

## China's Energy Security: I.R. Iran and Saudi Arabia's Role in China's Energy Diplomacy

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### **Abstract**

This paper examines the possible choices and energy security plans of China, focusing on its relations with I.R. Iran and Saudi Arabia in the Middle East. Needless to say, these two rival countries in the region are both among the top oil producers of the world and China has deep and old cooperation with both countries. Meanwhile in its new strategy, China tries to establish a kind of balance among all oil exporting countries and strengthening ties to refrain from any challenges with countries in the Middle East. With its growing energy need, China's involvement in this region is growing. The "One Belt, One Road" as China's new grand strategy to build firm relationship with other countries has also paid great heed to the Middle East. This paper, using facts and statistics tries to analyze the future of Sino-Iranian and Sino-Saudi relations focusing on how China seeks to obtain its energy security by coordinating its relationship with these two countries. We concluded that China's main strategy is to make a balance among all actors in the Middle East. Certainly in the near future, Iran and Saudi Arabia will try to obtain as much of Chinese oil market as they can, but lastly the main decision maker here would be China. We guess that Iran will win the game because Iran's oil production and export had declined in past recent years (before JCPOA agreement) and with this strategy of China, it is Iran who gains the benefit in comparison to Saudis who lose some of their oil market.

**Keywords:** China's Energy, Energy Security, One Belt – One Road, Iran's Role, Saudi Arabia's Role, Middle East.

**JEL Classification:** F52, O53.

### **1. Introduction**

People republic of China is the world's most populous country and the

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largest energy consumer in the world. Rapidly increasing demand has made China very influential in world energy markets. China has 14.8 billion barrels of proven oil reserves (1.1% of world total, a half of the US) and its domestic production is less than 5 million bbl/d.

Its remarkable sustained economic growth since the late 1970s has prompted a growing appetite for energy (and other natural resources). Oil is of increasing importance to China, which became a net energy importer in 1993. And, since 1995, the Middle East has been China's number one source of imported petroleum (Alterman and Garver, 2008: 7). It projects that Chinese consumption will reach 18 million b/d in 2035, surpassing demand in the United States, which is forecast to consume 17 million b/d by that date (BP energy outlook 2035: 2015).

China's interest in and economic dependence on the Middle East has skyrocketed since the 1990s and is likely to grow in future years. According to one international security analyst at China's most prominent think tank, the Central Party School in Beijing: "China's geopolitical, economic, energy, and security interests in the Middle East are continually expanding" (Zugui, 2014: 45).

China's dependency on energy, especially crude oil has risen constantly in recent years. So the Chinese think-tank has always been looking for ways to overcome any perplexity or imbalance in their energy security plans. The main energy diplomacy they have implemented is diversifying the energy suppliers and import route. Although China plans to reduce its dependency on the Middle East but still Islamic Republic of Iran and Saudi Arabia with their vast amounts of resources are the most provocative important actors here the deal with.

China's decision-makers still view the country's high dependency on imported oil as a source of vulnerability. Instability in the Gulf, which supplies half of China's imports, is a constant concern for Beijing. At the same time, the United States' declining need for Middle Eastern oil raises questions about Washington's broader involvement in the region and its willingness to stabilize oil production there (Daojiong and Meidan, 2015: 1). Also it is years that the Chinese domestic production cannot meet its needs:

Table 1.1: China's Oil Need

History		Projections						Avg. Annual% Change
1990	2003	2004	2010	2015	2020	2025	2030	2004-30
2.3	5.6	6.4	9.4	10.5	11.6	13.6	15.7	3.5

Source: EIA, Report # DOE/EIA-0484 (2007)

As the international energy landscape has changed dramatically since the onset of the US 'shale revolution' in 2008, these all could be good news for Chinese politicians. They mean a greater availability of oil supplies at lower prices, and a chance for the world's largest oil importer to bolster its relations with oil and gas producers.

