
A Two-Player Game-Theoretic Analysis of the USA-Iran Conflict: Options for Exit

Strategic bargaining, bounded escalation and the design of one enforceable game

Andre ZAIMAN

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Research status

An open-source strategic assessment. The paper distinguishes documented events, reported claims and analytic inference. It is not a judicial finding and does not disclose classified information.

Abstract

*This paper applies a **game-theoretic model** to assess a **strategic game between the United States and Iran**. Game theory is specifically designed for strategic games: situations in which an actor's desired outcome does not depend on that actor alone, but on the choices, expectations and anticipated responses of others. That condition of **strategic interdependence** makes the method directly relevant to strategic intelligence analysis and forewarning. Why did Iran fire ballistic missiles toward two United States naval vessels on 5 September 2026, yet avoid the destructive, mass-casualty strike it appears capable of attempting? The conflict began with a mismatch between two subjective games. President Donald TRUMP pursued a **domination game** in which coercion and negotiation were instruments for producing unilateral compliance under assumptions of American exceptionalism, primacy and usable military preponderance. Iran initially acted as though it was in a **reciprocal bargaining game** capable of creating mutually binding exchange. The weaponisation of diplomacy, the repudiation of the 17 June Islamabad Memorandum of Understanding and continuing coercion made that model untenable. Tehran then announced a shift from defence to offence, but has so far practised **bounded escalation** rather than unrestricted war. **Our model and analysis demonstrate that bounded escalation has kept the possibility of a negotiated settlement alive despite multiple temptations and provocations to widen the conflict.** On the explicit modelling assumption that the 5 September missiles deliberately did not strike, the naval episode was a purposeful warning: it preserved the next rung of pressure and sustained Iran's **local escalation dominance** without activating the American mass-casualty threshold. TRUMP also has reasons to prefer the bounded game: depleted munitions, military overextension, electoral exposure, economic costs and vulnerable regional partners make unrestricted escalation substantially more dangerous. Yet Iran cannot wait indefinitely. After the midterm elections TRUMP may reprice the costs and choose unrestricted escalation. ANSAR ALLAH's current positioning along Yemen's Red Sea coast and the Bab el-Mandeb therefore matters as a second-chokepoint hedge. A wider war could produce not only American mass casualties but a nonlinear energy, shipping and financial shock to the financialised United States economy and the already strained economies of its Gulf allies. Exit does not require higher trust. It requires one mutually recognised game whose rules, thresholds, payoffs and enforcement mechanisms are **common knowledge**, and whose **spoilers are contained (NETANYAHU in particular)**.*

Keywords: Iran; United States; TRUMP; game mismatch; domination game; game theory; bounded escalation; escalation dominance; common knowledge; warning salvo; blockade; commitment problem; midterm elections; exit strategy.

1. Introduction: a warning salvo and the puzzle of restraint

On 5 September 2026, the Islamic Revolutionary Guard Corps launched ballistic missiles toward two United States naval vessels operating in regional waters. According to United States Central Command, an aircraft carrier and a guided-missile destroyer evaded the attacks and no American personnel were harmed. Washington then struck three Iranian crude-oil carriers (CENTCOM, 2026a; REUTERS, 2026a). The observable sequence is clear. The more important strategic question concerns intent: why demonstrate the ability and willingness to target high-value American warships, yet stop short of a direct, casualty-producing attack designed to rupture the blockade and punish the United States at a qualitatively higher level?

For analytical purposes, the paper assumes that the missiles constituted a deliberately non-impacting warning salvo. This is a stipulated premise in the same sense that a mathematical model states an initial condition; it is not offered as a publicly verifiable finding about weapon programming. Given that assumption, the move was costly enough to reveal resolve but bounded enough to avoid forcing an American president into an immediate large-scale retaliatory decision. Iran selected targets carrying exceptional escalation significance, caused no American deaths and did not immediately mount the saturation follow-on required to convert demonstration into destruction.

The episode contains a second puzzle. The premise that there has been no escalation is not literally correct. Ships, bases, oil carriers and infrastructure have been attacked, and the 17 June Islamabad MoU was dramatically repudiated by TRUMP at the NATO summit in Ankara on 8 July before renewed exchanges continued. The analytically precise description is bounded escalation: both players employ force and periodically climb the escalation ladder, but neither has yet chosen the threshold-crossing move most likely to produce a direct and sustained contest for naval destruction, regime survival or regional war. The absence of unconstrained escalation is not passivity. It is strategic restraint exercised inside a violent bargaining process.

The deeper puzzle is that the players did not begin inside the same understood game. TRUMP behaved as though material superiority entitled Washington to revise terms, treat negotiation as another instrument of compellence and continue pressing until Iran accepted a subordinate outcome. Iran initially behaved as though negotiation was a reciprocal institution: each party would exchange concessions and the resulting rules

would bind both. This was not merely disagreement over the division of gains. It was disagreement over what kind of interaction was taking place, what a promise meant and whether rules constrained the stronger party.

Iran's subsequent shift from defence to offence should be read as a change in game, not as an abandonment of strategic restraint. On 17 August a senior Iranian official told REUTERS that Tehran was moving from defence to offence because it no longer believed diplomacy with Washington was being honoured, and threatened a timely and precise action if the June terms were not implemented (REUTERS, 2026d). Iran later publicly described an offensive military doctrine involving faster and potentially pre-emptive responses. The relevant pattern is therefore offensive action inside bounded escalation: Tehran seeks to recover initiative and preserve bargaining leverage while keeping violence below the threshold most likely to unleash unrestricted American retaliation.

The conflict began on 28 February 2026 and has generated substantial military and economic costs. The United States Congressional Budget Office estimated direct Department of Defense costs of approximately USD 38 billion by 1 August, with continuing monthly costs of about USD 2 billion under low-intensity conditions and USD 3 billion at July-level intensity. It projected that conflict-driven energy and shipping disruption would lift first-quarter 2027 headline inflation by about 0.5 percentage points and core inflation by about 0.3 points, while short-term Treasury rates would be nearly 0.2 points higher in 2026 (CBO, 2026). By mid-September, national diesel prices had reportedly reached USD 6.27 per gallon, transmitting the oil shock through freight, food, construction and farm costs (WALL STREET JOURNAL, 2026). Rising inflation, higher interest rates and diesel prices are all outcomes TRUMP has strong electoral reasons to avoid. Exit has therefore become a positive strategic payoff, not an act of benevolence or defeatism.

Iran also pays heavily through destruction, lost exports, sanctions, disrupted trade and the risk that one successful attack on an American capital asset produces an overwhelming response. Yet Iran possesses a different advantage: it does not need to defeat the United States in conventional military terms. It needs to deny Washington a low-cost victory and make continuation more expensive than a negotiated end. This asymmetry produces the present pattern - pressure without the decisive blow, retaliation without unrestricted war, and bargaining without sufficient trust to close the agreement.

2. Problem statement and research question

The first problem is prior to the usual bargaining problem: **the parties have been playing different subjective games**: the same problem that led to the Ukraine war that could easily have been prevented or settled after Istanbul - if it were not for the U.S.-UK and Franco-German warmongering arrogance. In light of the new conditions Iran has just transmitted, **the model and analysis demonstrate that a negotiated settlement between the U.S. and Iran remains attainable - on the assumption of playing the same game**. A settlement cannot be stabilised merely by identifying overlapping preferences if Washington treats agreement as a temporary instrument of domination while Tehran treats it as a reciprocal rule. The analytical task is to explain how the interaction can be brought back into one game - not through trust, but through common knowledge of rules, payoffs, red lines, verification and the consequences of breach.

The practical problem is that a mutually beneficial bargaining zone demonstrably exists, but the players remain in a costly contest. Iran can offer cessation of attacks on American forces and shipping, a verified non-weapon nuclear commitment and restored maritime passage. TRUMP can offer termination of hostilities, removal of the blockade, withdrawal of forces, sanctions relief and the political recognition necessary to convert a temporary pause into a formal end. The 17 June 2026 Islamabad Memorandum of Understanding contained much of precisely this exchange and entered into effect. It did not simply collapse. TRUMP publicly repudiated it in Ankara on 8 July, declaring the ceasefire over at the NATO summit after renewed attacks and United States strikes (CBS NEWS, 2026c; GUARDIAN, 2026c).

