

*China's Growing Role In the Middle East:
Implications for the Region and Beyond*



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The Nixon Center is a non-partisan public policy institution established by former President Richard Nixon shortly before his death in 1994. The Center's major programs focus on energy security and climate, immigration and national security, and regional strategy in the greater Middle East, as well as U.S. relations with China, Europe and Russia. The Nixon Center also publishes the bimonthly foreign affairs magazine *The National Interest*. The Center is supported by foundations, corporate and individual donors, as well as by an endowment.



About the Gulf Research Center



The Gulf Research Center (GRC) is an independent research institute located in Dubai, United Arab Emirates (UAE). The GRC was founded in July 2000 by Mr. Abdulaziz Sager, a Saudi businessman, who realized, in a world of rapid political, social and economic change, the importance of pursuing politically neutral and academically sound research about the Gulf region and disseminating the knowledge obtained as widely as possible. The Center is a non-partisan think-tank, education service provider and consultancy specializing in the Gulf region. The GRC seeks to provide a better understanding of the challenges and prospects of the Gulf region.

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Introduction

In November 2008, the Gulf Research Center and The Nixon Center co-hosted a workshop in Dubai on “India’s Growing Role in the Gulf: Implications for the Region and the United States.” The proceedings of that workshop were published as a monograph under that same name. Due to the success of the workshop, it was decided to follow up with a second event with a focus on “China’s Growing Role in the Middle East.” The workshop took place in November 2009 and included eight Chinese scholars and practitioners as well as participants from India, the Arabian Gulf, Europe and the United States. The Nixon Center’s contribution to the workshop was made possible by a generous grant from the Carnegie Corporation of New York.

The growth of the Chinese presence in the Gulf is manifest in many ways, including trade missions, tourists, and increasing investments in Gulf industries, especially petro-chemicals. Much of this involvement is driven by China’s increasing need for Middle East fossil fuels. As the papers published in this monograph suggest, while there is much speculation about the long-term consequences of the growing Chinese footprint, the long-term implications of China’s activities are less clear. Few believe that China has long-term military ambitions to replace or supplement the U.S. in the Gulf, though China would clearly have an active interest in securing its strategic interests, including the security of the Sea Lines of Communication that carry vital oil, gas and minerals.

While it is clear that China shares the concerns of the United States and the Arab Gulf countries about Iran’s potential nuclear weapons program, the Chinese government is reluctant to endorse hard hitting sanctions against one of its prime trading partners. It has been prepared to support a new round of U.N.

Security Council sanctions against Iran, but only after the United States, Britain and France agreed to water down the original tougher language.

How China evolves in its political relations with the Gulf and the rest of the Middle East is still an open question. So far it has been remarkably successful in retaining good relations with most countries and organizations in the region, including Israel, the Palestinians, Iran and Iraq, but undoubtedly, if the Chinese footprint continues to grow and its economic commitments become commensurately more important, sooner or later it is bound to play a more active political role. The question discussed in this workshop, but not fully answered, is whether this will be done in harmony and cooperation with the regional states and the major outside powers, including the United States and India, or whether there will be more unilateral Chinese initiatives. We believe that the papers prepared for this conference provide a useful background for specialists interested in the subject and complement the work we have already done on India.

Abdulaziz Sager

Geoffrey Kemp

GCC-China Relations: Looking Beyond Oil – Risks and Rewards

Abdulaziz Sager

Introduction

China neither has strong historical ties nor has it developed long-term strategic interests in the Gulf until recently. Any role that it did try to play in the Middle East was laced with a certain degree of a Maoist ideology and influenced by Third World solidarity for leftist independence movements. This has all changed now and China's relationship with the region has assumed dynamic proportions, chiefly due to its energy requirements to feed its still thriving economy.

The Daqing oilfield, discovered in 1959, had initially produced enough oil to keep China self-sufficient. The economic reform program introduced in the 1970s, however, made China a net importer of oil by 1993. As its thirst for oil has grown, energy security has become a cornerstone of its Middle East policy.¹ China is currently the third largest oil importer in the world, accounting for 10 percent of the world's energy consumption, nearly half of its supply coming from abroad, of which 20 percent comes from Saudi Arabia.² The International Energy Agency (IEA) predicts that over the next 25 years, Chinese industry is expected to account for over 20 percent of the growth in world energy demand. Its gas consumption is rising at an even faster pace, with imports projected to increase from zero in 2000 to 20-25 million cubic meters by 2015.³ In 2008, China consumed 77.8 billion

¹ Jin Liangxiang, "Energy First: China and the Middle East," *The Middle East Quarterly*, Volume 12, No. 2, Spring 2005.

² Energy Information Administration, <http://tonto.eia.doe.gov.country/index/cfm>

³ Ziad Haider, "Oil Fuels Beijing's New Power Game," *Yale Global*, March 11, 2005.

cubic meters of gas while domestic production accounted for only 77.5 billion.

Though these are economic dimensions, Beijing's efforts to meet the energy demand are also leading to strategic adjustments that raise several questions. While oil will certainly continue to be the most central aspect of China's relations with the Middle East, to see the Chinese relationship solely through such a prism will no longer be enough. Indeed, there is sufficient reason to look beyond the more immediate energy security question.

Energy First, but Not Last

While energy is the driving factor behind China's growing attention to the Gulf region, the same can also be said for the GCC States and their increased focus on Asia as a whole and China in particular. China is seen by the Gulf States as a huge market for its oil exports. With oil demand having plummeted following the global economic crisis and the outlook remaining bleak for much of the industrialized world, more attention has been focused on securing access to the Chinese domestic market, which remains the fastest growing energy market in the world. In addition, the emphasis being placed on reducing reliance on oil and gas and the search for alternative energy sources by the Western world has also increased the pressure on Gulf oil producers to seek new markets and lessen old dependencies. Ibrahim Al-Muhanna, advisor to the Minister of Petroleum of Saudi Arabia, referred to a "wave of hostility from some western countries under the guise of energy security, protecting the environment and fighting global warming."⁴ Overall, access to Chinese and to a lesser extent Indian energy markets has become key to the prospects of exporting more oil. That is because the room for expansion in Asia is huge and as such the growth engine for Gulf oil producers is clearly located in Asia.

It can therefore be stated that if it is the need for energy that is forcing China to look toward the Gulf, it is oil that is leading the GCC countries to engage with China. Two-thirds of proven oil reserves are located in the Gulf, with the region supplying almost one-third of total world demand. Asia imports more crude oil than any other region in the world and is the single most important market for the Gulf producers.

⁴ Quoted in "China Is Right Market at Right Time for Gulf," *The National* (Abu Dhabi), August 19, 2009.

More importantly, over the next five years, one-half of the incremental global demand for oil will come from Asia due to the continued surge of Asian economies. As far as China is concerned, there is no doubt that in order to keep its economy growing at over nine percent, it needs secure, stable oil supplies. Similarly, the GCC countries need a secure long-term market for their hydrocarbons, which make up their main source of income.

Iran and Saudi Arabia represent the two largest suppliers of oil to China with the kingdom leading the way with 725,000 b/d and Iran taking up the third position with 425,000 b/d as per 2008 figures.⁵ In August 2008, Saudi Arabia signed a Memorandum of Understanding with China that lays out plans for imports to increase to 1 million b/d by 2010.⁶ Even more critical is the fact that Beijing aims to stockpile up to 100 million barrels of petroleum, equivalent to almost a month's national consumption.⁷ As such, it can be assumed that the Saudi share of Chinese oil imports is sure to grow. By 2030, the Gulf will supply China with one in every three barrels of China's consumption.

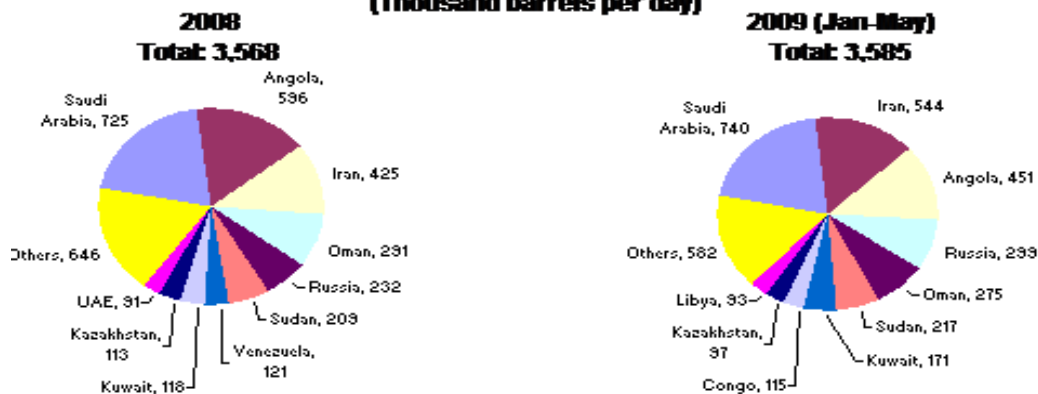
A meaningful relationship between China and the GCC countries first began when the overseas construction arm of China National Petroleum Corporation moved into the Kuwaiti market in 1983; a major business expansion took place in 1995 when the group won an oil storage reconstruction project in that same country. Based on that initial experience, in its short- and medium-term strategy, China would further increase its imports of crude and oil products such as liquefied petroleum gas and naphtha from the region. Throughout the 1990s, Beijing cultivated its relationship with Saudi Arabia, culminating in the 1999 Strategic Oil Cooperation agreement.

⁵ David L.O. Howard, "China's Oil Supply Dependence," June 18, 2009, www.enec.org/index.php?option=content&view=article&id=197:chinas-oil-supply-dependence&catid=96:content&Itemid=345.

⁶ Saudi Arabia, Country Analysis Brief, Energy Information Administration, August 2008, http://www.eia.doe.gov/emeu/cabs/Saudi_Arabia/OilExports.html

⁷ Gal Luft and Anne Korin, "The Sino-Saudi Connection," *Commentary*, March 2004.

**China's Crude Oil Imports by Source
(Thousand barrels per day)**



Source: US Dept. of Energy, Energy Information Administration (EIA), Country Factsheet, <http://www.eia.doe.gov/emeu/cabs/China/Full.html>

After Saudi Arabia opened its domestic market to Chinese investment and allowed China to pursue upstream oilfield activities in the Kingdom, Saudi companies have begun participating in China's downstream refining business. From a GCC perspective, there is certainly the objective to develop supply contracts through mutually beneficial joint-venture investments in exploration, refining, petrochemicals and infrastructure projects.⁸ The GCC countries have long aspired to achieve levels of diversification in their economies and see China as a concrete mechanism through which to promote such a goal.

In the meantime, Beijing has placed its hopes on the fact that GCC finances can help it upgrade Chinese refineries. As it stands at the moment, for China, oil resources remain a higher priority over capital and technology as criteria for choosing a foreign party on investment issues. As such, China has in particular courted Saudi investment in refinery expansion in a bid to secure stable crude supply. Top state refiner China Petroleum and Chemical Corp. (Sinopec) has held talks with Saudi Aramco for a stake in a \$1.2-billion refinery in Qingdao.⁹ The

⁸ For more, see *Arab Times* (Kuwait), April 4, 2004.

⁹ *Gulf News* (UAE), August 28, 2004 and *Arab News* (Saudi Arabia), October 19, 2004.

two sides further joined hands in a \$3.5-billion venture in Fujian province, which also involves ExxonMobil and includes refinery expansion, the construction of a petrochemical plant, and a joint marketing venture to operate 600 service stations. Under the deal, Exxon and Aramco will each hold 25 percent interest in the Fujian Refining and Ethylene Joint Venture Project, while Fujian Petrochemical will own the rest. The project will add about 160,000 barrels a day of crude-processing capability to an 80,000 barrel-a-day refinery in Quanzhou, Fujian.¹⁰

Outside of Saudi Arabia, the Kuwait Petroleum Corporation (KPC) has set up a Beijing office in March 2005 to follow up on its upstream cooperation with the Chinese National Offshore Oil Corporation to explore the waters off Hainan Island in the South China Sea. For Kuwait, other points of contact have followed. A subsidiary of Sinopec has signed a five-year contract worth \$350 million to build five oil and gas rigs for the Kuwait Oil Company. At the same time, talks are continuing on a \$9 billion refinery and petrochemical complex in Guangdong province, which upon completion would represent the biggest Chinese joint venture.¹¹ Meanwhile, during the visit of Abu Dhabi Crown Prince Shaikh Mohammad Bin Zayid Al Nahyan to China in August 2009, the Abu Dhabi National Oil Company and the China National Petroleum Corporation signed an agreement to work together on oil and petrochemical projects. This could later include the building of an oil storage facility in Singapore as an oil distribution hub for the Asia-Pacific region.

Considering the fact that Qatar is emerging as a major world liquefied natural gas player, prospects for active Qatar-China cooperation are equally bright. By 2011, Qatar may become the world's largest liquefied natural gas producer and seller of gas-to-liquids products. As part of their overall preparation to take on this role, Qatar has either already invested or plans to invest a total of \$100 billion in the energy sector. In this context, the Chinese Petroleum Corporation signed a formal Sales and Purchase Agreement with RasGas in 2003 for the supply of three million tons of LNG per annum starting 2008. Qatar, meanwhile, has inaugurated the second of three giant LNG plants

¹⁰ *Arab News*, July 12, 2005.

¹¹ "China Kuwait Ink 5 Energy, Environment Pacts," May 11, 2009
<http://news.alibaba.com/article/detail/business-in-china/100100141-1-china%252C-kuwait-ink-5-energy%252C.html>

with Asia in mind as the target market. As explained by one analyst: “It is a relationship that is not going to be mutually exclusive, but it is going to get deeper China will always take some LNG [with] ... a ceiling of about 30 million metric tonnes per year annually pretty likely ... and they will have enormous gas needs.”¹² Fu Chengyu, the General Manager of the China National Offshore Oil Company, stated that his company expects annual imports to reach 60 million tons by 2020 and that he hoped Qatar would contribute part of that delivery.¹³ At the same time, Saudi Arabia has firmed up its plans to export LNG to China as well. In the Kingdom, Chinese companies were given the contract to explore for and eventually produce natural gas in the Rub al-Khali Basin. In this context, Saudi officials openly voiced a desire to diversify their exports beyond oil, to include gas, bauxite and phosphates.¹⁴

The energy ties that are the main basis for GCC-China relations, is underlined by the fact that the outlook for Chinese consumption remains huge. By 2020, the country is expected to require about 12 million barrels of oil per day, thus tripling the current import levels and surpassing the levels currently being imported by the US. The impact of the country’s growth on the standard of living of millions of Chinese means a large number of them will abandon bicycles in favor of private cars. In 2004, China’s domestic automobile sales increased by a staggering 69 percent. By 2008, Chinese car production is expected to reach 8.7 million vehicles annually, which is double the number of prospective buyers. By 2010, the country is expected to have 90 times more cars on the road than it did in 1990, a development which will undoubtedly boost its energy needs.¹⁵

The partnership between China and the GCC countries is at the same time mutually beneficial due to a number of other reasons. Energy may have been the initial factor but the relationship has expanded since then. For one, both have come to terms with the need for greater liberalization and positioning themselves to take advantage of a

¹² “Qatar Looks at China as New LNG Plant Get Supply Ready,” *Oman Tribune*, October 28, 2009.

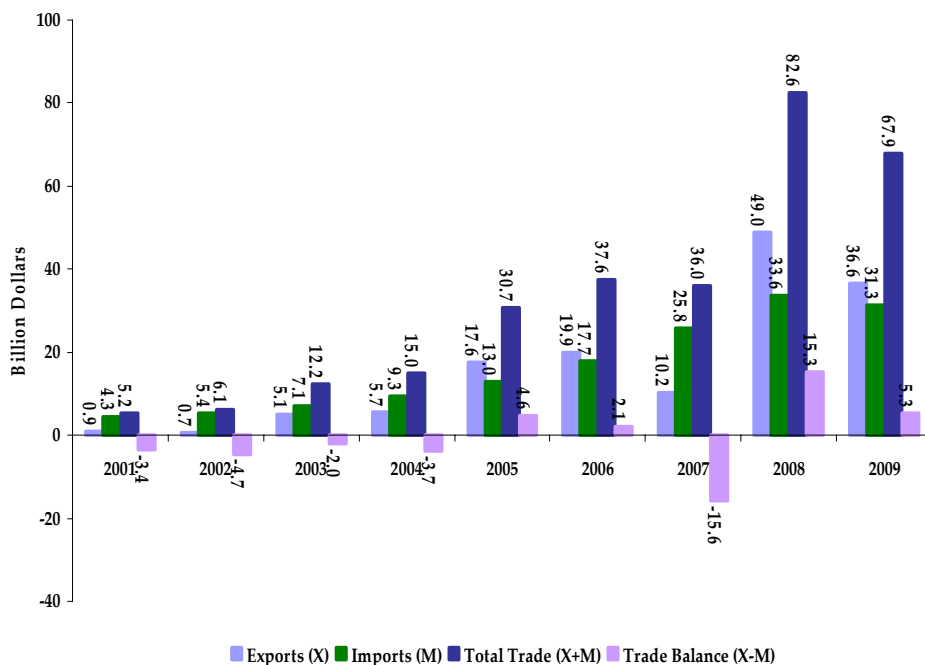
¹³ “China to Import More LNG from Qatar to Satisfy Domestic Demand, China Knowledge,” March 9, 2009 <http://news.alibaba.com/article/detail/business-in-china/100065023-1-china-import-more-lng-from.html>

¹⁴ Stephen Blank, “Sino-Saudi Ties: Oil, Gas, Bauxite...then Arms?” *Asia Times Online* (Hong Kong), April 23, 2004.

¹⁵ John Calabrese, “Risks and Rewards of China’s Deepening Ties with the Middle East,” *Jamestown Foundation* 5, Issue 12, May 24, 2005.

globalized business environment. The result is that the GCC-China-trade volume has increased to \$ 68 billion in 2009, a five fold increase from the 2003 figures of \$ 12 billion. The two sides are thus well on their way to reach a mutual goal of \$100 billion by 2010.¹⁶

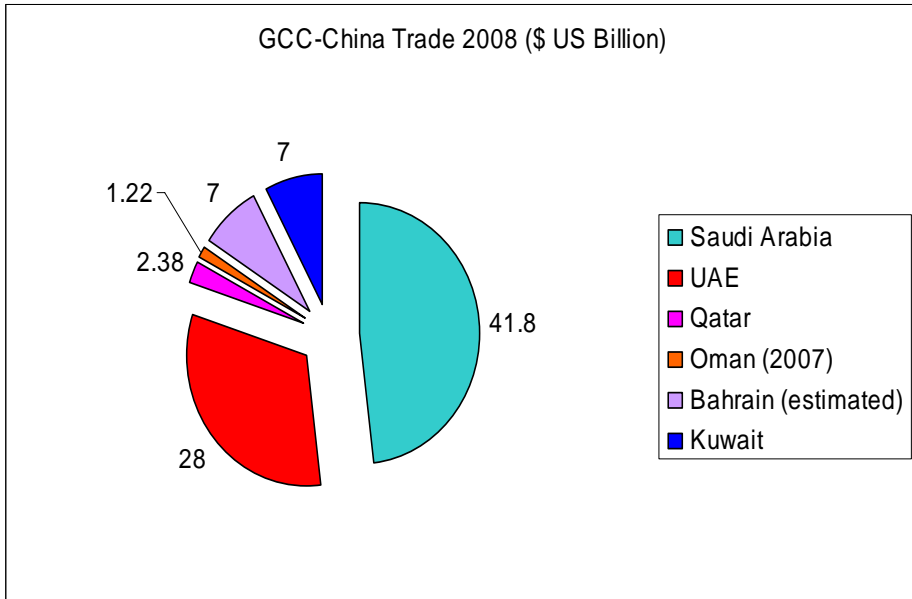
GCC-China Trade Indicators, 2001-09



Note: data for Bahrain is adjusted for 2009. Source: Calculated from International Trade Center, Trade Map Database, accessed on 03-05-2010.

¹⁶ Bilaterals.org, May 9, 2005, http://www.bilaterals.org/article.php?id_article=1869.

Also see Borzou Daragahi, “China Goes beyond Oil in Forging Ties to Gulf,” *New York Times*, January 14, 2005.



Saudi Arabia is China's number one trading partner in the Middle East and bilateral trade has risen to \$41.8 billion from a mere \$5 billion in 2002. China has also emerged as one of the leading business and trade partners of the UAE, with its exports to the country reaching \$28 billion by the end of 2008, a majority of which were re-exports and the remainder imported to the local market. The numbers for the other GCC states are as follows: Kuwait - \$7 billion; Bahrain - \$7 billion; Oman - \$7.2 billion in 2007 and Qatar \$2.38 billion. A further upward trend in the numbers is likely.

Table 1
GCC-China Trade: Commodities

HS-2 Code	10 Major Export Items	Value in million USD	HS-2 Code	10 Major Import Items	Value in million USD
'27	Mineral fuels, oils, distillation products, etc	36613.8	'84	Nuclear reactors, boilers, machinery, etc	31278.9
'29	Organic chemicals	30243.8	'85	Electrical, electronic equipment	5703.76
'39	Plastics and articles thereof	3239.8	'61	Articles of apparel, accessories, knit or crochet	5346.5
'76	Aluminium and articles thereof	2090.1	'73	Articles of iron or steel	2597.68
'25	Salt, sulphur, earth, stone, plaster, lime and cement	380.0	'94	Furniture, lighting, signs, prefabricated buildings	1795.34
'26	Ores, slag and ash	265.0	'62	Articles of apparel, accessories, not knit or crochet	1593.68
'74	Copper and articles thereof	145.6	'87	Vehicles other than railway, tramway	1245.08
'72	Iron and steel	59.7	'40	Rubber and articles thereof	848.346
'71	Pearls, precious stones, metals, coins, etc	49.3	'64	Footwear, gaiters and the like, parts thereof	772.242
'28	Inorganic chemicals, precious metal compound, isotopes	29.6	'69	Ceramic products	758.448

Source: Calculated from International Trade Center, Trade Map Database.

Topping the list of Chinese exports to the Gulf region are Chinese manufactured cars, textiles, processed and packaged foods, heavy industrial equipment and electrical products. Since the UAE is within easy reach of two billion potential consumers in the Middle East, the Indian subcontinent, Russian Federation and Africa, Chinese firms are increasingly using the UAE as a hub and distribution center for re-exports. The Jebel Ali Free Zone has well over 500 Chinese companies.¹⁷ One of the pioneering joint projects in the UAE has been the Dragon Mart. Developed by Nakheel, a semi-autonomous enterprise in Dubai, and Chinamex Middle East Investment and Trade Promotion Center, the 1.2-kilometer-long structure spreads across 150,000 square meters and is the largest development of its kind in the world, putting together an exhaustive collection of Chinese products and services under one roof. More than 3,000 Chinese enterprises have taken up space at the mart, allowing Chinese consumer electronics, light manufacturing equipment, garments and textiles a forceful entry into UAE markets. Dubai is also home to nearly 200,000 Chinese nationals making this the largest non-permanent Chinese community abroad.¹⁸

¹⁷ *Gulf News*, August 15, 2004.

¹⁸ Ben Simpfendorfer, "China's historic return to the Gulf," April 2, 2010
http://mideast.foreignpolicy.com/posts/2010/04/02/china_s_historic_return_to_the_gulf

**Table 2:
Select Bilateral FDI M&A Deals between GCC and China
(up to March 2008)**

Investor	Aquired Chinese Company	Year	Value Mn US\$	Remarks
Al Azizia Commercial Investment Company	Bank of China	2006	390	IPO, original subscription was 2000 million= 2%
Al Azizizia	Commercial Bank of China	2006	2000	IPO, offer tendered, equivalent of 2% stake
ARAMCO	Fujian Refinery (25%)	2005	875	
ARAMCO	Qingdao refinery (25%)	2006		First phase invest. \$150 mn
Saudi Basic industries Corporation (SABIC)	Petrochemical Projects in China	2006	5000	Envisaged, talks with potential jv partners
Dubai Ports World	Qingdao Container Terminal	2005	500	
Kuwait Investment Authority	Commercial Bank of China	2006	720	Biggest participant in IPO
Kuwait Petroleum Corporation	Guangdong Refinery	2006	6300	JV with Sinopec, preliminary approval, no signed deal yet
Qatar Investment Authority		2006	206	IPO
Oman Oil Company	China Gas Holding (8%)	2005	31	

Source: GRC, Gulf in the Media monitoring Services.

