

CHINA'S DILEMMA ON IRAN AND ITS OPTIONS

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EAI Background Brief No. 703

Date of Publication: 1 March 2012

Executive Summary

1. Currently, Iran is China's third largest source of oil imports, supplying more than 5% of China's total oil needs. China is also Iran's largest oil purchaser and trading partner. At the same time, Iran is an important market for China's consumer goods, capital equipment and overseas engineering contracting projects.
2. But China's Iran policy has always been criticized by the West. US critics believe that, in exchange for oil, China has been the key facilitator of Iran's nuclear ambitions. An embargo on oil purchase by China will put immense pressure on Tehran.
3. China is caught between its extensive commercial relations with Iran and its need to keep strong ties with the US. Beijing's enormous demand for energy resources has led to its long-standing commercial ties with Iran. China has neither the political desire nor the economic ability to walk away from Iran.
4. On the other hand, as an important member of the current international system and a rising economic power, China has to maintain constructive and cooperative relations with the US and other Western countries.
5. China's recent energy moves suggest that its traditional calculus and policies in cooperating with Iran may be changing, and its enterprises are scaling down their business activities in Iran, either in response to US's pressure, or to their own business calculations.
6. China sees the need to diversify its sources of imported oil as its heavy reliance on Iran for energy resources carries real risks. A possible war in Iran could lead not only to China's FDI losses in Iran, but also disrupt oil production in the entire Middle East and trigger an oil crisis.

7. An oil crisis will significantly impact on China's economy. Its vulnerability to an oil crisis can be attributed to China's heavy oil dependence on the Middle East and its backward oil reserve system.
8. Unlike the US which imports most of its oil from Canada and the Gulf of Mexico and has more diversified energy resources, over 70% of China's imported oil comes from the Middle East and Africa.
9. Apart from speeding up the building of an oil reserve system, China has to further diversify its energy reliance from oil to other energy resources. China is rich in natural gas. It would do well to expand natural gas production and supply through opening up of its domestic energy markets and encouraging competition.