

# Asian economies taking a double hit from US war on Iran

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With 90 percent of the oil which passes through the Strait of Hormuz and 83 percent of the liquified natural gas destined for Asia, the region is at the centre of the growing economic and financial crisis precipitated by the US war on Iran. So much so that the closure of the Strait is increasingly being described as an “Asian crisis.”

As the war enters its second month, the price of Brent crude, the global benchmark, has risen by 63 percent from its pre-war level, eclipsing the previous record monthly rise of 46 percent following Iraq’s invasion of Kuwait in 1990, amid warnings that there are more rises to come.

The economies of Southeast Asia, as well as those of India, Japan and Korea, are taking a double hit.

First, there is the rise in the dollar-price of oil, and then there is the additional hike resulting from the fall in their currencies in relation to the dollar.

There is an interaction between the oil price hikes and the hit to stock markets which is manifested in currency values. The Indian stock market has experienced a major downturn with the two major indexes, the Sensex and the Nifty 50, falling by 10.8 percent and 9.5 percent respectively so far this year.

This had led to an outflow of foreign investor money, which in turn has pushed down the value of the rupee. It has fallen 4.4 percent in the March quarter and has hit a record low of 95 rupees to the dollar.

The Reserve Bank of India has been intervening to try to maintain the value of the rupee by demanding that Indian banks limit their dollar holdings. It has insisted that they hold no more than \$100 million at the end of each business day. So far, the effect appears to have been minimal. On Monday, after the restrictions were ordered, the rupee rose by 1.4 percent but then lost most of its gains by the end of the day.

One of the worst affected stock markets is that of South Korea. Earlier this week, the Kospi index experienced another significant fall, taking its total loss since it reached a record high in late February to 20 percent, passing the threshold which is considered the entry to bear market territory.

Korean stocks have not only been hit by the oil price rises, the threat of significant inflation and higher interest rates, but also by developments in AI that can sharply reduce the amount of memory which is needed to train AI large language models. Consequently, the shares of the major chipmakers, Samsung and SK Hynix, have seen major falls.

As one Singapore-based financial analysis told Bloomberg earlier this week: “Everyone’s attention is stuck on this war in the Middle East. As long as there are no meaningful signs of both sides wanting to back down, more weakness will be reflected in the equity market, and that includes the big tech names in the Kospi.”

Some \$739 billion was wiped off the value of Korean market capitalization in March, and the Kospi circuit breaker, which halts trading if there has been a fall of 8 percent, was triggered twice in the month.

In the Philippines, higher oil prices and a fall in the peso have delivered what has been called a “double whammy,” which is expected to double the rate of inflation in coming months, if not weeks, hitting the working class and the poorest sections of the population.

The Marcos government, fearful of an upsurge in the working class—there has already been a national transport workers’ strike—has declared a national state of emergency. And it has, despite its vociferous rhetoric, reached out to China to explore the possibility of joint operations in the hotly-contested South China

Sea to extract oil and gas.

The currency turmoil has extended to Japan, with financial officials raising the prospect of a major intervention in the market to halt the slide of the yen.

Atsushi Mimura, the vice finance minister for international affairs, has warned of bold action by authorities if current conditions, which have seen the yen depreciate to 160 to the US dollar, persist.

“We’re hearing increasing concern that speculative activity is picking up not just in the crude oil futures market, but also in the foreign exchange market,” he told reporters earlier this week. “If this situation continues, we believe decisive action may be necessary.”

The Japanese finance minister, Satsuki Katayama, said she was watching developments with a high degree of urgency.

“It’s now reaching a point where it’s affecting the real economy and people’s daily lives,” she told a press conference.

These remarks express the fear held by all governments in the region that developments in the real economy—higher inflation combined with job cuts—will provoke struggles by the working class.

The combined effects of the oil price hikes and the deprecation of Asian currencies has international ramifications, not least for the \$30 trillion US Treasury market.

Yesterday, the *Financial Times* reported that “foreign central banks have slashed their holdings of Treasuries at the New York Federal Reserve to their lowest level since 2012, as countries sell US government bonds to prop up their economies and currencies in the wake of the Iran war.”

It reported that the value of Treasuries held by official institutions, mostly central banks, had dropped by \$82 billion since February 25.

According to Brad Setser, a senior fellow at the Council on Foreign Relations, oil importers, including Turkey, India and Thailand, were among those selling Treasuries to obtain dollars to buy oil and mitigate the slide in their currencies.

The selloff comes amid the fall in bond prices in the US, sparked by inflation fears in the short term. The longer-term concern is that at some point the bond market is simply not going to be able to absorb ever increasing US debt, now at \$39 trillion and set to rise

even further, as the Trump regime demands more money for the military.

The numbers involved in the recent selloff by central banks are not large at this stage. But the process does illustrate the complex interconnectedness of the global economy and its finances. It means that a crisis in one region, in this case centering on the Asian economies and their currencies, can be rapidly transmitted to the very heart of the international system.



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