China's growing economic ties with the GCC countries have also led to increased institutional ties with a Framework Agreement on Economic, Trade, Investment, and Technological Cooperation signed in 2004 and negotiations ongoing for a possible China-GCC free trade agreement. During the talks for a free trade accord, the two sides have begun to discuss such issues as the nature of goods to be traded, country of origin, intellectual property rights, tariff reductions and facilitation of investments. And while the initial agreement was to start with goods before moving on to more complex issues such as dispute settlement mechanisms, investment and services, no significant movement on reaching a final agreement has in fact been made.

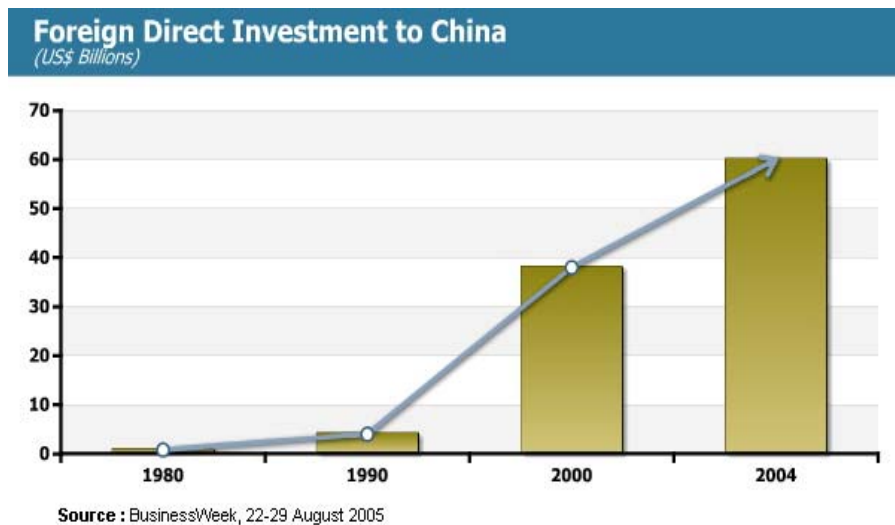
As mentioned above, as far as the GCC countries are concerned, a key motivating factor for expanding the commercial relationship with China has been the desire to expand their non-oil revenues. For this, China represents a potentially highly lucrative market. China's steel industry, for example, has been a net exporter since 2004, which – given its competitive prices – has been good news for the construction sector in the region especially during the recent boom years. Chinese companies have meanwhile broken into the industrial sector in the Kingdom after the Sinoma Group was awarded a \$275-million contract to build two cement factories in Riyadh and Abha. Demand for cement continues to be high in Saudi Arabia as the government continues with its spending program on new infrastructure projects.

China's shift from exporter to consumer market is being seen as an opportunity for the GCC countries to sharpen their competitive edge and increase their share in the world's largest market, as well as play a pivotal role in re-exporting Chinese goods to European countries. The region is already benefiting from access to cheaper Chinese products, with enormous demand for garments, fabrics, electronic and telecommunications products. The result is that the region's petro-diplomacy is emerging as a crucial foreign policy tool aiding China's economic modernization.

China's open-door policy in this context is marked by excellent non-politicized relations. As a result, China has made investments worth billions of dollars abroad and attracted a fair deal of investment too. The GCC has about \$1.5 trillion in overseas investments. The result is that the East has become the Gulf's preferred market with the Gulf countries looking towards Asia not only as a stable destination point but also as a

region of tremendous investment potential.¹⁹ The commercial aspect has also been enhanced as an indirect result of the events of 9/11 with the Gulf producers finding that the suspicion and scrutiny that greets Arabs in the West, something that is increasingly an obstacle to doing business, does not exist to the same degree in Asia.²⁰

Chinese investments in the UAE had risen to reach \$50.1 million in 2003 while the UAE's investment in China amounted to \$370 million in 351 projects in the same year. The number of Chinese companies operating in the UAE is by now well over 350, with an estimated 60,000 Chinese nationals living in the country.²¹ In addition, the UAE has announced various plans including a \$700 million investment in a Chinese port facility. Abu Dhabi Investment Authority, Dubai Holdings and other local investment firms are likely to establish regional offices in China as part of the diversification of their investment portfolios.



¹⁹ See “Near East meets Far East: The rise of Gulf investments in Asia,” *Economist Intelligence Unit*, 207.

²⁰ For example, while Riyadh’s explanation for the collapse of negotiations with Exxon Mobil in the Empty Quarter was that the latter had not been serious, it was due to differences on terms, in addition to Riyadh's preference for non-American investors following 9/11.

²¹ *Khaleej Times* (UAE), September 28, 2004.

In Saudi Arabia, more than 70 Chinese companies are engaged in business ventures employing about 16,000 Chinese workers.²² The China Railway Engineering recently won a \$1.8 billion civil works contract for the high-speed railway link between Mecca and Medina which will pass through Jeddah. In Oman, China has invested \$600 million in several sectors, including oil, petrochemicals, road construction, training Omani cadres, fishing, and upgrading the efficiency of oil extraction. More than 30 Chinese companies currently invest in the Sultanate's energy and road construction sectors. A new oil concession agreement between the Omani government and Sinopec states that the latter will spend \$22 million in financing an exploratory program and a possible \$29 million toward drilling exploratory wells. Furthermore, China Railway and Sinohydro Corporation are among the six companies short-listed for one of the biggest sewage contracts in the country, worth about \$1 billion.²³ China is also investing in major machinery joint venture plants in Qatar.²⁴

Yet, it also needs to be mentioned that investment opportunities do face certain barriers. Language obstacles are still significant as is the ability to find the right partners locally. This has all been reflected in the fact that while there have been numerous announcements of Gulf investments into China and vice versa, the actual completed deals as well as their quality have been rather limited.

Beyond Economic Ties

While economic ties have stood at the forefront of the GCC-China relationship, there is a broader strategic aspect that underpins the desire to expand ties and develop a more comprehensive approach to mutual relations. From a GCC perspective, it is equally necessary to consider some form of a political as well as security aspect that could prove beneficial and in the interest of both sides. Clearly, both sides prefer a faster pace of economic rather than political reform, which is an indicator that, for the moment, the priorities within the relationship appear properly calibrated. Nevertheless, there is a growing awareness and understanding in the GCC states that to continue to expand its share in China's market cannot be done solely on commercial contacts.

²² "Saudi-China Trade Relations," SABB Research Notes, February 10, 2009.

²³ *Times of Oman*, August 24, 2004 and *Khaleej Times*, July 17, 2004.

²⁴ *The Peninsula* (Qatar), October 13, 2003 and December 7, 2004.

GCC motives must therefore be seen as having a combination of economic and political purposes. The assertion that the Chinese energy deals are simply a result of mutual economic interests is equally complemented by the fact that the deals stem from new strategies in both the GCC states and Beijing. Underpinning all of this is the realization that the development of a mutually beneficial relationship cannot be optimized if limited only to the energy domain.²⁵

One direct result is that China has begun to see a steady stream of visitors to Beijing and other Chinese cities while the reverse towards the GCC is also true. Then Kuwaiti Prime Minister and now Emir Sabah al-Ahmad al-Sabah visited China in July 2004 during which the two sides affirmed their interest and desire to significantly expand their relationship. The Kuwaiti prime minister stated that the purpose of the visit was to enhance the pragmatic cooperation between the two sides at governmental, non-governmental and enterprise levels, and he expressed the hope that China would encourage Chinese businesses to participate in the economic projects of Kuwait and the Gulf region.

A more important signal was the fact that on his first trip after ascending the throne in Saudi Arabia, King Abdullah visited Asia and included China in his itinerary. It was actually the first trip by a Saudi ruler to China since the two sides established diplomatic relations in 1990. Other important visitors have included the Prime Minister of the UAE and Ruler of Dubai Shaikh Mohammad Bin Rashid Al-Maktoum in 2007, Prime Minister and Foreign Minister of the State of Qatar Shaikh Hamad Bin Jassim Al-Thani in 2008, and Saudi Crown Prince and Minister of Defense and Aviation Prince Sultan bin Abdulaziz Al-Saud also in 2008. During the latter visit, two pacts for boosting cooperation and strategic relations were signed.²⁶

The GCC visits have been reciprocated by high-level Chinese visits including that of Chinese Premier Hu Jintao in 2006 and 2009. During the stopover in Saudi Arabia, he reiterated that: "China is willing to work together with Saudi Arabia to constantly strengthen mutual cooperation in various fields to push China-Saudi Arabia friendly

²⁵ As Adnan Shehab-Eldin has noted: "It is in each region's interest to make the development of their relations an overriding strategic objective driving policy, programs and initiatives at all levels and across as many dimensions as feasible." See "GCC-Asia Strategic Relations: Development, Opportunities and Challenges," Background Paper for the IMF/World Bank 2006, Singapore, 16-18 September 2006.

²⁶ "Saudi Arabia, China Sign Two Pacts," *Saudi Gazette*, June 22, 2008.

strategic and cooperative relations to a new level.” That the Chinese Premier stopped over on an official visit on his way back to China from Washington where the visit had not been official was even more impressive. By the time Hu Jintao visited Saudi Arabia a second time in February 2009, the dimensions of the relationship had expanded to include “close contact with a view of reforming the global financial institutions.”²⁷ The Chinese leader specifically mentioned that the international situation has witnessed profound changes and that the financial crisis posed challenges to all countries. His counterpart King Abdullah pledged meanwhile to work together on an ambitious plan to draft and adopt new rules and measures to confront the challenges of the financial system as well as to coordinate with China in the lead up to the April 2009 G-20 summit.²⁸

GCC Secretary-General Abdulrahman Al-Attiyah has also expressed his hope that both sides will accelerate the process of negotiations on the establishment of a China-GCC free trade area and work for its early completion. He further expressed his wish to see the launch of a bilateral strategic dialogue mechanism as soon as possible which would comprehensively enhance the relations between the two sides.

All of this is driven by the realization that political factors are also never far from the surface. In this context, Chinese criticism of the US anti-terror campaign and democracy plans for the region are aspects which have found some agreement within the governments of the Gulf countries. Overall politically, relations are made easier by the fact that China does not lecture the Gulf States about the domestic political environment, including on the need for democracy or respect for human rights, and as such China does follow a strict policy of non-interference in the internal affairs of other countries.

The view from the region about China’s development was summed up by Sayyed Fahd bin Mohammad Al-Said, the Deputy Prime Minister for the Council of Ministers in Oman, when he cited China for its “comprehensive renaissance, an integrated economic entity and a unique model of balanced economic and social growth.”²⁹ As one

²⁷ “China to Boost Relations with GCC: President Hu,” *Arab News*, February 12, 2009.

²⁸ *Ibid.*

²⁹ “Big Boost for Historical Relations with China,” *Times of Oman*, September 27, 2005.

analyst put it: “The successful Chinese model of balancing economic development, state modernization and political control has an unmistakable and reassuring appeal for countries that want carefully to manage their economic and political transformation.”³⁰

This is complemented by the pure business approach taken by China when it comes to concluding deals with the region. It is therefore not a surprise that some Gulf commentators have termed the ties to China as an essential and “natural partnership.”³¹ Some commentators suggested that King Abdullah’s visit reflected a “strategic shift” in Saudi foreign policy and that it was reflective of a “new era” for the Kingdom.³²

What is clear is that expanding ties with China fits into the overall strategy of the GCC states to diversify their international relationships and to lessen their dependence on Western powers, primarily the United States. There is no likelihood of political lecturing, no fear that China will through its actions throw the region into a strategic dilemma, or that there will be unwarranted scrutiny of various domestic issues, including on the labor or environmental front. At the same time, China represents an alternative but not a replacement for the US.

Furthermore, the political motivations have been supplemented by security considerations as well. China would undoubtedly look at protecting the valuable energy routes to maintain its development needs. In the past, China caused some raised eyebrows with its sale of ballistic missiles and related technology to Iran and Iraq during the Iran-Iraq conflict as well as long-range CSS-2 missiles to Saudi Arabia.³³ Such sales occurred in a different political environment. Nevertheless, it is to be expected that China will also engage increasingly in the security debate in the region and will seek to have its voice heard in particular as concerns over maritime security and the security of energy supplies attain a growing importance.

For example, the fact is that by 2025, the Indian Ocean and the Straits of Malacca are likely to facilitate about 75 percent of China’s

³⁰ Emile Hokayem, “They’ve Come a Long Way in 60 Years: and So Have We,” *The National*, October 4, 2009.

³¹ “Sino-Saudi Ties Acquire New Depth,” *Arab News*, June 5, 2006. See also, Emile Hokayem, *op.cit.*

³² *International Herald Tribune*, January 26, 2006.

³³ Dan Blumenthal, “Providing Arms: China and the Middle East,” *The Middle East Quarterly* 12, no. 2 (Spring 2005).

energy imports, which explains its plan to provide more than a billion dollars in aid and loan guarantees for building the Pakistani port of Gwadar. Beijing is keen to use Gwadar as a transit terminal for Iranian and African crude oil imports, which leaves open the possibility of a role for Chinese naval patrol. A road, and eventually a pipeline, from Gwadar could give China the alternative energy route that it urgently needs and spur the development of its western provinces. This and the other surveillance stations, naval facilities and airstrips that Beijing is either building or contemplating to safeguard the oil route are being viewed with skepticism.³⁴ The bottom line, however, is that these are issues that weigh heavily on the minds of Chinese security officials and that, as a result, the strategic consequences for the larger involvement of China in the Gulf will have to be taken more seriously.

A key example of this is the increasing presence of the Chinese Navy in the Gulf. In May 2010, two Chinese naval warships visited the UAE, to refuel and take supplies. This was after six months protecting sea lanes from Somali pirates. Concern for the security of China's oil is the chief reason for such excursion and remains significant as this is the first time the Chinese navy has visited the Gulf. Non-Oil trade is also at risk. Much of China's trade with Europe passes through the Suez Canal and is also at risk from hijackings. Developments in Yemen may also give the Chinese an impetus to maintain a naval presence in the region. Such operations may also reflect Chinese interest in expanding its interest in a region that has a heavy US presence. At the same time, China has offered to share its military expertise with the countries in the Gulf, another indication that there are consideration about its expand China's overall role in the region.³⁵

Outlook

All of this does not mean that there are no potential problems that could also negatively impact the relationship. For example, any relations between the two sides must consider the Xinjiang factor. The mineral-rich Xinjiang province is home to 7.2 million Uighurs – Muslims with a distinct, non-Chinese ethnic identity – and the host of a government-led war against terror. Following the Chinese government's

³⁴ "Crouching Tiger, Swimming Dragon," *Iran Daily*, April 16, 2005.

³⁵ "Envoy vows to increase trade and offers help to fight pirates," *The National* (Abu Dhabi), April 5, 2010.

harsh response to the 1997 Uighur riots in Xinjiang's Yinning, Saudi clerics called upon Riyadh to help Chinese Muslims financially and diplomatically. This kind of instability has necessitated improved relations with Muslim countries such as Saudi Arabia. While the unrest in 2009 and the Chinese response have taken place in a different context in the GCC-China relationship – where there is a distinction being made between responses to terror threats and human rights abuses as far as the protection of minorities are concerned – there still is the possibility that within GCC societies similar continued news and developments could provoke some domestic outcry. Were the unrest to increase or the situation of the Muslims deteriorate dramatically, Saudi Arabia would find it difficult to turn a blind eye and maintain the emphasis purely on the commercial aspects of the relationship.

Another aspect of concern as far as the GCC countries are concerned is the relationship between China and Iran. Being a late arrival on the highly competitive oil market, Chinese policies are too aggressive for others to see them as being just economically driven with the relationship between China and Iran falling within this context. The two countries share a special affinity that makes the GCC countries uncomfortable given the lack of confidence between them and Iran; this is also true of the United States, the main powerbroker in the region. China has overtaken Germany as Iran's third largest trading partner. Sinopec acquired a 50 percent share in Iran's Yadavaran oilfield and in 2004, it concluded a deal estimated between \$70-100 billion to buy Iranian crude oil and natural gas over 30 years. More recent deals have included a \$1.76 billion deal to develop Iran's North Azadegan oil field and a \$3.2 billion gas deal signed in March 2009 to build a transport liquid gas line from the South Pars Gas Field.³⁶

Apart from cooperation over oil, bilateral trade relations between China and Iran have encompassed power plants, cement factories, shipping lines and, the most worrying of all, arms sales. Since the mid-1980s, China has sold Iran different versions of anti-ship cruise missiles such as the Silkworm (HY-2), C-801, and C-802. China is also reportedly producing several classes of tactical guided missiles – the JJ/TL-6b and 10A, the KJ/TL-10B and a new variant of the C-107 anti-ship missile – specifically for Iran. It has sold surface-to-surface cruise missiles and provided assistance in the development of Tehran's long-

³⁶ Ariel Farrar-Wellmann, "China-Iran Foreign Relations," October 24, 2009 <http://www.irantracker.org/foreign-relations/china-iran-foreign-relations>

range ballistic missiles. By November 2003, a year after Iran successfully tested the Shihab-3 missile – which is capable of carrying a 1,000-kilogram payload up to 1,300 kilometers – it was made clear that China, Russia and North Korea were the main sources of help in Iran’s ballistic missile programs.

The prospects for developing a true strategic relationship between the GCC and China thus are confronted with limitations. As the Chinese-Iran relationship maintains a level of importance, it is equally clear that China will only play a secondary role when it comes to being a strategic partner for the GCC states, at least for the foreseeable future. Given that China tries to play both sides of the line in order not to jeopardize certain economic arrangements and also to keep its options open, it presents a certain strategic reality for the GCC states that they cannot ultimately ignore, i.e. that their security continues to lie with the United States as their protector. While China is willing to sit on the sidelines to see where the United States falls short while it invests billions in trying to resolve regional conflicts in the Middle East, it is certainly not willing to get engaged and have its own weakness exposed. On this front, there is a limitation imposed even as far as economic ties with China are concerned. Unless China, for example, begins to exert some influence to contain Iranian intransigence or curtails some of its dealings with the regime in Tehran, the GCC states will reflect on what impact that might have on overall economic ties. As a result, for the moment economic relations are good but a strategic alignment is far from being realized. Here, the Chinese policy of being a “benign power with global reach” will prove to be insufficient.³⁷

Conclusion

There is no doubt that given current conditions, China’s eye will increasingly be fixated on the Gulf countries as its energy import needs rise. For the moment, in order to limit dependency, it has fingers in the pies of 20 different countries. Diversification away from the Gulf, however, has its limits; not only are two-thirds of proven oil reserves in the region, but reserve-to-production ratios show that the reserves of non-Middle Eastern producers are fast being depleted, as are China’s

³⁷ See Mahmoud Ghafouri, “China’s Policy in the Persian Gulf,” *Middle East Policy* XVI, no. 2 (Summer 2009), p. 91.

own fields. The IEA expects Chinese oil imports from the Gulf to rise to at least 70 percent by 2015. In the medium-term, China will have no alternative to Gulf energy supplies. Taken together, it can be argued that this represents a fundamental structural change that will shape global energy dynamics for some time to come.

The chief advantage of China's role in the Gulf is its lack of political baggage due to its limited political ambitions. As such, the GCC states are content with the current state of relations and are eager to explore ways and means to expand those ties. While China's agenda in the Gulf may well be dictated by its own economic agenda and its ideological differences with the United States, it is also the strategy of the GCC states to diversify their international relationships. Ties with China are part of broader and more long-term thinking.

Since one of the commonalities between the two sides is the preference for a faster pace of economic reform compared to political change, there exists a scope for a further enlargement of better ties. Moreover, because China has relatively large domestic energy resources, including the largest coal reserves on earth, and Beijing is aggressively devising ways of insulating itself from the volatile international energy market by having a wide supply chain, the GCC countries need to ensure that their interests are protected by preserving their ties with the Far Eastern superpower.

However, China's involvement in the Gulf might have some destabilizing factors on the region, chief among which is its relationship with Iran. With China also looking at ways to expand its security influence as a means to protect supply routes, the developing ties with Iran could lead to growing differences not only with the Gulf countries, but also with the United States. Thus, the impact of US-China relations could also have consequences for the Gulf region. For now, however, ties between China and the GCC are bound to expand further with benefits for both sides to reap.

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China's Strategic Interests in the Gulf and Trilateral Relations among China, the U.S. and Arab Countries

Luo Yuan

The Gulf, located between the eastern and western world, on the boundary of three continents (Asia, Africa and Europe), within five seas (the Mediterranean Sea, the Red Sea, the Arabian Sea, the Caspian Sea and the Black Sea), and dominating four straits (Bosphorus, Dardanelles, Bab el-Mandab and Hormuz), is of vital strategic location. Together with its rich oil resources, special history and culture, and sophisticated hotspot issues, the Gulf occupies an important position in the modern international system. The change of its situation is of overall significance for it has a bearing on the interactions among great powers and the peace, stability and prosperity of the whole world.

China's Strategic Interests in the Gulf

Although most countries in the Gulf don't border on China directly, this region has become "a natural and certain extension of China's neighboring areas"³⁸ and is strategically related to various interests of China because of its special geopolitical, economic, energy, security and cultural background.

Energy Interests. Energy security is an important part of economic security and a strategic issue which can influence the sustainable development, peace and stability of a country. The crucial point of energy policy is to ensure a secure oil supply. With the rapid development of China's national economy, its oil consumption has increased substantially. China turned from a net oil-exporting country to net oil-importing one in 1993 and became the second largest oil consumer in the world in 2003. China imported 217,730,000 tons of oil

³⁸ Lu Zhongwei, Zhang Yunling, and Fu Mengzi, 2004, "The Interpretation of China's Neighboring Environment", *World Affairs* vol. 24, pp.21- 23.

and the oil importing dependence degree reached 49.8% in 2008³⁹, and the latter, according to the forecast of IEA in *World Energy Outlook 2003*, will rise to 61%, 76.9%, and 82% by 2010, 2020 and 2030 respectively⁴⁰. As the largest oil storage region in the world, the Gulf has stable market status and convenient transportation and therefore has been and will remain China's main oil import source. About 58% of China's oil imports currently come from the Gulf, and the amount will probably rise to 70%.⁴¹ If China's energy security problem can be summed up as an oil problem, it can also be summed up as a Middle East oil problem in consideration of China's high degree of dependence on Middle Eastern oil.

Security Interests. After the disintegration of the Soviet Union, extremist forces of Islamism based in the Gulf expanded its influence into Central Asia and integrated with religious and ethnic forces and Pan-Turkish thought in this region. This resulted in the formation of terrorism, separatism and extremism, which have seriously threatened the security of western China. In recent years, a small group of ethnic separatists in China's Xinjiang region, represented by "East Turkistan", are using Islam to advocate independence and create disturbances with the intention of internationalizing the issue of Xinjiang's independence, which has gravely threatened China's security interests. The Gulf is at the forefront of China's struggle against terrorism, separatism and extremism and to ensure the security and stability of its western region.

Economic and Trading Interests. Since the late 1970s, the economic and trading ties between China and Arab countries have grown rapidly. The volume of bilateral trade has increased over 100% from \$1.084 billion in 1978⁴² to \$124.9 billion in 2007⁴³. Moreover, the two economies are strongly complimentary. Arab countries are huge markets with large populations where articles of production and daily use, which

³⁹ Proclaimed by National Development and Reform Commission of the People's Republic of China. <http://www.chinanews.com.cn/cj/cyzh/news/2009/02-25/1578791.shtml>.

⁴⁰ Chen Fengying, "The Insidious Threat to China's Oil Security", *World Affairs* vol. 13, pp.46- 47 (2004).

⁴¹ Gal Luft, "Fueling the Dragon: China's Race into the Oil Market", Institute for the Analysis of Global Security, 2003. <http://www.iags.org/china.htm>

⁴² Zhang Junyan, *Economy of Middle East in Change*, Beijing: Beijing University Press, pp.324, 1992

⁴³ Calculated based on the statistics in *China's Foreign Affairs (2008)*, Beijing: World Affairs Press, pp.408-414.

China produces cheaply and efficiently, are in demand. China can also export labor service to the Gulf because of the relative insufficiency of labor in Arab countries. This not only helps lower China's employment pressure, but also increases its foreign exchange earnings. Arab countries are also the only developing countries which have the capability to invest substantially in China. Saudi Arabia and Kuwait, for instance, have invested in China's downstream business, petroleum refining, which deepened the level of bilateral cooperation and interdependence.