The analytical problem is therefore not simply why war began or which side has greater aggregate military power. It is why two rational players continue a conflict when both could obtain important benefits from ending it. The underlying difficulty combines private information, incentives to misrepresent resolve, domestic audience constraints, different time horizons and, above all, the inability to make future promises credible.

Primary research question

Under what strategic conditions can Iran obtain a formal end to the war on its essential terms while President TRUMP obtains a politically saleable exit from the conflict, and why have the two players so far preferred calibrated coercion to either comprehensive settlement or decisive escalation?

Supporting questions

- What evidence indicates that TRUMP is playing a domination game while Iran began in a **reciprocal bargaining game**?
- How did Iran's announced shift from defence to offence change the strategic interaction without yet producing unbounded escalation?

- Does the 5 September naval warning preserve local Iranian escalation dominance, and what would Iran gain or lose by crossing to a mass-casualty ship attack?
- How do the 3 November midterm elections alter the value of Iran's current leverage and the risk of later unbounded escalation?
- What rules must become common knowledge, and how can third-party spoilers be kept from changing the game?
- What information did the 5 September warning salvo communicate, and why was deliberate restraint part of the signal?
- How should the players, strategies, payoffs, outside options and costs of delay be specified?
- What game type best describes the interaction, and how does the game change across tactical and political levels?
- Why was the 17 June Islamabad MoU repudiated despite giving both parties - and especially Iran - substantial gains within a zone of possible agreement?
- What settlement architecture can make reciprocal restraint credible and resistant to spoilers?
- What is the most likely outcome if the present preference structure persists?

3. Methodology and evidentiary discipline

3.1 Method

The paper uses a qualitative game-theoretic case study. It abstracts the conflict into two principal decision-makers: Iran and the TRUMP administration. This is a deliberate simplification. Israel, the Islamic Revolutionary Guard Corps, the United States Congress, Gulf monarchies, Iranian-aligned movements, energy markets and domestic constituencies all affect the outcome. Within the model they are treated as constraints, sources of cost, veto players or potential spoilers rather than as additional strategic players. This preserves a two-player structure while acknowledging that neither principal acts in an empty environment.

The analysis combines four methods. First, it reconstructs the publicly documented sequence of the warning salvo, retaliation, the 17 June Islamabad MoU and TRUMP's 8 July repudiation in Ankara. Second, it specifies ordinal preferences rather than pretending to possess precise cardinal utilities. Third, it applies bargaining, signalling, repeated-game, war-of-attrition and commitment-problem concepts. Fourth, it performs scenario assessment by comparing the incentives attached to formal

settlement, continued calibrated conflict, unilateral concession and major escalation.

3.2 Levels of confidence

Three evidentiary categories are used. Documented event means that a public primary source or multiple credible reports establish the occurrence. Reported claim means that a belligerent or media source makes a claim that remains contested or incompletely verified. Analytic inference identifies the strategic meaning most consistent with observed conduct. The missile launch and absence of United States casualties are documented through the United States account and corroborating reporting. Deliberate non-impact is treated as an explicit assumption supplied to the model, not as a conclusion inferred from public evidence. Likewise, the paper documents the timing of negotiations and subsequent decapitation strikes, while identifying the stronger claim that diplomacy was deliberately used to concentrate targets as a strategic inference.

3.3 Limits

The model cannot observe classified rules of engagement, weapon programming, private diplomatic messages, internal Iranian deliberations or TRUMP's personal decision calculus. Public statements may be strategic performances. Ordinal payoffs therefore indicate preference rankings, not measurable quantities. The model is explanatory and conditional: it asks what follows if the stated and revealed preferences are approximately correct. It does not claim that either actor is unitary, perfectly rational or immune to accident.

4. Key game-theoretic concepts

4.1 When a game-theoretic approach is appropriate

Game theory is appropriate when the desired outcome of one actor does not depend on that actor alone. The defining condition is **strategic interdependence**: each player's best course depends on what the other chooses, what each believes the other will choose and, in repeated interaction, what each expects the other to do after every possible move. If Iran's desired outcome could be produced unilaterally, the problem would be engineering or administration. It becomes a **strategic game** because Iran's security, economic relief and formal termination of war require decisions by Washington, while TRUMP's exit, force protection, maritime objective and victory narrative require Iranian restraint (MORROW, 1994).

The method is valid only if its simplifications are explicit. The model need not assume perfect rationality, exact numerical utilities or complete

information. It must, however, identify the players, feasible strategies, relevant payoffs, sequence of moves, information conditions and the institutional rules that connect one move to the next. It must also distinguish the objective interaction from each player's subjective representation of it. Two actors can inhabit the same material conflict while acting on different beliefs about the game's rules. That condition is central here.

Strategic analysis also requires attention to higher-order belief. It is insufficient that Washington knows Iran's red lines and Iran knows Washington's political constraints. Stable coordination requires each to know that the other knows, and to know that the other knows that it knows. This recursive condition is common knowledge. It can exist without trust: adversaries may distrust intentions yet coordinate when rules, signals and penalties are publicly specified and mutually observable (AUMANN, 1976).

The same structure gives game theory value for **strategic intelligence analysis and forewarning**. Once analysts specify the players, subjective games, payoffs, constraints, decision horizons and possible threshold moves, they can identify conditions under which a strategy ceases to remain optimal before the observable break occurs. Forewarning is therefore not prediction by intuition. It is conditional anticipation: if an election removes one constraint, if a second maritime chokepoint becomes available, or if mass casualties change domestic payoffs, the model indicates how the preferred strategies and equilibrium may change.

4.2 Players, strategies and purpose

A player is an actor capable of choosing among strategies while anticipating the other actor's response. A strategy is a complete rule for action across relevant contingencies, not a single isolated move. Purpose is the political end for which strategic interaction is undertaken. Military actions are instruments; they are not the terminal payoff unless destruction itself is valued. The distinction is decisive here. Iran's purpose is not to sink an American warship for its own sake. Such a strike is useful only if it improves the probability or terms of a secure political settlement. Likewise, the United States blockade is an instrument of compellence, not a self-justifying end.

4.3 Payoffs and utility

A payoff is the value a player assigns to an outcome after accounting for benefits, costs, risks and political meaning. It need not be monetary. Formal recognition, sovereignty, deterrent reputation, domestic legitimacy, freedom from attack and a leader's ability to claim victory can all enter utility. The relevant utilities can be represented schematically as follows:

$U(\text{Iran}) = \text{Formal termination} + \text{Sovereignty} + \text{Sanctions relief} + \text{Nuclear rights} + \text{Deterrent credibility} - \text{War damage} - \text{Vulnerability to renewed attack}$

$U(\text{TRUMP}) = \text{Exit} + \text{Victory narrative} + \text{Nuclear restraint} + \text{Market stability} + \text{Force protection} - \text{Continuing costs} - \text{Casualties} - \text{Visible humiliation}$

These functions reveal the central opportunity. Iran values legal form and substantive security highly; TRUMP values speed, political presentation and visible restraint highly. Because the most valued goods are not identical, the interaction is not necessarily distributive. Each can concede something relatively inexpensive to itself but valuable to the other.

4.4 Outside options, reservation values and delay

The outside option, or disagreement payoff, is what a player expects if no agreement occurs. Iran's outside option is continued resistance: economically punishing but capable of denying Washington a clean victory. TRUMP's outside option is continued coercion: militarily formidable but increasingly costly in expenditure, interceptor inventories, energy prices, casualties and domestic politics. A player accepts an agreement only if its negotiated payoff exceeds its reservation value.

Time changes bargaining power. In the RUBINSTEIN alternating-offer model, impatience reduces the share a player can secure because delay is costly (RUBINSTEIN, 1982). TRUMP's political discount rate is elevated by electoral timing, fuel prices and cumulative war costs. Iran's material suffering is severe, but its political system may possess a longer decision horizon and may value endurance as proof of sovereignty. If Iran can survive and impose bounded costs, time can improve its bargaining position even while worsening its economy.

