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CARGO & CAPITAL



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EDITORS' NOTE

Welcome to the July 2026 edition of StoneBench's *Cargo & Capital* newsletter.

From the Strait of Hormuz to semiconductor fabs, a convergence of geopolitical shocks and policy overhauls is reshaping how trade moves, where capital flows and how wealth accumulates across Asia. The region is not a passive observer—it is both a theatre of disruption and an architect of new economic geography.

As the global effort to reorient trade and travel continues, in this month's edition of the newsletter, we take a closer look at how exactly new routes are being carved in and around Asia.

Some of these issues are well-trodden territory: the slowdown of tanker traffic through the Strait of Hormuz after fresh US-Iran strikes, and their ongoing impacts on energy flows; more uncharted and dangerous waters for shipping vessels; and the rising popularity of export controls. Others are more subtle—tougher stances on arms trade, tighter outward capital controls, blacklists—lending a pervasive sense that every geopolitical relationship is now up for renegotiation.

ASIAN ENERGY TAKES THE LONG WAY AROUND

Much has been written about how the Hormuz crisis has forced a major reckoning among Asian oil-importing nations regarding their energy vulnerabilities, prompting countries including India, Australia, Singapore and Pakistan to expand strategic petroleum reserves and fuel storage capacity.

What's interesting to see is how this resource crisis has catalysed closer economic partnerships between new-ish friends, such as India's efforts to revive alternate energy supplies from Africa, Brazil and Venezuela to blunt a sharp crude shortfall from the Middle East. India has also been quietly reopening energy diplomacy with Iran, after years of

curtailed trade following US sanctions. India's Petroleum Minister Hardeep Puri has discussed opportunities to cooperate with his Iranian counterpart, with Indian refiners seeking to procure Iranian crude under a sanctions waiver during the West Asia conflict.

At the same time, powers such as Russia and Iran are seeing their stocks rise in this new energy landscape: Indian imports of Russian oil are set for a record high in June, driven by US waivers on Russian barrels and the Hormuz disruption pushing refiners toward Moscow's discounted supply. Pakistan, meanwhile, is separately exploring cheaper Iranian crude purchases that could save up to US$340 million, reflecting how the crisis is accelerating bilateral energy deals that bypass traditional Western-aligned supply chains.

IS THE GREEN TRANSITION THE ULTIMATE LOSER HERE?

Unfortunately, though crude supplies are low, demand remains high and rising. This is forcing governments to confront the uncomfortable notion that their energy priorities will need a total overhaul, the main topic of discussion at the World Economic Forum's Summer Davos in June 2026.

There are real arguments to be made that rampant AI demand and energy security imperatives could spell a comeback for coal and natural gas. Not necessarily as a replacement for renewables, but a compliment—still, this is a striking signal that the clean energy transition in Asia may be far messier and more fossil-fuel-dependent than previously assumed. The scale of the issue is underscored by projections by Morgan Stanley that there could be US$9 trillion in Asia energy investment opportunities.

China has emerged as a stabilising force for commodity prices, and Beijing now wields a powerful new oil price weapon.

CHINA’S STEADY HAND ON THE WHEEL

While the rest of the world grapples with turbulence and change, the People’s Republic has responded with infrastructure investment, capital controls and technological innovation.

Beijing has opened a new Central Asia rail link specifically designed to reduce exposure to naval chokepoints, with analysts noting that the transcontinental rail network gives China a meaningful hedge against shipping disruptions in the Persian Gulf and the Red Sea. At the China International Supply Chain Expo, executives focused on frontier technologies as a form of geopolitical insulation, with wars and tariffs disrupting trade prompting Chinese firms to accelerate the digitisation and automation of logistics as a buffer against external shocks.

China's capital is also flowing outward in new directions. Eleven Chinese firms have proposed US$9.2 billion in investment in Bangladesh, illustrating how Beijing is dispersing capital across South and Southeast Asia as the US pulls back from some multilateral economic commitments. Separately, Bahrain is using tax incentives and tokenisation rules to position Hong Kong as a gateway to mainland Chinese capital, reflecting how Gulf states are actively courting Chinese investment flows amid Middle East instability.

China has emerged as a stabilising force for commodity prices, and Beijing now wields a powerful new oil price weapon—its ability to modulate demand and deploy strategic reserves at scale gives it leverage that no other single buyer possesses.

China's new Decree No. 837 adds legal backing to state control of Chinese private companies.

These developments point to a clear and deliberate effort by China to stabilise the ship—or at least its corner of it. These policy moves signal a greater willingness by Beijing to flex its influence and considerable resources to ensure its growth is not too damaged by forces out of its control.

There are risks of an overcorrection, however. China's new Decree No. 837 adds legal backing to state control of Chinese private companies, with analysts warning that this regulation affects any country receiving Chinese investments—extending Beijing's regulatory reach extraterritorially and introducing new policy risk for nations that have welcomed Chinese capital.

