China in the Gulf: A New Partnership with Iran?

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The steady rise in U.S. strategic competition with China over trade and the South China Sea already has so many dimensions that it is sometimes easy to ignore shifts in China’s behavior in other areas. During the last week, however, China has taken a step that could have a truly critical impact on such competition. On July 6, Iran’s Foreign Minister, Mohammad Javad Zarif, announced that Iran was negotiating an agreement with China that would make the two countries the equivalent of strategic partners. This could radically expand U.S. and Chinese competition to new parts of the world.

The New York Times broke the story in early July. An 18-page outline of such an agreement in Persian was leaked whose authenticity is unclear but tracks with previous reports that such an agreement was being considered (https://documentcloud.adobe.com/link/review?uri=urn%3Aaid%3Ascds%3AUS%3Af6a1ae0b-9378-4831-b6bf-af56c9f5696d&utm_campaign=wp_todays_worldview&utm_medium=email&utm_source=newsletter&wpisrc=nl_todayworld#pageNum=16).

Various reports indicate that the actual agreement would create a major new Chinese strategic relationship with Iran that would make the two countries strategic partners, and that it could be the prelude to a serious Chinese challenge to the U.S. position in both the Persian/Arab Gulf and the Indian Ocean region.

Again, such reports may be exaggerated, but they indicate that the agreement could involve serious military ties and lead to major Chinese arms sales to Iran, involve some $400 billion in Chinese economic investment over 25 years, and lead to a major Chinese role in modernizing Iranian railroads, ports, 5G networks, and telecommunications. In return, China would get discounted supplies of Iranian oil, product, and gas for the next 25 years. China would be able to make Iran part of its Belt and Road Initiative and be able to establish free-trade zones in Iran in Maku in the northwest, Abadan near Iraq, and Quesham – an island in the Gulf.

Reports also indicate that the agreement would give China access to Jask, a major Iranian port outside the Strait of Hormuz. It would lead to joint military training and exercises, research and weapons development, and sharing of intelligence – in theory focused on fighting drugs, terrorism, human trafficking, and cross-border crimes but in practice inevitably enhancing Iran’s capability to deal with its Arab neighbors and the U.S.

The issues of what weapons China might sell Iran, and what new technologies it might transfer, have so far not been addressed. The same is true of Chinese investment in Iranian energy facilities, although Iranian official have made it clear that they are attempting to reach and maintain production of over 8 million barrels a day. These must, however, be very real considerations.

The possibilities that these reports are largely true become more credible when they are put in context. China began to expand its strategic position in the Persian/Arab Gulf region during the Iran-Iraq War – as far back as 1980-1988. Since then, China has increased its presence in the Gulf. It has steadily increased its diplomatic presence, visits, and attaché activity.
If one examines Chinese activity only over the last decade, it is clear that China is seeking to secure its energy imports from the Gulf, compete with the U.S. and India, and look toward a day when it will be as real a power in the Gulf and the Indian Ocean as it is in Asia and the Pacific. It has tried to expand its military and economic presence, and made efforts to make major arms sales—although so far, it has had few successes other than selling surface-to-surface missiles to Saudi Arabia and an unknown mix of missile technologies to Iran.

China has also made Pakistan a key partner in its Belt and Road Initiative, and China now plays a key part in developing and managing the Pakistani port of Gwader, which is situated on the Arabian Sea and is under the administrative control of the Maritime Secretary of Pakistan but under operational control of an entity called the China Overseas Port Holding Company. China continues to expand its presence in Cambodia and Myanmar further to the east and has developed the Hambantota Port in Sri Lanka.

China’s investments in the Gulf region are still limited, and its trade patterns have fluctuated sharply along with the petroleum process and the impact of U.S. sanctions on Iran—which again help cut total Chinese imports from Iran from $3.8 billion in 2019 (10.8% of Chinese trade in the Gulf Region) to $1.8 billion (and only 4.9%) in 2020.

China has, however, invested some $10.7 billion into transforming an Omani fishing village into the Special Economic Zone Authority of Duqm. It has also invested some $300 million dollars in a new terminal at Kalifa in Abu Dhabi and has invested in the Hamad Port in Qatar and a planned community called Madinat al-Hareer in Kuwait. It is also reported to be discussing high technology investments in Bahrain.

China has taken these steps for both economic reasons and because it has clear strategic reasons to compete with the U.S. for influence and power projection capability in the region. One key interest is to flank India—using Pakistan, ties to Central Asia, and a growing naval presence in the Indian Ocean.