Political Interests. As developing countries, Arab countries and China have carried on fruitful cooperation for a long time. The two sides have shared not only similar historical experiences, but also common stands in opposing power politics and promoting dialogue among civilizations. China continually supports Arab countries in their struggle to win national independence and defend state sovereignty and develops friendly relations with these states on the basis of the Five Principles of Peaceful Coexistence. Arab countries, in turn, have given China important strategic support on a series of affairs, such as establishing diplomatic relations with China in the 1950s, supporting China's return to the UN as a permanent member of the UN Security Council in 1971, helping China to break through the political blockade of the western countries in the late 1980s, and taking a united stance with China on issues such as democracy and human rights in the post-Cold War period. Arab countries also follow the principle of one China, which has effectively contained the attempt of Taiwan Independence protagonists to extend international space.

Broad Developing Prospects for Trilateral Relations Among China, the U.S and Arab countries

China, the U.S. and Arab countries are three important forces in the Gulf. The U.S. is the only superpower in today's world with great military, economic and political influences. China plays an increasingly important role in international affairs with the enhancement of its overall national strength. Arab countries "are bound to be uni-polar in the multi-polar world that no one can overlook because of its large area, population and development potential."⁴⁴ The increasing interactions

⁴⁴ Xiao Xian, 1997, *Contemporary Islamism in International Societies*, Beijing: World Affairs Press, pp.209-210.

among these three parties, which have developed rapidly in recent years, will have a far-reaching effect on the situation of the Gulf.

Enormous Potential. The cooperation between the three sides has enormous potential regarding an increasing number of common interests. First, there is a vast space for the development of relations between China and Arab countries. Their cooperation has deepened and expanded because of long-term friendly exchanges, solid political foundations, coincidental stances and common interests. The establishment of the China-Arab States Cooperation Forum, for example, provides a very important platform for further development of cooperation. Amid highly volatile international relations, the Forum is in line with the fundamental interests of both sides to strengthen bilateral cooperation. Second, China and the U.S. have common interests in most Gulf affairs, creating a solid foundation for the development of bilateral relations. Neither China nor the U.S. wants to find the development of nuclear programs or even the resulting disturbance of an arms race in this region. On the energy security issue, both countries need to ensure the stability, reliability of oil supply and a reasonable price. In addition, both parties view poverty, long-term violent conflicts and religious extremism as the root of regional instability in the Gulf, and have carried on mutually beneficial coordination and cooperation in related areas such as fighting terrorism. Third, the tension between the U.S. and Arab countries will be eased to a certain degree. In spite of some contradictions and divergence, Arab countries still expect the U.S. to contain Iran's expansion, maintain the balance of power in the region and safeguard regional securities. What is more important is that the U.S. has begun to adjust its Gulf policy since the latter period of the Bush Administration under international and domestic pressures. Since coming into power, President Obama has endeavored in improving the image of the U.S. in the Arab world by emphasizing that the U.S. should listen rather than criticize⁴⁵ and make face-to-face contact with Iran. Obama also announced a plan to withdraw most troops from Iraq in 18 months. Although there is no fundamental change in its strategic targets, the U.S. has enacted a relatively major readjustment to its policies in the Gulf which will ease tensions.

⁴⁵ An Huihou, "The Change of Obama's New Middle East Policy Is on the Means Rather Than the Strategy", *Liberation Daily*, April 30, 2009.

Favorable International Background. With the deepening of globalization, the multi-polar pattern of dealing with the Gulf affairs has begun to emerge. The trilateral relations among China, the U.S. and Arab countries will thus gain more energy and vitality and become an open and dynamic system. First, as noted in General Secretary Hu Jintao's report at the 17th Party Congress, the world today is undergoing tremendous changes and adjustments. With the increase of non-state actors and global issues such as energy security, terrorism, transnational crime and the world financial crisis, it is much more difficult for states to cope with worldwide threats individually. Second, with the multipolarization of the world, the U.S. attaches more importance to cooperation with the U.N. and regional powers, resulting in the change of the U.S.'s attitude toward China's participation in the Gulf affairs, from trying to prevent such participation to welcoming it. An article in *Foreign Affairs*, for instance, suggests the Obama Administration promote China's cooperation with the U.S. in South Asia. Third, some countries and international bodies, such as Russia, India, Japan and the EU, are paying more attention to the Gulf. They have tried to strengthen coordination with Arab countries in order to gain strategic initiative, while Arab countries carry out flexible multilateral diplomacy in order to balance the role of the U.S. in the Gulf.

China's Participation. In his report at the 17th Party Congress, Hu Jintao noted that historic changes have occurred in the relations between contemporary China and the rest of the world, resulting in an ever closer interconnection between China's future and destiny and those of the world. As a socialist country following the path of peaceful development, China will continue to assume due international obligations and responsibilities and play a constructive role in promoting regional stability. China pursues an independent foreign policy of peace, of which the overall purpose is to maintain world peace and promote common development. The fundamental goal is to establish and develop diplomatic relations with all other countries on the basis of the Five Principles of Peaceful Coexistence, which includes the strengthening of friendship and cooperation with developing countries including Arab states. In the Gulf, China also proposes communications and harmonious coexistence, respects the right of the people to independently choose their own development path and works for the peaceful settlement of regional disputes. As a permanent member of the UN Security Council and an important force in promoting world peace and development, China's participation in the Gulf affairs can provide a

great impetus for the sound development of the trilateral relations among China, the U.S. and Arab countries.

It should be noted that China has no intention of opposing the U.S. in the Gulf. As a responsible country, China has neither the desire nor capability to challenge the U.S. and dominate Gulf affairs, which will benefit neither itself nor international security environment.

Trilateral Relations, but No Triangle in the Near Future

Although some scholars view the relations among China, the U.S. and Arab countries as triangular ones, I hold the idea that the relations can only be considered trilateral. Triangle relations is a system composed of three sides in which any action of one side will affect that of the other one or two sides, and any change in relations between every two sides will surely affect those of the other one or two bilateral relations. Since the U.S. is much more powerful than China and the Arab countries, there are no such interactions among the three sides. That is to say, the trilateral relations are still at an initial stage and have to overcome a lot of barriers in order to develop into triangle relations despite the remarkable development caused by the concerted efforts of various relevant parties over recent years.

Cooperation is limited by the complexity of Trilateral Relations. Nowadays, the relations between every two of the parties are in a state that is sometimes harmonious and sometimes conflicting, sometimes cooperative and sometimes competitive. The parties involved not only seek to support but also to constrain each other. It is therefore difficult to make significant breakthroughs in the short run.

The U.S. regards China as a strategic opponent because special strategic relations between them have not existed since the Cold War and the U.S. thus maintains pressure on China at various levels and areas. The Gulf is not only an important region in America's traditional ring surrounding China, but also the frontier to contain China in non-traditional areas. It is well known that there are some structural inconsistencies thus making it hard to expand bilateral cooperation to a deeper and broader degree.

Holding unilateral diplomacy in the Gulf after the Cold War, the U.S. has adopted dual standards in coping with terrorism and the Arab-Israeli conflict and tries to impose its values on Arab countries. This results in increasing disturbances and the intensification of nationalism and religious extremism. Therefore, the bilateral relations between the

U.S. and Arab countries will not develop much due to deep-seated problems and contradictions.

The bilateral relations between China and Arab countries are the most promising because there is no conflict of fundamental interests. However, the present cooperation is mainly based on traditional friendships and political relations while the economic and cultural contacts are relatively limited.

A limited driving force for interaction due to differences in Central Strategic Interests. The decisive elements of every relation between every two sides in this trilateral relationship are not closely connected with the third one. At the core of relations between China and the U.S. is the Taiwan issue which has little association with Arab countries. The utmost interests in relations between China and Arab countries are energy, economic and trading issues, which are less important to the US. The chief concern of the U.S. and Arab countries is terrorism, while that of China is to safeguard state sovereignty and territorial integrity.

There are almost irreconcilable divergences and contradictions in dealing with the Gulf affairs because of the different international statuses, life styles and political cultures, especially in relations between China and the U.S. For example, the main aim of China is economic development while that of the U.S. is maintaining its dominant role. The Middle East strategy of China is to keep the balance of diverse forces while that of the U.S. is to control oil and the regional situation through military might and democratization. China stands for fighting against terrorism of all forms, while the U.S. has an obvious bias due to its special relations with Israel. Although both the U.S. and China attempt to stabilize the Gulf situation, the stability the U.S. pursues is peace dominated by it and its allies. Alternatively, China pursues self-balance inside the region. The energy strategies of both nations are also likely to collide as some in the U.S. begin to worry that China's increasing energy demand tends to bring about its struggle for oil with the U.S.

The depth of cooperation is limited as the U.S. tends to be suspicious of the other two sides. Under the influence of Cold War mentality, the aim of U.S. Gulf policy has been and will likely remain to control the region and maintain a dominant role. As a result, the U.S. will not allow any challenge from any country or force, and therefore exerts pressures on China at various levels and in various areas and is alert to Arab countries. Concerning relations with China, it is hard to interact positively in its true sense because the U.S. is alert to China's development owing to the difference of their ideologies, the

competitiveness of their geopolitical strategies and energy demands. As for the relations with Arab countries, the U.S. “recognizes that Islamist political movements almost invariably pose threats to key U.S. interests and, often, to the stability and security of U.S. allies.”⁴⁶ With the influence of this kind of thought, the U.S. is unavoidably suspicious of Arab countries.

In short, the trilateral relations among China, the U.S. and Arab countries have broad developing prospects in the long run and will surely become important ones that will influence the situation in the Gulf and the whole world. However, a huge leap is almost impossible to realize in the short term, due to many restraining factors.

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⁴⁶ Robert Satloff, U.S. Policy toward Islamism: A Theoretical and Operational Overview, Council on Foreign Relations, Inc., New York, 2000, p.3.

Oil Nexus vs. Diplomatic Cruc: *China's Energy Demands, Maritime Security* *and Middle East Aspirations*

Zhu Feng

The Middle East has a growing significance in China's strategic energy plan overseas. Inevitably, this increasing weight of the Middle East in Beijing's chessboard of foreign policy is inflicting more Chinese allegations. They concern multiple issues, such as oil investment, shipping, refining and stockpiling, maritime security, regional stability, nonproliferation and trade relations. Beijing's international clout helps render its oil and commercial stake in a couple of countries where it has achieved the obvious business success for the recent years. Furthermore, Beijing's hesitation to support sanctions against Iran has added to the suspicions that China might be strategically motivated to take to the Middle East for its possible manipulation of oil and geopolitical gains in a race with the U.S. and Europe.

Will Beijing's Middle East policy turn assertive? Or will the growing significance of the Middle East for China's overseas oil provision eventually lead to its expansion of "hard power?" Hypothetically, it could. However, any deeper exploitation of China's naval buildup, maritime status and the desirability of security interests, will not suggest this in the days to come. Rather, there is no evidence so far that Beijing will alter its tradition of approaching oil and commercial interests in the Middle East as a focal concern. The approach is meant to be mercantilist – motivated much by, and targeted solely for, market, profits and secure oil provision. It's quite unlikely for China to dramatically turn on to a "new strategy" with the potential of using multiple means – regular naval patrolling, threatening to veto the sanction for Iran in the UNSC, opening Chinese-running harbors or military check-posts to transport oil, as such, to defend its increasingly extensive commercial and oil links in the region. China's sequential navy

escorting mission at the Gulf of Arden since December of 2008 has demonstrated that China can be a productive “contributor” rather than a new “intruder”.

Is China’s Navy Planning to Meddle in the Indian Ocean?

Beijing’s rapid process of industrialization has made it hungry for everything. Oil, gas and metal raw material are particularly desired in appalling quantity. The Middle East, the paramount oil and gas production base in the world, spontaneously draws more Chinese attention. The past decade has seen a growing flow of Chinese investments into the area. On November 2, 2009, Baghdad announced its deal with BP and China National Petroleum Corporation to invest \$15 billion in the giant Rumaila Oil Field to help rebuild Iraq’s ramshackle oil industry giving energy-hungry China its first real grip on Middle Eastern oil. In August, Sinopec, one of China’s three state-owned oil giants, paid \$8.9 billion to purchase the Swiss-Canadian firm Addax, which had holdings in Africa and the semiautonomous Kurdish enclave in Northeast Iraq.⁴⁷ Simultaneously, China is also a major purchaser of Iranian oil, in defiance of U.S.-led sanctions, and recently signed a major deal to develop the giant South Pars gas field in the Persian Gulf. The China National offshore Oil Corp., another of China’s three major companies, is negotiating with Nigeria’s government on another blockbuster purchase of rich oil blocs. Whether China will pursue new oil sources in other parts of the Middle East is not clear, but Beijing’s long march into the Middle East as well as Africa for oil and mining has aroused concern that China’s navy would soon follow Chinese oil adventurism into the Indian Ocean.

Is Middle East oil driving China to navigate the Indian Ocean? The answer seems to be “yes” according to the “String of Pearls” theory. Allegedly, China is building port facilities in countries such as Myanmar, Sri Lanka, and Pakistan all of which to its rivals look like an attempt to pave the way for a major growth in Chinese naval capabilities in the Western Pacific and the Indian Ocean in a way that not only challenges U.S. naval power but also the national security of India which

⁴⁷ EU News Network, “China Gets its First Real Grip on Arab Oil,” November 5, 2009
http://www.officialwire.com/main.php?action=posted_news&rid=63245&catid=863

has now embarked on its own naval buildup. This is one of the reasons listed for China's potential to be a strategic rival of the U.S.⁴⁸

Such skepticism might deepen with China's naval escorting mission at the Bay of Arden against Somali pirates which has been going on since December of 2008, and furthermore with Beijing's persistent development of its sea power stature. China's construction of its first aircraft carrier is perhaps the most important part of its sea power story. The global financial crisis might speed up China's pace to tread on the Middle East and Africa for oil. Obviously, China's expanding economy has allowed it to take advantage of low prices caused by the global meltdown to scoop up energy deals. The Chinese now are cash-rich, and usually present multiple approaches to hunt for oil, including offering better terms to the host country or companies, investing in infrastructure, and being well-prepared to deal with non-democratic regimes with unsavory reputations. Moreover, Beijing is good at using its increasing international clout to win oil and gas deals. Given the fact that China's oil importing volume from the Middle East and Africa has accounted for 62% of its entire overseas oil import, the combination of commercial expansion in the Middle East and military muscle influx seems increasingly indispensable. In the future, Beijing could add more strategic weight to its oil lifeline to the region, and pay more attention to its power projection capability in compliance with its emerging demands to safeguard 4,400 miles of sea-lane from the Gulf to the South China Sea and react necessarily at the contingency. Thus, China's Middle East oil connection might be a bigger motivator to urge the PLA to speed up its naval buildup and lay out an even more ambitious plan to intervene. However, such skepticism can hardly hold water.

Unsurprisingly, China's scramble for resources does not betray a lack of confidence that global commodity markets can provide the fuel for its industrial development, but indicates how greedy those state-owned oil and gas giants are for the search of enormous commercial profits. China is scant with its own oil and gas deposit in its territory. Without moving around the world, those state-owned companies would hardly grip the chance to be more syndicated.

Even if Chinese oil and gas bidding is successful it does not mean that expanded commercial engagement necessarily drives naval inspiration. What is lingering in Chinese minds to connect Iranian oil

⁴⁸ Tom Evans, "Is China a Global Partner or Strategic Rival of U.S.?" CNN.com, November 3, 2009.

output is not only sea transportation. Beijing has been exploring the possibility of building a pipeline through Myanmar and Pakistan linking China with the southern part of Iran. State-owned CNPC began construction of a pipeline in October of 2009 across neighboring Myanmar to speed delivery of Middle East oil which presently ships through the Indian Ocean. The 771 kilometer-long pipeline⁴⁹ will connect Myanmar's Port of Madaya Island on the Indian Ocean via Mandalay in central Myanmar to Ruili in China's Southwestern province of Yunnan. This pipeline will accord with future construction, if possible, which aims to reach the terminal in Iran. The pipeline connection from the Middle East to China is the alternative way for Beijing to undercut the vulnerability of its long sea-lane safety. In fact, the navy is an option rarely sought to ensure maritime security in China.

China's navy modernization is impressive. But its naval capability, in the foreseeable future, remains a "disruptive" military technology, rather than comparably "rivaling" military force. In all the standards, the PLA's navy hasn't gone beyond the nature of a near-sea combating sea force, explicitly impotent to undertake any combative task without land-based air covering and even lacking sufficient anti-air strike capability. No one will actually believe that China's navy will be able to carry out deadly long distance strikes merely by the virtue of numbers of submarines and destroyers. Presently, and in the foreseeable future, China is a nascent sea power based on its long on-shore military bases. It is broadly argued that China is constructing its first aircraft carrier. But if it is completed in a couple of years without cruisers and bigger warship to offer anti-air strike mobile platforms, one aircraft carrier is nothing but a "toy". Air-craft carrier-based combative groups cannot work well alone, and at least, two more aircraft carrier combative groups could constitute the real and steady sea fighting force in response to potential rivalries.⁵⁰ Nonetheless, there is no sign that Beijing feels like it might acquire 3 aircraft carriers in the coming 30 years from now. Its domestic preoccupation, lingering technological constraints, and especially unfinished political transformation, all would prevent it from the sizable aircraft carrier procurement. Apparently, China's

⁴⁹ Joe Macdonald, "China Oil Company Starts Work on Myanmar Pipeline," AP, November 3, 2009.

⁵⁰ Geoffrey Till, *Seapower: A Guide for the Twenty-First Century*, London: Frank Cass, 2004, pp. 311-320.

technological congruence is also far from able to form power projection capability pivoted with aircraft carriers.⁵¹

Naval buildup in China is of peculiar significance, and even politically symbolic. The Opium War opened the historic page of Chinese suffering and humiliation. British gunboats, posing the beat-down of the Qing Dynasty in 1840, sailed from sea. Terminating historic grievance is supposedly starting off from China's ascent as a sea power. Moreover, Beijing needs to strengthen its navy to deter any unpredictable threat and add greatly to its sovereign claims given a number of unsolved sea territorial disputes. These disputes range from the Sankaku islands with Japan, to Spratly Islands with ASEAN countries and Percel Islands with Vietnam. China and Vietnam have forcibly gotten into a Spratly frenzy diplomatically and rhetorically in recent years as both sides have undertaken seabed gas drilling. Chinese "angry youth" (fen-qing) fan out a lot of belligerent points online and favor Beijing taking tough action to reclaim the disputed islands. However, Beijing has been inclined to come to terms with neighbors to peacefully tackle the disclaimers, and no naval conflict has occurred. It is quite a wise policy as Beijing concluded the Code of Conducts at the South China Sea in 2002 and joined the ASEAN Peace and Friendship Pact in 2000. Any military provocation at sea will no doubt threaten all ties between China and ASEAN members. This case powerfully demonstrates that China's military modernization does not necessarily result in the assertiveness of Beijing's foreign policy.

China's naval advancement both in quality and in quantity continues to succumb firmly and inherently to its grand strategy. Theoretically, no matter how remarkably it proceeds, Chinese military capability is not able to march or surpass the U.S. The power disparity remains credibly stable and superb between Washington and Beijing. The longstanding "uni-polar moment" actually deprives Beijing of any chance of "non-peaceful rise".⁵² Indeed, in the most influential Western treatment of China's grand strategy, Swaine and Tellis argue that China's grand strategy is extremely modest: "China's grand strategy is keyed to the attainment of three interrelated objectives: first and foremost, the

⁵¹ Tai Ming Cheung, *Fortifying China: the Struggle to Build a Modern Defense Economy*, Ithaca: Cornell University Press, 2009.

⁵² Stephen G. Brooks and William Wolforth, Robert Ross and Zhu Feng, eds., *China's Ascent: Power, Security, and the Future of International Politics*, Ithaca: Cornell University Press, 2008.

preservation of domestic order and well-being in the face of different forms of social strife; second, the defense against persistent external threats to national sovereignty and territory; and third, the attainment and maintenance of geopolitical influence as a major, and perhaps primary, state.”⁵³ As long as China’s grand strategy persists, its oil aspiration in the Middle East will continue to fall within the confinement.

Will the Navy Work for China’s Middle East Oil Ventures?

There is quite a thin link between China’s naval development and its feverish overseas oil and raw material hunting. Also, there is no telling evidence that Beijing prefers to dispatch military advisors or beef up the puppet governments to defend its oil interests in the developing world. Inauguration of the “going-out strategy” in China from the early 90s ignited Chinese aspiration to wander the world, but it does not mean that the military expansion would reap the same harvest as its commercial expansion has done; or that the oil and raw material hunger would necessitate military follow-up. On the contrary, Beijing has been highly aware of the disruptive effects by mishandling its desire for oil, and consistently prudent in its “oil diplomacy”. So far, any media reports about Chinese looking for overseas military bases have proven to be “fake news”. I don’t want to use the word “non-entanglement” to describe Chinese policy paralleling its expanded oil nexus abroad. Sudan has been a big embarrassment to China’s international image. Likewise, it creates new tension between Beijing and the West. To neutralize those minuses, Beijing has been attempting to mediate the Darfur crisis and press Sudan to agree to a UN peacekeeping force. Despite little applause it won from the Western media, Beijing’s policy choice has rather gone further to shield the Sudan government. Beijing does not risk confronting the West to secure its oil manipulation there. The wrestling over the Sudan issue between Beijing and the West is more like a “hard bargain” than any form of “oil war”.

In fact, the oil risk that China might suffer comes largely from the fluidity of domestic regimes to accommodate Chinese oil or mining deals. Locking in specific sources of oil may give China a sense of supply security, but in the long term it leaves it open to the vagaries of oil

⁵³ Michael D. Swaine and Ashley J. Tellis, *Interpreting China’s Grand Strategy: Past, Present, and Future*, 2000, introduction pg. x.

suppliers' politics. Considering the shaky position of the Ahmadinejad Administration shocked by post-election protesters on June 12, 2009, no Chinese could surely know what would happen to their oil assets in Iran, unless Beijing could be on the right side of Iranian domestic evolution. The situation is similar to that which took place in Africa earlier this decade. When the Zambian government changed in 2006, the Chinese mining business in Zambia was immediately undermined and witnessed some withdrawal.⁵⁴ The other problems Chinese oil companies now encounter in Africa is that their competitive advantage against Western companies is weakening as Chinese flick funding reduction for infrastructure and insist on keeping local hiring to a minimum.⁵⁵ Pleasingly, China's new oil deal in Iraq provides a distinctively different case. As long as the insurgents in that torn country cannot be put down, the CNPC will certainly have little hope to gain profitably from the investment. Namely, the stability and prosperity of the entire Middle East and a less tumultuous Iran in particular, notably and decisively premises China's oil desire from the region for expectedly long-lasting and secure provisions.

Nevertheless, is there any evidence so far that geo-strategic grappling among powers complicates China's oil and gas bidding? The answer is "no" indeed. The Iraq War launched by the Bush Administration cost Chinese companies around \$200 million in lost business in Saddam Hussein's Iraq. This case might convince one of how contending geo-strategic concerns among powers complicate their different oil interests. Ironically, since then, there is no proof that China turned around and switched over its mercantilist approach to any political or military assertiveness. In fact, there is no intent at all on the Chinese side that military tools would be presumably harnessed there. What we have witnessed from recent oil bidding in Iraq is that the US, China, Japan, and the UK are all equally lining up to compete in sheer commercial terms for oil exploration and production in Iraq. BP, Exxon, the Anglo-Dutch firm Shell and CNPC respectively won deals at the giant Rumaila oilfield. Iraq has the world's third largest proven oil reserves of 115 billion barrels, behind only Saudi Arabia and Iran. Oil sales, specifically exports of 2.4 million barrels a day, provided 85%

⁵⁴ Sarah Raine, *China's African Challenges*, London: Routledge, 2009, pp. 141-1190.

⁵⁵ Benoit Faucon and Spencer Swartz, "Africa Pressures China's Oil Deals," *The Wall Street Journal*, September 30, 2009.

percent of government revenues.⁵⁶ Plenty of speculations about China's naval escorting in the Bay of Aden presumably points to the debut of its "blue water fleets." But the real signal of its escorting is just a test of how deep and how cold the "blue water" is rather than the real "blue water fleets" taking shape.

Will the Iran Issue Derail China's Middle East Approach?

