ROSA & ROUBINI
ASSOCIATES

MACRO PICTURE

Strategic Straits and the Changing Global Economy

By

Nato Balavadze

2 June 2026

Nato Balavadze

Strategic Straits and the Changing Global Economy

2 June 2026

Table of Contents

Nato Balavadze

Strategic Straits and the Changing Global Economy

2 June 2026

Executive Summary

Introduction

- Maritime straits function as critical chokepoints that concentrate global trade, energy flows, and supply chains into narrow corridors.
- Nearly 90% of global trade is transported by sea, making strategic waterways central to the world economy.
- Disruptions in chokepoints rapidly increase shipping costs, insurance premiums, inflationary pressures, and supply chain delays.

Hormuz: The Energy Chokepoint

- The Strait of Hormuz remains the world's most important energy chokepoint, carrying around one-quarter of global seaborne oil trade alongside major LNG and fertilizer flows.
- The US-Israeli war on Iran severely disrupted shipping through Hormuz, sharply reducing vessel traffic and exposing the vulnerability of global energy markets to regional conflict.

  The Although some shipping activity has resumed, recovery in Hormuz remains fragile due to security concerns, vessel backlogs, and fears of renewed attacks or maritime mines.

Red Sea Geopolitics

- The Red Sea has become a major arena of geopolitical competition involving the US, China, Gulf states, Israel, and Türkiye. China has expanded influence across the Red Sea through ports, infrastructure, logistics, and military investments linked to the Belt and Road Initiative.
- Around 12% of global trade and 30% of container traffic pass through the Red Sea corridor.
- Houthi attacks in Bab el-Mandeb forced many ships to reroute around the Cape of Good Hope, increasing transit times and costs.
- The disruptions severely reduced Suez Canal revenues and exposed Egypt's dependence on maritime transit income.

Panama Canal and US-China Rivalry

- The Panama Canal has become increasingly entangled in US-China geopolitical rivalry over strategic infrastructure control.

The Strait of Malacca and the Revenge of Geography

- The Strait of Malacca remains one of the world's most important manufacturing and energy trade corridors with few viable alternatives.
- Indonesia's proposal to impose tolls on Malacca traffic reflects growing efforts by states to monetize strategic chokepoints.
- The debate over maritime tolls reflects a broader "revenge of geography," where states controlling strategic waterways seek greater geopolitical and fiscal leverage.

