Many articles have been written and studies produced on the policies of great powers in the Middle East, unfortunately, very little attention has been played, so far, to the developments of a Middle Eastern policy by a powerful but relatively new actor in the international arena: China. This article is a first attempt to cover this gap in literature by providing an overview of the economic and political motives and reasons for the emergence of a more present and active Chinese policy toward the main actors of the Middle East and the potential conflicts that might ensue from the possible confrontation with the United States and its energy and security policy.

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Chinese involvement in the Middle East region should be viewed in historical context.

China had a policy toward the Middle East and North Africa long before it became a significant stakeholder in the region’s energy market. For many years, this policy was in line with Maoist thought, and guided by the principles of third world solidarity and support for national liberation struggles. Nevertheless, traditionally, Beijing considered the Middle East too distant for considerable investment and therefore limited its efforts to persuading Arab capitals to break their ties to Taiwan and establish diplomatic relations with the People’s Republic.

Therefore, until the 1980s, the Middle East was a relatively low priority for Beijing, whose attention focused mainly on state consolidation and developments in Northeast and Southeast Asia. Sino-Middle Eastern cultural exchanges and diplomatic contacts were relatively occasional, personal and institutional relationships were comparatively few, and China’s capacity to project either hard or soft power was limited.

China’s economic presence in the region, while pre-dating the launching of Deng Xiaoping’s Four Modernizations, was limited over the years to road-building crews, to the occasional engineering and turnkey projects, and then to some large-scale, long-term contracts primarily, though not exclusively, in the energy sector.

Not surprisingly, the aspect of China’s Middle Eastern presence that captured the international attention was its sale of ballistic missiles and related tech-
nology to Iran and Iraq during the Iran-Iraq conflict, and of long-range CSS-2 missiles to Saudi Arabia. These transactions raised questions both about the effects and the underlying strategic objectives of China’s growing involvement in the Middle East, particularly the Persian Gulf.

At the dawn of the 21st century, due to the new economic boom, China realized the importance of the Middle Eastern region for its economic and political purposes and its policy towards the region began to change.

The Fourth Plenum of the 16th Chinese Communist Party (CCP) Central Committee in September 2004 signed the beginning of the Hu Jintao era. The Plenum “Decision” document assigned top priority to defending national sovereignty and state security at a time when “hostile forces are still pursuing their strategic attempts to westernize and divide China.” For China’s Fourth Generation leaders at the forefront of these concerns was the economic development of the country and therefore the energy supply.

A further concern to the Chinese leadership is the unrest in the Chinese mineral-rich western province of Xingjian, where separatist groups belonging to the Muslim majority (10 millions over a total population of 16) ethnic group have sparked riots, assassinations, and bombings since 1996. Nationalist and economic discontent may be sparked and aided by other members of these communities in neighbouring Kazakhstan and Kyrgyzstan, as well as by sympathizers in Iran, Turkey or Afghanistan. Chinese officials accuse these separatists of having the political object of founding an independent Islamic Republic of East Turkestan.

It is in order to reduce this threat and to make sure that they do not become safe havens for anti-Chinese groups operating in the region (as well as to acquire a constant flow of oil in order to continue the economic development of the eastern regions) that China has begun to undertake major efforts to build good relations with neighbouring states and important Islamic countries in the Middle East.

Therefore the traditional Chinese low profile policy in the region, is quickly leaving the place to a new more activist policy toward the countries of the Arab Middle East. This new policy is primarily pushed by the need to acquire more energy resources to foster the economic growth.

For decades after the 1949 institution of the People’s Republic, energy security was only a minor issue in Beijing’s national security estimations.

The Daqing oil field, 600 miles northeast of Beijing, discovered in 1959, had since 1962 produced enough oil to maintain the nation self-sufficient. Since 1978, with the beginning of economic reforms, China has enjoyed an almost 9 percent annual growth rate. In 1993, China became a net importer of oil and, in 2004, with a daily demand of 6.4 million barrels per day, China became the second largest international oil consumer after the United States.

Growing wealth is prompting millions of Chinese to abandon bicycles and
overcrowded mass transit in favour of private cars. Last year, China’s domestic automobile sales increased by an astounding 69 percent. By 2010, the country is expected to have 90 times more cars on the road than it did in 1990; by 2030, it may have more than the U.S.

A net importer since 1993, China now purchases from abroad close to 3m barrels per day. In the last two years, 35 per cent of the increment in the world’s consumption of petroleum has been Chinese.

