

The Strategic
Importance of the

Strait of Hormuz

Its Global and Nigerian
Implications



21M

Barrels/Day



20%

Global Consumption



25%

Seaborne Traffic



INTRODUCTION

Strategic Maritime Route Analysis

The Strait of Hormuz is a strategically important maritime route between Iran, Oman, and the United Arab Emirates. It links the Persian Gulf to the Arabian Sea and serves as the primary route for petroleum exports to global markets.¹

The Strait's importance lies in the volume of energy resources transported through it. According to the U.S. Energy Information Administration, approximately 21 million barrels of petroleum pass through daily, representing 20% of global consumption and one-quarter of seaborne oil traffic.²

Recent geopolitical tensions, especially the Iran-US conflict, have reignited fears of a closure. Military conflicts, sanctions, and Iranian threats have increased the potential for disruption. Such interruptions have far-reaching consequences for the energy market, leading to sharp price increases.

Key Statistics

21M

Barrels/Day

20%

Global Consumption

25%

Seaborne Traffic



Strategic Location

The Strait links the Persian Gulf to the Arabian Sea, serving as the primary route for petroleum exports to global markets.



Market Impact

Disruptions cause sharp price increases, affecting global energy markets and economic stability worldwide.



Geopolitical Tensions

Recent Iran-US conflicts have reignited fears of closure, with military threats and sanctions increasing disruption potential.



Nigeria's Sensitivity

Nigeria is sensitive to price fluctuations given its petroleum-exporting economy and import dependencies.

Nigeria's Position

This paper examines the implications of a blockade for global economies and Nigeria, which is sensitive to price fluctuations given its petroleum-exporting economy.

STRATEGIC IMPORTANCE

Global Energy Security & Maritime Trade Analysis

The Strait of Hormuz is strategically placed in the global energy network. Given its position, it is widely regarded as the world's most important oil chokepoint.³ The high volume of global petroleum traffic transiting such a narrow passage represents a weakness in global energy networks. Disruptions caused by the war significantly affect global petroleum supply chains, resulting in sharp increases in petroleum prices.⁴ The Strait of Hormuz is thus of critical importance to global energy security and global economic stability.

The strategic significance of the Strait of Hormuz is further reinforced by the heavy reliance of major Gulf oil-producing states such as Saudi Arabia, Iraq, Kuwait, and the United Arab Emirates on this route to export crude oil to global markets. A significant part of their export infrastructure facilities is geared toward this route, which passes through the Strait of Hormuz. Although alternative export routes exist for these states, their capacity remains limited and cannot fully replace maritime exports through the Strait.⁵ Hence, the economies of these Gulf states remain heavily dependent on this route for their export potential.



Gulf States Dependency

Saudi Arabia

Primary export route

Iraq

Heavy reliance

Kuwait

Export dependent

UAE

Strategic route

Apart from the transportation of energy resources, the Strait of Hormuz is also significant for maritime trade. The Strait of Hormuz is one of the most active and busy shipping lanes in the world, not only facilitating the trade and transportation of crude oil and liquefied natural gas, but also various other goods and commodities that are exchanged between and across various nations and regions, including Asia, the Middle East, and Europe.⁶

The recent tensions and conflicts between Iran and the United States have raised serious concerns and alarm regarding the security and stability of maritime trade and navigation in the region, as various events and occurrences, including the hijacking of oil tankers, military operations, and threats to restrict navigation, have increased the sense of uncertainty and alarm.⁷ Thus, the stability and security of the Strait of Hormuz are significant not only for the energy sector but also for trade and the world economy. Consequently, the stability of the Strait of Hormuz is not only essential for energy security but also for the smooth functioning of international trade and the broader global economy.⁸

COUNTRIES MOST AFFECTED BY A BLOCKADE

Global Economic Impact Analysis

A blockade of the Strait of Hormuz would have far-reaching consequences for multiple regions. The following countries and economies are most vulnerable to disruptions in this critical maritime chokepoint:



Major Oil-Importing Economies

Some of the economies critically affected by a blockade are India, China, and Japan. These economies are heavily dependent on crude oil supplied by Gulf nations, including Saudi Arabia, Iraq, and the UAE. For example, Japan obtains the majority of its crude oil from the Middle East, and China and India account for a significant share of global crude oil demand. In the event of a blockade of the Strait of Hormuz, these economies experience economic stagnation and energy crises, thereby causing instability in the global market.⁹

IN India

CN China

JP Japan



Gulf Oil Exporting States

Gulf oil-exporting states suffer economic consequences in the event of a blockade of the Strait. These states, such as Saudi Arabia, the UAE, and Oman, suffer as they rely on the strait as the primary route for exporting their petroleum products to the world market. Although there are some pipelines for oil export, they are limited in capacity and thus cannot support exporting the quantities of oil passing through the strait. Therefore, due to the blockade of the strait, the export earnings of these states will be limited, and they will be unable to meet the export demands of the world market.¹⁰

