August 18, 2026

The Iran Conflict: Accelerating Global Fragmentation

By Angelo Katsoras

Introduction

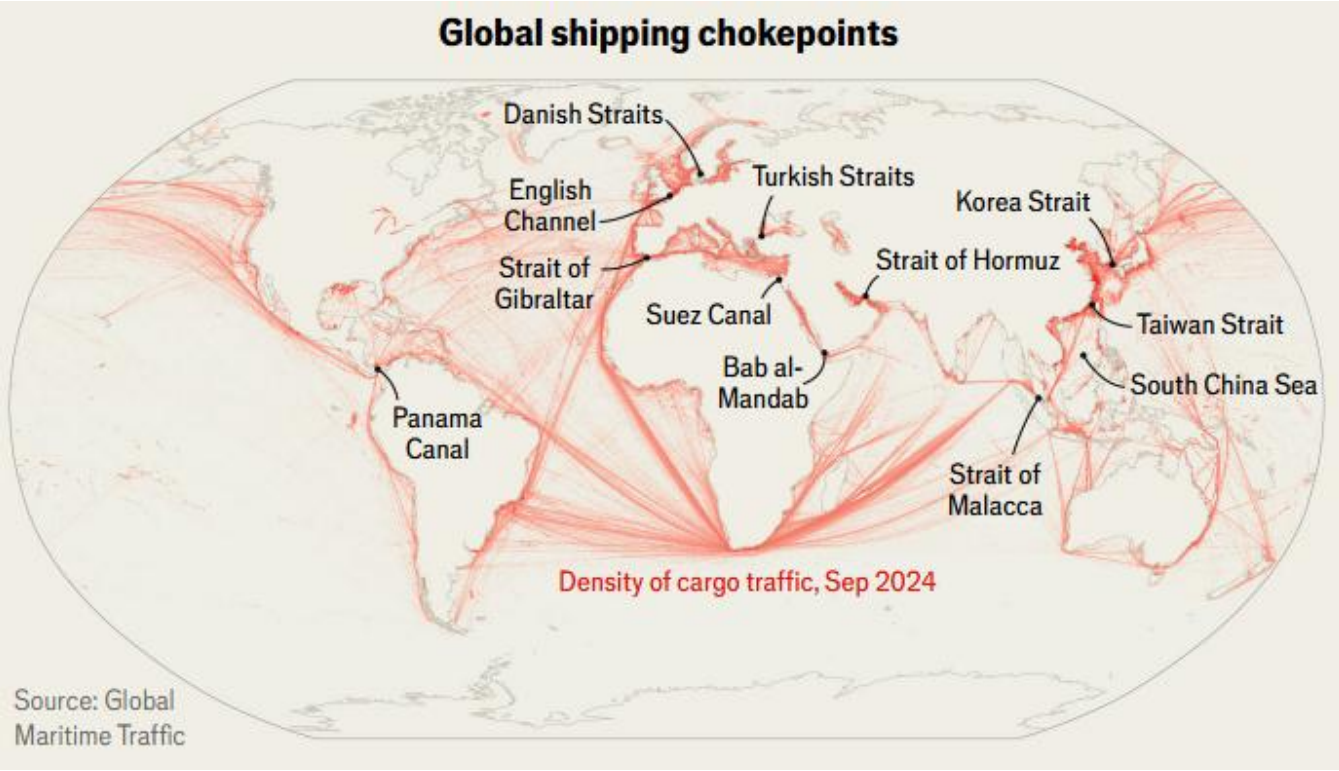
The Iran conflict will have consequences well beyond the immediate effects of higher energy prices and shipping disruptions. Its most significant long-term impact will be to accelerate the shift away from highly efficient but increasingly vulnerable global supply chains towards more secure, geographically diverse supply chains that prioritize domestic and regional production. This shift will lead governments to treat ports, pipelines, merchant fleets, and other critical infrastructure as matters of national security. The resulting trading system will be more resilient but also more costly.

This report examines how the changing geopolitical landscape is reshaping global supply chains, China-U.S. economic relations, industrial policy, and government intervention, including efforts to amass strategic stockpiles in key industrial sectors.

