AS IRAN CHOKES TRADE, HOW CAN INDO-PACIFIC COUNTRIES RESPOND?

BY HARSHIT SINGH

***Harshit Singh** (harshit.22091@sscbs.du.ac.in) is an Honors Research student of Management Studies at Shaheed Sukhdev College of Business Studies, University of Delhi.*

Three and a half weeks before the US and Israel attacked Iran, killing their supreme leader and prompting Iran to mine the Strait of Hormuz, another incident previewed what was to come. On Feb. 3, Iranian gunboats and a drone closed on the Stena Imperative, a US-flagged tanker in the strait, ordering it to stop and prepare for boarding. Instead, it sped up and a US Navy destroyer escorted it out. No boarding happened, no cargo was touched, and no shots were fired.

Brent crude still climbed that session.

By March, after Iran had shut the strait, Brent had hit $114 a barrel, up from $72.48 the day before the US-Israeli operations began (the largest single-month jump on record), and tanker traffic had fallen more than 90%. The US blockaded Iranian ports in return, and for a stretch in April and May, both countries were simultaneously blockading each other.

Iran has understood this geography as leverage for decades. During the 1980s Tanker War, sustained attacks on Gulf shipping eventually forced the US Navy into Operation Earnest Will, a multi-year escort mission that cost billions and required a sustained carrier presence. What changed by 2026 is how little Iran needed to do to get a comparable price effect most of the time. A handful of fast boats and the willingness to harass a single tanker was often enough, because the pricing system reacts to probability, not just confirmed harm.

That is the mechanism worth understanding. Crude oil is priced through future contracts on exchanges in New York and London, weeks ahead of physical delivery, and roughly 70% of the world's crude sells as a differential to the Brent benchmark. Traders price the probability of disruption continuously, not the confirmed fact of it. A credible threat moves the price before a single barrel is delayed. That is why a tanker that was never boarded could move markets in February, and it is also why, in the days before the US and Israel even struck, war risk insurance premiums for ships transiting the strait had already jumped, some more than tripling, purely on the expectation of what was coming.

A ceasefire memorandum was eventually signed at the G7 summit in France in mid-June, and oil prices dropped hard on the news, before a single barrel had actually moved, the same mechanism running in reverse. But reopening on paper and reopening in practice turned out to be two different things. Iranian state media reported that under the terms exchanged with US negotiators, the strait would stay under Iran's own management, not some neutral or multilateral authority, and Iran separately pushed for explicit recognition of its sovereignty over the waterway. Two days after the memorandum was signed, a separate Israel-Hezbollah ceasefire wobbled, and Iran closed the strait again, citing continued Israeli strikes in Lebanon as a violation of its own deal with the US.

That closure should worry policymakers more than the earlier ones. It shows Iran treats control of the strait as a renewable asset it can withdraw whenever it wants leverage somewhere else, not a fixed outcome a signed memorandum locks in. On June 27, the US Navy responded not with another blockade but by quietly opening a new shipping route near Oman, described by American officials as a direct challenge to Iranian control. That move looks less like a tactical adjustment and more like an admission of the real problem. The stakes are not abstract. Roughly 20 million barrels a day move through the strait, about a fifth of global consumption. Saudi Arabia, Iraq, and the UAE alone exported 13.1 million barrels a day through it in 2025, and existing pipelines can reroute only 4.2 million, leaving some 16 million with nowhere else to go if the strait shuts again. India, which imports roughly 85% of its crude oil, saw its projected annual import bill jump by an estimated $25 billion as Brent moved $49 over eight weeks. For Indo-Pacific partners Washington is courting, that volatility is not a footnote, it is a recurring tax levied by a dispute those countries have no say in.

Policy recommendations

First, any durable settlement should replace bilateral, Iran-managed control of the strait with a verifiable, multilateral transit arrangement, backed by an inspection or monitoring mechanism both sides accept in advance. A memorandum that leaves day-to-day management in Iranian hands leaves Iran a renewable lever it can pull whenever it wants leverage in an unrelated dispute, at almost no cost to itself, as the June 20 reclosure over Lebanon already demonstrated.

Second, the financial transmission channel deserves the same explicit attention as the physical one in US Gulf strategy. Naval posture built to prevent closure does little to address a threat that moves markets through future pricing before any closure occurs, often before Washington has even finished assessing what happened. Rapid, coordinated messaging about reserve deployments and supply-side resilience can blunt that channel the way a carrier group blunts the physical one.

Third, Indo-Pacific partners should treat strategic reserve expansion and import diversification as standing priorities rather than crisis responses. India's reserve currently covers roughly nine to ten days of consumption, far short of the International Energy Agency's 90-day standard for member states, and that gap becomes a direct fiscal cost every time Hormuz's status shifts. The same applies to Japan and South Korea, both of which import the large majority of their crude through the strait with comparably thin buffers.

Fourth, the US Navy's Oman route workaround should be treated as a template, not a one-off. Durable alternate routing, developed now rather than improvised during the next crisis, reduces the leverage any single actor can extract from threatening the primary channel, and reduces Washington's exposure to negotiating the same concession away each time a side conflict flares up.

Fifth, US negotiators should stop treating Hormuz and Lebanon as separable issues in practice, since Iran has already shown it will not. A ceasefire architecture that allows unrelated regional flashpoints to trigger strait closures effectively hands Tehran a standing veto over global oil prices any time tensions rise anywhere in its sphere of influence. Delinking that trigger, explicitly, in the terms of any final agreement, closes the exact loophole Iran used on June 20.

The war in Iran may be over, or close enough. The argument over who really controls 21 miles of water is not, and until it is, global oil prices will keep reacting to Tehran's next signal before policymakers can respond to it.

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