Energy Shock, Global Consequences: The US-Iran War as a Vulnerability Multiplier

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(Iranian Foreign Ministry / Handout - Anadolu Agency)

The US-Iran War was more than a military confrontation. It exposed how deeply energy security, economic stability, food systems, and humanitarian resilience have become intertwined. From the Strait of Hormuz to the streets of Islamabad and the hospitals of Gaza, the conflict revealed how disruptions to a single energy corridor can reverberate across vulnerable economies and fragile societies far beyond the battlefield.

Introduction

The US-Iran memorandum of understanding marks a turning point not only because it seeks to halt military operations, but because it reveals what the war was fundamentally about: the intersection of military escalation, energy security, maritime chokepoints, sanctions, and economic survival. The text of the agreement places the Strait of Hormuz, naval restrictions, commercial shipping, Iranian oil exports, sanctions relief, frozen assets, and reconstruction finance at the centre of the post-war framework. In doing so, it confirms that energy was not a secondary consequence of the conflict. It was one of its central battlefields.

This connection between war and energy was intentional. Both Iran and the US recognised early on that the conflict's significance extended beyond military actions and included the global energy system. Iran's geographic advantage and its ability to threaten energy flows through the Strait of Hormuz, contrasted with the US's reliance on sanctions and control over financial channels, shaped the evolution of the war. The conflict thus became a struggle for control over the infrastructure, routes, and finance systems that global energy depends on.

Although hostilities have paused, the vulnerabilities the war revealed still threaten many economies. For countries dependent on energy imports, the crisis's effects went far beyond rising oil prices—triggering increases in import bills, currency pressures, inflationary challenges, and fiscal strain. Even more, in extreme cases such as Gaza, disruptions to energy supply have put essential services, including hospitals and water systems, at dire risk, underlining the critical link between energy access and survival.

Therefore, the focus after the war should be broader than just oil prices. A key argument is that energy insecurity now goes hand in hand with threats to food supplies, sovereign debt, and humanitarian assistance, emphasising that these vulnerabilities are deeply interlinked in the global economy.

From failed diplomacy to an energy-centred MOU

The diplomatic path to the current memorandum was neither linear nor stable. Earlier rounds of indirect talks between Washington and Tehran failed to produce a breakthrough, despite cautious optimism from mediators and Iranian officials. The core disagreements remained wide: the United States demanded guarantees that Iran would not acquire nuclear weapons and sought restrictions on enrichment and missile capabilities, while Tehran insisted on its right to peaceful nuclear energy and demanded sanctions relief.

The later Pakistan-based talks, reported by the BBC, showed the depth of mistrust after the war. US Vice President JD Vance said Washington had presented its "final offer" and required a clear commitment that Iran would not seek nuclear weapons or the means to acquire them quickly. Iranian officials, by contrast, framed the talks as taking place in an atmosphere of "mistrust and suspicion," accusing Washington of excessive demands and failing to recognise Iran's legitimate rights and interests. The failure of those talks left the future of the ceasefire uncertain.

Against this background, the MOU is significant because it translates the ceasefire into a broader economic and maritime agenda. Its clauses on ending military operations, restoring commercial passage through Hormuz, removing naval impediments, issuing waivers for Iranian crude and petroleum exports, releasing restricted funds, and negotiating the termination of sanctions indicate that the post-war settlement is not merely a security arrangement. It is also an energy and financial architecture.

Yet the MOU also exposes fragility. The final agreement is to be negotiated within 60 days, but the most complex issues - sanctions, enriched material, maritime administration, frozen assets, and verification - remain subject to further negotiation. In other words, the agreement reduces immediate escalation risks but does not eliminate uncertainty. For energy markets and vulnerable economies, that uncertainty matters.

Hormuz as a vulnerability multiplier

The Strait of Hormuz is not simply a regional waterway. It is one of the most consequential chokepoints in the global economy. Around a quarter of global seaborne oil trade passed through the Strait in 2025, while a significant share of global LNG supply also depended on this route. The war demonstrated how quickly a disruption in this narrow corridor could become a global energy shock.

The International Energy Agency[1] described the crisis as the largest supply disruption in the history of the oil market. The impact was not confined to crude. LNG flows, diesel, jet fuel, fertiliser inputs, shipping insurance, refinery feedstock, and global transport costs were all affected. This matters because fragile economies are rarely exposed to just one price. They are exposed to a chain reaction: oil raises transport costs, transport raises food prices, gas raises electricity and fertiliser costs, fertiliser raises

[1] As per the June 2026 report.

agricultural production costs, and all of this feeds into inflation and social pressure.

The World Bank's Commodity Markets Outlook captured the scale of the shock, projecting a sharp rise in energy and commodity prices in 2026. Even if the most acute phase passes, the impact does not disappear overnight. Insurance premiums, rerouted shipments, depleted inventories, refinery disruptions, and higher reserve-building demand can prolong the economic aftershocks. The Reuters reporting that countries are now racing to build strategic petroleum reserves reflects this new reality: states have learned that market access alone is not resilience.