The scrambling of supply chains

For decades, supply chain design focused on efficiency. Companies reduced costs by concentrating production in fewer and fewer locations. In the semiconductor industry, for instance, the number of companies capable of producing state of-the-art microchips plummeted from over 25 in 2000 to merely three today, with TSMC by far the dominant player.[1] The most advanced chip-making equipment is manufactured by a single Dutch company, ASML, while the refining and processing of rare earths remain overwhelmingly concentrated in China.

Now, the priority for many companies and countries has become, instead, to avoid being overly exposed to geopolitically unstable regions or maritime chokepoints. This is of vital significance in that some 85% of the world's merchandise trade by volume is shipped by sea.[2] Building greater resilience will require reshoring certain activities and, where possible, diversifying imports across multiple countries and regions to reduce dependence on any single supplier, trade route, or chokepoint.



Source: "Hormuz is not the only weak spot for global trade," The Economist, March 26, 2026

This shift will raise the profile of politically stable locations less exposed to geopolitical tensions and major maritime chokepoints. Canada is well positioned to benefit from this. Its abundant natural resources, political stability, and geographical distance from many of the world's principal geopolitical hotspots and chokepoints make it an increasingly attractive partner for allies seeking to build more resilient supply chains.

1 "Chipmaking is being redesigned. Effects will be far-reaching," The Economist, January 23, 2021
2 "Hormuz is not the only weak spot for global trade," The Economist, March 26, 2026

Impact on China-U.S. relations

Even though China and the United States have agreed to a partial trade truce, the Iran conflict is likely to reinforce the view in both Washington and Beijing that reducing their dependence on one another in key sectors is a strategic imperative.

For example, the United States recently banned the import of humanoid and four-legged robots made in China, such as those shown below. The decision was driven by national security concerns and a desire to reshore key industries.[3] Meanwhile, Beijing continues to limit the export of rare earths and rare earth magnets, while allowing the export of fully assembled electric motors containing those magnets.[4] Indeed, Chinese exports of rare earth elements to the United States decreased by 30% in the first half of 2026 compared to the same period last year.[5]

Source: "China's Robots Know Kung Fu and Can Scale Walls. Can They Woo Investors?" New York Times, August 6, 2026

It remains to be seen whether the gradual decoupling of the two powers in key sectors will unfold in a gradual manner or whether it will become increasingly abrupt and disruptive.

Some companies are already preparing for greater separation. For example, electronics manufacturers such as HP and Dell are reportedly trying to navigate these waters by setting up two separate supply chains: one in China to meet demand, and another outside China to serve other markets.[6]

Energy and industrial policy

The Iran conflict is likely to reinforce the need for governments to prioritize the following energy and industrial policy items:

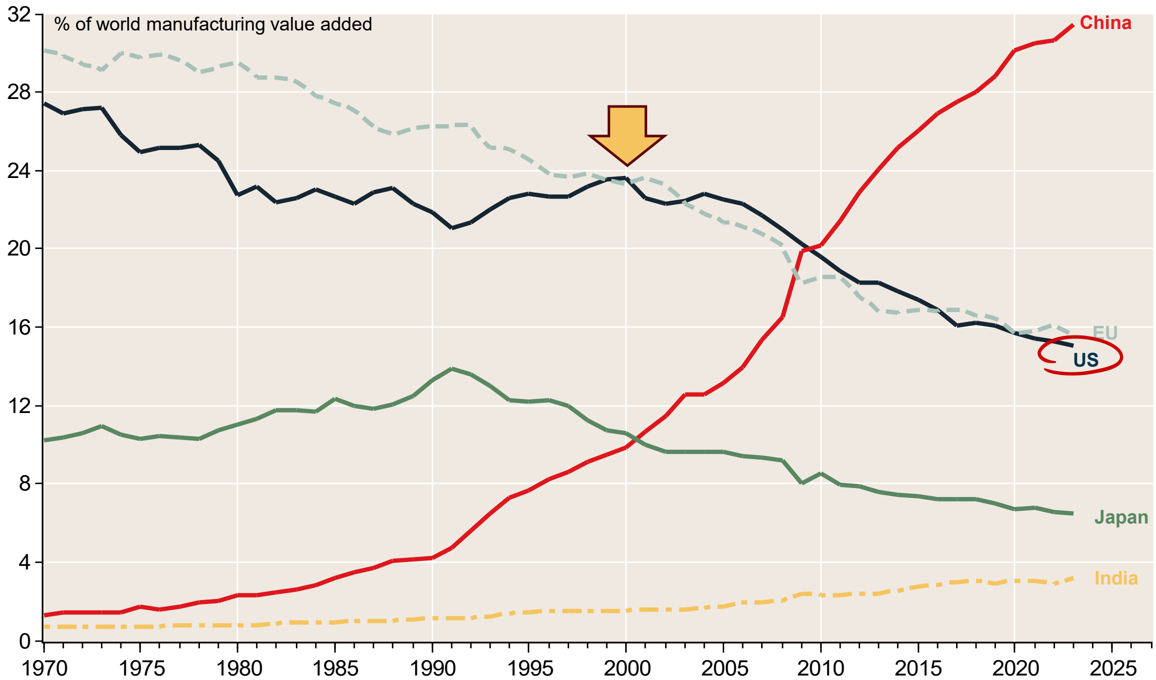
- Demand for electricity has been rising in recent years, driven in part by AI, data centers and electric vehicles. The conflict will reinforce the trend towards electrification.
- Improving grid resilience through greater redundancy and diversification of energy sources
- Expanding domestic refining, processing and manufacturing capacity in strategic sectors, with national security considerations often given precedence over comparative advantage
- Securing long-term supply agreements with a variety of countries to reduce dependence on any single region or supplier for energy, critical goods and key components.