Only a small part of Chinese oil imports comes from Kazakhstan, Venezuela, Sudan, Russia, and Indonesia, while the lion’s share of China’s energy imports comes from the major oil exporters of the Middle East.

To meet its demand of oil, China has been working to expand ties with Middle Eastern oil-producing states, including Iran and Sudan, which have problematic relations with the US. This vital need for oil is pushing the leaders of communist of Beijing to secure China’s access to Middle Eastern oil by concluding ‘exclusive’ supply and equity deals and by expanding its political influence in the region.

Middle Eastern energy producers, meanwhile, are looking to China as a possible alternative to the, so far, unchallenged US hegemony in the region. Even the staunchly anti-communist Saudi regime is cultivating China as a consumer of its oil and gas to hedge against further deterioration in US-Saudi relations, and the newly elected Iranian president Mahmoud Ahmadinejad has expressed interest in forging a strategic partnership with China and India.

China is a relative newcomer to the Middle East; unlike the other great powers, it has never played a key role in the region. During the cold war, the geographically distant Chinese preferred to stay away from the intricacies of an area so beset by instability. Until Mao Zedong’s death in 1976, China had not even bothered to establish diplomatic relations with most of the Middle Eastern capitals.

Only in the late 70’s did Beijing emerged from its isolation, forging ties with Jordan and Syria and almost all of the other oil-rich states. These relationships have typically revolved around trade in armaments and dual-use technology. In recent years, China has sold ballistic missiles to Syria, supplied sensitive missile and nuclear technology to Iraq, and allegedly supplied Libya with missile technology.

At the dawn of the 21st century, the primary intent of China’s diplomacy in the Middle East, has become that of serving the central task of economic modernization. With respect to the Middle East, China’s core economic interest is to access oil and gas in order to meet its increasing energy needs.

Diplomacy has helped open the door for China’s giant state oil firms to secure equity stakes in oil and gas fields from the Maghreb to the Persian Gulf. In addition, Chinese diplomacy has succeeded in institutionalizing Sino-Middle Eastern relations through mechanisms such as the newly established China-
Arab Cooperation Forum and the China-GCC Framework Agreement (which sets the parameters for future economic cooperation). Though Beijing laid the groundwork for business in the Middle East, it is China’s three state-run energy conglomerates that have capitalized on it.

Iran, now the second largest supplier of China’s oil, has become a particularly important trading partner. As relations between the two countries have stretched, the PRC has sold ballistic-missile components to Iran as well as air-, land-, and sea-based cruise missiles, giving Tehran the capability to attack U.S. naval forces in the waters of the Persian Gulf. Even more significantly, China has provided Iran with key elements for the development of nuclear weapons, including reactors and significant quantities of uranium.

The number of energy-related deals over the past year between Beijing and Tehran have been staggering. In late October 2004, a mega contract was signed by China oil giant Sinopec and Iran for an estimated $100 billion for the shipment of 250 million tonnes of LNG (Liquefied Natural Gas) and 150,000 bpd of crude oil over a 25-year period. A subsequent $100 billion LNG deal is on the near horizon bringing the total investment package to an incredible $200 billion.

Adding to this impressive range of bilateral energy deals, China’s state oil trader Zhuhai Zhenrong Corp. agreed in 2004 to buy over 110 million tonnes of LNG from Iran over a 25-year period for $20 billion. Both countries also announced a joint tanker venture for the transport of LNG to China. Finally, a deal was struck in late 2004 between the two countries to build a refinery in Iran to handle 360,000 bpd of gas condensates. The project, which is expected to be completed in 2007 or 2008, is being financed by state-owned investment company China International Investment Trust Company (CITIC).

According to the Oil and Gas Journal, Iran is the second largest oil producer in the world with its 32 oil fields containing approximately 125.8 billion barrels (bb) of proven oil reserves, or 10% of the world’s total. In 2004, the country’s proven oil reserves increased to 132 bb after new oil discoveries were made in the Kushk and Hosseineih oil fields located in the Iranian province of Khuzestan.

To meet global energy demand, Iran is pushing forward with plans to increase oil and LNG production by investing $50 billion in its energy sector over the next several years. This level of investment is essential for the country’s economic growth, since oil proceeds account for 40 to 50 percent of government revenues.

