



Rising in the Gulf: How China's Energy Demands Are Transforming the Middle East

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As a major oil consumer, the People's Republic of China (PRC) has turned outward, cultivating bilateral relationships with states that can literally fuel China's rapidly growing economy. This paper deconstructs China's foreign policy toward supplier states in the Middle East—specifically Iran and Saudi Arabia—in an effort to assess China's grand energy strategy. It rejects the view that China can successfully pursue a neo-mercantilist strategy of securing reserves and will evaluate whether China's "no strings attached" commercial relationships with unsavory regimes threaten global security.

China's disregard for the human rights abuses and other violations of international norms by oil supplying states such as Sudan and Iran, and its opposition to the imposition of sanctions by the United Nations on these states, has prompted some western powers to criticize the PRC for exploiting what has been termed the 'morality gap.' The PRC's uncritical engagement of Syria, Iran, and Sudan has raised questions about Beijing's ability to be, in the words of Former U.S. Deputy Secretary of State Robert Zoellick, a "responsible stakeholder."¹ Indeed, so long as Beijing pursues commercial interactions without regard to the odious behavior of its foreign partners, it will be perceived in some quarters as defying international moral standards and contributing to instability and lawlessness.

China has shown no interest in exploiting the political leverage it might have to influence the policies of Iran, Syria, and Saudi Arabia. During his 2006 visit to the United States, President Hu Jintao reportedly defended his country's disinterest in pressuring its partners by explaining that the PRC is focused on its internal reforms and construction and does not wish to distract itself by meddling in the affairs of other

states.² The PRC is adamant about the inviolability of sovereignty and reaffirms that principle when its relations with other states are at issue. China is calculating that those states will refrain from supporting interventionist policies if ever the PRC is the focus of international opprobrium. However, as the confrontations over human rights violations in Sudan and nuclear weapons in Iran continue, the PRC may find itself less able to avoid taking a stance on matters of international concern.

THE DEMAND FOR OIL IN CHINA

In 2004, driven by unprecedented growth of the Chinese industrial, petrochemical, and manufacturing sectors—all of which are oil-intensive—and the rapid expansion in the use of the personal automobile, the PRC passed Japan to become the world's second largest consumer of oil.³ The U.S. Department of Energy estimates that China consumed 7.4 million barrels per day in 2006, representing nearly a half million barrels per day increase from 2005.⁴ By 2025, China's consumption is forecast to increase to 14.2 million barrels per day.⁵

If the PRC could meet its rapid increase in oil demand by exploiting domestic reserves, oil would not be a major factor in Chinese foreign policy. Until 1992, China was a net exporter of oil, but domestic production has leveled off and production has not increased with demand.⁶ This gap must be met by imports, which, at 3.6 million

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barrels per day, currently represent approximately 50 percent of consumption. By 2025, imports are forecast to more than triple to 10.9 million barrels a day and will exceed 70 percent of total consumption.⁷ Furthermore, more than 50 percent of current imports travel through the Straits of Malacca, one of the least secure shipping lanes in the world, and the PRC lacks the naval power to defend these straits against an economic blockade.⁸ Thus, the PRC's oil demand has become a strategic liability.

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Faced with the challenge of meeting a voracious appetite for oil, the PRC has worked to diversify its supply. It has tried to develop an Asia-based, regional capacity for oil production that makes the country less dependent on international shipping, and its oil firms have become

major players in African energy development.⁹ The fruit of this investment appears to have paid off, as Angola surpassed Saudi Arabia as China's largest oil supplier in 2006.¹⁰

China's oil imports from Kazakhstan more than doubled in the first four months of 2006, compared with the same period in 2005. Crude imports from Russia climbed 36 percent during the same period, making the country China's fourth-biggest oil supplier.¹¹ Despite potentially prohibitive costs and lingering political hurdles, construction has reportedly begun on China's first cross-border pipeline from Kazakhstan, and discussions continue on a branch line from Russia's East Siberia fields.¹²

Despite aggressive pursuit of supply diversity, as much as 70 to 80 percent of China's future oil imports will have to come from the Middle East and North Africa.¹³ China's three major state owned oil companies—CNPC (Petrochina), China Petrochemical Corp (Sinopec), and China National Offshore Oil Corp (CNOOC)—have invested significantly in the Middle East.¹⁴ In 2004, Sinopec outbid most of the American oil majors for the right to develop a new oil field in Saudi Arabia.¹⁵ More recently, CNPC partnered with an Indian firm to buy a significant stake in one of Syria's few oil fields.¹⁶

Three years ago, the head of China's National Reform and Development Commission (NDRC) and Iran's oil minister, Bijan Namdar Zanganeh, signed a Memorandum of Understanding regarding bilateral energy cooperation, which included China's right to develop Iranian oil fields.¹⁷ In 2006, Sinopec

reportedly signed an agreement with Iran to develop jointly the Garmsar oil block, one of 16 oil blocks that Iran offered for international tender in 2003.¹⁸ In 2007, CNOOC moved forward with a \$16 billion agreement to drill for gas in Iranian waters, despite a U.S. threat to impose sanctions on the Chinese firm.¹⁹ Iran is China's third largest oil supplier, according to Chinese figures.

