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Discussion Paper

NAVIGATING THE GULF: CHINA'S BALANCING STRATEGY

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ABSTRACT

Due to China's growing energy needs that stem from its unrelenting economic development, Beijing stresses the importance of maintaining a continuous supply of energy - particularly oil - to maintain its impressive economic growth. However, seeing as China's domestic resources are unable to satisfy its projected future oil demands, the Chinese realise that, barring significant domestic oil discoveries, their dependency on oil imports - particularly from the Middle East - will continue to increase. Of particular importance to the Chinese is the Persian Gulf as it contains a large share of the world's proven oil reserves. China has thus sought to improve relations with Persian Gulf nations such as Iran. However, Iran's pursuit to obtain nuclear capabilities has implicated China in Iranian-American tensions. Although China has sought to steer clear of becoming embroiled in the Iranian nuclear situation due to its improved standing in the Gulf, Beijing has unavoidably become a significant actor in the diplomatic brinkmanship regarding Iran's nuclear situation. By means of a literature review, this paper posits that China's response to Iran's nuclear ambitions essentially mirrors its overall diplomatic strategy towards the Middle East; a strategy of pragmatically balancing its own relationship with the US whilst simultaneously advancing profitable geo-economic relations with oil rich Gulf nations.

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The views expressed in this paper are those of the authors.

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LIST OF ACRONYMNS

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|---------------|---|
| CISADA | Comprehensive Iran Sanctions, Accountability, and Divestments Act |
| EU | European Union |
| GCC | Gulf Co-operation Council |
| IAEA | International Atomic Energy Agency |
| ISA | Iran Sanctions Act |
| LNG | Liquefied natural gas |
| MOCs | Multinational Oil Companies |
| NEC | National Energy Company |
| NOC | National Oil Company |
| NPT | Nuclear Proliferation Treaty |
| OPEC | Oil Producing Export Countries |
| PRC | People's Republic of China |
| UN | United Nations |
| US | United States |
| USSR | Union of Soviet Socialist Republics |

1. INTRODUCTION

Approximately three decades of relentless, fast-paced economic growth has produced an oil deficit that is forcing China to become increasingly dependent on oil imports. Current domestic consumption is estimated to be at 9.2 million barrels per day (b/d) and domestic production at 4.5 million b/d,¹ thus, as a result of this supply and demand gap, the Peoples Republic of China (PRC) imports more than half of its oil to meet the country's energy needs. Since most of China's oil fields have reached production plateaus or are in decline, its dependency on foreign oil is not expected to lessen. Rather, foreign oil is projected to make up 60 to 80 per cent of the Asian Giant's oil consumption by 2020.²

In its oil diversification efforts, China has spread its economic and diplomatic interests to wherever there are excess hydrocarbon resources.³ Beijing has inevitably sought to secure oil imports from the world's richest oil regions, most notably the Persian Gulf.⁴ Noting the Persian Gulf's rich endowment in "black gold", Chinese foreign policy has prioritised improving relations with Gulf States as "officials regard the region to be of long-lasting geo-economic and geo-political significance."⁵ Moreover, in the interest of ensuring energy security, Beijing is especially attracted to Gulf producers because of their "large proven oil reserves, idle surplus capacity and relatively low development and production costs."⁶ By fostering closer economic relations with oil-producing Gulf States, China hopes to gain a secure supply of oil from a region that has a strong US presence. Via the fostering of economic interdependence, Beijing aims to lock into the Gulf's fuel reserves as energy experts predict that the Persian Gulf will remain an important source of crude oil for China over the next 25 years.⁷

Although the marked expansion of Chinese diplomatic, energy and economic interests in the Gulf represent one aspect of the most important geopolitical trends of the 21st century, China, aware of the United States of America's dominant role in the Middle East,⁸ has treaded carefully in the region in order to avoid being perceived by Washington as a threat to its hegemonic position in the area. Yet, as a result of its notably improved presence in the Persian Gulf, Beijing has been thrust into the mix of diplomacy and tensions surrounding the dispute over Iran's nuclear ambitions. As a result, the Sino-Iranian relationship has been placed under intense scrutiny in the wake of calls from a US-led international coalition imploring China to support their efforts in promoting the dismantling of Iran's nuclear programme.

This paper, foremost, aims to demonstrate that China's Gulf diplomacy is driven by its energy interests in the Middle East. Secondly, in analysing China's diplomatic brinkmanship in relation to the Iranian nuclear

¹ Amar Causevic, "A Thirsty Dragon: Rising Chinese Crude Oil Demand and Prospects for Multilateral Energy Security Cooperation," *Peace Research Institute Frankfurt*, Report No.116 (2012): pp. 2-3. Accessed: 04 July 2012, URL: [http://www.jhubc.it/ADMISSIONSBLOGDOCUMENTS/a per cent20thirsty per cent20dragon.pdf](http://www.jhubc.it/ADMISSIONSBLOGDOCUMENTS/a%20per%20cent20thirsty%20per%20cent20dragon.pdf)

² Erica Downs, "China," *The Brookings Foreign Policy Studies Energy Security Series* (2006), p. 10. Accessed: 16 July 2012, URL: <http://www.brookings.edu/~media/research/files/reports/2006/12/china/12china.pdf>

³ Zha Daojiong, "China's Energy Security and its International Relations," *The China and Eurasia Forum Quarterly*, vol.3, no.3 (2005): p. 53.

⁴ Hongyi H. Lai, "China's Oil Diplomacy: is it a global security threat?" *Third World Quarterly*, vol.28, no.3 (2007): p. 522.

⁵ John Calabrese, "China and the Persian Gulf: Energy and Security," *Middle East Journal*, vol.52, no.3 (1998): p. 353.

⁶ *Ibid.*, p. 356.

⁷ Downs, "China," p. 2.

⁸ The Middle East is traditionally comprised of Armenia, Azerbaijan, Bahrain, Gaza Strip, Georgia, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, UAE, West Bank and Yemen.

issue, this paper proposes that the PRC have, in efforts to avoid being perceived as a threat to the US's dominance in the region, cautiously and tactfully approached Middle Eastern nations.

2. CHINA'S PERSIAN GULF DIPLOMACY

The Gulf is strategically related to Beijing's various interests because of its geo-political location, economic opportunities, security issues and, most importantly, its abundant oil supplies. However, the PRC lacks the historically forged links and deep connections that Western powers have established with Middle Eastern nations. Thus, the challenge for China is to strengthen its economic standing in the Middle East, especially with Gulf countries. Aside from being a radical and revolutionary influence during the Cold War, Beijing has rarely assumed a central or influential role in the region.

This does not mean that China has been inactive in this part of the world; on the contrary, it has utilised numerous strategic advantages to improve its political and economic position in the Gulf. In doing so, China has managed to consolidate its energy security whilst simultaneously establishing foundations needed to enhance its political position in the Middle East. This could, in the face of the US's hegemonic control of the region, embolden Beijing to pursue a more active role in the area. However, such an endeavour would likely interfere with Washington's Middle Eastern interests.⁹ Aware of China's increasing dependence on oil imports, and Beijing's willingness to interact with pariah states to extract oil and gas resources, the West (and particularly the US) believes that Beijing will use all available means to satisfy its voracious appetite for oil. As a result, Washington is concerned with China's growing presence in the Middle East as the Americans speculate that Beijing's increasing involvement in the region could destabilise the regional order, and undermine the US's access to oil and efforts to stabilise the region.¹⁰ However, contrary to negative accusations and predictions, Lai outlines that Beijing has been mindful of the US and its interests in this region as China attempts to pursue its Middle-Eastern goals through a constructive and cooperative approach.¹¹

2.1 CHINA'S ENERGY QUEST AND THE PERSIAN GULF

In an effort to fuel its expanding economy, Beijing has adopted a "look beyond China" strategy to procure reliable sources of energy. This has resulted in the Asian Giant intensifying its relations with Persian Gulf states that are heavily endowed with energy resources. Although Beijing has in the past viewed events in the Middle East through a revolutionary, Maoist ideology, China's policy towards the region has evolved over the last three decades from an ideological focus to a more rational, pragmatic approach.¹² China's growing involvement in this part of the globe stems from its aspirations to assume a more proactive role in maintaining a stable Middle East, as the PRC perceives that the region provides

⁹ Philip Andrews-Speed and Roland Dannreuther, *China Oil and Global Politics* (London: Routledge, 2011), p. 135 & 139.

¹⁰ Lai, "China's Oil Diplomacy: is it a global security threat?" p. 520

¹¹ *Ibid.*, p. 530.

¹² Bryce Wakefield, "Introduction," in *China and the Persian Gulf*, eds. Bryce Wakefield and Susan L. Levenstein (Washington: Woodrow Wilson International Centre for Scholars, 2010), p. 2. Accessed: 16 July 2012, URL: http://www.wilsoncenter.org/sites/default/files/ASIA_per_cent20Program_China_per_cent20and_per_cent20the_per_cent20PG.pdf

Wu Bingbing, "Strategy and Politics in the Gulf as seen from China," in *China and the Persian Gulf*, eds. Bryce Wakefield and Susan L. Levenstein (Washington: Woodrow Wilson International Centre for Scholars, 2010), p. 10. Accessed: 16 July 2012, URL: http://www.wilsoncenter.org/sites/default/files/ASIA_per_cent20Program_China_per_cent20and_per_cent20the_per_cent20PG.pdf

Beijing with a potential platform to demonstrate that, as a rising power, it is a 'responsible stakeholder'.¹³ China's objectives for Sino-Arab relations are best expressed by former president Hu Jintao, who (during his time in office) stressed four points that China and Arab states should focus on to strengthen relations. According to Hu, China and Arab states should strive:

*to promote political relations on the basis of mutual respect, to forge closer trade and economic links so as to achieve common development, to expand cultural exchanges through drawing upon each other's experience, and to strengthen co-operation in international affairs with the aim of safeguarding world peace and promoting common development.*¹⁴

Despite massive oil discoveries in other regions, Lee and Shalmon highlight that the Middle East will, for the foreseeable future, continue to have the largest oil reserves as well as the lowest production costs.¹⁵ Thus, with an expected increase in oil import levels, Beijing is pushing to gain a larger share of Gulf oil markets, especially as 51 per cent of proven oil reserves are located in the Middle East, of which 33 per cent is situated in Gulf Co-operation Council (GCC) countries.¹⁶ China is especially attracted to Saudi Arabia, Iran and Iraq as 68 per cent of the region's oil (and over 25 per cent of the global total) is located within these three states.¹⁷ According to Budike, China's dependency on Gulf oil is predicted to increase from an estimated 42 per cent to 70 per cent between 2015 and 2030.¹⁸ This could mean that, *ceteris paribus*, at least 9.3 million barrels per day (mb/d) would have to be imported from this region.¹⁹ With energy being the primary driver of Sino-Gulf relations, it is imperative that China's energy security strategy recognises the importance of Gulf oil in maintaining the continued advancement of the state's economy.²⁰ Thus, China's oil security in the Gulf depends on efforts to establish economic, political, and security measures to protect and ensure a reliable and sufficient supply of oil at affordable prices.²¹

Like China, whose energy interests motivate its pursuit of Gulf countries, oil is also a driving factor for the Gulf's interactions with Asia, especially the PRC. The Asian Giant is viewed by Gulf States as a massive market for their oil exports. In light of oil demand having plummeted in the wake of the global

¹³ Pan Zhenqiang, "China and the Middle East," in *China's Growing Role in the Middle East: Implications for the Region and Beyond* (Washington: The Nixon Centre, 2010), p. 87. Accessed 05 February 2013, URL: <http://cftni.org/full-monograph-chinas-growing-role-in-me.pdf>

¹⁴ Cited by: Zhenqiang, "China and the Middle East," p. 87.

¹⁵ Henry Lee and David Shalmon, "Searching for Oil: China's Oil Initiatives in the Middle East," Belfer Centre for Science and International Affairs, (John F. Kennedy School of Government: Harvard University, 2007), p. 14. Accessed: 16 July 2012, URL: http://belfercenter.ksg.harvard.edu/files/china_per_cent20oil_per_cent20h_per_cent20lee_per_cent202007.pdf

¹⁶ CIA World Factbook, *Estimated Proven Oil Reserves as of 2011*. Accessed: 10 June 2013, URL: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2178rank.html>.

The Gulf Cooperation Council (GCC) is a regional political and economic intergovernmental organisation that is comprised of six Persian Gulf nations - Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman.

¹⁷ Ibid.

¹⁸ Jurgen C.U. Budike, *Securing China's Oil Supply from the Persian Gulf: The Case of Iran and Saudi Arabia*, MA thesis, International School for Humanities and Social Studies (ISHSS): University of Amsterdam, (2010), p. 92. Accessed: 17 July 2012, URL: http://epa.iias.asia/files/Jurgen_per_cent20Budike_Securing_per_cent20China's_per_cent20Oil_per_cent20Supply_per_cent20From_per_cent20the_per_cent20Persian_per_cent20Gulf.pdf

¹⁹ Ibid.

