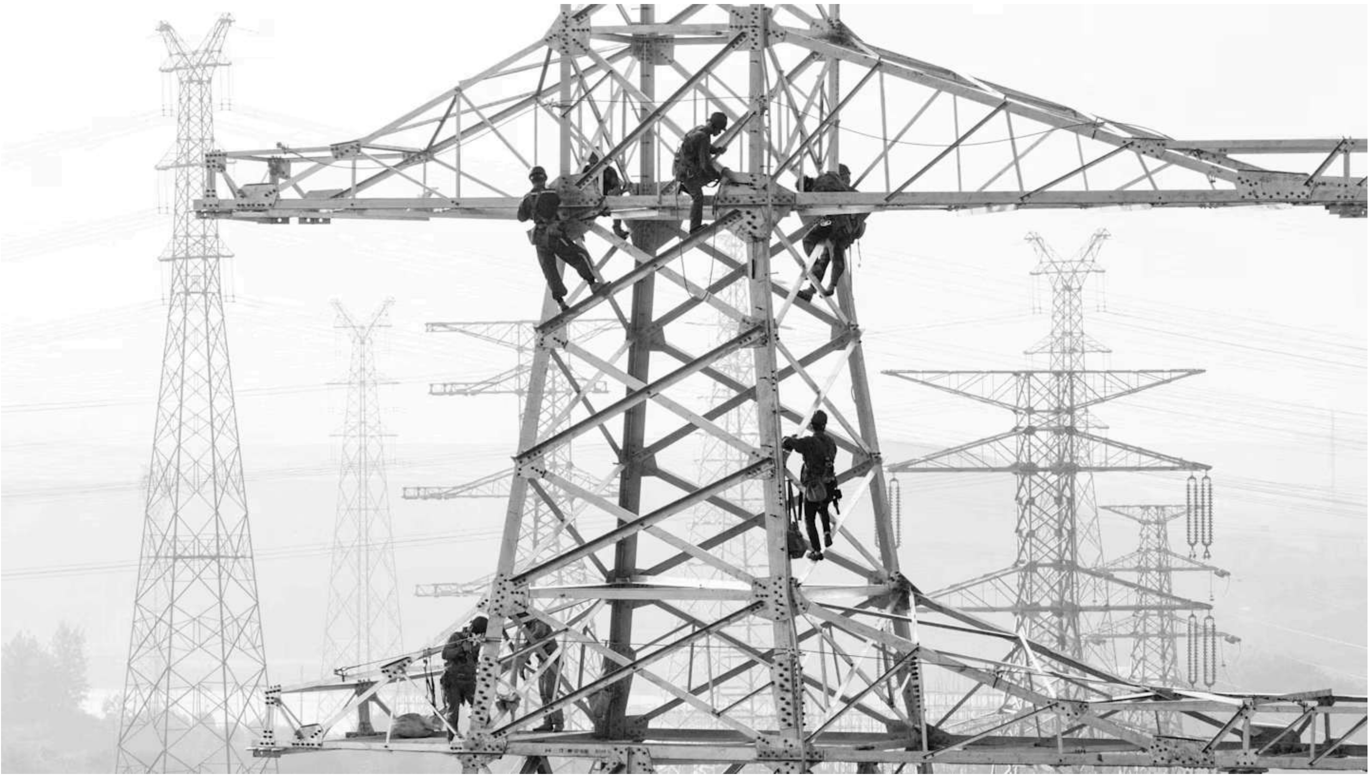
Opinion **Markets Insight**

China's energy strategy vindicated by Iran war

Playbook is likely to be adopted by other countries, shaping markets

JOHN KEMP



Workers build an electricity transmission tower near Huai'an, in China's eastern Jiangsu Province © CN-STR/AFP/Getty Images

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For two decades, China's policymakers have been preoccupied with reducing the country's dependence on imported oil and gas and its consequent vulnerability to a naval blockade in any future conflict with the US.

In 2003, President Hu Jintao described this vulnerability as the "Malacca Dilemma", warning certain major powers were intent on controlling the strait. "It is no exaggeration to say that whoever controls the Strait of Malacca will also have a stranglehold on the energy route to China," he is reported to have said.

Since then, China's military strategy has focused on modernising and expanding the navy to protect supply routes. On the energy side, China has boosted production; encouraged greater efficiency; switched to alternative fuels; expanded the use of electric vehicles; diversified imports; and accumulated massive strategic stocks.

