

China's Grand Vision and the Persian Gulf

by Anoushiravan Ehteshami

ABSTRACT

China's engagement with Asian regions beyond its geographical periphery has grown exponentially since the 1990s and this is nowhere more evident than in West Asia and the Persian Gulf subregion. While energy drove China's early interactions with the Gulf states, within two decades after the Cold War the relationships had evolved into much tighter networks of partnerships. China's relations with the Gulf states, however, has not been uniform and the case studies of the United Arab Emirates and Iran highlight the complexities of China's strategy in this subregion and the ways in which it actively pursues its diverse set of interests.

China | Gulf countries | UAE | Iran

keywords

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Introduction

It is assumed that after the People's Republic of China (PRC) became a net hydrocarbons importer in 1993 it "discovered" the Persian Gulf subregion and its importance to global energy flows. But in reality, China's awareness of the subregion has much deeper roots that can be traced back to the 1955 Bandung conference, which eventually paved the way to the creation of the Non-Aligned Movement, and the celebration of liberation movements therein. China's involvement in Yemen, and its support for the Dhofar rebellion in the late 1960s and early 1970s, were the precursors to a much deeper engagement with such countries as Kuwait, but most importantly regional power Iran, which established relations with the PRC in 1971. It is worth noting that China's largest investment market in the 1980s was in fact Iraq. China's secret transfer of ballistic missiles to Saudi Arabia in the 1980s and its military relationship with the Islamic Republic of Iran were perhaps the clearest signs of China's arrival as a critical influence. Indeed, China's military reach into the Persian Gulf and the wider region is today far more extensive than it has ever been. But it was energy that proved to be transformative. With about one-third of its oil imports coming from the small group of Gulf Arab monarchies, China's thirst for oil since the mid-1990s has arguably expanded, indeed deepened, its interactions with the Persian Gulf states.

The PRC's relations with the Gulf states have developed to become among the most economically, politically and strategically significant of China's relations in the wider region. While such countries as Egypt and Israel feature prominently in China's regional purview, it is in the Persian Gulf that China appears to have made the greatest impact. China has "comprehensive strategic partnerships" with Gulf states (Iran, Saudi Arabia and the United Arab Emirates). Furthermore, of the seven so-called "strategic partnerships" that the PRC has signed, four are with the Gulf Arab states of Oman, Qatar, Iraq and Kuwait. Through these partnerships Beijing signals the high value it attaches to relations with the said countries, and the range of partnerships now in place speaks volumes about China's serious interest and growing presence in the subregion.

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The three baskets of energy relations, trade interactions and investments have come to define the contours of China's relations with the region today. Indeed, 78.6 per cent of China's 299.6 billion US dollars goods trade with the Middle East and North Africa in 2019 was with the six members of the Gulf Cooperation Council (GCC) states, plus Iran and Iraq. China has emerged as Saudi Arabia's largest trading partner, with total transactions amounting to 72.3 billion US dollars in 2019, and as the second-largest partner of the United Arab Emirates (UAE), after India, with total trade of 50.2 billion US dollars in that year. With China pushing investment in infrastructure and renewable energy within the Belt and Road Initiative (BRI), it had amassed investments of 5.5 billion US dollars in Saudi Arabia in 2019, and the much higher figure of over 8 billion US dollars worth of investments in the UAE. If one adds the geopolitical dimension, the importance of the subregion to the BRI and the military and security dynamics of China's interactions, then it would be no exaggeration to claim that the Persian Gulf subregion is central to China's regional strategic calculations. At the same time, regional states view China as a crucial and credible partner. As the leading trading partner of several regional states, the world's largest energy importer and a state with clear aspirations to lead Asia, China is a vital power for all Persian Gulf governments to court.

1. The importance of the BRI

China celebrated the progress of its ambitious One Belt, One Road initiative (later to become known as the Belt and Road Initiative) in Beijing in May 2017 with representatives of almost all of the sixty countries involved in this initiative. Presenting to the world a vision for intercontinental cooperation and a set of concrete plans for a programme of Chinese-led international trade and investment projects, the forum looked and felt like a drive to remake the world. The BRI is vast in scale, dwarfing the last major multilateral development initiative of our times, the US-led post-war Marshall Plan for the reconstruction of western Europe. The BRI, supported by a dedicated development bank, bureaucracy and implementation arm, has already allocated 1 trillion US dollars in investment capital with the promise of several trillions more in investment funds. Prior to the Covid-19 pandemic, it was announced that as much as 150 billion US dollars will be spent annually on infrastructure projects in the member countries, underwriting road, rail and port building projects as well as capital projects, but inevitable slowdown in cross-border trade and investment following the pandemic has cut this figure to less than half of the anticipated targets.¹

¹ Organisation for Economic Co-operation and Development (OECD), "The Belt and Road Initiative in the Global Trade, Investment and Finance Landscape", in *OECD Business and Finance Outlook 2018*, Paris, OECD, 2018, <https://www.oecd.org/finance/Chinas-Belt-and-Road-Initiative-in-the-global-trade-investment-and-finance-landscape.pdf>; Christoph Nedopil, *China's Investments in the Belt and Road Initiative (BRI) in 2020*, Beijing, Green BRI Center-International Institute of Green Finance (IIGF), January 2021, <https://greenfdc.org/?p=2244>.