²⁰ Emile Hokayem, "Looking East: A Gulf Vision or Reality?" in *China and the Persian Gulf*, eds. Bryce Wakefield and Susan L. Levenstein (Washington: Woodrow Wilson International Centre for Scholars, 2010), p. 39. Accessed: 16 July 2012, URL: http://www.wilsoncenter.org/sites/default/files/ASIA_per_cent20Program_China_per_cent20and_per_cent20the_per_cent20PG.pdf

²¹ Budike, *Securing China's Oil Supply from the Persian Gulf: The Case of Iran and Saudi Arabia*, p. 92.

economic crisis, most GCC states are focusing on securing access to the Chinese domestic market which, according to Sager, is ranked as the fastest growing energy market in the world.²² Furthermore, Sager posits that, in light of the global trend amongst developed nations towards greener energy resources, Gulf oil producers seek new markets to lessen their dependency on traditional and established oil consuming nations.²³ However, due to the Gulf's comparatively steep oil prices and China's limited capabilities to refine high sulphur crude oil from this region, Chinese foreign energy policy seeks to strengthen political relations with Gulf oil-producing states, whilst simultaneously courting additional suppliers whose oil can be purchased at cheaper prices.²⁴

Taking into consideration US interests in the Middle East and historical ties between Western energy companies and Gulf oil-producing states, China, in the 1990s, adopted a foreign policy towards the region of "being detached generally and involved appropriately."²⁵ Essentially, this meant that with such a pragmatic orientation, the PRC had to compromise between its core national interests and the dominant role of the US in the Middle East. China's pragmatism is essentially divided into two categories: firstly, by focusing on trade, economic and energy interests, Beijing downplays its ideological differences with pro-US Gulf States (such as Saudi Arabia).²⁶ On the other hand, China, under the precondition of not purposely or directly challenging US interests, aims to improve relations with anti-American governments (such as Iran) that provide little Western competition for Chinese national oil companies (NOCs).²⁷ However, the main evaluation of Beijing's Gulf policy pertains to China's ability to manoeuvre around pro- and anti-American regimes²⁸ as there is "something inherently instable (*sic*) in a Middle Eastern (*sic*) order that relies on the West for its security and on the East for its prosperity."²⁹ Alterman contends that there is little doubt that the Middle East can create contention between China and the US as they seek to address their differing interests in the region.

Chinese overseas energy acquisitions in the Middle East have been viewed with distrust by the US as Washington fears that China's growing presence, combined with its thirst for energy, will make it a destabilising force in the region.³⁰ Yet, both countries have vested interests in the stability of the region for the pursuit of energy goals – the need to ensure a stable and reliable oil supply at a fair price. Aside from this shared concern over the Gulf's energy security, both nations have an aversion towards nuclear development and the consequential possibility of an arms race that could severely impede Gulf oil supplies. Since energy is the common denominator between these two nations, cooperative, instead of competitive and conflicting, relations between Washington and China over the Middle East is a

²² Abdulaziz Sager, "GCC-China Relations: Looking Beyond Oil-Risks and Rewards," in *China's Growing Role in the Middle East: Implications for the Region and Beyond* (Washington: The Nixon Centre, 2010), p. 2. Accessed: 05 February 2013, URL: <http://cftni.org/full-monograph-chinas-growing-role-in-me.pdf>

²³ *Ibid.*

²⁴ Charles Ziegler, "The Energy Factor in China's Foreign Policy," *Journal of Chinese Political Sciences*, vol.11, no.1 (2006): p. 9. Accessed: 16 July 2012, URL: http://jcps.sfsu.edu/past%20issues/JCPS2006a/2%20Energy%20Factor%20in%20China_Ziegler.pdf

²⁵ Bingbing, "Strategy and Politics in the Gulf as seen from China," p. 19.

²⁶ *Ibid.*

²⁷ Bingbing, "Strategy and Politics in the Gulf as seen from China," p. 19.

²⁸ *Ibid.*

²⁹ John Alterman, "The Vital Triangle," in *China and the Persian Gulf*, eds. Bryce Wakefield and Susan L. Levenstein (Washington: Woodrow Wilson International Centre for Scholars, 2010), p. 35. Accessed: 16 July 2012, URL: http://www.wilsoncenter.org/sites/default/files/ASIA%20Program_China%20and%20the%20PG.pdf

³⁰ Cited by: Zhao Hongtu, "China's Energy Interest and Security in the Middle East," in *China's Growing Role in the Middle East: Implications for the Region and Beyond* (Washington: The Nixon Centre, 2010), p. 54. Accessed: 05 February 2013, URL: <http://cftni.org/full-monograph-chinas-growing-role-in-me.pdf>

possibility. However, given their diverging approaches towards the region, such an assertion may be considered as too optimistic. Nevertheless, with common strategic, regional and energy interests shared by both sides, the possibility of improved bi-lateral Chinese-American co-operation in the Middle East should not be abandoned, but embraced as it offers a foundation for collaboration that could not only improve security in the Middle East, but also enhance Sino-American relations.³¹

Bajpae cautions that, although Washington and Beijing are not engaged in explicit competition in the Middle East, it is not difficult to envision that the region could emerge as a source of contention between these two states as, in conjunction with their energy competition in this part of the world, China and the US present opposing models of international conduct.³² Whilst Washington has carried out humanitarian intervention, pre-emptive action and regime change campaigns in the Middle East, Beijing has sought to refrain from such activities by adhering to its preference of non-intervention, state-sovereignty and territorial integrity – a traditional Westphalian method of engaging in international affairs that has become particularly appealing to Arab states in the face of US attempts to spread democratic principles across the region.³³ By considering the relationships between China, the US and the Middle East to be triangular, Alterman contends that interactions between any two sides can affect the other party.³⁴ However, since a triangle connotes relatively equal partners where actions taken by one party can affect the other two sides, Yuan denies that there is a US-China-Middle East triangle as the Americans outweigh the Chinese and Middle-Easterners in terms of power.³⁵ In addition, since relations between the three parties have only recently formed, all sides have to overcome numerous barriers to reach a stage of interconnectedness (triangle relations).³⁶

Although Sinologists doubt Beijing's strategic wisdom and operational effectiveness in the Middle East, China believes that it can strengthen its position in the region, especially with Gulf States that are interested in balancing their historical overreliance on the US. Furthermore, given the lack of substantial improvement in the Israeli-Palestine conflict, the US invasion of Iraq, and the continued destabilisation of the region as an aftermath, Gulf States have realised that China "brings a paucity of political baggage to the negotiation table," in addition to a massive potential market for Middle-Eastern goods and services.³⁷ Thus, China is considered to be an attractive alternative to the US as it is not tainted by the same ills burdening the US vis-à-vis the region. Furthermore, by adhering to the principles of sovereignty and non-interference, China has become more appealing to Middle East states as politically, unlike the US, China does not press Gulf States about their domestic political environments – especially the need for democracy and respect for human rights. Consequently, this makes dealings with China less challenging for incumbent regimes.³⁸

Beijing is not the only beneficiary in the Gulf-China relationship as the strengthening of ties with China fits well into the GCC states' strategy to diversify their international relationships in an attempt to lessen their dependence on the US. China's shift from an exporter to a consumer market is viewed as an opportunity for GCC countries to improve their competitive standing and enlarge their share in the

³¹ Alterman, "The Vital Triangle," p. 29.

³² Chietigj Bajpae, *China's Growing Middle East Role and the Potential for China-US Conflict*. Accessed: 16 May 2013, URL: <http://www.japanfocus.org/-Chietigj-Bajpae/1677>

³³ Bajpae, *China's Growing Middle East Role and the Potential for China-US Conflict*.

³⁴ Alterman, "The Vital Triangle," p. 28.

³⁵ Yuan, "China's Strategic Interests in the Gulf and Trilateral Relations among China, The US and Arab Countries," p. 28.

³⁶ *Ibid.*

³⁷ Calabrese, "China and the Persian Gulf: Energy and Security," p. 356.

³⁸ Sager, "GCC-China Relations: Looking Beyond Oil-Risks and Rewards," p. 16.

world's largest market.³⁹ In this context, China's open-door policy is complemented by non-politicised relationships, which have led Beijing and Middle-Eastern countries to make investments worth billions of dollars.⁴⁰

Although a picture of favourable circumstances for Chinese advancement in the Middle East has been painted, there are barriers to China's mission of improving ties in the Persian Gulf. International sanctions and the US war in Iraq have hindered China from pushing its agenda forward in Baghdad, whilst complicated geology and a strenuous business climate have strained investment plans in Iran. Furthermore, Saudi Arabia, China's largest oil exporter, is reluctant to privatise oil fields, although the Saudi government has offered to consider foreign investment in integrated domestic natural-gas projects. Chinese NOCs have not favoured this option as they consider it to be a costly investment which does not provide a shareholding in oil supplies to ship back to China.⁴¹

Unlike the US, Japan and Europe – which have a lengthy history of importing oil from the Middle East - Beijing is at a disadvantage due to its late arrival in this oil rich region and because, in contrast to its counterparts, China is still attempting to foster secure relations with Middle-Eastern states that can assure the shipment of oil to the PRC.⁴² By deliberately avoiding a singular focus on oil supplies, Beijing has attempted to expand the scope of economic exchanges between GCC countries and itself. China's strategy aims to build a level of economic interdependence between Beijing and Arab states that will result in increased trade (especially with regards to the purchasing of oil and gas). Through establishing economic interdependence, Beijing realises that it would be difficult and economically straining for Gulf countries to disrupt oil supplies to China.⁴³ Economically, China is pursuing a 'two imports and one export' strategy to advance its energy relationship with Arab oil-producing states.⁴⁴ The 'two imports' refers to oil imports and the necessary capital needed to develop China's oil industry, whilst the 'one export' refers to Beijing's investments in oil exploration and development projects in the Middle East.⁴⁵

With the aim of establishing a mutually beneficial trade relationship, GCC-China trade increased from US\$ 12 billion in 2003 to US\$ 68 billion in 2009.⁴⁶ Moreover, Beijing has allowed Chinese oil firms to gain a strategic foothold in the region's energy sector by allowing NOCs to negotiate long-term supply contracts and production sharing arrangements directly with Persian Gulf governments instead of international oil firms.⁴⁷ On the political front, China is expanding its diplomacy in the region, albeit carefully under the watchful eye of the US, as Beijing is aware of Washington's potential to thwart oil supplies to China. Although Downs highlights that the 1970s' oil crisis demonstrated that bi-lateral relationships are "virtually useless during a crisis," the PRC seems to, in weighing potential gains under non-crisis periods, sideline historical evidence as it persists with the establishment of strong bi-lateral ties to ensure the security of oil supply from the Gulf.⁴⁸ Several Chinese state leaders have undertaken state visits to the Middle East in an effort to strengthen ties in the region, especially with countries that have an

³⁹ Sager, "GCC-China Relations: Looking Beyond Oil-Risks and Rewards," p. 12.

⁴⁰ For more information on the numerous investments China has made in the Middle East see:

Sager, "GCC-China Relations: Looking Beyond Oil-Risks and Rewards," pp. 12-14.

⁴¹ Amy M. Jaffe and Steven W. Lewis, "Beijing's Oil Diplomacy," *Survival*, vol.44, no.1 (2002): p. 124.

⁴² Erica Downs, *China's Quest for Energy Security* (Santa Monica: Rand Corporation, 2000), p. 48. Accessed: 16 July 2012, URL: <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA384039>

⁴³ Lee and Shalmon, "Searching for Oil: China's Oil Initiatives in the Middle East," p. 15.

Downs, *China's Quest for Energy Security*, p. 33.

⁴⁴ Downs, *China's Quest for Energy Security*, p. 48.

⁴⁵ Ibid.

⁴⁶ Sager, "GCC-China Relations: Looking Beyond Oil-Risks and Rewards," p. 7.

⁴⁷ Calabrese, "China and the Persian Gulf: Energy and Security," p. 356.

⁴⁸ Erica Downs, "The Chinese Energy Security Debate," *The China Quarterly*, vol.177 (2004): p. 38.

aversion towards the US. In terms of utilising its military capabilities for its energy drive, Downs suggests that China could use its arms sales to develop closer ties with heavily oil endowed Middle-Eastern countries, as Beijing is considered to be an attractive option for states seeking ballistic-weapons technology that the US is reluctant to provide.⁴⁹

In spite of its strategic approach towards the Gulf, China has had to rethink its strong dependence on Persian Gulf oil. Taking into consideration the volatility of the Middle East, the dominance of the US in the region, and having to ship oil through the Strait of Malacca – one of the most dangerous shipping lanes in the world – China has sought to aggressively diversify its oil imports. In doing so, China has ventured beyond the Middle East into Africa, Central Asia and the Americas. However, having taken into consideration global oil distribution, production capacity and supply potential, many scholars such as Downs still emphasise that the Middle East, and especially the Persian Gulf, will continue to be imperative to China's oil supply⁵⁰ as it is predicted that as much as 70-80 per cent of China's future oil imports will have to be sourced from the Middle East.⁵¹ Beijing's NOCs have thus aggressively bid against other major oil companies in an attempt to monopolise the region's vast oil reserves.

Moreover, China is seeking to fortify its oil security by updating its age-old refining facilities to process Middle-Eastern crudes, as Chinese refiners are unable to process most of the crude oil from the region due to the high sulphur content.⁵² Undertaking the construction of facilities that are capable of processing sour crude oil demonstrates China's growing dependence on Arab oil. Furthermore, it also highlights Beijing's view that crude imports are a better source of energy security since refined oil is more expensive – due to significant storage costs and the relatively high deterioration rate of refined oil.⁵³ Yet, due to its increasingly projected dependence on Persian Gulf oil, Beijing could face new strategic vulnerabilities. Although the Chinese have greatly improved their military might, their naval build up (however impressive) is insufficient to protect the East-Asian sea lanes from threats of piracy or guarantee protected access to Persian Gulf oil.⁵⁴ Thus, China acknowledges that it is unavoidably forced to depend on the US military to protect its access to the Gulf's oil. As a result, Beijing has to restrain its geostrategic plans for sponsoring Middle East nations that are hostile towards the US and its regional allies.

