Implications of the 2026 Strait of Hormuz Closure

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Background and scale of the crisis

On 28 February 2026 Iranian forces began Operation Epic Fury, launching drone and missile strikes against Israeli and U.S. assets. In response, the U.S. and Israel attacked Iranian targets, prompting Iran's Revolutionary Guard Corps to declare that the Strait of Hormuz – a 30milewide waterway through which roughly 20 % of globally traded oil and almost the same share of liquefied natural gas normally pass – was unsafe for commercial shipping. Insurers withdrew coverage and maritime tracking firms reported that ship traffic fell by 70 % within a day. By early March the strait was effectively closed to vessels from the U.S. and Israel, causing tankers and container ships to anchor outside the Gulf and divert around Africa's Cape of Good Hope, adding 2–3 weeks to voyages and raising costs by over US$250 000 per trip.

The immediate effect was a jump in energy prices: Brent crude rose over 15 % in the first trading session after the closure and climbed above US$100 a barrel in the weeks that followed. Warrisk insurance premiums for ships transiting the Gulf rose from 0.02 % – 0.05 % of a vessel's value to 0.5 % – 1 %, implying additional costs of US$600 000–1.2 million on a US$120 million tanker. The conflict also disrupted onethird of the world's fertiliser trade, 30 % of jetfuel supply and critical container hubs such as Dubai's Jebel Ali port.

A complete closure removes about 20 million barrels per day (≈20 % of global oil supply) and that pipeline alternatives can move only 3.5–5.5 million bpd. It noted that emergency reserves could cushion the shock for 1–3 months but that sustained closures would push oil prices toward US$200 per barrel and shrink world GDP growth below 2%. The current analysis builds on that baseline and avoids repeating those arguments.

Short-term windfalls

- **Higher revenues for U.S. energy producers.** As global prices surged, U.S. shale and Gulf-coast producers enjoyed windfall profits from selling oil and liquefied natural gas. FactCheck.org noted that although only about 8 % of U.S. crude

imports came from the Persian Gulf, global prices feed into domestic fuel costs; analysts at Rice University's Baker Institute and Energy Intelligence observed that energy companies' profits rose while consumers paid more at the pump. Conservative commentators on Fox Business framed the crisis as a chance to "bet on the world after the conflict" and predicted that regional states would eventually fund a permanent security arrangement to police the strait. This reflects a belief that the U.S., with its large domestic energy sector and blue-water navy, can absorb short-term disruptions better than rivals.

- **Leverage in negotiations.** Pro-Trump outlets reported that President Donald Trump weighed seizing Iran's Kharg Island, which handles about 90 % of Iran's crude exports, to force Tehran to reopen the strait. Supportive lawmakers backed decisive action, while retired military leaders told Newsmax that the U.S. could reopen the strait but warned that the cost and duration would be significant. By projecting readiness to use force, the administration can pressure Iran and signal resolve to allies without immediately deploying ground troops.
- **Domestic political messaging.** Pro-Trump media portrayed the closure as exposing international "free-riders" who rely on U.S. security. Fox Business discussions suggested that after the war the strait would be policed by a coalition of regional states paying for stability, and Newsmax emphasised a "short-term pain for long-term stability" narrative. The messaging seeks to frame the crisis as an opportunity to cripple Iran's revenue and force a favourable settlement while strengthening the image of American resolve.

Structural benefits and the U.S.–China rivalry

- **Test of hegemonic credibility.** Analysts at the Middle-East think-tank EISMENA argue that the closure is a "stress test" of the post-1945 liberal economic order. They note that U.S. leadership is unusual because the hegemon itself caused the breakdown of freedom of navigation. Every week the U.S. fails to reopen the strait erodes its credibility as provider of global public goods and allows challengers to argue that American hegemony no longer guarantees stability. In hegemonic

stability theory, the crisis thus becomes an arena in which relative power is measured.

- **China's vulnerabilities and resilience.** Roughly 40 % of China's crude imports and 30 % of its LNG imports transit the Hormuz strait, and alternative pipelines through Saudi Arabia and the UAE can carry <40 % of Gulf export traffic. Yet Chinese vulnerability is more nuanced. An Oxford Institute for Energy Studies comment notes that although China imports half of its crude and one-third of its LNG from the Middle East, when viewed across its entire energy system, Middle Eastern crude accounts for about one-third of refining needs and gas is a small component of the power sector. War on the Rocks observes that China is 85 % energy self-sufficient and that oil forms only ≈18 % of its total energy consumption because coal and renewables dominate. Renewable energy has surpassed oil as the second-largest energy source in 2025. China's strategic reserves cover 3–4 months of imports and are supplemented by diversified land routes and discounted Iranian crude; however, independent "teapot" refiners in Shandong province are heavily exposed to discounted Iranian supplies and would face higher costs during a prolonged closure. Chinese officials have urged restraint: foreign ministry spokespersons warned that the crisis could spiral into an "uncontrollable situation" and called on all parties to halt military operations.
- **China's strategic opportunities.** Beijing has chosen neutrality, publicly avoiding taking sides while positioning itself as a responsible mediator. Chinese commentators believe China has "very little to lose by staying quiet and a lot to gain by being seen as a neutral party". Nevertheless, energy security remains a key concern because China depends heavily on imports from both Iran and Gulf states and "there are no easy substitutes," yet investment in domestic production and fallback options such as coal make China less immediately exposed. An Observer Research Foundation essay argues that while the conflict exposes China's energy vulnerability, it also offers diplomatic space: U.S. military engagement in the Middle East could divert attention from the Indo-Pacific, allowing China to expand influence, promote its Global Security, Governance, Civilisation, and Development initiatives.

