RESOURCE WEAPONIZATION FROM OIL TO MINERALS: ECONOMIC WELLBEING AND PEACE DURING TURBULENCE AND TRADE WAR

A structural analysis of the 1973 oil shock, the 2026 Hormuz crisis, and the critical minerals trade war

Ayush Kumar | BITS Pilani Dubai Campus | India Think Council

Introduction

Resource shocks recur in patterns. When a small number of suppliers control an input that industrial economies cannot quickly substitute, that control becomes convertible into geopolitical leverage independent of military strength, and the resulting disruption reshapes growth, inflation, and alliance structures for a decade or more. The 1973 oil embargo established the template. Fifty-three years later, in 2026, the world is experiencing not one but two versions of the same mechanism simultaneously: a literal oil shock, triggered by the closure of the Strait of Hormuz following the outbreak of war between Iran and a US-Israeli coalition in February 2026, and a structural shock in critical minerals, where China's near-monopoly over rare earth processing has been converted into an instrument of trade war leverage against the United States and its allies.

This paper argues that the critical minerals shock is the more consequential of the two, not because the oil shock is mild, by several measures it is already a more severe price disruption than 1973 was, but because critical minerals represent a structurally more durable chokepoint than oil ever was. Oil took roughly a decade to lose its geopolitical leverage after 1973, as North Sea and Alaskan production came online and conservation measures took hold. Critical minerals, by the most careful current estimates, will take two to three times that long. The paper traces this argument through the historical template of 1973, the live evidence from the 2026 Hormuz shock and its impact on India, the structural mechanics of the critical minerals shock itself, and the global response now underway, including Japan's fifteen-year experience as the most instructive case study available, the Pax Silica and FORGE coalitions as the institutional response, and the strategic importance of deepening relationships with Russia, Latin America, Australia, and Africa as the diversification pathway. It closes by addressing a misconception embedded in the name of the crisis itself: rare earths are not geologically rare. The crisis is manufactured, not given by nature.

The stakes of this argument run through both halves of the assigned theme. Economic wellbeing is at stake because both shocks transmit directly into inflation, growth, and household welfare, the same channels that produced stagflation in the 1970s and that current modelling shows are already producing comparable effects in 2026. Peace is at stake because resource concentration has historically been a precursor to alliance realignment and financial restructuring; the 1973 shock reshaped the security architecture of the Gulf for half a century, and the current shocks are already reshaping it again, this time with the Gulf states themselves repositioning from resource holders to financing partners in the coalition being built to counter China's mineral leverage.

The 1973 Oil Shock

The Yom Kippur War broke out in October 1973 when Egypt and Syria launched a coordinated attack on Israel. In response to Western support for Israel, the Organization of Arab Petroleum Exporting Countries imposed an embargo on the United States and other supporting countries, and OPEC

simultaneously used its pricing power to drive the posted price of oil from roughly three dollars a barrel to nearly twelve within months, a near-quadrupling. The embargo itself lasted only a few months, lifted in March 1974, but its economic and institutional consequences persisted for a decade.

The most distinctive economic consequence was stagflation: the simultaneous occurrence of high inflation and high unemployment, a combination the prevailing Keynesian models of the era treated as nearly impossible, since the Phillips curve assumed a trade-off between the two. US unemployment rose from 4.9 percent in 1973 to roughly 9 percent by 1975, while inflation, already elevated before the embargo, peaked above 11 percent in 1974. The United Kingdom fared considerably worse, with inflation approaching 24 percent by 1975 against a backdrop of industrial unrest, including the three-day working week imposed to conserve electricity. Equity markets absorbed the shock directly: the Dow Jones Industrial Average lost roughly 45 percent of its value from its January 1973 peak to its December 1974 trough, one of the most severe bear markets of the twentieth century.

