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# Finding Balance in an Imbalanced System

The Case of the Triangular Relation Between China, Saudi Arabia, and Iran

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# Introduction

With its many rich oil reserves and its strategic location, the Middle East has been an area of interest for many actors worldwide. One of the major state actors that has developed an interest in the Middle East in the last couple of decades is China. The country is one of the largest consumers of energy and the biggest exporter of manufactured goods in the world. Due to China's growing industry and their corresponding growing energy requirements in the last couple of decades, the country needed to reevaluate its foreign policy for the Middle East to secure its supply of energy. A key factor in the achievement of this goal has been the improvement of their relations with oil exporting countries in the Middle East such as Saudi Arabia and Iran. China's search for the protection of its oil supply and the stabilization of its major export markets of manufactured goods has become increasingly important for all parties concerned with the geopolitical situation in the Middle East. It is interesting to see how China has developed its relations with the two major rivalling states in the Middle East, as Saudi Arabia and Iran compete over dominance in the oil market in the Middle East, leadership in the region, and are devote defenders of respectively Sunni and Shia Islam.

It seems contradictory for China to be able to maintain good relations with two rivals at the same time as it would include the difficult task of constantly balancing its commitments to both states. As the founder of balance theory, Fritz Heider argues that two friends with a common enemy form a balanced triangle. Subsequently, two enemies with a common friend would thus form an imbalanced triangle.<sup>1</sup> He further states that actors confronted with this dilemma will be motivated to correct the imbalance somehow.

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<sup>1</sup> Fritz Heider, *The Psychology of Interpersonal Relations* (New York: Wiley, 1958).

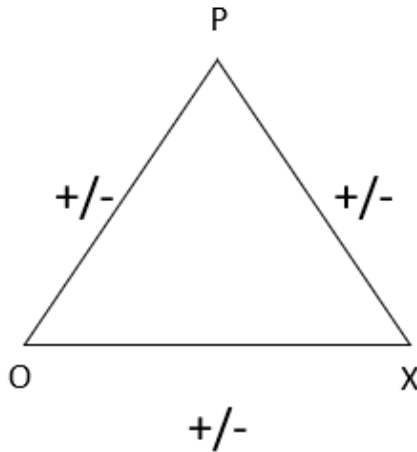


Figure 1: Heider's P-O-X model

For his theory, Heider uses a P-O-X model with positive links and negative links. If P and O have a positive attitude towards each other, this creates a positive link (+). If P has a positive link with O and a negative link (-) with X, what does P feel upon learning that O and X also have a positive link? A balance is accomplished when there are three positive links or two negatives with one positive.<sup>2</sup> Applying Heider's balance theory to the triangular relation discussed in this thesis, it shows that the relationships between China and Saudi Arabia, and China and Iran are both a positive link. On the other hand, the relationship between Saudi Arabia and Iran is a negative link. Two positive links and one negative like in the example below thus creates an imbalance.

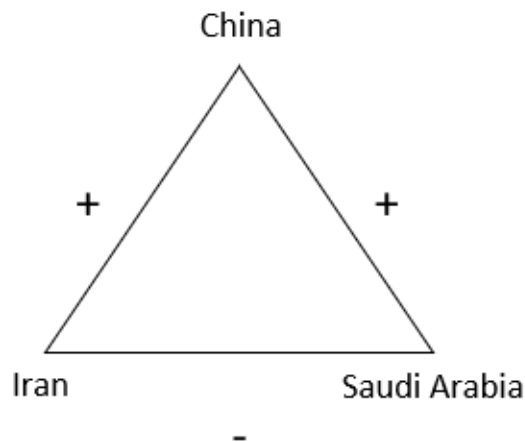


Figure 2: Heider's P-O-X model applied to the triangular relation between China, Saudi Arabia, and Iran

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<sup>2</sup> Heider, 204.

Although an imbalanced system is not impossible, it will have the tendency to break down in time. Given the fact that the triangular relation between China, Saudi Arabia, and Iran is identified as an imbalanced system, this would mean that the triangular relation will fall apart. However, according to some authors in the field of international politics and the formation of coalitions, there are circumstances that allow for an imbalanced system to continue. Theodore Caplow identifies the triangular relation discussed in this thesis as a triad, in which an uncommitted actor such as China, to whom each of the two rivals appeal for support, is able to play one of three possible functions that will allow the triad to survive.<sup>3</sup> In addition, Robert Jervis, an expert on perception and misperceptions in foreign policy decision-making, demonstrates that overlapping interests may lead a state to seek imbalance. He argues that there are six conditions that permit such an imbalanced triangular relation.<sup>4</sup>

Unfortunately, when Caplow's triad system and Jervis' six conditions are applied to the triangular relation discussed in this thesis, it appears that both theories fail to explain the viability of the triangular relation between China, Saudi Arabia, and Iran. What could then explain the triangular relation? This thesis introduces an alternative condition that permits the existence of an imbalanced system over time. The alternative condition is found by analyzing the role of four key factors that are dominant in the decision-making process of foreign policy that influences the bilateral relations between China, Saudi Arabia, and Iran. The four factors that are analyzed are ideology, politics, economics, and strategy. The relative weight of each factor is assessed by the analysis of the importance allocated to each individual factor by the states in their bilateral relations. After assessing the influence of each factor in the bilateral relations between the three countries, it will therewith be possible to determine which factor is most dominant in the decision-making process of each state within the triangular relation. The factor that is demonstrated to be most dominant, forms by reason the alternative condition that permits the inconsistency of the imbalanced triangular relation between China, Saudi Arabia, and Iran.

The methodology used for this research is a qualitative literature analysis in a case study research based on the collection and qualitative analysis of texts and document found in the Leiden University Libraries' collections of books, journals and databases.<sup>5</sup> Characteristic for a case study is the focus on 'why' or 'how'

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<sup>3</sup> Theodore Caplow, *Two Against One; Coalitions in Triads*, 1st ed. (Englewood Cliffs: Prentice-Hall Sociology Series, 1968).

<sup>4</sup> Robert Jervis, *System Effects: Complexity in Political and Social Life* (Princeton, N.J: Princeton University Press, 1997).

<sup>5</sup> Alan Bryman, *Social Research Methods*, 4th ed (Oxford ; New York: Oxford University Press, 2012), 383.



research questions.<sup>6</sup> This research is a single-case study, as it examines and researches merely the triangular relation between China, Saudi Arabia, and Iran.<sup>7</sup> Quantitative research usually has a deductive approach to the relationship between theory and research, whereas qualitative research most often emphasizes an inductive approach.<sup>8</sup> With this particular case study, a deductive approach has been used to examine whether existing theories on imbalanced systems could explain the case study discussed in this thesis. Unfortunately, the existing theories have not been applicable to the imbalanced triangular relation between China, Saudi Arabia and Iran. Therefore, an inductive approach has turned out to be necessary to be able to explain for this imbalance.<sup>9</sup> This has been done by analyzing the influence of the four main factors, namely ideology, politics, economics, and strategy, on the foreign policy decisions of the three countries. By weighting these factors and determining which factor is most dominant, a new, complementary theory can be induced.<sup>10</sup> The research will limit itself to the period starting from the Islamic revolution in Iran in 1979 until 2016.

Chapter 1 includes an introduction to the leading authors on the rivalry between Saudi Arabia and Iran, the relations between China, Saudi Arabia, and Iran, and triangular relations. Furthermore, this section will discuss the imbalanced system in international relations. Chapters 2, 3, and 4 discuss the bilateral relations between China, Saudi Arabia, and Iran. The focus is on the historical, diplomatic, and economic relations between the countries, after which the influence of each of the four factors within those relations is analyzed. Chapter 5 applies the theories of Caplow and Jervis that would permit an imbalanced system to the triangular relation discussed in this thesis. Furthermore, it searches for an alternative condition that could allow for the imbalanced system, and compares and weighs the different factors in foreign policies in the triangular relation between China, Saudi Arabia, and Iran. Conclusions will be drawn in chapter 6.

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<sup>6</sup> Robert K. Yin, *Case Study Research: Design and Methods*, Applied Social Research Methods (Los Angeles, Calif: Sage Publications, 2009).

<sup>7</sup> Bryman, *Social Research Methods*, 417.

<sup>8</sup> Bryman, 35.

<sup>9</sup> Bryman, 387.

<sup>10</sup> Bryman, 388.

# Chapter 1 Literature Overview

The growing presence of China in the Middle East is an interesting topic in international relations. An aspect of this are the growing relations between China and the two biggest regional actors in the Middle East; Saudi Arabia and Iran. Both states are major oil suppliers to China and interact with their Eastern partner on various levels. Despite their improved relations with China, the two Middle Eastern countries themselves are still bitter rivals. This research concentrates on the triangular relation between China, Saudi Arabia, and Iran. It seeks to analyze the apparent contradiction of China befriending two regional rivals in the Middle East and the viability of this imbalanced system.

This chapter takes a closer look at the academic literature on the most significant topics for this research: Sino-Iranian relations, Sino-Saudi relations, Saudi-Iranian relations, and triangular relations. Furthermore, this section will discuss the imbalanced system in international relations.

## 1.1 Saudi-Iranian Relations

The relations in the Gulf region are characterized by a specific style. According to Gause, this Gulf diplomatic style can be described as a reliance on policies of balance and maneuver to maintain domestic security.<sup>11</sup> Since 1979, multiple opportunities for an improvement of the relations between the Gulf Cooperation Council (GCC) and Iran have occurred. However, both Gause and Mason agree that the attempts to rapprochement have continuously been obstructed by insuperable ideological, geopolitical, and economic factors.<sup>12</sup> Rich identifies up to six factors that feed the current instability in the Gulf region, including radical policies, regional arms race, and the ambiguity of Iran's nuclear program.<sup>13</sup> According to Tzemprin the structural factors that create the rivalry are ideological, but mostly geopolitical divisive elements.<sup>14</sup> This includes the Arab spring that changed the political landscape in the Middle East and the negotiations on Iran's nuclear program.<sup>15</sup> Ersoy favors the idea that ideational conditions and religious causes are the paramount elements of the rivalry. Consequently, the most important variable determining

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<sup>11</sup> F. Gregory Gause III, *Oil Monarchies: Domestic and Security Challenges in the Arab Gulf States* (New York: Council on Foreign Relations Press, 1994), 121.

<sup>12</sup> Gause III, *Oil Monarchies*; Robert Mason, *Foreign Policy in Iran and Saudi Arabia: Economics and Diplomacy in the Middle East*, 2015, <http://site.ebrary.com/id/11026136>.

<sup>13</sup> Ben Rich, "Gulf War 4.0: Iran, Saudi Arabia and the Complexification of the Persian Gulf Equation," *Islam and Christian-Muslim Relations* 23, no. 4 (October 2012): 483, <https://doi.org/10.1080/09596410.2012.712453>.

<sup>14</sup> Athina Tzemprin, Jugoslav Jozić, and Henry Lambare, "The Middle East Cold War: Iran-Saudi Arabia and the Way Ahead," *Politička Misao* 52, no. 4–5 (2016): 187–202.

<sup>15</sup> Tzemprin, Jozić, and Lambare, 188.

the rivalry is therefore the self-identification of the parties.<sup>16</sup> The concepts of Shi'a versus Sunni, and Persian versus Arab give both sides ways to provide legitimacy for their policies.<sup>17</sup>

## 1.2 Sino-Iranian Relations

There are two outstanding books that cover Sino-Iranian relations that have contributed greatly to a comprehensive outline of the shared history of the two states. The first is written by A.H.H. Abidi in 1982, titled 'China, Iran, and the Persian Gulf'. Although an excellent source, it was written just after the Islamic revolution in Iran in 1979 and much has changed since.<sup>18</sup> The second, more contemporary source is written by J.W. Garver.<sup>19</sup> Titled 'China and Iran', this book explores the evolution of Sino-Iranian relations through several phases in history. According to Abidi, the Sino-Iranian relations are one of the best examples of a situation where the national interest is the dominating factor and is able to bring two ideologically disparate and politically estranged regimes together.<sup>20</sup> Garver believes that Iran and China "share common views on many major international issues although they pursue independent foreign policies".<sup>21</sup> Dorraj and English examine the political economic aspects of China's energy strategy in the Middle East and the rapprochement between China and Iran.<sup>22</sup> They argue that China's policy of non-interference in internal matters is a deliberate strategy to solidify energy relations with important oil exporting countries in the Middle East.<sup>23</sup> Garver agrees and adds that China might also exploit its relationship with Iran to have certain power over other world powers.<sup>24</sup> However, the possible threat that Iran poses for the regional stability and security, namely the Iranian search for nuclear technology, and the US' opinion about Iran, make it difficult for China not to be identified as a partner of rogue states.<sup>25</sup> This shows that the relationship between the two states is difficult for both. Berger even goes further and argues that the Sino-

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<sup>16</sup> Eyüp Ersoy, "The Rivalry between Saudi Arabia and Iran in the Middle East," *USAK Yearbook of Politics and International Relations*, no. 6 (2013): 289.

<sup>17</sup> Ersoy, 289.

<sup>18</sup> Aqil Hyder Hasan Abidi, *China, Iran, and the Persian Gulf* (Atlantic Highlands, N.J.: Humanities Press, 1982).

<sup>19</sup> John W. Garver, *China and Iran: Ancient Partners in a Post-Imperial World* (Seattle: University of Washington Press, 2006).

<sup>20</sup> Abidi, *China, Iran, and the Persian Gulf*.

<sup>21</sup> Garver, *China and Iran*.

<sup>22</sup> Manochehr Dorraj and James E. English, "China's Strategy for Energy Acquisition in the Middle East: Potential for Conflict and Cooperation with the United States," *Asian Politics & Policy* 4, no. 2 (2012): 173–191.

<sup>23</sup> Manochehr Dorraj and James E. English, "The Dragon Nests: China's Energy Engagement of the Middle East," *China Report* 49, no. 1 (February 1, 2013): 43–67, <https://doi.org/10.1177/0009445513479243>.

<sup>24</sup> John W. Garver, "China-Iran Relations: Cautious Friendship with America's Nemesis," *China Report* 49, no. 1 (2013): 69–88, <https://doi.org/10.1177/0009445513479247>.

<sup>25</sup> Barry Rubin, "China's Middle East Strategy," *China Report* 3–4, no. 34 (1998): 347.

Iranian relations is primarily based on Iran's lack of better options and China's interest in an economic stable Iran.<sup>26</sup>

### 1.3 Sino-Saudi Relations

The relations between China and Saudi Arabia are of a more recent character compared to the Sino-Iranian relations. Despite the adolescent nature of their relations, China and Saudi Arabia have already become strategic partners who share some common interests.<sup>27</sup> Both states favor an improvement of the stability and security in the Middle East and the Gulf region. Furthermore, Chen argues that Saudi Arabia is trusting on China in solving the Iran nuclear problem.<sup>28</sup> Blumenthal argues that the Sino-Saudi relationship is based on a mix of arms and trade.<sup>29</sup> He identifies economics as the main factor behind the collaboration between the two states. This explains the starting up of joint ventures in upstream and downstream infrastructure in both countries as a commitment towards Saudi Arabia, investing in a shared future.<sup>30</sup> This view is shared by Chaziza, who argues that China's engagement with Middle Eastern countries is driven primarily by its attempts to achieve energy security. Enhancing economic ties is therefore one of the main objectives of China's foreign policy in the Middle East, together with promoting regional stability.<sup>31</sup> For China, both Saudi Arabia and Iran are important political and economic partners in the region. China's official attitude is thus cautious and essentially a balancing act for it to remain neutral.<sup>32</sup> Due to its growing role in the Middle East, China cannot ignore conflicts in the region having a direct impact on its interests. The political influence of Saudi Arabia makes it therefore one of China's critical partners in the Middle East.<sup>33</sup>

### 1.4 Triangular Relations and the Imbalanced System

Relations are often not as bilateral as one would think. Instead, bilateral relations are generally influenced by each one's relations with others.<sup>34</sup> An example of this are triangular relations, a social system that involves three actors who are related to each other. This system consists of three relationships: AB, BC,

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<sup>26</sup> B. Berger and P. Schell, "Toeing the Line, Drawing the Line: China and Iran's Nuclear Ambitions," *China Report* 49, no. 1 (February 1, 2013): 89–101, <https://doi.org/10.1177/0009445513479248>.

<sup>27</sup> Chen Mo, "China's Oil Supply Strategy: The Case Of Saudi-Arabia And Sudan," in *The Globalization of Energy* (Brill, 2010), 1, <http://booksandjournals.brillonline.com/content/books/10.1163/ej.9789004181120.i-364.48?crawler=true&mimetype=application/pdf>.

<sup>28</sup> Mo, 189.

