

RESOURCE COMPETITION IN THE MIDDLE EAST

ARAM ABAJYAN

THE ROLE OF THE GULF REGION'S ENERGY SUPPLIERS IN CHINA'S ENERGY SECURITY POLICY AT THE TURN OF THE 21ST CENTURY

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Abstract: The main purpose of this article is to analyze China's energy security calculations starting from the end of the 20th century. The growing demand for oil paved the way for China to expand energy ties especially with the Gulf region's energy producers. Beijing's economic modernization initiative together with its market-oriented economic plans caused significant increases in its energy demands. The Gulf attracted China more than any other region due to its huge energy resources. Consequently, while continuing to deepen its cooperative ties with the Gulf States, China was even ready for direct competition with the United States for influence there. Chinese energy companies were pursuing deals in many regions, but the Gulf region's huge oil potential remained crucially important for Beijing. The region gradually gained priority status in China's strategic calculations. Chinese economic and energy relations started to flourish in the Gulf, especially with their Saudi partners. Thus, the Sino-Saudi 'strategic partnership' pushed Beijing forward for new opportunities. Strategically significant development in Sino-Saudi trade and investment ties helped Chinese strengthen efforts to reemerge in the Kingdom's eyes as a trustworthy and desirable long-term customer for importing Saudi oil. China's oil diplomacy along with its huge demands for imported-oil had the potential to strengthen its energy ties with oil-producers, even though his policy complicated its relations with other global oil-importing states.

In this article, the author tries to present China's soft penetration into the Gulf region that made those states significant energy suppliers. How the Gulf region became a top priority within Beijing's energy security calculations will be demonstrated. Indeed, the attempts of Sino-Saudi rapprochement together with China-United States regional relations are also explored.

Keywords: *China, energy security, Middle East, Gulf, United States, oil diplomacy*

Introduction

The Middle Eastern countries sometimes are viewed as 'rich states' in regard to their natural resources. However, they are still not very

developed. With their huge oil reserves, the Middle Eastern countries could provide China with an alternative source of investments and foreign exchange, and at the very least serve to counterbalance some of the consequences of the West's potential sanctions. On the other hand, the region has become one of the best markets for Chinese labor services and goods, including the military industry (arms, ammunitions, and spare parts).¹

China's economic reforms and modernization programs during the second half of the 20th century caused a significant increase in its energy demands. Meanwhile, it followed this by expanding its industrial base and commercial enterprises in order to raise living standards. The country's energy production, particularly its domestic oil production, was slow-moving, therefore Beijing initiated programs for seeking oil to satisfy its significant energy needs. Since the petroleum reserves discovered in Xinjiang province and in the East and South China Seas failed to meet China's expectations and the oil reserves of the Daqing field started to decline, Beijing became a net importer of crude oil in 1993. The growth in China's demand for imported oil has been tremendous, impacting global energy markets since that time. From 1993 to 2002, China's oil demand grew close to 90 percent, but domestic production grew less than 15 percent. By 2004, China's economy was growing at 9.5 percent annually, while it became the third-largest automobile market in the world, adding more than five million vehicles yearly. Consequently, Beijing's oil demand rose to six million barrels per day, nearly 40 percent of which comes from imports. This phenomenon illustrates the magnitude of China's demands for oil. Taking into consideration the lack of domestic oil production and inefficient energy use, Beijing's demand for oil continued to grow at impressive rates. On the other hand, although coal remained the main fuel source for power generation, the percentage of China's electrical power generated by oil and gas-fired plants started to increase. The problem here was Beijing's limited ability to expand its use of coal imposed by technical shortcomings, in addition to transportation and infrastructure constraints. China's one foundational growth sector was its automobile market. Therefore, besides the power sector, the fastest-growing use of energy in China was needed for transportation. This trend sharply raised the

¹Yitzhak Shichor, "China and the Middle East since Tiananmen," *The Annals of the American Academy of Political and Social Science* Vol. 519 (1), China's Foreign Relations, 1992, 88.

percentage of China's overall energy needs, including a huge number of hydrocarbons.²

The rapid growth of China's energy demands triggered hostile reactions in the West in general, and in the United States in particular. This phenomenon became an issue of interest and debate within the foreign policy community as well. The chief topic of debate was about the prospects of the near future, as well as about the possibility of direct confrontation between China and the United States for their access to global oil and gas resources. For instance, the US academic and politician Henry Kissinger had gone so far as to argue that the most probable cause for international conflicts in the coming years would be the global competition over hydrocarbon resources.³

China's economic drive and its hunt for oil was influencing Beijing's foreign policy and pushing the country towards its neighbors, such as Russia, Japan, and Central Asian countries. Sub-Saharan Africa and Latin America regions were important for China as well. As a rising power, China was gradually seeking more opportunities for access to global energy resources, and Beijing's policy negatively influenced its ties with other global players. At least, it appeared to be unfavorable for the West, especially for the United States. On the other hand, China's rise, along with its huge energy needs, could become a stumbling block regarding many issues, thus making things more difficult for the Western players to achieve their expected and desired goals.