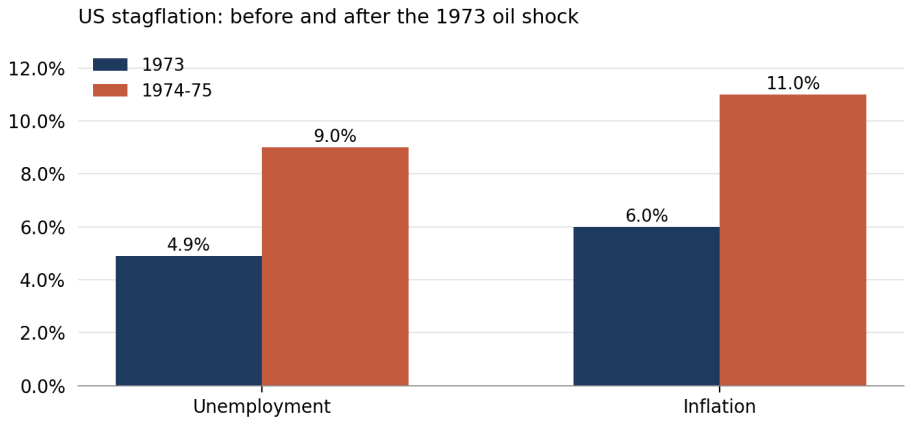


Figure 1. US unemployment and inflation, 1973 versus 1974–75.

The shock also drove an industrial transformation whose effects outlasted the embargo by decades. American automakers had built their dominance on large, fuel-inefficient vehicles suited to an era of cheap gasoline. Japanese manufacturers, led by Toyota and Honda, used the shock to enter the US market with smaller, more efficient cars that Detroit could not quickly match, a market-share shift that began in the 1970s and was never fully reversed.

The geopolitical realignment that followed is the dimension most relevant to the peace half of this paper's assigned theme. OPEC's sudden wealth produced what became known as petrodollar recycling: Gulf oil revenue flowed into Western banks, which then lent it aggressively to developing economies, planting the seeds of the Latin American debt crisis that erupted less than a decade later. Washington's relationship with Riyadh hardened during this period into the security-for-oil arrangement that has defined American Gulf policy for half a century. And the institutional response, the International Energy Agency founded in 1974 to coordinate emergency oil-sharing arrangements, strategic petroleum reserves built up across the OECD, and the first US fuel economy standards in 1975, amounted to the West formally treating energy security as a category of national security rather than simply an economic variable.

The 2026 Oil Shock: Hormuz and India

On 28 February 2026, the United States and Israel launched air strikes against Iran, beginning a conflict that within days produced the closure of the Strait of Hormuz, through which roughly one-fifth

of the world's seaborne oil and a comparable share of global liquefied natural gas had historically transited. Iran's Revolutionary Guard Corps Navy laid mines and attacked merchant vessels; shipping insurance for the route became effectively unavailable, and tanker traffic collapsed from over 130 daily transits to fewer than ten. The International Energy Agency characterized the resulting disruption as the largest in the history of the global oil market.

The price response was immediate and severe. Brent crude, trading in the low seventies before the conflict, surged past 120 dollars a barrel within weeks and, by the end of March, had recorded its largest monthly rise on record, an increase of roughly 65 percent. Analysts at Wood Mackenzie modelled scenarios in which prices could approach 200 dollars a barrel if the closure persisted through year-end, alongside a global output contraction of as much as 0.4 percent. The shock did not confine itself to fuel: the Gulf produces a substantial share of the world's urea and ammonia, and roughly a third of globally traded fertiliser transits the strait, so urea prices rose by half within weeks, threatening the Northern Hemisphere spring planting season.

India offers the clearest case study of how a large, exposed economy managed this shock in real time, and the story is more instructive than a simple before-and-after price comparison suggests. India imports 88 percent of its crude, with roughly half historically transiting Hormuz, making it one of the most exposed major economies in the world. The Indian crude oil basket nearly doubled in a single month, rising from 69 dollars a barrel in February to 126 in March, and peaking near 157 as the crisis deepened. Middle Eastern crude deliveries to India collapsed by roughly 61 percent, from approximately 2.65 million barrels a day to around 1.18 million.

