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Strategic Dependencies: China's Pursuit of Energy Security in the Gulf Region

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Abstract

This article analyzes how China strategically transformed its economic strategy in the Persian Gulf from energy security to trade ties and infrastructure investment between Saudi Arabia and Iran. It conceptually places itself within the region as the world's largest crude importer to secure long-term supplies necessary for industrial development. Through deepening bilateral relations and long-term supply contracts and establishing downstream joint ventures, China becomes a lifeline for Saudi dependence, while at the same time evading restrictions by clandestine energy ties with Iran despite international sanctions. It employs qualitative methodology based on trade data, strategic policy analysis, and published agreements to identify this dual track of deepening oil trade combined with diversifying energy sources. This involves LNG importation from Qatar, investment in renewable energy in the United Arab Emirates, and infrastructure projects in the Belt and Road Initiative (BRI). Simultaneously, China's financial diplomacy agreements will undermine American influence and transform the Gulf's financial architecture. The findings signify that the Gulf strategy of China is not simply resource-driven. Instead, it has moved towards combining energy dependency and geopolitical hedging. Thus, Beijing's model offers a template for influence not backed by military presence but in the long haul through interdependence, connectivity, and financial restructuring.

Keywords: Persian Gulf, Energy Security, China, Oil Trade, Saudi Arabia, Iran, Economic Diplomacy, de-dollarisation, Strategic Dependencies

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INTRODUCTION

China maintains specific interests globally, aligning its strategic objectives with both economic and geopolitical aims. China, as the largest global importer of crude oil, has strategically depended on the Persian Gulf. Energy security lies at the heart of China's foreign policy, driven by the need to support its rapidly growing economy and its increasing dependence on reliable energy resources. Beyond addressing these needs, the Persian Gulf is poised to serve as a key foundational element in the BRI, with the objective of fostering a globally integrated economic network. This region is crucial for the port, railway and industrial zone construction projects that connect Asia with Europe and Africa. These investments support China's presence on the world economic front and meet its aspirations for a restructured world order and, therefore, less reliance on Western-dominated systems. China is carrying on a sophisticated balancing act in the region: Building good economic relations with Saudi Arabia, Iran, and the Gulf States while steering clear of direct engagement in local conflicts.

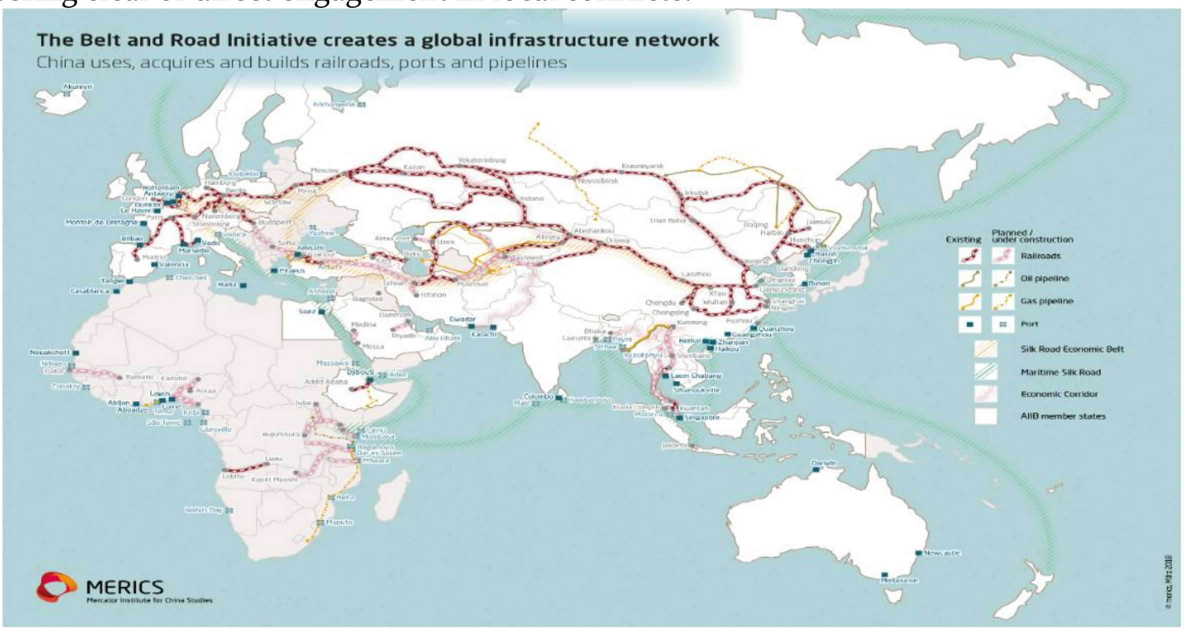

FIGURE: THE BRI CREATES GLOBAL INFRASTRUCTURE, HTTPS://MERICS.ORG/EN/TRACKER/MAPPING-BELT-AND-ROAD-INITIATIVE-WHERE-WE-STAND