The International Energy Agency (IEA) is an international organization in which the oil-consuming countries of the world pool information about oil stocks, while harmonizing their actions concerning strategic petroleum reserves. This organization predicts that by 2030, Beijing's oil demand will rise to about 10 million barrels per day, about 80 percent of which will come from imports.⁴

China's energy security strategy: The Gulf region as a priority

The Middle East remained the main source of oil reserves for China, despite the fact that the country's growing oil demands were

²Flynt Leverett and Jeffrey Bader, "Managing China-U.S. energy competition in the Middle East," *The Washington Quarterly* Vol. 29 (1), 2005, 189. https://www.brookings.edu/wp-content/uploads/2016/06/20051216_leverett_bader.pdf

³Caroline Daniel, "Kissinger Warns of Energy Conflict," *Financial Times*, 2005, <https://www.ft.com/content/4c24ef26-d2f3-11d9-bead-00000e2511c8> (accessed August 23, 2019)

⁴Leverett and Bader, "Managing China-U.S.," 190.

leading Beijing to seek ways to diversify its energy supplies. At the same time, US energy independence from the region encouraged the Arab states to pay more attention to China.⁵

China's involvement and further penetration into the Middle East, particularly into the Gulf region, was becoming more and more evident phenomenon. After the 1990s, Beijing's foreign policy in the region identified some major objectives. The state-owned Chinese energy companies, namely China National Petroleum Corporation (CNPC), China National Petrochemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC), started to seek access to Middle Eastern oil and gas.⁶

Since 2002, the significance of the Middle East increased regarding Beijing's calculations for gaining critical hydrocarbon resources. Beijing found trustworthy partners in the region, helping it fulfill its huge energy import needs. As part of its energy security strategy, China continued to seek proper ways and means for strengthening its economic ties with Middle Eastern oil-rich countries and exporters. For its growing energy needs, China ensured its energy imports, cooperated with various foreign customers, while doing its best to maximize Beijing's access to hydrocarbon resources under any possible circumstances.

In the 1990s, China launched a new phase of energy-driven engagement in the Middle East due to a shortage of its domestic oil production. Beijing's growing needs and huge demands for oil made the country supplement them with oil imports. At first, relatively smaller oil producers in the Middle East became China's focus as late as 1995. The Gulf region's small countries, such as Oman and Yemen, began providing China with oil. Soon, the region's "oil giants" surpassed Oman and Yemen. Saudi Arabia and Iran, the largest oil producers in the Gulf region, became the top two suppliers of China's oil in 2003. In the Middle East, the Gulf states appeared to be the most significant and promising in Beijing's energy calculations.⁷

In the early part of its new strategy, China only established import relationships with the two small Gulf States, Oman and Yemen. These states were producing light crude, which could be handled by China's

⁵Erica S. Downs, "China-Middle East Energy Relations," *Brookings Institution*, June 6, 2013, <https://www.brookings.edu/research/testimony/2013/06/06-china-middle-east-energy-downs> (accessed August 1, 2019).

⁶Leverett and Bader, "Managing China-U.S.," 187.

⁷*Ibid*, 190.

refineries relatively easy. Later, Beijing succeeded in its efforts to strengthen economic ties with other Gulf countries and producers, such as the United Arab Emirates and Kuwait. Indeed, non-Gulf energy producers in the Middle East, like Egypt, Sudan, Libya and Algeria, were also in China's sights. China's initial efforts to deepen its economic ties with oil-producing states was not only aimed at the Gulf, but also some second-tier producers. China's purpose was to establish smooth energy ties with the Gulf region oil producers. Hence, it maintained regular relations with Oman and Yemen, which were China's fourth and fifth largest oil suppliers respectively. Mutual foreign, trade and petrochemical ministerial visits between the sides continued, and Beijing signed investment and trade agreements with both countries. Moreover, the President of Yemen made an official visit to China in 1998.⁸

In September 2004, China and the Arab League (15 members) jointly advocated an action plan by announcing the establishment of a biennial forum on politics and economy. They also initiated the implementation of various programs for easing mutual market access, while promoting trade and investment cooperation, especially in the oil and gas sectors.⁹

Nevertheless, by the second half of the 1990s, Beijing had begun focusing its efforts mainly on three significant oil-rich countries in the Gulf region: Saudi Arabia, Iran, and Iraq. China aimed to access the key energy resources in the Middle East, therefore it basically concentrated on the countries that had influence on global energy markets. For China's energy strategists, no region could be compared to the Gulf region in terms of its priority. In June 1997, a consortium of China's energy companies and China North Industries Corporation (NORINCO) signed a 22-year production-sharing agreement with Saddam Hussein's Iraq to develop the country's oil fields. Although in the post-Saddam period the status of this agreement remained uncertain, nevertheless, Chinese companies expected to compete energetically for some opportunities, once the political and security environment in Iraq allowed foreign energy companies to work there. For instance, China's companies participated in the discovery and production of crude oil in Iraq. Meanwhile, as Chinese companies were waiting for the political situation in Iraq to cool down, they focused their efforts on accessing the energy

⁸Ibid.

