



Dialogue on
Globalization

OCCASIONAL PAPERS

BERLIN

N° 24 / August 2006

Jochen Steinhilber

China

A new actor in the Middle East
and North Africa Region?

Dialogue on Globalization

Dialogue on Globalization contributes to the international debate on globalization – through conferences, workshops and publications – as part of the international work of the Friedrich-Ebert-Stiftung (FES). *Dialogue on Globalization* is based on the premise that globalization can be shaped into a direction that promotes peace, democracy and social justice. *Dialogue on Globalization* addresses “movers and shakers” both in developing countries and in the industrialized parts of the world, i.e. politicians, trade unionists, government officials, businesspeople, and journalists as well as representatives from NGOs, international organizations, and academia.

Dialogue on Globalization is co-ordinated by the head office of the Friedrich-Ebert-Stiftung in Berlin and by the FES offices in New York and Geneva. The programme intensively draws on the international network of the Friedrich-Ebert-Stiftung – a German non-profit institution committed to the principles of social democracy – with offices, programmes and partners in more than 100 countries.

This Occasional Paper is published by the Berlin office of the Friedrich-Ebert-Stiftung.

August 2006

Table of Contents:

1. Introduction	3
2. Toward oil throng all, to oil cling all? Energy security as a basic parameter of Chinese foreign policy	5
3. China's oil diplomacy in the MENA region	7
3.1. In quest of the oil wells that never run dry...: The energy-policy approach	8
3.2. A new Silk Road? Economic cooperation	12
3.3. Everybody's darling? Political cooperation	14
4. Dragon or dinosaur in the Middle East?	19

ISSN 1614-0079

ISBN 3-89892-546-3

© Friedrich-Ebert-Stiftung. All rights reserved.

The material in this publication may not be reproduced, stored or transmitted without the prior permission of the copyright holder. Short extracts may be quoted, provided the source is fully acknowledged. The views expressed in this publication are not necessarily the ones of the Friedrich-Ebert-Stiftung or of the organization for which the author works.

1. Introduction

With the European and US public increasingly discussing, with a mixture of fascination and fright, the Chinese dragon's newfound economic fire and sharpened claws, China's advance from the economic periphery into the core group of the world's leading industrial powers has already begun to leave its traces on the geopolitical map. In view of its economic dynamism, China's foreign policy has no choice but to assume a greater role in shaping the course of current world events. China's ongoing shift to a flexible, differentiated and proactive foreign policy is clearly reflected in its more diverse spectrum of interests, its more marked engagement in regional (ASEAN plus 3, Shanghai Cooperation Organization) and global arrangements (WTO, UN) as well as in its generally broader geographic focus.¹ While even two decades ago large parts of the globe were still largely terra incognita for Chinese diplomacy, the country – now on the lookout for new export markets, investors, raw materials, and energy – is increasingly forced to assert its interests in regions in which it traditionally had little strategic interest. Apart from Latin America and sub-Saharan Africa, this goes above all for the Middle East and North Africa (MENA).²

Up until the early 1990s China saw in the MENA region little more than an arms market – of use to it in procuring foreign exchange and modernizing its own military.³ While – as was expected of it in connection with the Third World ideology it advocated – China fell duly into line behind the declared interests of the PLO, it was unwilling to assume any particular material or political commitments.⁴ But beginning in the mid-1990s, with its energy needs growing, China's interest in the region began to grow as well, and China has since substantially enlarged its economic and political activities there. In expectation of returns, China has pinned its hopes on long-term supply agreements for oil and gas, lucrative contracts for its own energy companies, and a stable energy-supply situation even in times of crisis.

In the MENA region, China's role gains more advertence. The Arab countries and Iran regard China – in ways, to be sure, that differ from country to country – as a reliable customer for oil and gas, a promising market and place to invest, an investor, a friend on the UN Security Council, and, not least, a leading political power that could serve as a counterweight to the dominant influence wielded by the US in the region. Israel considers China a market of growing importance.

With its energy needs growing, China's interest in the Middle East and North Africa region began to grow as well, and China has since substantially enlarged its economic and political activities there.

1 Rosemary Foot: Chinese strategies in a US-hegemonic global order: accommodating and hedging, in: *International Affairs*, 82/1, 2006.

2 Willy Lam: China's encroachment on America's backyard, *China Brief*, Jamestown Foundation, 4/23, 2004.

3 For example, China supplied both parties to the Iran-Iraq-war and Saudi Arabia as well. For China, Israel has been (and continues to be) an attractive supplier of Western military technology.

4 Guang Pan: China's success in the Middle East, in: *Middle East Quarterly*, 4/4, 1997.

The present article focuses on the motives, interests, and instruments involved in China's engagement in the MENA region, the expectations harbored by the countries of the region, and the conflicts and political challenges that may result from this constellation. China's engagement in the MENA region may be seen as a delicate mission, one whose foreign-policy premises and goals are not always free of conflict: In a region marked by a great variety of rivalries and tensions, and one in which the room for political maneuver open to Chinese policy is defined mainly by the US, it is often very difficult to navigate safely between a foreign policy in the service of economic modernization, the need to maintain good relations with the US, and the claim to be a reliable and constructive partner in international politics – and yet at the same time to be mindful of the principle of nonintervention.

2. Toward oil through all, to oil cling all? Energy security as a basic parameter of Chinese foreign policy

In the eyes of the Beijing leadership, what is required if China is to rise into the role of a global player is economic modernization, a prosperous China, “wealthy and strong.” The basis of the social contract cementing together an increasingly contradictory society, and thus ensuring the continued existence of the present regime, is unflinching growth. Growth enables the “ruling party” to retain unlimited political power, though providing in return for a stable economic environment in which every Chinese citizen is free to pursue his own prosperity as well as for a certain transfer of prosperity gains to the extensive poverty areas at the periphery. While the popular Western literature on the rise of China’s often fails to do justice to the contradictions inherent to the country’s present development path, those in power in Beijing do seem to be quite clear about the potential impediments to China’s growth: Apart from the central problem of coming up with effective approaches to giving social, ecological, but also political shape to the ongoing transformation process,⁵ this is also a question of how the country will manage to satisfy, on a continuous basis, China’s growing hunger for energy and raw materials.

In order to sustain the dragon-fire of its economy, shoring up the country’s political and social stability, China is going to have to satisfy an energy demand that is growing at a breakneck pace. The leadership in Beijing has identified energy supply as one of the crucial weak points of the country’s development model, and now, for the first time, a Chinese five-year plan (the tenth: 2001-2005), has officially declared energy security to be a national goal.⁶

In fact, coal will continue to be the chief supply component of China’s energy mix in the future. Coal is still the country’s most important source of energy, covering just short of two third’s of its energy needs, followed by oil (25%) hydropower (7%), gas and nuclear power (respectively 3%).⁷ Taken together, however, China’s economic expansion (including not least its petrochemical-processing industries), its burgeoning trade (implying massive growth in the country’s transportation sector), its growing private energy consumption, and the ecological limits set to the use of coal⁸ – will inevitably shift the scales of energy consumption sharply toward oil and gas.⁹ Today already, China – following the US – is the world’s second largest oil consumer.¹⁰

In order to sustain the dragon-fire of its economy, shoring up the country’s political and social stability, China is going to have to satisfy an energy demand that is growing at a breakneck pace.

5 The number of recorded protests increased e.g. from 8700 (1993) to 74.000 (2004) (Howard French: Alarm and Disarray on Rise in China, International Herald Tribune 24 Aug. 2005).

6 Christian Constantin: China’s Conception of Energy Security: Sources and International Impacts, Working Paper, No. 43, Toronto, March 2005.

