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Will the China and US Battle Spill Into APAC?

By

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Will the China and US Battle Spill Into APAC?

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Executive Summary

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Great Power Battles

- ✦ US actions in Iran and Venezuela, key oil suppliers to China, are tightening its energy access, increasing the risk of a more assertive response and placing Southeast Asia at the center of potential spillovers.

The Threats to China's Oil Supply

- ✦ The US moves to destabilize both Iran and Venezuela, as well as supporting Ukraine, are potentially fatal to a structural commodity importer such as China.
- ✦ These moves, if taken from the lens of great war competition, is the US leveraging one key Chinese weakness, namely its structural oil importer status.
- ✦ The current war in Iran also adds a cascading element as it does not merely threaten a Chinese supplier but also a Chinese route, namely, the Strait of Hormuz and Malacca
- ✦ Recent data has shown increased congestion at this key waterway, forcing China to possibly rely on more underdeveloped routes such as overland through Pakistan.

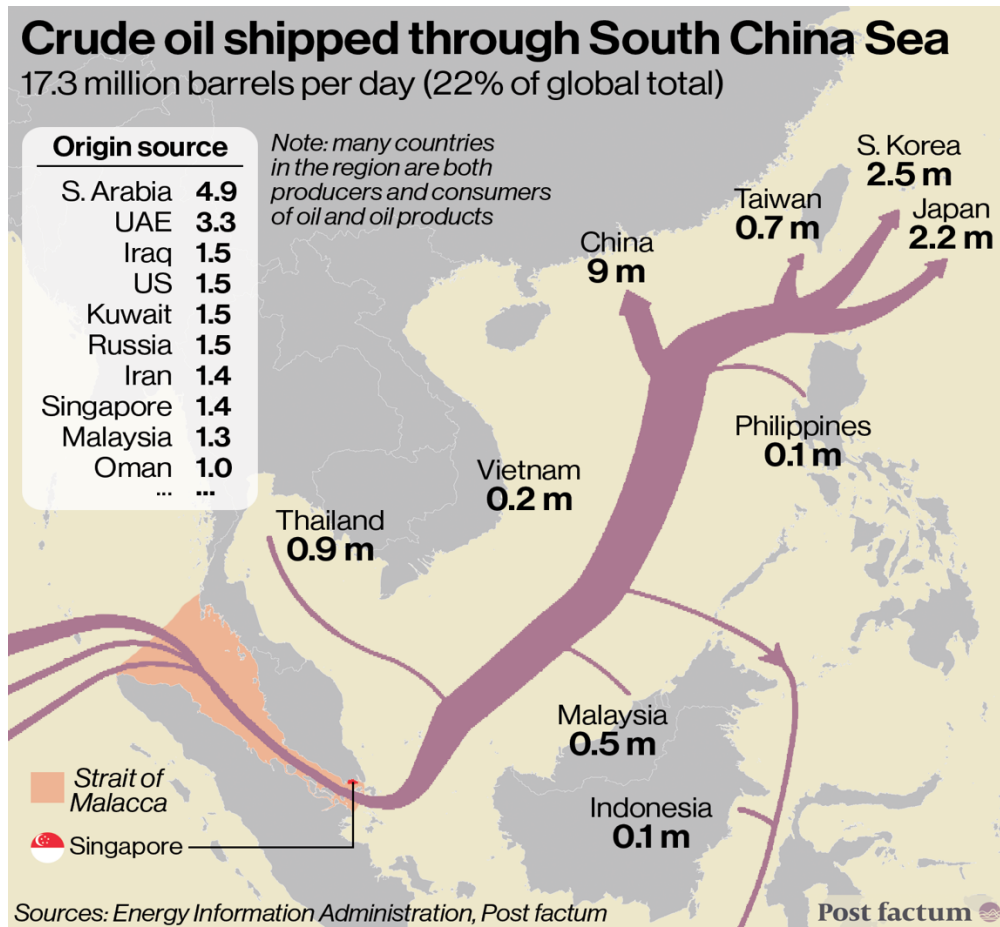
Could Taiwan Be Next?