⁹Harry Hongyi Lai, "China's Oil Diplomacy: Is It a Global Security Threat?" *Third World Quarterly* Vol. 28 (3), 2007, 525.

resources of other Middle Eastern countries. The oil of Saudi Arabia and Iran seemed especially promising and attractive.¹⁰

Beijing supported all the efforts of China's energy companies to win deals in the Gulf region and mutual official high-level visits were continuing. Besides energy cooperation, Sino-Gulf relations were developing in other spheres as well. Following up on its expanding network of energy deals with the region, China was gradually becoming a more significant exporter of manufactured goods and capital to the Gulf region. In 2002, by the time Hu Jintao became the General Secretary of China's Communist Party, Beijing adopted a 'going out' (走出去, *zou chu qu*) policy in accordance with its rising energy demands. The main purpose of this new policy was to encourage its national three major oil companies to set up certain and constant supplies abroad through purchasing equity shares in foreign markets, exploring and drilling for oil, as well as construct new refineries. Beijing also initiated the construction of pipelines to Siberia and Central Asia.¹¹

Nevertheless, in spite of the 'greedy appetite' of China's factories and vehicles to gain more and more hydrocarbons, the possible cause of Beijing's adoption of the 'going out' strategy was the country's confusion about the coming war in Iraq, as well as the vagueness surrounding the US position towards China regarding armed struggle over Taiwan. Thus, the key demands of this strategy led Beijing to involve the Middle East more deeply, expanding relations with the energy-producing countries of the region. Chinese energy companies were pursuing deals in many regions, but the Gulf region along with its huge oil potential was crucially important for Beijing, thus the region gradually regained its significant status for China's calculations. During the first period, Chinese leaders hoped to meet China's growing demands for oil and gas with the help of geographically closer states, particularly Russia and Central Asian countries. As a result, these hopes have not yet been realized, and these countries could not replace the Gulf region. In general, the Middle East region provided about 60 percent of China's oil in 2005. Iran, Saudi Arabia, Oman, Yemen, and Sudan were the major suppliers. By 2010, the percentage of China's oil imports from the region grew to 80 percent.¹²

Since the oil-rich Middle East had become so significant for China, it started to implement various policies and approaches for sympathizing with these nations over their disturbing issues. Indeed, Beijing's such

¹⁰Leverett and Bader, "Managing China-U.S.," 190.

¹¹ Ibid, 193.

¹² Ibid, 194.

policies were intended to deepen energy relations with the region. Meanwhile, these efforts could imply little or cause very limited harm to China's global interests.¹³

The most illustrative example of this case is the Palestinian-Israeli conflict. In regard to its oil demands, needs, and sustainable supplies from the Middle East region, Beijing sympathized with the Arab world and supported the Palestinians. Furthermore, in 2003, at the request of Saudi Arabia, China made an announcement for stopping violence in the Middle East and called the parties to seek a peaceful resolution to the Arab-Israeli conflict. It criticized Israeli actions against Palestine, Syria, and Lebanon. China supported 'a land for peace' initiative, as well as the 'nuclear-free Middle East' principles. Thus, expanding multilateral ties with the Arab world became crucial for Chinese policymakers and strategists in accordance with Beijing's future energy calculations. China's 2003 stance on the Middle East was once again affirmed during the China-Arab League biennial forum on politics and economy in September 2004.¹⁴

Chinese economic drive made Beijing's foreign policymakers put forward some basic objectives regarding Sino-Arab relations. Overall, the main goals of Beijing's policy could be viewed as the following:

- Beijing's most important foreign policy objective was the international recognition of Communist China as the sole legitimate government. The acceptance of this fact by the Arabs was of particular importance for China;
- Use the potential of the Arab world as a significant revolutionary arena against the Western powers;
- Get Arab support for Communist China's policy and create better conditions for further development;
- Get Arab support for strengthening China's position among the Afro-Asian nations.¹⁵

Beijing's engagement and its energy-driven initiatives in the Middle East were generally well received. Simultaneously, China's steps were responded to positively by the two major Gulf players, Iran and Saudi Arabia. In the case of Iran, the strategic and political advantages of establishing closer ties with China seemed obvious. As Tehran came under increasing pressure over its nuclear activities, especially by

¹³Lai, "China's Oil Diplomacy," 530.

¹⁴Ibid.

¹⁵Joseph E. Khalili, "Sino-Arab relations," *Asian Survey*, Vol. 8 (8), 1968, 679.

