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U.S. Policy Decision Points in the Middle East: 6-18 Month Outlook

Policy Roundtable Report
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Executive Summary

The war between Israel, the U.S. and Iran is creating a world that is defined by deep uncertainty, diminished escalation management, and heightened worldwide strategic competition between the U.S. and China. Participants in Penn's March 24th roundtable emphasized the need for longer-term conceptual work to understand the region's emerging order and noted that China is preparing to shape the world that emerges from the fallout of the war.

A central conclusion of the discussion was the need for an immediate and fundamental reassessment of U.S. strategy toward Iran with the identification of clear end states. While a ceasefire and confidence building measures set conditions for talks, it will be hard to achieve a durable peace agreement that resolves some of the underlying tensions between the belligerents in the short term, especially given fragile ceasefires on still-smoldering regional battlefields. This will require significant concessions on behalf of all parties to the conflict.

These insights point toward the need to reset the U.S. policy on Iran as well as its broader regional strategy in the Middle East. The U.S. and its allies will have to cope with a world in which states seeking self-preservation have clear experience that may incentivize possession of nuclear weapons as the ultimate deterrent to invasion. A clear-eyed focus on nuclear nonproliferation goals (with the appropriate existing tools to achieve them) must be renewed. The U.S. will have to marshal all necessary resources and strategy to achieve its objectives in the context of strategic competition with China and Russia, while operating in a world much less bound by the rules, alliances, and norms that have governed international relations since 1945.

Introduction

Since February 28th of this year, the world has watched as a war many hoped to avoid became reality, as Israeli and U.S. planes and warships unleashed an air and missile onslaught no one has witnessed since the beginning of Operation Iraqi Freedom in February 2003. This war followed a series of U.S. and Israeli air and missile strikes in June 2025 that destroyed parts of Iran's nuclear program. Iran's immediate response to the strikes was to initiate attacks against nine of its regional neighbors by mining the Strait of Hormuz initiating a grinding asymmetric war of attrition against its adversaries. Even as the U.S. and Israel have inflicted significant losses on Iran's military, the ability to use its geography and its remaining capabilities to menace shipping allow Iran to claim that it is winning on the asymmetric battlefield. The war shows no signs of abating, having entered its seventh week, even as the pace of strikes rises and falls. Initial talks between the U.S. and Iran produced no meaningful progress towards a diplomatic

solution; a nascent ceasefire between Israel and Lebanon does not include Hizballah, weakening its slim chance of de-escalating that war.

The participants agreed that Iran's response thus far has been predictable in its centering of regime survival and internationalizing the conflict across the region. This expansion of the war fronts has delivered the costs of the conflict to the Gulf's doorstep and globalized its impact. Over the first weeks of the conflict, Iran attacked multiple different countries horizontally and vertically and hit critical infrastructure - including power, desalination plants, and Oil and Liquefied Natural Gas (LNG) production and shipping infrastructure. Following the death of Ayatollah Ali Khamenei a new Supreme Leader, the Assembly of Experts named his son, Mojtaba Khamenei, the new Supreme Leader. Many view him as both more hard-line than his father and more deeply connected to the IRGC, thereby giving them an even larger say in the country's future.

The way this war is being fought, and the unfolding impact of the geopolitical forces being unleashed, merit attention from experts across the ideological spectrum. Penn Washington convened a group of those experts (representing deep regional knowledge, sophisticated understanding of energy markets and insurance, and advanced knowledge around the planning and conduct of military operations) on March 24th to discuss the war and its ramifications. Participants examined escalation and de-escalation pathways, impending U.S. decision points, and the broader strategic implications for global security and economic stability. This report captures the key insights, debates, and policy recommendations that emerged from the discussion.

The war has brought about a cycle of escalation and de-escalation, conflicting explanations from U.S. officials as to the impetus for and goals of the conflict, regional spillover, mixed reactions from global allies and adversaries, attacks on energy infrastructure impacting global markets, and the deployment of ground forces in the region. Efforts to find common ground among Tehran, Jerusalem, and Washington have yielded little, with yawning gaps continuing to persist and real differences in alignment and war aims between Israel and the U.S. emerging the longer the war continues. Given the history and current state of the conflict, experts identified several key areas for U.S. policy focus over the next 6–18 months, spanning economic, geopolitical, and military domains.

