

The Current Fight with Iran and China's Dependence on Imported Oil

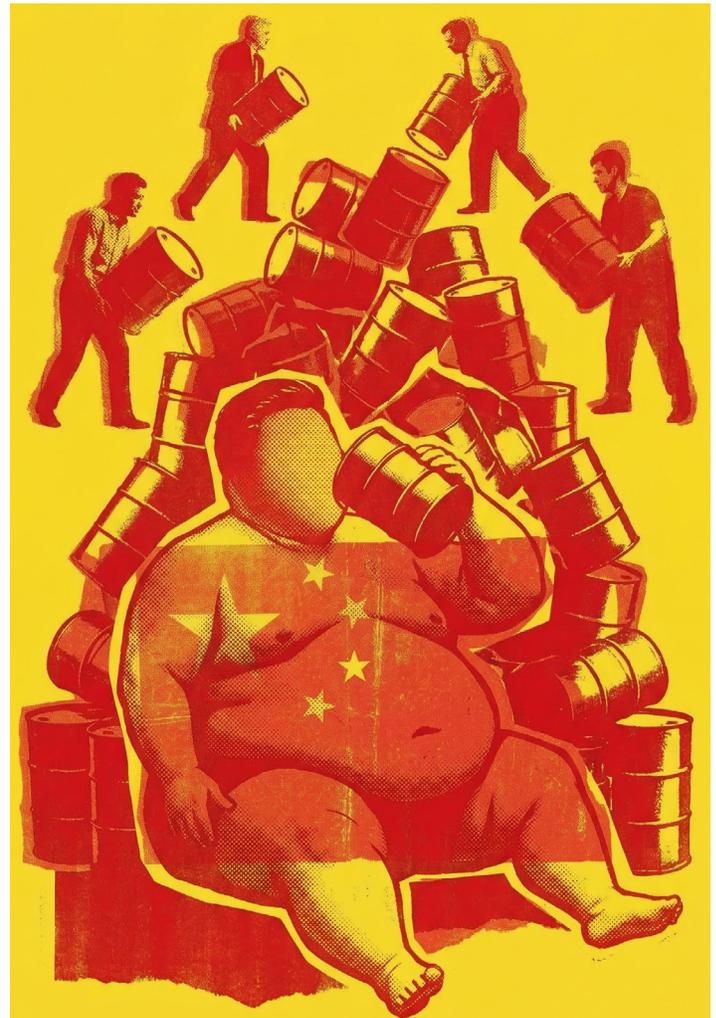
Bottom Line Up Front: The current fighting in Iran will not create fuel shortages in China.

The logic seems compelling to argue that fuel shortages are in China's future - consider three facts. First, the People's Republic of China (PRC) [imports more oil](#) than any other nation on earth, about 11 million barrels per day (mbpd). Second, a large percentage of the world's exported oil, more than 14 million barrels per day (mbpd), passes [through the Strait of Hormuz](#). Finally, Iran is attempting to [close the Strait](#) during the current conflict. The logical conclusion is that the fighting is a disaster for the PRC because it will radically reduce China's fuel supply.

Reputable news sources, like [Politico](#) and [National Review](#), have raced to broadcast this happy news. Unfortunately, the truth is not as simple as the three facts imply and the PRC will not suffer fuel shortages due to the current conflict.

Why Closing the Strait Will Not Cause Fuel Shortages in the PRC:

The PRC gets about [5 mbpd of oil through the Strait of Hormuz](#). This is not a trivial amount in comparison to either PRC total oil imports of about 11 mbpd, or total PRC oil purchases of about 15mbpd ([domestic production](#) comes to about 4 mbpd). However, the Strait of Hormuz has always been vulnerable, which is why Saudi Arabia and the



United Arab Emirates built pipelines to bypass the Strait. The Saudi Arabian pipeline, which crosses the peninsula to the Red Sea, has [spare capacity of 3-5 mbpd](#), and the

Dr. Tom Searle is currently Deputy Regional Adviser for CENTCOM and SOUTHCOM in the Irregular Warfare Center (IWC).