This astute maneuvering allows China to work against rivalries and build a great partnership extensively without compromising its neutrality. Then, interest in digital and telecommunications networks and arms sales in the Gulf distinguishes their multi-pronged approach. Although its arms sales are still relatively small, the offer of advanced technologies and drones shows Beijing's effort to expand its influence beyond mere economic ties. This expanding footprint is indicative of China's larger global ambitions; however, it also denotes an intentional decision to become more involved in the affairs of the Persian Gulf, from which it seeks to contest American influence in the region to secure vital resources and portray itself as a significant factor in determining Middle Eastern geopolitics. Nonetheless, this risky policy raises concerns about its prospects for regional stability.

PURPOSE OF THE STUDY

This article examines how China has engaged economically in the Persian Gulf, particularly through an energy security strategy and increasing trade and investment links with Saudi

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Arabia and Iran. It seeks to explore how these relations may serve broader Chinese interests regarding geopolitical and economic objectives, including energy diversification and currency diplomacy.

RESEARCH METHODOLOGY

Methodologically, this article deviates from quantitative work and follows a qualitative approach with content analysis of official policy documents, bilateral agreements, oil trade data, and the secondary literature on relevant topics ranging from learned journals, international energy reports, and publications from think tanks. Integration of these sources identifies patterns in China's energy and investment strategy and evaluates their implications for regional and global energy diplomacy.

CHINA'S ENERGY DEPENDENCY ON THE GULF

The factors that fuel China's interaction with the Persian Gulf are primarily economic and strategic. The Persian Gulf region is significant for China not only as an energy supplier but also for investments, trade, and political influence. What follows is an elaborate discussion of all these issues.

1. ENERGY SECURITY AND OIL DEPENDENCE

China is the world's largest importer of crude oil; hence, the energy requirements from the Persian Gulf are large. Crude oil from Saudi Arabia entered China with over $66 billion worth of exports in 2022, or composed 85 percent of all Saudi exports to China for that year (Taneja, et al., 2023). Other Gulf states that play an equal role in China's energy imports are Iran, the UAE, and Kuwait. This dependence drives energy security to be the primary concern of China's policy toward the region; hence, it compels Beijing to cultivate stable diplomatic relationships and promote infrastructural investment in the Gulf energy sector.

2. CHINA'S HEAVY RELIANCE ON PERSIAN GULF ENERGY SUPPLIES

China is the world's largest oil importer, consuming 11-12 million barrels daily. The sale of crude oil from the Persian Gulf is significant in sustaining economic growth in China. Almost 40% of China's crude oil imports come from this region, and given China's increasing industrial and transport needs, energy supply security is one of its foremost national priorities. (Gurol & Scita, 2020).

3. SAUDI ARABIA AS CHINA'S LEADING OIL SUPPLIER

Saudi Arabia has been the leading supplier of crude oil to China for several years. In 2023, China imported over 87.5 million tons of crude oil from Saudi Arabia, with trade worth around $55 billion (Taneja, et al., 2023)

- Long-term contracts between Aramco and refiners in China (for instance, Sinopec and PetroChina) guarantee an uninterrupted oil flow to China.
- Aramco's equity in Chinese refineries (for example, Liaoning Refinery) shows a growing status of energy interdependence between the two.
- Saudi Arabia is stepping up investments in the petrochemical field in China, which includes plans for a $10 billion oil refinery and petrochemical complex in Liaoning (Kennedy, 2023).

TABLE 1 CHINA-SAUDI ARABIA OIL AND ENERGY AGREEMENTS (1999-2024)

Year	Agreement/ Development	Key Details
1999	First Long-Term Oil Supply Contracts	Saudi Arabia starts exporting crude oil to China regularly.

