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## Energy First

China and the Middle East

by Jin Liangxiang

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China's Middle East policy is undergoing a major shift. Traditionally, Beijing considered the region too distant for significant investment and instead limited its efforts to convincing Arab capitals to sever their ties to Taiwan and establish diplomatic relations with the People's Republic.<sup>[1]</sup> Beijing's first diplomatic victory in the Arab world was the formal establishment of relations with Egypt in 1956. The Chinese Foreign Ministry completed its mission of establishing ties to each Arab country when China and Saudi Arabia exchanged ambassadors in 1990. With China's economic boom, though, Beijing's Middle East policy has taken on new importance. While Washington's Middle East policy has traditionally been activist, Beijing's policy was more restrained. But Chinese passivity in the region may end in coming years, as the Chinese government's need to achieve energy security forces a more active policy.

### China's Quest for Energy

For decades after the 1949 establishment of the People's Republic, energy concerns were only a minor factor in Beijing's national security assessment. After all, the Daqing oil field, 600 miles northeast of Beijing, discovered in 1959, had since 1962 produced enough oil to keep the nation self-sufficient. This changed, however, as China's economy developed. Since the 1978 initiation of economic reforms, China has enjoyed an almost 9 percent annual growth rate. In 1993, China became a net importer of oil and, in 2003, with a daily demand of 5.5 million barrels per day, China surpassed Japan to become the second largest international oil consumer after the United States.<sup>[2]</sup>

While China has boosted its own domestic production, demand is outpacing domestic supply. By 2020, China might produce 3.65 million barrels per day but will likely require more than twice that to meet its needs. While Chinese scholars suggest that oil imports will account for 60 percent of Chinese energy needs, <sup>[3]</sup> the International Energy Agency believes that the figure could be higher.<sup>[4]</sup> While analysts may quibble over the actual figure, there is consensus that the Chinese thirst for oil will only increase.

As China's thirst for oil has grown, energy security has become a major consideration of its Middle East policy. While the Middle East accounted for less than 40 percent of China's oil imports before 1994, since 1996, the proportion has risen to over half. In a June 2004

lecture, Han Wenke, deputy director of the Energy Research Institute of China's National Development and Reform Commission, argued that China should "make full use of international influence and comprehensive national strength to strengthen international cooperation with major oil production countries and exporting countries in fields of politics, economy and trade and diplomacy."<sup>[5]</sup> In many ways, Han's statement is more a description of current Chinese policy rather than proscriptive advice. As Table 1 (below) indicates, Iran and Saudi exports together now represent almost two-thirds of China's Middle East oil imports.

**Table 1: The Volume of China's Oil Imports, 1990-2002 (millions of barrels)**

Supplier	1990	1992	1994	1996	1998	2000	2002
Oman	6.00	22.34	24.58	41.28	42.29	114.32	58.73
Yemen	-	3.20	9.18	27.49	29.55	26.37	23.81
Iran	2.20	0.84	0.50	16.87	26.43	51.10	77.60
Saudi Arabia	-	1.37	1.07	1.68	13.19	41.83	83.15
Iraq	-	-	-	-	4.43	23.24	3.92
UAE	-	1.71	0.48	-	3.76	3.14	-
Kuwait	--	-	-	-	2.06	3.16	7.81
Qatar	-	-	-	-	-	11.67	3.34
Egypt	-	-	-	-	-	0.88	-
Libya	-	2.15	-	1.01	-	0.95	-
Algeria	-	-	0.05	-	-	-	-
Total from Middle East	8.42	31.60	35.87	88.34	121.68	276.67	258.36
Total Import	21.33	82.91	90.13	165.10	199.45	512.94	506.67
Proportion of Middle East	39.47	38.12	39.79	53.50	61.00	53.93	50.99

Source: *Yearbook of China Customs Statistics*, Relevant Issues, Customs General Administration People's Republic of China.

For consistency, the author has converted the unit from ten thousand tons to million barrels.