- ✦ Analyst would be right to question whether these attacks on the Chinese oil supply would possibly goad China to a more aggressive stance on Taiwan.
- ✦ One thing of note is that the US is now stretched, having to expend supplies in the European and Middle Eastern theaters, leaving Asia under-resourced.
- ✦ This could possibly tempt China to view this as a time to take action and begin logistical preparations, especially as the war drags on and the US finds it more difficult to extricate itself from another costly Middle Eastern adventure.
- ✦ It would also be politically advantageous since US intervention in Taiwan would be massively unpopular.

Can Southeast Asia Respond?

- ✦ The current situation leaves Southeast Asia in a complicated bind as it must navigate competing interests on the way to a favorable outcome.
- ✦ For the moment, the current data shows that leaders are hedging their alliance bets in a transactional fashion. The Philippines, for example, is signalling a mending of ties with China and even discussing joint oil and gas exploration in the West Philippine Sea. However, US bases remain in the country, making it difficult to hedge its bets too far.
- ✦ In the case of a Taiwan contingency, what is possible to happen? The most interesting part is once again Chinese routes, which ASEAN intersects with to a large extent. For example, the Strait of Malacca is controlled by key ASEAN players, but China's risk mitigation points such as the Strait of Lombok and overland pipelines through Myanmar are also intersecting with ASEAN.
- ✦ It is likely that ASEAN will look initially to prevent global economic consequences, similar to the current ongoing in Iran affecting global energy markets. This is much more likely to work against China than the US, simply because ASEAN has partial controls of Chinese strategic bottlenecks.
- ✦ However, this could invite retaliation on the part of China. What is most likely is that ASEAN powers utilize their geographic advantages to negotiate favors from each side in a bid to protect their own interests

Key Picture: China's Strategic Dilemma



Source: [Post Factum](#)

Great Power Battles

Recently, oil has once again come to the forefront for its importance as a commodity powering the global economic system. Global wars today have increasingly lost their ideological sheen, and it is becoming increasingly clear that strategic resources are becoming front and center to the justifying purpose of war itself. Consider the war in Russia and Ukraine, often considered an “ideological war” by many observers. One cannot help but observe how Russia has materially benefitted from the war by occupying Ukraine’s industrial heartland in the Eastern Donbas, while accessing the country’s fertile farmland. Israel’s wars against Lebanon have a water resource element, as these actions have allowed it to control the Litani River and its belligerence towards Syria has allowed it further leverage over the Al-Wahda Dam.

If we look at the recent operations against Iran and Venezuela, it does not take much horizon scanning to see that oil is the key commodity driving discussions and justifying these risky operations. Following the operation to overthrow Maduro in Venezuela, the Trump Administration immediately [sought](#) to control oil proceeds for its own foreign policy goals. The moves by the Trump administration gave private players such as [Chevron and Shell](#) operational space in Venezuela that they previously did not have, and upon which they immediately capitalized.

However, this pales in comparison that oil has taken following the war in Iran. The Trump Administration’s forays into Iran have prompted an asymmetric response mainly from the Islamic Revolutionary Guard Corps (IRGC) to shock energy markets. Attacks on essential oil infrastructure have prompted shock increases to global oil prices, with widespread effect. The Revolutionary Guards targeted global oil supplies and their particular bottleneck:

supply routes. The Strait of Hormuz, a narrow but highly important shipping lane that must be kept open to ensure the sure flow of global oil supply into consumer markets, has been declared as [closed](#) off by what remains of the regime in Iran. It is notable that the regime does not have to completely block off the whole of the Strait of Hormuz to achieve its functional objectives. What it hopes to do is emerge as a permanent shock on global oil markets, disrupting one of the greatest global dependencies, the stable movement and pricing of the world's most important commodity. If Iran manages to convince traders, shipping [insurance](#) and other key players that the risk/reward calculus of moving ships across the strait is not in their favor, oil prices will automatically rise as a downstream result.