Key Conclusions

Whither the Future of the International Order: Participants indicated a clear sense of severe damage which this conflict is inflicting on the norms and post-World War Two structure of institutions and alliances. The failure of the U.S. to consult its traditional allies and partners, or to solicit input from the Gulf countries who would be affected immediately by the U.S.'s decision to go to war, will have long lasting impacts on the quality and character of some of the U.S.'s strongest post-World War Two relationships and alliances. Participants agreed that the U.S.'s active public request for a coalition of NATO allies to provide naval assets to re-open the Strait of Hormuz (which has heretofore gone unanswered) is dangerous because of how it strained cracks already present in the alliance. Similarly, participants expressed concern for the unintended consequences of the Chinese Navy conducting an expeditionary deployment to the region to carry out freedom of navigation exercises and re-open the Strait. From the beginning of the war, a lack of internal U.S. clarity around intended objectives has led to global uncertainty and contributed to questions from allies and adversaries alike about America's standing in and leadership of the international system. Across Europe and Asia, divergent views on the conflict and paths forward have resulted in paralysis. Energy, supply chain, and trade shocks are pulling allies into conflict against their preferences, forcing changes in energy consumption, realigning shipping

traffic and trade routes, and stretching many fragile economies operating with little fiscal space. The lurching and sudden nature of these changes is further straining U.S. credibility and leadership. Participants agreed that a diplomatic agreement which reopened the Straits of Hormuz was the top immediate term priority, with the maximum achievable goal being some approximation of the status quo ante for maritime traffic transiting the Strait.

Ushering in a New Era of Nuclear Proliferation: Participants highlighted nuclear proliferation as a critical and underappreciated long-term risk. The U.S. willingness to initiate this conflict has underscored the perceived value of nuclear weapons as a deterrent against aggressors. This shift may result in a sprint to a nuclear bomb in Iran and could spur others to consider pursuing their own nuclear weapons capacity. Recent statements[1] by Kim Jong Un around North Korea's desires to strengthen its nuclear capacity emphasize that point. The sentiment is likely to resonate in Seoul, Tehran, Riyadh, and Abu Dhabi. Concerns also extend to nuclear materials accessibility in regions such as the Caucasus that have been historical problem spots for WMD proliferation following the dissolution of the Soviet Union. The war created a perverse incentive for countries to seek their own programs and eventually develop nuclear weapons of their own as the ultimate deterrent. Participants agreed that the U.S. must actively reassert nonproliferation regimes as a central pillar of its national security strategy and implement both new and existing models to prevent the proliferation of WMD technology and knowledge. Doing so will be challenging in an environment where arms control agreements and the ability to strike complex treaties with adversaries and allies has become moribund.

Potential Ground and Maritime Operations and Domestic Political Constraints: Recent U.S. movements of forces that would be involved in operations inside Iran framed a discussion around strategic thresholds and escalation risks of three potential scenarios. The first was the seizure of Kharg Island[2], Iran's principal point of export for 90 percent of its crude oil. The second involved potential invasion of the southern coast of Iran to open the Straits. The third was a complex air and ground movement to deploy into Iran and seize an airfield to undertake a series of raids to secure and remove Iran's stockpile of highly enriched uranium. While past military operations by this Administration have involved relatively low levels of U.S. casualties, participants emphasized that any increase in U.S. personnel losses would introduce significant domestic political constraints and complicate decision-making, in addition to being fraught with peril. However, several participants also noted that military planning timelines for these scenarios remain longer than diplomatic ones[3]. Participants also identified the domestic political environments in both the United States and Israel as key variables shaping policy trajectories. In the United States, uncertainty centers on the duration and impact of an Iranian disruption of the Strait of Hormuz, which could extend economic and political effects through the U.S. midterm elections in November and beyond. These dynamics are further complicated by Israeli election timing, with Prime Minister Netanyahu's political survival a critical domestic consideration influencing Israeli decision-making.

Escalation and De-Escalation Pathways – How to Step Back From the Precipice is Unclear: Discussion focused on the extent to which the conflict has become locked into a cycle of escalation and counter-escalation, with limited clarity regarding credible diplomatic off-ramps. Participants agreed that market forces—not a structured diplomatic framework—drove escalation and de-escalation dynamics

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[1] https://www.dw.com/en/north-koreas-kim-doubles-down-on-nuclear-program-ramps-up-hostility-toward-south/a-76496706

[2] https://www.cnn.com/2026/03/14/middleeast/iran-kharg-island-explainer-intl-hnk

[3] At the time of the roundtable, not all military assets for these mission sets had been deployed in theater.