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2004	Sinopec-Armco Gas Deal	Joint Natural gas exploration in the Empty Quarter of Saudi Arabia.
2006	Fujian Refinery Joint Venture	$5B refinery/petrochemical complex (Aramco, Sinopec, ExxonMobil).
2011	1 million bpd Supply Deal	Saudi Arabia becomes China's primary supplier.
2012	Yanbu Refinery Project	Expansion project in the existing Yanbu Refinery
2016	Armco's Downstream Investment in China	Talks for stakes in Yunnan and other refineries
2017	$65bn Energy Deals and King Salman's Visit	Photochemical projects were signed
2019	Liaoning Refinery Complex	Saudi Aramco and Chinese Norinco signed a $10 billion joint venture agreement to construct a petrochemical complex and refinery in Liaoning Province.
2022	Comprehensive Strategic Partnership	Hydrogen energy, tech collaboration, and oil supply security.
2023	Aramco's 10% Stake in Rongsheng	expansion into Chinese petrochemicals.
2023	Yuan-Denominated Oil Trade	Geopolitical shift: first RMB-based oil sale to China
2024	Potential Zhejiang Refinery Stake	This project aims to integrate refining and petrochemical production, and includes a crude oil supply agreement and access to Zhejiang Petrochemical's storage facilities
2024	Green Hydrogen Collaboration Talks	These talks focus on overcoming barriers to green hydrogen adoption, promoting sustainable development, and accelerating the transition to a cleaner energy economy.

Source: (Chang, Gupta, Rana, & Rezvijs, 2024), compiled by author

4. IRAN'S ROLE IN CHINA'S ENERGY SECURITY

- Despite US sanctions on Iranian oil, Iran supplies 8-10% of China's total crude imports.
- Iran Total Exports to China recorded 374.148 USD mn in Nov 2024, compared with 379.199 USD mn in the previous month
- Iran's total exports to China monthly updated data, available from Dec 1990 to Nov 2024, with an averaged value of 425.988 USD mn
- The data reached an all-time high of 3.060 USD bn in Apr 2014 and a record low of 0.033 USD mn in Nov 1991
- The 25-Year Strategic Cooperation Agreement between China and Iran, signed in 2021, further intensifies energy ties between the two countries. This agreement grants China discounted access to Iranian oil in exchange for investments in Iran's energy and infrastructure sectors.

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- China continues to defy US sanctions by continuing to purchase Iranian crude oil, typically disguised with dubious origins as oil from Malaysia or the UAE, to bypass restriction schemes.
- In turn, China provides Iran with machinery, steel, and consumer goods to stand as an economic salvation to Tehran against isolation.

