

The 2026 US- Israel War on Iran

**What's happened and what we can
expect**

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In February 2026, the United States launched a missile attack on Iran. This came while negotiations were happening between the US and Iran over Iran's nuclear programme - a long-term issue that is regarded as the main point of contention of relations between Iran and the West. Iran immediately responded by attacking US bases in the Arab Gulf states. Over that fateful weekend, more attacks occurred, which culminated in the assassination of Iran's Supreme Leader, Ayatollah Ali Khamenei, who had been ruling the country since 1989.

Many thought the Iranian government would collapse. Even US President Donald Trump himself urged the Iranian people to rise up against the government. Instead, the system of the Islamic Republic has proven resilient and able to withstand changes in key members of government. Some in the Iranian diaspora were supportive of the war, believing it could lead to the collapse of the Islamic Republic, but as the war progressed, it became increasingly unlikely that this would happen. Iran expanded the war by hitting out directly against the Arab Gulf states, targeting civilian sites and energy assets. This resulted in Iran's increased isolation, with even close allies such as Qatar being targeted. Despite the ceasefire and a possible end to the war, long-term tensions between Iran and its neighbours will likely colour the region for months and years to come.

The current crisis in West Asia represents a significant escalation from a protracted regional conflict into a direct confrontation with systemic implications for global energy markets. While the broader political context can be traced to the 7 October 2023 Hamas attack and the ensuing Gaza genocide, the present phase of the crisis has been driven by the intensification of hostilities between Iran, Israel and the US from late February. Targeted strikes on Iranian territory and subsequent retaliatory actions across the Gulf have expanded the conflict's geographical and strategic scope, drawing critical energy infrastructure and maritime corridors into the operational theatre.

Central to the resulting market disruption is the Strait of Hormuz, through which approximately 20% of global oil and liquefied natural gas supplies transit under normal conditions¹. Rather than a formal and legally codified closure, the disruption has manifested through heightened security risks, direct and indirect attacks on commercial vessels, and a sharp repricing of war-risk insurance. This has constrained maritime traffic and increased transaction costs, thereby generating a de facto restriction on energy flows. Industry reports suggest that tanker traffic through the Strait fell by 80–90% at the height of the disruption, with thousands of seafarers stranded and a significant share of vessels either delayed or rerouted. War-risk insurance premiums, which typically hover below 0.3% of vessel value, rose to around 3% or higher in early March, effectively pricing many operators out of the route².

While a ceasefire between Iran and the US has provided a temporary pause in hostilities and some stabilisation in market sentiment, this development does not fundamentally alter the structural risks that have emerged. The ceasefire also hinges on the war Israel is continuing to wage against Lebanon. Just hours after the US announced its acceptance of Iran's proposal for peace via intermediary Pakistan, Israel launched hundreds of missiles into Lebanon. Beirut also sustained substantial damage, and many lost their lives. There were many discrepancies in the agreement, including whether Lebanon was to be part of the ceasefire, with Pakistan and Iran assuring it was and Israel saying it wasn't. Nonetheless, Iran has announced that it will not uphold the agreement if Lebanon continues to be attacked. The United States and Iran might also find it difficult to negotiate on terms that are agreeable to both. US Vice President J D Vance has already indicated that negotiations with Iran that began in Islamabad, Pakistan, will not result in a favourable outcome if Iran refuses to give up its nuclear programme.

¹ EIA, *Amid regional conflict, the Strait of Hormuz remains a critical oil chokepoint* - U.S. Energy Information Administration (EIA), Eia.gov, legally codified closure, the disruption has manifested as.

² *Financial services chart of the week: war-risk premiums surge*, Economist Intelligence Unit.