Although Middle-Eastern countries may attempt to lessen their dependency on the US, states in the Middle East are aware of China's reluctance to bring the hammer down on Iran – a potential threat to regional security. GCC members believe that, in keeping its options open, China is only willing to play a

⁴⁹ Downs, *China's Quest for Energy Security*, p. 49.

Amy M. Jaffe and Steven W. Lewis, "Beijing's Oil Diplomacy," *Survival*, vol.44, no.1 (2002): p. 124.

⁵⁰ John Douglas, Matthew Nelson and Kevin Schwartz, *Fuelling the Dragon's Flame: How China's Energy Demand Affects its Relationships in the Middle East* (2006), p. 21. Accessed: 16 July 2012, URL: http://origin.www.uscc.gov/sites/default/files/Research/fueling_per_cent20the_per_cent20dragons_per_cent20flame.pdf

Downs, "China," p. 32.

⁵¹ *Ibid.*, p. 21.

Lee and Shalmon, "Searching for Oil: China's Oil Initiatives in the Middle East," p. 13.

Yuan, "China's Strategic Interests in the Gulf and Trilateral Relations among China, The US and Arab Countries," p. 24.

Downs, "China," p. 32.

⁵² China's refineries can refine 'sweet' (low in sulphur content) from Oman and Yemen, yet the PRC's facilities are unable to process 'sour' (high in sulphur content) crudes from countries such as Iran, Iraq and Saudi Arabia and Kuwait. – Downs, *China's Quest for Energy Security*, p. 32.

Daojiong, "China's Energy Security and its International Relations," p. 49.

⁵³ Downs, *China's Quest for Energy Security*, p. 31.

⁵⁴ Jaffe and Lewis, *Beijing's Oil Diplomacy*, p. 125.

secondary role in the region.⁵⁵ As such, Middle-Eastern states acknowledge that, in spite of the variety of advantages that China provides, their security continues to lie in NATO's palms and therefore, by implication, largely in American hands.⁵⁶ Arab states acknowledge that, unlike the US who has invested millions of dollars in attempts to resolve regional conflicts in the Middle East, China will maintain its secondary role in the region as it waits to capitalise on situations where Washington may falter. Lee and Shalmon assert that China accepts that it is not about to replace US dominance in the region; instead Beijing is focusing on shifts at the margin by proactively seeking to enhance Sino-Arab ties. Since energy security is the backbone of China's forays into the Middle East, through attempts to secure fuel supplies Beijing is striving to extend relationships beyond energy in an attempt to create an economic interdependence that can ultimately assure the shipment of Gulf oil to China. In seeking to improve relations with Arab nations, Lee and Shalmon posit that Beijing can draw on its Gulf energy dealing experiences to equip China to handle the diplomatic and strategic complexities of oil geo-politics in the region, especially in the Persian Gulf.⁵⁷ However, it is essential that Beijing maintains its pragmatic stance in order to avoid disagreements with Gulf States and the possibility of souring its relations with its vital economic partner and largest export market – the US.⁵⁸

3. THE SINO-IRANIAN RELATIONSHIP

Before proceeding to analyse China's response to Iran's nuclear situation, an understanding of the Sino-Iranian relations would be beneficial. Due to the multi-dimensional and ever-changing nature of Sino-Iranian relations it would be impossible to cover every facet of Beijing-Tehran ties in this paper. Therefore, the scope of this section will focus on what are considered to be the more prominent aspects of the relationship that ties Beijing and Tehran together despite the international pressure placed on China to implement measures to further isolate Iran for its defiant nuclear activities. This paper will analyse the Sino-Iranian relationship from three points of view, namely: trade, energy and geostrategic reasoning. These three factors have been chosen as, based on the literature reviewed, they appear to be the 'glue' that binds these two countries together.

In spite of periods when relations were strained, Sino-Iranian ties have gradually evolved into a sturdy relationship. This relationship is strengthened by the historical commonalities between the two nations, namely that both consider themselves to be heirs of once great civilisations that were victimised by Western imperialists. However, aside from historical similarities binding China and Iran, "circumstances have conspired to make China and Iran well suited energy partners."⁵⁹ Chinese efforts to enhance their relations with Iran have mainly stemmed from China's search for energy resources, an opportunity to create a diverse portfolio of overseas market shares and the desire to exert political influence in the Middle East. Yet, not all credit can be given to Beijing for establishing links with Tehran as Iranian officials have taken "determined, consistent and effective initiatives" to entice China to build a relationship with Iran.⁶⁰ By advertising itself as a reliable energy source and key strategic partner in the Middle East, Iran has managed to gain the PRC's attention and advance Sino-Iranian relations. Additionally, aside from acknowledging Tehran's crucial role in the energy market, Beijing also recognises

⁵⁵ Sager, "GCC-China Relations: Looking Beyond Oil-Risks and Rewards," p. 20.

⁵⁶ Margaret Karns and Karen Mingst, *International Organizations: The Politics and Processes of Global Governance* (Boulder Colorado: Lynne Rienner Publishers Inc., 2004), pp. 156-158.

⁵⁷ Lee and Shalmon, "Searching for Oil: China's Oil Initiatives in the Middle East," pp. 30-31.

⁵⁸ Bingbing, "Strategy and Politics in the Gulf as seen from China," p. 24.

⁵⁹ James B. Gentry, "The Dragon and The Magi: Burgeoning Sino-Iranian Relations in The 21st Century," *The China and Eurasia Forum Quarterly*, vol.3, no.3 (2005): p. 115.

⁶⁰ John Calabrese, "China and Iran: Mismatched Partners," *Occasional Paper: The Jamestown Foundation* (2006), p. 5. Accessed: 04 July 2012, URL: <http://www.jamestown.org/docs/Jamestown-ChinaIranMismatch.pdf>

Iran's vital geostrategic location and its potential to be an energy transport base between the Middle East, Central Asia, and Europe.⁶¹

Since the 1980s, Sino-Iranian relations have evolved from a focus on arm sales to one that encompasses commercial, energy, and diplomatic dealings. This shift in relations is partly attributed to the international sanctions imposed on Iran, as increasing isolation has forced Tehran to search for alternate markets to export its energy resources. Moreover, Iranian leaders are aware that the geopolitics of oil has shifted from West to East, as incremental growth is creating a demand for oil from the three non-Western territories of China, India and the Middle-Eastern region. As a result, there has been a steady increase in the energy interdependence between Asian and Gulf States.⁶² Essentially, Sino-Iranian relations are considered to be mutually complementary or naturally symbiotic as the Chinese have a ballooning economy that requires hydrocarbon resources which, in turn, provides a market for Iran's surplus of energy commodities.⁶³

3.1 BACKGROUND: SINO-IRANIAN TIES

The development of Sino-Iranian relations stems from a gradual expansion of ties between China and the Middle East. The birth of this relationship has been traced back to the second century BCE when the Han Dynasty of China opened up the Silk Road and established trade with the Parthian Empire.⁶⁴ Although official diplomatic relations were established in 1971, Iran kept China at a distance as the US pressured Tehran to limit its interaction with communist Beijing. However, before his overthrow in 1979, the Shah (Mohammad Reza Pahlavi) sought to improve relations with China as mutual concern over Soviet actions in Asia edged the PRC and Iran to achieve greater co-operation. Yet, relations with China were again strained when revolutionary leader Ayatollah Ruhollah Khomeini (the post-revolutionary successor to the Shah), in rebellion against the Union of Soviet Socialist Republics (USSR) and US, supported a foreign policy that was "neither West nor East." However, Khomeini's suspicions of China had to be revised as Iran's isolation and war with Iraq forced Tehran to cooperate a little more with Beijing. The Islamic Republic had come to perceive that China could be used as a counterbalancing mechanism against the USSR and US, thus providing Iran with much needed leverage on the international stage.⁶⁵ Tehran's new outlook towards China suited Beijing's global political agenda as it provided the Chinese with a gateway to pursue their territorial ambitions in Iran and, more importantly, the greater Middle East.⁶⁶

⁶¹ Peter Mackenzie, "A Closer Look at China-Iran Relations," *CNA Roundtable Discussion: China's Relations with Iran* (2010), p. i. Accessed: 05 March 2012, URL: http://www.cna.org/sites/default/files/research/d0023622_per_cent20a_per_cent20closer_per_cent20look_per_cent20at_per_cent20china-iran_per_cent20relations.pdf

⁶² *Ibid.*, p. 4.

⁶³ Mackenzie, "A Closer Look at China-Iran Relations," p. 3.

Liu Jun and Wu Lei. "Key Issues in China-Iran Relations," *Journal of Middle Eastern and Islamic Studies (in Asia)*, vol.4, no.1 (2010): p. 44.

⁶⁴ Gentry, "The Dragon and The Magi: Burgeoning Sino-Iranian Relations in The 21st Century," p. 111.

⁶⁵ Manoj Dorraj and Carrie L. Currier. "Lubricated with Oil: Iran-China Relations in a Changing World," *Middle East Policy*, vol.15, no.2 (2008): p. 68.

⁶⁶ Scott Harold and Alireza Nader, *China and Iran: Economic, Political and Military Relations* (Santa Monica: Rand Corporation, 2012), p. 3. Accessed: 15 June 2012, URL: http://www.rand.org/content/dam/rand/pubs/occasional_papers/2012/RAND_OP351.pdf

The endurance of the Sino-Iranian relationship is attributed to shared interests and similar political outlooks.⁶⁷ Past grievances against Western domination have also played a part in shaping both nations' contemporary outlooks on global politics. With memories of 'victimisation' and 'vulnerability' at the hands of Western imperialists etched deep into their cultural psyche, Beijing and Tehran continue to protest against Western imperialism and hegemonic behaviour.⁶⁸ As a result, both countries distrust the US and frequently criticise Washington's policy of liberal interventionism as 'imperialist' and 'hegemonic'.⁶⁹ By acknowledging their historical lineage of having once been 'great civilisations', Beijing and Tehran draw inspiration from this narrative to reassert their great power status.⁷⁰ This essentially fuels China's "foreign policy goals of a multi-polar world, free of US hegemony, where regional powers play the dominant role within their respective spheres of influence."⁷¹ In this regard, Beijing and Tehran's ambitions have remained quite similar.

Even though the commonalities between China and Iran portray a grounded relationship, 'when push comes to shove', Beijing has, on various occasions, demonstrated that it is willing to side-line Iran in favour of remaining in comity with the US. This was particularly demonstrated when China acknowledged calls from Washington to abandon nuclear co-operation with Iran in 1997. Although Iran felt betrayed by China's actions, the Iranian leadership realised that it was still in Tehran's best interests to continue working with the Chinese on economic and political issues. Thus, it is by means of such flexibility that the Chinese and Iranians have created a durable, albeit limited, relationship that continues to persist under straining conditions.⁷²

Contrary to framing Sino-Iranian relations in terms of mutual co-operation, Harold and Nader emphasise that this relationship is characterised by a lopsided or asymmetrical dependence.⁷³ China has subtly

⁶⁷ Melinda Baker, *Beyond Oil? Chinese National Interests and the Sino-Iranian Relationship*, MA thesis, Graduate School of Arts and Sciences: Georgetown University, (2010), p. 21. Accessed: 25 June 2012, URL: <http://repository.library.georgetown.edu/bitstream/handle/10822/553441/bakermelinda.pdf?sequence=1>

⁶⁸ Baker, *Beyond Oil? Chinese National Interests and the Sino-Iranian Relationship*, p. 22.

Calabrese, "China and Iran: Mismatched Partners," p. 5.

Scott Harold and Alireza Nader, *China and Iran: Economic, Political and Military Relations* (Santa Monica: Rand Corporation, 2012), p. 3. Accessed: 15 June 2012, URL: http://www.rand.org/content/dam/rand/pubs/occasional_papers/2012/RAND_OP351.pdf

Dorraj and Currier, "Lubricated with Oil: Iran-China Relations in a Changing World," p. 67.

⁶⁹ Brandon Fite, *U.S. and Iranian Strategic Competition: The Impact of China and Russia* (Centre for Strategic and International Studies, 2012), p. 7. Accessed: 15 June 2012, URL: http://csis.org/files/publication/REPORT_Iran_Chapter_X_China_and_Russia_Final_Revision2212.pdf

⁷⁰ The shared Silk Road heritage links China, Iran and the post-Soviet states of Central Asia, and serves as a historical basis for present day cooperation. – Gentry, "The Dragon and The Magi: Burgeoning Sino-Iranian Relations in The 21st Century," p. 111.

⁷¹ Baker, *Beyond Oil? Chinese National Interests and the Sino-Iranian Relationship*, p. 22.

⁷² *Ibid.*, p. 33.

⁷³ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 13.

