

CHAPTER I

INTRODUCTION

A. Research Background

The relationship between the United States (US) and China has become one of the most complex geopolitical issues in the modern era. The dynamic changes in this bilateral relationship are influenced by various factors, one of which is energy security (Blumenthal, 2015). As the world's largest energy consumer, reach more than 3,3 Mtoe (Million Tonnes of Oil Equivalent) in 2018, China has been vigorously seeking to secure its energy supplies to fuel its economic growth and ensure long-term energy security (Garside, 2024). Conversely, the United States, historically a dominant player in the global energy market, has been striving to maintain its influence over global energy flows and supply routes (U.S. Energy Information Administration, 2023). This competition has intensified in the context of the US sanctions on Iran, particularly affecting the oil trade—a vital component of both countries' energy strategies.

The US-Iran relations have been turbulent, primarily due to Iran's nuclear ambitions and the corresponding geopolitical ramifications. The United States has imposed multiple rounds of sanctions on Iran over the years, primarily in response to its nuclear activities and regional policies. Iran's nuclear program, initiated under Shah Reza Pahlavi in 1957 and paused during Ayatollah Khomeini's leadership, was revived in the late 1980s led by the Iran-Iraq war. Iran's nuclear enrichment programme was conducted clandestinely for a long time and was quite complex outside the NPT (Non-Proliferation Treaty) agreement that Iran had previously signed in 1968. Iran became a member of the NPT in 1968, under which the country committed not to develop nuclear weapons and only use nuclear technology for peaceful purposes. However, Iran's relationship with the NPT became complicated when Iran's secretive nuclear programme came to light in the early 2000s. While Iran claims that its nuclear programme is for peaceful energy use, many countries, including the United States, suspect that Iran is using this programme as a cover to develop nuclear weapons capabilities (United State Institute of Peace, 2023).

These sanctions were significantly tightened in the 2000s as concerns over Iran's nuclear ambitions grew. A major escalation occurred in 2010 when the US, along with the European Union, imposed crippling economic sanctions targeting Iran's vital oil exports, banking sector, and other key industries. These measures were designed to pressure Iran into halting its nuclear enrichment activities, which were seen as a potential pathway to developing nuclear weapons.

The cumulative impact of these sanctions severely damaged Iran's economy, leading to the reduction of foreign direct investment, a steep decline in oil revenues, and increasing domestic unrest. Faced with mounting economic pressure and diplomatic isolation, Iran eventually agreed to negotiate with the P5+1 nations, culminating in its decision to join the Joint Comprehensive Plan of Action (JCPOA) in 2015. Under this agreement, Iran committed to significantly curbing its nuclear activities in exchange for the gradual lifting of international sanctions, a move that provided the country with much-needed economic relief and reintegrated it into the global economy.

However, the US's withdrawal from the JCPOA in May 2018, under President Donald Trump, marked a significant shift. Trump criticized the JCPOA for not adequately curbing Iran's nuclear program and consequently reinstated stricter economic sanctions especially targeting Iran's oil exports (Dianti, 2020). The sanctions imposed by the US are in the form of executive orders (EO). The U.S. government expects foreign countries to completely stop importing Iranian petrochemical productions. These sanctions aimed to eliminate Iran's primary revenue source and applied pressure on countries engaged in oil trade with Iran (Katzman, 2019).

Amidst this geopolitical tension, China's role is pivotal. With its vast and growing energy demands, China's strategy focuses on securing stable and diversified energy supplies. Iran, possessing one of the largest oil reserves in the world, is a strategic partner for China in achieving its energy security objectives. Despite the US sanctions, China has continued to import Iranian oil, underscoring its commitment to energy sovereignty and its willingness to challenge US-imposed international norms (AIPAC, 2023).

China's necessity to secure energy for its domestic economy is driven by its status as the world's second-largest economy and its significant industrial base (Garside, 2024). Ensuring a consistent energy supply is crucial for sustaining economic growth and meeting future national needs. This includes not only securing current energy demands but also planning for long-term energy stability and diversification to mitigate risks associated with geopolitical conflicts and supply disruptions (Klare, 2012).

In this complex geopolitical landscape, China's strategy for sustaining oil trade relations with Iran involves several tactics, aimed at circumventing US sanctions. This study examines these strategies from 2018 to 2023, exploring the economic and political implications of China's continued oil trade with Iran under US restrictions. By investigating these strategies, the research aims to provide a comprehensive understanding of the interplay between international sanctions, energy security, and geopolitical strategies.

The significance of China's strategy lies in its implications for international relations and the global oil market. China's continued engagement with Iran not only provided crucial economic support to the Iranian regime but also challenged the effectiveness of US sanctions. This strategic resilience highlighted China's geopolitical ambitions and its intent to secure energy sovereignty, ensuring that its energy policies remain unaffected by external pressures, including those from the US (Sagena & Mustamin, 2020).

This study aims to comprehensively analyze China's tactics in sustaining oil trade relations with Iran under US sanctions, exploring the economic and political ramifications. By examining these strategies, the research seeks to contribute to the broader understanding of international economic sanctions, energy security, and geopolitical dynamics.