While China's imports from smaller producer countries rise and fall, the Chinese partnerships with major producers such as Saudi Arabia and Iran have increased exponentially. Whereas in 1994, Iran accounted for just one percent of China's total imports, less than a decade later, Beijing purchased \$2 billion (US) 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, the head of China's National Reform and Development Commission and Iranian oil minister Bijan Namdar Zanganeh signed a memorandum of understanding regarding bilateral energy cooperation. According to the agreement, the Chinese government will buy 10 million tons of Iranian oil each year for the next twenty-five years. In return, China Petroleum and Chemical Corporation (Sinopec), the nation's second largest oil producer, may develop the Yadavaran oil field in Iran's western Kurdistan province, giving China 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.<sup>[6]</sup> Nevertheless, China-Iran trade should be kept in perspective. While the China trade may be significant for Iran, the opposite is not true. Bilateral Sino-Iranian trade accounts for only 0.6 percent of the Chinese total.<sup>[7]</sup>

The recent growth in Chinese oil imports from Saudi Arabia has less to do with politics than with technicalities. Saudi oil tended to have too high a sulfur content for Chinese refining capability. The Chinese government has turned the impediment into advantage, though, as it gives Beijing an opportunity to engage the Saudis not only politically but also economically. Both Beijing and Riyadh are working jointly to establish capable oil refineries. The Chinese government has already approved a joint Sino-Saudi petroleum and chemical project in China's eastern Fujian province, and the Chinese government included the joint Qingdao refinery in China's eastern Shandong province in its tenth five-year plan (2001-05).<sup>[8]</sup>

Beijing's strategy has not been limited to importing oil and increasing China's own refining capacity but has also included increasing bilateral cooperation in Middle Eastern production. The China National Petroleum Corporation, China's largest energy company, began operating in Sudan in 1995. After a decade of continuous investment, the corporation was able to boost Sudanese oil production to 250,000 barrels per day.<sup>[9]</sup> More recently, on March 7, 2004, Sinopec, in partnership with Saudi ARAMCO, signed a natural gas exploration and development agreement in *Ar-Rub' al-Khali*, the so-called "Empty Quarter." Sinopec maintains a four-fifths share.<sup>[10]</sup>

Beijing views the Middle East not only in terms of its value as a source of oil but also in the context of its huge potential as an oil services market. Early in 1979, Chinese labor services companies entered the Gulf Cooperation Council markets. By 2001, China had signed almost 3,000 contracts in all six Gulf Cooperation Council states for labor services worth \$2.7 billion. The overseas construction arm of China National Petroleum Corporation moved into the Kuwaiti market in 1983, and a major business expansion took place in 1995 when the group won an oil storage reconstruction project in Kuwait. Since then China has expanded into oil services in Egypt, Qatar, Oman and other parts of the Arab world.<sup>[11]</sup>

China's growing economic ties with the affluent Persian Gulf emirates have not been unilateral. 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.<sup>[12]</sup>

## **Iraq Policy: Symbol of New Activism**

Beijing's policy to pursue good relations with every Middle East government has extended to Iraq. China and Iraq established diplomatic relations on August 25, 1958, shortly after the July revolution ousted the Iraqi monarchy and installed a republic. Over subsequent decades, despite frequent and sometimes violent changes in the Iraqi government, bilateral relations remained stable. Chinese companies were once very active in the Iraqi labor services market. From 1979 to 1990, Chinese companies signed 662 labor services contracts with Iraq amounting to almost \$2 billion. After the 1990 Iraqi invasion of Kuwait, Beijing suspended its economic relations with Baghdad in accordance with the relevant U.N. resolutions. While Beijing had donated humanitarian assistance to Iraq through channels such as the International Red Cross, Chinese firms suspended their investments in Iraq until the 1996 inauguration of the United Nation's oil-for-food program.[\[13\]](#) Even after the formal resumption of Iraqi oil exports under U.N. supervision, Beijing's purchases from Saddam Hussein's Iraq never accounted for more than 10 percent of China's total Middle East oil imports and never exceeded 5 percent of China's total oil imports. Chinese economic interests in Iraq have not dominated Beijing's stance on political and diplomatic questions regarding the troubled country. Consistent with the Chinese foreign ministry's stance on proliferation and the Iranian nuclear issue, Beijing sought to resolve the Iraq issue within the framework of the United Nations, a reflection of Beijing's traditional opposition to military intervention.[\[14\]](#) While Beijing opposed the eventual war, its position was much more moderate than that of France and Russia, both of whom threatened to wield their Security Council veto.

