

NOVEMBER 2026

POLICY PAPER

THE IRAN WAR

The International System under the Trump Shock and a New Regionalization of Globalization

Part III US 'GRAND STRATEGY' UNDER THE TRUMP SHOCK

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POLICY CENTER FOR THE NEW SOUTH

PP - 34/26

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The Iran War: The International System under the Trump Shock and a New Regionalization of Globalization*

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* Part Three of "The US and the Current International Reconfiguration: Implications for Pan-Atlanticism and International Relations in the Atlantic Basin"; and Policy Paper 10 in the series, "Pan-Atlanticism: The Atlantic Basin in a Multipolar-Transnational World".

I. THE WAY AHEAD

In this policy paper – Part 3 of our ongoing analysis[1] – we address the Iran War and its implications for the evolution of the international system in its denouement from the clash between "Restoration", on the one hand, and "Reformation" or "Revolution", on the other (see our previous policy paper for a summary and analysis of Andrey Kortunov's scenarios for the future of the international system).[2] These rival global dynamics are faced off in this moment across the Strait of Hormuz – but also across the old mythical geopolitical faultline that runs along the Eastern European edge of the "Great Eurasian Heartland", epitomized today by the Ukraine-Russia war. This policy paper also provides a deeper analysis of the first of two possible eventualities stemming from Kortunov's third scenario ("Revolution") – what we will refer to as Kortunov's Sub-Scenario 3A: War. We will then proceed in the next policy paper – Part 4 of this analysis – to address the resulting prospects for the future of the Atlantic Basin (i.e. Sub-Scenario 3B: A New "Regionalization of Globalization").

II. THE IRAN WAR AND THE HORMUZ TRAP

2.1. Why the Iran War?

The overwhelming majority of people alive today are still asking themselves, "Exactly why did President Donald Trump lead the US into an undeclared war, along with Israel, against Iran in late February 2026?" Most have their own ideas, and the possible motives appear to be multiple, but there is no clarity, transparency or certainty about them. And even the assumed motives, or driving factors, do not always logically align with each other, or with the (again) supposed strategic objectives of the US in this venture – whatever they really are. And these objectives, at least as they can be plausibly ascertained, are not yet achieved, in the best-case assessment.

To reverse engineer an already speculative analysis, we begin by considering the strategic objectives and work back from there to the most catalytic motives and plausible governing forces. As mentioned, the officially announced objectives of the Iran War have been multiple, but they have also often been changed or modified -- or subsequently expanded in number. Some have disappeared from the discourse during the long months of the unfolding war or shifted position in the rank of the Trump administration's fluid hierarchical imperatives. But others have also reappeared, after having been long forgotten, as centrally relevant.

First was regime change: a removal of the Islamist regime of the Ayatollahs and the Iranian Republican Guard Corps (IRGC), along with a hoped-for domestic popular uprising – even counter-revolution. Despite a successful surprise decapitation strike that assassinated the Ayatollah and countless others, his son, though injured, was left alive enough to rally those

1. "The US and the Current International Reconfiguration: Implications for Pan-Atlanticism and International Relations in the Atlantic Basin", (Part 1), Policy Center for the New South, PB 17/26, April 2, 2026, https://www.policycenter.ma/sites/default/files/2026-04/PB_17-26_Paul%20Isbell%20VF.pdf. See also, Part 2: "The 'Strategic Possibilities Frontier' of Global Reconfiguration under the Trump Shock", Policy Center for the New South, October 9, 2026 . The 'Strategic Possibilities Frontier' of Global Reconfiguration

2. See Andrey Kortunov's Address to the Monterrey Summer Symposium on Russia, July 2-18, 2023 in Armenia and Georgia, organized by the Monterrey Initiative in Russian Studies at Middlebury Institute of International Studies at Monterrey Institute in California. (https://www. youtube.com/watch?v=X7iyqH8RYBw); and also his earlier article, "Restoration, reformation, or revolution? Blueprints for the world order after the Russia–Ukraine conflict", January 2023, China International Strategy Review 4(2):183-208. DOI:10.1007/s42533-022-00112-3.

around him to generate enough support for an unorthodox succession to the post of Supreme Leader. This broke long-standing tradition by elevating a son of the previous leader as successor.

It should also be remembered that this regime-change-inspired collective assassination had been preceded by US Treasury Secretary Scott Bassent's openly admitted, even bragged about, economic warfare against the Iranian currency in late 2025. The social hardship induced by the resulting inflationary crisis stimulated the popular protests demanding some kind of policy relief. These controversial street manifestations were either – depending on the source:

- Repressed brutally by the regime, murdering in cold blood tens of thousands of Iranians yearning for freedom, just to maintain the iron grip of an illegitimate theocratic regime.

Or

- Provoked by the immediate economic deprivations of a collapsing Rial, which Bessent himself claims credit for sinking with sanctions and other tools – for the expressed purpose of stimulating popular revolt.

What is clear is that these Iranian street disturbances involved the tragic death of – at the very least – several thousand Iranians, before the state authorities (irrespective of any shadow of Israeli assets in Tehran) were able to restore order, and the survival of the regime, along with the Iran that actually still currently exists. In any event, the regime has not fallen, and the masses have not revolted against it – despite all the air bombardments – first in March and April and again in July and August – and two extended naval blockades (the second of which is still ongoing).

Ending Iran's nuclear program has also often been aired as another plausible objective: one that seemed a priority (until it didn't) and one that has been blithely resurrected and seized in different moments as the top priority. Forgotten in the discussion now are the publicly released conclusions from both US intelligence and the International Atomic Energy Agency (IAEA) – even before Operation Midnight Hammer and the "12 Day War" of June 2025 – that clearly concluded that Iran was not attempting to build nuclear weapons. Forgotten, too, are Trump's claims of victory in June 2025, assuring us that Iran's nuclear program had been decimated, or at least postponed indefinitely.

Terminating Iran's long-range missiles capabilities, including its intercontinental ballistic missile (ICBM) program, along with bringing an end to Iranian financial, intelligence and military assistance to its "proxy allies" in Lebanon (Hezbollah) and Yemen (the Ansar Allah-Houthis), were also often cited as objectives, at least off and on. But both were implicitly abandoned by the US with the signing of the June Memorandum of Understanding (MOU) which did not deny Iran any of these relationships. Specific points of the MOU, along with certain remarks of President Trump as he signed the document in France, suggested these objectives had been sacrificed in the interests of pursuing a negotiated solution for sustainably reopening the Strait.

Nevertheless, the MOU was almost immediately abandoned by the US, and it quickly apart. Although Iran still holds the MOU as the last standing agreement – and, therefore, the default point of departure for any future discussion, let alone arrangement – both Iran's missile programs and its relationships with its allies in the region (which now include some Shiite militia groups in Iraq) have been resurrected in Trump's communications, if in an uneven fashion. Increasingly, however, US references to them serve more as justifications for prolonging the war, and no longer as firm restatements of them as strategic objectives of the highest order that simply cannot be

abandoned to achieve strategic victory. Now the realities of the war and electoral politics among the major protagonists are making President Trump's declarations of victory "already achieved" increasingly less rigorous, less convincing, and less effective in producing any desired changes in Iranian behavior.

Finally, there are the objectives that were already de facto "achieved" before Trump gave the order to attack – simply because they were not necessary before the war of choice itself imposed them suddenly as immediate strategic imperatives. The primary example of this is the US objective to "open the Strait of Hormuz" and subsequently establish direct influence over its flows into the future. President Trump's posts have even suggested that the US should control the Strait outright in the future and that perhaps it should be renamed after him (in a similar spirit to his renaming of the Gulf of Mexico and Lake Ontario). Re-opening the Strait of Hormuz and a return to at least relatively free-flowing shipping and commerce through it (even if with a higher overall transit cost of one sort or another, economic and/or geostrategic) is a now a strategic objective that is shared not just by the US, but by most interest groups (state and non-state) globally – with the partial temporary exception, perhaps, of Iran – including many who do not typically share objectives with the US.

2.2. Governing Dynamics: Unstated Motives and Objectives

Furthermore, there are other possible objectives and potential motives that might also have served as conscious or less conscious drivers of US policy, only these were not cited as formal objectives, at least not explicitly, frequently or consistently.

Many in the US and around the world – and from across the political and ideological spectrums – either claim or assume that Israel's long-standing prime minister, Benjamin Netanyahu, along with AIPAC (American Israel Public Affairs Committee), the Jewish/Israeli lobby and influence network in the US (including their eschatological allies, the most millennialists among US evangelical Christians), either seduced or otherwise maneuvered President Trump into launching the attack on Iran and continuing to prosecute it as an ongoing war. According to this assumption, Israel has been able to harness its "allied" war against Iran in pursuit of its own strategic and eschatological objectives embodied in its "Greater Israel Project" which would acquire – or conquer – all the land from the Nile to the Euphrates rivers and integrate it into a single unified Israeli state.[3]

There are other possible drivers of the Iran War which, independent of Israel and associated concerns, relate directly to specific US strategic objectives which have been mentioned, intermittently, in statements by the President, his cabinet secretaries and diplomatic envoys. Some of these drivers are individual pillars of the multipronged geostrategic attempt at a "Restoration" of US unipolar hegemony, now framed and articulated by the geoeconomic and geopolitical tools of the Trump 2 shock.

The ultimate global objective of Trump's Restoration strategy is "the encirclement of China", as Secretary of the Treasury, Scott Bessent, has put it.[4] Key to the pursuit of this objective is another

3. "What is the 'Greater Israel' movement?". The Week. October 18, 2024. https://theweek.com/world-news/what-is-the-greater-israel-movement

4. Bloomberg, "Bessent has a 'Grand Encirclement' Plan for China", April 12, 2025. https://www.bloomberg.com/news/newsletters/2025-04-12/bessent-has-a-grand-encirclement-plan-for-china-bloomberg-new-economy

intermediate objective to strategically confront the BRICS Plus, both militarily and economically, in an attempt to divide it politically, diplomatically and economically. The goal is to split some important middle powers – like India, Saudi Arabia, Turkey and Brazil, for example – away from China, Russia and Iran, three core states of Eurasia and BRICS Plus.

The US-Israeli war on Iran is at least partially being waged in the service of these objectives within the Restoration strategy. But it also serves other Restoration objectives, in addition to possibly dovetailing with current Israeli ambitions. Three other key intermediate objectives of the Restoration strategy are potentially advanced by some kind of victory in the war on Iran:

- The US strategic pursuit of energy dominance.
- Renewed US control or influence over strategic maritime chokepoints (over which it has lost some influence and coercive capacity, at least in relative terms, in recent years).
- Reinforcement of the petrodollar pact, still an important support for dollar hegemony, if now under strain.

III. THE CLOSURE OF THE STRAIT OF HORMUZ: THE REVERSE TSUNAMI

The US-Israeli Iranian showdown across the world's most vital maritime chokepoint has stifled the flow of 20% to 30% of the globally traded volume of a range of strategic goods. The International Energy Agency claimed that the effective closure of the Strait of Hormuz on March 4, 2026, had provoked "the most severe oil shock ever in history" by cutting off 9 to 12 million barrels a day (mbd) of crude oil from the global market.[5] If disrupted liquified natural gas (LNG) flows, principally from Qatar, are added to that figure, the cut flow becomes the equivalent of 17.8 mbd, "approximately one-fifth of globally traded supply" [6] of crude oil and LNG. In addition, more than 10mbd of refined petroleum products stopped flowing through the Strait. The energy analysts from the Policy Center for the New South, Rim Berahab and Sabrine Emran, described it as "a shock with a duration and structural consequences that are categorically different from anything the post-1973 energy governance system was designed to manage".[7]

Irrespective of the confusion and competition over whether the Strait of Hormuz is open or closed (or controlled by Iran or by the US), the ongoing disturbance of maritime traffic through this key geographic chokepoint – vital for both global "flow security" and the viability of Gulf state economies – is generating many global economic and political instabilities and accumulating additional shocks still lagging in the metaphorical pipeline.