4.5 Nash bargaining

A bargaining game begins from a simple proposition: war and coercion are costly ways of dividing a political surplus that could, in principle, be allocated by agreement. Each player compares a proposed settlement with its disagreement payoff - the expected value of continuing the conflict. The set of agreements that both prefer to disagreement is the bargaining range. Power matters because it changes that outside option, the costs of delay and the probability that threats will be carried out; it does not mechanically dictate that the militarily stronger player receives every term. The NASH bargaining solution identifies the agreement that maximises the product of each player's gain over disagreement (NASH, 1950):

Maximise: $(U_I - d_I)(U_T - d_T)$

Here U denotes the negotiated utility and d the disagreement payoff. As continued war makes TRUMP's outside option less attractive, Iran can demand more of the bargaining surplus. But if Iranian pressure produces a mass-casualty event, the political payoff from retaliation may suddenly raise Washington's willingness to escalate. Iran therefore seeks to lower TRUMP's disagreement value without activating an American preference for revenge or restoration of credibility. The warning salvo fits this logic.

This also explains why a bargain can exist without being concluded. Private information permits each player to exaggerate resolve. Delay can be used to test the opponent. Domestic audiences may punish visible concessions. Most importantly, a player can prefer the terms of an agreement yet reject the act of moving first, because first performance changes the future distribution of leverage. Bargaining failure is therefore compatible with rationality: both sides may recognise a mutually preferable destination while disagreeing about sequence, verification and who bears the risk of transition.

4.6 Game typology and the mismatch of subjective games

No single textbook game fully describes the conflict. At the objective level it is a non-zero-sum repeated bargaining game under incomplete information, nested inside a war of attrition, brinkmanship, signalling and a commitment problem. Yet those labels miss the initial source of failure: the players represented the game differently.

TRUMP's subjective game was **domination**. The term is used here as an analytic label, not as the technical claim that the United States possesses a dominant strategy in every normal-form representation. A **domination game** assumes hierarchy: the stronger player sets or revises the rules, uses negotiations to extract compliance, interprets concession as evidence that pressure works and reserves the right to reopen the bargain. Its political foundations are American exceptionalism, presumed primacy and the belief that aggregate preponderance can be converted into controllable outcomes at acceptable cost.

Iran's initial subjective game was **reciprocal bargaining**. Iran expected exchange: restraint for restraint, nuclear limits for recognition, maritime passage for blockade removal, and compliance for sanctions relief. Under this model, negotiation is not simply another rung of coercion; it is a process for creating rules that bind both sides. The Islamabad MoU briefly expressed that game. Its repudiation, and the wider record of talks coinciding with targeting and renewed force, taught Tehran that Washington might be using the bargaining process inside a domination game.

The mismatch produced predictable failure. An Iranian concession intended to activate reciprocity could be interpreted in Washington as confirmation that escalation was succeeding and that further demands would yield more. An American offer interpreted in Tehran as a binding exchange could be treated in Washington as temporary positioning. The parties therefore did not merely disagree over payoffs; they disagreed over the grammar that gave moves their meaning.

Iran's announced move from defence to offence is a strategic update. It signals that Tehran will no longer remain inside a reciprocal game that only one side observes. It does not yet mean that Iran prefers unrestricted war. Its revised game combines offensive initiative with bounded escalation: apply enough pressure to overturn the presumed hierarchy, but retain an upper limit so that an enforceable bargain remains possible (REUTERS, 2026d).

4.7 Bounded escalation and local escalation dominance

Bounded escalation is the deliberate raising of costs while preserving a ceiling below which both parties can still bargain. Escalation dominance is the ability to prevail, or to retain the more credible and advantageous option, at the next relevant rung of an escalation ladder (KAHN, 1965). The concept must be used carefully. Iran does not possess unlimited escalation dominance over the United States: Washington retains vastly greater aggregate destructive capacity, including at the nuclear level. Iran's present advantage is **local escalation dominance**. Inside the bounded Gulf theatre it can threaten ships, bases, energy flows and insurance costs at prices the United States cannot neutralise cheaply, while Washington's next steps also deepen economic, inventory and alliance costs.

Local escalation dominance rests on three elements. Iran can choose among several reversible pressure points; it can impose marginal costs without needing conventional victory; and it currently controls whether the naval contest crosses the highly salient American mass-casualty threshold. The side that can credibly move one rung higher while retaining an exit option holds the initiative. The side forced either to absorb the move or leap several rungs risks losing control.

This advantage is perishable. It disappears if Iran expends its most consequential option without producing political gain, if Washington restores depleted defensive capacity, or if electoral and institutional constraints on TRUMP recede. Iran's problem is therefore not simply how to escalate. It is how to convert temporary escalation control into rules that survive the moment in which that control is strongest.

4.8 Broken assurances, rearmament and operational deception

Iranian distrust must be situated within a longer record in which the United States and its Western partners have made diplomatic assurances, obtained an irreversible concession, and subsequently narrowed or abandoned the assurance once the balance of leverage changed. The foundational post-Cold War example arose during the negotiations over German reunification. On 9 February 1990, United States Secretary of State James BAKER told Soviet Foreign Minister Eduard SHEVARNADZE that reunification would be accompanied by "iron-clad guarantees" that NATO jurisdiction or forces would not move eastward. He then told Mikhail GORBACHEV that there would be no extension of NATO's jurisdiction "one inch to the east". Comparable security assurances were communicated by West German, British, French and NATO officials while Soviet consent to a united Germany inside NATO was being secured (NATIONAL SECURITY ARCHIVE, 2017; SHIFRINSON, 2016).

The assurance was not converted into a general treaty prohibition covering all of Eastern Europe; the final Two Plus Four settlement codified narrower military restrictions concerning the former East Germany. That legal limitation does not erase the political bargain or the reliance it induced. GORBACHEV accepted German reunification within NATO in the context of repeated representations that Western security structures would not advance eastward. NATO later enlarged through Central and Eastern Europe and, at Bucharest in 2008, declared that Ukraine and Georgia would become members. The scope of the 1990 assurance remains debated, but the strategic lesson for Moscow and Tehran is unambiguous: an oral or political undertaking that is not locked into enforceable reciprocal performance can be reinterpreted after the other party has surrendered its leverage. This is not peripheral history; it is a textbook commitment problem.

Minsk reinforced that lesson. Former German Chancellor Angela MERKEL later stated that the agreement bought Ukraine precious time, during which its defensive capacity was strengthened (ASSOCIATED PRESS, 2023). Whatever the intentions of every participant, a diplomatic instrument presented as a pathway to peace also performed a military time-buying function. Taken together, the NATO and Minsk episodes establish a rational basis for doubting that Western negotiations, pauses and agreements will necessarily be honoured according to the understanding on which the opposing party made its concession.

Israel has developed a sharper operational version of the same logic: diplomacy can be used not only to gain time, but to expose, locate and

concentrate a negotiating leadership. The NASRALLAH operation illustrates the method. A United States-French 21-day ceasefire proposal was active on 26 September 2024, and NETANYAHU travelled to New York on the stated premise of ceasefire diplomacy. Hezbollah's senior leadership then convened in its Beirut war operations room to consider the developing situation and its response. On 27 September Israel destroyed the site, killing Hassan NASRALLAH and other senior figures. Lebanon's information minister subsequently said that the ceasefire premise accompanied a decision already made to assassinate NASRALLAH (REUTERS, 2024a; 2024b; ASSOCIATED PRESS, 2025a). Diplomacy did not restrain the decapitation operation; it created the setting in which concentrated deliberation became a targetable vulnerability.

The 9 September 2025 Doha strike made the method still more explicit. Israel attacked Hamas's political leadership in Qatar while senior figures were assembled to consider a United States-backed Gaza ceasefire proposal. The senior targets survived, but five Hamas members and a Qatari security officer were killed. The object of the strike was therefore a negotiating leadership brought together by the requirement to formulate a response in a mediator state (ASSOCIATED PRESS, 2025b; REUTERS, 2025).

The argument advanced here is that TRUMP adopted this Israeli *modus operandi* against Iran. The United States maintained a diplomatic track while Iranian leaders, centred on Supreme Leader Ali KHAMENEI, had to convene and formulate their negotiating response; the subsequent joint United States-Israeli decapitation strike killed KHAMENEI and other senior officials before the diplomatic process could mature (ASSOCIATED PRESS, 2026c). The operational sequence is consistent across the NASRALLAH, Doha and KHAMENEI cases: negotiations generate communication, reveal decision rhythms and draw senior leaders into concentrated deliberation; force then exploits the exposure created by the ostensibly diplomatic process.