Western powers, the country tried to strengthen its cooperation with China. Iran relied heavily on this support, considering the fact that China is both a permanent member of the UN Security Council and the International Atomic Energy Agency (IAEA). Thus, cooperation with China could have helped Iran with its various issues in the international political arena.¹⁶

In contrast to Iran, Saudi Arabia's case was complicated. The Kingdom was a long-standing US ally, which immediately complicated Beijing's efforts to establish much-needed cooperative relations with Riyadh. However, the September 11 attacks in 2001 negatively affected US-Saudi relations. Following the attack, Saudi leaders were upset by anti-Saudi behavior in the US Congress, as well as the negative US public opinion regarding their government. Hence, this event had a negative impact on US-Saudi strategic partnerships. The Kingdom was also dismayed by the new Bush administration's Middle Eastern policy. Although a small improvement in bilateral relations was noticeable after the Bush-Abdullah meeting during the summit in Crawford, Texas in April 2005. The Kingdom's consternation regarding US policy did not completely disappear. Moreover, in September of the same year, Saudi Arabia's foreign minister Saud al Faisal publicly criticized the United States for its indifferent policy towards Iraq, thus allowing the country to be embroiled in civil war. Taking into consideration these concerns, the dynamics of the shifting attitude in Saudi Arabia's strategy towards its traditional partner the United States were becoming more evident. Consequently, the Kingdom turned its eyes towards Beijing, developing a more sustainable and strong relationship with China. Saudi Arabia's dramatic change in foreign policy strategy can be compared with Iran's case regarding these countries approaches towards the West on the one hand and China on the other. Similar to Iran, Saudi Arabia also started to encourage the expansion of Sino-Saudi relations, aiming to develop bilateral cooperation in various economic fields.

China prioritized the oil-rich Gulf region especially at the start of the 21st century. Beijing's purpose was to develop energy ties with all the countries in the region. However, its foreign policy objective towards expanding cooperative relations with the Gulf's economic giant Saudi Arabia seemed to be the most crucial issue for Chinese policymakers.¹⁷

¹⁶Leverett and Bader, "Managing China-U.S.," 194.

¹⁷ Ibid.

Beijing's diplomatic policy was working hard to maintain confidence in China's stability, counteracting US pressure in the region. Indeed, such efforts achieved their expected and significant results. The evidence of this statement was the establishment of Sino-Saudi diplomatic relations in July 1990.¹⁸

The Sino-Saudi 'Strategic Partnership'

Among all its energy partners in the region, China recognized Saudi Arabia's dominant and unique status among global oil producers. Consequently, Beijing continued its strategy to build closer ties with the Kingdom. Since the establishment of diplomatic ties in 1990, the two sides have expressed their willingness for cooperation, and exchanges within various spheres started taking place gradually. Along with other issues, the oil issue was becoming a frequently discussed topic in Sino-Saudi relations. Consequently, Saudi ministers were making visits to China each year from 1995 to 1998, as well as in 2004. The main purpose of their visits was to oversee Beijing's oil sector, finance, and trade. The crucial moment in Sino-Saudi relations took place in 1999. That year, China's then President Jiang Zemin visited Saudi Arabia to oversee the signing process of the petroleum cooperation memorandum between the two countries.¹⁹

The continuation of strong political ties, as well as economic exchanges, became significant in Sino-Saudi relations. As a result, Riyadh's share in Beijing's oil imports increased enormously, from 2 percent in 1995 to 17 percent in 2003, thus topping China's oil suppliers list. In the wake of the 9/11 attack, US-Saudi relations became strained. In 2004, the Kingdom's oil shipments to the United States decreased. China's oil imports from Saudi Arabia increased at the same time, and Sino-Saudi energy cooperation developed and expanded. In accordance with dynamically growing bilateral energy ties, China's oil giant, Sinopec, gained the rights to extract natural gas in the al-Khali Basin in Saudi Arabia.²⁰

Another crucial event in the Sino-Saudi relationship occurred in January 2006, when Saudi's King Abdullah bin Abdul-Aziz made a visit

¹⁸ John Calabrese, "Peaceful or Dangerous Collaborators? China's Relations with the Gulf Countries," *Pacific Affairs*, University of British Columbia Vol. 65 (4), 1992-1993, 479.

¹⁹ Lai, "China's Oil Diplomacy," 523.