In recent months, and consistent with Beijing's evolving Middle East policy, Beijing has become more assertive on the Iraq issue. In May 2004, China's United Nations mission raised a proposal to enhance the Iraqi interim government's real power by setting a date for a U.S. military withdrawal. Russia, France, and Germany supported China's proposal, which was reflected in the final text of U.N. Security Council Resolution 1546.[\[15\]](#) While an American audience might simply see Security Council members seeking to undercut U.S. power, veteran China watchers found Beijing's actions far more significant because China seldom raises its own proposals on the Middle East.

## **Respecting American Concerns**

In the aftermath of the 9-11 terrorist attacks and especially after the Bush administration showed its willingness to use military power against Afghanistan and Iraq, many Arab governments expected that the Chinese government would become a more assertive player in the Middle East as a counterbalance to American dominance. In an interview with *Renmin Ribao* (*People's Daily*), China's leading newspaper, Syrian president Bashar al-Assad said, "China is now a superpower and is very important after the absence of the Soviet Union. China's role has expanded across the world and has become more important especially for small countries including Syria."[\[16\]](#)

Assad sought the Chinese government's support against increasing U.S. pressure. On an emotional level, it is a plea that has resonance among Chinese policymakers. Because the Chinese government feels that their country was victimized by Western powers prior to the 1949 communist revolution, Chinese diplomacy has long maintained the principle of equality among nations big or small in international affairs. Nevertheless, consideration of the U.S. position still matters. China abstained on the vote for U.N. Security Council Resolution 1559, which demands a Syrian withdrawal from Lebanon.[\[17\]](#)

Within the corridors of Washington, Beijing's outreach to the Arab world may be cause for concern. In prepared testimony for a 2003 hearing before the Congressional U.S.-China Economic and Security Review Commission on China's energy needs and strategies, Roger W. Robinson, chairman of the commission, and C. Richard D'Amato, vice chairman, argued that China's approach toward oil-rich countries "may also encourage China to offer incentives to energy supplier nations, as it has in the past, including missile and WMD [weapons of mass destruction] components and technologies, for secure long-term access to energy supplies."[\[18\]](#) Other experts worry that China might transfer arms, missile components, or conventional or unconventional technology to countries sponsoring terrorism in order to safeguard its own energy security.

Such concerns are misplaced. 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, with the possible exception of tactical missiles.[\[19\]](#) For more than a decade, China has made tremendous improvements in its non-proliferation 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. In addition, the Chinese legislature, the National People's Congress of China, has passed laws to administer export of both arms and military technologies. The Chinese government has worked to demonstrate commitment to counter proliferation efforts by training nineteen chemical weapons inspectors for the U.N.'s Monitoring, Verification, and Inspection Commission (UNMOVIC) in September 2002. China also seconded two of its own arms experts to UNMOVIC when Iraq inspections resumed in November 2002.[\[20\]](#)

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.[\[21\]](#) 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.

While the economic motivations for China's new activism in the Middle East may be significant, the importance of security cannot be underestimated. China shares a 20-mile border with Afghanistan. Following the 9-11 terrorist attacks, China gave strong support to the U.S.-led war against the Taliban and has subsequently, both politically and financially, supported the new government of Afghan president Hamid Karzai.[\[22\]](#) Beijing's support for



U.S. actions in Afghanistan was in part a reflection of its own security concerns. The Taliban cooperated with Al-Qaeda, which in turn supported the East Turkistan terrorist forces that threatened the stability of China's northwestern Xinjiang Uighur autonomous region. Between 1990 and 2001, East Turkistan terrorist forces, based in western Xinjiang, staged more than 200 attacks in Xinjiang, killing 162 people of all ethnic groups, including grassroots community leaders and religious personnel. Several hundred more were wounded.[\[23\]](#)

## Supporting an Arab-Israeli Resolution

While some Washington officials may be concerned about China's new outreach to the Middle East, both Chinese and U.S. concerns remain remarkably consistent. The United States seeks energy security. So, too, does China. The United States opposes terrorism. So, too, does China. The United States supports Arab-Israeli peace. So, too, does China.