For game-theoretic purposes, the decisive fact is not whether every hidden instruction can be proved in a court. It is that a rational Iranian leadership, observing repeated broken assurances, the use of Minsk to gain rearmament time, and three leadership-targeting episodes embedded in active diplomacy, must assign a substantial probability to negotiation as a ruse. That belief changes the payoffs. Attendance, disclosure and leadership concentration become security concessions; disarmament or demobilisation before reciprocal performance becomes irrational. The corresponding Iranian response - dispersed authority, indirect contact, compartmentation, simultaneous implementation and retention of coercive

leverage - is not diplomatic obstinacy. It is rational adaptation to the demonstrated risk that the United States and its allies will use an agreement or negotiating process to alter the balance and then abandon the bargain.

The 8 July Ankara episode magnified that fear. The Islamabad MoU was not merely overtaken by events: TRUMP declared it over in a highly visible performance at a NATO summit, even while saying that United States negotiators could continue talking (GUARDIAN, 2026c). Symbolically, the repudiation fused diplomacy and coercion before the Western alliance. In bargaining terms, it reduced the value of future American promises and increased the premium Iran must demand for simultaneity, third-party guarantees and automatic enforcement.

4.9 Belief conversion, loyalty and commitment

HOFMEYR's model originated in research on belief conversion at the University of Cape Town and was subsequently operationalised as the Conversion Model and developed in Commitment-Led Marketing (HOFMEYR and RICE, 2001). Its conceptual value extends beyond commercial choice. Loyalty describes what an actor does at a given time; commitment describes the strength of the attachment that stabilises that conduct and resists conversion. Apparent loyalty can result from habit, fear, lack of alternatives or temporary advantage. Commitment becomes visible when an actor maintains or intensifies attachment despite material cost and credible alternatives.

The model is used here as an analytical analogy, not as a claim that consumers and wartime societies are identical. Its strategic contribution is to separate observed compliance from the latent disposition that determines whether pressure converts or hardens the target. HOFMEYR and RICE emphasise satisfaction, perceived alternatives, importance and ambivalence as drivers of conversion. Applied to interstate coercion, these become legitimacy, the perceived acceptability of capitulation, the salience of sovereignty and internal division. A population can obey without being committed; conversely, a divided society can become strongly committed to resistance when external attack raises the importance of national survival and makes the alternative appear intolerable.

THOM's catastrophe theory and ZEEMAN's applications provide a formal language for the discontinuity (THOM, 1975; ZEEMAN, 1976). In the canonical cusp, an observable response state x is governed by two control parameters, conventionally represented by a potential whose equilibria satisfy $x^3 + ax + b = 0$. Small changes normally produce small responses, but near a fold the same incremental pressure can trigger a sudden jump between stable states. Hysteresis means that reversing the pressure does

not immediately restore the previous state. The political implication is crucial: coercion may erode shallow loyalty gradually, yet strengthen commitment until a threshold is crossed; extrapolating linearly from visible hardship can therefore be badly misleading.

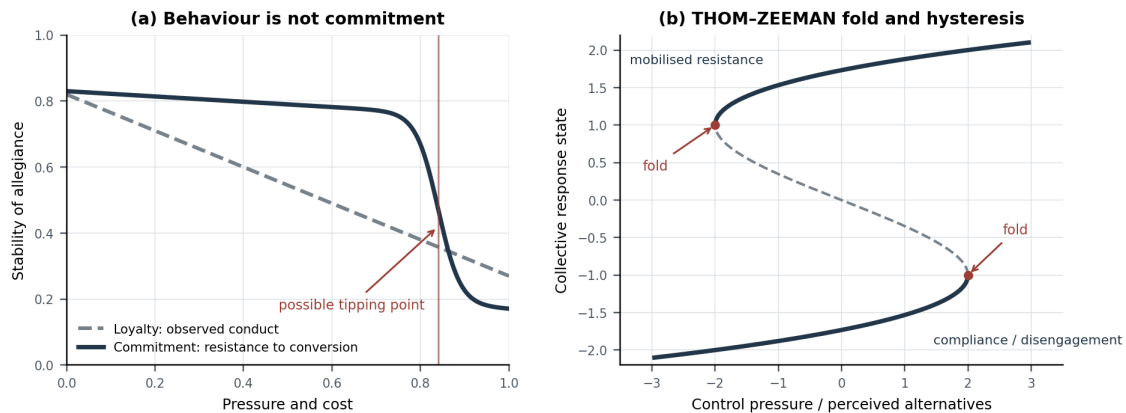


Figure 1. Loyalty, commitment and discontinuous conversion. Panel (a) distinguishes observed conduct from resistance to conversion. Panel (b) gives a schematic THOM-ZEEMAN fold: stable states can persist under changing pressure and then shift abruptly. The curves are conceptual, not estimated from conflict data. Adapted from HOFMEYR and RICE (2001), THOM (1975) and ZEEMAN (1976).

5. Player One: Iran

5.1 Strategic purpose

Iran's minimum strategic purpose is survival as a sovereign state able to determine its internal order and retain sufficient deterrent capacity to prevent renewed attack. Its preferred end-state adds formal termination of hostilities, removal of the blockade, withdrawal of nearby hostile forces, restoration of oil exports, release of frozen assets, sanctions termination, reconstruction and recognition of a civilian nuclear programme subject to an agreed non-weapon and verification framework.

These are not merely inferred aspirations. The 17 June Islamabad MoU provided for an immediate and permanent termination of military operations; mutual respect for sovereignty and territorial integrity; phased removal of the naval blockade; withdrawal of United States forces from Iran's proximity after a final deal; safe commercial passage; at least USD 300 billion in reconstruction and development; sanctions termination; immediate oil-export waivers; usable frozen funds; a non-weapon undertaking; IAEA-supervised treatment of enriched material; discussion rather than prior surrender of enrichment; monitoring; and endorsement of the final deal by a binding Security Council resolution (WATSON and BRYSON, 2026). Relative to the coercive status quo, this gave Iran most of what it wanted at that stage. Tehran conceded a non-weapon undertaking, stockpile

treatment and maritime passage, but preserved sovereignty, civilian nuclear negotiations and a path to economic normalisation.

5.2 Iran's preference ordering

First preference: a formal, reciprocal and enforceable settlement substantially restoring the Islamabad framework while correcting its enforcement defects. Second preference: prolonged calibrated resistance that prevents capitulation and continually raises American costs. Third preference: an informal or incomplete ceasefire that provides temporary relief but leaves the blockade, sanctions or renewed-attack option intact. Worst outcome: unilateral demobilisation or disarmament without credible protection against renewed attack.

5.3 Iran's shift to bounded offence and the purpose of the naval warning

Iran's announced shift from defence to offence changed the posture of the game. On 17 August a senior Iranian official warned that Tehran would conduct a timely and precise attack to break the naval blockade if the United States failed to implement the June agreement, explaining that Iran was losing confidence in diplomacy and moving from defence to offence (REUTERS, 2026d). The 5 September missiles followed that warning and should therefore be read as part of a declared effort to recover initiative.

On the stipulated assumption of deliberate non-impact, the attack was not a failed attempt at destruction. It was a **warning with a precise purpose**: preserve the bounded character of the conflict while demonstrating that the bound exists because Iran is choosing it. The threatened targets carried exceptional political value; the absence of American deaths denied TRUMP the strongest domestic trigger for unrestricted retaliation; and the retention of a more destructive option preserved Iranian leverage for the next move.

The warning therefore supported local escalation dominance. Iran demonstrated access to the next rung without exhausting it, imposed defensive and economic costs, and forced Washington to respond inside the same bounded grammar. The United States attack on Iranian oil carriers punished the challenge but did not immediately become an unrestricted campaign. Each side communicated resolve while revealing that it still valued control.

A destructive ship strike might create greater immediate physical loss, but capability does not establish strategic utility. Iran's objective is not destruction for its own sake. A naval attack improves Iran's payoff only if it produces a more secure political outcome than continued bounded pressure. If it instead makes American retaliation domestically rewarding,

fragments external support and removes the possibility of a face-saving exit, it converts tactical success into strategic loss.

