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Assessing the 2026 Iran Conflict: Military Developments, GCC Risks, and Economic Consequences

By

Gulf State Analytics



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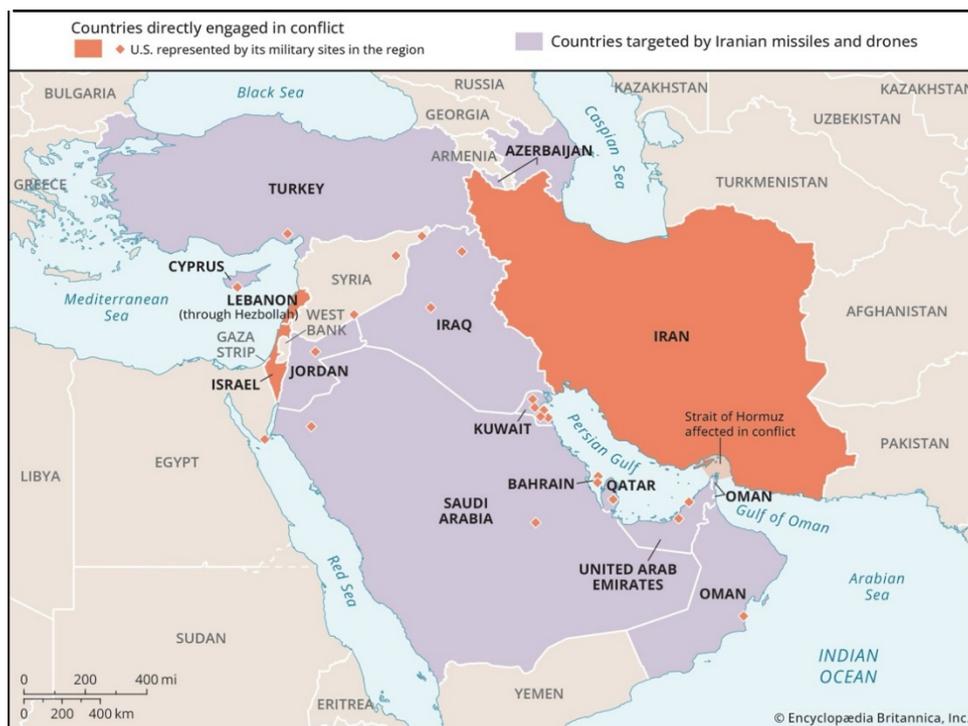
Assessing the 2026 Iran Conflict: Military Developments, GCC Risks, and Economic Consequences

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Executive Summary

- ✦ The U.S. and Israel began military operations against Iran on 28 February 2026 but have failed to achieve decisive results within the first two weeks.
- ✦ Iran has escalated the conflict rapidly, directly involving more than a dozen countries, including all GCC states, Iraq, Azerbaijan, Jordan, Cyprus, and Turkey.
- ✦ Iran’s strategy prioritises long-term deterrence, aiming to impose costs on the U.S. and regional allies before agreeing to any ceasefire.
- ✦ Gulf Arab monarchies face high risks of attacks on energy infrastructure, desalination plants, airports, and ports, creating existential threats to regional economies.
- ✦ The assassination of Ali Khamenei and the appointment of Mojtaba Khamenei signals continuity in Iran’s hardline policy, while introducing some unpredictability in execution.
- ✦ Tehran’s effective closure of the Strait of Hormuz and targeted strikes on civilian infrastructure are significantly disrupting global maritime trade and energy flows.
- ✦ The conflict has produced an immediate supply shock: Brent crude prices rose above USD 100 per barrel, with production losses estimated at roughly 10 million barrels per day across the Gulf.
- ✦ Even a ceasefire would not immediately restore energy market stability due to backlogged tankers, damaged infrastructure, and storage limitations.
- ✦ China remains cautious, prioritising economic stability and avoiding direct involvement, but the conflict risks disrupting Gulf energy supplies and broader trade routes.
- ✦ The conflict is reshaping regional security, GCC cohesion, and global energy dynamics, with lasting geopolitical and macroeconomic implications.