²⁰ Chietigj Bajpae, "China fuels energy Cold War," *Asian Times*, 2005. <http://www.atimes.com/atimes/China/GC02Ad07.html> (accessed July 7, 2019)

to China in order to sign an agreement on economic cooperation. During this visit, Riyadh promised to help Beijing construct a strategic oil stockpile of about 100 million tons on China's Hainan Island, as well as a new refinery in Guangzhou, which involved the direct investment of approximately \$8 billion.²¹

During the first period of bilateral cooperation, China's former President Jiang Zemin's visit to Saudi Arabia in 1999 can be viewed as an illustrative point of Beijing's efforts to develop ties in a true sense, while maintaining strategic partnership with Riyadh. Sino-Saudi relations entered a new promising phase since that time. During that trip, the leaders of China and Saudi Arabia signed an oil cooperation agreement, and, in the words of the Chinese President, that event inaugurated a 'strategic oil partnership' between the sides. By this agreement, apart from upstream oil exploration and production, the Kingdom opened its domestic oil and gas market to China. Subsequently, Beijing agreed to open its downstream sector (refining products from crude oil) to the Saudi national oil company, Saudi Aramco. Saudi oil helped China quickly expand its imports. Even though China's refining capability was not very suitable for Saudi heavy crudes, the Kingdom shifted some lighter crudes to the Chinese market with more advanced refining infrastructures from other customers. In 2002, Saudi Arabia became China's leading crude oil supplier. At the same time, much needed Saudi investments in joint ventures were taking place in China intent on expanding and developing the refining capacity of the country. Sino-Saudi cooperation was not only profitable for China- its effects were mutually beneficial. Especially after the 2000s, the Saudis found themselves in a very profitable position by supplying China's textile industry with petrochemical products. In 2004, China's Sinopec won one of the three opportunities for foreign energy firms to develop Saudi Arabia's non-associated gas resources. Natural gas was found in geologic formations, which did not contain crude oil.²²

Nevertheless, this deal had some possibly political motivations, because the economic benefits of this action for Sinopec remain unclear. The agreement could be characterized as apolitical deal between China and Saudi Arabia, forming good relations with the Kingdom in order to ensure Beijing's long-term energy needs, while China continued its

²¹Lai, "China's Oil Diplomacy," 523.

²²Leverett and Bader, "Managing China-U.S.," 191.

search for oil. This could have been welcomed by Saudi Arabia. Accordingly, Saudi Arabia's importance for China was rapidly increasing, while it became crucial for Beijing to use every possible opportunity for strengthening its ties with Riyadh, especially concerning the economic sector and energy cooperation. China was also deepening its export and investment ties with Saudi Arabia. From the period of 1995 to 2005, the annual volume of Saudi imports from China has constantly risen, in aggregate terms expanding approximately 600 percent over the last decade of the twentieth century. Moreover, Beijing's investments in the Kingdom have expanded significantly as well. In regard to Beijing's strategic calculations, the significance of developing Sino-Saudi trade and investment ties could simply mean that China was strengthening its efforts to establish itself in the Kingdom's calculations as a pleasant and desirable long-term customer for importing Saudi's oil. On the other hand, Saudi Arabia was a long-standing US ally in the region. Chinese leaders believed that by establishing closer ties with the Kingdom, they had an opportunity to force the United States to take China more seriously and accept its role as a global player. Indeed, energy cooperation was the most significant and rapidly developing aspect in regard to Sino-Saudi relations. China's Sinopec and Saudi's Aramco achievement in expanding mutual cooperation was especially important, increasing investments and oil production capacity. Only after China established its interest in increased Saudi production capacity did Saudi Aramco's investment budget greatly expand.²³

Saudi Arabia, in its cooperation with China, was gaining other benefits as well. Similar to the Iranians, Saudis also sought to develop their military capabilities. As China began to expand its role as a supplier of advanced military technology and weapons, the Kingdom hoped to use this opportunity. Taking into account oil-rich Saudi Arabia's strategic significance, China was surely eager to provide the Kingdom with its safe and advanced military technology. Saudi leaders were impressed by Beijing's impulse to protect the value of China's currency after the Asian financial crisis in 1997. Furthermore, after the September 11 attacks, the Saudis turned sharply towards China for collecting more oil revenues. The main reason was that after the attack, Washington became a less attractive destination for Riyadh's investments.²⁴

²³ Ibid, 193, 195.

²⁴ Ibid, 196.

China's energy drive and the United States

In the 1990s, many Chinese were hoping that the country's relations with the United States could be transformed from a 'geopolitical alignment' into an economic partnership. These hopes were related to Beijing's much needed economic reforms and modernization programs. Washington's huge potential for providing China with capital, markets, advanced technology, and scientific know-how were viewed as significant opportunities.²⁵

Other significant issues were the US victory in the Gulf region and the global international transformation from a bipolar to a unipolar world centered on the United States, China's further steps in the strategically and economically significant Gulf region, and the possible developments of Sino-American regional collaboration. Finally, the most important issue was the policies and strategies China had to adopt while dealing with the only emerging superpower in the world, the United States.²⁶

Time changed things, and the Gulf region, together with its huge energy resources, started to attract China too much. While continuing to deepen its cooperative ties with the Gulf States, China was ready for even more direct competition with the United States to ensure its presence and influence there. Initially, Beijing passively accepted the US dominance in the region, but it was taking serious steps to participate in the control of vital energy resources, therefore posing critical challenges to US interests in the Gulf. Chinese leaders were doing everything they could to access oil and gas resources beyond China's borders. Hence, Beijing's search for oil in a true sense made it a new competitor for influence in the Middle East, especially when the oil-rich Gulf region became significantly attractive. China's involvement in the Middle East over this period expanded politically, economically, and strategically.²⁷

Thus, China's energy security policy and its search for oil 'found' the Middle East, making the country a new competitor to the United States for global influence in the region. China's growing 'oil appetite' could have generated China-US bilateral friction, while US strategic interests in the region were damaged. China's involvement in the Middle East and its drive for energy already could be viewed as the reason for

²⁵ Alice Schuster, "A Scenario for the future: Communist China and the Middle East," *World Futures. The Journal of New Paradigm Research* 20 no. 3-4, 201.

