AES countries is also alarming. Key economic activities, including agriculture and mining are at risk. The farming season in the Sahel starts in June, and if access to fertilizer, following supply chain disruptions, remains limited, this could lead to a catastrophic crop year. Food security is at risk of reaching an alarming level in coming months. Simultaneously, if the supply chain remains disrupted, mining companies will have to explore alternatives to access key chemical products to maintain their operations. Finally, while the Middle East war does not have a direct impact on the ongoing security crisis in the Sahel, the AES might find itself further isolated, without assistance from international partners as they look to allocate their resources against Iran's threat.

06

DIRE STRAIT OF HORMUZ: A CHOKEPOINT FOR GLOBAL FOOD AND ENERGY

Otaviano Canuto

The outbreak of conflict in the Middle East has triggered a multilayered shock to the global economy and financial markets. The severity of global consequences will depend on the duration of disruptions—particularly to the Strait of Hormuz—and the policy responses of governments and central banks.

We address here the transmission channels through which conflict has affected global energy markets, commodity supply and prices, transportation systems, macroeconomic conditions, and financial markets. Rather than focusing only on oil and gas supply, we trace how the disruption in the Strait of Hormuz and related infrastructure has potentially propagated through shipping, aviation, food costs, remittances, inflation expectations, and central bank responses. Although short-term disruptions may produce volatility without structural transformation, prolonged conflict risks leading to stagflation, change of trade patterns, and reshaping global financial dynamics.

The U.S. airstrike in February that killed top leaders of the Iranian regime initiated a war involving the United States and Israel against the country of Iran. After more than a month of mutual bombardments between Iran and Israel ensued, the conflict extended to other Persian Gulf nations and U.S. military installations. From a global perspective, the impact of this conflict has stemmed primarily from disruptions to the regional production of goods and the blockade of the Strait of Hormuz.

Iran's disruption of transportation via the Strait of Hormuz—the most vital passageway for the world's energy supply—has been a weapon utilized since the start of the conflict, and has also been accompanied by a blockade by the U.S. Navy. Cross attacks stopped—or almost—with a two-week ceasefire announced on April 8, but traffic through the Strait of Hormuz remained restricted.

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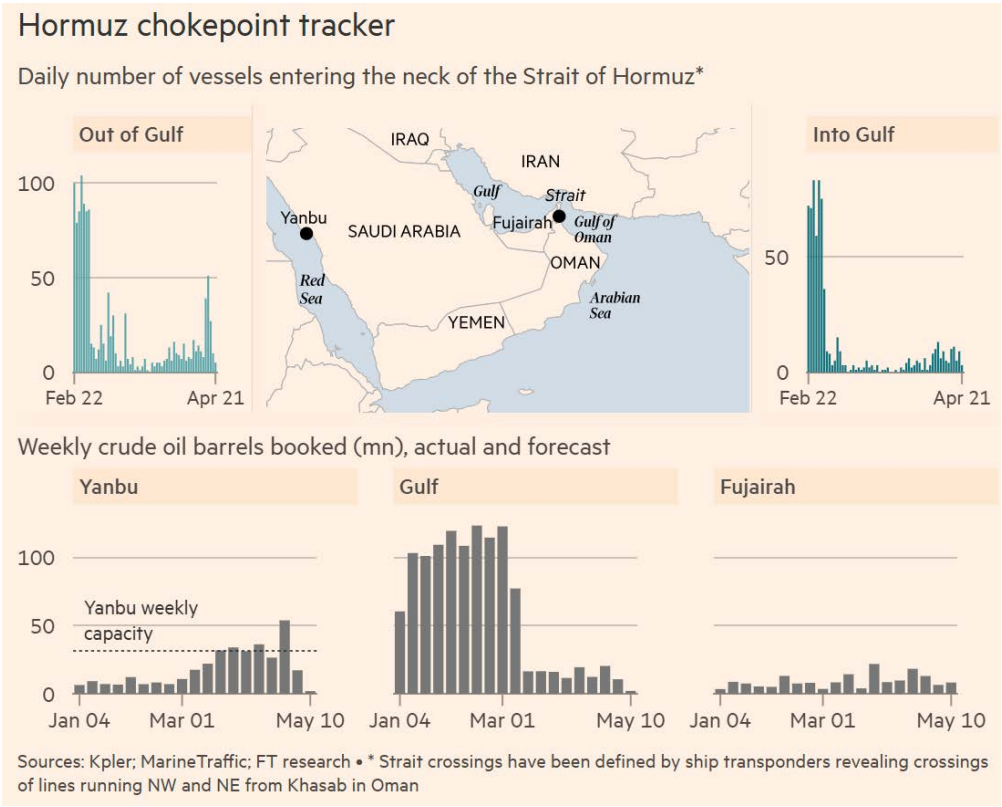
I. ENERGY MARKET DISRUPTIONS AND GLOBAL SUPPLY SHOCKS

It is no coincidence that Fatih Birol—head of the International Energy Agency (IEA)—stated that a war with Iran poses the "greatest threat to global energy 'in history'". The most immediate and significant impact of the Middle East conflict is on global energy markets. The Strait of Hormuz, through which approximately 30% of global oil trade flows, represents a critical chokepoint. Even a temporary disruption has outsized consequences for global supply chains and price charging.

Figure 1 reveals how the traffic of vessels has been affected since the start of the conflict, and the reduction in the numbers of crude oil barrels booked. It is important to remember that until April the oil—and other shipments—that crossed the strait before the war were still reaching their destination, but since the closure of the strait and the blockade, the effects on physical supply constraints are starting to be fully felt. There is a sequence, with current and future price shocks coming first, followed by physical supply constraints afterwards. The Iran shock has already moved beyond a pure price shock, as ships that have crossed the Hormuz before the start of the war have reached their destinations. The ceasefire feeds hope of a gradual normalization, while the possibility of accelerating physical breakdown remains.

Figure 1: Hormuz chokepoint tracker.

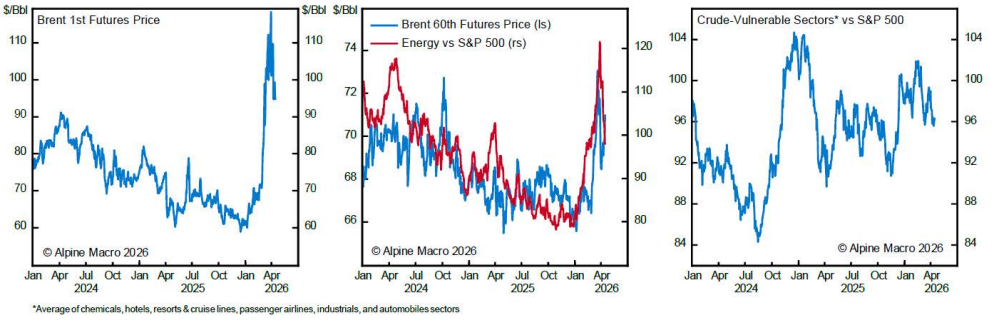


Source: Financial Times, April 21, 2026.

The attacks on energy infrastructure in the Gulf and the closure of the Strait of Hormuz disruption have removed 12 million barrels per day from global oil supply, according to Russell Hardy, from Vitol (Wilson and Moore, 2026), leading to inventory drawdowns

and pushing Brent crude prices to around US$ 90 per barrel (bbl) (Figure 2). This price increase reflects not only the physical loss of supply but also a geopolitical risk premium embedded in market expectations.

Figure 2: Oil prices



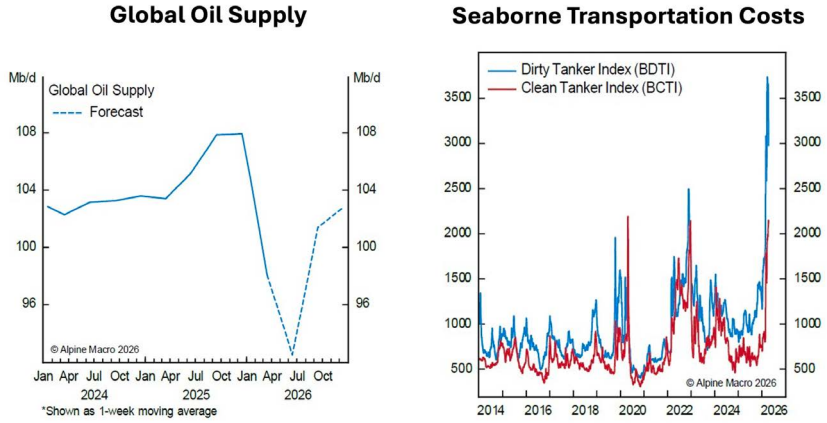
Source: Alpine Macro, U.S. Themes and Strategy, April 16, 2026

Although the conflict remains unresolved and disruptive tail risks still linger, most analysts' perceptions of the risk have diminished, leading to a baseline scenario which incorporates an opening of the strait some time in the coming weeks. But in a more serious scenario—with, say, a disruption longer than three months—the consequences become dramatically more pronounced.

According to Natixis (2026), theoretically, oil prices could rise above US$ 170 per barrel, based on supply–demand fundamentals, although strategic reserves and demand destruction would likely cap prices at lower levels, perhaps around US$ 115 per barrel. Brent closed around US$ 105 on April 26, while West Texas Intermediate, the U.S. marker, closed at US$ 94.40. The absence of comparable strategic reserves in natural gas markets makes gas prices even more sensitive, with European gas prices, under prolonged disruption, potentially exceeding € 100/MWh.

As an optimistic baseline scenario, the Alpine Macro (2026) research team has estimated that the return of crude oil output currently offline will be gradual over the next one to three months. This is consistent with Brent futures prices not far from near-dated futures at US$ 95/bbl and US$ 88/bbl one and three months out, respectively, alongside the explosive rise in seaborne costs of transporting both crude and refined oil products (Figure 3).

Figure 3: Global oil supply and seaborne transportation costs



Source: Alpine Macro, U.S. Themes and Strategy, April 16, 2026.

Alpine Macro (2026) expects oil to settle somewhere around US$ 70–80/bbl in the short term , in the case of an end to hostilities, with a residual geopolitical risk premium of US$ 5–10/bbl compared to prewar levels, that will likely remain over this period, as a result of higher maritime transportation and insurance costs, as well as the time required to repair and fully restore damaged energy infrastructure.

According to the IEA, as of the end of March, more than 40 energy facilities across Gulf producers had sustained severe damage during the conflict. Restoration of output should take weeks to months, depending on the extent of the damage. The two most severely damaged pieces of infrastructure relate to natural gas rather than oil. According to Amrita Sen, from Energy Aspects, in the case that 50% of traffic through the Strait of Hormuz comes back by the end of May, 450mn barrels of clean refined products, such as diesel and gasoline, will have been lost by the market (Wilson and Moore, 2026).

Oil demand is relatively inelastic in the short run, meaning that large price increases are required to reduce consumption. However, over time, sustained high prices can lead to behavioral changes, reduced economic activity, and substitution of alternative energy sources.

The energy shock also has asymmetric regional effects. Asia is particularly vulnerable due to its heavy reliance on Middle Eastern energy imports (Figures 4a and 4b). Countries such as Japan and India face high exposure, with limited immediate alternatives.

Figure 4a Exposure to crude flow via Strait of Hormuz

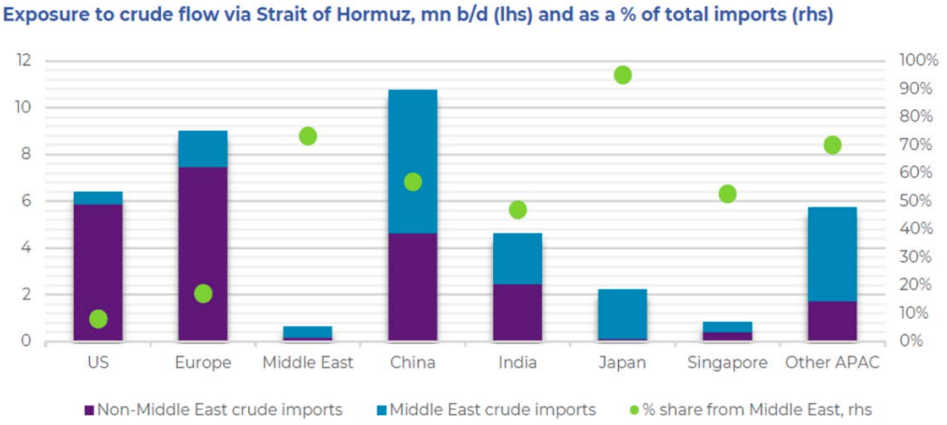
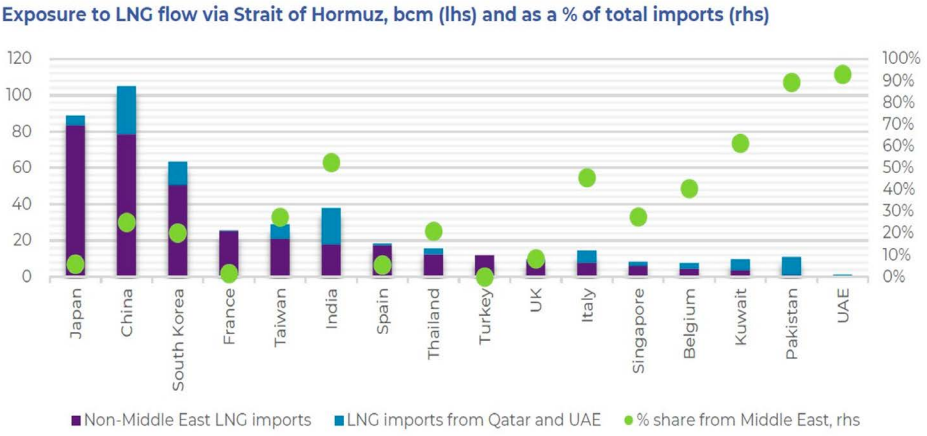


Figure 4b: Exposure to LNG flow via Strait of Hormuz



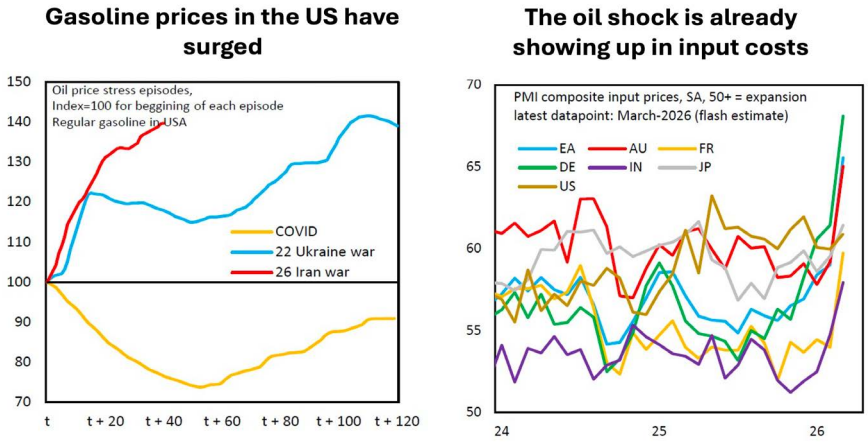
Source: Natixis, Middle East Conflict: Counting the Shocks on the Global Economy and Impact on Financial Markets, March 10, 2026.

Europe, while less directly dependent on Middle Eastern oil, remains vulnerable through global price transmission mechanisms and its dependence on liquefied natural gas (LNG). In Latin America and sub-Saharan Africa, commodity exporters may benefit while import-dependent economies are being negatively impacted through external balances, inflation, and fiscal dynamics.

Effects are asymmetric, differentiated according to whether a country is an exporter or importer of oil and gas. Figure 5, taken from Estevão et al. (2026), shows how gasoline prices have surged in the U.S. (left), and how a rise in input costs has been a general

feature (right). The transmission is no longer confined to crude benchmarks, with refined products, feedstock, and logistics still carrying the shock into the real economy. In any case, a cliff edge may still be faced if blockades are prolonged.

Figure 5: Gasoline prices and input costs in the US



Source: Estevão, M.; Forton, J.; and Hamilton, L. The Iran Shock: From Prices to Constraints, IIF Global Macro Views, Institute of International Finance, April 16, 2026.