<sup>29</sup> Dan Blumenthal, "Providing Arms," *Middle East Quarterly*, 2005, <http://www.meforum.org/695/providing-arms>.

<sup>30</sup> Dorraj and English, "China's Strategy for Energy Acquisition in the Middle East."

<sup>31</sup> Mordechai Chaziza, "China's Middle East Foreign Policy and the Yemen Crisis: Challenges and Implications," *Middle East Review of International Affairs* 19, no. 2 (2015): 18.

<sup>32</sup> Chaziza, 19.

<sup>33</sup> Chaziza, 22.

<sup>34</sup> Jervis, *System Effects*, 29.

and AC.<sup>35</sup> A change in the relations between state A and B will often affect each state's attitude towards state C, as will state C's attitude towards State A and B alter because of this change. Applied to the triangular relation between China, Saudi Arabia, and Iran, this means that a deterioration of Saudi-Iranian relations could either benefit or disadvantage China.<sup>36</sup> This shows how complex triangular relations can be, as they are basically a set of three linked bilateral relations. Consequently, the introduction of a third state can further complicate bilateral relations between two states, as state A may have different foreign policy orientations towards B and C.<sup>37</sup>

There are multiple reasons that can explain why states seek to establish relations with other states to begin with. States will nonetheless primarily choose partners that provide the best cost-benefit analysis.<sup>38</sup> Walt argues that especially smaller states establish relations with other states to prevent undesired influence by third states. From a great power's perspective, aligning with a smaller, weaker state increases the major power's influence.<sup>39</sup> In the Middle East, states have traditionally sought to establish strong relations with a great power to counterbalance the influence of other great powers. In this triangular relation, the need for counterbalance could thus play a key role for Saudi Arabia and Iran in their decision to maintain relations with China.<sup>40</sup>

In perfect triangular relations, each state should be able to cooperate with the other two states. In reality, each state will have a certain perception of another state, which can make it difficult to align with one or more states at the same time.<sup>41</sup> Liska argues that it is uncommon for an important power such as China to be closely connected to both parties of a local conflict. Such an exception would normally only occur in the wake of overwhelming gains or coercion.<sup>42</sup> So, what can explain the viability of this imbalanced system?

Jervis argues that we should look at how actors are positioned in a system.<sup>43</sup> An actor such as China might gain bargaining leverage over the other two states if it is able to stay connected while they are unable to

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<sup>35</sup> Caplow, *Two Against One*, 2.

<sup>36</sup> Jervis, *System Effects*, 178.

<sup>37</sup> Joshua S. Goldstein and John R. Freeman, *Three-Way Street: Strategic Reciprocity in World Politics* (Chicago: University of Chicago Press, 1990), 33.

<sup>38</sup> Glenn H. Snyder, "Alliances, Balance, and Stability," *International Organization* 45, no. 01 (December 1991): 128, <https://doi.org/10.1017/S0020818300001417>.

<sup>39</sup> Stephen M. Walt, "Alliance Formation and the Balance of World Power," *International Security* 9, no. 4 (1985): 6, <https://doi.org/10.2307/2538540>.

<sup>40</sup> Walt, 16.

<sup>41</sup> George Liska, *Nations in Alliance; The Limits of Interdependence*, 1968th ed. (Baltimore: The John Hopkins Press, n.d.), 16.

<sup>42</sup> Liska, 19.

<sup>43</sup> Jervis, *System Effects*, 5.

get on good terms.<sup>44</sup> An alteration in the relations between two states can affect each state's position toward the third party, and the distribution of bargaining power between two states is for an important part affected by existing and possible relations with others.<sup>45</sup> Often, in a system that is imbalanced, the state that is connected to two rivalling states will benefit from bringing the latter together. Yet in the case with China, when a state does not have to choose between them, it may benefit by being in the pivot and having good relations with both Iran and Saudi Arabia.<sup>46</sup> Although this situation is highly unstable, several conditions may permit this inconsistency. Examples given by Jervis are inter alia two adversaries courting the dominant state, diplomatic skill, and conflicting ideologies and historical animosities.<sup>47</sup>

The reason for the viability of triangular relations may also have to do with an overriding importance of certain factors in each individual state's foreign policy. This can further explain the continuation of the imbalanced system. There's a debate concerning the identification of the most prominent factors in the decision-making process of foreign policy in all three states. Blumenthal argues that economic factors are the decisive element in directing China's foreign policy, others believe that political motives are the main ingredient for China's behavior in the Middle East.<sup>48</sup> Currier and Dorraj claim that besides economic factors, strategic factors play a crucial role in Sino-Iranian relations. They differentiate between the two factors by looking at both short- and long-term benefits of the cooperation.<sup>49</sup>

It seems evident that China, Saudi Arabia, and Iran all have a specific mix of factors that shape their foreign policy. This process includes domestic and international elements that determine the relative weight of the different factors. For China, becoming a net energy importer has caused their foreign policy to be focused on developing special energy security strategies. This can be seen in the implementation of China's 12<sup>th</sup> Five Year Program from 2011 to 2015.<sup>50</sup> It describes a pragmatic foreign policy that favors economic interests.<sup>51</sup> Beside economic profit, Rubin includes ideology, and the direct effect of the Middle East on the domestic situation in China as factors that influence China's regional policy.<sup>52</sup> Nevertheless, Bianchi

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<sup>44</sup> Jervis, 234.

<sup>45</sup> Jervis, 33.

<sup>46</sup> Jervis, 220.

<sup>47</sup> Jervis, 236.

<sup>48</sup> Blumenthal, "Providing Arms."

<sup>49</sup> Carrie Liu Currier and Manochehr Dorraj, "In Arms We Trust: The Economic and Strategic Factors Motivating China-Iran Relations," *Journal of Chinese Political Science* 15, no. 1 (March 2010): 49–69, <https://doi.org/10.1007/s11366-009-9082-6>.

<sup>50</sup> "China's 12th Five Year Program (2011-2015) Translation," 2010, 12.

<sup>51</sup> Kang Wu, "China's Energy Security: Oil and Gas," *Energy Policy* 73 (October 2014): 6, <https://doi.org/10.1016/j.enpol.2014.05.040>; "Five Year Program," 2.

<sup>52</sup> Rubin, "China's Middle East Strategy," 345.

states that there is still no consensus in Beijing on their Middle East foreign policy, particularly in the wake of the Arab uprisings.<sup>53</sup> The unrest in the Arab world did present China with diplomatic challenges, although there is no evidence that Chinese economic interests have been weakened in the Middle East.<sup>54</sup>

The economic factors are of importance to Iran's foreign policy as well, although they are adjuvant to Iran's ideological principles. Their ideology places the state in the anti-Western alliance and against Saudi pan-Arabism. A third pillar that influences Iran's foreign policy is its nuclear program, which has led to toughened sanctions by the West.<sup>55</sup> Some of the ideological factors that are of importance for Saudi foreign policy are its sectarianism that causes conflict in the region and its participation in the pro-Western alliance. This connects to the geopolitical influences of US interventionist policies in the Middle East that intensifies the regional rivalry with Iran.<sup>56</sup> Nevertheless, economic factors have been shown to be paramount in their foreign policy. Oil revenues and oil pricing are often used as an instrument against other major exporters in the region. Also important is the Saudi need for a stable and secure energy market that leads to a search for deepening bilateral relations based on energy supply and cooperation.<sup>57</sup>

Mason believes that it is hard to understand which other factors beyond security ones influence foreign policy due to the lack of transparency at the state level.<sup>58</sup> Because of this 'black box' decision making process, Mason proposes an 'inside out' perspective to analyze these foreign policies.<sup>59</sup> This can be done by assessing three factors in the analysis of foreign policies: ideology, geopolitics, and economics. Mason builds on the arguments made earlier by Garver, and Currier and Dorraj, by combining all these factors and determining the relative weight of each factor for the individual state.<sup>60</sup>

According to the arguments made by the authors discussed above, the most prominent factors in the process of foreign policymaking are ideology, politics, economics, and strategy. This includes the three factors of Mason's foreign policies analysis, which again includes the arguments of Blumenthal, Rubin, and Bianchi, combined with the strategic factor of Currier and Dorraj. This thesis will make use of this

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<sup>53</sup> R. R. Bianchi, "China-Middle East Relations in Light of Obama's Pivot to the Pacific," *China Report* 49, no. 1 (February 1, 2013): 103–18, <https://doi.org/10.1177/0009445513479456>.

<sup>54</sup> J. Calabrese, "China and the Arab Awakening: The Cost of Doing Business," *China Report* 49, no. 1 (February 1, 2013): 18, <https://doi.org/10.1177/0009445513479212>.

<sup>55</sup> Mason, *Foreign Policy in Iran and Saudi Arabia*, 157.

<sup>56</sup> Mason, 157.

<sup>57</sup> Mason, 158.

<sup>58</sup> Mason, 5.

<sup>59</sup> Mason, 15.

<sup>60</sup> Mason, 156.

categorization when examining the dimensions of the bilateral relations between China, Saudi Arabia, and Iran.



## Chapter 2 Saudi-Iranian Relations

This chapter will examine the different dimensions of the relations between Saudi Arabia and Iran. Located in the Middle East with the Gulf separating the two countries, Saudi Arabia and Iran have developed into the two primary rivals that struggle for regional dominance. The rivalry will be explained by examining multiple causes ranging from politics to their religious identities. Furthermore, it will be important to consider the countries' relations with outside powers and the influence this has on Saudi-Iranian relations. As the two major oil exporters in the region, Saudi Arabia and Iran play a significant role in the Middle East foreign policies of many outside powers.

This chapter is structured as follows. First, a short historical overview is given of Saudi-Iranian relations. Second, the chapter will discuss the history of diplomatic relations between the two countries and the influence of agency. Third, the economic relations between the two countries will be addressed. Fourth, the issue of nuclear energy in the Middle East and its effect on Saudi-Iranian relations will be examined. Finally, the different dimensions of Saudi-Iranian relations are explained. This includes ideological, economic, political, and strategic elements.

### 2.1 Historical Overview

The current tensions between Saudi Arabia and Iran have been described as the result of century old hostilities between Arabs and Persians, and Sunni and Shiite Muslims, intensified by the Islamic Revolution in Iran in 1979 and the ensuing ideological and geopolitical conflicts.<sup>61</sup> Their rivalry has been an important element in the shaping of politics in the Middle East, and the Gulf region in particular, and as the two dominant regional powers, their bilateral conflicts have spilled over into many proxy conflicts in the region.<sup>62</sup>

During the 1960s and 1970s, Iran was the US' primary ally in the Middle East.<sup>63</sup> Together with Saudi Arabia it became part of the 'twin pillars' strategy outlined in the Nixon Doctrine. The aim of this American policy was to combat communism in the region and secure American interests in the Middle East.<sup>64</sup> Relations

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<sup>61</sup> Tzemprin, Jozić, and Lambare, "The Middle East Cold War," 188; Simon Mabon, *Saudi Arabia and Iran: Soft Power Rivalry in the Middle East*, Library of Modern Middle East Studies 132 (London: Tauris, 2013), 3.

<sup>62</sup> Tzemprin, Jozić, and Lambare, "The Middle East Cold War," 187.

<sup>63</sup> Fanack, "Iran and Saudi Arabia: The Rivalry Explained," Fanack Chronicle, July 20, 2016, <https://chronicle.fanack.com/saudi-arabia/history-past-to-present/iran-and-saudi-arabia-the-rivalry-explained/>.

<sup>64</sup> Kim Ghattas, "The Blood Feud That Drives the Middle East," *Foreign Policy* (blog), November 13, 2015, <https://foreignpolicy.com/2015/11/13/the-blood-feud-that-drives-the-middle-east-saudi-arabia-iran/>.

between the House of Al Saud and the Pahlavi dynasty were of a polite nature, even though the Shah's ambitions to make Iran the dominant power in the Gulf region and his advancing territorial claims troubled the Saudi ruler.<sup>65</sup> During this period the relations between the two countries were characterized by concerns regarding the regional order and ideological tensions deriving from Arab-Persian differences. The focus on radical religious differences was not yet a dominant element of any significance.<sup>66</sup>

In 1979, the fall of the Shah, the establishment of the first Shiite government, and the appointment of Imam Khomeini as the Supreme Leader, created a new Iran that challenged the stability in the Middle East. Iran's foreign policy saw some profound changes that were characterized by two main ideological principles.<sup>67</sup> First, the newly established Islamic Republic of Iran (IRI) would steer away from Western influences and follow its own path. This was expressed by the slogan "Neither East nor West but the Islamic Republic". Second, Khomeini saw it as Iran's duty to export the Islamic Revolution and free Muslim and non-Muslim countries from the oppression of their corrupt leaders.<sup>68</sup> After the Islamic Revolution, Iran's propagation of its ideological and revolutionary policies became a threat for the legitimacy of the Saudi regime and its authority.<sup>69</sup> This is illustrated by statements from Khomeini who viewed the Al Saud monarchy as unworthy to be guardians of Mecca and Medina.<sup>70</sup>

After the start of the Iran-Iraq war in 1980, Saudi Arabia soon rallied with many other Arab states to the Iraqi side and supported the country with financial assistance.<sup>71</sup> For Saudi Arabia, the Iran-Iraq war had a critical effect on the security of its major lifeline, the Gulf, through which the country transports most of its oil export. A hostile Iran with the capability of controlling the strait of Hormuz thus meant a threat to Saudi's economic interest as well as its domestic stability. An Iranian victory over Iraq combined with Khomeini's call to the destruction of the illegitimate Al Saud rulers would threaten the survival of the Saudi Kingdom.

Since the end of the Iran-Iraq war, Saudi-Iranian relations has seen many ups and downs. Iran has been determined to reclaim the status of predominant power in the region.<sup>72</sup> This has led Iran to a path

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<sup>65</sup> Ghattas.

<sup>66</sup> Simon Mabon, "FPC Briefing: The Middle Eastern 'Great Game'" (Foreign Policy Centre, June 2013), 3.

<sup>67</sup> Abdollah Amiri, "Iran's Foreign Policy towards Saudi Arabia, 1989-1997" (Jawaharlal Nehru University, 2010), 27.

<sup>68</sup> Amiri, 28.

<sup>69</sup> Reza Ekhtiari Amiri, Ku Hasnita Binti Ku Samsu, and Hassan Gholipour Fereidouni, "The Hajj and Iran's Foreign Policy Towards Saudi Arabia," *Journal of Asian and African Studies* 46, no. 6 (2011): 680.

<sup>70</sup> Mabon, *Saudi Arabia and Iran*, 175.

<sup>71</sup> Ersoy, "The Rivalry between Saudi Arabia and Iran in the Middle East," 295.

<sup>72</sup> Mason, *Foreign Policy in Iran and Saudi Arabia*, 22.

characterized by a policy dominated by nationalism and militarization. This is illustrated by the development of Iran's nuclear program and its purchases on the international arms trade market. Although some will argue that the Saudi-Iranian rivalry stems from a century old conflict originating in the Arab Persian divide and Sunni Shiite divide, it is more likely that the contemporary conflict derives from modern-day geopolitical struggles between two regional dominant powers.<sup>73</sup>

## 2.2 Diplomatic Relations

As mentioned in the previous section, Saudi Arabia and Iran did have stable diplomatic relations. Neither the Islamic Revolution in 1979, nor the Saudi support for Iraq during the Iran-Iraq war were serious enough to cause a break in their diplomatic ties. However, during the annual Hajj pilgrimage in 1987, violent clashes between Iranian demonstrators and Saudi security forces resulting in approximately 300 dead pilgrims led to a break in diplomatic ties in 1988.<sup>74</sup> A renewal of diplomatic relations saw the light in 1991, as a reaction to multiple changes in the situation in the Middle East. First, the end of the Iran-Iraq war created an opportunity for the normalization of relations between Iran and the Arab countries in the Middle East. Second, the Iraqi invasion of Kuwait and the Iranian condemnation made Iraq the new pariah in the Middle East. This gave Iran the chance to further improve its reputation in the Middle East. Finally, the death of Khomeini marked the opportunity for a reduction of the role of ideology in Iran's foreign policy. With the election of President Rafsanjani and the appointment of Ayatollah Khamenei as new Supreme Leader, the leaders of Iran decided to keep their Islamic and revolutionary principles but at the same time reduce the level of radicalism in its policies.<sup>75</sup>

In 1997, with President Khatami in charge in Iran and Crown Prince Abdullah rising in the hierarchy in Saudi Arabia, a new phase in Saudi-Iranian cooperation developed resulting in two bilateral agreements in 1998 and 2001.<sup>76</sup> The détente in Saudi-Iranian relations continued for a couple of years until the election of President Ahmadinejad in 2005.<sup>77</sup> Ahmadinejad was the leader of a group of populists that steered Iranian politics on a more neo-conservative path. This shift away from the more moderate policies of previous presidents led to a resurfacing of Saudi-Iranian tensions.<sup>78</sup> After Ahmadinejad's term had come to an end, the election of the moderate President Rouhani in 2013 initiated a return to Saudi-Iranian

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<sup>73</sup> Mabon, "FPC Briefing," 4.