7 Michael Mellish and Diane Kearney: Coal, in: International Energy Outlook, Energy Information Administration, July 2005.

8 In the coming fifteen years China is set to develop into the world’s second largest automobile market. With China today producing 23 million vehicles per year, the figure is expected to soar to 130 million in 2030 (Gal Luft: Fueling the dragon: China’s race into the market, IAGS Spotlight, 2004 [www.iags.org/china.html]).

9 Hearing on EIA’s Annual Energy Outlook for 2006, US Senate, Testimony of Jeffrey Logan, February 3, 2005.

10 International Energy Agency (IEA), Oil Market Report, March 11, 2004.

One particular reason why its oil supply plays a prominent role in China's energy-security concept is that the country – once itself a minor exporter of oil – has been a net oil importer since 1993. Since then the supply gap has widened constantly: while Chinese demand for crude oil increased by 90% from 1993 to 2002, domestic production accounted for no more than 15% of supply.¹¹ The reserves of China Daqing oilfields – large in size, though they have been operating at peak capacity since the 1960s – are beginning to decline and the new oilfields under development in Xinjiang Province and the South China Sea have not lived up to expectations. The consequence is a dependence on oil imports that will continue to grow in the coming years: while in 1995 China imported only 7.6% of its crude oil needs, the corresponding figure had jumped to 40% by the year 2004. The International Energy Agency predicts that China's oil imports will increase fivefold by the year 2030, from some two million barrels per day (2002) to a figure of close to eleven million barrels per day, i.e. to a total of roughly 80% of China's overall demand for crude oil.¹²

Based on “strategic oil partnerships” with the world’s most important oil-producing countries, China is actively pursuing the goal of securing access to sufficient energy resources abroad.

Alongside attempts to diversify domestic energy resources, to use new technology to enhance the development of existing oilfields, and, in particular, to improve the country's notoriously poor energy efficiency, the leadership in Beijing has responded by launching an active oil diplomacy, one with a broad geographic scope.¹³ China has in this connection set its sights on stable bilateral relations with the world's most important oil-producing countries. Based on “strategic oil partnerships”, long-term supply agreements with the world's leading oil producers, and acquisition of concessions and capital stakes in relevant energy corporations, China is actively pursuing the goal of securing access to sufficient energy resources abroad. In connection with the “going-out strategy” China has pursued since 2002, the country's three major energy corporations – China National Petroleum Corporation (CNPC), China National Petrochemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC) – have been stepping up their investments in oil companies and oilfields abroad. China, which intends to increase its “equity oil” share from a current level of 15% of imports over the coming years, considers this strategy an approach to obtaining cheaper oil in the long term and a means of checking the vagaries of the market – including supply shortages and price shocks.¹⁴ Beijing is increasingly skeptical about the prospects of satisfying its soaring energy demand in the international energy market, dominated as it is by US and European corporations.

11 Linden Ellis: Energy in China – Fact Sheet, Woodrow Wilson International Center for Scholars, 2005.

12 International Energy Agency: World Energy Outlook, Paris, 2004.

13 Zha Daojing, China's Energy Security and its International Relations, in: The China and Eurasia Forum Quarterly, 3/3, 2005.

14 Erica S. Downs: The Chinese Energy Security Debate, in: The China Quarterly, No. 177, 2004.

3. China's oil diplomacy in the MENA region

Thus far China's oil diplomacy has on the whole been quite successful. While in 1993 China imported nearly all of its crude oil from Indonesia, Yemen, and Oman, today there is hardly an oil-producing country in the world with which China has not been at pains to intensify its relations. Be it in Canada, across the Andean plateau, in West Africa and Sudan, North Africa and the Middle East, Central and Southeast Asia, and down to Australia, Chinese energy corporations now own oil and gas concessions in a total of some twenty countries.

But when we look again, we find that this approach is not really so broad after all, for 60% of the oil imports in question stem from one region – the Middle East and North Africa. And this dependence is set to increase further in coming years: On the one hand – and despite some major projects in Central Asia (e.g. the China-Kazakhstan pipeline) – China's desire to be able to fall back on energy resources located closer to home have met less than with full success.¹⁵ On the other hand, the lion's share of the world's oil and gas reserves are located in the MENA region. While overall production will tend to decline outside the region, the region's output is expected to rise, mainly on account of the large reserves still available and the low costs involved in producing gas and oil there.

According to predictions,¹⁶ the MENA region will increase its percentage share of worldwide oil production from today's figure of 35% (2004) to 44% in the year 2030, and the lion's share of Chinese crude-oil imports – estimated to be between 70 and 75% – will thus have to originate in countries of the region in the coming decades as well.¹⁷ Whether or not China will prove able to achieve its ambitious modernization goals will depend not least on if and how Beijing manages to place its economic and political relations with countries in the region on a stable footing.

Today, 60% of the oil imports stem from one region: the Middle East and North Africa. And this dependence is set to increase further.

Whether or not China will prove able to achieve its ambitious modernization goals will depend not least on if and how Beijing manages to place its economic and political relations with countries in the region on a stable footing.

¹⁵ In China's, eyes it is mainly Russia that has proven unreliable. Only in the course of protracted negotiations was China able to prevail over Japan, and now a spur pipeline is set to be laid from the Angarsk Pacific pipeline to Daqing (Friedemann Müller: Chinas Energiepolitik – geopolitische Konsequenzen, in: Gudrun Wacker (ed.): Chinas Aufstieg: Rückkehr der Geopolitik? SWP-Studie, Berlin, 2006).

¹⁶ Iraq, Kuwait, the UAE, and Libya are expected to account for the major share of this additional output (International Energy Agency: World Energy Outlook 2005 – Middle East and North Africa, Paris, 2005.)

¹⁷ John Calabrese: Dragon by the Tail: China's Energy Quandary, Middle East Institute Perspective, March 2004.

Table 1: **Shares of worldwide reserves (oil and gas) / as a percentage of worldwide production (oil – end of 2004)¹⁸**

Country	Confirmed oil reserves worldwide	Oil production	Gas reserves
Bahrain	–	–	0.1
Iran	11.1	5.2	15,3
Iraq	9.7	2.6	1.8
Kuwait	8.3	3.1	0.9
Oman	0.5	1.0	0.6
Qatar	1.3	1.2	14.4
Saudi Arabia	22.1	13.1	3.8
Syria	0.3	0.7	0.2
United Arab Emirates	8.2	3.3	3.4
Yemen	0.2	0.5	0.3
Algeria	1.0	2.1	2.5
Libya	3.3	2.0	0.8
Sudan	0.5	0.4	–
Tunisia	0.1	0.1	–
Egypt	–	–	1.0
Middle East	61.7	30.6	40.6
North Africa	4.9	4.6	4.3
China	1.4	4.5	1.2

Source: BP Statistical Review of World Energy 2005.

3.1 In quest of the oil wells that never run dry... : The energy-policy approach

As far as energy policy is concerned, China is using its state-owned energy corporations to pursue a “two imports and one export” strategy in the MENA region: The Chinese energy companies conclude long-term supply agreements for oil and gas (e.g. with Saudi Arabia, Iran, Oman, Sudan, Yemen, Libya, Kuwait, Qatar, and Algeria). At the same time, the region’s financially powerful (and often higher-tech) energy companies (Saudi-Aramco above all) are encouraged to invest in the Chinese downstream sector. This strategy’s export element is bound up with a direct involvement of Chinese companies in the development of oil- and gasfields as well as in the production of oil. Apart from major investments in Sudan, Chinese energy companies have plans to step up their presence in oil- and gasfields in Algeria (development of the Zarzaitine oilfield in the Sahara, construction of a refinery in Adrar), in Syria (on the basis of a number of Sino-Syrian and Sino-Indian joint ventures), in Iran, and – on a smaller scale – in Saudi Arabia.