Another—and even more important strategic interest—is to secure its access to Gulf petroleum exports and limit U.S. capability to influence this flow to China in a crisis or war. China is now by far the world’s largest oil importer and is becoming steadily more dependent on petroleum imports. It now imports slightly over 70% of its total petroleum consumption, and it now gets more than 40% of its supplies from the Gulf.

The U.S. Energy Information Administration (EIA) summarized the factors driving China’s important dependence as follows earlier this year—although the COVID-19 crisis has reduced its demand in 2020.

Several factors contributed to China’s increase in crude oil imports in recent years. Although China’s domestic crude oil production increased 0.1 million b/d in 2019—averaging 4.9 million b/d—it has remained essentially flat since 2012, ranging between 4.8 million b/d and 5.2 million b/d. In contrast, the U.S. Energy Information Administration (EIA) estimates China’s consumption of petroleum and other liquids grew 0.5 million b/d in 2019 to 14.5 million b/d, and China’s net imports for crude oil and other liquids grew 0.4 million b/d to 9.6 million b/d in 2019.

China’s crude oil imports also grew in 2019 because of strategic stockpiling of crude oil and increases in commercial crude oil inventories following refinery expansions, which require increases in storage as refineries begin operations. Last year, China’s refinery capacity increased by 1.0 million b/d, primarily because two new refining and petrochemical complexes came online with capacities of 0.4 million b/d each. As a result, the country’s refinery processing also increased to an all-time high in 2019, averaging 13.0 million b/d for the year.
This dependence explains why China has steadily increased its presence in the Indian Ocean area in ways that can help secure its maritime trade routes and the flow of oil from the Gulf. It explains why China’s President Xi Jinping visited the Gulf region in 2016 and 2018 (and some reports indicate he was discussing an agreement with Iran as early as in 2016). China has used its role in the anti-piracy force developed to deal with piracy in Somalia to project its naval power in that part of the Indian Ocean, and it has created both a naval base and a new port in the Djibouti near the Eastern end of the Red Sea.

Turning to Iran would be a major shift for China in some ways. So far, most Chinese petroleum imports have come from the Arab Gulf states – particularly after the U.S. reimposed sanctions on Iran after the Trump administration rejected the JCPOA nuclear agreement. Many analysts have felt that China would try to stay neutral as tensions rose between Iran and the Arab Gulf states, or would tilt toward the Arab states – which has more oil and gas, far more money, and do not face U.S. sanctions.

The steadily growing tension between the United States and China may, however, have shifted China’s position. These tensions include China’s growing confrontations with the U.S. over trade, Taiwan, and the South China Sea – confrontations exemplified by Secretary’s Pompeo’s statements on July 13 that China’s maritime claims were illegal.

These tensions have also reached the point where the U.S. and Chinese military postures in the entire region from the South China Sea through the Strait of Malacca, and then through the Indian Ocean to the Gulf region, have steadily become source of competition. So have Chinese and U.S. military exercises, reconnaissance flights, and combat ship. Talk about cooperation has become steadily hollower. The new U.S. strategy announced in 2017 singled out China and Russia as the major potential threats to the U.S. and China has recently joined Russia in actively opposing the renewal of the UN arms embargo on Iran.

These developments may explain why China would now sign an agreement with Iran, particularly if it feels the end result will be to push the Arab Gulf states – which are increasingly concerned about U.S. willingness to stay in the region and engage in any major military action – into courting Beijing rather than react in a hostile way.

China may well feel it can play the Iran card against the U.S. with minimal risk and still play both Iran and its Arab neighbors off against each other. It may also see making Iran dependent on China as posing only a limited risk that China will become directly involved in any Iranian conflict with the U.S. or its neighbors. China may well feel it can benefit from a “spoiler” role, or even from moderating Iranian and Arab tension, at the cost of the United States.

It should be stressed that reports about a Chinese-Iranian partnership remain unpredictable, but some things do seem clear. Even if all of these the reports provide to be incorrect, it is becoming evident that the U.S. will still face steadily growing strategic competition with China in the Gulf and other areas far beyond the South China Sea and Taiwan. It also is becoming increasingly clear that the U.S. cannot count on its Arab strategic partners unless it shows it will stay in the Gulf and be a real partner – rather than repeatedly threatening to leave and quarreling over burden sharing.

Equally important, Iran may have an option for dealing with sanctions and arms imports that U.S. policymakers have not properly considered – and one where Russia could play a role as well. Furthermore, it is clear the scale of U.S. and Chinese competition will continue to expand.
Competing with China and Russia now means civil and military competition on a global basis, not simply building up U.S. military forces to deal with the forces of the other two major powers.

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