<sup>74</sup> Amiri, "Iran's Foreign Policy," 681.

<sup>75</sup> Amiri, 683.

<sup>76</sup> Fanack, "Iran and Saudi Arabia."

<sup>77</sup> Rich, "Gulf War 4.0," 474.

<sup>78</sup> Amiri, "Iran's Foreign Policy," 688.

rapprochement.<sup>79</sup> What this clearly shows is that diplomatic relations between Saudi Arabia and Iran are for a large part influenced by the ideas of individual leaders of both countries. Improvements and deteriorations of diplomatic ties often correspond with the appointment of a new leader in either of the two countries. Agency has therefore proven to be a crucial factor in Saudi-Iranian relations. As mentioned earlier, in January 2016, Saudi Arabia and Iran decided to cut diplomatic ties once more.

### 2.3 Economic Relations

Despite their rivalry, Saudi Arabia and Iran do engage in bilateral trade. In 2015, bilateral trade between Saudi Arabia and Iran was \$323.1M, with a positive trade balance of \$78.5M for Iran. Saudi Arabia's top export products to Iran are plastics, and paper related articles. Iran's top exports to Saudi Arabia are iron and steel, and fruits, nuts and melons.<sup>80</sup> Despite their geographic proximity, the political constrained relations have had a clear influence on bilateral trade. Even when taking in consideration the fact that the main export product of both countries is crude oil, the level of bilateral trade is significantly low, only accounting for 0.1 percent of each other's total export.<sup>81</sup> After the executions of Saudi Shiite cleric Nimr al-Nimr in Saudi Arabia in January 2016, the cut of diplomatic ties was followed by a stop in Saudi-Iranian trade as well.

Although Iran is an important crude oil producer, Saudi Arabia is still the undisputed number one in the crude oil supply market. As the biggest crude oil producer within the GCC, with a production of 10,192,600 thousand barrels per day (tb/d) out of the GCC's total of 17,879,000 tb/d, and one of the leading crude oil producers within the Organization of the Petroleum Exporting Countries (OPEC), with a production of 10,640 tb/d out of the OPEC's total of 32,683 tb/d.<sup>82</sup> Saudi Arabia can influence the price of crude oil in the short term by changing its oil supply to the international market. Although both countries rely heavily on oil revenues, Saudi Arabia and Iran both have very different oil strategies. Whereas Iran is dependent on a high oil price to finance its economy, Saudi Arabia focuses on the preservation of its market share and the security of its future crude oil distribution markets since 2014. This has led to a Saudi oil policy focusing on guaranteeing long-term demand which outweighs goals such as higher revenues and higher oil prices.<sup>83</sup>

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<sup>79</sup> Tzemprin, Jozić, and Lambare, "The Middle East Cold War," 188.

<sup>80</sup> Department for Business, Innovation & Skills, "International Trade in Goods Based on UN Comtrade Data," accessed December 4, 2016, <http://comtrade.un.org/labs/BIS-trade-in-goods>.

<sup>81</sup> Department for Business, Innovation & Skills.

<sup>82</sup> OPEC, "OPEC Annual Report 2016," 2016, 18; GCC, "GCC-Stat Database," GCC - State Database, accessed December 15, 2017, <http://dp.gccstat.org/en/DataAnalysis>.

<sup>83</sup> Bassam Fattouh and Anupama Sen, *Saudi Arabia Oil Policy: More than Meets the Eye?* (Oxford: Oxford Institute for Energy Studies, 2015), 8.

To maintain its market share in major oil consumer markets, Saudi Arabia must compete with other regional crude oil producers such as Iran.<sup>84</sup> Economic resources therefore play an important role in the bilateral relations between the regional rivals. In the end, the incompatible oil policies and the struggle for influence in the region between the two countries have restrained any opportunity to improved economic cooperation between Saudi Arabia and Iran.<sup>85</sup>

## 2.4 Nuclear Development

After the election of President Ahmadinejad in 2005, nuclear activities were reactivated as a result of a more hardline Iranian foreign policy. This followed the voluntary nuclear shutdown in 2004, based on the Paris Agreement.<sup>86</sup> Saudi Arabia did not oppose the Iranian nuclear program but instead connected Iran's nuclear issue with the weapons of mass destruction free zone in the Middle East.<sup>87</sup>

The thing that worries Saudi Arabia the most is the ambiguity of Iran's nuclear program.<sup>88</sup> It is unclear what the outcome will be of the further development of Iran's nuclear energy program. One possibility is that Iran is indeed developing nuclear energy to satisfy its domestic energy demand and secure the future energy supply of its economy. Another outcome could be the actual development of nuclear weapons to alter the balance of power in the region. Finally, Iran's nuclear activities could be a mere threat, used as a political balancing tool in negotiations with the rest of the world.<sup>89</sup> Assuming Iran's nuclear activities are primarily a tool to achieve further political and economic goals, Saudi Arabia is strongly opposed to lifting sanctions on Iran. The return of Iran on the international trade market would give a boost to the modernization of Iran's economy and provide the country with an opportunity to reach regional primacy.<sup>90</sup> This would present Saudi Arabia with a direct threat to the stability of the Saudi monarchy, the country's position in OPEC, and its influence over neighboring countries in the Middle East.

The Atomic Energy Organization of Iran announced in 2015 that China would assist Iran with the construction of two new nuclear power reactors on Iran's southern coast.<sup>91</sup> China's role in the development of Iran's nuclear program has been a great concern for Saudi Arabia. In the last couple of

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<sup>84</sup> Fattouh and Sen, 15.

<sup>85</sup> Mason, *Foreign Policy in Iran and Saudi Arabia*, 99.

<sup>86</sup> Amiri, "Iran's Foreign Policy," 685.

<sup>87</sup> Tzemprin, Jozić, and Lambare, "The Middle East Cold War," 195.

<sup>88</sup> Rich, "Gulf War 4.0," 479.

<sup>89</sup> Amiri, "Iran's Foreign Policy," 479.

<sup>90</sup> Tzemprin, Jozić, and Lambare, "The Middle East Cold War," 198.

<sup>91</sup> World Nuclear Association, "Nuclear Power in Iran," World Nuclear Association, September 2016, <http://www.world-nuclear.org/information-library/country-profiles/countries-g-n/iran.aspx>.

decades Saudi Arabia has repeatedly asked China to stop its nuclear cooperation with Iran, and in recent years the Saudi government has tried to convince China to condemn any further Iranian nuclear activities.<sup>92</sup> China has however proven to be hesitant to adopt any form of sanctions against Iran as the country is fearful of deteriorating relations with Iran due to its economic interests in the Iranian economy.<sup>93</sup>

Saudi Arabia's own nuclear ambitions have intensified since the announcement of a joint nuclear development program with the GCC in 2006.<sup>94</sup> This was followed by the establishment of the King Abdullah City for Atomic and Renewable Energy (KA-CARE) research center in 2010 that would address the future energy needs of Saudi Arabia. In 2012 China joined Saudi Arabia's nuclear program and agreed to support the development of nuclear energy for peaceful purposes.<sup>95</sup> Their nuclear cooperation was further expanded in 2016 when KA-CARE and the China Nuclear Engineering Corporation (CNEC) agreed to sign a memorandum of understanding for the joint construction of a high-temperature gas-cooled reactor.<sup>96</sup>

## 2.5 Dimensions of Saudi-Iranian Relations

It can be difficult to examine the different dimensions of relations in isolation. As all four dimensions used in this research are heavily intertwined with one another, it can sometimes be unclear where one dimension begins and where the other dimension ends. Nevertheless, effort is put into the analysis of the four different dimensions and their influence in the decision-making process of foreign policy in the bilateral relations. This way, the most dominant factor in the triangular relation discussed in this research can be identified.

### 2.5.1 Ideological Dimension

Both states have been competing to spread their ideological influence throughout the region. After the Islamic Revolution in Iran in 1979, a new form of politics characterized by its revolutionary and ideological thoughts was set in motion by Khomeini. The transfer of power had a major effect on Iran's foreign policy and it was thus evident that this would change the balance in Saudi-Iranian relations.<sup>97</sup>

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<sup>92</sup> Bianchi, "China-Middle East Relations," 105.

<sup>93</sup> Chris Zambelis, "The Iran Chip in Sino-Saudi Relations | Middle East Institute," accessed September 12, 2016, <https://blog.nus.edu.sg/middleeastinstitute/2010/05/18/the-iran-chip-in-sino-saudi-relations/>.

<sup>94</sup> Ali Ahmad and M.V. Ramana, "Too Costly to Matter: Economics of Nuclear Power for Saudi Arabia," *Energy* 69 (May 2014): 683, <https://doi.org/10.1016/j.energy.2014.03.064>.

<sup>95</sup> Summer Said, "Saudi Arabia, China Sign Nuclear Cooperation Pact," *Wall Street Journal*, January 17, 2012, sec. World News, <http://www.wsj.com/articles/SB10001424052970204468004577164742025285500>.

<sup>96</sup> World Nuclear News, "China, Saudi Arabia Agree to Build HTR," World Nuclear News, January 20, 2016, <http://www.world-nuclear-news.org/NN-China-Saudi-Arabia-agree-to-build-HTR-2001164.html>.

<sup>97</sup> Amiri, "Iran's Foreign Policy," 687.

The political elite of Iran can be divided in a conservative faction, and a pragmatist and reformist faction. Whereas the reformist faction and its presidents are more likely to improve relations with its neighbors, the conservative presidents seem to fall back on an ideological driven foreign policy, often resulting in a deterioration of bilateral relations with Saudi Arabia. The Shiite government in Iran and its new ideological and revolutionary commitments endangered the status quo between the two neighbors as it resulted in a clash between the Iranian revolutionary rulers and the conservative monarchy in Saudi Arabia.<sup>98</sup> These ideological differences were further intensified by the sectarian element of the anti-Shiite stance of Saudi's Wahhabism.<sup>99</sup> These tensions have consequently intertwined themselves with the strategic and political elements of Saudi-Iranian relations.<sup>100</sup>

### 2.5.2 Political Dimension

That political and ideological dimensions are sometimes closely connected is demonstrated with the case of the multiple political factions in Iran. Another example that shows how Saudi-Iranian politics spill over into the religious area is the yearly returning Hajj. The religious pilgrimage has been extensively used as a political tool by both Saudi Arabia and Iran. The latter has used the Hajj as an opportunity to stage political demonstrations in favor of Iran's 'Export the Revolution', which focused on the export of Iran's new state ideology to the region.<sup>101</sup> In response, Saudi Arabia has used its pilgrim quota to curtail Iran's efforts to destabilize the political situation in Saudi Arabia. Both countries have, at times, tried to normalize relations guided by more pragmatic politics. However, due to the complex nature of the bilateral relations, it has proven difficult to resolve the issues in its entirety. The political rhetoric used in the regional struggle for dominance has deepened the gap by emphasizing the self-identifications of both parties.<sup>102</sup> This political strategy has considerably led to the intensified ideological character of the Saudi-Iranian rivalry.

### 2.5.3 Economic Dimension

Bilateral economic relations between Saudi Arabia and Iran can be considered negligible due to the relative small amount of trade between the two countries. However, due to the importance of oil for both countries they often encounter each other on the international market. Considering the importance of oil

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<sup>98</sup> F. Gregory Gause III, "Saudi-Iranian Rapprochement? The Incentives and the Obstacles – Project on Middle East Political Science," accessed September 14, 2016, <http://pomeps.org/2014/03/17/saudi-iranian-rapprochement-the-incentives-and-the-obstacles/>.

<sup>99</sup> Gause III.

<sup>100</sup> Mabon, *Saudi Arabia and Iran*, 207.

<sup>101</sup> Amiri, "Iran's Foreign Policy," 680.

<sup>102</sup> Ersoy, "The Rivalry between Saudi Arabia and Iran in the Middle East," 296.

sales for both countries, Saudi Arabia's ability to influence the price of crude oil by changing its domestic output has become an important tool in their encounters with Iran. Even more than its surrounding oil producing neighbors, Iran is dependent on high oil prices to keep its economy going. A period with low oil prices can consequently turn Iran from an aspiring dominant regional power into a lame duck.<sup>103</sup>

Iran's economic problems after the end of the Iran-Iraq war and its isolated position in the international community has left the country longing for a strong economic partner that is willing to invest in a long term economic relationship with the country based on its oil resources, which they found in China. For Saudi Arabia as well, crude oil export is the primary source of income for the country. Although it has been able to diversify its pool of oil customers a bit more than Iran, Saudi Arabia is still dependent on a relatively small number of countries for the export of its oil. After 9/11, Saudi Arabia followed a 'hedging strategy' towards the US by improving its relations with China.<sup>104</sup>

#### 2.5.4 Strategic Dimension

The geographical location of both regional powers at the Gulf adds an important strategic element to the Saudi-Iranian relations. The Gulf is the major trade route for both economies. Consequently, a secure main transportation line through the Gulf is of foremost importance for both countries.<sup>105</sup> This presents both Saudi Arabia and Iran with a dilemma where they must balance the benefits and disadvantages of competing for regional primacy; a destabilized and unsafe Gulf would obstruct the continuous oil flow demanded by their clients, damage their partnerships with their clients, and endanger their economies.

The growing emphasis on the sectarian elements of the Saudi-Iranian rivalry has resulted in spillover of the Sunni-Shiite conflict in the Middle East. Saudi Arabia uses the export of Wahhabism to stop Iranian gains among regional organizations and this has increased the number of proxy wars in countries such as Iraq, Lebanon, Bahrain, and Syria.<sup>106</sup> Their ideological rivalry has expanded the level of geostrategic competition between Saudi Arabia and Iran. A further escalation will damage foreign interests in the region and consequently lower the strategic value of both Saudi Arabia and Iran. For their own strategic interest, Saudi Arabia and Iran would thus benefit by acknowledging the greater importance of politics and economics over ideology.

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<sup>103</sup> Matt Egan, "Iran's Hidden Role in Saudi Arabia's Cheap Oil Stance," CNNMoney, December 3, 2015, <http://money.cnn.com/2015/12/03/investing/opec-oil-prices-saudi-arabia-iran/index.html>.

<sup>104</sup> M. Salman and G. Geeraerts, "Strategic Hedging and China's Economic Policy in the Middle East," *China Report* 51, no. 2 (May 1, 2015): 104, <https://doi.org/10.1177/0009445515570440>.

<sup>105</sup> Mabon, "FPC Briefing," 55.

<sup>106</sup> Mabon, *Saudi Arabia and Iran*, 197.



## Chapter 3. Sino-Iranian Relations

This chapter provides an overview of the various aspects of the relations between China and Iran. A short overview will be given of Iran under the rule of the Shah, the Islamic Revolution, and the Iran-Iraq war. It specifically analyzes the foreign policies of both China and Iran divided in diplomatic, economic, and nuclear relations.

This chapter is structured as follows. First a historical overview is given of the Sino-Iranian relations. Second, diplomatic relations between China and Iran will be examined. This includes the period under the Shah and the post-1979 period. Third, bilateral trade relations are explored. This focuses on arms trade, energy trade, and investments between the two countries. Fourth, Iran's nuclear program and Sino-Iranian nuclear cooperation is discussed. Finally, the four dimensions of Sino-Iranian relations are discussed.

### 3.1 Historical Overview

A connection between China and Iran has existed since the "Silk Road" trade route linked the Chinese and Persian empires thousands of years ago. With both civilizations having deep historical roots, China and Iran have repeatedly used their shared past as a source of strength and legitimacy, benefitting contemporary Sino-Iranian relations.<sup>107</sup>

With the drawback of British military power from the Suez Canal in 1971, the shah issued a "hands off policy" towards the Gulf. Its message was, notably similar to the future Chinese foreign policy in the region, "no external influences of great powers in the internal affairs of countries surrounding the Gulf".<sup>108</sup> The underlying motives for Sino-Iranian relations during the 1970s were more of a political than economic nature. China, under the leadership of Mao at the time, was aiming at counterbalancing the US and the Soviet Union (SU) in the Middle East. One of the essential elements of Chinese policy towards the Middle East and Iran specifically was the notion that the affairs of a given region must be managed by the countries and people of that region.<sup>109</sup> Iran's nationalization of its oil industry in 1973 earned it the respect of China and a part in China's antihegemony struggle against the imperialists.

