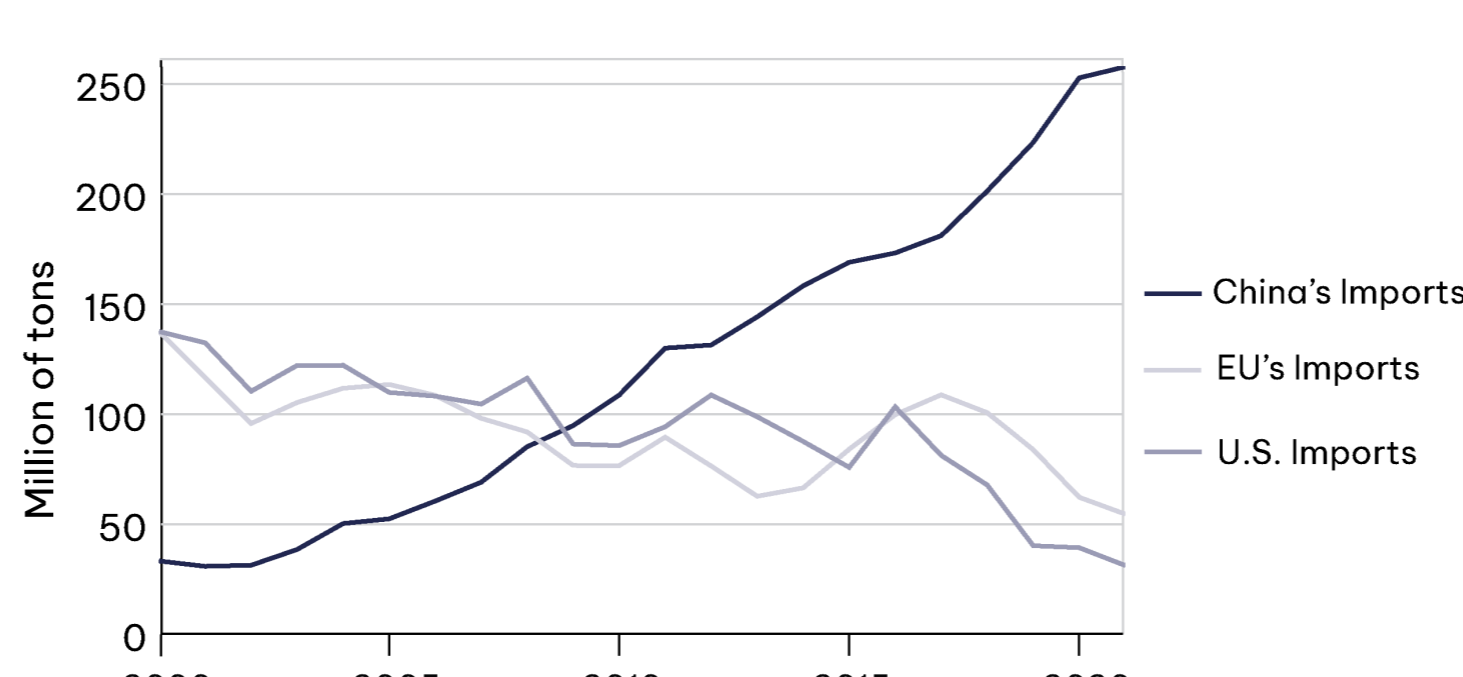




## China's Calculus on the Middle East Crisis

### China's Growing Share of Gulf Oil Exports

- China's 2021 oil imports from the 8 countries along the Persian Gulf and Strait of Hormuz was three times the combined amount of U.S. and EU oil imports from the region. -



Source: Center for Strategic & International Studies

### A Middle-of-the-Road Approach

China's initial posture following Hamas' surprise terrorist attack in Israel on October 7 reflected a familiar strategy of minimizing risk by avoiding involvement and any sharp public statements. Notably, China has not specifically condemned Hamas' October 7 actions, but has **condemned** violence against civilians and called for restraint by "all parties."

In response to Israeli complaints, Foreign Minister Wang Yi acknowledged that all countries have a "right to self-defense" during his October 23 **phone** call with his Israeli counterpart. On the same day, however, Wang **told** his Palestinian counterpart that China "deeply sympathizes with the difficult situation of the Palestinian side, especially the people of Gaza."

China has a clear interest in avoiding a wider, regional conflict that could disrupt global commerce, particularly access to energy. A wider conflict may push Beijing toward heightened engagement, despite historical reluctance. As world attention focuses on an Israeli ground invasion of Gaza - with a likely rise in global public criticism of Israel - The Asia Group will be closely watching if Beijing opts for more activist rhetoric and actions to erode U.S. standing on the international stage and in key regions of competition, such as Southeast Asia and the wider Global South.