Key Picture: Iran Conflict: Countries Directly Engaged In Conflict



Source: [Britannica](https://www.britannica.com)

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Introduction

The United States and Israel waged a war on Iran, beginning on 28 February. Two weeks in, but Washington and Tel Aviv have failed to achieve a decisive victory. Iran has rapidly expanded the conflict, now directly involving over a dozen countries. The war has resulted in a sharp increase in oil prices with serious implications for the global economy. Despite President Donald Trump's talk about the United States having almost completed its mission in Operation Epic Fury, there is hardly reason to expect Tehran to agree to a truce until the Iranians have been able to achieve more of their war time objectives.¹ Put simply, Iran is unlikely to sign a ceasefire deal until it has forced the United States to pay more of a price for joining Israel in waging this war, which is part of Tehran's strategy for achieving some form of deterrence that prevents this conflict from unfreezing down the road after a ceasefire is implemented.

Ultimately, this war could drag on for a considerable amount of time, lasting much longer than the 12-Day-War of June 2025. The risks of Gulf Cooperation Council (GCC) states suffering more in the forms of loss of life and destruction of high revenue generating sites such as energy facilities, luxury hotels, airports, and maritime ports as a result of continued Iranian retaliatory attacks against these countries are high. A serious risk for the desert countries on the Arabian Peninsula is that amid escalation Iran will step up attacks on desalination plants beyond the one in Bahrain which Tehran has already reportedly struck.²

Gulf Arab officials now view Iran as a significantly heightened threat and recognise that their recent strategies to contain it have fallen short of protecting their monarchies. Tehran's effective closure of the Strait of Hormuz, coupled with retaliatory attacks across all six GCC states, presents an existential challenge to the region's economies. The repercussions have already reverberated through the global economy, and such effects are likely to deepen the longer the conflict endures.

Gulf Arab states now find themselves deeply distrustful of all parties involved in this rapidly escalating war. The GCC members fear that the Trump administration might try to declare "victory" very soon and pull the United States out of this conflict, leaving them to deal with a regional mess basically on their own. At the same time, officials in GCC states fear Iran could continue targeting their countries even after the war, having learned the coercive value of such attacks, while Israel's media pressure and leaks appear aimed at pulling them further into the confrontation. Above all, they are concerned that a prolonged war, or their own direct involvement, could intensify political fractures both among Gulf countries and within their societies.

Iran's Leadership Transition: Continuity and Uncertainty

Ayatollah Motjaba Khamenei becoming the Islamic Republic's third Supreme Leader eight days after Israeli forces killed his father, marks a defining moment for the Islamic Republic, signalling both continuity and heightened uncertainty at a time of profound crisis. Following the assassination of Ali Khamenei in a joint U.S.–Israeli strike, the selection of his son, Mojtaba Khamenei, represents a calculated act of defiance by Iran's ruling establishment. Rather than opening the door to reform or political recalibration, the decision suggests that the regime intends to preserve its existing ideological and institutional order even under intense external pressure.

At the age of 56, Mojtaba Khamenei has spent much of his career operating behind the scenes. Though lacking formal governmental office and holding only the mid-ranking clerical title of *hujjat al-Islam*, he has long been regarded as a powerful figure within the Supreme Leader's inner circle.³ His deep ties to the Islamic Revolutionary Guard Corps (IRGC) indicate that the pillars of Iran's political system remain firmly aligned with hardline factions.⁴ In this sense, his elevation signals institutional continuity: a leadership committed to the same confrontational posture toward the United States and Israel that defined his father's nearly four decades in power.

Yet the transition also introduces a degree of unpredictability. Mojtaba Khamenei is widely viewed as an opaque and relatively untested figure, one whose influence has largely been exercised informally through networks of

clerical allies and security officials. His sudden emergence into the public foreground raises questions about how he will wield authority during a period of regional war, domestic discontent, and mounting economic strain.

The symbolism of his appointment may prove equally consequential. By elevating the son of the previous leader, Iran risks reinforcing accusations that the revolutionary republic is drifting toward dynastic rule—an irony for a state founded in opposition to monarchy. Ultimately, Iran’s future under Mojtaba Khamenei is likely to be defined by continuity in ideology but uncertainty in execution: a regime determined to endure, yet navigating the most precarious moment in its modern history.

Conflict Escalation

Two weeks into the conflict, signs indicate that it is entering a new phase marked by escalating maritime risks, as Tehran has begun mining the Strait of Hormuz. This move signals Iran’s determination to exert sustained pressure on global energy flows and maritime trade. It aligns with Tehran’s broader message that the Strait of Hormuz will remain a secure passage for nations across the world if the Islamic Republic is at peace, but foreign powers will face significant consequences there if Iran is under attack.