After the Islamic Revolution in Iran in 1979, Sino-Iranian relations subsided for a moment because of Khomeini's mistrust of China. After ascending to power, Khomeini's new foreign policy became known as

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<sup>107</sup> Manochehr Dorraj and Carrie Liu Currier, "Lubricated with Oil: Iran-China Relations in a Changing World," *Middle East Policy* 15, no. 2 (2008): 67.

<sup>108</sup> Garver, *China and Iran*, 32.

<sup>109</sup> Garver, 51.

“neither West, nor East”.<sup>110</sup> Although China had once also been a revolutionary state, its atheistic nature clashed with the devout Islamic faith of the new rulers in Iran. Nonetheless, as soon as the ideological differences were set aside due to pragmatic reasons during the Iran-Iraq war, the two countries once again embraced each other as allies in their mutual struggle against the Western global domination. In the 1980s, both China and Iran started to develop as regional powers connected to one another through their common interest in balancing the rise of US and Soviet power in the Middle East.<sup>111</sup> Another factor responsible for the renewed relations was the increased arms trade between China and Iran during the Iran-Iraq war.

At the beginning of the 1990s, Sino-Iranian relations further improved. After the end of the Iran-Iraq war, it was time for Iran to rebuild its country. As a loyal arms supplier during the war, China was one of the candidates for this economic reconstruction. Since Khomeini had always been critical of Chinese influences in Iran, his death on June 3<sup>rd</sup>, 1989, created opportunities for more pragmatic and China-friendly politics.<sup>112</sup> In addition, the decline in the relations between China and the US in the aftermath of the Chinese military suppression of popular demonstrations resulted in a change of Chinese foreign policies. The policy most relevant for Sino-Iranian relations was China’s endeavor to place greater emphasis on developing relations with Third World countries. As one of the more influential Third World countries, Iran benefitted from this change.<sup>113</sup>

## 3.2 Diplomatic Relations

The diplomatic ties between China and Iran can be divided into two periods. First there were the diplomatic relations between China and the Kingdom of Iran from 1971 to 1979. Mohammad Reza Pahlavi, the shah of Iran from 1941 to 1979, saw Western society as a model for the modernization of his country. For the reconstruction of the once great Persian civilization, economic development was financed by the country’s oil revenues. Closely aligned to the US, the shah was anti-communist and had an aversion of both Soviet and Chinese influences in Iran.<sup>114</sup> Only after the rapprochement between China and the US did the shah’s opinion about China change, leading to opportunities for Iran and China to establish diplomatic

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<sup>110</sup> Garver, 59.

<sup>111</sup> Carrie Liu Currier and Manochehr Dorraj, “In Arms We Trust: The Economic and Strategic Factors Motivating China-Iran Relations,” *Journal of Chinese Political Science* 15, no. 1 (March 2010): 50, <https://doi.org/10.1007/s11366-009-9082-6>.

<sup>112</sup> Garver, *China and Iran*, 95.

<sup>113</sup> Garver, 96.

<sup>114</sup> Garver, 29.

relations.<sup>115</sup> The two countries eventually signed an agreement on the establishment of ambassadorial-level relations on August 16, 1971.<sup>116</sup>

The second period of diplomatic relations was ushered in by the Islamic Revolution in Iran and the establishment of the Islamic Republic of Iran in 1979. Though diplomatic ties were not cut, the diplomatic relations were put on low intensity as the recent Sino-US rapprochement now proved to be an obstacle for Sino-Iranian relations. This situation worsened with the seizure of the US embassy on November 1979.<sup>117</sup> After the Iran-Iraq war erupted in 1980, China did not formally align with either of the two sides and continued to trade with both adversaries. In reality, China developed into one of Iran's closest allies during the war, both diplomatically and economically.<sup>118</sup> As a result, Iran adopted a moderate stance towards Chinese arms sale to Iraq during that period. Chinese leadership further prioritized the development and maintaining of relations with Iran after the country became an oil importer in 1993.<sup>119</sup>

Further increased diplomatic engagement with Iran by China's current president Xi Jinping served to protect and expand China's economic partnerships.<sup>120</sup> This deepening of relations with countries in the Middle East is an indication of a gradual change in Chinese foreign policy from 'responsive diplomacy' to 'proactive diplomacy.'<sup>121</sup> A big part is carried out by China's national oil companies (NOCs) and investment banks whose goal it is to secure the continuation of energy supply to meet China's exceptional economic growth.<sup>122</sup> Here, diplomacy is used to secure Chinese economic interests in the Middle East.<sup>123</sup>

### 3.3 Economic Relations

In 2016, bilateral trade between China and Iran was \$31.2B, with a positive trade balance of \$1.6B for China, which was a first since 1998. This is a strong decrease from 2014 when bilateral trade was \$51.8B, with a positive trade balance of \$3.2B for Iran.<sup>124</sup>

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<sup>115</sup> Garver, 48.

<sup>116</sup> Garver, 48.

<sup>117</sup> Garver, 65; Garver, 80.

<sup>118</sup> Bates Gill, "Chinese Arms Exports to Iran," *China Report* 34, no. 3&4 (1998): 357.

<sup>119</sup> Blumenthal, "Providing Arms," 2.

<sup>120</sup> Geoffrey Aronson, "China's Vision of the Middle East," Al Jazeera, January 21, 2016, <http://www.aljazeera.com/indepth/opinion/2016/01/china-vision-middle-east-160121052018955.html>.

<sup>121</sup> Paul Aarts, M. Rijsingen, and others, "Beijing's Rising Star in the Gulf Region: The near and the Distant Future," 2007, 27, <http://dare.uva.nl/record/1/345661>.

<sup>122</sup> Dorraj and English, "China's Strategy for Energy Acquisition in the Middle East," 175.

<sup>123</sup> Dorraj and English, "The Dragon Nests," 46.

<sup>124</sup> Department for Business, Innovation & Skills, "International Trade in Goods."

How important is China for Iran's trade balance? In 2015, Iran exported \$31.8B in total, with its top export destination China accounting for \$14.5B. With \$18.3B, crude petroleum accounts for 58% of Iran's total export, of which \$9.58B went to China. Iran's export of crude petroleum to China represents 8% of China's total import of crude petroleum.<sup>125</sup> In the same year, Iran imported \$43.9B in total, with China accounting for \$17.8B. With \$5.7B, Nuclear reactors, machinery, electrical- and electronic equipment being the top import products. Iran was the 27<sup>th</sup> largest export market for China (0.8% of China exports) and the 24<sup>th</sup> largest import market for China (1.0% of China imports) in 2015. China was the largest export market for Iran (45% of Iran exports) and the largest import market for Iran (43% of Iran imports) in 2015.<sup>126</sup>

Even though Iran represents only a small amount of China's export market, the country's isolation is an interesting opportunity for China to exploit a market that would otherwise not exist.<sup>127</sup> Though the arms trade is no longer the primary element of Sino-Iranian trade, it has played a significant role in establishing contemporary trade relations. Nowadays, the center of gravity lies with energy trade due to China's ever-growing need for energy. Energy security has become an important part of Sino-Iranian trade relations and an additional way of deepening these relations has been the investment in Iran's upstream and downstream activities by Chinese energy companies and investment banks.

### 3.3.1 Arms Trade

The rise of China's influence in the Middle East started in the 1980s, when China began selling weapons to Middle Eastern countries, including Egypt, Iraq, and Saudi Arabia.<sup>128</sup> At the same time, the arms trade between China and Iran drastically increased due to the Iran-Iraq war. This played a vital role in the early stages of the renewed Sino-Iranian relations as it served a number of strategic, political and economic interests.<sup>129</sup> Consequently, the 1980s arms trade created a trickle-down effect that had the capability of normalizing Sino-Iranian relations.

According to the Stockholm International Peace Research Institute (SIPRI) database, the arms export from China to Iran increased from \$1M in 1980 to \$193M in 1981. Overall, China exported for a total worth of

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<sup>125</sup> OEC, "OEC - Iran (IRN) Exports, Imports, and Trade Partners," accessed October 31, 2016, <http://atlas.media.mit.edu/en/profile/country/irn/>.

<sup>126</sup> OEC.

<sup>127</sup> Rubin, "China's Middle East Strategy," 348.

<sup>128</sup> Zha Daojiong and Michal Meidan, "China and the Middle East in a New Energy Landscape" (Chatham House: The Royal Institute of International Affairs, 2015), 6, <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/20151021ChinaMiddleEastEnergyDaojiongMeidan.pdf>.

<sup>129</sup> Gill, "Chinese Arms Exports," 357.

\$1.49B of weapons to Iran during the Iran-Iraq war from 1980 to 1988. It is striking that the Chinese export of arms to Iraq saw an even bigger growth during the war, going from no arms trade in 1980 to a record high of \$826M in 1987, accumulating to a total of \$4.24B between 1980 and 1988.<sup>130</sup> A controversial part of Sino-Iranian arms trade was the missile cooperation between the two countries. The transfer of intermediate range missile technology and anti-ship missile systems worried the US.<sup>131</sup> With the sale of the anti-ship HY-2 missile, also known as Silkworm, Iran now had the most advanced anti-ship missile in the Gulf. This increased the vulnerability of oil tankers and US naval vessels navigating through the strait of Hormuz into the Gulf tremendously.<sup>132</sup> After China exported more than \$1B worth of Silkworms to Iran, Sino-US tensions forced China to assure the US that it would discontinue the sale of HY-2 missiles.<sup>133</sup>

The arms trade and weapons technology has become an excellent tool for China to win allies and increase its influence while making a profit. Arms trade is thus just one aspect of the economic factors motivating cooperation, just as energy is another aspect.<sup>134</sup> This is reflected in China's "arms for oil" formula, which allows countries such as Iran to barter trade their oil for military technology.<sup>135</sup> However, as the SIPRI database shows, China's arms sales to Iran began to decline in 1990s, coming down from their peak with \$539M in 1987, and continued to drop to only \$9M in 2015.<sup>136</sup> This reflects the change in motivation that drive Chinese arms trade with Iran. From countering the Soviet threat during the 1970s to accumulating much needed hard currency during the Iran-Iraq war in the 1980s, the strategic, economic, and political factors of Sino-Iranian arms trade relations have all suffered a loss of relevance.<sup>137</sup>

### 3.3.2 Energy Trade

How important is Iran for China's energy supply security? Since China became an oil importer in 1993, a new emphasis has been put on developing relations with Middle Eastern oil producers. One of the major goals of the Chinese government is to reduce their use of coal. This strategy is partly responsible for the rising demand for oil and gas as coal currently provides approximately for three-quarter of the Chinese

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<sup>130</sup> SIPRI, "Table of Arms Exports from China, 1979-2015," SIPRI, October 31, 2016, [http://armstrade.sipri.org/armstrade/html/export\\_values.php](http://armstrade.sipri.org/armstrade/html/export_values.php).

<sup>131</sup> Currier and Dorraj, "In Arms We Trust," March 2010, 55.

<sup>132</sup> Gill, "Chinese Arms Exports," 360.

<sup>133</sup> Currier and Dorraj, "In Arms We Trust," March 2010, 55.

<sup>134</sup> Currier and Dorraj, 51.

<sup>135</sup> Parris H. Chang, "China's Policy Toward Iran and the Middle East," *The Journal of East Asian Affairs* 25, no. Spring/Summer (2011): 2.

<sup>136</sup> SIPRI, "Table of Arms Exports from China, 1979-2015."

<sup>137</sup> Gill, "Chinese Arms Exports," 377.

domestic energy supply.<sup>138</sup> Energy insecurity is an issue that looms over China's economic growth and Beijing therefore made energy security the key focus of its global foreign policy.<sup>139</sup> This strategy is further disclosed in China's 12<sup>th</sup> 'five year program' which stresses the importance of both energy resource security as well as diversification of energy supply sources.<sup>140</sup> Consequently, China has cautiously expanded its diplomatic and economic ties with the Middle East.<sup>141</sup> Despite China's efforts to diversify its sources of oil import, it still depends on a relatively small number of oil suppliers. The main oil producing countries that supply China with crude oil are Saudi Arabia, Angola, Russia, Oman, Iran, and Iraq.<sup>142</sup>

Because China has been self-sufficient up to 1993 for their oil demand, Chinese refineries were specialized in processing their domestic low-sulphur crude oil. With the sudden influx of high-sulphur crude oil from the Middle East after 1993, China's downstream sector had to be upgraded to be able to process this new type of crude oil. Fortunately, the Gulf producers were cooperative and had adequate resources to provide the necessary funds for the needed investments.<sup>143</sup> The investments made are an explanation for the contemporary Chinese dependency on Middle Eastern oil as it is based on the technical match between refineries in China and the type of crude oil imported from that Middle East region.<sup>144</sup>

China is currently the only major trading partner and largest investor still active in the Iranian oil and gas industry.<sup>145</sup> The energy supply relations between the two states are intertwined with layers of political cooperation to guarantee a continuous supply of oil, even when the Middle East is encountering political or economic instability.<sup>146</sup> Whether China's energy security strategy will work depends on a number of factors. One of the key elements for China is to diversify its sources of oil. This results in working with states ideologically opposed to one another. Aligning itself too close with Iran can make China an uncertain

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<sup>138</sup> Dorraj and Currier, "Lubricated with Oil," 71.

<sup>139</sup> Shaun Breslin, *A Handbook of China's International Relations* (Routledge, 2010), 179.

<sup>140</sup> Wu, "China's Energy Security," 6; "Five Year Program," 12.

<sup>141</sup> Dorraj and English, "The Dragon Nests," 44.

<sup>142</sup> Daojiong and Meidan, "New Energy Landscape," 2; OEC, "OEC - China (CHN) Exports, Imports, and Trade Partners," The Observatory of Economic Complexity, accessed October 19, 2016, <http://atlas.media.mit.edu/en/profile/country/chn/>.

<sup>143</sup> Daojiong and Meidan, "New Energy Landscape," 6.

<sup>144</sup> Daojiong and Meidan, 5.

<sup>145</sup> Erica Downs and Suzanne Maloney, "Getting China to Sanction Iran: The Chinese-Iranian Oil Connection," *Foreign Affairs*, 2011, 15.

<sup>146</sup> Garver, *China and Iran*, 79.

entity to the Arab oil producers.<sup>147</sup> This makes the energy relationship with Iran both profitable and challenging.

Iran is a strategically powerful regional player with the world's third largest oil reserves and the world's second largest natural gas reserves.<sup>148</sup> The country's dependency on the revenues from the energy trade with China is high as it is an important source for the support of its economic and security interests.<sup>149</sup>

Would China simply be purchasing oil and gas from Iran, the country could easily switch to another supplier when the situation required it. Yet, in the current circumstances China has already heavily invested in refineries and pipelines and other non-oil related trade with Iran.<sup>150</sup> Abandoning Iran is thus a lot more difficult and would require taking great losses on already completed projects. The other side of the coin would be that a Chinese downsize of investments and oil imports would turn out catastrophic for Iran's economy.

### 3.3.3 Investments

The Chinese government encourages its NOCs to cross the borders and secure China's oil supplies through investments. In 2002 China endorsed a "going out" policy that stimulated its major national oil companies to invest abroad.<sup>151</sup> The main goal of this policy is to secure and control energy relations in a balanced environment in the Middle east in order to facilitate China's energy security.<sup>152</sup> The major Chinese energy companies are the China National Petroleum Corporation (CNPC), the China Petrochemical Corporation (Sinopec Group), and the China National Offshore Oil Corporation (CNOOC).<sup>153</sup> NOCs are an instrument of the Chinese government that take a statist approach to energy as energy security is dubbed too important to be entrusted to the free market.<sup>154</sup> Countries in the Middle East are keen on cooperating with China and benefit from Chinese investments in their upstream and downstream infrastructure.<sup>155</sup>

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<sup>147</sup> Owen Daniels and Chris Brown, "China's Energy Security Achilles Heel: Middle Eastern Oil," *The Diplomat*, accessed August 22, 2016, <http://thediplomat.com/2015/09/chinas-energy-security-achilles-heel-middle-eastern-oil/>; Dorraj and English, "The Dragon Nests," 175.

<sup>148</sup> Dorraj and English, "China's Strategy for Energy Acquisition in the Middle East," 183.

<sup>149</sup> Dorraj and English, 184.

<sup>150</sup> Dorraj and English, 189.

<sup>151</sup> Dorraj and Currier, "Lubricated with Oil," 74.

<sup>152</sup> Mordechai Chaziza, "The Arab Spring: Implications for Chinese Policy," *Middle East Review of International Affairs* 17, no. 2 (2013): 74.

<sup>153</sup> Dorraj and English, "China's Strategy for Energy Acquisition in the Middle East," 175.

<sup>154</sup> Dorraj and English, 177.

<sup>155</sup> Breslin, *A Handbook of China's International Relations*, 180.