Iranian and Saudi exports together now represent almost two-thirds of China's Middle East oil imports, meaning that relations with these two countries are of crucial importance. Chinese imports from other countries have also expanded, but partnerships with Saudi Arabia and Iran have increased even faster. Whereas in 1994, Iran accounted for just one percent of China's total imports, a decade later, Beijing purchased 13 percent of its oil from Tehran.²⁰

CHINA AND IRAN

China and Iran first established diplomatic relations in 1971. Though the two nations have both experienced revolutionary change in the intervening decades, their continued relationship demonstrates that both countries value political pragmatism, strategic imperatives, and economic trade above differences in ideology and religion. China views Iran as a regional power, whose strategic location and economic importance will remain significant in the years to come.

The Chinese chose to maintain close relations with Iran through the 1980s, during the Iran-Iraq War, due to the PRC's new reading of the international system. As the Soviet Union's projection of power began to wane, China recognized that the gravest threat to its security and stability in the Middle East would be the preeminence of a singular hegemon, the United States. According to John Calabrese, the early 1980s marks "the gradual unraveling of the Sino-U.S. "strategic partnership" and, not coincidentally, also marks the point of divergence between the Chinese Gulf policy and the U.S. Gulf policy."²¹

In 1990, bilateral trade between China and Iran totaled approximately \$314 million, but by 2003 it had reached \$5.6 billion.²² The Iranian press asserts that trade reached \$29 billion in 2005 and that Iran's imports from China increased by more than 360 percent from 2000 to 2005.²³ While arms remain an element of this trade, between 1993 and 2004 China's average share of the Iranian arms market was only 18 percent; Iran purchased most of its weaponry from Russia.²⁴ The rapidly growing trade relationship between

Iran and China primarily results from China's expanding demand for Iranian oil.

The persistence and expansion of Sino-Iranian relations in the 1990s and the early twenty-first century indicates that both countries share a desire for long-term partnership and value the other's importance as an economic, strategic, and political ally.²⁵ While the relationship is driven by the sale of Iranian oil and China's military and, at least until 1997, China's nuclear assistance to Iran, Sino-Iranian relations, at a more fundamental level, are grounded in a mutual worldview. As John Garver points out in *China and Iran*, both countries recognize the other as a one-time global power with a rich history that contributed enormously to the progress of civilization. They see Western imperialism and infringement in their internal affairs as having retarded their progress as nations. Consequently, both have maintained a steadfast commitment to opposing interference in other countries' internal affairs. Put simply, China and Iran have convinced one another of their commitment to a multi-polar world and an anti-hegemonistic struggle.²⁶

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Iran views China as a powerful ally among the world's leading nations—a country that, because of a shared interest in stemming the dominance of the United States, will advocate on its behalf. Iran hopes that its relationship with a global economic powerhouse like

China will attract business from other countries wary of Iran's pariah status.

Furthermore, Iran has looked to China, as well as Russia, to counter calls in the UN Security Council and elsewhere for economic sanctions in response to Iran's nuclear program. According to Iran, what is good for the Islamic Republic is also in the best interest of the PRC. As an editorial in Iran's conservative leaning *Shoma* newspaper put it, "any cooperation China enters in security, political, economic sectors with the region's leading nations like Iran and Saudi Arabia that supply China's energy as well would represent a great victory for Chinese politicians over their Western counterparts."²⁷

While such a position is by no means uniform, many Iranian editorials on the subject have echoed similar claims, going so far as to warn China and Russia that their economic and political livelihood in the Middle East depend on defying international pressure against Iran.²⁸ The reformist daily *Aftab-e Yazd* plainly laid out the

quid pro quo, stating that since "we have assured China that its energy and oil needs will be met, we should ask that country to complete its position and go beyond mere expressions of opposition to the referral of Iran's dossier to the Security Council."²⁹

In December 2006, China voted to pass UN Security Council Resolution 1737, which imposed sanctions on the trade of all items, materials, equipment, and technology that could contribute to Tehran's uranium enrichment program. Even with its passage, Iran has been unwilling to question the strength of Sino-Iranian relations. Iran recognizes that potential Security Council action has thus far been lukewarm in advocating for more meaningful (i.e., oil or gas) sanctions. Indeed the passing of Resolution 1737 has not deterred Sino-Iranian energy cooperation. Less than a month after the Resolution's passing, CNOOC moved forward with a \$16 billion agreement to drill for gas in Iranian waters, despite a U.S. threat to impose sanctions against the Chinese company.³⁰ As R. Nicholas Burns, U.S. Under Secretary for Political Affairs, indicated on the day of the Resolution's passing, perhaps stating the obvious for Iranian and Chinese policymakers, Resolution 1737 "does not involve oil and gas sanctions ... The Chinese deal ... would not—would definitely not come under these particular sanctions."³¹ It is perhaps instructive to note that when Iran was given a one-month deadline to end uranium enrichment or face possible sanctions in July 2006, a similar process unfolded. While the PRC was voting to support that resolution in the Security Council, China's head of central planning, Ma Kai, was in Tehran trying to finalize plans for Sinopec to develop Iran's rich Yadavaran oil-field.