B. Research Question

Based on the above research background, the primary research question that will be analyzed in this research is: How has China managed to sustain its oil trade relations with Iran despite the imposition of US sanctions from 2018 to 2023?

C. Theoretical Framework

In order to discuss the study investigated, this research uses Economic Security Theory to explain the government's attitude towards sustaining oil trade relations amidst international sanctions. Economic Security Theory posits that a state's economic stability and growth are fundamental to its overall national security. This theory emphasizes the importance of securing vital economic resources, such as energy supplies, to ensure the uninterrupted functioning of the economy (Kadala, Guzenko, & Bondarenko, 2023). Governments prioritize economic security to maintain political stability, foster development, and protect their sovereignty (Buzan, Waever, & De Wilde, 1998). The pursuit of economic security often involves strategic decisions to mitigate external threats and ensure access to critical resources, even in the face of international pressure or sanctions such as economic sanction, diplomatic sanction, and military sanction (Gordon, 2011).

Governments operating under the framework of Economic Security Theory adopt a proactive stance in securing energy resources essential for their economic activities. This involves not only diversifying energy sources but also establishing and maintaining robust trade relations with resource-rich countries. Such strategies are driven by energy need to ensure that economic growth is sustained, and any potential disruptions to energy supplies are mitigated. Energy security is seen as a critical component of national security, encompassing aspects of availability, reliability, and affordability of energy supplies (Klare, 2012).

According to energy security, governments engage in various tactics to bypass obstacles that threaten their economic stability (Strojny, Krakowiak-Bal, Knaga, & Kacorzyc, 2023). This includes leveraging diplomatic relations, utilizing alternative energy mechanisms, and deploying innovative methods to maintain trade flows. The objective is to ensure that the economy continues to receive the necessary energy resources without significant interruption, thereby preserving economic stability and growth. For instance, countries might form strategic alliances, invest in alternative energy technologies, or engage in clandestine trade practices to circumvent sanctions. These actions reflect the critical importance of energy security in national policy and the lengths to which governments will go to protect their economic interests.

Additionally, Economic Security Theory highlights energy interdependence between economic policies and national security strategies (Noskov, 2020). Governments recognize that economic vulnerabilities can lead to broader security threats, including social unrest and political instability. Therefore, they adopt comprehensive strategies to safeguard their economic interests (Klare, 2012). Energy strategies often involve balancing between adhering to international norms and pursuing national interests, which sometimes requires bending or bypassing certain international regulations.

Energy concept of economic security also underscores energy significance of maintaining a diversified portfolio of energy suppliers (Cable, 1995). Dependence on a single or limited number of sources is viewed as a strategic risk. Consequently, governments seek to cultivate relationships with multiple energy-producing countries to mitigate the risks associated with supply disruptions. This approach not only enhances energy security but also provides leverage in international negotiations, allowing for more favorable terms and conditions in energy trade agreements (Buzan, Waever, & De Wilde, 1998).

Within the framework of Economic Security Theory, governments can use both formal and informal means to ensure the continuity of energy supplies that are essential to their economic stability. Through formal channels, governments formally enter into trade agreements with resource-rich energy-producing countries. This co-operation is often realised through bilateral or multilateral agreements that involve direct investment in the energy sector, long-term oil purchases, or the construction of energy infrastructure such as pipelines or LNG terminals. By using this formal approach, governments seek to strengthen diplomatic relations and increase the stability of energy trade that is bound to international rules and norms. This provides legitimacy and legal protection for the countries involved and enables long-term access to secure and reliable energy supplies (Strojny, Krakowiak-Bal, Knaga, & Kacorzyk, 2023).

However, alongside formal efforts, governments also often resort to informal or covert means to protect their energy supplies, especially when facing international sanctions or political pressure. In this context, governments may engage in clandestine trade with countries facing sanctions, using intermediaries or shadow

companies to avoid detection. This can involve unconventional payment methods, oil shipments via hidden routes, or the use of third countries as intermediaries in energy transactions. This informal approach allows governments to continue accessing energy supplies without openly violating international rules, allowing them to maintain their ambitions of securing the energy needed to support economic growth and political stability (Strojny, Krakowiak-Bal, Knaga, & Kacorzyk, 2023).

As part of the application of Economic Security Theory, China seeks to secure a stable energy supply to support its economic growth, especially under the pressure of international sanctions. In this regard, China uses clandestine trade methods and innovative trade practices to overcome obstacles that might threaten its economic stability. These tactics reflect the importance of maintaining a secure and reliable energy supply to sustain national development. As such, China's actions are not only focused on the continuity of energy supply, but also aim to protect its economic and political sovereignty from external influences that may threaten national stability and security. These efforts demonstrate China's determination to pursue its economic interests even if it has to overstep international norms or face diplomatic risks, in order to ensure the continuity of energy supplies vital to its economic growth and geopolitical power.