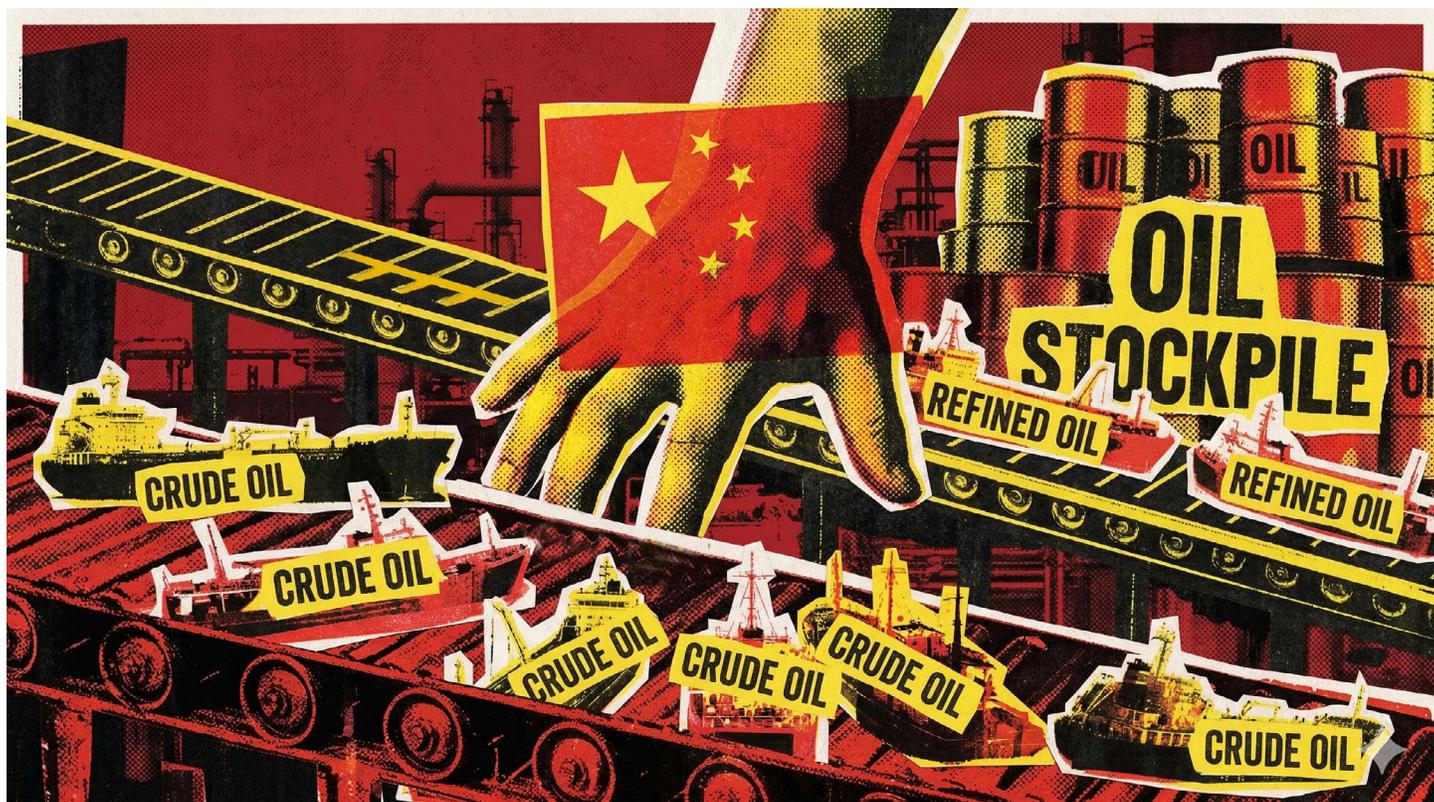
IWC MISSION: The IWC prepares the warfighter to conduct irregular warfare across the spectrum of conflict by bridging instruction to operationalizing IW using next-generation techniques and concepts that enhance the lethality of the force and positions the United States and key Allies and partners to remain ahead of the threat.

