

The Iran War and the Impact on Japan SMEs

Dr. Ritter Diaz
International Consultant
April 26, 2026

After two months of disruption linked to the Iran War and the effective blockage of the Strait of Hormuz, Japan finds itself in a phase of controlled economic stress rather than immediate crisis. There are no visible shortages, no emergency rationing, and no abrupt halt to industrial activity. On the surface, stability has been preserved. Yet beneath this calm, a gradual but persistent economic adjustment is unfolding—one that is increasingly being felt by small and medium-sized enterprises (SMEs) and the domestic supply chains that sustain Japan's industrial base.

This outcome is not accidental; it reflects a deliberate policy choice. The Japanese government, under Prime Minister Sanae Takaichi, has chosen to prioritize economic continuity over energy austerity. Unlike previous crises, there have been no appeals for fuel conservation, no restrictions on electricity use, and no measures aimed at suppressing demand. Instead, the strategy has relied on strong fiscal support such as subsidies to fuel, gas and electricity, extensive energy reserves, and rapid diversification of supply sources. Oil imports have been partially redirected away from Hormuz routes, and domestic refining capacity continues to operate at full scale.

This approach has succeeded in its immediate objective: avoiding disruption and maintaining market confidence. Japan is behaving as a buffer-rich economy capable of absorbing shocks rather than reacting through emergency controls. For business leaders, this has ensured operational continuity and the absence of restrictions imposed by government policies, as has occurred in other Asian countries.

However, this stability comes at a cost. By choosing not to reduce demand, Japan is allowing the external shock to pass through the economy. Energy prices remain elevated globally, and the depreciation of the yen—hovering around ¥160 per dollar—has amplified import costs. The result is a form of “silent inflation”: there is no visible crisis, yet costs are steadily rising across energy, raw materials, and logistics.

For SMEs, this dynamic is particularly challenging. Most operate within the domestic market and lack the pricing power to fully pass increased costs on to customers. While export-oriented firms may benefit from a weaker yen, SMEs instead face dual pressure: rising input costs and limited revenue growth. At the same time, demand conditions are beginning to soften. Large corporations are becoming more cautious, delaying investments and implementing stricter procurement processes, while consumers are adjusting their behavior in response to rising living costs by reducing discretionary spending.

The consequence is a gradual compression of margins across the SME sector. Logistics and transport companies are experiencing direct increases in fuel costs. Manufacturing firms are contending with more expensive inputs and less predictable production schedules. Retailers and service providers must navigate weakening demand while their operating expenses continue to rise.

These pressures are not yet severe enough to trigger widespread disruption, but they are accumulating steadily.

Financially, the situation is becoming more delicate. SMEs depend on stable cash flow, and even moderate disruptions such as slower payments, reduced order volumes, or higher working capital requirements can create liquidity strain. While access to financing remains available, it is uneven, and not all firms will be able to rely on it indefinitely if conditions persist.

Looking ahead, the next 60 to 120 days will be critical. If the disruption in the Strait of Hormuz continues, global competition for alternative oil supplies is likely to intensify, reinforcing high price levels. At the same time, the persistent weakness of the yen will continue to further amplify import costs. Under such conditions, what is currently a manageable situation could evolve into a more structural strain, particularly for the most vulnerable SMEs.

What makes this situation distinctive is that it is not defined by a single shock, but by the interaction of multiple forces: an external energy disruption, currency depreciation, and the gradual transmission of inflation through the domestic economy. Japan has chosen to absorb these pressures rather than deflect them through austerity measures. This preserves growth in the short term, but also transfers a significant portion of the burden onto the corporate sector.

For business leaders, the main challenge will be navigating a prolonged period of adjustment—maintaining cost discipline, strengthening supply chain resilience, managing liquidity, and implementing careful pricing strategies. Equally important will be preserving strong relationships with customers and suppliers in an environment where both sides are under pressure.

For Japan's SMEs, the challenge ahead is not a sudden shock, but a gradual and continuous squeeze on costs and margins. Therefore, SMEs will need to adapt continuously, as stability can no longer be taken for granted.