Whether the war ends in a negotiated settlement or in a frozen standoff, it is possible that transit in the Strait of Hormuz will not return to prewar levels. As Kristalina Georgieva, IMF Managing Director, said in a presentation during the IMF–World Bank Spring Meetings: "*Even in a best case, there will be no neat and clean return to the status quo ante*".

II. COMMODITY MARKETS BEYOND ENERGY AND GLOBAL FOOD SECURITY

The conflict's impact extends beyond oil and gas into broader commodity markets, particularly metals and industrial inputs. The Middle East plays a significant role in the production of aluminum and sulfur, both of which are critical to global manufacturing and resource extraction.

Aluminum prices have already increased due to disruptions affecting approximately 8% of the global supply. While some of this increase may be temporary, prolonged conflict could sustain elevated prices due to higher energy costs and transportation disruptions.

The war-affected Middle East has become an indispensable engine of modern agriculture and industrial manufacturing (Hanieh, 2026). The disruption to sulfur and sulfuric acid supply chains is a major concern. Sulfuric acid is essential for the extraction of metals such as copper and nickel.

The region provides 45% of globally traded seaborne sulfur. This byproduct of oil and gas desulfurization is the primary feedstock for sulfuric acid, a fundamental input required not just for phosphate fertilizers, but for copper mining, battery metals, and semiconductor fabrication.

The implications for nickel are particularly severe. Indonesia, which produces over half of the world's nickel, relies heavily on imported sulfur. Supply disruptions could, therefore, constrain production and increase prices, especially for battery-grade nickel used in electric vehicles.

Furthermore, the Gulf provides roughly 30% of internationally traded ammonia—the starting point for all mineral nitrogen fertilizers. Saudi Arabia and Oman are respectively the world's second and sixth largest exporters of ammonia. State-owned giants like Saudi Aramco and Adnoc (UAE) have moved down the value chain, using financial surpluses to dominate the production of finished fertilizers like Urea, DAP (Diammonium phosphate), and MAP (Monoammonium phosphate) The paralysis of the Strait of Hormuz has created a "double squeeze" on global supply chains, provoking a "cascading industrial and agricultural squeeze", as remarked by Hanieh (2026). Figure 6 shows how the world's top importers of fertilizer depend on the Gulf.

Figure 6: Top sulphur, urea and ammonia importers in 2025.

Source: Hanieh, A.; The Coming Global Food Crisis, Financial Times, April 18, 2026.

There is also an important Morocco–Gulf link: Morocco, the world's largest phosphate producer, is deeply dependent on the Gulf, which provides 75% of its sulfur and 30% of its ammonia. Without these Middle Eastern inputs, Morocco's ability to supply the world with phosphate fertilizers is crippled.

In March, fertilizer prices rose 26.2%. The UN Food and Agriculture Organization warns that if the crisis persists through the first half of the year, prices could sustain levels 15% to 20% higher than previous averages, coinciding with the Northern Hemisphere's crucial spring planting (FAO, 2026).

The deeper integration of the Gulf into the global food system means that regional shocks now cascade rapidly from "farm to shelf". Import-dependent nations are the hardest hit. In 2024, Sudan imported 54% of its fertilizers from the Gulf, followed by Sri Lanka (36%) and Tanzania (31%). These nations lack the fiscal buffers to subsidize farmers against the 2026 price shocks.

The World Food Programme (2026) estimates that the war will push an additional 45 million people into acute hunger, with two-thirds of those affected located in Africa. Sudan, where famine conditions are already appearing amidst the world's worst displacement crisis, is the direst case.

Because of the war there are also high-tech bottlenecks and semiconductor vulnerability. With seaborne sulfur exports largely paused, mining operations in Chile and Australia face soaring costs for copper and battery metal extraction. Simultaneously, the semiconductor and EV sectors see foundational input costs rise, as nitric and sulfuric acid outputs decline.

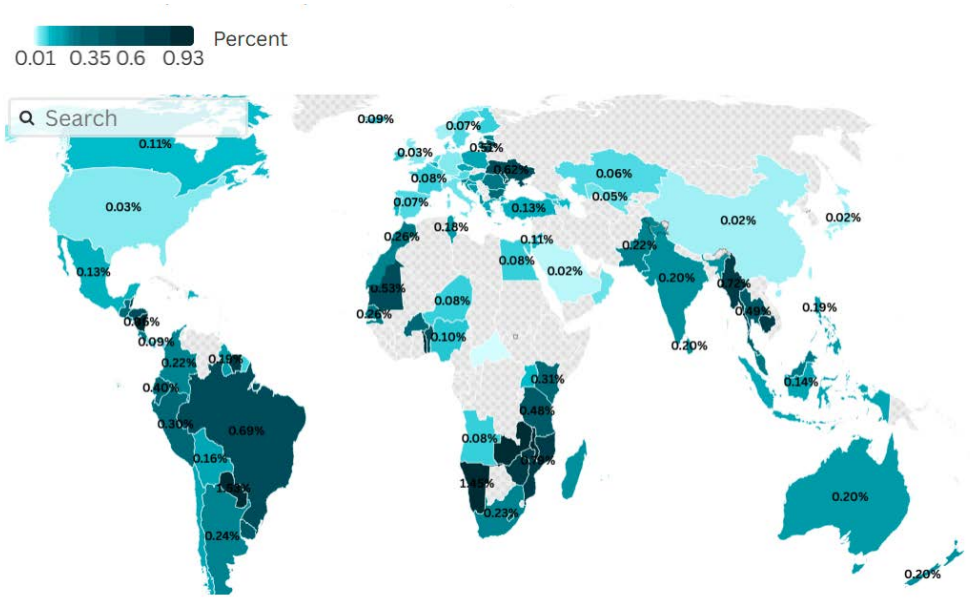
Constraints in the global supply of highly purified helium complete this picture of modern supply chain vulnerability (Natixis, 2026). The state of Qatar reliably supplies approximately one-third of the world's critical helium requirements, extracted as an integrated byproduct of its natural gas liquefaction operations. The broader Gulf disruptions have hampered production schedules, while restricted access to the Strait of Hormuz prevents remaining packaged cargoes from reaching vital Asian semiconductor fabrication plants.

Helium remains fundamentally irreplaceable in advanced semiconductor manufacturing processes. It uniquely cools delicate processing equipment during extreme ultraviolet lithography and purges disruptive oxygen during silicon crystal growth. Top-tier consumer chipmakers consequently face unavoidable production

adjustments at a historical moment when enterprise demand for computing hardware is steadily expanding.

The current conflict is fundamentally different from previous shocks. Because the Gulf states now control the logistical corridors and chemical inputs for global agribusiness, any prolonged disruption to regional infrastructure threatens the structural stability of global food security and the high-tech industrial economy. Regionally, countries in Africa, South America and South and Southeast Asia spend the largest portion of GDP on fertilizer imports (Figure 7).

Figure 7: Fertilizer imports as a percent of GDP



Source: Svenstrup, M.; Martinez, M.; and Landers, C.; Will the Iran War Be the Breaking Point for Vulnerable Countries? Center for Global Development, March 20, 2026.

III. TRANSPORTATION AND TRADE DISRUPTIONS

The conflict has also disrupted global transportation networks, affecting both maritime shipping and air travel (Figure 8). The closure of the Strait of Hormuz has reduced oil and LNG shipments, while broader geopolitical instability has impacted shipping routes and insurance costs.

Figure 8: Disruptions to shipping and flights

Source: Georgieva, K.; Cushioning the Middle East War Shock, April 9, 2026.

Some shipping sectors have benefited in the short term. Delays in Suez Canal traffic have helped rebalance supply–demand dynamics in the shipping industry, temporarily boosting freight rates. However, these benefits are likely to be short-lived if demand weakens due to higher costs and economic uncertainty.

Air travel has been more negatively affected. Airport closures and rerouted flights have increased costs for airlines, particularly in Europe and the Middle East. Fuel costs—already a major component of airline expenses—have risen sharply, further compressing margins.

Tourism is another sector at risk. While historical patterns suggest that tourism tends to recover quickly after geopolitical shocks, prolonged instability could damage the region's reputation as a travel destination, particularly for Gulf economies that rely on tourism for diversification.

IV. MACROECONOMIC IMPACTS: INFLATION, GROWTH, AND STAGFLATION RISKS

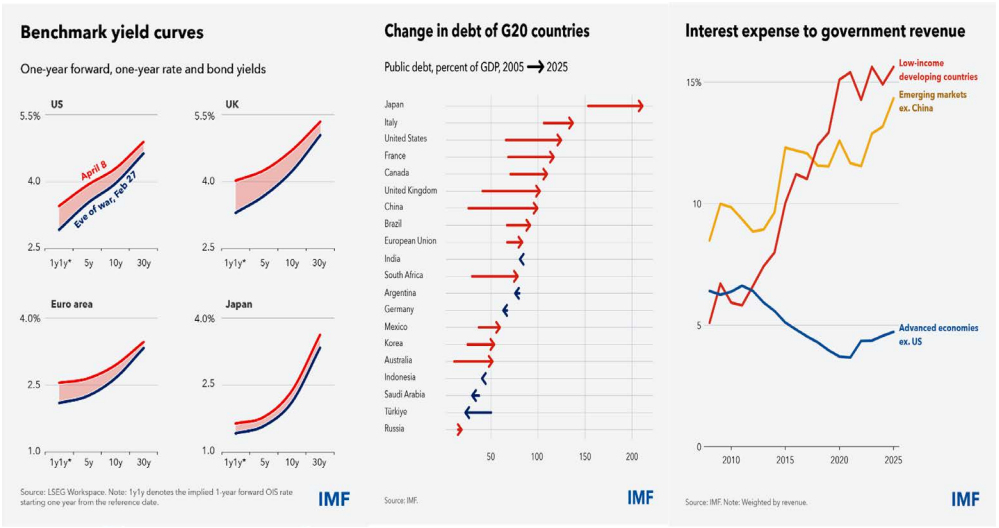
At the macroeconomic level, the conflict introduces a classic supply-side shock: rising input costs combined with slowing growth. This combination raises the risk of stagflation—a scenario characterized by high inflation and weak economic activity.

One may identify several transmission channels through which the ongoing conflict affects global economies:

- **Higher energy and food costs:** Increased oil and gas prices raise production and transportation costs across industries, leading to higher consumer prices. Higher prices and less availability of fertilizers may also impact food production.
- **Trade disruptions:** Reduced shipping capacity and higher costs hinder global trade flows.
- **Financial tightening:** Increased uncertainty leads to tighter financial conditions and reduced investment.
- **Income effects:** Reduced remittances and tourism revenues affect household incomes in vulnerable economies.

As Georgieva (2026) showed in her presentation during the IMF–World Bank Spring Meetings, markets have been expecting major central banks to tighten their policy stance (Figure 9, left). This is happening in a context in which public debt is generally much higher than 20 years ago—including in most G20 countries (Figure 9, center)—and interest payments are rising as a share of revenue at all income levels (Figure 9, right).

Figure 9: Yield curves, debt of G20 countries, and interest expense to government revenue



Source: Georgieva, K.; Cushioning the Middle East War Shock, April 9, 2026.

It is relevant to call attention to the fact that the current shock is happening at a moment of debt distress for many developing countries (Songwe, 2026). Developing countries paid US$921 billion in interest in 2024. As the war drives up energy and food prices, inflationary pressures are forcing interest rates higher, making finance scarcer for the 3.4 billion people living in countries that spend more on debt service than on health or education.

Svenstrup et al (2026) explore what may make the Iran war "a breaking point for vulnerable countries". They point out six transmission mechanisms from the Middle East conflict to Emerging Market vulnerability: (1) net energy imports, (2) fossil fuel subsidies, (3) external debt service obligations, (4) fertilizer imports, (5) Gulf-origin remittances, and (6) reserve/import ratio.

A range of potential disruptions to the global economy are detailed in the IMF's World Economic Outlook report released during the Spring Meetings (IMF, 2026). It sets out three scenarios: (1) the reference forecast scenario, (2) the adverse scenario, and (3) the severe scenario. Considered to be the baseline and most likely scenario, the reference forecast sees global growth falling to 3.1% this year, revised down from 3.3% in January, and headline inflation rising to 4.4%. The adverse scenario—which assumes continued supply chain disruption and higher energy prices—sees growth fall to 2.5%

and inflation rises to 5.4%. The least likely but most severe scenario—which assumes supply disruptions continue through next year—sees global growth tumble to 2% and inflation surge above 6%.

V. FINANCIAL MARKET REACTIONS AND ASSET ALLOCATION

Financial markets have responded to the conflict with increased volatility and a shift toward safe-haven assets. The U.S. dollar and Swiss franc have appreciated, reflecting investor demand for stability.

Equity markets have shown divergent performance. U.S. equities have outperformed, reflecting relative economic resilience and safe-haven status. In contrast, Asian and emerging market equities have lagged due to their greater exposure to energy shocks and trade disruptions.

Bond markets have also reacted, widening spreads in European sovereign debt, particularly for countries such as France and Italy. This reflects increased fiscal risks and uncertainty.

In foreign exchange markets, the initial strengthening of the U.S. dollar is expected to reverse over time, particularly if the conflict remains contained. One may also anticipate a recovery in the euro and yen against the dollar in the longer term.

Real estate markets may also be affected. Increased geopolitical risk could drive investment toward perceived safe-haven regions, particularly in Western Europe and parts of Asia.

VI. POLICY RESPONSES AND STRATEGIC IMPLICATIONS

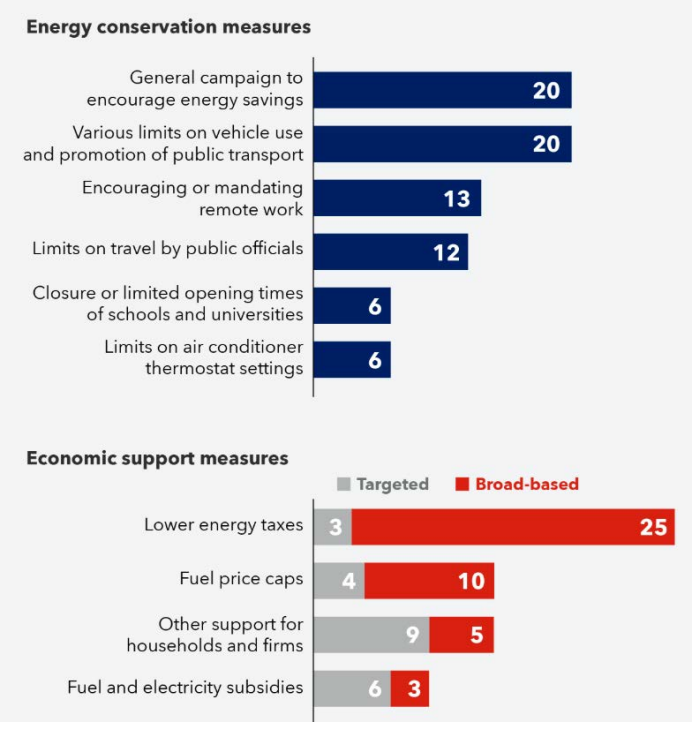
Government and central bank responses will play a critical role in shaping the ultimate economic impact of the conflict. Key policy tools include:

- **Strategic reserve releases:** Governments can release oil reserves to stabilize prices and offset supply disruptions. However, the lack of equivalent reserves for natural gas limits policy options in that market.

- **Monetary policy adjustments:** Central banks may adjust interest rates in response to inflation and growth dynamics.
- **Fiscal measures:** Subsidies and targeted support can mitigate the impact on households and businesses.
- **Trade policies:** Export restrictions and protectionist measures may be used to secure domestic supply.

Figure 10 lists national energy policy measures that have already been adopted.

Figure 10: National energy policy responses



Source: Georgieva, K.; Cushioning the Middle East War Shock, April 9, 2026.

In the longer term, the conflict may accelerate structural changes in global energy markets. Countries may seek to diversify energy sources, increase domestic production, and invest in renewable energy to reduce dependence on geopolitically sensitive regions.

VII. DIFFERENTIATED REGIONAL AND COUNTRY IMPACTS

The Middle East conflict represents a significant exogenous shock to the global economy, with far-reaching implications across energy markets, commodities, transportation, and financial systems. While short-term disruptions may lead to temporary volatility, prolonged conflict poses a more serious threat, including the risk of stagflation, structural shifts in trade patterns, and sustained financial instability.