When do benefits turn into costs?

The U.S. gains from higher energy exports and strategic leverage only if the disruption remains short-lived. Several analyses pinpoint a tipping point beyond which the closure becomes economically and politically damaging for Washington:

1. **Duration of the shock.** The LSE's Khezri stresses that emergency reserves and pipeline rerouting can bridge 1–3 months; beyond that period, the global supply shortfall becomes unsustainable and could trigger inflation and growth shocks. The International Crisis Group (ICG) similarly notes that a sustained rise in oil prices would complicate President Trump's domestic agenda of lowering costs of living and interest rates; a prolonged conflict would push U.S. and global growth lower and raise unemployment. Market strategist David Fyfe (Argus Media), quoted in German magazine Capital.de, outlines scenarios: a one-month closure is manageable; a three-month interruption significantly increases inflation and delays interest-rate cuts; a six-month closure forces rate hikes and drags global GDP growth below 2 %, essentially stalling the world economy. This understanding will undoubtedly impact the operational calculus of decision-makers in Washington. Crucially, the US may opt for military strategies that can bring victory in a short span of time, or use conflict management strategies that are aligned with adjusted expectations based on the crisis timeline.

2. **Inflation and consumer backlash.** FactCheck.org highlights that U.S. gasoline prices rose by about 56 cents per gallon following the closure. Euronews reports that war-risk premiums boosted shipping costs by 200–300 %, costs that "will soon be felt at gas pumps and supermarkets". The ICG argues that Trump, focused on maintaining Republican control in the 2026 mid-term elections, will avoid allowing high energy prices to persist.

3. **Risk of stagflation.** EISMENA's analysis warns that the combination of supply-driven inflation and demand contraction – a "toxic combo" – could trap central banks. Prolonged disruption raises the prospect of stagflation, forcing policymakers to choose between tolerating higher inflation or inducing a recession.

In summary, the U.S. enjoys leverage and energy-export gains if it can restore passage quickly. If the closure lasts beyond two or three months or if oil prices approach US$150 per barrel, the benefits vanish and the crisis turns into a political liability and potential global recession.

Global recession scenarios: inflation, supply-chain disruptions and indicators Inflation and energy prices

- **Rapid price escalation.** On March 2 Fortune reported that analysts fear a prolonged closure would guarantee a global recession; energy adviser Bob McNally (Rapidan Energy) told CNBC that a long disruption would be an "assured hit" to the world economy. Wood Mackenzie analysts compared the situation to the 1970s oil crisis and argued that oil prices would need to reach US$200 to trigger a comparable global downturn. The International Energy Agency (IEA) chief Fatih Birol cautioned that the Iran oil crisis is the worst energy shock ever recorded and said world leaders are not ready for its consequences. Despite skeptical views, Quarterly analysis suggests that unless the war will take longer than one year, reaching the US$200 threshold is unlikely.
- **Supply-side inflation beyond oil.** The strait closure halts a third of global fertiliser shipments and threatens food security in South Asia. It also disrupts helium and aluminium supplies and worsens the semiconductor shortage. Such bottlenecks echo the COVID-19 supply-chain crisis but differ by being geographically concentrated and energy-centric. In 2020, pandemic lockdowns collapsed consumer demand and simultaneously snarled production, whereas the Hormuz closure produces a supply shock that pushes prices up while suppressing demand – the classic stagflation scenario.
- **War-risk insurance and freight costs.** Euronews reports that war-risk premiums have increased 200–300 %, costing US$600 000–1.2 million per voyage. Kpler data cited by EISMENA indicates that rerouting around Africa adds 2–3 weeks and raises shipping costs by ≈US$250 000 per voyage. These extra costs feed into

consumer prices, particularly for Asian economies that depend heavily on imports.

