



Shockwaves from the US-Israel-Iran War and Hormuz Closure: Economic and Financial Implications for East Asia

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Summary

- The 2026 US–Israel–Iran War has revealed how a single Middle Eastern chokepoint can transmit systemic economic shocks directly into the core of East Asia’s industrial economies.
- The closure of the Strait of Hormuz by Iran represents the most significant energy shock since the 1970s.
- The East Asian economies are particularly exposed due to their structural dependence on Middle Eastern energy imports, with rising oil and liquified natural gas (LNG) prices rapidly transmitting inflationary and industrial cost pressures across the region.
- Within the region, vulnerability varies considerably: Japan and South Korea face the most immediate LNG supply risks due to limited inventories, while China benefits from larger reserves and more diversified supply channels, including pipeline gas imports from Russia.
- This Insight examines the economic and financial consequences of the conflict for East Asia, with particular emphasis on China. While arguing that the resilience of individual Asian economies to the Hormuz blockade is largely determined by the duration and sophistication of their strategic petroleum reserves, it also assesses how these economic pressures intersect with Beijing’s political calculations in responding to the conflict.
- In China, rising energy prices are reversing recent deflationary pressures, but they are also squeezing profits for producers and increasing the risk of slower growth combined with higher inflation.
- At the geopolitical level, despite Iran’s strategic importance to Beijing, China has adopted a cautious and restrained posture, preferring stable relations with the Gulf and the United States— particularly in the lead-up to the Trump–Xi summit (originally scheduled for end March but postponed due to the conflict, with Washington indicating a short delay) — over direct alignment with Tehran.
- The conflict has also triggered a global ‘flight to quality’, strengthening the US dollar, pushing gold to record highs and intensifying capital volatility across Asian financial markets.
- In terms of medium- to long-term policy adaptation, the following trends are likely or should be considered by both the Gulf and East Asian countries:
 - » the crisis is likely to accelerate structural adjustments across East Asia’s energy and financial systems;
 - » governments are expected to intensify diversification of energy supply routes;
 - » expand strategic reserve capacities;
 - » deepen investments in renewable and nuclear alternatives; and
 - » explore an international maritime coalition to mitigate such crisis in the future.

The Issue

The outbreak of direct hostilities between the United States, Israel and Iran has introduced a major geopolitical shock in the global economic system. What initially appeared to be a regional military confrontation has rapidly evolved into a systemic economic event with global repercussions. At the centre of this transmission lies the Middle East's critical role in global energy supply, particularly the Strait of Hormuz — a maritime chokepoint through which approximately one-fifth of global oil and one-quarter of LNG exports transit. The disruption of these flows by Iran has generated an immediate surge in global energy prices, reintroducing inflationary pressures into an international economy that had only recently begun adjusting to a period of weakening demand and declining commodity prices.

East Asia stands at the frontline of this shock. As some of the world's largest energy-importing economies, China, Japan and South Korea remain structurally dependent on hydrocarbon imports from the Gulf. The sudden spike in oil and LNG prices therefore transmits the conflict directly into their domestic economies through deteriorating trade balances, rising production costs and heightened financial volatility. At the same time, the crisis has triggered broader global financial adjustments, including a renewed flight to safe-haven assets, a strengthening US dollar and capital outflows from emerging Asian markets. These dynamics highlight the persistent vulnerability of East Asian economic growth models to external geopolitical disruptions occurring far beyond the region itself.

This Insight examines the economic and financial consequences of the conflict for East Asia, with particular emphasis on China. As the region's largest economy and the world's biggest energy importer, China occupies a central position in the transmission of Middle Eastern energy shocks to Asian markets. The analysis therefore uses China as the primary analytical lens while situating its experience within the broader regional context. It explores how disruptions to Gulf energy supplies affect energy prices, macroeconomic dynamics and financial markets across East Asia, and assesses how these economic pressures intersect with Beijing's political calculations in responding to the conflict.