Tellingly, the ceasefire has not resulted in any sudden improvements. Maritime traffic through the Strait of Hormuz, for example, has remained severely depressed, with recent reporting indicating flows at less than 10% of normal levels, or just seven ship transits in 24 hours compared to a usual daily average of around 140³. Ship operators are also likely to remain cautious, given the continued risk of renewed strikes, elevated war-risk insurance costs, and reports that Iran may seek to impose transit tolls of up to USD 2 million per vessel. Initial shipping operations will likely focus less on restoring normal trade than on clearing the substantial backlog of laden tankers already stranded in the Gulf, carrying about 120 million barrels of oil⁴. Only once these ships begin to exit the region can empty tankers re-enter to load new cargoes, and that process itself depends on an uninterrupted ceasefire, something recent regional dynamics have shown cannot be assumed.

Furthermore, the secondary maritime route for Gulf oil to pass through to Asia, the Bab el-Mandeb strait that links the Red Sea and the Indian Ocean, is also under threat⁵. The Houthis in Yemen, key allies to Iran, have threatened to limit the passage of ships coming through the strait if the war against Iran and Lebanon were to continue. Rather than signalling a genuine easing of tensions, the ceasefire underscores the fragility of the current equilibrium and the continued potential for rapid re-escalation.

Oil markets have responded with heightened volatility, reflecting both immediate supply concerns and forward-looking uncertainty regarding the duration and intensity of the disruption. Brent crude rose by approximately 60–65% in early March, briefly reaching around USD120 per barrel, before correcting sharply following the announcement of a two-week ceasefire, including a double-digit single-day decline, and subsequently stabilising in the mid-to-high USD90 range with intermittent moves back toward USD100⁶. However, such movements mask a deeper structural shift: the crisis has exposed the global economy's vulnerability to geopolitical shocks, particularly at critical chokepoints controlled by individual states.

³ BERNAMA-ANADOLU, *Global trade reroutes to Cape of Good Hope as Strait of Hormuz plunges*, NST Online, New Straits Times, <<https://www.nst.com.my/business/economy/2026/03/1400041/global-trade-reroutes-cape-good-hope-strait-hormuz-plunges>>.

⁴ Seigle, C, *What's Next for Oil Markets After the Ceasefire Agreement?*, Csis.org, <<https://www.csis.org/analysis/whats-next-oil-markets-after-ceasefire-agreement>>.

⁵ Priyanka Shankar and Charu Sudan Kasturi, 'Iran threatens Bab al-Mandeb closure: How would that affect world trade?', Al Jazeera, <https://www.aljazeera.com/news/2026/4/6/iran-threatens-bab-al-mandeb-closure-how-would-that-affect-world-trade>

⁶ Trading Economics, *Brent crude oil | 1970-2020 Data | 2021-2022 Forecast | Price | Quote | Chart*, tradingeconomics.com.

Beyond crude oil, the disruption is already transmitting into adjacent sectors, including liquefied natural gas, petrochemical feedstocks, and fertiliser inputs. For instance, Iranian strikes have reportedly disrupted around 17% of Qatar's LNG export capacity, with recovery timelines estimated at three to five years, while fertiliser prices in parts of Asia have surged by 100–150% within weeks due to supply constraints and feedstock cost increases⁷. These developments point to emerging cost-push pressures, with potential implications for global inflation and growth should the disruption persist.

History and background of the conflict with Iran

The 1979 Revolution, the Iran-Iraq War, Iran's regional presence and the nuclear issue

The outbreak of the war in February 2026 is part of a longer campaign by the US and Israel to weaken Iran. Since the assassination of the IRGC commander Qasem Soleimani in January 2020, Iran's regional position and influence have been targeted. Since October 7th, Israel has seized the opportunity to up the ante in its campaign against Iran by attacking IRGC assets in Lebanon, Syria and Yemen, and assassinating Hezbollah strongman Hassan Nasrallah. Iran has long been represented as Israel's ultimate threat, and by extension, a threat to the US's interests.

Before the revolution that installed the clerical system in Iran, the Pahlavi government had strong diplomatic and strategic relations with Israel and the US. The 1979 Iranian revolution birthed a new political system and rearranged the geopolitical scene of the Persian Gulf and the wider Middle East.