The BRI is geographically vast, encompassing virtually all of Asia (barring India, Japan and the Korean Peninsula), much of Europe and Africa's eastern regions.² The BRI is ambitious, building six vast economic corridors – China-Mongolia-Russia, the New Eurasian Land Bridge, China-Central and West Asia, China-Indochina Peninsula, China-Pakistan and Bangladesh-China-India-Myanmar – across Eurasia, and is set to become the centrepiece of China's development strategy, according to former Vice-Premier Zhang Gaoli.³ Combined, these corridors will create an intricate network of European and Asian countries working alongside each other, generating billions of dollars in investment capital and revenue, and creating employment opportunities across Asia and much of Europe and Africa.

China today projects its influence westwards, in the context of the BRI, through investment, construction, extraction and commerce – through the exercise of soft power on a massive scale.⁴ The sums allocated to the BRI have shown the potential to be transformational in their impact. The BRI is also the focus of China's direct investment largesse, which provides the vehicle for the mobilisation of Chinese businesses in Asia. So, whereas in 2015 44 per cent of China's engineering projects were in the BRI countries, the figure jumped to over 52 per cent in just one year.⁵ This figure has risen as projects across the Initiative's remit have got underway. In 2021 for the first time China's investments in BRI projects overtook its investments in projects not directly associated with the BRI, with a strong showing in construction in West and East Asia partner countries.⁶

Cognitively and materially, China has opened itself to Eurasia. It has taken this risk in order to secure its own place in the world, change Asia's economic dynamics in its own favour, improve the socio-economic conditions of its western regions, check other powers' influence in its own backyard and tie into its own sphere of influence a host of resource-rich countries that can guarantee the necessary ingredients for China's maturing economy for decades to come.⁷ The BRI then is not hegemonic but pragmatic. Further, the Initiative and the Asia Infrastructure Investment Bank (AIIB) are not about China looking back, reliving an old "China dream", but looking forward and creating the conditions for the fourth stage of what scholar Samuel S. Kim has articulated as the three transformations of the

² Mehdi Parvizi Amineh (ed.), *The China-Led Belt and Road Initiative and Its Reflections. The Crisis of Hegemony and Changing Global Orders*, London/New York, Routledge, 2023.

³ He Yini, "China to Invest \$900b in Belt and Road Initiative", in *China Daily*, 28 May 2015, https://usa.chinadaily.com.cn/business/2015-05/28/content_20845687.htm.

⁴ Faisal Ahmed and Alexandre Lambert, *The Belt and Road Initiative. Geopolitical and Geoeconomic Aspects*, London/New York, Routledge, 2022.

⁵ He Yini, "China to Invest \$900b in Belt and Road Initiative", cit.

⁶ For recent data see: Christoph Nedopil, *China Belt and Road Initiative (BRI) Investment Report 2022*, Shanghai, Green Finance & Development Center-FISF Fudan University, January 2023, <https://greenfdc.org/?p=5293>.

⁷ Michael Clarke, Matthew Sussex and Nick Bisley (eds), *The Belt and Road Initiative and the Future of Regional Order in the Indo-Pacific*, Lanham, Lexington Books, 2020.

"evolving Asian system".⁸

So, the Initiative should not be taken lightly by outside observers; nor should it be viewed in isolation from China's other strategic policies. These other policies take different forms and manifest themselves differently too. The BRI (and the associated AIIB) forms the outer ring in the circles of China's strategic priorities in Asia, alongside cooperation with ASEAN and the strengthening of the Shanghai Cooperation Organisation. Together, these form China's three circles of influence in Asia. In different but complementary ways, they contribute to China's efforts at building security and economic bonds across its neighbourhood. Using different mechanisms arguably they expand China's strategic reach, as each of these circles has the material power to shape countries' policies and regions well beyond their immediate areas of attention. Together they multiply China's policy instruments and give it a credible voice across continents – from the Pacific to the Atlantic.

The digital dimension of the BRI, the so-called Digital Silk Road (DSR), has also grown in significance, making its mark in the Persian Gulf in particular. China's digital economy is now worth some 7.1 trillion US dollars and as its artificial intelligence (AI) and high-tech capabilities grow it is increasingly able to engage with the digital-savvy GCC states, which are themselves rapidly expanding their digital government platforms alongside their knowledge-based economic activities. The Gulf's young and well-networked populations are responding very positively to the digital opportunities China is providing. For these states, telecommunications infrastructure, technology-focused enterprises, AI and "smart cities" are the key attractions offered by China's expanding digital footprint.

To illustrate the complexity of China's interactions with the subregion, I will focus on two very different markets and countries that have grabbed Beijing's attention, namely the UAE and the Islamic Republic of Iran (IRI). The former is a small Arab country with a huge appetite for development, and the latter is the subregion's largest and only non-Arab country with a clear anti-Western ideological thrust, which has made the pivot to the east its primary foreign policy focus. What is in it for China to develop links with these countries, and what is in it for them?

