

# Hormuz Crisis Exposes a Global Flaw That Will Take Years to Fix

Iran's stranglehold on the strait demonstrates the power countries can exert in a deeply intertwined world

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Vessels anchored in the Strait of Hormuz earlier this month. REUTERS

## Quick Summary

- Iran's closure of the Strait of Hormuz demonstrated the weaponization of economic pinch-points, prompting governments to consider responses.
- China has also leveraged its control over critical minerals and rare-earth supply chains to exert pressure on other countries.
- Building economic resilience will cost money and take years.
- Iran's closure of the Strait of Hormuz demonstrated the weaponization of economic pinch-points, prompting governments to consider responses.

Iran's closure of the Strait of Hormuz showed how a country can weaponize an economic pinch point to seismic effect.

The question now is what governments decide to do about it.

Adm. Giuseppe Cavo Dragone, NATO's top military commander, in an address to a gathering of defense and security officials in Singapore, said what countries are confronting is the "weaponization of economic interdependence," a challenge that he said requires closer cooperation between militaries, governments and industry to fight back.

For years, the U.S. was the only real player in this strategic game, wielding the U.S. dollar and the control the currency gave it over the global financial system to pressure rivals and sanction enemies.

More recently, China has shown that it, too, wields potent leverage over other countries—including the U.S.—through its stranglehold on critical minerals essential for manufacturing everything from semiconductors to jet engines.



Building new pipelines to bypass the Strait of Hormuz has been a goal for years. NASA EARTH OBSERVATORY/AFP/GETTY IMAGES

By closing the Strait of Hormuz to shipping, Iran has used its geographic position to maximum advantage, finding an asymmetric economic weapon to

counter the overwhelming military firepower of the U.S. A shaky ceasefire is just about holding but a deal to end the conflict and reopen the strait remains unfinished.

Reducing the world's reliance on the energy that transits a channel that could be closed again by Iran will require big investments in new pipelines and export routes. Importers will need to rebuild depleted crude-oil reserves and stockpile more naphtha, jet fuel and other oil-derived products to prepare for another shock. They may need to consider hefty layouts on renewables and nuclear power to ensure steadier energy supplies ahead of any new disruption.

Building that resilience will cost money and take years. The impetus to see it through might fade once the crisis has passed. The challenge highlights the difficulty governments face in overcoming economic vulnerabilities that emerge in a deeply intertwined world.

“It took us decades of cooperation to get here and to disentangle all these things is really, really difficult,” said Gaurav Ganguly, head of international economics at Moody's Analytics in London.

The global economy has had a taste of this challenge before. China jolted the world with its willingness to use its extensive control of the rare-earth supply chain to extract concessions from the U.S. and punish countries such as Japan. Threats last year to throttle global supplies rattled automakers and chip firms and pressured President Trump to lower U.S. tariffs on Chinese imports.

The U.S. and other advanced economies such as Europe and Japan are spending billions of dollars to build up alternative mining and refining capacity outside China, including in the U.S., Malaysia and Australia.

But progress is slow, highlighting the difficulty of unraveling a dependency that has persisted for years. Miners grumble that governments aren't doing enough to encourage Western industry to make the shift away from Chinese minerals.



Smoke rose from an oil well in Kuwait in April. Gulf nations have been hit in the fighting with Iran. GABRIEL FERNEINI FOR WSJ

Japan, which has endured Chinese rare-earth restrictions as far back as 2010, has spent more than a decade reducing its reliance on its Asian rival for rare earths. Even so it still sources around 60% of what it needs from China.

China, meanwhile, has been badly squeezed by American export controls on semiconductor technology. The restrictions have hobbled China's ability to make or acquire the cutting-edge chips made by companies such as Nvidia to train the most innovative artificial-intelligence models.

Beijing is pouring billions of dollars into its domestic chip industry in the hope of getting around U.S. restrictions, but it still isn't clear whether China can ever catch up as U.S. and Taiwanese firms keep pushing at the technological frontier.

“The key question, as it has been for some time, is whether governments have the ability to pursue economic resilience without imposing excessive economic costs,” said Roland Rajah, lead economist at the Lowy Institute, a foreign policy think tank in Australia.

Reducing the global economy's dependency on the Strait of Hormuz will be challenging, too. Saudi Arabia has a pipeline to the Red Sea but it has limited capacity. Building new pipelines to bypass Hormuz has been on the drawing board for years, but has been frustrated by the conflict in Yemen and other issues. Gulf states such as the United Arab Emirates can pipe energy to the Gulf of Oman and on to global markets, but the downside is that pipelines are vulnerable to attack and can't wholly replace the volume that can be moved through the waterway.

Given how interconnected the global economy is, countries trying to reduce dependencies on others and neutralize chokepoints need to be careful they don't swap one dependency for another, said Abraham Newman, a professor at Georgetown University who co-wrote a book on the weaponization of economic interdependence. Russia's invasion of Ukraine has made Europe dependent on U.S. natural gas at a time of strained relations, while China controls the global supply chain for batteries as well as solar, wind and other renewables technology.

"People have to be careful whenever they try to figure out how to diversify. Do you just create a new weaponizable dependency?" he said.