3.1. Shipping Flows

First, at the immediate surface level, shipping traffic – of both tankers (liquid fuels) and cargo ships (containers, bulk and dry goods) – was down nearly 85% by the end of June, after the Strait had

5. International Energy Agency, Oil Market Report, April 2026 https://www.iea.org/reports/oil-market-report-april-2026.

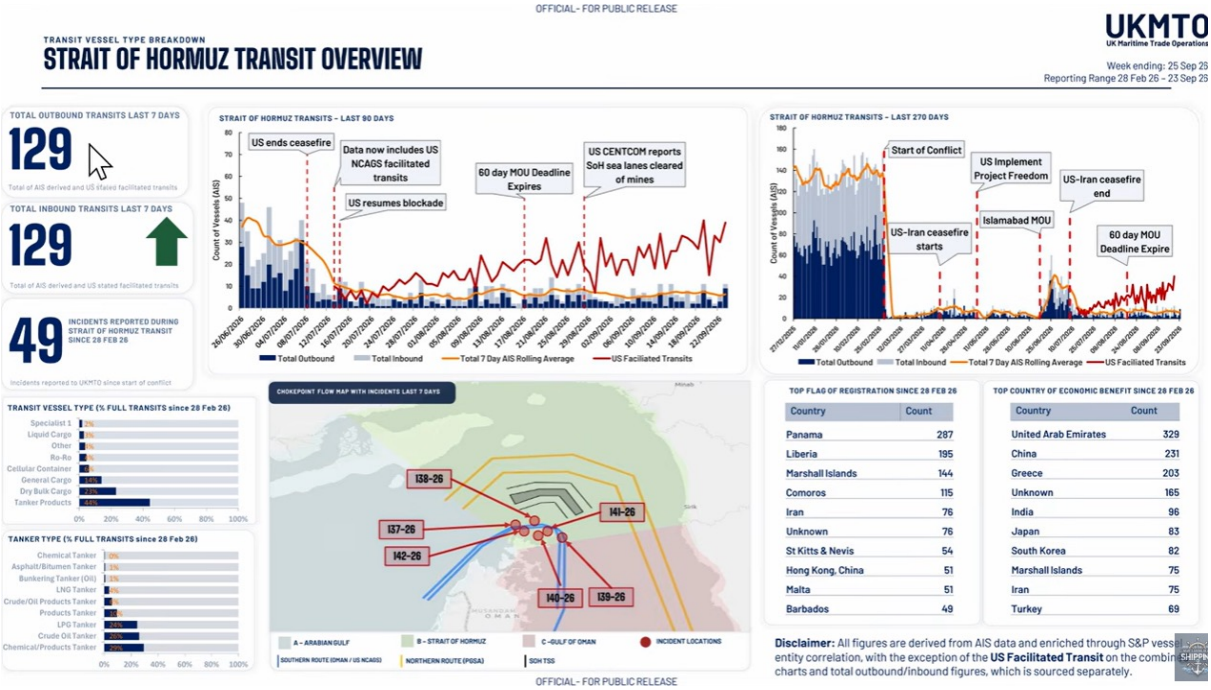
6. Rim Berahab and Sabrine Emran, "Stress Test: The Hormuz Crisis and the Fracturing of the Global Energy Order", Policy Center for the New South, PB-29/26, June 2026. https://www.policycenter.ma/sites/default/files/2026-06/PB_29-26%20%28Sabrine%20Emran%20%26%20Rim%20Berahab%29.pdf.

7. Ibid.

been constricted for 116 days. Between February 28 and April 12, during which most of the first phase of the heavy fighting took place, only 279 ships passed through the Strait – a shadow of the prewar average that was well above 140 a day – and 22 others had been attacked in some way by Iran.[8] From the beginning of the war to that relatively early date, only 11 ships per day, on average, passed through the Strait in either direction. After the ceasefire in early April, some 15 to 20 ships managed to pass sporadically on random days. When the Memorandum of Understanding was released in mid-June, traffic did slowly increase for nearly a month, peaking in the upper-50s, before dropping back again to the wartime average, once it became clear that hostilities would be renewed (see Figure 1).[9] Even at the end of September 2026, Hormuz shipping traffic – the large majority of which are now tankers – was still 75% below the pre-conflict level.[10]

Figure 1

Evolution of Transit Through the Strait of Hormuz, March 2026–Present



Source: UKMTO (UK Maritime Trade Operations), September 25, 2026.

3.2. Shipping Insurance

Further layers of disturbance to Hormuz flows – in addition to the attacks on ships or other forms of physical interdiction – come from some specific characteristics of the maritime sector. After two weeks of war, shipping insurance rates for passage through the Strait of Hormuz – principally the Additional War Risk Premium (AWRP) – had surged by an order of magnitude to 2.5%, significantly cutting into shipping company profits and providing an additional disincentive beyond the rising physical risk to the crews. Although it receded to nearly 1% by the end of the first month of the

8. https://hormuz-traffic.com/ (July 2, 2026).

9. Carl Quintanilla, from Bloomberg vessel tracking on IMO <GO> (ECAN HORMUZ <GO>), on X.com, July 2026.

10. UKMTO (UK Maritime Trade Operations), September 25, 2026.

war, this was still eight times higher than in the prewar period, when the AWRP was 0.1%–0.15%.[11] The most extreme cases in mid-March involved stranded tankers forced to pay as much as 10% of the Hull and Machinery (H&M) value of the ship. For a SuezMax tanker carrying a full load of crude, the AWRP premium came to US$7.5 million – even more than the value of the freight to destination (US$6.5 million).[12] As of September, the AWRP has blown way beyond those previously unprecedented rates to some 40 times the prewar level. Voyages of Very Large Crude Carriers (VLCCs) through the Strait have insurance quotes as high as US$10 million (compared to around US$250,000 before the war). This prices many ships out of the market, even while passage through the Strait remains physically possible.[13]

Even as the war risk premium went on with the months to wax and wane and wax again, concerns and actions related to crew safety began to constitute a further factor minimizing the Hormuz traffic flows throughout the course of the war. On the one hand, India requested that its mariners stop working on ships making the Hormuz passage;[14] on the other hand, some shipping companies began offering six months' extra pay for making a roundtrip passage.[15] Restoring confidence to the shipping industry will add further force to the lagged Hormuz energy shock.

3.3. Shut-In Production and Damaged Infrastructure

The impact of this precipitous drop in crude oil export flows out of the Persian Gulf is made more destabilizing by the fact that – given the ongoing length of the closure – significant amounts of oil and gas production have had to be "shut-in" after all available storage had been utilized. The US Energy Information Agency estimated that 7.5mbd had ceased to be produced in the key Gulf states by the end of March and expected this to rise to 9.1mbd by the end of April.[16] This production flow will require months to be restored to previous levels even after the war ends and the Strait returns to more historically normalized bi-directional shipping flows – if it ever does.

11. By July 22, 2026, the AWRP had risen to 5%. See: https://hormuzstraitmonitor.com/.

12. Sameer C. Mohindru, "War risk insurance cost off highs but still elevated in Persian Gulf", S&P Global, March 30, 2026 https://www.spglobal.com/energy/en/news-research/latest-news/shipping/033026-war-risk-insurance-cost-off-highs-but-still-elevated-in-persian-gulf

13. Hormuz Live Monitor, "Strait of Hormuz war-risk insurance rate", Strait, September 8, 2026. https://straits.live/strait-of-hormuz-war-risk-insurance-rate

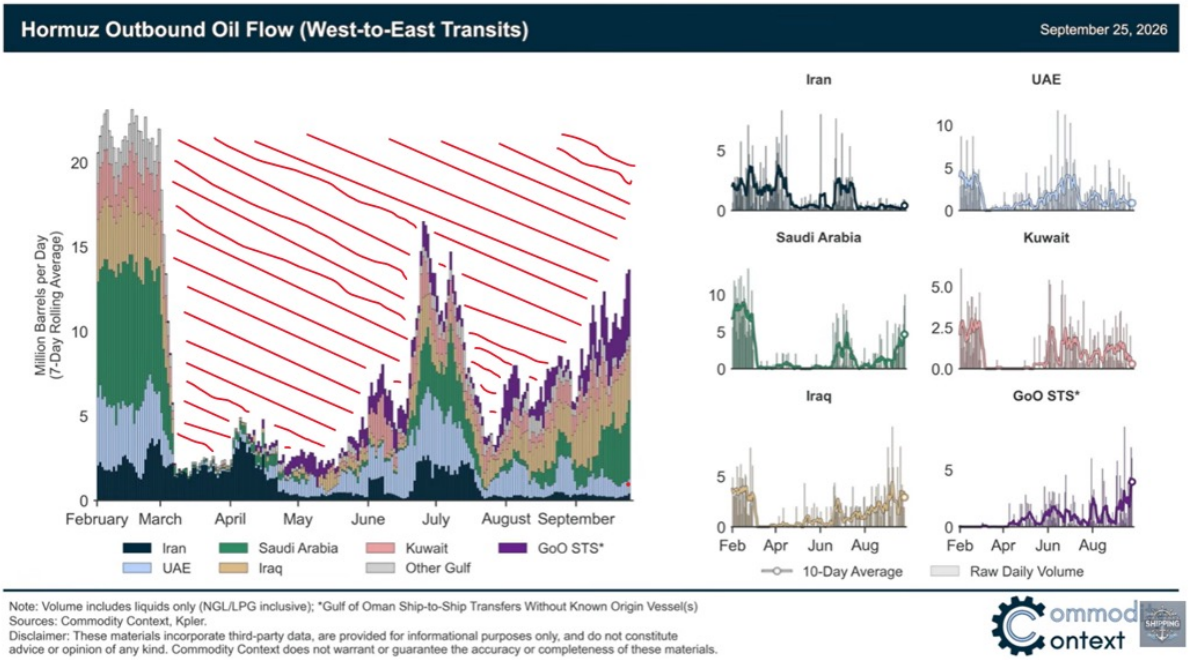
14.HT News Desk, " 'Don't deploy Indian sailors…': India's big warning to shipowners over Hormuz amid renewed US–Iran tensions", Hindustan Times, July 16, 2026 https://www.hindustantimes.com/india-news/avoid-deploying-indian-seafarers-on-ships-passing-through-hormuz-india-dgma-notice-shipowners-amid-us-iran-war-101784186911515.html.

15. Mike Schuler, "Shipowner Offers Seafarers Six Months' Pay to Sail Through Strait of Hormuz", gcaptain.com, July 20, 2026 (from Bloomberg, by Charles Gorrivan, Alex Longley and Stephen Stapczynski) https://gcaptain.com/shipowner-offers-seafarers-six-months-pay-to-sail-through-strait-of-hormuz/

16. US EIA, "Hormuz closure and related production outages are key drivers in EIA's latest forecast", April 7, 2026. https://www.eia.gov/pressroom/releases/press586.php

Figure 2

The Cumulative Volume of the Hormuz Shock



Source: Rory Johnston, commoditycontext.com, Substack, September 25, 2026

The impact has been magnified by the several rounds of retaliatory Iranian missile strikes – expected or not – against targets in eventually all Gulf states (and Jordan). These attacks have primarily hit US military installations and related assets, but they have also begun to cause lasting damage – if to a lesser degree, so far – to energy production, processing and refining facilities and related "dual-use" infrastructure across the Gulf. A case in point was the retaliatory Iranian strike on Kuwait in mid-July, taking out a power and desalination plant. Additional rounds of escalation in the Iran War will only amplify the multiple related shocks. Berahab and Emran summed it up precisely: "Compared to previous crises, the Hormuz crisis differs in three main ways: dynamic escalation, absence of diplomatic resolution, and permanent infrastructure damage".[17]

The story is brought forward by TankerTrackers.com, specialist trackers and analysts of critical supply chains, particularly energy. In early September, they quantified the missing lost flows (shown at a glance by the red-lined space in Figure 2 above) that will eventually demand some kind of reckoning: more that 10% of global demand during the first six months of the war (see Figure 3).

17. Berahab and Emran, op. cit.

Figure 3

Total Oil Flows Constrained by the Hormuz Conflict

Time Period	Average Hormuz Flow of Crude Oil (mbd)
Pre-conflict era (Jan 1 to Feb 28, 2026)	16.63mbd
Pre-US blockade conflict era (Feb 28 to April 13, 2026)	3.45mbd
First US blockade (April 13 to June 18)	2.72mbd
MOU effective era (June 18 to July 14)	10mbd
Second US blockade era (July 14 – Sept 2)	4.9mbd
Total crude passage (189 days of conflict)	779 million barrels of crude oil passed through Hormuz
Average daily crude passage during war:	4.19mbd
Average Daily Missing Crude Oil (for six months of conflict and still counting)	**12.44mbd**
Total Missing Crude (over six months)	**2.35 billion barrels**

Source: TankerTrackers.com, Inc. (@TankerTrackers), posting on X, September 2, 2026 (and author's own elaboration).

3.4. The Downstream Shock

A central aspect of this unfolding drama lies beyond the mere disruption of the flow of crude oil along the midstream of the energy sector. There are additional disruptions and distortions occurring in the downstream of refining. Supplies of the "middle distillates" – diesel and jet fuel, in particular – are under the most pressure. The so-called "crack spread" (the difference between the price of crude oil paid by a refinery and the price it charges for the sale of a barrel-equivalent of refined commercial transportation fuel like diesel or jet fuel) has hit and blown through an historic level of US$70 a barrel registered in July,[18] and it has kept rising ever since.

On the supply side, in addition to the impact on crude oil, the closure of Hormuz cut off nearly 10% and 20% of the global supply of diesel and jet fuel, respectively.[19] This shortage has been exacerbated by further damage inflicted by the Ukraine–Russia war to global oil refinery capacity (which has fallen by at least 1.5mbd under the pressure of Ukrainian drone attacks on Russian refineries). Furthermore, China's temporary diesel export restrictions, imposed at the height of

18. Michael Snyder, "Goldman Sachs Warns That Oil Could Soon Hit $120 as the "Crack Spread" Soars to New All-Time Highs", Economic Collapse Report, July 22, 2026. https://economiccollapse.report/goldman-sachs-warns-that-oil-could-soon-hit-120-as-the-crack-spread-soars-to-new-all-time-highs/

19. See Kate Burnett, Kevin Li, Lisa Basquel, and Chloe O'Connor, "15 charts that explain why the Strait of Hormuz shutdown matters for the global economy", Atlantic Council, Dispatches, April 14, 2026. https://www.atlanticcouncil.org/dispatches/15-charts-that-explain-why-the-strait-of-hormuz-shutdown-matters-for-the-global-economy/

the war, then eased in July,[20] but reinstated again in early October,[21] have only tightened global product supplies even more.[22] Diesel prices rose nearly 40% during the first five weeks of the war.[23] In the US, average retail prices are now at the historically high record level of over US$6.50 per gallon.[24]

Finally, on the demand side, another layer of complexity to the energy shock comes from the geographic and industrial structure of the downstream (i.e. refinery) sector of the oil economy. The significant re-routing of global shipping, crude oil and refined product flows, provoked by the Hormuz closure, has produced a mismatch in available supply of particular crude grades – "heavy" versus "light"[25] and "sour" versus "sweet",[26] as well as the specific type of crude that the refineries providing for the demand are technically configured to process[27]. For example, most refineries in Asia are specifically designed to refine medium-to-heavy sour crudes (which are most appropriate for refining the middle distillates) from the Persian Gulf. However, with the Strait of Hormuz blocked, they have been forced to try to purchase lighter, sweeter crude from the Atlantic Basin,[28] despite efficiency losses (producing relatively more gasoline and less diesel and jet fuel than they normally would) and higher risks of damage to their specialized catalytic crackers.[29]

Physical shortages have already provoked demand reduction measures (including restrictions on supply or consumption) in many Asian countries, and they are projected to make themselves felt in the Northern Atlantic countries soon: flights may be cancelled and trucking and other transportation costs will reflect these higher fuel prices and pass into generalized inflation. Freight rates for container ships from Asia to the United States have also surged during the period of the war – up by 109% to mid-June – while rates from Asia to Europe increased by more than 50%.[30] Freight rates for tankers from the Persian Gulf to China are now (as of October 2026) well over US$1 million a day.[31] The total logistics cost of a barrel of 'landed' oil has risen from $3/barrel (bbl) to $30/bbl during the war. All of this injects higher costs into the pipelines of services and industrial production of all types (particularly energy-intensive manufacturing).

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20. Peter Jackson, "China Lifts Fuel Export Curbs, Set to Boost Global Oil Product Supply", Chemanalyst News, June 30, 2026 https://www.chemanalyst.com/NewsAndDeals/NewsDetails/china-lifts-fuel-export-curbs-set-to-boost-global-oil-product-43061

21. Tom Kool, "Dated Brent Above $120 Signals a Serious Oil Squeeze", oilprice.com, October 2, 2026. https://oilprice.com/Energy/Crude-Oil/Dated-Brent-Above-120-Signals-a-Serious-Oil-Squeeze.html

22. Lewis Jackson and Ruma Paul, "China's fuel export ban to further tighten Asia supply", Reuters, March 17, 2026 https://www.reuters.com/business/energy/chinas-fuel-export-ban-further-tighten-asia-supply-2026-03-17/

23. Kate Burnett, Kevin Li, Lisa Basquel, and Chloe O'Connor, op cit.

24. Fuel Data Portal, "US Diesel Price", September 21, 2026. https://fueldataportal.com/data/us-diesel-price

25. Depending on how heavy the crude oil is compared with water.

26. Depending on the level of sulphur content.

27. Pathikrit Sen Gupta, "Light, Heavy, Sweet, Sour: Why the World Can't Just Replace Gulf Oil Overnight", News18.com, March 11, 2026 https://www.news18.com/explainers/light-heavy-sweet-sour-why-the-world-cant-just-replace-gulf-oil-overnight-9955308.html

28. See, for example, Matthew Smith, "Brazil's Oil Boom Is Accelerating as Asian Buyers Flee the Middle East", oilprice.com, July 22, 2026. https://oilprice.com/Energy/Energy-General/Brazils-Oil-Boom-Is-Accelerating-as-Asian-Buyers-Flee-the-Middle-East.html

29. Parul Bakshi and Samriddhi Vij, "Why Asia Cannot Replace Gulf Crude Easily", ORF Middle East, May 01, 2026. https://www.orfonline.org/index.php/research/why-asia-cannot-replace-gulf-crude-easily

30. MI News Network, "Iran War Sends Global Container Shipping Rates Soaring Over 100% As Fuel Costs Surge", Shipping News, June 12, 2026. https://www.marineinsight.com/iran-war-sends-global-container-shipping-rates-soaring-over-100-as-fuel-costs-surge/

31. Greg Miller, "Crude tanker rates steady near record highs, FFAs fall and stocks retreat", Lloyd's List, September 22, 2026. https://www.lloydslist.com/LL1158513/Crude-tanker-rates-steady-near-record-highs-FFAs-fall-and-stocks-retreat

IV. A SUEZ MOMENT IN VERSAILLES?

4.1. A Foreign Policy Disaster?

After the first 37 days of kinetic warfare between the US and Israel, on the one side, and Iran on the other, it became clear to many that, in effective strategic terms, the US had not achieved any of its core objectives. Indeed, many observers, in the US and beyond, claimed that Iran was winning the war. The regime had survived; their retaliatory capacity had been demonstrated and maintained, even in the face of massive bombardment. Iranian oil even continued to flow freely until the April ceasefire and the beginning of the first blockade, and then again from mid-June until a second blockade was imposed in July. Moreover, as a response to the initial attack, Iran had exerted deft control over the Strait of Hormuz.

In April a period of shaky ceasefires began, punctuated by occasional isolated attacks and responses, usually involving shipping in the Strait, and subsequent tit-for-tat retaliatory strikes on US military assets across the Gulf states. On May 10, writing in The Atlantic, neo-conservative US foreign policy analyst Robert Kagan – a major proponent of previous Gulf wars – came very close to characterizing Trump's war of choice in Iran as the greatest strategic failure in US history. "It's hard to think of a time when the United States suffered a total defeat in a conflict, a setback so decisive that the strategic loss could be neither repaired nor ignored." As if pulling out his hair over the strategic trap the Trump administration had dragged the country into, he declared: "If this isn't checkmate, it's close".[32] John Mearsheimer, the dean of "offensive realism" (which is presumably what the Trump administration is engaged in), minced no such words three months later when he concluded that the war has been "the greatest foreign policy disaster in US history".[33]

4.2. The MOU

However, as Trump signed the 14-point Memorandum of Understanding (MOU) with Iran[34] in June at the G7 meeting at Versailles, he appeared content to employ any pretense available for simply declaring victory and ending the war, especially as the US midterm elections began to loom on a political horizon already darkened by Trump's historically low net approval ratings – only 35% approve, 60% disapprove, and 5% are unsure (see Figure 4). There was certainly dramatic irony in the President's choice of Versailles as the place for signing any document to end a war. In his remarks after the G7 meeting and the signing ceremony, praising and justifying the agreement – which many of Trump's own backers and allies were calling "a disaster of a deal" – he frankly pointed out that oil reserves, upon which the global system was relying to cushion the immediate impact of the Hormuz closure, would run out "in four weeks". He added jovially that he didn't want to be another Herbert Hoover. He also mused, out loud and incongruently, that perhaps Iran should be able to have its own missiles, "just like any other country."

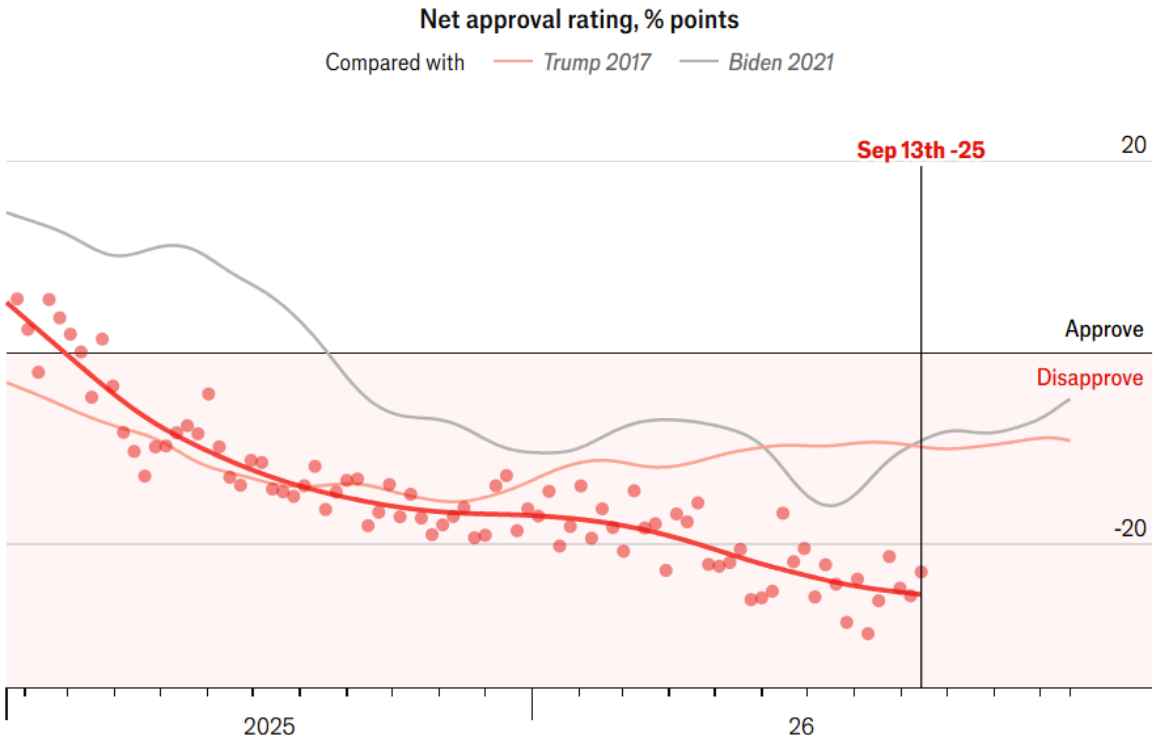
32. Robert Kagan, "Checkmate in Iran: Washington can't reverse or control the consequences of losing this war", The Atlantic, May 10, 2026. https://www.theatlantic.com/international/2026/05/iran-war-trump-losing/687094/

33. John Mearsheimer to Rachel Blevins, "Iran War 'GREATEST FOREIGN POLICY DISASTER' in US History – Prof. John Mearsheimer", The Rachel Blevins Show, August 18, 2026. https://www.youtube.com/watch?v=gfpY68Q3Da4

34. "US-Iran memorandum of understanding in full", bbc.com, June 18, 2026. https://www.bbc.com/news/articles/c4gy700j0eko

Figure 4

Trump's Net Approval Ratings Ahead of November 2026 Midterm Elections



Source: The Economist[35]

4.3. Oil Shock and the Specter of Global Depression

Ever since the beginning of the war, some economists have projected at least global slowdown, if not recession, or depression, even with a rapid return of production levels among the Persian Gulf states and maritime traffic flows to prewar levels – once the Strait of Hormuz has been sustainably re-opened. The global economy was already lumbering beneath the heavy-handed and uncertain Trump tariffs; housing bubbles were looming in both China and the US; and an AI bubble threatens the US stock market.

By the time Trump signed the MOU, he indeed had reason to fear a depression if he could not open the Strait. After all, by mid-June, well over a billion barrels of oil had failed to get to the world market because of the war and the collapse of Hormuz shipping traffic.[36] This means that perhaps 5% to 10%, possibly more, of the entire annual flow of oil (alone) that typically passes through the Strait did not get to market – and that was just until the time of the MOU process in June, and the Strait is not yet fully open or operational. By September this gap had widened to well over two billion barrels (see Figure 3). Hormuz passage levels in mid-August were 20% to 30%, at best, of

35. "How Unpopular is President Trump?", September 15, 2026, https://www.economist.com/interactive/trump-approval-tracker

36. Dmitry Zhdannikov, Robert Harvey and Ahmad Ghaddar, "World absorbs historic Iran war oil supply loss, but depleted stocks bring risks", Reuters, July 6, 2026 https://www.reuters.com/business/energy/world-absorbs-historic-iran-war-oil-supply-loss-depleted-stocks-bring-risks-2026-07-06/

prewar levels (including so-called "dark transits"). The ultimate size of the Hormuz shock in terms of lost oil supply to market is still to be determined, but it continues to grow with no apparent end in sight. The impact of the shock in terms of oil price is about to reveal itself. By mid-September, Brent crude was threatening US$110/bbl; by late October it was above US$116/bbl.

Meanwhile, this sustained rise in oil prices – along with the physical shortages and mismatches beginning to appear – is provoking severe economic crisis in South Korea and Japan, stalwart US allies in East Asia. Both are overwhelmingly dependent on the Persian Gulf for their oil consumption.[37] The sudden massive shock to their balance of payments has sent their asset markets and currencies plummeting, threatening inflation and collapse, unless they raise interest rates and/or begin to sell off their dollar-denominated US Treasury bonds, held in reserve by their central banks.[38].

The first of these two possible responses of the Japanese – significantly raising interest rates to support the yen – would threaten the financial community of New York, which for decades fed upon the profits of the cheap and easy "yen carry trade". By borrowing yen at the ultra-low Japanese interest rates that have prevailed for decades, and investing them in dollar-denominated assets, investors could earn much higher returns in the US. But that massive flow of financial arbitrage could now easily unwind if Japan raises interest rates to defend the depreciating yen.

If Japan defends the yen by selling some of its dollar reserves (held primarily in the form of 10- and 30-year US government bonds) to support its exchange rate, that could also threaten the future of the entire US economy by placing upward pressure on long-term interest rates in the US, as investors of all types begin to shed exposure to the wobbly dollar – including the allies the US pushed into crisis, who could be ultimately forced to sell their dollar reserves as well (which Norway has already begun to do).[39]

To try to avoid such a denouement, Secretary Bessent has attempted to bail out the yen, by selling US holdings of euros to purchase and support the yen, along with other financial mechanics and monetary maneuvers in a vigorous and emotional effort to obviate Japan's ultimate need to sell US Treasury bonds. And yet, as projected in a previous policy brief, the ghost of Triffin is back with his dilemma to haunt US long-term interest rates. Since Bessent's interventions in the yen market, the yield on the US 10-year bond has risen well beyond the symbolic level of 5% and now stands at 5.3%.[40]

Trump was also technically correct at Versailles regarding the rapid draw down of available oil supplies. The US's Strategic Petroleum Reserve (SPR) was down to 316.5 million barrels by July 10

37. Japan imports nearly all its oil; 93% traditionally has come for the Middle East and 70% through the Strait of Hormuz. South Korea's Middle East dependency rate is 67%; those for Singapore and Thailand are 58% and 55%, respectively. See: Mohammad Reiza, "Which Asian Economy Is Most Dependent on Middle East Oil?" seasiastats.com, April 4, 2026. https://seasiastats.com/statistic/which-asian-economy-is-most-dependent-on-middle-east-oil-8mgNc

38. A similar dilemma, in different forms, face many erstwhile US allies that have been carrying water for US deficits by accumulating US long term government bonds.

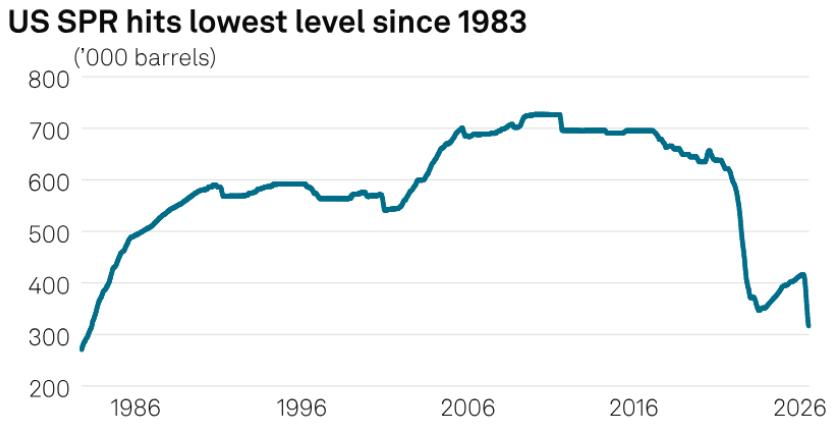
39. Iain Withers and Tommy Reggiori Wilkes, "Norway's $2 trillion sovereign fund proposes deep cuts to US Treasury holdings", Reuters, September 4, 2026. https://www.reuters.com/business/norways-2-trillion-sovereign-fund-proposes-deep-cuts-us-treasury-holdings-2026-09-04/

40. "United States 10-Year Bond Yield", investing.com, October 2, 2026. https://www.investing.com/rates-bonds/u.s.-10-year-bond-yield

– at the start of the post-MOU renewal of hostilities – the lowest level since 1983[41] (see Figure 5). Since the beginning of the war, well over 100 million barrels have been drawn from the SPR. Overall US oil inventories, including commercial and SPR stocks, had fallen by 96.2 million barrels to 758.5 million barrels, the lowest since 1985.[42] By mid-September, the level of SPR stock had fallen to 285 million barrels.[43]

Figure 5

Evolution of US Strategic Petroleum Reserve



Cited in S&P Global: "US Strategic Oil Reserve Falls to Lowest Level Since 1983", July 16, 2026. https://www.spglobal.com/energy/en/news-research/latest-news/crude-oil/071526-us-strategic-oil-reserve-falls-to-lowest-level-since-1983.

4.4. Oil Price Mystery?

Despite numerous warnings that oil prices would rise to over US$200/bbl, they have remained paradoxically muted in the face of such a massive apparent shortfall of supply. During March, April and May, the oil price ranged roughly between US$US85/bbl and US$115/bbl, with much volatility, driven by the repetitive and quickly alternating announcements of pending agreements and abrupt renewal of hostilities. But after Trump's visit to China, the price of Brent crude slid from US$110/bbl on May 15 down to US$80/bbl with the release of the MOU in mid-June. By July 1, it was back to the prewar level around US$70/bbl (see Figure 6).

41. S&P Global, "US strategic oil reserve falls to lowest level since 1983", July 16, 2026 https://www.spglobal.com/energy/en/news-research/latest-news/crude-oil/071526-us-strategic-oil-reserve-falls-to-lowest-level-since-1983. The statutory legal floor for the SPR is 252.4 million barrels – low enough to support drawdown for another 3-4 months with the Strait closed. But even if this could be changed, should the Strait of Hormuz remain effectively closed (i.e. with only 10% of prewar shipping traffic) until the end of 2026 – holding everything else constant – the SPR levels would be dangerously close to 20% of maximum capacity, a potential functional breakdown level, below which the long-term technical viability of the strategic storage sites are put into question.

42. BOE Report, "Oil stocks in US Strategic Petroleum Reserve fall to lowest level since 1983", June 22, 2026. https://boereport.com/2026/06/22/oil-stocks-in-us-strategic-petroleum-reserve-fall-to-lowest-since-1983/

43. Timothy Gardner, "US to loan up to 40 million barrels of oil from SPR, last batch from global deal", Reuters, September 29, 2026. https://www.reuters.com/business/energy/us-release-40-million-barrels-crude-strategic-petroleum-reserve-energy-2026-09-29/

Figure 6

Evolution of Brent Crude Oil Price during the Iran War



Source: Oil Price Live, October 5, 2026. https://www.oilpricelive.com/iran-war-timeline

4.5. Alternative Pipeline Routes

A number of secondary dynamics converged to produce a relatively subdued price of oil throughout most of the war. In part, this can be explained by the diversion of some Gulf oil to alternative pipeline routes which bypass the Strait. In late February 2026, around 973,000 barrels a day of Saudi crude oil was passing through the East–West pipeline to the Red Sea port of Yanbu. According to the House of Saud, by mid-July this had risen to 4.7mbd (implying a diversion of 3.8mbd away from the Gulf route). Maximum throughput capacity of East–West pipelines is 7mbd (including 2mbd of refined product), but the Yanbu port offloading facilities are more limited (to 4mbd) and vulnerable to Ansar Allah-Houthi missile attacks.

In late July, as if on schedule, the Ansar Allah-Houthis announced a new closure of the Strait of Bab el Mandeb and began to target Saudi shipping and oil exports, initially attacking two tankers and bombing both the pipeline and an Aramco refinery. More recent attacks shut the pipeline down entirely for an extended period of time, presumably demonstrating the capacity limitations of this alternative route for Saudi exports. This is particularly true, given that Shiite militias from Iraq have also reportedly taken part in this multi-actor attempt to undermine Saudi export capacity via the Red Sea.

A much smaller amount of oil (300,000 barrels a day) was initially being diverted through the Abu Dhabi Crude Oil Pipeline (ADCOP) to the Sea of Oman, taking its throughput from 1.5mbd to its 1.8mbd maximum capacity. But this pipeline has also been hit by Iran, forcing the Emirates to close the flow of exports for some time, although a second pipeline is planned for 2027 to double capacity.[44]

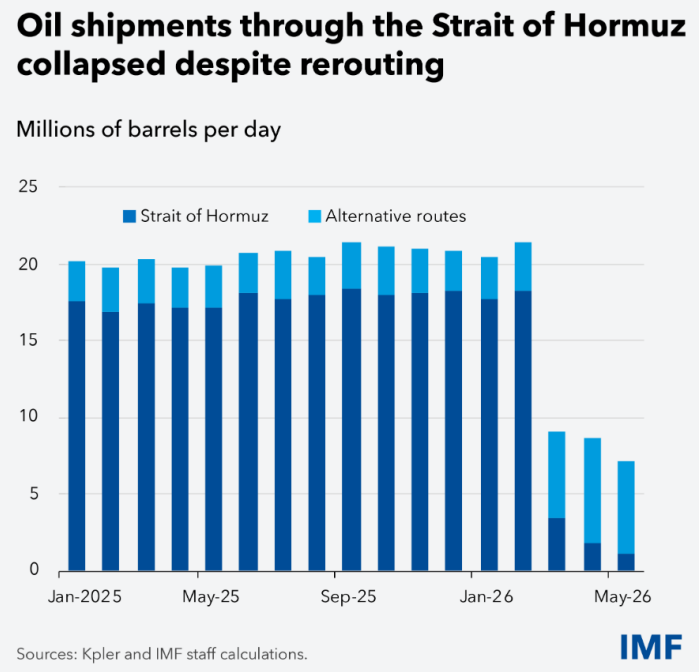
Even with these expanded pipeline flows, analysts at the IMF calculated that Gulf state oil shipments

44. Jillian Ambrose "UAE to complete second oil pipeline bypassing strait of Hormuz by 2027", The Guardian, May 15, 2026. https://www.theguardian.com/business/2026/may/15/uae-oil-pipeline-strait-of-hormuz-by-2027

by the time of the MOU were less than one-third of their prewar levels, even with a three-fold increase in the volume of flows moving through alternative routes that bypass the Strait[45] (see Figure 7).

Figure 7

The Limits of Pipeline Alternatives to Hormuz for Gulf Oil Exports



4.6. Drawdown of Reserves and Demand Compression

In addition to the increased exports of Saudi and Emirati crude (however ephemeral) through existing pipelines to circumvent the closure of the Strait, other short-term adjustments have accounted for much of the total apparent absorption of the massive supply shock to Hormuz flows. First, the drawdown on oil inventories and reserves has not been limited to the US; it has been just as significant at the global scale. On March 11, the IEA announced a coordinated release of 400 million barrels from member country reserves – the largest in history – which included the significant US draw upon its own SPR. Furthermore, and even more significantly, China began to drawdown upwards of 4.8mbd from its massive 1.3-billion-barrel crude oil reserves.

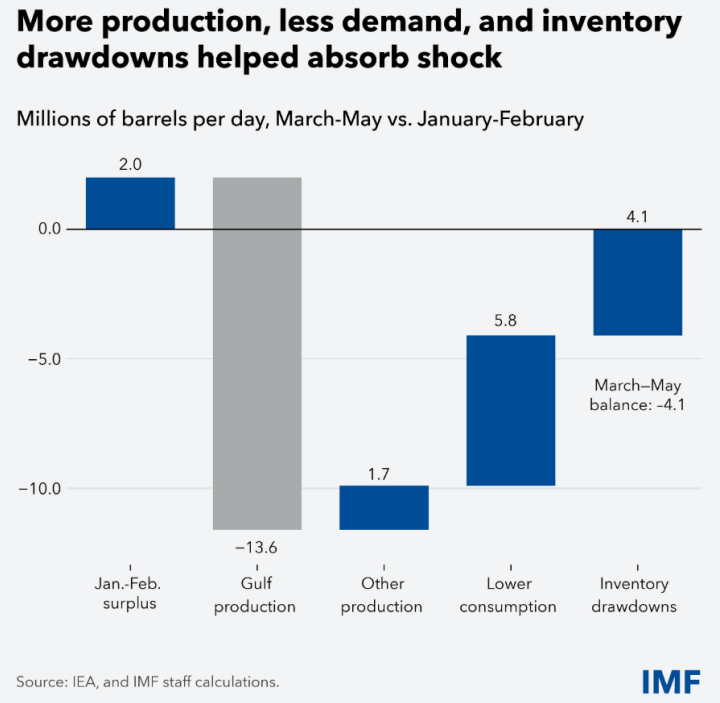
Second, imports and consumption were quickly curtailed in varied ways across Asia (the most dependent continent, along with Europe, on Hormuz flows of all types). This has been particularly true of China: the country restricted crude oil imports by over 4mbd (some 40%) for at least the first four to five months of the war. This Chinese policy adjustment alone accounts for about one-third of the total short-term adjustment to the Hormuz oil supply shock (see Figure 8). This was reflected in the return of oil prices to their prewar levels in the days after the announcement of the MOU in June.

45. Jean-Marc Natal and Azim Sadikov, "The Oil Market Absorbed the War Shock, but Buffers Are Running Low", The IMF Blog, July 15, 2026. https://www.imf.org/en/blogs/articles/2026/07/15/the-oil-market-absorbed-the-war-shock-but-buffers-are-running-low

In short, according to the IMF analysis,[46] beyond a relatively small amount of pipeline diversion, the oil shock was temporarily absorbed primarily by: (1) demand compression in Asia (particularly from China); (2) the significant global drawdown of strategic reserves and commercial inventories; and (3) higher production outside the Gulf (mainly from the Atlantic Basin and Russia).

Figure 8

Distribution of Hormuz Shock Absorbers



From: Jean-Marc Natal and Azim Sadikov, "The Oil Market Absorbed the War Shock, but Buffers Are Running Low." The IMF Blog, July 15, 2026.

4.7. Other Contributing Factors and Alternative Interpretations

One widespread popular explanation for the subdued price of oil during much of April, May, and June has been that it simply reflected market blinders, a herd mentality, and reflexive trader optimism that Trump would negotiate a deal before the midterm elections that would open the Strait of Hormuz in time to avoid the exhaustion of strategic reserves and commercial inventories.[47] However, the price that the world generally has tracked, is the price of Brent in the forward (or futures) markets (i.e. ICE Brent). These are financial contracts that are typically settled without any party physically taking possession of any real physical barrels. At the beginning of October, the ICE Brent price for the December contract was just over US$100/bbl. In contrast, the "spot price" of Brent (i.e. "dated Brent") on the current physical market – where possession of cash and physical barrels are literally exchanged on the spot, in the moment (with some brief logistical window of

46. Ibid.

47. A related explanation, more flattering of trader cunning, has been that markets have been manipulated by speculators benefitting from insider information.

time involved) – was around US$120–US$130/bbl.[48] According to analyst, Jeff Currie, and others like him, the price on the futures market reflects "a vibe contract – a trade driven by a vibe coming from Washington. It does not reflect reality".[49]

On the other hand, another explanation has been offered. What seemed to be an optimistically muted oil price – perhaps driven by a "Trump Vibe Trade" – was actually the reflection of the rational expectations of a coming contraction of global GDP due to looming, perhaps inevitable, physical shortages of oil, gas and a range of other key commodities, and the possibility of permanent demand destruction. The tight historical and empirical link between energy consumption and GDP would suggest a global recession is now a real possibility. From this perspective, the relatively soft oil price, defying many of the forecasts projected during the first weeks of the war, was a pessimistic forward indicator of downturn: the opposite of a "Trump Vibe" effect on the one-month forward contract.

Presumably, the longer the Strait stays closed, the more the markets will react, if belatedly – regardless of the oscillating cycle of ceasing and renewing hostilities. The oil price, and many other markets with it, could easily correct very abruptly by the end of the summer and the entry into fall, as China has begun to increase its crude oil imports again, and Russian production has come under renewed pressure – particularly in the downstream from progressive damage to its diesel refinery system by Ukrainian attacks. At the same time, the alternative Saudi pipeline that diverted from the Strait around 4mbd is now under attack again by the Ansar Allah-Houthis and Iraqi Shiite militias. By September, the US SDR was approaching its statutory minimum level. During the seventh month of the war, oil prices shot above US$100 a barrel once again, and by the end of October they were above US$115/bbl.

V. OTHER OVERLAPPING CRISES FORGOTTEN

More importantly, the precipitous drop in daily flows for over six months has affected not only crude oil, LNG and refined petroleum products. Overlapping with the energy crisis are numerous potentially looming shocks to food security, critical supply chains, industrial production and technological advance that continue to accumulate in the pipeline as long as the Hormuz shipping passage remains constrained.[50] In addition to the price inflation stemming from the hike in transportation costs provoked by the energy supply shock, basic global food security is being threatened by the blockage of fertilizers.

One third of the global supply of nitrogen fertilizers – and similar shares of many of related fertilizer inputs, like urea, ammonia (23%) and sulfuric acid (50%) – depended on maritime passage through Hormuz at the beginning of the war.[51] JP Morgan estimated that if oil prices returned to US$100/bbl, 45 million additional people will slip into food insecurity. Even the technology sectors face a global gap of 33% in the supply of helium (essential for producing semiconductors and fiber-optics).