²⁶ Harry Harding, "China's American Dilemma," *The Annals of the American Academy of Political and Social Science* Vol. 519 (1), China's Foreign Relations, 1992, 18.

²⁷ Leverett and Bader, "Managing China-U.S.," 187.

tension in China-US bilateral relations. Meanwhile, their views about the region were divergent as well. For example, Beijing was putting all its efforts to spread influence on Middle Eastern energy producers, while Washington was taking steps to impose sanctions on Sudan in regard to Darfur, as well as persuading the IAEA to refer Iran to the UN Security Council for violating its nonproliferation obligations. Besides, China's engagement in the region and its further cooperation with Iran could have provided Tehran a strategic counterbalance with the West, and it would have had a chance to challenge Western interests more affirmatively.²⁸

Nevertheless, China's quest for economic reforms, technological development and stable policy in the Middle East made its leaders realize the need for the normalization of Sino-American relations.²⁹

Beijing's energy quest in the Middle East could also weaken US-Saudi strategic cooperation in some aspects. For instance, Sino-Saudi financial cooperation could have ramifications on the international standing of the US dollar over time. Such an idea occurred between China and Saudi Arabia because of the fear of a sudden decline in the dollar's value. Thus, it is very possible that an idea was developing to informally cooperate to ensure their countries' financial stability. Eventually, further Sino-Saudi collaboration could pave the way for the Organization of Petroleum Exporting Countries (OPEC) to determine which payment for oil amongst the various currencies to choose from besides the US dollar. Indeed, such a development would have had a crucial impact on the status of the US dollar as the leading reserve currency in the world.³⁰

Thus, it was imperative for the United States and its policymakers to pay attention to this phenomenon, and to develop a strategy for managing such possible challenges. Step by step, China's growing influence in the Middle East became an obvious reality, and even the most desirable foreign policy objective of Washington could not exclude Beijing from the region. Furthermore, Beijing's foreign policy succeeded in continuing its economic drive to seek more and more energy resources in region. The Middle Eastern countries, especially the energy producers, were also developing various mechanisms for their further cooperation with Beijing without following any suggestions from the United States to ignore China. Thus, perhaps the smartest and potentially more successful

²⁸ Ibid, 196.

²⁹ Alexander Neill, "China and the Middle East," *Adelphi Series*, Vol. 447 (8), 2014, 208.

³⁰ Leverett and Bader, "Managing China-U.S.," 197.

US Middle Eastern policy in accordance with its relations with China would be to cooperate rather than compete with Beijing. If so, China could gain a vital sense of energy security. Washington and Beijing would have shared interests in the region, and a possibility of a more stable Middle East could become a reality.

For ensuring energy security in the Middle East, US policymakers, while cooperating with China, should aim to develop two major goals and objectives:

- Washington should initiate more active cooperation with Beijing to help China reduce its huge demand for hydrocarbons. Indeed, the implementation of various policies and programs would be required for achieving such a result. The more China would be able to use alternative energy sources for generating power, like nuclear energy or coal, the less it will need to import oil from the Middle East.

- The United States should seek ways to persuade China that they would be better off relying more on foreign markets and less on personal and singular supply deals to fulfill its energy needs. US efforts regarding this issue were reflected in the dialogues with China's officials aiming to convince them to get involved in global energy markets and obtain equity oil deals.³¹

However, the US approach for persuading China to rely more on global energy markets seems unlikely to convince them. On the other hand, taking into account Washington-Beijing cooperation and energy security calculations in the Middle East, US diplomats had to work hard to guarantee that the United States was not seeking any military confrontation in the region and that it would keep sea lanes open to China from the Gulf. Washington also actively encouraged the US oil companies' cooperation and joint ventures with their Chinese counterparts, including upstream exploration and production. By encouraging such cooperation, Washington gave Beijing a sense of partnership, while ensuring energy security in the Middle East.

