

# Prospects

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## ASIA – In the Hormuz trap

- Open and tightly integrated into international trade, Asian countries are exposed to the disruption caused by the ongoing conflict in the Gulf. Most of them have reacted quickly, worrying about the impact of the war on energy supplies and trade flows.
- The number one risk transmission channel is, of course, oil: suppliers to Asian countries are mainly located in the Gulf, resulting in a direct impact on prices and energy-intensive value chains. In this regard, just about every country in the region is affected, with Indonesia and Malaysia – both oil producers (albeit still net importers) – having a slight edge.
- Other raw materials and intermediate goods that pass through the Strait of Hormuz also need to be monitored: gas, of course, which powers production chains in North Asia (South Korea, Japan, Taiwan) and India; and aluminium, plastics made from oil residues, and fertilisers, where a shortage or a sharp increase in prices could weaken the Indian and Indonesian agricultural sectors.
- As the conflict drags on, the issue of human flows will become increasingly central: tourist flows to Southeast Asia (Malaysia, Philippines, Thailand) – much of which passed through the Gulf from Europe – and, above all, flows of workers. For some countries (India, Philippines), the matter of remittances from diaspora populations is far from trivial.
- Lastly, the United States' traditional allies (South Korea, Japan and Taiwan) are already worried about transfers of military manpower and defence capabilities deployed in the area thus far. This shift towards a new conflict

zone reinforces the idea that these countries will have to rely more than ever on their domestic and regional resources, rather than on the US, to ensure their security and maintain the necessary deterrence against neighbouring hostile powers (China, North Korea and Russia).

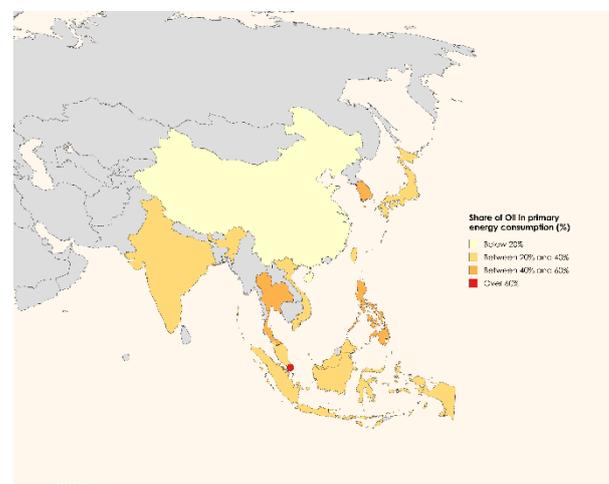
### The big risk: dependence on oil from Hormuz

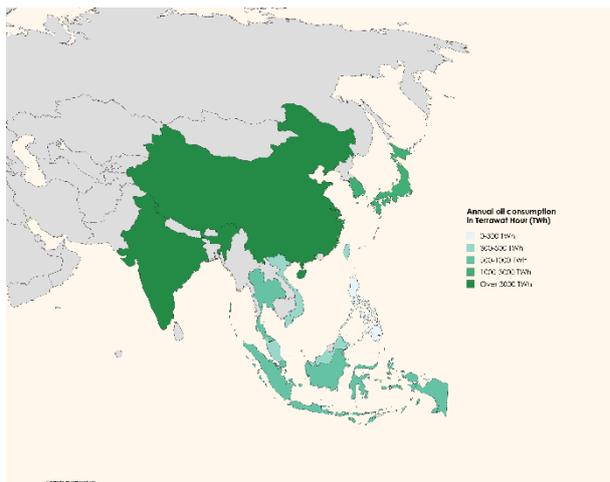
#### *A still heavily carbon-intensive energy mix*

Despite major efforts by a few countries in the region (China, South Korea, Japan) to diversify and develop renewable energy, Asian economies remain highly carbon-intensive.

Every country in the region is exposed, either because the share of oil in its primary energy consumption is very high (Singapore: 86.8%; South Korea: 42.8%; Philippines: 40.8%), because it's a major importer (China) or both (India, Japan).

Indonesia and Malaysia, being oil-producing countries, appear somewhat better protected but remain exposed to a prolonged global shock.