A good example of this is Iran; China has considerably invested in the recovery and production of Iran's oil and natural gas as the departure of other foreign firms created the opportunity for an influx of Chinese capital.<sup>156</sup> As a result, Chinese NOCs have much to lose when Sino-Iranian relations would be cut. Here, economic interests outweigh political interest as NOCs have become strong political actors and may try to convince the Chinese government that the risk of sanctions will be worth the risk.<sup>157</sup>

Still, Chinese investments in Iran's upstream and downstream activities are not without problems, as China adopts a careful attitude towards Iran, while keeping an eye on the US. Negotiations on investments are delayed or postponed and the investments values are often lower than cited. Abandoning new investments in Iran may prove costly for China's NOCs unless it would benefit the recognition of China's existing energy interests in Iran.<sup>158</sup> This "going slow" approach has not been welcomed by Iran, but its leaders acknowledge, and begrudgingly accept, the priority China puts on balancing Sino-US relations in the Middle East in order to maintain a positive environment for China's energy security.<sup>159</sup>

### 3.4 Nuclear Development

Iran's pursuit for nuclear capabilities does not solely derive from their ambition to achieve regional dominance. It is believed to be, although partially, an effect of a crisis in Iran's oil industry.<sup>160</sup> Iran is a country that is blessed with rich oil and gas resources. However, the destruction caused to Iran's infrastructure during the Iran-Iraq war, and the successive sanctions, have hampered the modernization of the country's upstream and downstream oil industry. For Iran, its position on the international level and the relations with its biggest ally, China, are closely connected to their ability to persevere as a major oil supplier. To maintain this role, Iran must simultaneously modernize their infrastructure and curb their growing domestic demand for oil. In addition, oil is highly subsidized by the Iranian state for domestic consumers. Developing nuclear energy for their domestic energy demand would thus solve two problems at the same time. First, Iran could increase its oil export capacity as oil not sold on the domestic market would become available for export. Second, by substituting oil with nuclear energy on the domestic market, 15% of Iran's GDP, i.e. \$20-30B a year would be saved on domestic energy subsidies.<sup>161</sup>

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<sup>156</sup> Downs and Maloney, "Getting China to Sanction Iran," 16.

<sup>157</sup> Downs and Maloney, 16.

<sup>158</sup> Downs and Maloney, 20.

<sup>159</sup> Garver, "China-Iran Relations," 80.

<sup>160</sup> Dorraj and Currier, "Lubricated with Oil," 75.

<sup>161</sup> Dorraj and Currier, 75.



In 1985, China signed a nuclear cooperation agreement with Iran as part of a larger arms deal.<sup>162</sup> The agreement was not officially acknowledged at the time so further details about the content of the agreement were not known. Nonetheless, it is generally believed that the main element of the agreement was the construction of the Isfahan facility. The denial of Sino-Iranian nuclear cooperation lasted until November 1991, when China acknowledged it had signed a nuclear deal with Iran.<sup>163</sup> The Sino-Iranian cooperation on developing nuclear capabilities lasted from 1985 to 1997. In 1997, in light of China's rapprochement endeavors with the US, Beijing succumbed to the growing US pressure and abandoned its nuclear cooperation with Iran.<sup>164</sup> This is one of the examples where China had to reassess the costs and benefits of their relations with Iran and the effects it had on its own reputation.<sup>165</sup> Though China did gain economic benefits from the agreement, the major advantage of China's pledge of support for Iran's nuclear energy program was the deepening of Sino-Iranian relations.<sup>166</sup>

It has become clear that China will not side with Iran at the expense of its relations with the US. This is illustrated by the halt of Chinese support for Iran's nuclear program in 1997.<sup>167</sup> Despite the cancellation of nuclear cooperation, China continues to advocate for Iran's right to develop nuclear energy. This new struggle takes place in the UNSC, where China's power as a permanent member grants it the ability to, even when voting in favor, water down the content of UNSC resolutions aimed at Iran's nuclear program.<sup>168</sup> This level of power in the UNSC adds another important element to Sino-Iranian relations as it elevates China as an important strategic ally.<sup>169</sup>

To encourage China to take a stance against Iran's nuclear program, multiple GCC states offer it profitable long-term energy deals, construction projects, and joint investments. In return, the GCC states hope that China will further reciprocate by withholding their veto on UNSC decisions to impose sanctions against Iran's nuclear enrichment activities.<sup>170</sup> In case Iran would eventually acquire nuclear weapons, it would

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<sup>162</sup> Berger and Schell, "Toeing the Line, Drawing the Line," 94.

<sup>163</sup> Gill, "Chinese Arms Exports," 369.

<sup>164</sup> Berger and Schell, "Toeing the Line, Drawing the Line," 96.

<sup>165</sup> Currier and Dorraj, "In Arms We Trust," March 2010, 59.

<sup>166</sup> Garver, *China and Iran*, 78.

<sup>167</sup> International Crisis Group, "The Iran Nuclear Issue: The View from Beijing," Update Briefing, Asia Briefing (Beijing / Brussels: International Crisis Group, February 17, 2010), 4.

<sup>168</sup> Mordechai Chaziza, "China's Policy on the Middle East Peace Process after the Cold War," *China Report* 49, no. 1 (February 1, 2013): 170, <https://doi.org/10.1177/0009445513479460>.

<sup>169</sup> Currier and Dorraj, "In Arms We Trust," March 2010, 68.

<sup>170</sup> Bianchi, "China-Middle East Relations," 105.

not be a direct threat for China's own interests. It is more likely that Iran with nuclear weapons would continue their relationship with China, especially in the case of a Sino-US conflict.<sup>171</sup>

### 3.5 Dimensions of the Sino-Iranian Relations

This chapter has established that Sino-Iranian relations are constructed by a combination of multiple key elements. Although the center of gravity of the relationship between China and Iran has shifted multiple times during the last couple of decades, a definite pragmatic tendency has started to influence their bilateral relations. The major factors that shape the two countries' foreign policy towards each other have been identified as ideological, political, economic, and strategic.

#### 3.5.1 Ideological Dimension

Although ideologically quite different, with China's atheistic background and Iran's religious Islamic nature, the two countries do have common grounds. For both states, their identification as a once great civilization destroyed by Western imperialism encouraged their cooperation in the Middle East. China's foreign policy was already less influenced by traditionalist Marxist ideological factors and has become more pragmatic after 1979. Still, the historical ties between the Persian and Chinese empires have often been used to strengthen contemporary Sino-Iranian relations.<sup>172</sup> After the fall of the shah in 1979, Iran joined China as a revolutionary state, although China had already entered a new phase in its identity, as they both became pioneering Third World countries.

China saw an ally in Iran for their anti-hegemony struggle against the West, a cause that would overstep any ideological difference they had. As opposition against the hegemony of their new arch nemesis was one of the key elements of the newly established IRI, cooperating with China to fight the US was readily welcomed.<sup>173</sup> Their shared interest became guiding the world in the direction of multi-polarity.<sup>174</sup> In the development of Sino-Iranian relations, ideological differences have been outweighed by political pragmatism, strategic concerns and economic trade.<sup>175</sup>

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<sup>171</sup> Garver, "China-Iran Relations," 76.

<sup>172</sup> Calabrese, "China and the Arab Awakening," 13; Steve A. Yetiv and Chunlong Lu, "China, Global Energy, and the Middle East," *The Middle East Journal* 61, no. 2 (2007): 201.

<sup>173</sup> Scott Harold et al., *China and Iran Economic, Political, and Military Relations* (Santa Monica, CA: RAND, 2012), 5, <http://public.ebib.com/choice/publicfullrecord.aspx?p=1365153>.

<sup>174</sup> Zhao Hong, "China's Dilemma on Iran: Between Energy Security and a Responsible Rising Power," *Journal of Contemporary China* 23, no. 87 (May 4, 2014): 411, <https://doi.org/10.1080/10670564.2013.843880>.

<sup>175</sup> John Keefer Douglas, Matthew B. Nelson, and Kevin Schwartz, "Fueling the Dragon's Flame: How China's Energy Demands Affect Its Relationships in the Middle East," *US-China Economic and Security Review Commission* 1 (2006): 5, <http://purl.library.uoregon.edu/e-asia/ebooks/read/flame.pdf>.

### 3.5.2 Political Dimension

After the Chinese government steered away from its ideological roots in the 1980s, a new political pragmatism started to guide their foreign policies in the Middle East. The political ties between China and the Middle East deepened in 2002 with the special envoy to the region, promoting regional stability that would protect China's economic and political interest.<sup>176</sup> Geopolitics became important in securing access to energy supplies in the region.<sup>177</sup> Even though Iran makes up for only a small part of China's export, and is surpassed by Saudi Arabia as the biggest oil exporter to China, it still occupies an important position for China's geopolitical interest due to Iran's strategic position at the strait of Hormuz.

Both China and Iran saw opportunities to benefit from their relations. For China, Iran was interesting because of the country's oil and gas reserves but also as a political instrument. The so called "Iran card" would be used by the Chinese government to balance the rise of both US and Soviet dominance in the Middle East.<sup>178</sup> Later on, China utilized its relations with Iran and their UN veto power as a bargaining chip in Sino-US relations to ward off US pressure in other matters, such as Taiwan.<sup>179</sup> From Iran's perspective, China is a useful ally because of its position in the UNSC and the resulting potential of diplomatic and political cover.<sup>180</sup> Access to China's markets has further strengthened Iranian claims that Western sanctions do not affect Iran and that the country could continue to develop independently from the West.<sup>181</sup>

### 3.5.3 Economic Dimension

The economic development of China has produced a positive foreign policy towards the Middle East. Key elements of this policy are establishing friendly relations with all nations, and a pledge to non-intervention in the internal affairs of other states.<sup>182</sup> China's diplomatic and economic approach in the Middle East is thus part of a larger strategy securing vital Chinese interests called the "One Belt, One Road" strategy.<sup>183</sup> Iran admires China's rapid economic development and embraces China's policy of non-intervention.<sup>184</sup> China's support during the Iran-Iraq war and its help during the reconstruction after the war has

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<sup>176</sup> Chaziza, "China's Middle East Foreign Policy and the Yemen Crisis," 18.

<sup>177</sup> Berger and Schell, "Toeing the Line, Drawing the Line," 91.

<sup>178</sup> Currier and Dorraj, "In Arms We Trust," March 2010, 61.

<sup>179</sup> Berger and Schell, "Toeing the Line, Drawing the Line," 91.

<sup>180</sup> Currier and Dorraj, "In Arms We Trust," March 2010, 50.

<sup>181</sup> Downs and Maloney, "Getting China to Sanction Iran," 18.

<sup>182</sup> Breslin, *A Handbook of China's International Relations*, 179.

<sup>183</sup> Daojiong and Meidan, "New Energy Landscape," 9.

<sup>184</sup> Downs and Maloney, "Getting China to Sanction Iran," 18.

strengthened the relations between the two countries. China's position as the number one export destination of Iranian oil has increased Iran's dependency on China.<sup>185</sup> However, the investments China made to secure the energy supply from Iran have somewhat changed the biased economic dependency of Sino-Iranian relations. The announcement of the "One Belt, One Road" strategy in 2013 and the expansion of Sino-Iranian relations do display an appreciation of one another as an important economic ally in the future.<sup>186</sup> With China's growing demand for energy, its relationship with Iran becomes ever more important for China, as with Iran's growing economic and political influence in the region its value as an ally continues to increase.

#### 3.5.4 Strategic Dimension

Iran is conveniently located at the strait of Hormuz, which acts as a bottleneck for all oil tankers that navigate through the Gulf. By allying with Iran, China places itself closer to one of the richest sources of oil and gas in the world and could even influence the allocation of oil and therewith the balance of global power itself.<sup>187</sup> The arms trade during the Iran-Iraq war was, next to earning hard currency, also a way for China to counter the growing US and Soviet influence in the Middle East.<sup>188</sup> The start of China as an oil importer in 1993 illustrates the strategic shift the Chinese government had to make in the Middle East. With energy security as a new motivation, China had to deepen its relations with oil suppliers in the region.<sup>189</sup>

For China, the relations with Iran have been from time to time a balancing act, having to weigh the pros and cons of their cooperation with Iran. This has sometimes resulted in China taking some distance from Iran and lowering the intensity of their cooperation, despite China's reluctance to take steps that can damage its strategic ties with Iran and jeopardizes its energy and economic interests.<sup>190</sup> Despite the biased dependency in Sino-Iranian relations, Iran does gain some strategic benefits from its connection with China. First, China's extended ties in Iran's economy and its growing consumption of Iranian energy, provides great opportunities for long-term cooperation. Second, China's non-interventionist foreign policy in the Middle East make Iran believe that China will not meddle with Iran's regional affairs. Finally, China's

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<sup>185</sup> Berger and Schell, "Toeing the Line, Drawing the Line," 90.

<sup>186</sup> Douglas, Nelson, and Schwartz, "Fueling the Dragon's Flame," 7.

<sup>187</sup> Garver, *China and Iran*, 27.

<sup>188</sup> Currier and Dorraj, "In Arms We Trust," March 2010, 60.

<sup>189</sup> Chaziza, "China's Policy on the Middle East Peace Process after the Cold War," 166.

<sup>190</sup> Garver, *China and Iran*, 28.

role in the UNSC as a permanent member provides Iran with a strong ally that can help the country with vetoing or weakening UN sanctions aimed at Iran's nuclear program.

## Chapter 4. Sino-Saudi Relations

This chapter will focus on the relations between China and Saudi Arabia. Contrary to Sino-Iranian relations, official Sino-Saudi relations have a much shorter history. This is illustrated by the fact that only in 1990 the Kingdom of Saudi Arabia and the People's Republic of China established formal diplomatic relations.

The chapter is structured as follows. First, a historical overview is given of Sino-Saudi relations. Second, the diplomatic relations between China and Saudi Arabia will be examined. This includes the early Chinese rapprochement initiatives in the 1980s. Third, the economic relations between the two countries will be analyzed. This covers their arms trade, energy trade, and mutual investments. Fourth, nuclear energy, and the issue of Iran's nuclear program and Sino-Iranian cooperation are examined. Finally, the four dimensions of Sino-Saudi relations are discussed.

### 4.1 Historical Overview

During the late 1970s, China's foreign policy became less influenced by ideological factors and more pragmatic as a result of two developments. First, because of China's growing economy the country's dependence on oil continued to grow. Domestic production could no longer keep up with domestic demand and China needed to secure their energy supply by improving relations with oil exporting countries. Second, after Mao Zedong passed away, Deng Xiaoping took over the leadership in China. These events caused China having a more pragmatic and open policy towards the rest of the world.<sup>191</sup> In 1985, five years before official Sino-Saudi diplomatic ties were established, Saudi Arabia purchased a series of Chinese CSS-2 intermediate-range ballistic missiles.<sup>192</sup> This transaction should not be identified as an early Saudi rapprochement to China, but as a necessity to counterbalance Iran's purchase of Chinese weapons. However, for China the purchase of missiles was more than an economic transaction. At the time, much of Chinese foreign policy in the Middle East was aimed at improving economic and political relations with Saudi Arabia and eliminating the diplomatic relations between the latter and Taiwan. An important aspect of this was to increase the benefits for Saudi Arabia of establishing relations with China, and at the same time make the ties to Taiwan seem more unattractive and burdensome.<sup>193</sup>

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<sup>191</sup> Mohamed Mousa Mohamed Ali Binhuwaidin, "China's Foreign Policy Towards the Gulf and Arabian Peninsula Region, 1949-1999" (Durham University, 2001), 323, <http://etheses.dur.ac.uk/4947/>.

<sup>192</sup> Joseph A. Kéchichian, "Saudi Arabia and China: The Security Dimension," Middle East Institute, February 9, 2016, <http://www.mei.edu/content/map/saudi-arabia-and-china-security-dimension>.

<sup>193</sup> Binhuwaidin, "China's Foreign Policy Towards the Gulf," 177.