¹⁸ I am very thankful to Tobias Huinink who kindly supplied me with valuable data about China.

Table 2: Chinese oil imports 1990-2004 (in millions of barrels)

	1990	1992	1994	1996	1998	2000	2002	2004
Oman	6.00	22.34	24.58	41.28	42.29	114.32	58.73	119,81
Yemen	–	3.20	9.18	27.49	29.55	26.37	23.81	(not spec.)
Iran	2.20	0.84	0.50	16.87	26.43	51.10	77.60	97,03
Saudi Arabia	–	1.37	1.07	1.68	13.19	41.83	83.15	126,39
Iraq	–	–	–	–	4.43	23.24	3.92	(not spec.)
UAE	–	1.71	0.48	–	3.76	3.14	–	(not spec.)
Kuwait	–	–	–	–	2.06	3.16	7.81	9,19
Qatar	–	–	–	–	–	11.67	3.34	1,04
Egypt	–	–	–	–	–	0.88	–	(not spec.)
Libya	–	2.15	–	1.01	–	0.95	–	(not spec.)
Algeria	–	–	0.05	–	–	–	–	(not spec.)
MENA region	8.42	31.60	35.87	88.34	121.68	276.67	258.36	(not spec.)
Total imports	21.33	82.91	90.13	165.10	199.45	512.94	506.67	899,39
Percentage MENA region	39.47	38.12	39.79	53.50	61.00	53.93	50.99	(not spec.)

Source: Yearbook of China Customs Statistics, Relevant Issues, Customs General Administration People's Republic of China 2003/2005; Alexander's Gas and Oil Connection (<http://www.gasandoil.com/goc/news/nts54343.htm>)

The “oil partnership” China concluded with *Saudi Arabia* on the occasion of an official visit there by then Chinese President Jiang Zemin is very clearly illustrative of the “two imports and one export” strategy China is pursuing in the region: Aside from concluding some long-term supply agreements with China, Saudi Arabia also opened part of its domestic oil and gas market for investments in the upstream sector. To cite an example, in 2004 SINOPEC was awarded a license for a gas project in one block of the Rub-al-Khali gasfields – an area, it should be noted, that Saudi Arabia was opening for foreign investment for the first time in 25 years.¹⁹ But a fact even more important for the Chinese energy companies than these symbolic agreements was that Beijing in turn permitted Saudi investments in the Chinese downstream sector (above all in refineries, e.g. in Qingdao, or petrochemical plants, e.g. in Fujian Province), in this way improving both the capacities and the technological standards of these two plants.²⁰

Compared with other countries in the region, it is *Iran* in particular that offers a number of – at least short-term – advantages for Chinese interests. Iran's present pariah situation, the low competitiveness of its economy due to the absence of US

The “oil partnership” China concluded with Saudi Arabia is illustrative of the “two imports and one export” strategy China is pursuing in the region.

19 Alexander's Gas and Oil Connection, 10 February 2004; Stephen P. Matthews: China's new energy focus: Strategic partnership with Saudi Arabia, Policy Paper, The James A. Baker III Institute for Public Policy, Rice University, July 2005.

20 No evidence has been forthcoming that Saudi-Aramco has been helping China to use enhanced technology to develop presently idle Chinese oilfields. Any export of this technology would fall under the US-imposed ban on exports of dual-use technology. China, Saudi Arabia and Pakistan are, however, reported to be planning a joint pipeline project (Flynt Leverett and Jeffrey Bader: Managing China-US Energy Competition in the Middle East, *The Washington Quarterly*, 29/1, 2005; Middle East North Africa Financial Network: Saudi Arabia, Pakistan, China to Enter New Eon of Energy Cooperation, 19 Feb. 2006.).

Iran's current pariah status and economic deprivation provide conditions that come very close to Beijing's ideal of an exclusive strategic oil relationship.

business interests, and generally the antagonisms between Iran and the US have created conditions that come very close to Beijing's ideal of an exclusive strategic oil relationship. An additional factor is that – unlike e.g. the situation in Saudi Arabia – large parts of Iran's upstream sector are – at least theoretically – open for foreign investment. With its two key energy hubs – the Persian Gulf and the Caspian Sea – OPEC's second largest oil supplier has again and again reawakened China's aspirations for a new "Silk Road" for oil and gas, one that could serve to reduce China's dependence on the world's insecure shipping lanes, which are controlled by the US Navy.²¹

Since 2000 a good number of energy agreements have been concluded between Chinese companies and Iran. The most important of these include drilling and production licenses acquired by SINOPEC for Zananah and Kashan, a supply agreement on imports of 100 million tons of liquefied gas (for US\$ 20 billion), and a general memorandum of understanding (2004) on a US\$ 100 billion package covering, for the coming 25 years, imports of 10 million tons of liquefied gas per year, 125,000 barrels of oil per day, and the joint development of the gigantic Yadvaran oilfield.²² In addition, China also has a long-term interest in gaining a stake in the Nekka pipeline to the Caspian Sea, where oil could then be diverted relatively securely into the planned pipeline from Kazakhstan to China.

There is little doubt that China will also seek to gain access to the oilfields of Iraq.

In the coming years *Iraq* should – provided it receives the massive investments it needs – be able to boost its oil output to levels second only to those of Saudi Arabia, and there is little doubt that China will also seek to gain access to the oilfields in and around Kirkuk, Umar, Majnoon, or West Qurna.²³ Prior to the US-led intervention in Iraq, China was already one of the biggest purchasers of crude oil under the UN-administered Oil for Food Program. In 1997 a Chinese consortium concluded an agreement with the Iraqi government providing for a production license for one half of the Al-Ahdab oilfield once the UN sanctions had been rescinded. However, these agreements were suspended by the US in the wake of the war in Iraq. So at present the best China can do is hope for a stake in Iraq's huge oil reserves, though without any real measure of certainty.²⁴

After Western companies divested themselves of their stakes due to the human rights situation, Chinese companies are working at full steam to further develop Sudan into a base for their sub-Saharan business.

Sudan in turn, not one of the world's largest oil producers, has, since the mid-1990s, become the most important location for investments by China's energy companies. In 2005 China purchased 50% of the oil exported by Sudan, an amount that accounted for some 5% of China's overall oil imports.²⁵ Chinese companies, and above all CNPC, are presently developing oilfields in western Kordofan and southern Darfur (which have a daily output volume of some 340,000 barrels (2005)), have acquired stakes in Sudanese companies (40% in the Greater Nile Petroleum Operating Company), and are investing in pipeline projects and refineries. Sudan accounts for over half of China's oil production abroad. Today China is at the same time Sudan's most important oil producer, exporter, and

21 Brandon Gentry: The Dragon and the Magi: Burgeoning Sino-Iranian Relations in the 21st Century, in: The China and Eurasia Forum Quarterly, 3/3, 2005.

22 Jin Liangxiang: Energy First, China and the Middle East, in: Middle East Quarterly, 12/2, 2005.

23 International Energy Agency: World Energy Outlook 2005 – Middle East and North Africa, Paris 2005.

24 Iraq's oilfields are very unlikely to be auctioned off before 2007. And according to the US government Energy Information Agency, Iraqi oil production, which in December 2005 accounted for a grand total of 1.9 million bpd, i.e. not even one half of pre-intervention levels (January 2003: 2.3 million bpd), will remain far below capacity for years to come (US Sees Iraqi Oil Production Choked for Years, in: Guardian online, 10 January 2006.)