The analysis underscores the central role of energy markets in transmitting geopolitical shocks. Disruptions to the Strait of Hormuz have cascading effects across global supply chains, commodity markets, and macroeconomic conditions. At the same time, the impact is unevenly distributed, with Asia and energy-importing economies bearing the greatest burden.

Asia emerges as the most affected region outside the Middle East. Countries such as Thailand, South Korea, and the Philippines face rising import costs, worsening current account balances, and increased inflation.

In China, stockpiles, domestic coal and renewable energy capacity, and price controls have mitigated the shock from the crisis and given China some breathing room for oil and gas. However, a weaker global demand for its exports will bring consequences (Eurasia Group, 2026).

Europe faces a more moderate but still significant impact. While not directly affected by supply disruptions, higher energy prices could slow growth and increase inflation. The extent of the impact depends on the duration of the conflict. A short disruption would have limited effects, while a prolonged conflict could lead to sustained inflation and tighter monetary policy.

In the United States and Canada, the impact is somewhat mitigated by domestic energy production. However, sustained high oil prices could still lead to higher inflation and slower growth. The impact of the Iran war will persist even after the conflict ends, as higher fuel prices feed through into businesses and the wave of inflation remains (McCormick et al, 2026).

Latin America and the Caribbean face a mixed outlook. While oil producers (Argentina, Brazil, Colombia, Ecuador, Guyana, Trinidad and Tobago, and Venezuela) may benefit

from higher prices, the region is likely to experience weaker growth, higher inflation, and currency depreciation. As an example, while Brazil's production and exports of oil will gain in terms-of-trade, rising prices of imported diesel and fertilizers will hurt (Canuto, 2026). Tourism-dependent Caribbean economies, vulnerable-to-energy-prices Central America, and countries with current account deficits that rely on global financing will all suffer (Chalk, 2026).

The economic shock has rippled across Africa. The International Monetary Fund (IMF, 2026) recently revised sub-Saharan Africa's 2026 growth forecast down to 4.3%, citing the war as a primary driver for reversing the continent's post-2024 recovery.

The impact is generally split into two camps: a temporary revenue windfall for oil exporters (like Nigeria and Angola) and a severe cost-of-living crisis for oil importers. Higher oil prices increased transport and electricity costs and, given that the Gulf is a major source of global fertilizers—complementary but not perfect substitutes to Moroccan ones—African agricultural productivity is under threat, raising fears of a supply scarcity.

There is also a maritime rerouting at play. As the Red Sea becomes a high-risk zone, shipping is being diverted around the Cape of Good Hope. While this increases traffic for South African ports, it drastically raises freight costs and delivery times for East and North African trade.

African currencies (notably the South African rand and Kenyan shilling) have depreciated, and servicing dollar-denominated debt has become significantly more expensive—something of concern owing to the debt vulnerability of developing countries in the region. According to Selassie (2026):

> *More than one-third of countries are at high risk of, or already in, debt distress. In 21 countries, fiscal deficits exceed the levels that are needed to stabilize debt. Rising interest bills and dwindling concessional finance are inflating debt-service burdens and crowding out essential development spending.*

Additionally, there will be investment delays, since wealthy Gulf nations (such as Saudi Arabia, UAE, and Qatar) are reportedly reevaluating or delaying more than US$ 100 billion in planned African infrastructure investments in order to focus on their own domestic security and repairs.

Morocco finds itself in a particularly delicate position due to its high energy dependence

and its strategic alignment with Gulf partners. Unlike its neighbor, Algeria, Morocco is a net energy importer. The surge in oil and gas prices is putting immense pressure on the national budget. The government faces a dilemma: either increase subsidies to protect citizens from inflation (which strains the deficit) or pass costs to the public, risking social unrest.

The war threatens the remittance flows and direct foreign investment (FDI) it traditionally receives from the Gulf Cooperation Council (GCC). Furthermore, as global stability erodes and airspaces face closures or rerouting, Morocco's vital tourism sector is seeing a cooling effect. Potential travelers are wary of the broader regional instability, even if Morocco remains physically distant from the kinetic conflict.

As global fertilizer supplies from the Gulf are disrupted, Morocco—a world leader in phosphates—may see increased demand and higher prices for its exports, potentially offsetting some of its energy losses, as long as its dependence on sulfur and ammonia from the GCC does not become a barrier to that.

FINAL REMARKS

As the Middle East has assumed a pivotal position in globalization much far beyond just oil and gas production, the unfolding crisis in the region has brought consequences of global reach: a major, multifaceted shock, as well as a possible recalibration of the terms of the geoeconomic competition between China and the U.S. (Zaoui, 2026).

Ultimately, the severity of the economic consequences will depend on the duration of the conflict and the effectiveness of policy responses. Strategic reserves, monetary policy, and international coordination will be critical in mitigating the impact. However, the conflict also highlights the vulnerability of the global economy to geopolitical risks and underscores the importance of diversification and resilience in energy and trade systems.

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07

THE IRAN WAR AND AFRICA'S ENERGY SECURITY: FOUR POLICY TAKEAWAYS

Hafez Ghanem

The war in Iran and the closure of the Strait of Hormuz have delivered a stark wake-up call; Africa's energy sector is extremely vulnerable to external shocks. Despite being a net exporter of hydrocarbons, the continent remains highly dependent on imports of refined petroleum products—diesel, gasoline and jet fuel. As a result, disruptions in world petroleum markets have strong impacts on the continent's access to energy.

Africa faces two energy-sector-related challenges. First, it needs to expand energy supply and provide electricity to the more than 600 million Africans who today have no access. Second, it needs to build resilience to external shocks. This brief proposes four policy actions to achieve the dual objectives of universal access and greater resilience: (1) increasing continental refinery capacity and reducing dependance on imported refined products; (2) accelerating the green transition by increasing usage of solar and wind energy to reduce dependence on hydrocarbons; (3) investing in modern nuclear facilities, especially small modular reactors, as a source of clean energy that can help Africa be more resilient to geopolitical shocks; and (4) expanding intra-African trade in energy products so as to be less dependent on other regions."

The war in Iran, which led to the closure of the Strait of Hormuz and turmoil in global hydrocarbons markets, has shed light on Africa's energy insecurity. High oil prices have worsened fiscal and balance payments positions across the continent since the vast

majority of African countries are net oil importers. Physical shortages have impacted some of the continent's largest economies. Egypt was forced to impose early closure of all restaurants and cafés to reduce energy usage[1]. Similarly, in South Africa, Eskom has been forced to introduce rolling blackouts[2].

It appears that the global economy is not simply facing a series of isolated temporary shocks. Rather, it is confronting a structural shift toward greater volatility caused by de-globalization and the weaponization of trade, the weakening of multilateralism, and the advent of Artificial Intelligence[3]. Africa must adjust to this structural shift by building resilience and being prepared to deal with more frequent and sharper disruptions.

This policy brief explores the determinants of Africa's energy security and proposes four policy measures to enhance access to energy while also reducing vulnerability to global shocks. The long-term solution to Africa's energy insecurity is to diversify its sources of energy and particularly to transit to renewables and clean nuclear energy. In the meantime, Africa needs to reduce its dependence on imports of refined petroleum products. Four policy actions are proposed here: (1) increasing continental refinery capacity and reducing dependance on imported refined products; (2) accelerating the green transition by increasing usage of solar and wind energy to reduce dependence on hydrocarbons; (3) investing in modern nuclear facilities, especially small modular reactors (SMRs), as a source of clean energy that can help Africa be more resilient to geopolitical shocks; and (4) expanding intra-African trade in energy products so as to be less dependent on other regions.

I. THE CHALLENGE: EXPAND ENERGY ACCESS AND ENSURE RESILIENCE TO GLOBAL SHOCKS

Although Africa is a net exporter of hydrocarbons, the war in Iran and the increase in oil prices had an overall negative impact on the continent because most Africans live in countries that are net importers, and the debt overhang makes it difficult for countries to adjust to the terms of trade shock caused by higher oil prices[4]. Africa exports mainly crude oil and depends on imports of refined products. Hence, even large oil exporters

1. See Egyptian government announcement here.
2. See Eskom announcement here.
3. For more on this point see separate articles by El-Erian (2026) and by Spence (2026).
4. See IMF (2026) and AfDB (2026).

are impacted by the turmoil in the market for refined products.

Even before the war in Iran Africa was facing a challenging energy situation. Africans have limited access to electricity. The electrification rate in Africa is only about 57%, compared to 90-95% in Asian developing countries and 92-99% in Latin America. Some 600 million Africans do not have access to electricity, representing 80% of the electricity poor population of the world. Even when access exists, Africans suffer from low quality of service: frequent outages, load shedding, and limited hours of supply[5].

Africa's consumption of hydrocarbons is the lowest in the world. Cross regional comparisons can be made by considering the primary consumption of oil and natural gas expressed in barrels of oil equivalent (boe) per capita per year. Africa consumes 4-6 boe per capita/year. This is to be compared with 10-15 boe per capita/year in developing Asia, 15-20 boe/year in Latin America, 25-35 boe/year in Europe, and 60-70 boe/year in North America[6].

The war in Iran has highlighted the important development and security challenges facing Africa. It must expand access to energy which is essential for economic development. At the same time, it needs to ensure energy security and make sure that its energy system is resilient to geopolitical shocks.

II. THE IMPACT OF HIGH HYDROCARBON PRICES ON AFRICA'S ENERGY SECURITY

The paradox of the negative impact of the oil shock on a continent that is a net exporter of hydrocarbons is explained by two factors. First, only four countries account for most of the continent's petroleum product exports with more than a billion Africans living in countries that are net importers. Second, refining capacity on the continent is limited and nearly all countries, including major crude exporters, need to import refined products.

5. Data for electricity access is from the World Bank.

6. Data for hydrocarbon consumption is from the Energy Institute.

Table 1: Africa Crude Oil Exports in 2023

	Volume (million barrels)	Value (billions of dollars)
Africa	2,628	210
Of which:		
Nigeria	529	42.3
Angola	402	32.2
Libya	365	29.2
Algeria	292	23.4
Republic of Congo	91	7.3

Source: Volume data is from IEA and OPEC. The values are estimated using $80/barrel which was the average price in 2023.

Table 1 shows that the top four African oil exporters are responsible for more than 60 percent of the continent's total exports of crude oil. Those are the countries who benefit from higher oil prices. The rest of Africa loses when oil prices rise. More than 40 African countries, with a combined population of about 1.04 billion people, are net importers of hydrocarbons, and therefore are negatively impacted by the increase in oil prices. Morocco, Egypt and South Africa are the largest African net importers of hydrocarbons with annual import bills exceeding $10 billion each. In terms of exposure to world petroleum markets Ethiopia, Morocco and Tunisa are the most exposed African countries as net petroleum imports represent more than 20% of their total import bills.

Table 2: Africa Gas Exports (LNG + pipeline) in 2023

	Volume (Billion cubic meters, bcm)	Value (dollar billion)
Africa	95	26.5
Of which:		
Algeria	48.7	13.6
Nigeria	20.0	5.6
Egypt	8.0	2.2
Angola	6.0	1.7
Mozambique	5.0	1.4

Source: Volumes are from IEA and the Institute for Energy Economics and Financial Analysis. Values were estimated by using a blended gas price of $280 million for a billion cubic meters.

African exports of natural gas are even more concentrated than crude oil exports. As shown in table 2 nearly three-quarters of the continent's natural gas exports are from

just two countries: Algeria and Nigeria. The biggest net importers of natural gas are Morocco, South Africa and Tunisia. Egypt is the largest gross importer in Africa, but a large portion of its gas imports are re-exported. Unlike crude oil, there is a significant intra-African market for natural gas, mainly through pipelines.

Table 3: Africa Total Imports of Refined Products, 2023

	Volume (million barrels/year)	Value (billions of dollars)
Africa	1,387	122
Of which:		
South Africa	353	31
Nigeria	348	31
Egypt	280	25
Morocco	208	18

Source: Calculated Using AFREC refining gap data and IEA for actual data for top four importers.

Table 3 shows Africa's high dependence on imports of refined petroleum products, with an annual cost exceeding $120 billion. Of the total refined product imports the vast majority were diesel (42%) and gasoline (34%) followed by jet fuel (12%), fuel oil (7%) and liquified petroleum gas and others (5%). The main sources of imported refined products are Europe (55%), the Middle East (32%), and India (13%).

The case of Nigeria is worth pointing out. The country is the continent's largest exporter of crude oil, but also the largest importer (nearly at par with South Africa) of refined products. This occurred because Nigeria did not maintain its public sector refineries and allowed its capacity to disappear. A new private refinery in Nigeria is changing this situation.

III. AFRICA SHOULD REFINE MORE OF ITS OWN PETROLEUM

Africa is exporting about 2.6 billion barrels of crude oil every year, worth some $210 billion. At the same time, it is importing about 1.4 billion barrels of refined products every year worth some $120 billion from Europe, the Middle East and South Asia. This is a problem for two reasons. First, the continent is losing the value added that comes from refining its own petroleum, as it continues the old pattern observed in other sectors of exporting raw materials and importing higher value finished products. Second, by relying so much on imports of refined petroleum products Africa is vulnerable to

exogenous shocks, such as wars and the closure of maritime routes, that impact supply and are becoming more frequent. That is why it is important that Africa increase its refining capacity.

The first benefit of expanding petroleum refining in Africa is the creation of more domestic value added. One way of estimating the value added from refining is to consider the refinery margins. The U.S. Energy Information Administration (EIA) publishes refinery margins. The margins are very volatile and change a great deal from month to month, ranging from $10 to $25 per barrel. That is why it is difficult to make a point estimate of the gains for Africa from refining its oil rather than exporting crude and importing refined products. It is more prudent to consider probable ranges. Using a range of $10-25/ barrel/year from the EIA data, if all of Africa's oil is exported as refined products rather than crude oil, the additional value added for the continent would be in the range of $26-65 billion/year. That is somewhere between 0.9 and 2.2% of the continent's GDP.

Refineries require heavy investments, but the rates of return are potentially very high. The most recent investment in a refinery in Africa was carried out by the Dangote group in Nigeria. The Dangote refinery has a capacity of 650 thousand barrels per day and cost $2.0 billion to construct. Hence, the implied capital cost is about $31 thousand/ barrel/day. To refine all of Africa's crude exports of some 2.6 billion barrels/year requires a refining capacity of 7.1 million barrels per day or a total capital investment of $220 billion. Using the range for refining margins published by the EIA, the implied rate of return on investments in African refineries ranges between 12-30%. Clearly more detailed feasibility studies will be needed on a case-by-case basis. Nevertheless, the back of the envelope calculation presented here indicates that refineries in Africa have the potential of providing high rates of return on investment.

The second benefit of expanding refineries in Africa is building industrial capacity. Refineries create high-skill jobs in engineering, operations, maintenance, safety, laboratory services, logistics, and project management. They anchor wider downstream sectors such as petrochemicals, plastics, packaging, lubricants, fertilizers, and industrial gases. Those secondary effects of investment in refineries could be at least as important as the direct effect of creating more value added in the petroleum sector.

A third benefit is reduced import dependence. In a world that is de-globalizing, where trade is weaponized, where sea routes are blocked, and where rich countries are prioritizing "near shoring" and "friend shoring", Africa should increase its resilience to shocks by relying more on regional refined products. This need became crystal clear

because of the Iran war. Countries with domestic or regional refining options had more flexibility than those wholly dependent on imported products.

Table 4: Output of Refined Products in 2023

	Volume (million of barrels/year)	Value (billions of dollars)
Africa	978	86
Of which:		
Egypt	215	19
Algeria	190	17
South Africa	131	12
Libya	110	10
Nigeria	44	4

Source: IEA

Africa has the knowledge and capacity to refine its crude oil. Table 4 shows that the continent is already producing nearly a billion barrels per year of refined products. Hence, the objective is to expand the existing sector, which is easier than starting a new activity where no local knowledge and capacity exist. Africa could and should refine its own crude oil.

Table 5: Capacity of New Refinery Projects in Africa (millions of barrels/year)

Dangote (Nigeria)	237
Lobito (Angola)	73
Cabinda (Angola)	22
Uganda	22
Others	73
Total	427

Source: Africa Energy Chamber and author calculations.