At the beginning of the 2000s, Saudi Arabia's attitude towards China continued to improve. This can be contributed to a combination of factors. First, the events on 9/11 changed the Saudi-US relations; US demand for Saudi oil decreased and Saudi Arabia realized it had to further diversify its oil export market. Second, in contrast to the slowdown of oil demand in the West, China's energy demand continued to grow due to its flourishing economic development.<sup>194</sup> Securing China as a long-term oil export market was a major element of Saudi Arabia's "Look East" strategy and would ensure Saudi Arabia's future oil export security. There was the desire that China would adopt a greater role in the UNSC and favor its Saudi partner in matters concerning the Middle East.<sup>195</sup> The idea was that China could be used to balance the threat from other regional powers such as Iran.<sup>196</sup>

These events resulted in the current Sino-Saudi relations that are characterized by their high economic interdependence.<sup>197</sup> Over the years, strengthening their relations has given China and Saudi Arabia the opportunity to increase their economic cooperation. The visit of Former Saudi Crown Prince and now King Salman bin Abdulaziz in 2014 is another sign of the continuation of the good relations between the two countries and reinforced Saudi Arabia's "Look East" policy.<sup>198</sup>

## 4.2 Diplomatic Relations

After the establishment of the People's Republic of China (PRC) on October 1<sup>st</sup>, 1949, diplomatic ties with Saudi Arabia were not immediately established. One of the obstacles to improved Sino-Saudi relations was Saudi Arabia's recognition of Taiwan as the legitimate representative of China. As a close ally of the US, Saudi Arabia did not favor the communist People's Republic of China and instead aligned with Taiwan. After having established diplomatic relations with all the other countries in the Gulf region, Saudi Arabia was the last and most powerful country for China to befriend. The selling of the CSS-2 missiles can therefore be explained with the rationale that Chinese government wanted to create a favorable opinion of China among the Saudi government.<sup>199</sup>

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<sup>194</sup> Chen Mo, "Saudi Arabia's 'Looking East' Initiatives and Its Impact," in *China-Middle East Relations: Review and Analysis*, 2012, 84.

<sup>195</sup> Mo, 85.

<sup>196</sup> Gerd Nonneman, "Determinants and Patterns of Saudi Foreign Policy: 'Omnibalancing' and 'Relative Autonomy' in Multiple Environments," *From Aarts and Nonneman, Saudi Arabia in the Balance*, 2005, 334, [http://www.academia.edu/download/31632029/Nonneman\\_-\\_Saudi\\_Foreign\\_Policy.pdf](http://www.academia.edu/download/31632029/Nonneman_-_Saudi_Foreign_Policy.pdf).

<sup>197</sup> Naser al-Tamimi, "China-Saudi Arabia Relations: Economic Partnership or Strategic Alliance?," Working Paper, HH Sheikh Nasser Al-Mohammad Al-Sabah Publication Series (Durham University, 2012), 3.

<sup>198</sup> Neil Quilliam and Maggie Kamel, "The GCC-Asian Relationship: From Transaction to Strategy," *East Asia* 32, no. 3 (September 2015): 327, <https://doi.org/10.1007/s12140-015-9236-4>.

<sup>199</sup> Binhuwaidin, "China's Foreign Policy Towards the Gulf," 178.

Supported by its economic and military developments in the region, China convinced Saudi Arabia, after a lengthy process of cautious rapprochement, that Saudi Arabia would benefit on an economic, political, and strategic level should it switch alliances. After the establishment of diplomatic relations in 1990, and with the growing importance of China's energy security, China further promoted energy cooperation with Saudi Arabia through diplomatic action.<sup>200</sup> The use of energy diplomacy has strengthened the ties between the two countries and improved the guarantee of energy security.

The rise of high level visits between China and Saudi Arabia were another sign of the development of Sino-Saudi relations. Two visits worth mentioning are President Jiang Zemin's visit in 1999 and King Abdullah's visit in 2006. Zemin was the first Chinese president that visited Saudi Arabia and his arrival marked an important step in Sino-Saudi relations.<sup>201</sup> During his visit, the Strategic Oil Cooperation Agreement was signed in Riyadh. The essence of the agreement was that Chinese investments on the Saudi market were now allowed, and that China's downstream refining businesses would integrate Saudi companies.<sup>202</sup> Sino-Saudi relations were further increased when Saudi King Abdullah visited China in 2006. This was his first official visit in his new position as king of Saudi Arabia and the first time a Saudi Arabian king visited China after the establishment of diplomatic relations in 1990.<sup>203</sup> During this visit, both countries signed the Joint Statement on Strengthening Cooperation and Strategic Friendly Relations.<sup>204</sup> This was an important sign that showed Saudi Arabia's commitment to improve Sino-Saudi relations.

For Saudi Arabia, diplomatic relations with China have been a tool to secure a long-term customer for its crude oil supply and increase Saudi Arabia's indirect power at the UNSC.<sup>205</sup> China benefits from the improved diplomatic relations through its improved energy security in the Middle East and the advantages of aligning with a great regional power in the Middle East that also strives for balance in the region.

### 4.3 Economic Relations

In 2015, bilateral trade between China and Saudi Arabia was worth \$50.1B, with a positive trade balance of \$3.3B for Saudi Arabia. This is a strong decrease from previous years with for example 2012 accounting for \$73.3B in bilateral trade.<sup>206</sup>

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<sup>200</sup> Mo, "China's Oil Supply Strategy," 184.

<sup>201</sup> al-Tamimi, "China-Saudi Arabia Relations," 5.

<sup>202</sup> Yetiv and Lu, "China, Global Energy, and the Middle East," 205.

<sup>203</sup> Mo, "Saudi Arabia's 'Looking East' Initiatives and Its Impact," 86.

<sup>204</sup> Yetiv and Lu, "China, Global Energy, and the Middle East," 205.

<sup>205</sup> Mo, "Saudi Arabia's 'Looking East' Initiatives and Its Impact," 85.

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How important are the two states for each other's trade balance? In 2015, Saudi Arabia exported \$182B, with its top export destination China accounting for \$26.7B. With \$101B, crude petroleum accounts for 55% of Saudi Arabia's total export, of which \$18.5B went to China. Saudi Arabia's export of crude petroleum to China represents 15% of China's total import of crude petroleum.<sup>207</sup> In the same year, Saudi Arabia imported \$167B in total, with China accounting for \$23.4B. Nuclear reactors, machinery, electrical- and electronic equipment being the top import products from China. Saudi Arabia was the 25<sup>th</sup> largest export market for China (1.0% of China exports) and the 14<sup>th</sup> largest import market for China (1.8% of China imports) in 2015. China was the largest export market for Saudi Arabia (15% of Saudi Arabia exports) and the largest import market for Saudi Arabia (14% of Saudi Arabia imports) in 2015.<sup>208</sup>

### 4.3.1 Arms Trade

After the Iran-Iraq war, Saudi Arabia developed into the major arms customer in the Gulf region.<sup>209</sup> It is therefore no coincidence that in the mid-1980s, the first breakthrough in Sino-Saudi relations came when Saudi Arabia agreed with China to import Chinese CSS-2 intermediate-range ballistic missiles with a 3,000-kilometer range.<sup>210</sup> Contrary to China's arms sales to Iran, the arms sales to Saudi Arabia were not primarily driven by an economic motive. The purchase was fueled by two factors that dominated China's foreign policy at the time. First, China's aim was to increase its military cooperation with Saudi Arabia to replace Taiwan's influence in the region. Creating a positive image of China among Saudi leaders thus became an important incentive to accommodate Saudi military needs.<sup>211</sup> Second, while oil did not play a significant role yet in Sino-Saudi relations, Chinese fear of a Soviet expansion into the Middle East did. Becoming a reliable arms supplier to Saudi Arabia and other states in the Middle East would consequently eliminate any increase of Soviet influence in the region.

The growth in military cooperation led to a mutual understanding between the two countries, that eventually became a major step in the process towards the establishment of diplomatic relations.<sup>212</sup> A

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OECD, "OECD - China (CHN) Exports, Imports, and Trade Partners"; Department for Business, Innovation & Skills, "International Trade in Goods."

<sup>207</sup> OECD, "OECD - Saudi Arabia (SAU) Exports, Imports, and Trade Partners," The Observatory of Economic Complexity, accessed October 19, 2016, <http://atlas.media.mit.edu/en/profile/country/sau/>.

<sup>208</sup> OECD.

<sup>209</sup> Binhuwaidin, "China's Foreign Policy Towards the Gulf," 174.

<sup>210</sup> Harsh V. Pant, "Saudi Arabia Woos China and India," *Middle East Quarterly*, September 1, 2006, <http://www.meforum.org/1019/saudi-arabia-woos-china-and-india>; Nonneman, "Determinants and Patterns of Saudi Foreign Policy," 344.

<sup>211</sup> Binhuwaidin, "China's Foreign Policy Towards the Gulf," 334.

<sup>212</sup> Binhuwaidin, 336.

setback for Sino-Saudi arms trade came during the invasion of Kuwait by Iraq in 1990, which caused a major financial burden for Saudi Arabia. This forced the Saudi government to temporarily stop, among others, their budget expansion on defense and arms purchases.<sup>213</sup> In the late 1990s and early 2000s, arms sales between China and Saudi Arabia declined again. Reasons for the low level of military cooperation between the two countries can be contributed to the low level of Chinese military interest in the region. From an economic perspective, China was no longer dependent on arms sales, and for Chinese foreign policy, arms sales are no longer an essential element of its strategy in Saudi Arabia.<sup>214</sup> This is substantiated by data from SIPRI which shows a sharp decline in arms trade after 1988.<sup>215</sup> Another reason for this trend is the continuing reliance of Saudi Arabia on the US as one of its major supplier arms.<sup>216</sup>

### 4.3.2 Energy Trade

During the beginning of the 1990s, China's focus in the Middle East shifted from arms sales to oil, due to China's transformation from net oil exporter to net oil importer in 1993.<sup>217</sup> To continue its high level of economic growth, China needed reliable future sources of energy. As the holder of the greatest oil reserves in the world, and as the dominant player within the GCC, Saudi Arabia became the major source of China's oil imports despite China's efforts to diversify its energy sources.<sup>218</sup>

China's energy strategy is guided by the need to secure its long-term economic growth and to diminish China's vulnerability concerning their oil supply as a net energy importer.<sup>219</sup> The main element that has been used to accomplish this is the development of good mutually beneficial relations with oil exporting countries.<sup>220</sup> One of China's most significant partners for this this strategy has been Saudi Arabia and China's current president Xi Jinping has stated that today's energy cooperation can act as a steppingstone for the further expansion of the Sino-Saudi partnership.<sup>221</sup>

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<sup>213</sup> Nicolás M. Depetris Chauvin, "The Rise of the Gulf: Saudi Arabia as a Global Player," *International Reports* 5 (2010): 46.

<sup>214</sup> Norafidah Ismail, *Sino-Saudi Relations: Relevance for United States Security and Economic Relations with Saudi Arabia* (EBSCO Publishing, 2013), 129.

<sup>215</sup> SIPRI, "Table of Arms Exports from China, 1979-2015."

<sup>216</sup> Ismail, *Sino-Saudi Relations: Relevance for United States Security and Economic Relations with Saudi Arabia*, 130.

<sup>217</sup> Binhuwaidin, "China's Foreign Policy Towards the Gulf," 195.

<sup>218</sup> Ismail, *Sino-Saudi Relations: Relevance for United States Security and Economic Relations with Saudi Arabia*, 120.

<sup>219</sup> Ismail, 120.

<sup>220</sup> Mo, "China's Oil Supply Strategy," 197.

<sup>221</sup> Shannon Tiezzi, "Saudi Arabia, China's 'Good Friend,'" *The Diplomat*, March 14, 2014, <http://thediplomat.com/2014/03/saudi-arabia-chinas-good-friend/>.

Saudi Arabia, owner of the biggest oil reserves in the world, plays a significant role on the global oil market. Because of its large reserves, Saudi Arabia is the only country that can create a short-term increase of global oil prices by changing the level of its oil supply.<sup>222</sup> As mentioned earlier, after 9/11, Saudi Arabia has started to focus on a diversification of its customer base. The declining oil export to the US and the continuing growth of Asian demand has led Saudi Arabia to direct its attention to the Asian market. China's economic achievements in the last couple of decades and the continuing development of the Chinese market have made China a primary target for Saudi oil trade. When King Abdullah visited China in 2006, the two countries signed a treaty of cooperation in the field of energy. A reciprocal visit to Riyadh by the Chinese president Hu Jintao further consolidated the bilateral relations and energy cooperation.<sup>223</sup> For the Saudi government, its relations with China are not only shaped by economic, but also by political motives. With their close connection to China and the rest of the Asian market, Saudi Arabia hopes to become less exposed to political pressure from the West.<sup>224</sup>

### 4.3.3 Investments

Sino-Saudi economic relations are dominated by the trade in crude oil. However, after the establishment of diplomatic relations, and due to the more recent diversification of Saudi Arabia's economy, there are other economic areas in which the two countries cooperate, attracting foreign workers as well as foreign direct investments (FDI).<sup>225</sup>

Despite an initial reluctance to integrate their economy with outside powers, the Saudi government has cautiously embraced economic liberalization in the past couple of years.<sup>226</sup> Consequently, Saudi Arabia has permitted Chinese NOCs to help with developing its refineries.<sup>227</sup> As Saudi Arabia does not wish to increase its crude oil production capacity, new investments will primarily be used to replace declines in existing oil fields.<sup>228</sup> At the same time, Saudi Arabia has created investment funds aimed at the Asian market. In China's case, Saudi Arabia has invested primarily in the construction of downstream industries. The Saudi strategy is to use its investments to secure its oil export market by setting up joint venture projects.<sup>229</sup> This

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<sup>222</sup> Ismail, *Sino-Saudi Relations: Relevance for United States Security and Economic Relations with Saudi Arabia*, 122.

<sup>223</sup> Mo, "China's Oil Supply Strategy," 189.

<sup>224</sup> Pant, "Saudi Arabia Woos China and India."

<sup>225</sup> Chauvin, "The Rise of the Gulf," 45; Fahad Nazer, "Saudi Arabia's New Best Friend: China?," Text, *The National Interest*, September 2, 2015, <http://nationalinterest.org/feature/saudi-arabias-new-best-friend-china-13761>.

<sup>226</sup> Chauvin, "The Rise of the Gulf," 48.

<sup>227</sup> Nazer, "Saudi Arabia's New Best Friend."

<sup>228</sup> Fattouh and Sen, *Saudi Arabia Oil Policy*, 18.

<sup>229</sup> Mo, "Saudi Arabia's 'Looking East' Initiatives and Its Impact," 89.

is also a key step in the process of diversifying its economy and creating jobs.<sup>230</sup> For China, Saudi Arabia's dominant role in the Gulf region makes it a valuable strategic partner in the Middle East. Chinese investments in Saudi Arabia are meant to reinforce China's attempts to showcase itself as a reliable long-term customer for Saudi oil exports.<sup>231</sup>

#### 4.4 Nuclear Development

The development of nuclear capabilities has been a topic of much debate in the Middle East. This section will examine the Saudi development of nuclear energy and the effects of Iran's nuclear program on Saudi Arabia.

As early as in 1978, Saudi Arabia demonstrated an interest in nuclear power. At the time, Saudi Arabia entered a technical cooperation project on nuclear energy planning with the International Atomic Energy Agency (IAEA). The aim of this nuclear development was limited to industrial, agricultural and medical purposes and the research took place at the Atomic Energy Research Institute in the King Abdulaziz City for Science and Technology (KACST) established in 1988. After years of little advance in the Saudi nuclear program, the GCC countries met in Riyadh in 2006 and committed to a joint nuclear program.<sup>232</sup> Prior to these events, Saudi Arabia's rising domestic energy needs and the imminent depletion of its vast oil reserves had by then convinced the country to find alternative sources of energy for the future. Although Saudi Arabia already invested in research on solar- and other renewable sources of energy, the joint nuclear program resulted in a refocus on nuclear energy. Consequently, Saudi Arabia wanted to invest in the development of as many as sixteen nuclear reactors.<sup>233</sup> In 2014, the Saudi Arabian Basic Industries Corporation (SABIC) and the King Abdullah City for Atomic and Renewable Energy (K.A. CARE) signed the Research & Development Agreement that will address the future energy needs of Saudi Arabia. K.A. CARE has been established in 2010 by royal order of King Abdullah with the ambition to develop a sustainable future for Saudi Arabia.<sup>234</sup> In 2016, China and Saudi Arabia signed a memorandum of understanding in Riyadh on the manufacturing of a high-temperature gas-cooled reactor as part of the development of Saudi Arabia's nuclear program.<sup>235</sup>

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<sup>230</sup> Fattouh and Sen, *Saudi Arabia Oil Policy*, 19.

<sup>231</sup> al-Tamimi, "China-Saudi Arabia Relations," 6.

<sup>232</sup> Ahmad and Ramana, "Too Costly to Matter," 683.

<sup>233</sup> Nazer, "Saudi Arabia's New Best Friend."

<sup>234</sup> "About Us | King Abdullah City for Atomic and Renewable Energy," accessed November 16, 2016, <https://www.kacare.gov.sa/en/about/Pages/royalorder.aspx>.

<sup>235</sup> World Nuclear News, "China, Saudi Arabia Agree to Build HTR."