Given that China accounts for about one-third of the world's manufacturing output, the country is well placed to benefit from the increased global investment in energy infrastructure and industrial capacity that is expected to follow from these objectives. This is likely to boost demand for Chinese-made industrial components, such as turbines, high-voltage cables, transformers, solar panels and batteries. While many countries are seeking to develop their own production capabilities in these sectors, this will take time.

3 "Trump administration bans new Chinese humanoid robots, to protect US AI buildout," Reuters, July 28, 2026
4 "China Wields Its Rare-Earths Leverage Over Europe With Export Controls," New York Times, July 24, 2026
5 "China rare-earth exports to Japan, US plunge after restrictions," Nikkei Asian Review, August 8, 2026
6 "Exclusive: SpaceX moves to keep Chinese nationals, parts out of supply chain," Nikkei Asian Review, July 30, 2026

World: Washington wants its factories back

Manufacturing value added as a share of world total in constant 2015 $USD



NBC Economics and Strategy (data via UN Trade and Development)

This global landscape also creates opportunities for resource-rich countries such as Canada. Canadian oil, natural gas, uranium, potash, critical minerals, and related industrial products may become more attractive as governments seek supplies from stable politically aligned countries. However, to take full advantage of this shift, Canada will have to build additional ports, pipelines, electricity generation capacity, processing facilities and transportation infrastructure.

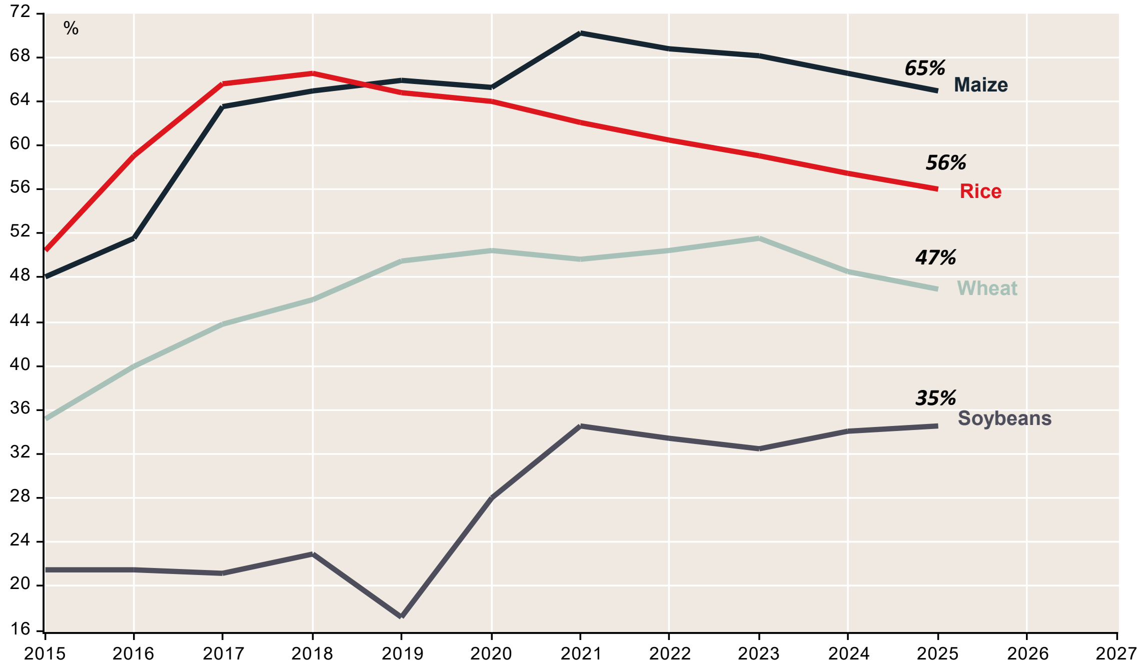
Much of world following China's lead on strategic stockpiling