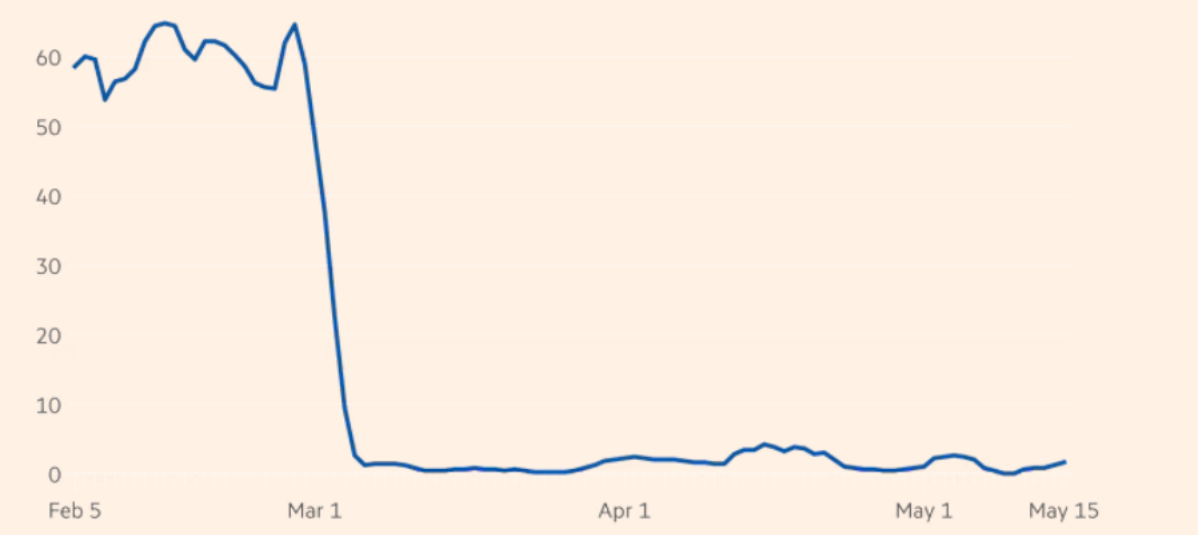
Introduction

Straits are narrow maritime passages that function as critical chokepoints in the global economy. Although seas cover roughly 70% of the Earth's surface, nearly 90% of global trade is transported by sea, making a handful of strategic waterways central to the functioning of international commerce, energy markets, and supply chains. Chokepoints such as the Strait of Hormuz, the Strait of Malacca, Bab el-Mandeb, Suez, and the Panama Canal concentrate enormous volumes of trade into geographically narrow corridors where even limited disruptions can generate global economic shocks through higher shipping costs, energy prices, insurance premiums, and supply chain delays. Increasingly, these waterways are becoming not only logistical bottlenecks, but also instruments of geopolitical leverage, fiscal extraction, and strategic competition.

Strait of Hormuz: The Energy Chokepoint

The Strait of Hormuz is one of the world's most critical maritime chokepoints, carrying around a quarter of global seaborne oil trade and significant volumes of liquefied natural gas and fertilizers. The movements mark a gradual resumption of Gulf shipping after the US-Israeli war on Iran severely disrupted traffic through Hormuz, a chokepoint that normally handles around 20% of global oil and LNG flows. Before the conflict, the strait averaged 125-140 daily ship passages, though thousands of seafarers remain stranded in the Gulf. The resulting ripple effects go far beyond the region, affecting energy markets, maritime transport and global supply chains. 1/3 of global seaborne trade in fertilizers passes through the Strait. It dictates the flow of 20% of global petroleum consumption and vast amounts of liquefied natural gas.

Figure 1: Tankers Passing Through the Strait of Hormuz (5-day moving average of vessel transits, last observation May 15 2026)



Source: FT

Although some traffic has gradually resumed, the recovery remains fragile and highly managed. In recent weeks, several LNG tankers — including Fuwairit, Al Rayyan, and Al Hamra — resumed voyages toward Pakistan, China, and India, while crude oil tankers carrying Iraqi exports restarted operations after months of delay. Nevertheless, even in the event of a formal reopening agreement, restoring normal shipping flows may take weeks or months due to security concerns, vessel backlogs, route coordination, and the continued risk of mines or renewed attacks.

According to reports cited by Reuters, Washington and Tehran have discussed a phased reopening mechanism under which Iran would gradually clear mines from the waterway before allowing full navigation to resume. Transit fees reportedly imposed during the crisis would also be lifted. At the same time, negotiations surrounding

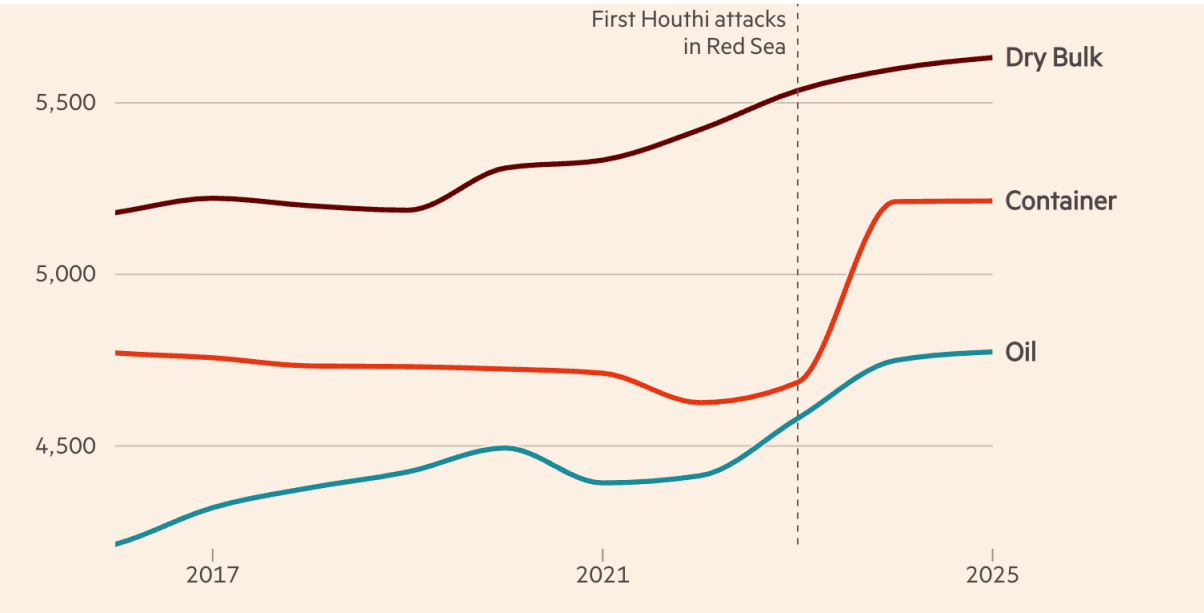
Iran's nuclear program and broader regional security architecture suggest that Hormuz may remain subject to prolonged geopolitical uncertainty even after the immediate conflict subsides.

