Opinion **Free Lunch**

The Iran war will cement China's superpower status

Beijing's industrial prowess positions it for economic and diplomatic gains

TEJ PARIKH

Chinese premier Li Qiang last week convened more than 70 global chief executives to tout China's stability and supply chains in the wake of the Middle East conflict © Qilai Shen/Bloomberg

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As the world's biggest oil importer, the Iran war poses a significant threat to China. But Beijing has been preparing for a crisis like this for years and is well positioned to turn the conflict into an advantage in the race for global economic supremacy.

Last year, China imported about half of its crude oil and almost one-third of its liquefied natural gas from the Middle East. But it has aggressively built up strategic stockpiles of fossil fuels. China is estimated to hold the world's largest emergency reserves of petroleum, totalling 1.3bn barrels.

Even so, Iran has said vessels linked to "non-hostile" partners — which includes Beijing — can traverse the Strait of Hormuz. Almost half of China's imported gas is piped from Russia and Turkmenistan on long-term contracts. Moreover, the Chinese Communist Party has already leveraged its centralised power to restrict exports from the country's refineries, and could use it to hold down prices and pivot to alternative energy sources too.

Besides, China has made significant investments in electrification. Electricity accounts for 30 per cent of the country's energy consumption, about 50 per cent higher than the US or Europe, making it more insulated from rising global oil prices. (With its rapid solar and wind build-out, it already accounts for roughly one-third of renewable energy generation capacity *worldwide*.)

A diverse energy mix, multiple suppliers and access to routes that bypass the Gulf mean only about 6 per cent of China's total energy consumption is directly exposed to disruptions in the strait, estimates Goldman Sachs.

In sum, China could weather a conflict that lasts for several more months, while greater protection from global energy prices will make its exporters more competitive.

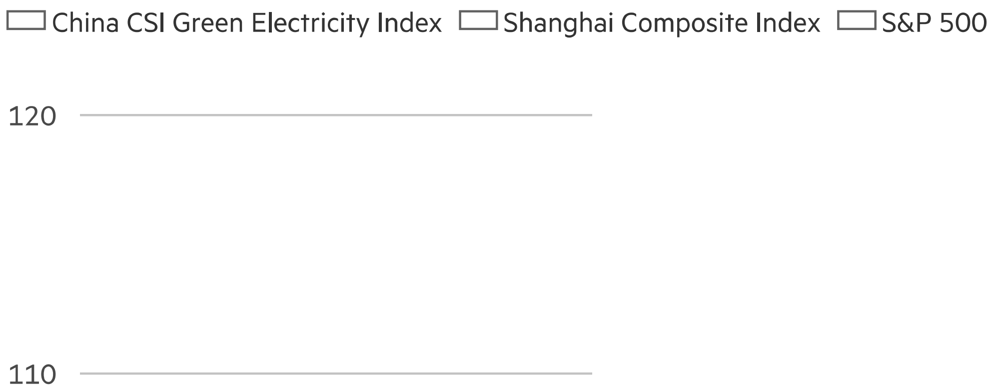
Beijing's bet on cleantech and end-to-end industrial independence means it can make lasting economic and diplomatic gains from the war, too.

First, the conflict has underscored the importance of reducing reliance on hydrocarbon imports. Chinese firms account for at least 70 per cent of global manufacturing capacity for major green technologies, including solar, battery and electric vehicle components. The country also dominates the extraction and refining of the rare-earth elements that go into them.

Reflecting this, investors have rushed into the country's green energy stocks in anticipation of rising global demand for renewables. China's top battery makers have gained more than $70bn in market capitalisation since the US and Israel attacked Iran.

China's green energy stocks have surged since the war began

Index (100=31 December 2025)



Next, with nations relying on resources via the Middle East, China can position itself as a supplier of last resort given its stockpile of fossil fuels and industry-critical materials. It is also a net exporter of *refined* petroleum. (Taiwan, for instance, has already rebuffed Beijing's offer of energy support.)

China is the world's second-largest exporter of fertiliser. Though it has restricted exports to bolster domestic security, it could act as a buffer to nations facing agricultural distress. It also has strategic reserves of sulphur, a key element in plant feed and metal processing, which is widely sourced via the strait.

Likewise, the country has made progress in reducing its dependence on helium imports, with the recent discovery of a large domestic reserve and reported breakthroughs in purification. As outlined in last week's edition, supplies of the chemical from Qatar are vital in Asia's chip industry. (I spoke to CNN and The Tech Report about this.)

A lengthy war could also give Beijing leverage ahead of a proposed meeting in May between Chinese President Xi Jinping and US President Donald Trump, notes Agathe Demarais, senior policy fellow at the European Council on Foreign Relations. "Many of the missiles, fighter jets and other weapons that America needs for its war effort run on Chinese-made rare earths. But the US has only about two months of stocks," she said.

China's strong relations with Gulf nations and its record in developing infrastructure mean its companies are in pole position to rebuild the region after the war, added Demarais. "They can provide finance and the materials to revive ports, energy facilities and desalination plants."

Beijing's efforts to raise the renminbi's global standing might get a boost from the war as well. A shift away from dollar-denominated oil towards domestic energy and Chinese green tech will play a part. Iran is also reportedly negotiating with some nations to permit the passage of ships, provided payments are made in yuan.

"The conflict could be the catalyst for an erosion in petrodollar dominance and the beginnings of the 'petroyuan'," argues Deutsche Bank strategist Mallika Sachdeva. In other words, Trump's war could normalise non-dollar energy sales.

Finally, the conflict boosts China's image as a more stable partner relative to the US across the developed and developing world. Just last week Chinese premier Li Qiang convened more than 70 global chief executives at the China Development Forum to tout the country's reliability and supply chains. China's favourability compared to the US is indeed rising, exclusive survey data from Morning Consult shows.

The petrodollar regime was under pressure even before the Iran war

Saudi Arabia mineral product exports ($bn), 12-month sum

FINANCIAL TIMES

Source: Deutsche Bank, CE

US instability is raising China's global standing

Global average net favourability* (%)

20

China’s economy won’t emerge unscathed. As the war goes on, the country will face rising costs, tighter supplies and the risk of further rationing. In a prolonged conflict scenario, a deep global recession would hurt demand for its exports. Foreign partners will also remain wary of trade imbalances and becoming too dependent on the nation.

But those expecting the war to undermine China’s superpower status — a view common among Maga types — are badly mistaken. Beijing’s long-termism, diversification and nimbleness make the country uniquely resilient, and well positioned to exploit new openings.

Send your thoughts in the comments, to freelunch@ft.com or via X @tejparikh90.

Food for thought

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Free Lunch on Sunday is edited by Harvey Nriapia

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