Marybeth Davis *et al.*, "China-Iran: A Limited Partnership," *U.S.-China Economic and Security Review Commission*, p. 4. Accessed: 12 March 2013, URL: http://missilethreat.wpengine.netdna-cdn.com/wp-content/uploads/2012/12/USCC_China-Iran-Report-Nov-28.pdf

Afshin Molavi, "The New Silk Road, "Chindia," and The Geo-Economic Ties that Bind the Middle East and Asia," in *China and the Persian Gulf*, eds. Bryce Wakefield and Susan L. Levenstein (Washington: Woodrow Wilson International Centre for Scholars, 2010), p. 51. Accessed: 16 July 2012, URL: http://www.wilsoncenter.org/sites/default/files/ASIA_per_cent20Program_China_per_cent20and_per_cent20the_per_cent20PG.pdf

Aaron Morris, "From Silk to Sanctions and Back Again: Contemporary Sino-Iranian Economic Relations," *Al Nakhlah: Online Journal on Southwest Asian and Islamic Civilization*, (2012):p. 2. Accessed: 26 February 2013,

conveyed that, instead of viewing Tehran as a vital strategic energy ally, Iran is considered to be one of several countries that it interacts with on a mercantilist basis.⁷⁴ Although the PRC views Iran as a potential partner for limiting US advancements in the Middle East, Beijing is not overly reliant on Tehran for its energy needs, economic development or national security. This is demonstrated by China's globally dispersed sources of oil and its substantial oil imports from other Middle-Eastern nations, most notably Saudi Arabia. On the other hand, because of Iran's small number of allies and shunning of the US, Tehran has come to rely heavily on Beijing for vital diplomacy, economic, military and technological assistance. Although China's dependency on Iran is minimal, Sino-Iranian relations have nonetheless enhanced Beijing's capacity to become a vital player in Middle-Eastern issues. Aware of how sanctions have heightened the Islamic Republic's vulnerability, Beijing is exploiting Iran by utilising its increasing isolation from the international community to demand Iranian oil at discounted prices. Despite such exploitive demands, Tehran is not willing to dismiss the PRC, as China provides the Islamic Republic with vital diplomatic cover in the international arena. Although Beijing acknowledges that its relationship with Tehran (a pariah state) may tarnish its image as a 'responsible stakeholder' and threaten Sino-US relations, China has nonetheless demonstrated an unusual support for Iran.⁷⁵

3.2 ECONOMIC

3.2.1 Trade

In 1979 both nations undertook drastic reforms that laid the building blocks for their intricate present day economic and political relationship.⁷⁶ For Iran, the Islamic Revolution and subsequent hostage debacle led to the deterioration of Tehran's relationship with the West as it was faced with economic sanctions and diplomatic isolation. Whilst Beijing, under Deng Xiaoping, implemented market-based reforms that were followed by a rise in GDP growth which subsequently led to the ascendance of China as an international force.

Sino-Iranian economic relations have grown at an annual average of 40 per cent over the past few years.⁷⁷ This is demonstrated by the level of trade between the two nations increasing from US\$ 400 million in 1994 to US\$ 29 billion in 2008.⁷⁸ Although economic exchanges were first limited to military purchases by Iran, trade exchanges between Beijing and Tehran have primarily advanced through general trade and oil-gas dealings. Both nations have hosted various conferences that promote bi-lateral trade and economic

URL: http://fletcher.tufts.edu/~media/Fletcher/Microsites/alcent20Nakhlah/archives/Winter2012/Morris_Final.pdf per

⁷⁴ Molavi, "The New Silk Road, "Chindia," and The Geo-Economic Ties that Bind the Middle East and Asia," p. 50.

Energy mercantilism is a resource accumulation strategy that mainly bypasses the international commodity markets in favour of inter-governmental dealings to secure energy supplies. It is a favoured strategy amongst industrialising countries, particularly China, as the purchase of equity barrels eliminates market price risk and it is comparatively low-priced when compared to oil sold on the international markets. However, the equity route directly counters the market in terms of pricing and distribution. When oil is traded globally on the New York Mercantile Exchange (NYMEX) and other bourses, customers pay approximately the same price for their oil. However, long-term bilateral supply contracts avoid market dictations, as energy producers, when dealing directly with a potential customer, can pursue various pricing strategies that entail political agreements and thereby utilising alternative methods of payment (such as the development of infrastructure, aid and trade agreements) to secure oil supplies.

⁷⁵ Douglas, Nelson and Schwartz, *Fuelling the Dragon's Flame: How China's Energy Demand Affects its Relationships in the Middle East*, p. 2.

⁷⁶ Morris, "From Silk to Sanctions and Back Again: Contemporary Sino-Iranian Economic Relations," p. 2.

⁷⁷ Jun and Lei, "Key Issues in China-Iran Relations," p. 43.

⁷⁸ Ibid.

co-operation. However, energy is, without question, the main pillar of Sino-Iranian economic ties. Due to China's energy demands, bi-lateral trade in fuel resources rose. In addition to rising energy trade, bi-lateral trade in other goods also increased – with total bi-lateral interaction rising from US\$ 700 million in 1993 to US\$ 5.6 billion in 2003.⁷⁹ Aware of Iran's vast energy resource endowments, Beijing and Tehran have signed various energy deals worth millions of dollars. However, unlike China who mainly views Iran as an energy source and another market for Chinese goods, the Iranians highly value Chinese patronage. The PRC has come to be indispensable to the Iranian economy as it is considered to be an important energy customer, a source of technological knowledge, and a major investor in a variety of Iranian sectors.⁸⁰

Though energy trade dominates Sino-Iranian relations, it has become evident that both nations are interested in expanding economic dealings to incorporate various other sectors. In efforts to expand the Sino-Iranian relationship beyond energy, the two nations established the Chinese-Iranian Joint Commission on Economic, Trade, Scientific, and Technical Co-operation in 1993.⁸¹ This keen interest in diversifying relations became particularly evident in 2005 when Beijing expressed interest in strengthening labour ties between the two nations and the possibility of initiating co-operation with regards to aerospace ventures.⁸² However, it was a signed aluminium deal worth US\$ 1 billion that significantly demonstrated China's interests in diversifying its relations with Iran.⁸³ Additionally, China's desire to dabble in different Iranian sectors was again demonstrated at the 2009 Iran-China Economic Co-operation Conference, where many Chinese companies finalised negotiations and signed agreements to improve Iranian infrastructure and the country's mining and construction industries.⁸⁴ More recently, in the wake of sanctions issued against the Islamic Republic, China displayed its keenness to expand its interests in the country when Beijing signed a US\$ 20 billion agreement in May 2011 to boost bi-lateral co-operation in Iran's industrial and mining sectors.⁸⁵

The Iranian market is considered to be extremely profitable for China as “the abundant natural resources, big market, geographic location and educated workforce,” are advantageous factors that have enticed Beijing to engage with Tehran.⁸⁶ This is echoed by the estimated 250 Chinese companies involved in a variety of projects or retailing in low-cost consumer products in Iran.⁸⁷ Moreover, due to the positives of trading with Iran, the two countries have announced that they plan to more than double their annual bi-lateral trade from US\$ 30 billion - US\$ 40 billion to US\$ 100 billion by 2016.⁸⁸ China's growing economic influence and the effects of sanctions have altered Iran's trading patterns – Tehran has become increasingly dependent on China both as a market and as a source of consumer and industrial goods.⁸⁹ This plays to Beijing's advantage in terms of foreign direct investment (FDI). Additionally, there has been an increase in China's exports to Iran which, since 2001, have increased nearly sixteen fold to US\$ 12.2

⁷⁹ Gentry, “The Dragon and The Magi: Burgeoning Sino-Iranian Relations in The 21st Century,” pp. 114-115.

Morris, “From Silk to Sanctions and Back Again: Contemporary Sino-Iranian Economic Relations,” p. 2.

⁸⁰ Gentry, “The Dragon and The Magi: Burgeoning Sino-Iranian Relations in The 21st Century,” p. 115.

⁸¹ Gentry, “The Dragon and The Magi: Burgeoning Sino-Iranian Relations in The 21st Century,” p. 114.

⁸² *Ibid.*, p. 117.

⁸³ *Ibid.*

⁸⁴ Ariel Farrar-Wellman and Robert Frasco, *China-Iran Foreign Relations*. Accessed: 06 December 2012, URL: <http://www.irantracker.org/foreign-relations/china-iran-foreign-relations>

⁸⁵ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 10.

⁸⁶ Sanam Vakil, “Iran: Balancing East against West,” *The Washington Quarterly*, vol.29, no.4 (2006): p. 54.

⁸⁷ Calabrese, “China and Iran: Mismatched Partners,” p. 6.

⁸⁸ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 10.

⁸⁹ Barbara Salvin, “Iran turns to China, Barter to Survive Sanctions,” *Atlantic Council: Iran Task Force*, (2011): p. 1. Accessed: 15 June 2012, URL: http://www.acus.org/files/publication_pdfs/403/111011_ACUS_IranChina.PDF

billion.⁹⁰ Such improvements in Chinese-Iranian commercial dealings led China to surpass the European Union (EU) in 2009 to become Iran's largest trading partner, with a bi-lateral trade volume estimated at more than US\$ 21 billion.⁹¹

Although the Sino-Iranian economic relationship has evolved to become highly robust, China and Iran have "yet to fully exploit their economic potential in various [other] spheres" as the regulatory framework underpinning this relationship requires substantial improvements.⁹² It has been suggested that the Sino-Iranian economic relationship could be enhanced with the signing of a customs agreement and the co-ordination of import and export regulations between the two nations.⁹³ In addition, due to financial and banking obstacles hindering deals from moving forward, China and Iran need to establish a legal arbitration board for bi-lateral disagreements.⁹⁴ Due to erratic pricing and contractual terms that frequently come with "political strings attached," observers have speculated that Iran's strenuous business climate could possibly influence China to rely more on Saudi Arabia to meet its energy demands.⁹⁵ Nevertheless, for now Iran continues to be a key piece in China's foreign economic-energy puzzle.

3.2.2 Energy

As OPEC's (Oil Producing Export Countries) second largest oil exporter, Iran produces 3.7 million barrels of crude oil per day and is ranked as the world's fourth-largest oil producer.⁹⁶ Furthermore, the country has oil reserves collectively estimated at 155 billion barrels and gas reserves at 33 trillion cubic metres.⁹⁷ Thus, it is not surprising that energy driven China has developed a keen interest in Tehran's energy sector.

Although energy in the form of liquefied natural gas (LNG) has provided a second energy link with Iran, Iranian crude is still the main attraction. Ever since China's first purchase of Iranian oil in 1974 under the Shah's regime, the PRC's oil imports from Iran have grown substantially.⁹⁸ Within a space of two years, oil imports from Iran increased from seven million tons in 2000 to eleven million tons in 2002.⁹⁹ As a result of this marked increase in Iranian oil imports, Iran was positioned in 2003 as the second largest oil exporter to China, after Saudi Arabia.¹⁰⁰ In addition, the oil connection between the two nations was

⁹⁰ Ibid., p. 4.

⁹¹ Mackenzie, "A Closer Look at China-Iran Relations," p. 6.

⁹² Jun and Lei, "Key Issues in China-Iran Relations," p. 43.

Morris, "From Silk to Sanctions and Back Again: Contemporary Sino-Iranian Economic Relations," p. 3.

⁹³ Jun and Lei, "Key Issues in China-Iran Relations," p. 43.

Morris, "From Silk to Sanctions and Back Again: Contemporary Sino-Iranian Economic Relations," p. 3.

Jun and Lei, "Key Issues in China-Iran Relations," p. 43.

⁹⁴ Ibid.

⁹⁵ Morris, "From Silk to Sanctions and Back Again: Contemporary Sino-Iranian Economic Relations," p. 2.

⁹⁶ Fite, *U.S. and Iranian Strategic Competition: The Impact of China and Russia*, p. 10.

Mahnaz Zahirinejad, "Implication of New World Order on China's Energy Policy Towards Iran," *Asia-Pacific Journal of Social Sciences*, no.1 (2010): p. 114.

⁹⁷ Fite, *U.S. and Iranian Strategic Competition: The Impact of China and Russia*, p. 10.

⁹⁸ Although China began importing oil from Iran in 1974, Davis *et al.*, point out that Beijing's earnest involvement in Tehran's oil and gas sector began with a 1997 agreement for cooperation in oil and gas exploration. – Davis *et al.*, "China-Iran: A Limited Partnership," p. 16.

⁹⁹ Lai, "China's Oil Diplomacy: is it a global security threat?" p. 525.