Supply chain disruptions and other indicators

- **Energy rationing and industrial impact.** The closure directly affects industries reliant on Gulf LNG and oil. Al Jazeera Arabic notes that the crisis threatens fertiliser production and technologies such as semiconductors, while Fortune's report cites a senior diplomat who warned that shortages of fertiliser, aluminium and helium could curb crop yields and industrial output. Qatar's suspension of LNG production at Ras Laffan in anticipation of further strikes tightens European gas markets.
- **Financial markets and interest rates.** Analysts at the International Crisis Group argue that a sustained closure keeping Brent around US$100 per barrel would shave 0.5 percentage points off global growth and add 1 percentage point to inflation. Central banks might delay rate cuts or even raise rates to counter rising prices; David Fyfe warns that a six-month closure could force rate hikes and push global growth below 2 %, effectively a recession. The Federal Reserve's dilemma mirrors the one it faced in the 1970s but contrasts with the COVID-19 recession, when collapse in demand allowed aggressive monetary easing.
- **Stockpiles and resilience.** Countries with large strategic reserves fare better. China's reserves cover 3–4 months and China has diversified pipelines, while the U.S. can tap its Strategic Petroleum Reserve but has already drawn it down after the 2022 price shock. Japan and South Korea's limited reserves mean they may face rationing within weeks, forcing factory shutdowns and weakening global supply chains.

Scenario analysis

Closure duration	Oil price path & inflation	Growth/ recession risk	Supply-chain impacts
<1 month (quick reopening)	Brent spikes to $100-120, then falls as strait reopens; inflation rises modestly. OPEC's spare capacity and U.S. releases of reserves cushion the shock.	Global GDP dips slightly (<0.5 ppts); recession unlikely. Markets treat the event as a temporary shock.	Minimal; shipping schedules normalize quickly.
1–3 months (prolonged partial closure)	Oil averages $120-150; supply-side inflation broadens to fertiliser, metals and semiconductors. War-risk premiums persist.	Central banks delay rate cuts; global growth slows markedly. Risk of recession rises, particularly in Asia and Europe; U.S. consumers feel pain despite energy export gains.	Significant rerouting strains shipping; Asian economies face energy rationing; fertiliser shortages threaten crop yields.
>3 months (extended closure)	Oil could exceed $150; EISMENA notes that such levels constitute an "assured" global recession. Stagflation emerges as inflation accelerates while growth contracts.	Global recession becomes likely; Argus Media's Fyfe predicts growth <2 % and possible rate hikes. U.S. political pressure mounts to reopen the strait.	Severe supply-chain breakdowns; food and fuel shortages in South Asia; global manufacturing disruptions; shipping to Europe and Asia remains diverted for months.

Comparative gains and losses for the United States and China

The Hormuz crisis interacts with U.S.–China rivalry in complex ways. The table below summarises potential advantages and vulnerabilities for each side. While both countries can extract short-term benefits, those gains erode rapidly as the conflict drags on.

Factor	United States	China
Energy revenue & inflation	Beneficiary of high oil prices: U.S. shale and LNG producers enjoy windfall profits, and the government can use strategic reserves to manage domestic supply. However, consumers face higher petrol prices and shipping costs; benefits fade if the closure persists beyond 1–3 months, when inflation and economic slowdown outweigh export gains.	Vulnerable to supply shocks because ~40 % of crude imports and 30 % of LNG imports transit Hormuz. Nevertheless, Middle Eastern oil makes up only one-third of refining needs, and China is 85 % energy self-sufficient. Strategic reserves and diversification limit immediate impact, but prolonged closure raises costs for independent refiners.
Military and geopolitical leverage	Opportunity to demonstrate naval dominance and pressure Iran, projecting resolve to allies. Can demand burden-sharing from partners and highlight “free-rider” problem. Risk of being drawn into prolonged conflict and diverting resources from the Indo-Pacific.	Opportunity to observe U.S. operations, portray itself as neutral and responsible, and promote its global initiatives. Risk of supply disruption harming its economy and of being pressured by Washington to contribute militarily. Prolonged conflict could accelerate China’s energy diversification and alignment with Russia.
Diplomatic narrative	Gains if able to build a multinational coalition to secure the strait, reinforcing U.S. leadership. Risks eroding credibility if it cannot	Gains by advocating non-interference and negotiation. Euronews notes that China “has very little to lose by staying quiet and a lot to gain by

Factor	United States	China
	reopen the strait quickly; calls for others to help police the waterway underscore U.S. fatigue.	being seen as a neutral party". Balances ties with Iran against relationships with Gulf states, emphasising sovereignty and offering to mediate.
Domestic politics	Conservative commentators tout decisive action and frame the crisis as an opportunity for long-term stability. Yet rising petrol prices and inflation risk voter backlash and complicate efforts to cut interest rates.	Domestic price controls and state-owned energy firms insulate Chinese consumers, and the government can draw on large reserves. Extended disruption could hurt manufacturing and employment, but the crisis provides impetus to accelerate renewables and electrification.