⁸ Samuel S. Kim, "The Evolving Asian System: Three Transformations", in David Shambaugh and Michael Yahuda (eds), *International Relations of Asia*, 2nd ed., London, Rowman and Littlefield, 2014, p. 33-58. Kim provides a historical sweep of what might be called an "Asian international system" by dissecting Asia's transformation in three slices since the 19th century: the importance of Chinese "tribute system" in shaping its worldview as well as helping regulate its neighbours' relations with it; the rise of Japan, the dramatic impact of its defeat of China in the war of 1894-5 and its ability to supersede China in Asia's changing international relations; and finally the impact of the Cold War (1945-1989) in redrawing the geopolitics of the continent as it created a new and unfamiliar bipolar order Asia. The end of the Cold War may have dismantled the bipolar hierarchies of East-West blocs in Asia, but has also allowed for the resurgence of what Kim refers to as the "deeper historical and national-identity wounds" in East Asia (p. 53) to influence Asian relations.

2. China-UAE relations

Only formalised in 1984, PRC-UAE relations have grown and matured unrecognisably, expanding in new ways and directions since the early 2000s. In 2018 China showcased the high importance it places on the UAE when it upgraded its bilateral relations with this country of just ten million people to a comprehensive strategic partnership – a status only bestowed previously on long-term regional heavyweights Iran and Saudi Arabia. The PRC's choice to favour this small country in the Persian Gulf can be explained in four ways. First, the UAE is a rich country that thrives on production and export of oil and its derivatives. Second, the UAE has one of the most sophisticated economies in the region, with an advanced and well-developed financial, technical and infrastructural capacity. Third, despite its small geographic and demographic stature, with a GDP of 410 billion US dollars the UAE counts as the second largest economy in the whole Arab region (comprising twenty-one countries and Palestinian territories), after Saudi Arabia. It also has deep financial reserves, with its Mudabala sovereign wealth fund of 284 billion US dollars. Last but not least, the UAE has a geopolitical advantage as a gateway to the wider region, where its friendly ties with both Israel and Egypt pave the way for China's interactions with those countries as well. Thus, the UAE is a geopolitical facilitator for China.

Over the last two decades, ties between the PRC and the Emirates have grown substantially to encompass a wide and rich array of fields, spurred on more recently by the UAE's involvement as a strategic hub in the Belt and Road Initiative. Among the many areas of cooperation are the emerging fields of renewable energy cooperation, finance, AI and the DSR. Regarding the important field of renewables, China's Jinko Power has played a critical part in the development and financing of the UAE's Noor Abu Dhabi Solar plant, which contains 3.2 million solar panels, making one of the biggest in the world. Furthermore, China Energy Engineering Group and Hunan Thermal Power are partners in construction of the 2,000 MW al-Dharfa solar photovoltaic power project in Abu Dhabi.

The range of interactions under way is truly significant and, as a detailed analysis of China's digital reach into the Emirates illustrates, China's role is now profound:

Huawei [... has] partnered with Dubai officials to help update its airport and cooperated with the Dubai Electricity and Water Authority to build fibre optics and video surveillance. [...] Chinese artificial intelligence company SenseTime opened a regional headquarters in Abu Dhabi in 2019. Abu Dhabi Global Market and the Hong Kong Securities and Exchange have recently worked together to foster financial services innovation in Hong Kong and the United Arab Emirates.⁹

⁹ Mordechai Chaziza, "Gulf States Go Digital with China – Analysis", in *East Asia Forum*, 7 October 2022, <https://www.eurasiareview.com/?p=316450>.

It is noteworthy that Huawei's 5G network had already spread to 80 per cent of UAE's urban centres before the pandemic and has since become even more entrenched in communications development of both federal and local government provisioning. Building on China's 2016 Arab Policy Paper,¹⁰ which outlined three core areas for engagement with energy as the cornerstone, trade and infrastructure as the second priority area, and nuclear, space and energy renewables as the third, PRC-UAE relations have progressed speedily in all three fields.

The UAE's single biggest export to China is crude oil (8.6 billion US dollars) and such products as ethylene polymers. China meanwhile has played a major role in the development of the UAE's digital infrastructure, in such areas as IT and broadcasting equipment (13.3 billion US dollars) and computing equipment (3.2 billion US dollars). While the UAE's major partner in the field of nuclear power is the Republic of Korea (South Korea), China nonetheless continues to present itself as a reliable and competitive partner in this field and also in space exploration.

Bilateral trade of 75.6 billion US dollars in 2021 underlines the depth of the relationship, which is reinforced by the presence of as many as 6,000 Chinese businesses of different sizes and specialisation in the country. Of note is the fact that bilateral trade has moved well beyond energy in recent years, with over 70 per cent of bilateral trade today not linked to energy. According to a *China Briefing* report published in August 2022,

[China's] top exports to the UAE include telephones (US\$377 million), computers (US\$350 million), semiconductor devices (US\$149 million), motor vehicle parts and accessories (US\$107 million), and video displays (US\$95.3 million). On the other hand, crude oil (US\$3.04 billion), petroleum gas (US\$414 million), ethylene polymers (US\$160 million), and refined petroleum (US\$92.3 million) accounted for the most imported products.¹¹

So, the pattern of exchange is very clear: China exports tech and imports energy derivatives. Trade also supports the growing Chinese foreign direct investment into the UAE market, which is already a crowded space with a recorded total of 172 billion US dollars in inward investment in 2021.