THE ARMS TRADE RESHUFFLE

Since the Ukraine-Russia conflict began in 2022, global military spending has continued to trend upwards as governments continue to respond to "another year of wars, uncertainty and geopolitical upheaval." Southeast Asia is no exception to that trend, despite its historic commitment to non-alignment.

The conflict in Europe has reshuffled Southeast Asia's arms trade in ways that are redrawing defence procurement and, by extension, defence-industrial investment flows. Russia has been effectively removed as a viable arms supplier to the region—an outcome that years of Western pressure could not achieve—opening space for US, European and increasingly South Korean and Indian defence exporters.

Yet, Russia has been actively courting ASEAN, with President Putin hosting Southeast Asian leaders at a Russia-ASEAN summit in Kazan. This is a clear sign of Moscow's efforts to strengthen ties with non-Western economies, and break the US' long-standing influence. This diplomatic offensive runs parallel to China's own deepening of trade infrastructure in the region, including Cambodia's new transit route for agricultural products to China via Laos.

Japan, meanwhile, has shed its self-imposed ban on lethal weaponry exports, gunning for a prominent place in the global defence trade—a shift that analysts say could take years to achieve but that signals a fundamental reorientation of Japan's industrial and trade policy. Germany's beleaguered carmakers are separately exploring whether Chinese manufacturers or weapons makers could move into their under-used factories, illustrating how geopolitical realignment is reshaping even traditional Western industrial heartlands.

China has blacklisted four Japanese government defence research institutes and placed dozens more Japanese firms under tightened export restrictions.

EXPORT CONTROLS ARE NOW ASIA'S FAVOURITE GEOPOLITICAL WEAPONS

Export controls have become one of the sharpest instruments of geopolitical competition in Asia. China has blacklisted four Japanese government defence research institutes and placed dozens more Japanese firms—including units of Mitsubishi, Hitachi and Komatsu—under tightened export restrictions, citing Tokyo's ambitions for remilitarisation. The move deepens an already fraught bilateral trade relationship.

The EU has set an October 2026 deadline for tangible results to resolve disputes with China over export limits on rare earths and high-performance magnets.

On rare earths, China has signalled willingness to make concessions to the EU in a dispute over export limits on rare earths and high-performance magnets, as EU Trade Commissioner Maroš Šefčovič met his Chinese counterpart Wang Wentao in Brussels. The EU has set an October 2026 deadline for tangible results, with Germany's trade minister calling on Beijing to ensure a level playing field.

India's pharmaceutical sector illustrates a hidden vulnerability in the export control landscape: while Washington has spared Indian generics from new drug tariffs, India's real exposure runs upstream through China, which supplies critical active pharmaceutical ingredients. This is not just India's problem—it is the West's problem too, since Western supply chains for medicines run through the same Chinese upstream nodes.

WHAT WE'RE WATCHING FOR

The convergence of conflict, trade and geopolitical hardball is producing a set of structural shifts whose full implications are still unfolding. The following are the key dynamics to watch:

- The Hormuz endgame is the most immediate variable. Iran and the US have agreed to halt attacks and renew talks, with Iran and Oman discussing governance of the strait. Whether a durable arrangement emerges will determine whether global energy trade routes normalise or if Asia's emergency supply diversification becomes a permanent structural change. Watch the Doha summit and any follow-on Iran nuclear or maritime framework talks.
- China's export control escalation against Japan is a new and underappreciated front. By targeting Mitsubishi, Hitachi, Komatsu and defence research institutes simultaneously, Beijing is signalling that economic coercion will track Japan's remilitarisation in real time. This could accelerate Japan's push to diversify its own supply chains away from China and deepen its industrial alignment with the US and South Korea.
- The EU-China October deadline on rare earths and trade imbalances is a critical near-term test. If talks fail, the EU may move toward its own export control or tariff measures, which would further fragment the global trading system and force Asian economies to choose sides more explicitly.
- India's dual-track energy strategy of buying Russian oil at scale while reopening dialogue with Iran and negotiating a trade deal with the US is inherently unstable. A Trump visit and bilateral trade deal could force India to curtail Russian oil purchases, raising its energy costs and testing New Delhi's strategic autonomy doctrine.
- China's Decree No. 837 and its new investment regulations deserve close attention from any government or company receiving Chinese capital. The extraterritorial reach of state control over Chinese private firms means that Chinese investment is increasingly bundled with Chinese regulatory jurisdiction, a factor that could slow the pace of Chinese capital deployment in South and Southeast Asia.
- Southeast Asia's alignment drift toward China—and Russia, to a lesser extent—is a slow-moving but consequential trend. If the US does not offer credible economic alternatives, the region's centre of economic gravity will continue to shift toward Beijing.

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