The State of Play in Iran: Every Scenario Is Bad. Some Are Worse

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State of Play

Nearly six months ago, President Trump launched a war on Iran with no clear objective or strategy, believing it would last at most a few weeks. In June, the U.S. and Iran agreed to a Memorandum of Understanding (MOU) that was supposed to end the fighting. It also set August 17 as the deadline for concluding talks that would reopen the Strait of Hormuz and finalize a new nuclear deal. That deadline has now passed, yet one of the world's most important maritime thoroughfares remains mostly closed, and it has been more than a year since there was a nuclear inspection in Iran. Not only is the United States no closer to resolution today than when the war began, it is significantly worse off.

Over the past several weeks, it seems increasingly evident that Trump realizes the futility of an indefinite hot war with Iran. This apparent change in posture could be a cynical measure meant to calm markets ahead of November's elections. But the more likely explanation is that dwindling munitions stockpiles, mounting economic costs, and Iran's unchanged decision-making have pushed him toward a permanent recalibration. In the past few weeks, Trump went from "low-keying" his approach to Iran, hoping that a resumed naval blockade and broader economic pressure would force Iran to change from within and make concessions, to announcing the "MOST CRUSHING ECONOMIC OPERATION EVER TAKEN AGAINST ANY COUNTRY," which he says will include measures against any country that does business with Iran.

There are some merits to this approach. Iran's economic troubles are real. It is rationing scarce goods, limiting access to foreign currency, and preparing for a "survival economy" that will worsen conditions for most Iranians. This could lead to domestic instability and potentially a softening of Iran's political will. Another positive of this approach for Trump is that oil prices are now relatively stable. This increases the likelihood that Trump may be content to engage in a long-term economic pressure campaign in lieu of a return to war.

Unfortunately, Trump's strategy is highly unlikely to work. First, it will require unprecedented sustained economic pressure on China, something Trump has largely been hesitant to do across both terms. But more importantly, the war has shown us that Iran's new leaders are increasingly willing to use direct force as a tool to advance their political agenda. If Iran's economic situation gets bad enough, recent history suggests Iran will use its missile and drone program to impose significant economic costs on the global economy to shift Trump's risk calculus. Iran is engaging in such a strategy because its leaders believe they can absorb more economic pain than their adversaries.

While a prolonged economic war would be bad for Iran and the global economy, it would be truly devastating to Gulf countries (especially those without alternative export routes to the Strait of

Hormuz). Gulf countries therefore have a lower pain tolerance than Iran, and are likely both to lobby the Administration for an off-ramp and, if necessary, to pursue their own separate side deals with Iran to avoid being attacked. And while Trump's new campaign makes this type of action more difficult, it puts countries like the UAE in an impossible position. If they follow America's lead, Iran will bomb them. If they don't comply, the U.S. will sanction them.

Where do we go from here?

Neither the "low-key" nor the "most crushing" economic pressure campaign is a viable long-term strategy. Both approaches disregard the toll on the broader global economy and fail to account for the reality that Iran has a say in how the war ends. Continuing down this path will inevitably lead to a resumption of hostilities. Therefore, three paths seem plausible. None are appealing, and all are indictments of an ill-conceived war. But some are worse than others:

1. **Restart the war:** Trump could restart the war voluntarily after the midterms or in response to offensive Iranian operations. Either way, renewed conflict is highly unlikely to shape the conflict in a positive direction. The United States and Israel have hit more than 15,000 combined targets inside Iran, and none have significantly shaped Iran's decision-making or stability to date. What advocates of resuming the war are really calling for is deploying a significant number of U.S. troops on the ground or inciting a civil war inside Iran. Anything short of that would be irrelevant to the war's outcome – which hawks know but refuse to acknowledge – as both are extremely high-risk options for the United States.

2. **Accept a flawed deal**: As the response to the June MOU showed, hawks within Trump's base won't hesitate to criticize what they see as a bad deal. On one hand, this criticism is understandable. Any deal with Iran will probably require significant financial concessions to Iran and might not return the United States to the status quo that existed prior to the war. Further, any deal Trump makes will almost certainly be significantly weaker than the one he withdrew from, the Joint Comprehensive Plan of Action (JCPOA). But at this point there aren't any better options. Any future deal should be measured less on what is gained from it, and more on what it does to prevent the situation from getting worse and retain U.S. leverage for a wider deal once the war is over.