Saudis are already [switching from the Strait to the pipeline](#). The UAE pipeline runs to the Gulf of Oman and [has another 0.7 mbpd](#) of unused capacity that could be employed if the Strait stays closed. China used to buy about 38% of the oil coming through the Strait, and it could settle for that same portion of the new oil bypassing the Strait through existing pipelines to cover almost 2 mbpd of the PRC's 5mbpd shortfall.

In addition to these new supplies, there are easy ways for the PRC to cut demand without impacting fuel levels inside the PRC. For example, the PRC exports the equivalent of about 1-1.5mbpd in [refined petroleum products](#) (mainly gasoline, jet fuel, and gasoil). PRC fuel exports might seem surprising until one considers that the PRC has enormous refining capacity, and its refineries enjoy economies of scale smaller countries cannot match, so it makes a lot of sense for smaller Asian nations to buy refined products from China rather than refining themselves. Naturally, the PRC has [halted fuel exports](#) in response to the current war. That drops PRC demand for imported oil by 1–1.5 mbpd.

Of course, the PRC does not merely consume or reexport petroleum; it also stores a lot. In 2024 and 2025, the PRC took advantage of low oil prices to [buy an extra 1mbpd to put into storage](#). The PRC has been building its [strategic petroleum reserves](#) for decades as insurance against supply disruptions like the closing of the Strait. The PRC strategic petroleum reserve seems to have a standing order to buy oil whenever the price gets below \$80 per barrel. This has effectively put a [floor under global oil prices for years](#). The PRC keeps the size of its strategic oil reserves a secret, but the [U.S. Energy Information Administration](#) estimates the PRC grew those reserves by more than [400 million barrels in both 2024 and 2025](#), and the PRC's total oil reserves are estimated at [well over 1 billion barrels](#). If the PRC decides to stop adding more reserves, or the global price climbs above their "buy" price, that will take another 1 mbpd out of Chinese demand.

If the PRC simply stops adding to its reserves, maintains its new ban on exports of refined petroleum products, and receives the same percentage of oil sales that it currently gets through the Strait from Strait-bypassing pipelines, losing



5mbpd due to the closure of the Strait will amount to a net drop in new fuel available to the PRC of about 1mbpd.

If the PRC chose to use its reserves, the 400 million barrels added in 2025 would fill the Strait of Hormuz shortfall for well over a year and the strategic reserves would cover many years. Instead, the PRC will probably increase purchases of oil from Russia, or other countries with excess capacity, which might entirely eliminate the need to draw down reserves. Since the PRC runs a [one trillion dollar per year trade surplus](#) with the rest of the world, the PRC can easily outbid places like India for whatever oil is available on the open market.

This is not to say that the PRC would be unaffected by a year-long closure of the Strait of Hormuz. On the contrary, closure of the Strait will raise global energy prices which will raise the price the PRC pays for oil. Higher oil prices will also harm economies in many other countries, and recessions elsewhere will eventually impact China. Likewise, if China stopped expanding its petroleum reserves, or drew down reserves, then the PRC would be left with a smaller cushion if it tried something ambitious, like an invasion of Taiwan. In fact, the PRC just announced [a new five-year plan](#) that would expand its oil reserves, so a drawdown of reserves due to the current conflict would amount to forcing the PRC to do the opposite of what it wants to do. Fuel shortages, however, are not one of the unfortunate events the PRC might face due to a long-term closure of the Strait of Hormuz.