Some energy experts believe, therefore, that Iran could increase its crude capacity to meet the specific energy needs of China, but not without an enormous effort. Iran has not exceeded 3.9 million bpd production levels since 1978/79. Plans announced by Iran’s Ministry of Oil to produce 5 million bpd
by 2009 and 7 million bpd by 2024 have been termed “ambitious” by many in the oil industry.

In addition to oil, Iran possesses the world’s second largest reserves of LNG behind only Russia with 940 trillion cubic feet (Tcf) in proven natural gas reserves. Iran’s LNG production is expected to rise to 206 billion cubic meters (cm) in 2005; 342 cm in 2010; and 519 cm in 2025. Making opportunities for increased China-Iran bilateral energy cooperation even more plausible is the fact that many of Iran’s most promising gas fields remain unexploited. This presents China with enormous investment opportunities and new areas for cooperative projects, further cementing the bilateral relationship.

But the biggest prize in the region is Saudi Arabia, the country that holds a quarter of global oil reserves, that is the world’s largest exporter, and that is today China’s number-one foreign supplier of crude oil.

As far back as the mid-1980’s, China began to engage in military commerce with Riyadh, by selling 36 intermediate-range ballistic missiles, building two missile bases south of the Saudi capital, and deploying Chinese security personnel to maintain them. Though the missiles were highly inaccurate, they endowed Saudi Arabia with a military potential that its neighbours could not ignore. With a range of 1,800 miles, and capable of carrying a nuclear warhead, they could be used to strike any location between New Delhi and Tel Aviv.

In the years since that early sale, Sino-Saudi relations have grown closer, especially after the two countries established full diplomatic ties in 1990. As military cooperation has deepened, China has offered to sell the Saudis, among other things, modern, solid-fuelled intercontinental ballistic missiles with a range of up to 3,500 miles. A regular series of high-level visits by Chinese leaders culminated in President Jiang Zemin’s pronouncement of a “strategic oil partnership” between the two countries in 1999.

In the energy sector, in contrast to a decade ago, China today is importing massive quantities of oil and, with the modification and augmentation of its refining capacity, is able to absorb increasing amounts of Saudi oil. This has catapulted Saudi Arabia into becoming China’s leading foreign source of oil, while at the same time making China the leading customer for Saudi crude oil, up to the point that the Saudi have cut back certain furniture of oil to the USA in order to meet increasing demands from China.

There has been progress in the development of cross-investment as well. During the visit of then-President Jiang Zemin to Saudi Arabia in 1999, an agreement was reached to open up the Chinese refinery sector to Saudi investment and to make oil exploration and development opportunities available to Chinese investors. As a result, Sinopec and Saudi Aramco have collaborated on downstream projects in China, joining forces to build a refinery in Qingdao.
in eastern Shandong province and to expand a petrochemical facility in Quanzhou in the province of Fujian. Saudi Basic Industries Corporation (SABIC), the Middle East's largest petrochemical company, has seemingly been involved in talks regarding several downstream projects in China. Meanwhile, Chinese companies are seeking to acquire and expand their footholds in Saudi Arabia as well. In 2004, Sinopec won the bid for a natural gas project in a northwestern block of the Rub al-Khali gas fields, an area that Saudi Arabia has opened up to foreign firms for the first time in 25 years.

Saudi and Chinese government officials and members of the business community are looking for ways to boost also non-energy trade and cooperation in industrial development. This very issue was raised at the April 2005 Arab-China Business Conference in Beijing. Abdullah Al-Mubti, head of the Saudi delegation to the meeting and chairman of the Abha Chamber of Commerce and Industry, noted approvingly that Saudi-Chinese trade exchange reached $10 billion in 2004, but called specifically for meetings between Saudi and Chinese businessmen to expand relations further.

With respect to trade in oil, Sino-Saudi cooperation is a natural fit. China's search for supply security has risen to the highest level of priority in terms of statecraft and commercial activity. That China has its sights on Saudi Arabia is a reflection of the latter's preeminent position in the global oil market. But it is important to note that the Sino-Saudi relationship is one of mutual attraction. In the energy sector, for instance, Saudi officials are eager not just to lock in a long-term oil supply relationship with China, but also to expand their sales of refined products and to gain access to the Chinese retail gas market.