If sanctions against Iran's oil exports ever do become a major issue, Iran believes that China, and perhaps Russia, would prevent their implementation. Iran's Foreign Ministry Spokesman, Muhammad Ali Hosseini, though speaking a month before the passing of Resolution 1737, nonetheless summed up Iran's long-standing reading of the Security Council dynamic when he noted: "Splits between the parties are very visible, that is to say between the United States and the Europeans on one side and Russia and China on the other ... Russia does not want sanctions and does not want to close the path of negotiations, and the Chinese have a similar position."³²

The current Iranian government of President Mahmoud Ahmadinejad has placed Iran on a far more aggressive track than his predecessor, Mohammad Khatami. Believing that the U.S. is unwilling to undertake another war in

the Middle East, Iran has concluded that conditions are set to force the issue of its 'inalienable nuclear rights.' No longer, Tehran has reasoned, is it necessary to court the European nations and prevent them from presenting a unified front with the U.S. in the Security Council. With the seeming lack of any real military threat from the U.S., and with Chinese and Russian allies in the Security Council, Iran reasoned such conditions would be enough to safeguard against intense international sanction regarding its energy sector.

Iran, however, appears to be overestimating China's ability and desire to safeguard Iranian interests by confronting the U.S. and the West. In moving toward sanctions over Iran's nuclear program, Iranian analyses at the government and civil-society level have been slow to pressure China, which has never vetoed a Security Resolution relating to the Middle East. Thus far, Iran has not proven to be an exception. Yet, Iran has been unwilling to critique China's role in acceding to Security Council pressure, instead reaffirming the strength of Sino-Iranian relations and reserving its ire for the U.S. and Europe. For example, at the end of the *Aftab-e Yazd* editorial cited above, which strongly beseeched China to stop Iran's nuclear dossier from reaching the Security Council, the following statement appeared:

In the last working hours of the daily, we received the comments of the Chinese foreign minister, which indicate that we should not set many hopes in China in the Security Council. So the matter should be taken into account in our relations.³³

Already in 2004, when the editorial was published, China seemed to know it would be voting alongside the rest of the Security Council. The interim period (2004 to 2006), one suspects, was simply a matter of extracting maximum concessions both from Iran, such as the Sinopec and CNOOC deals, and the U.S. As Garver points out in *China and Iran* concerning the intersection of Sino-Iranian and Sino-U.S. relations, China is unwilling to prioritize the "anti-hegemony struggle" above its economic interest in maintaining friendly relations with the U.S. He explains, "When absolutely necessary, the secondary goal of moving the world toward multipolarity by supporting Iran's anti-hegemony resistance would be subordinated to the primary goal of protecting the Sino-U.S. relationship."³⁴

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its own terms. China has gone to great lengths in the Security Council, and elsewhere, to demonstrate to the Iranians the importance of Sino-Iranian relations. In July 2006, after voting in favor of a one-month deadline for Iran to end its enrichment of uranium or face Security Council sanction, Ambassador Liu Zhemin of China stated, "Whether now or in the future, the Council could not handle the issue single-handedly. Dialogue and negotiations were the only way out ... Any measures adopted by the Council should serve the purpose of diplomatic efforts."³⁵ Again, in 2007, President Hu called on Iran to make a serious response to Resolution 1737, but in the same breath spoke highly of Iran's pledge to further ties and improve bilateral cooperation.³⁶

Such statements, coupled with Chinese votes against Iran in the Security Council, encapsulate the delicate balance of Sino-Iranian relations. 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. or at the cost of being labeled a supporter of a rogue regime. Red lines in Sino-Iranian relations do exist. China hopes that the political capital it garnered from arms sales during the Iran-Iraq War, assistance in nuclear technology, economic partnership, and proven mutual trust is enough to maintain Iran's willingness to look east, especially in the energy arena. Considering Iran's current predicament, this may well succeed.

The scope and trajectory of China's behavior concerning Iran's nuclear program and Sino-Iranian relations is best seen as a microcosm of the PRC's larger balancing act in pursuing economic and political advantages without upsetting Western, particularly American, sensitivities. On the one hand, the Security Council is the forum where China attempts to meet both Western and Iranian expectations. On the other, while PRC support for Iran is crucial to the latter's bid to stave off international isolation, Iran is only one strand among the complex web of energy relationships China is currently pursuing.