Even when geopolitical tensions were considerably lower, China stood out for the scale of its strategic stockpiling. Over many years, it has amassed what many experts believe to be among the world's largest reserves of oil, food and critical raw materials, the exact size of which remains secret. For example:

- **Oil:** China has built up one of the world's largest strategic petroleum reserves to help cushion the economic impact of supply disruptions and geopolitical shocks, such as the Iran conflict.
- **Critical minerals:** China has accumulated strategic reserves of key industrial minerals, including copper, cobalt, nickel, and lithium.
- **Rare earths:** In addition to dominating global rare earth processing, China has established strategic stockpiles of these minerals.
- **Grain and food:** China maintains substantial state reserves of wheat, rice and corn, as well as operating a strategic pork reserve, in order to strengthen food security.

One area for which data is available is grain stocks. While accounting only for about 17% of the world's population, China is estimated to hold about 65% of global maize stocks, 56% of rice stocks, and 47% of wheat stocks (see chart below).

China: Share of global grain stocks in percentage terms
By crop year



NBC Economics and Strategy (data via Nikkei, USDA)

According to government budget documents, Beijing increased its 2025 budget for stockpiling grain, edible oils, and other agricultural commodities by approximately 6.1% over the previous year, bringing the total to about 132 billion yuan (US$18 billion).7

The West is just beginning to ramp up strategic stockpiles

- **United States:** In February 2025, officials announced the establishment of Project Vault, a US$12-billion strategic minerals reserve. Its aim is to strengthen supply-chain resilience by building up stockpiles of rare earths and other critical minerals.
- **Australia:** In January 2026, the government announced plans to establish a strategic critical minerals reserve worth AU$800 million, prioritizing antimony, gallium and rare earth elements.[8]
- **European Union:** The European Union is advancing plans to establish a joint reserve of critical raw materials under its RESourceEU strategy.

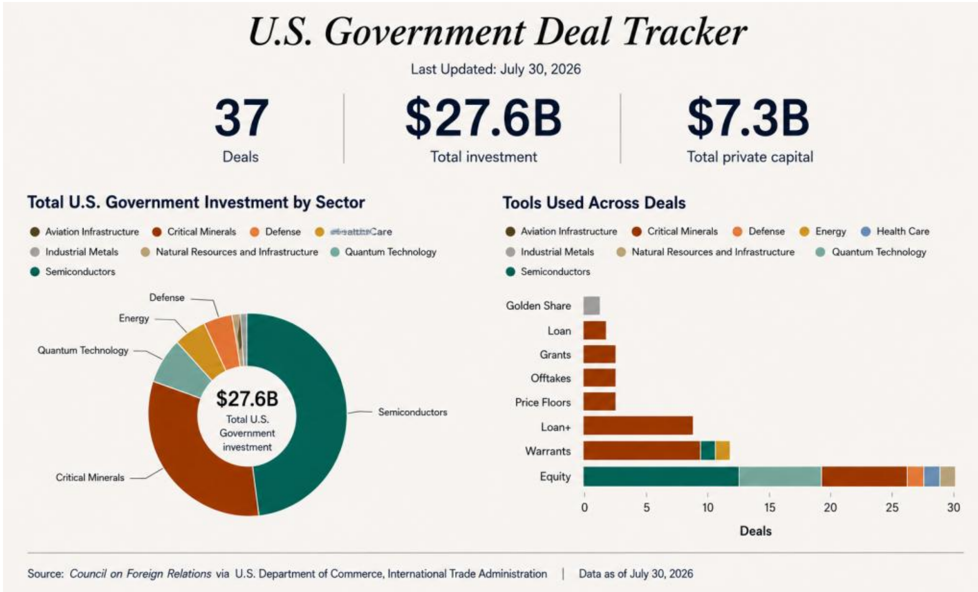
These initiatives aim to strengthen resilience against future supply chain disruptions and reduce reliance on a small number of overseas suppliers. However, developing strategic reserves will take time. Further, achieving greater resilience will also require expanding domestic refining and processing capacity.