One loser in the previous events is China. The country is a structural [oil](#) importer, running a commodity hungry and industrialization focused economy. Major oil price spikes as has been seen in previous times is something that will give its policymakers significant headaches. This reality is the material [layer](#) behind its existing partnerships with countries such as Russia, Iran and Venezuela. We can also see that the Trump Administration's focus is to target such a partnership. For explicit evidence of this, look no further than [NSPM-2](#), where the White House explicitly declares intent to drive Iran's oil exports to zero, including exports of Iranian crude oil to China. What could happen if the US manages to strangle the Chinese oil supply? Would Taiwan again be an invasion option? What other global pipelines become strategic targets? And how would Southeast Asia respond?

The Threats To China's Oil Supply

For China to lose the strategic backbones of its oil supply would indeed be catastrophic. It is worth looking first at Iran and Venezuela for guidance. There is significant analysis that Iranian crude oil was a key resource for Chinese "teapot" refineries in Shandong in the country's east. In addition, Kpler analyst Matt Smith noted that the Strait of Hormuz, which as mentioned has been made next to impassable by the Iranian Revolutionary Guard, was the source of nearly [half](#) of China's seaborne crude imports. Thus, the situation in Iran is a massive headwind for the Chinese economy, which was already struggling with demographic troubles and slowing growth. The war, if nothing else, is partially accomplishing the spirit of NSPM-2.

What about Venezuela? One can see that in a string of swift moves, the Trump Administration gained control of Venezuelan oil industry and its related proceeds. Related maritime commentary is actually noting that Venezuelan oil imports are a lifeline that is progressively being "[choked](#)". Therefore, China also sees minor supply pressure from this front as well.

What could make China's current oil pressures into a full blown crisis that could predict more aggressive action from the Communist Party? One is disruption to its supply line from Russia. Consider that for some of the most recent data available, Russia's crude oil imports accounted for about [20 percent](#) of China's total import mix. A significant blow in prices could be extremely difficult to overcome, likely on a scale even larger than disruption to Iran and Venezuela. Unfortunately for China, this is a scenario that has already happened via the war between Russia and Ukraine. It shows that as much as 40% of Russia's oil [export](#) capacity has already been halted.

This has even forced Russia to limit gasoline exports in order to meet domestic [demand](#). Secondly, Russian oil prices have already increased due to the aforementioned disruptions in Hormuz. China, which often leveraged arbitrage gained via Western sanctions to gain a discount, is now in the unenviable position of having to supply the gaping maw of national oil demand with products that grow more expensive by the day.

The product itself is not the only attack surface through which the US may cause China great problems. China relies not just on relationships and prices but also a limited number of viable routes. This illustrates an important reality: complexity of the global economy is maintained by moving an unfathomable number of goods via a small number of existing bottleneck routes. Taking for example Russia, the oil exports from the said country actually move through its Pacific-facing [Kozmino](#) terminal. This pipeline is a strategic lifeline for China, and any disruption would likely trigger a strongly aggressive response. As disruptions to the Strait of Hormuz increase, China may increasingly rely on alternative supply routes to secure its oil imports.

The Strait of Malacca, a key chokepoint linking the Indian Ocean to the South China Sea, becomes even more critical. To reduce dependence on maritime chokepoints, China is also developing overland and near-overland infrastructure, including the [Gwadar](#) port in Pakistan and [Hambantota](#) Port in Sri Lanka, which can serve as a gateway for crude imports delivered by pipelines from the Middle East. By diversifying its routes, both seaborne and overland, China seeks to mitigate the risk of supply shocks, although these alternatives introduce new dependencies and geopolitical complexities.