More broadly, Hormuz illustrates the immense systemic importance of maritime chokepoints in the modern global economy. Even temporary disruptions in a single narrow waterway can rapidly transmit shocks across energy markets, shipping networks, inflation dynamics, and global supply chains far beyond the Middle East itself.

Red Sea: A New Geoeconomic Battleground

The Red Sea has emerged as a major arena of geopolitical and geoeconomic competition, linking global trade, energy flows and strategic connectivity projects such as China's Belt and Road Initiative and the India-Middle East-Europe Corridor. Regional and global powers, including the US, China, Gulf states, Israel and Türkiye, are competing for influence through ports, military bases, logistics hubs and infrastructure investments, while non-state actors such as the Houthis and al-Shabaab add further instability. The region's importance is amplified by the fact that roughly 12% of global trade and 30% of container traffic pass through the corridor. The rerouting of ships around the Cape of Good Hope adds roughly 10-14 days to Asia-Europe shipping times.

Figure 2: Average Distance Travelled by Maritime Tarde, Nautical miles



Source: FT

China has expanded its Red Sea influence through military, digital and infrastructure investments, with Djibouti serving as a key strategic hub. The US presence remains largely security-focused, centered on counterterrorism and anti-piracy operations, while the EU plays a more limited maritime security role. Meanwhile, Türkiye has increased its regional influence through military, economic and cultural engagement in the Horn of Africa.

The Red Sea has become a key arena of both rivalry and cooperation among Gulf and regional powers. Iran, Saudi Arabia, the UAE and Israel have expanded their influence through infrastructure investment, security partnerships and trade corridors across African Red Sea states. The Abraham Accords strengthened Israeli-Emirati cooperation aimed at countering Iran and securing maritime trade routes, while the UAE emerged as a major geopolitical actor through military bases, ports and logistics networks in Eritrea, Somaliland and Ethiopia.

At the same time, instability in Ethiopia, Somalia and Sudan continues to shape regional geopolitics. Ethiopia seeks renewed access to the Red Sea, Somalia remains fragmented amid external rivalries, and Sudan has

become a battleground for competing regional powers, particularly Saudi Arabia and the UAE. Egypt also remains strategically critical due to the Suez Canal's central role in global trade.

Bab el-Mandeb: The Red Sea Chokepoint

Located at the southern entrance of the Red Sea, the Bab el-Mandeb Strait connects the Indian Ocean to the Suez Canal and Mediterranean trade routes. Positioned between Yemen on the Arabian Peninsula and Djibouti, Eritrea, and Somaliland on the African coast, it is one of the world's most strategically important maritime corridors. The strait carries roughly 9-12% of globally traded seaborne oil, substantial volumes of liquefied natural gas, and a large share of Europe-Asia container traffic.

Unlike Malacca, whose importance is primarily industrial and commercial, Bab el-Mandeb has increasingly become a militarized chokepoint shaped by regional conflict and geopolitical fragmentation. Since 2014, the Iran-backed Houthi movement in Yemen has repeatedly targeted commercial shipping through missile attacks, drone strikes, vessel seizures, and other forms of maritime disruption. These attacks intensified during the Gaza and Iran crises, severely undermining confidence in the security of Red Sea shipping routes.