African political and business leaders are cognizant of the need to increase the continent's refinery capacity. Table 5 shows a list of new refinery projects being implemented in Africa. The largest project is the Dangote refinery in Nigeria followed by two refineries in Angola. While those new investments are encouraging, it is important to note that when all those projects will be operating at full capacity, Africa's output of refined petroleum products will only increase by about 430 million barrels/year. Compare this with the total imports of refined products of 1.4 billion barrels per

year and exports of crude of 2.6 billion barrels/year. There is clearly scope for further expansions in Africa's refining capacity. The objective should be to stop importing refined products and eventually to reduce exports of crude oil and start exporting refined products.

It could be argued that given the energy transition and the move away from hydrocarbons and into renewables, it may not make sense to invest in refineries that could become obsolete in a few years. It is true that the demand for hydrocarbons is expected to taper off as renewables become more cost effective and are adopted by more users. However, this transition will take time, and there will continue to be demand for petroleum products for many years to come. The expansion of renewables is not an argument for continuing to export crude oil and rely on imports of refined products from rich countries. Rather it is an argument to build more efficient integrated refining and petrochemical plants that leverage decarbonization technology and digitalization.[7] On the other hand, it must be clear that expanding Africa's capacity to refine its own crude oil does not mean less investment in the green transition.

IV. AFRICA NEEDS TO INVEST IN THE GREEN TRANSITION

Diversifying energy sources is important to make Africa more resilient to external shocks. Hence it is important to accelerate investment in renewables. Investing in renewables in Africa would help achieve two objectives: universal access to electricity, and greater resilience to exogenous shocks through less dependence on imported energy. Africa has a huge potential in renewables. The continent has exceptional solar irradiation across the Sahara, Sahel, and Southern Africa; strong wind corridors along the Atlantic and Red Sea coasts and in parts of East and Southern Africa; and substantial hydropower potential in the Nile, Congo, Zambezi and Niger, river basins.

Hydropower has historically been Africa's dominant renewable resource. Today, however, solar and wind are expanding rapidly, while battery storage is emerging as a critical technology that can make intermittent renewables more reliable. Together, these technologies could reshape Africa's energy future.

7. For a review of what a modern efficient refinery would look like see the International Energy Forum (2022).

Table 6: Cost of Electricity Generation Using Different Technologies, 2024 (cents/ kwh)

Diesel	30.0
Coal	11.0
Gas	9.0
Solar+Batteries	8.3
Off-shore Wind	7.9
Geothermal	6.0
Hydropower	5.7
Solar PV	4.3
On-shore Wind	3.4

Source: IRENA (2025), IEA (2020) and author's calculations.

Table 6 shows that renewables are economically competitive. The low cost of renewable energy is making it easier for Africa to achieve the objective of universal access to electricity. The four most competitive renewable technologies are onshore wind, solar PV, hydropower and geothermal. The obvious drawback of solar PV is that it does not produce electricity when the sun is not shining. Hence, to ensure continuous electricity access, based solely on solar, there is a need to use batteries which nearly doubles the cost. However, it is important to note that the cost of battery storage is decreasing very rapidly. It has declined by 93% between 2010 and 2024. It is, therefore, probable that further declines in battery cost will make solar a particularly attractive option.

The case of gas is worth considering seriously. At 9.0 cents/kwh it is the most cost-effective hydrocarbon-based technology, with cost close to that of offshore wind or to solar with battery storage. Moreover, it is the least polluting of the other hydrocarbon alternatives. That is why gas is useful as a transition fuel. It would not make sense for African countries with large gas reserves—e.g. Nigeria and Algeria—to shift out of natural gas as a source of economic electric generation that is relatively less polluting.

Another economic benefit of renewables is that they are well adapted for mini-grid technology. Given Africa's vast area and low population density, expanding access by investing in national grids is very difficult and expensive. Mini grids that serve small population centers and could eventually be connected to a national grid provide a more efficient solution. The World Bank (2022) argues that Africa has the largest potential for mini grid development worldwide. More than 290 thousand population clusters in Africa have profiles (distance from the national grid and population density) that favor the deployment of solar mini grids.

The World Bank's report argues that, using mini grids, an investment of $91 billion will be required to connect 380 million people and achieve universal access to electricity on the continent. Modern, third generation, mini grids are mostly solar PV hybrids, and they are grid interconnection ready. They consist of a solar hybrid generation system made of solar panels, batteries, charge controllers, inverters, and diesel back-up generators.

V. NUCLEAR ENERGY MAY BE AN OPTION FOR AFRICA

Diversification of energy sources could also include increased use of nuclear energy. COP28 in the United Arab Emirates marked a significant shift in the international community's position on the use of nuclear energy. It was recognized as a possible tool for both decarbonization and energy security. A coalition of 25 countries signed a declaration on the sidelines of COP28 committing to triple nuclear energy capacity by 2050. Two African countries, Morocco and Ghana, were among the initial 25 signatories of the declaration. More recently, the World Bank decided to change its policy on nuclear and start supporting countries' plans for nuclear power generation.

Africa is responsible for about 15% of the world's production of uranium. Namibia, Niger and South Africa are the main African producers of uranium. Significant reserves have also been identified in Botswana, Tanzania and Zambia[8]. Nearly all of Africa's uranium is exported to developed countries where conversion, enrichment, fuel fabrication, and reactor services take place. Once again, Africa produces the raw material, and value addition happens elsewhere. Africa needs to start using its own uranium to produce clean electricity to achieve both universal access and energy security.

There is a growing realization on the continent that nuclear offers important opportunities. More African countries are starting to invest in nuclear power plants. South Africa already has an operational plant. Egypt is investing in a large four-unit plant that should be completed by 2028. Ghana, Nigeria and Kenya have carried out pre-feasibility studies, and ten other countries are in the early stages of preparatory work for nuclear investments[9].

Small modular reactor (SMR) technology has advanced rapidly over the last few years[10], and offers many opportunities for Africa. SMRs range from small micro reactors

8. See World Nuclear Association (2026).
9. See IAEA (2025).
10. See IAEA (2024).

that typically produce up to 30 MW to medium sized reactors that produce up to 300 MW. They are typically shop fabricated and are transported as modules that can be assembled on site. The approach of SMRs is to rely on mass produced components and systems to reduce costs and construction risks.

SMRs are well suited for mini grids and therefore could be particularly appealing for African countries. Other features of SMRs that could be particularly interesting for Africa are: (1) they require less upfront capital than larger reactors and are therefore easier to finance; (2) they are quick to deploy which makes them well-suited for emergency situations; (3) they are designed to be flexible to serve remote areas; and (4) they do not require extensive infrastructure and are therefore well-suited for developing countries that have not yet established a nuclear infrastructure.

VI. EXPANDING INTRA-AFRICAN TRADE IN ENERGY

With the retreat of globalization and the increase of geopolitical competition, developed countries have put in place policies of "near shoring" (prioritizing trade with neighboring countries) as well as of "friend shoring" (prioritizing trade with friendly countries). Thus, regionalization appears to be replacing globalization. African countries are aware of this trend and have signed onto the Africa Continental Free Trade Agreement (ACFTA) to encourage economic integration among them. The energy sector should be a priority for the ACFTA.

Investment in refineries that would transform African crude on the continent would lead to an increase in intra-African trade. African produced refined products could eventually replace imports from outside the continent. African oil producers should start exporting more refined products and less crude and prioritize exports to other African countries. Given the large capital investments needed for refineries, it would make sense to encourage joint ventures in refineries with investments from exporting and importing countries, and long-term contracts for the sale and purchase of the refined products. Concomitantly, there is a need to invest in the logistics of oil trade between African countries. The refineries need to be integrated with pipelines, storage depots, rail systems, and port infrastructure to support intra-African trade in petroleum products.

Intra-African trade in natural gas is more advanced than trade in petroleum products, but there is still a lot of room for expansion. African trade in natural gas is carried out

either through pipelines or as liquified natural gas (LNG) that is transported on tanker ships.

There are three main gas pipeline corridors in Africa: Trans Med, West Africa Gas Pipeline (WAGP), and the Southern Africa pipeline. The Trans Med corridor links Algeria to Italy, passing through Tunisia who receives transit fees and in-kind gas. The volume of gas transported by this pipeline has varied between 30 and 36 bcm per year. However, most of that gas goes to Europe, and Tunisia's share is only about 1-2 bcm/year[11]. The WAGP connects Nigeria to Benin, Togo and Ghana. The volume of gas transported through this pipeline has varied between 0.4 and 0.7 bcm/year, less than 4% of total Nigerian gas exports. Nigeria often curtails delivery through WAGP because it prioritizes gas for domestic power plants and LNG exports. In some cases, the accumulation of payment arrears by buyers has led to the stoppage of new deliveries. Moreover, there have been a few unplanned outages because of leaks due to old infrastructure, or damage caused by vandalism, theft or sabotage[12]. The Southern African gas pipeline carries gas from Mozambique to South Africa. The volume of gas traded through this pipeline has been stable at between 4 and 5 bcm/year. It serves industrial and petrochemical demands in South Africa[13].

Most of Africa's gas exports are in the form of LNG, and nearly all of it leaves the continent. Intra-African LNG trade is very limited because of the lack of LNG import terminals. Moreover, from the exporters' perspective the demand centers in Africa are relatively small and do not offer the same stability as European or Asian markets. But things are starting to change as countries like Morocco and Ghana are investing in new import facilities (floating storage and regasification units), which would allow for greater intra-African trade.

Expanding intra-African trade in natural gas would require action in three areas. First, developing more regional gas pipeline corridors, e.g. by expanding and modernizing WAGP and reviving the Trans-Saharan gas pipeline project which would go all the way from Nigeria to North Africa[14]. Second, expanding LNG import infrastructure, especially through the greater use of floating LNG terminals that allow smaller countries to import LNG without large upfront investment. Third, harmonize regulations through the ACFTA to standardize contracts and develop dispute resolution mechanisms, with the goal of building trust and ensuring well-functioning markets.

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11. More information on the Transmed pipeline can be found here and here.
12. More on the WAGP can be found here.
13. For more on the Mozambique-South Africa gas pipeline see ILRIG (2002).
14. More information on the Trans Sahara gas pipeline can be found here.

Natural gas can also be traded in the form of electricity. Intra-African electricity trade has advanced a lot over the last thirty years, because of the creation of four subregional power pools in sub-Saharan Africa and the strengthening of North African interconnections[15]. Increasing intra-African electricity trade will help expand access, lower costs, and reduce volatility and vulnerability to shocks similar to the one caused by the war in Iran.

The Southern African Power Pool (SAPP) connects twelve Southern African countries[16]. It is the most advanced power pool on the continent with some 25-27 terra watt/ hour (TWH)[17] traded every year. The East Africa Power Pool (EAPP) connects nine countries in East Africa[18]. EAPP is smaller than SAPP with only 12 TWH traded in in 2023. However, EAPP has been growing very rapidly with the volume of electricity traded through it doubling between 2019 and 2023. The West Africa Power Pool (WAPP) includes the fifteen members of the Economic Community of West African States (ECOWAS)[19]. At 8 TWH in 2023, electricity trade on the WAPP is lower than that of both EAPP and SAPP. However, it is growing fast, increasing by about 60% between 2019 and 2023. The Central African Power Pool (CAPP), which includes the eleven members of the Economic Community of Central African States (ECCAS) is the least developed power pool on the continent, with trade of only 4 TWH in 2023[20]. However, it is also growing very fast, doubling between 2019 and 2023. The five North African countries[21] have not yet created an official power pool. They prefer pursuing bilateral agreements, and they prioritize interconnection with Europe. Nevertheless, electricity trade in North Africa in 2023 was 20 THW which is only second to the SAPP[22].

African governments realize the importance of regional cooperation for achieving universal access to electricity and ensuring stable supply in times of crises. This explains the significant expansion of intra-African electricity trade over the last three decades.

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15. See Energy Chamber (2026).

16. The twelve countries are: Angola, Botswana, DRC, Eswatini, Lesotho, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. More information on the SAPP can be found here.

17. A TWH is equal to one billion kwh.

18. The nine countries in EAPP are: Burundi, DRC, Egypt, Ethiopia, Kenya, Rwanda, Sudan, Tanzania, and Uganda. More information on the EAPP can be found here.

19. The members of ECOWAS are: Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. More information on the WAPP can be found here.

20. The members of ECCAS are Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Equatorial Guinea, Gabon, Rwanda, and Sao Tome and Principe. More information on CAPP can be found here.

21. Morocco, Algeria, Tunisia, Libya and Egypt.

22. More information on North African electricity interconnections can be found here.

Further expansion would require action in three areas[23]. First, there is a need for continued investment in intra-African transmission corridors linking power generation areas (e.g. solar rich regions in Morocco, or hydro regions in DRC, or gas rich regions in Nigeria) to demand centers across the continent. Second, governments should help strengthen electric utilities' financial viability through cost reflective tariffs and a stronger payment discipline. Third African countries should use the ACFTA framework to harmonize regulations and develop effective dispute resolution mechanisms.

CONCLUDING REMARKS: RELATIONS WITH THE MIDDLE EAST AND WITH EUROPE

The Iran war has highlighted the risks to Africa's energy security in a world where geopolitical shocks are becoming more frequent and more intense. This is happening at the same time when Africa is facing the challenge of expanding access to energy which is necessary for economic development and poverty reduction. Africa needs to increase energy production and diversify its sources, reducing its dependence on imports of refined products. This requires more investments in refineries, in renewables, and in nuclear energy. Concomitantly, regional cooperation needs to be strengthened; increasing intra-African trade in petroleum and petroleum products, natural gas, and electricity. This could be done under the auspices of the ACFTA.

This is not a call for African autarky. It is a call for ending the old trade structures where Africa exports only raw materials and imports higher value-added processed products. Africa will benefit from balanced trade with other regions, especially with the Middle East and Europe given their proximity and the size of their markets. The Middle East could be an important market for African agricultural and manufacturing products, and Africa could benefit from importing petrochemicals and inputs for fertilizers from the Middle East. Europe would benefit from importing African energy (electricity, petroleum, natural gas) as well as agricultural and manufacturing products. Africa would benefit from importing European manufacturing and technology.

The global economy is changing, and Africa needs to adapt to it. The war in Iran has put in relief the fragility of international energy markets. This is a wakeup call for Africa. The continent needs to put in place investments and policies that would increase its resilience to international energy shocks that risk becoming more frequent and more severe. Africa has the resources and the capacity to achieve energy independence while remaining open to trade and cooperation with the rest of the world.

23. Also see IEA (2022) recommendations for expanding electricity access in Africa.

08

OIL SHOCKS AND STRUCTURAL RESILIENCE IN NORTH AFRICA

Hinh T. Dinh

This paper examines the economic impact of the 2026 oil price shock—precipitated by the Iran war and the closure of the Strait of Hormuz—on three North African economies: Morocco, Tunisia, and Egypt. Utilizing a Leontief cost-push model based on OECD input-output tables, the analysis traces how a 20% increase in oil prices propagates through interindustry linkages to affect value added and employment in each country. A key contribution of this approach is its ability to quantify indirect effects, which reveal vulnerabilities in downstream sectors such as agriculture and construction that remain invisible in standard partial equilibrium analyses.

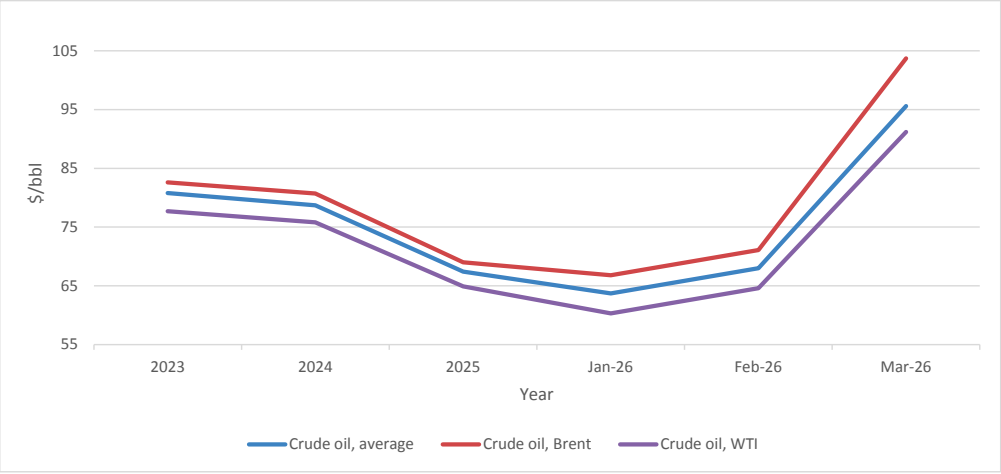
The results reveal a clear structural typology. Morocco, a pure oil importer, absorbs the full shock, with an economy-wide value-added loss of 1.6% of GDP, and the highest employment vulnerability. Tunisia is approximately neutral at the national level, as its crude oil windfall marginally exceeds private-sector value-added losses, but it faces a critical distributional divide between state revenues and private costs. Egypt records a net national gain due to state-owned oil revenues, yet, this surplus masks significant strain on the private sector, where indirect costs dominate.