5.4 The mass-casualty ship decision and the problem of timing

The next decision has three parts. First, should Iran attempt a ship attack likely to cause mass casualties and generate graphic global imagery? Second, if punishment of TRUMP and the United States were the selected payoff, could any timing maximise that punishment? Third, does waiting until after the midterm elections risk allowing TRUMP to escalate without the restraint that electoral exposure presently imposes?

For a settlement-seeking Iran, the expected utility of a mass-casualty attack is presently negative. It would change the American payoff structure. Retaliation that is now costly and politically contested could become popular, compromise could become humiliating, and the restoration of credibility could become an independent objective. Graphic imagery would multiply those audience effects. The attack could also collapse the distinction between Iran's opposition to the blockade and a broader war against the United States, weakening the diplomatic coalition Tehran needs.

The timing question is therefore endogenous, not calendrical. **No date is intrinsically optimal.** While the interaction remains a bounded bargaining game, a mass-casualty strike is unlikely to maximise Iran's political payoff at any time. If Washington first crosses into an unbounded campaign threatening state or regime survival, the strategic context changes: a destructive ship attack would then be part of an unrestricted warfighting and retaliation game, not a calibrated bargaining signal. The question would no longer be how to improve a bargain by punishment, but how to survive and impose costs in a game whose previous ceiling had already failed.

Electoral timing sharpens rather than resolves the dilemma. Before the 3 November midterms, a mass-casualty event could produce a rally-around-the-flag effect, displace economic criticism and allow TRUMP to recast a costly war as national vengeance. After the midterms, the immediate electoral constraint falls away and TRUMP may possess greater freedom to escalate. Iran therefore does face a closing leverage window, but the rational use of that window is not necessarily to expend the highest rung. It is to intensify reversible costs, force rapid negotiation, secure simultaneous performance and lock enforcement into institutions before TRUMP's political discount rate changes.

The fear of future unbounded escalation creates a use-it-or-lose-it temptation. That temptation should be managed by retaining survivable

capability, dispersing authority, refusing irreversible concessions, publishing clear conditional thresholds and requiring automatic consequences for breach. Present leverage is best converted into a durable rule system. Once expended in a spectacular casualty event, it cannot be credibly threatened again and may give the opponent the very political permission he presently lacks.

5.5 Iran's vulnerabilities

Iran cannot assume that time works only in its favour. War damage, sanctions, restricted exports and domestic economic stress reduce its disagreement payoff. Maritime attacks may alienate neutral importers. A technical error or unauthorised action could produce American casualties. Internal factions may also value ideological resolve differently from economic relief. Iran must therefore impose costs at a rate sufficient to alter Washington's calculation, but below the rate that destroys the settlement option.

5.6 Mobilisation as evidence of commitment

The unusually large public mobilisation following the killing of Supreme Leader Ali KHAMENEI is strategically significant. Millions reportedly joined the Tehran procession, with further mass participation in Qom and thousands in Najaf as the cortege crossed into Iraq (GUARDIAN, 2026a; REUTERS, 2026c). Turnout at a state funeral does not prove unanimous approval of the government, erase earlier anti-government protest or permit a precise estimate of regime support. It does, however, constitute observable behaviour under conditions of grief, danger and external attack. In HOFMEYR's terms, the evidentiary question is whether this was mere ritual loyalty or costly resistance to conversion.

The better inference is narrower but important: the killing appears to have activated a broad layer of national and transnational commitment to sovereignty and resistance, including among people whose ordinary relationship to the Iranian state may be ambivalent. The Iraqi turnout further suggests that the symbolic constituency exceeded Iran's formal political boundaries. In the THOM-ZEEMAN interpretation, external decapitation pressure may have moved the system discontinuously toward mobilised resistance rather than smooth compliance. This raises Iran's perceived capacity to endure and makes the assumption that greater pressure must produce proportionately greater concession unsafe.

6. Player Two: the TRUMP administration

6.1 Strategic purpose

TRUMP's revealed preference is not simply military victory. It is an exit that can be narrated as the successful completion of American objectives. The public formula is likely to include prevention of an Iranian nuclear weapon, protection of United States forces and commercial navigation, visible Iranian restraint and the claim that force compelled Tehran to negotiate. A rapid reduction in war costs and energy-price pressure adds substantial domestic value. On 16 September TRUMP said that he hoped the parties were approaching the end of the war and again asserted that Iran wanted an agreement (CBS NEWS, 2026a).

The material incentives for exit have grown. The CBO estimated continuing costs of USD 2-3 billion per month depending on intensity and warned that interceptor expenditure would leave reduced inventories for several years. The Department of Defense Inspector General separately reported USD 33.4 billion in costs through late June, including USD 22.3 billion in expended munitions, while a later United States military estimate placed the cost at USD 43.6 billion by 3 September (CBO, 2026; DOD OIG, 2026; ASSOCIATED PRESS, 2026b). These costs interact with record diesel prices, rising inflation, higher interest rates and electoral time. Each transmits the war into household budgets and financing costs, directly undermining the economic performance TRUMP needs to defend.

6.2 TRUMP's domination game and the falsification of its premises

TRUMP appears to believe that the United States can play a domination game because exceptional status, global primacy and military preponderance allow Washington to set the terms. A domination strategy requires more than the ability to destroy. It requires relevant capability sufficient to compel the desired political outcome, acceptable costs, a credible willingness to continue, and an opponent whose resistance will collapse before the coercer's coalition and resources do.

The specific premises required for that strategy have already been falsified by observed outcomes. Six months of war have not produced Iranian capitulation or secure maritime control. By 1 August direct Department of Defense costs had reached approximately USD 38 billion, with continuing monthly costs of USD 2-3 billion; later military estimates placed costs at USD 43.6 billion by 3 September. Long-range precision and missile-defence inventories have been severely depleted, American bases and naval units remain vulnerable, and the war transmits into inflation,

diesel prices, interest rates and domestic constitutional conflict (CBO, 2026; ASSOCIATED PRESS, 2026b).

This is not an argument that the United States lacks destructive power. It is an argument about **purpose-specific capability**. The ability to strike hundreds of targets is not the same as the capability to compel a sovereign adversary to accept a durable subordinate settlement at tolerable cost. Preponderance measured in platforms or aggregate expenditure does not automatically become political control. TRUMP's repeated failure follows from treating aggregate superiority as though it were a dominant strategy rather than one input into a relational contest.

The regional support structure is also under strain. The Gulf allies are not uniformly insolvent and their financial buffers differ greatly, but none can be treated as a costless, unlimited extension of American power. The IMF's July 2026 update projected sharp 2026 contractions in Iraq, Kuwait and Qatar because of disrupted energy output and transport, with Saudi growth reduced despite more diversified export routes; the April assessment also identified Bahrain and other Hormuz-exposed producers as heavily affected (IMF, 2026a; 2026b). Saudi Arabia entered the year projecting a SAR 165 billion deficit while carrying the fiscal burden of diversification, defence and infrastructure (SAUDI ARABIA MINISTRY OF FINANCE, 2025). War-risk insurance, aviation disruption, infrastructure vulnerability and renewed Houthi pressure add costs even where higher oil prices provide revenue offsets.

Iran's present position is consequently stronger than a simple comparison of defence budgets suggests. It does not need to defeat American power in the abstract. It must prevent that power from delivering TRUMP's desired payoff at an acceptable price. So long as Iran can survive, retain the next bounded escalation option and exploit the coalition's economic exposure, the domination game cannot reach its assumed equilibrium.

6.3 TRUMP's preference ordering

First preference: rapid settlement with verifiable Iranian restraint and a clear American victory narrative. Second preference: an ambiguous ceasefire permitting operational withdrawal without formal acknowledgement of concessions. Third preference: continued limited coercion that avoids a visibly adverse settlement but accumulates cost. Worst outcome: withdrawal after a conspicuous American military loss, or uncontrolled escalation into a war whose price and duration TRUMP cannot control.

6.4 The two-level game

TRUMP bargains simultaneously with Iran and with a domestic coalition of voters, Congress, military institutions, donors, media and allied governments. PUTNAM's two-level-game logic is therefore central: a settlement must fall within an international bargaining range and a domestic ratification range (PUTNAM, 1988). TRUMP may privately prefer terms that lower American costs, yet reject wording that appears to validate an Iranian victory. Conversely, he may accept substantively extensive concessions if they are packaged as proof that his coercive policy succeeded.