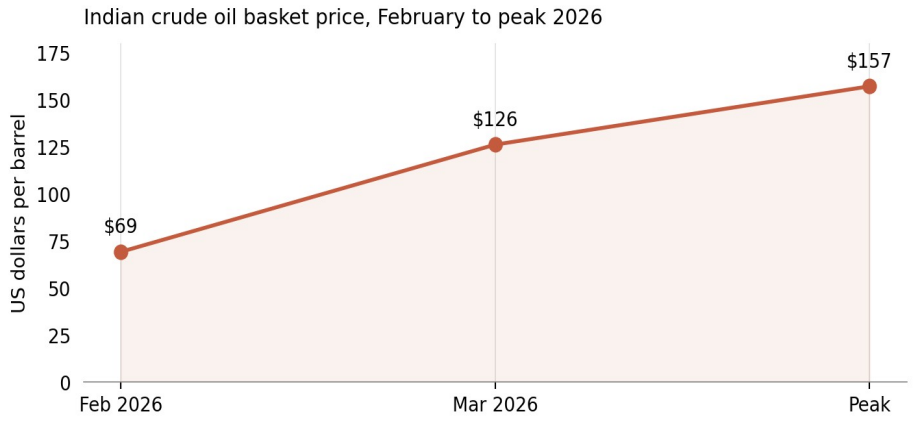


Figure 2. Indian crude oil basket price, February to peak, 2026.

Yet retail fuel prices in India barely moved, and the mechanism by which that was achieved is the genuinely interesting part of the story. Rather than passing the wholesale shock through to consumers, the government cut taxes on petrol and diesel and directed state-owned refiners to absorb the difference in their margins, while accelerating a shift toward discounted Russian crude under a sanctions waiver negotiated with Washington. Russia displaced traditional Gulf suppliers to become India's dominant source of crude, Saudi Arabia overtook a severely Hormuz-exposed Iraq as the second-largest supplier, and OPEC's collective share of India's import basket fell to a record low of roughly 29 percent.

The consumer-level outcome was milder than initial forecasts suggested but not free of cost. Realized inflation in March 2026 came in at 3.4 percent, comfortably below a structural ceiling estimate of 4.48 percent generated by input-output modelling of the actual commodity price movements; even so, inflation accelerated into April, and current forecasts project a range of 5 to 6 percent for the second and third quarters. The costs that policy could not suppress showed up

elsewhere: India's GDP growth forecast for fiscal year 2026–27 was cut to 6.7 percent from 7.7 percent the prior year, foreign investors withdrew more than 20 billion dollars from Indian equities in the first four months of the year, and the rupee fell to an all-time low. The Reserve Bank of India's governor warned that continued closure could force both a monetary policy response and an eventual increase in pump prices, and India's reserve buffer of roughly 69 to 74 days of crude stock is considerably thinner than reserves maintained by economies that have invested more heavily in diversified long-term contracts.

The accurate description of India's experience, then, is not that the shock was small, but that policy converted a wholesale price shock into a fiscal, currency, and reserve-drawdown problem rather than allowing it to become a consumer inflation problem outright, transferring the underlying cost elsewhere in the economy. That redirection has a shelf life, and its limits illustrate precisely the kind of fragility that recurs throughout this paper's broader argument.

The Critical Minerals Shock

If the Hormuz closure is 1973 repeating itself almost exactly, the parallel shock in critical minerals is structurally different in ways that make it, by most analytical measures, the harder problem to solve. China currently controls approximately 90 percent of global rare earth processing capacity, 80 percent of tungsten refining, 60 percent of antimony production, and a striking 99 percent of separation capacity for heavy rare earths such as dysprosium and terbium, the elements most critical for high-performance magnets used in defence systems and electric vehicle motors.

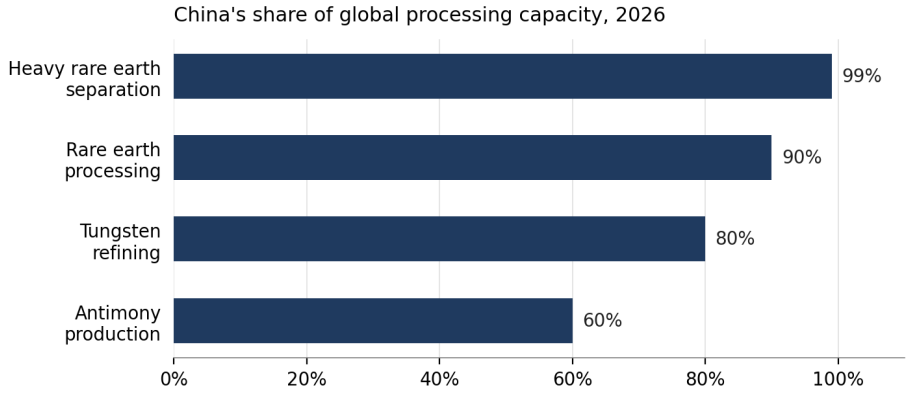


Figure 3. China's share of global processing capacity, by mineral category, 2026.

