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TRANSCRIPT

Event

“What Are the Hidden Costs of the War with Iran?”

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Will Todman: After nearly a month of conflict with Iran, some of the consequences are well covered. Conflict has spread to at least 14 countries. Key infrastructure has been hit across the Gulf and Iran, and millions of people have been displaced. The head of the International Energy Agency recently said that, "we are already witnessing the world's worst ever disruption to energy supplies." But what are the knock-on effects of the war that we aren't focusing on as much? What does it mean for things like food security, humanitarian crises, and economic security around the world? And critically, which of these new crises will be felt in the short term and which have implications for the long term? I'm your host, Will Todman. Welcome to a live episode of State of Play.

Okay. So today I am joined by three of my colleagues from three different departments at CSIS. Mona Yacoubian is Senior Advisor and Director of the Middle East program. Emily Harding is Vice President of the Defense and Security Department and also Director of the Intelligence National Security and Technology Program. And Caitlin Welsh is Director of the Global Food and Water Security Program. And I have to say this is really CSIS at its best. Between the three of you, you have decades of experience at the White House, the State Department, on the Hill, in the CIA, intelligence. And so I am so excited to learn from all of you. Of course, you are also three women. So another reason to be excited about this. And there is one fourth woman who I would like to thank, which is Nina Prieur, who is our Director of Strategic Comms and this event was her idea.

So now I guess to move on to the really sort of serious part. So part of the reason why we wanted to do this is that, you have all put out really interesting pieces recently that show some of these wide-reaching implications. And we will link to these pieces in the show notes to make sure that our audience can see them. But Mona, one of the pieces that you wrote is all about Iran's escalation strategy. And so I wonder if we can start with you because I think this is really the cause of a lot of what we're going to be discussing. So how have you seen that play out?

Mona Yacoubian: Yeah, I think you're right. This is the driver, I think, of many of these knock-on effects. So Iran definitely learned from the 12-day war in June, and I think made a discreet decision not to calibrate its response, but to escalate significantly right out of the gate. And so we saw both horizontal escalation. So Iran, I think, targeted some nine countries within 24 hours, and we also saw vertical escalation. And by that, we mean sort of hitting a wide array of targets, including Gulf civilian infrastructure, and critical infrastructure. And that has led to a series of cascading effects. In particular, Iran went after energy infrastructure. And I think that those are the effects that we're starting to really see in a significant way. And you even saw escalation within the energy

infrastructure. So starting with transportation, maybe targeting tankers here and there, but then moving to refining capability, and now even as of last week, production, which has much longer implications.

And the last thing I'll say, because I think we're all watching, is we've seen how the Strait of Hormuz has really become sort of the center of gravity in this conflict. And it's prompted President Trump to make his threats about 48 hours and then expand it to five days of going after Iran's critical infrastructure if they don't open it. I think it's sort of opened up this drama that we're now watching unfold.

Emily Harding: And I think there's a really interesting sort of butterfly effect with all of those things that you just mentioned. For example, we have a research assistant here at CSIS who comes from India, and she told me that all of the restaurants in her family's hometown have shut down because they don't have any cooking guests.

Mr. Todman: Wow.

Ms. Harding: We hosted an event, what, last week, where one of our colleagues could join us at the event because he was supposed to be in Thailand, but because all the flights through Dubai had been canceled, he couldn't get on the plane. And these are all little things, but if you think about that repeating itself over and over and over globally, it's a massive butterfly effect.

Ms. Yacoubian: Totally. Yeah.

Mr. Todman: And Caitlin, I think you were certainly the first person that I saw talking about fertilizers and talking about the degree to which the Strait of Hormuz is also a really critical artery for the global fertilizer trade. So can you start by sharing a bit about some of the short-term disruptions to food security that you've seen?

Caitlin Welsh: Sure, absolutely. As soon as the attacks happened, my eye was on energy prices because of the strong correlation between energy prices and food prices. So when I think about the impacts of this war in the short term, medium term and long term on agriculture markets and food prices, the vector through which ag markets and food prices will be most immediately impacted is energy prices. High correlation between energy prices and food prices, because energy is used at all aspects of food production, planting, irrigation, transportation, food marketing, refrigeration, everything. Energy is used for that. So when energy costs more, ultimately food prices rise. Also, fossil fuel price increases increase demand for biofuels. So then you have corn and sugar and other things diverted to creating energy. And finally, fossil fuels are also

used to create fertilizer, which is something that you just noted. So in addition to the shocks that high energy prices will have on food prices, you also have the medium term and longer term impacts of high fertilizer prices on food security, which I can get into a little bit more.

Mr. Todman: Yeah.

Ms. Welsh: Okay. So Strait of Hormuz is important and I like to think of it in two ways, because it exports ingredients for fertilizer and also final products themselves. Ingredients for fertilizer that the Strait of Hormuz exports include LNG, sulfur, ammonia, but countries in the Gulf and the Strait also exports final products. So in some of the main fertilizers you just use around the world like urea, ammonia phosphate also exit the Strait of Hormuz. Some 20 to 30% of fertilizers globally are transited through that straight. 35% of urea exports. And in fact, one statistic that actually blows my mind is that there's one production facility in Qatar that's responsible for 14% of global exports of this one major type of fertilizer used around the world. Some countries might think that they might be able to insulate themselves by producing their own fertilizer or sourcing from other countries, but at the end of the day, like oil prices, fertilizer prices are global and so all farmers are effectively impacted.