leading up to the roundtable. Participants described the conflict was described as an asymmetric contest; they noted that the Iranian regime perceives itself as succeeding simply by surviving and inflicting financial and political damage on its adversaries, even while the United States and Israel maintain almost total conventional military superiority. This dynamic has created an environment in which both sides feel they are winning and are therefore emboldened to press for additional concessions in prospective negotiations, further complicating efforts at de-escalation. A common question raised by participants concerned is who retains enough trust within the international order to mediate. Participants also believed the negotiating capacity of the United States, Israel, and Gulf states was depleted. Participants suggested that Japan and Australia—nations with deep stakes in energy security and nuclear nonproliferation—hold a better position to facilitate dialogue, again avoiding a vital role for China. Pakistan's subsequent emergence as a mediator and the parties' ceasefire announcement over social media typifies the unconventional and haphazard de-escalation dynamics.

Detailed Discussion Areas

The Mismatch of Resource Allocation and Strategy, and Its Impact On U.S. China Competition

This conflict has magnified the disconnect between the 2025 National Security Strategy's articulated theater priorities. Despite an overriding emphasis on Latin America and the Indo Pacific, participants agreed that by starting this war, the U.S. has become even further enmeshed in the region's future. This is not to say that the NSS was devoid of reference to the Middle East (Iran's nuclear program and other Middle East concerns were addressed)[4], but the document clearly reflected a desire to move away from sustained Middle East focus. The escalation of this conflict represents a disruption of that rebalance, despite the current Administration's description of its plans to execute it in forceful terms. This unplanned disruption raises concerns about capacity, attention, and opportunity costs for American influence and attention elsewhere around the world. Several participants argued that the language of "pivoting away from the Middle East" should be retired altogether. Refusing to acknowledge the need to remain postured to address threats to U.S. vital interests that emanate from the region – and the resulting lack of effort to build strategies supported by force structures and a global force posture that matches that reality - will leave the U.S. unable to fill strategic requirements, both in the Middle East and globally. Assets designed to meet needs elsewhere are being drawn in, as China's ability to project power and influence accelerate. Participants named what is occurring an abrupt departure from a rebalancing towards the Indo-Pacific.

Participants also expressed concern at signs that the conflict is accelerating China's strategic alignment with Iran, as well as bolstering China's broader international standing relative to the U.S. The conflict is driving strategic impacts on trade and regional alignments in real time, with the war acting as an accelerant to countries already looking to hedge against the U.S. amidst an unstable global environment. One concrete example participants pointed to is the conclusion of a long-stalled Free Trade Agreement between the EU and Australia[5], which will deepen opportunities for cross-economy investment and trade and at the same time hastens the growth of global alignments that do not center the U.S. or the mechanisms it governs and regulates. Participants called this a clear example of partners seeing the need to develop these linkages as potential replacements for things they have traditionally received as part of their relationship with the United States.

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[4] https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf; the chief reference to Iran's significance in the region is buried in the regional section on page 32.

[5] https://commission.europa.eu/topics/trade/eu-australia-trade-agreement_en

In the background of the war, the administration postponed a U.S.–China summit and thereby reduced U.S. leverage over timing, framing, and agenda-setting for the summit. This coincides with U.S. partners seeking to generate their own new plurilateral frameworks to address instability in their relationship with the U.S. Participants noted that a future U.S.–China summit would most likely be framed by the U.S. as an opportunity to reaffirm U.S. control over strategic agendas and constrain spillover effects from the Middle East into Taiwan and the broader Indo-Pacific, while addressing tactical issues like Chinese imports of Iranian oil. China's evolving framing will be informed by its disdain for global instability and the impact of the fragility that instability introduces to its own goals and objectives. They will perceive that the U.S. decision to go to war will buy them time to achieve a broader set of their own global priorities and thereby strengthen their hand in any summit outcomes. For the Chinese, the focus of the summit will be finding sufficient stability that enables them to continue to pursue their own goals in the background while not agreeing to any major substantive changes to any aspects of the bilateral relationship in the near term. Participants also stressed that China would receive a significant "stability bump" in its global reputation as a counterweight to the U.S.'s turn towards mercurial behavior, thereby magnifying its deliberate efforts to improve its standing in its bilateral ties and in multilateral forums.

