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Do Nothing, Win: Is China Winning the US-Iran Economic War?

By

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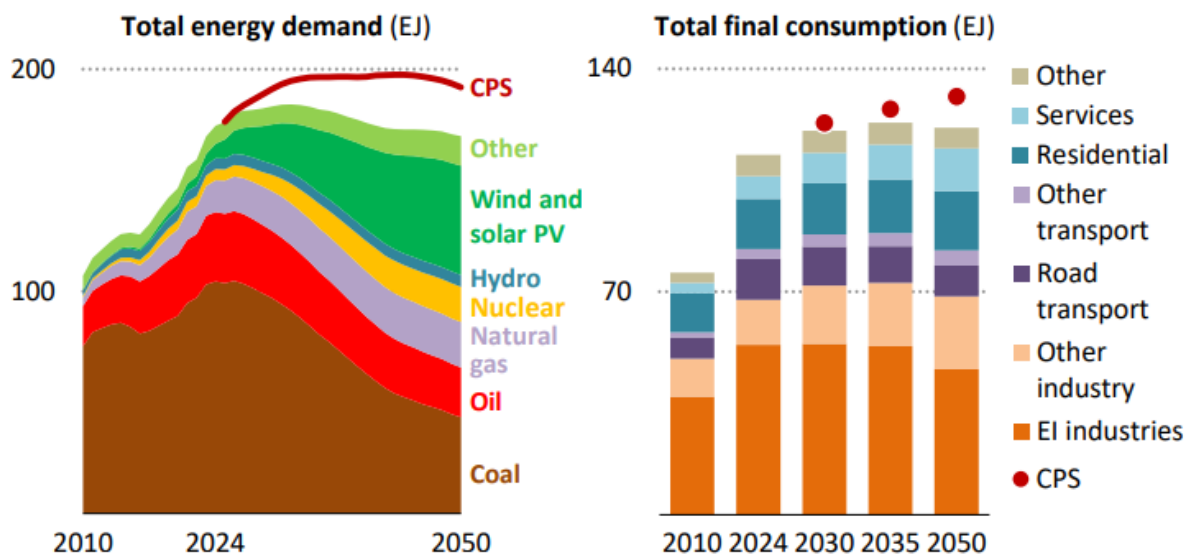
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Executive Summary

- ✦ Iran’s blockade of the Strait of Hormuz is accelerating de-dollarisation with the US security umbrella over Gulf producers tested as never before.
- ✦ China is in an unusually resilient position with large strategic petroleum reserves, diversified supply chains, and an electricity grid insulated from price shocks.
- ✦ The war has accelerated the case for Beijing’s “New Three” export strategy: EVs, lithium-ion batteries, and solar cells.
- ✦ The greatest risk to China is not domestic energy supply, but the industrial fragility of its Asian trading partners.
- ✦ The *Belt and Road Initiative* reached record engagement in 2025, and careful management could convert the crisis into a gain.
- ✦ The petrodollar system is under strain as US security guarantees weaken and alternative arrangements emerge, yet structural advantages make full dollar replacement unlikely.
- ✦ De-dollarisation pressures may grow if US policy further alienates Gulf states, but despite doubts about US reliability, its military power still anchors the system, leaving room for gradual erosion rather than a sudden shift toward China-led alternatives.

Key Picture: China’s Energy Resilience: Coal Foundation & Green Transition (Energy Demand by Source and Final Consumption by Sector in China in the STEPS, 2010-2050)



Source: [REGLOBAL](#)

Introduction

“Never interrupt your enemy when he is making a mistake” is a quote attributed to Napoleon, and seems to be the Chinese response to the largest disruption in oil markets since the 1970s energy crisis. China has been quietly filling its strategic petroleum reserves (SPRs) since 2006, with it becoming a priority following the Russo-Ukrainian war. In addition to this, Beijing’s decision to pivot away from exporting traditional goods to the so-called “New Three”, EVs, lithium batteries, and solar cells, could prove to be immensely bountiful in the face of oil related supply shocks.

While China seems to be much better positioned than other global powers, the effects on its foreign policy, specifically the Belt and Road Initiative (BRI), are yet to be seen. The conflict could lead to BRI nations strengthening green energy supply chains in the long term, but it is already causing fuel shortages in key partners. A downturn in industrial activity will bleed into the Chinese market, so while Beijing may benefit geopolitically from Washington’s focus on the Middle East, those benefits would quickly dissipate in the face of a prolonged downturn.

The US-Israeli Attack in February

At the end of February, Israel and the United States launched airstrikes on Iran, resulting in the deaths of Ayatollah Khamenei and other Iranian senior figures. Iran responded by targeting shipping in the Strait of Hormuz, halting around 25% of the world’s seaborne oil trade¹ and driving crude prices above \$100 a barrel. Now entering its seventh week, peace talks have collapsed, the US has blockaded Iran, and Iran has struck US Gulf allies, broadening the disruption. Some 90% of oil traversing the strait heads to Asia, triggering energy rationing and industrial shutdowns across the region.² Though 13% of Chinese oil imports originate in Iran, with 55% coming from the Middle East,³ oil represents only 18% of China’s domestic energy consumption.⁴ Roughly 9% of domestic energy demand is directly exposed to Middle Eastern price shocks, with Iranian supply specifically affecting just 2%.

