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A look at the new war economy and Asia's trade and capital wealth flows



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EDITORS' NOTE

Welcome to the August 2026 edition of StoneBench's *Cargo & Capital* newsletter. As the US-Iran conflict extends into its sixth month and the Strait of Hormuz remains a flashpoint, Asia finds itself at the epicentre of a global trade and capital realignment. As we noted in the *Build-Out* in late August, war and geopolitical conflict have become major influences on the global economy. In this bulletin, we examine how trade and capital flows are shifting in response to the rise of a new arms economy, as conflict redraws Asia's economic map.

Much of this is centred on the Strait of Hormuz, perhaps the defining faultline of the current conflict and an ongoing focus of attack. On 31 August 2026, US forces struck Iranian rocket launchers on a small island in the strait—their first military action in a month—prompting Tehran to retaliate by attacking US military targets in Jordan and the UAE. Iran's Revolutionary Guards simultaneously reported that a supertanker had been struck by naval mines in the southern strait, bringing it to a complete halt.

As we've witnessed, these conflicts have tangible economic impacts: Brent crude futures climbed above US$89 a barrel in immediate response, with some reports placing the price above US$90 following the exchange. Tightening Iranian control of the waterway, meanwhile, continues to build pressure on shipping lanes, with seafarers increasingly wary of traversing through the region.

SUPPLY CHAINS UNDER SIEGE

The ripple effects of the Hormuz crisis have reached deep into Asia's manufacturing heartland. In Yiwu, China—one of the world's largest wholesale trading hub—shipping

containers of household goods have been backing up as conflict disrupts the trade corridors exporters depend. The same goes for global air cargo sector, whose capacity has fallen by more than fifth since the war started, grounding passenger and freighter flights across the region. Key global air cargo hubs in Doha and Dubai have shuttered, leading to surging freight rates and ongoing backlogs that are set to ripple out across a range of sectors, from agriculture to aerospace manufacturing.

ASIA'S DEFENCE ECONOMY DRAWS NEW INVESTMENT

Having lifted its self-imposed ban on lethal weapons exports, Tokyo is now seeking a prominent place in the global defence trade and has allocated a record-high budget for the defence ministry for the upcoming fiscal year.

Japan's transformation from pacifist state to active arms exporter represents one of the most consequential structural shifts in Asia's defence economy. Having lifted its self-imposed ban on lethal weapons exports, Tokyo is now seeking a prominent place in the global defence trade and has allocated a record-high budget for the defence ministry for the upcoming fiscal year. This pivot is being channelled into concrete bilateral partnerships with countries like India, and spawning similar moves by others in Asia Pacific. The Philippines, for example, announced a 6.3% budget increase to fund advanced drones and warships as South China Sea tensions rise.

China, meanwhile, is navigating questions about its own weapons export strategy, with analysts cautioning that Beijing should focus on retaining existing defence customers rather than simply chasing new deals—a sign that the global arms market is becoming more competitive and quality-sensitive.

Japan's weapons export liberalisation is a textbook case of how geopolitical conflict creates new commercial ecosystems. Ukraine has already identified a potential path to Japanese military equipment following Tokyo's easing of export rules, though it could be years before its defence trade achieves meaningful scale. Yet, the direction of travel is clear and early-mover investors in Japan's defence-industrial base are positioning ahead of what could be a decade-long ramp-up.

TECHNOLOGY AS THE HEDGE

Companies and governments that move fastest to reduce fossil fuel dependence and build digitally resilient supply chains will be best positioned for the next phase of the conflict.

From AI-driven supply chain management to solar energy adoption and EV uptake, technology is emerging as the primary hedge against geopolitical and energy risk across Asia. Perhaps the most underappreciated dynamic in the current environment is the speed at which conflict is reshaping comparative advantage. Bangladesh is losing garment orders to regional rivals as energy shortages bite. Vietnam's farmers are abandoning coffee for durian. Nepal's consumers are switching to EVs. Japan is becoming an arms exporter.

These have the potential to become permanent dislocations in trade patterns, investment flows and industrial geographies. Companies and governments that move fastest to reduce fossil fuel dependence and build digitally resilient supply chains will be best positioned for the next phase of the conflict—whatever form it takes.

WHAT WE'RE WATCHING FOR

The uncertainty and turmoil being created by ongoing conflicts across the world are deepening the pressure points on trade and capital flows. This is converging with intensifying climate stress and macroeconomic pressures, creating a complex and fast-moving environment for businesses. Here are the key dynamics to watch:

- **Dual chokepoint risk Hormuz and Panama Canal.** The Panama Canal has emerged as an unexpected beneficiary of Hormuz disruption, with demand for the interoceanic route surging as shippers seek alternatives. However, the canal now faces its own climate-driven constraint: the return of El Niño has lowered water levels. Authorities are cutting daily transits from 36 to 32 from mid-September, compounding the Hormuz disruption. Shippers and logistics operators face a narrowing set of viable routes, and freight rates could spike further. This is a compounding risk that is underappreciated in current market pricing.
- **Asia's defence investment cycle.** Japan's record defence budget request, the Philippines' drone and warship procurement, and the India-Japan maritime cooperation framework all point to a sustained multi-year increase in defence spending across the Indo-Pacific. This creates investable opportunities in naval shipbuilding, drone technology, missile systems and critical minerals—but also raises the risk of regional arms race dynamics that could further destabilise the security environment.
- **Critical minerals as the new battleground.** Japan's deep-sea rare earth breakthrough, India's battery recycling industry, and the India-Japan-Australia alignment on critical minerals supply chains all signal that the contest for strategic materials is intensifying. China's dominance in rare earth processing remains a structural vulnerability for the rest of Asia, and investments in alternative supply chains will attract significant capital.
- **Capital flow bifurcation.** Singapore's record stock market performance and its competition with Hong Kong for wealth management mandates reflect a broader bifurcation in Asian capital flows. Conflict and uncertainty are concentrating capital in perceived safe havens, while frontier and emerging markets face outflows. China's offshore wealth tax crackdown is accelerating this dynamic, with Singapore and Hong Kong the primary beneficiaries.

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