Mr. Todman: And there's something I think interesting about the timing of this as well, 'cause at least in the Northern Hemisphere, fertilizers are particularly in need now. Is that right?

Ms. Welsh: Exactly. So in the US, the two months where we see the highest application of fertilizer are March and April. And so you see fertilizer prices spiking just as farmers are going to be applying more. So I want to say one important thing though, which is that in the US and in many other countries, most farmers have already purchased most of their fertilizer.

Mr. Todman: Okay.

Ms. Welsh: It's not the case in every other country, so Emily mentioned India, which I'd actually like to talk about more in a little bit, but there might be other countries where farmers aren't as insulated. But that's just in this planting season. Should this war continue longer, then you'll see planting seasons in other hemispheres. So in the Southern Hemisphere, those farmers could be affected by higher fertilizer prices or into next year, our farmers again could be exposed to higher fertilizer prices with even greater impacts.

Mr. Todman: Okay. And Emily, one of the things that you mentioned at the start was the disruption to aviation, talking about your guest who could make it because of not being able to get from Thailand or something like that.

Ms. Harding: We got lucky he was on our hemisphere (laughs).

Mr. Todman: Okay.

Ms. Harding: Yeah.

Mr. Todman: Yeah, yeah. Mona, is this something you're tracking the sort of disruption to trade, aviation, transportation?

Ms. Yacoubian: Totally. Absolutely. I mean, when you think about it, Dubai, Doha, Abu Dhabi, these are three of the busiest, if not the busiest air hubs in the world. And so you had something really akin to almost what it was like during COVID, except all happening within 24 hours of airspace being closed, thousands of flights being canceled, tens of thousands of people stranded, and it really sort of, I think, shattered this image of the Gulf being this sort of stable island of prosperity in a very troubled part of the world.

And we're still seeing the knock on effects of that. We've seen nothing like air travel resuming back to normal. In fact, the entire region feels like one big no-go zone. I know I've had trips canceled, not sure when we'll have the chance to get there. And then trade too, because we talk a lot about energy, fertilizer going through the Strait, but of course it's a major maritime shipping route. And so we're seeing all kinds of issues much more broadly with respect to supply chain and then also air cargo also affected. So a multiplicity of impacts.

Mr. Todman: Yeah. And you said about the Gulf had this image of being a sort of oasis of stability. I think that's one of the reasons why a lot of data centers have been set up there, other reasons as well, of course. But Emily, I was struck by your piece and some of the way in which you framed data as being a victim of war and the increasing connection between data and warfare in the 21st century now. So can you explain what you were talking about there?

Ms. Harding: Absolutely. So-

Mr. Todman: So can you explain what you were talking about there?

Ms. Harding: Absolutely. So we saw Iran very intentionally in that horizontal expansion of the war go after data centers in the region. Early on in the war, they went after three AWS data centers, two in the UAE and one in

Bahrain. The UAE data centers were a direct hit. So this seems to have been a very clear instance of targeting. Later on, we saw Bank Sepah inside Iran get hit. I don't think anybody's claimed responsibility for that one yet, but it turns out that Bank Sepah was the bank that held all of the payroll information for the IRGC. So if you hit their data center, that means you can't pay their soldiers. We've then saw Iran publish a list of 29 tech targets they planned to go after. And that included, not exhaustively, six IBM facilities, five AWS facilities, five Microsoft facilities, four Google facilities, three Palantir facilities, and it goes on down.

This is very clearly targeting not just elements of warfare that we think about normally, like plants that make drones or plants that make tanks. These are the data centers that help drive the information that runs the war. And this is something, I mean, this is the first time that we have seen a data center intentionally targeted sort of in anger, but we've seen this as a trend line that's evolved since the beginning of the war in Ukraine. And that's because both the Russians and the Ukrainians knew that to fight a modern war, what you need is information. And if you're going to have access to that information in real time, you need data centers, you need cloud.

And I think what we see here is a recognition that data is a critically important part of war. Now, my team has been talking about this for a couple years now. I'm working on a project that we call No Front Lines where we're looking at how different companies should be thinking about their role in warfare in a way they've never had to think before if you're not Lockheed. If you're Lockheed, you understand what it means to be deeply involved in a war fighting enterprise. If you're Microsoft, this is a new world for you.

Mr. Todman: Yeah, yeah.

Ms. Yacoubian: Could I jump in on this? Because beyond, this is a really great lay down, Emily, but I would also add, beyond the dual use questions, by going after data centers, there's also symbolically something very powerful that the Iranians are doing. And I saw on X, we have to confirm that they hit another AWS center in Bahrain today. They're going after sort of the strategy that the Gulf has put forward for how it's going to prepare for post oil Middle East. By developing the AI infrastructure through data centers, this was sort of a centerpiece of President Trump's trip to the region. And by going after them and naming companies and so forth, potentially a severe disincentive going forward for these companies to base their infrastructure there, underscoring that they're actually vulnerable to exactly these kinds of attacks. And so I think it has a very, very deep symbolic value as well.