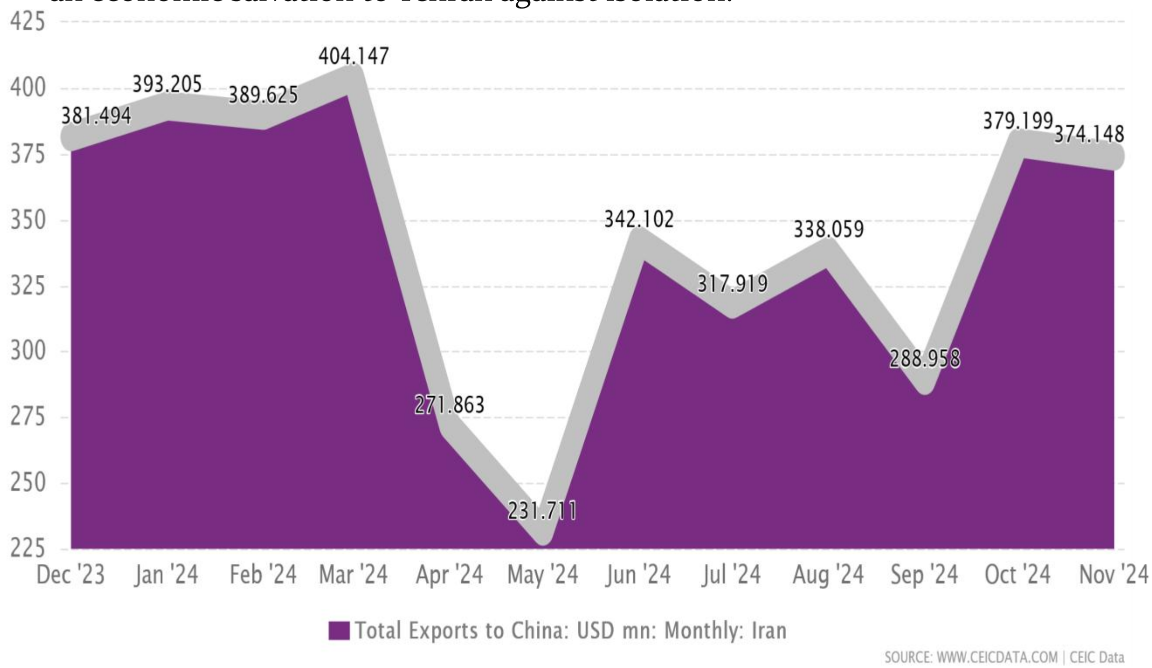

FIGURE BAR GRAPH SHOWING IRAN'S TOTAL MONTHLY EXPORTS TO CHINA IN USD FOR YEAR 2024, WWW.CEICDATA.COM/ CEIC DATA

TRADE & INVESTMENT STRATEGY IN THE GULF

The relationships China has built with the Persian Gulf economies are not limited to energy importation alone but consist of trade and inclusive investment in infrastructure. The Gulf states form a part of the BRI (BRI). China's trade agreements, industrial programs, and financial cooperation with Mohammed Saad established an economic partnership.

1. CHINA'S INCREASING TRADE IN THE GULF STATES

The UAE has become China's most significant trading ally in the Gulf, surpassing even the European Union and the United States.

- Figures of trade from 2023 show that China trades with Saudi Arabia no longer just in dollars: the annual trade turnover with Saudi Arabia has surpassed 116 billion dollars; Saudi Arabia is thus China's largest oil supplier (Chang, Gupta, Rana, & Rezvijs, 2024).
- Trade volumes with the UAE amounted to $99 billion. This made the UAE China's number two trading country in the region for 25 years. In contrast, the trade between Iran and China was about $16 billion figure, which fell short of the United States' level of commitment to running things (IEA, 2024).
- China is now the largest trading partner of the Saudi kingdom, supplying around 20% of Saudi crude oil imports. The YASREF joint venture, a refinery project costing $10 billion, was established in 2014 between Saudi Aramco and Sinopec to process 300,000 barrels of crude oil each day (Chang, Gupta, Rana, & Rezvijs, 2024).

2. CHINESE INVESTMENTS IN GULF INFRASTRUCTURE

The BRI of China has significantly influenced the Gulf economies through:

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a) PORT DEVELOPMENT

The Arabian Gulf is home to almost 33 ports and harbors, which are considered important maritime choke points for commercial shipping and global energy trade. so that China funds industrial development in these areas. She funded smart ports to influence US presence and gain an edge in the international market. China is extending its reach through Jebel Ali (UAE), Duqm (Oman), and Khalifa Port (UAE) to secure possible maritime trade routes (Robinson, 2023).