25 Francois Lafargue: La Chine, une puissance africaine, in: Perspectives chinoises, Nr. 90, July-August 2005.

importer.²⁶ What makes Sudan especially attractive for China is not only the “sweet,” low-sulfur oil produced there – oil that is easier to process for Chinese refineries. In view of the protracted civil war in Sudan and the country’s international isolation, Western oil companies have for the most part withdrawn from Sudan. In 1997 the US imposed a comprehensive set of economic sanctions on Sudan that ban all investments by US companies in the country. Under pressure mainly from human rights groups, European and Canadian companies divested themselves of their stakes by the year 2003. Since then most of these oil stakes have been in the hands of Chinese – and to a lesser extent Indian, Malaysian, and Sudanese – companies, and these companies are working at full steam to further develop Sudan into a base for their sub-Saharan business – as long as the “competitive situation” there remains as favorable as it presently is.²⁷

In recent years Beijing’s oil diplomacy has opened the doors for its huge energy corporations to a good number of oil- and gasfields from the Maghreb to the Persian Gulf. Despite these successes, though, certain limitations and weak points are also becoming clear in China’s energy-based relations with the countries of the region. The great number of stakes and supply agreements China has obtained here should not blind us to the fact that Chinese imports from the region have thus far been concentrated on three countries – Saudi Arabia, Iran, and Oman – which account for roughly 43% of its *total* oil imports. When, in the future, China begins to import less oil from Oman and more from Iraq, it will then be obtaining the lion’s share of its oil imports from countries that must be seen as trouble spots in a region prone in any case to crisis and instability.

Moreover, many of China’s direct investment projects have not yet been implemented, and their economic viability is, to say the least, questionable. China’s willingness to pay excessive amounts for a number of stakes must be seen more as an indication that the country is intent on securing for itself a promissory note on future, more lucrative deals. However, whether these risky deals – in an uncertain political environment – will ever pay off is a matter that remains very much to be seen – i.e. one that must also be viewed with an eye to the example of Iraq.

Looked at from Beijing’s perspective, another factor exacerbating these strategic uncertainties is that, despite whatever high-flying pipe(line) dreams China may entertain, most of the oil exported from the region continues to be moved by ship, and this means that it must be transported to the Far East through shipping lanes that are largely controlled by the US.

And finally, China is not the region’s only new player in the contest for scarce resources. While it is true that China is valued as a good and reliable importer, many countries in the region, and above all the Gulf states, are seeking to further diversify their customer mix, and their “Look East” export strategies have also been devised with an eye to China’s rivals Japan, India, and South Korea. China is for this reason working to create a broader base for its political-economic cooperation with the countries of the region, seeking to bind them more closely to China.

China will be obtaining the lion’s share of its oil imports from countries that must be seen as trouble spots in a region prone to crisis and instability.

Many countries of the region have diversified their export strategies with an eye to China’s rivals. Therefore, Beijing is working to create a broader base for its political-economic cooperation to bind them more closely to China.

²⁶ Jean-Christophe Servant: China’s Trade Safari in Africa, *Le Monde Diplomatique*, 30 May 2005; Hearing on EIA’s Annual Energy Outlook for 2006, US Senate, Testimony of Jeffrey Logan, 3 February 2005.

²⁷ One good illustration of just how favorable the present situation in Sudan is for Chinese companies is the example of Libya: While China has recently acquired an offshore-drilling concession in Libya, US corporations like Occidental and Chevron Texaco have secured the largest piece of the pie for themselves, and are presently returning to the country now that 20 years of sanctions have come to an end.

3.2 A new Silk Road? Economic cooperation

China's economic (and in part also technological) potential is casting the country in the light of an attractive partner for the region – a trade partner, an investor, a technology supplier, and a provider of credit and development assistance.

China's activities in other economic sectors pale in comparison with the multi-billion-dollar agreements it has concluded in the energy sector. But here too, Chinese companies are far more heavily represented in the region now than they were only ten years ago. In recent years the volume of Chinese-Arab-Iranian trade has grown appreciably, though it should be noted that it started out at a very low level. This goes above all for the member countries of the Gulf Cooperation Council (GCC), whose trade with China amounted to roughly US\$ 20 billion in 2002 – and about half of this figure is accounted for by Sino-Saudi trade. Apart from Saudi Arabia, Iran, with a trade volume of some US\$ 7 billion, is China's most important trading partner in the region.²⁸ While in the 1980s the best-known and most welcome Chinese products on the Persian Gulf were plastic flyswatters and Silk-worm medium-range missiles, China's export list for the GCC is now topped by automobiles, electronic goods, industrial machinery, cement, and processed foods. Chinese companies have also become important investors in many countries of the region: Algeria's largest construction sites are run virtually by Chinese,²⁹ in Tunisia Chinese are involved in the fertilizer industry, in Morocco in the fishing industry, and in Algeria and Egypt in the telecommunications sector. In Iran over 100 Chinese companies are engaged in the infrastructure sector (building telephone networks, roads, subways, dams and port facilities) and the auto industry (it is in Iran that the Chinese automaker Chery has opened its first car factory abroad).

Table 3: **Chinese imports and exports (2004 – in 10 000 US\$)**

	Imports	Exports
Iran	449069	255476
Iraq	32025	14955
Saudi- Arabia	752265	277546
Israel	94286	154199
Jordan	8849	62227
Kuwait	76406	48405
Algeria	25908	98052
Syria	2801	69265
UAE	130448	684114
Libanon	970	48385
Qatar	33426	10352
Yemen	145855	45770

Source: China Statistic Press: National Bureau of Statistics of China, China Statistical Yearbook 2005, Beijing, 2005.

²⁸ Alexander's Gas and Oil Connections, April 17, 2005; China Goes beyond Oil in Forging Ties to Persian Gulf, Energy Bulletin, January 14, 2005, New York Times.

²⁹ Here most work is also done by Chinese workers.

But while China's economic power is leaving its traces in the Maghreb and on the Persian Gulf, companies from the region have yet to be able to gain a foothold in the Chinese market – either with their products or with investments. There are two weighty exceptions here: petrochemical products and petrodollars from Saudi Arabia and arms from Israel. For *Saudi Arabia*, China has, especially since 9/11, become a profitable and relatively secure haven for huge gains from the Saudi oil business. Furthermore, Saudi Arabia has managed to successfully diversify its export strategy in its trade with China, above all by supplying the gigantic Chinese textile industry with Saudi petrochemical products – at the expense of China's traditional Asian suppliers (mainly from South Korea).

While China's economic power is leaving its traces in the region, with the exception of petrochemical products and petrodollars from Saudi Arabia and arms from Israel, companies from the region have yet to gain a foothold in the Chinese market.

Long before the two countries had established diplomatic relations in 1992, *Israel* was an important trading partner for China, playing a major role in modernizing its army. And China was a welcome customer for Israel's highly developed military industry, which is barred from Arab markets and has seen its traditional export markets in Latin America declining in volume. When the US and the EU imposed sanctions on China, Israel became China's "back door" source for hard-to-come-by Western military technology. While Israel for the most part supplied China only small weapons systems and control devices, Tel Aviv always seemed to be willing to ship things of a more substantial nature to the Far East. These included systems like the Harpy anti-radar drone, air-to-air missiles, and the technology China needed to build its own jet fighter, a development that – it is estimated³⁰ – went some way toward giving China a military upper hand vis-à-vis Taiwan. It is for this reason that the US views its interests in the Pacific region as threatened by the Sino-Israeli arms trade, though it also harbors the suspicion that American weapons technology – supplied to China via Israel – could serve as an enticement in Sino-Iranian "oil-for-arms" deals.³¹ In 2000 the US stopped a planned delivery of the Phalcon early-warning system to China, and in 2003 Israel pledged not to supply any more civil or military technology to China that might compromise US security.³² And in more recent years the US blocked Israel's modernization of its Harpy system, showing Israel the limits set to its arms trade with China. Beijing will of course continue to seek to acquire Western military technology via Israel. As soon as the EU rescinds its arms embargo on China, a move expected for the near future, Israel's arms industry will push for permission to resume its own trade with China.