Ms. Harding: I think that strike in Bahrain has been confirmed, but it was a strike near the data center.

Ms. Yacoubian: Okay.

Ms. Harding: Now that could mean that it was a data center target and they missed. I mean, we don't really know yet, but the point is there's damage. And if there's damage, then AWS has to figure out how to redirect all of its resources so that they can stay up and running. And I think that that speaks to perhaps a bigger issue, which is how the US government reacts to these things. Is this an attack on the UAE? Is this an attack on a private company or is this an attack on a vital US resource and what does that mean for exercising US sovereignty?

Mr. Todman: Yeah. And I do want to come towards recommendations towards the end of this discussion so that it's not all total doom and gloom.

Ms. Harding: We do like to try to fix problems.

Mr. Todman: Yes, yes, yes. Even though these are very difficult. And Mona, I do just want to say you put out a piece the day before the war started, highlighted with our former intern, Sam Zabin, about data centers and the link with security in the Gulf and part of this new strategy. Emily, I want to ask you a bit about the consequences of this. So what does this actually mean in the short term? Has the disruption been kind of limited? Is it containable in the short term? Is it more of a case that if they continue to be hit, then we will really start to feel this? Or was there already real serious implications of this?

Ms. Harding: So I think we've seen some disruptions, but whether the disruptions have had an impact on the actual war fighting is less clear. There is redundancy. I mean, part of the glory of the cloud is that data can move from place to place. And what the Microsofts of the world and the AWSs of the world do is they figure out how to fail over. So if one data center fails, then they can move to a different data center. And this is going to sound like it's insignificant, but it's actually real. If you have a short distance of travel between where the war fighter is and where the data is, that information can move very quickly.

If you even have to move a few hundred miles away, that is a slower throughput of data. And it may not sound like a lot, but those bits of seconds really do add up when you're running something that's as data heavy as say, Maven. I think that the sort of medium term reaction to this is going to be, okay, what do we need to store locally "at the edge"

and what do we need to store on the cloud? And then how can we balance the two so you have all the redundancy that you need?

Mr. Todman: Interesting. I hadn't thought about that. Yeah, fascinating.

Ms. Harding: Yeah. Microseconds count in warfare, just like they do in stock trading. Counts in warfare too.

Mr. Todman: Absolutely. And water is intimately linked. Was that where you were going?

Ms. Welsh: It was. I was about to jump in, but thanks for asking.

Mr. Todman: Please. Okay. So data centers, traditionally we think of them as using a lot of energy, but they also use a lot of water. So this is a bit of a segue through to then Caitlin, your team has also been looking at some of the implications for water security of the conflict.

Ms. Welsh: Yes. And I would actually put water infrastructure in perhaps the same or an adjacent category as infrastructure we're talking about right now with data center infrastructure where there's importance to hitting water infrastructure that's beyond the physical impact. There is psychological impact as well. So to the extent that those attacks on data centers are attacking an economic strategy in the long term. Attacks on water infrastructure are, I think at the end of the day, the ultimate impact may be psychological because we've heard a lot about the attacks in the news, rightly so. Four desalination facilities have been attacked thus far, to my knowledge, early on, indirect attacks on facilities in Kuwait and the UAE and then direct and intentional damage to facilities in Iran and Bahrain. And then Iran had threatened to attack energy and water infrastructure in retaliation for the attacks that President Trump had pledged to make over the weekend but did not make.

So there are ongoing threats of continued attacks to water infrastructure. The region is predominantly reliant on desalination for its water needs. It is one of the most arid regions in the world. Across the entire Arabian Peninsula, no permanent river flows. There are over 3,400 desalination facilities across the whole region, especially for drinking water, populations rely on these facilities. Again, so there are a number of targets across the region. No one attack could take out all desalination facilities and remove all drinking water, but really I do think that the simple threat of attack is enough to have impacts politically, I think, to decrease the appetite of countries in the region to continue to support the war. I'll be interested to see how actual attacks

continue. Hopefully they don't, but at the end of the day, I do think much of the impact will be psychological.

Mr. Todman: That's really interesting. And-

Ms. Harding: Well, can I just add one more thing there?

Mr. Todman: Please.

Ms. Harding: This is getting me thinking too about all of these different potential targets and all of these soft targets. And from my perspective in our department, we look a lot at air defense and how difficult air defense is and how expensive air defense is. And if I'm just putting myself in the shoes of the Saudis, for example, who are trying to decide where do I put the few Patriot batteries I have? Do I need to protect 3,400? Is that what you said?

Ms. Welsh: Oh yes, over that.

Ms. Harding: Over 3,400 facilities desalination facilities. I mean, you can't do that with Patriot batteries, so what decisions do you make?