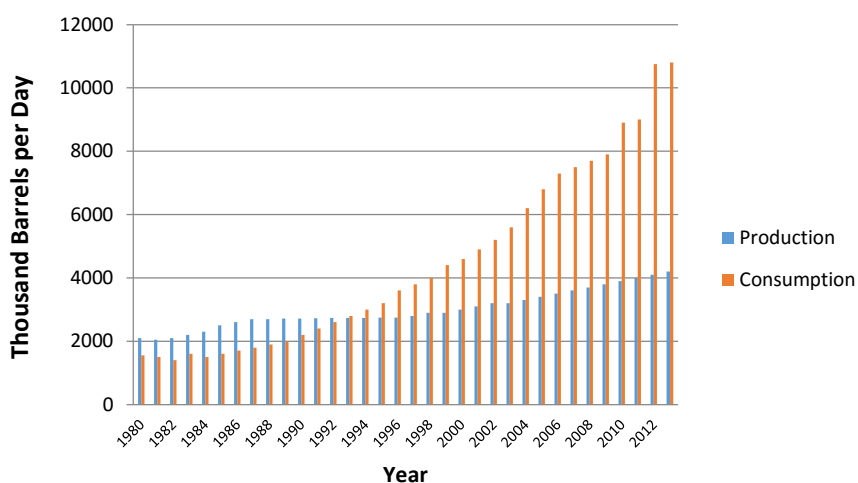


Figure 2.1: China Crude Oil Production and Consumption by Year

According to one Chinese analyst writing in a prominent international affairs journal in 2014: "The Middle East will remain China's largest source of oil imports, and that is the strategic significance of the Middle East for China" (Xinchun, 2014: 39). Petroleum is certainly central in China's bilateral ties with both Saudi Arabia and Iran:

Table 3.1: China's LNG Need

History		Projections						Avg. Annual% Change
1990	2002	2003	2010	2015	2020	2025	2030	2003-30
0.5	1.1	1.2	3.0	3.9	5.1	6.2	7.0	6.8

Source: Appendix A, EIA (2007)

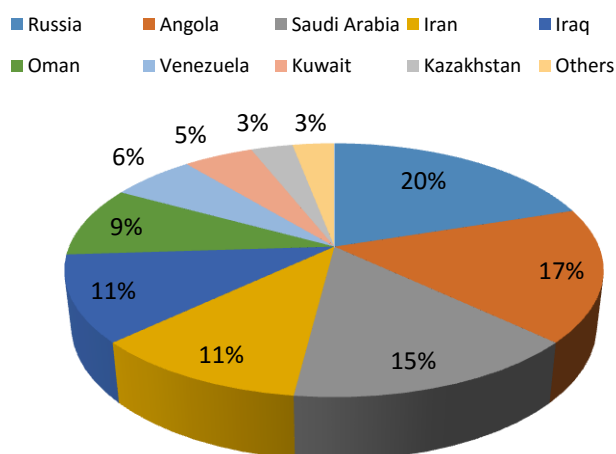


Figure 4.1: China's Top Ten Oil Source of Imports

Two major Middle East powers which are critically important to China are Saudi Arabia and Iran. Beijing has formed what its “strategic partnerships” with Riyadh in 1999 and Tehran in 2000.

Saudi Arabia is one of the wealthiest states here and a potent actor in the Middle East and a U.S. ally in the region. Iran is also let's say the most important actor in the region with 80 million populations and one of the largest economies with one of the most potent armed force. Furthermore, Iran is an opposing actor to the U.S. exactly in opposite of Saudi Arabia.

Iran, a major power in the Middle East, is also an intractable American adversary. Should China choose, Iran could potentially serve as an ally, helping the rising Asian power offset American influence in the Middle East (Scobell and Nader, 2016: 12).

So this paper seeks to examine the Sino-Iran and Sino-Saudi Arabia relations and Decides How this relation would serve to help Chinese' Energy security in the future.