The UAE's vibrant and international financial sector serves as a very attractive pull for foreign investors, who use the country as a base for forays into the rest of the region. All major banks have a substantial presence in the UAE, and it was perhaps inevitable that China would also seek to establish such a presence, which

¹⁰ China's Government, *China's Arab Policy Paper*, January 2016, http://english.www.gov.cn/archive/publications/2016/01/13/content_281475271412746.htm.

¹¹ Giulia Interesse, "China-United Arab Emirates (UAE): Bilateral Trade and Investment Outlook", in *China Briefing*, 29 August 2022, <https://www.china-briefing.com/news/china-united-arab-emirates-uae-bilateral-trade-investment-outlook>.

manifested itself in the establishment of the Belt and Road Exchange (BRE) in 2018. The BRE is tasked with raising capital for BRI-related activities across the region. Major Chinese presence on the UAE bourse demonstrates the significance of the Emirates' sophisticated financial sector to China.

The Abu Dhabi Global Market (ADGM) financial centre reciprocated by opening its first overseas office in Beijing. The new China office of the ADGM announced its role and presence as demonstrating

ADGM's commitment to China and its Belt-and-Road initiative that focuses on enhancing the connectivity and co-operation along the land-based 'Silk Road Economic Belt' and ocean-going 'Maritime Silk Road', linking the markets of Europe, Africa, the Middle East, Asia and increasingly those of Africa.¹²

The UAE's presence in China also supports the two countries' growing economic relationship, which now includes some 650 Emirati investment projects in China.

The UAE's status as a major regional hub has also attracted attention, which has resulted in the country being the node for extension of China's BRI projects across the rest of the region. Dubai's port is now a major transit gateway, and this strategic dimension of the relationship is illustrated by the fact that 60 per cent of China's trade with the region now transits through the UAE and its ports, airports and broader transport networks. Acting as a hub has served the UAE in other ways too, for example as the conduit for export of Iranian oil to China in defiance of strict US sanctions.¹³

For the UAE, as conversations between the GCC and China in Riyadh in December 2022 at the first GCC-PRC Summit suggested, partnership with China is of great importance. The purported 2023–2027 "action plan for strategic dialogue" will strengthen the UAE's position as a leading GCC economy (along with Saudi Arabia of course).¹⁴ China's unexpected position in the joint GCC-PRC statement regarding the security of the GCC states, and Beijing's apparent diplomatic nod towards the UAE's sovereignty and national security agenda regarding Iran's role in the region – and UAE's claim to the three Persian Gulf islands of Abu Musa, and Greater and Lesser Tunbs in particular – showcased the UAE's interest in building on its growing economic ties with China. Abu Dhabi's ability to draw support from

¹² Abu Dhabi Global Market (ADGM) China Office, *ADGM Establishes Its 1st Representative Office in Beijing, Capital of the People's Republic of China*, 11 May 2018, <https://www.adgm.com/media/announcements/adgm-establishes-its-1st-representative-office-in-beijing>.

¹³ Esfandyar Batmanghelidj, "UAE Earns Big as Iran Sells Oil to China", in *Bourse & Bazaar*, 27 October 2021, <https://www.bourseandbazaar.com/articles/2021/10/27/uae-earns-big-as-iran-sells-oil-to-china>.

¹⁴ China's Ministry of Foreign Affairs, *President Xi Jinping Attends First China-GCC Summit and Delivers Keynote Speech*, 10 December 2022, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202212/t20221210_10988406.html.

a major power such as China in its efforts to secure its sovereignty gave it more standing internationally, reminding Iran that its diplomacy is dynamic – to the extent that it can even summon Tehran's own strategic partner to its cause. The joint statement is unambiguous:

The leaders affirmed their support for all peaceful efforts, including the initiative and endeavours of the United Arab Emirates to reach a peaceful solution to the issue of the three islands; Greater Tunb, Lesser Tunb, and Abu Musa, through bilateral negotiations in accordance with the rules of international law, and to resolve this issue in accordance with international legitimacy.¹⁵

The tone from both sides, then, is that the relationship is set to grow over the next decade and will likely expand into all sectors of the Emirates' economy as well as in diplomatic, political and security areas. Arguably, the UAE's "Asian pivot" is more comprehensive than that of its neighbours, for not only has it forged close ties with China, as we have seen above, but it has also worked at building strong economic and diplomatic-security relationships with India, Japan and the Republic of Korea – the trio of Asian democracies that have formed their own "contain China bloc".

Relations with India are particularly noteworthy as being the most comprehensive. India is not only a major economic partner, with a great demographic presence in the UAE, but is also a security partner for Abu Dhabi. Moreover, India is keen to build upon its good relations with both the UAE and Israel with a view to creating its own BRI alternative project to connect the Indian Ocean economies with Europe.¹⁶ Thus far, Beijing and New Delhi have accepted the UAE's multilateral strategy and so long as India and China both continue to benefit from partnership with the UAE, it is unlikely that they will embroil this country in their bilateral problems.

