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Could the Sharp Drop in Passenger Car Exports to the Middle East Pose a Risk to the Japanese Economy?

While domestic sales and exports to other regions are supporting production, developing alternative distribution routes remains a challenge

Economic Research Dept. **Hirohito Hatanaka**

Summary

- Since the effective blockade of the Strait of Hormuz, attention has focused on issues related to the procurement of essential goods from the Middle East; however, exports to the Middle East are equally affected by the resulting logistics disruptions. Before the deterioration of the situation in the Middle East, automobiles accounted for half of all goods exported to countries surrounding the Strait of Hormuz, so restrictions on navigation through the Strait have a significant impact on the automotive industry.
- As of the time of the writing of this report, while the number of Ro-Ro (Roll-on/Roll-off) ships carrying automobiles passing through the Strait of Hormuz has dropped to near zero following the US and Israeli attacks on Iran, the number of Ro-Ro ships passing through the Bab el-Mandeb Strait and the Suez Canal on the Red Sea side has been on the rise. However, new car exports to Saudi Arabia—which is also a Red Sea coastal nation—stood at zero in April, suggesting that, as of April, progress had not been made in securing alternative routes from Japan to countries surrounding the Strait of Hormuz.
- If new car exports to the Middle East were to decline by 95% and domestic passenger car production were to fall accordingly, the resulting drag on real GDP is estimated to be about 0.35%. As of April, domestic passenger car production has been sustained by strong domestic sales and exports to Europe, Canada, and Mexico; however, if these supporting factors were to disappear, the Japanese economy would face significant downward pressure.
- It is expected to take some time for logistics through the Strait of Hormuz to return to pre-Iran attack levels, so it will be necessary to continue expanding automobile exports to regions outside the Middle East. It remains unclear whether the US and Iran will reach a final agreement to end hostilities, and the possibility of another

blockade of the Strait of Hormuz cannot be ruled out. To capture automotive demand in the Middle East despite this high level of uncertainty, the Japanese government should support companies' efforts to secure alternative routes that bypass the Strait of Hormuz.
