

In his April 1 address, President Donald Trump shed little new light on the Iran war and did not comment on its impact on international business, other than gas prices and the stock market. While repeating the war would end soon, at one point suggesting two to three weeks, he pledged to hit Iran extremely hard over that period, especially if it does not agree to a deal. He did not include reopening the Strait of Hormuz among US war aims, suggesting that the “strait will open naturally,” and reiterating his view that countries that depend on oil from the Gulf should take on that task militarily.

The unexpected escalation and duration of the war, and its likely messy aftermath, continues to expand risk and certain opportunities for a wide range of global industries. Piling on top of geopolitical disruptions unprecedented since World War II – COVID-19, Russia’s invasion of Ukraine, regime change in Venezuela, US tariffs and broader trends of Chinese overcapacity and European deindustrialization – businesses and governments must now constantly reassess supply chains and investment decisions.

Iran fired more missiles and drones at Israel and Gulf states after President Trump’s speech. Iran’s strikes on Gulf energy infrastructure are now impacting longer-term global energy supply, not just availability, due to the effective closure of the Strait of Hormuz. Refined and associated products such as jet fuel, urea, ammonia and helium are also impacted, not only from the Gulf, but from countries such as China and South Korea that have restricted exports to protect domestic consumers, with implications for global fertilizer supply and semiconductor manufacture. Attacks and threats from both sides have broadened to include universities and businesses of all types. A potential US ground incursion, which President Trump did not mention in his April 1 address, would trigger intensified Iranian retaliation in the near term. US attacks on Iran’s domestic power or desalination infrastructure, which President Trump threatened, would trigger Iranian attacks on equivalent infrastructure in the Gulf countries, with serious implications for sustainability of certain population centers.

The implications for Gulf countries are already serious, affecting the successful low-tax business and tourist economies that those countries have built in recent decades. There have been some reports of expat employees moving their families out, and of ultra-high net worth individuals moving, temporarily or permanently, elsewhere. But a lot of expat employees seem to be staying put: there have been some reports of Gulf-based employers insisting on presence in the office to try to stem any flow, but many employers are allowing a high degree of remote working and schools are operating remote learning. Distribution of Dubai’s US\$270 million “business support package” began on 1 April.

Rapid deescalation, and a visible change in the Iranian regime could make these short-term effects from which the Gulf countries recover quite quickly. But the persistence of threat from a non-reformed Iranian regime would have lasting effects even if the immediate intensity of hostilities reduces.

Despite President Trump’s expectation that the war will end in two to three weeks, it will not end cleanly and possibly not that soon, carrying growing implications for international business. Both sides believe they are winning and neither has clear strategic goals. The US and Israel are dominating the military war, but Iran is winning the economic war. There is an imbalance in what might constitute victory; for the US and Israel, there are a range of objectives including destroying Iran’s nuclear program, destroying Iran’s ballistic missile program, ending Iran’s support for terrorist proxies or regime change. For Iran, survival of the regime is success. The most important question: who will win the political war; in other words, which side’s motivation to keep fighting ends first, or does the war continue to escalate? Here are several scenarios:

1. President Trump declares victory and the world pressures Iran to stop its attacks. Iran may pause, but will threaten to resume strikes unless the US accepts difficult conditions (such as sanctions relief or reduced US military presence in the Gulf). The Strait of Hormuz could reopen partially, perhaps with naval escorts, allowing only a portion of the 100-150 ships crossing per day pre-conflict. This is the most likely deescalation scenario in the coming weeks, but it would not cleanly end the conflict, nor fully reopen the strait. For the longer term, Iran would likely resume its nuclear and ballistic missile programs, leading to the need to address these issues again in a few years.
2. The US and Iran both declare victory and virtually all attacks cease, including by Israel. The Strait of Hormuz reopens, and energy prices fall. This scenario is very unlikely absent a convincing threat to the regime’s survival. The regime’s pain threshold is very high, and its goal is to reestablish deterrence to prevent future attacks. The regime believes a longer, larger war strengthens its hand on settlement terms and reduces the risk of a future military campaign of this kind by the US and Israel.

3. Iran's regime changes to become willing to deal with the US and Israel. This outcome, along Venezuela lines, is President Trump's preference, but is very unlikely. There are no signs of cracks within the regime nor, so far, of an uprising to overthrow it. The hardline Islamic Revolutionary Guard Corps (IRGC) is ideologically committed and deeply embedded across the country and its institutions. The Iranian regime has made a practice over many years of quasi-engagement to buy time and obfuscate, and the currently highly fragmented leadership model makes identifying valid interlocutors very hard. The Israeli-led program of assassination of regime leaders has removed some of those who could have facilitated an outcome along the lines of Venezuela. Anyone purporting to speak authoritatively for the regime in reaching an agreement with the US in current circumstances would be at high risk of denunciation and removal by IRGC hardline elements.
4. Iran fragments, disintegrates or descends into civil war. This may be Israel's preferred outcome to weaken Iran long-term, but the US is more interested in a stable Iran with business opportunities. Control of the Strait of Hormuz would be uncertain, as would Iran's nuclear program. And terrorist groups could take advantage of uncontested space in a disintegrating Iran. This would be a very dangerous outcome for long-term global stability.
5. More escalation – Further US/Israeli attacks on Iran's power and desalination plants, as President Trump threatened, or a US ground incursion to seize Iran's Kharg island to control its oil exports or the Qeshm, Larak and Hormuz islands to control the strait could trigger further Iranian attacks in the Gulf, including on high tech US investments and Gulf production and refining facilities, removing more oil and gas supply. In extremis, Iran could seek to render life in certain Gulf states increasingly difficult, through increased attacks on energy infrastructure and water desalination plants. The Houthis have threatened to reopen a second front by resuming attacks on shipping in the Red Sea.

## The Bottom Line

While fighting could subside in the coming weeks, a clear resolution that fully reopens the Strait of Hormuz to energy exports, food imports and that encourages an early return of expat executives and workers to the Gulf is unlikely. Iran retains drone and ballistic missiles, albeit in reduced quantities, plus cyber and terrorist attack capabilities to prolong the war. Escalation with further long-term implications is also a real possibility.

Takeaways from the war so far:

1. Gulf reputations and risk premiums as stable locations for exports, investments and connectivity have been damaged, even as country leaders actively seek to preserve their business-friendly environments.
2. The US and other governments will double down on establishing resilient, multiple supply chains and domestic production for a growing number of strategic industries after witnessing the outsized impacts of Iran's chokehold on the Strait of Hormuz. These efforts will take years, and significant government and private sector investment.
3. The range of industries impacted by the war includes chemicals, semiconductors, aerospace, automotive, shipping (including air freight), ports, insurance, fertilizer, remittances and of course defense and energy. The Gulf is more central to the interconnected world economy than many realized.
4. The US reaction to European governments' unwillingness to participate in military operations to keep the Straits of Hormuz open during this active phase of the war risks greater transatlantic divergence, undermining the US commitment to NATO and accelerating European aspirations to strategic autonomy, with implications for transatlantic trade in critical materials, technology and defense.

This war is a stark reminder that geography and geopolitics – where a company buys, sells, invests and hires – matters now more than ever. In a world of conflict, commercial activity has become central to countries' national security. A growing number of industries are now considered strategic due to their dependencies on other countries' supply chains or connectivity. In the US, commercial regulations or disputes that were previously the purview of independent government agencies, based on technical or commercial factors, are now eventually decided by a small group of national security officials.

At Squire Patton Boggs, we see this dynamic every day as we help companies navigate risk and find opportunities in a new world where politics, policy, law and regulations impact company and investor decision-making more intensively than ever.

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