Unlike OPEC's 1973 embargo, China's leverage is not exercised through a blanket cutoff but through a licensing architecture under its 2020 Export Control Law, requiring individual shipment licenses with nominal review periods that routinely extend indefinitely. The price effect has nonetheless been severe and rapid: between January and June of 2026 alone, neodymium-praseodymium oxide prices rose sixfold, tungsten concentrate prices tripled, and antimony prices doubled, magnitudes that match or exceed the 1973 oil price shock within a fraction of the time.

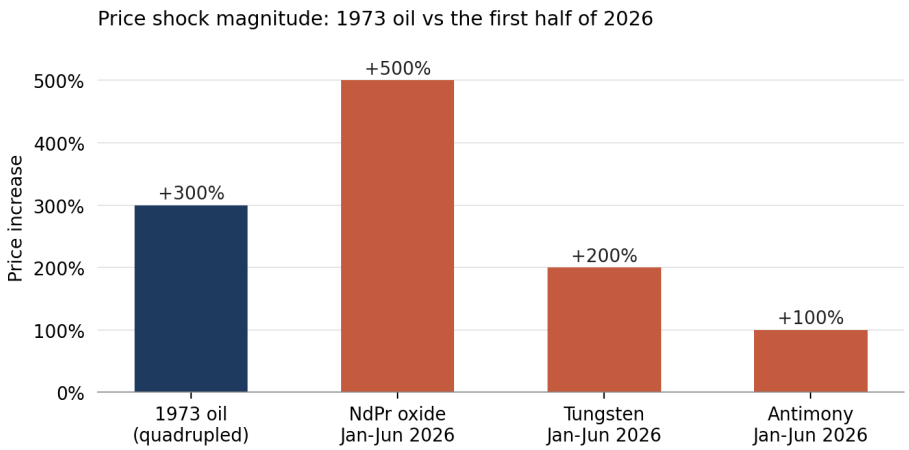


Figure 4. Price shock magnitude: 1973 oil versus the first half of 2026.

The mechanism of weaponization has also become more precisely targeted over time. On 22 June 2026, China's Ministry of Commerce added ten US companies to its export control list, with MP Materials and USA Rare Earth, the two firms most central to American efforts to build a domestic mine-to-magnet supply chain, named as the most prominent targets. The structural logic is identical to OPEC's 1973 strategy of targeting specific allies rather than imposing a uniform embargo: Beijing is striking precisely at the firms whose success would most directly erode its leverage.

The real-economy damage has already arrived, not as a forecast but as a fact. Ford's chief executive confirmed the company shut down its Chicago plant, which builds the Explorer, because it could not procure the rare earth materials essential to the vehicle. General Motors trimmed its 2025 earnings guidance citing the disruption, and automakers more broadly warned that production lines could halt within weeks after Chinese magnet exports dropped by roughly half in April 2025. This matters at macroeconomic scale: the auto industry alone accounts for roughly 3 percent of US GDP, and critical minerals are simultaneously essential to advanced aircraft and defence sensors. European defence contractors have reported being unable to secure magnets for missile guidance systems, and aerospace manufacturers have rationed yttrium-dependent turbine coatings after US imports of that material collapsed by roughly 95 percent in the eight months following the April 2025 restrictions. The International Energy Agency has estimated that if the controls suspended after the October 2025 Busan summit are fully reimplemented when that suspension expires in November 2026, as much as 6.5 trillion dollars in annual economic activity outside China could be placed at risk.

What makes this shock structurally harder to resolve than oil was in 1973 is the substitution timeline. Oil took roughly a decade to lose its geopolitical bite. For critical minerals, leading industry analysts project that non-China supply will still meet less than one-fifth of global demand for dysprosium and terbium specifically by 2035, while broader multi-institutional analysis estimates that rebuilding genuinely independent supply chains will take twenty to thirty years, two to three times the length of the oil transition.