The Future of Disrupted Energy and Capital Markets and Supply Chains

The most visible global impact of the war has been through disruptions in the Strait of Hormuz. Participants stressed that even an immediate ceasefire would not yield an immediate return to the status quo. Estimates for recovery timelines extend at least four months, given the extent of the damage across extraction, transport, and refining systems. Participants spoke about economic "demand destruction," noting serious fuel rationing appearing in Bangladesh[6] and Sri Lanka[7]. Rationing in the face of steep increases in gas prices is now a global reality[8] and represents one of many immediate shocks that will last for an extended period. Cascading effects will expand across manufacturing and agriculture, along with shipping, travel, tourism, over time. China again stands out as a beneficiary due to its dominance in renewables, critical minerals, and manufacturing, while Russia benefits through exemptions to sanctions with Treasury Department Office of Foreign Assets Control license to sell oil and the increased demand for undisrupted oil supply.

The Strait of Hormuz's centrality to the flow of global energy, and therefore the functioning of those markets and the global economy, was a principal focus of discussion. Several participants anticipate a prolonged, low-level conflict that forces U.S.–Gulf relations to clarify positions around control of and access to safe passage through the Strait of Hormuz, and enforcement of that safe access facilitated by the U.S. and the international community; without a principal U.S. role, it is unclear who would step into the breach operationally or as a central node of coordination of the impacted governmental and commercial parties. At the time of the roundtable, the United States had signaled its unwillingness to provide naval escort support or undertake mine clearance operations. Without the U.S. playing a principal role in undertaking efforts to re-open the Straits, participants were skeptical it would re-open

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[6] https://www.reuters.com/world/asia-pacific/bangladesh-considers-partial-online-classes-amid-energy-crisis-2026-03-31/

[7] https://www.reuters.com/business/energy/sri-lanka-tightens-fuel-rationing-supply-squeeze-deepens-2026-03-18/

[8] https://www.newsweek.com/list-of-countries-rationing-fuel-as-gas-prices-soar-11771681; Newsweek's story identifies Sri Lanka, Myanmar, Cambodia, Slovenia, Bangladesh, and Indonesia, with others undertaking cuts in public transit and enacting work from home strategies to limit fuel use.

and return to the status quo ante, which would be the best-case scenario for global economic stability and energy market operations.

Regional Implications In The Middle East

Participants discussed a fundamental reshaping of the security architecture and alliances in the region that will result from the war. Discussion principally focused on the Gulf States, Iran, Lebanon, and Israel; this does not mean there are not major impacts and implications for Syria, Iraq, Jordan, or the West Bank and Gaza, they simply did not feature prominently. Participants perceive the region's battlefields as having expanded in scope and risen in intensity, with universally prohibitive costs for the region's citizens from the war and an even more unstable long-term trajectory.

The Gulf

With no immediate end to the war in sight, Gulf states are navigating an uncomfortable position. Having initially sought to avert the conflict, they now fear a premature end that leaves Iran's regime damaged but still capable and aggressive. As the United States signals a desire to wind down operations, Gulf concerns about being left exposed are growing — particularly around energy infrastructure and long-term stability. The existential nature of this war for the Gulf states is particularly acute; participants asserted that despite public signaling of almost universal unwillingness to become directly involved militarily, they have at times pushed the U.S. in private to take actions that will ensure the Strait of Hormuz remains open and that does not leave a wounded and aggrieved Iran on their doorstep.

There also exists a feeling amongst Gulf states of deep aggrievement about the shape of the public narrative around the war the in United states as well. These partners see the imposition of the war on the region without a plan to responsibly resolve it while framing the implications of the closure of the Strait as mattering only as far as it impacts gas prices in the U.S. as deeply offensive. Participants also indicated real fears about Iran potentially becoming a failed state and the Gulf being left to deal with massive refugee flows and a deeply destabilized security environment which it is ill equipped to do.

Participants noted that there are real fears present amongst the Gulf states of the Gulf becoming much more like Lebanon or Syria, where military action to "mow the lawn" by the United States or Israel is commonplace, and destroys the investment climate around AI and quantum computing for which they have carefully attempted to construct favorable conditions. One example is Saudi Arabia, which might have to adjust its Vision 2030 timelines and goals because of the fiscal impact resulting from lower oil and gas revenue and the damage to critical energy infrastructure reverberating for years to come. These kinds of fiscal pressure will undoubtedly impact Gulf foreign policy priorities like reconstruction in Syria or their increasing role in funding humanitarian responses globally[9].

Israel

Participants viewed Israel as having a higher tolerance for prolonging the conflict. Participants noted that a weakened, fractured Iran may be strategically preferable for Israel than a stable government dominated by the IRGC, the clerical and merchant classes, and oligarchs connected to one or both.