¹⁰⁰ Ibid.

further reiterated in 2009 when the PRC surpassed Japan to become Iran's top oil customer.¹⁰¹ Iranian crude oil accounts for approximately 10-15 per cent of China's total oil imports.¹⁰²

Although this percentage is miniscule when compared to Saudi Arabia and Angola, the Chinese have calculated reasons for importing Iranian oil. Crude oil from Iran not only assists in meeting rapidly increasing Chinese consumption demands, it also helps contain rising import expenses as the sour crude oil (sulphur-rich) found in Iran is comparatively cheaper than sweet crude (carbon-rich).¹⁰³ Moreover, access to Iranian oil is gaining importance as Iran provides China with an opportunity to access its oil reserves without competition from Western oil companies.¹⁰⁴ Iran is also one of the few Middle-Eastern states that permit China to carry out business in upstream sectors (crude oil exploration and extraction/production).¹⁰⁵ This demonstrates how, by being amongst a few Middle East countries that allow Chinese NOCs to carry out upstream ventures, Tehran is using its energy reserves to strengthen its partnership with Beijing and fortify its position as an important regional player.¹⁰⁶ Aside from upstream developments, Chinese NOCs have also shown a strong interest in downstream developments. This has resulted in more than one hundred Chinese companies operating in Iran to develop the metro, ports, airports, and oil and natural gas facilities.¹⁰⁷ Essentially, in efforts to improve the future of China's energy security, upstream and downstream projects are a part of Beijing's plan to internationalise its NOCs and gain equity stakes in production.¹⁰⁸

Despite Iran barring foreign oil companies from concession agreements and restricting them to 'buy back' contracts, Chinese NOCs, unlike many other international oil companies, are not deterred by Tehran's approach to dealing with overseas energy firms.¹⁰⁹ China's growing focus on the Iranian energy sector is demonstrated by the 166 Chinese companies that attended the Iranian Oil Show in 2011, as opposed to the one hundred firms that attended in 2010.¹¹⁰ Moreover, aside from signing numerous energy agreements, Iran has also formed a joint oil and gas committee with China to advance energy co-operation. Apart from purchasing Iranian crude oil and gas, Beijing (after Japan's withdrawal from deals due to US pressure) has, by securing the massive Azadegan and Yadvaran oil and gas fields, become a formidable player in Iranian upstream operations.¹¹¹

Although China has acquired numerous Iranian fuel agreements, Iran's energy sector has presented Beijing with various challenges. Tehran traditionally restricts foreign ownership of its hydrocarbon resources and, due to this, China has been provided with limited opportunities to acquire equity in Iranian oil.¹¹² Like its Western and Japanese counterparts, Chinese investors are prone to becoming frustrated with Iran's approach to drafting contracts and business dealings, as possible ventures usually involve

¹⁰¹ Mackenzie, "A Closer Look at China-Iran Relations," p. 5.

¹⁰² Michael D. Swaine, "Beijing's Tightrope Walk on Iran," *China Leadership Monitor*, no.33 (2010): p. 4. Accessed: 02 August 2012, URL: <http://media.hoover.org/sites/default/files/documents/CLM33MS2.pdf>

¹⁰³ Calabrese, "China and Iran: Mismatched Partners," p. 7.

¹⁰⁴ Bezen B. Coskun, "Global Energy Geopolitics and Iran," *Uluslararası İlişkiler*, vol.5, no.20 (2009): p. 184.

¹⁰⁵ Hongtu, "China's Energy Interest and Security in the Middle East," p. 50.

¹⁰⁶ Gentry, "The Dragon and The Magi: Burgeoning Sino-Iranian Relations in The 21st Century," pp. 115-116.

¹⁰⁷ Shahram Chubin, "Iran and China: Political Partners or Strategic Allies," in *China's Growing Role in the Middle East: Implications for the Region and Beyond* (Washington: The Nixon Centre, 2010), p. 65. Accessed: 05 February 2012, URL: <http://cftni.org/full-monograph-chinas-growing-role-in-me.pdf>

¹⁰⁸ Calabrese, "China and Iran: Mismatched Partners," p. 7.

¹⁰⁹ *Ibid.*, p. 14.

'Buy back' contracts, are contracts that ensure the repayment of development costs that oil companies incur and provide an agreed rate of return from initial production.

¹¹⁰ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 10.

¹¹¹ *Ibid.*, p. 11.

¹¹² *Ibid.*, p. 22.

continuous rounds of back and forth negotiations and unimplemented business deals.¹¹³ Nevertheless, such irritations have not hindered China from filling the void that sanctions have created in Tehran's energy sector. Due to being wary of fines under the Iran Sanctions Act (ISA), various companies have withdrawn from the Islamic Republic as numerous businesses believe that the "political and public relation problems more than outweigh business rewards."¹¹⁴ By viewing the pull out of Western companies as an opportunity to gain a stronger foothold in the Iranian energy sector, the Chinese have seized this opening by signing various energy deals, particularly during 2005 to 2010.¹¹⁵ Energy related agreements signed during this period are estimated to be worth US\$ 120 billion.¹¹⁶ Investments of note include a US\$ 40 billion deal to update the Iranian petroleum refining industry, a US\$ 2 billion Sinopec Group agreement to develop the Yadavaran oil field and an additional US\$ 70 billion in assistance directed towards the development of the Yadavaran oil field in exchange for 10 million tons of LNG from Iran.¹¹⁷

Despite fortifying Sino-Iranian relations with economic-energy agreements, in light of Iran's outdated energy infrastructure analysts are still left with technical difficulties in terms of deciphering how successfully energy agreements are being implemented towards meeting China's energy needs.¹¹⁸ As a result of the numerous energy contracts that have been initiated between the two nations, the Islamic Republic has subsequently been provided with cover to weather sanctions that target its energy sector.¹¹⁹ However, the 'life jacket' that Beijing provides Tehran's energy sector can easily be revoked. Due to "the challenges and potential political backlash" linked with conducting business in Iran, most Sino-Iranian agreements are in the "form of non-binding memoranda of understanding which are easily revocable in the event of political, economic, or internal instability".¹²⁰

Taking into consideration the damage that UN sanctions and unilateral measures have inflicted on Iran's economy, Tehran views Beijing as a lifeline now more than ever. China is considered to be a strong economic partner that is capable of providing the crucial investment and technology that is need for Iran's economic development. On the energy front, Beijing's vested interests in Tehran's energy sector are vital as Iran lacks the necessary expertise and capital to modernise its declining energy industry, especially its oil refining capabilities.¹²¹ Until recently, Tehran did not possess the refining capabilities to meet domestic oil needs, thus Iran had to import approximately 40 per cent of its refined oil to meet demands.¹²² However, with sanctions limiting refined oil exports to the country, Iran was forced to

¹¹³ Ibid.

¹¹⁴ Budike, *Securing China's Oil Supply from the Persian Gulf: The Case of Iran and Saudi Arabia*, p. 82.

¹¹⁵ Morris, "From Silk to Sanctions and Back Again: Contemporary Sino-Iranian Economic Relations," p. 3.

¹¹⁶ Ibid.

For more information on the various energy deals/projects between Iran and China see:

Budike, *Securing China's Oil Supply from the Persian Gulf: The Case of Iran and Saudi Arabia*, p. 84.

Zahirinejad, "Implication of New World Order on China's Energy Policy Towards Iran," p. 118.

Davis *et al.*, "China-Iran: A Limited Partnership," pp. 15-17.

Jun and Lei, "Key Issues in China-Iran Relations," p. 45.

¹¹⁷ Morris, "From Silk to Sanctions and Back Again: Contemporary Sino-Iranian Economic Relations," p. 3.

¹¹⁸ Budike, *Securing China's Oil Supply from the Persian Gulf: The Case of Iran and Saudi Arabia*, p. 86.

¹¹⁹ For example, the US's Iran-Libya Sanction Act which bans any company from investing more than US\$ 20 million per annum in Iran's petroleum sector. – Gentry, "The Dragon and the Magi: Burgeoning Sino-Iranian Relations in the 21st Century," p. 116.

¹²⁰ Morris, "From Silk to Sanctions and Back Again: Contemporary Sino-Iranian Economic Relations," p. 3.

¹²¹ However, although China has the necessary capital to assist Iran, it currently lacks the technological expertise and equipment (which are mainly in Western hands) to substantially upgrade and modernise Iranian oil infrastructure. – Dorraj and Currier, "Lubricated with Oil: Iran-China Relations in a Changing World," p. 72.

¹²² Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 11.

expand its oil refining capacity. Despite needing more than US\$ 100 billion in investments to maintain and modernise its oil production capacity, Iranian officials are wary of granting foreign firms overly generous access to their energy resources.¹²³ Thus, Downs states that the “Iranians themselves have been more effective in deterring investment in their oil sector than US sanctions.”¹²⁴ However, by appealing to its dominant energy beneficiary, China increased fuel shipments to the Islamic Republic and is aiding Iran with its refining expansion efforts.¹²⁵ Assisting Iran has provided the Chinese with an opportunity to expand their foreign investment and a chance to enter Tehran’s ‘good books’ for securing future oil supplies.¹²⁶ Since the Chinese are essentially keeping the Iranian energy sector afloat, Molavi suggests that the Sino-Iranian relationship seems to be more vital for Tehran than Beijing.¹²⁷ By playing on this asymmetrical dependence, Chinese firms have asserted that if there are hindrances that prevent China’s Iranian projects from obtaining attractive profits, they will revert to a peripheral position in the country’s energy sector.¹²⁸

Despite the seemingly anchored Sino-Iranian economic-energy relationship, major Chinese national energy companies (NECs) have been stalling the implementation of agreements in Iran in the face of sanctions against Tehran. However, there has been no clear indication if the decision to delay the implementation of energy deals is a directive from the Chinese government or based on Chinese NECs’ wariness of proceeding with energy plans in a high-risk environment. Harold and Nader suggest that firms are individually weighing up the risks to avoid a Libyan scenario, where analysts forecasted that a democratic Libya would potentially cost China US\$ 18.8 billion in investments.¹²⁹ While awaiting the outcome of the Obama Administration’s deliberation regarding the possibility of sanctioning Chinese firms under the Comprehensive Iran Sanctions, Accountability, and Divestments Act of 2010 (CISADA), China delayed the implementation of an estimated US\$ 40 billion in 2010 investments to revamp Iran’s petroleum industry.¹³⁰ Thus, of the US\$ 40 billion, China, in 2011, had so far only provided less than US\$ 3 billion.¹³¹ If a high risk business environment is behind Chinese NECs reluctance to implement decisions it can be assumed that, once Tehran gains a more favourable international status, China is likely to advance the implementation of agreements in order to avoid competition from other countries who may want to re-engage with Iran.¹³²

3.3 GEOSTRATEGIC: COUNTERING US HEGEMONY IN THE MIDDLE EAST

In terms of geostrategic reasoning the Islamic Republic is of major importance to China. Iran stands out mainly because it is the largest and most populous Islamic country in the oil abundant Middle East.¹³³

¹²³ Erica Downs, “China-Gulf Energy Relations,” in *China and the Persian Gulf*, eds. Bryce Wakefield and Susan L. Levenstein (Washington: Woodrow Wilson International Centre for Scholars, 2010), pp. 71-72. Accessed: 16 July 2012, URL: http://www.wilsoncenter.org/sites/default/files/ASIA%20Program_China%20and%20the%20PG.pdf

¹²⁴ Downs, “China-Gulf Energy Relations,” p.72.

¹²⁵ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 11.

Chinese companies have agreed to build a refinery in Hormuz and assist in expanding the capacity of the existing refinery in Abadan. – Mackenzie, “A Closer Look at China-Iran Relations,” p. 5.

¹²⁶ Baker, *Beyond Oil? Chinese National Interests and the Sino-Iranian Relationship*, p. 19.

¹²⁷ Molavi, “The New Silk Road, “Chindia,” and The Geo-Economic Ties that Bind the Middle East and Asia,” p. 51.

¹²⁸ Lee and Shalmon, “Searching for Oil: China’s Oil Initiatives in the Middle East,” p. 21.

¹²⁹ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 12.

¹³⁰ Salvin, “Iran turns to China, Barter to Survive Sanctions,” p. 3.

¹³¹ *Ibid.*, p. 4.

¹³² Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 12.

¹³³ Jun and Lei, “Key Issues in China-Iran Relations,” p. 50.

Moreover, due to its strategic location, geographical land mass and human resources, Iran is considered to be a regional power in the Middle East. The Islamic Republic is deemed to be geo-strategically imperative because:¹³⁴ firstly, Iran has a stretching coastline on the North Arabian Sea which dominates the entire eastern side of the Persian Gulf. Secondly, the Islamic Republic has lengthy borders with Iraq, Turkey, Afghanistan and Pakistan. Furthermore, Iran also borders on some of the remaining republics of the former Soviet Union, namely Armenia, Azerbaijan and Turkmenistan. Lastly, towards the North of Iran, the country also has a coastline on the Caspian Sea and shares borders with states in the Central Asian region.

Taking these geostrategic factors into account and the country's potential as a regional power, in the 1970s Washington considered Iran to be a 'strategic pillar' in America's grand strategy for Western Asia.¹³⁵ However, with the ousting of the Shah in 1979 and the Iranian hostage crisis, the US revised its views of Iran and deduced that the country was to be considered a 'strategic threat'.¹³⁶ Over the years, Washington's aversion towards Tehran has been demonstrated by the numerous unilateral sanctions against the country and speeches by American officials that deem the country to be a 'pariah' state and part of the 'axis of evil'. As such, the Americans have strategically established an expansive military and naval presence in the Middle East in order to protect their oil investments, to insure regional stability and, most importantly, to serve as a warning to Iran.¹³⁷ However, the military execution of the US's "unilateralist" foreign policy (under the Bush administration) has produced significant changes in geostrategic alliances.¹³⁸ This is particularly demonstrated by the strengthened Sino-Iranian relationship.

China perceives that America's policy towards the Middle East and its established military presence serves to bolster the US's dominance in the region.¹³⁹ Stemming from Beijing's desire for a multi-polar world and its opposition to the US's hegemonic influence in the Arab world, a part of China's foreign policy towards the Middle East is, from a realist-mercantilist perspective, based on opposing American hegemony in the area.¹⁴⁰ Beijing strongly favours multi-polarity because the PRC "believes that a regional and international environment in which the US is obliged to accept the diversity of political and social systems best serves China's interests."¹⁴¹ Such thinking could possibly stem from Beijing's anxiety over Washington's ability to control strategic global areas and its potential to cut off energy supplies to China in the event of a military conflict, possibly over Taiwan.¹⁴² Additionally, Chinese analysts are concerned with Washington's potential to utilise its hegemonic status to assert control over oil resources that could

¹³⁴ Ibid.