In recent years China has succeeded in establishing a greater presence in the region above and beyond the energy sector, using trade, investment, and technology transfer as means to enhance its image in the Middle East, which is already positive.³³ The roughly 3000 trade agreements and treaties that China has concluded with the GCC countries since 2001, the "Framework on Economic Development, Trade, Investment and Technology" adopted in 2004, and the free-trade agreement currently under negotiation between China and the six Gulf countries

30 Dan Blumenthal: Providing Arms: China and the Middle East, *Middle East Quarterly*, 12/2, 2005.

31 P. Kumaraswamy: Return of the Red Card: Israel-China-US Triangle, PINR Report, 23 May 2005.

32 Yitzhak Shichor: The U.S. Factor in Israel's Military Relations with China, *Chinabrief*, The Jamestown Foundation, 5/12, 2005.

33 A gigantic mall – in the shape of a dragon – the so-called "Dragon Market," was recently inaugurated in Dubai as a "permanent exhibition" for Chinese products.

High trade deficits with China have repeatedly led to disputes.

On the other hand, the new role China is playing as an alternative monetary fund – that provides credit on preferential political terms and without conditions – is welcome.

clearly indicate that the parties are intent on further developing their economic relations in the coming years. These economic relations are, though, for the most part asymmetrical in nature. Apart from the large number of Chinese workers active in some countries (e.g. in Algeria), the high trade deficits other countries have been incurring with China – above all North African countries, but also Egypt and Israel – as well as concerns on the part of domestic producers about competition from Chinese products have repeatedly led to disputes.³⁴ But on the other hand Sudan and Algeria, but also other countries in the region, have welcomed the new role China is playing as an alternative monetary fund that provides credit on preferential political terms – as it also does in sub-Saharan Africa –³⁵ and without prescribing “shock therapy” and conditions patterned on the letter of the Washington Consensus.

3.3 Everybody’s darling? Political cooperation

Political cooperation has gained in importance both for the Chinese side and for the countries of the MENA region. One clear outward sign of this new engagement is the intense and highest-level “visit diplomacy” China has employed in the region in recent years. Saudi Arabian King Abdullah’s visit to China in early 2006, the first visit by a Saudi monarch to China since the two countries established diplomatic relations, and Hu Jintao’s return visit in later April are only the most recent examples for this development. And while the appointment in 2002 of a Chinese “Middle East Peace Envoy” has largely remained without any political consequences, the move does signal a broader interest on China’s part in the political issues on the agenda in the Middle East.

In a region in which it does not yet play any compelling political role, and which continues to be dominated by the US, China hopes to be able to place its diplomatic relations on a more stable and crisis-proof footing.

In a region in which it does not yet play any compelling political role, and which continues to be dominated by the military-political presence of the US, China hopes to be able to place its diplomatic relations on a more stable and crisis-proof footing. While its efforts here are focused primarily on securing resources, China is also concentrating on a number of more “classic” issues of Chinese diplomacy, including the People’s Republic’s claim to be the sole legitimate representative of China, efforts to obtain Arab-Iranian backing on human rights issues, and, not least, China’s attempt to put an end to the support it suspects is being provided by Saudi Arabia and other countries of the region for – in some cases insurgent and separatist – activities on the part of Muslim Uighurs in Xinjiang Province.

Both some Arab countries and Iran in turn perceive China as one of the world’s future leading powers, one with global reach. With the Cold War era – and its system competition – over, and one big power that once played a balancing role eliminated from the picture, Beijing is becoming more attractive as a partner for political cooperation and a potential friend in the international institutions. Egypt, for example, which is interested in using China as a diplomatic stepping stone in

³⁴ Beijing’s practice of subsidizing Chinese dealers engaged in procuring Egyptian goods and China’s official “designation” of Egypt, Israel, and Morocco as “approved tourist destinations” for the growing Chinese middle class have served to mitigate this asymmetry somewhat, though thus far only symbolically.

³⁵ Esther Pan: China, Africa, and Oil, Background Brief, Council on Foreign Relations, January 2006.

its efforts to further develop its relations with other Arab countries, has taken a markedly positive stance toward China's new anti-secession law; Beijing in turn has offered its backing for Egypt's claim to a permanent seat on the UN Security Council.

Furthermore, some leaders in the MENA region – including e.g. the king of Jordan and the president of Syria – have repeatedly expressed their hope that China could assume the role of the lead country of a “political alliance against hegemonialism” – in short: against US predominance. This is bound up with the idea that China may be seen as an advocate of a new, alternative policy concept, one directed against unilateralism, regime change, and intervention and dedicated instead to territorial integrity, sovereignty, and noninterference in the internal affairs of other countries (meaning for the most part: as far as democracy and human rights issues are concerned), more voice for the Arab countries, and resistance to military intervention.

What Chinese diplomacy is attempting in the Middle East can only be termed a political tightrope act. For on the one hand China, in the interest of securing the resources it needs, is forced to lay out its own political paths in the region – and these will inevitably cross the territory of one of the US' strategic partners or a country the US is seeking to isolate. At the same time, though, China cannot be interested in jeopardizing its relations with the US, which have improved substantially since 9/11. As a huge market for Chinese goods, an important investor, and a central military power, the United States holds the key China needs to achieve its modernization goals and to meet the security challenges it faces.

Beijing does not have any grand strategy of the region designed to resolve these dilemmas. Instead the Chinese government is engaged in sounding out, country for country, the political scopes defined by US policy, but also by its own overarching interests in the region. China's strategy, opportunistic to a certain degree, first made itself felt in Sudan: Here the specter of a Chinese veto in the UN Security Council has, in the past two years, safeguarded this African country from possible sanctions. While China voted for “smart sanctions” (travel restrictions, a freeze on assets) in the Security Council Resolution (1591) adopted in March 2005, it would have used its veto to block any more extensive (oil) sanctions.³⁶ Sudan rewarded China for its diplomatic support by providing a guarantee for the continuation of China's oil concessions, which was laid down by the Sudanese government – against the resistance of the People's Liberation Army – in the peace treaty finalized in 2005. But contrary to the hopes of the Sudanese government, Beijing at the same time accepted the UN resolution that opened up the possibility of handing over to the International Criminal Court those responsible for the expulsions and killings that have been committed in Darfur.

It is especially difficult for China to navigate the Persian Gulf, with its untold hidden political shoals, the massive US interests staked out there, and the profound rivalries between the players active in the region. Apart from China's arms and proliferation policy in the region, the touchiest and most critical points for the US are China's relations to Saudi Arabia, Iran, and Iraq.

China may be seen as an advocate of a new, alternative policy concept, one directed against unilateralism, regime change, and intervention and dedicated instead to territorial integrity, sovereignty, and noninterference.

Beijing doesn't have any grand strategy of the region. Instead Beijing is engaged in sounding out, country for country, the political scopes defined by US policy, but also by its own overarching interests.

The most critical points for the US are China's relations to Saudi Arabia, Iran, and Iraq.