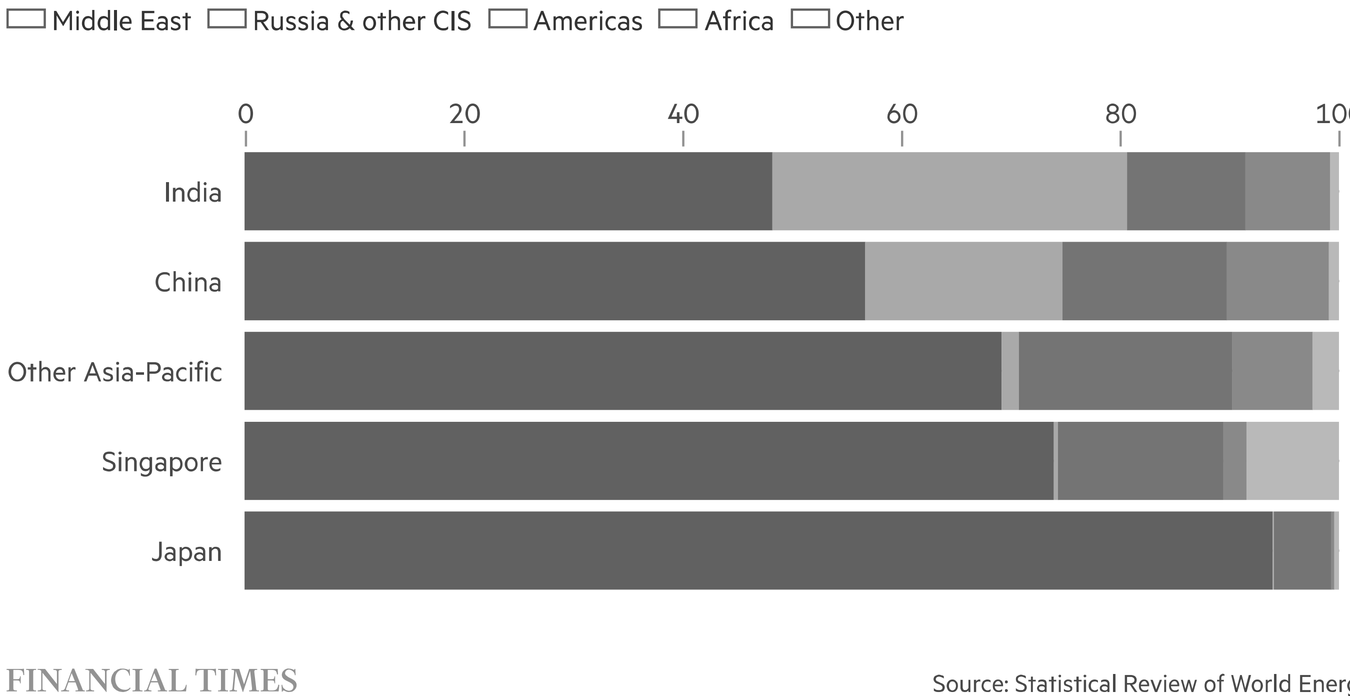
In the event, China's preparations for a conflict centred on Taiwan and the Strait of Malacca have made it much less vulnerable to war in the Middle East. The country has largely avoided the price spikes and rationing that have hit others in Asia. China's policymakers are likely to conclude their approach has been vindicated — encouraging them to double down on their strategy. Other countries in Asia and the rest of the world are also likely to copy elements of the playbook, shaping energy markets. These elements include:

Domestic output: China's resource endowment is considered by Beijing to be rich in coal, poor in oil, and lacking in gas. The country imports 10 per cent of its coal but 40 per cent of its gas and more than 70 per cent of its oil. To reduce the need for imports, China has encouraged more gas production from Sichuan in the southwest and Xinjiang, Shaanxi and Inner Mongolia in the north, while exploring for oil in the Bohai Sea and minimising use of petroleum products. Renewables such as hydro, wind and solar have been deployed as quickly as possible while the country uses coal as the "ballast stone" to guarantee energy security.

Electrification: China has deployed electric cars and other new energy vehicles faster than any other country. These are already displacing around 1mn barrels per day of gasoline and diesel. But as more and more of the fleet is electrified, the volume will quadruple to more than 4mn barrels per day by 2035, according to the International Energy Agency. The government's 15th five-year plan assumes oil consumption will peak before the end of the decade. Demand for gasoline and diesel may have peaked already.

China relies less on Middle East crude than much of Asia

Share of crude oil imports by source region, 2025



Diversification: China expects to rely on imports for the foreseeable future, so the government has encouraged the diversification of supply routes while cultivating amicable relations with a broad range of exporters. Before the war, China imported nearly 60 per cent of its crude from the Middle East, but that was a much lower share than Japan (more than 90 per cent) and most other countries in the region. China obtained 54 per cent of its imported gas by sea, but just 17 per cent came from the Middle East, with most of the rest from Russia and Australia. Nearly half of gas imports came overland by pipeline from Russia and Central Asia, making them immune to a blockade.

China has sought to "expand our circle of friends" in energy, cultivating relations with Saudi Arabia, the United Arab Emirates, Iraq and Qatar as well as Iran. As a result, China-flagged and bound tankers have mostly been allowed through the blockades of the Gulf and Red Sea.

Stockpiling: China has amassed one of the world's largest stocks of crude. The exact size is a state secret. But prior to the war, China had been importing 1mn barrels per day more than was being processed by its refineries, with much of the rest being added to commercial and strategic stocks. Total stocks were estimated at more than 1bn barrels, enough to replace imports fully for more than 100 days. Japan and South Korea also had massive stocks before the war, but in most other countries across the region, stocks were much lower, in some cases almost non-existent.

China has dipped into these stocks to maintain domestic fuel supplies. Crude imports fell by more than 1.3mn barrels per day in the first six months of 2026 but fuel supplies have remained broadly stable. Other countries in Asia are now planning a big increase in stockpiling to avert supply problems in future.

The Iran war has revealed the value of diverse supply chains and strategic reserves — lessons China has applied for the past two decades that have now been painfully learnt across the rest of the region.

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