## **2. Sino-Saudi Relations**

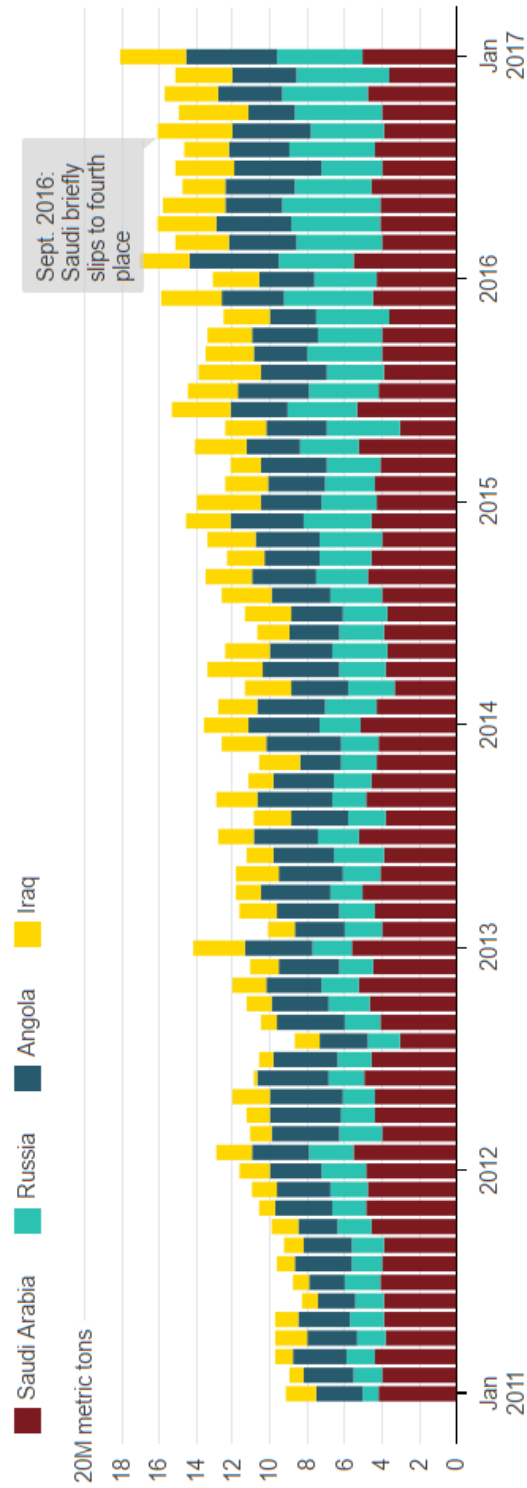
As in 1975, Saudi Arabia refused to recognize the PRC as a country; there were no bilateral relations between these two countries prior to 1990s. But the first Sino-Saudi official meeting took place in November 1985 and the official Diplomatic relations initiated at July 1990. Trade and investment agreements have risen largely since 1999 when Jiang Zemin pronounced a “strategic partnership” between China and Saudi Arabia. The tensions in Saudi-US relations following the 9/11 attacks prompted Riyadh to diversify its global alliances. In 2005 we witnessed a 59% growth in their trade and Saudi Arabia becoming China's largest source of oil for the first time.

Rising instability in Afghanistan and Pakistan, as well as concerns in China about the potential spillover of tensions into Xinjiang, provided additional scope for Sino-Saudi cooperation From the Chinese perspective, energy security lies at the heart of the bilateral relationship with Saudi Arabia, as has been the case with many of China's most important strategic relationships over the past decade (Wagner and Karasik. 2010). According to the Chinese ex-ambassador to Saudi Arabia, Song Wei, there are two key words as far as ties between China and Saudi Arabia is concerned, they are “energy cooperation”.