D. Hypothesis

Based on the background and theory that has been explained, I hypothesize that China's strategy for sustaining oil trade relations with Iran and amid US sanction involves several tactics:

1. China utilizes clandestine trade practices.
2. China deploying innovative method trade practices.

E. Research Method

This qualitative research investigates China's strategy for sustaining oil trade relations with Iran amidst US sanctions from 2018 to 2023, utilizing secondary data to provide a comprehensive analysis. The research design is descriptive and analytical, focusing on understanding the complex geopolitical and economic dynamics at play (Kemp, Hollowood, & Hort, 2018). Data collection involves an

extensive review of academic journals, books, government and institutional reports, news articles, media reports, and official statements. These sources offer a rich and diverse array of information, allowing for a thorough exploration of the topic.

Data analysis is conducted through qualitative content analysis, identifying key themes and patterns, contextualizing them within international relations and economic security frameworks, and comparing China's strategies with those of other nations facing similar sanctions (Lowndes, Marsh, & Stoker, 2018). Ensuring validity and reliability is achieved through triangulation, assessing the credibility of sources, and maintaining detailed documentation of the research process. Ethical considerations are addressed by adhering to proper citation practices, respecting intellectual property rights, and ensuring transparency. This methodological approach aims to yield a nuanced understanding of how China navigates its energy security needs and geopolitical strategies in the face of international sanctions, providing valuable insights into the broader implications for international relations and global energy markets.

F. Scope of Research

The scope of this research encompasses a detailed examination of China's strategies for sustaining oil trade relations with Iran amidst US sanctions from 2018 to 2023. This study focuses on the geopolitical, economic, and strategic dimensions of China's actions within this specific timeframe, aiming to understand the broader implications for international relations and global energy markets.

G. Research Structure

This research is structured into three main chapters, each serving a distinct purpose in developing a comprehensive understanding of China's strategies for sustaining oil trade relations with Iran amidst US sanctions from 2018 to 2023. The chapters are organized to systematically explore the research questions, theoretical framework, and the empirical analysis of China's actions within this geopolitical context.

Chapter 1: Research Proposal

Chapter 1 provides the foundational elements of the research, laying the groundwork for the detailed analysis in the subsequent chapters. It includes the following sections:

- **Research Background:** This section outlines the historical and geopolitical context of US sanctions on Iran, the significance of these sanctions on global oil markets, and China's strategic interest in maintaining its oil trade with Iran. It also introduces the core research focus and its relevance.
- **Research Questions:** This part specifies the primary and secondary research questions guiding the study, which is, "How has China managed to sustain its oil trade relations with Iran despite the imposition of US sanctions from 2018 to 2023?"
- **Theoretical Framework:** Here, the research adopts Economic Security Theory to explain the motivations and actions of the Chinese government in securing energy resources. This framework is essential for understanding the interplay between national security, economic stability, and international relations.
- **Hypothesis:** The hypothesis for this study posits that China's continued oil trade with Iran despite US sanctions from 2018 to 2023 is driven by its strategic objective to secure energy sovereignty and maintain economic growth, showcasing its ability to challenge US-imposed international norms.
- **Research Method:** This section details the qualitative methodology employed in the study, emphasizing the use of secondary data sources such as academic literature, government reports, news articles, and official statements. It describes the processes of data collection, analysis, validation, and ethical considerations.
- **Scope of Research:** This part defines the boundaries of the research, including the temporal scope (2018-2023), geographic focus, and the specific aspects of China-Iran oil trade relations being examined. It

highlights the relevance of this period in capturing the effects of US sanctions and China's strategic responses.

- **Structure of the Research:** This section provides an overview of the organization of the research, summarizing the contents and objectives of each chapter.

Chapter 2: Analysis of China's Strategies

Chapter 2 delves into the core analysis of the research, structured around three key sub-sections that collectively build a comprehensive picture of the geopolitical and economic dynamics at play:

1. **China and US Rivalry and US Sanctions on Iran:** This sub-section explores the broader geopolitical rivalry between China and the United States, focusing on how this competition influences global energy politics. It discusses the specifics of US sanctions on Iran, their objectives, and their impact on Iran's economy and oil exports. This sets the stage for understanding China's motivations and actions.
2. **China and Energy Demand:** This part examines China's rapidly growing energy demands and the strategic importance of securing a stable and diversified energy supply. It highlights the significance of oil in China's energy mix and the critical role of foreign oil imports in sustaining its economic growth and development.
3. **China's Tactics in Sustaining Oil Trade Relations:** This sub-section provides an in-depth analysis of the specific tactics employed by China to maintain its oil trade with Iran. It covers strategies such as the use of alternative payment mechanisms, smaller financial institutions, dark fleet tankers, and diplomatic maneuvers. The analysis connects these tactics to the theoretical framework of Economic Security, explaining how they align with China's broader national security and economic objectives.

Chapter 3: Conclusion

Chapter 3 synthesizes the findings from the analysis and discusses their broader implications. It provides a summary of the key insights gained from the research, addressing the primary and secondary research questions. The conclusion also reflects on the effectiveness of China's strategies in sustaining oil trade relations with Iran, considering the ongoing geopolitical tensions and future prospects. It emphasizes the importance of understanding energy security within the context of international relations and economic stability.