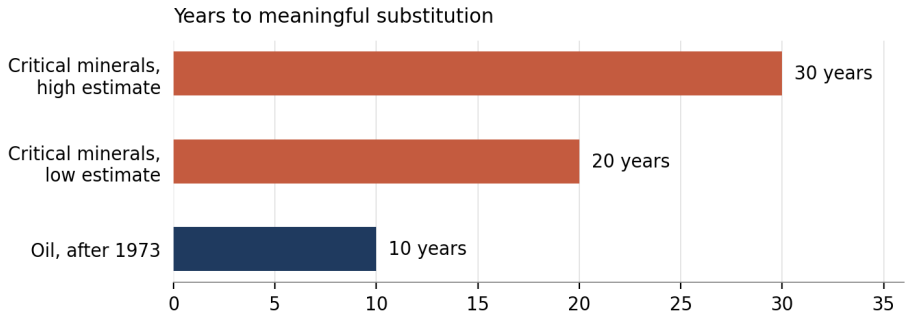


Figure 5. Years to meaningful substitution: oil after 1973 versus critical minerals, projected.

Japan’s Fifteen-Year Response

In September 2010, a collision between a Chinese fishing trawler and Japanese coast guard vessels near the disputed Senkaku Islands triggered a two-month Chinese embargo on rare earth exports targeted specifically at Japan, which at the time sourced roughly 90 percent of its rare earth imports from China. Tokyo’s response over the following fifteen years has become the template every Western diversification effort is now copying: a 100 billion yen, roughly 1.2 billion dollar, supplemental budget; equity investment through the state-backed Japan Organization for Metals and Energy Security into Australia’s Lynas Corporation, the largest rare earth producer outside China; and parallel investment in stockpiling, recycling, and magnet redesign.

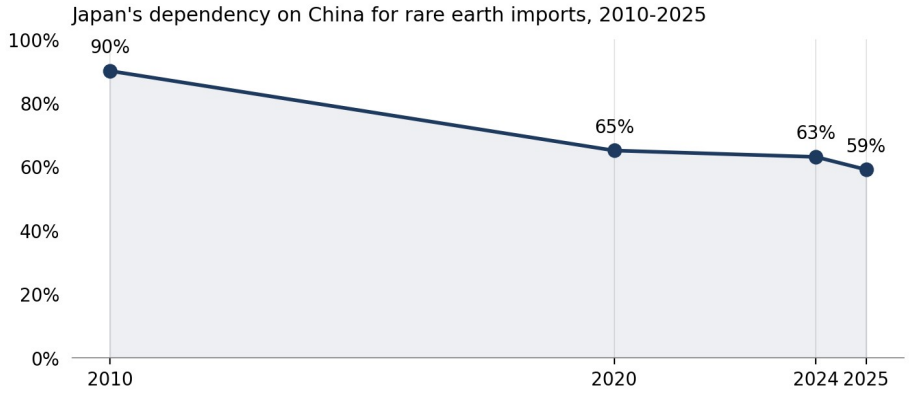


Figure 6. Japan’s dependency on China for rare earth imports, 2010–2025.

The result, measured honestly, is the most important data point in this paper. Fifteen years and well over a billion dollars of investment later, Japan had trimmed China’s share of its rare earth imports from 90 percent to roughly 60 to 70 percent by 2020, and to 63 percent as of 2024. The Lynas supply route through Malaysia remains roughly 50 percent more expensive than Chinese alternatives, because China sustains its cost advantage partly through lightly regulated processing that Lynas cannot legally replicate under Australian and Malaysian environmental law. Critically, this diversification, the most committed and earliest-starting effort in the world, was still not sufficient to fully insulate Japan from the 2025 shock: when China cut off Western manufacturers from seven heavy rare earth minerals in April 2025, Japanese automakers Nissan and Suzuki both reported disruptions, with Suzuki forced to suspend production of its Swift model entirely.

If Japan’s outcome represents the ceiling of what fifteen years of well-resourced, early-starting effort can achieve, the rest of the world, beginning its own diversification roughly a decade and a half later, is on a considerably longer clock than the one oil substitution ran on after 1973.