Saudi Arabia has stated that its primary motivation for the development of its nuclear program has been the need for alternative energy sources that will reduce the consumption of fossil fuel reserves. And it is true that Saudi Arabia must diversify its sources of energy in the near future in order to meet the country's growing domestic requirements for energy.<sup>236</sup> However, it could be argued that Saudi Arabia's pursuit for nuclear power might also partially be a response to Iran's nuclear program. Acquiring nuclear technology for Saudi Arabia could thus not be primarily driven by the need for alternative energy sources but more so to gain leverage against Iran's acquisition of nuclear technology.<sup>237</sup> Saudi Arabia's motivations would hence be of a political and strategic instead of an economic nature.

China plays a key role in this issue in three ways. First, as a permanent member of the UNSC, China can propose and influence UN resolutions that address Iran's nuclear program. Second, as the primary economic partner of Iran, China can exert its influence and put pressure on Iran to halt its nuclear program.<sup>238</sup> Third, as a nuclear power and partner of Saudi Arabia, China could supply Saudi Arabia with nuclear technology should it be necessary.<sup>239</sup>

However, the regional rivalry between Saudi Arabia and Iran, and China's connection to Iran's nuclear program, have made Saudi Arabia question China's position in the matter.<sup>240</sup> In the past, Iran has been able to rely on China to halt or soften UNSC sanctions aimed at Iran, much to Saudi Arabia's dismay. Subsequently, China must act very carefully in terms of their relations with both Saudi Arabia and Iran, finding a balance in cases like the Iranian nuclear issue while protecting its interests in the rest of the Middle East.<sup>241</sup>

## 4.5 Dimensions of Sino-Saudi Relations

Although it may seem that Sino-Saudi relations are mainly influenced by the search for long term energy cooperation, there are other influences as well. The major dimensions that shape the two countries' foreign policy towards each other have been identified as ideological, political, economic, and strategic.

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<sup>236</sup> Ahmad and Ramana, "Too Costly to Matter," 682.

<sup>237</sup> Ahmad and Ramana, 683.

<sup>238</sup> Mo, "China's Oil Supply Strategy," 189.

<sup>239</sup> Ismail, *Sino-Saudi Relations: Relevance for United States Security and Economic Relations with Saudi Arabia*, 123.

<sup>240</sup> Kéchichian, "Saudi Arabia and China."

<sup>241</sup> al-Tamimi, "China-Saudi Arabia Relations," 8.

#### 4.5.1 Ideological Dimension

In Saudi Arabia, there has been a decrease in the influence of religio-political thought in the decision-making process of foreign policy in the past few decades. This is partly because the Saudi monarchy recognized the need to limit the influence of religion on their policymaking process in order to thrive as a major player on the global level.<sup>242</sup> On the other hand, Saudi Arabia needs to preserve its monarchy as this secures their stability as a nation. The stability of their monarchy, however, is primarily based upon the support of the Wahhabi clergy. The perceived Iranian threat is used as another tool by the Saudi monarchy to unite the country and strengthen the rulers' position. In order to both preserve their status as a major player on the global level and their internal stability, the Saudi government has to balance modernizing their economy while preserving their traditional values.

Although religious and ideological aspects still play a role in the internal stability and the protection of the monarchy's position, these elements do not obstruct the establishment of ties with countries that have conflicting ideas about religion. Establishing ties with an atheistic China that had already shed its ideological feathers at the beginning of Sino-Saudi relations was therefore not a problem for Saudi Arabia. China's foreign policy in the Middle East is guided by a pragmatic strategy that is aimed at economics and energy security and offsets ideological differences.

#### 4.5.2 Political Dimension

Both China and Saudi Arabia believe that closer Sino-Saudi political relations will create a positive spillover to their economic relations. For China, improving energy security will be the goal of improved political relations. Saudi Arabia will see a secured market for its oil exports as the preferred outcome from closer political relations.<sup>243</sup> Although Saudi Arabia's oil reserve has a significant influence on its policymaking process and gives the country the power to singlehandedly influence the global oil market, Saudi Arabia claims that it has not used oil as a political tool since the oil embargo in 1973.<sup>244</sup> Its location at the center of a political unstable region and in close range of its regional rival further affects important economic policies, such as government spending decisions, that have an effect on Sino-Saudi relations.<sup>245</sup> This is highlighted by recent events during the Arab spring in 2011 that have put an emphasis on the survival of the Saudi monarchy and internal stability. For China, the improvement of diplomatic and political relations with oil exporting countries in the Middle East and in particular with Saudi Arabia, has been at the forefront

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<sup>242</sup> Chauvin, "The Rise of the Gulf," 48.

<sup>243</sup> al-Tamimi, "China-Saudi Arabia Relations," 5.

<sup>244</sup> Fattouh and Sen, *Saudi Arabia Oil Policy*, 10.

<sup>245</sup> Fattouh and Sen, 9.

of its foreign policy in the Middle East. Close political ties are thus a means to accomplish China's primary foreign policy goal: energy security.

#### 4.5.3 Economic Dimension

Even before China and Saudi Arabia had diplomatic relations, bilateral trade increased substantially during the 1970s.<sup>246</sup> After China and Saudi Arabia set up diplomatic relations, bilateral trade continued to increase. The Saudi economy continued to grow during the past few decades and is by far the largest in the Middle East.<sup>247</sup> A critical issue in Saudi Arabia has been the diversification of its economy, consequently their non-oil activities have seen an enormous increase over the years. However, in 2015, the export of oil still made up 65% of Saudi Arabia total exports, illustrating Saudi Arabia's dependency on oil revenues.<sup>248</sup>

China's economic policies towards Saudi Arabia saw a substantial change in 1993 when the country became a net oil importer. Beside the importance of Saudi Arabia and the other GCC countries as consumer markets for Chinese goods, the GCC countries now played a vital role in China's energy security strategy. To put this in perspective, Saudi Arabia exported 18% of its crude oil to China in 2015, making it the third largest market for Saudi crude oil. For China, Saudi crude oil covers 15% of its total crude oil import during the same year.<sup>249</sup> This shows that both countries are not solely dependent on each other in the oil trade and have acquired a substantial level of diversification. Nonetheless, when looking at the long-term energy trade, both countries become of greater importance to each other; Saudi Arabia is searching for a long-term partner that guarantees to purchase Saudi crude oil for many years to come. China on the other hand is devoting much of its attention to the development of longstanding relations with reliable oil suppliers that will secure the much-needed supply of energy for the growing Chinese economy. This explains why the economic dimension of Sino-Saudi relations in the long-term will be of greater importance than current data about bilateral energy trade would suggest.

#### 4.5.4 Strategic Dimension

After decades of cautious Chinese initiatives towards rapprochement, Saudi Arabia recognized the greater advantages of establishing relations with China in comparison with the strategic significance of Taiwan.<sup>250</sup> Furthermore, after 2001, Saudi Arabia became aware of the need to develop diversified oil strategies as

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<sup>246</sup> Binhuwaidin, "China's Foreign Policy Towards the Gulf," 162.

<sup>247</sup> Chauvin, "The Rise of the Gulf," 44.

<sup>248</sup> OEC, "OEC - Saudi Arabia (SAU) Exports, Imports, and Trade Partners."

<sup>249</sup> OEC.

<sup>250</sup> Binhuwaidin, "China's Foreign Policy Towards the Gulf," 336.

their relations with the US decreased. With the continuous growth of Asian economies, one of their strategies was the development of close ties with China.<sup>251</sup> Beside the importance of China's economic value to Saudi Arabia, it could also curtail the threat of its regional rival Iran and secure the stability in the Middle East. However, Saudi Arabia is aware that China is not yet able, or even willing, to completely replace the influence of the US military in the Middle East as the primary policing power.

China's motivation to develop closer ties to Saudi Arabia is also heavily influenced by strategic incentives. Saudi Arabia's power among GCC countries and its great oil reserves have been an important element of China's decision to pursue the development of Sino-Saudi relations. As energy security is one of the major pillars of China's continuously growing economy, an energy shortage is one of the biggest threats for the country.<sup>252</sup> China's foreign policy is therefore centered around the strengthening of relations with oil exporting countries, in particular in the Middle East. The intensified diplomatic and strategic Chinese approach in the Middle East has thus far resulted in growing economic and political ties.<sup>253</sup>

The Sino-Saudi relations have intensified over the past decade, producing economic benefits and future energy security for both countries. The increase in economic relations between the two countries, combined with the proximity of Saudi Arabia's regional rival Iran and the geostrategic value of the Gulf, have made sure that the strategic factor of Saudi Arabia to China continues to develop.<sup>254</sup>

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<sup>251</sup> Mo, "Saudi Arabia's 'Looking East' Initiatives and Its Impact," 85.

<sup>252</sup> Aarts, Rijsingen, and others, "Beijing's Rising Star in the Gulf Region," 27.

<sup>253</sup> Aarts, Rijsingen, and others, 30.

<sup>254</sup> Quilliam and Kamel, "The GCC-Asian Relationship," 324.



## Chapter 5 The Imbalanced System Explained

In the previous chapters, the emphasis has been placed on the bilateral relations between China, Saudi Arabia, and Iran. Nevertheless, it is important to note that these bilateral relations between countries are also determined by their relations with others.<sup>255</sup> An analysis of bilateral relations in isolation will thus inevitably neglect important elements. The importance of external influences on state-relations is perhaps even greater when dealing with two rivals, as is the case with Saudi Arabia and Iran. China's position as a friend of two rivals thus puts the country in a precarious position in which it must carefully balance between the two sides. Due to the country's importance to both Saudi Arabia and Iran, China has been able to position itself as a pivot between the two.

The triangular relation described in this research can be identified as an imbalanced system in which China plays the role of a great power that has relations with two smaller powers that cannot cooperate with each other. China can act as a pivot in this case because it can align with either Saudi Arabia or Iran, whom both lack the possibility to cooperate with each other due to their rivalry. China's role as the third actor is further strengthened by its geographical distance from both rivals, which are only separated from each other by a relatively small body of water. A state's proximity to one another is a principal element in potential conflicts. Being located farther away will thus diminish the chances of a conflict.<sup>256</sup>

This chapter is structured as follows. First, the process of befriending two rivals will be analyzed. Second, the applicability of Caplow's triad theory to the triangular relation will be tested and Jervis' conditions that may allow for an inconsistency will be applied to the triangular relation in this research to see whether they can justify the viability of the imbalanced system between China, Saudi Arabia, and Iran. Third, an alternative condition will be identified. This will be done by an assessment of the relative weight of the four factors that are dominant in the decision-making process of foreign policy that shape the triangular relation between China, Saudi Arabia, and Iran.

### 5.1 Befriending Two Rivals

As mentioned earlier, in a social system where two states lack the capacity to cooperate with each other, a third state can position itself as a pivot. This third state can make use of its ability to cooperate with both states by influencing the behavior of the two rivals for the better or for its own benefits.<sup>257</sup> As the role of

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<sup>255</sup> Jervis, *System Effects*, 29.

<sup>256</sup> Jervis, 184.

<sup>257</sup> Jervis, 183; Caplow, *Two Against One*, 19.

pivot can be very beneficial for the third state, it will often advance existing conflicts between the rivals. Consequently, some states will therefore actively seek to create an imbalance, anticipating that it will increase their bargaining leverage.<sup>258</sup> When a *détente* between two rivals does occur, it can have undesired outcomes for the pivot as the conflict cannot be used anymore to maximize its gains. However, when the pivot was caught in the conflict between the two, an improvement of the relations will probably benefit the third state.<sup>259</sup>

China's relations with both Saudi Arabia and Iran are primarily based on its energy demand. A disturbance in the flow of oil, and China's economy would come to a standstill, a situation that the Chinese government is trying to avoid. The increasing significance of crude oil for China's economy, made energy security the priority of China's foreign policy. This energy security policy has a major influence on China's foreign relations, especially in the Middle East, due to its great amount of oil producing countries. Chinese rapprochement with major oil producers, such as Saudi Arabia and Iran, played an important role in safeguarding reliable oil sources that would offer a continuous supply of energy, and led to the establishment of multiple oil-based partnerships.<sup>260</sup> Apart from China's need to establish economic relationships with oil exporting countries to meet its domestic oil demand, the country's growing presence in the Middle East has also been the result of rapprochements from the Saudi and Iranian side. Both countries have been looking for a counterweight to the US, Iran since the Islamic Revolution in 1979 and Saudi Arabia since the cool down of its relations with the US after 9/11.<sup>261</sup>

Usually, a state that is closely connected to two rivals will have an interest in improved relations between the two rivals. If this would not happen, its connection to the two rivals could quickly lead to a situation where the pivot would be pressured to choose one of the rivalling states as a partner, thereby alienating the opposing rival.<sup>262</sup> In China's case, the foundation of its relations with both Saudi Arabia and Iran is the same: energy security. On the suppliers' side, both Saudi Arabia and Iran pursue very different oil policies. Whereas Iran needs high oil revenues to keep its economy going, Saudi Arabia focuses on the long-term use of its oil resources and consequently has an oil policy that aims at securing its market share and long-term demand.<sup>263</sup> Acknowledging the importance of oil trade in the triangular relation between China,

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<sup>258</sup> Jervis, *System Effects*, 234.

<sup>259</sup> Jervis, 178.

<sup>260</sup> Mason, *Foreign Policy in Iran and Saudi Arabia*, 146.

<sup>261</sup> Mason, 148.

<sup>262</sup> Jervis, *System Effects*, 220.

<sup>263</sup> Fattouh and Sen, *Saudi Arabia Oil Policy*, 8.

Saudi Arabia, and Iran, it seems evident that the differing expectations both oil suppliers have, will have to cause friction in their respective relations with China.

## 5.2 What Allows for an Inconsistency?

Due to the fact that the triangular relation discussed in this thesis is in imbalance, the continuance of such a relation will prove to be difficult. However, in the following sections it will be discussed which factors may allow for such an inconsistency.

Caplow describes the imbalanced system that is discussed in this research, as a triad, in which two of the actors are rivals and a third actor is an uncommitted witness to whom each of the rivals appeal for support.<sup>264</sup> The third actor, China in this case, can play one of three possible functions in a triad. First, China can decide to act as a mediator between the two rival parties. The country can act as impartial, because it is closely connected to both Saudi Arabia and Iran. Nonetheless, in this case, China refrains from active participation in finding a settlement for the Saudi-Iranian disputes. Instead, the Chinese government only encourages the two countries to maintain calm, to exercise restraint, and to set up bilateral talks to promote stability in the region.<sup>265</sup> Second, China could become a *tertius gaudens*, literally meaning the rejoicing third, benefitting from the conflict between Saudi Arabia and Iran as the desired partner by both rivals. Although China may benefit from a drop in the oil price due to an increased competition between Saudi Arabia and Iran, it is more likely that an escalating conflict will have a destabilizing effect on the flow of oil from the Gulf to China. As energy security is the primary priority of China, an escalation in the relations of two of its major oil suppliers is therefore undesirable. Third, China could actively incite conflict between Saudi Arabia and Iran for its own benefit.<sup>266</sup> As mentioned in the second function, an escalation of the conflict between Saudi Arabia and Iran in the Gulf would probably destabilize the flow of oil from that region to China. Because the two rivals produce up to a quarter of China's total oil import, an interruption of the oil supply would negatively affect the Chinese economy.

The previous chapters that have described each of the three bilateral relations that make up the triangular relation between China, Saudi Arabia, and Iran, do not depict China as playing either one of the three functions described by Caplow. Instead, China acts as a distant player that does not desire to play an active role in the Saudi-Iranian conflict. Although Caplow is one of the experts in the field of triads and the

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<sup>264</sup> Caplow, *Two Against One*, 19.

<sup>265</sup> Tasnim News Agency, "Chinese Envoy Urges Calm, Restraint between Tehran, Riyadh," Tasnim News Agency, January 11, 2016, <http://www.tasnimnews.com/en/news/2016/01/11/967972/chinese-envoy-urges-calm-restraint-between-tehran-riyadh>.

<sup>266</sup> Caplow, *Two Against One*, 20.

formation of coalitions, his theory seems insufficient to give a proper answer to the question why this imbalanced system appears to be stable.

Jervis builds on Caplow's triad system, in which two rivals appeal to a third actor for support, but includes five more conditions in his theory that could allow for an imbalanced system to continue over a longer period. This section will identify the six conditions and examine whether the viability of the triangular relation between China, Saudi Arabia, and Iran can be explained by one of them.

Like Caplow, Jervis argues that an imbalanced system may be durable when two rivals court a third state. The third state, or the pivot, will gain bargaining power and have the capacity to influence the behavior of the two rivalling states. The two adversaries that are in need of a connection with a major power, will in this case be the weaker parties. As both rivals want to gain the support of the major power, neither dares putting too much pressure. This is also true with the establishment of bilateral or triangular relations were the weaker party will have to fear for the possibility of a shift of alignments by the other party or parties.

