

August 18, 2026

The Iran Conflict: Accelerating Global Fragmentation

By Angelo Katsoras

Introduction

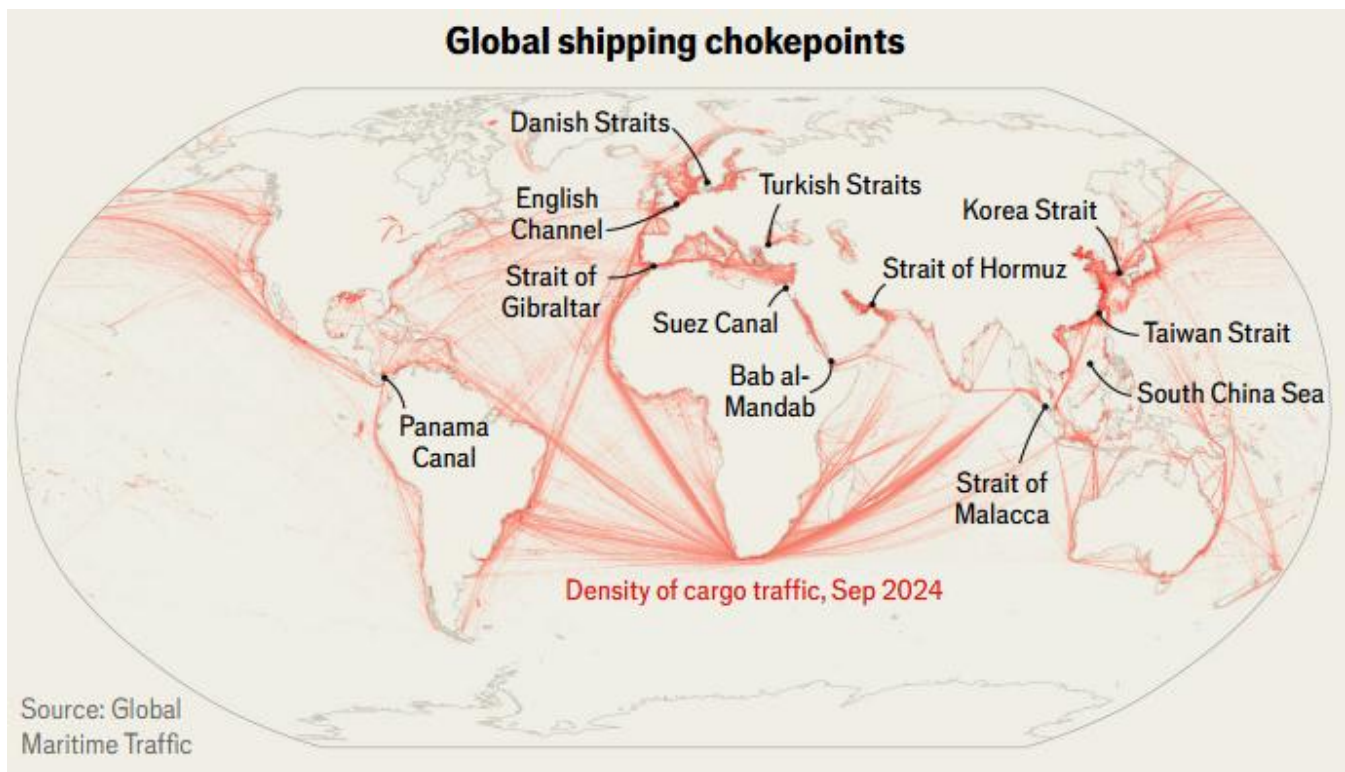
The Iran conflict will have consequences well beyond the immediate effects of higher energy prices and shipping disruptions. Its most significant long-term impact will be to accelerate the shift away from highly efficient but increasingly vulnerable global supply chains towards more secure, geographically 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 buildup,” Reuters, July 28, 2026