Pax Silica, FORGE, and the Global Response

The institutional response building since late 2025 is, in effect, the 2026 equivalent of the International Energy Agency's founding in 1974: the formal acknowledgement that resource concentration has become a national security category requiring coordinated allied action. Two overlapping initiatives anchor this response. The Forum on Resource Geostrategic Engagement, FORGE, launched in February 2026 as successor to the prior Minerals Security Partnership, brings together fifty-four countries to coordinate price floors and build a preferential trade and investment zone; it produced eleven new bilateral framework agreements at its inaugural ministerial alone. Pax Silica, launched in December 2025 and led by the US State Department, builds what officials describe as a coalition of capabilities spanning mining, refining, logistics, and downstream manufacturing, with initial signatories including Australia, Japan, South Korea, Singapore, Israel, the Netherlands, and the United Kingdom, with the UAE and Qatar joining shortly after.

The naming convention is analytically revealing: Pax Silica deliberately echoes Pax Britannica and Pax Americana, framing a single strategic material category as the organizing logic for a new economic order in the way naval dominance or reserve currency status organized prior ones. Concretely, the coalition has mobilized substantial capital: Project Vault, a roughly twelve billion dollar public-private initiative, is establishing a Strategic Critical Minerals Reserve explicitly modelled on the Strategic Petroleum Reserve created after 1973, while the US Department of Defense has separately signed a floor-price arrangement with MP Materials guaranteeing 110 dollars per kilogram for neodymium-praseodymium oxide, an attempt to insulate domestic production from China's capacity to depress prices below the level needed to sustain Western investment.

Other major economies are pursuing parallel but distinct strategies. The European Union has selected sixty Strategic Projects under its Critical Raw Materials Act targeting lithium, graphite, cobalt, nickel, and rare earths, with forty-seven located inside the bloc and thirteen in partner countries including Canada, Kazakhstan, Ukraine, and Zambia. Australia, already the proven model through its Lynas partnership with Japan, has taken the additional step of ordering Chinese investors to divest stakes in domestic rare earth mining, with six shareholders in Northern Minerals Limited required to sell their positions within two weeks in May 2026, an explicit acknowledgement that diversification requires controlling not just where minerals are processed but who owns the processing. The African Union has published its own Green Minerals Strategy aiming to capture more value domestically through downstream processing rather than raw export.

The pattern worth noting for this paper's argument about Gulf realignment is that the UAE and Qatar appear as founding or early members of both FORGE and Pax Silica simultaneously, positioning Gulf capital as a financing and logistics node inside the Western diversification effort rather than as a chokepoint holder, a near-inversion of the position Gulf states held during the 1973 shock, when their power derived precisely from holding the embargoed resource rather than financing the alternative to its concentration.

Why Russia, Latin America, Australia, and Africa Matter

Diversification away from Chinese processing requires diversification toward someone, and the available reserve base outside China is concentrated in a specific set of regions whose strategic importance this paper's earlier sections have already begun to suggest indirectly, through India's pivot to Russian oil and through Australia's role as Japan's Lynas partner.

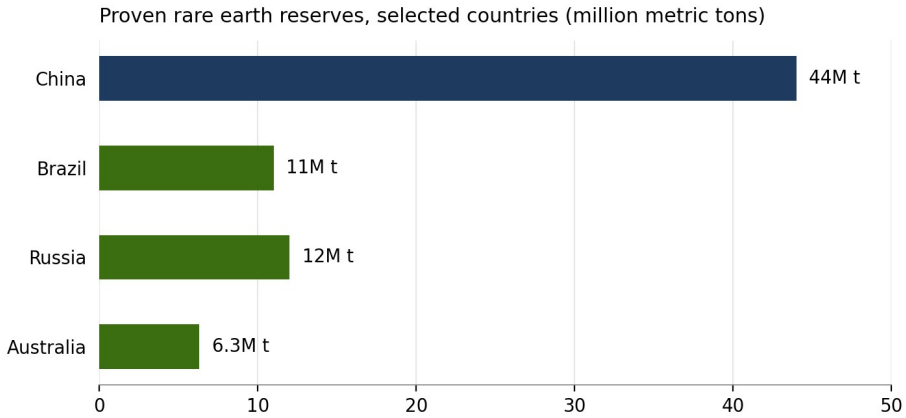


Figure 7. Proven rare earth reserves, selected countries, million metric tons.