This is especially important for countries that lack large reserves, diversified suppliers, or the fiscal capacity to shield households from price spikes. Advanced economies can release strategic stocks, subsidise vulnerable sectors, or absorb temporary increases through stronger currencies and deeper capital markets. Fragile economies often face the opposite: weaker currencies, thinner reserves, higher borrowing costs, and more politically sensitive fuel and food prices.

Pakistan: the macroeconomic face of energy fragility

Pakistan illustrates the macroeconomic side of this vulnerability. The country entered the crisis with a fragile recovery, tight external financing conditions, and an ongoing need to maintain confidence under an IMF-supported reform path. The Middle East war created a direct pressure point because Pakistan depends heavily on imported energy and remains exposed to price shocks in oil, LNG, and petroleum products.

For Pakistan, the energy shock was not only about fuel affordability. It threatened the balance of payments, raised inflation risks, increased the cost of transport and electricity, and complicated the government's ability to maintain fiscal discipline. When energy import costs rise, foreign exchange demand increases. When foreign exchange pressure rises, the currency becomes more vulnerable. When the currency weakens, imported inflation deepens. The result is a policy trap: governments are pushed to protect households from fuel and electricity prices while also being asked by lenders to avoid broad subsidies and preserve fiscal credibility.

The IMF's assessment of Pakistan after the outbreak of the war noted that the country's recovery had continued, but that the conflict clouded the near-term outlook and created risks for inflation, growth, and the balance of payments. This is precisely the kind of vulnerability that the US-Iran war exposed. Pakistan was not a party to the conflict, but its economy was forced to absorb the consequences.

The lesson is clear: energy import dependence is not merely a commercial exposure. It is a sovereign vulnerability. For countries like Pakistan, resilience will depend not only on diplomacy in the Gulf but also on strategic reserves, supplier diversification, targeted social protection, energy efficiency, and reforms that reduce dependence on imported fuels over time.

Pakistan is therefore best understood not as an exceptional case but as a representative one. Many emerging and lower-middle-income economies share similar characteristics: heavy dependence on imported energy, limited foreign-exchange reserves, fiscal constraints, and exposure to commodity-price volatility. The dynamics observed in Pakistan during the crisis mirror vulnerabilities visible across parts of South Asia, North Africa, and Sub-Saharan Africa, suggesting that the lessons of the conflict extend far beyond a single national context.

Gaza: when energy insecurity becomes humanitarian collapse

If Pakistan illustrates the macroeconomic face of the crisis, Gaza shows how Israel's blockade, bombardment, destruction of infrastructure, and systematic restrictions on humanitarian aid have turned energy insecurity into a direct crisis of survival. In Gaza, the issue is not merely price volatility or a market-driven energy shortage. The problem is that Israel's policies controlling fuel entry, electricity infrastructure, humanitarian flows, and access to basic services have rendered hospitals, water systems, sewage infrastructure, ambulances, food distribution, and aid operations increasingly inoperable. Gaza's energy crisis, therefore, is not a naturally occurring scarcity or a logistical disruption; it is a deliberate humanitarian collapse deepened by Israel's siege policy, military attacks, and practices targeting the infrastructure that sustains civilian life.

OCHA's June reporting makes this clear. Reduced fuel inflows forced humanitarian partners to prioritise the most life-saving services and suspend or limit non-critical operations. Water production, treatment, trucking, and waste collection continued only at levels far below what was required. Fuel shortages were further compounded by the lack of lubricants needed to keep generators functioning. In a context where electricity access is already severely constrained, fuel becomes the backbone of survival.

This makes Gaza a crucial case for understanding the broader argument: energy security is humanitarian security. A litre of fuel is not simply an input into transport. It can determine whether a hospital generator runs, whether a child receives clean water, whether medical waste is managed, or whether aid reaches a displaced

family. In Gaza, the energy crisis intersects with blockade, destruction, displacement, access restrictions, and the collapse of civilian infrastructure.

Any analysis of the US-Iran war's energy consequences must therefore avoid treating vulnerable economies as merely passive consumers of global price movements. In some places, energy disruptions are macroeconomic shocks. In others, it is a life-and-death constraint.

Energy shocks and mobility pressures

The mobility dimension of the crisis should also not be overlooked. Energy shocks do not automatically produce migration, but they can intensify the conditions that make displacement, internal mobility, and forced immobility more likely. In fragile economies, higher fuel prices can raise the cost of transport, food, electricity, irrigation, and agricultural inputs, weakening livelihoods and pushing households to adopt coping strategies that may include rural-to-urban movement, temporary labour migration, or relocation to areas with better access to services and income. Where energy shocks interact with conflict, debt distress, food insecurity, and climate stress, they can become part of a wider displacement-risk environment.