Although Iran frames its strikes on GCC states as targeting U.S. military installations on their soil, the attacks have also hit civilian infrastructure, including airports, seaports, hotels, residential complexes, and, according to officials in Manama, a desalination plant in Bahrain. These assaults on energy facilities, combined with the effective closure of the Strait of Hormuz, have already forced Qatar to halt liquefied natural gas production and prompted Bahrain, Iraq, Kuwait, Saudi Arabia, and the UAE to scale back oil output.⁵

In short, Iran is fully prepared to escalate tensions in relation to the Strait of Hormuz, using the waterway as leverage to exert greater pressure on the global economy if the U.S.–Israeli campaign against Tehran continues. At the same time, the role of Yemen’s Ansar Allah (a.k.a. the Houthis) will be critical to monitor, as their actions in the Bab al-Mandab Strait could further disrupt maritime trade. Should Ansar Allah interfere with shipping there while Iran carries out mining operations in the Strait of Hormuz, the combined effect on global commerce, particularly energy markets, would be severe. Against this backdrop, a key question remains whether Trump will send naval escorts to the Strait of Hormuz for tankers, which the president said he would do “if necessary.”⁶

Iran has successfully expanded the conflict, which has spilled into numerous third-party countries, including all six GCC states, Azerbaijan, Cyprus, Iraq, Jordan, and Turkey.⁷ Since 28 February, Tehran has deployed missiles and drones across the region as part of a broader strategy to foment chaos both locally and, indirectly, in the European Union. By inflicting costs on neighboring states, Iran seeks to pressure them into urging the Trump administration to halt U.S. military operations and leverage Washington to end Israel’s campaign as well.

The underlying objective is clear: to ensure that if the Islamic Republic is attacked, no state in the region escapes the resulting disruption. Tehran’s ultimate goal is to convince Washington that the costs of continuing the war are prohibitively high, thereby compelling the United States to disengage. Beyond this immediate aim, Tehran is pursuing long-term deterrence, signaling that any future military action against Iran would incur unacceptable costs. Having already endured the American Israeli campaign in June 2025, Iran is determined to avoid a temporary truce that merely freezes the current conflict, only for hostilities to resume months or years later.

From Tehran’s perspective, past diplomatic efforts such as the “Neighbors First” foreign policy initiative and nuclear negotiations with the West have failed to safeguard Iran from military confrontation. In this context, Iran’s strikes on U.S.-allied GCC states signal a clear prioritisation of fomenting chaos over pursuing diplomacy. The targeting of Oman’s ports in Duqm and Salalah underscores this point, especially given Oman’s longstanding role as the GCC’s most Iran-friendly member and its historically cordial relations with Tehran.⁸

Iran’s strategy of sowing turmoil across the Gulf, targeting U.S. military bases on the Arabian Peninsula as well as high-revenue civilian sites in GCC states, can be seen as a rational effort to preserve the Islamic Republic and prevent the fragmentation of the Iranian nation-state. Yet it remains a high-stakes gamble. The anger this

campaign has provoked among Gulf Arab leaders, policymakers, and citizens is profound, and the resulting strains in relations between Tehran and the GCC monarchies are likely to endure, shaping regional ties long after the current conflict subsides.

How Saudi Arabia, the UAE, and Qatar choose to engage with Iran, both during the conflict and in its aftermath, will play a critical role in shaping the Gulf sub-region's geopolitical and security landscape. So far, none of the GCC states have responded to Iranian attacks on their territory with operations inside Iran. Should they do so, the conflict would enter a far more complex phase, likely provoking intensified retaliatory strikes from Tehran. For now, however, the GCC has focused on condemning Iran through forceful statements, mobilising international support, and strengthening defenses to protect their homelands.⁹

Impact on Global Energy Supply and Prices

This conflict has introduced a severe supply shock to global energy markets, largely through disruption to the Strait of Hormuz. Carrying roughly 20 percent of globally traded oil and gas, the Strait of Hormuz is one of the world's most critical energy transit routes.¹⁰ Since the outbreak of hostilities and subsequent Iranian attacks on commercial shipping, Tehran has effectively, even if not officially, halted traffic through the strait. Consequently, an estimated 15 million barrels per day of crude oil and roughly 5 million barrels per day of refined petroleum products have been temporarily removed from global markets.¹¹ Energy traders have reacted quickly to the disruption: the benchmark Brent crude price rose sharply to around USD 100 per barrel, compared with roughly USD 72 before the war erupted on 28 February 2026, reflecting both the immediate supply shock and expectations of prolonged instability.¹²