¹³⁵ Ibid.

¹³⁶ Ibid.

¹³⁷ The US has military bases in Bahrain, Saudi Arabia, Kuwait and Qatar, a bold military presence in Afghanistan and Iraq, and a strong naval setup in the Persian Gulf.

¹³⁸ Jun and Lei, "Key Issues in China-Iran Relations," p. 51.

¹³⁹ Jim Cooney, *Chinese Oil Dependence: Opportunities and Challenges*, Pennsylvania: U.S. Army War College (2005): p. 6. Accessed: 08 June 2012, URL: <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA432502>

¹⁴⁰ Since the early 1970s, the PRC has consistently called for the creation of a multi-polar world system. Throughout the Cold War era, China disapproved of American hegemonic uni-polarity and pushed for the international community to embrace the virtues of multi-polarity. As a result, Beijing's desire for a multi-polar world has moulded Chinese views of American hegemony in the Middle East and other places where the PRC has vested interests. – John Garver, Flynt Leverett and Hillary M. Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma",," *Asia Pacific Policy Papers Series* (2012), p. 16. Accessed: 24 June 2012, URL: http://www.reischauercenter.org/en/wp-content/uploads/2012/05/moving_slightly_closer.pdf

¹⁴¹ Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma",," p. 18.

¹⁴² Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 2.

be used as leverage to coerce major oil consumers, since, “once you control the gulf, you control Europe, Japan and China, like holding the tap in your hands.”¹⁴³ Thus, oil is more than just a fuel resource, it is a power tool.

However, without any strong historical ties or a longstanding strategic interest in the region, China’s mission to ‘chip away’ at American dominance in the Middle East is hampered. Thus Beijing has avoided directly challenging the US’s hegemonic position. Instead, the PRC is indirectly working towards minimising America’s strong influence in the area by supporting or building relationships with regimes that have an aversion towards the US’s presence in the Middle East.¹⁴⁴ In this regard, Iran is considered to be an ideal partner for China. Aware of the Islamic Republic’s emergence as a regional power, geostrategic location, distaste of America’s influence in the region and, most importantly, Iran’s shared view of a multi-polar world, Beijing has sought to forge sturdy economic, diplomatic and military ties with Tehran to counterbalance US power in the Middle East.

Since American-Gulf alliances have established a security regime that is in line with the US’s interests in the Middle East,¹⁴⁵ China has been prompted to pursue substantial military and defence relations with Iran. The Chinese strategically reason that assisting Iran with military improvements indirectly counterbalances US dominance in the Persian Gulf.¹⁴⁶ Furthermore, there have been suggestions that Beijing may eventually propose to enter into a formal defence relationship with Iran¹⁴⁷ but, due to the negative implications that such an agreement would have on China’s relations with the US, the Arab world and Israel, a Sino-Iranian defence relationship seems improbable. Nevertheless, this does not mean that geopolitical co-operation between China and Iran is stunted. On the contrary, geostrategic collaboration between these two nations can continue to advance, despite the absence of a formal defence agreement.¹⁴⁸ Chinese analysts advocate that Beijing’s efforts to strengthen ties with Iran could serve as a hedge to prevent Iran from succumbing to American influences in the future, especially if the Islamic Republic’s current regime is overthrown and replaced with a more pro-American government.¹⁴⁹ However, China and Iran’s diverging interests regarding the US limits the extent of their opposition towards Washington. Unlike Tehran who is almost entirely cut off from the US’s economy and has to deal with numerous American-led international sanctions, Beijing depends greatly on Washington for its economic growth and the protection of its oil shipments along East Asian sea routes. Thus, China’s desire to counter America’s dominance in the Middle East is limited by its dependence on favourable trade and investment relations with Washington.¹⁵⁰

In sum, in spite of the imposition of international sanctions against Iran, Sino-Iranian relations have grown considerably. This is particularly demonstrated by the increase in trade between the two countries, as well as their shared interest in expanding relations to encompass non-energy related co-operation and investment. Nevertheless, energy (particularly the export of large amounts of oil to China) remains the cornerstone of this relationship – it is a significant factor that rationalises Beijing’s maintenance of ties

¹⁴³ Cited by: Zhang Jianxin, “Oil Security Reshapes China’s Foreign Policy,” *Centre on China’s Transnational Relations: The Hong Kong University of Science and Technology*, Working Paper no.9 (2005): p. 5. Accessed: 04 August 2012, URL: <http://www.marshallfoundation.org/documents/ChinaForeignPolicyEnergy.pdf>

John W. Garver, “Is China Playing a Dual Game in Iran?” *The Washington Quarterly*, vol.34, no.1 (2011): p. 77-78.

¹⁴⁴ Cooney, *Chinese Oil Dependence: Opportunities and Challenges*, p. 7.

¹⁴⁵ *Ibid.*, p. 18.

¹⁴⁶ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 18.

¹⁴⁷ *Ibid.*, p. 19.

¹⁴⁸ *Ibid.*

¹⁴⁹ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 20.

¹⁵⁰ *Ibid.*, p.21.

with the internationally condemned Tehran. However, as a result of a risky Iranian business climate, Chinese NECs have been stalling the implementation of energy agreements with Iranian suppliers. This has led to increased doubts over China's commitment to Iran in the face of Western calls for Beijing to distance itself from a nuclear-aspirant Tehran. Aside from Iran's alluring hydrocarbon assets, the Chinese also acknowledge the significant role that Tehran can play in keeping a check on US influence in the Middle East. Aware of the country's geostrategic position and its regional power status, Beijing has been motivated to forge sturdy ties with Tehran in order to counterbalance US power in the Middle East. However, unlike Iran, Beijing's economic dependence on Washington limits it from significantly minimising the US's dominance in the Middle East. Although Sino-Iranian relations have grown and strengthened over the years, diplomatic pressure placed on China to contribute to isolating Tehran may have influenced the Chinese to reassess their economic-energy interests in Iran. Nevertheless, even though the Islamic Republic is regarded as just another market and energy source for China, Beijing cannot be easily swayed in its decision to engage with Iran as it has come to play a vital role in shaping Chinese interest in the Middle East.

4. CHINA'S PERSIAN GULF DILEMMA: BEIJING'S BALANCING ACT BETWEEN IRAN AND THE US

Since Beijing's earnest engagement with Persian Gulf countries in the early 1970s, China has been aware of the US's strong presence within the Gulf. This has challenged Chinese foreign policy to strike a fine balance between maintaining sound relations with the US against its interests in developing multi-faceted relationships with energy important Gulf countries. This includes countries that are at odds with Washington's policies. China's 'Persian Gulf Dilemma', (often referred to as Beijing's 'balancing act', 'tightrope walk', and 'dual game') essentially refers to China's efforts to balance its interests in pursuing Iran's energy resources against its interests in maintaining sound relations with the US.¹⁵¹ This has proven to be a challenging task for Beijing, as Washington has repeatedly called upon China to assist US efforts in isolating Iran for its relentless pursuit of achieving nuclear proliferation capabilities.¹⁵² However, in light of China's burgeoning energy demands, Beijing has developed a strategic energy relationship with Iran that is considered to be of crucial importance to the PRC. Aware of these two aspects of the Persian Gulf Dilemma, Chinese leaders have treaded carefully in this part of the world (especially with Iran) to avoid being perceived by Washington as a direct threat to its hegemonic position in the region. Thus, it has been suggested that China's foreign policy will continue to try and balance the two aspects of its Persian Gulf Dilemma, as the costs of siding with either side are too great.¹⁵³

Although China will continue to avoid directly challenging the US's hegemony in the Gulf, recent developments in the energy aspect of the Sino-Iranian relationship, according to Garver *et al.*, highlight that Beijing has calculated that it can 'get away with more', in terms of energy investments without provoking serious US scrutiny.¹⁵⁴ Such calculations likely stem from Beijing's desire to maximise the scope of its energy investments in Iran. Having invested tremendously in Iran's energy sector, Beijing is unlikely to support former Secretary of State, Hilary Clinton's ambition of implementing "crippling sanctions" against Iran.¹⁵⁵ Furthermore, it has been suggested that the Chinese perceive the US's policy of containing Iran as a unilateral initiative that has been calculated by Washington to ensure its dominance in

¹⁵¹ Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma," p. 1.

¹⁵² Ibid.

¹⁵³ Ibid., p. 2.

¹⁵⁴ Ibid.

¹⁵⁵ Ibid.

the region and ability to dictate to others.¹⁵⁶ Nevertheless, aware of the importance that Washington places on non-proliferation, China sees very little reason to trigger American aggression by limiting the US's efforts to curb the advancement of Iran's nuclear capabilities.¹⁵⁷ This became clearly evident in 1997 when American and Chinese negotiations over China's nuclear co-operation with Iran resulted in Beijing suspending all nuclear, cruise missile and nuclear capable ballistic missile co-operation with Tehran.¹⁵⁸ Yet, after Russia, Beijing remains Iran's second largest arms supplier. Although sensitive military technology to Iran has been halted, China still supplies the Islamic Republic with weapons and various types of military equipment.

Even though numerous elites in decision-making ranks have voiced that China should play a more active role in the Middle East in order to protect its oil supply, citizens and firms in various Middle-Eastern countries, Beijing remains determined to keep a low profile in this region so as to avoid overshadowing or threatening American dominance in the area.¹⁵⁹ This reflects Deng Xiaoping's foreign policy of "observing calmly, securing our position, coping with affairs calmly" and, "never claiming leadership, maintaining a low profile, making some contributions."¹⁶⁰ In an attempt to stamp its neutrality between the US and Iran, Beijing emphasises that China seeks to, "make friends with all countries," irrespective of a country's relationship with the US.¹⁶¹ The Chinese insist that it is not reasonable for Washington to insist that China choose between the US and its rivals. It seems that Beijing is using the notion of "making friends with all countries" based on China's Five Principles of Peaceful Coexistence to 'butter its bread on both sides'.¹⁶² Moreover, taking into consideration the rise in geostrategic stakes for both China and the US, Garver *et al.*, contend that Washington is not buying into Beijing's rhetoric, especially when 'friendly co-operation' entails Chinese ties with US deemed 'pariah' or 'rogue' states such as Iran.¹⁶³ Ultimately, China's relationship with Washington is bound to be jeopardised if Beijing does not alter the rules of its dual game in the Gulf as at some point the US is bound to understand Beijing's subterfuge.¹⁶⁴ Consequentially, this could lead the Americans to view the Chinese with increased scepticism; thus possibly leading to the demise of whatever trust and confidence Washington has placed in Beijing.¹⁶⁵ Owing to Beijing's awareness of the US's central role in its economic growth, the Chinese realise that the deterioration of Sino-American relations would endanger China's economic advancements and its

¹⁵⁶ Calabrese, "China and the Persian Gulf: Energy and Security," p. 361.

¹⁵⁷ Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma," p. 8.

¹⁵⁸ *Ibid.*, p. 8.

Beijing's commitment to suspending nuclear cooperation with Iran was startling as, not only did China suspend all nuclear cooperation with Tehran, it also suspended nuclear cooperation with the Islamic Republic under the NPT (the NPT permits nuclear cooperation between states under the IAEA). Although China sided with the US it does not mean that the nature of its dual game has changed without obtaining some quid pro quo from the United States. According to Graver *et al.*, Beijing has consistently bargained hard. This has resulted in China frequently obtaining US concessions in return for Beijing's restraint or policy modifications with regards to the Middle East. – Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma," p. 8.

¹⁵⁹ Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma," p. 10.

¹⁶⁰ Bingbing, "Strategy and Politics in the Gulf as seen from China," p. 15.

¹⁶¹ Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma," pp. 32-33.

¹⁶² *Ibid.*, p. 33.

¹⁶³ Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma," pp. 33.

¹⁶⁴ *Ibid.*

¹⁶⁵ Garver, "Is China Playing a Dual Game in Iran?" p. 87.

diplomatic 'rise'.¹⁶⁶ As such, the PRC acknowledges that complete non-co-operation with Washington over Iran is not an option in the short term. Thus, China will continue to interact cautiously with Tehran and other Middle East states in an effort to avoid heightened confrontation with the US or a full partnership with Iran. However, Garver *et al.*, deduce that the precise balance that Beijing strikes between the two parties is shifting towards a direction that focuses on China's ability to garner a stronger foothold in Iran's energy sector whilst simultaneously averting American suspicions. Nevertheless, Beijing's sense of leeway does not mean that China will abandon caution in its dealings with Iran.