The economic consequences have been immediate and global. Many shipping companies were forced to reroute vessels around the Cape of Good Hope, adding roughly 15 days of transit time and substantially increasing fuel, insurance, and freight costs. Oil flows through the corridor declined sharply, while shipping premiums surged across global markets. In some cases, rerouting added more than 8,000 miles to trade routes linking Europe and Asia.

The disruption has also exposed the vulnerability of African economies to maritime instability. Egypt, whose Suez Canal revenues are heavily dependent on Red Sea traffic, suffered major financial losses as transit volumes collapsed. East African economies faced direct port and supply chain disruptions, while rising freight, fuel, and food costs contributed to inflationary pressure, currency strain, and fiscal stress across import-dependent economies. More broadly, the crisis demonstrated how disruptions at a single maritime chokepoint can rapidly transmit economic shocks across entire regions.

Although some commercial traffic cautiously returned to the Bab el-Mandeb corridor in early 2026, many shipping companies remain reluctant to fully normalize operations due to fears of renewed Houthi attacks. The strategic significance of the strait is reflected in the extraordinary military concentration surrounding it. Djibouti, located directly along the waterway, hosts military bases from several major powers, including the United States, France, Italy, Japan, and China, Beijing's only overseas People's Liberation Army base.

Suez Canal: Trade, Revenue, and Strategic Vulnerability

The Suez Canal remains one of the world's most strategically important maritime chokepoints, linking the Mediterranean Sea to the Red Sea and serving as a critical artery for global trade, container shipping, and energy flows between Europe and Asia. The canal's strategic importance has long made it a focal point of geopolitical conflict and external power competition, most notably during the 1956 Suez Crisis following Egyptian President Gamal Abdel Nasser's nationalization of the waterway.

Today, the canal has once again become vulnerable to regional instability. Houthi attacks in the Red Sea and Bab el-Mandeb, linked to the Gaza conflict and broader Iran-aligned regional dynamics, have severely disrupted maritime traffic through the corridor. As shipping companies rerouted vessels around the Cape of Good Hope to avoid security risks, transit volumes through Suez declined sharply, significantly reducing canal revenues and exposing Egypt's dependence on maritime transit income.

The disruptions have also highlighted the interconnected nature of global chokepoints. Saudi Arabia has partially mitigated risks by expanding use of the Yanbu pipeline corridor across the Arabian Peninsula, enabling some oil exports to bypass both the Strait of Hormuz and Bab el-Mandeb before continuing north toward Suez. Nevertheless, the canal remains indispensable to global trade architecture and Egypt's single most important source of foreign currency revenue.

At the same time, the Red Sea and Suez corridor have become increasingly important within broader global infrastructure competition. For China, the route is central to energy security and to the maritime component of the Belt and Road Initiative. Beijing has expanded investments across the Red Sea region, particularly in ports, logistics, and industrial infrastructure. Egypt has emerged as a major recipient of Chinese investment, especially through the Suez Economic and Trade Cooperation Zone (SETC), one of the flagship nodes of the Maritime Silk Road, where cumulative Chinese investment exceeded $5 billion by the end of 2025.

More broadly, the Suez Canal illustrates how modern chokepoints combine multiple layers of economic significance simultaneously: they are trade corridors, fiscal assets, infrastructure hubs, and arenas of geopolitical competition. Even limited disruptions can therefore generate cascading effects across shipping costs, energy markets, industrial supply chains, and regional political stability.

Panama Canal: Strategic Infrastructure and Great-Power Competition

The Panama Canal remains one of the world's most strategically significant maritime corridors, linking the Atlantic and Pacific Oceans through an 82-kilometer passage across Central America. Since its opening in 1914, the canal has served as a cornerstone of global trade and U.S. maritime power, dramatically reducing shipping distances between the two oceans. Although formally under Panamanian sovereignty following the gradual transfer of control from the United States, the canal continues to occupy a central place in geopolitical competition.

