

## Global: China not Supporting Iran; US Incentivized to Exit Quickly

### Observatory View

- The situation in Iran remains highly unpredictable, as ever, once the “dogs of war” have been unleashed.
  - But we expect:
    - US and Israeli air strikes to deplete Iranian offensive capability and create new leadership vacuums,
    - a risk that the US and Israel run low on munitions before their goals are fully achieved, and
    - no material support for the Iranian regime from China or Russia.
  - We do not think President Trump is wedded to forcing a full-on regime change, despite the rhetoric. Rather, he probably thinks he has enough wins already to exit in a few weeks.
  - This conflict does serve a key US administration purpose: showing to the world what hard-power strength the US has, and its willingness to use it.
  - Beijing cannot do much in practice to support the existing Iranian regime. But it also does not want to, because that would jeopardize the April Xi-Trump meeting. The summit is Xi’s big chance to secure a tacit agreement from Trump not to resist China’s potential takeover of Taiwan.
  - Europe is generally supportive of this action, partly because France and the UK have assets in the region under attack. The UK is now permitting the US full use of its airbases, and France and Germany have stated that they will join the UK in taking defensive actions, as needed.
  - Canada and Australia as middle powers have expressed full support for the US. That indicates the residual strength of the relationships with the US when the chips are down, i.e., a nuclear threat by a rogue state, despite the trade and other tensions.
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### An intelligence coup

- Israeli President Netanyahu and US President Trump chose the element of surprise in their decapitation strike against the Iranian regime. The US and Iranian negotiations required that Iran’s senior officials meet to determine a strategy on how to respond to the US.
- **The negotiation with the US thus became a weapon, ensuring that top leadership was in a room together. Israeli and US intelligence determined when and where this was happening.**

- Israeli planes struck the meeting itself while the US hit other strategic targets throughout the country. The attack was the largest aerial attack in the history of the Israeli Air Force.
- Numerous commentators have stated that, notwithstanding Trump's aspirational statements at Mar-a-Largo, true regime change is highly unlikely. There simply isn't an armed and organized opposition ready. Leaders of the Iranian military are not intervening either, at least at this moment. **We do not believe that Trump wants or expects this type of sweeping regime change. Instead, the strike on successive leaders and degrading of the Iranian missile and nuclear capabilities may be enough for Trump to declare a "win" and move on, particularly if the US runs low on munitions.**

### What did the US want from Iran?

- Vice President JD Vance summarized well the administration's foreign policy. He said it would be "a mixture of extreme skepticism towards intervention overseas, combined with an extremely aggressive posture when you do intervene overseas...Don't punch often, but when you punch, punch really goddamn hard."
- The US reportedly wanted Iran to give up:
  - Its development and supply of ballistic missiles,
  - supporting regional proxies
  - its military nuclear program.
 In return, the US indicated that it would negotiate on sanctions.
- President Trump likely decided on kinetic action because:
  - Iran would not negotiate on the first two, which would have left the US too vulnerable in the region, and unable to refocus on Asia-Pacific
  - He wanted to exploit the amazing intelligence coup of where dozens of senior regime leaders were meeting, and
  - He felt slighted by criticism of his January statement about supporting Iranian street protests.
- **The US has potentially achieved enough of its goals that it can now withdraw on its own terms—a key win from a strategic planning perspective.** It has the discretion to attack other members of the elite before leaving, which we expect it to do. Trump's more recent statement from Sunday boxed him in a bit, but having waged a successful decapitation strike on regime leadership and its missile and nuclear facilities gives Trump optionality that he would not otherwise have had.
- **This situation could change if Iran successfully shoots down several US planes and captures pilots or heavily damages or sinks a US Navy ship or escalates with attacks against civilians**

**in neighboring countries. Then the US would be forced to respond, even if it was otherwise interested in moving on.**

### **Oil price/export limitations and the US election**

- The Strait of Hormuz is now closed, and the Iranian regime has attacked several ships there. We expect it to remain closed, until active combat operations stop, which could be weeks away (Trump just suggested four weeks in an interview on Sunday).
- **China will be most hurt, getting about 14% of its total oil imports from Iran at the moment.** It could switch to more supplies from Russia (despite Western sanctions) and other OPEC countries and draw down its Strategic Petroleum Reserves (SPR). A longer conflict or closure of the strait would create more issues.
- The US could also decide to keep its supplies for domestic users, to control prices at the pump before the midterm election. But we find the chance of that remote, at this point, because it would likely disrupt the market further.