This is particularly relevant in countries already facing overlapping pressures. Pakistan's exposure to imported energy and external financing constraints can deepen livelihood insecurity, especially if fuel and food prices rise together. In Lebanon, Yemen, Sudan, and other fragile settings, energy-related price shocks can compound existing displacement, food insecurity, and public service breakdowns. Gaza represents an even more severe form of the same problem: not only displacement, but forced immobility. When fuel is scarce, people may be unable to reach hospitals, access water, evacuate unsafe areas, or receive humanitarian assistance. In such contexts, energy insecurity does not merely influence whether people move; it can determine whether they can move at all.

Beyond Pakistan and Gaza: a wider geography of vulnerability

The crisis also exposed a broader geography of risk. Oil and gas importers across South Asia, the Middle East, North Africa, and parts of Sub-Saharan Africa are vulnerable to the same transmission channels: higher energy bills, higher food prices, tighter fiscal space, weaker currencies, and increased borrowing costs. Countries already dealing with debt distress, food insecurity, political instability, or humanitarian emergencies are least able to absorb the shock.

(Hassan Ghaedi - Anadolu Agency)

The IMF has warned that oil importers with limited policy space face the sharpest trade-offs. A rise in crude prices can reduce growth, raise inflation, and force governments to make difficult choices between fiscal discipline and social protection. In countries where food and fuel make up a large share of household spending, the political consequences can be immediate. Energy shocks become household shocks, and household shocks can become social unrest.

The fertiliser dimension is also important. The Strait of Hormuz is not only an oil and LNG corridor; it is also a link in the global fertiliser trade. Disruptions to fertiliser supply can feed into agricultural costs and food prices months after the initial military crisis. This delayed effect is often missed in short-term market commentary. Oil prices may fall after a ceasefire, but food systems can continue absorbing the shock later.

This is why the US-Iran war should be understood as a vulnerability multiplier. It did not create fragility from scratch. It revealed and intensified pre-existing weaknesses: energy dependence, limited reserves, import concentration, debt pressure, weak safety nets, and humanitarian access constraints.

Policy implications: resilience beyond the ceasefire

The MOU may reduce the immediate risk of further escalation, but it does not resolve the structural vulnerabilities exposed by the war. For vulnerable economies and the international community, four policy lessons stand out.

First, strategic energy reserves matter. The crisis showed that countries with larger reserves and diversified suppliers had more room to manage the shock. Import-dependent economies should treat reserve-building not as a luxury but as part of national economic security.

Second, broad subsidies are costly and often inefficient. Fragile states need targeted support for vulnerable households rather than universal fuel subsidies that strain budgets and benefit higher-income consumers. This is politically difficult but fiscally necessary.

Third, energy resilience must be linked to food security. Governments and donors should monitor not only oil and gas prices but also fertiliser, transport, and staple food costs. The delayed impact of energy shocks on food prices can be politically and socially destabilising.

Fourth, humanitarian fuel corridors should be treated as essential civilian infrastructure. In crisis zones such as Gaza, access to fuel must be protected as part of a humanitarian response. Without fuel, aid systems cannot function.

Finally, maritime de-escalation and freedom of navigation need stronger international protection. The MOU's focus on Hormuz demonstrates that chokepoint security is now a global development issue. Disruption in one narrow maritime corridor can affect inflation, food security, public finances, and humanitarian operations thousands of kilometres away.

Conclusion

The US-Iran war may have paused, but the energy shock it produced has not fully ended. The MOU has calmed some immediate fears, yet its own text confirms the depth of the problem: energy flows, sanctions, shipping routes, reconstruction finance, and security guarantees are inseparable parts of the settlement.

More fundamentally, the conflict underscores a growing shift in how resilience is understood. For decades, energy security was largely treated as a sectoral concern linked to fuel supply and market stability. Increasingly, however, energy resilience has become a cross-cutting requirement for economic stability, social protection, humanitarian response, and national security. The countries that weather future shocks most successfully will not necessarily be those with the greatest resources, but those that build the strongest capacity to absorb, adapt to, and recover from disruption.

For fragile economies, the lesson is stark. In a world where geopolitical conflict can disrupt energy corridors overnight, vulnerability is no longer defined only by proximity to war. It is defined by exposure to imported energy, limited fiscal space, weak reserves, high food dependence, and constrained humanitarian systems.

Pakistan and Gaza represent two ends of the same spectrum. One shows how an external energy shock can threaten macroeconomic stability. The other shows how fuel scarcity can undermine the basic infrastructure of survival. Together, they reveal the wider truth of the crisis: energy insecurity is no longer a sectoral issue. It is a development, humanitarian, and geopolitical issue at once.

The war's most enduring legacy may not be the damage inflicted on the battlefield, but the reminder that energy corridors, supply chains, and humanitarian systems have become part of the geopolitical frontline.