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THE SHANGHAI COOPERATION ORGANIZATION

To understand how energy and security needs are influencing the relationship between China and Iran, it is important to assess their diplomatic relations. In the past year, no aspect of diplomacy has received more attention than the Shanghai Cooperation Organization (SCO). According to former Iranian Foreign Minister, Akbar Velayati,

In the framework of the Shanghai cooperation agreement, Russia, China, India and Iran, together with other Asian countries, are busy establishing a new political bloc in the world, which in addition to confronting any one-sided attempt at hegemony by NATO, are also trying to establish a secure and stable climate throughout Eurasia.³⁷

Since 2005, the six member SCO—including Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan—has emerged from relative obscurity to be viewed in some circles as a serious counterweight to American power in Asia and even, in the words of Cambridge University's David Wall, “an OPEC with bombs.”³⁸ In reality, the SCO is a young organization with few current capabilities. Its operating budget is less than \$30 million and it employs only a few dozen people.³⁹

Despite its limited effectiveness at the current time, the SCO is receiving extensive attention from western experts because of its potential. In 2005, the SCO added Mongolia, Pakistan, Iran and India as official observers. As Iranian President Mahmoud Ahmadinejad stressed in a speech at the SCO in June 2006, nearly half the world's population lives in SCO

member or observer countries.⁴⁰ If SCO participating states emerged as a united force diplomatically, economically, or militarily, they would be a potent player in the international arena.⁴¹

Chinese analysts increasingly talk about using the SCO to turn the old Silk Road across Central Asia into an 'energy road'

The Role of Energy in the SCO

Though it was initially formed to deal with border disputes, terrorism, and separatist threats, energy cooperation has emerged as SCO's primary focus. In particular, Chinese analysts increasingly talk about using the SCO to turn the old Silk Road across Central Asia into an energy

road.⁴² Like China, Russia views the SCO as a tool to promote energy development, as expressed in a 2005 op-ed by the deputy foreign minister: “Cooperation in fuel, energy, and transport may bring great benefits. Potentially, the SCO members can pool their efforts in geological prospecting, and jointly develop Central Asia's vast resources.” He argued that the SCO could facilitate energy projects, some of which would be “the projects of the century.”⁴³ Similarly, Pakistani President Pervez Musharraf used recent SCO meetings to propose that his country serve as an energy corridor between producers and consumers, a suggestion believed to be alluding to a possible oil pipeline from Iran to China or India through Pakistan.⁴⁴

Iran also views the SCO as a tool for expanding energy exports. In his speech at the SCO in June 2006, President Ahmadinejad said, “the presence of both the energy consumer and producer states in the organization has prepared a proper ground for energy cooperation within the SCO.” He proposed a summit for energy ministers of the member states “to study avenues for better cooperation in various grounds such as exploration, extraction, transportation, transformation and improved and joint exploitation of energy.”⁴⁵ President Ahmadinejad also emphasized that Iran's large reserves of crude oil provide “conducive grounds” for these countries to cooperate with Tehran.⁴⁶ At the SCO meeting in June 2006, Iran and Russia held bilateral talks in which they discussed an “energy club,” and in February 2007, energy company representatives from member states held an SCO Roundtable to explore setting up the “energy club.”⁴⁷ This term, which has eluded definition, has raised fears that these oil producers are considering a new form of cartel.⁴⁸

It is clear that these relationships go beyond political rhetoric. Since 2004, China, India, Russia, and Iran have signed energy deals with each other valued at about \$500 billion.⁴⁹ In the immediate aftermath of the 2006 SCO summit, Sinopec reportedly signed an agreement to develop Iranian oil fields.⁵⁰ China's oil imports from Kazakhstan more than doubled in the first four months of the year, compared with the same period in 2005. Crude imports from Russia climbed 36 percent during the same period.⁵¹

Western analysts are increasingly alarmed that the economic endgame of the SCO is “to dilute Washington's hold over the Caspian Sea's energy reserves,” as Robert Karniol, Asia-Pacific editor for *Jane's Defense Weekly*, put it. China and India, the world's fastest-growing energy

consumers, want to divert Central Asia's energy resources toward their own economies, and Iran and Russia, the region's largest energy suppliers, are keen to reduce their dependence on sales to the West, Karniol argues.⁵²

Despite this concern, the SCO is not a mercantilist tool for China to lock up the oil reserves of unseemly governments in central Asia.⁵³ In a global market, locking up oil is exceptionally difficult. Lieutenant-General William Odom (retired), a professor at Yale University and former director of the National Security Agency, explains, "I've never been of the view that you have to be highly influential in a region to get it to sell you oil."⁵⁴