3. China-Iran relations

While UAE-PRC relations have grown along clear pragmatic and mutually beneficial pathways, Beijing's relations with Iran can be seen as anything but. Under the stewardship of Ayatollah Ali Khamenei, as the IRI's Supreme Leader since 1989, a "look East" strategy has become common currency. Khamenei and such prominent political figures as Ali Akbar Hashemi Rafsanjani had laid the groundwork for Sino-Iranian ties in the 1980s and following Rafsanjani's election in 1989 as the IRI's first executive president (under the revised constitution) these grew faster. In

¹⁵ Gulf Cooperation Council and China, *Statement of the Riyadh Summit for Cooperation and Development between the GCC and the People's Republic of China*, 9 December 2022, point 12, <https://www.spa.gov.sa/2408192>.

¹⁶ Anoushiravan Ehteshami, "The BRI and Its Rivals: The Building and Rebuilding of Eurasia in the 21st Century", in *PRISM*, Vol. 10, No. 1 (Fall 2022), p. 23-39, <https://ndupress.ndu.edu/Media/News/News-Article-View/Article/3174566>.

the 1980s, China had emerged as a major supplier of weapons to Iran, had agreed to support Iran's nuclear power programme, and had begun imprinting itself on Iran's economy. Its high-profile role as the builder of Tehran's metro system in the 1990s visualised China's presence in Iran. What was perhaps less visible was the billions of dollars in arms trade which had helped enhance Iran's naval, airpower and missile capabilities,¹⁷ and China's nod to the Democratic People's Republic of Korea (North Korea) to support Iran's growing surface-to-surface ballistic missile programme. Iran's missile programme has proved so successful that it is now exporting its products and technologies to non-state allies in the region as well as to Russia, a military giant in its own right.

Iran's hostility towards the West, notably the United States, has allowed for a high degree of political narrative sharing with the PRC about the negative role of "hegemonic powers" in global regions. But in fact, US-IRI tensions are not conducive to China's ambitious economic objectives in the Persian Gulf, or indeed in Iran itself, as it is abundantly clear that a sanctioned and isolated Iran is not good for business. Unlike its relations with the UAE, which have grown exponentially on the basis of the parties' areas of mutual interest, economic relations with Iran have remained conditional on Iran's (usually adversarial) interactions with the West. Sanctions and Iran's isolation from Western economies and technologies make this country of huge potential marginal to the forces of change sweeping across the international system. Tehran can certainly count on its geographical location and geopolitical weight to make itself relevant to global calculations, but this too has proved to have limits. Indeed, for all the fuss about close ties between Iran and China, it is worth reminding ourselves that their bilateral trade stands at a fraction of that between China and the major GCC economies. Moreover, as Iran represents no more than 0.5 per cent of China's global trade, it is hardly a significant item in China's international trade ledger.

At the geopolitical level, however, Iran matters to China because it is the only regime in the region (apart from Afghanistan) which is openly hostile to the United States, the dominant external power in West Asia and the Persian Gulf. This means that Iran is open to building competing power blocs to the United States. Its readiness to confront the United States also makes it a useful counterweight to that country. This said, it has been apparent that tensions between Iran and the United States can spoil China's lucrative economic ties with the rest of the region, notably with the GCC countries as well as Iraq, in whose hydrocarbons sectors and broader infrastructure development China is increasingly invested. Indeed, with 10.5 billion US dollars in construction contracts in 2021 in Iraq alone, making that country the largest beneficiary of China's BRI investments for that year, it has become clear that China is keen to explore opportunities elsewhere in the area.¹⁸

¹⁷ Masoud Rezaei, "Chinese - Iranian Military Relations", in *Iranian Review of Foreign Affairs*, Vol. 5, No. 3 (Fall 2014), p. 109-148.

¹⁸ Christoph Nedopil, *China Belt and Road Initiative (BRI) Investment Report 2021*, Shanghai, Green Finance and Development Center-FISF Fudan University, January 2022, <https://greenfdc.com>.

Energy has underpinned PRC-IRI relations, which have been strained since 2018 and the reimposition of harsh US sanctions on Iran's energy sector. Energy relations are also affected by the emergence of Russia as a supplier of cheap oil to China since the start of the war in Ukraine, and the central position of Saudi Arabia as China's premier oil and derivatives partner.

Ties with Iran have become more significant from China's perspective, though, largely due to the roll-out of its Belt and Road Initiative. This multi-billion-dollar series of infrastructural projects straddling Eurasia and facilitating connectivity between China and inner Asia, West Asia and continental Europe, is directly dependent on the compliance and partnership of geopolitical linchpin countries such as Iran, whose territories and infrastructure will create the pathways between China and Europe. The BRI also benefits Chinese companies and businesses by providing opportunities for them to explore and capture new markets and recycle much of China's oversupply of materials such as cables, steel and steel products, cement and concrete, and all manner of other manufactured and semi-manufactured goods. Markets in both Asia and Africa have been ripe for China's expansion, and the BRI is arguably the most systematic and comprehensive tool for the creation of long-term and long-lasting connectivity between China and its wider hinterland.