4.1 CHINA'S STANCE ON SANCTIONS AGAINST IRAN

Since the US's first unilateral sanction against Iran in 1979, there has been an international campaign, mainly led by the Americans, against Tehran's uranium enrichment project and the subsequent possibility of nuclear weapons' development. Washington has expressed that sanctions need to be 'crippling', however, the US is not the only country to express aggressive views towards Iran.¹⁶⁷ Similar sentiments have been voiced by other states, for example the former president of France, Nicolas Sarkozy, stated that sanctions need to be "massive," and according to Prime Minister Benjamin Netanyahu of Israel, actions against Iran have to be "biting".¹⁶⁸ With these views in mind, the US and its accomplices issued another round of sanctions against the Islamic Republic in 2010 with the aim of weakening the country so severely that Tehran would have no option but to halt its nuclear advancements. However, for sanctions to be truly effective the participation of China (Iran's largest trading partner and massive oil importer) is considered to be vital. Yet, the West is struggling to gain Chinese support over issues that concern proliferation, sanctions, arm sales, trade and energy investments.¹⁶⁹ Aware of the continued diplomatic pressure placed on China to support the West's isolation efforts, Iran seeks to project itself as a secure energy supply for Beijing. By doing so, Tehran aims to deepen diplomatic relations with the PRC in an attempt to hold on to the leverage and protection that China can offer it. This makes it difficult for China to side with the West as Iran is the "only country where the risk of energy and foreign policy interests colliding is high".¹⁷⁰

Given the extenuating circumstances, China has thus far maintained a stable relationship with both the US and Iran. In line with its balancing strategy, Beijing has supported sanctions against Iran diplomatically, and simultaneously flouted them behind closed doors to maintain its lucrative and strategic economic and political ties with Tehran.¹⁷¹ Essentially, China's posture towards Iranian sanctions is best viewed as "a microcosm of the PRC's larger balancing act in pursuing economic and political leverage without upsetting Western, particularly American, sensitivities."¹⁷² Thus, although China seeks to maintain its relationship with Iran – a strategic partner in the Middle East – it is essential for China to support the international campaign against the Islamic Republic in order to sustain the global non-

¹⁶⁶ Ibid.

¹⁶⁷ Willem van Kemenade, "China vs. the Western Campaign for Iran Sanctions," *The Washington Quarterly*, vol.33, no.3 (2010): p. 99.

¹⁶⁸ Ibid.

¹⁶⁹ Brandon Fite, *U.S. and Iranian Strategic Competition: The Impact of China and Russia*, p. 4.

¹⁷⁰ Daniel Yergin, *The Quest: Energy, Security, and the Remaking of the Modern World* (London: Penguin Group, 2012), p. 224.

¹⁷¹ Fite, *U.S. and Iranian Strategic Competition: The Impact of China and Russia*, p. 4.

Swaine, "Beijing's Tightrope Walk on Iran," p. 1.

¹⁷² John Douglas, Matthew Nelson and Kevin Schwartz, "Rising in the Gulf: How China's Energy Demands Are Transforming the Middle East," *Al Nakhlah: Online Journal on Southwest Asian and Islamic Civilisation*, (2007): p. 4. Accessed: 28 December 2012, URL: http://ui04e.moit.tufts.edu/al_nakhlah/archives/spring2007/nelson-2.pdf

proliferation regime and prevent the escalation of volatilities in this highly sensitive region.¹⁷³ Yet, in this high stakes game of ‘geopolitical poker’ being played between the West and Iran over the latter’s nuclear plans, Berman believes that China has clearly placed its bet on Iran.¹⁷⁴ Having assessed the possible outcomes, he states that if the Chinese are right and Iran does achieve nuclear capabilities it will have massive impacts on regional politics and global energy.¹⁷⁵ However, if Beijing loses its wager, the Chinese economy could be severely affected.

A three-pronged approach has been adopted by the international community to deal with Iran’s nuclear ambitions.¹⁷⁶ The most far reaching action has been the imposition of UN sanctions against Iran, with the latest being Resolution 1929 which was passed in 2010. Secondly, unilateral sanctions aimed at curbing international energy investment in Tehran’s energy sector have been issued predominantly by the US. However, in an effort to garner support, the US has encouraged other countries to implement nation-specific regulations or sanctions to assist in isolating Iran. The EU has followed suit by prohibiting EU members’ involvement in Iran’s energy and financial sectors.¹⁷⁷ Furthermore, the EU’s implementation of an oil embargo in 2012 against Tehran has severely affected Iranian oil exports, with a potential loss of 20 per cent in oil export sales.¹⁷⁸ Thirdly, due to the risky and strenuous business climate that sanctions have created, there has been a voluntary pull out of the private sector from Iran. Consequently, this has severely impacted the Iranian economy.¹⁷⁹ Since the international community aims to slow down Iran’s nuclear advancements and ultimately force the regime to abandon its nuclear aspirations, the main purpose of the three-pronged approach is to make it more expensive and complex for Tehran to obtain industrial equipment and nuclear supplies.¹⁸⁰ Nevertheless, even though sanctions are straining the Iranian economy and limiting the country’s prospects for economic growth, Iran remains persistent in advancing its nuclear agenda.¹⁸¹

Unlike Washington and its allies who have made concerted efforts to isolate Iran, the PRC is reluctant to join the US-led mission against Tehran. In spite of participating in UN sanctions against Tehran’s nuclear ambitions, China has also upheld a strong economic relationship with Iran that actively lessens the impact of sanctions against the Islamic Republic.¹⁸² Aware that China is Iran’s top trading partner and one of the largest remaining importers of Iranian oil, the West believes that Beijing’s participation in an oil embargo is considered to be imperative if the mission to impede Iran’s nuclear ambitions is to be successful. However, due to the PRC’s economic, energy and geostrategic interests in Iran, China is wary of supporting an oil embargo or meaningful sanctions against Tehran. As a result, Chinese policies (especially Beijing’s desire for economic growth and the emphasis that it places on sovereignty and non-interference), have hampered US and international efforts that aim to curb Iran’s nuclear ambitions. Noting this, Iran has, to a considerable extent, come to regard China as its main diplomatic protector

¹⁷³ Swaine, “Beijing’s Tightrope Walk on Iran,” p. 1.

¹⁷⁴ Ilan Berman, “Beijing’s Iranian Gamble,” *Far Eastern Economic Review*, vol.172, no.3 (2009): p. 52.

¹⁷⁵ Berman, “Beijing’s Iranian Gamble,” p.52.

¹⁷⁶ Regan Thompson, “The Effectiveness of the Fourth Round Sanctions against Iran,” *Stanford Journal of International Relations*, vol.8, no.7 (2011): p. 7.

¹⁷⁷ Thompson, “The Effectiveness of the Fourth Round Sanctions against Iran,” p. 8.

¹⁷⁸ Chris Zambelis, “China’s Persian Gulf Diplomacy Reflects Delicate Balancing Act,” *China Brief*, vol.7, no.4 (2012): p. 3.

¹⁷⁹ For a background on the effects of sanctions on the Iranian economy and energy sector see:

Kenneth Katzman, *Iran Sanctions*, (2012): pp. 44-54. Accessed: 16 March 2012, URL: <http://www.fas.org/spp/crs/mideast/RS20871.pdf>

¹⁸⁰ Thompson, “The Effectiveness of the Fourth Round Sanctions against Iran,” p. 9.

¹⁸¹ Davis, *et al.*, “China-Iran: A Limited Partnership,” p. 47.

¹⁸² Fite, *U.S. and Iranian Strategic Competition: The Impact of China and Russia*, p. 16.

against external pressures.¹⁸³ Nevertheless, China does not want to be viewed as a willing enabler that could allow Iran to become the tenth nuclear power in the world.¹⁸⁴

Essentially, China's nuclear diplomacy towards Iran rests on three broad principles:¹⁸⁵ (1) Non-intervention – avoid meddling in the domestic affairs of another country. (2) Non-nuclear proliferation, and (3) preventing the disruption of energy supplies from the Middle East. Since these three points underpin China's outlook towards Tehran "Beijing has sought to balance its interests in this nuclear standoff" by stressing both Iran's rights and obligations under the Nuclear Proliferation Treaty (NPT).¹⁸⁶ Aware of Iran's vague nuclear plans, the Chinese have repeatedly voiced their disapproval towards the possibility of an Iranian nuclear arsenal. Furthermore, Beijing has underscored the importance for Tehran to honour its treaty commitments and cooperate fully with the International Atomic Energy Agency (IAEA) in order to address the concerns of the international community. Although Iran has repeatedly stated that it has no intentions of creating nuclear weaponry, Tehran has been reluctant to cooperate with the IAEA, making numerous states sceptical of its nuclear intentions.¹⁸⁷ Nevertheless, Beijing has unwaveringly maintained that diplomacy should not be written off as the Chinese have repeatedly emphasised that negotiations within an IAEA framework is still the best way to deal with Iran. Furthermore, by recognising Iran as an NPT signatory, Beijing has asserted that Tehran is entitled to nuclear energy and technology for civilian purposes.¹⁸⁸

However, if there was telling evidence that Tehran was on the verge of nuclear weapons capability, Yuan asserts that China would not hesitate to side with the international community to dismantle Iran's nuclear programme.¹⁸⁹ Like the US, the PRC has a strong interest in preventing Tehran from acquiring nuclear weapons and undermining the global proliferation regime. Chinese leaders are aware that a nuclear-armed Iran has the potential to dramatically destabilise the Middle East and trigger a nuclear arms race that could reduce China's access to critical energy supplies.¹⁹⁰ Even though Beijing shares Middle-Eastern security concerns with the West, the PRC has not taken substantial measures such as the issuing of unilateral sanctions or the utilisation of its political leverage over Tehran to reduce Iran's potential to become a nuclear country. China's aversion towards sanctions stem from several considerations:¹⁹¹ firstly, and most importantly, Beijing places immense importance on the protection of its expanding energy interest in Iran. Secondly, China has an aversion towards 'power politics' – the implementation of sanctions and military force to resolve conflicts. Thirdly, having had sanctions directed against it in the past, Calabrese suggests from a constructivist point of view that Beijing sympathises with Iran. Lastly, like Russia, China believes that relentlessly pressurising Iran is likely to backlash, resulting in Tehran's withdrawal from the NPT or unilateral military action from the US.

Chinese leaders also perceive Washington's endeavours to contain Iran as a unilateral initiative directed by American leaders to maintain the country's dominance in the Gulf and its ability to impose its will on others.¹⁹² As a result, this line of thinking has not abated Chinese engagement with Iran. Instead, it has led

¹⁸³ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 5.

¹⁸⁴ van Kemenade, "China vs. the Western Campaign for Iran Sanctions," p. 100.

¹⁸⁵ Calabrese, "China and Iran: Mismatched Partners," p. 10.

¹⁸⁶ *Ibid.*

¹⁸⁷ Jun and Lei, "Key Issues in China-Iran Relations," p. 48.

¹⁸⁸ Calabrese, "China and Iran: Mismatched Partners," p. 10.

Thompson, "The Effectiveness of the Fourth Round Sanctions against Iran," p. 7.

¹⁸⁹ Yuan, "China's Strategic Interests in the Gulf and Trilateral Relations among China, The US and Arab Countries," p. 40.

¹⁹⁰ Swaine, "Beijing's Tightrope Walk on Iran," p. 3.

¹⁹¹ Calabrese, "China and Iran: Mismatched Partners," p. 11.

¹⁹² Calabrese, "China and the Persian Gulf: Energy and Security," p. 361.

some Chinese elites to believe that a nuclear-armed Iran could prove to be of value in keeping a check on the US and its influences in the Persian Gulf.¹⁹³ Furthermore, Beijing is keen to demonstrate to its rivals and allies that it is loyal and prepared to stand by its commitments, even in the light of US pressure.¹⁹⁴ China's maintenance of relations with Iran could also be viewed as a form of retaliation against the US's diplomatic and military support of Taiwan.¹⁹⁵ Yet, from a strategic outlook, in response to the US's heavy military presence in East Asia and its group of allies that encircle China, the Sino-Iranian relationship serves as a check against Washington. Most importantly, from a logical point of view, since Iranian oil makes up a sizeable portion of Chinese oil imports, China reasons that if it were to adhere to sanctions against Iran's energy sector, the PRC would indirectly be sanctioning itself.

Due to China's reluctance to wholeheartedly support sanctions against Iran, Beijing has avoided participating heavily in the international sanctions regime against Tehran. Instead, in an attempt to avoid jeopardising its interests with both parties, China has been reserved and balanced on the nuclear issue.¹⁹⁶ Yet, China has (mostly likely due to pressure from the US) in line with other Security Council members, voted for sanctions against the Islamic Republic. However, Beijing has tactically delayed the passage of Security Council Resolutions and watered down sanctions to ensure the protection of its energy interests.¹⁹⁷ Nevertheless, with China's stamp of approval on Resolution 1929 (the latest UN sanction against Iran), Mahmoud Ahmadinejad questioned Chinese and Russian motives by asking, "Are these countries friends and neighbours? Are they with us or looking for something else?"¹⁹⁸ Having acknowledged Tehran's scepticism of China's motives, Chinese leaders (in spite of China's hand in the implementation of Resolution 1929) re-enforced their nation's political and economic commitments to Iran and emphasised interests in expanding oil and gas ties with Tehran. This is succinctly captured by Li Keqiang, China's former vice premier, who stated that:

China is willing to work hard with Iran, continue to push mutual political trust [sic], and maintain communication, dialogue and coordination on important international issues, to maintain regional and global peace, stability and prosperity ... The key point is to solidly push forward existing cooperative projects, to ensure they are put into effect smoothly, to deepen bi-lateral pragmatic co-operation and promote the continued development of bi-lateral ties.¹⁹⁹

However, despite China's affirmation of its commitment to Iran, the US may utilise various policy options and its status as China's largest economic market to coerce Beijing to limit its co-operation and commitments to Iran.²⁰⁰ Beijing is confident though that its size and economic leverage over the US

¹⁹³ Garver, "Is China Playing a Dual Game in Iran?" p. 77.

¹⁹⁴ Zambelis, "China's Persian Gulf Diplomacy Reflects Delicate Balancing Act," p. 4.

¹⁹⁵ Budike, *Securing China's Oil Supply from the Persian Gulf: The Case of Iran and Saudi Arabia*, p. 72.