Ms. Yacoubian: And we're already seeing evidence that they are being forced to ration their defenses and actually make these kinds of, I mean, Sophie's Choice type decisions, what do we protect? Do we protect this or do we protect that? And actually it's making me think, if I could ask you, Emily in particular, tracking warfare. I mean, have we seen warfare like this where these kinds of critical infrastructure elements are being targeted directly, whether it's desal plants or again, energy. I mean, have we seen this before in war?

Ms. Harding: Yeah. I mean, the short answer is yes, but with a huge caveat. So if you look back in the day, pre-World War II, war was total war.

Ms. Yacoubian: Sure.

Ms. Harding: Precision weapons didn't really exist. It was a war on the population and the population's will to fight as much as it was on the opposing military. Then, in the second half of the century, what we saw was this move towards much more focus on protecting civilian populations, much more humane forms of war. And then the US, of course, was a leader in this precision strike capability. So you could be a lot more specific in going after combatants or legitimate targets as opposed to population centers. But then, you see what's going on in Ukraine. Russia has clearly been waging war against the population of Ukraine. They

went after energy facilities repeatedly. I'm not sure if they've gone after water facilities. I guess you would know.

Ms. Welsh: They have Kakhovka Dam.

Ms. Harding: Yeah, there you go.

Ms. Welsh: Kakhovka Dam in June 2023.

Ms. Harding: Yeah. So like water facilities too. So we are seeing that in the Russia-Ukraine context for sure. And so I guess I find it shocking, but not surprising that the Iranians were willing to do this here too.

Ms. Yacoubian: Yes. And then they responded, which is also this eye for an eye element that we are seeing. So less than 24 hours after their desal plant was hit, they hit the Bahraini plant. And then it sounds like there have been other ones that have been maybe incidental, indirect, whatever. But again, it does, and the Ukraine war is a good example of this, but it really does sort of raise this whole notion of absence of laws of armed conflict, erosion of international order, et cetera, all being played out in this conflict.

Ms. Welsh: I would have answered your question by talking about the Russia-Ukraine war. It's natural to make those comparisons because it's almost to the day that the war started four years apart. In the case of that war, Russia deliberately and continues to deliberately attack Ukraine's agricultural infrastructure, production and export infrastructure and its water infrastructure. One thing that's different about this ongoing war though when it comes to water infrastructure is simply the extent to which the population depends on desalination infrastructure.

Ms. Yacoubian: Exactly.

Ms. Welsh: Really, there's no other populations in the same situation.

Ms. Yacoubian: Totally.

Ms. Welsh: And so that's why it has such real and, as I said, psychological impact.

Ms. Yacoubian: Yeah, 100%.

Ms. Harding: This is not a part of the world where you want to suddenly be without water.

Ms. Yacoubian: No, especially as we're heading into summer, where it's almost unlivable in some ways, the heat.

Mr. Todman: And some parts of the region are a lot more vulnerable than others. Some are more fragile already. They have experienced conflict. They are dealing with mass displacement. So Mona, can you share a bit about how you're thinking about some of the short-term effects on fragile and lower mid-income countries and how that's playing out in different parts of the region?

Ms. Yacoubian: Yeah. And I mean, I think Caitlin teed it up really well with many of your comments. I mean, I think when we think about the Middle East, we have to understand it's multiple Middle Easts. I mean, yes, you have the wealthy Gulf states, but you do have lower middle income countries like Egypt, like Jordan. You have countries in the midst of conflict, Lebanon right now in a significant second front of this war, Syria having just emerged from conflict. And we're already seeing effects with respect to rising food and fuel prices in places like Egypt, by the way, coming off of Ramadan and the Eid where already just anecdotally produce prices, et cetera, really high. Butagas, key element for cooking, up 25% and really raises sort of bigger concerns about how these countries that are fragile, that are strapped, Egypt has an enormous debt, how are they going to manage these knock-on effects?

So we're already seeing in Egypt, for example, we've got a piece coming soon in which we're seeing as a coping mechanism that they are rationing power. So they are going to impose on restaurants, shops, cafes and other things that they have to close, I think by nine o'clock at night or something like that, starting March 28th, which again, in that part of the world, especially as it gets hotter, that's exactly when people want to be out and about. So you're already starting to see energy rationing. And then there are other effects as well, Will, like we've been talking about the role of remittances, for example, where we haven't seen it yet, this will be a longer term effect. But if this war continues and this economic shutdown or slowdown continues, you could see workers returning to their countries of origin. Of course, it goes well beyond the Middle East, but countries like Lebanon, for example, which is dependent, 30% of its GDP, it comes from remittances and of that, half comes from the Gulf.

Mr. Todman: Yeah. So just before we fully transition to talking about the mid to long-term implications of this, one other thing I just want to highlight is the humanitarian piece, because a lot of humanitarian aid also goes through the Strait of Hormuz. Actually, the Dubai hub for the UN is where 60% of humanitarian aid goes through that, through I think UNHRT. And so that is also now disrupted. And then this is coming in the context of major aid cuts from the US, from other Western donors. So a lot of these

countries are already dealing with much less humanitarian aid, and now have this added disruption on top of it. But I do want to shift then to talk about the mid to the long-term and how we see some of these things playing out longer. We don't know how long this conflict will go on. I suspect how long it goes on will have important implications for the mid to long-term for some of these factors that we've been talking about. But Caitlin, you set us up by talking about some of the midterm effects for food security. Are there any other things in the longer term that you're watching out for that could happen?