It was in the context of President Xi Jinping's high-level visit to Tehran in early 2016 that the outlines of a wide-ranging 25-year bilateral agreement, which was finally signed in 2021, were negotiated. Despite the earlier reservations about China and Chinese behaviour of Iranian President Hassan Rouhani (2013–21), it was in the end his administration which signed the extensive deal with China and put the icing on the comprehensive strategic partnership which had been agreed earlier. But ultimately, it was the United States' abandoning of the Joint Comprehensive Plan of Action (JCPOA), the Iran nuclear deal, in 2018 which forced Tehran's hand and ended Iran's struggle to maintain balance between its relations with China and the West. Ironically, it has been American action – by the Donald Trump Administration (2016–2021) for sure, but also his predecessors – that has pushed Iran towards China and the Shanghai Cooperation Organisation (SCO), of which Iran became a full member in March 2023. The SCO reinforces the partnership between China and Iran and consolidates Iran's eastward shift. With Iran's non-oil trade with the eight member SCO countries running at over 30 billion US dollars, the SCO can be seen as a shield to defend the Islamic Republic from the West's economic pressure and give it the institutional opportunity to explore bilateral trade and investment opportunities with the Central Asian members of the SCO as well as India.¹⁹ But, for Tehran, it is China's role as the linchpin of the SCO that perhaps matters most.

org/?p=4762.

¹⁹ "Iran's Trade with SCO Surpasses \$37 Billion", in *Mehr News*, 15 March 2023, <https://en.mehrnews.com/news/198536>.

If Western pressure is the push factor in Sino-Iranian relations, the pull factor, the 25-year partnership with China, is going to shape the Iran-China relationship for decades to come, and with it increasingly the geopolitics of West Asia. While the partnership is thin on actual commitments, sets no clear targets and is vague on a timetable, and while it seems to be a repackaging of the agreements already reached during President Xi's visit to Iran in 2016, the signing of the trade and investment agreement in March 2021 was presented in Iran as a sign of proximity between Beijing and Tehran. Despite certain limitations,²⁰ this agreement will leave an indelible mark on Iran's eastward pivot as it pulls the country further away from the West. Unsurprisingly, energy and infrastructure are at the heart of the agreement. Regarding energy, the two sides are committed to closer cooperation, despite China's unwillingness to violate too openly or brazenly US-imposed sanctions on Iran. Thus, China raised its imports of Iranian oil to between 700,000 and 780,000 barrels per day in 2021/2022. The China National Petroleum Corporation is on the frontline of the energy partnership, not only to invest in Iran's oil, gas and petrochemical industries, but also to forge ties in the development of renewables in Iran and in the extension of east-west pipelines from the Caspian region to western China.

This dimension of the agreement feeds directly into Iran's role in the BRI. North-south and east-west routes for trade and also for oil pipelines are being explored despite the sanctions on Iran and despite Russia's isolation following its invasion of Ukraine in February 2022. Indeed, Russia's geopolitical isolation may have enhanced Iran's role in the BRI for facilitating China's trade with Europe and for the extension of its influence in Central Asia, hitherto Russia's strategic "backyard". At the same time, however, Russia's discounting of its oil exports to China and India in response to Western sanctions has created a sizeable dent in Sino-Iranian energy trade. This gap can widen further going forward as China concludes a substantial long-term trade deal with Qatar to secure four million tons of liquefied natural gas (LNG) annually for the next 27 years. This deal will eat into Iran's ambitions to become a natural gas exporter in its own right, with China (and India) being its primary target markets. If China's need for energy from Iran diminishes perceptibly over the coming period, and if US sanctions stand, then Iran will have little choice but to double down on the geopolitical advantages it can offer China's BRI as the driver of their economic partnership.

Furthermore, the 25-year partnership agreement has not diminished fears on the Iranian side of capitulation to China. Iran's poorly disguised displeasure at President Xi's apparent pro-Saudi and pro-UAE stance in his high-level trip to the Kingdom in December 2022 showcased the problem. Fears of China's domination of Iran's economy and its exploitation of the country's vast land and offshore

²⁰ Lucille Greer and Esfandyar Batmanghelidj, "Last Among Equals: The China-Iran Partnership in a Regional Context", in *Wilson Center Occasional Papers*, No. 38 (September 2020), <https://www.wilsoncenter.org/publication/last-among-equals-china-iran-partnership-regional-context>.

resources have been a constant concern, even expressed by those figures who facilitated China's access to Iran. Fears amongst intellectuals and reform-leaning members of the political elite regarding the authoritarian orientation of the Islamic Republic due to closer ties with China are also noteworthy.²¹ And, as Iran fulfils its ambition of becoming a full member of the Shanghai Cooperation Organisation to join Asia's top table, it remains to be seen how Tehran will handle intra-Asian tensions as a member of this complex and multipolar regional organisation.

Continuing instability in Iran and the lingering uncertainty over the prospects of the JCPoA will dampen the path towards closer ties in Sino-Iranian relations, particularly as high fossil fuel prices have made relations with the GCC countries and also Iraq a more attractive proposition. Unquestionably, Iran's large and relatively untapped market of over 80 million people, its vast natural resource base, and its young and highly educated workforce make it an attractive economy to engage with. Yet, as long as it remains on the outside of the normal global trade and investment networks it will be hard to realise that potential, and risky for a country like China to put many of its eggs in this basket. So, China will maintain good and positive links with Iran, but will likely devote much of its economic resources to working with Iran's Arab neighbours.