In the first condition, two rivals that seek to acquire the alliance of a third major power condone, or are unable to condemn, its partner's business with its direct rival. Although this condition does seem to fit the triangular relation discussed in this research, it can be questioned whether Saudi Arabia and Iran are truly courting China. While it must be acknowledged that Iran's isolation, due to international sanctions, has limited the country's opportunities to do business with other states, and that Saudi Arabia's relations with the US have cooled down, this does not imply that both countries are at the mercy of China. In addition, both Caplow and Jervis fail to answer an important question that is relevant in this case: what determines the level of cooperation between state A and B that C is willing to allow to protect its own interests in its relationship with A.

The second condition claims that an imbalanced system may succeed when it is made up by two smaller, rivalling states and one dominant neutral power, acting as the pivot. In this example, the third state can simply stay away from the battleground by staying neutral, and avoid the issue of having to choose. Another way in which major states can afford to stay neutral, is by becoming indispensable to the others, hereby making it impossible for both rivals to force the third state into making a choice.<sup>267</sup>

Applying this concept to the triangular relation discussed in this research, the balance between China, Saudi Arabia, and Iran, differ from the example described above. Although China does have the position of the dominant power, it still has needs itself. The country's demand for oil makes China more dependent

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<sup>267</sup> Jervis, *System Effects*, 235.

on its partners than would be desired for this condition. Moreover, China is not indispensable to Saudi Arabia and Iran. Although both countries differ from each other in their level of dependence on China for their export of oil, the levels of dependence and independence set out in the example do not match the ones in the case used in this research.<sup>268</sup>

The third condition focuses on ideology, personal rivalries, and historical animosities. Ideology can explain why two states, that share common interests, still choose not to cooperate or why two states that do not share common interests do decide to cooperate. Public opinion, religion, or historical events will thus be able to outweigh political, economic and strategic interests in foreign policy.<sup>269</sup> As two major oil producing and exporting states in the Middle East, Saudi Arabia and Iran could work together, as it would be in their own interest to align their oil policies. nevertheless, due to their ideological differences the two states refrain from integrating their economic policies.

Although ideology still plays a major role in both Saudi and Iranian domestic and foreign policy, especially in their bilateral relations, their relations with China seem to have been shaped by other interests. This ties in with the shift in Chinese foreign policy after the death of Mao from ideologically based to pragmatic politics, which meant a decrease of the role of ideology in the development process of its foreign policy.<sup>270</sup> In the end, Jervis' explanation does clarify why Saudi Arabia and Iran find it difficult to work together, which consequently creates the imbalance in their triangular relation with China. Nevertheless, as ideology is in part the cause of the imbalance in the triangular relation, it fails to explain the viability of the triangular relation.

The fourth condition claims that an exceptional state leader or diplomat would have the ability to establish and uphold good relations with two rivals at the same time. An actor that is appreciated by both sides, can overcome issues of conflict and construct an imbalanced coalition.<sup>271</sup> Such a system would be dependent on the skills of one individual and therefore be less secure in the long term. The death of the key player would impede the balance of the system or even dissolve the coalition. In the triangular relation between China, Saudi Arabia, and Iran, there is no evidence of individual leaders playing a significant role in the continuation of the imbalanced system. Only in the bilateral relations are there signs that individual actors influenced the level of cooperation between states. In Iran, the continuous shift between liberal and

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<sup>268</sup> Department for Business, Innovation & Skills, "International Trade in Goods."

<sup>269</sup> Jervis, *System Effects*, 236.

<sup>270</sup> Calabrese, "China and the Arab Awakening," 201.

<sup>271</sup> Jervis, *System Effects*, 237.

conservative presidents has affected the country's bilateral relations with Saudi Arabia. The same goes for Saudi Arabia, which saw an opportunity for rapprochement with Iran during the rise of Crown Prince Abdullah in the early 2000s.<sup>272</sup> From China's perspective, no notable individual actor has been able to influence China's foreign policy since Mao.

Overall, the triangular relation between China, Saudi Arabia, and Iran has not been preserved by the grace of individual diplomatic skills. This condition can therefore not explain the long-term viability of the imbalanced system discussed in this research.

For the fifth condition, a state may refrain from interaction with the rest of the world or be rejected by everyone else. Although economic sanctions have influenced Iran's position in the international community, this does not mean that Iran has been shunned by the entire international community. Iran has continued its cooperation and trade with China during the Western led sanctions.<sup>273</sup> Since neither China, Saudi Arabia, nor Iran are entirely isolated, this consideration does not apply to the research's triangular relation.

The final condition describes a situation characterized by bipolarity, where the security of smaller states can sometimes be guaranteed by a major power. This security permits those smaller states the liberty to pursue secondary goals, which occasionally go against the grain and consequently could reduce the consistency of the system.<sup>274</sup> This condition assumes that the third actor is a small state in an imbalanced system with two major powers. Looking at the triangular relation in this research, it is clear that Jervis' sixth condition cannot be applied to the triangular relation between China, Saudi Arabia, and Iran and therefore cannot offer an exhaustive answer to the main research question of this thesis.

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<sup>272</sup> Fanack, "Iran and Saudi Arabia."

<sup>273</sup> Chris Zambelis, "China and Iran Expand Relations After Sanctions' End," Jamestown, March 7, 2016, <https://jamestown.org/program/china-and-iran-expand-relations-after-sanctions-end/>.

<sup>274</sup> Jervis, *System Effects*, 237.

### 5.3 Searching for an Alternative Condition

Both theories of Caplow and Jervis demonstrate how the inconsistency of an imbalanced system can be explained when there are two rivalling states both courting a third state. Although some aspects of this explanation are similar to the characteristics of the triangular relation discussed in this thesis, both theories fail to define what specifically explains why both Saudi Arabia and Iran accept that China also maintains close relations with the other. The long-term viability of the triangular relation between China, Saudi Arabia, and Iran, suggests that there is something that overrides the rivalry and that makes both Saudi Arabia and Iran permit the inconsistency. Because this is a situation that both Caplow and Jervis do not further investigate, this research proposes an alternative condition that can give a better understanding of the reason why this triangular relation has been able to exist over a longer period of time.

Building primarily on Caplow's triad and Jervis' first condition, which both illustrate how an imbalanced system can be durable if it is composed by two rivals and a, more or less, dominant power, this research examines which factors are dominant in the triangular relation and can explain why both Iran and Saudi Arabia condone China's relations with the other, despite the fact that they are regional rivals. In the chapters that focused on the bilateral relations between China, Saudi Arabia, and Iran within the triangular system, four key factors have been identified that are of significance in the bilateral relations between these three countries. These ideological, political, economic, and strategic factors together shape each country's individual foreign policy, and consequently determine the level of cooperation in their triangular relation. What has come forward in these chapters is that some factors' importance outweighs that of others, making those elements more important for explaining the different country's behavior in the triangular relation between China, Saudi Arabia, and Iran. It is therefore necessary to identify the relative weight of each element in the construction of foreign policy. This is done by assessing which of the four factors is dominant in the decision-making process of the states' foreign policy that influences their bilateral relations.

### 5.4 The Relative Weight of Economic and Non-Economic Factors

With ideology, its importance may be overstated or exaggerated by the perceptions and rhetoric of those involved. In addition, when foreign policies are the result of ideological preferences, the danger of a self-fulfilling prophecy becomes imminent as a country will only consider countries that adhere to a similar ideology as friendly, and react dismissive towards countries with a different ideology. This will

consequently result in good relations with likeminded countries, and bad relations with others.<sup>275</sup> The ideological factors that have been demonstrated to be predominant in the triangular relation between China, Saudi Arabia, and Iran are:

1. The ideological rivalry that shape both Saudi and Iranian foreign policies towards each other.
2. The focus on ideational resources in Iran, such as its ancient civilization and empire, which helps to connect with China, which is also an ancient civilization.

In the triangular relation between China, Saudi Arabia, and Iran, ideology has lost some of its significance in their foreign policies in the past couple of decades. In China, this change began with by the death of Mao, which precluded a new, more pragmatic direction in China's foreign policy. Also in the case of Iran there has been a change in the influence of ideology in their foreign policies, the Iran-Iraq war pressured the new Iranian theocratic rulers to set aside their reservations in favor of the pragmatic interest of the state.<sup>276</sup> In Saudi Arabia, the ambition to continue to thrive as a major player on the international energy market has led to a reduction of religio-political thought.<sup>277</sup> While preserving its traditional values, the need to modernize the economy has led to a policy where ideological aspects do not obstruct relations with states with dissimilar beliefs. An exemption can be found in Saudi-Iranian relations, where ideology, influenced by the rulers who are in power at that moment, still dominates their attitude towards the other. However, the ideological struggle with their rival has not led to either Saudi Arabia or Iran demanding from China to end its relations with the other, or to cutting ties with China themselves. This implies that ideology is subject to priority reduction, when its drawbacks become greater than its benefits.

Politics and ideology are often closely connected, as can be seen in the way Saudi Arabia and Iran use ideological and religious manifestations as a political tool.<sup>278</sup> The political factors that have demonstrated to be predominant in the triangular relation between China, Saudi Arabia, and Iran are:

1. The deepening of China's political ties with various countries in the Middle East.
2. The common interest of China and Iran in the creation of an anti-US alliance, to balance the influence of the US in the Middle East.
3. China's non-interventionist foreign policy of leaving domestic matters to sovereign states.

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<sup>275</sup> Walt, "Alliance Formation and the Balance of World Power," 25.

<sup>276</sup> Douglas, Nelson, and Schwartz, "Fueling the Dragon's Flame."

<sup>277</sup> Chauvin, "The Rise of the Gulf," 48.

<sup>278</sup> Amiri, "Iran's Foreign Policy," 680.



Although China has recently deepened its political ties with various countries in the Middle East, their main objective has been to secure China's access to energy supplies in the region.<sup>279</sup> This serves as evidence that China uses multiple instruments to support its economic interests. The same goes for Saudi Arabia and Iran, whose policies are largely influenced by their economic interests.<sup>280</sup> Although political rhetoric still plays a role in Saudi-Iranian relations, this has not greatly affected the imbalanced system. This gives an indication that politics, as well as political struggle, do not primarily shape the triangular relation between China, Saudi Arabia, and Iran, although it is often a tool to support economic interests.

The strategic factors that have been demonstrated to be predominant in the triangular relation between China, Saudi Arabia, and Iran are:

1. The Iranian nuclear program, based on regional dominance and security concerns.
2. The proximity of the major oil transportation route in the Gulf, located between Saudi Arabia and Iran.
3. China's permanent membership of the UNSC, either used against the West or against Iran.

Saudi Arabia and Iran are involved in a geostrategic competition in the Gulf. Their location near the primary oil transportation line ensures that every conflict between them will have major effects on the flow of oil from the region.<sup>281</sup> From a strategic point of view, Saudi Arabia and Iran can be interesting for China to engage with. However, due to China's current non-interventionist foreign policy in the Middle East and the country's reluctance to get directly involved, the country will most likely not actively intervene in any regional affairs. The strategic interest of Saudi Arabia and Iran for China will therefore be of an economic nature, instead of a military one.

The economic factors that have been demonstrated to be predominant in the triangular relation between China, Saudi Arabia, and Iran are:

1. The profits of the oil export that are used to fuel the economies of Saudi Arabia and Iran.
2. The use of oil pricing by Saudi Arabia.
3. The establishment of a stable and secure oil export market for Saudi Arabia and Iran.
4. China's establishment of stable and secure energy markets.

Although interdependence can sometimes be defined in terms of political or military security, the primary advantage that a strong economic power such as China holds for both Saudi Arabia and Iran are the

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<sup>279</sup> Berger and Schell, "Toeing the Line, Drawing the Line," 91.

<sup>280</sup> Fattouh and Sen, *Saudi Arabia Oil Policy*, 10.

<sup>281</sup> Mabon, "FPC Briefing," 55.

economic terms.<sup>282</sup> The rise of politics based on practical and material factors in China's relations with both Saudi Arabia and Iran, combined with the country's focus on energy security in its foreign policy in the Middle East, has led to a diminished priority for ideology, politics, and strategy on China's side. For Saudi Arabia and Iran, the importance of the economic factors in their bilateral relations with China have made other factors become a secondary concern within their triangular relation.

In the previous chapters of this research it has become clear that due to the transition in the domestic and foreign policies of China, Saudi Arabia, and Iran from ideological to pragmatic based politics, the economic element has become the crucial factor that shapes the triangular relation between the three countries. This would give an answer to the question why the triangular relation between China, Saudi Arabia, and Iran, that forms an imbalanced system, has been able to thrive for so long. To put it simply, economic interests outweigh any other possible source of dispute that could cause a deterioration in this triangular relation.

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<sup>282</sup> Glenn Herald Snyder, *Alliance Politics*, Cornell Studies in Security Affairs (Ithaca, N.Y: Cornell University Press, 1997), 30.

## Chapter 6 Conclusion

As one of the biggest and fastest growing economies in the world, China has become an attractive client for oil exporting countries. Many of those countries, including Saudi Arabia and Iran, are hence involved in a competition to secure their market share in China's oil market.<sup>283</sup> Good relations with China are thus crucial for both countries. Due to the importance of economic interests, it is crucial for both Saudi Arabia and Iran to control other factors that might deteriorate their good relations with China, as they will inevitably influence the oil trade, which is their key concern.

Due to the small number of key players on the global energy market, both suppliers and customers are cautious of becoming too dependent on their trade partners. Diversification of trade partners has therefore become an essential element of foreign policies in all three countries. Still, the lack of alternative countries that can compete with China's economic size and growth rate have resulted in a growing economic dependence from the Middle Eastern perspective.<sup>284</sup> Although this might make it seem like Saudi Arabia and Iran are inferior and dependent in their relations with China, the opposite is true as China's growing economy is highly dependent on a durable and secured steady stream of oil to fuel its own economy, for which it has turned towards Saudi Arabia and Iran. As a result, the two countries made up for approximately twenty-three percent of China's total crude oil import in 2015.<sup>285</sup> Due to China's focus on secure long-term energy trade relations with Saudi Arabia and Iran, the importance of both countries for China is greater than current numbers about bilateral trade would suggest. Consequently, China is not quite the independent player one would expect it to be in its relations with Saudi Arabia and Iran.

Iran's economic problems after the end of the Iran-Iraq war, and the successive international sanctions, have left the country in need of a strong economic partner that is willing to befriend the country. The deepened Sino-Iranian relations have resulted in China becoming Iran's largest trade partner.<sup>286</sup> Iran's dependency on China, and Chinese investments in Iran, have made it difficult for both countries to abandon their economic relationship. China, and to a greater extent Iran, must therefore identify their main priority and act accordingly. Iran will consequently need to accept China's relations with Saudi Arabia and appease its ideological and political beliefs. A comparable situation has taken place in Saudi Arabia,

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<sup>283</sup> Bloomberg, "Saudi Arabia Edges Out Russia in China Oil Sales as OPEC Digs In," *Bloomberg.Com*, November 23, 2015, <http://www.bloomberg.com/news/articles/2015-11-23/saudi-arabia-edges-out-russia-in-china-oil-sales-as-opec-digs-in>.

<sup>284</sup> Liska, *Nations in Alliance; The Limits of Interdependence*, 14.

<sup>285</sup> OEC, "OEC - China (CHN) Exports, Imports, and Trade Partners."

<sup>286</sup> Dorraj and English, "China's Strategy for Energy Acquisition in the Middle East," 184.

where a reorientation in Saudi's foreign policy has led to a greater dependency on China. This transition came in the years after 9/11, when Saudi Arabia saw its relations with the US change and needed a new energy strategy. China's growing economy and focus on energy security, combined with Saudi Arabia's search for a long-term economic partner, created the ideal conditions for improved relations between the two countries. Although Saudi Arabia is not as dependent on China for the export of its oil as Iran, China does play a significant role in Saudi Arabia's long-term oil strategy. In the end, the declining demand for oil from the rest of the world and China's growing domestic demand for oil makes the latter the most beneficial long-term economic partner. The argument can thus be made that for both Saudi Arabia and Iran, the economic benefits from their relationship with China are of such a substantial level that other factors identified in this research have become of secondary importance.

This research has examined the different factors that influence a country's foreign policy, and their relative weight in the foreign policies of China, Saudi Arabia, and Iran, shaping their triangular relation. By doing so, this research explained why the imbalanced system between these three states has been able to function for such a long time already, despite the historical and ideological rivalry between Saudi Arabia and Iran. By determining economics as the key influencing factor in the three countries' foreign policies in the triangular relation discussed in this research, and by establishing that this has stabilized the imbalanced system that these countries together form, this research has built on the previous existing theories on imbalanced systems within international relations by including the importance of economics as a possible stabilizing factor in imbalanced systems.

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