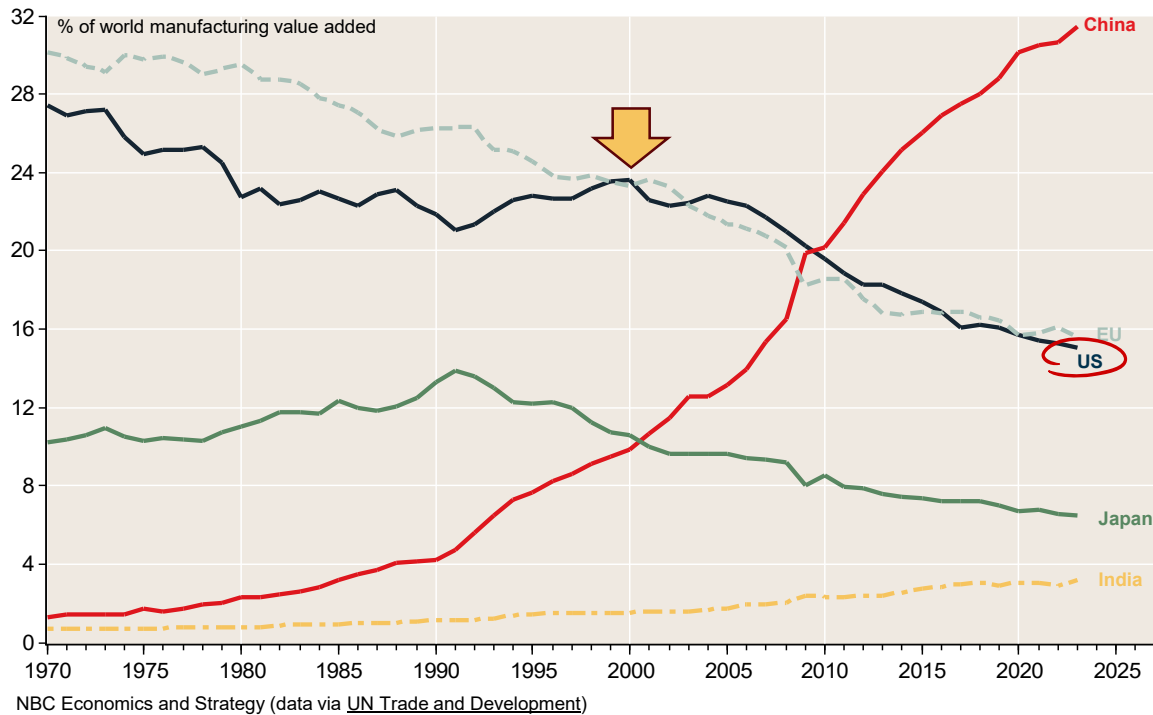
⁴ “China Wields Its Rare-Earths Leverage Over Europe With Export Controls,” New York Times, July 24, 2026

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



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

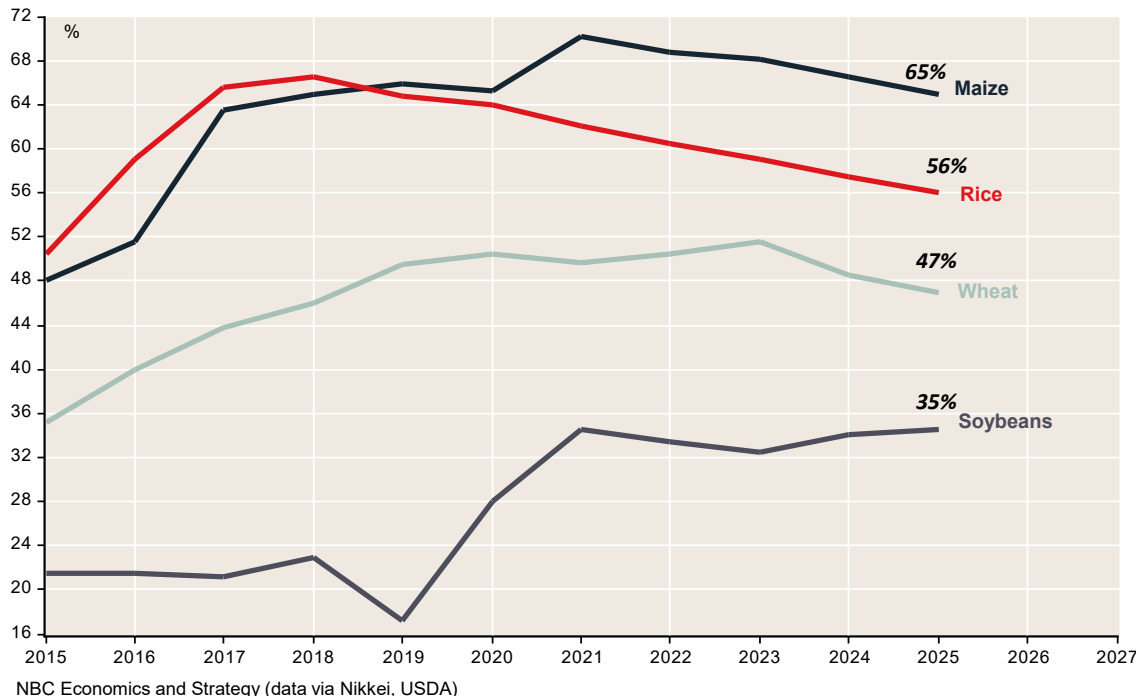
Even when geopolitical tensions were considerably lower, China stood out for the scale of its strategic stockpiling. Over many years, it has amassed what many experts believe to be among the world's largest reserves of oil, food and critical raw materials, the exact size of which remains secret. For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