The revolution was a long process that happened after years of sustained activism against Muhammad Reza Shah. A long list of grievances had accumulated from different sectors of society. Leadership emerged from an exiled cleric, Ayatollah Ruhollah Khomeini, who spoke out against the Shah's Western-centric policies deemed contrary to Islamic principles. His stance found a common platform with others in the opposition, who came from different ideological and social backgrounds. Abroad, students banded together and formed councils and networks to organise and campaign. Internally, some groups, especially those who were left-leaning and inspired by international causes such as the Palestinian liberation struggle, resorted to guerrilla warfare. Left-leaning organisations, along with democratic platforms and Islamic opposition, came together to form a bloc against the Shah⁸.

⁷ Tang, A & Dewi Kurniawati, 'Malaysia fertiliser producers halt new orders as Iran war drives up prices', *Reuters*, 18 March.

⁸ Homa Katouzian, *Iran and the Revolution*, (New Haven: Yale University Press, 2026)

The opposition launched several protests and strikes that the government found difficult to contain. Eventually, this led to the collapse of the shah's government, and he was forced into exile. Upon Khomeini's return from exile, he formed an Islamic government based on the Iranian constitution, Sharia law and Shi'i principles. He placed the clerics at the centre of power. Soon after, Saddam Hussein launched a war against Iran in an effort to assert control over the Persian Gulf. He assumed that Iran would be weak after the war and that a swift land campaign would result in the new government yielding to his will. Instead, the war brought a golden opportunity for the Islamic Republic to consolidate its power and capitalise on nationalist sentiments.

The war with Iraq lasted nearly ten years, with hundreds of thousands of casualties and little in terms of military achievements. The 1990s and 2000s saw Iran rebuild and move away from isolation, mending ties with Western countries. This culminated with the 'Dialogue among civilisations' initiative spearheaded by Iranian President Mohammad Khatami, which called for cooperation and open conversation between East and West. Welcomed by the United Nations, it was meant to counter Samuel Huntington's clash of civilisations theory, which held that different cultures and religions were fundamentally opposed, causing global conflict and tensions in the post-Cold War world. Iran saw this as part of its initiative to return to the global stage and promote a brand of Islam that was open to the West⁹.

However, 9/11 and the subsequent US war on terror halted Iran's re-entry to the global stage. Although Iran initially offered to aid in the war against Iraq and did play a minimal role in the conflict against the Taliban government in Afghanistan, it began to be viewed as anti-Western. Internally, more hardline factions that did not seek better relations with the West came to power. President Mahmud Ahmadinejad represented this new approach, coming to power in 2005. He spoke strongly against Israel and the United States. The 2009 presidential election, which saw Ahmadinejad re-elected, was regarded as fraudulent, and this led to country-wide protests known as the 'Green Movement', which was brutally suppressed, and its leaders were put under house arrest. This was a huge blow to the moderate faction in the country and saw Iran's political direction continue on a hardline path¹⁰.

⁹ Mehran Kamrava, *Triumph and Despair: In Search of Iran's Islamic Republic*, London: Hurst Publishers, 2022

¹⁰ Mehran Kamrava, *The Sacred Republic: Power and Institutions*, Oxford: OUP, 2023

Regionally, Iran has had a strong presence since 1979. Initially, it was keen to spread the revolution and sought to expand its influence among causes it saw as aligned with Islamic revolutionary principles. Under the umbrella of the Islamic Revolutionary Guard Corps (IRGC), Iran extended its support to Hezbollah, the Shi'i paramilitary group in Lebanon. Since the 1980s, the IRGC has provided military and technical support and training to various causes and allies of Iran, from Syria's Bashar al-Assad to the Houthis in Yemen. Palestinian liberation also became a cornerstone of Iran's foreign policy, resulting in a strong anti-Israeli stance. This contributed to Israel developing a hyper-defensive approach to Iran.