³⁶ <http://www.globalpolicy.org/security/issues/sudanindex.htm>

Since the early 1990s China has sought to develop a stable bilateral relationship with the Saudi monarchy – and has been received with open arms.³⁷ While the focal point of Sino-Saudi cooperation is of course defined primarily by economic motives, it is still difficult to overlook the political subtext.³⁸ To cite an example, while Saudi-US relations have improved somewhat since the 2005 Crawford summit, they are still dogged by a number of irritants – mainly concerning positions on Iraq and “the war on terror.” Saudi Arabia is using its good relations with China as a – latent – means of bringing pressure to bear on the US.³⁹ Saudi Arabia views China as a valuable political resource and source of backing in a phase in which the country is embarking on a cautious course of economic liberalization, but is at the same time still intent on seeking to ignore the pressure exerted on it by Washington to tackle the issue of political reforms. In China’s eyes, in turn, stable relations with Saudi Arabia are the best possible approach to avoid being shut off without further ado from vital oil resources in the case that the Sino-American relationship should take a turn for the worse. Yet the cooperation between these two countries is not free of tensions. The close relations between China and Iran and China’s dealings with the roughly seven million Muslims at home in Xinjiang Province have repeatedly been the cause of frictions between the two nations. And despite the nervous agitation in the political haunts round about Capitol Hill, there is no real reason to overstate the strategic significance of the Sino-Saudi relationship and its general implications for the US – because the regime in Riyadh sees itself faced with threats at home and abroad for which China – unlike the US – is not in a position to offer support.

China is making an all-out effort in political cooperation, seeking to integrate Iran more firmly into forms of regional cooperation.

While in the case of Saudi Arabia China’s oil diplomacy is forced to seal with a situation defined by tense and yet close relations between Saudi Arabia and the US, when it comes to Iran, China is moving in terrain that is positioned squarely on the US’ “axis of evil.” While in the case of Saudi Arabia China’s oil diplomacy is forced to seal with a situation defined by tense and yet close relations between Saudi Arabia and the US, when it comes to Iran, China is moving in terrain that is positioned squarely on the US’ “axis of evil.” Owing to its immense oil and gas reserves, its geographic location on the Strait of Hormuz through which roughly two thirds of the ship-transported oil traded in the world passes, and its claim to regional leadership, *Iran* is for China a difficult though strategically important partner in the region.⁴⁰ This is why China is making an all-out effort in political cooperation here, one extending from wide-ranging travel diplomacy and transfers of civil technology to cultural and student exchanges. Beijing is also seeking to integrate Iran more firmly into forms of regional cooperation. And it is due mainly to China that Iran (alongside India and Pakistan) was given observer status with the Shanghai Cooperation Organization in 2005.

37 The exact fit of the – above described – economic interests involved, but also a number of political-structural similarities between the two countries have facilitated the development of relations: Both countries have embarked on a hesitant course of economic liberalization, although both continue to offer stiff resistance to the political-social reform processes for which – above all – the US has repeatedly called; for both countries – though for opposite reasons – the issues of resources is the key for the survival of the existing regime; and both countries use their huge state-owned energy conglomerates as instruments of an extended foreign policy.

38 Stephen P. Matthews: *China’s New Energy Focus: Strategic Partnership with Saudi Arabia*, James Baker III Institute for Public Policy, Rice University, 2005.

39 Abdulaziz Sager: *Saudi-Chinese Relations: Energy First, but not Last*, in: Middle East North Africa Financial Network, 26 Jan. 2006.

40 Amy Myers Jaffe: *Energy Security, Oil-Geopolitical and Strategic Implications for China and the United States*, Paper, James A. Baker III Institute for Public Policy, Rice University, 2005.

The most difficult tightrope act China is forced to master at present in the region is without doubt its approach to Iran's uranium enrichment program. Here China has the choice between a number of different scenarios, each of them unfavorable to Chinese interests. These would include a deterioration of its relations with one of its chief oil suppliers, an interruption of its oil supplies from Iran, the implications that a military intervention would have for the entire Persian Gulf, international isolation for the case that China should opt to use its veto, and severe conflicts in the relationship between China and the US. While a number of projected Sino-Iranian projects in the energy sector have not progressed beyond declarations of intent from the Iranian side, Sino-Iranian cooperation seems to be picking up steam since early this year: Aside from some smaller-scale projects like a politically sensitive deep-sea project in the Caspian Sea,⁴¹ a US\$-100 billion package that had been in planning since 2004 was finalized in March of this year.⁴² The point of time at which this hectic dynamic has emerged seems to indicate that *both* countries, mindful of a looming showdown in the UN Security Council, are intent on raising the stakes, i.e. the price, for any possible sanctions.

China is seeking here to square the circle by exercising political restraint. Beijing has started out – successfully – by betting that Moscow will openly oppose Washington on the issue of sanctions. But if the Russian initiatives should prove unsuccessful, and the matter should escalate into in a UN Security Council showdown over *comprehensive* sanctions against Iran, it is quite unlikely that China would be prepared to sacrifice its US interests to save Iran. But despite Beijing's concern over another US intervention in the Gulf region, it will hardly be prepared to let such a resolution pass without demanding a quid pro quo in return. The problem is that the US (and Europe) has little to offer in return for a Chinese abstention in the Security Council. As far as strategic trade is concerned, the offer would have to be of about the same magnitude as the recent US-Indian nuclear deal. And in view of the fact that one of the arguments being used to sell this agreement to Congress is containment of China, a similar Sino-American deal is more than unlikely. As far as the energy sector is concerned, opening up Iraq's oilfields for Chinese companies could offer a possible incentive, although in view of the generally extremely unstable situation in Iraq at present, there is some question as to whether this would in fact constitute an attractive offer for China.

There is little doubt, though, that China is interested in gaining access to the world's second largest oil reserves and possibly also in using the *Iraq crisis* as a means to bolster its own political role and influence in the Middle East. Here too, the Chinese leadership is pursuing a markedly cautious course. While China rejected the US-led intervention, it did so without making a fuss, and without openly criticizing Washington. During the events leading up to the war the Chinese government – mindful of its own manifest oil interests and concerned about the US military presence in the Gulf region – launched what must be seen as an unusually large number of initiatives aimed at coming up with a political solution to the Iraq question. While it declined officially to join in the joint German, French, and Russian declaration of February 2003, as soon as the hostilities were formally

In regard to Iran's uranium enrichment program, China has the choice between a number of different scenarios, each of them unfavorable to Chinese interests.

China is interested in gaining access to the world's second largest oil reserves and possibly in using the Iraq crisis as a means to bolster its own political role in the Middle East. Here too, the Chinese leadership is pursuing a markedly cautious course.

41 The Sino-Iranian joint venture is drilling in an area in the which course of the border between Iran and Azerbaijan is still unclear.

42 Iran-China Oil Deal on the Way, in: TradeArabia, February 18, 2006.

declared to be over, China did plead, in restrained language, for a larger role for the UN and the Arab countries, calling for a rapid withdrawal of the intervention forces and a swift restoration of Iraqi sovereignty. At the same time, it voted for UN Resolution 1546 in June 2004, which conferred legitimacy on the presence of the US-led forces in Iraq, cooperated with the US on the issue of debt relief for Iraq, and has become involved in a number of development projects.

In view of the unsettled situation in southern Iraq, with its abundance of oilfields, China is particularly interested in the more stable Kurdish territories in the north – one reason being the Iraqi Constitution now grants local authorities autonomy in developing new oilfields. Quite in contrast to its usual political practice of sharply condemning (and supporting action against) separatist movements, Beijing has in recent months sought to forge closer contacts to Kurdish parties and authorities in Iraq.⁴³ Here the Chinese leadership is not offering its support for an independent Kurdish state, a move that would serve only to further destabilize the region, and could even spill over into separatist movements in China itself (Uighurs and Tibetans). But in essence what is behind China's call for a federal Iraq is its hope to be able to bypass Baghdad and establish a base in the north, without having to toe Washington's line. And here, in view of China's concrete interests, an autonomous North Iraq in a weak federal union would be its best bet.