SA Saudi Arabia

AE UAE

OM Oman



South Asian Energy Dependence

Another country that would be affected is Pakistan, as it depends on crude oil and petroleum products from the GCC countries. A blockade on the Strait of Hormuz would result in a shortage of petroleum products in Pakistan, which would be reflected in the prices and the economy as a whole.¹¹

PK Pakistan



European Energy Importers

European countries such as France, Germany, and Italy will also be indirectly affected by this crisis, although to a significant extent. Even though Europe imports crude from a variety of suppliers, crude from the Middle East is also part of its import basket. If crude imports from the Gulf are affected, it will lead to a tight crude market, thereby raising prices in Europe.¹²

FR France

DE Germany

IT Italy

GLOBAL ECONOMIC CONSEQUENCES AND IMPLICATIONS FOR NIGERIA

Comprehensive Analysis of Energy Market Disruption

Global Energy & Market Disruption

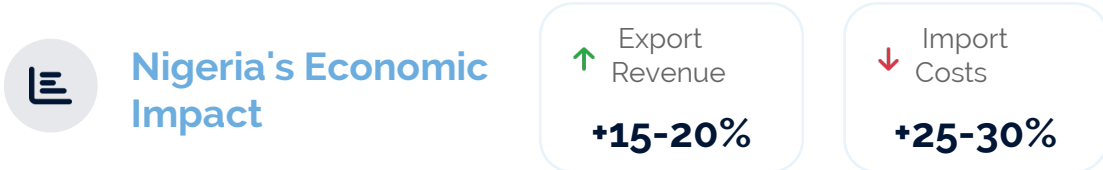
The conflict between the US and Iran, leading to the blockade of the Strait of Hormuz, has had immediate effects on global energy markets. As earlier stated, the Strait of Hormuz is considered the most important oil transit chokepoint in the world, with approximately one-fifth of global petroleum consumption passing through it each day. Disruption to the flow of oil through this route would significantly affect global crude oil and liquefied natural gas supplies, causing a sharp increase in oil prices. Besides, global energy markets would be affected through a disruption in international shipping, as it would result in increased maritime security risks, increased insurance premiums for oil tankers, and possibly a rerouting of ships, thereby causing a sharp increase in transportation costs.¹³

Geopolitical Tensions

Aside from the economic implications, any disruption in the Strait of Hormuz would also heighten geopolitical tensions in the Persian Gulf. The current conflict between Iran and the United States, which has manifested itself in military threats, sanctions, and the threat to limit the passage of ships through the Strait of Hormuz, has already highlighted the rapid escalation of tensions in the region that can result from any kind of disruption in the Strait of Hormuz. In light of the fact that the Strait of Hormuz is of prime importance not only to the countries of the Middle East but also to the world's leading economies that rely on the uninterrupted flow of oil, any attempt to limit the flow of oil through the Strait of Hormuz could lead to significant military or diplomatic blowback from the world's leading powers.

Implications for Nigeria

With specific emphasis on Nigeria, the disruption in the Strait of Hormuz has had both economic opportunities and challenges. In one sense, a rise in global oil prices could boost Nigeria's government revenues, given its continued dependence on crude oil exports as a major source of foreign exchange earnings. In another sense, Nigeria's continued dependence on imported refined petroleum products means that a rise in global oil prices leads to a corresponding rise in local fuel prices, posing inflationary pressure for the country. Unfortunately, the latter is currently the case in the country.



Besides, the volatility in the prices of oil in the global market has often posed a challenge to the stability of the foreign exchange market in Nigeria. This is due to the demand for hard currency to purchase refined oil, as the country has no facility to refine oil. This thus underscores the need to develop refining capacity in Nigeria, particularly through large-scale projects such as the Dangote Refinery, which seeks to reduce dependence on imported petroleum products.¹⁴

CONCLUSION

Strategic Analysis Summary

The Strait of Hormuz remains one of the most strategically important maritime chokepoints in the global energy system. Disruptions to this route significantly affect global oil supply, trigger price volatility, and intensify geopolitical tensions among major world powers. This has been highlighted recently by the escalation of the US-Iran conflict, in which military actions and the closure of the Strait have dramatically increased global energy risk, driving oil prices above \$100 per barrel.

For Nigeria, such disruptions present both opportunities and risks. While higher oil prices may increase export revenues, Nigeria's dependence on imported petroleum products exposes the domestic economy to inflationary pressures. Strengthening **domestic refining capacity** and improving **energy security**, therefore, remain essential policy priorities for Nigeria in an increasingly volatile global energy landscape.



Nigeria's Position & Policy Priorities



Export Revenue Opportunity
+15-20% potential increase



Import Cost Challenge
+25-30% inflation risk

ENDNOTES

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