Across all three countries, a consistent pattern emerges: knowledge-intensive services remain largely insulated, while transport and traditional services bear the brunt of employment displacement. The oil shock thus serves as a structural diagnostic, revealing not only price exposure, but also the depth and quality of structural transformation.

INTRODUCTION

The Iran war and the closure of the Strait of Hormuz triggered a major global energy shock, sharply increasing oil prices. The resulting surge (Figure 1) does not affect all economies equally. A country's position in the global oil market—whether importer, marginal producer, or major exporter—determines not only the magnitude of the impact, but also its distribution. This paper shows that the oil shock generates three distinct distributional outcomes: (1) a full economy-wide loss with no offsetting redistribution in Morocco, (2) a near-balanced but distributionally divided outcome in Tunisia, and (3) a national gain alongside private-sector strain in Egypt. Understanding this distinction is central to the policy response.

Figure 1: International crude oil prices before and during the Iran war, from 2023 to March 2026 (US$ per barrel).



Source: World Bank Commodity Markets Outlook (CMO), April 2026 Pink Sheet. https://www.worldbank.org/en/research/commodity-markets

This paper adopts a 20% oil price shock solely as a stylized assumption to illustrate the methodology used to trace oil price impacts throughout the economy. It is not intended as a forecast or a prediction of the eventual price outcome once geopolitical uncertainties related to the war are resolved. Rather, the chosen magnitude serves as a convenient benchmark: it corresponds to roughly half of the observed increase in international oil prices in March 2026, relative to the 2025 average, and can be interpreted as a conservative, lower-bound scenario for analytical purposes.

Furthermore, although Morocco's regulated domestic fuel prices have so far risen by

only around 13% since the onset of the Iran war at the end of February, 2026, in Egypt and Tunisia domestic energy prices have already risen by more than 20%, indicating that substantial—if not full—cost pass-through has already occurred. For these countries, the analysis, therefore, does not describe a purely hypothetical scenario, but rather examines the distributional consequences of an adjustment that is largely in place. The relevant policy question is, thus, not whether to adjust, but how to manage the income redistribution resulting from that adjustment.

The three North African economies analyzed—Morocco, Tunisia, and Egypt—span a spectrum of oil dependence in Africa today. Morocco is a net oil importer with no operating refinery, relying entirely on international markets for petroleum products. Tunisia is a small and declining oil producer, with limited refining capacity and continued dependence on imports. Egypt, by contrast, is the region's largest oil producer, with extensive extraction, refining, and export infrastructure largely under state control.

The paper is organized as follows. Section 2 presents the analytical framework and data. Sections 3–5 present country results for Morocco, Tunisia, and Egypt, respectively, covering both value added and employment effects. Section 6 explores transfer and financing issues. Section 7 discusses the structural transformation implications of the oil shock. Section 8 concludes with policy implications.

I. ANALYTICAL FRAMEWORK AND DATA

The analysis relies on the most-updated input-output tables (2022) for Egypt, Morocco, and Tunisia as provided by the Organisation for Economic Co-operation and Development (OECD)'s 2025 input-output database. Each table has 50 sectors. The Leontief cost-push model (Annex 1) traces the economy-wide propagation of a price shock through the interindustry linkages captured in a country's input-output table (Miller and Blair 2009). A defining advantage of this approach over partial equilibrium approaches to shock analysis is its capacity to capture not only the direct impact of a price increase on the sectors that purchase oil or refined products as an immediate input, but also the full chain of indirect effects that propagate through every downstream sector of the economy.

Employment effects are estimated from OECD Trade in Employment (TiM) 2025 data for all three countries, supplemented by Morocco's Haut Commissariat au Plan (HCP) data for manufacturing sectors and International Labor Organization (ILO) data for Egypt. All input-output data are from the OECD Inter-Country Input-Output (ICIO) 2025 edition. All monetary values are in millions of current US$. A summary of the impact of

the oil price shocks on the three economies is presented in Annex 2. Further sectoral details are available upon request.

II. MOROCCO: THE FULL WEIGHT OF THE SHOCK

Morocco produces negligible crude oil, operates no refinery, and imports the needed petroleum products. There is no government windfall or automatic fiscal offset. Every dollar increase in petroleum product prices is absorbed as a direct and unrelieved cost by Moroccan firms, households, and the government. This makes Morocco's situation qualitatively different from its neighbors', and makes the Iran war oil shock significantly more damaging than for either Tunisia or Egypt (Annex 2, Table A1).

The total value-added loss from a 20% oil price increase reaches around 1.6% of GDP—the largest proportional economy-wide loss of the three countries (Annex 2, Table A2). Because the shock enters through refined petroleum products rather than crude oil, it spreads immediately and comprehensively across every sector that uses fuel, chemicals, electricity, or transport as inputs. No sector is insulated by a domestic energy windfall; every sector simply pays more.

Morocco provides the clearest illustration of why direct effects alone are a severely incomplete measure of economic damage. Because Morocco's shock enters the economy through the refined petroleum products row (C19)—the first point at which the international price increase reaches domestic producers—the sectors directly exposed are those that purchase fuel, chemicals, and electricity as immediate inputs: transport, utilities, and the chemicals sector. These direct losses amount to approximately US$ 558 million, or 0.47% of GDP.

But the Leontief inverse matrix then traces the propagation of those higher costs through every downstream sector that purchases from the directly affected industries. Wholesale and retail trade—Morocco's largest service employer—absorbs higher costs through fuel-intensive logistics and transport services. Agriculture bears higher fertilizer and irrigation costs that can be traced back to the chemical sector's cost increase. Construction faces higher fuel and materials costs that cascade through its extensive supply chain. The full indirect effect adds a further US$ 1,392 million, generating an indirect-to-direct multiplier of 2.50: for every dollar of first-round cost increase, the supply chain produces two-and-a-half additional dollars of downstream value-added erosion. The sectors bearing the heaviest indirect burden—agriculture, trade, and

construction—are precisely those that would appear unaffected by an oil price shock if the analysis were limited to direct-purchasing relationships.

The sectoral distribution reveals a Morocco-specific pattern. The chemicals sector faces one of the highest proportional cost increases in the economy, reflecting petroleum-derived feedstock inputs. Land transport faces a very high-cost increase—nearly triple the rate in Egypt—because the shock hits refined products directly, making the fuel bill immediately and comprehensively more expensive. Air transport and water transport face the highest proportional exposure of any service sector across all three countries—a consequence of the direct and comprehensive nature of Morocco's refined-product shock. Together, transport sectors account for a disproportionate share of Morocco's service sector losses, both in value added and in employment.

Employment

Morocco presents by far the most severe employment vulnerability of the three economies: at 5.2% of the total workforce, its proportional exposure is four times Egypt's (Annex 2, Table A2) and more than three times Tunisia's. This is a direct consequence of its status as a pure oil importer, absorbing the full shock as cost without any compensating revenue anywhere in the domestic economy.

The sectors bearing the heaviest employment burden are those that combine high petroleum input intensity with high labor intensity. Fishing and aquaculture stands out: fuel costs dominate vessel-operating budgets, and the sector has virtually no capacity to absorb cost increases without cutting activity and jobs. Construction, which employs over a million workers and functions as a critical absorber of labor in Morocco's ongoing rural-to-urban transition, faces cost pressure through fuel, cement production, and transport logistics that threatens to compress employment in one of the economy's most important job-creating sectors. Agriculture faces fuel- and fertilizer-cost pressure that directly threatens farm incomes and on-farm employment—particularly in irrigated zones where diesel-powered water lifting is a major production cost.

Morocco's Global Value Chain (GVC)-integrated manufacturing sectors—motor vehicles and electrical components, which represent the highest-value segment of its nearshore integration into European supply chains—face margin pressure that could affect both domestic employment levels and Morocco's competitive attractiveness as a production location relative to other nearshore destinations. What makes this situation particularly difficult from a policy perspective is precisely the absence of any automatic fiscal instrument to counteract it. Egypt and Tunisia can in principle recycle

oil revenues to cushion private employment adjustment. Morocco cannot. Its options are renewable energy acceleration, energy efficiency investment, and temporary fiscal measures financed by borrowing—none of which provides rapid protection for workers in the most exposed sectors.

III. TUNISIA: A NEAR-BALANCED NATIONAL IMPACT WITH A CRITICAL DISTRIBUTIONAL DIVIDE

Tunisia occupies an analytically distinctive position. Unlike Morocco, it has a domestic oil sector that generates a government windfall when international prices rise. And unlike Egypt, whose windfall is nearly three times economy-wide value-added losses, Tunisia sits in near-structural balance: its crude oil windfall of 0.86% of GDP marginally exceeds the value-added losses from refined product cost increases of 0.81% of GDP, yielding a net national impact of approximately +0.05% of GDP. In that narrow aggregate sense, Tunisia is approximately neutral under a 20% oil price shock. But this arithmetic neutrality conceals the central policy problem: the windfall accrues entirely to the state, while the cost burden falls on private firms and workers who have no automatic access to it.

This near-balance is nonetheless precarious. Tunisia's crude oil production has been declining for over a decade; a further decline of even a fraction would push the balance into net loss territory. The windfall that today approximately covers private-sector value-added losses will shrink in future shocks, unless reversed by new discoveries or substituted by renewable energy development. Without accelerated structural transformation, each successive oil price shock will erode Tunisia's current near-balance, widening the gap between state windfall and economy-wide value-added losses.

Employment

Tunisia's proportional employment exposure is approximately 1.6% of the total workforce—well below Morocco's but modestly above Egypt's 1.3%. This relatively contained employment risk reflects the moderate size of Tunisia's refined-product-cost shock relative to GDP. Land transport remains the most exposed sector in proportional employment terms, with air transport and fishing also facing above-average pressure.

Land transport faces the most severe proportional employment pressure of any sector as a a consequence of the combination of high fuel intensity, and the fact that Tunisia's

road transport network is the primary connection to its two largest trading partners, Libya and Algeria. Construction, a major employer, faces cost increases through fuel and materials that directly translate into employment risk in an activity that absorbs a significant share of workers who lack the educational credentials for formal sector employment elsewhere. Manufacturing activities central to Tunisia's export strategy—textiles and garments, chemicals, electrical and electronic components—face margin pressure at exactly the moment when they need competitive stability to maintain and deepen their integration into European supply chains.

Tunisia's distributional challenge is the asymmetry between who receives the windfall and who bears the employment cost. The windfall—which approximately covers the aggregate economy-wide value-added loss—accrues to the state; the employment pressure falls on private-sector workers. Policies that actively recycle the windfall toward energy cost relief, particularly for transport workers and manufacturing employees, are both fiscally feasible and economically necessary.

IV. EGYPT: A NATIONAL GAIN MASKING PRIVATE-SECTOR STRAIN

Egypt's aggregate position is the most favorable of the three: the government windfall is large enough not only to compensate the entire economy-wide value-added loss but to leave a substantial fiscal surplus. In that narrow sense, Egypt gains from the Iran war oil shock. But this aggregate gain is misleading as a welfare indicator. The windfall flows to the state oil company and treasury; the cost-push losses fall primarily on private firms, workers, and households. Whether Egypt's aggregate good fortune translates into private-sector protection depends entirely on whether and how the government chooses to redistribute—and the history of resource windfall management in developing countries may warrant some concern.

The private-sector cost structure under the oil price shock is broadly distributed rather than concentrated in a few sectors. Crop and animal production bears the heaviest value-added loss of any single sector, reflecting high indirect costs from fertilizer, chemicals, and fuel inputs that trace back to the higher price of refined petroleum. Land transport ranks second, and petroleum refining third—the refinery's own costs rise not because its crude feedstock has become more expensive, but because it uses refined petroleum products internally as process fuel and heat. Electricity and gas ranks fifth. Petroleum refining and electricity together account for approximately 17% of economy-wide value-added losses—a meaningful share, but the burden is

spread broadly across agriculture, transport, trade, and manufacturing rather than concentrated in the energy complex.

When the Leontief inverse traces the full propagation, indirect losses of US$ 977 million are added to direct losses of US$ 1,896 million, with indirect effects representing 34% of the total economy-wide value-added loss. After excluding the government-attributed loss of US$ 84 million, the private-sector value-added loss is approximately US$ 2,789 million. The sectors most dependent on indirect transmission are exactly those that dominate employment and social welfare: agriculture sustains 33% of its losses indirectly, through downstream fertilizer and chemicals costs. Construction sustains 48% indirectly, through fuel, cement, and materials chains.

The contrast with Morocco, where the indirect multiplier reaches 2.5 times the direct effect, illustrates how the energy shock channel simultaneously raises exposure and direct visibility across all downstream sectors. The practical implication is important for policy: a government that responds to an oil price shock by compensating only the directly affected energy sectors—refineries and power generators—will reach only the first-round losses while leaving workers in transport, agriculture, and construction—who bear their costs indirectly through higher energy and input prices—without any relief at all.

The Employment Inversion

Egypt's employment results illustrate a consistently reproduced finding in input-output analysis: high monetary losses concentrate in capital-intensive sectors, while high employment losses concentrate in labor-intensive ones. Under the oil price shock, land transport ranks second in value-added loss but first in employment displacement—because its employment coefficient is among the highest in the economy. Petroleum refining, by contrast, ranks third in value-added loss but only tenth in employment, with an employment coefficient fifty times less labor-intensive than land transport. Textiles and apparel ranks sixteenth in value-added loss but fifth in employment displacement, again because of its very high labor intensity. This inversion is not incidental—it is a structural feature of the Egyptian economy. Crop and animal production is the notable exception: it ranks first in both value-added loss and employment displacement simultaneously.

The practical implication is direct: targeted employment protection should be directed at transport workers, agricultural laborers, construction workers, and textile employees—not at the capital-intensive energy sectors where the monetary loss is largest. Egypt's

total estimated employment at risk, at approximately 367,000 workers (1.3% of the labor force), is moderate in aggregate. But the concentration of that displacement in low-wage, labor-intensive activities means that the social impact is disproportionate to the aggregate number. These are workers with limited savings, few formal social protections, and limited capacity to absorb income shocks.

The distributional arithmetic for Egypt is clear. After accounting for the government's own energy-related costs, the state's net oil windfall remains nearly three times the private sector's value-added loss—approximately US$ 8.3 billion versus US$ 2.8 billion. Egypt, therefore, has the fiscal capacity to fully offset private-sector losses while still retaining a substantial surplus.

V. TRANSFER AND FINANCING ISSUES

The scope for redistributing oil windfalls to offset private-sector value-added losses varies sharply across the three countries and defines their core policy challenge.

In Egypt, redistribution is both feasible and inexpensive. The government's net windfall is nearly three times the private-sector value-added loss, so full compensation would absorb only about one-third of the gain. Egypt has the capacity to neutralize the shock; whether it does so is a political economy question.

Tunisia presents a near-balanced case. Its US$ 370 million windfall slightly exceeds private-sector value-added losses of US$ 349 million, making full compensation theoretically possible without external support. The issue is thus one of fiscal recycling—directing the windfall toward affected sectors such as transport, small manufacturing, and agriculture rather than treating it as general revenue. However, declining oil production suggests this balance will not hold in future shocks.

Morocco faces the most severe constraint (Annex 2, Table A2). With no windfall, the full value-added loss—about 1.6% of GDP—must be financed through deficits, budget reallocation, or external support. In the short term, Morocco should manage the oil shock by drawing on existing multilateral facilities to create fiscal space for targeted and time-bound support to the most affected private-sector workers and firms, especially in transport, construction, and agriculture. In the medium term, EU macrofinancial assistance instruments and bilateral budget-support channels from Gulf partners provide the natural complement, reflecting Morocco's deep integration with European value chains and its expanding economic ties with Gulf Cooperation Council members.