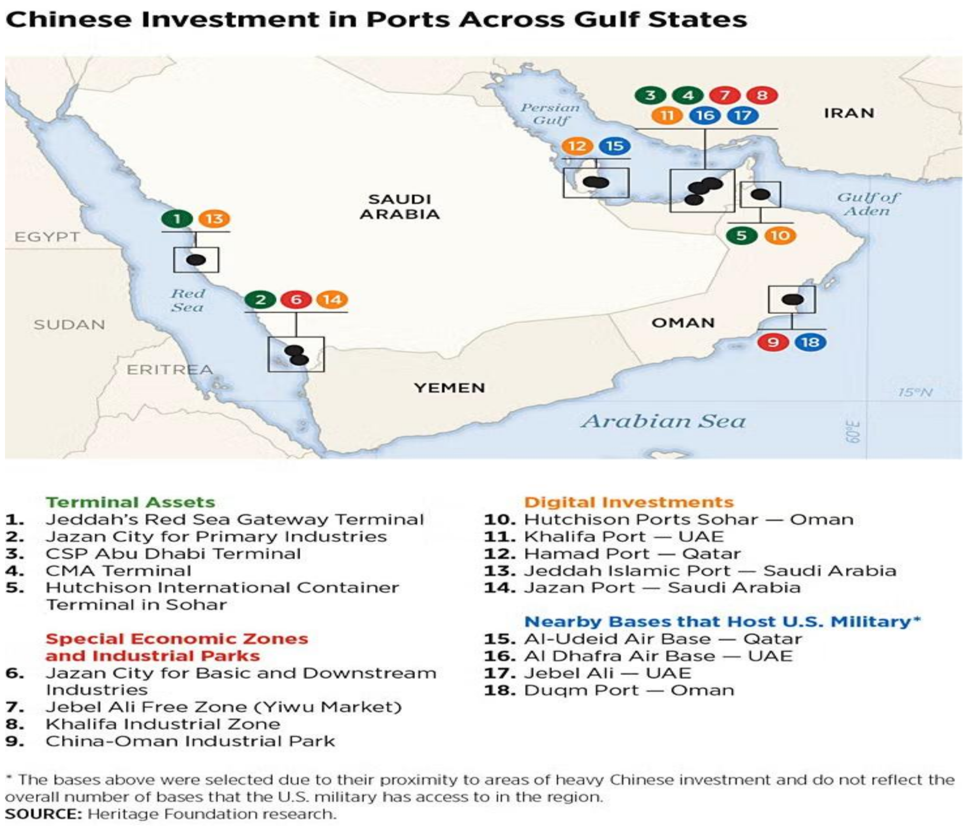

FIGURE : CHINESE INVESTMENT IN PORTS ACROSS GULF STATES, https://www.heritage.org/middle-east/report/why-the-us-must-break-chinas-emerging-string-pearls-the-arabian-gulf

b) SMART CITIES AND TECHNOLOGY

Chinese financing of innovative infrastructure projects in Saudi Arabia and the UAE within the setup of their 5G networks, AI, and surveillance technologies by companies such as Huawei and Alibaba Cloud.

FIGURE : CHINA'S DIGITAL SILK ROAD IN THE MIDDLE EAST, AUSTRALIAN STRATEGIC POLICY INSTITUTE; TELEGEOGRAPHY

c) INDUSTRIAL ZONES

Chinese-backed manufacturing hubs in Saudi Arabia and the UAE are driving industrial development across the region.

d) STRATEGIC FINANCIAL COLLABORATIONS

The strategy of de-dollarization by China and Gulf states recently gained momentum with the growing fraction of oil trade transacted in yuan instead of dollars. A set of agreements is established between the UAE and Saudi Arabia to facilitate transactions in the yuan, further increasing China's role in the GCC financial marketplace. Additionally, agreeing with China to trade oil in yuan rather than US dollars could be interpreted as a challenge to American petrodollars (IISS, 2023). More importantly, this indicates that, considering China's ongoing de-dollarisation campaign has begun a big thrust with rising tempers between the US and China, and has been further aggravated by economic measures imposed on Russia and Iran, two major trading partners of China. Hong Kong fits more and more into the role of being a financial hub for China-GCC financial cooperation, with an official delegation from the countries, such as Saudi Arabia, UAE, Oman, and Qatar, meeting at the Asian Financial Forum to discuss enhancing financial cooperation between Hong Kong and Gulf countries. Saudi Arabia and Hong Kong have built up an investment fund of $1 billion to invest in companies in Hong Kong looking into expansion into the Middle East. Two ETFs with a market size of $1.8 billion were floated on the Tadawul stock exchange in Saudi Arabia and allowed investors from the Middle East to buy shares in Hong Kong, thus boosting bilateral capital flow for investment purposes (Sun, 2024). The area of strategic financial cooperation between China and the GCC has seen some substantial transformations because of oil trade settlement in yuan vis-à-vis currency swap arrangements, stock exchange linkages, as well as significant investments, all aimed at realizing the long-term goals of China to weaken the hegemonic hold of the US dollar, achieve economic strength, and further pour Chinese finances into the Middle East.

CHINA'S ENERGY DIVERSIFICATION STRATEGY

China has been investing in energy resource diversification, strategically reducing oil dependency and curtailing geostrategic risks. China initiated investments in renewable energy in the Gulf region to diversify the energy supply under the Diversification Strategy. Through agreements with Saudi Arabia and the UAE, Beijing supports large-scale installations of solar farms, nuclear stations, and hydrogen energy projects. State Power Investment Corporation (SPIC)- a corporation under the central government of China- has started several projects in the Middle East hinged on green technology in line with China's medium-term goal of achieving carbon neutrality. Additionally, China has increased its import volume for LNG to diversify its energy mix, especially with Qatar and the UAE. It met with massive success since it signed a 27-year-long LNG agreement in 2022 with Qatar Energy, which will provide 4 million LNG annually, effecting a paradigm shift in the annals of relations between these two countries in this field and a step that will not only cut down the dependency coal has held but will also become a key global energy transition (Mankikar & Taneja, 2024).