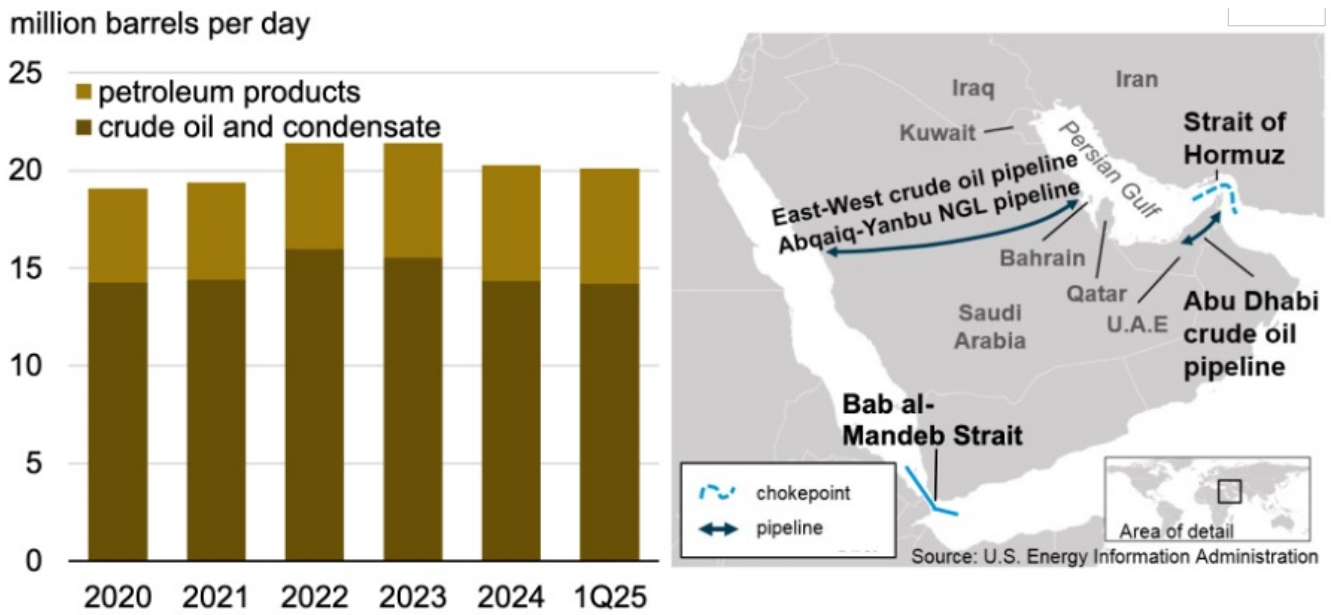
The Energy Crisis: Price Shocks and Chokepoint Fragility

The structural dependence of East Asian economies on Middle Eastern energy imports has served as the primary transmission mechanism for the war's economic fallout. Prior to the conflict, approximately three-quarters of Middle Eastern crude exports bound for China (including Taiwan), Japan and South Korea passed through the Strait of Hormuz.¹ The interruption of these flows has created a profound importer's dilemma, where the sudden spike in import costs directly erodes trade balances, fuels imported inflation and threatens to derail industrial production.

Prior to the war, global energy markets were operating under a paradigm of expanding supply and weakening demand, with the World Bank projecting a six-year low in commodity prices for 2026.² Brent crude was forecast to average around \$60 per barrel, driven by a significant oil glut and stagnant consumption in major economies such as China. The outbreak of hostilities instantly changed these dynamics, introducing a massive geopolitical risk premium that propelled Brent crude to intraday highs of approximately \$120 per barrel in early March.³

The closure of the Strait of Hormuz represents the most significant energy shock since the 1970s. Approximately 20 million barrels of oil per day — representing a quarter of the world's seaborne oil trade — transited the Strait in 2025.⁴ Furthermore, one-fifth of global LNG shipments, primarily from Qatar and the UAE, are dependent on this narrow corridor.⁵ The Iranian decision to block the Strait, coupled with attacks on regional energy production facilities, forced major providers such as Qatar Energy, the Kuwait Petroleum Corporation (KPC) and the Abu Dhabi National Oil Company (ADNOC) to declare force majeure.⁶

Figure 1. Volume of Petroleum Transported Through the Strait of Hormuz



Source: US Energy Information Administration (EIA), “Amid regional conflict, the Strait of Hormuz remains critical,” 2025. <https://www.eia.gov/todayinenergy/detail.php?id=65504>

This supply-side contraction created an immediate and explosive volatility in price discovery. While oil prices settled closer to \$90-\$100 per barrel following the announcement of an IEA-led 400-million-barrel emergency release, natural gas and LNG prices remained significantly elevated.⁷ The Japan Korea Marker (JKM) and European TTF (Title Transfer Facility) gas benchmarks saw prices nearly double as Asian and European buyers began to compete fiercely for the limited supplies of non-Gulf energy.

Table 1. Comparative Energy Prices (2025 vs. March 2026)

Energy Benchmark	2025 Average	Pre-Conflict (Feb 27, 2026)	Post-Outbreak Peak (Mar 9, 2026)
Brent Crude Oil (\$/bbl)	\$68.00	\$69.80	\$119.50
WTI Crude Oil (\$/bbl)	\$60.00	\$62.10	\$116.00
LNG Spot (JKM) (\$/MMBtu)	\$13.50	\$12.80	\$22.00
Gasoline (US Pump \$/gal)	\$3.00	\$2.98	\$3.48

Source: Authors’ compilation based on commodity price data from the US Energy Information Administration (EIA), ICE Brent futures, NYMEX WTI futures, and S&P Global Platts JKM.