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.

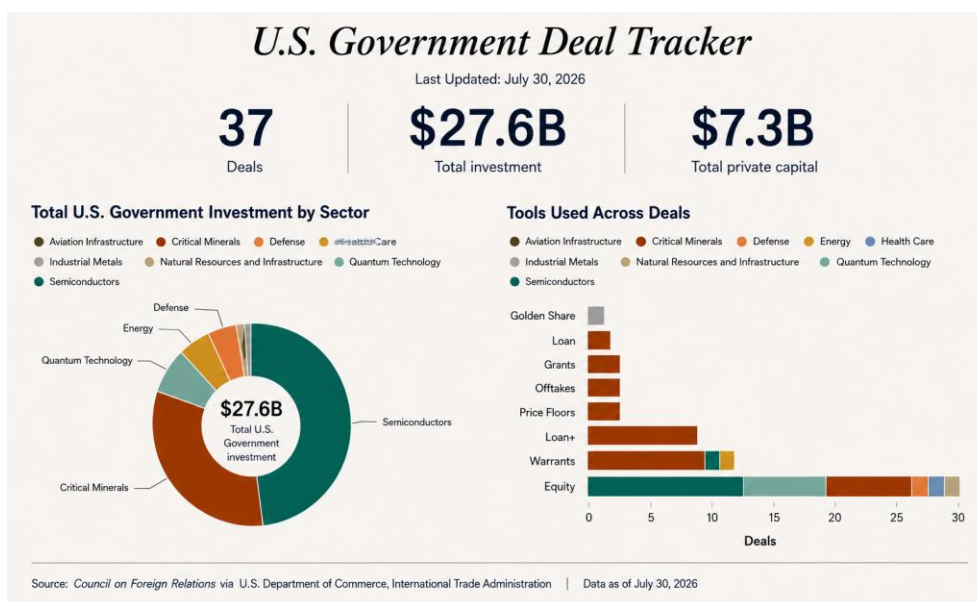
Increasing government stakes in key companies

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

General: This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of CIRO), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents: NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

UK Residents: This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

EU Residents: With respect to the distribution of this report in the member states of the European Union ("EU") and the European Economic Area ("EEA") by NBC Paris, the contents of this report are for information purposes only and do not constitute investment advice, investment research, financial analysis or other forms of general recommendation relating to transactions in financial instruments within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MiFID 2"). This report is intended only for professional investors and eligible counterparties within the meaning of MiFID 2 and its contents have not been reviewed or approved by any EU/EEA authority. NBC Paris is an investment firm authorised by the French Prudential Control and Resolution Authority ("ACPR") to provide investment services in France and has passported its investment services throughout the EU/EEA under the freedom to provide services and has its registered office at 8 avenue Percier, 75008 Paris, France. "NBC Financial Markets, a subsidiary of National Bank of Canada" is a trade name used by NBC Paris S.A.

NBF is not authorised to provide investment services in the EU/EEA.

U.S. Residents: With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only. This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents: With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright: This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.