48. Tom Kool, oilprice.com, op. cit.

49. Jeffrey Currie, on Mario Nawfal's podcast: "ENERGY MARKETS AT BREAKING POINT, TRUMP MAY DESPERATELY BAN DIESEL EXPORTS – w/ Jeffrey Currie", September 27, 2026. https://www.youtube.com/watch?v=l-VeX8rOZ-g

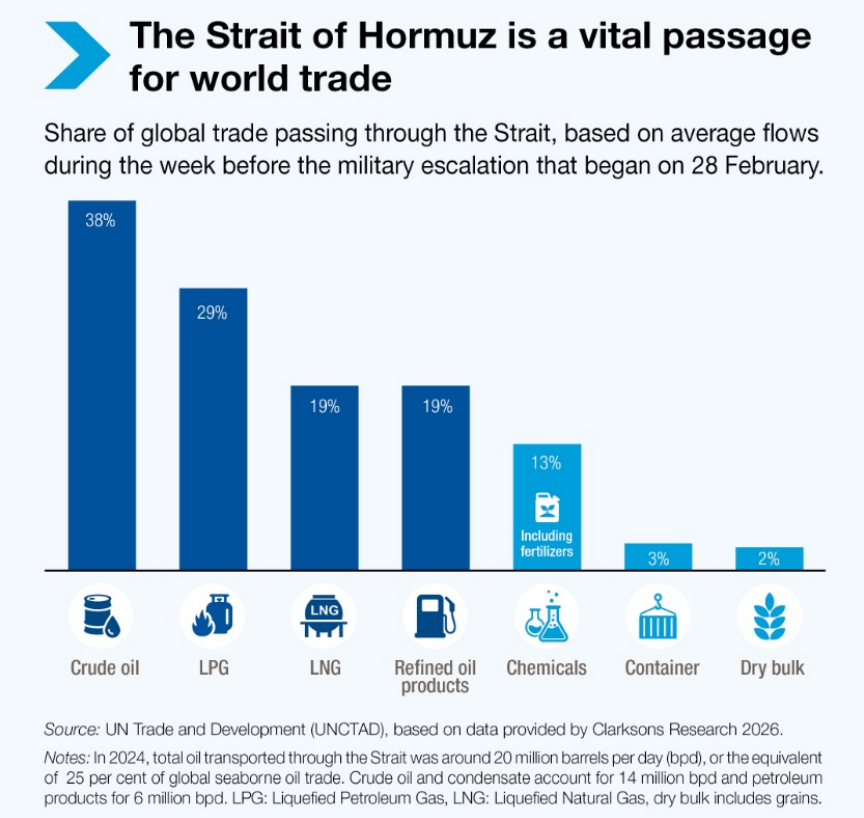
50. Mehran Haghirian, "The Global Costs of Disruption in the Strait of Hormuz", Policy Center for the New South, PB-28/26, June 2026. https://www.policycenter.ma/sites/default/files/2026-06/PB_28-26%20%28Mehran%20Haghirian%29.pdf

51. Kate Burnett, Kevin Li, Lisa Basquel, and Chloe O'Connor, op cit.

Finally, nearly 10% of global aluminum production has also been cut off from global markets.[52]

Figure 9a

Strait of Hormuz Shipping; Percentage of Global Trade by Commodity, Feb 2026



Note: Taken from "Strait of Hormuz disruptions: Implications for global trade and development", UNCTAD, March 10, 2026. https://unctad.org/system/files/official-document/osgttinf2026d1_en.pdf

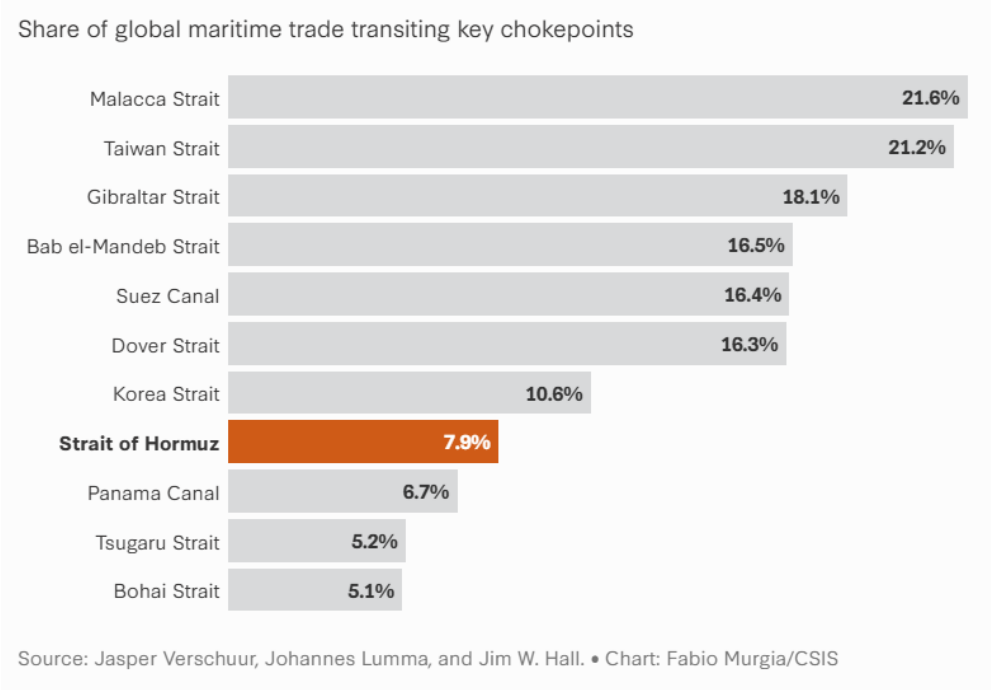
Figure 9a displays the share of global trade for each strategic commodity affected by the closure that was passing through the Strait before the war. These strategic commodities from the Persian Gulf, dependent on maritime transport through the Strait of Hormuz, collectively represent a large share of total global trade – around 8% (see Figure 9b). Most of this is trade between the Gulf states and Asia.[53]

52. Kate Burnett, Kevin Li, Lisa Basquel, and Chloe O'Connor, op cit.

53. Matthew P. Funaiole, Harrison Prétat, Aidan Powers-Riggs, and Jasper Verschuur, "The Strait of Hormuz in 8 Charts", Center for Strategic and International Studies (CSIS), April 22, 2026. https://www.csis.org/analysis/strait-hormuz-8-charts

Figure 9b

Strait of Hormuz Shipping, Percentage of Total Global Trade, April 2026



Taken from: Matthew P. Funaiole, Harrison Prétat, Aidan Powers-Riggs, and Jasper Verschuur, "The Strait of Hormuz in 8 Charts", Center for Strategic and International Studies (CSIS), April 22, 2026. https://www.csis.org/analysis/strait-hormuz-8-charts

The full range of impacts on the global economy are expected to be asymmetric across regions and sectors – depending, in part, on levels of ex-ante vulnerability – and lagged in time. The food crisis, for example, is expected to come only with the next harvest cycle in the fall; the energy crisis is also likely to make itself fully felt only after the end of the summer. Yet even before the fall harvests in the North, major food crop prices have been steadily rising all through the year (see Figure 10).

Figure 10

Food Crop Prices, Current and Year-to-Date 2026

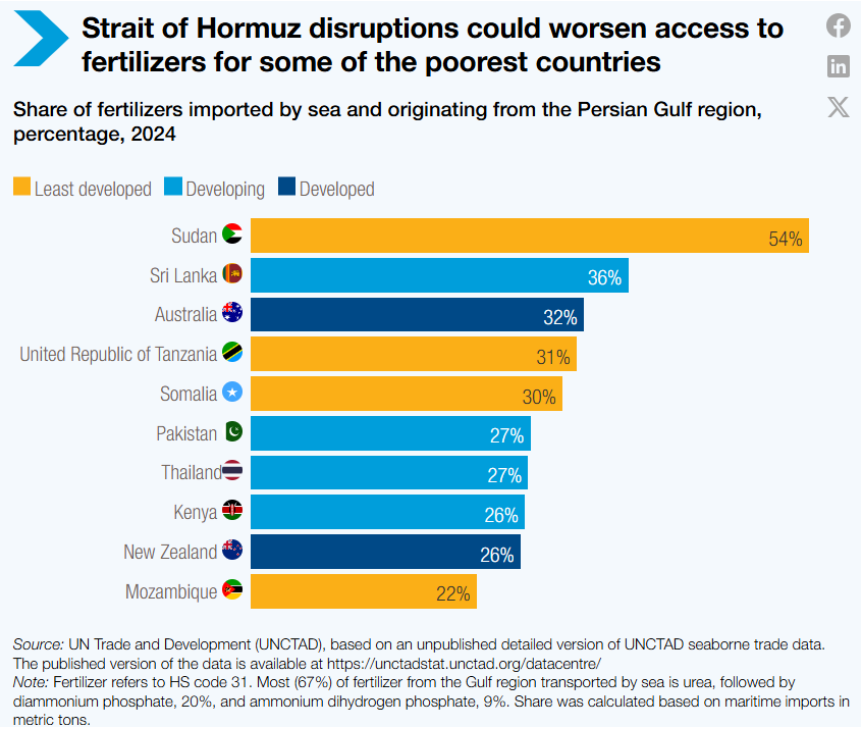
Commodity/Food Crop	Current Price: Sept 29, 2026	Change YTD 2026
Soybeans	1298.1 US$/bu	25.63%
Wheat	689.4 US$/bu	35.9%
Rice	16.36 US$/cwt	71.6%
Corn/Maize	521.7 US$/bu	18.68%
Oat	421.5 US$/bu	38.9%
Sugar	18.95 US$/lbs	25.36%
Canola	824.5 CAN$/t	39.7%

Source: Trading Economics, Commodities, September 29, 2026. https://tradingeconomics.com/commodities

The hardest hit will be the poorer, developing countries in the Global South that are net importers of energy, food and fertilizers, and highly dependent on the Gulf states – and particularly those that are also highly indebted. However, much of this vulnerability dependence is concentrated in Asia (beyond China, which has more room for adjustment with its large strategic oil reserves, domestic refinery and fertilizer sectors) and Africa (particularly, although not exclusively, its Eastern, Indian Ocean and Red Sea seaboard countries). This significant Indian Ocean Basin dependence on fertilizers from the Persian Gulf is clear from Figure 11. Moreover, the Eastern area of Africa is also highly dependent of Persian Gulf jet fuel and diesel.[54]

Figure 11

Disruption of Hormuz Fertilizer Supply (concentrated in the Indian Ocean Basin)



Source: Taken from "Strait of Hormuz disruptions: Implications for global trade and development", UNCTAD, March 10, 2026 https://unctad.org/system/files/official-document/osgttinf2026d1_en.pdf

For its part, Morocco is highly dependent on critical commodities imported specifically from the Gulf (e.g. sulfuric acid) to produce its strategically critical phosphate fertilizers and related products. The country is also nearly completely import-dependent for all its fuel products (and therefore vulnerable to the Hormuz price shock). But Europe is highly exposed as well, especially with respect to jet fuel and diesel.[55] The Gulf economies themselves cannot function as the collective global economic, financial, connectivity and supply chain hub that they have become over the past decades without free shipping passage through the Strait of Hormuz.[56]

54. Kate Burnett, Kevin Li, Lisa Basquel, and Chloe O'Connor, op. cit.

55. Kate Burnett, Kevin Li, Lisa Basquel, and Chloe O'Connor, op. cit.

56. Mehran Haghirian, op. cit.

VI. THE ESCALATION TRAP

The renewal of hostilities post-MOU – which both sides claim the other has breached – has, over the three months since, crystallized into a struggle over control of the flows through the Strait of Hormuz. In July, the MOU was declared dead. The US naval blockade against Iranian ports – suspended for nearly a month by the MOU process – was reinstated. Several subsequent rounds of US attacks and Iranian retaliatory strikes took the conflict up to a higher level of what the political scientist, Robert Pape, has called the "escalation trap". This is the spiral phase in which "horizontal and vertical escalation reinforce one another".[57] Attacks resumed within the Strait, as both sides vied for control, and across the Gulf in both directions, with bombs, drones, and missiles from Iran hitting both US military assets and domestic infrastructure in the Gulf states in retaliation for US attacks on Iranian assets, both military and civilian.

In late July, a new pause to the fighting set in; but by August further massive US-Israeli attacks on Iran had been announced – and then called off or delayed. Within the framework of Pape's escalation trap, however, "these sudden pauses, sudden advances and surprise attacks" are "part of the ebb and flow" of events within the trap's spiral phase, which is "non-linear".[58] In any event, Hormuz shipping traffic once again came to an effective standstill. After falling 30% in June to around US$70/bbl – nearly their prewar levels – oil prices had risen again to nearly US$100/bbl by September, after two months of intermittent, but intense, US bombing and retaliatory strikes from Iran.

In the previous policy paper, we posited that the Thucydides Trap had sucked the US into an Escalation Trap. Trump's unique way of stumbling into the escalation trap with Iran while accelerating the slide into the Thucydides Trap with China (along with Russia and the BRICS Plus – of which Iran is a member) has transmogrified the Strait of Hormuz into the "Trump Trap." The US is now stuck in the conflict; but nor can Iran get out. Both sides risk stepping further into the escalation trap; both sides are locked in a race against time to "double down" or "up the ante" – to escalate further in order to increase the pressure upon the other side's weakest links before their own strategic flanks buckle.