Iran might be a big test balloon to tell China's policy nuances in the Middle East. With regards to China's growing oil investment, expanded construction bidding and the lifting potential of the commercial relationship with Tehran, there is no doubt that Chinese companies have achieved a number of successes in Iran. This reality helps strengthen the ties between the two countries and might embolden Beijing to stand up to the U.S. and Europe in defiance of the escalating tension.⁵⁷ The U.S. Congress has ordered that Iran's military will be subject for the first time to the kind of U.S. assessment reserved for China's expanding force.⁵⁸

Undeniably, the Beijing-Tehran relationship is warming up. China's Iran policy is however mostly commercial and not geo-political. A growing share of imported Iranian oil in Chinese energy consumption does not make China look sanguine upon the Iran issue. The potential threat posed by Iran – its support of designated terrorist groups such as Hamas and Hezbollah, interference in Iraq and Afghanistan, and a push to dominate the Gulf – is remarkable. Because of Iran's daunting nuclear controversy, Tehran is the main source of instability in the Middle East. Regarding this, China has been cautiously separating commercial and oil interests from nuclear concerns in Iran. Every time Chinese leaders greet their Iranian guests, Beijing must be vocal of its concern of Tehran's nuclear ambivalence. Additionally, Beijing keeps Tehran eminently as an SCO observer rather than agreeing to a full membership for Iran. Hence, it will be very likely that Beijing will not take the great risk of shielding Iranian nuclear setup and instead

⁵⁶ Sammy Ketz, "Exxon Follows China Lead in Clinching Iraq Oil deal," AFP, November 5, 2009.

⁵⁷ John Pomfret, "Oil, Ideology Keep China from Joining Push Against Iran," *The Washington Post*, September 30, 2009; Michael Wines, "China's Ties with Iran Complicate Diplomacy," *New York Times*, September 30, 2009.

⁵⁸ Viola Giegner, "Iran's Military Power Subject to New U.S. Study Used for China," *Bloomberg*, November 3, 2009.

throws itself under fire. There is a profound recognition in the Chinese elite community that nuclear-armed Iran will be a disaster to the entire Middle East. Soaring uncertainty from the nuclear weapons of Tehran's clerical regime might trigger a bigger military storm in the region. If it happens, it would unavoidably be a huge catastrophe for the world oil price as well as China's oil interest. Therefore, it is completely unfounded to believe that Beijing will continue to court Tehran in the interest of bigger oil shares. Reportedly, China's continued economic and diplomatic growth during the global financial crisis and uncertainty over policy in Washington had emboldened Beijing.⁵⁹ Nevertheless, China's sanity will not mislead its Iranian policy onto a risky course.

There are no reinforced military links between Beijing and Tehran despite Beijing's proactive engagement to Tehran commercially. China's approach of Iran is bold and brave in the economic term; diplomatically, it is over-prudent; and strategically China does not want to cause a big stir by offering Tehran advanced military weapons or technology. Conventional weapons trading has also been downsized in recent years as an indicator of Beijing's Iran prudence. Apparently, Beijing has bowed to Western demands for backing UN sanctions against Tehran, albeit reluctantly. Such diplomatic haggling, with China accepting some Western demands while protecting its bilateral ties with targeted states, will not change. China's position in the Middle East remains more externally driven. US President Barack Obama will be seeking China's backing over North Korea and Iran when he visits Beijing November 15-18, 2009. US lobbying and foreign pressure are much more important for Beijing to steer its policy course on Tehran.

Now the key issue between Washington and Beijing is whether President Obama can persuade his Chinese counterparts to throw more of its growing political and economic weight behind the efforts to defuse disputed nuclear programs or diplomatic standoffs. The task seems daunting. Beijing argues that Tehran might go nuclear if U.S. policy in the Middle East would insist on massive military intervention and the "regime change" option. The Chinese are convinced that Tehran's nuclear adventurism is reactive and not desperate. It could hinge on America's optimal policy choice: reducing hostility toward Muslims while pressing for a new peace agreement between Palestine and Israel. Iran might eventually give up its nuclear ambition if the U.S. shrinks its

⁵⁹ "Tougher for West to Get China's Backing on 'Hot-spots,'" *Reuters*, November 6, 2009.

troop size in Iraq. Therefore, Beijing does not want to decisively take sides as long as there is a thread of hope that negotiation and policy shift should accordingly lead to a solution. Given the Obama Administration's rapprochement policy to the Muslim world, China has a bit more leeway on the security and foreign policy issue like Iran. So China tends to resist tougher steps it sees as unwarranted or a threat to bilateral ties.

Nevertheless, Beijing's sense of leeway does not mean that Beijing becomes more active or more assertive in the Middle East. If there is telling evidence that Tehran is close to nuclear weapons capability, conceivably, China would quickly "choose sides" to support international efforts to dismantle Iranian nuclear programs. The challenge is how to prevent Iran from playing the "China card". On its part, Washington should not be deliberately blind to Beijing's oil and commercial interconnectedness and be prepared to coordinate their Iran policy.

Conclusion

China will continuously prefer to be a "cooperator" – synonymously – a "free rider" – to satisfy its demands for sea-lane security from the Hormuz Strait to the South China Sea. China's Middle East engagement is enlarging, and it is not easy to erase the controversy of its policy. China is very concerned with the current tension between Iran and the West, and will be opposed to any military strike on Iran. China does not see any necessity to deserve military confrontation as long as there is no evidence that Tehran is much closer to accomplishing nuclear weapon capability. Economically, any military strike against Iran must be disastrous for the world and China as well. The question is whether Tehran is making use of such fear to vie for its nuclear resort?. Partly it is, and partly it is not. Tehran should give up any illusion of a "China card". China should make this clear as it would be helpful to reaching a diplomatic solution to the Iranian nuclear issue and bolster collaboration in the Middle East.

China's Middle East engagement cannot ignore its grand strategy. With the ascent of China, an international debate has emerged about China's grand strategy. Because the realist approach usually puts the emphasis on the capability and intention of a state in the wake of shifted power redistribution, the examination and determination of grand strategy, which concentrates on how something is done, is of great

significance to understanding the future of China's policy orientation. China's domestic response to the grand strategy has had to become more intense. Rapid changes of its international position, expeditious alternation of international surroundings, and accordingly, the expanded domestic demands for security and influence, have all prompted Beijing to ponder the equivalences in strategic terms. A great importance has been attached to desirability and feasibility of China's own grand strategy, both sustainable and affordable. Along with the exploration of China's grand strategy, the notion of "strategic thinking" has prevailed. Nonetheless, a number of questions – what China's grand strategy should be, what components should be embodied and how it proceeds – remain far from being answered. China's rise has been taking place in the context of the 21st century. To what extent do the changes in world politics define the Chinese pursuit of its grand strategy and how do domestic constraints in China particularly contribute to its strategic choice in a manner different from powers that we have seen in history? Furthermore, in what way does the historic experience of great powers in the construction and implementation of grand strategy remain valid or invalid? Answering these questions might better precede the fixation of China's grand strategy. Obviously, the rationale behind any successful grand strategy is not merely about the use of force, winning of conflict and war, but inevitably about how to conduct "learning and innovation."

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China's Energy Interest and Security in the Middle East

Zhao Hongtu

With China's rapidly growing oil imports and increasing mutual energy investment, the energy ties between China and the Middle East have been strengthened in the past decade despite the many differences among the figures and evidence provided or predicted by analysts. Generally speaking, China's energy interests in the Middle East cover three aspects: oil and gas imports, energy investment in the Middle East and investment from the Middle East. The perceptions and interpretations on the motivation and implication of China's growing energy relations with the Middle East are quite different, especially between Chinese and western analysts. China's activities in the Middle East have drawn most of the international security concern and caused a degree of unease outside of China.

Growing Energy Relations with the Middle East: Matter of Fact

Together with strong economic growth, China's total consumption of petroleum has risen dramatically in recent decades -- from approximately 92.05 million tons in 1980 to approximately 386 million tons in 2008.⁶⁰ The surge in demand and stagnation in domestic output has turned China into a net oil importer since 1993. During the same period, and even a little bit earlier, China's oil companies started to invest in overseas oil exploration and production. Under this situation, as the world's top oil producer and exporter, the Middle East naturally

60 Zhangkang, "zhong guo he shijie diyuan youqi ", p66; Tian Chunrong, "Analysis on China's oil import and export in 2008 ", International Petroleum Economics, 2009.

became one of the most important partners for China to develop energy relations.

Oil Imports from the Middle East. It is well known that China became a net oil importer again in 1993 and net crude oil importer in 1996. China started to massively import crude oil in 1988 and the average annual growth rate of crude oil import from 1988 to 1996 reached 50.7%. The total amount of crude oil import has increased from 0.85 million tons in 1988 to 178.89 million tons in 2008.⁶¹ The net oil import has grown from 8.95 million tons in 1993 to 200.67 million tons in 2008, the percentage of net oil import accounting for total oil consumption has been increased to 52% in 2008.⁶² Now China is the world's third-largest oil importer.

According to EIA estimates, by 2025, of approximately 14.2 million barrels per day demand, approximately 10.7 million will be imported, and the import oil dependency will be 75%. Some Chinese scholars estimated that China's oil imports will reach 200-240 million tons and 320-360 million tons in 2010 and 2020 respectively while its oil import dependence will rise to 60% and 70% accordingly.⁶³ Tian Chunrong predicted that the percentage of net import oil accounting for total oil consumption in China will rise to 55% in 2010 and 66% in 2020. It doesn't matter how different the figures and predictions are, the fact is that China therefore will have no choice but to rely on imported oil accounting for a growing proportion in its total oil consumption.

As the biggest oil exporter, Middle East crude oil accounted for 41.34% of China's crude oil imports in 1989. With the rapid growth of oil consumption and imports, the Middle East (42.11%) replaced the Asia Pacific region (41.17%) as China's top supplier in 1993. The share of Middle East oil in China's import reached 53% in 1996 and peaked at 61% in 1998.⁶⁴ Since then the percentage changed from year to year,

61 Zhangkang, "zhong guo he shijie diyuan youqi", p67; Tian Chunrong, "Analysis on China's oil import and export in 2008", International Petroleum Economics, 2009.

62 Tian Chunrong, "Analysis on China's oil import and export in 2000", International Petroleum Economics, 2000.; "Analysis on China's oil import and export in 2008", International Petroleum Economics, 2009.

63 CAO Jianhai, "Analysis on China's Oil and Gas Market in Past Ten Years and Prospect", China Economic Times, August 29, 2007.

64 Tian Chunrong, "Analysis on China's oil import and export in 1996", International Petroleum Economics, 1997.3; "Analysis on China's oil import and export in 2008", International Petroleum Economics, 2009.3.

ranging from 44 % to 57 %. In 2008, China imported 89.62 million tons from the Middle East which accounts for 50.1 percent of China’s oil imports.⁶⁵ According to the IEA, Chinese oil imports from the Middle East are expected to rise to at least 70 percent by 2015. The figure may not be that high, but there is no doubt that the future of the Chinese economy is thus closely tied to oil imports from the Middle East.

Middle East Oil in China’s Imports
(in ten thousand tons)

Year	Import from ME	Total Import	Percentage %
1993	659.87	1567.12	42.1
1994	490.67	1234.59	39.74
1995	776.40	1708.99	45.43
1996	1196.20	2261.69	52.89
1997	1678.16	3546.97	47.31
1998	1666.83	2732.26	61.01
1999	1690.39	3661.37	46.17
2000	3764.99	7026.53	53.58
2001	3385.99	6025.54	56.19
2002	3439.22	6940.77	49.55
2003	4636.51	9112.63	50.88
2004	5578.85	12281.55	45.42
2005	5999.19	12708.32	47.21
2006	6560.48	14518.03	45.19
2007	7276.37	16317.55	44.59
2008	8962.07	17889.30	50.09

China only imported oil from a few countries in the Asia Pacific (58.7%) and the Middle East (41.3%), around 73.3% from two countries: Indonesia (40.1%) and Oman (33.2%) in 1989. In 1997 the share of oil import from Africa was increased to 18.6%, and that of Asia Pacific decreased to 26.5%. The number of countries which export oil to China has increased from 7 in 1989 to 22 in 1997, the share of oil

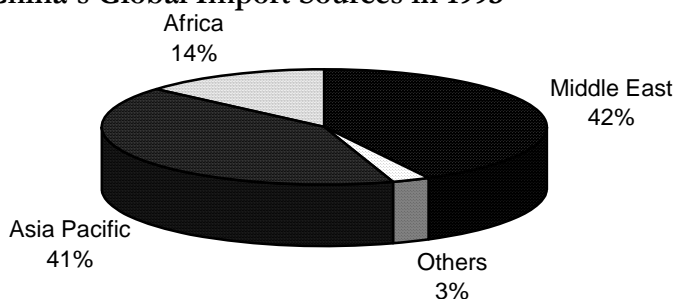
65 Tian Chunrong, “Analysis on China’s oil import and export in 2008”, International Petroleum Economics, 2009.3.

imports from Indonesia and Oman decreased to 44.0%. ⁶⁶In 2008, China imported oil from more than 40 countries, the share from Middle Eastern, African, FSU, Western Hemisphere and Asia Pacific countries was 50.1%, 30.2%, 9.8%, 7.2% and 2.8% respectively, the share of Indonesia and Oman decreased to 0.8 and 8.2%, as China's top three oil suppliers, the total share of Saudi Arabia, Angola and Iran reached 48.8%.⁶⁷

China's Top 10 Oil Importers

1997	%	2003	%	2008	%
Oman	25.47	Saudi Arabia	16.7	Saudi Arabia	20.3
Indonesia	18.57	Iran	13.6	Angola	19.6
Yemen	11.43	Angola	11.1	Iran	11.9
Angola	10.82	Oman	10.2	Oman	8.2
Iran	7.77	Yemen	7.7	Russia	6.5
Vietnam	4.23	Sudan	6.9	Sudan	5.9
Congo	2.76	Russia	5.8	Venezuela	3.6
Gabon	1.06	Vietnam	3.8	Kuwait	3.3
Australia	0.92	Indonesia	3.7	Kazakhstan	3.2
Papua New Guinea	0.91	Congo	3.7	United Arab Emirates	2.6

China's Global Import Sources in 1993⁶⁸

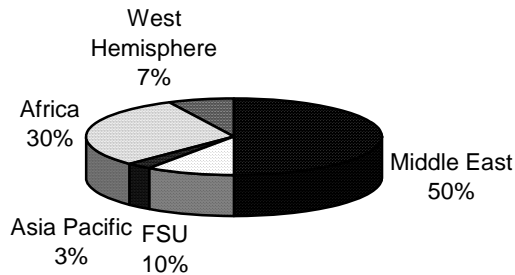


⁶⁶ Zhangkang, "China and the world Geologic oil and gas (zhong guo he shijie diyuan youqi)", p70, Geology Publication house (dizhichubanshe), 2009.2, p70.

⁶⁷ Tian Chunrong, "Analysis on China's oil import and export in 2008", International Petroleum Economics, 2009.

⁶⁸ Zhangkang, "China and the world Geologic oil and gas (zhong guo he shijie diyuan youqi)", p70, Geology Publication House (dizhichubanshe), 2009. 2, p72.

China's Global Import Sources in 2008⁶⁹



Oman and Iran were the only two Middle Eastern countries which exported oil to China in 1989. Even in the 1990s, China's oil imports from Middle East were mostly focused on Oman and Yemen. Since the beginning of the 21st century, China's imports from Saudi Arabia, Iran, the UAE, Kuwait and other Middle Eastern countries have grown rapidly. Saudi Arabia has been China's top oil supplier since 2002 (only briefly surpassed by Angola in 2006), and its export to China in 2008 reached 36.37 million tons which accounted for 20.3% in China's oil imports. Iran became China's second largest oil supplier in the Middle East in 2000 and was number one in the world in 2001; since then it has steadily been the second largest oil supplier for China in the Middle East and the third in the world since 2005. Oman's share was decreased from 33.2% in 1989 to 8.2 % in 2008. China also imported oil from Kuwait (3.3%), the UAE (2.6%), Yemen (2.3%), Iraq (1.0%) and Qatar (0.5%) in 2008.

69 Tian Chunrong, "Analysis on China's oil import and export in 2008", International Petroleum Economics, 2009.

Chinese Imports from Middle Eastern Countries⁷⁰

(in ten thousand tons)

	1994	1996	1998	2000	2002	2004	2006	2008
Saudi Arabia	14.64	23.06	180.76	573.02	1139.04	1742.43	2387.15	3636.84
Iran	6.92	231.11	362.00	700.05	1063.00	1323.74	1677.42	2132.24
Oman	336.74	565.46	579.34	1566.08	804.59	1634.78	1318.33	1458.46
Kuwait	-	-	28.23	43.34	106.97	125.40	280.92	598.63
UAE	6.55	-	51.45	43.05	-	134.39	304.40	457.89
Yemen	125.82	376.57	404.32	361.24	226.17	491.22	454.32	413.22
Iraq	-	-	60.74	318.32	53.68	130.65	104.58	186.01
Qatar	-	-	-	159.89	45.76	14.24	33.36	87.78

In addition, Chinese liquid propane gas (LPG) imports from the Middle East grew substantially at the end of the 1990s. Saudi Arabia dominates Chinese LPG imports. Meanwhile, the UAE, Iran and Qatar have been actively trying to increase exports of LPG to China since 1999 and have expressed interest in gas-market penetration in southern China. China started to import LNG in 2006, and already the fourth LNG receiving terminal is under construction in Zhe Jiang province. At this point, China imports LNG only from Australia, Indonesia and Malaysia, however it can be expected that China will import LNG from the Middle East in the future with its rapid growth of demand.

70 Zhangkang, "China and the world Geologic oil and gas (zhong guo he shijie diyuan youqi)", p70, Geology Publication House (dizhichubanshe), 2009.2, p72. Tian Chunrong, "Analysis on China's oil import and export in 1999", International Petroleum Economics, 2000.2; Tian Chunrong: "Analysis on China's oil import and export in 2004", International Petroleum Economics, 2005.3; Tian Chunrong, "Analysis on China's oil import and export in 2008", International Petroleum Economics, 2009.3.

Energy Investments in the Middle East. China's upstream exploration and production investment in the Middle East attracts the most international attention. Chinese penetration of the Middle East started with its exports of labour in the end of the 1970s and early 1980s. China Petroleum Engineering and Construction Corporation (CPECC), the CNPC overseas construction arm, moved into the Kuwaiti and Iraqi markets in 1983 by competing for subcontracts and small turnkey projects as its entry strategy. In 1995, CPECC won an oil-storage reconstruction project in Kuwait valued at \$400 million. The value of Chinese overseas oil-service contracts by the end of 1997 reached \$10 billion. Oil material and equipment exports grew 710 times, from \$0.43 million in 1992 to \$322 million in 1997. Meanwhile, the Great Wall Drilling Company (GWDC), set up in 1993, captured growing drilling opportunities in Sudan, Egypt, Qatar, Tunisia, Nigeria, Oman and other parts of the Arab world.⁷¹ It was estimated that China had signed almost 3,000 contracts in all six Gulf Cooperation Council states for labor services worth \$2.7 billion before 2001.

Regarding upstream exploration and production, China's oil companies started to set its sights beyond China's borders in the late 1980s. As the first Chinese oil company to venture overseas, CNPC (China National Petroleum Corporation) made its first overseas investment by purchasing a stake in a United Nations sponsored oil sands development project in Alberta, Canada in 1992. Since then, Chinese oil companies such as CNPC (China National Petrochemical Corporation), SINOPEC, CNOOC and SINCHEM as well as companies outside the energy sector like CITIC Group (China International Trust and Investment Company) and China North Industries Group have invested in oil ventures in over 20 countries with bids for oil field development contracts, pipeline contracts and refinery projects in Africa, the Middle East, Central Asia, Southeast Asia, Latin America, and North America.

In the Middle East, China's first upstream investments and acquisitions were made in Iraq (awaiting the lifting of the sanctions) and Sudan which has since become China's biggest overseas equity stake. Since then, Chinese companies have been invested in the oil related sector (including engineering and drilling) in a number of Middle

71 Xu Xiaojie, "China and the Middle East: Cross-investment in the Energy Sector", *Middle East Policy*, VOL . VII. No. 3, JUNE 200, <http://www.mepc.org/journal-vol7/xu.pdf>

Eastern countries. Although Chinese firms are also participating actively in oil and gas projects in other countries such as Kuwait, Oman, Qatar, Syria, the UAE and Yemen, their focus is mainly on the following the major oil producing countries, Sudan, Iran, Saudi Arabia and Iraq.

China's Cooperation with Sudan began in 1995 when CNPC bought out an American Company that was forced to cease its activities in the country after Congressional intervention. In March 1997, CNPC won over 40%, the largest single share, of The Greater Nile Petroleum Operation Co., a joint venture between the Sudanese state oil company Sudapet, India's ONGC Videsh and Malaysia's state oil firm Petronas. The consortium's Heglig and Unity oil fields now produce 350,000 barrels per day, according to the U.S. Energy Department. Separately, CNPC owns most of a field in southern Darfur, which began trial production in 2004, and 41 percent of a field in the Melut Basin. Sinopec built a pipeline from that complex to Port Sudan on the Red Sea, where China's Petroleum Engineering Construction Group built a tanker terminal⁷².

Iran is one of the few countries in the Middle East that assigns China the right to conduct business in its upstream sector. Chinese activities in Iran include refinery upgrades, as well as pipeline and engineering services such as drilling. The two major projects of North Pars gas field exploration and Yadavaran oil field development are among the most important projects between the two countries. In 1997, China entered the Iranian energy sector for the first time when it bid on 43 projects worth 8 billion US dollars. SINOPEC then began negotiations with the National Iranian Oil Company for joint development of the offshore Balal field, and in January 2000, the two companies agreed to jointly develop the Iranian fields of Zavareh and Kashan and to upgrade the refining facilities in Teheran and Tabriz. During the course of 2004, China's Sinopec won a \$100 billion contract with Iran to buy 10 million tons of liquefied natural gas annually over 25 years, and a stake in the Yadavaran oilfield in Iran's western Kurdistan province.⁷³ The Yadavaran project between Sinopec and NIOC worth

72 P. Goodman, "China invests heavily in Sudan's oil industry", The Washington Post, 23 December 2004, E.S Downs, op. cit and CNPC Annual Reports

73 Michal Meidan, "China's Energy supply Security and the Middle East Energy Resources", Paper to Energy Programme Asia (EPA) of the International Institute for Asian Studies (IIAS) and the Clingendael International Energy Programme (CIEP) - "The security of energy supply in China, India, Japan, South

\$2 billion, Sinopec will develop it and buy 10 million tons of LNG over 25 years.

China's participation in Iraq's oil industry can be traced back to Saddam Hussein's rule when development and production deals were signed between CNPC and Baghdad involving the Al-Ahdab and Halfaya Fields. As of October 1998, Iraq had signed PSCs (reportedly on relatively generous terms) for a handful of post-sanctions field developments. One deal was with the CNPC and Chinese state-owned Norinco for development of the al-Ahdab field. However, these deals were frozen as a result of UN sanctions. Since 2006, Iraq invited the Chinese NOCs to participate in its recent licensing round for oil and gas contracts. In June 2009, together with BP, CNPC won a deal to develop Iraq's biggest oilfield in the country's first major energy auction since the US-led invasion in 2003 and have been unveiled as the first foreign firms in decades to win contracts to invest and develop in Iraq's war-battered energy sector. Months later it was reported that the share of the project between BP and CNPC had fallen to 38% and 37% from 50% and 25%.

Saudi Arabia hasn't opened its upstream oil exploration and production to the outside world. It was hotly discussed that SINOPEC obtained a contract to explore and produce natural gas in the Rub al-Khali field in Saudi Arabia, an area that opened up to foreign investment for the first time in 25 years.⁷⁴ Chinese NOCs' activities in Saudi Arabia are very much limited to engineering services, such as pipeline and well repair, seismic data collection, and natural gas projects, which involve higher risks and capital input.

Korea, and the European Union; opportunities and impediments", Leiden and The Hague, the Netherlands, 19- 20 May 2005.

74 Michal Meidan, "China's Energy supply Security and the Middle East Energy Resources", Paper to Energy Programme Asia (EPA) of the International Institute for Asian Studies (IIAS) and the Clingendael International Energy Programme (CIEP) - "The security of energy supply in China, India, Japan, South Korea, and the European Union; opportunities and impediments", Leiden and The Hague, the Netherlands , 19- 20 May 2005.