First, China's overseas activities are not on a scale that would warrant the level of international concern and condemnation it has received. The Energy Information Administration explains: "For all the attention given to Chinese firms' investments in overseas oil assets ... their total current contribution to China's oil imports is well under 300,000 barrels per day as of mid-2005, a small amount compared to imports currently running at around 3.5 million barrels per day."⁵⁵

Second, major development projects between SCO states have not proceeded without difficulty. For instance, a 2004 Memorandum of Understanding between Iran and China, to establish a 25-year agreement for LNG exports worth \$100 billion, has so far only led to further negotiations, despite the big splash when signed.⁵⁶ Similarly, a plan to build a pipeline from Russia to China was announced in 2003, yet the two governments continue to negotiate the terms of this agreement.

Most importantly, it is vital to understand that the only way for China to lock up oil in today's market, even with its SCO partners, is to sign long-term purchase agreements after outbidding the other firms in the race. Chinese state firms can consistently win bidding wars only if (a) they are willing to pay more for oil than private firms from the U.S., India, and Europe believe the resource to be worth, or (b) oil rich SCO states are willing to accept reduced financial reward in order to sell their oil to China. If China wishes to burden its economy with fuel costs above market value, the U.S., as an economic competitor, would have a comparative advantage over oil intensive industries in China.

China's attempt to secure a long-term oil supply is better viewed as a hedging technique. Chinese oil companies, and their private investors, are willing to pay higher prices because the demand for fuel in China is growing rapidly, and the firms believe that a market for

their product will exist even at prices above the world average.

CHINA AND SAUDI ARABIA

Sino-Saudi relations are a relatively new development with China and Saudi Arabia having only established relations in 1990. 2006 was a landmark year in Sino-Saudi relations, witnessing the visit of President Hu to Saudi Arabia and the visit of Saudi King Abdallah to China. King Abdallah's visit to China was his first trip outside of the Middle East since ascending the throne in August 2005.

According to Arabic sources, the exchange of visits between King Abdallah and President Hu point to the seriousness of Sino-Saudi relations. First, Hu's trip to Saudi Arabia occurred only three months after Abdallah's trip to China.⁵⁷ Indeed, during his trip to Saudi Arabia, President Hu himself pointed out that head-of-state exchanges in such a short amount of time are extremely rare.⁵⁸ Second, President Hu was only the second foreign president to address the Saudi Consultative Council, after Jacques Chirac.⁵⁹ Third, the President Hu's visit ended with tangible results, not only in regards to energy, but also in other fields, such as health and trade.⁶⁰ Accordingly, Chinese Middle East envoy Sun Bigan pointed out that the visits "laid a solid foundation for the growth of bilateral ties in the years ahead."⁶¹ A Saudi Arabia Information Resources report from April 2005 states:

... Abdullah Al-Mubti, head of the delegation and chairman of the Abha Chamber of Commerce and Industry, said the Arab-China Business Conference in Beijing was successful as it helped strengthen mutual confidence. He said the organizers have agreed to hold the second conference in an Arab country. More than 200 Arab businessmen took part in the conference ... He added Saudi-Chinese trade exchange grew from \$300 million in the beginning to \$10 billion (SR37.5 billion) last year.⁶²

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with Iran. Indeed in his speech to the Consultative Council of the Kingdom of Saudi Arabia, President Hu strove to calm Saudi fears over expanded ties with China in these two key regards.

First, President Hu stressed the importance of China's non-interference policy, not only in an effort to maintain peace and stability, but also in terms of a country's internal security. He explained that countries "should respect and maintain each country's right to independently choose its social system and its road of development."⁶³ By reiterating China's long-standing commitment to non-interference in the context of Sino-Saudi relations, China wishes to distinguish Sino-Saudi relations from the current trend in U.S.-Saudi relations, namely the effort by the U.S. government to push for political liberalization in Saudi Arabia since September 11th. Indeed, Saudi Arabian government officials have already expressed appreciation for China's commitment to a policy of non-interference, especially in times of unrest in the Middle East.⁶⁴ Put simply, Chinese companies are not constrained in their overseas activities by the political commitments of their home country in areas such as human rights and nuclear non-proliferation, as their American counterparts are.⁶⁵

Saudi Arabia is seeking to diversify its cooperation with Asian companies not only in export markets but also technical know-how, arms and ammunition, and education for the elite. Such new partnerships have been welcomed by Saudi Arabia since these areas neither advise the Saudi government on how to run its internal affairs, nor contain any 'strings' on how the Saudi Royal Family should rule.⁶⁶ As Prince Turki Al-Faisal, the Saudi Arabian Ambassador to the US., noted in a discussion with *USA Today*, China is "[n]ot necessarily a better friend [than the United States], but a less complicated friend."⁶⁷ While Turki went on to state that Saudi Arabia does not see China as a counter-weight to the U.S., his comment can be read as a realization by many in Saudi Arabia of the negative aspects of too close an association with the U.S.