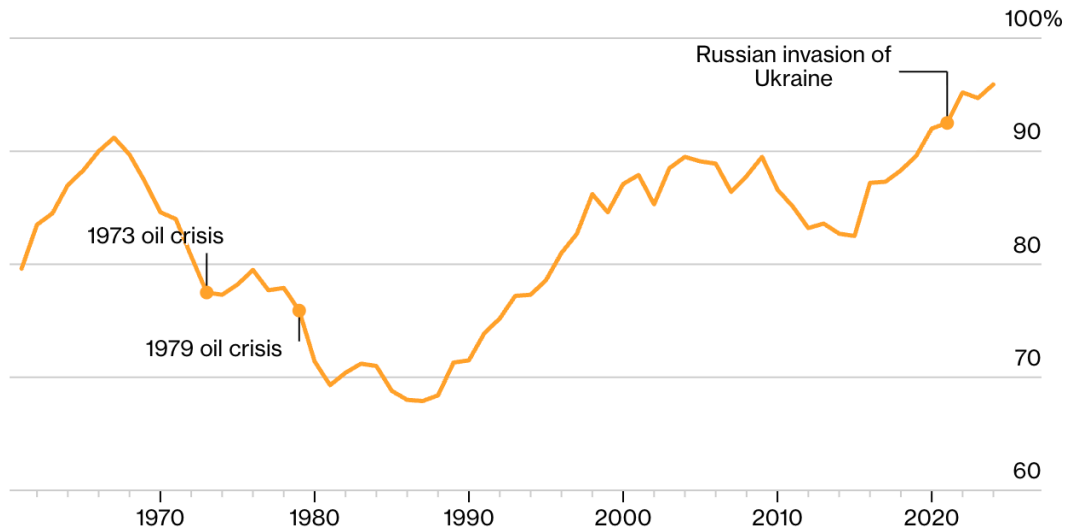
The mechanism of this price rise extends beyond physical scarcity. The market is pricing in the long-term degradation of Iranian and regional infrastructure, alongside soaring insurance premiums and the logistical necessity of rerouting vessels around the Cape of Good Hope — a detour that adds 25-30% to voyage distances and significantly increases fuel consumption and working capital requirements.⁸

Strategic Reserves and Asian Economic Resilience amid the Conflict

The resilience of individual Asian economies to the Iranian blockade of the Hormuz is largely determined by the duration and sophistication of their strategic petroleum reserves. Developed Asian economies—particularly Japan and South Korea—remain heavily dependent on Middle Eastern oil. Following Russia’s invasion of Ukraine, Japan’s share of crude oil imports from the Middle East rose to approximately 96% (see Figure 2). To mitigate this vulnerability, these import-dependent states have developed some of the world’s most extensive strategic buffers, built over decades of energy security planning.⁹ Japan’s reserves, covering approximately 254 days of demand, and South Korea’s 208-day buffer, have provided a critical psychological and physical cushion against immediate paralysis.¹⁰

Compared with advanced East Asian economies, the impact is more severe on developing states in Southeast Asia. The cost of accessing these reserves and the inevitable depletion during a prolonged conflict have led to the implementation of 'Crisis Level 3' protocols, including the rationing of fuel and the suspension of non-essential civil servant travel in countries like Thailand.¹¹