Key Chinese Investments and Commercial Ties in the Middle East⁷⁵

Country	Date	Company	Description
Egypt	1998	CNPC	Signed an agreement with two Egyptian companies to form a joint-investment company.
Iran	Oct.2004	Sinopec	Signed a MOU for a 25-year \$70 billion agreement to import LNG in exchange for developing Yadavaran oilfield.
Iraq	1997	CNPC (+ a consortium of others)	Signed a 22-year production-sharing contract to develop al-Ahdab field for an estimated cost of \$1.3 billion.
Libya	2004	GOC	Signed a \$300 million, 10 million barrel crude purchase.
Saudi Arabia	Mar. 2004	Sinopec	Signed a \$300 million gas exploration and production deal with Saudi Aramco.
Sudan	1997	CNPC	Acquired a 40 per cent stake in the Greater Nile Petroleum Operation Company consortium to explore and develop the Heglig and Unity fields.
Sudan	1999	CNPC	Heglig-Port Sudan Pipeline (500,000 bpd) - A pipeline from the fields to the Red Sea.
Sudan	Jun.2000	CNPC	Khartoum refinery, 70,000 bpd.
Sudan	Jun.2004	CNPC	Adar/Yale fields, 300,000 b/d by 2006.
Sudan	Sep.2005	CNPC	Offshore exploration and production of block 15.
Sudan	Dec. 2004	Sinopec	Adar-Port Sudan Pipeline.

75 Energy Policy Act 2005, Section 1837, National Security Review of International Energy Requirements, February 2006

Foreign Investment from the Middle East. It is well-known that Saudi Arabia, Kuwait, Iran and Oman have huge overseas assets thanks to petro-dollars deposited after the 1970s. Initially, Saudi Arabia and Kuwait's overseas investments were largely located in the developed countries. Their investments in emerging Asian markets have been emphasized only since the early 1990s. The new crude oil flowing in from the Middle East required technical upgrades of China's existing refining facilities which Gulf producers provided happily. China has been a growing market for some Middle East countries to invest especially with respect to downstream oil and petrochemical projects.

Cross investment led Saudi Arabia to invest in the Chinese refineries of Maoming in the province of Guangdong, Zhanhua in the province of Shandong, Talin in the city of Qingdao (Shandong province) as well as refineries in the province of Fujian.⁷⁶ Kuwaiti investments have been directed essentially to acquiring stakes in oil fields such as Shengli (one of China's largest and oldest oil fields) and the offshore field of Yacheng but have also been an important contributor to upgrading Chinese refining facilities.⁷⁷ In July 2004, the six Gulf Cooperation Council finance ministers visited China where they signed a "Framework Agreement on Economic, Trade, Investment, and Technological Cooperation" with China and agreed to negotiate a China-Gulf Cooperation Council free trade zone.

With China's financial market growing, Middle East oil rich countries are also becoming more interested in financial investment in China. For example, the Kuwait Investment Authority has a 15% stake in the Kuwait China Investment Company. KCIC was created in 2005 after a state visit by the Emir of Kuwait to China, which also resulted in KIA's stake in \$19.1 billion IPO by the Industrial and Commercial Bank of China (ICBC).⁷⁸

Perception Gap on Energy and Security: China and the West. It is a matter of fact that China's energy interest in the Middle East is growing regardless of differences in the figures analysts provided or predicted. The perceptions and interpretations on the motivation and implication

76 Calabrese John, "China and the Persian Gulf: Energy and Security", Middle East Journal, Summer 1998, vol. 52, n°3, p.351-366

77 Calabrese John, "China and the Persian Gulf: Energy and Security", Middle East Journal, Summer 1998, vol. 52, n°3, p.351-366

78 Xin Ma, "China's Energy Strategy In The Middle East", Middle East Economic Survey, VOL. LI No 23, 9-June-2008

of China's growing energy ties with the Middle East are quite diversified and different especially between Chinese and western analysts. China's energy activities in the Middle East have drawn most of the international concern and caused a degree of unease outside of China.

Some of the analyses are related to the impact on international oil supplies and prices as well as energy related investment competition, but most of the analysts focus on the security implications and impact on international relations. Dan Blumenthal pointed out that, "Chinese overseas acquisitions, especially in the Middle East have been considered with distrust and many analysts have feared that China's growing clout, along with its insatiable thirst for energy, will make it a destabilizing force in the Middle East."⁷⁹ In the eyes of a number of American analysts, China's investments in countries like Iran and Sudan pose a series of potential problems for the United States. Some even go further to conclude that "a war for the Middle East and global energy resources between the United States and China is unavoidable".

There are a number of reasons for analysts to believe that China's growing energy relations with the Middle East, especially with some of the so-called problematic countries in these regions, namely Iran, Iraq and Sudan, may cause a change of the status quo in the Middle East and post security challenges to United States.

First, a growing dependence on Middle Eastern oil has led China to rethink its policies vis-à-vis the Middle East and to reevaluate its strategy. And also China's dependence on its Middle Eastern energy suppliers may have made the PRC more susceptible to accept political quid pro quo for its energy supplies. As in other countries, oil interests might affect its international behaviour and shape its foreign policy.

Secondly, China takes a strategic approach to energy security instead of a market-oriented one. China's energy security policy can be explained as securing energy supply through upstream investment or by obtaining equity oil in foreign energy and resource enterprises. Many of the most important contracts negotiated with Middle Eastern producer countries have been linked to diplomatic high ranking visits and to a

79 Dan Blumenthal, "Providing Arms: China and the Middle East", Middle East Quarterly, vol. 12, no. 2, Spring 2005

general improvement in diplomatic ties.⁸⁰ China is taking oil “off the market” and inciting its national-owned oil companies to snatch up oil resources abroad. To some extent, China’s energy policies and activities are explained as a “worldwide search for energy” and “global hunt for energy”.

Thirdly, China’s oil companies are still largely instruments of the State and are being treated as an arm of the government’s international expansion. The Chinese believe that energy investments help China develop good relations with countries in the Middle East as well as in Latin America, Africa and Central Asia. Maria Kielmas (2005) states that: “China’s companies are essentially expected to be an arm of national foreign policy in their foreign investment, rather than to create value.”⁸¹ Lin (2005) says: ‘No country today feels that it has the ability to invade China. China does not set out to save energy, but instead stirs up of a feeling of crisis in various places in order to whip up nationalist sentiment. The goal is to use oil diplomacy to cover up its ambitions for strategic expansion.’⁸²

Finally, China has no qualms about supporting governments with bad human rights records. The world has witnessed the growing energy relations with the Middle East especially with some so-called problematic countries in these regions such as Iran, Iraq and Sudan. The economic–political nexus became evident with China’s refusal, in September 2004, to go along with proposed US sanctions on Sudan when China threatened to use its veto in the Security Council.

However, in Chinese eyes, China seems to be merely following trends set by the other consumer countries in term of oil imports and overseas energy investment. Therefore they are confused as to why they are being met with such growing unease from the outside and why China is blamed for almost everything related to energy, from high world oil price to environmental pollution to Sudan’s humanitarian disaster. They cannot understand why the West focuses largely on overseas investments and so-called energy diplomacy and pays less

80 James Manicom, “Thirsty Eagle, Starving Dragon: Energy security and the Sino-US relationship”,

<http://www.socsci.flinders.edu.au/spis/seminars/research/2005papers/JamesManicomAPSA2005paper.pdf>

81 Maria Kielmas, “China’s Foreign Energy Asset Acquisitions: From Shopping Spree to Fire Sale”, *The China and Eurasia Forum Quarterly*, November 2005.

82 Paul Lin, “China’s move toward oil diplomacy”, *Association for Asia Research*, 2/4/2005.

attention to what China has done or is doing to improve energy efficiency and energy conservation, develop new and renewable energy sources, and push energy market reforms forward. In addition to the wide spread theory of “China’s energy threat” in the West, all of these have already furthered the Chinese’s strong sense of energy insecurity rooted in growing dependence on energy import. Some analysts interpret the USA’s preventing SINOPEC and Iran from cooperating to explore and exploit oil and natural gas fields as containing China’s energy supply.

Energy security is a widespread but poorly understood concept; there still is no consistent definition. Due to differences in culture, language and level of development, Asian countries, especially China, attach great importance to energy supply security to maintain economic growth, but most Western analysts, especially from the United States, focus more on the international implication of China’s energy activities and policies. Both are talking about energy security, but the Chinese talk more about the first part – energy – and the Americans talk more about the second part – security.

There are many factors that contribute to China’s energy activities which cannot be well understood by the Western analysts. China and the West have different understandings of energy security and risks. Due to the transition and adjustment from planned economy to market economy, it is inevitable that some Chinese analysts have misperceptions of the West and unsuitable reactions and explanations. Just as Professor Zha Daojiong mentioned, “Discussions ignoring market basics get more attention”.⁸³ Since China lost its self-sufficiency in oil supply, China’s concern about oil supply security and feeling of energy insecurity have become widespread from ordinary citizens to the government level. Apart from the needs resulting from economic development, there is also a feeling of crisis.⁸⁴

Among the misperceptions is the connection between equity oil and energy security. In China, a number of analysts argue that overseas investment, especially acquiring the equity oil and energy assets can and should play an important role in safeguarding China’s energy security.

83 ZHA Daojiong, “China’s ‘goes out’ for Energy: toward an international dialogue”, presentation to China Energy Policy Round Table by Asia Center, Beijing, 10 January 2007.

84 Paul Lin, “China’s move toward oil diplomacy”, Association for Asia Research, 2/4/2005

Unfortunately, some of the western misperceptions on China's global search for energy security are partly based on these kind of arguments.⁸⁵ Just as Eric Downs mentioned that current and former employees of China's NOCs have noted that the idea that equity oil enhances energy security is primarily supported by people outside the oil industry, especially political-types and the media, who do not understand how the business works. Several Chinese oil company executives have stated publicly and privately that they disagree with the notion that the acquisition of oil assets abroad can enhance China's energy security.⁸⁶ In fact, the equity oil did not serve China's energy security as a lot of people suppose it did and also it could not help too much in the future. Due to economic consideration, most of Chinese companies' equity oil is sailed in the world oil market instead of taking them back to China. For example, it is said that most of China's equity oil in Sudan goes to countries like US and Japan.

Some of the concepts or terms popularly discussed in Chinese are also easily misunderstood by western analysts. For example, "goes out" (sometimes translated as 'going out' or 'go abroad') is a poorly understood and translated term regarding China's overseas energy investment, and most of the western analysts explain it as "goes out for energy". It is actually a part of China's policy of opening up which means "invites in" and "goes out" to learn from the outside and integrate with the world. In the energy sector, "invites in" means attracting energy investment from overseas, lifting tariffs, opening petroleum sales and carrying out initial public offerings (IPOs) of stock. "Goes out" means getting involved in the world market to be internationalized and developed into multinational corporations with high international competitive ability. It is the company instead of government going out. Also, the goal is to realize the internationalization and maximization of the profits instead of taking equity oil back. "Goes out" does not mean "takes back". The government's support is the advantage the state owned companies are looking for and would like to

85 China's becoming a net oil importer and its overseas oil investment getting enough attention coincidentally happened at the similar period (in the mid 1990s) also contribute to both domestic and international misperceptions.

86 Eric Downs, *The Brookings Foreign Policy Studies Energy Security Series: China*, December 2006, <http://www3.brookings.edu/fp/research/energy/2006China.pdf>

take full use of, without the support of the government, they still will continue their overseas investment and internationalization.

The relationship between the state owned oil companies and the government is another point of debate. In the foreigner's eyes, the boundaries between China's national strategic interests and the companies' own profitability are still quite blurred.⁸⁷ It is the side effect of the transition from planned economy to market economy and very common with almost all of China's state owned companies beyond energy sectors. The exit of some non-market approaches is not completely due to the market based Chinese economy, even though the relationship between the state-owned oil companies and the government is still not the same as some western analysts suppose it is. It is similar to the West in the sense that the interest of energy companies is not always in accordance with that of the government; interests are even opposite in some situations. In 2005, when the government adopted price control policies to keep the prices of domestic oil products low and produced huge losses for state refiners, the state oil companies reacted by constraining crude runs, reducing product imports, and increasing product exports. In most cases, the states oil companies recognized the opportunities first, initiated negotiations over the prospective investment move, sought government approval of their investment plan and financial and diplomatic support if needed.⁸⁸ China's NOCs work hard to drive the government to support them to go abroad in the name of energy security.⁸⁹

China's Middle East Policy: Changed and Unchanged

Compared with the past, China's foreign policy after the end of Cold War focuses more on economic development than the ideology. A Chinese saying states that foreign policy should serve for the sustainable domestic economy growth through creating a peaceful international

87 Michal Meidan, "China's Energy supply Security and the Middle East Energy Resources", Paper to Energy Programme Asia (EPA) of the International Institute for Asian Studies (IIAS) and the Clingendael International Energy Programme (CIEP) - "The security of energy supply in China, India, Japan, South Korea, and the European Union; opportunities and impediments", Leiden and The Hague, the Netherlands , 19- 20 May 2005

88 Energy Policy Act 2005, Section 1837: National Security Review of International Energy Requirements, February 2006

89 Minxin Pei, "China's Big Energy Dilemma", The Straits Times, April 13, 2006.

environment. In accordance with this principle, China is trying to develop good relations with almost all of the countries in the world. In this regard, China tries to develop or improve relationships with some countries which had limited relations with China during the Cold War while keeping cooperation with traditional partners. Former Chinese ambassador to France Wu Jianmin said that China's diplomacy is transforming from "responsive diplomacy" (*fanying shi waijiao*) to "proactive diplomacy" (*zhudong shi waijiao*)." Coinciding with the development of China's foreign policy, there are also some continuity and changes in its Middle East policy.

Cooperating with all countries. China has been actively cooperating with almost all of the Middle East countries since it established formal relationships with Israel and Saudi Arabia in the beginning of the 1990s. China has concentrated on upgrading economic ties such as bilateral trade and cross investment with the Middle East, especially Arab countries, instead of the ideological and political ties from the past. The total trade between China and the Middle East has grown from 2847 million USD in 1988 to 124.9 billion USD; from 2001-2007 it increased 514.64%. Saudi Arabia, Iran and the UAE were China's top 3 trade partners in the Middle East in 2007.⁹⁰

Supporting an Arab-Israeli Resolution. China has been very actively participating in the Arab-Israeli peace process and maintained its positions for many years: both supporting the concept of "land for peace" as the basis of an Arab-Israeli peace agreement and recognizing the need for an independent Palestinian state. In 2002, at the request of several Arab states, China appointed the former ambassador Wang Shijie as special envoy to the Middle East to cooperate diplomatically with both sides in pursuit of Arab-Israeli peace. Since then, mutual high-level visits between China and the Middle East have grown steadily. Since the latest round of the Palestinian-Israeli conflict broke out on Dec. 27, 2008, China has supported the United Nation's Security Council in its early adoption of a resolution calling for an immediate truce in Gaza, the withdrawal of forces from the region, the opening of crossing points into Gaza, and easing of the humanitarian situation in Gaza. China has

90 Wanglian, "The Trade Relations Between China and the Middle East", *International Studies*, 2008.4; Xiao xian, "The Middle East at the turn of the Century", Shishi Press 1998, p459.

also pledged \$1 million of emergency humanitarian aid to the Palestinian National Authority and promised further aid in the future.⁹¹

Respecting American Concerns For more than a decade, China has made tremendous improvements in its nonproliferation commitments. China is now a signatory to the Nonproliferation Treaty, both the Chemical and Biological Weapons conventions, as well as the Comprehensive Test Ban Treaty and the Missile Technology Control Regime. Regarding arms sales, Yitzhak Shichor, a professor of East Asian studies at the University of Haifa and perhaps Israel's foremost China expert, argues that China has been a marginal, almost insignificant player in the Middle East arms market.

The Chinese involvement in UNMOVIC signals an aspect of broader Chinese policy that remains applicable to the Middle East. Beijing's policies emphasize reliance on mediation through international bodies. This holds true with regard to the Iranian nuclear issue. The Chinese government has encouraged the Iranian government to cooperate with the International Atomic Energy Agency and ratify the additional protocol that would avoid serious punishment.⁹²

China is playing an increasingly active role in Middle East region, but it does not mean that Chinese and American policies will necessarily be at odds. Beijing understands and, indeed, shares U.S. concerns regarding proliferation and terrorism. Just as Washington seeks to maintain good relations with both the Arab world and Israel, so too will Beijing.⁹³

However, there are still differences of opinion between China and the United States especially regarding domestic reform. China supports Arab domestic reform, but strongly opposes any outside attempts to impose reform. China opposes unilateral action and insists that only through candid dialogue can better policy coordination be achieved. China's stance has existed since the establishment of People's Republic of China and has been strengthened by its up-to-now successful experience of reform. It is an important part of traditional Chinese foreign policy which is closely linked to its sentiment of national

91 CHINA'S ENERGY SECURITY AND THE MIDDLE EAST CONFLICT,
Source: www.asiaecon.org

92 CHINA'S ENERGY SECURITY AND THE MIDDLE EAST CONFLICT,
Source: www.asiaecon.org

93 Jin Liangxiang, "China and the Middle East", *Middle East Quarterly*, Spring 2005 <http://www.meforum.org/694/energy-first>

sovereignty. Regardless whether in the Middle East or other regions, this kind of policy has not changed much and probably will not change in near future.

China and the U.S. share an interest in promoting stability in the Middle East though they currently define stability in different terms.⁹⁴ China is eager to maintain its close relationship with a Middle Eastern regional power, but not at the expense of its relationship with the U.S. Rapidly growing Chinese energy imports from the Middle East alone do not constitute a threat to stability in the Middle East. While Chinese military buildup is cause for long-term concern, their activities in the Middle East do not yet constitute a real challenge to status quo interests in the region.⁹⁵

Inexperience in international markets, obvious sense of energy insecurity, and domestic misperceptions on energy security are key factors that contribute most to China's energy activities in the Middle East and worldwide that are misunderstood by the rest of the world. However, in order to decrease misperceptions and avoid conflicts related to energy issues, a number of different level dialogues and cooperation between China and the United States have taken place over the past several years. The Sino-US Strategic Economic Dialogue (energy security is one of the top topics) between has been especially fruitful.

With this kind of dialogue and cooperation, China and the rest of the world are getting to know each other much better and the misperceptions and misunderstandings on energy security have lessened. Some Chinese analysts now argue that the acquisition of equity oil will do little to help China deal with supply disruptions and that the United States is more concerned with the security implications of China's overseas energy activities rather than containing China's energy supply. More western analysts have realized that China's interests have not changed fundamentally over the last decade and China is paying more and more attention to the security and stability of the Middle East. Eric Downs pointed out that "Beijing gives its relationship with the United

94 Ellen Laipson, "China and the Middle East: No threat to US interests, for now", March 26, 2007

<http://www.stimson.org/pub.cfm?ID=547>

95 John Keefer Douglas, Matthew B. Nelson, and Kevin L. Schwartz, "Rising in the Gulf: How China's Energy Demands Are Transforming the Middle East"

http://fletcher.tufts.edu/al_nakhlah/archives/spring2007/nelson-2.pdf

States priority over the acquisition of foreign oil assets by a Chinese NOC”⁹⁶.

Conclusion

There is no doubt that both China’s energy imports and its cooperation with Middle East countries have been growing rapidly in the past decade, but it does not necessarily mean that China’s Middle East policy is dominated by its need for energy. Michael Meidan pointed out that China’s activities in the Middle East remain more overtly in the realm of "geo-economics" rather than "geo-strategy". Compared with other interests, energy is a less important factor in shaping China’s foreign policy. The role of energy security in China’s foreign policy making will decrease to some extent in the future.

With greater knowledge of the world energy market and a better understanding of energy interdependence, more and more Chinese analysts have already changed their views of taking energy as a strategic commodity or resource and believe that the market is a better way to safeguard energy security. Additionally the misperceptions of China’s energy policy from the outside have been reduced. Some western energy experts have already acknowledged that there is not much difference between Chinese oil companies’ overseas investment and that of western ones. In order to further reduce the perception gaps, we need to take the path of more effective dialogue and cooperation.

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96 Eric Downs, The Brookings Foreign Policy Studies Energy Security Series: China, December 2006, <http://www3.brookings.edu/fp/research/energy/2006China.pdf>

Iran and China: Political Partners or Strategic Allies?

Shahram Chubin

The Setting

Modern Iran, traditionally oriented westwards, has begun to look toward the East. This started with the Shah who developed relations with China and India and continues under the Islamic Republic. Under the monarchy, the emphasis was on the common bonds of civilization and culture between two ancient non-western empires. Under the Islamic Republic, the relationship has been one of necessity occasioned by poor relations with the West. The IRI has tried to emphasize the 'common' revolutionary content of the relationship. Whether either approach is enough to become the basis for a durable strategic relationship is worth discussing. In both cases, the Iranian intention was to cultivate options and diversify relationships. The difference is that under the Shah relations with the West were good whilst under the IRI the clear aim was to enlist another great power to balance, offset and even *replace* the US/Europe as an object of Iran's attention.

During the Iran-Iraq war (1980-88), Western sanctions forced Iran to turn to Asia for arms, principally China, Russia and North Korea. This continued in the 1990's with Asia now Iran's principal source of arms and related technology. In this period Iran's oil exports also shifted towards Asia, (accounting for 50% of its crude exports by 2004/5.). Geopolitically, the breakup of the Soviet Union left Iran looking for a new balancer to the US.

Parallel with Iran's growing interest in Asia (principally China and India) made explicit by President Ahmadinejad's "look east

policy, the rise of Asia geopolitically saw growing Chinese interest in the Persian Gulf. China's political stability depends on continued economic growth, which is fueled by energy. As the world's largest economy (by 2027, Goldman) its oil imports will triple by 2030 (IEA, 2008). By 2015, China will overtake the US as the largest oil importer. By 2030, it will use 16.5 million barrels per day (m b/d) of which 13.1 m b/d will be imports (i.e. more than Saudi Arabia's current production). Iran as of 2007 was China's third largest oil supplier.⁹⁷ Unique from the rest of the Gulf, Iran has both oil and gas reserves which could make it an especially important supplier for China's needs. Iran's trade with China has quadrupled in the past six years to \$20 billion (and this underestimates indirect trade through Dubai.) Clearly the basis for a commercial relationship based on energy exists, with each partner wanting a dependable long-term partner/investor/supplier. Also commercial trade with China entails no political strings or conditionality, leaving Iran "independent."

Dealing with China is politically attractive to Iran. Iranians see China, like Iran, as a model for others: a non-western state with its own distinctive approach to modernity.⁹⁸ They like and share China's emphasis on sovereignty and independence and reject attempts to limit it by the "duty to intervene." Like China, Iran seeks a multipolar world that reduces the scope for US influence and hegemony.

Both states want to deny the US a greater presence in Central Asia and the Persian Gulf. The two states share the belief that the US is motivated by the impulse to control the region's energy resources.⁹⁹ The rise of China and India and the role of energy in that rise could see

⁹⁷ From 2.20 mn barrels in 1990 Iran's oil exports to China grew to 77.60 mn barrels in 2002, making Iran second only to Saudi Arabia as a Gulf supplier. See Jin Liangxiang "Energy first," *The Middle East Quarterly* 12, no.2 (Spring 2005) <http://www.meforum.org/article/694>

⁹⁸ Iranian commentators emphasize the anti-western content of this alleged similarity: "The Chinese socialist revolution and the Iranian Islamic revolution have one thing in common even in ideology, which can challenge the West. China and Iran both try to present an alternative social system to the world..." Hamid Mowlana, on *Kayhan* website, September 6, 2007 in *bbc monitoring*, October 10, 2007.

⁹⁹ And that the "war on terror" is only a "smokescreen" for this "pursuit of hegemony." See Johannes Reissner "China and the Wider Middle East" in Gudrun Wacker (ed) *China's Rise: The Return of Geopolitics?* (SWP: Berlin, 2006) p.30 See also MR Djalili & T.Kellner, "Regards vers lest:La Politique Asiatique de la republique Islamique" (Bruxelles :Grips) 2005/3 p.22.

(as the NIC has argued) competition for energy resources among the great powers.¹⁰⁰ Whether that competition would be peaceful and benign or characterized by a zero-sum approach relying on force and control, cannot be predicted. What seems clear is that China has no master strategy. The biggest unknown is “where economics will drive the country politically.”¹⁰¹ China’s “peaceful rise” can be upset by economic, social, ecological and political crises, resulting in a more belligerent foreign policy. China, it is said, is a global power that acts like a regional power; however this is already changing. Iran, by contrast, is a regional power with global pretensions. Iran would like to entangle China in its anti-US stance. Whether the post-ideological Chinese will play along seems doubtful.