The second key point in the Chinese President's address concerned regional rivalry among states in the Middle East. "Different civilizations of the region should take a peaceful and magnanimous attitude toward each other's differences," President Hu said. He continued by

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stating that "[d]ifferences should not become the root cause to regional conflicts and contradictions, but should become each other's reference and a force for integration of the region."⁶⁸ By speaking specifically about civilizational differences as a source of contention in the Middle East, namely among Persians and Arabs, President Hu not so subtly hinted that Sino-Saudi relations will not be subservient to China's close relationship with Iran, a country Saudi Arabia views with extreme concern and skepticism.

For China, with its sensitivity to volatility in oil price and supply, the stability of Saudi oil supply is enticing, as is the level of influence the Saudis are seen as having over both OPEC and non-OPEC oil producers. Chen Mo, a researcher at the Chinese Academy of Social Sciences, went so far as to say, "In the future ... Saudi Arabia will be China's largest source of oil."⁶⁹ Though 2006 saw the prospect of high-profile expansion of Sino-Saudi relations, it is important to place the China-Saudi Arabia relationship in its proper global context. China's commitment to strengthening its relationship with Saudi Arabia is not simply a matter of locking up vast oil reserves. Nor, from the Saudi perspective, is it simply a matter of replacing an American export market with a Chinese one.

For Saudi Arabia, the increased cooperation with China may signal an attempt to end the kingdom's overwhelming reliance on "one big friend" and "one big product," i.e., the U.S. and oil.⁷⁰ Saudi Arabia has recognized that increased diversity of its oil exports and movement away from its heavy reliance on the American market has both economic and political benefits. Saudi Arabia cannot ignore the increased energy needs among Asian countries, such as China and India because the prospect for revenue is simply too large. As advisor to the Saudi Minister of Commerce and Industry, Fawaz al-Alami, pointed out, "[t]he growth in our oil exports and petrochemicals will be China and India. Five years ago our trade with China was only \$200 million. Now it's \$14 billion, and in five years we expect it to be \$45 billion."⁷¹

Based on preliminary assurances by China on the direction of Sino-Saudi relations and the possible cooling of Saudi-U.S. relations, the expanded ties between China and Saudi Arabia appear primed to move forward. However, Sino-Saudi relations are still in their infancy, making the precise direction they will take uncertain. It is unlikely, for example, that now or in the

immediate future Saudi Arabia would seek to use China as a viable strategic and military alternative to the U.S. Security and stability of the Saudi regime remains of the utmost importance to the Saudis and, in that regard, U.S. military might in the Gulf remains the House of Saud's final guarantor.

China's aim in expanding Sino-Saudi relations is very similar to the Saudi rationale for expanded relations—diversification. In Saudi Arabia, China sees a way to diversify its Middle Eastern oil suppliers and depend less on Iran for Middle Eastern oil. Additionally, a closer economic relationship with Saudi Arabia may be absent of the possible political consequences and image concerns that are involved in Sino-Iranian relations. The PRC sees a great economic opportunity in expanded relations with Saudi Arabia, but not a replacement for their political and strategic partnership with Iran. Thus, the expansion of Sino-Saudi relations satisfies the same need for both countries: the mitigation of reliance on one main oil supplier/consumer, rife with political and image concerns, with a less complicated and less dramatic economic partnership.

ASSESSMENT OF CHINESE ENERGY POLICY

In the aftermath of the Cold War, with the emergence of the U.S. as the sole superpower, the Chinese leadership concluded that in the area of energy, the best strategy was to compete with the U.S. at its own economic game, sending out Chinese companies to secure supplies in the same way that U.S.-based multinationals routinely do.⁷² This strategy avoids direct confrontation in favor of economic engagement.⁷³ China would much rather hide its strength and build commercial relationships, believing that such a strategy can be just as effective in thwarting U.S. dominance. Especially in the Middle East, continued erosion of U.S. influence is understood by Chinese leaders as facilitating its ability to pursue energy supply wherever it can. With the belief that U.S. criticism of China for doing business in places like Iran, Syria and Sudan is increasingly falling on deaf ears in the international community,⁷⁴ China feels emboldened to ignore U.S. pressure, as it becomes harder for America to garner support for sanctions or other means to punish or isolate China and its energy suppliers.

Chinese Energy Policy

In a 2005 white paper titled *China's Peaceful Development Road*, the PRC explained its official energy policy as follows: "Through dialogue and cooperation regarding energy, China is working

with other countries to safeguard energy safety and stability. China considers energy saving one of its basic state policies."⁷⁵ The origins of this policy rest in China's clear need for oil, combined with its desire to continue a non-interventionist philosophy of foreign affairs and its recent awareness that a "rising" China could be perceived as a threat. Recognizing the need for imports from overseas, Deng Zhenghong, Enterprise Manager for Sinopec, stated that China's overseas oil investments will be characterized by the following 'sixteen character guideline': "Consolidate the Middle East, develop the surrounding regions [i.e., border states], expand in Africa, and explore the Americas."⁷⁶ China is thinking globally, but it is not by accident that the Middle East is first on this list.