China's role as an arms supplier in the region has – above all in US eyes – been one of the most unsettling aspects of Sino-Arab-Iranian relations. China has supplied missiles to Saudi Arabia, weapons technology to Iraq and Libya, and it was, beginning in the early 1980s, one of the Iraqi army's chief suppliers. After Pakistan and North Korea, Iran has traditionally been the largest recipient of Chinese (arms) technology.⁴⁴ In view of this long history of arms deals, it is entirely possible – and certainly in line with the wishes of a number of China's oil suppliers – that China might make targeted use of “weapons-for-oil” deals as an incentive. Despite rampant speculation (such as the recent talk of Chinese deliveries of anti-ship missiles to Iran), however, barter deals of this kind have declined markedly since the 1990s.⁴⁵ Neither in conventional weaponry nor in missile technology does China play a significant role in the region today. There are two reasons not to assume that such swap deals could find their way back into China's portfolio in the coming years: Most importantly, Saudi Arabia's rise as China's main oil supplier has served to sensitize Beijing for the fact that while any possible oil-for-arms deals might entail short term benefits, such deals would, in the long term, inevitably undermine the region's stability. And furthermore, Washington views Chinese restraint on arms proliferation as one of the key preconditions for good bilateral relations.

Saudi Arabia's rise as China's main oil supplier has served to sensitize Beijing for the fact that while oil-for-arms deals might entail short term benefits, such deals would, in the long term, undermine the region's stability.

43 Yitzhak Shichor: China's Kurdish Policy, China Brief, 6/1, Jamestown Foundation, 2006.

44 Bates Gill: Chinese Arms Export to Iran, in: Middle East Review of International Affairs, 2/2, 1998.

45 Christian Constantin: China's Conception of Energy Security: Sources and International Impacts, Working Paper, No. 43, Toronto, March 2005.

4. Dragon or dinosaur in the Middle East?

Despite rivalries among the key actors in the region, China today maintains good relations with all of the regions' potential energy suppliers – as well as with Israel. China's *strategic advantages* here are obvious: Beijing is, first, unencumbered by the historical ballast of a colonial power and, second, it is at present not pursuing a grand design for the region. Without any exaggerated political ambitions, China's leadership appears above all to be motivated by pragmatic considerations: how best to promote China's policy of economic modernization and to secure the supply of energy it needs. In this regard it may be said to be pursuing an *opportunistic strategy*.⁴⁶ China was a late entrant to the embattled oil market, and it is now seeking to compensate for its weak position by tapping oil resources that must be seen as at once more risky and more marginal – not least in some of the darker niches of the globe. In so doing, China has in part undermined the efforts of the international community to exert political pressure on countries like Sudan. Yet this “see-no-evil” approach is bound to run up against its limits as soon as it comes into conflict with China's overriding interests – viz, with its role as a responsible actor in world politics and with its relations with the US.

Also, the idea that China could assume the role of a force of balance in the region is in line less with reality than with the wish of a number of Arab countries for a “white knight” to counter American power in the region. The nimbus China has acquired of working counter to the premises of US foreign policy may well do good service in fostering its own bilateral relations in the region, but China is far removed from being part of any anti-US coalition, or indeed of assuming the leadership in any such coalition. There are simply no signs for the emergence of the “Islamic-Confucian alliance” darkly prophesized by Samuel Huntington. China has thus far studiously avoided being steered into a position of isolation on contentious issues or of having to come out openly against the United States. Indeed, as far as US policy in the Middle East is concerned, China has generally proven to be more a “free-rider” than a “spoiler.”⁴⁷

At the same time, there is in China a large measure of uncertainty as to whether today's good Sino-American relations might not be little more than a result of the “war on terror,” and whether their long-term prospects may be in fact seen as favorable, or whether the US neocons and hawks (“better Bambi than Godzilla”), who are already warning of what they see as an inevitable Sino-American showdown, will carry the day with their doubts as to any “peaceful rise of China.”

China was a late entrant to the embattled oil market, and it is now seeking to compensate for its weak position. Yet this “see-no-evil” approach is bound to run up against its limits as soon as it comes into conflict with China's overriding interests.

China is far removed from being part of any anti-US coalition. China has generally proven to be more a “free-rider” than a “spoiler.”

46 David Zweig/Bi Jianhai: China's Global Hunt for Energy, in: Foreign Affairs, 84, September/October 2005.

47 John Calabrese: Dragon by the Tail: China's Energy Quandary, Middle East Institute Perspective, March 2004.

China's actual behavior in the region shows that Beijing is in principle prepared to recognize the US as the driving force behind efforts to stabilize the region. At the same time, though, China is also seeking to limit US dominance.

While it is true – at least as far as the Middle East is concerned – that China's behavior toward the US has in recent years been geared less to “balancing” than to “bandwaggoning,” the dragon shows no signs at all of simply knuckling under to the US line. China's actual behavior in the region shows that Beijing is in principle prepared to recognize the US as the driving force behind efforts to stabilize the region – for, after all, the role played by the US in keeping order in the region is, in the end, wholly in line with Chinese interests there. At the same time, though, China is also seeking to limit US dominance – if not by pursuing the strategies of a countervailing power, then at least by other means. These include *negotiations* involving political tradeoffs (Chinese support for the war on terror in exchange for an official State Department classification of the East Turkmenistan Islamic Movement as a terrorist organization, a move that in some ways serves to legitimize China's strong-arm approach toward the Uighurs) or threats to use the Chinese veto; China's newfound love for the UN as a means of containing the US's power in the international institutions; creation of spheres of *regional influence* that extend as far as the Middle East (Teheran's observer status with the Shanghai Cooperation Organization); and, finally, China's growing *economic and political presence* in the region itself, which it has managed to achieve by forging stable bilateral relations. It would for these reasons be neither politically reasonable nor in fact viable for the US to embark on a more aggressive policy toward China, or indeed to seek to contain it on the pattern familiar from the Cold War. With a view both to the political situation in the Middle East and – more specifically – to competition for energy as a possible conflict catalyst, the better option must certainly be to seek to integrate Beijing and to get it involved in coming up with solutions to the pressing problems facing the region.

More Chinese involvement is the key condition required to induce China to place its trust more in the market than in exclusive supply agreements.

In seeking to achieve energy security, China has thus far given preference to exclusive supply agreements (over market-based solutions) and bilateral relations (over multilateral approaches). Whether this course will in fact lead to more security is an open and contentious question, particularly in view of the fact that since the 1970s oil shock the industrialized Western nations have, on the whole, made negative experiences with strategic oil partnerships. But there is, in China, still a widespread and deep-seated mistrust of the energy market as well as of more concerted approaches to what has become known as “energy governance”: In recent months the international energy market has not shown itself to be particularly generous to the Chinese newcomer. The (successful) political efforts to fend off Chinese advances and the protectionist reflexes set off by CNOOC's multi-billion-dollar offer for the California-based oil company UNOCAL have not exactly served to allay China's mistrust. Also, the asymmetry in multilateral policy dialogues – not only in the field of energy – have led to misjudgments and misinterpretations on both the Chinese and the Western side. Unlike Japan, whose economic rise in the 1980s was responsible for many of the scenarios current again today, China is not a member of any US-led alliances, is not (yet) regarded as a “like-minded country,” is not especially closely integrated within the world's important bodies responsible for making economic and energy-policy decisions. However, more Chinese involvement is the key condition required to induce China to place its trust more in the market than in exclusive supply agreements.