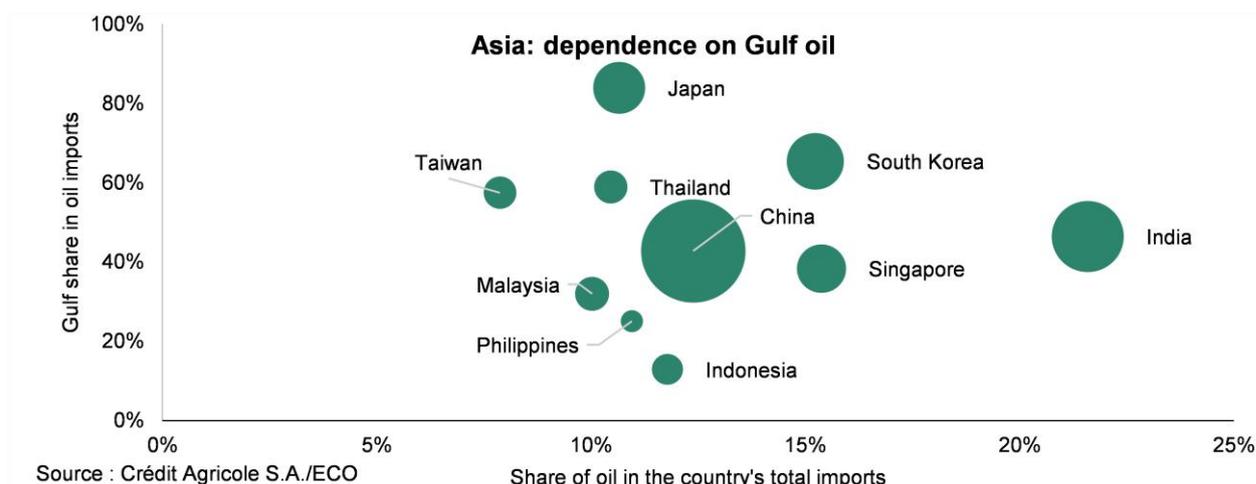
which is not included in official statistics. The broad consensus estimate is that Iran exports 80–90% of its oil – i.e. around 1.4 million barrels a day – to China through backdoor routes that circumvent sanctions, often passing through Malaysia. **The war means China has (temporarily?) lost a second (after Venezuela) supplier of crude oil at knock-down prices.** With oil imports totalling \$320 billion in 2025 and an estimated daily requirement of 11.3 million barrels, China is going to have to turn to other suppliers if it cannot quickly negotiate the reopening of the Strait of Hormuz.

**Supply dependent on Hormuz**

Moreover, with nearly 75% of the oil that passes through the Strait of Hormuz destined for Asian countries, the latter are bearing the brunt of the blockage.

Next come **the most affected importing countries: India, South Korea and Japan.** South Korea and Japan face a new logistical headache: when forced to reassess their supplies following the Russian invasion of Ukraine, it was to the Gulf that they turned. Meanwhile, India, whose oil imports account for 22% of total imports, is likely to continue to rely more on Russia, as it has done since 2022, especially now that the US has temporarily lifted some sanctions to authorise imports of Russian oil and free up the market.

At the top of the list is **China, which imports nearly 43% of its oil from the Gulf, not counting Iran,**



The size of the bubbles is proportional to the total value of oil imports (crude and refined) for the most recent annual data available (2024 or 2025). Each country's name is followed by the value of its imports, in billions of dollars.

**Other things to keep an eye on: gas, aluminium, fertilizers and plastics**

Energy is not Asia's only weak point with regard to the Strait of Hormuz.

**Another key product to watch is aluminium:** the Gulf states account for around 8% of global production of primary aluminium and 14% of exports. The region still relies mainly on imports that pass through the Strait of Hormuz – between 20% and 30% of imports for the majority of Asian countries, though the amounts involved are, once again, relatively small. As with oil, Japan and South Korea had already had to revise their supply arrangements in 2022, with Russia also a major producer and exporter of aluminium.

**Every year, the Gulf produces around 15% of the world's polyethylene – an essential plastic component used in making packaging, bottles and bags –** of which Asia is the world's biggest consumer. Although the amounts involved are often relatively small, Asian countries are highly dependent on the Gulf for imports of these materials: 36% for China, 50% for India and 68% for Singapore.

**Gas imports are another weak point.** Some Asian countries are heavily dependent on gas from the Gulf, particularly from certain suppliers such as

Qatar. This means disruption arising from strikes on the largest gas field, operated by Iran and Qatar, could quickly affect Asian countries.

Asian countries' dependence on Gulf gas is very similar, with the exception of one anomaly: India. Gas from the Gulf accounts for nearly 80% of India's gas imports and nearly 3.5% of its total imports. Although Narendra Modi's government denies any risk of a shortage, the first restrictions – notably in the catering sector – have already been imposed in order to prioritise supplies for households, which depend on gas for domestic cooking, and more strategic industries.

Lastly, the Strait is also a transit route for **imports of sulphur and ammonia, key inputs into the fertilizer production process** (which also requires gas, putting more pressure on production costs). The hardest hit countries are India (77% of sulphur and ammonia imports), Indonesia (67%), China (44%), South Korea (43%) and Taiwan (42%).

### Transmission channels: value chains, inflation and remittances

#### *Monitoring critical value chains that depend on these inputs*

Each of the aforementioned inputs is integrated into production chains that are likely to be jeopardised by the blockade of the Strait.