In recent years, concerns in Washington have increasingly focused on the growing Chinese presence surrounding the canal's infrastructure. Chinese-linked companies gained control over key port facilities at both ends of the canal, including Cristóbal on the Atlantic side and Balboa on the Pacific, intensifying fears that Beijing could obtain indirect strategic leverage over one of the world's most critical trade arteries. Reports that BlackRock explored acquiring at least one of the ports reflected broader U.S. anxieties over the geopolitical implications of Chinese influence over global logistics infrastructure.

The canal has also become increasingly entangled in domestic American politics and broader US-China rivalry. President Trump repeatedly threatened to "take back" control of the Panama Canal, accusing China of seeking effective dominance over the waterway. Although such threats did not materialize, they reinforced the perception that major chokepoints are once again becoming arenas of direct great-power competition rather than neutral commercial corridors.

These tensions may also accelerate the search for alternative trade routes. Analysts have suggested that growing geopolitical friction around Panama could encourage China to revive longstanding proposals for a rival interoceanic canal through Nicaragua as part of a broader long-term strategic project extending beyond shipping alone. At the same time, the United States has explored reducing dependence on vulnerable maritime chokepoints through alternative logistics corridors, including the proposed Isthmus of Tehuantepec project in southern Mexico, which would connect the Pacific and Atlantic via rail, ports, highways, and energy infrastructure rather than a traditional canal.

Strait of Malacca: The Manufacturing Chokepoint

Moving to Southeast Asia, the Strait of Malacca has served as the principal maritime corridor between the Indian and Pacific Oceans since the seventeenth century. Stretching roughly 900 kilometers between Indonesia's Sumatra island and Malaysia, with its southeastern entrance near Singapore, the strait is one of the most economically important waterways in the world. Around one-quarter of globally traded crude oil passes through Malacca, alongside an even larger share of the manufactured goods flowing from China and the wider East Asian production network, from Vietnam to the Philippines, that collectively account for roughly one-third of global trade.

Despite its immense importance, the strait is geographically narrow and highly vulnerable. While its width ranges from 65 to 250 kilometers, at its narrowest point it shrinks to just 2.8 kilometers, considerably narrower than Hormuz. Roughly 90,000 vessels transit the strait annually, carrying the energy, intermediate goods, and finished products that underpin the global economy. There are also virtually no economically viable alternatives: rerouting around the Indonesian archipelago or Australia would add substantial costs, fuel consumption, and transit time.

Historically, the strait has been heavily securitized, primarily due to piracy risks and its strategic role in global trade. Yet recent debates suggest that Malacca may increasingly evolve not merely into a security chokepoint, but also into a fiscal and geopolitical one.

The Toll Debate and the "Revenge of Geography"

In April 2026, Indonesia's finance minister floated the idea of imposing tolls on vessels transiting the Strait of Malacca, arguing that countries bordering the waterway bear disproportionate costs for maritime security, anti-piracy operations, environmental protection, and infrastructure maintenance, while global shipping companies and external powers capture most of the economic benefits. Although Jakarta later softened the proposal publicly, the mere discussion revealed that regional elites are seriously considering the monetization of one of the world's most critical maritime arteries.

The proposal immediately exposed conflicting economic models within Southeast Asia. Singapore strongly opposed the idea, fearing that higher transit costs would undermine free trade flows and weaken its position as one of the world's leading transshipment and bunkering hubs. Malaysia adopted a more ambiguous stance, while Thailand used the debate to revive support for its long-discussed "land bridge" project linking the Andaman Sea and the Gulf of Thailand through rail, ports, pipelines, and logistics infrastructure designed to bypass Malacca entirely.

At its core, the debate reflects a deeper geopolitical struggle over who captures the economic rents generated by global trade routes. Geographically, most of the Strait of Malacca lies between Indonesia and Malaysia, while Singapore controls only a relatively small section near its southeastern exit. Yet Singapore has historically captured a disproportionate share of the strait's commercial value through port services, shipping finance, bunkering, insurance, and transshipment. In effect, Singapore became the world's most efficient "service station" on a largely toll-free maritime highway.