Over the longer term, the priority structural response is the same as for Tunisia—accelerating renewable energy deployment to reduce dependence on oil imports—but Morocco's stronger solar and wind resource base, together with its more advanced regulatory framework for renewable investment, gives it a clear comparative advantage in delivering this transition more quickly and effectively than its regional peers.

VI. STRUCTURAL TRANSFORMATION IMPLICATIONS

The oil shock provides a clear lens through which to assess structural resilience. While the Leontief framework is static and does not capture substitution or technological change, this limitation is also its strength. Input-output coefficients reflect production structures shaped by long-term investment and institutional constraints, which adjust only slowly. In this sense, the model captures the economy as it is when the shock hits—the horizon most relevant for policy.

Across the three economies, a clear hierarchy of vulnerability emerges. Knowledge-intensive services are the most insulated (Annex 2, Table A3), while transport services and labor-intensive activities are the most exposed. This gradient reflects the degree of reliance on physical energy inputs: sectors that generate value through information and skills are less affected than those dependent on fuel, transport, and material inputs.

For development strategy, this gradient provides a roadmap. The most insulated sectors—knowledge-intensive, export-oriented, and high-value—are precisely those targeted for structural transformation, while the most exposed sectors are those from which surplus labor must eventually move. Input-output analysis thus identifies both current vulnerabilities and long-term priorities, with its static nature clarifying the starting point of change.

The distributional structure also has broader implications. Windfall revenues create an opportunity for development finance. If directed toward resilient sectors such as digital infrastructure, knowledge services, renewable energy, and skills development, they can reduce future vulnerability while advancing transformation. By contrast, using windfalls to subsidize energy-intensive activities or delay adjustment entrenches vulnerability. The "resource curse" arises when revenues preserve rather than reshape the production structure.

At the sectoral level, this pattern is reflected clearly. Transport sectors face the largest

cost increases due to heavy fuel dependence and limited substitution, while traditional services account for the largest absolute employment losses because of their scale. Finally, electricity and gas emerge as the central transmission channel of oil shocks. As a universal intermediate input, electricity's energy composition determines economy-wide exposure. Reducing the petroleum content of electricity generation—through renewables, efficiency, and diversification—would lower vulnerability across all sectors. For North African economies with strong solar and wind potential, this transition is not only climate policy but also a core strategy for structural resilience.

CONCLUSIONS AND POLICY IMPLICATIONS

Four conclusions emerge from the analysis.

First, the Iran war oil shock affects each country differently. Egypt emerges as a net beneficiary, but the gains are fiscal while the losses are borne by the private sector. Tunisia is approximately neutral in aggregate, yet still shows a marked divergence between state windfalls and private cost burdens. Morocco, by contrast, lacks any offsetting windfall and thus fully absorbs the private losses.

Second, employment protection requires a different targeting logic than value-added compensation. Capital-intensive sectors such as refining and power generation dominate monetary losses but employ relatively few workers. By contrast, transport, agriculture, textiles, and traditional services account for the largest employment losses, despite more modest monetary impacts. This creates a fundamental political economy tension: the sectors that dominate value-added losses are typically large, organized, and politically influential, and are, therefore, more likely to secure compensation. By contrast, the sectors that bear the largest employment losses consist of dispersed, lower-income workers with limited representation and weaker access to policy support. From a social welfare perspective, however, the case for intervention runs in the opposite direction. Effective policy must follow the employment ranking, directing relief toward vulnerable workers rather than the energy complex that dominates headline figures. Failure to do so risks reinforcing existing inequalities, allowing politically powerful sectors to capture compensation, while the largest employment shocks remain unaddressed.

Third, the direct–indirect decomposition reveals an inversion between first-round visibility and ultimate impact. Sectors that appear most exposed in direct-cost analysis are often not those that bear the largest overall burden, while sectors that seem initially unaffected frequently absorb the bulk of economy-wide losses. This reflects the structure

of modern economies, where long production chains and complex input linkages transmit shocks across multiple layers. The Leontief framework makes this transmission visible and quantifiable, allowing policymakers to trace the full propagation of shocks and design more effective compensation and adjustment measures.

Fourth, the oil shock provides a clear signal of the direction of structural transformation. Knowledge-intensive services are structurally insulated, while traditional services and energy-intensive manufacturing are exposed. Shifting production and employment toward knowledge-intensive activities—such as IT, telecommunications, professional services—is, therefore, not only a growth strategy but also a resilience strategy against future commodity shocks.

Policy implications follow directly. For Egypt, a portion of the windfall should be deployed for private-sector relief—particularly for transport workers, small farmers, and textile workers—while the remainder supports investment in renewable energy and knowledge services infrastructure. For Tunisia, where the windfall roughly matches private losses, resources should be directed toward cost relief for affected workers and firms, while accelerating the energy and structural transition already underway. Morocco can manage the oil shock by using existing multilateral and external financing to create fiscal space for temporary, well-targeted support to the most affected workers and firms. Over time, its strong renewable-resource base and advanced regulatory framework give it a clear advantage in reducing oil-import dependence faster than its regional peers.

For all three countries, the analysis provides not only a diagnosis of current vulnerability, but also a framework for assessing whether structural transformation is reducing that vulnerability over time. The central policy question is whether oil windfalls and adjustment policies are used to support resilient sectors—such as knowledge services, renewable energy, and skills development—or to preserve energy-intensive structures. The choice between these paths will determine whether future shocks are absorbed—or amplified.

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ANNEX 1

The Leontief Cost-Push Model

The Leontief framework represents production linkages through the technical coefficient matrix A, where $A_{ij} = Z_{ij} / x_j$. The inverse matrix $L = (I - A)^{-1}$ captures the total (direct and indirect) input requirements of each sector. A price shock to the oil sector propagates through these linkages, generating economy-wide cost increases and value-added losses.

For oil producers, the model is adjusted to reflect the asymmetry between revenue and cost effects: the oil sector receives a positive windfall from higher prices, while downstream sectors face higher costs, so the net national impact is the difference between the government windfall and private-sector value-added losses. Under the unified framework applied here, the downstream cost shock enters through the refined petroleum products row (C19) × 20% for all three countries, reflecting the price actually paid by all sectors for petroleum inputs, whether domestically refined or imported.

For Egypt and Tunisia, the government windfall is computed separately as 0.20 × gross output of crude petroleum and natural gas (B06), representing the gain on domestic crude whose extraction cost is unchanged; both are net crude exporters with no crude oil imports in 2022, while Morocco, a pure importer with no refinery, receives no windfall. In Egypt and Tunisia, where the B06 sector is predominantly state-owned, higher international prices raise state oil revenues via profits, royalties, and export levies, while downstream cost increases fall on private firms and households, creating a distributional conflict even when the net national effect may be positive (especially for Egypt).

ANNEX 2

Table A1: Structural Position of Three North African Economies, Base Year (2022)

Structural Indicator	Morocco	Tunisia	Egypt
GDP 2022 (bn US$)	118.5	43.1	389.2
Net oil position	Net importer	Small producer	Large producer
Domestic refinery capacity	None	Small	Yes
Shock applied to	C19 row	C19 row	C19 row
Government windfall	None	~US$ 370 mn	~US$ 8.3 bn

Note: B06 = crude petroleum and natural gas. C19 = coke and refined petroleum products.
Government windfall = 0.20 × gross output of B06 sector, accruing to state-owned oil entities.
Source: Author's calculations from OECD TiVA ICIO (2025).

Table A2: Distributional Summary: Government Windfall versus Private-Sector Loss (2022)

Impact Component	Morocco	Tunisia	Egypt	Metric
Government windfall	+0	+0.9% GDP	+2.2% GDP	% of GDP
Total VA loss (before government windfall adj.)	−1.6% GDP	−0.8% GDP	−0.7% GDP	% of GDP
Net national impact	−1.6% GDP	+0.1% GDP	+1.4% GDP	% of GDP
Transfer capacity	None	Full (marginal surplus)	Full + surplus	Policy space
Employment vulnerability	Highest (4× Egypt)	Slightly higher (1.2× Egypt)	Lowest (baseline)	Proportional

Source: Author's calculations from OECD TiVA ICIO (2025).

Table A3: Cross-Country Comparison of Employment and Structural Vulnerability

Indicator	Morocco	Tunisia	Egypt	Key Structural Driver
Proportional employment vulnerability	Highest	Lower	Lowest	Energy structure & oil ownership
Government windfall available?	No	Yes (marginal)	Yes (large)	Determines fiscal offset capacity
Primary transmission sector	C19 (imports)	C19 (imports)	C19 (domestic)	Shock channel by country type
Most exposed service sub-sector (in terms of cost)	Air & water transport	Land transport	Land transport	Transport's fuel intensity
Most insulated sectors	IT, telecoms, professional services	IT, telecoms, professional services	IT, telecoms, professional services	Knowledge services universally
Employment inversion (VA≠Emp rank)?	Yes (significant)	Yes (significant)	Yes (significant)	Labor-intensive sectors (transport, textiles, fishing) dominate employment risk; capital-intensive sectors dominate VA loss.
Net national impact	−1.6% GDP	+0.1% GDP	+1.4% GDP	Morocco absorbs shock fully

Source: Author's calculations from OECD TiVA ICIO (2025).

09

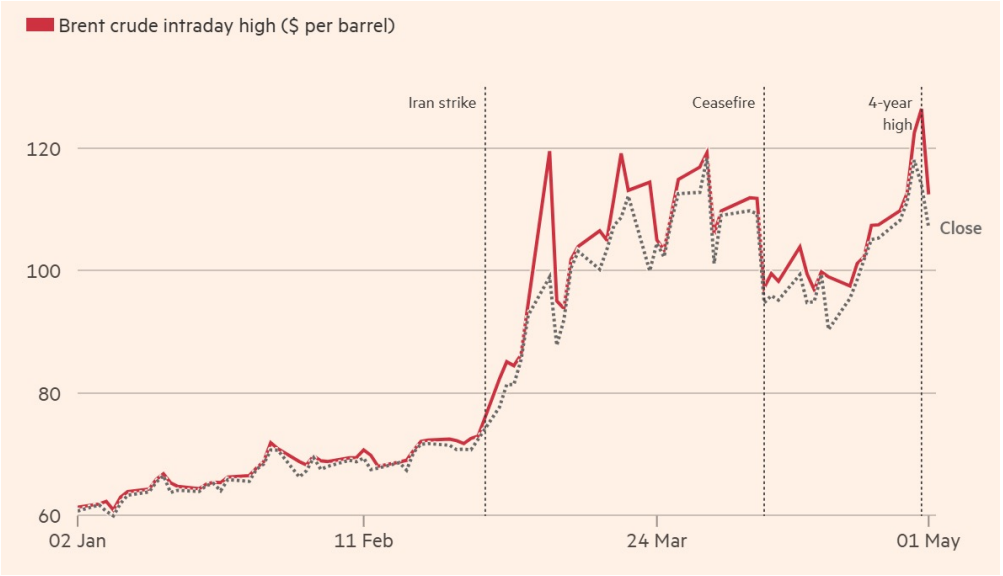
THE HORMUZ SHOCK AND SOUTH AMERICA'S MINERAL RECKONING

Otaviano Canuto and Hugo A. Mansilla

The global economic shock triggered by the February 2026 closure of the Strait of Hormuz caused uneven effects on South America's mineral economies. The disruption drove Brent Crude sharply higher and created a dual-edged outcome: stronger export revenues for oil and mineral producers, but much higher costs for imported energy, fertilizers, chemicals, and machinery. The balance varies by country, with Brazil facing especially acute fertilizer risks, Chile and Peru exposed to higher mining costs, and oil exporters such as Guyana and Colombia benefiting more directly. This paper argues that the crisis may also weaken global demand through stagflationary effects, limiting the commodity windfall. Long-term gains will depend on policy responses such as stabilization funds, supply diversification, strategic reserves, and greater value addition.

After the joint U.S.–Israeli military action against Iran on February 28, 2026, the closure of the Strait of Hormuz abruptly removed a substantial share of the world's daily oil supply from accessible markets. The Brent Crude Oil price surged from levels below US$ 80 per barrel to above US$ 126 per barrel by May 1 (Figure 1).

Figure 1: Brent Crude Oil prices January to May 2026.



Source: Ratcliffe, V. and Moore, M. (2026).

It is a price shock comparable in scale to the 1973 oil embargo, though the transmission mechanisms differ markedly in today's globalized, financialized commodity system (Corbett, 2013). The Strait of Hormuz, through which approximately 30% of global oil trade flows, represents a critical chokepoint (EIA, 2025), making its closure a first-order supply shock with few modern precedents. Fatih Birol—head of the International Energy Agency (IEA)—stated that this war with Iran poses the "greatest threat to global energy 'in history'". The most immediate and significant impact of the Middle East conflict is on global energy markets, but it is not the only impact (Canuto, 2026a).

I. DUAL-EDGED EFFECT OF THE HORMUZ SHOCK ON SOUTH AMERICA'S MINERAL ECONOMY

For South America's mineral economies, the crisis has created a dual-edged shock: higher global prices for key exports such as copper, lithium, iron ore, and oil, coinciding with sharply elevated costs for imported energy, fertilizers, industrial chemicals, and equipment. The net effect is country-specific and sector-specific,

producing distinct winners and losers both across and within nations. Understanding that duality requires moving beyond headline prices to examine the structural mechanics beneath them.

The recent price levels reflect more than physical scarcity. A significant portion of the move is attributable to risk-premium inflation in futures markets and speculative amplification that magnifies short-term volatility beyond fundamental supply-demand shifts. In practice, countervailing forces such as IEA strategic petroleum-reserve releases, demand destruction in price-sensitive emerging economies, and emergency rerouting around the Cape of Good Hope would dampen but not negate the shock. A sustained oil price at this level for 90 or more days would, based on historical demand elasticity, reduce global GDP growth by approximately half to one-and-a-quarter percentage points, generating a secondary demand-destruction risk that erodes commodity prices even as supply disruptions persist (IMF, 2026). This "stagflationary" feedback loop is the most underweighted scenario in current assessments of the crisis, and it bears directly on the region's apparent windfall.

One of the most consequential dimensions of the Strait of Hormuz closure is its effect on fertilizer supply chains (Canuto, 2026a). Approximately one-third of fertilizer raw materials transit the Strait, but that aggregate figure requires careful disaggregation to be actionable (Morningstar DBRS, 2026). The exposure is heavily concentrated in nitrogen-based inputs urea and ammonia, produced in Qatar and Saudi Arabia, while potash, sourced primarily from Canada, Russia, and Belarus, is largely unaffected. Phosphate exposure is moderate, given Saudi Arabia's Ma'aden complex, with Morocco, China, and the United States providing feasible alternatives.

For South America, the practical consequence fall heavily on Brazil, the world's largest fertilizer importer, sourcing roughly 85% of its needs from abroad (Mano, 2022) (Canuto, 2026b). The disruption falls disproportionately on nitrogen-based fertilizers used in grain and soy cultivation. Mining operations face separate but related vulnerabilities: sulfuric acid used in copper heap leaching, diesel fuel for heavy equipment, and imported processing machinery are all subject to price escalation under current conditions. Energy already constitutes between 20% and 35% of total copper-mining costs, and that share rises sharply at current oil prices, compressing margins even as copper prices climb.

Brazil's position within this crisis is the most dual-faced in the region. As a major oil producer with pre-salt field output exceeding four million barrels per day (Petrobras, 2025), Brazil benefits substantially from higher global energy prices, capturing new

Asian buyers who are re-routing away from the disrupted Gulf supply. Simultaneously, as the world's major fertilizer importer, Brazil faces sharply higher input costs for the agricultural and mining sectors that form the backbone of its non-oil export economy. Higher oil export revenues do not automatically offset losses in agricultural productivity driven by fertilizer shortages. The risk is concrete: if nitrogen-based fertilizer disruptions suppress the 2026 soy and corn harvests, Brazil could see export volumes fall precisely when global food prices are rising, creating a damaging feedback loop within its own agricultural trade balance.

Chile's situation is cleaner on the surface but carries its own internal tension. Elevated copper prices boost export revenues for Codelco and private operators like Antofagasta, and the global energy transition provides a structural long-run demand argument for Chilean copper but the margin of compression from higher energy costs is real and substantial. With Codelco facing operations with thinner margins, the net benefit of higher copper prices may be considerably narrower than headline figures suggest (Hidayat, 2026). A further risk not yet priced in most analyses is that the demand for copper strongly reflects global manufacturing activity. If the oil shock triggers an industrial slowdown, as comparable historical shocks have done, copper demand could fall simultaneously, with continued supply-side cost pressure, eliminating the price windfall entirely and leaving Chile with elevated costs and reduced revenues.