3. **Put blinders on and outsource the problem to others**: Both restarting the war and engaging in a long-term economic pressure campaign are an existential threat to Gulf countries. There is a distinct possibility that the Administration will continue a "faux" pressure campaign while quietly tolerating the Gulf states and Iran negotiating separate side agreements that relieve pressure on both. This latter scenario resembles what unfolded during Trump's first term, when the UAE and Saudi Arabia started working around "maximum pressure" to enact their own side deals with Iran to facilitate sanctions evasion in return for regional calm. That is certainly less likely in the short term, but Trump will likely tire of his economic campaign once China and the UAE appeal to Washington.

The U.S. Navy's blockade makes it harder for Gulf states to make side agreements than in 2019, but potential workarounds exist. Iran may find ways to transship energy products through the Gulf without U.S. approval. Alternatively, lifting the U.S. blockade might be the only concession the Administration makes, while Gulf states quietly buy off Iran and negotiate the rest of what would amount to a racketeering arrangement in which they pay Iran to not interfere with global shipping.

Ripple effects from the war

The drift toward outsourcing a solution isn't happening in a vacuum. It's reshaping how other actors see the United States and how they are repositioning. Here are some of the trends the war is shaping:

- **United States**: The war is accelerating a decline in U.S. credibility and is degrading some of our most important relationships. If U.S. decision-making continues to be shaped by Trump's image of his legacy, energy prices, and the Administration's limited understanding of Iran, the war will continue – and it will continue to hurt U.S. interests.
- **Iran** appears poised to emerge from the war battered, but intact. It faces real economic strain, but the positive domestic changes that seemed possible in early January during the protests have been overwhelmed by the conflict. Iran's new leadership is more aggressive than its predecessor, but Tehran likely remains open to some version of a revised MOU. In the absence of a deal, Iran will again resort to coercive tactics against Gulf states to extract concessions. Over the long term, the threat of a potential Iranian nuclear weapon should remain a top priority.
- The **Gulf states** are the most vulnerable in the current standoff. Their exposure may force them into accommodations with Iran to avoid attack, much as they did in 2019, even as they work in parallel on alternate transit routes and stronger defenses. Establishing alternative routes will reduce Iranian leverage over time, but they will also take years to become operational. In the meantime, Gulf states are increasingly frustrated with the Trump Administration and may turn toward China and others for stability and solutions to the current crisis.
- **Israel** likely favors any form of pressure on Iran, without having fully reckoned with the consequences of its current approach. Iran's collapse or capitulation remains highly unlikely. Meanwhile, public support for Israel within the U.S. has been eroding, and a continued costly conflict in the Middle East will only add to that pressure.
- **Europe** remains vulnerable to rising costs, is wary of Trump's unpredictability, and has signaled it will look to China to mediate. Europe has organized a maritime security mission, but that effort is unlikely to materialize without Iranian acquiescence. The Iran war is the latest in a series of actions that have weakened the transatlantic relationship.

- **China** stands to benefit most from the prolonged crisis. Instability in the region threatens its energy supply, but China is better positioned than others to absorb the shock. Europe and the Gulf are increasingly turning to Beijing to mediate and as a source of stability. Whether Beijing could mediate effectively is questionable — but if it did, the divergent implications for U.S. and Chinese credibility would be significant.

The pattern is the same across nearly every actor: eroding confidence in U.S. credibility and a search for alternatives.

The best bad outcome

The Iran war was arbitrary and has weakened U.S. and Israeli interests. Iran remains a long-term threat to American interests, but the U.S. has no clear path to victory. Renewed pressure and conflict are unlikely to deliver it, and an agreement to end the war won't reverse America's strategic losses. Every scenario carries real costs.

The best outcome for Trump, Iranian capitulation through economic pressure or war, is also the least likely. Outsourcing the resolution of the war to the Gulf is the least common denominator for all parties, and might be the most realistic outcome. However, the best outcome remains a limited deal that ends the war, avoids setting damaging precedents, and reopens maritime traffic. That outcome will come at a high cost in terms of upfront relief to Iran — but at a much lesser cost than all other alternatives.