The Strait of Malacca will thus play an important role in Chinese thinking. If the US makes any move to gain further control in the Strait of Malacca, China could look for more aggressive responses. While no overt move has been made, the newest [EDCA](#) sites that have developed as the US establishes its presence in Northern Luzon are relevant to the picture. These sit downstream of the traffic that passes through the Strait of Malacca, thus giving the US military an operational presence downstream of one of China's most strategically important passageways.

Could Taiwan Be Next

If such disruptions were to happen, could Taiwan be a target for aggressive action? From the Chinese perspective, there is only one reason why it could be: the current multi-theater operational status of the US military. Admittedly, it would be difficult to launch a kinetic operation at a time when oil prices are at an all-time high. Moving significant assets across a challenging environment would require an oil surplus at a time when most countries are forced to dip into their strategic [reserves](#).

Yet there is one golden window of opportunity that has arisen: *the US pivot to Asia has been stalled*. Far from a focus on the rising region, the Trump Administration appears to have committed resources to just about every region but Asia. Eastern Europe, the Middle East and Latin America have all been at point in 2026 a target of everything from airstrikes to special operations. The Trump Administration is currently even threatening a ground operation into Iran itself. It is not particularly necessary for Iran to win. If history is any guide, it is that the US has found extricating from costly boots on the ground adventures a difficult and costly task.

Furthermore, the IRGC has laid before the world a singular reality, its advantages lie in its geographical location rather than any particular feature of the terrain. Almost no country in the world is as uniquely positioned to disrupt global trade as Iran. What makes Iran formidable is its ability to disrupt key shipping lanes such as the Strait of Hormuz or Bab-Al Mandeb, with the help of its [Houthi](#) allies. Few countries have the ability to target so many globally important nodes all at one time. Finally, it has built an arsenal of capabilities (from positioned proxies to a cheap [drone](#) industry) that is almost tailor fit to achieve exactly this goal. Chinese planners are likely to be aware of this.

Can Southeast Asia Respond?

The final question is whether Southeast Asia can handle the stress of a Chinese attack on Taiwan. With the US enveloped in multiple theaters, China is likely to have significant leeway to make an aggressive move towards the island nation. While the US can activate assets that are in surrounding bases (e.g. the Philippines), an aggressive intervention is unlikely to be supported by a public already weary from the unexplained venture into Iran. However, if the conflict happens, SEA leaders will be forced to make stark choices to defend their countries. Take for example a hypothetical operation aimed at hemming in China's supplies via the Strait of Malacca. This would lead Indonesian and Malaysia leaders to have to face hard decisions, about whether they would acquiesce to US pressure and risk retaliation. Unfortunately going the other way means they face the same risk from China.

This is a decision with almost no good outcomes, and the best one could hope for would be minimal damage. Similar considerations would also have to be made regarding the Lombok and the [Makassar](#) strait (a common passageway for very large crude carriers, or VLCCs). The Philippines would face the same issue concerning a different asset, namely, its EDCA sites which the US would use as a theoretical springboard. While Marcos can

look to hedge his bets and claim to “mend” ties with China, the EDCA sites are there for the foreseeable future and prevent him from going too far off the US line.

The dilemma that Southeast Asian leaders would face is this: that their countries stand astride major geopolitical chokepoints without the necessary leverage to negotiate a positive way out. There is no way to prevent a war by leveraging their geographical access. Thus, they are reduced to simply navigating the aftermath. In that context, leaders would simply attempt to negotiate guarantees of safety from both great powers, and hope that the war does not come too close to their own soil. They would also have to navigate the economic effects of the eventual downfall of Taiwan’s globally important semiconductor industry. And finally, more-forward looking leaders with a macro view would do themselves a favor by asking: would a China engaged in possible anti-insurgency and taking on the responsibilities of governing a resentful Taiwanese population be able to remain the global growth engine it once was? Hard questions remain on the horizon as Southeast Asia looks ahead.

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