### **China won't risk dialogue with the US for the Iranian regime's sake**

So far, China's reactions have been well-measured, staying within its established diplomatic playbook.

- China will likely use the UN Security Council as the main channel to condemn the war actions of the US and Israel.
- We expect no direct or indirect military intervention. The reported Sino-Iranian hypersonic missile deal is merely "close to signing," far from actual delivery, and so offers no material current assistance to Iran. We don't believe that Xi has any intention to ruin Trump's upcoming visit to China.
- Beijing has expressed deep concern, called for a ceasefire, and mentioned respecting sovereignty etc. It has likely been coordinating with Russia on this kind of rhetoric. They are both pushing the US and Israel to agree to a ceasefire through the UN Security Council.

**Despite the protestations, it seems that Beijing is avoiding involvement in the war, directly or indirectly.**

- Yes, China has been exporting arms systems to Iran, especially its radar and air defense systems, over the past few decades. (Embarrassingly, they don't seem to be effective.)

- But Beijing has never yet provided its most advanced weapons, such as hypersonic missiles, because it did not want to jeopardize its relations with Israel, Saudi Arabia and other Mideast countries.
- Reuters has published a report that China is close to selling Iran hypersonic anti-ship missiles, but this has not been verified by any other sources. Even if true, the deal was merely “close to signing”, far from actual delivery, and offers no immediate assistance to Iran.
- The ideal outcome for Beijing is a prolonged but low-intensity conflict that drains American attention and resources without triggering an extended strait closure that would impact the Chinese economy. **It is a delicate balance for Beijing—how to provide a bit of support to Iran, without disrupting China’s geopolitical and economic interests.**

We do not think the conflict will affect the Trump-Xi summit only a month away—neither side wants it to.

- **There is no evidence that either Beijing or Washington is trying to postpone or cancel the meeting, despite speculation about this.**
- In our view, in the short term the US is not trying to become more aggressive against China. Some people are inferring it wants to turn its attention to the Asia-Pacific after reducing distractions in Latin America and the Middle East
- **The US has carefully concluded that it lacks escalation dominance versus China, so it is looking to get as many “wins” against the country as it can, but without disrupting the careful détente it currently enjoys.**
- The US cannot become more aggressive until it and its allies have ample independent critical mineral supplies and has further decoupled their economies from China. **We expect that the US will in fact be on the defensive for the rest of Trump’s term, absent a Chinese provocation over Taiwan or another critical event.**
- From Beijing’s perspective, the Trump-Xi summit is a high-stakes event that may have critical implications for the future international order. In this regard, Xi has no intention for the Iran crisis to ruin Trump's upcoming visit to China.
- However, the upheavals in Venezuela and Iran have had a strong psychological impact on Beijing. **Xi remains very keen on a grand bargain which would define US and Chinese “spheres of influence”.**
  - Xi hopes a triumphant Trump will *not* have a mindset of “one rule for the US and another for everyone else.” Xi might well accelerate military and diplomatic preparations regarding Taiwan to avert this outcome.

### **European support for the US action**

- The EU has shown unity and support for the US/Israeli operation, while not yet meaningfully participating in combat.
  - The official statement by the E3, i.e., France, Germany and the UK, did not denounce the unilateral use of force and the implied violation of international laws and conventions.
  - German Chancellor Merz said that he was not interested in criticizing the US and arguing over the legality of this operation. It is a *fait accompli* anyway.
  - The UK and France both have military assets in the region that have been attacked.
  - UK Prime Minister Starmer just announced today granting permission for the US to use its bases in the UK (e.g., RAF Fairford) for its operations against Iran.
- How things played out shows the transatlantic relationship at a weak point. European capitals were not briefed on the strike beforehand by the US. Merz was only informed about the attacks by Israel minutes before they started.

### **Canada and Australia Fully Support the US**

- The Canadian and Australian governments have released statements—with almost identical wording—explicitly supporting the US military action in Iran. It indicates these were coordinated. Of note the Canadian Prime Minister is travelling to Australia this week and will address the Australian Parliament on Thursday.
- Both these key ‘middle powers’ highlighted the threat that the Iranian regime posed to peace and security in the Middle East and the global community.
- No doubt the Trump Administration and the Israeli government will welcome this support.
- In our view it shows the strength of the alliances when the stakes are as high as a nuclear-capable Iran, despite tensions in trade and other areas.

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