As oil imports have grown, China has been forced to formulate an energy security policy, especially concerning the Middle East. In practical terms, this has manifested itself in a major restructuring of the Chinese oil industry in 1998. The government aimed to refocus the major oil firms, end the division of labor between them, and push them to emulate the major multinationals, seeking upstream production rights overseas to complement and eventually replace stagnating domestic production.⁷⁷

Despite an all-out diplomatic push to secure overland supply from Russia and Central Asia and recent deals with Venezuela,⁷⁸ China realizes most of its future imports will have to come from the Gulf and North Africa:

Taking into consideration global oil distribution, producing capacity, supply potential, import costs and other factors, most of China's future oil imports, accounting for 70-80% of the total, will have to come from the Middle East and North Africa, particularly from the Gulf nations. As today's international oil security is rooted in the uneven distribution of oil resources, China has to be able to cope with it and get out of it as much as possible. Although oil imported from Russia, Central Asia and other parts of the world would help China improve its oil security, there is no denying that Middle East and North African oil has been and will continue to be a big element in China's oil security formula.⁷⁹

This means continued reliance on shipping lanes, in particular the Straits of Malacca. As with all points of geopolitical friction in the world, official Chinese policy maintains a strict stance of non-interference. China has gone so far as to say

that they will “never consider a military solution [to problems in the straits],” preferring instead to make guarded references to U.S. naval activity in the region and the need to respect the sovereignty of bordering nations.⁸⁰ Although improved relations with Russia and Central Asia, especially in the context of the SCO, are worthy of close attention, they do not yet demonstrate a policy shift for China. Chinese leaders remain acutely aware that a U.S. blockade of the Straits of Malacca could virtually paralyze their economy and that overland supplies will not replace ships in the foreseeable future.⁸¹

To many U.S. analysts, the rapid emergence of Chinese state-owned oil companies on the global stage is of major concern. They argue that the companies are enacting the foreign policy directives of the Chinese central government by pursuing exclusive, long-term oil supplies that need not be sold on open markets, but rather can be sold within a closed Chinese retail market.⁸²

However, China’s leadership views its energy policy quite differently. As Zhang Guobao, Deputy Minister of the National Development Reform Commission (NDRC), explained, “Some people show they are biased against China’s economic development by blaming China for boosting international oil prices. Why are other

countries’ oil imports justified, but it is called ‘a threat’ when it comes to China?”⁸³

To Chinese officials, their companies are only acting as any other major oil and gas firm by competing for supply contracts and expanding reserves. Zhang Weiping, an economist at CNOOC, explains:

Leading global powers are readjusting their energy strategies. The United States has managed to strengthen its strategic position in the Middle East in the wake of the Iraq War and increased threat deterrence along oil transportation passages through its military presence. At the same time, Washington has reinforced control over global strategic resources via giant multinationals’ activities worldwide.⁸⁴

To Zhang and his Chinese colleagues, a Chinese oil and gas firm is no different from

Exxon Mobil. In the event of a crisis, they believe American firms would prioritize the U.S. market, and would be protected in this action by the strength of the U.S. Navy, a protection Chinese companies do not enjoy. There is strong evidence that China realizes the impossibility of locking up resources. Zhang Guobao’s recent comments on the willingness of Chinese oil firms to cooperate with U.S. firms in overseas upstream and downstream activities suggest that China is actively trying to allay U.S. fears of a neo-mercantilist policy.

IMPLICATIONS FOR THE MIDDLE EAST

The PRC’s stated policy of peaceful development is intended to assure major oil producers and major consumers that a ‘rising China’ will be a non-threatening trading partner in troubled regions of the world. However, some argue that China’s energy policy poses a threat to international stability. The Bush administration argues that China’s neo-mercantilist strategies threaten American ‘oil security’ by ‘locking up’ resources, thereby threatening American access to this vital commodity. Other analysts point to the SCO as evidence of an emerging closed Asian energy club. These analyses are flawed for both economic and security reasons.

In today’s economic system, China’s oil companies could only lock up resources by consistently outbidding other international energy interests and paying above market rates. Such a policy, however, would strain China’s already heavily subsidized retail fuels market, lead to high oil prices, and harm China’s overall economy. There are enough producers in the global oil market that China’s efforts to lock up resources are unlikely to keep other consumers from getting what they need. To the contrary, China’s aggressive upstream investment activity will increase international oil supplies to the economic benefit of other consumers.