The domestic constraint is no longer limited to midterm electoral loss. On 15 September the House passed, for the third time, a War Powers measure seeking to terminate unauthorised hostilities; all Democrats and seven Republicans supported it (ASSOCIATED PRESS, 2026a). Republican Representative Thomas MASSIE also introduced articles of impeachment against Defense Secretary Pete HEGSETH, alleging unlawful continuation of the Iran war and other abuses (GUARDIAN, 2026b). A separate impeachment resolution against TRUMP was defeated in the House the same week (CBS NEWS, 2026b). Defeat means that presidential removal is not imminent, but the repeated use of impeachment and war-powers mechanisms makes the risk politically material, particularly if the midterms change control of the House. Continued war therefore raises not only TRUMP's electoral costs but also the exposure of both TRUMP and HEGSETH to investigation, compulsory hearings and renewed impeachment proceedings.

This visible institutional fragmentation contrasts with Iran's funeral mobilisation. The comparison should not be romanticised: street turnout and legislative votes measure different phenomena, and neither country is internally homogeneous. Nevertheless, the signals point in opposite directions. Iran displayed costly collective mobilisation after leadership decapitation; the United States displayed widening disagreement over legal authority, duration and responsibility for the war. In bargaining terms, that divergence strengthens Tehran's belief that its commitment is more durable than Washington's coalition for continued coercion.

6.5 The American credibility problem

Iran's distrust is not abstract. TRUMP withdrew the United States from the 2015 nuclear agreement during his first term. On 17 June 2026 he signed the Islamabad MoU, which immediately entered into effect and promised blockade removal and a permanent end to operations. On 8 July, after United States strikes on more than 80 Iranian targets, he declared the ceasefire over at the NATO summit in Ankara and said he no longer wished to deal with Iran, although United States negotiators could keep talking (CBS NEWS, 2026c; GUARDIAN, 2026c). The dramatic setting mattered: in effect, TRUMP theatrically tore up a recent bargain before the principal Western military alliance. The current sanctions architecture is also distributed across executive orders, statutes and regulations, meaning that a presidential undertaking cannot automatically terminate every restriction (OFAC, 2026). A bargain resting solely on personal assurance is therefore structurally weak.

7. Applying the model to the conflict

7.1 Two subjective games and their collision

At the beginning of the conflict, TRUMP and Iran assigned different meanings to the same moves. In TRUMP's domination game, negotiation was one instrument among blockade, sanctions and force; an Iranian concession signalled that pressure should continue. In Iran's reciprocal game, a concession was performance offered in exchange for counter-performance; an American signature signalled that the resulting rule would bind both parties. The Islamabad MoU briefly concealed this mismatch because both could sign the same text while holding different beliefs about what the text did.

	IRAN: reciprocal formal settlement	IRAN: continued resistance
UNITED STATES: formal exit settlement	(4, 4) Pareto-improving equilibrium if rules are enforced	(0, 3) U.S. exits; Iran retains pressure
UNITED STATES: continued coercion	(3, 0) Iran complies first and becomes vulnerable	(1, 2) Costly attritional equilibrium

Figure 2. Illustrative ordinal payoff matrix. Payoffs are shown as (TRUMP, Iran), with 4 the most preferred outcome in the simplified choice set. The figures rank outcomes; they do not measure utility cardinally.

The upper-left outcome is jointly superior only if both players recognise the same rules and enforcement conditions. Without that common game, each fears the asymmetric cell: Iran fears complying while Washington resumes coercion; Washington says it fears exiting while Iran retains or renews

pressure. Mutual attrition remains inferior but stable because neither must expose itself first.

The purpose of an exit design is therefore not to persuade either actor to become trusting. It is to make the meaning of each move publicly observable, reciprocal and enforceable, so that each knows the other's payoffs and knows that the other possesses the same knowledge. The settlement must replace incompatible subjective games with one institutional game.

7.2 The warning salvo as a bounded-dominance signal

Cheap threats convey little because both strong and weak actors can issue them. A costly signal is more informative when an actor lacking capability or resolve would find it difficult to imitate. On the stipulated assumption of a deliberate miss, firing ballistic missiles toward an aircraft carrier and a guided-missile destroyer exposed Iranian assets to retaliation and elicited an American attack on oil carriers. It was therefore not costless theatre, but its controlled non-impact bounded the price of the signal. Iran separated itself from a player unwilling to risk confrontation while avoiding the full cost attached to sinking a ship.

The signal carried three messages. The military message was that high-value naval units are targetable. The political message was that restraint remains conditional rather than permanent. The bargaining message was that the current level of American coercion will not compel unilateral Iranian submission. The United States response - punishment of oil carriers rather than an immediate unrestricted campaign - likewise signalled resolve while preserving limits. Each side answered within the grammar of controlled escalation.

7.3 Why a mass-casualty ship attack changes the game

The presently bounded interaction survives because each side still assigns negative expected utility to the next uncontrolled rung. For Iran, the immediate gain from sinking a major warship is outweighed by the probability that American deaths transform punishment and regime survival into Washington's preferred objectives. For TRUMP, a decisive campaign remains unattractive because of uncertain duration, munitions depletion, market disruption, vulnerable regional bases and political ownership of a widening war.

TRUMP also presently prefers bounded escalation. It allows him to perform dominance, sustain the blockade, impose visible punishment and postpone acknowledgement that coercion has failed, while avoiding the full liabilities of unrestricted war. Those liabilities include depleted precision and

air-defence inventories, force overextension, vulnerable regional bases and ships, electoral exposure, congressional contestation, inflationary pressure and the risk that Gulf partners cannot absorb a much larger regional shock. Bounded escalation is therefore not an Iranian rule imposed on a willing American escalator. It is the current disagreement equilibrium preferred by both sides relative to the uncontrolled next rung, even though each seeks to alter its terms.

A casualty-producing ship strike would not be simply a larger version of the 5 September warning. It would change the game type by altering American domestic payoffs and narrowing the space for reciprocal settlement. Iran would exchange an unspent threat - which currently disciplines American calculations - for a realised event that could unify those calculations behind retaliation. The distinction between capability and use is therefore itself an asset.

7.4 Common knowledge, agreed rules and control of spoilers

Returning the parties to one game does not require confidence in goodwill. It requires explicit rules governing permissible force, prohibited preparation, verification, sequence, breach and remedy. Each side must understand the other's payoff ordering and red lines; each must also know that this understanding is reciprocal. Public milestones, observable standstill measures and automatic consequences can create common knowledge even where private intentions remain hostile.

Spoilers must be treated as part of the rule system. Israel, aligned armed movements, Gulf actors, commanders acting without authorisation and domestic political factions can each create an incident that changes the principals' payoffs. The agreement should therefore identify attribution procedures, consultation periods, evidentiary standards and proportional remedies before retaliation. No third party should be able to generate an automatic transition from bounded peace to unbounded war through an unverified incident.

The decisive transformation is from personal discretion to rule-bound reciprocity. TRUMP must not be able to reinterpret or repudiate performance unilaterally; Iran must not be able to pocket relief while maintaining deniable attacks. Rules must bind through simultaneous action, reversibility and costs that activate upon verified defection.

7.5 The Islamabad MoU as evidence of a bargaining zone

The 17 June Islamabad MoU is the strongest evidence against a purely zero-sum interpretation. It exchanged goods of different value to the parties. Iran received or was promised formal termination, sovereignty guarantees, blockade removal, sanctions relief, usable funds, oil exports and reconstruction. The United States received safe passage, a non-weapon commitment, treatment of enriched material, monitoring and a 60-day path to a final nuclear framework. Both could claim attainment of core objectives, although the immediate substantive balance gave Iran most of what it had sought at that stage.

The MoU did not collapse through an impersonal failure of implementation. It was politically repudiated. On 8 July in Ankara, TRUMP declared the ceasefire over in an angry NATO-summit performance after Iranian attacks on commercial vessels and United States strikes around Hormuz (GUARDIAN, 2026c). Whatever the contested responsibility for the triggering incidents, the public act revealed that the American executive could terminate a recently activated bargain unilaterally and theatrically. TRUMP's earlier statement that bombing could resume if a final deal was not completed in 60 days had already qualified the meaning of permanent termination. The Islamabad MoU therefore established the settlement range but its repudiation worsened the enforcement and credible-commitment problem.