The broad academic debate underway in China on energy security is an unmistakable sign that China is already engaged in thinking about more cooperative approaches. China is seeking to forge regional energy partnerships in the ASEAN plus 3 framework; these include e.g. the development of a regional strategic oil reserve. The Western industrialized countries could support this process at the global level by opening International Energy Agency membership for non-OECD countries. Confidence-building measures should also include an iron-clad US guarantee to keep the world's shipping lanes open; pursuit by the US side of a strictly "laissez-faire" approach as far as bids for oil licenses in Iraq are concerned; efforts to promote instead of obstruct Sino-European-American joint ventures in the energy sector; technology transfers in the field of renewable energies; and a general sense of proportion as regards the actual impacts of ongoing Chinese activities in the energy sector.

In looking for political solutions for the Middle East too, the concern should be to place less emphasis on what separates the actors involved than on a shared interest in a more stable region. China's engagement here – as problematic as it may in part be – should be seen more as a chance than as a threat. If the US and Europe were to do more to integrate China into existing negotiating forums and/or future security arrangements for the region, this might well have the effect of inducing China to more strongly embrace common specific or international goals (e.g. nonproliferation of weapons of mass destruction, prevention of genocide).

Closer institutional-political involvement in the peace processes in the Gulf region and the Middle East would also be in Beijing's best interest. At the moment China seems intent on being seen as everybody's darling in the region, but it is unlikely that China will, in the long term, be able to sustain its present, successful course of neutrality and its defensive position as regards problems facing the region. Developments in recent years seem to indicate that China's economic engagement and its dependence on external sources of energy are giving rise to a lock-in effect that could drag the country into the region's crises and conflicts without giving it, at the same time, a measure of influence comparable to that of the US. A more pronounced Chinese engagement in the multilateral Middle East forums could prove to be one way out of this dilemma. Yet the possibilities open for an active Chinese involvement in the existing structures are quite limited. China's general support for the "roadmap" could open up at least the possibility of expanding the present Middle East Quartet into a new Quintet.⁴⁸ On the other hand, it is quite unlikely that there will be any Chinese involvement in the "Broader Middle East Initiative," the aim of which is to promote social and economic development, but above all to support and foster the political transformation process in the region (including promotion and dissemination of democracy, the rule of law, and human rights).

If, however, the "Middle East peace process" should be revived, China could take on an active role in the multilateral working groups on regional economic development and arms control.⁴⁹

48 See China's five-point proposal on Middle East Issue, Xinhua News Agency, www.china.org.cn/english/international/65664.htm, 29 May 2003.

49 Since August 2005 China and the US have been engaged in an ongoing dialogue, which was initiated by Deputy Secretary of State Robert Zoellick, on common US-China goals in international politics, including first and foremost nonproliferation of nuclear weapons (Flynt Leverett und Jeffrey Bader: Managing China-US Energy Competition in the Middle East, The Washington Quarterly, 29/1, 2005).

China's engagement here – as problematic as it may in part be – should be seen more as a chance than as a threat.

China's dependence on external sources of energy are giving rise to a lock-in effect that could drag the country into the region's conflicts. A more pronounced Chinese engagement in multilateral Middle East forums could prove to be one way out of this dilemma.

And finally, China should – but here we are talking of ‘things to come’ – be given a key role in the development of a regional security architecture. In view of the existing different interests (e.g. in the human rights question) an integration of China will not be easily achieved. But for China as well as for Europe and the United States there is simply no alternative to cooperative solutions when it comes both to their own energy security and the stability of the overall MENA region.

Further Occasional Papers:

N° 1 / December 2002

New Steps to Faster and Broader Debt Relief for Developing Countries

N° 2 / January 2003

Pedro Morazán

Deuda externa: Nuevas crisis, nuevas soluciones?

N° 3 / March 2003

Money Laundering and Tax Havens: The Hidden Billions for Development

N° 4 / April 2003

Michaela Eglin

The General Agreement on Trade in Services (GATS) – A Background Note

N° 5 / April 2003

Sophia Murphy

The Uruguay Round Agreement on Agriculture and its Renegotiation

N° 6 / May 2003

Eva Hartmann / Christoph Scherrer

Negotiations on Trade in Services – The Position of the Trade Unions on GATS

N° 7 / July 2003

Brigitte Young / Hella Hoppe

The Doha Development Round, Gender and Social Reproduction

N° 8 / July 2003

Eric Teo Chu Cheow

Privatisation of Water Supply

N° 9 / October 2003

Katherine A. Hagen

Policy Dialogue between the International Labour Organization and the International Financial Institutions: The Search for Convergence

N° 10 / October 2003

Jens Martens

Perspectives of Multilateralism after Monterrey and Johannesburg

N° 11 / October 2003

Katherine A. Hagen

The International Labour Organization: Can it Deliver the Social Dimension of Globalization?

N° 12 / March 2004

Jürgen Kaiser / Antje Queck

Odious Debts – Odious Creditors? International Claims on Iraq

N° 13 / January 2005

Federico Alberto Cuello Camilo

What makes a Round a 'Development Round'? The Doha Mandate and the WTO Trade Negotiations

N° 14 / January 2005

Thomas G. Weiss

Overcoming the Security Council Reform Impasse The Implausible versus the Plausible

N° 15 / February 2005

Gert Rosenthal

The Economic and Social Council of the United Nations. An Issues Paper

N° 16 / March 2005

Thomas Greven

Social Standards in Bilateral and Regional Trade and Investment Agreements – Instruments, Enforcement, and Policy Options for Trade Unions

N° 17 / April 2005

Maria Floro and Hella Hoppe

Engendering Policy Coherence for Development – Gender issues for the global policy agenda in the year 2005

N° 18 / May 2005

Dirk Messner, Simon Maxwell,

Franz Nuscheler, Joseph Siegle

Governance Reform of the Bretton Woods Institutions and the UN Development System

N° 19 / May 2005

Luke Eric Peterson

The Global Governance of Foreign Direct Investment: Madly Off in All Directions

N° 20 / August 2005

Nils Rosemann

The UN Norms on Corporate Human Rights Responsibilities. An Innovating Instrument to Strengthen Business' Human Rights Performance

N° 21 / October 2005

Christoph Zöbel

Global Democracy in the Nexus of Governments, Parliaments, Parties and Civil Society

N° 22 / April 2006

Theodor Rathgeber

UN Norms on the Responsibilities of Transnational Corporations

N° 23 / July 2006

Felix Kirchmeier

The Right to Development – where do we stand? State of the debate on the Right to Development



On the author:

Jochen Steinhilber is staff member of the Friedrich-Ebert-Stiftung's Department for Development Policy in Berlin.

For further information on Dialogue on Globalization, please contact:

Friedrich-Ebert-Stiftung Berlin
Hiroshimastrasse 17
D-10785 Berlin
Tel.: ++49-30-26-935-914
Fax: ++49-30-26-935-959
Roswitha.Kiewitt@fes.de
www.fes.de
www.fes.de/globalization

Friedrich-Ebert-Stiftung
Geneva Office
Chemin du Point-du-Jour 6 bis
CH-1202, Geneva
Tel.: ++41-22-733-3450
Fax: ++41-22-733-3545
fes.geneva@econophone.ch
www.fes-geneva.org

Friedrich-Ebert-Stiftung
New York Office
823 United Nations Plaza, Suite 711
New York, N.Y. 10017
Tel.: ++1-212-687-0208
Fax: ++1-212-687-0261
fesny@fesny.org
www.fesny.org