On the one hand, Trump cannot afford to continue to fight the war – implied by his earlier signing of the MOU and his jovial admissions while he did – because of the colossal impact on the global economy from the ongoing closure of the Strait, to say nothing of growing constraints on military weaponry, supplies and personnel, and the mounting political and social unrest in the US as the key midterm elections approach. But nor could he, ultimately, easily accept the implications of the implicit defeat (à la Kagan) that the MOU represented, even symbolically, let alone personally. Hence, the attempted (and then abandoned) MOU; and hence, Trump's half-musing, half-threatening words at the September 2026 UN General Assembly that he could either broker a deal with Iran – and make it greater than ever – or simply destroy Iranian civilization if the current leadership did not get in line.

As dozens of other heads of state and governments addressed the UN General Assembly, expressing objections to President Trump's words and to US and Israeli actions, the US appears

57. Robert Pape, "The Spiral Phase of the Escalation Trap", The Escalation Trap, July 27, 2026. https://escalationtrap.substack.com/p/the-spiral-phase-of-the-escalation

58. Robert Pape in comments to Mario Nawfal, "Breaking: Iran says it will outlast Trump – No deal coming" (with Professor Robert Pape), Mario Nawfal, August 11, 2026. https://www.youtube.com/watch?v=8qIsQM1RsmQ

to be planning possible renewed escalation, in part through a reactivation of ally-proxy, Israel, in the military effort against Iran. But, for the moment, both Trump and Netanyahu seem content to postpone their renewed escalation until after the October elections in Israel and the US elections in early November. And for the moment, oil flows through Hormuz have been resumed – the best guess is that as of late September some 12–13mbd were exiting the Strait of Hormuz (see Figure 2 above) – around 60% of its prewar level.

Meanwhile, for Iran the war is existential – at least as much as the current US attempt at restoration of unipolar hegemony is for the US. However, just as (now explicit) American imperial hubris serves as an endogenous accelerator of the Trump Restoration attempt's slide into – even embrace of – the Thucydides Trap, so too does the nature of the existential dilemma facing Iran give it even more incentive to escalate. No matter how much (or not) or for how long (or not) Iran has been able to prepare for this perhaps inevitable war, what is clear is that they perceive that now is the moment, and that they will never again have such an opportunity to possibly end the long siege and to turn the tables against the US in the Middle East, and even potentially beyond.

In part this is clear from Iranian statements; in part it is revealed in the fact that Iran has clearly been upping the ante in its latest set of expanded demands – especially when compared to the 14 points of the June MOU, or the terms of the April ceasefire (see Figure 12). The current Iranian position includes:

- Immediate total US military exit from the region.
- Cessation of all hostilities/wars against Iran's allies (a.k.a. proxies), including Palestine.
- Imposition of US$2 million per ship fee/charge on Hormuz shipping passage.
- US$300 billion in cash from the US to be deposited in an Iran-dedicated fund.
- Erasure of past UN resolutions on Iran.

Figure 12

Evolution of the Iranian Negotiation Position

Phase	March to May	Mid-June to July 7	July 7 to Present
US Forces and Regional Wars	Stop US/Israeli strikes.	Negotiation of US Gulf rollback.	Immediate, total US military exit. End all wars against allies.
Gulf Shipping	Lift naval blockade.	Joint Iran–Oman ship control.	Enforce US$2 million toll per vessel.
Money and Nuclear Issues	Demand initial reparations.	Secure US$12 billion upfront. Keep enriched uranium.	Demand US$300 billion US fund. Erase past UN resolutions.

Source: Adapted from Richard Pape, The Escalation Trap, substock.com

VII. LESSONS AND IMPLICATIONS OF THE HORMUZ WAR

Although the conflict drags on through its eighth month, there are a number of global lessons and implications deriving from the forces unleashed by the US-Israeli war on Iran. Some of them shed light on the evolving structural features of the contemporary global system; others impact directly on the fate and new directions of the US's Restoration strategy for firmly re-establishing its unipolar hegemony. Still others are relevant to the potential regional shape of future strategic competition and cooperation that could emerge in a multipolar, post-hegemonic world. If nothing else, the Iran War has provided clear demonstration of a few long-standing geopolitical hypotheses, that now attain the status of axioms.

7.1. Maritime Chokepoints and the Revenge of Geography

First, the Iran War has shone a new light on the often-forgotten role of geography – which, like time, becomes vicious when ignored. For decades now, with every political crisis in the Persian Gulf area, we have been rudely reminded that upwards of 20% of the world's crude oil passes through the Strait of Hormuz every day. For energy analysts and foreign policy advisers, it has long been axiomatic that any serious disruption of shipping traffic through the Strait would be cataclysmic for the world economy and highly destabilizing for international security. The same, although in varying degrees, has been true of the other critical maritime chokepoints, like the Malacca Strait and the Strait of Bab el Mandeb, or the Panama and Suez canals. This is so obvious and so well known that it has tended to be forgotten – at least while the US remained the undisputed unipolar hegemon and the guarantor of last resort for maintaining freedom of the seas.

The Hormuz shock has epitomized Robert Kaplan's notion of "geography's revenge"[59] and confirmed the status of the Strait of Hormuz as a central case study in the enduring strategic significance of physical maritime chokepoints. It is no longer just a theoretical speculation to suggest that control over the Hormuz Strait (in this case by Iran) can hold the entire world hostage by leveraging influence over the strategic flows that pass through it. It has now become a central strategic reality.

7.2. "Flow Security"

The war also confirms another broader, ongoing shift in strategic perception and policy priorities within security studies and foreign policy circles. For decades now, the traditional realist focus on territorial security has been increasingly rivalled by a strategic concern for both human and flow security. This change has unfolded during the high period of post-Cold War globalization in the 1990s, with its boom of human migrations and expansion of international merchandise trade (80% or more of which is transported by sea by the world's shipping fleets along sea lanes that pass through a dozen or so key physical maritime chokepoints (like Hormuz, Malacca or the Bab el Mandeb).

Even before the Iran War, as the United Nations Conference on Trade and Development (UNCTAD)

59. Robert D. Kaplan, The Revenge of Geography: What the Map Tells Us about Coming Conflicts and the Battle against Fate, Random House, 2012. https://archive.org/details/TheRevengeOfGeographyWhatTheMapTellsUsAboutComingConflictsAndTheBattleAgainstFate

emphasized in its Review of Maritime Transport 2025, the security of strategic corridors had already become a major concern for states, businesses, and international organizations looking to adapt to the growing range of heightening risks to global trade.[60] But the closure of Hormuz – coming on the heels of years of international economic fragmentation, global political realignment, multicontinental supply chain shocks, and intensifying strategic competition – has raised the priority of critical flow security to the top of national strategic agendas, particularly across the South. "Control over flows – such as energy, trade, finance, and data – has become more consequential than control over territory alone," writes Ferid Belhaj, Senior Fellow at the Policy Center for the New South. "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."[61]

7.3. Limits to Global Power

Third, the Iran War has demonstrated the limits of US global power projection. As part of its Restoration strategy, the US is attempting either to take over the de facto sovereignty of the Iranian state or to provoke its fragmentation – or even to leave it in ruins as a so-called "failed state". The US now even proposes establishing itself as "The Guardian of the Strait", as the President put it, which he suggested should become American territory. But the disastrous length of the war, the repeated failure of diplomacy, the Iranian resistance, their calibrated retaliatory strikes across the Gulf states, and the extended closure of the Strait – with the huge drop in the volumes of oil, gas and other commodities flowing through it – have all together turned the war into a potential Suez Crisis-like scenario for the US.

After eight months of war, none of the US's strategic objectives for the war on Iran have been achieved. Indeed, as we have detailed above (see Why the Iran War?), the objectives have never been clearly or consistently defined by President Trump or his administration. The Iranian regime has not been changed. The country's tactical and strategic missile capabilities remain intact and continue to do significant damage across both the Gulf and broader West Asia. Iran's allies in the region – Hezbollah (in Lebanon), the Ansar Allah-Houthis (in Yemen) and other 'proxies' – have not been neutralized. On the contrary, they continue to receive Iranian support (moral solidarity or other); in fact, they remain highly effective in strategic terms, particularly the Ansar Allah-Houthis. Furthermore, Iran retains its enriched uranium. Despite what Trump has said, the war has not ended any prospects of Iran attaining nuclear weapons capability. Indeed, the war of choice has made it more likely. Finally, shipping through the Strait of Hormuz remains partially constrained. If anything, the Iran War has created new problems for the world and generated new geopolitical headwinds for the US. And it has all been, essentially, unnecessary. It has been a consummate "war of choice".

The historical Suez chokepoint analogy may not be perfect, but both Gallipoli and Waterloo have also been used by analysts to describe the potential strategic failure of the US-Israeli war against Iran. When Trump claimed in Versailles that the threat to the global economy imposed by the closure of the Strait justified cutting a deal with Iran, many described it as a de facto surrender. At

60. Meryam Amarir, "When Crises Redraw Strategic Corridors: New Prospects for Africa's Atlantic Façade", Policy Center for the New South, PB-46/26, August 13, 2026 https://www.policycenter.ma/publications/when-crises-redraw-strategic-corridors-new-prospects-africas-atlantic-facade

61. Ferid Belhaj, "The Hormuz Test: Power, Law and the Fragmentation of Trade and Connectivity – A Triple Fracture", Chapter 2 in Hormuz and the Invisible Fractures: The Price of a Distant War – Views From The New South, Policy Center for the New South, June 2026. https://www.policycenter.ma/sites/default/files/2026-06/Ouvrage%20-%20HORMUZ%20AND%20THE%20INVISIBLE%20FRACTURES.pdf

the very least, it was an unconscious acknowledgement of these newly visible limits to US global hegemony and its military full-spectrum dominance. Even strategic stalling -- let alone an historic disaster upon such strategic ground (as Kagan and Mearsheimer already diagnose) -- would be a clear demonstration of the limits to US global power. A tipping point event could easily snowball into a crisis of confidence – both within the US and around the world – in the erstwhile hegemon's capacities, reliability, ultimate priorities and even intentions. This could lead to a precipitous undermining of the ongoing viability of the US's preeminent global position and act as a clarion call of recognition – or some kind of knell – signaling the beginning of the end of American Empire.

Even the recent uptick in oil flows out of the Gulf through Hormuz (which US Secretary of Energy, Chris Wright, claims are now 15mbd – while most other seasoned observers say it is closer to 12–13mbd) might not be enough, in time, for the US to avoid a Suez-like fate. Even if the renewed flows escorted or allowed by the US and/or Iran prove to be more than ephemeral and not just a temporary mirage, the constraints of the strategic possibilities frontier do not noticeably shift position. This is because upwards of 2.5 billion barrels of crude oil supply, which should have been coming online now, if not months ago, will simply never arrive to any market or any end-consumer. This is the massive supply gap that maritime historian and veteran observer of global shipping, Sal Mercogliano, has been calling the "huge doughnut hole" of irrevocably lost crude oil supply that will begin to make itself felt once reserves and inventories have been drawn down to their fast-approaching limits.

If the long-forecast reckoning in the fall and winter does come – and it is uncertain whether more emergency or temporary measures could mitigate the shock – the international system will have arrived at the crucial intersection between the Revolution Scenario ('Kortunov's Scenario 3') and the fork leading to the two most plausible global systemic adjustment paths that would follow from the failure of the Restoration scenario (Scenario 1) and the breakdown of efforts at reform (Scenario 2) or transformation of the global system: either a war which becomes global and/or nuclear (what we have referred to as 'Kortunov's Sub-Scenario 3A') or a new Regionalization of Globalization ('Kortunov's Sub-Scenario 3B').