### What's Driving China?

China's strategy is driven by national interests rather than values. Key factors are listed below in order of importance:

**Energy Dependence on the Middle East:** China's reliance on the Middle East for over half its imported oil and liquefied natural gas (LNG) - especially from Qatar which provides about a fifth of its total LNG imports - is a major factor shaping Beijing's calculus and its focus on careful neutrality. China's imports of Iranian oil, which are discounted due to U.S. sanctions, have more than tripled in the past two years, but remain lower than the amount it imports from its top source, Saudi Arabia. In the event of a protracted Israel-Palestinian war with regional spillover, global oil supply would likely tighten and prices would rise - especially if Washington enacts new sanctions against Tehran or if actors impede the flow of oil trade. A global energy crisis would further compound China's economic growth challenges, which are a priority for President Xi Jinping.

**Competition with Washington:** U.S.-China geopolitical competition remains central to Beijing's calculus. China will likely look for openings to erode U.S. standing, seeking to project itself as sensitive to developing world interests and, in doing so, draw a stark contrast with Washington. Chinese media is promoting the image of Washington stoking conflict through its overt support of Israel. Still, China's policymakers want to avoid a scenario that overly antagonizes Washington and its allies and partners, especially Australia, France, Germany, India, Japan, and the United Kingdom.

- With respect to Taiwan, events in the Middle East are unlikely to trigger any immediate material change in China's approach. China has shown little sign that it plans to make any major near-term military moves - such as against Taiwan - to take advantage of Washington's distraction. Right now, Xi is focused on shoring up China's economy and broader internal stability.

**Global South Leadership:** Geopolitically, Beijing (and Moscow) are using their neutrality to straddle the diverse interests of the developing world, putting them in a favorable position relative to the Israel-aligned United States. Many developing countries are pro-Palestine or at least sympathetic to the issues of the Palestinian people. This includes Muslim-majority countries worldwide, including those in Southeast Asia - Brunei, Malaysia, and Indonesia. China successfully **brokered** an Iran-Saudi normalization agreement in March, and those efforts won kudos from the Global South. China has not yet shown any deep interest in playing a similar role in the current crisis.

**Trade and Investment, and Military Ties, in the Middle East:** China's economic ties to the region also contribute to Beijing's desire for stability in the region. The Middle East has become increasingly important not only for China's energy security but also for its Belt and Road Initiative - its signature global infrastructure development program. Other Chinese investments, especially in **technology**, are also valued in the region. Infrastructure development was a key precursor to securing China's military base in Djibouti, on the Red Sea. China may be **laying** similar groundwork in other areas near the Strait of Hormuz. China has already invested significant resources in ports in the **UAE** and Oman, where China might want bases even though those nations have close ties to the United States.

**Protecting Overseas Chinese Nationals:** The number of Chinese **citizens** in the region has also increased substantially in recent years - adding pressure on Beijing to **protect** them in the event of a conflict. China's expats are **mainly** located in the UAE, Saudi Arabia, and Bahrain, while Iran, Turkey, Jordan, Lebanon, and Israel host a large number of students, tourists, and migrant workers from China. Beijing is likely to draw lessons from its 2011 use of its naval vessels to **evacuate** tens of thousands of its citizens from Libya, if the conflict worsens and commercial flights cease.

### TAG TAKE

Beijing is likely reluctant to take on an active peacemaker role in the region, as it juggles myriad other domestic and foreign interests, and it probably wants to **continue** its posture of careful neutrality - calling for restraint, proclaiming that it seeks peace, and offering to provide humanitarian assistance. At the same time, Beijing will exploit pro-Palestinian leanings around the world including in Southeast Asia to undermine U.S. standing - while also **avoiding** censoring anti-Semitic rhetoric online and in its State media. As it stands now, the crisis in the Middle East is unlikely to materially affect Beijing's approach to foreign businesses in China.

As seen in President Biden's October 27 conversation with Foreign Minister Wang Yi, Washington is trying to leverage China's keen desire to avoid regionalization of the conflict by **asking** it to exert its regional influence, especially with Tehran, to help temper tensions. But we expect Beijing will resist getting embroiled in Middle East diplomacy for now.

If the crisis deepens, Beijing's calculus may eventually shift to playing a more active role in trying to prevent a broader regional conflagration, to avoid severe harm to China's economy. TAG will continue monitoring for signs of a shift in Beijing's calculus. We will also watch to see if a protracted crisis in the Middle East derails progress in the bilateral U.S.-China relationship, including on topics such as military-to-military communication, which otherwise might see some progress when President Xi and President Biden meet in San Francisco in November.

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