Ms. Welsh: Well, I'm glad you asked that question, because it's important to explain that when it comes to the impacts of high fertilizer prices on food prices, the impacts would happen in the mid to long-term. Because the way that farmers cope with high fertilizer prices is by either using less fertilizer or by switching to crops that are less fertilizer intensive. So if they use less fertilizer on the crops they're planning to do, then outputs could decrease, or we could see shifts. And one example of that in the United States could be farmers shifting from planting corn, which is relatively fertilizer intensive to producing soybeans, which is less fertilizer intensive. Of course, that might have impacts on US farmers producing soybeans, because as we know, markets for soybeans are declining given our trade war with China. But should high fertilizer prices lead to lower agricultural output and higher food prices, that would happen in the medium term and to the long-term based on impacts on this growing season that we're in right now and future growing seasons.

And that's a big if. I just want to underscore that, that when I hear colleagues in other places talking about really severe impacts, I want to say that we could see them if this war lasts, much, much longer. If it ends soon, the impacts would be a lot, lot less.

Mr. Todman: And do we have a sense of which populations around the world would be most vulnerable, generally speaking?

Ms. Welsh: Well, I want to say, again, pointing to Russia's invasion of Ukraine and impacts of that war on global food prices and global food security, again, there were different dynamics at play, but there was almost no country that wasn't affected by that because of the impacts of energy prices on food prices. That affects countries around the world. To your point though, to your immediate question, you would have countries that are more import-dependent for their fertilizer and more import-dependent for their food that would be worst affected. And there are some mechanisms to help buffer the impacts on countries like that, which I'm happy to get to a little bit later in the conversation.

Mr. Todman: Okay. Yes, when we talk about solutions.

Ms. Harding: Can I ask one follow up with you?

Mr. Todman: Yeah.

Ms. Harding: I love these opportunities to learn so much from my colleagues. So is there a tipping point where it goes from, this is a minor disruption, to this is a long-term problem? Or is it just like, with every day it gets more and more complicated to try to recover?

Ms. Welsh: Yeah, I think that with every day you'll have greater impacts on energy markets and greater impacts on fertilizer prices. The reason that this shock is different from Russia's invasion of Ukraine is because in that case, you had grains directly implicated, and overnight you had millions of tons of major agricultural commodities stuck in ports. And in very short order you saw global food prices hit a historic high, and then the next month another historic high. In this instance, you don't have grains immediately implicated, so that's why you could have long ... The effects will take longer, this growing season and future growing seasons. I could see major effects happening if they're compounded by other things in other parts of the world. So what if there's a drought in another part of the world that affects output or another crisis that puts further upward pressure on energy prices, for example, then I could see this-

Ms. Harding: Say, a hurricane in the Gulf, maybe.

Ms. Welsh: Something-

Ms. Harding: Something that very much could happen in the next coming months.

Ms. Welsh: Exactly. Any of those things.

Ms. Harding: Yeah.

Ms. Welsh: But again, I want to walk a fine line between, on the one hand, I want to make sure that food and fertilizer prices are a really important part of the conversation. On the other hand, I want to make sure to emphasize that this is not the same crisis as we had four years ago with Russia and Ukraine, and that the degree of impacts that we'll see will depend on the length of this war.

Mr. Todman: Yeah. Emily, what else are you looking out for in the mid to long-term? One thing we haven't really talked about is cyber.

Ms. Harding:

So this is a big question. When Russia-Ukraine started, everybody was like, "Oh, this is going to be the very first cyber war." And we saw cyber play a big role, but we didn't really see the full story start to emerge until months later. And now we're seeing a replay of that conversation in a lot of ways. Iran is a very capable cyber actor, not Russia level capable, but really very capable. And also they've been willing to be aggressive in a way that Russia hasn't necessarily. So we were talking about literal strikes on water infrastructure. We saw Iran go after water infrastructure here in the US. There were these attacks on water treatment facilities. And at the time, they did it because they said that those facilities were using Israeli software. This was in the immediate aftermath of October 7th.

And luckily, I'm knocking on wood for those who can't hear it, it turned out that there weren't really any huge implications for water safety here in the US that I'm aware of. Correct me if I'm wrong, Caitlin, but the point is that they proved they were able to get into these sensitive systems and potentially cause a disruption. So when this all started, we were all standing back and saying, "Okay, is this going to be another opportunity for Iran to try to make mischief?" And so far, what we've seen has been limited. Now, for a couple of the targets, I don't want to underplay how painful it's been for them. There's one company, Stryker Technologies in Michigan that does medical equipment, and it suffered some rather dramatic consequences. Unclear why exactly Iran picked them to go after, but they very clearly did.

