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The Impacts of US-Israeli Joint Military Operations against Iran on China's Industrial and Supply Chains

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ABSTRACT

In February2026, US-Israeli joint military operations against Iran disrupted shipping in the Strait of Hormuz, surged oil prices and cut off critical raw materials, shocking China's industrial and supply chains. Using an "Energy-Logistics-Industry" framework, this paper finds that petrochemical industries face severe cost pressures, downstream manufacturing bears heavy burdens, and high-end manufacturing suffers hidden material-supply risks. The crisis also creates opportunities for energy diversification and industrial substitution, showing a pattern of "short-term pressure, medium-term divergence and long-term upgrading". Countermeasures are proposed from macro, meso and micro perspectives.

KEYWORDS: *US-Israeli-Iranian conflict; industrial and supply chains; supply-chain resilience; energy security.*

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I. INTRODUCTION

Industrial and supply chain security is central to building a modern industrial system. The Middle East, as a global energy hub, generates significant spill-over risks during geopolitical turbulence. On 28 February 2026, the US-Israeli-Iranian conflict disrupted shipping through the Strait of Hormuz, triggering an energy-supply crisis. China, the world's largest crude-oil importer with over 70% external dependence and roughly half of imports from the Middle East, faces acute vulnerability through this chokepoint. This paper applies an "Energy-Logistics-Industry" framework to examine short-term shocks, long-term transformations, and dual positive-negative effects of the conflict.

II. Risk Transmission Mechanism

A. Energy-supply pathway

Disrupted navigation in the Strait of Hormuz and strikes on Iran's energy facilities pushed Brent crude above USD 119 per barrel, directly inflating China's import costs across industrial chains

B. Logistics-transport pathway

Middle-East freight rates soared. VLCC daily hire rates from Oman to China jumped from USD 30,000-40,000 to approximately USD 140,000, sharply raising operational costs.

C. Critical-raw-material pathway

Shutdowns in Middle-East methanol and ethylene-glycol plants, plus disrupted Iranian celestite supplies, threaten electric-vehicle supply chains.

D. Industrial transmission pathway

Upstream price hikes cascade downstream: "Crude oil → Naphtha → Basic chemicals → End-use products", forming a "cost-push → profit compression → demand suppression" loop.

III. Specific Impacts on Key Industrial Chains

A. Negative impacts

Petrochemical chains suffer the heaviest losses. Independent refineries relying on discounted Iranian crude face devastating profit blows. East China methanol and ethylene-glycol inventories hit near-decade lows, with alternative sources 20% costlier. Aromatic-hydrocarbon margins turn negative; styrene producers cut rates. Polyester PTA opera rates drop to 65%, a historic low. Downstream home-appliance orders fall over 15% year-on-year, and eroded profits drive contract delays. Dubai's hub airport faces repeated closures; ship-to-ship transshipment partly sustains movement but costs surge.

B. Positive opportunities

Risks force adaptive adjustments. First, China accelerates energy import diversification from Russia, Central Asia and Africa. Second, coal-to-chemical industries gain advantages—coal-to-methanol yields CNY 800/tonne profit, stabilizing domestic supply. Third, Chinese styrene captures export-substitution share from European suppliers. Fourth, overland corridors including the northern China-Europe Railway Express and Trans-Caspian route expand, enriching logistics alternatives.

IV. Existing Deficiencies

Four structural weaknesses amplify vulnerability. (1) Energy imports remain geographically concentrated—the Middle East still supplies about half of China's crude, so geopolitical shocks transmit directly. (2) High external dependence on critical chemical feedstocks couples with limited strategic reserves, weakening shock absorption. (3) Overland alternative corridors lack sufficient capacity and cost competitiveness to fully replace seaborne shipping. (4) SMEs lack risk-hedging tools such as futures and backup-supplier systems, leaving them exposed to disruptions.

V. Optimization Countermeasures

A. Macro level

Diversify energy sources across Central Asia, Russia and Africa. Incorporate key chemical raw materials into national strategic reserves. Consolidate multi-route logistics including the China-Europe Railway Express and New International Land-Sea Trade Corridor.

B. Meso level

Upgrade coal-to-methanol and coal-to-olefin capacities to reduce petrochemical import dependence. Establish industry-wide geopolitical risk early-warning systems.

C. Micro level

Enterprises should diversify backup suppliers, hedge price volatility via futures, and formulate logistics contingency plans for shipping disruptions.

VI. Conclusion

The conflict produces structurally differentiated outcomes: upstream sectors benefit, mid-stream endures heavy pressure, and downstream faces sluggish demand. Yet the crisis accelerates energy diversification, coal-to-chemical substitution and corridor restructuring. Global supply chains are shifting from "efficiency-first" to "security-first". China must advance industrial self-reliance and diversified layouts to consolidate supply-chain security in an uncertain environment.

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