With this, a common narrative used against Iran has been its nuclear programme, which Israel and some in the US government claim is being used to develop a nuclear weapon. Iran started its nuclear programme in the 1950s as part of a US initiative to promote atomic technology for civilian use. The programme was continued after the revolution and became a point of contention for rapprochement between the US and Iran. Israel has also targeted Iranian scientists inside the country, carrying out assassinations through Mossad agents. Nonetheless, Iran was open to negotiating about its programme in an effort to assure the global community that it had no intention to develop a nuclear weapon. Through deep diplomatic initiatives with the European Union and the US under the Barack Obama administration, Iran was close to a nuclear deal through the Joint Comprehensive Plan of Action (JCPOA) until US President Donald Trump pulled the US from the deal in 2018 and imposed strong sanctions against Iran.

The nuclear issue remains the main barrier to improved relations between Iran and the US. Israel does not want any kind of deal to come through, as it wants to keep Iran isolated and weakened. Any rapprochement with Iran would remove Israel's main reason for receiving substantial military aid from the US and Europe. For years, Israel has worked hard to reduce Iran's regional presence and influence, primarily in its immediate vicinity in Southern Lebanon and Syria. Beginning with the assassination of IRGC commander Soleimani, Israel, aided by the US and local allies, has also taken out key leaders of Hezbollah and pro-Iran forces in Syria. This has led to an overall weakening of Iran's regional presence, and the war that began in February 2026 was meant to weaken Iran and possibly result in the collapse of the government.

However, this has not happened and is unlikely to occur in the near future. Iran has been able to consolidate itself, and the system has remained relatively intact, despite the assassination of key leaders. Its defence system, known as the “mosaic system”, promotes a decentralised approach to command, which means that lower hierarchies in the IRGC can continue to carry out orders and autonomous missions without top-down orders. This independent system allows for a multi-tiered approach to defence.

Furthermore, the political system is also varied, with the Guardian Council and Assembly of Experts providing guidance and leadership around the office of the Supreme Leader. Such a system enables sustainability and resilience, as it does not necessarily rely on a single strongman. The symbolic currency that the war has afforded Iran is also significant. Iran, known for its emphasis on symbolism, especially around martyrdom and sacrifice, has used the war, dubbed the ‘Ramadan War’, to emphasise patriotism as a way to build legitimacy. However, as most members of these entities come from the hardline faction, their approach to domestic and international affairs will be coloured by a more dogmatic approach. Nonetheless, Iran has shown that it is willing to seek a diplomatic solution and will assert itself to defend its sovereignty¹¹.

What will happen next: Scenario explorations

Globally, the crisis matters because it compounds an already fragile macroeconomic backdrop. The world economy entered 2026 with inflation moderating but not fully defeated, interest rates still elevated across many major economies, and monetary authorities just beginning the long process of lowering policy rates. However, early evidence suggests that this disinflationary trend is being disrupted: in the Philippines, for example, headline inflation surged to 4.1% in March from 2.4% in February, breaching the central bank’s target range, as fuel prices rose sharply.

The renewed shock to oil and gas markets, therefore, arrives at a particularly difficult moment: it risks reintroducing cost-push inflation just as central banks were beginning to regain confidence that the long-tailed post-pandemic inflation cycle was being brought under control. The IMF has already warned that a prolonged increase in energy prices could both raise inflation and lower growth, noting that “all roads” from the crisis lead to higher prices and slower growth, while the European Central Bank has cautioned that pass-through from energy into the wider economy may occur faster than in 2022 because firms and households are now more alert to inflation and quicker to reprice¹².

¹¹ Maryam Sinaiee, ‘Tehran sends tough messages but keeps diplomacy door open’, Iran International, <https://www.iranintl.com/en/202604136930>

¹² Meijer, B, ‘Energy prices likely to hit wider economy more quickly than in 2022, ECB’s Sleijpen says’, *Reuters*, 24 March.

The significance of the shock lies in its broad-based transmission channels. Brent rose by roughly 65% in March and briefly touched about USD120 per barrel before easing on ceasefire hopes, but the wider economic significance lies in how disruption at Hormuz and damage to Gulf energy infrastructure are transmitted to liquefied natural gas, fertilisers, petrochemical feedstocks, shipping, and ultimately food and manufacturing costs. Iranian strikes have already knocked out 17% of Qatar's – the world's second-largest LNG exporter – LNG export capacity for an estimated three to five years, while fertiliser disruptions and higher transport costs have raised concerns over food prices and wider supply-chain inflation, particularly in developing economies where food and energy can account for about half of household expenditure.

Early evidence already points to these pressures feeding into real economic outcomes: in Bangladesh, diesel shortages linked to the crisis have disrupted irrigation during the key planting season, with farmers unable to access sufficient fuel to run water pumps, raising concerns over lower crop yields and food supply pressures. Taken together, the crisis is better understood not merely as an oil shock but as a broader supply-side shock to the global economy that could plunge it back into a deep recession.

Travel has also been severely affected by the war. The key air traffic hubs of Dubai, Abu Dhabi and Doha have also been widely affected with changes to flights subject to air traffic control that is, in turn, hyperaware of incoming missiles. Aeroplanes for Europe have also reduced service to the region, resulting in further disruption of people and goods. Jet fuel prices have skyrocketed, with the cost of kerosene rising by 90% at one point, which has seen the cost of flights going up by 20%¹³.

The crisis is already forcing governments into immediate and often distortionary policy responses, underlining the severity of the shock. The Philippines has declared a national energy emergency and mobilised approximately USD333 million in emergency funding amid warnings over limited fuel reserves, estimated at around 45 days at current consumption levels. Governments across the world have begun implementing demand-side measures, including work-from-home directives in Vietnam and Malaysia, to ease pressure on fuel consumption. In Europe, there has also been exploration of alternative energy sources, including Russian ones, according to sources¹⁴. With experience from the Russia-Ukraine war, most European governments know how to shield themselves from shocks; however, they will face difficulties providing subsidies or relief due to budget constraints.

¹³ Jonathan Clare and Tim Robinson, 'Airlines and the Iran War - a perfect storm?', Royal Aeronautical Society, <https://www.aerosociety.com/news/airlines-and-the-iran-war-a-perfect-storm/#:~:text=Since%20the%20war%20started%20jet%20fuel%20surcharges%2C%20and%20capacity%20adjustments>.

¹⁴ Reuters Staff, 'EU should reconsider its plans to ban imports of Russian gas, Eni CEO says', *Reuters*, 13 April.

Other economies have moved to cushion households and firms through fiscal support, with Singapore announcing a support package of nearly SGD1 billion, including cash transfers and targeted fuel support, and Japan deploying roughly USD5 billion in reserve funds to stabilise fuel prices and cap gasoline costs¹⁵. In more fiscally constrained economies, the adjustment is already being passed through more directly: Egypt has raised electricity prices by up to 20% for businesses and high-usage households, highlighting how the shock is not only inflationary but also fiscally destabilising, particularly for energy-importing economies and developing countries with limited policy space, weaker fiscal buffers, and greater reliance on fossil fuels¹⁶.

The Strait of Hormuz has long been treated in energy scenario planning as the principal trigger for a worst-case oil market outcome. That remains the case here. The issue is not only whether the strait is formally open or closed, but whether it is commercially usable at scale. With insurance premiums elevated, tanker traffic severely reduced, and maritime risk difficult to price, markets may behave as though a partial blockade is in place even if the ceasefire holds. Moreover, initial flows are likely to prioritise clearing the backlog of stranded cargoes rather than introducing additional supply to the market. The alternative route, the Bab el-Mandeb Strait linking the Red Sea and the Indian Ocean and connecting Asia and Europe, is also at risk of closure, limiting the number of ships passing through. If it were blocked, a quarter of the world's energy would be at risk, and a significant portion of Asia's exports to Europe would be cut off¹⁷.

¹⁵ Chin Soo Fang, *Nearly \$1b in extra help for S'poreans amid rising costs, Govt to do more if needed*: Jeffrey Siow, *Straitstimes.com*.

¹⁶ Reuters Staff, 'Egypt raises electricity prices for higher-use households, businesses amid energy crisis', *Reuters*, 4 April.