Figure 2. Japan's Share of Crude Imports from the Middle East by Fiscal Year

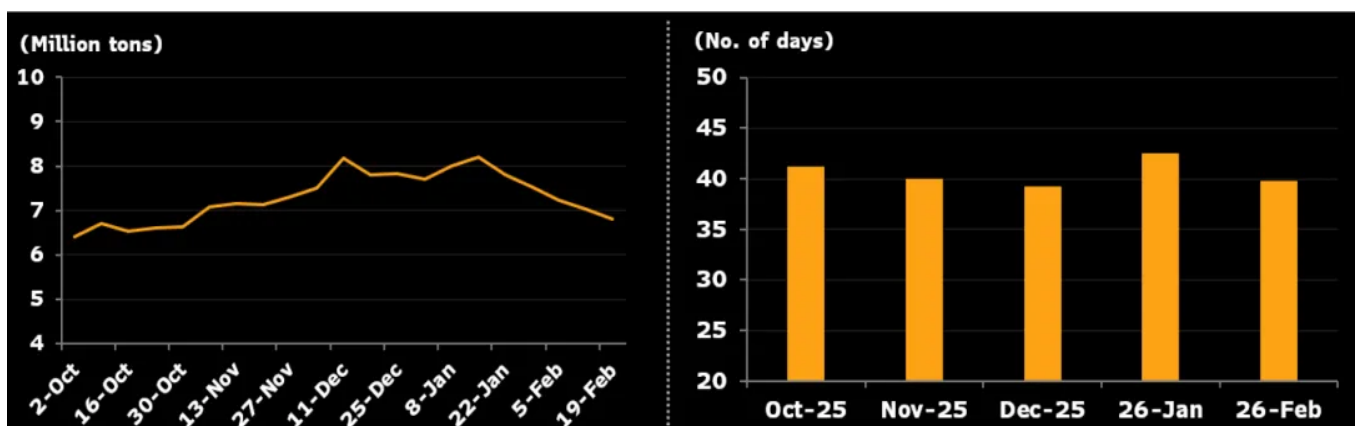


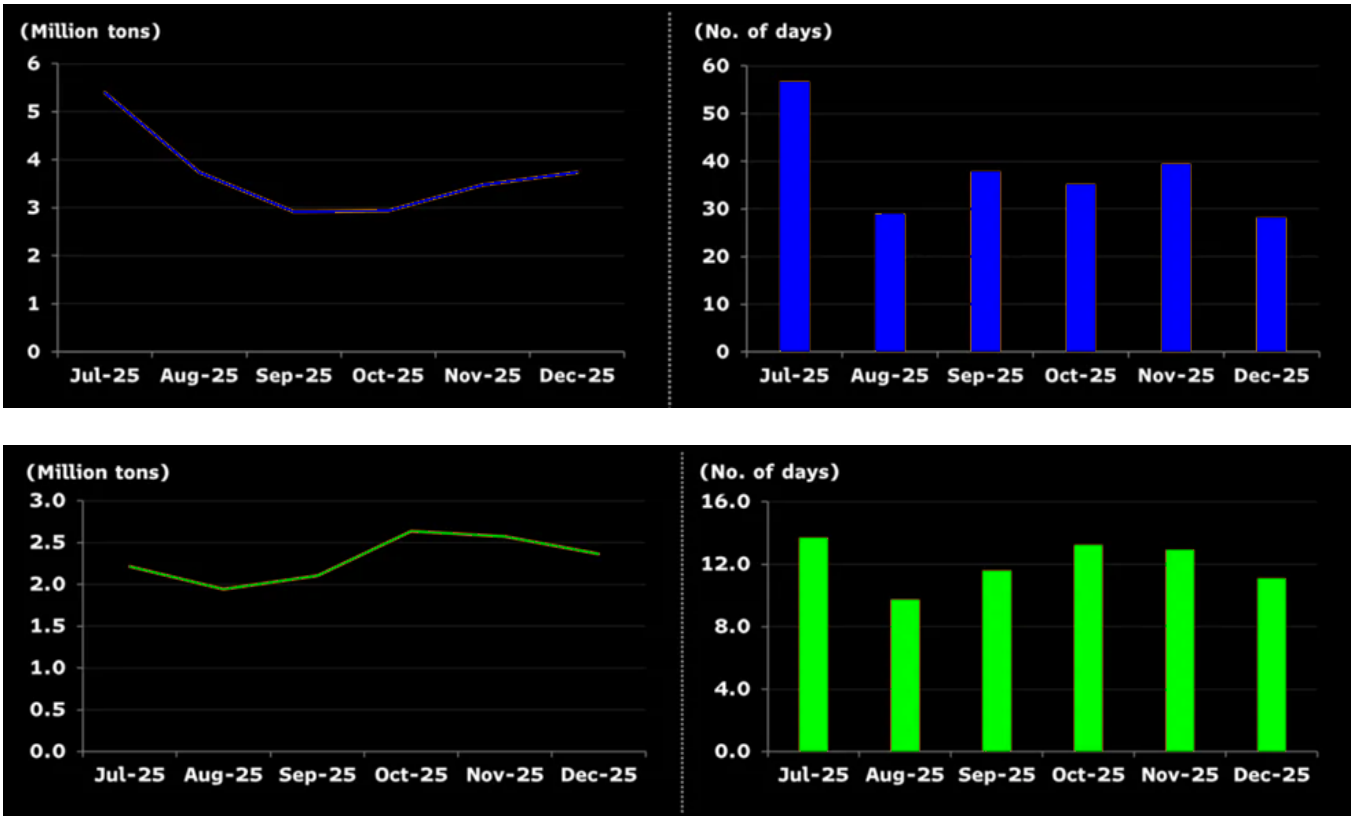
Source: Bloomberg. "Can Japan's Oil and Gas Stockpiles Weather a Middle East Crisis?" March 12, 2026. <https://www.bloomberg.com/news/articles/2026-03-12/can-japan-s-oil-and-gas-stockpiles-weather-a-middle-east-crisis>

Along similar lines, emerging giants like India and Indonesia are significantly more exposed, with reserves covering only 25 and 23 days, respectively.¹² This divergence creates an asymmetric impact across the region, where every 10% rise in oil prices is estimated to reduce Asian GDP by 0.3%¹³ and worsen current account balances by a similar margin, hitting the least-buffered economies hardest. China occupies a middle ground, with inventories estimated at approximately 110 days of import needs.¹⁴ While China's absolute volume of reserves is massive, its role as the world's largest oil importer — sourcing close to half of its energy from the Gulf — means that any sustained disruption in Hormuz threatens up to 45% of its total crude imports.¹⁵