But then we're also saying, "Well, okay, six months from now, a year from now, let's just say that the war dies down, we get a ceasefire, maybe there's a real push for negotiations, and then Iran tries to use cyber tactics as a pressure tactic to try to really put additional pressure on the Gulf or on the US to come back to the negotiating table or to make additional concessions." They are supremely aggressive negotiators, which I'm sure Mona can say more about, so I can see them trying to use those pressure tactics. For now, I was actually sitting and talking to one of my colleagues about this just yesterday, there are lots of hypotheses as to why we haven't seen more on this front. One is that we just haven't seen it yet. It's happening and the reporting hasn't come out. Two is that the Israelis actually went after the MOIS cyber headquarters, and a couple of the high-ranking Iranians who were responsible for making decisions about cyber attacks were most likely killed in those strikes.

So if your boss doesn't approve the thing that you want to do, you might not be able to do the thing. There's also the possibility that in Iran's efforts to completely shut off the internet inside its own country, that they've made it much harder for some of their cyber forces to actually

get out into the wild and conduct these activities. There's one report actually that the few things the Iranians have done, especially in the influence operations as opposed to real cyber operations, were using Starlink terminals that they got ahold of. And so taking advantage once again of Western infrastructure in order to engage in influence operations. But I think this is one of those stories that it's going to take a couple months to really see how it plays out.

Mr. Todman: Okay. Mona, what are you looking for in the mid or longer term about some of the knock-on effects?

Ms. Yacoubian: Can I just say one short-term-

Mr. Todman: Yeah.

Ms. Yacoubian: ... thing to look out for, because I think it could have such a dramatic impact, and that is if the Houthis choose to jump into this. And I think they do have agency. I don't think they're just completely a proxy of Iran. Of course, they are, but they also make their own risk benefit calculus as to whether it makes sense. And the reason that would be important is because they would then ... We could see them snarl the Red Sea as they did before. And this has become an important mitigation measure that the Saudis have undertaken, where they're using their pipelines and using their Red Sea port of Yanbu. So if they did do that, if the Houthis did jump in, this would really compound in a significant way, the disruption that we're already seeing.

Over the longer term, I think a lot of it is what we've been talking about. I mean, how do we see these knock-on effects, the longer this goes on play out? Whether it's countries that are fragile, Egypt is one, Iraq is another one, which is basically really in a very bad position because it relies almost completely on the Strait of Hormuz to export its oil, which is 90% of its GDP. We've also seen them lose 30% of their gas from Iran after South Pars was hit. And we already know that Iraq is vulnerable to protests and this kind of thing, especially in the hot summer months when there are electricity blackouts, etc. So we could see all of that play out.

The other thing I would raise is just, what does this mean longer term if it goes on, for the Gulf? The Gulf, number one, as an important mediator, we've already seen them essentially being taken off the board for several conflicts. Sudan comes to mind, as well as frankly, the conflict with Iran, where they're not mediating because they're now part of the conflict. And then also, the Gulf is a really important source of capital and they wield these enormous sovereign wealth funds. What happens over the long run? How do they react? Already, Goldman Sachs

estimated that Qatar could take a 15% hit to its GDP if this conflict lasts through April.

Ms. Harding: Through April.

Mr. Todman: That's days away, right? That's a week away.

Ms. Yacoubian: Through April. No, through April.

Ms. Harding: That's huge.

Mr. Todman: Oh, through the end of it. Okay.

Ms. Yacoubian: Correct.

Mr. Todman: Sorry. Yeah.

Ms. Harding: Still, I mean, five weeks, 15%?

Ms. Yacoubian: 15% is-

Ms. Harding: That's amazing.

Ms. Yacoubian: ...huge.

Mr. Todman: Wow.

Ms. Welsh: Yeah.

Ms. Yacoubian: And then it raises one other question, which is to the humanitarian issues, of course, the Gulf countries have become very important donors, far more than traditional, frankly, Western donors. They're rising in the ranks. They're among some of them in the top five, 10 donors. So, will they be able to continue to provide funding for humanitarian assistance at a time when the needs are crescendo'ing and you've got humanitarian budgets going through the floor, just basically in major decline. So these are the things I think we'll need to watch out for.

Ms. Todman: Okay. I promised that we would have some time to talk about solutions. Mitigation, strategies, recommendations. We've talked about a lot, so I'll let you choose whatever you want to. But Caitlin, can I start with you? Is there anything that you would like to see happen that might mitigate some of the worst impacts of what we've been talking about?

Ms. Welsh: Sure. And this is a nice entre to note something that I should have noted earlier, which is not only the water vulnerability of countries in the Gulf, but also their vulnerability to food insecurity because of their extreme dependence on imports for their food. Countries in the Gulf depend on imports for 65% to 100% of their consumption of many things, corn, vegetable oils, soybeans, so many things. And when that happens, that has knock-on effects on other food products. So they're very vulnerable to food insecurity because of the closure of the Strait of Hormuz.