In contrast, Peru and Argentina occupy a cautiously positive position, benefiting from higher global prices for copper, silver, and lithium respectively. The lithium opportunity, however, demands important qualifications. Lithium demand is driven by the structural long-run trajectory of electric vehicle adoption, not by short-run commodity cycles. An oil shock of this magnitude may suppress EV manufacturing output in China and Europe through industrial slowdown, reducing immediate lithium offtake even as it reinforces the multidecade case for the energy transition. The windfall is real but deferred. Political and institutional risk compounds the uncertainty in both countries, given Peru's persistent mining-sector social conflicts and Argentina's history of macroeconomic instability.

Guyana and Colombia occupy the most straightforwardly positive position among the region's oil producers. Both nations are capturing new Asian market share as Atlantic Basin production becomes the preferred alternative to disrupted Gulf supply, and oil revenues are flowing into public budgets that have been preparing for this moment of expanded production capacity (OilNOW, 2025; ExxonMobil, 2025). Supply-chain bottlenecks and infrastructure constraints limit the speed at which gains can be fully realized, but the direction is clearly favorable.

Venezuela's theoretical windfall is the most constrained of all. Production capacity has fallen to an estimated 700,000 to 900,000 barrels per day, reflecting years of underinvestment, skilled labor emigration, and infrastructure deterioration. Even with oil at three-digit levels of prices per barrel, and the recent easing of U.S. sanctions on Venezuela's energy sector, there is a windfall in price that cannot be converted entirely into revenue, reinvestment, or public services. This creates a fiscal paradox with considerable humanitarian and political consequences, but its resolution lies outside the scope of commodity markets.

Central American and Caribbean nations represent the cleanest and most troubling case in the region: pure terms-of-trade deterioration with no compensating upside. Except for Trinidad and Tobago, these countries are paying more for energy and imported goods while their export revenues—largely agricultural commodities, tourism receipts, and remittances—do not respond positively to an oil shock. Dollarized or fixed-exchange-rate economies cannot use currency depreciation as a buffer, raising the risk of stress at balance-of-payments, consumer inflation, and fiscal pressure on subsidized energy programs. The uneven distribution of burdens across the region is, in this respect, as important as the windfalls elsewhere.

Most assessments of the crisis correctly identify the dual nature of the shock—higher revenues combined with higher costs—but undervalue several transmission mechanisms that will determine whether the net effect is ultimately positive or negative for the region's mineral economies. The possibility of a recession feedback loop is a frequent significant omission. Historical precedent from 1973–1974, 1979–1980, and 2008 (Hamilton, 2011) shows consistently that severe oil price spikes precipitate demand contractions that depress nonenergy commodity prices, including the copper, lithium, and iron ore at the center of South America's export mix. The stagflation scenario with elevated input costs coinciding with falling export prices is not merely possible, but historically the norm, following shocks of this magnitude.

Exchange rate dynamics compound this risk in ways that vary by country. Higher commodity export prices typically strengthen local currencies through the Dutch Disease mechanism, which can undermine export competitiveness in non-resource sectors and create domestic inflation pressures even as external revenues rise (Brahmbhatt et al, 2010). Conversely, if global risk-off sentiment dominates market psychology, currencies may weaken despite higher commodity prices, amplifying domestic inflation without delivering the offsetting export gains. For Argentina in particular, where monetary credibility remains fragile, this channel warrants close attention.

II. LONG-TERM EFFECTS OF THE HORMUZ SHOCK ON SOUTH AMERICA'S MINERAL ECONOMY

No shock with the magnitude and extensive scope of the one caused by the Strait of Hormuz crisis ends without leaving a legacy of trajectory changes. Among these, even if coal may be used as a substitute for oil and gas in Asia, the "road to decarbonization" and rising use of critical minerals and rare earth in the world will be reinforced (Canuto, 2021a; IEA, 2021).

This oil supply disruption, the largest in history, has forced a global energy pivot, with higher, permanent risk premiums in energy markets. The conflict has forced countries, particularly in Asia, to accelerate energy diversification away from Middle Eastern oil, and toward more secure, long-term supply sources. A lasting "energy-risk premium" is anticipated, with the potential for structurally higher oil and natural gas prices. Governments are likely to adopt policies favoring larger, long-term strategic reserves of oil and natural gas to reduce reliance on the vulnerable spot market. Furthermore, volatility and high diesel prices for industrial use are strengthening the long-term trend toward electrification in sectors like mining to reduce reliance on oil.

In turn, chronic shortages of critical minerals due to the closure of the Strait of Hormuz will lead to long-term shifts in raw material sourcing. The obstruction of key shipping lanes has forced a global re-evaluation of supply chains for critical minerals, including rare-earth elements. The conflict has hindered plans to expand critical-mineral processing, affecting projects like those in Saudi Arabia aimed at processing African materials. The disruption has caused long-term issues in sourcing raw materials for semiconductors, solar panels, aluminum, and graphite. Additionally, the disruption of refined critical minerals and byproducts like helium and sulfur directly impacts the production of advanced military and technological assets.

South America's mineral richness—like Africa's (Canuto & Emran, 2025)—will come to the fore. Chile and Peru together have been the source of approximately 40% of global copper output, and they comprise 35% of known world reserves. Argentina, Bolivia, and Chile constitute "the lithium triangle", with close to 50% of global lithium resources. Latin America has around 16% of global nickel reserves and 23% of rare earth reserves. Brazil has the world's second-largest rare-earth reserves and is currently the origin of approximately 90% of global niobium production (Pereira et al, 2026).

Ayres and Juvenal (2026) offer a map of critical minerals in Latin America and the Caribbean (see Table 1). They have also made an illustrative valuation exercise by multiplying the size of known reserves by current international prices to gauge the scale of critical mineral assets in the region. For example:

- Chile's copper reserves would be valued at more than 500% of GDP, and above 300% of GDP in Peru.
- The estimated value of Brazilian rare-earth reserves would correspond to almost twice the country's GDP.
- In the "lithium triangle", Chile's reserves would be worth 210% of GDP, and Argentina's 50% of GDP.
- Brazil's rare-earth reserves are valued at about twice GDP.
- Guatemala and Colombia are also potentially rich in terms of nickel.

These are impressive figures, even reckoning that they are still far below the oil-reserve valuations in Guyana and Suriname, which amount to 35 and 42 times their respective GDPs.

The authors remark that these figures are purely illustrative, as they assume all reserves could be extracted and sold immediately, whereas in reality, extraction requires decades of technical effort, investment, and complex regulatory approvals. And indeed, South America's mineral landscape exhibits a large gap between endowment and production (Pereira et al, 2026). The point to be taken is the… potential!

Natural wealth may become either a blessing or a curse, as we know (Canuto & Daoulas, 2019) (Canuto, 2021b). Reliable institutions and quality of governance, enabling infrastructure, and appropriate destination of revenues will make the difference in terms of capturing benefits. The boom-bust cycles that have characterized the region's commodity history for over a century must be avoided.

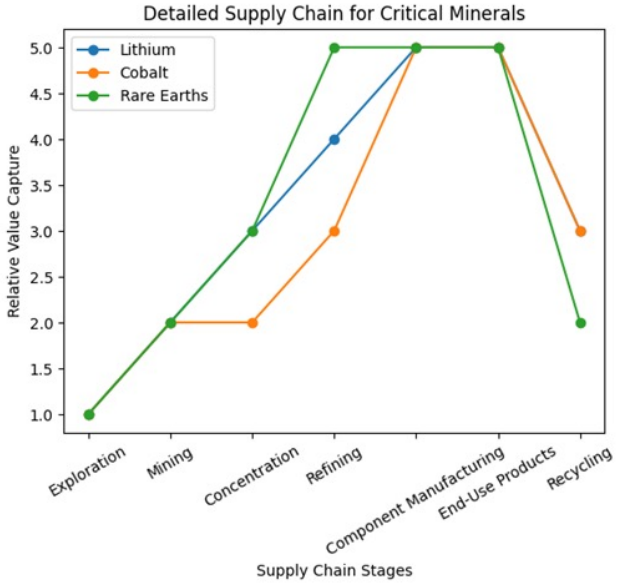
The most offered policy prescriptions are to invest in domestic input capacity, to diversify trade partners, to enhance regional cooperation, and to identify appropriate strategic directions while remaining insufficiently specific about mechanisms (Tran & Canuto, 2025). The more targeted and economically proven instruments deserve greater attention. Chile's copper stabilization fund, which accumulates windfall revenues during price peaks to buffer downturns, remains the clearest regional model for managing commodity-cycle exposure (Global SWF, 2024); countries without analogous mechanisms are most vulnerable to the boom-bust dynamic that the current shock is accelerating. Mexico's long-running oil-price-hedging program

provides a direct precedent for locking in current elevated prices against the eventual normalization of the market: an option particularly relevant for Guyana and Colombia at this time of expanded production.

Brazil's fertilizer vulnerability is the most acute and most tractable supply-chain exposure in the region. Emergency supply agreements with non-Gulf nitrogen producers (Russia, Egypt, Trinidad and Tobago), combined with the development of strategic reserves for the most critical inputs would materially reduce dependence on the disrupted transit corridor. For mining operations across the Andes and Brazil that rely on imported fossil fuels for processing power, investment in regional electricity interconnection and renewable energy for industrial use would reduce the sector's long-term-cost exposure in a way that no amount of hedging can replicate.

It must also be stressed that accruing benefits from natural wealth includes moving up the value chain toward value addition beyond extraction (Figure 2 illustrates this for lithium, cobalt, and rare earth elements). In addition to upstream activities (such as exploitation, mining, and concentration), midstream (refining) and downstream processes (including battery cathodes, permanent magnets, and end-use products) are equally important in maximizing value capture.

Figure 2: Supply chain for critical minerals.



Source: ChatGPT.

The Strait of Hormuz crisis simultaneously validates South America's global importance as an alternative commodity supplier and exposes the structural fragility of its input dependency chains. The central tension between windfall revenues and rising operational costs will resolve differently across the region depending on institutional capacity, commodity mix, and whether global growth holds or contracts. Countries with functioning stabilization mechanisms, diversified supply chains, and credible macroeconomic frameworks are best positioned to capture the upside; those without will find the apparent windfall consumed by cost inflation and political dysfunction, and miss an opportunity to build structural resilience.

The lesson of past commodity booms is consistent across cycles and continents: the crisis moment itself is rarely decisive. What follows—whether windfalls are converted into durable infrastructure, institutional capacity, and economic diversification, or consumed in the short-term pressures of the moment—determines long-term outcomes. South America's resource economies have been offered a narrow window by the upheaval in the Middle East. The actions taken in the months that follow will determine whether the region uses it.

To conclude, it is worth stressing that economies in the region have the chance to explore the opportunities for collaboration opened by both sides of the geopolitical dispute between the U.S. and China (Canuto, 2026c; 2026d).

Table 1: Critical Minerals in Latin America and the Caribbean

Mineral	Latin American production leaders and potential producers	Main uses
Aluminum (including bauxite)	Brazil, Guyana, Jamaica, Suriname, Venezuela	Almost all sectors of the economy
Antimony	Bolivia, Mexico	Lead-acid batteries and flame retardants
Arsenic	Peru	Semiconductors
Barite	Mexico	Oil and gas drilling and medical imaging
Beryllium	Brazil (potential)	Manufacture of metal alloys for aerospace and defense
Bismuth	Bolivia (potential), Mexico (potential)	Nontoxic metals, atomic research, and some medical applications
Boron (including borates)	Argentina, Bolivia, Chile, Peru	Hardening of steel and glass and in nuclear energy
Rare earths (excluding scandium)	Brazil (potential)	Batteries, permanent magnets, lasers, catalysts, metallurgy, nuclear reactor components, fiber optics, data storage devices, medical imaging, electronics, and some cancer therapies, aerospace metal alloys, ceramics, and colorants
Cesium	Chile (potential)	Atomic clocks for global positioning systems

Chromium	Brazil	Stainless steel
Cobalt	Brazil (potential)	Batteries and metal alloys used in extreme temperatures
Copper	Argentina, Chile, Mexico, Panama (potential), Peru	Wiring and cables
Fluorspar	Mexico	Synthetic materials and plastics, iron and steel, ceramics, glass, and refineries
Graphite	Brazil, Mexico	Lubricants, batteries, and fuel cells
Indium	Peru (potential)	Flat-panel displays and touchscreens
Lead	Bolivia, Mexico, Peru	Batteries, ammunition, and glass and ceramics production
Lithium	Argentina, Bolivia (potential), Brazil (potential), Chile, Mexico (potential), Peru (potential)	Rechargeable batteries
Magnesium	Brazil	Metal alloys used by aerospace, automotive, and electronics industries
Manganese	Brazil, Mexico	Steel production and batteries
Nickel	Brazil, Colombia, Dominican Republic, Guatemala	High-strength steel and rechargeable batteries
Niobium	Brazil	Strengthening of steel
Phosphate	Brazil, Mexico, Peru	Fertilizers
Potash	Brazil, Chile	Fertilizers
Rhenium	Chile, Peru	High-performance jet engines and gas turbines
Rubidium	Peru (potential)	Atomic clocks for global positioning systems, data network syncing, and research and development
Silicon	Brazil, Venezuela (potential)	Silicon wafers fundamental to semiconductors
Silver	Argentina, Bolivia, Chile, Mexico, Peru	Electrical circuits, batteries, solar cells, and antibacterial medical instruments
Tantalum	Bolivia (potential), Brazil	Materials and electronic components that need to withstand high temperatures and harsh environments
Tin	Bolivia, Brazil, Peru	Food and beverage cans, circuit board components, and corrosion-resistant metal coatings
Titanium	Mexico (potential, mainly through the titanium dioxide pigment sector)	White pigment and in metal alloys, including for airplanes, spacecraft, and military vehicle armor
Tungsten	Bolivia	Wear-resistant metals for jet engines, ammunition, and mining and cutting equipment
Uranium	Brazil (potential)	Nuclear fuel and medical applications
Vanadium	Brazil	Strengthening of iron and steel
Zinc	Bolivia, Mexico, Peru	Coating to protect iron and steel from rust and corrosion

Source: Ayres & Juvenal (2026).