Regarding LNG reserves, the vulnerability of major Asian economies differs considerably too. Japan appears particularly exposed due to its limited inventory levels, raising the likelihood of an urgent restocking cycle if supply disruptions occur. In December 2025, Japan's LNG inventories stood at approximately 2.37 million tonnes, equivalent to only about 11 days of import coverage.¹⁶ South Korea faces a similar, though somewhat less acute, situation. Its LNG inventories declined in late 2025, reaching around 3.7 million tonnes by December, equivalent to approximately 28 days of import coverage.¹⁷ China, by contrast, is in a more resilient position. As of mid-February, China's LNG inventories stood at approximately 6.82 million tonnes, equivalent to roughly 42 days of import coverage.¹⁸ Together with its substantial strategic reserves and the flexibility provided by pipeline gas imports from Russia, China possesses a greater capacity to absorb short-term disruptions to LNG supplies from the Middle East.

Figure 3. LNG Inventories (Million Tons) and Import Coverage (Days) in China (orange), South Korea (blue) and Japan (green)





Source: Bloomberg Intelligence; see also https://mp.weixin.qq.com/s/V6BImq_ID8w81vkNvhAFFQ

Economic Transmission Mechanisms: China as a Case Study

This section examines how the energy shock is expected to reshape China’s macroeconomic conditions, moving the economy from deflationary pressures to rising cost-driven inflation.

From Deflationary Slump to Cost-Push Realities

The energy price shock occurred at a critical time for the Chinese macroeconomy, which had spent much of 2025 battling persistent deflationary pressures and weak domestic demand. The sudden surge in oil and gas prices in late February provided a ‘useful assist’ in steering general price levels back into positive territory, though the underlying cause — a supply-side shock — is fundamentally different from a dynamic recovery. In the Chinese case, the immediate transmission of an oil shock is more likely to appear first in producer prices rather than consumer prices. This means that an energy-driven return of headline inflation does not necessarily signal a broad-based demand recovery; rather, it may reflect rising input costs, squeezed margins and cost pressure spreading through the industrial chain.

A key feature of the Chinese transmission mechanism is the frequent mismatch between macro-level readings and micro-level pressure. Consumer inflation may remain relatively subdued for a period, yet firms can face rising raw material costs, margin compression and limited pricing power. This dislocation is important as policymakers and market participants may underestimate the severity of the shock if they focus on Consumer Price Index (CPI).

Meanwhile, the pass-through from oil prices to CPI in China is neither immediate nor automatic. Cost increases at the producer level are filtered through weak consumer demand, intense market competition, regulated pricing mechanisms, and firms’ limited ability to pass through higher input costs. Thus, the first-order effect of an oil shock is usually not an immediate surge in consumer inflation, but a redistribution pressure across the production chain.

The February 2026 inflation data already hinted at this evolving dynamic. The CPI rose by 1.3% year-on-year, up from 0.2% in January.¹⁹ Much of this increase, however, was linked to the Spring Festival holiday effect, which contributed roughly 0.75 percentage points, with airline ticket prices rising by 29.1% and travel agency fees by 12.5%. Domestic gasoline prices also rose by 3.1% month-on-month, adding to the upward pressure. Since the conflict only began at the end of February, its direct impact is unlikely to have been fully captured in the February data and is expected to become more visible in March. Meanwhile, core CPI, which excludes volatile food and energy prices, rose to 1.8% , its highest level since March 2019.²⁰

Producer prices point to stronger transmission through the industrial sector. Although the PPI still declined by 0.9% year-on-year in February, the pace of decline narrowed for the third consecutive month, partly reflecting rising international crude oil and non-ferrous metal prices. On a month-on-month basis, the PPI has risen for five consecutive months.²¹ Analysts at ING and other institutions therefore expect PPI inflation to return to positive territory in March or April, as the full effects of the energy shock filter through upstream and intermediate industries.

The broader danger for the Chinese economy lies in the potential for ‘stagflation’— a situation where rising energy prices drive up headline inflation while simultaneously depressing real incomes and dampening consumer confidence. Unlike the disinflationary growth of the 1990s and 2000s, the 2026 energy crisis may force households to adjust to higher transportation and heating costs even as income expectations remain low, which could lead to a contraction in discretionary spending and further delay the recovery of the property sector.²²

Impact on Corporate Margins and Industrial Competitiveness

The surge in global energy prices has triggered an immediate compression of profit margins across China’s vast manufacturing sector. Energy-intensive industries such as steel, petrochemicals, aluminium, and non-ferrous metals are particularly exposed, as their production processes rely heavily on stable and affordable supplies of hydrocarbons and electricity. For these sectors, energy costs constitute a substantial share of total production expenditure. The conflict has therefore not only increased input costs but also introduced uncertainty in the availability of key industrial commodities, forcing firms to absorb higher costs while operating under tightening global demand conditions.