PRC planners probably assume that while they can shrug off a spike in global oil prices; the U.S. government cannot. PRC planners, like their Iranian counterparts, know that inflation, and particularly gasoline prices, are pressure points for U.S. voters. They believe that closing the Strait of Hormuz for an extended period will raise U.S. gasoline [prices to levels U.S. politicians cannot accept](#), pressuring the U.S. to abandon its attacks on Iran. From an energy standpoint, the PRC is likely to be one of the biggest long-term benefi-

ciaries if the current conflict leads to regime change in Iran. Remember that regime change in Iraq resulted in the lifting of [sanctions](#) and Iraqi oil [exports doubled](#). The removal of Nicolas Maduro from Venezuela is similarly expected to [dramatically increase oil exports](#) from that country. A successful regime change operation in Iran would likewise end sanctions and improve management leading to increased oil production and export. The additional Iranian oil might go directly to the PRC, or it might lower global prices so that oil coming from elsewhere became less expensive. Either way, the PRC's energy sector would be a major beneficiary of regime change in Iran.

The Larger Lesson: Black Swans vs Gray Rhinos

There is a larger lesson to be learned from this story centered on the difference between what some people call black swans and gray rhinos. [Black swan events](#) are a term coined by Nassim Taleb in his 2007 book of the [same name](#) and they refer to highly unlikely events that can have huge impacts but will always be surprises. About 10 years after Taleb, Michele Wucker coined the term [gray rhinos](#) to describe obvious dangers and known risks (like a rhinoceros charging toward you) that still manage to surprise some people when they get hit.

Democracies, like the U.S., handle black swans, like the Great Depression and the 2008 Financial Crisis, fairly well since it blames everything on the President, elects a new President, and moves on with new policies. One-party dictatorships, like the Soviet Union and the PRC, have a tougher time with black swans because their leaders claim infallibility, and are not removed by frequent elections, making policy changes and blaming the previous guy harder to pull off.

Gray rhinos, however, are a different matter and the closure of the Strait of Hormuz is a classic gray rhino. The public might be surprised by the closure, but the possibility has been a near obsession of American strategists for more than 45 years, dating back to the Iranian Revolution in 1979 and



the Soviet invasion of Afghanistan later that same year. The Carter Administration responded by creating the [Rapid Deployment Joint Task Force](#) in 1980, which was [renamed US Central Command](#) (CENTCOM) in 1983. CENTCOM is the command [conducting the current combat operations](#) against Iran and trying to reopen the Strait. Preparing for the possible closure of the Strait was also the reason Saudi Arabia and the UAE built unnecessarily large pipelines that bypasses the Strait.

If the Americans, Saudis, and Emiratis are adept at handling gray rhinos, the Chinese Communist Party (CCP) is great at handling them. The CCP, with its top-down hierarchy, long time horizons, and obsession with plans and planning is tailor-made to prepare to meet predictable challenges like the closure of the Strait. This is particularly true since the closure of the Strait is a supply problem that can be solved with large engineering projects like building and filling oil storage on a massive scale. The CCP might not excel at handling a black swan event, like the [Omicron variant of the COVID 19 virus](#), or the psychological analysis of the [Japanese electorate](#) to predict the outcome of future elections, but they excel at handling gray rhinos that can be solved with large engineering projects.

In short, anyone who expects the PRC to be excessively

inconvenienced by the closure of the Strait of Hormuz is being overly optimistic, underestimating his adversary, and failing to admit the strengths of the CCP and the nation it controls. The larger IW lesson is that global energy markets, and the global economy more generally, are remarkably resilient. For example, when the [Houthis closed the Bab el Mandeb](#) in 2024, the global economy barely noticed.

Other IW adversaries, have completely different strengths and weaknesses from the CCP. For example, transnational terrorists not only exploit black swans but strive to create them with the 9/11 attack being a classic example. Terrorists also focus on psychological impact rather than large-scale engineering. Thus, the traditional lessons still apply; we must know our enemies and part of knowing them is knowing that each one is different.

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