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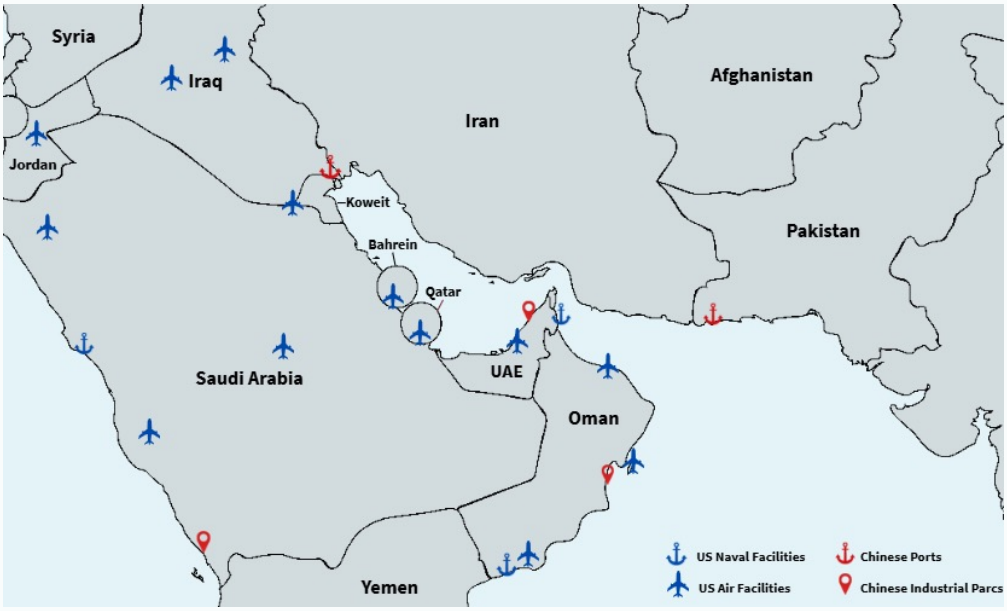
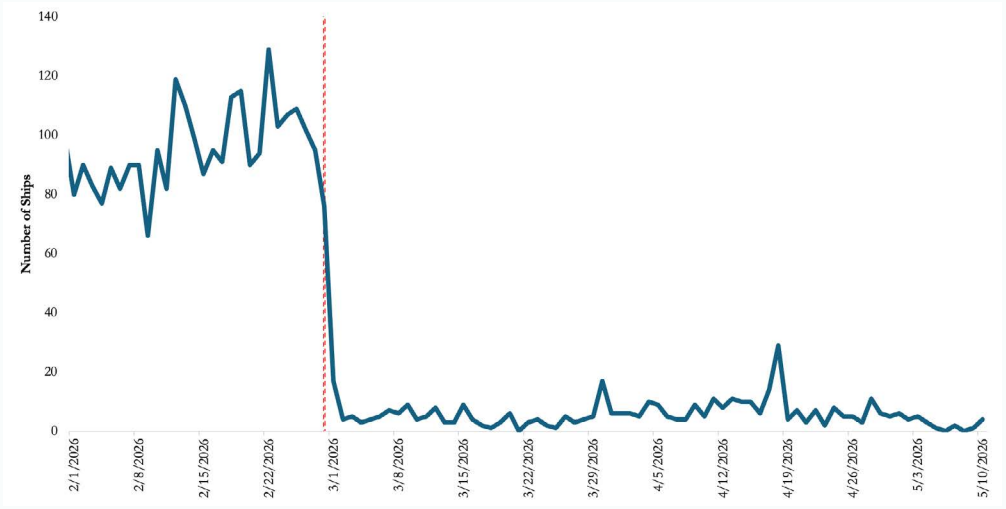
ANNEXES

Military and economic footprints: US and Chinese deployments

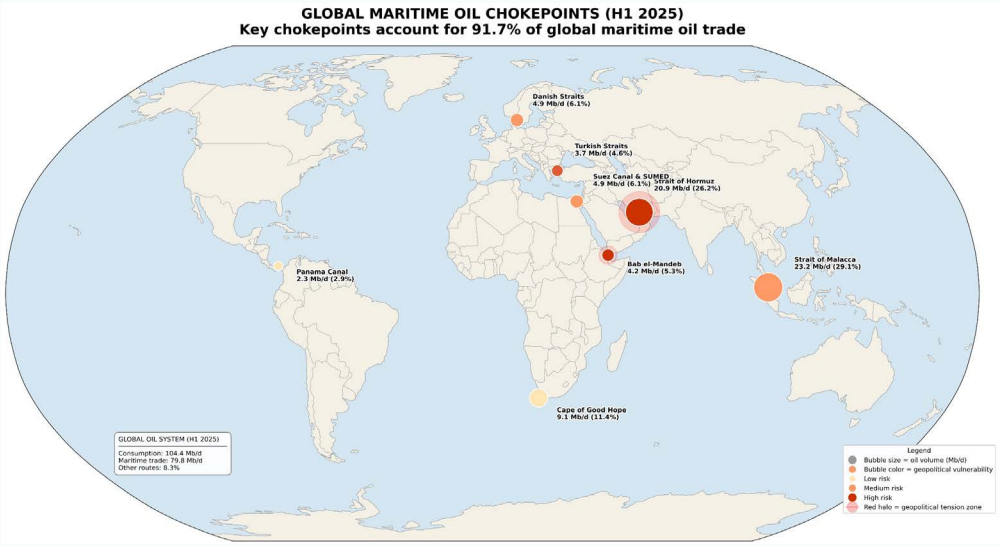


Source: Policy Center for the New South, based on data from Google My Maps and The Washington Institute for Near East Policy.

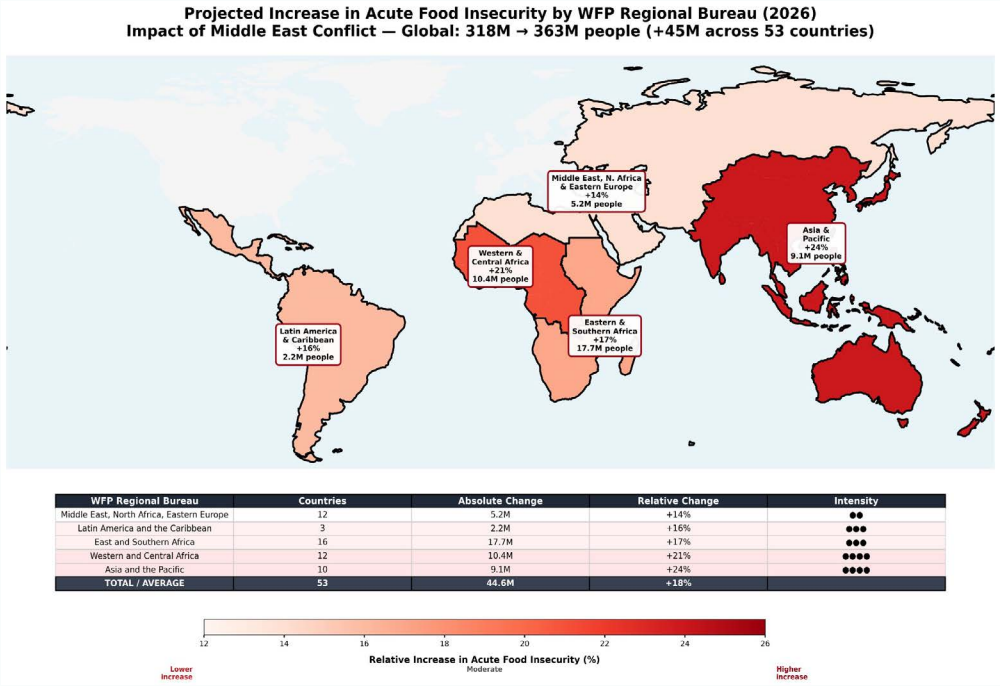
Total Arrivals of Ships through the strait of Hormuz



Source: Policy Center for the New South compilation based on IMF PortWatch



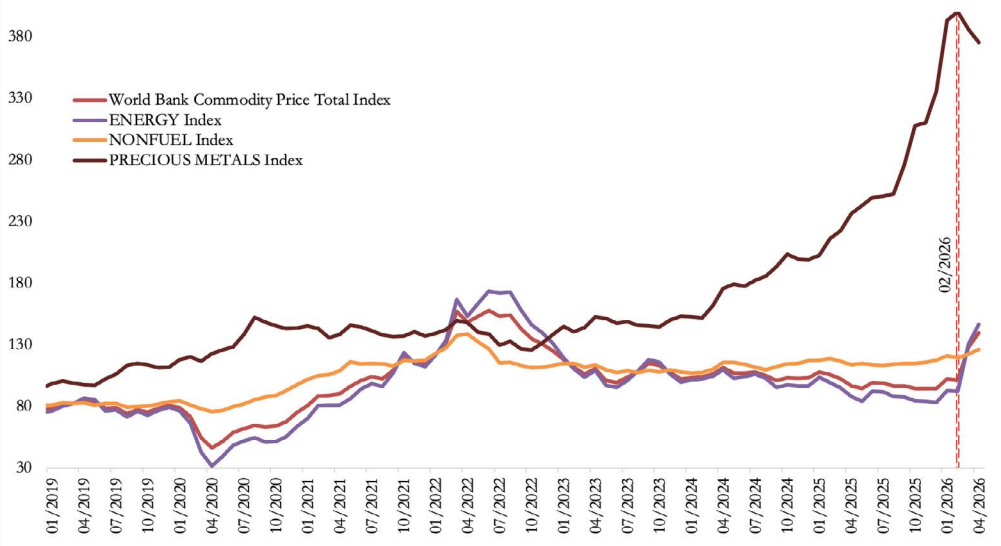
Source: PCNS compilation based on U.S. Energy Information Administration (EIA) data for (H1 2025).



WFP Regional Bureau	Countries	Absolute Change	Relative Change	Intensity
Middle East, North Africa, Eastern Europe	12	5.2M	+14%	●●
Latin America and the Caribbean	3	2.2M	+16%	●●●
East and Southern Africa	16	17.7M	+17%	●●●
Western and Central Africa	12	10.4M	+21%	●●●●
Asia and the Pacific	10	9.1M	+24%	●●●●
TOTAL / AVERAGE	**53**	**44.6M**	**+18%**	

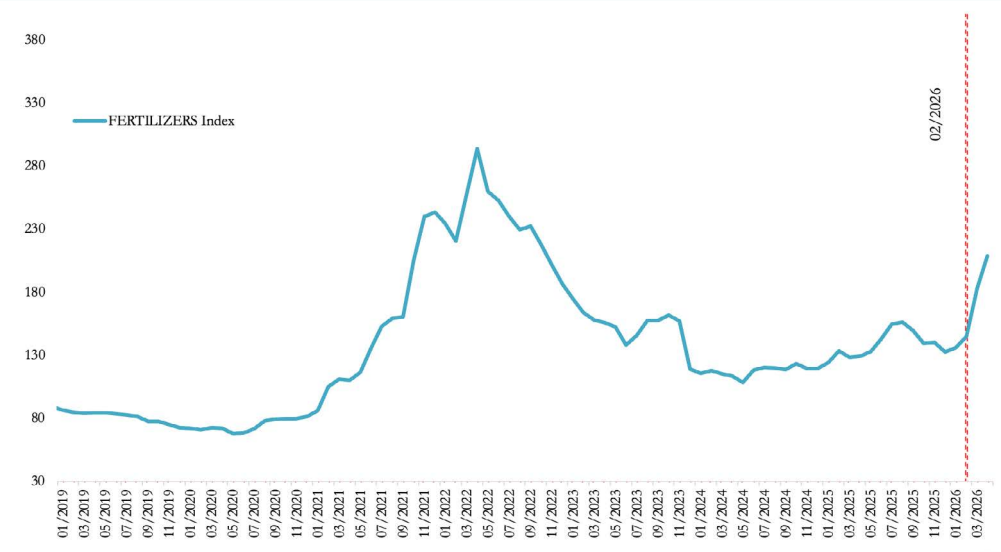
Source: PCNS compilation based on WFP projections (March 2026)
Methodology: Map shows projected increase in acute food insecurity (IPC Phase 3+) due to Middle East conflict.
Data: Absolute change = millions of additional people facing acute food insecurity. Relative change = percentage increase from regional baseline.

Commodity Price Index



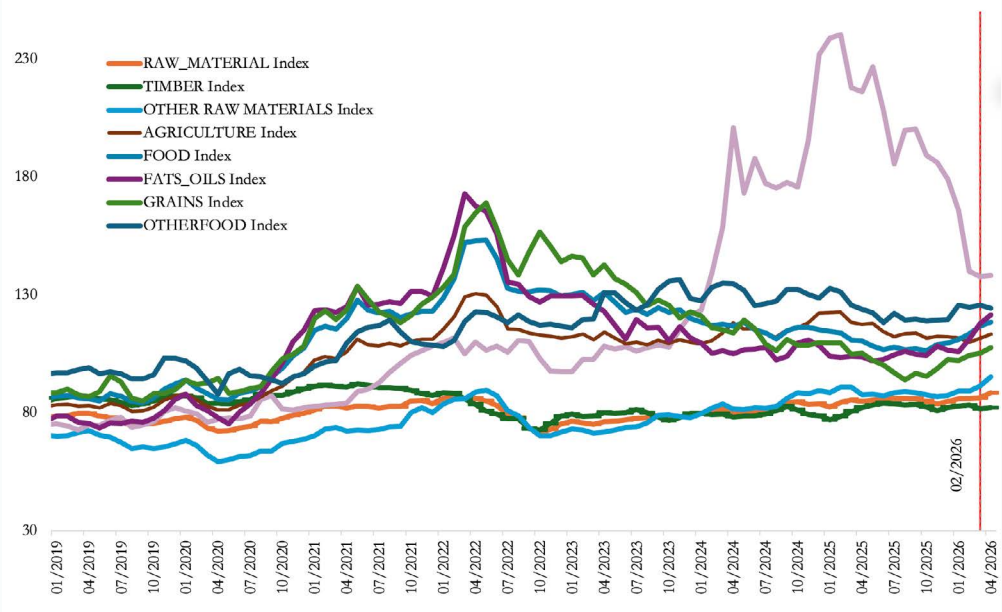
Source: PCNS compilations based on World Bank Commodity Price Data (The Pink Sheet).

Fertilizers Price Index



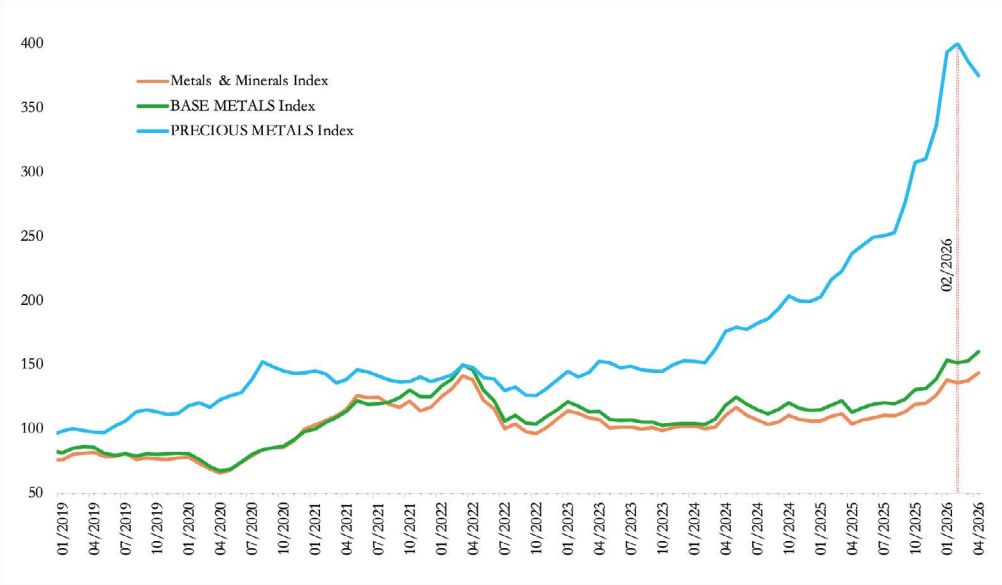
Source: PCNS compilations based on World Bank Commodity Price Data (The Pink Sheet).

Agriculture Commodity Price indices



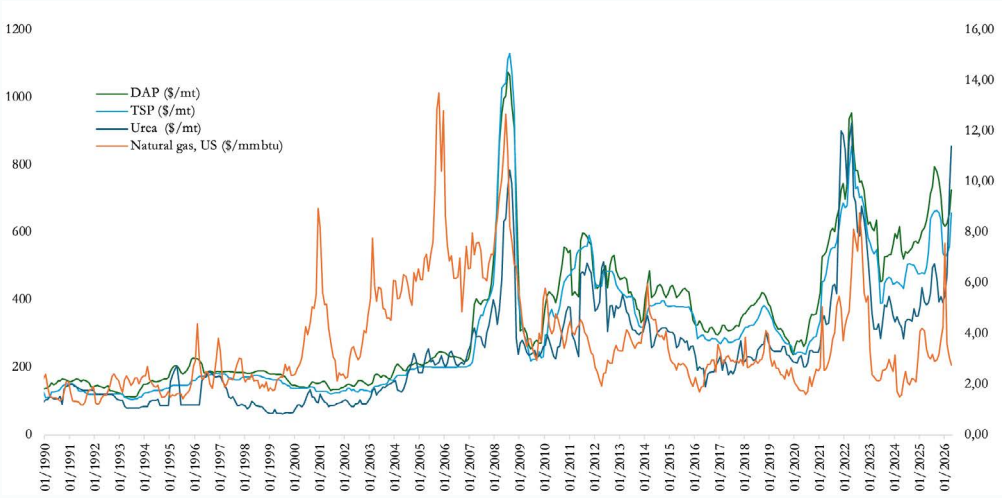
Source: PCNS compilations based on World Bank Commodity Price Data (The Pink Sheet).

Metals & Minerals Price Index



Source: PCNS compilations based on World Bank Commodity Price Data (The Pink Sheet).

Evolution of Fertilizer and Natural Gas Prices: Monthly Benchmarks (1990–2026)



Source: PCNS compilations based on World Bank Commodity Price Data (The Pink Sheet).

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