The aluminium sector illustrates the scale of this pressure. The Middle East accounts for roughly 9% of global aluminium production and approximately 22% of output outside China.²³ Major regional producers, including Qatar’s Qatalum and Bahrain’s Alba, have declared force majeure as the Strait of Hormuz blockade disrupts both the export of finished ingots and the import of alumina feedstock.²⁴ The resulting supply squeeze has driven London Metal Exchange (LME) aluminium prices to record highs of over \$3,300 per tonne. While higher global prices may benefit upstream producers in the short term, downstream Chinese processors — particularly those in the automotive, electronics and construction supply chains — face significantly higher input costs. This places pressure on export competitiveness at a time when global demand remains uncertain.

More broadly, the energy shock is likely to reinforce structural pressures within China’s industrial system. For many manufacturers operating with already thin margins, higher energy and logistics costs are accelerating a process of industrial consolidation. Smaller firms with weaker balance sheets face increasing difficulty in absorbing cost volatility, while larger and more technologically advanced producers are better positioned to maintain profitability through efficiency gains and vertical integration. In this sense, the conflict may inadvertently accelerate an ongoing shift toward higher value-added industrial production within China’s manufacturing base.

The government’s policy response reflects this structural challenge. Beijing has increasingly relied on so-called ‘anti-involution’ policies to stabilise corporate profitability and prevent destructive price competition within domestic markets. These measures, emphasised during the 2026 ‘Two Sessions’²⁵, aim to curb excessive capacity expansion and discourage firms from engaging in aggressive price wars that erode margins across entire industries. For example, Chinese regulators have recently introduced pricing compliance guidelines for the automotive sector aimed at limiting destructive price wars. The rules explicitly prohibit automakers and dealers from selling vehicles below production cost to eliminate competitors, marking a regulatory attempt to restore profitability and promote ‘value-based competition’ in the industry.²⁶ The broader objective is to prioritise the emergence of technologically advanced and financially sustainable ‘national champions’ rather than perpetuate subsidised overcapacity.

In the longer term, therefore, the energy shock may serve as a catalyst for deeper industrial restructuring. Rising input costs are likely to reinforce Beijing’s push toward efficiency-driven growth, supply chain upgrading and technological self-reliance, particularly in sectors linked to electric vehicles, advanced materials and strategic manufacturing.

Financial Market Shocks: Capital Flight and the Emerging Market Fragility

The financial market reaction to the war was characterised by an abrupt and violent reversal of the dominant global investment themes. Entering the year, the prevailing strategy among asset managers was the ‘Sell America’ trade — a rotation away from overvalued US software and tech stocks and into Asian hard tech manufacturing hubs, which were seen as the backbone of the global AI infrastructure race.²⁷ This led to massive inflows into South Korean, Taiwanese and Japanese equities throughout January and February.

The recent conflict triggered a shift by global investors toward safe-haven assets. As concerns grew over a prolonged energy shock and its impact on growth and inflation, investors began pulling out of Asian markets and moving funds into dollar-denominated assets, especially the US government bonds, which are widely seen as more stable and safer during periods of global uncertainty.²⁸

A Stronger Dollar and Financial Spillovers to East Asia

The US dollar, which had been on a depreciating trend throughout 2025, experienced a sharp resurgence as the conflict intensified.²⁹ The American economy's status as a net energy exporter provided it with a structural advantage over energy-importing Europe and Asia. Combined with the fact that the dollar remains the dominant currency for global crude trade, this reinforced the dollar's role as a preferred hedge against an energy-shock environment. By March 12, the US Dollar Index (DXY) had climbed back to above 99.3, driven by a mix of risk aversion and expectations that the Federal Reserve would be forced to maintain higher interest rates to combat energy-driven inflation.³⁰

Table 2. Currency Forecasts and Exchange Rate Volatility (March 2026)

Currency Pair	Spot (27.02.26)	Q1 2026 Forecast	Q2 2026 Forecast	Vulnerability Status
USD/CNY	6.8616	6.8500	6.8500	Low (strong PBoC control)
USD/JPY	156.05	154.00	152.00	Moderate (safe-haven but energy-weak)
USD/KRW	1440.1	1450.0	1440.00	High (sensitive to oil and growth)
USD/INR	90.975	92.000	93	Very High (low reserves, oil-dependent)

Source: Mitsubishi UFJ Financial Group (MUFG) Research. Monthly Foreign Exchange Outlook. March 2, 2026. <https://www.mufgresearch.com/fx/monthly-foreign-exchange-outlook-march-2026/>

Meanwhile, gold reached unprecedented levels, breaching \$5,300 per ounce.³¹ This parallel movement of both the dollar and gold — assets that typically exhibit an inverse correlation³² — underscores the extreme level of market stress. Gold served as the ultimate release valve for credibility concerns regarding global central banks and the stability of the international financial system amid the prospect of further geopolitical and macroeconomic shocks.