Trade and Economics

Iran has sought to use its intensified trade relations with China to tie that country into a strategic partnership. Iran needs China not only for the broader campaign to weaken US influence in the region, but for the more immediate one of replacing the West as a source of investment and for support in deflecting the sanctions arising from the controversy regarding its nuclear program. In signing energy agreements with non-western states Iran has also sought to “drive a wedge between the US and its allies.”¹⁰² Besides the Yadavaran agreement, Iran and China have signed an agreement for the supply of 3 million tons a year of LNG for 25 years starting in 2011. In addition, there is an agreement for the production of LNG from South Pars worth 2.5 billion euros. Chinese oil companies have signed long-term contracts worth \$200 billion. China is Iran’s biggest oil and gas customer. Currently more than a hundred Chinese companies are operating in Iran developing the metro, ports, airports and oil and natural gas facilities. China expects to be involved in upstream and downstream operations (exploration,

¹⁰⁰ Global Trends 2025: A World Transformed (Wash.DC.NIC), 2008, pp.63-66.

¹⁰¹ Guy de Jonquieres, “My Seat at the ringside of history in the making,” *The Financial Times* March 29, 2007, p.15.

¹⁰² Najmeh Bozorgmehr, “Iran signals sanctions alert by \$3 bn oil deal with Chinese group,” *The Financial Times*, December 10, 2007, p.1. (SINOPEC the Chinese energy company signed to develop the Yadavaran oil field.

drilling, pipelines, petrochemicals). Chinese officials refer to this as “long-term cooperation.”¹⁰³

Iranians sometimes depict their emphasis on trade with Asia as a result of the reluctance of the West to invest.¹⁰⁴ But there is no attempt to hide its “strategic” intent. Iran has used its influence as a “reliable supplier” to weaken the impact of sanctions and forge new relationships. Sometimes these are loosely referred to as “strategic relations.”¹⁰⁵

Rafsanjani has told the Chinese, “We expect the Chinese government to avoid cooperating with colonial enemies,” adding, “Given increasing number of joint projects between Tehran and Beijing, we expect Chinese banks to resist the US pressures over their cooperation with Iran.”¹⁰⁶ Iran was to be disappointed by this as Chinese banks followed others in 2007-8 by making it hard for Iranian businesses to open letters of credit. This should not have surprised Iran as China had already supported the referral of the nuclear issue to the Security Council and twice reluctantly accepted the imposition of sanctions by that body on Iran. Reformists in Iran were realistic: “when push comes to shove countries such as Russia, China and India will not jeopardize their long term interests with the West over Iran”.¹⁰⁷ But Ahmadinejad, who made “look east” an ideological tenet as well as a policy, continued to dangle financial incentives, offering China participation in the proposed energy pipeline with India and Pakistan (IPI). Apologists for the Iranian regime multiplied the proposals, undismayed by Chinese silence. One proposed that Iran ought to invite China into the Gulf as a response to the UAE’s offer of a base to France. This analyst insisted that trade and energy cooperation with China “is bound sooner or later to spillover into more meaningful military cooperation.” Another

¹⁰³ See Chinese ambassador’s comment *Tehran Sharq* December 21, 2004. And Xuecheng Lin, “China’s Energy strategy and its Grand Strategy” (Stanley foundation Policy analysis brief), September 2006, p.10.

¹⁰⁴ “Sanctions likely to backfire on the West, Iranian business man warns,” James Blitz & Roula Khalaf, *The Financial Times*, February 4, 2008 p.8

¹⁰⁵ See the influential MP Kazem Jalali comments *Tehran Emruz* website November 13, in *bbc monitoring* November 14, 2007; Robin Wright “Deepening China-Iran ties weaken bid to isolate Iran,” *Washington Post*, November 18, 2007, p.A20; Jan Mouwad, “Iran uses its oil assets to create Allies,” *The New York Times*, April 30, 2005. See also *Petroleum Intelligence Weekly*, Vol.XVV. no 14 (April 3, 2006) pp. 4-5.

¹⁰⁶ *IRNA website*, February 3, 2008 in *bbc monitoring*, February 4, 2008.

¹⁰⁷ *Iran news website*, September 29, 2005 in *bbc monitoring*, September 30, 2005.

averred that “today the governing elite of Iran believe that China is a reliable partner that can and will offer everything that Iran demands in crucial times.”¹⁰⁸ But even in the trade area there are limits to Iran-China cooperation. Chinese technology can deal with onshore oil projects, but offshore oil and gas reserves require access to western technology.¹⁰⁹ Iran’s strategy toward China has been clear: to use it as a balancer against the US, to use it a source of technology in defence and energy fields and to create a deep and reliable commercial relationship which can translate into a more substantial strategic relationship. By building on the common interests against US hegemony and concern for independence, Iran has sought to cultivate China’s influence to deflect pressure from the US on the nuclear programme while expanding its own regional influence. So far, it has been disappointed and to explain this we need to look beyond Iran’s mistaken appreciation of its own centrality, at China’s interests and goals.

Prospects

China’s reluctance to allow common interests with Iran to drive its policies or be transformed into a wide-ranging or meaningful strategic relationship can be traced to the simple proposition that a pragmatic China has broad interests that cannot be made hostage to Iran’s ideological priorities or its regional goals. For example while Iran wants to build on common interests to weaken US power in the region, it is not clear that China shares Iran’s goal of expelling the US and substituting Iran as regional hegemon. While the priority for China is stability, for Iran it is change, including disruptive change. China plays the “responsible stakeholder.” China is thus solicitous of U.S. interests: “Part of Chinese strategy is to respect America’s concerns about Sino-Middle-Eastern relations.”¹¹⁰

China’s interests in the Middle East include a settlement of the Palestinian issue and the maintenance of relations with both sides. China

¹⁰⁸ Kaveh Afriasabi, “A China base in Iran?,” *Asia Times Online*, January 28, 2008, http://www.atimes.com/atimes/Middle_East/JA29Ak03.html

Kayhan Barzegar, Postglobal oped, “Iran Eyes the China Card,” February 6, 2008 http://belfercenter.ksg.harvard.edu/publication/18033/iran_eyes-the_china_card

¹⁰⁹ Anna Fifield “Political turmoil turns Iran’s energy sector East” *The Financial Times* July 11-12, 2009 p.4

¹¹⁰ Zha Daojiong, *China’s Energy security and its International Relations* (3rd IISS Global Strategic Review, Geneva, September 2005. mimeo, p.11.)

cooperates with Israel in defence technology. China was unwilling to choose definitively between Iran and its rival Saudi Arabia, which until recently, was China's principal source of Gulf oil. China's longstanding strategic relationship with Pakistan also puts it on a different path from Iran, whose strained relations with that country are most evident in Afghanistan. The fact that Pakistan and Saudi Arabia also have longstanding defence ties, suggests that the China-Pakistan-Saudi triangle appears more likely than an Iran-China axis. The price of this might strain ties not only with the two mentioned states but also the GCC states, Egypt and Israel. Iran's ties with India though still limited include naval exercises and could grow in future, which may complicate as well as balance ties with China.

China's policy toward the US has repeatedly demonstrated an unwillingness to allow its behavior to upset ties with Washington. While willing to underwrite an Iranian military capability if only to constrain the extension of US hegemony in the region, China has always pulled back from provoking the US. In the 1990's, China stopped the supply of Silkworm missiles and later nuclear technology at US insistence. It abstained on the 1990 vote on the war with Iraq. It normalized relations with Israel in 1992.¹¹¹ Suggesting a desire to keep a certain distance, China has avoided the use of the word "strategic" in its relations with Iran, although it has had no such hesitation in relation with Egypt or Saudi Arabia.¹¹² China has typically been reticent and balanced on the nuclear issue and has argued against sanctions and threats and for diplomacy and understanding. Nonetheless it has avoided taking the lead against sanctions, though it has diluted them and craftily left Russia, which has fewer commercial interests in Iran, to bear the onus of obstructing the US and Europe.

China is not passive, and the 'regional' power is becoming more global in Africa, Latin America and the Middle East. In 2006, China offered 1000 peacekeepers for Lebanon and in 2008, using its growing navy, it deployed ships to the Gulf of Aden, to "register the presence of the Chinese navy."¹¹³ This is consistent with its outreach to Indian

¹¹¹ John Garver, *China and Iran: Ancient Partners in a Post-imperial world* (London: University of Washington Press,) 2006, pp.105, 107, 198-9, 115.

¹¹² Garver, *China and Iran*, pp.77, 124-128.

¹¹³ Mark McDonald, "China close to Naval Mission in the Gulf of Aden," *The New York Times*, December 18, 2008; Rory Medcalf, "Securing the Sealanes: China's gunboat diplomacy," *The International Herald Tribune*, December 29, 2008; "China's Navy: distant horizons", *The Economist*, April 25, 2009, p.57.

Ocean states and strategic cooperation with Pakistan bordering the Gulf.¹¹⁴

Given China's interest in the uninterrupted supply of raw materials, it would be consistent with China's policy at some time in the future to assume a fifth position in the current "Quartet" to stabilize the Middle East.¹¹⁵ In pursuit of stability, China may also accept a role (analogous to that of the 6-Party talks with North Korea) in relation to the (de-)nuclearisation of the Persian Gulf. More active Chinese diplomacy in this regard has been raised sometime in Iran and there are voices arguing for it in China.¹¹⁶

What might shift China's current interest from the stabilization of supply sources to *control* over them? From acceptance of a shared interest to an assumption of zero-sum rivalry? From a secondary role in the region to a leading or dominant one, replacing the current 'order'? And would this imply a strategic alliance with Iran?

Three factors might lead to such a change:

1. A major change in China-US relations leading to overall rivalry and hostility.
2. A change in foreign policy as a result of increased radicalization and extreme nationalism, which sees China-US relations as zero-sum.
3. Great instability in the Gulf, which the US is unable to manage, that persuades Chinese leaders that "control" is necessary and more reliable than a market approach that relies on US leadership.

A shift to a more activist, colonial policy towards the Gulf would not take place alone; it would reflect a general shift in China's foreign policy. More likely is a gradual increase in Chinese diplomatic and

¹¹⁴ See James Lamont & Amy Kazmin "Fear of Influence" *The Financial Times*, July 13, 2009; Robert Kaplan, "Asia Rising: Lost in the Pacific," *International Herald Tribune*, September 22-23, 2009.

¹¹⁵ "China's Foreign Policy: a Quintet Anyone?" *The Economist*, January 13, 2007, pp. 46-47.

¹¹⁶ This chimes with Iran's call for an "Asian solution". See Former Minister proposed Asian formula to Iran's case" *IRNA website*, March 19, in *bbc monitoring* March 20, 2007. For one Chinese view similar to this, Michael Vatikiotis, "Fallout from Iran: The Conflict that Stalks Asia," *International Herald Tribune*, February 3-4, 2007, p.5

military presence, which would reflect that country's intensified interest in the region. This is what we are currently witnessing. The end-point of this need not be an alliance with an anti-western regional state or the acceptance of that state's leading role as distinct from that of others.¹¹⁷ Such a definitive choice is not consistent with Chinese practice, which tends to cultivate options without opting for any one exclusively.

Conclusions

Iran's approach to international relations diverges from that of China. The Islamic Republic, which is animated by short-term concerns, seeks to convert its economic resources into a political tool to forge a strategic alliance. China, which sees issues long-term, prefers to leave commercial relations in their own domain and not taint them with political overtones. China which has a range of options contrasts with Iran which has closed the door on the West and is left with the ineffectual "nonaligned" or dependency on the East. China has choices while Iran has nowhere else to go.

Iran overestimates its own importance as an ally and its liabilities (in terms of China's overall interests) as a revolutionary state. Iran can try to use the China '*card*' against the West, threatening a strategic re-orientation. Such a policy may be credible as a simple and natural recalibration of Iran's diplomatic and commercial interests, a rebalancing long in-the-making. But using the East/China as an *alternative* to the West seems less credible. In an interdependent, globalised world, such a choice seems self-defeating.

Iran's quest for a meaningful role and reliable allies are reflections of the IRI's inability to locate Iran in Asia and the Muslim world. Persian, Muslim (though *not* Arab, Sunni) Iran is located at the crossroads of the Middle East and Asia, with a strategic location in the gulf and towards Central Asia. These are a lot of chessboards to play on, and they require priorities, resources and soft power (reputation/model). Iran cannot find a role or a constituency because it is stuck in a revolutionary rut in a largely post-ideological world. It should be no

¹¹⁷ For an interesting but unsupported claim that China may be seeking this see Garver, *Ancient Partners*, p.295. "A Chinese anchor in East Asia paired with an Iranian anchor in West Asia could well emerge as a central element of post-unipolar, China-centered Asia circa the middle of the twenty first century. It may well be that China is building toward that long term objective."

surprise that China does not wish to sacrifice its broader interests on the altar of an exclusive or strategic relationship with Tehran.

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China and the Middle East

Pan Zhenqiang

Introduction

China has had long and friendly ties with the Middle Eastern countries for over two thousand years. During the Cold War, this friendly contact continued although it experienced great limits. The end of the Cold War has opened up a new vista for the interaction between the two sides. In particular, China with its fast increasing stake in the region is expected to play a more proactive role in its relations with the Middle Eastern countries as well as maintain regional peace and stability. The challenge, however, is how China would act to break the fatal pattern in world history; that is, a rising power in the region would inevitably bring instability and chaos at the expense of the existing powers, and end up with a devastating war to create a new regional order. To put it another way, China must learn how to ensure its expanding interests in the Middle East through constructive and cooperative relations with all the other powers.

The Middle East is a geopolitical term used rather loosely in international politics in terms of its definition. It generally refers to Western Asia and Northern Africa (south of the Sahara Desert) but there is no consensus as to which specific countries should be included in this region. This paper adopts one suggestion generally acceptable in the research community, that 24 countries are believed to be located in these two sub-regions.¹¹⁸ Put together, they constitute a discernable political, economic and cultural independent entity, which has extremely important bearings on the world peace, security and prosperity.

¹¹⁸ They include 8 countries in the Persian Gulf: Iran, Iraq, Kuwait, Saudi Arabia, The United Arab Emirates (UAR), Qatar, Bahrain, and Oman; Syria, Lebanon, Jordan, Yemen, Palestine, Turkey, Cyprus, and Israel; and another 8 countries in Northern Africa: Egypt, Sudan, Libya, Tunisia, Algeria, Morocco, Mauritania, and Western Sahara.

The reasons for the importance of the Middle East are multi-fold. Occupying a geographically pivotal position, the region is the strategic hinge, linking together three of the most significant continents of the world: Europe, Asia and Africa. The Middle East is also the world's key supplier of oil and gas. Internally, the region has been overwhelmingly inhabited by Arabs, but also by other significant ethnic minorities like the Jews, Persians, Kurds, Armenians, etc. It is also the birth place of three major religions of the world: Islam, Christianity, and Judaism. In each of these religions, there are numerous sects and factions. Ethnic strife is often mingled with religious grievances. Conflicts among different ethnic groups and religious factions have been occurring almost incessantly over centuries upon centuries. Even the Arabs have fought each other like Kilkenny cats. In the history of the Middle East, there has always been a mingling of politics with religion and royalty with theocracy.

Thanks to its strategic position and rich resources, the Middle East has traditionally been the playing ground for outside powers to compete for influence and domination, exacerbated by disputes and conflicting interests among local players. This was particularly true in the Cold War. The Middle East became the focal point for the US and Soviet Union in their scramble for military supremacy and world domination. Over the next 50 years, the region had registered more than 30 major military conflicts and wars, ten of which have been large-scale. In each of these conflicts and wars, one could always perceive a shadow of the intervention or even direct involvement of outside major powers, the United States and the Soviet Union in particular.

Review of China's Relations with the Middle East

China's relations with the Middle East can be traced back two thousand years when Emperor Wu in the Han Dynasty sent official envoys to the Arab and Persian countries. Interactions between the two sides have not been interrupted ever since. In modern history, both China and the Middle East fell prey to European expansion. China was then the paradise of the various Western powers, while territories of the Middle Eastern countries were controlled and often annexed or merged arbitrarily by the whims of the colonists which, incidentally was to become one direct cause of the internal territorial disputes within many countries in the region in the later years when they achieved independence. The busy official contacts and exchanges between China

and the Middle East were reduced to insignificant levels under European colonial rule.

It was not until the decolonization movement and the struggles for national independence reached their peak after the end of the Second World War in 1945 that relations between China and the Middle East had truly turned the corner. As a consequence of the War, the German and Japanese military powers perished while the other old European imperialist powers were crippled and exhausted. Two new superpowers, the US and the Soviet Union, emerged engaging in fierce contention for world domination. At the same time, people in the old colonies or semi-colonies in the vast lands of Asia and Africa had seen increasing dynamics in the surge of their struggles for national liberation and state independence. Many countries reclaimed their independence in the post decolonization period; the old colonial structure was rapidly disintegrating. On October 1, 1949, the founding of the People's Republic of China (PRC) carried special significance as the event fundamentally changed the security landscape of the world in general and East Asia in particular. This event also indicated the new phase that China's relations with the Middle East had entered in an entirely different international environment.

From the very outset, the new government of the PRC treated its relations with the Middle East in the larger context of its relations with the broader developing countries as Beijing always regarded both itself and countries in the Middle East as part of the newly emerging developing world. Its efforts to reestablish relations and enhance strategic cooperation with the Arab countries during the Cold War can be viewed as part and parcel of its efforts in dealing with all developing countries.

These efforts were amply demonstrated by Beijing's resolute support of the Arab people in their fight against foreign aggression and intervention, particularly in the period of worldwide decolonization for national liberation and independence. The dynamics of decolonization throughout the 1950s and most of the 1960s provided a basic political context in which cooperation between China and the Arab countries progressed. For almost each and every struggle by the Arab countries for national liberation, state independence, and protection of sovereignty, one could witness China's quick moral, diplomatic and material support.

China and the Middle Eastern countries have also found an area of common interest in the joint exploration of the new fundamental

principles of international affairs during the Cold War. Countries which won independence after the Second World War mostly came from Asia and Africa, including China, India, Egypt and others, which all had long, brilliant histories of ancient civilization, but would act as the newcomers to the international community. Not content with the existing international order dominated by the major powers, they had the common aspiration to play a more proactive role in building a more rational, fair and just international legal framework. Through this framework, new state-to-state relations were established, and friendly cooperation between nations on the basis of equality and mutual respect developed. Against this backdrop, China, India, and Burma jointly proposed and initiated the famous Five Principles of Peaceful Coexistence during the then Chinese Premier Zhou Enlai's visits to both countries in June 1954.¹¹⁹ Shining with the brilliance of Asian culture, these principles constituted a clear challenge to the existing world order as well as a significant contribution by the newly liberated Asian people to modern international relations.

The Five Principles of Peaceful Coexistence immediately caught the eye of the Third World. Inspired by said efforts, the Asian and African countries took further action to put forward their views on the world order. The most important follow-up to these efforts was the Asian-African Conference (also known as the Bandung Conference) held at Bandung from 18-24 April, 1955. The conference was jointly proposed by five Asian countries¹²⁰ and was attended by 29 Asian and African countries. More than half of them came from the Middle East.¹²¹ It was the first international conference held by the Asian and African countries themselves without the participation of any former Western colonial powers. Interestingly, participating countries also included those who had maintained close relations with the Western world like Japan, Iran, Jordan, Saudi Arabia and Turkey. This was a clear indication of the common desire of Asian and African countries for strengthening unity, cooperation and friendship amongst themselves, opposing imperialism and colonialism, supporting the struggle for the

¹¹⁹ The five principles of peaceful coexistence are: mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence.

¹²⁰ These five countries were Indonesia, Burma, Ceylon (Sri Lanka), India, and Pakistan.

¹²¹ They were Egypt, Ethiopia, Iran, Iraq, Japan, Jordan, Laos, Lebanon, Liberia, Libya, Saudi Arabia, Sudan, Syria, Turkey, and Yemen (Republic of Yemen).

defence of national independence and promoting world peace regardless of their specific policy orientation. The conference was held at a time when the post-war movement for national liberation in Asia, Africa and Latin America was surging forward and when the forces of imperialism and colonialism were met with heavy blows. During the conference, the participants discussed such issues as national sovereignty, racism, nationalism and the struggle against colonialism, world peace and economic and cultural cooperation, and came to a consensus on the mutual interests for many issues of major concern to the Asian-African countries. The conference also adopted the Declaration on Promotion of World Peace and Cooperation, which listed ten principles for handling international relations.¹²² The ten principles were not only inclusive of the Five Principles of Peaceful Coexistence. They were also the development and extension in terms of content. The great value of these principles lies in the distinctive characteristics of their scientific, practical, democratic and fair ethics at a time when the great powers and the developed world were pursuing the Cold War and a bitter ideological conflict around the world.

The Bandung conference gave China as well as the Middle East a golden chance to have friendly contacts, get to know each other and start meaningful cooperation based on mutual respect and benefit for the first time. When the PRC was first proclaimed in 1949, few Arab countries knew of this newly-born republic. Many others even had suspicions of and mistrust in Beijing's foreign policy. The Arab League,

¹²² The Ten Principles are: 1. respect for fundamental human rights and for the purpose and the principles of the Charter of the United Nations. 2. Respect for the sovereignty and territorial integrity of all nations. 3. Recognition of the equality of all races and of the equality of all nations large and small. 4. Abstention from intervention or interference in the internal affairs of another country. 5. Respect for the right of each nation to defend itself singly or collectively, in conformity with the Charter of the United Nations. 6. Abstention from the use of arrangements of collective defense to serve the particular interests of any of the big powers, abstention by any country from exerting pressures on other countries. 7. Refraining from acts or threats of aggression or the use of force against the territorial integrity or political independence of any country. 8. Settlement of all international disputes by peaceful means, such as negotiation, conciliation, arbitration or judicial settlement as well as other peaceful means of the other peaceful means of the parties' own choice, in conformity with the Charter of the United Nations. 9. Promotion of mutual interests and cooperation. 10. Respect for justice and international obligation. http://www.chinadaily.com.cn/english/doc/2005-04/23/content_436882/html

for example, had even passed a resolution in August 1950, calling on members not to recognize the PRC. Only Israel had contact and expressed its willingness to establish diplomatic relations with China in the early 1950s, but the Israeli effort was derailed by US interference behind the scenes. In the wake of the Bandung conference, this situation was rectified. Many Arab countries came to know the new China better, realizing Beijing was an important constructive force in helping their struggle for national liberation and state independence. China first achieved a breakthrough in successfully establishing diplomatic relations with Egypt on May 16, 1956. It was then followed by many others from 1956 to 1965. Altogether, ten Arab countries came to establish diplomatic relations with China one after another during this period of time.¹²³

The Bandung conference also played an educational role in helping China appreciate the importance of the Middle East region, and the aspirations of the Arab countries. After the conference, China began to formally shape its first Middle East policy after founding the republic. As the major players in the region were dominantly the Arab countries, China's policy towards the Middle East was primarily focused on relations with these countries. From 1963-1964, when Zhou Enlai made visits to a number of Arab countries, he summarized Beijing's guiding principles in its relations with the Arab countries:

1. Supporting the Arab countries in their struggles against imperialism, and for their national independence;
2. Supporting the Arab governments in pursuing peaceful, neutral, and non-aligned policy;
3. Supporting the Arab people in achieving the aim of realizing unity and unification in a way as chosen by themselves;
4. Supporting the Arab countries in the resolution of disputes among themselves through peaceful consultations; and
5. Advocating respect for the sovereignty of various Arab countries by all other countries, and opposing invasion and intervention from any other outside powers.

The above principles were in full agreement with the Five Principles of Peaceful Coexistence and the "Bandung Spirit", but as

¹²³ These Arab countries were: Egypt, Syria, Yemen, Southern Yemen, Iraq, Morocco, Algeria, Sudan, Tunisia and Mauritania. Yemen and Southern Yemen were unified to be the Yemen Republic in 1990.

Zhou put it, they were also based on his specific experience through contact with the Middle East. They were warmly welcomed by the Arab countries. On their part, they also gave valuable support to China's efforts to maintain national sovereignty and territorial integrity. One classic example is the resumption of China's legitimate seat in the United Nations thanks to the persistent support by a large number of developing countries, among which as many as seven Arab countries also played a pivotal role in sponsoring or supporting the famous draft Resolution 2758 in the UN General Assembly in 1971. The resolution was passed on October 25. As a result, the world body finally succeeded in kicking out Taiwan, a renegade province of China, and inviting the People's Republic of China back in. This would have been inconceivable had it not been for the persistent support from the overwhelming majority of the developing countries, many of which were in the Middle East. China is grateful for this valuable support for its effort in maintaining territorial integrity and peaceful national unification. Ever since the establishment of diplomatic relations with Beijing, none of the Middle Eastern countries has backed off from their commitment to the one China policy and recognized Taiwan as an independent country.