So to policy solutions, when it comes to the Gulf countries whose food security is most at risk, looking for alternative sources of imports. Some countries have alternative routes of import, and maybe those countries could pass trade along to other countries, but that's a solution that we could apply to problems that are being faced by others. So when you look at farmers that are dependent on the Gulf for their imports of fertilizer, looking to other sources is simply one of the main things you can do apart from producing your own fertilizer. Problem is though, in times like this, as I mentioned, prices are global. So no matter where your source of fertilizer is, you're going to be exposed to high prices.

Mr. Todman: Yep. Emily, anything that you're tracking on the mitigation front?

Ms. Harding: Yeah, so the strikes on some of the civilian targets inside the Gulf, and especially the data centers, I think there's a two part thing there. There's better defense, like kinetic defense. It's very impressive actually that we've seen the Ukrainians step up to the Gulf and say, "Hey, you know who's really good at shooting down Shaheds? We are. We can help you out with that," and trying to sell some of the solutions that they've invented over the course of their war. This does seem like a potential future avenue for them to really reenter into the world and to share some of their knowledge, hard-earned, with the rest of the planet.

The other piece of it though, is the deterrence piece. And I think this is an opportunity for the Trump administration to say something very strong about these massive US companies and their position around the world. You probably don't want to get in a position where you're saying any attack on any US company is an act of war. I mean, US companies are global, clearly that could lead to all kinds of unintended consequences. But if there are repeated attacks on things like global data centers, that is a problem not just for AWS, not just for the US, but for the world. And it is, I think an important moment to say something strong about how the US is going to put a high priority on defending those targets and then also retaliating against strikes on them. For those folks who are- ... against strikes on them. For those folks who are sitting there in those data centers right now, what they need is intelligence sharing. They need up to the minute information about whether or not they are at

risk. The government is pretty good at sharing information, but not always in real time and not always at a high enough more actionable level. It's time to open the taps there.

Mr. Todman: Great. Thank you. Mona?

Ms. Yacoubian: Several things. I mean, I think first, just given how significant and damaging this escalation is, starting to think creatively about deescalation and off ramps and what does that look like and who are the key stakeholders that can play a role in that. Second, I can't believe I'm going to say this, but a supplemental to address the food insecurity and other issues. This is of course what happened in the wake of Ukraine. I don't know that I see our government or our Congress doing that, but we've certainly saw other emergency funds created through the multilaterals. I think this could be significant enough. We'll have to see that that will need to happen. And then, also drawing from Ukraine, and there are several. I would footstomp, Emily, your point about the Ukrainians bringing this incredible anti-drone technology and the Gulf perhaps stepping up and becoming a prime investor in that, which could be really interesting.

I wonder whether is there a Black Sea initiative type of analog to deal with this issue? Because again, it's a strategic choke point. It's much more complicated, but raising some of these kind of collective approaches to addressing these immediate issues, I think is going to be key. And there's just going to need to be a lot of creative thinking, I think.

Mr. Todman: Okay. So as you know, we finish each of our episodes with quick fire round of questions, and it's especially hard to make you do this on this one, given just the breadth of what we've talked about, but let's try anyway. So first, please, can you sum up the hidden costs of this war in one word or phrase? Caitlin?

Ms. Welsh: We were chatting earlier, and this might sound trite, but to me, this war underscores the extent to which markets generally, but agriculture markets specifically are interconnected. When shocks happen in one part of the world that have global ramifications, what I see as an effort of many countries or many actors in many countries is to insulate themselves from those shocks. At the end of the day, that's not possible to do. And so, reliance on other countries is necessary and there's no way around it right now.

Mr. Todman: Okay. Yeah. Emily?

Ms. Harding: I'm going to play off of what you said before about how vast the number of topics we've covered here really is and say that because these things

are so interconnected, because there are so many ways that the events in the Middle East ripple out across the globe and cause these impacts, I'm going to use a cheat word that we used to use all the time when I was at CIA, because while we believe firmly in analytic humility and revealing what we do and what we do not know, you never want to walk into a briefing and be like, "Hey, we have no idea what's going to happen next." So instead we used to say, "The situation is fluid."

Mr. Todman: Fluid.

Ms. Harding: It's fluid. And that became sort of a joke when you didn't really know what to say, you say, "It's fluid." So I'm going to wrap up the hidden costs of this war as fluid.

Mr. Todman: Fluid. Perfect. Mona?

Ms. Yacoubian: And I think just listening to both of my colleagues, sobering. It's just sobering what we're dealing with.

Mr. Todman: Okay. So next then, our sort of great power competition question. So of the US, China, Russia, who has had the best week, who's had the worst week. Any order, whoever wants to go first.

Ms. Welsh: I'll jump in real quickly. I'll say Russia, but then I'll add in a Belarus is not a superpower, but they're both up because sanctions on oil exports, exports from Russia were relieved and fertilizer exports from Belarus were relieved as well.

Ms. Yacoubian: Okay.

Ms. Harding: Yeah, 100% Russia. I mean, they're the big winner from the high oil prices. It's a lifeline they desperately needed to keep fighting in Ukraine. It's a definite tragedy of this war.