According to the latest United States Geological Survey Mineral Commodity Summary, China holds the largest proven rare earth reserves at roughly 44 million metric tons, but Brazil holds the second largest at 11 million, anchored by the Pela Ema ionic clay deposit in Goiás state, one of the largest such deposits in the world and the subject of a 2.8 billion dollar acquisition by USA Rare Earth that includes a fifteen-year offtake agreement with the US government. Australia holds the third largest reserves at 6.3 million metric tons, already the proven partner model through Lynas. Russia is consistently named among the small group of countries, alongside China, Brazil, Vietnam, India, and Australia, holding the world's largest proven and probable reserves, though Western sanctions over Ukraine complicate the kind of direct equity partnership Japan built with Lynas.

The India case study examined earlier in this paper is directly instructive here: India's ability to absorb the 2026 Hormuz shock without a full consumer-level inflation crisis depended substantially on a sanctions waiver allowing continued access to discounted Russian crude, illustrating both the strategic value of the Russian relationship and its inherent fragility, since that waiver remains politically contested. The same logic extends to minerals: Russia's reserve base is real, but unlocking it requires navigating a sanctions architecture with no obvious resolution while the Ukraine war continues, meaning any strategy premised on Russian supply must build in the same fragility this paper documented in the oil case.

Africa's position differs in kind rather than degree. The continent holds substantial reserves across multiple critical minerals, the Democratic Republic of Congo for cobalt, Zambia and Mozambique among the countries explicitly named as FORGE and EU partner-country targets, with development constrained less by geology than by infrastructure gaps and political instability risk that has historically discouraged the multi-decade capital commitment Japan made in Australia. A trading vehicle structure has already secured 100,000 tons of copper for the United States and 50,000 tons for allied Gulf partners from African sources, an early but concrete proof that the model can work when capital, demand signals, and political will align.

The unifying point across all four regions is that successful diversification requires more than reserve abundance; it requires the kind of fifteen-year capital and diplomatic commitment Japan demonstrated with Lynas, applied simultaneously across jurisdictions with very different political risk profiles, from a wartime-sanctioned Russia to an infrastructure-constrained Africa to an already-proven Australia. Treating these as a single undifferentiated diversification strategy risks repeating the slowest and most fragile parts of each relationship rather than the fastest and most durable ones.

The Scarcity Myth: Why Rare Earths Are Not Actually Rare

A persistent misconception, embedded in the name of the entire crisis, is worth correcting directly because it changes how the diversification effort described above should be understood. Rare earth elements are not geologically scarce. Cerium, the most abundant of the seventeen rare earth elements, is more common in the Earth's crust than copper; even the least abundant rare earths are more plentiful than gold or platinum. The name dates to the late eighteenth and nineteenth centuries, when the minerals containing these elements appeared rare because the extraction chemistry needed to isolate them had not yet been developed, not because the underlying deposits were scarce. Geologically significant reserves exist, as the previous section documented, across China, Brazil, Australia, Russia, the United States, Vietnam, India, and a growing list of African nations.

What is genuinely scarce is not the mineral but the economically viable processing capacity, and that scarcity is substantially manufactured rather than natural. Critical mineral markets are defined by abnormally low prices, and this dynamic does not result from a conventional market failure but from a deliberate Chinese strategy of maintaining pricing control, blocking competitors, and expanding state-directed firm profits, sustained through subsidized capital, state-directed investment, and vertically integrated structures that allow Chinese producers to sustain prolonged periods of depressed prices that non-Chinese competitors cannot match without government support. This is not a new tactic. China lowered market prices for several key rare earth minerals by more than 60 percent in the years following 2010, a price suppression episode widely credited with discouraging the very private investment in non-Chinese processing capacity that might otherwise have prevented today's crisis from being possible at all. The Mountain Pass mine in California, now central to American re-shoring efforts under MP Materials, closed in 2002 substantially because it could not compete with Chinese prices sustained below the cost of production elsewhere.