There are many possible scenarios regarding US-China relations and the prospects of bilateral cooperation in the Middle East, and no one should be excluded. In the worst-case scenario, the growing Chinese economy, with its drive for energy, would lead to the clash of interests between the two sides. This will inevitably threaten the goals of the US and 'already gained' achievements in the region. It will also arouse

³¹ Ibid, 198.

antagonism and mutually unwelcome behavior between the only superpower and the fastest growing economic power in the world. Thus, in order to avoid such a scenario, US policymakers need to develop new methods and elements of strategy for managing China's possible challenges in the Middle East.³²

China's oil diplomacy

Beijing's oil diplomacy, particularly its cooperation with Iran and Iraq in the Gulf region, did not upset Washington's fundamental interests. China's policy also did not cause a commotion or armed clashes in the South China Sea. Moreover, China forged joint efforts with its Asian neighbors in energy exploration, except for Japan.

Perhaps China's relatively 'gentle' oil diplomacy can be explained by its peaceful rise strategy, and also by the fact that oil imports are not considered to be the only source of energy consumption. In regard to international oil prices, many significant changes have taken place from the beginning of the 21st century compared to the prices during the second half of the 20th century. For instance, oil prices have increased from an average of \$13 per barrel from the period of 1950-2002, to over \$50 in 2004-2006. The rapidly growing economy of China stimulated huge demands for oil imports starting in the late 1990s. From 1997, the country was still self-sufficient in oil, but as the domestic oil production decreased and oil consumption increased, its dependence on net imports of oil rose dramatically, reaching nearly 40 percent in 2004. Beijing's consumption of crude oil started to rise significantly from nearly 88 million tons in 1980 reaching to 252 million in 2003 and from 293 million tons in 2004. Thus, accounting for one-third of the total oil consumption increase in the beginning of the 21st century, it became the second largest oil consumer in the world. Consequently, China's rapidly growing oil demands were followed by its oil imports. Beijing started to pay special attention to expanding its relations with oil-producer giants. For instance, in 2004, China's overall crude oil imports reached about 123 million tons, which was up by 35 percent comparing to its imports in 2003. The growing trend of China's energy needs along with its imports are shown in the following statistics (See Table 5.1).³³

³² Ibid.

³³ Lai, "China's Oil Diplomacy," 521.

Table 5.1:

The production, consumption and imports of crude oil by million tons

Year	Production	Consumption	Imports	Exports	Self-sufficiency ratio %
1980	106.0	87.6	0.4	13.3	113.9
1985	124.9	91.7	0.7	31.2	132.3
1990	138.3	114.9	2.8	24.9	119.0
1995	149.0	160.7	17.1	18.8	101.2
2000	162.6	230.1	70.3	10.3	73.0
2001	164.8	232.2	60.3	7.6	75.8
2002	168.9	245.7	69.4	7.2	73.1
2003	169.3	252	91.0	8.1	67.1
2004	175.5	292.7	122.7	5.5	60.0

Along with the expansion of China’s auto and aviation markets, its fuel demands and huge needs for imported oil increased as well. Nearly one-third of its oil was consumed by cars. Moreover, since the Chinese government launched promotions of the car market as one of the main industries for the country’s economic growth, this share was projected to increase to nearly 50 percent in 2020. A significant increase in Beijing’s oil demand was becoming evident. Its huge energy needs could only be satisfied through overseas imports. China showed enthusiasm for securing its growing oil imports. China’s President Hu Jintao’s declaration in November 2003 illustrated that point. He announced that oil and finance had become two significant components of China’s national economic security. Thus, in accordance with China’s economic growth, oil was gradually becoming an increasingly important factor. Moreover, it was assuming a crucial role in Beijing’s diplomacy and foreign policy objectives. Indeed, China’s oil diplomacy was focused and closely related to the oil-rich Middle East region. In response to its growing oil demands, Beijing first initiated the expansion of its relations with the key oil producing countries in the Middle East attempting to increase the index of its oil imports. Not surprisingly, by the end of the 20th century, the main sources for China’s oil imports were Southeast Asia and the Middle East. However, the Middle East’s share in contrast with the Asia-Pacific region rose tremendously, reaching nearly 54 percent in 2000. At the same time, Southeast Asia’s share declined to 15 percent. The main reason for this phenomenon was that Southeast Asia’s rising oil demands made the region decrease its own exports (See Table 5.2).³⁴

³⁴ Ibid, 522.

Table 5.2:

China's crude oil imports (%) by region from 1995 to 2003

Regions	1995	2000	2003
Middle East	45.4	53.6	51.3
Africa	10.8	24.0	24.4
Asia-Pacific	42.3	15.0	15.3
CIS (Russia and Kazakhstan)	0.2	3.1	7.2
Europe	2.1	3.6	1.8
South America	0	0	0.4

Since the mid-1990s, China together with its growing oil imports from the Middle East, adopted a special policy towards the region. Moreover, Beijing was implementing more active oil diplomacy in the Middle East in order to target the key oil producers (See Table 5.3).³⁵

Table 5.3:

China's crude oil imports (%) by country from 1995 to 2003. The top suppliers are the Gulf states.