China's relations with the Middle East had also experienced limits and restrictions during the long course of the Cold War. This is partly due to the long geographical distance between China and the region, the complexity of the Middle Eastern regional situation itself, and the intense rivalries of the outside major powers, the two superpowers in particular. There was also an ideological factor on China's part that adversely affected the bilateral relations between the two sides. Particularly during the greater part of the Cold War, China, seized with a super-leftist "revolutionary zeal", considered itself as champion for the world liberation movement. Supporting the Arab people in their struggle for national liberation and state independence and against the Western powers, the US in particular, was thought to be its international obligation that could not be shirked. Naturally, China built strong relations with Arab countries like Egypt, Iraq and Algeria which took a more militant and anti-Western stance while it remaining cool, if not hostile, towards those US allies like Israel and Iran, or more pro-West and more moderate countries like Jordan and Saudi Arabia. When Beijing's rift with the Soviet Union surfaced in the early 1960s, it had a fierce competition with Moscow to win over friends from the Middle Eastern countries, which caused a considerable break-up of the military group of countries in the region. Some of China's erstwhile

good friends were thought to be too pro-Russian to be in Beijing's favor. During this period, much of China's interaction with these countries was cutoff. The only true friend then seemed to be the Palestinian Liberation Movement led by Mr. Yasir Arafat, who, at that time demonstrated a great deal of revolutionary enthusiasm and stressed that success of the Palestinian movement could not be achieved without adopting a Maoist armed revolutionary strategy.

Because of China's limited national strength at that time, Beijing's relations with the Middle East was also seriously unbalanced in the sense that they were relatively strong in the political field, but were weak in economic and trade areas. The volume of trade between the two sides remained meager. There was very little economic cooperation to speak of. Even if there were some economic and technical cooperative projects in place, they were all in the form of economic and technical assistance, a kind of one-way street with China becoming the provider and the Arab countries as the recipients.

All these problems were a reflection of the characteristics of the time at which China and the Middle East were interacting. But they were not static. With the development of the world situation, particularly the rift with the Soviet Union, one could still perceive the efforts that China had constantly made to readjust its position and to pursue a more reasonable and effective policy toward the Middle East, building on the lessons it had learned during the process. Even during the Cultural Revolution from 1966-1976 when the rampant ultra-leftist thinking had dominated the whole country, Mao Zedong, the then-paramount leader, kept a sobering mind on China's foreign policy. Mao and his close assistant Zhou Enlai had managed to reduce the repercussions of this domestic super-leftist passion to a minimum in China's foreign relations. They even took bold measures, with shrewd calculation, to start the reconciliation process with the United States in 1971, which had hitherto been regarded as China's arch enemy. The move immediately set a new stage for China to act internationally. It had also paved the way for Beijing to strengthen ties with those pro-West and moderate countries in the Middle East. Spurred also by China regaining its lawful seat on the Security Council of the United Nations almost at the same time, a second surge in establishing diplomatic relations between China and the Middle East emerged from 1971-

1978.¹²⁴ It was ironic that, while China was trapped in the Cultural Revolution at home, it had in fact witnessed quite dramatic progress in expanding diplomacy and cooperation with a growing number of Middle Eastern countries during the same period.

When the Cultural Revolution formally ended in 1976, the leftist thinking was quickly pushed to the sideline. In 1978, Beijing began its reform and opening-up policy with Deng Xiaoping coming back as the top leader. The whole country returned to its normal shape. Common sense and pragmatism took the upper hand, an essential prerequisite that prepared China for further readjustment of its foreign policy.

Under Deng's leadership, China began to make an overall review of the world situation and its strategic mission. As a result, a decision was made to formally give up China's past strategy of "a line of defense", that is, a united front composed of countries stretching from Japan to Europe to the United States against the Soviet Union. This had a profound strategic importance. "Now we have altered our strategy, and this represents a major change", Deng Xiaoping declared. He then went on to stress: "In accordance with our independent foreign policy of peace, we have improved our relations with the United States and with the Soviet Union. China will not play the card of another country and will not allow another country to play the China card, and we mean what we say. This will enhance China's international status and enable us to have more influence in international affairs."¹²⁵

This strategic policy change provided a new conceptual framework for China to rebuild its relations with the developing countries, including those in the Middle East. With the denouncement of the "a line of defense" strategy, came rejecting the criterion of "judging a friend by seeing whether his attitude was towards the Soviet Union or the United States." Out of respect for the ability of developing countries to opt for their own policy orientation, China developed its relations with each country based on their own merits. This truly opened up a new vista of greater cooperation with the developing countries. China's Middle East policy also began to register some fundamental changes.

¹²⁴ Among them were Kuwait, Amman; Lebanon, Jordan and Libya, turkey, Iran, and Cyprus.

¹²⁵ Deng Xiaoping, speech at an enlarged meeting of the Military Commission of the Central Committee of the Communist Party of China", Beijing, June 4, 1985. <http://english.peopledaily.com.cn/dengxp/vol3/text/c1410.html>

The first change demonstrated in China's policy towards the Middle East was more businesslike and pragmatic rather than ideological. The new policy paved the way for the final surge of diplomatic relations between China and the Arab countries. From 1984 to 1990, another five Arab countries built diplomatic relations with China respectively,¹²⁶ thereby completing China's list of its diplomatic relations with all the Arab countries.

While continuing to provide due assistance to its long-term friends like the Palestinian Liberation Organization, Beijing started readjusting its position of leaning solely on one side of the Palestinians. China's support to the Palestinian people never faltered. In 1988, when the Palestinian state was founded, Beijing immediately recognized it, reaffirming its continued support to the just struggle for returning to their homeland and the building of an independent state by the Palestinian people. On the other hand, however, Beijing apparently began stressing the political rather than the military resolution of the Israeli-Palestinian conflict, encouraging contact between the Arab countries and Israel, and achieving an eventual solution of two independent states of Israel and Palestine side by side peacefully. In 1992, China established diplomatic relations with Israel. Like its relations with the Arab countries, China has maintained equally friendly and cooperative relations with the Jewish state ever since.

While deepening political ties with the Middle East, China proceeded to strengthen its economic and technological cooperation with them in different forms. The trade volume between the sides increased from US \$1.084 billion in 1978 to US \$2.847 billion in 1988. In the period from 1978 to 1990, China signed 2,600 contracts with Middle Eastern countries for labor services and engineering construction, accounting for over 80% of all China's overseas contracts of this kind. The unbalanced development of China's political and economic relations with the Middle Eastern countries began changing.

China also readjusted its arms transfer policy. Before its reformed and open policy were implemented, Beijing's arms transfers were almost solely conducted in the form of military assistance without any compensation, aimed at providing support to the revolutionary actions of developing countries. The arms transfers were virtually regarded as Beijing honoring its due international obligations. But then

¹²⁶ These five countries include the United Arab Emirates (UAR), Qatar, Bahrain, the Palestine, and Saudi Arabia.

China shifted toward a more rational and balanced policy. The new guidelines focused on the mutual benefit of both the provider and recipient, and contributed to strengthening the defensive capability of the recipient countries as well as the stability of the region. But behind all these considerations, there were also China's own national interests at play. The mode of arms transfers saw a change from primarily military assistance to arms sale. When arms transfers became arms sales, commercial interests invariably became a primary driving force. Thus, during the period from 1978 to 1990, China's arms supply in the form of military assistance to the Middle East was fast reduced while the arms sales to the region boomed. It had not only sold its long-range ICBMs to Saudi Arabia in 1988, but also sold a large number of weapons and military equipment to both Iraq and Iran during the 10-year Iran-Iraq war in the 1980s. These moves would have been inconceivable before China's readjustment.

China was ready to act in the Middle East in a completely new light under Deng Xiaoping's guidance. In a more profound sense, these changes also put China and the Middle East in a better position to cope with a dramatically changing international situation when the Cold War suddenly came to an end.

China's Relations with the Middle East in the post-Cold War Era

The end of the Cold War witnessed dramatic changes in the world and regional situation. Three basic factors can be identified as most instrumental in the shaping of relations between China and the Middle East.

1. The end of the Cold War, accompanied by the collapse of the Soviet Union and the unraveling of the bipolar world structure. The world entered a long transitional period towards a multi-polar world.
2. The rapid development of globalization.
3. The fast advent of science and high technology

Thanks to the combined impact of these major trends, the Middle East has become the most eventful region in the world since the end of the Cold War. Two Gulf Wars were fought in 1991 and 2003 respectively after the end of the eight year-long war between Iraq and Iran in the 1980s. In addition, numerous military conflicts and killings between the Israelis and Arabs, as well as among different sects and

ethnic groups within the Arab countries continue. In the meantime, terrorist groups like al-Qaeda took advantage of the regional turbulence, and succeeded in making the region their paradise for action. All of them have further compounded the chaotic situation in the region.

While the Middle East has been experiencing dramatic changes, so has China, characterized by its fast economic development. China's economy sustained steady and rapid growth. The GDP has expanded by an annual average of over 10% in the past two decades. But for all the impressive progress, China remains a developing country. Further sustained development for building a moderately prosperous society in all respects and speeding up socialist modernization will continue to be the top priority of the country for generations upon generations to come. To that end, China needs to work together with other members of the international community to build a harmonious world of lasting peace and common prosperity. This overriding strategic intention provides a new stage for the prospect of interactions between China and the Middle East.

These interactions demonstrate great continuity as Beijing continues to view both the Middle East and itself as belonging to the developing world. Thus one could expect that China "will continue to increase solidarity and cooperation with them, cement traditional friendship, expand practical cooperation, provide assistance to them within our ability, and uphold the legitimate demands and common interests of developing countries." China would also "support international efforts to help developing countries enhance their capacity for independent development and improve the lives of their people, so as to narrow the North-South gap."¹²⁷ All these apply to Beijing's relations with Middle Eastern countries. But in addition to these fundamental aspects, one perhaps could also observe two defining factors in China's new policy with regard to the region.

The first is that, with the fast development of China's economy, and the extensive and profound global and regional changes, China has found that its national interests have extended beyond its boundaries. Beijing has clearly perceived a growing stake not only in its close neighbors, but also in other parts of the world, the Middle East in particular. During the Cold War years, as noted above, China's trade volume with the Middle East was very small. True, even today, the trade

¹²⁷ See Hu Jintao, Report to the 17th National Congress of the Communist Party of China, Oct. 15, 2007. <http://www.china.org.cn/english/congress/229611.html>.

volume is still low, accounting for only about 4% of China's total foreign trade in 2007.¹²⁸ But development of the economic and trade interactions have developed very quickly. From 1995 to 2006, China's trade with the Middle East expanded from US \$5 billion to US \$ 62.5 billion, over 12 times greater.¹²⁹ Saudi Arabia, one of China's major trade partners in the Middle East, has registered a 25.3% increase in its bilateral trade with China, reaching the total trade volume of US \$20.14 billion in 2006.¹³⁰ Of all the commodities traded, oil has occupied a particularly important place. China imported 50.3363 million tons of oil from the Middle East in 2004, accounting for 51.8% of the total oil imports from abroad the same year.¹³¹ Today, the oil imports from the region account for about 60% of China's normal daily imports, and one-third of its total oil consumption.¹³² But even this unitary and simple structure in trade has been experiencing dramatic changes. Economic exchanges and trade have expanded impressively to other areas such as information and communication, banking service, etc. This suggests huge potential for the development of economic and trade relations between China and the Middle East.

What may become especially significant for China's potential economic and trade relations with Middle Eastern countries is that a huge amount of oil money from the Middle East is now beginning to flow into East Asia. According to the World Financial Center at Dubai, the region is going to invest over US \$250 billion into the Asian market in five years. In addition, another US \$500 billion will be allocated to Asia for developing industries including infrastructure-building, agriculture, education, health, and information technology. China expects to take a lion's share from all these business opportunities as it

¹²⁸ "Oil Dollars Flows to Asia and Chinese Enterprises Explore the Way to the Middle East" in Chinese, Sina Internet. November, 9, 2007.
<http://www.sina.com.cn>.

¹²⁹ Ibid.

¹³⁰ "The Middle East Approaches the Far East, and the Capital Shifts to China" in Wenhui Bao, Shanghai, March 9, 2007.
<http://paper.wenweipo.com/2007/03/09/HTo703090001.html>

¹³¹ Yang Fuchang, "Review and Prospect on the China-Arab Relations", from "New Melody on the Silk Road", Edited by An Huihou and others, World Knowledge Publishing House, Beijing, September 2006, p. 17.

¹³² Bruce Blair, Chen Yali and Eric Hagt, *The Oil Weapons: Myth of China's Vulnerability*, China Security, World Security Institute, Washington, Summer 2006, p. 36.

has now become an important market for the investment from the Middle East.¹³³ Bitterly disappointed with the US's Middle East policy, including its invasion of Iraq, many Arab countries chose to shift their focus towards Europe and Asia for new business opportunities. In contrast to the harsh investment conditions, Beijing's indiscriminate and propitious environment has offered more and more attractive incentives for Middle Eastern countries to seek investment opportunities in China. The veto by the US Congress of the purchase of a US seaport by one of the United Arab Emirates's (UAE) companies in 2006 has further stimulated the unusual enthusiasm of the Gulf States for putting their money into China's investment market. That year alone saw the investment from these countries reach over US \$20 billion. According to an estimate by the US's Merrill Lynch-one of the world's leading wealth management, capital markets and advisory companies, the six countries (Kuwait, Saudi Arabia, the UAE, Qatar, Bahrain, and Amman) from the Gulf Cooperation Council alone will input as much as US \$300 billion into China's stock market from 2007 to 2010.¹³⁴ On the other hand, the big Chinese enterprises are taking a growing interest in investing in the Middle East market. They are reportedly now competing for engineering projects in the Gulf area worth over US \$1 trillion. In Iran alone, China has allegedly signed contracts on building the subways in Tehran and a shipyard, as well developing large oil and gas fields. One of these projects alone would be worth US \$16 billion.¹³⁵ Looking into the future, despite the fact that China itself is a significant oil producer, it is generally believed that by 2020, China might produce 3.65 million barrels per day but will likely require more than twice that to meet its needs.¹³⁶ Naturally, the Middle East can be a valuable part of Beijing's solution as the region has a proven oil reserve that accounts for over 61% of the world total.

¹³³ "The Middle East Approaches the Far East, and the Capital Shifts to China" in Chinese, Wenhui Bao, Shanghai, March 9, 2007.

<http://paper.wenweipo.com/2007/03/09/HTo703090001.html>

¹³⁴ Yu Yongsheng, "China becomes increasingly important to the Middle East" in Chinese, November 30, 2007.

<http://gb.cri.cn/12764/2007/11/302945@1861049.html>

¹³⁵ "The Middle East Approaches the Far East, and the Capital Shifts to China" in Chinese, Wenhui Bao, Shanghai, March 9, 2007.

<http://paper.wenweipo.com/2007/03/09/HTo703090001.html>

¹³⁶ Jin Liangxiang, "Energy First-China and the Middle East", Middle East Quarterly, Spring 2005. <http://www.meforum.org/article/694>.

China also sees its increasing stake in the Middle East in terms of security. Ever since the rise of international terrorism in the early 1990s, stability and peace in the western part of China's territory has constantly been threatened by three evil forces, namely, international terrorism, Islamic religious extremism, and national separatism. Maintaining stability and peace in those regions carries special significance to China's peace and security. But these forces are interconnected and all have their source in the turbulent and chaotic situation in Central Asia and the Middle East.

The second new defining element in China's policy towards the Middle East in the new century comes from Beijing's aspiration to play a more proactive role in maintaining world peace and security as a responsible member of the international community. In the Middle East, China seems to enjoy particular advantage to play such a role in the future.

First of all, China sees no conflict of fundamental interests with any Middle Eastern countries. This puts China in a more favorable position to act as an honest broker or a mediator to push for a fair solution to many disputes in the region, benefiting all involved parties. All the Middle Eastern countries have established diplomatic relations with Beijing, adopting the one China policy. None has any official relations with Taiwan.

Secondly, China's security concept for building a harmonious world is in full conformity with the perspectives and aspirations of the Middle Eastern countries. Both sides support each other in the international arena on many vital security issues, many of which would affect China's core interests, including pursuing multilateralism in international affairs, human rights, the role of the United Nations, and regional security arrangements. At the same time, many of these countries in fact have been urging China to play a more direct role in the region. They argue that being a permanent member of the UN Security Council, China has an obligation to bring its influence to bear on the region. Another motive for these countries to see a greater role for China in the Middle East is the rising anti-American sentiment among the Arab people, and the general disappointment of the Arab governments in US policy. They want some new fresh force to come in to have a balancing effect so as to better promote stability in the region. China is evidently their ideal candidate.

Last but not least, China is the only major power in the world, that maintains good relations with all the countries that are involved in

the various conflicts and disputes in the Middle East. China even has good relations with all the major non-state actors in the Arab countries, which nevertheless have been playing indispensable roles in the various disputes, like Hamas in the Palestine-Israel conflict, and Hezbollah in Lebanon. This unique strength has put China in a more advantageous position to contribute to the peace and security in the region.

It is against the above said background that it can be argued that China should be more proactively involved in the affairs of the Middle East in all dimensions. Beijing's new strategic focuses, however, are mainly on two major fronts.

The first is its efforts to strengthen the bilateral relations with the Middle East, the Arab countries in particular, in the new global and regional context. Building on the long course of traditional friendship and cooperation, both sides have been working together to find ways of strengthening and developing China-Arab relations under the new circumstances. In this respect, President Hu Jintao's visit to the Middle East in January 2004 could be viewed as a milestone event. It was during that visit that Hu proposed four principles for dealing with China-Arab relations, which were to go a long way towards developing a new type of partnership between China and the Arab countries. These principles are also the basis of Beijing's enduring policy towards the Middle East in the future. The four principles are:

“to promote political relations on the basis of mutual respect, to forge closer trade and economic links so as to achieve common development, to expand cultural exchanges through drawing upon each other's experience, and to strengthen cooperation in international affairs with the aim of safeguarding world peace and promoting common development.”¹³⁷

Evidently, China's aim is to further enrich the Sino-Arab relationship. It aims to help consolidate and expand mutually beneficial cooperation in the fields of politics, trade and economy, science and technology, culture, education and health, and raise the level of cooperation between the two sides in every way in light of the new situation. Hu Jintao's suggested principles were warmly received by the Arab countries.

¹³⁷ News Report “China, Arab States Set Up Cooperation Forum”, People's Daily, Beijing, January 30, 2004.
http://english.peopledaily.com.cn/200401/30/eng20040130_133535.shtml.

Thanks to their joint efforts, it was also during Hu's visit to the Middle East that the two sides decided to set up a Sino-Arab states cooperation forum and issued a declaration in the forum in order to translate their common aspiration into concrete actions.

Hu's visit opened the door for a new and special Sino-Arab relationship. Sino-Arab cooperative relations have born fruits since the establishment of the forum, which offered a golden opportunity for Sino-Arab cooperation through regular action plans, meetings and other activities. Cooperation has happened on not only on the political front, but also on economic and cultural fronts. Take Sino-Egyptian relations, for example, in the years since the end of Cold War. Relations between China and Egypt have seen particularly significant achievements on political, economic and cultural fronts as well as bilateral cooperation in the international arena. In 2006, on the eve of the 50th anniversary of the establishment of diplomatic relations between the two countries, Hu Jintao gave a high opinion that "the China-Egypt ties have become a model of China-Arab, China-African relations and South-South cooperation."¹³⁸ Chinese Ambassador to Egypt Wu Sike shared the same view by portraying bilateral ties between China and Egypt as "good brothers, good friends and good partners"¹³⁹.

The second front that China would focus on is working together with other countries to maintain peace and stability in the region. To that end, China encourages a peaceful settlement of all the regional disputes through diplomatic means. China welcomes international cooperation and coordination particularly among the major powers to provide essential assistance. China also actively joins in the regional efforts for nonproliferation of weapons of mass destruction and for the fighting of international terrorism. In order to highlight its physical involvement in the Middle East peace-making efforts, China began to nominate a special envoy to the Middle East in 2002, specifically voicing Beijing's perspective, and helping facilitate negotiations between various parties involved for a peaceful settlement of the three major disputes that have been going on in the region.

On the Iraq issue, China was firmly opposed to the invasion by the US-led coalition. But as the war dragged on and the United States

¹³⁸ Lin Jianyang and Xin Jiangqiang, "China-Egypt Ties, Model of South-South Cooperation," Beijing, Xinhua News Agency, June 15, 2006.
<http://www.crinordic.com/3126/2006/06/15/264@102959.html>

¹³⁹ Ibid.

became bogged down in the country, incompetent to deal with consequences of its own actions, the complicated and volatile regional situation that has been followed in the Middle East is hardly in China's interests. Under the circumstances, China seems to now share certain interests with the US to see stabilization in Iraq so that the country will start its reconstruction on a normal track. There is still a big difference as to what should be the best approach to this objective. But sharing the objective provides a solid basis for the realization of international participation in Iraqi stabilization and the reconstruction process thereafter. In China's view, unity, stability and development are the three key words to the solution for all of Iraq's thorny issues. Among the three tasks, realizing unity seems of particular significance. Thus, it is essential for all the ethnic nationalities and religious sects in Iraq to strengthen dialogues, promote reconciliation, and ensure broad participation in political life on the basis of equality, and an equitable distribution of wealth.

In the meantime, Iraq's stabilization cannot be achieved without a strong and adequate international assistance. China has been a proactive partner in all these efforts. Particularly, this was expressed by China's active participation in the International Compact with Iraq (ICI) since it was first launched on July 28, 2006. Chinese Foreign Minister Yang Jiechi attended the latest round of ICI meetings at Sharm El-Sheikh on May 3, 2007. At the conference, he announced that the Chinese government will give a grant of RMB 50 million Yuan to Iraq this year for providing assistance in public health and education, and will prepare to substantially reduce and forgive the debts owed by Iraq. In particular, China will forgive all the debts owed by the Iraqi government.¹⁴⁰

On the Iranian nuclear issue, China's role is continuing to work for peace and facilitating talks. The challenge for Beijing is how to strike a balance in achieving all three goals in seeking an effective resolution, namely, to maintain the international non-proliferation regime effectively, to solve the Iranian nuclear issue peacefully through diplomatic negotiations and to keep sustained peace and stability in the Middle East. To that end, Beijing hopes that related parties will intensify their diplomatic efforts, actively and innovatively find ways of breaking

¹⁴⁰ See remarks by Yang Jiechi at the High-Level Event to launch the international compact with Iraq, Sharm El-Sheikh, Egypt, May 3, 2007. <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t318000.html>

the deadlock and solve the issue comprehensively and appropriately in the long run. Beijing believes that this approach complies with the common interests of the international community.

In this connection, it should be pointed out that the Iranian nuclear issue has been affecting China's relations with the Western powers, the US in particular, in a fundamental way. All along Washington has urged Beijing to join in the West-led efforts to tighten the sanctions against Iran in the hope that the resulting economic predicament may force Tehran to yield on its nuclear stance. China and Russia have different views, however. They do not believe that a confrontational approach, like imposing sanctions, would achieve the desired effect. On the contrary, sanctions may even work to harden Iran's intransigence. More importantly, like Russia, Beijing has increasing economic interests to take into consideration. Whereas in 1994, Iran accounted for just one percent of China's total imports, less than a decade later, Beijing purchased US \$2 billion of oil from Tehran, representing more than 15 percent of its total 2002 oil imports. Today, the figure is probably larger still. In October 2004, China signed a memorandum of understanding regarding bilateral energy cooperation. According to the agreement, Beijing will buy 10 million tons of Iranian oil each year for the next twenty-five years. In return, China may develop the Yadavaran oil field in Iran's western Kurdistan province, thus having a 50 percent interest in the field's estimated 17 billion barrel reserve. Yadavaran could be China's biggest oil investment in the Middle East.¹⁴¹ Against this backdrop, economic factors would play an increasingly important role in Beijing's future policy towards Iran while working together with the United States for the solution of the nuclear issue.

On the issue of the peace process in the Middle East, China now seems to have more overlapping interests with the US in seeking a solution based on the road-map program. From Beijing's perspective, the Middle East peace process has a decisive bearing on peace, stability and development of the region and the world at large. China maintains that related parties handle the issue through political negotiations and with mutual trust based on related United Nations resolutions and the principle of "land for peace." China hopes to play a positive role in promoting reconciliation and peace through peace talks. Based on these

¹⁴¹ See Jin Liangiang, "Energy First-China and the Middle East", Middle East Quarterly, Spring 2005, <http://www.meforum.org/article/694>.

fundamental principles, China's position on the peace process in the Middle East was further reflected in the five proposals that were put forward in Chinese Foreign Minister Yang Jiechi's speech at the Annapolis conference held on November 27, 2007. Yang proposed:

“First, respecting the history, taking each other's concern into account and following the direction of peaceful negotiations. Israel has enjoyed independence for almost 60 years, but the aspiration of the Palestinian people of establishing their own state has yet to come true. Against fundamental changes in the Middle East situation, all the parties concerned should face the reality and step forward bravely. To launch the negotiation on the final status issue, solve the border, refugee and water resource problems and establish an independent Palestinian state not only comply with the fundamental interest of the Palestinian and Israeli people but also mark historic progress of the peaceful coexistence of the Arab and Jewish nations.