¹⁹⁶ Douglas, Nelson and Schwartz, "Rising in the Gulf: How China's Energy Demands are Transforming the Middle East," p. 4.

Chubin, "Iran and China: Political Partners or Strategic Allies," p. 68.

¹⁹⁷ Garver, "Is China Playing a Dual Game in Iran?" p. 76.

¹⁹⁸ Cited by: Molavi, "The New Silk Road, "Chindia," and The Geo-Economic Ties that Bind the Middle East and Asia," p. 50.

¹⁹⁹ Fite, *U.S. and Iranian Strategic Competition: The Impact of China and Russia*, pp. 17-18.

²⁰⁰ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 23.

According to Harold and Nader, there are four options that the Washington could utilise to gain Beijing's undivided support for its campaign against Iran: firstly, Washington could offer improved cooperation between China and the US over a variety of issues that Beijing considers as important. Or the US could take a more aggressive stance and apply diplomatic pressure on China and sanction Chinese firms that invest heavily in Iran. Thirdly, Washington could encourage other oil rich nations to increase petroleum exports to the PRC, thus altering Beijing's relative dependence on Iran. Lastly, the US can create a global coalition of partners that could pressurise China not to undercut international efforts to sanction Iran. – Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 23.

provides the PRC with the necessary weight to ignore calls from Washington to embargo Iranian oil.²⁰¹ China is willing to use Washington's competition with Iran as an opportunity to grow its influence and test the boundaries of a US dominated international order. Tactically, China's "moves are calculated to reap the benefits of the US- Iranian conflict".²⁰² Due to Beijing's international standing (a permanent member of the UN Security Council, a key economic partner of both Iran and the West and an important player in internal issues), China is positioned to collect benefits in return for its support of either party. For example, when Beijing cooperated with Washington to halt its nuclear co-operation with Iran in 1997, the US in turn committed to high profile presidential visits to China and the United States in 1997 and 1998.²⁰³ In return for its support on limited sanctions against Tehran, Beijing could have possibly obtained commitments of increased oil exports from Iran's neighbours, most notably Saudi Arabia.²⁰⁴ With the pull out of Western firms creating an economic gap, Chinese companies remained in Iran and leapt into the void created by sanctions. China's state-owned firms were able to do so as Beijing only abides by UN sanctions which, unlike the US's unilateral sanctions, contain no clear limits on energy investment and trade with Tehran. As a result, Chinese NOCs stepped up on investments in Iran by grabbing opportunities to secure gargantuan oil fields that would have, in the absence of sanctions, been assigned to Western companies.²⁰⁵ Thus, due to Beijing's increasing energy activities with the Islamic Republic, China became Iran's largest energy investor in 2010.²⁰⁶ As such, Tehran has come to believe that "sanctions are not useful nowadays (*sic*) because, we have many secondary options in markets like China."²⁰⁷ Essentially, Iran has managed to hold its own in oil markets as its massive oil and gas reserves attract the foreign investment of rapidly industrialising countries such as China and India.²⁰⁸ However, sanctions against Iran prop up China's efforts to secure discounts on Iranian crudes, as Beijing utilises the fact that it is one of Iran's largest remaining oil customers to push for cheaper Iranian oil prices.²⁰⁹

In the face of sanctions, China has invested heavily in Iran's energy sector, yet Beijing's support of Tehran was questioned when, in light of setting a new oil imports record that exceeded five million b/d in April 2010, Chinese imports of Iranian crude had decreased whilst its other major suppliers saw an increase in their oil exports to the PRC.²¹⁰ The volume of Iranian oil imports dropped from 354,000 b/d during the first five months of 2009 to 193,000 b/d in the first quarter of 2010.²¹¹ Thus, in terms of China's top oil importers Iran was placed at number eight in May 2010.²¹² The decline of Iranian oil imports in light of increasing imports from other sources, led oil industry analysts to ask if China lowered its imports from the Islamic Republic for strategic reasons possibly relating to sanctions, or if it was a mere pricing issue. Although concrete data is required to answer this question, it does not mean that speculation cannot be taken into consideration. There are suggestions that China is supposedly partially

²⁰¹ Sreeram Chaulia, *China Opposes Unilateral Sanction Against Iran*. Accessed: 10 March 2012, URL: <http://theglobalrealm.com/2012/01/24/iranian-oil-poses-asian-dilemma/>

²⁰² Fite, *U.S. and Iranian Strategic Competition: The Impact of China and Russia*, p. 3.

²⁰³ Swaine, "Beijing's Tightrope Walk on Iran," p. 11.

²⁰⁴ Ibid.

²⁰⁵ Erica Downs and Suzanne Moloney, *Getting China to Sanction Iran*. Accessed 8 March 2012, URL: <http://www.foreignaffairs.com/articles/67465/erica-downs-and-suzanne-maloney/getting-china-to-sanction-iran>

²⁰⁶ Garver, "Is China Playing a Dual Game in Iran?" p. 76.

²⁰⁷ Cited by: Vakil, "Iran: Balancing East against West," p. 55.

²⁰⁸ Coskun, "Global Energy Geopolitics and Iran," p. 184.

²⁰⁹ Cited by: Indira A.R. Lakshmanan and Gopal Ratnam, *China Gets Cheaper Iran Oil as U.S. Pays Tab for Hormuz Patrols*. Accessed 10 April 2012, URL: <http://www.bloomberg.com/news/2012-01-12/china-gets-cheaper-iran-oil-as-u-s-pays-tab-for-hormuz-patrols.html>

²¹⁰ Molavi, "The New Silk Road, "Chindia," and The Geo-Economic Ties that Bind the Middle East and Asia," p. 50.

²¹¹ Ibid.

²¹² Ibid.

complying with the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), a unilateral set of sanctions implemented by the US in 2010 that would most likely have sanctioned Chinese NOCs if they did not reduce their activities in Iran. As a result, and in an apparent deal with Washington, China's NOCs received instructions from Beijing to slow or halt the implementation of Iranian energy deals to make it easier for the Obama administration to exempt Chinese companies from penalties.²¹³ Another postulation suggests that China's Iranian oil imports declined due to the US urging Saudi Arabia to increase its oil exports to Beijing in an effort to decrease the PRC's dependence on Iranian oil.²¹⁴ Yet China's Iranian oil imports rebounded in May 2012, reflecting a resolution to a commercial dispute between China United Petroleum & Chemical Co. (Unipecc) and National Iranian Oil Co.²¹⁵ Nonetheless, despite a rebound in Iranian oil imports, Chinese officials have not ruled out the possibility that sanctions could still disrupt oil purchases from Iran. However, it seems highly unlikely that China would give up its Iranian oil imports and developments in Tehran's upstream because of sanctions.²¹⁶ This is particularly demonstrated by China's maintenance of Iranian oil imports despite the US sanctioning of Zhuhai Zhenrong – a state run enterprise that is heavily involved with Iranian oil imports.²¹⁷ Such is Chinese dedication to importing Iranian oil that, with international sanctions against Tehran making it difficult for China to pay Iran, Beijing has in some instances agreed to a barter system to trade Iranian oil for Chinese products and services. As a result, such agreements have assisted Tehran to bypass sanctions.²¹⁸

Overall, due to the US's heightened concerns over Iran's nuclear activities, the Iranian nuclear issue has become a prominent topic on the Sino-American diplomatic agenda. It seems that Beijing does not want to be cajoled into choosing sides between Iran and the West, as China has gone to great lengths to ensure balanced co-operation with both sides. Beijing has displayed that it is a willing and responsible partner in maintaining the NPT regime; however, by diluting sanctions, China helps Iran gain time and international space to push forward its nuclear agenda. As a result, the effectiveness of the US's international campaign against Iran is severely hindered by China's balancing act. Due to Beijing's delicate handling of the Iranian nuclear issue, China has assumed a passive role as the PRC continues to press for negotiations and a peaceful resolution to the issue.²¹⁹ On the energy front, Beijing has emphasised that it will not endorse any measures that would seriously jeopardise its access to Iranian hydrocarbons or Chinese NOCs pursuit of Iranian upstream projects. Yet, when 'push comes to shove,' Beijing is likely to "agree to a relatively marginal expansion of existing sanctions against Iran, to keep the nuclear issue in the Security Council."²²⁰

²¹³ Davis, *et al.*, "China-Iran: A Limited Partnership," p. 48.

Barbra Salvin, "Iran Sanctions Preferable to War but No Silver Bullet," *Atlantic Council: The South Asia Centre*, (2011), p. 1. Accessed: 15 June 2012, URL: http://www.acus.org/files/publication_pdfs/403/060211_ACUS_Slavin_SilverBullet.pdf

²¹⁴ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 26.

²¹⁵ Wayne Ma, *China Oil Imports from Iran Rebound*. Accessed 16 December 2012, URL: <http://online.wsj.com/article/SB10001424052702303610504577417803213035894.html>

BBC News, *China Iran Oil Imports Rise as Payment Dispute Resolved*. Accessed 25 August 2012, URL: <http://www.bbc.co.uk/news/business-18545973>

²¹⁶ Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma"," p. 49.

Fite, *U.S. and Iranian Strategic Competition: The Impact of China and Russia*, p. 18.

²¹⁷ Chen Aizhu, *China's Zhenrong To Maintain Iran Oil Imports For 2013*. Accessed 15 February 2013, URL: <http://www.reuters.com/article/2012/12/21/zhenrong-iran-oil-idUSL4N09U33Z20121221>

²¹⁸ Harold and Nader, *China and Iran: Economic, Political and Military Relations*, p. 12.

²¹⁹ Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma"," p. 47.

²²⁰ Garver, Leverett and Leverett, "Moving (Slightly) Closer to Iran: China's Shifting Calculus for Managing its "Persian Gulf Dilemma"," p. 53.

However, due to Beijing's vested geo-economic and strategic interests in Iran it can be assumed that China will not be prepared to back any measures that would be considered 'crippling'.

5. CONCLUSION

If China continues to maintain stable relations with both the US and the Gulf nations, Beijing is expected to become inextricably linked to the energy rich Persian Gulf as its oil consumption continues to rise. In efforts to guarantee reliable oil supplies from this part of the world, Beijing has sought to improve relations with Gulf States. China is progressively improving its standing with Gulf nations as its large consumer market, demand for energy, and avoidance of democratic lobbying provide Gulf countries with an attractive alternative to lessen their dependency on the US. Yet, as a result of China's precautionary role in the region and its maintenance of relations with Iran – a potential threat to regional stability - GCC states are wary of relinquishing their dependence on the US. Nevertheless, Beijing has made significant advances in the Gulf, especially with regards to energy investments. By seeking to improve economic cooperation with Gulf nations Beijing has sought to secure access to the regions' hydrocarbon resources, especially oil. Although China has expanded its presence in the Gulf, the Chinese have proceeded with caution to avoid being perceived as a threat to the Americans who have an expansive presence in the region. Yet, there is a growing sense that China is emerging as a rival of the US in the Middle East. Aware of this, some Middle-Eastern nations have sought to encourage a Sino-American rivalry in an effort to advance their own interests. Due to the US's suspicions of China's increasing energy forays in the region, China-Gulf relations have been placed under American scrutiny. Of particular concern to the Americans are Sino-Iranian relations, since Beijing's policy of engagement contradicts Washington's efforts of containment.

Although China has been repeatedly called upon to cooperate with US efforts to isolate the Islamic Republic, Beijing is reluctant to assume an aggressive stance against Tehran due to its strategic energy relationship with Iran that is reinforced by various economic agreements. Yet, in consolidating relations with Iran, Beijing risks causing friction with the US – a country that has a vital hand in ensuring China's continued economic prosperity. Thus, the PRC's 'Persian Gulf Dilemma' essentially pits China's top national priorities of energy security and maintaining sound US relations against each other. In efforts to avoid jeopardising its interests with both parties the PRC has assumed a balancing approach that fundamentally aligns with the US in denouncing Tehran's nuclear proliferation ambitions whilst simultaneously maintaining its geo-economic interests in Iran. This bifurcated handling of US-Iran tensions is particularly evident in China's response to sanctions against Tehran. Although the PRC maintains that continued diplomacy and negotiations are a more effective way of dealing with Iran, Beijing has nevertheless, presumably for the sake of maintaining stable ties with Washington, had a hand in the issuing of four UN resolutions targeting the Islamic Republic. However, the PRC has played a significant role in delaying, deflecting and softening UN sanctions against Iran. Furthermore, in an attempt to avoid irking China, UN sanctions were craftily calibrated to avoid jeopardising Chinese Iranian energy interests.

In sum, barring the increased possibility of escalating Iran-US tensions, China's energy insecurities, particularly its oil insecurity, has strongly influenced Beijing to maintain ties with Tehran in spite of Western efforts to press the Chinese into fully backing measures to curb Iran's nuclear ambitions. By continuing to maintain oil imports from the Islamic Republic, China has displayed that it is not willing to appease Western calls for a Chinese embargo on Iranian oil or support 'crippling' sanctions that would undoubtedly infringe on the PRC's geo-economic interests in this Gulf country. However, even though Iran has advertised itself as a reliable energy source for the PRC, China's fluctuating Iranian oil imports have increased speculations over recent years that, should the Tehran-Washington rift expand, it is highly likely that China would side with the US if Beijing were forced to choose sides over Iran's nuclear

disposition. Such a decision would inevitably affect China's stronghold in Iran's energy sector – producing serious repercussions for China's economy, hence Beijing's determination (by means of maintaining its balancing act) to forestall this potential scenario from occurring.

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