**Polyethylene** is used by China and India, mainly to **make packaging** – a field in which China is a global leader – and in **construction** (for manufacturing pipes, particularly for water and gas). It is also necessary for both countries' **automotive industries** and is used in manufacturing plastic vehicle parts.

For some Southeast Asian countries (Malaysia, Singapore, Indonesia), polyethylene is also an important component for **industries that process and export plastics**: these countries often serve as hubs that transform polymers and redistribute them to other industries in the region. The Asia-Pacific region has an almost 45% share of the global market for extruded plastic.

**Aluminium** is mainly (but not exclusively) used by the region's industrial economies. In Japan, South Korea, China and India, aluminium is used in the **automotive, naval and aerospace industries** – sectors that are highly strategic for both domestic and export-oriented industries.

It also plays a key role in **the electronics and household appliance value chains**, in which some Asian countries are among the global leaders (China, Taiwan, Thailand).

Meanwhile, inputs like **sulphur and ammonia** are used to **produce fertilisers, of which the Asia-Pacific region is both a producer and a major importer**. China is the world's largest producer and exporter of fertilisers (accounting for 25% of global fertiliser production according to the US Department of Agriculture, USDA). **For countries in the region with a large agricultural sector (China, India, Indonesia), these products are key to maintaining agricultural yields**: in China, the primary sector employs around 22% of the working population, compared with 42% for India and 27% for Indonesia.

Lastly, **the most industrialised countries import huge amounts of gas** for electricity generation and the **petrochemical industry**, mainly in Japan, South Korea, China and India. Gas is also an essential component for **Taiwan's strategic semiconductor industry**, one of the world's largest and highly electricity-intensive. The halt in deliveries of helium – of which Qatar currently supplies nearly one third of the world's production – used to cool manufacturing equipment risks slowing production of chips by Taiwanese and South Korean factories. On the energy front, Malaysia and Thailand are the two Asian economies with the most gas-reliant energy mixes (33% and 34% respectively), though Japan (19%), Taiwan (23%) and Korea (17%) are also heavily dependent.

#### *Watch out for inflation in the most fragile countries*

**This potential new oil shock comes at a time when Asian economies have sometimes struggled to absorb the shock of the war in Ukraine.**

North Asian countries (South Korea, Japan, Taiwan), which had imposed sanctions on Russia, had already been forced to review their supply arrangements, with supplies sometimes taking over a year (in the case of South Korea) to return to target levels. They now have some leeway – whether monetary or fiscal – to absorb the shock.

**Accustomed to energy subsidy policies, South Korea, Taiwan and Japan are likely to once again adopt measures in support of fossil fuels to help both industry and households.**

**China, which has been fluctuating between disinflation and deflation for over two years, can also handle a temporary shock.** The country has a direct subsidy mechanism, activated as soon as oil prices exceed \$130 a barrel, to smooth prices at the pump. There can be no doubt that small refineries dependent on Iranian oil will also need help.

For North Asia, well aware of its dependencies, **this crisis is like to once again accelerate transitions, notably towards electric vehicles (China, South Korea), and even reignite debate around nuclear power (Taiwan) and ambitious renewable energy programmes (e.g. offshore wind power in South Korea).**

**South Asian countries are more vulnerable, with less room for manoeuvre to contain a rise in volatile prices.** In India, the Philippines and Thailand, the war in Ukraine triggered a rapid acceleration in consumer prices. Inflation hovered around 8% in Q2 2022 before slowly receding.

Covid-19, followed by the surge in inflation in 2022, also hit public finances, reducing fiscal room for manoeuvre to deal with new crises.

Three countries appear particularly vulnerable: India, Indonesia and the Philippines, which are energy-dependent and agriculturally vulnerable, with the risk that disrupted fertiliser supplies could affect future crops. India and Indonesia were already experiencing quickening inflation – particularly Indonesia, where year-on-year inflation came in at 4.8% in February – due to higher electricity and food prices.

In these countries, where rises in volatile prices rapidly feed through to core inflation, monetary policy also tends to quickly lose its potency, and economic policy tools – excluding subsidies – prove ineffective. **Price trends will thus require close monitoring. This is all the more important because, since this inflation is largely imported, the effect on external balances (current account and exchange rates) will also require monitoring** for those countries most at risk (India and the Philippines in particular).

#### *Tourism and remittances: the importance of human flows*

The last factor not to be overlooked is the impact of human flows.

**As the war drags on, the implications for tourism** are likely to affect those economies most exposed to the sector. The Gulf states, and particularly the air hubs of Dubai and Doha, have built their competitiveness on Europe-Asia flights with stopovers. While airlines say it will take at least a few months for the situation to return to normal, the absence of Europeans (around 15% of tourists, but with high purchasing power) travelling to countries such as Malaysia, the Philippines and Thailand, where tourism accounts for between 15% and 20% of GDP, could impact foreign exchange inflows, employment and consumption.