The sequence also changes the interpretation of bargaining risk. Iran cannot regard negotiation as a neutral interval. If talks may buy the United States and its allies time to rearm, collect intelligence or locate concentrated leadership, then Iranian compliance before final guarantees can reduce rather than increase its security. A future bargain must therefore prevent operational exploitation of the negotiating period: no new deployments, no targeting activity under cover of talks, dispersed or remote delegations, verified military standstill and automatic suspension of Iranian concessions upon breach.

7.6 Bargaining leverage and changing disagreement values

Aggregate power and bargaining power are not identical. The

United States can destroy more targets, but Iran can influence the price of shipping, require expensive interceptions, threaten dispersed bases and prolong uncertainty. Iran's leverage derives from the capacity to impose marginal costs and deny closure. TRUMP's leverage derives from destructive capability, the blockade, sanctions and control over licences and frozen assets.

The side whose disagreement value deteriorates faster becomes more impatient. Current evidence suggests that the American disagreement payoff is declining through direct expenditure, interceptor scarcity, diesel and inflation effects, higher interest rates, midterm pressure and widening constitutional contestation. Iran's disagreement payoff is also declining through economic damage and isolation, but public mobilisation has supplied a counter-signal of resistance commitment. The decisive variable is not which side suffers more in absolute terms, but which leadership concludes first that the next period of war produces less value than a negotiated compromise.

7.7 The face-saving exchange

The highest-value bargain is asymmetric across dimensions. Iran can concede rhetorical credit at low substantive cost. It can permit TRUMP to say that American force secured a non-weapon pledge, protected navigation and brought forces home. TRUMP can concede legal formality and staged economic relief at a lower political cost if those measures are presented as components of a verified peace rather than tribute. The efficient exchange is therefore: Iran sells narrative cheaply and demands substance dearly; TRUMP sells legal formality and buys exit, verification and optics.

This outcome can be described analytically as an Iranian substantive victory paired with a TRUMPian rhetorical victory. It is not deception in the narrow sense. Political agreements routinely permit different audiences to value different components. The arrangement fails only if either player insists on possessing both the substance and the public monopoly of victory.

8. Designing a self-enforcing exit

A durable exit requires more than a ceasefire announcement. The following architecture converts simultaneous vulnerability into phased reciprocity.

8.1 One game without trust

The objective is not reconciliation and it is not a higher level of interpersonal trust. It is convergence on one enforceable game. Both parties must agree what counts as compliance, what counts as escalation, which actions are prohibited during negotiations, which institution determines breach and what proportionate consequence follows. When these rules are public and observable, each side can calculate the other's payoffs without assuming benevolence.

The minimum rule set should establish: a verified military standstill during talks; simultaneous first performance; no targeting or leadership

concentration under cover of diplomacy; no reinforcement of the blockade; specified nuclear and maritime milestones; independent attribution of alleged violations; a mandatory consultation interval before retaliation; automatic suspension rather than wholesale destruction of the bargain after limited breach; and explicit constraints on third-party spoilers.

8.2 Formal instrument

The parties should conclude a formal end-of-hostilities agreement, not merely an operational pause. It should affirm sovereignty, territorial integrity, non-interference and non-initiation of force. Security Council endorsement, already contemplated in the Islamabad MoU, would raise reputational and legal costs for breach. Pakistan, Oman and Qatar could serve as mediators and custodians of implementation records, with additional guarantors acceptable to both parties.

8.3 Simultaneous first moves

Neither side should be required to make the first strategically irreversible concession. On Day 0, attacks cease; the United States suspends new interdictions and activates specified oil and banking waivers; Iran suspends attacks on shipping and United States forces; and an agreed monitoring cell begins operation. Physical blockade removal, restoration of commercial traffic and force repositioning proceed on an observable timetable. A standstill clause must prohibit reinforcement, targeting preparation and exploitation of diplomatic contacts for intelligence collection. Senior political participation should remain remote or dispersed until that standstill is independently verified.

8.4 Reversible phases and escrow

Frozen funds and reconstruction commitments can be placed in escrow and released against verified milestones. Nuclear material can be down-blended or placed under monitored control in parallel with sanctions relief. Reversibility reduces the fear that compliance cannot be recovered after defection. The response to a violation should be proportionate and specified, not an automatic leap back to total war.

8.5 Nuclear settlement

Iran provides an explicit non-weapon undertaking, enhanced verification and agreed limits on stockpiles. In return, the final agreement recognises a bounded civilian nuclear programme rather than demanding politically impossible capitulation. The precise enrichment formula is negotiable; the strategic requirement is that verification provides TRUMP a visible security gain while recognition provides Iran a sovereign gain.

8.6 Maritime and regional clauses

Iran guarantees safe passage under an agreed Strait of Hormuz mechanism consistent with applicable law and coastal-state rights. The United States ends the blockade and does not use escort arrangements as a continuing instrument of coercion. A regional clause should cover attacks by aligned actors and prohibit facilitation of renewed attacks by third parties. Because outside actors can destroy the bargain, the agreement needs consultation and attribution procedures before retaliation.

8.7 Domestic durability

The American side must identify which commitments can be implemented by executive waiver, which require congressional action and which require Security Council or international mechanisms. Iran must specify which organs bind the armed forces and aligned formations. Ambiguity over legal authority should be treated as a design problem, not postponed. A promise that the promisor lacks power to perform is not a credible commitment.

9. Assessment of the most likely outcome

9.1 The midterm horizon, Yemen and Iran's closing leverage window

The 3 November 2026 midterm elections create a finite bargaining horizon. Before the vote, war expenditure, fuel prices, casualties, legal authority and congressional opposition directly affect TRUMP's coalition. Iran's bounded pressure therefore has unusually high marginal political effect. After the election, especially if TRUMP's party performs better than expected or retains sufficient institutional control, the immediate electoral penalty falls and the administration may reprice escalation.

Iran consequently faces a **closing leverage window**. If TRUMP intends a larger campaign after the midterms, Tehran could lose the political leverage it presently derives from American electoral vulnerability even while retaining military capabilities. But this does not make a pre-election mass-casualty attack rational. Such an attack could itself neutralise the electoral constraint by creating national solidarity around retaliation. The optimal use of the window is to intensify reversible pressure, publish credible thresholds and force the conversion of the June bargaining zone into simultaneous, externally witnessed and legally durable performance before the election changes Washington's discount rate.

Developments in Yemen are therefore critical. In September ANSAR ALLAH - commonly described as the Houthis - seized Mocha, advanced along Yemen's Red Sea coastline and reached the Hanish islands, placing

forces along the approaches to the Bab el-Mandeb. REUTERS assessed that these gains strengthened Iran's hand by creating greater leverage over a second major maritime chokepoint opposite Hormuz and by threatening the Red Sea route on which Saudi oil exports increasingly depend (REUTERS, 2026e; 2026f). ANSAR ALLAH also intensified missile and drone attacks on Saudi infrastructure and shipping. These are documented movements and attacks; the proposition that they form part of preparation for a possible unrestricted American escalation is an **analytic inference**, not a demonstrated command relationship.

That inference is strategically plausible. ANSAR ALLAH's current **strategic positioning** creates a survivable regional option before the game changes. If Washington escalates without restraint after the elections, pressure could be imposed simultaneously at Hormuz and Bab el-Mandeb while Saudi ports, pipelines, airports and energy infrastructure remain exposed. The resulting American risk is not limited to a mass-casualty military event. A two-chokepoint disruption could transmit through oil and diesel prices, freight, war-risk insurance, inflation, interest rates, Treasury financing conditions and already stretched defence expenditure. For the Gulf allies it could impair export routes, fiscal revenues, aviation, infrastructure and sovereign diversification programmes.