The centrality of the Strait of Hormuz explains why the market response has been so pronounced. The leadership in Tehran has indicated that the strait's closure is being used deliberately as geopolitical leverage, describing it as a means of exerting pressure on the United States and other adversaries. The corridor's geography compounds the challenge of restoring normal shipping flows. At its narrowest point, the strait is approximately 20 miles wide and is flanked on multiple sides by Iranian territory, giving Iran's government the ability to threaten vessels with drones, missiles, naval mines, and small attack craft. Even if United States and/or international naval forces attempt to escort tankers through the waterway, the confined geography leaves ships highly exposed to land-based attacks. The risk environment has already discouraged commercial shipping, with maritime insurers increasingly reluctant to underwrite voyages through the Gulf. As a result, even limited physical disruption has translated into a near-blockade in practice, amplifying the global impact.

The disruption has also had knock-on effects for oil production across the Gulf region. Saudi Arabia, Iraq, the UAE, Qatar, and other major oil and gas producers depend heavily on the Strait of Hormuz for access to international markets. With tanker traffic halted and storage capacity filling rapidly, some producers have been forced to reduce output significantly. Current estimates suggest production cuts across the region could amount to roughly 10 million barrels per day of crude and related petroleum products.¹³ These reductions compound the loss of shipping capacity, tightening global supply conditions further. In response, major consuming countries have coordinated the largest release of strategic petroleum reserves on record, with approximately 400 million barrels scheduled to enter the market.¹⁴ While this emergency supply provides a short-term buffer, the scale of disrupted flows means that the additional oil could be absorbed by markets within a matter of weeks if shipping through the strait does not resume.

Financial markets are therefore increasingly pricing in the possibility of a prolonged disruption. Oil futures curves remain elevated months into the future, which suggests that traders expect supply constraints to persist beyond the immediate phase of military escalation. Analysts note that the conflict has introduced not only a physical supply shock but also a substantial geopolitical risk premium in energy prices. Even intermittent attacks on tankers or energy infrastructure can create uncertainty that discourages shipping, delays cargoes and disrupts refinery supply chains. In such an environment, prices tend to remain volatile and elevated as market participants factor in the probability of further escalation.

The broader macroeconomic implications stem primarily from the transmission of higher energy costs into inflation and growth. Sustained oil prices in the USD 90–100 per barrel range would likely push inflation higher across advanced economies while simultaneously dampening consumer spending and industrial activity.¹⁵ Forecast models suggest that such a scenario could raise inflation forecasts in the United States by close to a percentage point while trimming economic growth modestly. However, the impact is expected to be more severe for Europe and East Asia, which remain more dependent on imported energy and Middle Eastern supply routes. For these economies, prolonged disruption at the Strait of Hormuz could translate into a meaningful stagflationary shock.¹⁶

More extreme scenarios illustrate the scale of the risk. Some economic models suggest that if oil prices were to rise toward USD 140 per barrel for several months, the resulting increase in energy costs could push several advanced economies, including the eurozone, the United Kingdom, and Japan, into recession.¹⁷ Officials in Tehran have warned that prices could climb as high as USD 200 per barrel if regional security deteriorates further. Although this represents a worst-case scenario, it underscores how tightly global economic stability remains tied to the security of the Strait of Hormuz.¹⁸ Because such a large share of global energy flows through a single maritime chokepoint, relatively localised military activity can generate disproportionate effects on global prices.

Importantly, even a ceasefire would not necessarily resolve the energy shock immediately. A backlog of tankers has already accumulated on both sides of the strait. Once transit resumes, clearing this backlog could take weeks. Additionally, with several regional energy facilities damaged since this war broke out, some producers have shut down output due to full storage capacity. Restarting production and restoring normal shipping patterns will take time, particularly for liquefied natural gas and complex refining supply chains. This means that the energy market disruptions resulting from this war are likely to outlast the immediate military phase.

In short, this war is exerting its strongest economic impact through the temporary closure of the Strait of Hormuz. The effective halt of tanker traffic has removed a substantial portion of global oil supply from markets, significantly driving up prices and introducing high levels of volatility. Even with strategic reserve releases and potential military escorts, the risks associated with transiting the strait remain high, suggesting that supply constraints could persist. For policymakers and businesses alike, the key variable to monitor is therefore the duration of disruption at the Strait of Hormuz. In all probability it will largely determine the trajectory of global energy prices and the resulting economic shock's magnitude.