In the future, China's import sources will continue to evolve. But Saudi Arabia is likely to remain an important oil exporter for China, not least because Saudi Aramco has entered into a long-term contract to supply an additional refinery in Kunming in Yunnan Province. The oil pipeline China has built through Myanmar requires a large and, hopefully, reliable supplier like Saudi Arabia to reassure China over the security of its oil imports, continuing domestic debates notwithstanding (Daojiong, 2013).

One thing we can be sure of is the Saudi Arabia's leading position on top of the oil exporters list to china is challenged by the return of other actors in the oil market. For example, according to Chinese custom data, oil imports from Venezuela and Saudi Arabia has been declined in 2014. Saudi Arabia used to dominate China's oil supplies.

It's now fighting for its position.



Source: China Customs General Administration

**Figure1.2: China's Import Oil**

On a geo-economic front, President Xi's vision for a 21st-century 'Silk Road' and for the revival of the Maritime Silk Road Economic Belt (via the 'One Belt, One Road' strategy) indicates an expectation of Chinese companies being welcomed by Middle Eastern markets, including in the upstream oil sector (Xinhua press agency, 2015).

By this new strategy we can say China's main Diplomacy for its energy security is to diversify its oil suppliers and the routes to carry the energy. This evolution is made obvious with the enormous 65 billion dollars Sino-Saudi investments and trade package signed during the meeting in Beijing between King Salman and President Xi Jinping (Dossary, 2017).

All in all, at this moment we see a Saudi Arabia who exports nearly 18 percent of its oil to China and according to its "Saudi Vision 2030" plan seeks to diversify its economy. Alongside we see china who tries to diversify its oil import resources especially with countries like Iran and Russia who are competing with Saudi Arabia. Now a situation has happened that every country competes to develop its energy ties with China and It is a very good news for Chinese politicians that provide the, with a lot of options.

You can see that Russia has over taken Saudi Arabia's position in exporting oil to China:

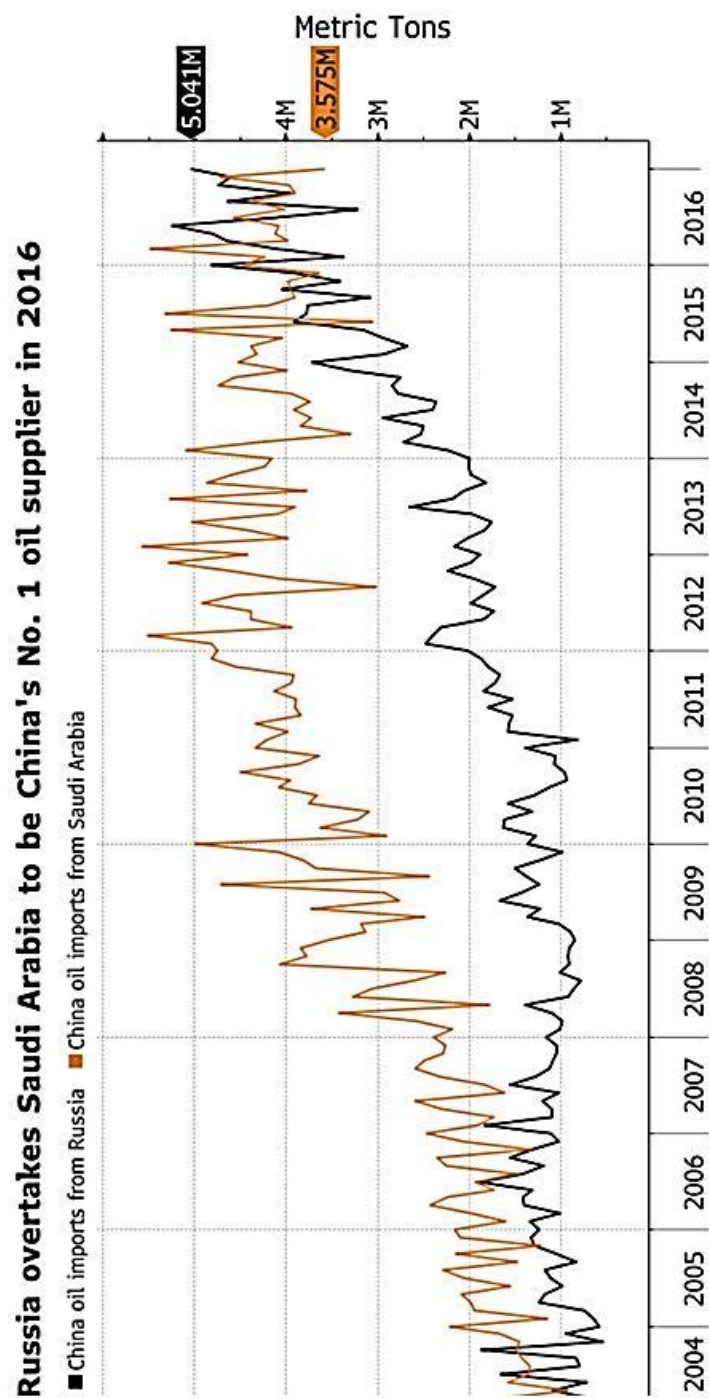


Figure 2.2: China's Oil Import from China and Saudi Arabia  
Source: Chinese Customs Authority



### 3. Sino- Iranian Relations

China established diplomatic relations with Iran in August 1971 when Iran recognized the PRC as ‘the sole legitimate government of China’ and China expressed its support for ‘Iran’s just struggle to defend its national resources’. In May 1989, former Iranian President Ayatollah Ali Khamene’i paid an official visit to China, suggesting that Sino–Iranian relations had gone into a comprehensive and multilevel fast track of development. To meet increasing domestic oil demand, in the early 1990s China began to look actively for new long-term energy supplies and sought to expand its relations with major oil and gas producing countries in the Middle East and North Africa. With the second largest combined oil and gas energy resources after Saudi Arabia, Iran naturally emerged as one of the major suppliers of energy to China (Hong, 2014: 409).

Iran has 11 percent of proven oil and 17 percent of proven gas of the world. Also Iran is the top country in natural gas and oil resources, but he critically needs FDIs in this section to improve and modernize its infrastructures. After the sanctions, Iran’s oil production heavily declined. After the JCPOA and lifting the sanctions its oil production rose again up to two million bpd. “Xi Jinping” was one of the first presidents visiting Iran after JCPOA and according to Iranian president “Hassan Rouhani”, economic relation between these two countries will rise up to 600 billion Dollars in ten years.

#### In Billions USD

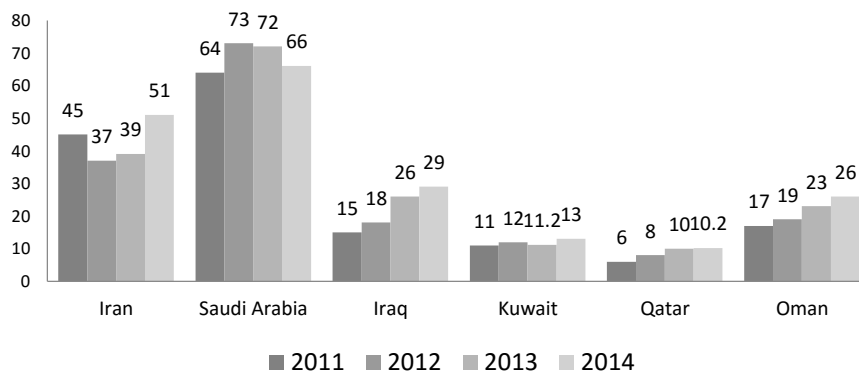


Figure 1.3: China-Middle East Bilateral Trade (in billions USD)

Source: UN Comtrade

The US-led sanctions proved to be a boon for China and other Asian countries including India, South Korea and Japan. Conscious of Iran's urgent need to explore its vast oil and gas reserves and rebuild its war-torn and decrepit energy infrastructure, China offered to rebuild it and engage in joint venture exploration and development of new oil and gas fields. In doing so, China hoped to lock into the Iranian energy market and help meet its growing oil and gas requirements (Hong, 2014: 409). And On the Iran side, Iranians are also more willing to do business with the Chinese as they find that 'Chinese are more willing to accommodate Iranian requirements and ways of doing things'.