This is precisely why the Pentagon's floor-price arrangement with MP Materials, guaranteeing 110 dollars per kilogram for neodymium-praseodymium oxide regardless of where the market price sits, is structurally significant rather than merely a subsidy: it is a direct countermeasure to a pricing weapon, not a response to a resource shortage. The policy implication is important for how this paper's earlier diversification argument should be read. Expanding the reserve base further, more mining in Brazil, Australia, Russia, or Africa, will do comparatively little to lessen dependence on China if the processing economics remain hostage to a price floor China can undercut at will. The genuine constraint is midstream processing capacity and the price guarantees needed to attract private capital into building it, not the underlying geology, which is abundant nearly everywhere analysts have thought to look.

Conclusion

The argument of this paper can be stated in a single line: the 1973 oil shock taught industrialized economies that resource concentration is convertible into geopolitical leverage, and 2026 is teaching the same lesson twice over, once through the literal repetition of an oil chokepoint at Hormuz, and once through a structurally more durable chokepoint in critical mineral processing that cannot be substituted away in a decade, only in a generation, and only if the underlying pricing distortion that created the chokepoint in the first place is directly confronted rather than treated as a natural scarcity.

The evidence assembled here supports a clear hierarchy of urgency. The Hormuz shock, however severe in its immediate price effects, is the more tractable problem; it will resolve, as the 1973 shock eventually did, once the underlying conflict ends, even if the adjustment period proves costly for exposed economies like India in the interim. The critical minerals shock will not resolve on a

comparable timeline, because Japan's fifteen-year experience demonstrates that even the most committed and earliest-starting diversification effort in the world has achieved only partial insulation, and because the scarcity at the heart of the crisis is manufactured through pricing strategy rather than given by geology, meaning it can in principle be reversed through price floors and coordinated procurement, but only at the pace allied governments are willing to fund that reversal.

For economic wellbeing, this means the turbulence referenced in this paper's assigned theme is likely to prove both more acute in its immediate price effects, as the Hormuz and mineral shocks compound each other through 2026, and more prolonged in its structural effects than the 1970s precedent. For peace, the realignments already visible, Gulf states repositioning from resource holders to coalition financiers across both Pax Silica and FORGE, India's accelerating dependence on a sanctioned but indispensable Russia, and the emergence of Brazil, Australia, and African nations as strategic partners in a way unimaginable before this decade, suggest that the post-2026 international order will be organized as much around mineral processing capacity as the post-1973 order was organized around oil reserves. The lesson of both shocks is identical even as the commodity has changed: the threat that produces the deepest and most lasting disruption is rarely the one a country cannot see, but the one whose true cost it has not yet been forced to pay.

Selected Sources

- International Energy Agency, Global Critical Minerals Outlook 2025 and regional snapshots.
- World Bank, Commodity Markets Outlook, April 2026.
- Brookings Institution, "From Chokepoint to Crisis: The Strait of Hormuz and Global Oil Markets," 2026.
- Federal Reserve Bank of Dallas, "What the Closure of the Strait of Hormuz Means for the Global Economy," March 2026.
- Wood Mackenzie, "Strait of Hormuz Closure Risks Greatest Global Energy Supply Shock in Decades," May 2026.
- Center for Strategic and International Studies, "China's New Rare Earth and Magnet Restrictions Threaten US Defense Supply Chains" and "China's Rare Earth Campaign Against Japan."
- Observer Research Foundation, "The Strait That Shakes Prices: Impact of the Hormuz Disruption on Inflation in India," May 2026.
- OilPrice.com, "India's Oil Crisis Deepens as Hormuz Remains Shut," May 2026.
- S&P Global Energy India Research Chapter, remarks reported in Open Magazine, May 2026.
- International Institute for Strategic Studies, "US Critical-Minerals Diplomacy: From America-First Deals to Pax Silica," January 2026.
- US Department of State, 2026 Critical Minerals Ministerial release, February 2026.
- Foundation for Defense of Democracies, "Forging a New Critical Minerals Reality," March 2026.
- US Geological Survey, 2026 Mineral Commodity Summary, rare earth elements.
- Council on Foreign Relations, "The US Critical Minerals Dilemma," June 2026.
- CBS News and CNN Business reporting on Ford and General Motors production impacts, June 2025.
- Wikipedia, "Economic Impact of the 2026 Iran War" and "2026 Strait of Hormuz Crisis," cross-checked against primary reporting cited above.