In a highly leveraged and financialised economy, those effects may be nonlinear. A further regional shock need not be the largest individual loss to become the **final straw** that changes market expectations, fiscal credibility or political tolerance. The claim is not that collapse is certain; it is a forewarning hypothesis. The game-theoretic model identifies the combination to monitor: removal of the electoral constraint, continued American munitions depletion, consolidation of ANSAR ALLAH control near Bab el-Mandeb, simultaneous pressure on both maritime corridors and renewed attacks on Gulf energy infrastructure. Together they could change TRUMP's and Iran's payoff orderings more sharply than any element considered alone.

The negotiating deadline should therefore be tied to implementation, not to trust. Iran should preserve rather than surrender survivable retaliatory capacity until blockade removal, sanctions relief and the military standstill are observable. Washington should receive equally observable Iranian restraint and nuclear verification. The objective is to lock both sides into the same rule structure while the cost of continued disagreement is highest for TRUMP.

9.2 Most likely: prolonged calibrated bargaining followed by a revised formal framework

The most likely near-term outcome is continued bounded coercion rather than immediate peace or decisive escalation. Iran will probably continue to demonstrate the capacity to threaten ships, bases and energy flows while seeking to avoid a mass-casualty attack on a major American platform. The United States will probably continue selective retaliation, escorts, economic pressure and public claims of dominance while avoiding the costs of an unrestricted campaign. Both players will use controlled violence to improve their positions before returning to a framework that resembles the Islamabad MoU, but Iran will demand stronger protection against unilateral repudiation and operational exploitation of talks.

The most likely eventual exit, if achieved, is a revised formal agreement with stronger sequencing and guarantees. Its substantive centre will be termination of hostilities, removal of the blockade, staged withdrawal, restoration of Iranian exports and assets, sanctions relief, maritime security, nuclear verification and a recognised non-weapon civilian programme. Its political presentation in Washington will emphasise that TRUMP prevented a nuclear weapon, restored navigation, protected American forces and ended the war. Tehran will emphasise sovereignty, resistance, removal of coercion and formal recognition.

This outcome is most likely because it alone delivers the principal payoff of both players. An informal ceasefire gives TRUMP a quick exit but fails to give Iran security against renewed attack. Continued attrition preserves leverage but remains costly. Decisive escalation risks outcomes neither leadership can reliably control. A formal, reciprocal and narratively flexible settlement is therefore the only outcome located clearly above both reservation values.

9.3 Second most likely: unstable armed ceasefire

If the parties cannot solve legal authority and enforcement, they may settle temporarily for an ambiguous armed ceasefire. United States operations would diminish, Iranian attacks would pause, but the blockade or substantial sanctions would remain, forces would stay positioned and each side would retain rapid-escalation options. This would be politically convenient but strategically unstable. It would reproduce the defects that destroyed the June arrangement.

9.4 Lower probability but highest danger: casualty-driven escalation

The principal pathway to major escalation is not a deliberate decision by both players to seek total war. It is a threshold event: a missile destroys a high-value vessel, a base strike kills many Americans, a United States attack threatens Iranian regime survival, or a third party engineers an incident that collapses restraint. Such an event changes payoffs by making retaliation domestically rewarding and compromise humiliating. The danger is therefore greatest where signalling, technical uncertainty and multiple armed actors intersect.

9.5 Indicators that would change the assessment

- Iran shifts from demonstrative attacks to sustained saturation attacks against American capital ships or concentrates forces for a physical breach of the blockade.
- The United States moves from selective retaliation to systematic destruction of leadership, nuclear command, ports or regime-survival assets.
- Verified negotiations reopen around the Islamabad MoU, especially blockade removal, sanctions sequencing, a military standstill and Security Council endorsement.
- Washington obtains congressional authority or a legally durable sanctions-relief mechanism, improving the credibility of performance.
- Oman, Qatar or another guarantor establishes a monitored reciprocal implementation channel accepted by both players.
- A mass-casualty incident alters domestic audience costs and makes restraint politically more expensive than escalation.

10. Conclusion

The conflict began with a **mismatch of games**. TRUMP played a domination game grounded in exceptionalism, primacy and the assumption that American preponderance could compel unilateral Iranian compliance. Iran initially played a **reciprocal bargaining game** in which negotiation and agreement were expected to generate obligations on both sides. The failure was therefore deeper than incompatible demands: the players did not share the rules by which a concession, a signature or a pause acquired meaning.

The premises necessary for TRUMP's domination strategy have been falsified in the relevant, purpose-specific sense. The United States retains enormous destructive power, but it has not converted that power into Iranian capitulation, secure maritime control or a low-cost political outcome. Costs, depleted inventories, vulnerable regional assets, market effects, congressional resistance and strain across Gulf partners show that aggregate superiority is not a dominant strategy. Iran need not defeat the United States; it need only deny the cheap and controllable victory on which the domination game depends.

Iran has accordingly changed games. Its announced shift from defence to offence does not yet amount to unrestricted escalation. Tehran is using **bounded escalation** to recover initiative, impose costs and preserve **local escalation dominance** within the Gulf theatre. On the stipulated assumption of deliberate non-impact, the 5 September attack on two American naval vessels was a warning with a purpose: it demonstrated that Iran could reach the next rung, made American defence more expensive and retained the more destructive option without giving TRUMP a mass-casualty event around which to mobilise unrestricted retaliation.

TRUMP also presently prefers the bounded game. It permits coercion, blockade and the performance of dominance without immediately paying the much higher price of unrestricted war. Munitions depletion, military overextension, vulnerable forces, the midterm elections, market effects, congressional opposition and the exposure of Gulf partners all constrain him. The danger is temporal: those constraints do not remain constant, and after the elections TRUMP may decide that unrestricted escalation has become politically tolerable.

A mass-casualty ship strike would therefore be a categorical, not merely quantitative, change. Graphic American losses could convert retaliation from a costly choice into a domestic political reward, destroy the face-saving space required for exit and exchange an unspent Iranian threat for a realised event that cannot be threatened again. No calendar date makes that choice intrinsically optimal. While the bounded bargaining game

survives, the strike is strategically inferior to retaining the capability. If Washington first crosses into an unbounded campaign threatening Iranian state survival, the interaction becomes a different warfighting game and the prior bargaining calculus no longer applies.

The midterm horizon therefore creates urgency. TRUMP may be more constrained before 3 November than after it; Iran could lose part of its present political leverage if it waits. Yet a spectacular pre-election attack could rescue TRUMP by producing a rally-around-the-flag effect. Iran's rational course is therefore to spend the window on reversible pressure and institutional conversion: force simultaneous implementation, preserve survivable deterrence until American performance is observable, and bind any settlement through external witnessing, automatic consequences and legal authority.

Yemen supplies the most important current forewarning indicator. ANSAR ALLAH's gains at Mocha, along the Red Sea coast and near the Bab el-Mandeb can be read as strategic positioning for a game that may become unrestricted. If that threshold is crossed, the risk to the United States is not only mass casualties. Simultaneous disruption at two global energy chokepoints could become a nonlinear shock - potentially the final straw - for a debt-heavy, financialised American economy and for Gulf allies already carrying conflict, fiscal, infrastructure and diversification burdens. This is a conditional assessment, not a claim that collapse or centralised Iranian direction has been proved.

The route back is not higher trust. It is one agreed game. **Bounded escalation has preserved a political and strategic space for negotiation despite repeated incentives and provocations to widen the war. Iran's newly transmitted conditions make that possibility concrete, but not self-executing.** Each side must understand the other's payoffs, thresholds and reservation values; each must know that the other possesses the same understanding. Compliance, escalation, verification, breach and remedy must be public enough to become common knowledge. **Spoilers - NETANYAHU in particular - must be contained** through attribution procedures and mandatory consultation so that an outside actor cannot manufacture an automatic slide into unbounded war.

The strategic formula is therefore revised: Iranian local escalation leverage must be converted into common rules before it is either expended or eroded. Iran should sell narrative cheaply, preserve coercive capability until reciprocal performance is visible and demand substantive, enforceable security. TRUMP can still obtain speed, withdrawal, verified nuclear restraint, protected navigation and a victory narrative. But the domination game must end. **A negotiated settlement between the U.S. and Iran remains attainable - on the assumption that both sides enter the same rule-bound game and neither retains the unilateral right to change its rules after the other has complied.** This illustrates why identifying what makes a game strategic, when its payoff structure changes, and how those changes can be forewarned is indispensable to strategic intelligence analysis.

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