¹⁷ Charles Lyons-Jones and Jennifer Parker, Strait of Hormuz crisis: Iran, shipping and Australia's strategy, Lowy Institute, Podcast: <https://www.lowyinstitute.org/publications/strait-hormuz-crisis-iran-shipping-australia-s-strategy>

From this, four possible scenarios for the US-Iran crisis can be inferred:

Scenario 1: Chokepoint Shock

This scenario assumes a sustained, near-total disruption of the Strait of Hormuz, either through continued blockade or prolonged commercial impairment. Even if some vessels continue to transit, the strait remains economically constrained by persistent insecurity, elevated insurance costs, rerouting, and physical damage to regional energy infrastructure.

Under these conditions, oil prices would likely rise materially, with stress scenarios pointing to levels of USD150 per barrel or higher if disruption persists. The broader macroeconomic consequences would be significant: renewed inflationary pressure, delayed or abandoned monetary easing, weaker investment sentiment, and rising risks of stagflation, particularly for energy-importing economies in Asia and Europe.

Recent market behaviour offers an early indication of this dynamic. Foreign investors have already withdrawn a net USD50.45 billion from Asian equities in March, the largest monthly outflow since the 2008 Financial Crisis, amid concerns over an oil-driven stagflation shock¹⁸.

While this represents a severe tail-risk scenario, its probability has increased in recent days, though it remains below a base case. Recent ceasefire negotiations between the US and Iran collapsed after high-level talks in Islamabad failed to produce an agreement, with both sides maintaining fundamentally incompatible positions¹⁹.

The rapid breakdown of talks, followed by the imposition of a US naval blockade in the Strait of Hormuz, underscores the fragility of diplomatic pathways and suggests that any resolution is likely to be protracted and difficult. While there are indications that negotiations may resume, the speed at which talks failed highlights the limited room for compromise, increasing the likelihood that disruption could re-escalate.

Scenario 2: Fragile Calm

This scenario assumes a negotiated de-escalation and partial restoration of energy flows. In this outcome, the United States and Iran, likely with mediation from Gulf and South Asian intermediaries, reach an arrangement sufficient to reduce attacks on shipping and energy assets and to enable a more credible reopening of the Strait of Hormuz.

¹⁸ Dogra, G, 'Foreign outflows hit Asian stocks as Iran war drives oil shock fears', *Reuters*, 24 March.

¹⁹ Hall, R & Chatterjee, N, *What To Know About the First Day of Peace Talks Between the U.S. and Iran*, TIME.

Such a development would ease market panic and bring prices down from crisis highs. However, it should not be expected to restore pre-crisis conditions. Markets would continue to price in residual geopolitical risk and the possibility of renewed disruption. More importantly, part of the shock has shifted from demand to supply: damage to regional energy infrastructure – including the loss of a significant share of Qatar’s LNG export capacity, alongside disruptions to condensate, LPG, and downstream refining – is likely to take years to repair.

Oil prices would therefore stabilise but remain elevated relative to pre-crisis levels, potentially in the USD80–100 range in the near term, reflecting both partial restoration of flows and persistent risk premia. The macroeconomic outcome would be a gradual easing rather than a full reversal: inflationary pressures would moderate but remain above target in many economies, while growth would recover only slowly as supply constraints unwind. In this sense, even successful de-escalation would reduce the severity of the shock without fully reversing its economic consequences.

While this scenario remains plausible, it is not currently the base case, especially due to the failure of talks in Islamabad. Recent market behaviour suggests that expectations of de-escalation are still tentative rather than firmly priced in, with oil prices and risk sentiment continuing to react sharply to even incremental shifts in the situation.

Scenario 3: Managed Chaos

A third scenario is neither full blockade nor full resolution, but a prolonged grey-zone instability. This is the most plausible medium-term outcome. Following the breakdown of recent talks, further rounds of negotiations are likely, but any progress is expected to be incremental and difficult. Even where limited de-escalation is achieved, it is unlikely to be durable, given the depth of underlying tensions and the incentives for both sides to maintain pressure.

The risk of external actors further complicating the situation also remains salient, with regional players such as Saudi Arabia and Israel having their own strategic calculations that could, at times, inflame tensions or trigger renewed escalation²⁰. As a result, the most probable trajectory is not a clean resolution but a sustained period of in-between instability, where tensions ebb and flow without fully subsiding.