Ms. Yacoubian: I completely agree, Russia, but I also think down the road, not this week, China could be. They could be well positioned to play that mediating role. There's a vacuum there that they may be able to fill.

Mr. Todman: Okay. Finally then, is there one word or phrase that you would like to ban pundits from saying when talking about any of this? Is there anything that's been annoying you or that you just think is not a helpful term?

Ms. Yacoubian: I'll jump in on this because I always... I hate this question, Will, but this time I actually have an answer, which is mowing the lawn, which is something we hear a lot referencing typically non-state actors, terrorist

groups, ways to deal with them, Hezbollah and Lebanon, Hamas in Gaza. What's striking to me is that we're now talking about mowing the lawn with respect to Iran. And I think that raises a whole 'nother set of questions about, this is now interstate conflict that becomes mowing the lawn. So I'd rather.. I hope we don't hear that term too much more.

Mr. Todman: Emily?

Ms. Harding: For me, on a related note, it's the Venezuela option. We keep hearing that what they want is for someone to step up inside Iran and be the person who's going to be not the leader of Iran, but somebody else who's going to still keep control of the country, but be tame and allied with the US. And Iran is not Venezuela. It is very, very difficult to find that unicorn. So where is this Venezuela option? It's looking pretty unlikely.

Ms. Welsh: Okay. For me, it's global humanitarian crisis, which is used by some analysts and other places across Washington to describe the potential impacts of this war on agriculture markets and food prices. I think that some might be primed to think that way because of the impacts of Russia's invasion of Ukraine, which were impacts on ag markets and food prices that we hadn't seen in 50 to 100 years. I don't want to say that there are not incredibly important impacts on ag markets and food prices because there are, and I'm glad that we're inserting them into the conversation, but I think that we need to temper our analysis and just wait and see.

Mr. Todman: Okay. Oh, I have one minute to try some up. Okay. Might run a little long, so I apologize. But you have talked about some of the short term crises that we are seeing already. So of course on the food security, Caitlin, you highlighted the biggest driver there is the link between the rising energy costs and food costs, which is causing food to go up a lot and of course exacerbate food insecurity. Transportation, of course, the Gulf as a global hub, a lot of disruption there. Data centers, Emily, you said data has become a critically important part of war and that there are some important implications here. Even if we have to move data centers just 100 miles or a couple of hundred miles, that really matters. Those milliseconds matter. On the water point, I think this was so interesting, Caitlin, you said it's really the psychological impact that is probably the most important here.

Ultimately, probably the Gulf states will be able to get through. They have a lot of desalination plants and whatnot, but it's raising really important questions for the Gulf about what do they choose to defend and what do they not defend when they have limited choices. We've been talking about the knock on effects. Mona, you highlighted energy

rationing in Egypt. You talked a bit about the humanitarian aid flows being disrupted. Remittances you flagged as something to watch out for. And then the Houthis, the big question of do the Houthis join in here, that could really undermine some of these mitigation efforts, which I will talk about in a sec. In the mid to longer term, fertilizer, of course, some countries in the global north are having flows of supplies of fertilizers disrupted. That might cause farmers to shift crops. The impacts will be most felt on those that are most dependent on imports, but it's going to look quite different to when Russia invaded Ukraine.

Cyber surprisingly limited so far, perhaps. This could emerge as a pressure tactic that Iran deploys later on down the line, or it could already be happening, or it could not be happening because too many of the leaders were assassinated. I think we'll have to come back and see on that one. And then, Mona, you talked about the changing role of the Gulf. Will it be able to play the mediator role it's been playing in global conflicts? Will it continue to be the source of capital around the world, given the hit to GDP that we could be seeing? Are they going to continue to be able to play their role as donors of humanitarian aid and reconstruction assistance? So then we did finish with some mitigation efforts, and I do want to highlight those. So of course, on the food security, can countries find alternative sources of imports?

Can the Gulf increase its kinetic defense? Ukraine is helping on the drones. You said intel sharing, Emily, would be really important as well, particularly for those thinking about data centers. And on that, can President Trump increase the deterrence by more clearly stating the cost and the importance of these tech companies and data centers? And then, Mona, I think you said we need to be thinking about off-ramps, thinking creatively about who could be involved in those. Can, of course, the Gulf needs to invest in some anti-drone technology, but also maybe something akin to the Black Sea initiative, some kind of collective approach, and then also the emergency funds and the supplementals that can help cushion some of the blow. So, my goodness, what a lot we've got through. I consider this to be truly CSIS at its best. Your expertise covers so many different topics, parts of the world, and helps us, I think, think through just how multifaceted this is and trying... Oh, and interconnected it is, how fluid it is, but also how sobering it is.

So thank you so much, Mona, Emily, Caitlin. It's been a real pleasure to have you, even if it's not been a barrel of laughs talking about this, but I do hope to have you back. And as always, to those of you watching at home, listening, please go to our website, look at the pieces that I mentioned. I'll tag it in the show notes below so that you can read the analysis that Mona, Emily, Caitlin, and all of our other colleagues have

been putting out. If you enjoyed this, we hope that you'll subscribe.
Thank you so much.

(END.)