Increasing government stakes in key companies

Governments have long subsidized or protected industries considered to be of critical importance. What is new these days is the growing willingness among governments to become shareholders in key companies viewed as national strategic assets. The trend is evident across a range of sectors, including mining, semiconductors, and steel.

For investors, this creates opportunities and risks. On the one hand, companies regarded as strategically important may benefit from government support and be considered too important to fail. On the other, government ownership may require companies to balance commercial objectives with national security priorities. This could impact decisions relative to pricing, investment and restructuring. The table below presents stakes held by the U.S. government in key companies.

7 “China raises 2025 budget for grain stockpiling, targets higher domestic output,” Reuters, March 6, 2025
8 “Governments are rushing to hoard critical minerals as the ‘resource nationalism’ era arrives,” CNBC, February 24, 2026



It is important to note that other countries are taking similar measures. For example, Canada recently expanded its ability to make strategic equity investments through the C$2-billion Canada Critical Minerals Accelerator. Its first transaction was an equity-like investment of up to $400 million directly into Teck Resources' smelter operations in British Columbia. The investment could potentially double the facility's production capacity for germanium and antimony, as well as adding new capacity for gallium production. These minerals are essential for a range of industries, including semiconductors, telecommunications, and defence.[9]

Iran: short- and long-term impacts

Regarding the conflict with Iran, the most likely scenario in the near term is that neither Iran nor the United States will give ground on the rules governing access to the Strait of Hormuz. This makes intermittent conflict likely, where the strait opens and closes periodically.

However, each ceasefire breakdown risks stoking a further escalation. Future U.S. bombing campaigns could see increased targeting of refineries, energy infrastructure, and ports. In response, Iran could intensify its attacks on U.S. military facilities, shipping, and critical energy infrastructure across the Gulf region. Consequently, each successive round of fighting could be more destructive than the last.

Even if the conflict eventually subsides, it is likely to have a lasting impact on corporate and government decision making. Just as the war between Russia and Ukraine has changed attitudes towards dependence on Russian energy, the conflict in Iran could alter perceptions of the reliability of the Persian Gulf and the Red Sea as sources of energy and critical trade routes.

Technology lowering cost of disrupting global trade

Historically, the production of precision-guided munitions, satellite navigation systems and advanced semiconductors required industrial capabilities possessed only by a small number of countries.

However, over the past couple of decades, globalization has transformed many formerly specialized military technologies into widely available dual-use technologies incorporated into mass-produced commercial goods. Consequently, drones and other advanced weapons can now be assembled using readily available off-the-shelf components. This, in turn, has enabled smaller states and non-state actors to acquire the means to disrupt trade, energy supplies, and critical infrastructure using relatively inexpensive weapons.[10] This development is yet another factor driving the shift toward more regionalized and resilient supply chains that can be more easily protected.

Conclusion: A more fragmented global economy

The Iran conflict is accelerating the shift from a global economy centred primarily on efficiency to one where businesses and governments place greater emphasis on resilience and geopolitical reliability. This entails:

- Building redundancy through the duplication of production and transportation networks
- Building larger strategic stockpiles
- Increasing government intervention in strategic industries
- Greater opportunities for politically stable countries located far from major geopolitical flashpoints

Ultimately, the next phase of globalization will be defined less by the pursuit of maximum efficiency and more by the pursuit of economic security. As governments increasingly use subsidies, local-content requirements and strategic investment to shape industrial development, traditional considerations of comparative advantage will increasingly compete with resilience and geopolitical alignment as policy priorities. The result will be a global economy that is less efficient, more fragmented and costlier than the one that emerged following the end of the Cold War.

9 "Ottawa bets big on Teck's germanium production in Trail: What is it?" Financial Post, July 7, 2026
10 "Iran and the New Rules of Global Power," Foreign Affairs, July 24, 2026

Economics and Strategy

Subscribe to our publications:
NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.Schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca