

Lecture Notes

THE STRAIT OF HORMUZ & GLOBAL ENERGY SECURITY

Fiker Institute hosted the President of the Observer Research Foundation Dr Samir Saran to discuss the wide-ranging economic, energy, and diplomatic implications of the Iran War. Below are the key takeaways from the lecture.

WHAT ARE THE IMPLICATIONS OF THE IRAN WAR ON THE GLOBAL ECONOMY AND ENERGY SECURITY?

The economic impact of the conflict is already being felt, with more long-term implications still to come. We must be clear about what has happened. This is not merely an energy shock. We have seen those before. Prices have gone up, destabilizing countries.

This is worse, because it is a whole-of-economy shock. It will affect multiple sectors at once. Petrochemicals are the building blocks of modern industry. When supply chains are disrupted in the Gulf, the effects travel from food to textiles to cars; from ethylene glycol to polyester and textiles, from dyes and ancillary chemicals to manufacturing and from sulfuric acid to critical minerals processing and semiconductor ecosystems. Shortages in polypropylene and dyes create problems in the textile industry, which is a big employer across the Global South. If there are shortages in limestone flux, then steel production slows down. Without sulfuric acid, chip production in Taiwan and elsewhere will slow down, and so will the manufacturing of electric vehicles and batteries. A shortage of ammonia and urea threatens food security across the developing world. That is a humanitarian and geopolitical crisis.

The full scale of this disruption has not yet registered in the public discourse. Impacts, including food inflation, will play out over time. If fertilizer is scarce now, during sowing season, the effects will be seen in the next agricultural cycle over the coming three to four months. There will be an obvious sequence of issues, as disruptions in one sector cascade downstream: For example, disruptions in steel production will slow down construction and real estate, which in turn will reduce low-skilled employment, causing consumer-goods sectors to feel the stress, and so on.

Another point about the effects of this crisis is that it shows that the Gulf Cooperation Council (GCC) countries, and the United Arab Emirates (UAE) in particular, are not just important because of their resources. They are central to global development journeys in many ways. They are the incubator and intermediary for growth in Africa and Asia. Through financing – their own, and by crowding in capital from elsewhere – and by offering innovation and expertise, they are one of the key drivers of growth in this new world.

This is particularly important for countries with unstable economies or difficult envi-

ronments. The UAE has acted as a geo-economic shock absorber for them, a neutral platform for trade finance, for intermediate capital, a hub for the startups and businesses that keep Asian and African economies vibrant.

So, this is an energy crisis, a whole-of-economy supply chain crisis, and an attack on one of the engines of global growth on top of that.

WHAT ARE THE CONFLICT'S IMPLICATIONS ON GLOBAL GOVERNANCE AND THE RULES-BASED INTERNATIONAL ORDER?

The rules-based international order is seriously threatened. The blockade of the Strait of Hormuz, in particular, opens Pandora's box. A dangerous domino effect might follow. If any party is allowed to charge for the use of international waters, then irresponsible actors around the world will see this as an easy way of propping up their budgets and their strategic arsenal. Countries will start using their location as a geopolitical weapon. Trade, development, and our way of life depends upon freedom of movement on the seas and on safe transit through chokepoints of international significance. The very purpose of the rules-based order is to ensure that nobody is capable of using these chokepoints for extortion, blackmail, and economic terrorism as a means of statecraft.

Trust in the system will collapse unless international pressure is applied against propositions that accept any form of tax being imposed on international maritime trade routes. This is the only way to ensure that the solution achieved does not become worse than the problem it is supposed to solve. Some powerful actors are tempted to make their own arrangements with Iran and find their own way of managing their specific bilateral needs and requirements at the expense of others in the international community. If this is allowed to take place, global governance will be permanently undermined.

HOW ARE GREAT POWERS AND EXTERNAL ACTORS SHAPING THE CONFLICT?

The Great Powers are not shaping the conflict. The Great Powers are part of the conflict. They have encouraged irresponsible regional actors, empowered them, and in some cases participated directly. In some cases, they have a stake in ensuring that the region remains unsettled.

The US is not just leading a military intervention in the region, it is also threatening sporadically to block the Strait on its own. On the diplomatic front, the administration's approach has been a hindrance to reaching a settlement. A different American

presidency may have been more prepared entering the conflict and had a specific endgame in mind at the point of entering into negotiations.