Conclusions

China's rising demand for energy – crude oil and natural gas in particular – has driven "Asian convergence". China's growing interest in the energy resources of the Persian Gulf since the late 1990s has proved to be transformational as it has fuelled broader trade and investment relations between China and virtually every country in West Asia. The BRI has widened the terrain of cooperation, and as Europe (prior to the Russian invasion of Ukraine in February 2022) and the United States aimed to reduce their energy imports from this region, West Asian oil exporters turned to China, India and other Asian countries in search of markets.

China's westward pivot (Central, South and West Asia) should be viewed in the broader context of its complex position in the international system and as a relationship shaped by the "continual tension in the dual-identity of China as a rising great power and at the same time a developing country".²² The notion of rising or emerging global power – terms used by Western leaders and international NGOs alike – imposes on China expectations that it is simply not (yet) equipped to meet. Moreover, Beijing is either unwilling to accept the expectations for greater investment in international politics that come with great power status (seen as a

²¹ Anoushiravan Ehteshami and Niv Horesh, *How China's Rise Is Changing the Middle East*, London/New York, Routledge, 2020.

²² Suisheng Zhao, "Core Interests and Great Power Responsibilities: The Evolving Pattern of China's Foreign Policy", in Xiaoming Huang and Robert G. Patman (eds), *China and the International System. Becoming a World Power*, London/New York, Routledge, 2013, p. 53.

straightjacket) or is unable to meet them because they are beyond its abilities as a still-developing country to fulfil.²³

China certainly faces the strategic dilemma of acknowledging itself as a great power on the one hand, but not as a rival of the United States on the other. Overall, for now it does not seem interested in great power rivalries which could damage its consolidation efforts in Eurasia. Nor does it entertain the idea of superseding the United States as "order fixer" or "order maker".²⁴ Furthermore, it is a long leap of faith to assume that a dominant China in a post-American multipolar world order would act in the same way as its 20th-century Western predecessor did, developing a vision or agenda for global leadership – aimed at reshaping the world in its own image.²⁵ While China has shown that it is indeed pursuing a great-power pathway – and its proposed Global Security Initiative is another clear indicator of its desire to restructure the system – Beijing is keen to separate notions of great power status from assumptions about hegemony. Evidence, arguably, speaks to China seeking to become Asia's "indispensable power" in ways resembling the role of the United States in the immediate post-Cold War era. China's ambitions are however more limited, or perhaps realistic, whereby it would come to regulate pan-Asian relations and dominate Eurasia as its most dynamic power.²⁶

While China develops its global role, it is clear that the surrounding areas are its first priority. Working on the assumption that the BRI is a key element of Beijing's grand strategy, embedded in its plans to build an Asian community, it is possible to argue that to legitimise Beijing's drive westwards it must articulate the idea of a "common destiny". Given this reality, it is perhaps not unreasonable for Iran and other Gulf states to assume that China is going to be in a position to address the complex security and geopolitical tensions of their own subregion. Beijing does not yet possess the material military resources, nor the will or the support back home for what would be regarded as diplomatic adventurism.

Nevertheless, its recent high-stake mediation efforts to broker a diplomatic breakthrough in Iran-Saudi relations, and thus also help thaw Tehran's relations with both the UAE and Bahrain, indicates a greater willingness of the Chinese leadership to exercise its considerable soft power in regions of strategic importance for the country and effectively use its good offices with all parties in the Persian Gulf to attempt to improve inter-Gulf relations. China rightly regards stability in the

²³ Jian Yang, "The Rise of China: Chinese Perspectives", in Kevin J. Cooney and Yoichiro Sato (eds), *The Rise of China and International Security. America and Asia Respond*, London/New York, Routledge, 2009, p. 13-37.

²⁴ Kai He and Huiyun Feng, "International Order Transition and US-China Strategic Competition in the Indo Pacific", in *The Pacific Review*, Vol. 36, No. 2 (2023), p. 234-260, DOI 10.1080/09512748.2022.2160789.

²⁵ Chengxin Pan, *Knowledge, Desire and Power in Global Politics. Western Representations of China's Rise*, Cheltenham/Northampton, Edward Elgar, 2012.

²⁶ Anoushiravan Ehteshami, "Gold at the End of the Rainbow? The BRI and the Middle East", in *Global Policy*, Vol. 9, No. 3 (September 2018), p. 387-397, DOI 10.1111/1758-5899.12552.

Persian Gulf as of paramount importance, and by hosting the secret talks between Iranian and Saudi officials it has demonstrated that not only the parties involved have confidence in Beijing's mediating role, but that it can also comfortably use its considerable economic leverage to persuade its partners to compromise. Although Iraq, Oman and other Gulf states had facilitated direct talks between Tehran and Riyadh in previous years, it was ultimately Beijing's direct intervention since the end of 2022 that broke the diplomatic logjam. Thus, this is arguably the dawn of a new era for Chinese mediation in regions well beyond its geographical spheres of influence.