It is also remarkable to look at the development of Sino-Saudi ties at the level of economic enterprises. The energy sector in both countries, while in the process of being restructured, is controlled by a handful of giant firms. Saudi Aramco, which has a monopoly on upstream oil development, employs over 50,000 and controls virtually all of the country's oil reserves. Aramco and Saudi Basic Industries Corporation (SABIC) dominate the Saudi economy. Saudi Oil Minister Ali al-Naimi is currently serving his third four-year term. In China, the picture is similar in the sense that three oil giants dominate the energy sector: CNPC, Sinopec, and CNOOC. Of the three, CNPC is by far the largest and most active overseas.

The most obvious consequence of this concentration of power and wealth in both countries is that energy firms are largely instruments of the state.

Since oil is vitally important to national survival and to the enhancement of national power—in the cases of Saudi Arabia and China, to regime survival as well—one must consider the political-strategic subtext of Sino-Saudi relations. Viewed through Beijing's geopolitical lens, a long-term partnership with Saudi Arabia could be seen as a hedge against a deterioration of relations with
regional rivals like India and Japan, or for that matter souring relations with the United States. Through a Saudi lens, China could be regarded as a precious source of support as Riyadh continues on a course of cautious and selective economic liberalization while seeking to deflect U.S. pressure in the area of political reform.

How, then, do all these diplomatic and political developments fit into the Chinese geopolitical thinking? Over the years, China’s leadership has considered the region as a focal point of great power rivalry, and has viewed developments there as reflecting and reinforcing broader geopolitical trends.

But the substantial American military presence in Iraq and elsewhere in the Gulf, as well as the post-9/11 military force into South and Central Asia, poses a challenge to China. A gradual deterioration of the Sino-U.S. bilateral relationship cannot be ruled out, nor can the possibility of conflict. Either eventuality would place in jeopardy the economic ties with the Middle East that Beijing has worked assiduously to develop — ties that today make the region vitally important to China.

As we have pointed out above, the Middle East’s strategic significance to China is directly related to the trajectory of the Chinese economy. As a result of its massive industrial expansion, China’s energy consumption and dependence on foreign sources of supply have soared. Accordingly, the development of and trade in fossil fuels and petroleum products lies at the heart of Sino-Middle Eastern relations.

Today, 58 percent of China’s oil imports come from the Middle East. In order to mitigate the risks associated with such a high degree of dependency and to reduce exposure to sharp price hikes on the open market, China has adopted a global strategy of geographical diversification of supply and acquisition of equity stakes in non Middle Eastern oil/gas fields. As a result, China’s energy firms own shares in 20 different countries. But diversification away from the Middle East has its limits. Two-thirds of proven oil reserves are located in the region, most in the Gulf. Meanwhile, reserve-to-production ratios show that the reserves of non-Middle Eastern producers are fast being depleted, as are China’s own fields. The IEA expects Chinese oil imports from the Middle East to rise to at least 70 percent by 2015. The future of the Chinese economy is thus inextricably tied to the Middle East. Unfortunately there is a flaw to this project and that is the overarching role of the United States in the area.

China’s leaders are uncomfortable with the fact that the United States are the pre-eminent power in the Middle East, the region that provides China with the bulk of its oil imports. Chinese energy security analysts point out that the United States control all access to oil in the Middle East. Despite the abundance
of oil in the world today, these analysts perceive China to be in competition with the United States and its allies for Middle Eastern oil. They contend that China is at a disadvantage in this “struggle” because it is not as influential in the region. There is a concern that the United States, Japan, and the major European powers are apprehensive about China’s entry into the ranks of those importing oil from the Middle East. Chinese analysts are afraid that these Western countries may seek to limit China’s access to Middle East oil out of fear that there is not enough to go around. This possible course of action is particularly troubling to China because its ties to Middle East oil producers are not yet as strong as are the ties of the Western countries. According to one analyst, “China was late in developing a strategy for establishing resource import relationships, and as a result, its relationships are not stable. This is especially true of those countries and territories from which China might import oil.” The Chinese government believes that the cultivation of strong bilateral relationships with oil-producing countries in the Middle East can help China secure the oil resources it needs from the region.

In short, the Chinese government hopes that the development of close relationships with oil-producing states in the Middle East can help China secure its fair share of oil from a region in which the United States is the pre-eminent power. China’s economic, political, and military activities in the Middle East may facilitate investment there in oil exploration and development projects and the negotiation of long-term supply contracts with oil-producing states, particularly those at odds with the United States. However, increased Chinese involvement in the Middle East, in general, and its energy market, in particular, does not reduce the potential interference of the United States with China’s oil imports.
NOTES

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