China's long-term reliance on Iranian oil, and therefore its support for the Iranian army – economic and logistical – are an important part of Iranian capabilities. One might assume that its energy needs give it an interest in regional stability. But Beijing is also building an alternative energy economy so that it can bypass the US ecosystem completely, challenging the petrodollar architecture that was established in the 1970s. Some might argue that this conflict is a pilot project for a non-petrodollar based global energy system. Indeed, since the start of the conflict, China has been pushing to trade Iranian oil in yuan and bypass international insurance and flag systems. Beijing thus is not a neutral actor. Whatever the inconvenience of this crisis for its supply chains, it also sees it as a valuable way to further push back against US dominance.

Then there are countries like Russia which might appear uninvolved. But it is important to remember that it supported and emboldened Iran in the run-up to this crisis. Other external actors, such as the United Kingdom (UK) and European Union member states, also have a stake in the crisis. They have the potential to positively contribute to a durable and lasting settlement by putting their weight behind the principles of freedom of trade and navigation, insisting that they become the cornerstone of any future resolution. They are open trading economies. They have a greater stake than most in keeping maritime chokepoints open. A precedent set at Hormuz will not stop at Hormuz, and Europe and the UK – dependent on Bab-al-Mandab, Suez, the Bosphorus, Gibraltar, Dover, and the Straits of Denmark – have more to lose than anyone else.

But more than the big powers, it is important to look at how the big partners of the region can participate, and that is where Africa, India, and others come into play.

HOW SHOULD THE GLOBAL SOUTH ACT IN THESE TIMES OF CRISIS?

This conflict has been a missed opportunity for the Global South. It was a good example of when the developing world should have come together to demand, in their own common interest, a cessation of hostilities and a peace that is sustainable. This crisis will cause major damage to the economic journeys of countries from the South. But nevertheless, many nations have been rather silent on this conflict.

This may be because the Global South requires effective institution-building. At this moment, institutions of the Global South remain by and large ineffective in times of conflict. This was a significant opportunity for the Global South to collectively assert itself in the discussion and shape the future of any regional or global architecture.

It is key to build coalitions of the countries that are most implicated by the ongoing developments, and who have the largest stakes in the future of the global economy. Countries like Brazil, India, and Indonesia should come together and issue statements on the kind of resolution that would be fair, inclusive, sustainable, and forward-looking.

BRICS is an interesting case study. The war has not completely paralyzed it as a framework, and it remains a valuable forum for necessary conversations to take place. Indeed, India as the current BRICS chair has been engaging in multiple talks, though the potential remains for more to be done. The India-China relationship within the BRICS framework can serve as an example of how to overcome the strategic hurdles the group currently faces, specifically in addressing the fact that both Iran and the UAE are member states. Despite the periodically escalating tensions characterizing their rivalry, India and China have used institutions such as BRICS to meet mutual strategic objectives such as economic growth and green transitions, without necessarily conceding to each other's demands on bilateral questions. This kind of relationship can be emulated when reconstructing future Iran-GCC relations.

WHAT DOES A DURABLE PEACE REQUIRE?

We need an exit from this conflict, but even more than that, we need an exit that props up the rules-based order instead of undermining it. Any solution must have the backing of the Great Powers and of the big partners of the region. But at its core, it will have to be something that the GCC and Iran are both comfortable with. It certainly cannot be a solution architected by the actions of those who seek to close the Strait; extortion, economic terrorism, and ransom-seeking cannot be rewarded.

A durable peace requires the region to create a framework that will prevent it from becoming an arena for Great Power politics. Any solution has to be conceived by and for the region through a process that remains indigenous, native, and localized. Progress cannot be externally transplanted; it has to be discovered from within.

In particular, the inclusion of the GCC countries in any settlement is crucial. The current moment is a window of opportunity for GCC states to reimagine their role in the region by ensuring they become foundational to its future architecture.

Moving forward, it might be useful for countries like the UAE and India to consider de-risking some of their supply chains through finding other trade routes, thus creating an alternative architecture that secures the flow of the world's most important goods and commodities. Utilizing the Indian Ocean could, for example, unlock a whole new connectivity corridor.

Peace plans should initiate a process of engaging neighboring countries in the region

in conversation. It will be essential for such conversation to lead to the establishment of a longer-term dialogue between Iran, the UAE, Saudi Arabia, and others. For such an arrangement to be arrived at, Iran's military and nuclear capabilities must be sufficiently mitigated so they can no longer be used to inflict harm upon its neighbors and hold the global economy hostage.

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