Furthermore, it is relevant to note that other interested parties like the United States were left in the cold following President Xi's high-level trip to the Kingdom in December 2022, during which the issue of Iranian-Saudi relations had been discussed. The conversations in Riyadh were followed up by the Chinese leadership during Iranian President Ibrahim Raisi's trip to Beijing in February 2023, leading to what we can now call "the March surprise" breakthrough. Regional and major international powers will now watch with great interest China's next move for any sign of the country translating its considerable regional economic presence, and now also diplomatic role, into a greater military-security posture, which would then likely invite a more direct response from the United States. Despite a discernible sense of competition growing in American and Chinese actions in the region, it has been clear for some time that both great powers share a strong interest in normalisation of inter-state relations in strategically significant regions such as West Asia and North Africa. Reducing tensions indeed decreases pressures on the US military for expensive and risky deployment of massive force in the Persian Gulf, while it also improves the conditions for business – for trade and investment – on which China banks. Thus, it is not surprising to hear the US welcoming the Beijing-brokered accord between Iran and Saudi Arabia. In the words of Secretary of State Antony Blinken: "with regard to the agreement reached between Saudi Arabia and Iran with China's involvement, from our perspective, anything that can help reduce tensions, avoid conflict, and curb in any way dangerous or destabilizing actions by Iran is a good thing".²⁷

Looking ahead, China and its BRI partners will need to be mindful of four potential complications. The first relates to the adverse effects of geopolitical tensions, which could destabilise the whole BRI project while also keeping potential investors away. Russia's war against Ukraine provides the clearest example of the geopolitical potholes in Eurasia. Secondly, can China afford to spend the estimated 1.0 trillion US dollars needed for its multitude of planned projects? The question is, does it have the resilience and the conviction, as well as the reserves, to be able to continue to prioritise the BRI without prejudicing its other priorities? The answer may well be negative as evidence from developments since the pandemic shows.

²⁷ US Department of State, *Secretary Antony J. Blinken at a Press Availability*, Addis Ababa University, 15 March 2023, <https://www.state.gov/secretary-antony-j-blinken-at-a-press-availability-31>.

Thirdly, can Beijing continue to promote and “sell” the BRI when local resistance forces push its partner governments not to commit to it, or will it be pressed to renegotiate terms of projects? This is beginning to feature in some of China's relationships in its BRI partnerships. In Indonesia, for example, the high-profile Jakarta-Bandung high-speed railway has faltered because of logistical problems and land clearance disputes arising from neglect of the environmental impact of the project. In Kenya, viewed by China as the gateway to sub-Saharan Africa, the important Mombasa-Nairobi standard gauge railway ended up heavily indebteding Kenya to the extent that 21 per cent of Kenya's external debt is now to China.²⁸

And finally, how will China manage the resistance raised in India, the United States, Japan and other quarters against this ambitious and Asia-changing initiative? Can China avoid alienating these powerful actors while pressing ahead with wide-ranging and multiple-geography projects which can have a transformational impact on many Asian and African countries? Can China build a new Eurasia in its own image without appearing to be wiping out the images imprinted on Asia and Europe by the United States? US Undersecretary of Defence Colin Kahl, for instance, has made the clearest statement on the dangers of growing ties between China and regional allies of the United States, and has demanded that these countries do not enter into security ties with China. Speaking at the Manama Dialogue in November 2022, he went on record in the presence of many US allies with the message that:

In the Middle East, we should all be clear-eyed about the PRC's playbook. The PRC has no interest in mutually beneficial coalitions and Beijing has neither the intent nor the capability to integrate the region's security architecture. [...] Our approach is different. [...] We aim] to preserve the autonomy of all states as we strive to collectively build a regional security architecture. [...] Beijing will not be able to get the region together against Iran. They [the Chinese] are allies with Iran. They are not going to deliver security to the region.²⁹

These are fundamental questions and not ones that the Chinese leadership is unfamiliar with, but Beijing's responses will only become clear once one of China's fast-moving projects hits the buffers; only then will we know if this massive investment initiative was worth the price.

²⁸ Lingfei Weng et al., “Challenges Faced by Chinese Firms Implementing the ‘Belt and Road Initiative’: Evidence from Three Railway Projects”, in *Research in Globalization*, Vol. 3 (December 2021), Article 100074, <https://doi.org/10.1016/j.resglo.2021.100074>.

²⁹ US Department of Defense, *Remarks by Under Secretary of Defense for Policy Dr. Colin Kahl at the IISS Manama Dialogue (As Delivered)*, 18 November 2022, <https://www.defense.gov/News/Speeches/Speech/Article/3223837/remarks-by-under-secretary-of-defense-for-policy-dr-colin-kahl-at-the-iiss-mana>; Colin Kahl, *The Imperative of Partnership in the New Middle East – IISS Manama Dialogue 2022* (video), 18 November 2022, <https://www.iiss.org/events/2022/11/the-imperative-of-partnership-in-the-new-middle-east-iiss-manama-dialogue-2022>; Barak Ravid, “Top Pentagon Official Warns Middle East Partners to Limit China Ties”, in *Axios*, 18 November 2022, <https://www.axios.com/2022/11/18/pentagon-colin-kahl-warns-china-ties-uae-israel>.

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