²⁰ Leber, A & Worby, S, *Three Scenarios for the Gulf States After the Iran War*, Carnegie Endowment for International Peace, <<https://carnegieendowment.org/emissary/2026/04/gulf-states-gcc-iran-war-three-scenarios>>.

Under such conditions, the strait is technically open to some traffic, but only under highly constrained circumstances: insurance remains elevated, some national fleets continue to operate while others remain out, and the wider market functions amid persistent uncertainty.

This would not produce the acute shock of a complete closure, but it could still sustain elevated energy prices, episodic supply dislocations, and broader inflationary pressures over a longer period. Oil prices would likely remain volatile within a wide range, potentially oscillating between USD80 and USD130 depending on the intensity of disruptions and diplomatic signals.

For the global economy, this would amount to a chronic drag rather than a singular rupture. Growth would weaken, central banks would remain cautious, and firms would continue to face uncertainty around input costs, shipping reliability, and investment planning. In practice, this scenario may be more economically corrosive than a short-lived crisis, as it prolongs uncertainty without delivering either normalisation or a decisive repricing.


Long-term regional consequences

Building on the previous three scenarios, what is clear is that this war has left the Gulf region tense and uncertain. The image of stability cultivated for years by the governments of the Gulf has been significantly damaged. Relations with Iran have also deteriorated. But it is telling that since the war began and despite being hit, none of the Gulf countries has retaliated directly against Iran. They have punished Iranian diplomats but stopped short of declaring war, or even recalling ambassadors²¹. Nonetheless, their actions indicate they do not want to prolong the war and appear to want to return to some form of normalcy as quickly as possible. Saudi Arabia has imposed some restrictions on Hajj, such as halting umrah visas ahead of the pilgrimage season, but has not halted Iranian pilgrims from entering²².

²¹ United Arab Emirates Ministry of Foreign Affairs, 'UAE summons Iranian Ambassador and Delivers Note of Protest over Iran's Terrorist Attack', <https://www.mofa.gov.ae/en/mediahub/news/2026/3/2/uae-iran>

²² Supreeta Balasubramanian, 'Saudi Arabia temporarily halts issuing Umrah visas, restricts entry to Makkah ahead of Hajj 2026', Khaleej Times, <https://www.khaleejtimes.com/world/gulf/saudi-arabia-hajj-2026-season-rules-makkah-entry-umrah-permits-suspended>

In the next months, we can expect diplomatic tensions as Iran and its Arab Gulf neighbours rebuild relations. Malaysia holds a useful strategic position - it is close to Iran as well as the Arab Gulf. It has so far been fairly protected from the closure of the Strait of Hormuz, with Malaysian ships allowed through. Prime Minister Anwar Ibrahim may seek to use this opportunity to boost Malaysia's international role²³.

Iran has shown it is willing to risk relations with the Gulf to protect its sovereignty. The war has been a strong wake-up call for the Gulf states as they reconsider how they view and approach Iran. It is unlikely that they will remove US bases from their territories as they are reliant on them for defence and links with Washington. While it is clear that this policy comes at a price, the Gulf countries may opt for a cool and careful approach for the future, while seeking guarantees from Iran that it will not attack non-military targets in the Gulf in the future. 

Dr Rowena Abdul Razak holds a DPhil in Oriental Studies from the University of Oxford. Her thesis examined the start of the Cold War in Iran. She has written on Arab nationalism in Bahrain, Iranian labour history, and Malaysian-Iranian relations. She previously taught at the LSE and Queen Mary, University of London. She is currently a lecturer in Middle East history at SOAS. She recently founded Timur Consulting, a historical consultancy that explores the links between the Persian Gulf and Southeast Asia.

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²³ Ivan Loh, 'Malaysia asked to act as mediator between Gulf countries and Iran', <https://www.thestar.com.my/news/nation/2026/04/04/malaysia-asked-to-act-as-mediator-between-gulf-countries-and-iran>