Second, giving up violence, removing interference and believing in peaceful negotiations. It is impossible to build lasting peace by force. Only patience, dialogue and even necessary concession can bring peace. Parties concerned should undertake their due obligations, demonstrate courage and wisdom and take measures to build mutual trust. China hopes that Palestine realizes internal reconciliation. Only with national solidarity can the Palestinian people enjoy real peace.

Third, pushing forward the peace process in an all-round and balanced manner and creating a favorable atmosphere for peace talks. The Palestine issue interweaves with other issues in the Middle East. The peace talks between Syria and Israel and between Lebanon and Israel should restart at the appropriate date so as to advance the Palestine-Israel peace talks. Meanwhile, other hot problems in the region should be handled carefully from the perspective of pushing forward peace and stability throughout the Middle East in order to create a sound external environment for the peace talks.

Fourth, promoting development, strengthening cooperation and consolidating the foundation of peace talks. Related parties and the international community should

facilitate the economic and trade exchanges in the region and make the Israeli and Palestinian people truly benefit from peace. China appeals to the international community to increase the humanitarian and development assistance to Palestine and admires the regional economic cooperation plan suggested by related parties. An independent and prosperous Palestine will become a firm force for regional security.

Fifth, reaching consensus, increasing input and strengthening guarantee for the peace talks. The international community should enhance cooperation and develop a participatory, balanced and effective multilateral mechanism of peace promotion, monitoring and execution so as to provide guarantee for peace. China welcomes all the efforts conducive to the peace process.”¹⁴²

Demonstrating a realistic, balanced and reconciliatory spirit, and also incorporating the basic security concerns by all parties involved, Yang Jiechi’s remarks were well received by all the participant states. It can be expected that the peace process would see important breakthroughs as long as all the parties concerned act in the spirit as China described.

In the meantime, China is also beginning to increase its presence in its efforts to promote international cooperation for security in the region. The most indicative example is its decision in December 2008 to send a naval fleet to Somalia to join the international force to battle pirates. This is indeed the biggest deployment in naval operations by China in more than 600 years, and the first active military action outside of the Pacific since the founding of the new Republic. The move not only marks a major shift in naval policy, but also signals that China is ready to flex its muscle in the Middle East if required.

New Challenges Ahead

But all these steps do not suggest that China’s policy towards the Middle East will see no problems. As a matter of fact, China is also facing quite a few challenges that, if not properly addressed, would generate uneasy relations with the countries both within and outside the region, and put its own interests at risk.

¹⁴² See Yang Jiechi, “Speech at the Middle East Peace Conference in Annapolis, US”, November 27, 2007, <http://www.chinese-embassy.org.uk/eng/zyxw/t385710.html>

First of all, efforts falling short of its wishes would continue to constrain China's efforts to strengthen its role in the Middle East. After all, China is a developing country, and far from the region geographically. Furthermore, it is relatively new in the region. For all its expanding influence in the Middle East, it is no match for the strategically superior positions of other major powers. Thus China would have to act in accordance with its own strength. Progress can only be achieved gradually, in cooperation with other countries, and in a sobering way. China should guard against too ambitious expectations and acting beyond its affordability.

Secondly, as noted above, China's expanding influence is bound to cause weariness and even hostility from other major powers, which also have important stakes in the region. Competition among these players would be inevitable in the future. It is in this sense that China's policy towards the Middle East would have much to do with its relations with the developed countries, the US in particular. Conflict of interest is the primary cause for competition. But in many cases, difference in the security conceptions between China and the Western powers could also give rise to tension. These two factors are interconnected and reinforce each other. On the Darfur issue in Sudan, for example, there is no doubt competition for influence in the country. But there is also contention among the approaches to the war, which has taken a heavy death toll in the incessant decade-long military conflict in the country. China has often been criticized by the West which states that Beijing seems to be on the wrong side among the warring parties. But in Beijing's perspective, the issue can only be resolved by complying with the fundamental principles of international relations, including non-interference in other countries' internal affairs, and providing international assistance for economic development so as to provide a truly solid basis for an improved living standard for the local people, and the stability of the society of the country.

Thirdly, the chaotic and complex situation in the region also provides much uncertainty for China's relations with the Middle East. The potential for military conflicts either on a large or small scale in the region will remain. Social and political stability in many countries in the region is fragile. With the push by Western countries for greater domestic reforms and democratization, regime changes in some countries in the region cannot be ruled out. All these will invariably affect China's interests and may even derail many of Beijing's cooperative programs in the Middle East. In the meantime, strong

Islamic fundamentalist sentiments in the region may also complicate China's efforts of fighting international terrorism and strengthening stability within its own borders.

All these constraints and risks can find no better expression than in China's extremely vulnerable energy security situation in the Middle East. For all the progress achieved so far, the prospect of China's future cooperation with the region for a safe oil and gas supply is far from certain. The US's dominant position combined with weak governments in the Middle East constitutes a complexity of geopolitics in the region in which China is entwined. As a result, China could become hostage to U.S. oil diplomacy as well as the unpredictable political and security situation in the Middle East. China sees no alternative to seeking cooperation with the United States on the one hand, and stabilization of the region on the other. Both will require China to make tremendous efforts, including having a good vision, superior diplomatic skills and perhaps a bit more luck in achieving the goals.¹⁴³

To conclude, China's stake in the Middle East is rising with its own peaceful development. But the daunting challenge to China is how it would act in a way as to break the fatal pattern of history, that is, a rising power in the region would inevitably bring instability and chaos at the expense of the existing powers, and end up with a devastating war to create a new regional order. Simply put, China must learn how to ensure its expanding interests in the Middle East through constructive and cooperative relations with all the other powers.

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¹⁴³ For more detailed discussion on the subject, see Bruce Blair, Chen Yali and Eric Hagt, *The Oil Weapons: Myth of China's Vulnerability*, China Security, World Security Institute, Washington, Summer 2006, p. 32-63.

Summary Report

Workshop

China's Growing Role in the Middle East: Implications for the Region and Beyond

November 11 – 12, 2009

Dubai, United Arab Emirates

On November 11 and 12, 2009, The Nixon Center and the Dubai based Gulf Research Center (GRC) co-hosted a workshop on *China's Growing Role in the Middle East: Implications for the Region and Beyond*. It was the second in a series of workshops on the growing Asian footprint in the Middle East. Participants to the event were from China, the Gulf region, the U.S., Europe and India. The workshops were made possible by a major grant from the Carnegie Corporation of New York and local support from the GRC.

GRC Chairman Abdulaziz Sager opened the first session with the presentation of his paper *GCC-China Relations: Looking Beyond Oil – Risks and Rewards*. He argued that the relationship between the Gulf States and China, though lacking historical roots or long-term strategic interests at this point, has recently taken on a new dynamic.

China's rapidly increasing demand for energy has made it the world's third largest importer of oil, much of which it receives from the Gulf, and a lower demand in other big oil importers as a result of the global economic downturn in 2008 has made China an even more important market for Gulf exports. But the relationship is not limited to energy; China is also a significant partner in non-oil trade for the GCC, and due to its rapidly growing economy has become an attractive market for foreign direct investment. The two sides have also increased the frequency and scope of high-level official visits.

There is also a political aspect to the improved relationship between China and the GCC. Following the events of 9/11, the Gulf and other Muslim countries in the Middle East have been feeling subjected to "suspicion and scrutiny" from the West, which has made them more inclined to look toward Asia, and not just as a trade partner. China also has a well-established policy of non-interference in regards to domestic affairs of sovereign countries and, unlike the West, will not link its business deals with the Gulf to political or human rights reforms, and it can expect the same from the Gulf States.

Despite this new dynamic, the Gulf does not see China as a replacement for U.S. presence in the region; at best it could take on a supplementary function. The GCC may grudgingly overlook China's treatment of its minority Muslim population, but it is very concerned about China's unwillingness to take a position on Iran's nuclear program. The GCC's close proximity to an increasingly hostile Iran necessitates a security umbrella for the region that for the foreseeable future can only be provided by the United States. As long as China prioritizes its own energy security over regional stability, no long-term strategic partnership between China and the GCC can realistically be achieved.

Major General Luo Yuan, Deputy Secretary-General of the China Association for Military Science, next spoke on *China's Strategic Interests in the Gulf and Trilateral Relations among China, U.S. and Arab Countries*. He began by outlining the increasing significance of China-Gulf relations in regards to energy, trade and strategic interests, mirroring much of the Gulf perspective on these topics presented by Abdulaziz Sager. Apart from the rapidly growing energy and trade ties, General Luo specifically noted that China also

sees the Gulf as a partner in controlling Islamic extremism and as a political equal who is in agreement with China's Five Principles of Peaceful Coexistence.

On the topic of trilateral relations between China, the U.S. and the GCC, there is common interest between China and the United States in preserving stability and security in the Gulf. Neither country wants to see proliferation or other sources of instability in the region (e.g. religious extremism), and both are invested in ensuring reliable oil supplies at stable prices. Relations between the U.S. and the Gulf are also likely to improve as President Obama favors a more consultative diplomatic approach to the Middle East. As the world becomes increasingly multipolar, China expects the U.S. will seek more cooperation on international issues and welcome an expanded role for China in the Gulf and the entire Middle East. The trilateral relations described however are unlikely to turn into a true "triangle" with equal or near equal partners. China sees a continued trend to unilateral actions in the Middle East on the part of the United States. China also believes the U.S. has a sustained interest in "controlling this region and maintaining its dominant role." Additionally, there is a rift between the Chinese and the U.S. approach to maintaining stability, with the Chinese principle of non-interference on one hand and the U.S. tendency to push for political and social reform in countries it considers vital partners on the other. There is room to improve and develop trilateral relations between China, the U.S. and the Gulf in the long run, but for the foreseeable future many "restraining factors" remain in place.

The ensuing discussion focused largely on the perceived lack of clarity and decisiveness in Chinese foreign policy toward the Middle East. The Gulf participants in particular urged China to take a clear stand on issues like Iran's nuclear program. The policy of non-interference is acceptable when dealing with purely domestic issues. Even where Muslims are affected (like the Uighur minority in China), the Arab countries are willing to stay out of the conflict; but on international issues like Iran and the Israeli-Palestinian conflict China must take a clear position. Other commentators disagreed, arguing that it was not in China's interest to get deeply involved in Middle Eastern issues and that the Gulf states should recognize their own responsibility, rather than expecting China to take a lead. Some noted

that China was still finding its way as a new power. Deng Xiaoping's quote "Crossing the river by feeling the stones underfoot" was mentioned in this context. China also has a number of serious domestic challenges to address before it can assume the status of a new power.

One participant noted that China's relationship with Middle Eastern countries should not be looked at as monolithic; there are big differences in the bilateral relations China maintains with specific countries in the region. Two countries mentioned in this context were Israel and Pakistan. China's relationship with Pakistan is of particular importance, considering the instability in that country and China's long, close ties which, in part, have been influenced by its rivalry with India. The Gulf States are very concerned about the situation in Pakistan; they have a close connection to the country due to the large number of migrant workers. A collapse of Pakistan would lead to a massive influx of people from that country to the Gulf, it would also pose a security risk, given that Pakistan has nuclear weapons; and the fragile relationship with India would likely deteriorate. It would therefore be in both India's and the Gulf States interest to involve China in efforts to stabilize Pakistan.

Another topic discussed was the widely used term of "China's peaceful rise". Some Chinese prefer the term "peaceful development". It contends that China's economic rise will not necessarily lead to an aggressive or assertive foreign policy, emphasizing China's internal development and security needs. The country will seek a "new pattern of behavior", both different from its past manner, but at the same time decidedly unlike that of the West. China is seeking a more pragmatic and less ideological approach to its foreign relations. It will also remain inward-looking for the foreseeable future.

Zhu Feng, professor at the School of International Studies and Deputy Director of the Center for International & Strategic Studies (CISS) at Peking University, opened the second session of the day with his paper, *Oil Nexus vs. Diplomatic Crux: China's Energy Demands, Maritime Security and the Middle Eastern Aspiration*. The paper covers a wide range of topics, discussing China's naval modernization, its "grand strategy" in foreign policy, as well as the relationship with Iran, and China's position on Iran's nuclear

program. China's naval modernization has been "impressive", but the country is far from building a navy to "rival" that of other countries; at most its naval capacity would be a "disruptive" one. New developments in regards to Chinese naval capacity include escorting missions in the Gulf of Aden to protect its ships from piracy and the supposed construction of the country's first aircraft carrier; however there is no convincing evidence that this aircraft carrier is soon to become reality, and even if it proved to be the case, one carrier hardly makes a naval force. Indeed there is no intention on China's part to build a "string of pearls" or to use naval force to acquire energy supplies; any such fears are unfounded. Rather, China is looking to grow peacefully, which it proved by signing the Treaty of Amity and Cooperation (TAC) with ASEAN in 2003. (The U.S. signed the Treaty in 2009.) Moreover, the country's naval advancement is and will remain subordinate to China's grand strategy which places domestic stability at the top of the agenda, followed by defense against external threats and only thirdly "the attainment and maintenance of geopolitical influence".

On the topic of Iran and its nuclear program, the two countries have developed closer economic ties as Iran has become a major source of energy imports for China. The relationship has not grown into a strategic one, nor are there military links or major arms sales between the two. China's main interest is stability in Iran and the region, so that growing economic ties can be fully expanded. China is very interested in keeping Iran from becoming a nuclear power as it fears the resulting instability; in fact, it sees Iran as the main source of potential instability in the region. However, the U.S. approach to the Iran tensions is flawed and could even contribute to destabilizing the region. China strongly believes that a diplomatic resolution of this simmering conflict is possible, as it sees Iran's stubborn insistence on developing a nuclear program as a *reaction* to U.S. behavior in the region and the world. Should the Obama administration continue to seek a rapprochement with the Muslim world, negotiations with Iran would have a greater likelihood of producing satisfactory results. Only if an acquisition of nuclear capabilities on the part of Iran is imminent, would China "choose sides" (meaning take the side of the U.S.) and support "efforts to dismantle the Iranian nuclear program". However, what sort of measures exactly China would support remains unanswered.

Dr. Zhao Hongtu, Deputy Director of the Institute of Economic Studies at the China Institutes of Contemporary International Relations (CICIR), then discussed his paper *China's Energy Interest and Security in the Middle East*. He outlined the growing energy ties with the region, noting that in the last 15 years, China has been satisfying between 40 and 50% of its energy needs through imports from the Middle East. Dr. Zhao remarked that there are differences in the figures estimated and predicted by various governments and institutions, but it is undeniable that China will depend on oil imports from the Middle East to satisfy the majority of its energy needs in the near future; the estimated percentage is as high as 75%. As of 2008, Saudi Arabia was the number one exporter to China, followed by Angola and Iran. Iran has consistently been among the top three sources of oil imports for China since 2003. China is not only importing oil, it is also investing in drilling and production in the Middle East, for example in Iraq, Iran and Sudan. Likewise, there is investment on the part of Middle Eastern countries like Saudi Arabia and Kuwait in oil refineries in China. Apart from energy ties, the GCC and China have also been working on a Free Trade Agreement since 2004.

The second part of Dr. Zhao's presentation dealt with "common misperceptions" on the part of the West regarding "the motivation and implications of China's growing energy ties with the Middle East". Among the "typical arguments" is the fear that China's thirst for energy will be the primary motivation for any foreign policy decision; that China has no qualms about interacting with problematic countries; concerns that it will seize much of the world's oil reserves; and finally, that its state-owned oil companies are acting as an instrument of the Chinese government which is intent on strategic expansion. China feels that these concerns and accusations by the West are unfounded; it feels unfairly blamed "for almost everything... from high oil prices to environmental pollution to Sudan's humanitarian disaster", yet sees itself as merely "following trends set by other...countries".

As for foreign policy, the country is shifting from a "responsive diplomacy" to a "proactive diplomacy", yet most of its policies and positions remain unchanged. It seeks and supports a two-state solution for Palestine and Israel and would like to take a more

active role. On the Iran nuclear issue, China supports dialogue and international mediation. It shares U.S. concerns about proliferation and terrorism and wishes to maintain good relations with both the Arab world and Israel as well as the U.S. However, China and the U.S. differ in their approach to Middle Eastern policy as well as their definition of what constitutes “stability” and “energy security” in the Middle East. China doesn’t believe that its growing energy imports from the Middle East would be a cause for instability; it also focuses more on the “energy” aspect, whereas the U.S. focuses mainly on the “security” aspect of energy security. However, increased cooperation and dialogue are slowly leading to changing perceptions and an improved image of China in the West.

The discussion following the two presentations continued to include the perceived lack of initiative and openness in China’s foreign policy. One commentator noted that “we have heard a lot about what China is *not*” and that this ongoing lack of clarity will continue to arouse the suspicion of Americans and Europeans. One discussant called China’s behavior “intelligent opportunism” that might remain beneficial for China to pursue in the near future.

Another topic discussed was maritime security. One participant raised the “String of Pearls” theory which had been refuted in Professor Zhu’s paper. It was suggested that, were China for instance to use the largely Chinese-financed commercial port of Gwadar in Baluchistan for maintenance of its new squadron in the Gulf of Aden, it would be equivalent to a “tacit approval” of creating a “String of Pearls”. Even though China may view its maritime presence as benign and not strategically oriented, the country’s mercantilism is seen by others as a zero-sum game. Furthermore, there is a disconnect between China’s view of itself and the way the rest of the world sees it. Being a great power requires taking on global commitments, not monomaniac focus on domestic economic development and internal security. There is a necessary correlation between being a great power and being a maritime power.

The second day of the workshop began with a presentation by Dr. Shahram Chubin, Nonresident Senior Associate at the Carnegie Endowment’s Nonproliferation Program, who discussed his paper

Iran and China: Political Partner or Strategic Allies? Iran, he argued, has traditionally and historically looked toward the West. After the 1979 Revolution, which resulted in the country's political isolation and estrangement from the West, the Islamic Republic was forced to look for a counterbalance to the U.S. It also needed to turn to Asia as well as Russia for arms sales during the 8 year war with neighboring Iraq. With the end of the Soviet Union, China became the only potential counterweight to the U.S., as well as a market for Iran's oil exports. Given the enormous growth of the Chinese economy, the country is likely to soon become the world's largest oil importer and therefore of growing interest to Iran whose economy relies heavily on the sale of oil and gas and which has suffered dramatically from economic sanctions and internal mismanagement in recent years.

Iran and China also share some political views: the two countries see themselves as alternatives to the Western model, their political order is the result of revolutions (albeit ideologically different ones). Both countries emphasize national sovereignty and promote the concept of regional security by regional actors. They believe U.S. foreign policy serves the purpose of ever expanding hegemony in the region and control of oil and other resources, and both aim for a more multipolar world in which U.S. influence is limited.

This, however, is where the commonalities end. China is seeking a pragmatic approach that emphasizes regional stability and maximizes economic benefits. It is not willing to choose sides and aims to maintain relations with a variety of countries, including those that are hostile to each other, like the U.S., Iran, the GCC, Pakistan and Israel, keeping all options open, and pursuing a decidedly post-ideological foreign policy. Iran on the other hand is politically isolated and actively seeks a strong counterweight to the U.S. Its interests are much more short-term and ideology-driven. Iran may be overestimating its own importance and value to China.

The ensuing discussion centered largely on the Iran nuclear issue. One discussant argued that the effectiveness of international weapons inspections and a potential signed agreement with Iran on its nuclear program may have limited value and still allow Iran to keep developing its program. He also raised doubts about the severity of

the Iranian nuclear threat, contending that whatever limited fission capability the country has, it would not compete with Israel's nuclear weapons capability which includes fusion bombs. (A fission weapon does not provide an adequate deterrent against a fusion weapon armed opponent.) This statement was met with protest from other participants. One discussant pointed out that any Iranian nuclear capacity would constitute a grave threat to the Gulf States, even if Israel or the West were not affected, while another discussant disputed the idea that Israel shouldn't be too concerned about the Iranian nuclear threat. Israel, it was argued, is a "3-target" state – by hitting only Tel Aviv, Jerusalem and Haifa, the country would be devastated.

Several participants raised the issue of further proliferation in the Middle East as a result of an Iranian acquisition of nuclear weapons. The outcome of the NPT Review Conference to be held in May of 2010 in New York could be dramatically influenced if other Middle Eastern countries feel the need to develop their own nuclear programs to defend themselves against the Iranian threat. Countries like Egypt, Saudi Arabia, or Turkey might aim to stall a renewal of the Non-Proliferation Treaty because they themselves do not want their options limited.

It is not just the threat of regional proliferation that needs to be considered. Should Iran in fact acquire nuclear weapons, or come extremely close to doing so, there might be military strikes against the country, which would potentially disrupt oil deliveries and cause regional instability – precisely the developments feared most by China. Several participants therefore suggested that taking a decisive stand on the Iran nuclear issue would be in China's own interest, as well as that of the international community. The cost of inaction could be higher than a firm policy toward Iran, even if that policy needed tweaking down the road. China has never had to make complex long-term strategic decisions before; its relationships with North Korea and Pakistan were easy ones to decide on and build in the bi-polar world of the Cold War era. Should China continue its policy of keeping all options open and at the same time "free-riding" in terms of regional security, it will not only have to accept a sustained U.S. hegemony in the Middle East.

But what can be done to reduce the Iranian threat? Would further sanctions prove effective? There was little agreement on this

issue. Some commentators pointed to the principle of non-interference and repeated Chinese concerns that the harsh U.S. position toward Iran could create instability in the region and that a better approach might be to “reassure Iran”. Other participants felt that the use of sanctions had not been fully exhausted. One discussant argued that sanctions do influence public opinion in Iran and that a resolution backed by China and Russia would be quite effective. However, the behavior of “drawing lines in the sand”, then “stepping back” from those lines must be avoided; it only leads to the West “losing face”.

At one point, Chinese participants argued that too much hectoring of Chinese officials by the U.S., Israel, and Europeans was counterproductive. It might be more effective if the Arab Gulf States, who feel so strongly about an Iranian program, lobby the Chinese government themselves, rather than rely on the U.S. and others to carry the message.

The other issue in Middle East politics which was repeatedly raised throughout the workshop was the Israeli-Palestinian conflict and the different approaches China and the U.S. would like to take to resolve it. Several discussants noted that China felt it had been left out of the negotiation process and denied participation in the Middle East Quartet. There was also criticism of the U.S. approach to trying to resolve the conflict. China would like to see a much more pragmatic approach, free from ideology or meddling in internal matters. China also feels that *specific* issues in the conflict need to be addressed. There is no sense in discussing what the final outcome should be; it will take small pragmatic steps to get there. And as a country that maintains close relations with both Arab countries and Israel, China sees itself in a good position to play an important role in the process.

China’s foreign policy is undoubtedly in transition. The country’s sustained high economic growth rates and subsequent increase in energy needs have led to expanding economic ties with the Middle East. The high degree of dependence on Middle Eastern oil, which will only grow in the foreseeable future, must inevitably result in a strategic interest in the region. At the moment, China still focuses largely on its extensive domestic problems and carefully tries to maintain balance and stability in its foreign policy, keeping all options open. But the balance of power is changing; the United States may be unwilling and unable to continue providing security in the Middle

East and Indian Ocean region and criticizes emerging powers like China and India for “freeloading” in the security arena. With an overall reduction in U.S. presence likely, and absent other superpowers, the trend is toward a multipolar world, in which China could play a significant role. This is particularly true for the Gulf region, which will be forced to explore new security arrangements. But this would require China to modify its foreign policy approach of *Peaceful Rise* (or *Peaceful Development*) and take a clear position on international issues, the most pressing one being the Iranian nuclear program. In a more complex and interdependent world, China is faced with weighing costs and benefits of a more strategic approach to its foreign policy, especially in the Middle East. Its current policy of leaving all options open might still be beneficial in the short term, but if it wants to make true on its aspirations of being a great power, China will have to leave its “comfort zone”. It needs to address directly the concerns resulting from its rapid growth and economic power.