So, the brightly rising energy footprint China has been forging in the Middle East is also causing a range of difficulties. The Strait of Hormuz appears to be a significant choke point through which one-third of all oil in the world moves. This is precisely where a great deal of geopolitics congregates. The regional tensions, especially those involving the US and Iran, add to that level of existential fear, for example, for China, a security-related type. The US sanctions against Iran have drawn greater scrutiny from Washington into what strategic partnership holdings Beijing has, as China's increasingly growing energy role in the Russian market has added to that scrutiny. Indeed, in donating such measures of maritime security, China seeks to safeguard its energy trade by pushing massive measures, including extending its naval presence in the Indian Ocean and investing in strategic ports and facilities, such as easing the development of Gwadar, Pakistan, drones and missiles, and Duqm, Oman. Ultimately, these movements highlight a particular sense of dualism in China's strategies regarding trade routes vulnerable to security and those of some balanced maintenance amid global power competition.

KEY FINDINGS

It shows a careful balancing act as China delves into the Persian Gulf, increasing the traditional oil trade ties and, on the other hand, seeking to diversify energy sources and transit partners strategically. The approach is more than an economic dimension; it is a calculated maneuver encompassing energy diplomacy within a geopolitical space.

Firstly, China's dependence on Persian Gulf oil, especially on the two countries, Saudi Arabia and Iran, reveals the fundamental importance of the region in the overall design of energy security architecture perceived by Beijing in the long run. In this context, China also takes diversification measures such as LNG import agreements with Qatar and investments in renewables in the UAE and Saudi Arabia to hedge against geopolitical volatility such as instability in the Strait of Hormuz or U.S. sanctions. This shows, therefore, the unencumbered opportunities with which it has been said that opportunities are opened to reduce exposure to regional choke points and mono-dependence.

Secondly, economic policy in the Gulf goes hand in hand with China's geopolitical calculations; that is, it pursues parallel partnerships with Saudi Arabia (the U.S. ally) and Iran (under U.S. sanctions) without disturbing global relations. This makes the shift pragmatic and dual to give further credence to Beijing's enterprise of a neutral economic partner while augmenting its strategic depth across rival states.

Thirdly, China gives oil deals with Gulf States in the renminbi, which constitutes an addition to its power potential against U.S. dollar dominance in global energy markets. This would be characterized by trade settlements using the Chinese currency and acquiring GCC financial infrastructure.

China has its brand of economic statecraft: not replacing Western influence on a zero-sum basis but slowly adding energy flows, trade mechanisms, and financial systems into a holistic framework for elevating its global influence. China then acts as both market and mediator for the Gulf, quietly changing economic and strategic conditions without military presence.

CONCLUSION AND RECOMMENDATIONS

The evolution of China's engagement with the Persian Gulf represents part of an ongoing shift in international energy and economic diplomacy that this study suggests is best understood as pragmatic balancing: deep energy dependencies being met by strategic diversification combined with expanded bilateral trade and financial diplomacy. Through the Saudi Arabia long-term oil contract and deliberate US sanctions aimed at keeping ties with Iran, China saves itself from falling into a single state's dependencies while playing its Gulf rivals against each other. This maintains a balance that gives China strategic flexibility while securing continuity of energy supply, a critical factor for sustaining China's economic growth.

Furthermore, the Yuan oil trade initiative, joint oil refinery and petrochemical ventures, infrastructure investments in digital and port projects under the Belt and Road Initiative, and other developments show that China wants access to these resources and institutionalization of its economic influence. These avenues act as force multipliers for China's regional rule-and-relationship-shaping without the need for military hardware definite distinction from old-school great power rivalry. However the externalities posed by ongoing tensions in the Gulf, particularly surrounding the Strait of Hormuz, the U.S.–Iran conflict, and the regional competition between Saudi Arabia and Iran could also threaten the stability-focused model that has served China so well thus far, as can the complexity of managing both U.S. allies and sanctioned states in any coherent policy coherence.

RECOMMENDATIONS

- Enhance Risk Mitigation: China should deepen capabilities for the investment in land and maritime routes (e.g., Gwadar, Duqm) to mitigate chokepoint vulnerabilities.
- Enhance LNG and Renewables Diversification: Expand energy imports beyond crude to stabilize Gulf volatility from partners like Qatar and the UAE.
- Establish a Multilateral Energy Forum: Involve Gulf partners in regional energy security dialogues operative in non-aligned cooperative frameworks.
- Yuanization on Pace: China shall responsibly scale yuan-based trade arrangements within its set limits by managing the trade-off of economic ambition with financial stability during market swings.
- By Soft Power and Strategic Patience: As the economic footprint of China expands, it should avoid clashing directly with regional conflicts and use its economic clout to broker peace and stability.

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Thus, China's strategy in the Persian Gulf reflects a new model of international influence grounded in infrastructure and investment rather than bases and battalions.

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