**Lastly, it's important to remember that Asian migrant workers represent a substantial proportion of the expatriate workforce in the Gulf states**, where they are mainly employed in the construction, domestic services, hotel and transport sectors.

There are estimated to be around 9 million Indian migrant workers (particularly in the Emirates, Saudi Arabia and Qatar), 2.5 million Filipinos (Emirates, Qatar, Kuwait) and 2 million Indonesians (Saudi Arabia, Kuwait, Emirates). **For these countries, where remittances from workers abroad account for a substantial share of GDP (nearly 10% for the Philippines and 4% for India)**, the associated loss of jobs would be a two-fold tragedy: as well as forcing some of those workers to return to labour markets that are already too tight to be able to absorb them, it would lead to a loss of income for many communities that live off such remittances.

#### **Iranian front leaves US allies exposed**

*The opening up of the Iranian front also redraws the geopolitical map in Asia*

Initial impact: **the US has moved some of its defence systems, previously stationed in South Korea, to the Middle East.** At issue here are THAAD systems used to intercept high-altitude missiles. South Korea's president has expressed his opposition to these transfers – with North Korea continuing to launch cruise missiles since the beginning of the year – while conceding that he has no way of preventing them. South Korea has also lost some of its munitions (guided bombs), combat helicopters (AH-64 Apache) and Patriot surface-to-air missile batteries.

**The US is implementing its concept of “strategic flexibility”**, which aims to move increasingly limited resources to where they are most needed. Behind this concept is **the idea that each country is now responsible for its own deterrence** (in the case of South Korea, against North Korea) and that the US will always put its own immediate interests ahead of deals with its allies.

For South Korea, Japan and Taiwan, which face potential or actual threats from North Korea, Russia and China, the Iranian episode comes as a fresh warning that the drive towards greater military self-sufficiency must continue or even accelerate.

**In South Korea, this means a further increase in the defence budget** (up 7.5% in 2026 to around \$45 billion), aimed in particular at continuing to develop South Korean versions of THAAD and Patriot.

In Taiwan, the war has, if nothing else, helped unlock an \$11 billion arms order from the US, blocked by the opposition – which has a parliamentary majority – since November. This order falls under a record defence budget of \$40 billion aimed at funding a huge programme of military spending over eight years. **There has also been a rapprochement with Japan:** following remarks by the Japanese prime minister, who implied that Japan might intervene in the event of an attack on Taiwan, the Taiwanese prime minister visited Tokyo for the first time since 1972.

#### *What about China?*

**As usual, China is officially keeping its distance from diplomatic talks and refusing to act as a mediator in the conflict.** Its main objective is to unblock the Strait of Hormuz as quickly as possible so as not to compromise its supply chains.

**However, the flare-up in the Gulf could have far-reaching implications for its overall investment strategy.** Over the last few years, China has continued to secure its oil and gas supplies, investing in Iraq (Tuba), Saudi Arabia (with Aramco) and Qatar (QatarEnergy), so much so that the Middle East now rivals Africa as the main beneficiary of the Belt and Road Initiative. China's interests are not limited to fossil fuels: **it is also investing heavily in infrastructure** (transport, stadiums, shipyards), **helping these countries get on track with the energy transition** (wind, solar) and **supporting their dreams of smart cities** (networks, cables, high-voltage power lines, robotics, data centres, etc.). In short, China has found in the Gulf a region with high purchasing power that does not burden itself with environmental or social issues.

Any extension of the conflict resulting in greater and longer-lasting instability in the region would surely force China to review its plans.

**✓ Notre opinion – The ongoing conflict joins the list of shocks already suffered by Asian economies since 2020: Covid-19 which, for some countries, including China, lasted until 2022; the inflationary shock triggered by the war in Ukraine; uncertainties over US import tariffs. And let us not forget the more local crises and pressures: the political crisis in South Korea; wars between Cambodia and Thailand, between India and Pakistan and between Afghanistan and Pakistan; and the overthrow of governments in Bangladesh, Nepal and Sri Lanka.**

**While such shocks are ultimately absorbed, they leave visible scars on economies: tourist numbers in Thailand have never returned to pre-Covid levels, Indonesia's middle class has declined since 2019 and China has been mired in a real estate crisis since 2020.**

**The Hormuz blockade once again poses a significant inflationary risk to these countries, against which subsidies remain the only effective tool – if they can afford such measures. Beyond the issue of energy, which exacerbates the weaknesses and dependencies of these carbon-based economies, other value chains will be at the heart of concerns. The issue of fertilisers, which goes hand in hand with food security, will thus be central if the conflict drags on.**

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