In summary, the United States gains in the very short term from energy exports and geopolitical leverage, but these benefits dissipate if the closure lasts beyond a few months. China is vulnerable to supply disruptions yet possesses buffers—diversified energy sources, strategic reserves and state controls—that limit immediate damage while offering the chance to accrue diplomatic capital by advocating neutrality.

Comparing the Hormuz crisis to the COVID-19 supply-chain shock

- **Nature of the shock.** COVID-19 produced a demand shock as lockdowns halted consumption, whereas the Hormuz closure is primarily a supply shock that constrains energy and shipping capacity. Both crises expose vulnerabilities in global just-in-time logistics.
- **Inflation dynamics.** During the pandemic, inflation initially fell as energy prices collapsed; later supply bottlenecks (semiconductors, shipping) pushed prices higher. By contrast, the Hormuz closure caused immediate energy-driven

inflation. Analysts warn that sustained closure could trigger stagflation, a combination of high inflation and stagnant growth – a risk largely avoided in the early pandemic because monetary and fiscal stimulus could support demand.

- **Policy responses.** Governments responded to COVID-19 with massive fiscal stimulus and central bank easing. In a Hormuz-induced energy shock, policymakers face a trade-off: easing monetary policy fuels inflation, while tightening to tame prices deepens the downturn. The ICG highlights that U.S. President Trump would resist prolonged high prices that hurt voters; European leaders have urged a moratorium on strikes against energy and water facilities and called for de-escalation.
- **Supply chain reconfiguration.** COVID-19 accelerated diversification away from concentrated production hubs, leading firms to build buffer inventories and "friendshore" supply chains. The Hormuz crisis similarly underscores the need to diversify energy routes. Anas al-Hajji notes that China viewed strait closures as likely battlefields and therefore invested in pipelines and reserves. European commentators urge increased storage, alternative routes, and investment in renewable energy to reduce dependence on the Gulf.
- **Geopolitical consequences.** The pandemic did not fundamentally alter the balance of power between the U.S. and China, though it sharpened competition in vaccine diplomacy. The Hormuz closure, by contrast, directly implicates U.S. naval dominance and tests hegemonic stability. EISMENA argues that each week of closure undermines American credibility and opens space for China and Russia to benefit. Russia already profits from redirected energy demand, and China could use the crisis to argue for a more multipolar order.

Key Takeaways from the Situation Report

Scale of the shock and pipeline limits: Iran's closure of the Strait of Hormuz removed roughly 20 % of global oil and LNG supply and raised energy prices sharply. Alternative pipelines in Saudi Arabia and the UAE can handle only about 3.5–5.5 million barrels per day, leaving a shortfall of up to 16.5 million barrels. Strategic reserves in the United States, Europe and Asia can bridge only one to three months before supplies tighten.

Short-term U.S. gains, long-term risks: U.S. shale and LNG producers initially profited from the price spike, but American consumers felt the pinch through higher fuel costs. Pro-Trump media celebrated the crisis as an opportunity to reshape security arrangements around the strait, but mainstream analysts agreed that benefits evaporate if the closure persists beyond a few months because inflation and slowing growth would offset export gains.

Chinese vulnerability and resilience: About 40 % of China's crude imports and 30 % of its LNG imports transit the strait, yet Middle Eastern crude meets only a third of China's refining needs, gas is a minor component of its power system and renewables have overtaken oil as the second-largest energy source. China's strategic reserves cover three to four months of imports, and its policy of diversification leaves it less exposed than many assume. Independent "teapot" refiners in Shandong, however, depend on discounted Iranian crude and would face higher costs during a prolonged closure.

Neutrality as an opportunity: Beijing has called for de-escalation and stayed publicly neutral, calculating that "it has very little to lose by staying quiet and a lot to gain by being seen as a neutral party". Chinese analysts note that neutrality allows the country to protect energy interests in both Iran and the Gulf while positioning itself as a responsible actor. This stance also dovetails with China's broader narrative of promoting its Global Security, Governance, Civilisation and Development initiatives and advocating non-interference in regional conflicts.

Strategic competition and economic stakes: The crisis tests U.S. hegemonic credibility and opens space for China to expand diplomatic influence while observing U.S. military operations. A prolonged closure would divert Washington's attention from the

Indo-Pacific but could also accelerate Beijing's energy diversification and deepen its alignment with Russia.

Risk of global recession: Scenario analysis shows that a closure lasting more than three months would likely push oil prices above $150 per barrel, trigger stagflation and push global growth below 2 %, amounting to a guaranteed recession. War-risk insurance premiums have risen by 200–300 %, raising shipping costs across supply chains. Fertiliser, metals and semiconductor shortages echo the Covid-19 supply-chain shock, but the Hormuz crisis is an energy-driven supply shock that rapidly feeds into inflation