7.4. To Be, or Not To Be, a Friend

Finally, Henry Kissinger's now most famous adage – "To be an enemy of the United States is dangerous, but to be a friend is fatal" – has also been confirmed as true, whether the quote is apocryphal or not.[62]

The Trump 2 shock has produced a general degradation of US alliances in its neo-Nixonian effort to divide and discipline its key allies. The tariffs disciplined Europe; the Iran War has disciplined the Gulf states. Both have negatively affected Asia, particularly Western allies in East Asia and other partners in ASEAN and South Asia (e.g. India). All of this for the goal of "pragmatic realignment" of the US global strategy: to facilitate continued dollar recycling as a crucial support for dollar hegemony – the key to the Restoration strategy.

62. Sometimes the quote is related as: "To be an enemy of the United States is dangerous, but to be a friend can be fatal." See Jordan Liles, "Did Kissinger say it's 'dangerous to be America's enemy' but 'fatal' to be its friend?", Snopes, March 10, 2025. https://www.snopes.com/news/2025/03/10/henry-kissinger-america-quote/

7.5. The End of an Order?

Odds are, the Iran War has broken down the old order of the Middle East. In any event, any such lingering order will never be the same. The US security system, long the backbone of this order – since even before the Suez crisis of 1956 – began to fracture with the Gaza war, claims Vali Nasr, former Dean of the Johns Hopkins University School of Advanced International Studies (SAIS), but it has fallen apart during the Iran wars of 2025 and 2026.[63]

The collateral damage of this US-Israeli gambit is that Gulf state trust has been severely harmed, because the long-standing US security guarantee – represented by the significant military assets that the US had deployed across the region (in Kuwait, Bahrein, Qatar and Saudi Arabia) – has turned out to be a mirage. Most US bases in the Gulf region have been rendered, at least for now, tactically inoperable, or remain vulnerable to future strikes. The strain on the US's Gulf allies generated by these unfortunate events of the war has begun to express itself as confusing, tentative divisions among the Gulf states, along with a disturbing uncertainty about the direction in which each Gulf state should now move.

This was evident in the Saudi threat to sell off its US Treasuries in a temporarily successful (but ultimately in vain) attempt to check Trump from resuming his full-scale attacks in July and August; attacks which would have provoked the retaliatory strikes that Iran had already announced would come, and against which Saudi Arabia could not alone defend itself. In any event, the US eventually went ahead anyway (perhaps because, for now, even the US cannot effectively stop Iran's strikes across the Gulf). But when the Ansar Allah-Houthis themselves responded to further Saudi aggression in Yemen in September by striking back, taking control of the Strait of Bab el Mandeb, and even threatening to seize other key territory around the chokepoint, President Trump vacillated before eventually deciding to deny the Saudi request to intervene on their behalf, even in the face of what must have been the Crown Prince's pleading.

The on-again-off-again side diplomacy of the United Arab Emirates (UAE) with Iran – a practice that long precedes the war – has always been roiling beneath the surface of events throughout the conflict – even if the Emirati foreign ministry denies having released US$2 billion in frozen Iranian assets from UAE banks to bilaterally cease hostilities with Iran. The fluidity of the crisis created by the Trump Trap in the Strait of Hormuz currently even risks an eventual US break with Israel. What is more, in response to the perceived security vacuum across the Middle East, a nascent Turkey-Pakistan-Saudi security entente (the Mecca Pact) has developed.

Meanwhile, the long-unfolding crisis in transatlantic relations has been exacerbated by Trump's tariffs and the Hormuz energy shock. Indeed, the scenario has shifted from day to night since the summer of 2023 when Kortunov himself acknowledged that the US leadership of the West had never been stronger and less contested at any other time since the end of the Cold War. But under the effects of the Trump 2 shock – particularly the war on Iran and the energy and economic shocks it is unleashing – Europe has slid into a kind of crisis of conscience and identity: most of the EU seems to be on the verge of going its own way, independent of the US, to reconfigure and then salvage the liberal international order, even as the Europeans seem to enthusiastically take up the proxy baton to fight any future battles against Russia. Europe wants to be the regenerative

63. Vali Nasr, "The war on Iran showed limits of America's power abroad", The David Hearst Podcast, Middle East Eye, July 15, 2026. https://www.youtube.com/watch?v=ka8G67WpAqY&t=3367s

conscience of the West, but it is increasingly an unconscious, or at least unwitting, ally in the US Restoration attempt.

Paradoxically, the enemies of the US and the Northern Atlantic Plus, may likely emerge strengthened from this impasse over the Strait of Hormuz. Through patient strategic resistance (and some amount of unquantifiable prior planning), the enemies and the adversaries have so far secured their continued viability – or at least survival. As such, the "enemies" of Kissinger's adage, have managed to turn its first clause on its head. It is relatively less dangerous, with each passing day, to be an enemy of the US – while to be a friend is increasingly more fatal.

China has not escaped unscathed, but its astute responses to the crises (repressing its oil imports, drawing on its strategic reserves and temporarily halting diesel exports) allowed it – and the world – to avoid the worst, and it may end up gaining in important ways. Meanwhile, Russia is holding the line. India continues to balance diplomatically across the North–South BRICS tight rope. For its part, Brazil is taking shelter in relative strategic silence.

Indeed, Iran as a nation, state and civilization may come out stronger than it was before the initial attacks on February 28 at the start of the war. The Islamic regime might end up gaining net strategic assets – to say nothing of the IRGC. The Strait of Hormuz will potentially end up in the control of Iran and Oman, and they could eventually collect fees for multiple reasons from ships passing through the Strait. A deal to determine the procedures for sharing the administration of the Strait by Iran and Oman has been under elaboration for months. Finally, the Bab el Mandeb Strait – essential for Red Sea/Suez Canal passage is also now controlled by the Ansar Allah-Houthis – the friends, or autonomous allies, or proxies of Iran.

7.6. A New "Regionalization of Globalization"?

Coming after the Iraq and Afghanistan wars (the two most emblematic of the "forever wars"), the Iran War could prove to be the final bookend to the "unipolar moment". But there are other implications of the Iran gamble.

For now, at least, we have avoided both a war that turns nuclear and the explicitly linking of current conflicts into a generalized world war. As such, the economic and political fallout of the overlapping international crisis provoked by the Iran War has accelerated and will continue to feed the already emerging post-globalization dynamic of a new regionalization of globalization: Kortunov's Sub-Scenario 3B (see Figure 13).

Figure 13

Summary and Interpretation of Kortunov's Sub-Scenario 3B

Sub-Scenario 3B: A New "Regionalization of Globalization"

Another possible result unfolding from Scenario 3 – if world (and/or nuclear) war can be avoided – is that a new regionalization of the fragmenting global economy and the reconfiguring international political system develops to shape a new world order.

- The ongoing global reconfigurations of critical supply chains of the past two decades have evolved under the pressures of continued strategic competition between receding hegemon and rising powers.
- These reconfigurations of critical supply chains and broader international connectivity have begun to stimulate the formation of new de facto regions.
- This new regionalization process has only been intensified and accelerated by the Iran War.
- New regions – of varying degrees of openness and homogeneity – could form as new spheres of security (as opposed to mere spheres of influence).
- This new re-regionalization of the international order would open the possibility for a new pan-Atlanticism and eventually even an Atlantic Basin regionalism of some sort.
- The coming global transformation might – or might not – allow for an expanding BRICS Plus geography across all three continents-plus of the post-colonial world – across the entirety of the potential BRICS-sphere.
- The Southern Atlantic is an emerging, distinct strategic space with growing geostrategic leverage at the level of the Atlantic Basin (with respect to the Northern Atlantic Plus), and at the global level, potentially with – or within – the BRICS Plus.
- At the sub-basin level, there are overlapping strategic motives for Southern Atlantic regional cooperation that have merit in almost all possible scenarios for the international system, including ones that do not allow for full pan-Atlanticism.

Source: Author's elaboration and interpretation, based on Kortunov (see Endnote 3).

The successive blows that have delivered an accumulating shock to the system have transformed global shipping patterns. As Sal Mercogliano put it: "Once you create chaos in shipping, shipping changes. People go to other places. Routes change."[64] The fragmentation of international trade, already well underway from heightening strategic competition, was exacerbated by the Trump tariff chaos, accelerating the strategic rearrangement of critical supply chains and the practices of "friend-shoring" and "near-shoring".

Overlapping with this rearrangement of global shipping flows has been a related reconfiguration of global energy flows, governance, and transition dynamics. On the one hand, the Organization of Petroleum Exporting Countries (OPEC) has begun to splinter. First, the US has taken control of

64. Sal Mercogliano, "Shipping Expert Sal Mercogliano: Trump "Doesn't Really Know" What He's Doing", Katie Halper Show, August 13, 2026. https://www.youtube.com/watch?v=Z1HnquxHmWM

Venezuela's oil sector, effectively neutralizing its contribution to the weight, cohesion, and effective control of the cartel over the global price of oil. Second, the Iran War and its ongoing consequences have driven a deepening wedge between Saudi Arabia and United Arab Emirates, weakening the cartel further, and the UAE formally withdrew from OPEC[65] in April. Finally, China has demonstrated that it is a new swing state within the global oil market – only it operates through its impact on global demand. As mentioned earlier in this analysis, during the early months of the war, China restricted its own demand, drawing down on its strategic reserves and slashing its oil imports by nearly half, taking some 5mbd in demand off the global market. This intervention contributed to a much more subdued oil price than that that would have held, had China not exercised its buyer swing power.[66]

The Hormuz shock has introduced new barriers and drivers to the renewable energy transition. The energy crisis has thrown the entire molecule supply chains of oil and gas – from the upstream down to final end-use consumption – into turmoil.[67] As a result, coal is coming back online in many countries and coal demand is expanding in many others.[68] On the other hand, the Hormuz crisis is also provoking an accelerated rollout of renewable energy – solar panels in particular – for energy security motives, balance of payments support, and other individual national security imperatives, in an epoch of intensifying strategic competition.[69]

But, as we have demonstrated above, the shock to the process of the reconfiguration of the global system goes beyond shipping and energy – it constitutes a more overarching reconfiguration of connectivity. As Meryam Amarir of the Policy Center of the New South framed it:

> *Recent crises in the Middle East, particularly attacks targeting merchant ships in the Red Sea and tensions around the Strait of Hormuz, have highlighted the vulnerability of key strategic corridors for global trade. More than simply disrupting the organization of trade, they are accelerating an already underway transformation based on the search for more resilient connectivity chains, the diversification of trade routes, and the development of logistics infrastructures better able to withstand shocks.*[70]

What Amarir is underlining is exactly what would be the early unfolding dynamics leading to Kortonov's Sub-Scenario 3B – the emergence and evolution of new sub-systems within the informal global order, with new or recast regional framings: a new regionalization of globalization. This will be the focus of the next policy paper – Part 4 of this analysis.

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65. Council on Foreign Relations, "The UAE Announces Exit From OPEC", Top of the Agenda Daily Brief, April 29, 2026. https://www.cfr.org/articles/the-uae-announces-exit-from-opec

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70. Meryam Amarir, "When Crises Redraw Strategic Corridors: New Prospects for Africa's Atlantic Façade", Policy Center for the New South, PB-46/26, August 13, 2026 https://www.policycenter.ma/publications/when-crises-redraw-strategic-corridors-new-prospects-africas-atlantic-facade

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All opinions expressed in this publication are those of the author.

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", the "African Peace and Security Annual Conference" (APSACO), and the "Africa Economic Symposium" (AES).

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