After all these, we can surly see Iranian role in "OBOR" in China's energy security future. By controlling The Strait of Hormuz, Iran is both an energy power and a maritime power. Everyday 17 millions of barrels of oil are passed through this Strait and 85 percent of it is being bought by Asian countries. So this way Persian Gulf is a very strategic place for world's energy market. Every way possible, China tries to hold its footsteps in Iranian oil market.

#### **4. Conclusion**

Till now, China has done many possible ways to make sure its energy security; from heavy investments on exploration of new resources and ameliorating energy infrastructure to improve energy utilization efficiency. China has also built massive strategic petroleum reserve systems. The real amount of Chinese oil in storage was a whopping 600 million barrels as of May 2016 which is estimated to pass 700 million soon. But with all these things done, China cannot put aside its dependence of importing energy yet.

So Chinese would still look at Middle East as their main source of import with Saudi Arabia and Iran on the top. It is right that Saudi Arabia has long-term contracts with Chinese energy firms, but the declination of Chinese oil import from Saudi Arabia recently shows that China seeks to change its strategy.

According to Figure 2.2, Russian supplies rise 24% in 2016 while Saudi almost flat. Russia overtook Saudi Arabia in 2016 to become China's biggest crude oil supplier for the first year ever. Third-largest

supplier Angola shipped 13 percent more crude last year versus 2015, while No. 4 seller Iraq recorded similar growth. China also boosted imports from South American producers last year, with growth of 37.6 percent from Brazil and 26 percent from Venezuela, the data showed. Imports from Iran expanded nearly 18 percent last year to a record 624, 260 bpd, as Chinese state oil firms started to lift barrels from their investments in Iranian oilfields in addition to term supply agreements. So the Chinese Strategy is becoming more obvious.

Saudi Arabia should know that in Chinese Diplomacy of diversifying sources and routes for energy, it certainly loses its past top position. The Mammoth oil consumer cannot rely on certain sources for the sake of its energy security.

But for Iran things are different. In recent years especially after the sanctions and before JCPOA agreement, Iran has been criticizing China for disagreements over contract terms, repeated delays, and cancellations. It seems China still wants to calculate the market and Iran's position. For example, in 2011 an agreement with china National Offshore Oil Corporation (CNOOC) for development of North Pars gas field suspended. CNOOC had slowed down this project due to growing ties with U.S. energy companies.

But Beijing's management of contradictions between Sino-Iranian and Sino-American cooperation seemed to have worked well. China has built a broad and fairly deep relationship with Iran. Beijing seems to have gotten just about right the balance between appeasing Washington and forging an energy partnership with Tehran. Although Beijing's balancing efforts sometimes produced tensions in Sino-American or Sino-Iranian relations, it is clear that the bottom line was that Beijing sustains the US's support for its modernization development drive while simultaneously enlarging energy cooperation with Iran.

According to the data provided, China's main strategy at the moment is to make a balance among all actors in the Middle East. China-Middle East Bilateral Trades are going toward a balance in the future. Especially in energy sector China gives (as much as possible) a fair chance of exporting oil to the mainland; that's because of decreasing the risk and fortifying the energy security of china for the years to come. Furthermore, this way all states seem to be treated

fairly. This is good for Iran and challenging for Saudi Arabia, because Iran's oil production and export had declined in past recent years and with this strategy of China, it is Iran who gains the benefit in comparison to Saudis who lose some of their oil market. Certainly in the near Future Iran and Saudi Arabia will try to obtain as much of Chinese oil market as they can but lastly the main decision maker here would be China.

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