The rising dollar has placed immense pressure on the Asian currencies, especially on the Japanese yen. The yen, which had already been fragile, saw its traditional safe-haven status overshadowed by the dollar. Unlike in previous crises, where the yen would appreciate on risk aversion, the current conflict's focus on energy has made Japan's status as a fuel importer the dominant factor in its valuation.³³ Japan's economic architecture is uniquely sensitive to the current 'dollar-oil' correlation. Relying on imports for nearly 90% of its crude oil, most of which passes through the Strait of Hormuz, the Japanese economy faces a deteriorating terms-of-trade (ratio of price of exports to price of imports) that threatens to derail its long-awaited escape from stagnation.

South Korea's financial reality in March has also been marked by volatility. On March 3rd, the KOSPI index suffered a sharp 12% crash — its worst since the 2008 financial crisis — as foreign investors fled the tech-heavy market.³⁴ The won fell below the 1,500-per-dollar mark, extending losses to its weakest level since 2009. In response, the administration of President Lee Jae Myung activated a 100 trillion won (approximately \$68.3 billion) market stabilization program.³⁵ This massive fiscal and financial intervention is designed to prevent a systemic collapse by providing liquidity to the bond and equity markets. The program includes the activation of a 40 trillion won bond market stabilization fund and a 10 trillion won stock market stabilization fund, the latter of which can purchase KOSPI 200 exchange-traded funds (ETFs) to support index levels.

Within the broader Asian market rout, the performance of Chinese mainland and Hong Kong financial markets has been comparatively resilient, albeit under significant pressure. The CSI 300 and the Hang Seng Index outperformed their regional peers, such as the KOSPI and Nikkei 225, during the initial ten days of the conflict.³⁶ This relative stability is a product of China's unique 'fortress' financial architecture, which combines strict capital controls with proactive state intervention and strategic policy signalling.

As a global financial hub with an open capital account, Hong Kong has faced the brunt of the region’s capital mobility shocks. The Hang Seng Index fell to an 11-week low of 25,249 on March 4th as global investors retreated from Asian risk assets.³⁷ However, the market’s depth and its role as a gateway for ‘Southbound’ capital from mainland China provided a counter-cyclical buffer. Southbound net inflows into tech giants like Tencent reached billions of HKD during the peak of the sell-off, as mainland investors viewed the HSI’s low valuations as a buying opportunity.³⁸

Table 3. Performance of Asian Benchmark Indices and Safe Havens (March 2026)³⁹

Asset / Index	Region / Type	Value (Mid-March 2026)	Trend from Feb 27	Key Driver
Hang Seng Index	Hong Kong	~25,500–25,800	net -3% to -5%	Middle East tensions mixed China stimulus effects
KOSPI	South Korea	~5,700–5,900	-20% then +11% swings	Extreme swings from energy fears, then strong rebounds on corporate reforms and tech/AI optimism
Nikkei 225	Japan	~54,000–55,000	-5% to -7%	Oil-driven stagflation fears, but partial recovery on trade data
CSI 300	China	~4,600–4,650	-1% to -2%	holiday spending boost, recent softening on global risk-off
Gold (XAU/USD)	Safe Haven	~\$4,600–\$5,000	-4%	Post-peak liquidation, rising inflation/rate reassessment, but still elevated YTD
DXY Index	Safe Haven	~99.8–100.2	Slightly up	Dollar strength on risk-off flows, Fed policy outlook

Source: Authors’ compilation of approximate mid-March 2026 values and trends for the Hang Seng Index, KOSPI, Nikkei 225, CSI 300, gold (XAU/USD), and the DXY Index, based on data from Bloomberg, Yahoo Finance, Trading Economics, Investing.com, Macrotrends, Twelve Data, Reuters, and CNN, accessed March 19, 2026.

The Forthcoming Trump Visit and China’s Response to the Conflict

Despite the economic stakes outlined above, China’s political response to the conflict in public has remained relatively low-key, particularly when compared to the scale of its strategic and economic interests in the region. Iran is one of China’s most important comprehensive strategic partners, a key node in the Belt and Road Initiative (BRI) and a major supplier within China’s energy supply chain. Nevertheless, Beijing’s reaction has been characterised by cautious and calculated pragmatism. While supporting Iran diplomatically, China has prioritised the preservation of its broader macroeconomic relationships with the Arab Gulf states, the United States and the wider global trading system.