On a military level, China currently lacks both the means and the intention to intervene in defense of its overseas interests. In practical terms, any restriction in supply could bring serious consequences to China, especially since it lacks significant strategic oil reserves. China admits it will not have capacity to

Despite an all-out diplomatic push to secure overland supply from Russia and Central Asia and recent deals with Venezuela, China realizes most of its future imports will have to come from the Gulf and North Africa

With China’s state owned firms investing in the energy infrastructure of Middle Eastern states, the PRC’s ability to stand clear of the internal affairs of the places in which it invests will become increasingly difficult

Moves to restrict Chinese investment in oil fields controlled by pro-western regimes only serve to push China further away, possibly to the point of contemplating retaliatory moves, such as increased material military support for anti-western regimes

project naval power to secure shipping lanes any time soon.⁸⁵ Overland routes mitigate this, but China's reticence to form strong military alliances, even in the context of the SCO, means that pipelines will be difficult to defend. Thus, China realizes its best hope in the current international climate is diplomacy, capitalist competition, and cooperative ventures to improve the quality and

efficiency of the Chinese oil industry.⁸⁶

The second common indictment against China is that its appetite for oil has led to closer political relationships with oil rich regimes that Secretary of State Condoleezza Rice asserts is "warping" China's foreign policy.⁸⁷ Chinese oil firms' participation in overseas upstream activities integrates them into the global economy in a way that serves to shape and constrain Chinese foreign policy. As China diversifies its oil supply network, it has less incentive to expend energy defending or securing any one of those suppliers. For instance, China must be cautious in its support of Iran for fear of disrupting its relationship with Saudi Arabia. As a rising China enters into ever-deeper economic commitments, a multiplicity of viewpoints must be considered in the formulation of their foreign policy, which will give them a greater stake in regional stability.

Thus, the U.S. and China share an interest in promoting stability in the Middle East, but the two governments currently define stability in dramatically different terms. China is willing to provide economic and military assistance, in the form of arms sales, to brutal but stable regimes, but it has thus far been unwilling to guarantee governments with military force. If China put its military and diplomatic weight behind its oil suppliers, at a time when American power is being challenged in Iraq, this would pose a significant challenge to the power status quo in the Middle East today.

With China's state-owned firms investing in the energy infrastructure of Middle Eastern states, the PRC's ability to stand clear of the internal affairs of the places in which it invests will become increasingly difficult. Eventually, Chinese oil firms will be faced with internal policies in some states that harm Chinese

investments, and China will have to decide whether the principle of sovereignty—a core principle of China's foreign policy—should be sacrificed to protect economic investments.⁸⁸ Little serious attention has yet been given to the security implications of the stated goal to transform Chinese state-owned oil firms into true global players.

As Chinese commercial interests in the Middle East proliferate, Chinese power does not necessarily have to follow, as is demonstrated by the case of Japan, the third largest importer of Middle Eastern oil. To avoid the emergence of Chinese force in the region, Middle Eastern states need to provide Chinese policymakers with confidence in the security of Chinese investments. China may never be as satisfied with the current power dynamics as Japan; however, Middle Eastern states could do a considerable amount to build institutions that protect Chinese interests by nonmilitary means, thereby reducing Chinese pressures to intervene.

The U.S. has called for China to use its power and influence as a responsible stakeholder in the international system, but scolding China has proven ineffective in Sudan, Iran, and even Zimbabwe. Chinese officials proudly put their nation's own interests ahead of what they perceive to be America's goals, and thus they continue to import Iran's oil and welcome its President even as the UN Security Council implements sanctions. If China concludes that Iran has a determined interest in undermining the international economic and political system that has given rise to Chinese power, the country will be more interested in preventing an Iranian nuclear program. If Chinese leaders believe that Iran's nuclear ambitions threaten either the capitalist system or the preeminence of the UN Security Council, they will be less likely to defend Iran based on their mutual philosophy of multi-polarity. Historically, when faced with a decision between pragmatism and ideology, China's foreign policymakers in the Middle East have made practical decisions.

CONCLUSION

Rapidly growing Chinese energy imports from the Middle East on their own do not constitute a threat to stability in the Middle East. China has exhibited pragmatism in choosing its oil supply sources that is a positive signal of their intention to diversify supply without making strong commitments of political or military support to one state over another. Moves to restrict Chinese investment in oil fields controlled by pro-western regimes only serve to push China further away, possibly to the point of

contemplating retaliatory moves, such as increased material military support for anti-western regimes. Engagement and cooperation with China on energy development is a far better option; it can help keep the price of oil stable and mitigate China's willingness to challenge the West through support of states like Iran. Fears, that China can "lock up" resources or create a military alliance within the SCO to rival NATO, are significantly overblown. While Chinese military buildup is cause for significant long-term concern, their activities in the Middle East do not yet constitute a real challenge to status quo interests in the region.

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