Repercussions for China

China has responded cautiously to the outbreak of this war. Beijing has condemned the American-Israeli attacks on Iran while avoiding any direct military involvement. Chinese officials, including Foreign Minister Wang Yi, criticised the strikes and called for an immediate ceasefire, particularly denouncing the killing of Iran's Supreme Leader Ali Khamenei on 1 March.¹⁹ At the same time, Beijing has been keen to avoid directly confronting Washington in relation to this conflict. One reason pertains to the meeting between Chinese President Xi Jinping and Trump, scheduled for late March and early April, where sensitive issues such as tariffs and trade tensions are expected to dominate discussions.²⁰ Supporting Iran militarily or escalating rhetoric could complicate these negotiations, giving China more incentive to maintain a restrained diplomatic approach.

Although Iran and China signed a 25-year strategic partnership in 2021 and China purchases large volumes of Iranian oil, their bilateral relationship is largely transactional rather than ideological or military.²¹ China generally avoids formal alliances and rarely commits to defending other states in conflicts. Instead, Beijing prioritises economic partnerships and stability, preferring to maintain relations with multiple actors in the Middle East rather than siding openly with one party in a regional war.

However, this escalating conflict poses significant risks for China because of its heavy dependence on Gulf energy supplies. As the world's largest importer of crude oil and liquefied natural gas, China relies heavily on shipping

routes through the Strait of Hormuz. Beijing has already responded to disruptions in this route by ordering refiners to curb fuel exports and rely on strategic reserves, which analysts estimate could cover several months of imports.

The war also threatens China's broader economic interests beyond energy supplies. Instability in the Gulf could disrupt global trade routes and financial flows, while rising oil prices could damage manufacturing-dependent economies across Asia. A prolonged conflict might also undermine investment patterns linking the Middle East with Africa and other developing regions where China has major economic projects.

At the same time, some analysts believe the crisis could strengthen China's long-term strategic position. Over the past two decades, Beijing has pursued an energy strategy designed to reduce dependence on oil and gas by expanding electricity use, renewable power, and electric vehicles. China already dominates global supply chains for solar panels, batteries, and many critical minerals used in clean-energy technologies. If countries respond to Middle Eastern instability by accelerating electrification, they may become increasingly reliant on Chinese industries and technology.

Finally, the war may influence global perceptions of leadership and stability. By condemning the conflict while avoiding direct involvement, China hopes to portray itself as a predictable and responsible international actor, contrasting its approach with what some critics describe as the unpredictability of U.S. foreign policy. While the immediate impact of the war is economic uncertainty and higher energy prices, the longer-term consequences could reshape geopolitical alignments, energy systems, and the balance of influence between major powers.

Strategic and Economic Outlook: Regional and Global Implications

In the final analysis, the ongoing American–Israeli war on Iran represents a turning point in Middle Eastern geopolitics, marked by both heightened uncertainty and calculated strategy. Iran's rapid escalation, targeting of GCC states and other countries in the region, and effective closure of the Strait of Hormuz demonstrate a deliberate approach to impose costs on adversaries while seeking to secure long-term deterrence. The appointment of Mojtaba Khamenei as the Islamic Republic's third Supreme Leader underscores continuity in Iran's confrontational posture toward Israel and the West, even as his untested leadership introduces elements of unpredictability in the Iranian regime's decision-making. For GCC members who are caught up in a war that is not "theirs", this conflict has exposed vulnerabilities in both security infrastructure and political cohesion, raising fears of prolonged instability and further Iranian retaliation.

Economically, the war has triggered a severe supply shock in global energy markets, with oil prices surging and maritime trade through the Strait of Hormuz effectively constrained. The ripple effects threaten global growth, particularly in energy-importing regions such as Europe and East Asia, while compelling countries like China to balance strategic interests with economic imperatives.

Ultimately, the conflict's trajectory will depend on Iran's willingness to continue escalation, U.S. and Israeli persistence, and the GCC's responses. Beyond immediate military outcomes, this war is reshaping regional security calculations, global energy dynamics, and international diplomatic alignments, leaving profound uncertainty over the Middle East's stability and the resilience of the global economy.

NOTES

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