Israel was the first and, until 1956, the only country from the Middle East to recognize the People's Republic of China, even though the two countries did not exchange ambassadors until 1992. Unlike many Arab countries, Israel never recognized the government in Taipei although Israel and Taiwan did pursue military ties.[\[24\]](#)

China's new activism in the Middle East is also reflected by its recent involvement in Arab-Israeli diplomacy. At a September 17, 2002 press conference, a Chinese Foreign Ministry spokesman declared that Beijing had decided, at the request of several Arab states, to appoint a special envoy to the Middle East. The Foreign Ministry dispatched veteran diplomat Wang Shijie, who had previously served as ambassador in Bahrain, Jordan, and Iran, to the region.[\[25\]](#) When Wang returned to the region in his new capacity two months later, he reiterated Beijing's positions: China both supported the concept of "land for peace" as the basis of Arab-Israeli peace and recognized the need for an independent Palestinian state. However, Wang emphasized that Israel's security should be guaranteed, a position the Chinese government first enunciated in 1991.[\[26\]](#)

Wang has subsequently visited Israel and all of its neighbors and has also consulted with the special envoys of the Quartet: the United States, Russia, European Union, and United Nations. Beijing's new involvement reflects very practical concerns: peace can bring the stability needed to ensure a steady flow of oil. As a possible future mediator, China further needs to maintain its traditional relations with Arab states and engage Israel as well. Israeli politicians seem to recognize this. When meeting his Chinese counterpart, Tang Jiaxuan, during his trip to Beijing in March 2002, Israeli foreign minister Shimon Peres said that Israel appreciated Chinese diplomatic efforts and suggested that China play a larger future role.[\[27\]](#) Peres reiterated the message six months later when the two foreign ministers again met while attending the U.N. General Assembly in New York.[\[28\]](#)

The willingness of Beijing and Jerusalem to cooperate diplomatically in pursuit of Arab-Israeli peace does not mean that the Sino-Israeli relationship is without its bumps. Israel's 1994 decision to receive the Dalai Lama, the exiled Tibetan leader, briefly strained relations,

[29] as have occasional Chinese condemnations of Israeli operations in Palestinian areas. Another case in point was Israel's July 2000 decision—under heavy U.S. pressure—to cancel the sale of the Phalcon airborne early-warning radar system.[30]

The most recent contretemps in Sino-Israeli relations is also connected to bilateral military cooperation. According to a report in *Ha'aretz*, the United States demanded that Israel not return to China some of the drones the Chinese military sent to Israel for upgrading, even though these drones are Chinese property.[31] Regardless of the eventual outcome of the dispute, in some ways the damage has been done. If Israel does not meet its commitments to upgrade the drones, contractual terms would lead Beijing to likely launch sanctions on Israeli enterprises not only on the Chinese mainland but also in Hong Kong.[32]

High-level visits can repair some of the strain in relations. Every Israeli president since Chaim Herzog, as well as prime ministers Yitzhak Rabin and Benjamin Netanyahu, has visited China. In June 2004, Israel's deputy prime minister Ehud Olmert visited Beijing. Several Chinese officials have reciprocated the visits, most prominent among them President Jiang Zemin and Vice Premier and Foreign Minister Qian Qichen in April 2000. The latest high-level bilateral exchange was the visit on December 28, 2004, by Chinese state councilor Tang Jiaxuan, former Chinese foreign minister, to Israel following his visit to the Palestinian Authority.

## Conclusions

Although the changes are "slow and subtle,"[33] China's foreign policy is undergoing transformation. When interviewed by the *Zhongguo Qingnian Bao* (*China Youth Daily*), one of China's leading newspapers, Wu Jianmin, former Chinese ambassador to France and currently president of the China Foreign Affairs University, said that China's diplomacy is transforming from "responsive diplomacy" (*fanying shi waijiao*) to "proactive diplomacy" (*zhudong shi waijiao*).[34] American scholars have made similar observations.[35]

The age of Chinese passivity in the Middle East is over. Beijing will play an increasingly active role in the region with the goal of securing its own energy security. This 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.

There will be differences of opinion, however. While Beijing supports Arab domestic reform, consistent with its opposition to unilateral action, the Chinese government will strongly oppose any outside attempts to impose reform. China's stance is closely linked to its sentiment of national sovereignty and its up-to-now successful experience of reform. Only through candid dialogue can better policy coordination be achieved. But Washington would be mistaken if it expects that Beijing will placidly revert to its past passivity. China's new

activism is a reflection of Chinese interests—especially in the energy sector. Beijing and Washington can work together. But if U.S. strategic calculations in the Middle East do not take Chinese interests into account, then they will not reflect reality.

**Jin Liangxiang** is a research fellow at Shanghai Institute for International Studies

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