The emerging discussion around chokepoint tolls therefore represents what could be described as a "revenge of geography": a shift in leverage back toward states that physically control strategic waterways rather than those that merely provide the most sophisticated commercial services around them. From this perspective, any precedent established around monetizing maritime chokepoints, whether in Hormuz or elsewhere, could fundamentally reshape the political economy of global shipping. For Indonesia and, to some extent, Malaysia,

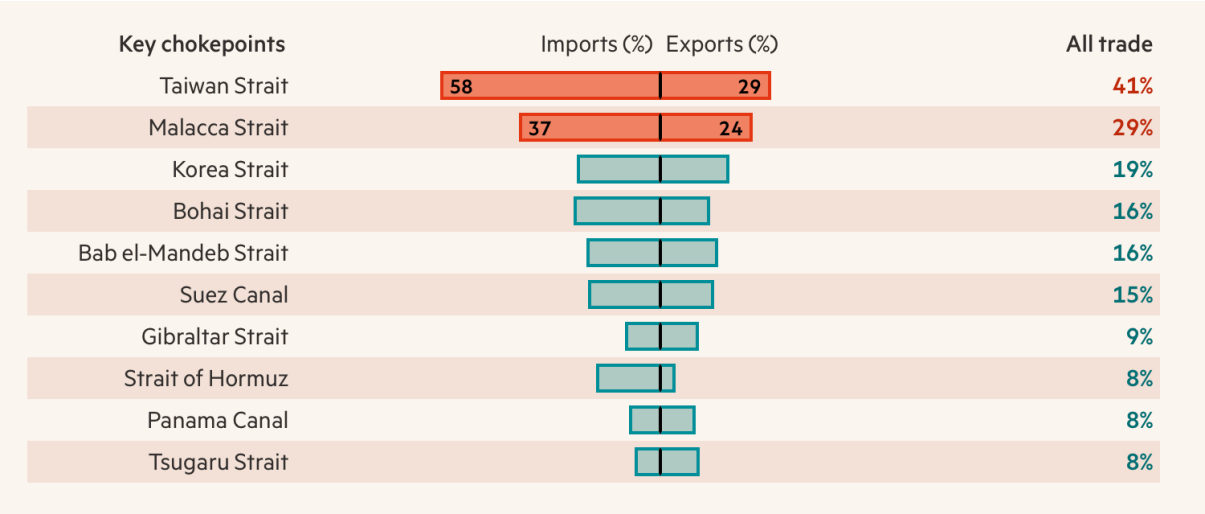
such a shift could unlock new fiscal and geopolitical leverage. For Singapore, however, it poses a structural challenge to an economic model built on the preservation of open, low-friction maritime trade.

Conclusion: The New Geography of Global Trade

The growing instability surrounding maritime chokepoints reflects a broader transformation in the geography of global power. Strategic waterways are no longer merely logistical corridors facilitating global commerce; they are increasingly becoming instruments of geopolitical leverage, fiscal extraction, and strategic competition. From Hormuz and Bab el-Mandeb to Malacca and Panama, disruptions in narrow maritime passages now transmit shocks across energy markets, supply chains, inflation dynamics, and industrial production on a global scale.

At the same time, the search for alternatives is accelerating. In the Asia-Pacific, key corridors such as the Strait of Malacca and the Taiwan Strait, both central to Chinese trade and military strategy, have become major theaters of US-China competition. Growing Chinese interest in the Arctic Northern Sea Route, which would connect Asia and Europe through Russia's northern coastline, reflects not only the desire to shorten shipping times, but also a long-term attempt to reduce dependence on vulnerable chokepoints concentrated along existing maritime routes.

Figure 3: Chokepoint Disruption Vulnerability for China



Source: FT

Yet alternative routes do not eliminate vulnerability; they merely redistribute it. Even the Northern Sea Route would depend on access through the narrow Bering Strait between Russia and the United States, creating a new strategic bottleneck. More broadly, efforts to diversify trade corridors risk generating new forms of dependency and geopolitical exposure. As Vincent Clerc, chief executive of Maersk has observed, redundancy can be built into trade networks, but "every single route can be choked in one way or another."

The melting of Arctic ice may eventually open entirely new maritime corridors and redraw the geography of global trade. But rather than ushering in an era free from chokepoints, it is likely to create new ones. In this emerging environment, the political economy of maritime trade will increasingly revolve not around eliminating vulnerability, but around managing, controlling, and competing over the world's strategic bottlenecks.