Effect On China

Beijing’s preparation has been decades in the making. The first SPR site was built in 2006, with urgency growing sharply after 2022, when Russia’s invasion of Ukraine demonstrated the dangers of an energy supply reliant on specific fuels or regions.⁵ As Iran’s largest oil customer, taking approximately 90% of its exports at a discount thanks to sanctions, China has filled its reserves well below market rates.⁶ Combined SPR and commercial stocks are estimated to cover three to seven months of Hormuz imports,⁷ while Russian and Central Asian pipelines, carrying around 2,000,000 barrels per day, offer supply partly insulated from the conflict. With coal accounting for 52% of primary energy consumption and China holding the world’s largest coal reserves, no oil shock can easily undermine the domestic energy base.⁸

Less discussed is China’s coal-to-chemicals industrial chain. Where the conventional process runs from oil to naphtha to petrochemicals, China has built an alternative route from coal to syngas or methanol to petrochemicals. Given its vast coal reserves, Beijing can price these products far below competitors. The oil shocks of the 1970s reshaped global industrial competitiveness, accelerating Japan’s pivot into electronics as energy costs punished heavy industry. A prolonged period of elevated oil prices may produce a similar windfall for China, widening its advantage across the manufactured goods it already dominates.⁹

The Belt And Road Initiative: Faltering Or Flourishing?

2025 was a record year for BRI engagement with \$128.4 billion in construction, \$85.2 billion in investments, and energy engagement more than doubling to \$93.9 billion.¹⁰ Central Asia saw the sharpest acceleration, up 375% to \$28.3 billion, reflecting a strategic pivot towards energy security over the “small and beautiful” investment paradigm Beijing had announced in 2021. Fossil fuels constituted 74% of overseas energy engagement, despite earlier pledges to end new overseas coal financing.¹¹ Yet China’s petroleum export ban, a measure to protect

domestic stockpiles during the blockade, is testing partner loyalty. Nations that expected China to act as a stabilising energy provider may find its policies more transactional than advertised. The war may strengthen BRI green supply chains in the long run, but in the near term it is exposing the limits of Beijing's economic diplomacy.

China's greatest vulnerability is not its own energy supply but the industrial fragility of the nations it depends upon. Fuel shortages have hit ASEAN hard, with some members even declaring states of emergency.¹² Australia, the world's largest exporter of lithium and iron ore and a major coal supplier, is also suffering significant industrial disruption. For China, which is the primary customer for commodities across Asia, industrial slumps translate directly into supply chain disruptions at home.

Beijing is already issuing petroleum export exemptions for the most affected nations. This constraint has complicated what analyst Alex Turnbull has termed "diesel diplomacy", the opportunity for China to ship refined products to energy-poor Indo-Pacific nations in exchange for commercial and geopolitical concessions.¹³ China is the world's second-largest fertiliser exporter and holds considerable leverage as a supplier of last resort. But exercising that leverage risks further straining domestic supply, forcing Beijing to choose between its own consumers and the trading partners its economy depends upon.

The New Three

The largest gain China stands to make from the war is an accelerated move towards renewable energy. Chinese firms account for approximately 70% of global manufacturing capacity for solar panels, wind turbines, and lithium-ion batteries, and China's top battery manufacturers gained over \$70 billion in market capitalisation in the weeks following the outbreak of conflict.¹⁴ The "New Three", *EVs, lithium-ion batteries, and solar cells*, represent a deliberate export pivot from the "Old Three" of household appliances, furniture, and clothing.¹⁵

With lithium-ion batteries comprising roughly 60% of an EV's cost, China holds a comparative advantage at every stage of the supply chain. Indonesia has announced plans to scale solar capacity from 11GW to 100GW within two years while South Korea's president has said the urgency of the energy transition is "keeping him awake at night".¹⁶ If rhetoric becomes reality, Chinese firms are positioned to capture the bulk of that investment. The main risk is protectionism in the EU and US, which represents the key source of uncertainty for these exports as geopolitical tensions deepen.

De-Dollarisation And The Petrodollar

The petrodollar system rested on US security guarantees to Gulf producers, struck in the 1970s. Those guarantees have now been visibly strained, with the US no longer being the largest buyer of Middle Eastern oil as 85% of Hormuz flows head to Asia, and its simultaneous war against Iran has unsettled Gulf confidence in Washington's reliability.¹⁷ Iran is allegedly negotiating passage rights through the blockade in exchange for yuan-denominated payments, potentially a nascent "Petro-Yuan" arrangement. Meanwhile, Project *mBridge*, a central bank initiative involving China, the UAE, Saudi Arabia, and Thailand using national digital currencies, provides ready infrastructure for a partial fracturing of dollar dominance in energy trade should political will align. However, the US treasury market remains the world's largest and most liquid amongst sovereign bonds. Furthermore, the CCP would need to liberalise its economy on a level it has historically deemed unacceptable, due to the risk of capital flight. This coupled with an entrenched institutional infrastructure gap, fuelled by SWIFT and Fed swap lines, leads to a bull case for erosion but not outright displacement.

Conclusion

Napoleon's advice holds, but only if China is disciplined enough to do nothing strategically rather than passively. For its own designs on Taiwan, seeing the US carry out a crushing air campaign and institute a blockade could be ironically foreboding. Talks of de-dollarisation may be premature but if Trump makes the same decision that Obama made in his Iran deal, providing some economic relief from sanctions for a cession of Iran's nuclear program, he may push Gulf nations further away from Washington. As these nations stressed a decade ago, and

what they are suffering from now, is the lethality of Iran's missile and drone program. The view of the US as an unreliable partner is somewhat tempered by the might of its military, but if a regional power is able to seriously hurt this image, then only one other nation exists with similar capabilities: the Middle Kingdom.

NOTES

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¹⁴Financial Times, 'China and the Iran War,' March 2026. <https://www.ft.com/content/47edd17c-366f-42e4-b0cf-c20e065210d2>

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