Publicly, the Chinese diplomatic apparatus has adopted a posture of severe, moralistic condemnation. Chinese Minister of Foreign Affairs Wang Yi denounced the US and Israeli military operations — specifically highlighting the assassination of Iranian leadership and alleged attempts at regime change — as ‘unacceptable’, categorising the war as a tragedy that should never have happened.⁴⁰ Beneath the veneer of diplomatic solidarity, China has meticulously and deliberately avoided taking any concrete military action with Iran against the United States or its allies. Beijing has explicitly offered Tehran no formal security guarantees, restricting its assistance entirely to selective dual-use technologies⁴¹ while refusing to intervene in the kinetic fight. Beyond Beijing’s broader cost–benefit calculations and the widely acknowledged non-alliance principle in foreign policy,⁴² an upcoming major political event is also shaping China’s strategic calculus in responding to the crisis.

China’s restrained response to the conflict must also be analysed in light of the forthcoming high-stakes diplomatic engagement between Beijing and Washington. US President Donald Trump had a planned visit to China at the end of March. Though now rescheduled,⁴³ the anticipation of this high-level interaction has introduced an additional layer of strategic calculation into Beijing’s posture towards the conflict. From Beijing’s perspective, the priority lies in preserving a stable negotiating environment with Washington at a moment when broader bilateral issues — including trade frictions, technological restrictions and the Taiwan issue above all — remain central to China’s long-term strategic agenda. Escalating political pressure on Washington over the Iran conflict or providing more substantive military or diplomatic backing to Tehran could risk undermining the diplomatic atmosphere ahead of the visit and complicating Beijing’s efforts to extract concessions from the United States on issues of greater strategic significance.

In this sense, China's approach reflects a hierarchy of strategic priorities. While Iran constitutes an important partner within China's Middle Eastern diplomacy and energy security framework, it does not occupy the same level of importance as the stability of the Sino-US relationship or the management of the Taiwan issue, which Beijing views as a core national interest. By maintaining a relatively low-profile position in the Iran conflict and avoiding overt confrontation with Washington, Beijing preserves diplomatic flexibility and minimises the risk of derailing potential negotiations with the US. Therefore, China's limited pressure on the United States over the war should be interpreted less as indifference toward Iran and more as a manifestation of Beijing's broader grand strategy, in which Middle Eastern partnerships remain secondary to the management of great-power relations and the pursuit of leverage on issues closer to China's strategic core.

Conclusion and Outlook

The US-Israel-Iran conflict has exposed the structural vulnerability of East Asian economies to external energy shocks. The disruption of oil and LNG flows through the Strait of Hormuz rapidly transmitted the conflict into the region through rising import costs, inflationary pressures and financial market volatility. While strategic reserves have provided a short-term buffer for advanced importers such as Japan and South Korea, the shock has nevertheless tightened regional energy markets and intensified competition for alternative supplies. China occupies a relatively more resilient position due to larger reserves, diversified supply chains and pipeline gas imports from Russia, although its status as the world's largest oil importer means that prolonged disruption would still impose significant macroeconomic costs. At the same time, the conflict has triggered broader financial adjustments, including a renewed strengthening of the US dollar, capital outflows from Asian markets and increased pressure on energy-importing currencies.

Looking forward, three scenarios will determine the longer-term trajectory of the regional economic impact.

- Firstly, the duration of the Strait of Hormuz disruption remains the single most critical variable. A short-term disruption can be absorbed through strategic reserves and emergency supply releases, while a prolonged blockade would fundamentally reshape global energy trade routes and impose persistent inflationary pressure on Asian importers.
- Secondly, the evolution of global financial conditions — particularly the strength of the US dollar and interest rate expectations — will determine whether capital outflows from emerging Asian markets will intensify.
- Thirdly, diplomatic developments between the United States and regional actors will influence whether the conflict remains a contained regional war or evolves into a broader geopolitical confrontation.

In the medium to long term:

- the crisis is likely to accelerate structural adjustments across East Asia's energy and financial systems;
- governments are expected to intensify diversification of energy supply routes;
- expand strategic reserve capacities;
- deepen investments in renewable and nuclear alternatives; and
- potentially explore an international maritime coalition to mitigate such crisis in the future.

At the same time, the conflict reinforces the enduring role of the US dollar and global financial markets as stabilising anchors during periods of geopolitical stress. For China in particular, the episode underscores the delicate balancing act between its expanding economic presence in the Middle East and its overriding strategic priority of managing great-power relations with the United States.

Ultimately, the 2026 conflict has revealed the extent to which East Asia's economic stability remains intertwined with distant geopolitical fault lines. As long as the region continues to rely heavily on external energy supplies transported through vulnerable maritime corridors, similar crises will remain capable of transmitting powerful shocks into the heart of the Asian economic system.

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