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[9] https://www.devex.com/news/devex-newswire-aid-cuts-keep-coming-but-one-gulf-state-offers-good-news-111517; https://www.semafor.com/article/01/19/2026/saudi-arabia-becomes-worlds-second-largest-aid-donor; https://uaeun.org/humanitarian-aid/

Israeli and U.S. war aims diverged almost immediately since the start of the war; an example is the Israeli attack on the South Pars gas field and the resulting Iranian response against Gulf LNG production and shipping capacity and critical infrastructure, and the way in which that complicated nascent attempts at establishing a ceasefire or a diplomatic track to end the war. Participants also made clear they believed that Israel was attempting to inflict the maximum amount of damage to key elements of Iran's military and power project capabilities before the U.S. would eventually pressure it to wind down its strikes.

Participants also noted that the Israeli government seems to perceive that it will not suffer from the same refugee flows as other states in the region, and underrates the risk of a failed state in Iran and what they could mean for its interests and its relationships with the Gulf (which have burgeoned since the signing of the Abraham accords). Participants agreed that a significant byproduct of the war has been unprecedented U.S.-Israel military cooperation —potentially a strategic gain regardless of conflict duration. There was also skepticism that Israel could carry out a long term ground operation inside Lebanon while maintaining the tempo of air operations it is undertaking currently in Iran (or in any "mow the grass" scenario it might face in the future), and pointed to the risks to Israel's armed forces ability to refit and re-arm as potential flashpoints re-emerge in Gaza or accelerate in the West Bank.

Lebanon

Participants pointed to Lebanon as another arena reflecting Israel's broader approach. Israeli operations there signal long-term intent, particularly as Iranian-backed proxies continue to flow in. Statements from Israeli officials regarding the establishment of a new border that effectively annexes Southern Lebanon below the Litani river – which was announced during the roundtable - served as further evidence of aims to create permanent changes on the ground and change the fundamental security dynamic of the region. A long-term Israeli occupation of Lebanon now appears a near certainty, creating another battlefield where reasonably elevated levels of violence are likely to persist and large numbers of Lebanese and Syrians who previously fled the civil war there having to flee a second time[10]. These factors will push an already deeply unstable country closer to the point of collapse, as social services and what counts as basic governance structures across the country and in the capital of Beirut are stressed to the breaking point.

Participants also discussed the Israeli ground campaign since 2023 and its damage to Hezbollah's command and control and military infrastructure having hollowed the group out, creating a Hezbollah 2.0 that is a true direct proxy of the IRGC. The group's evolution will have considerable influence on the future of Lebanon, and its turn from pseudo-independence to full operational direction and control by the IRGC will make Lebanon a more operationally active battlefield between Israel and Iran in the near term. Participants took note that the Lebanese government's decision to declare Iran's ambassador Persona Non Grata (PNG) as a positive data point in Lebanon's transition but expressed that the ground offensive would be deeply destabilizing to the new government's nascent efforts to de-fang Hezbollah's political power and remaining military might.

Yemen

[10] https://www.wral.com/news/ap/4f112-beirut-is-bursting-as-over-1-million-people-flee-israeli-strikes-and-evacuation-orders/; estimates of those displaced vary but are estimated at over one million since the war began.

Participants assessed that the Houthis may currently view entering the conflict as too costly[11], particularly considering their relationship/land border with Saudi Arabia. At the same time, there was agreement that the Houthis are positioning themselves for the use of force to achieve the maximum perceived leverage for their own interests. Participants noted that the Houthis recognize that they are the tool that has yet to be deployed and are more operationally intact than the rest of Iran's proxy network, and that they will have an important role to play in whatever the next phase of the conflict is, especially if Saudi Arabia shits the vast majority of its oil exports through overland pipelines to the Red Sea port of Yanbu[12]. Their proven ability to menace shipping in the Red Sea – and to shut two incredibly vulnerable chokepoints in the Bab al Mandeb and the Suez Canal – makes them a natural escalation lever that the Iranians will reach for at some point should the war continue. Participants also noted their traditional independence from direct command and control by Iran but acknowledged that they may eventually perceive an opportunity to further their own aims by entering the war.

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Penn Washington will continue to host thoughtful policy dialogues with cross-sector, bi-partisan experts on matters of national and international importance and connect the University of Pennsylvania's faculty and researchers to these ongoing policy dialogues to help inform the creation of smart, actionable policy.

[11] The roundtable was conducted before the entry of the Houthis into the war on March 28th.

[12] https://www.reuters.com/business/energy/saudi-pipeline-pumping-7-million-bpd-oil-bypassing-hormuz-bloomberg-news-reports-2026-03-28/