Country	1995	2000	2003	Rank, 2003
Saudi Arabia	2	8.2	16.8	1
Iran	5.4	10.0	13.8	2
Oman	21.4	22.3	10.3	4
Angola	5.9	12.3	11.2	3
Yemen	14.5	5.1	7.8	5
Sudan	0	4.7	6.9	6
Congo	0.1	2.1	4.1	8
Russia	0.2	2.1	5.8	7
Kazakhstan	0	1.0	1.3	14
Vietnam	4.4	4.5	3.9	9
Indonesia	30.9	6.5	3.7	10
Malaysia	3.5	1.1	2.2	11
Australia	0.4	1.6	2.0	12
Brunei	0	0.4	1.7	13
Norway	0	2.1	1.1	15

China's oil diplomacy was largely concentrated on the Middle East. The Gulf oil exporters were of great significance for Beijing in respect of its gradually growing economic and energy needs. As the statistics show, Beijing's overall crude oil imports merely from the

³⁵ Ibid, 523.

Middle East in 2000 reached nearly 54 percent. However, China's success in expanding its oil imports from the Middle East was facing problems as well. US dominance in the region especially after 9/11, as well as the region's frequent political instability was annoying Beijing. Consequently, China tried to put its eggs in more than one basket by setting its eyes on other oil-exporters. Beijing started to deepen its oil cooperation with other regions, while diversifying its import sources. It succeeded in its strategy to expand its oil relationship with Africa, particularly promoting ties with Angola, Sudan, Gabon, and the Democratic Republic of Congo (DRC). Even though China succeeded in increasing its oil imports from the Middle East and Africa regions, concerns about oil transportation became another disappointing factor. In fact, over 75 percent of Beijing's oil imports from the Middle East and Africa go through the Straits of Hormuz and Malacca, and as China lacks a blue-water navy, any hostile action by an external power or a terrorist attack could unavoidably shatter its oil routes. Thus, it continued to seek new large oil sources, expanding its energy ties with Russia. Since the 2000s, China's oil diplomacy turned crucially towards Russia and Central Asia, attempting to foster closer energy cooperation with them. Latin and North American oil seemed attractive to China as well, and it has stepped up its oil commerce with them in recent years. Beijing gave special significance to Venezuela, which was not only South America's largest oil producer, but also the fifth-largest oil exporter in the world.³⁶

China's oil diplomacy, along with its quest for imported crude oil, is affecting its relations with other nations, and the main points here are the following:

- Beijing is making every possible effort to strengthen and deepen its energy ties with both oil-producing and exporting nations;
- China can cooperate and compete with the countries having moderate dependence on imported crude oil such as the United States, India, and the Southeast Asian states;
- China can impulsively compete with the states heavily relying on imported oil, such as Japan.³⁷

China's oil diplomacy can be viewed as peaceful and it does not undermine other players' oil security. It is important to take into account two major factors:

³⁶ Ibid, 527.

³⁷ Ibid, 529.

• First, although imported oil plays a crucial role in China's energy consumption, coal remains the top source for meeting the country's energy needs. For instance, in 2004, about two-thirds (67.7 percent) of China's energy consumption came from coal, 22.7 percent from oil, 7 percent from hydropower, and 2.6 percent from natural gas. About 40 percent of China's oil was imported in that year, accounting for only 9.1 percent of the country's total energy consumption. Thus, imported oil did not play major role in energy consumption. Domestically produced coal, oil, and hydropower along with imported oil helped the country satisfy its growing needs. In fact, large oil-producers did not cover a huge portion of Beijing's energy consumption. For example, in 2003, Iran supplied only 1 percent of China's total energy consumption. Hence, much of the fear and suspicion of Beijing's potential to destabilize international energy order or implement aggressive oil diplomacy are becoming unrealistic arguments;

• Second, regarding the country's political and economic rise, China's leadership takes great care to ease external fears as much as possible. During the presidency of Jiang Zemin, China represented itself as a "responsible great power," promoting peace, stability and prosperity in the world. Later, under Hu Jintao, China pursued a strategy of "peaceful rise," which was also called peaceful development. Moreover, Beijing's 'peaceful and responsible strategy' continued during the current President Xi Jinping's policy as well.³⁸

Conclusion

Now China is the world's second largest oil consuming country. Thus, Beijing's external quest for oil has generated much attention and global debates regarding this phenomena: can Beijing's rising energy demands destabilize the world order? While trying to find an answer to this question, it is very important to comprehend the situation around China's external initiatives for satisfying its domestic oil demands, as well as the possible influence of Beijing's oil diplomacy on global political stability.

Arguably, while continuing to deepen its cooperative ties with the Gulf States, China was ready even for direct competition with the United States for the influence. Although Chinese energy companies were pursuing deals in various regions, however, Gulf region's huge oil

³⁸ Ibid, 534.

potential remained crucially important for Beijing. Thus, we can conclude that the region could gradually gain a status of prior significance in China's calculations.

It is worth to mention that Beijing's foreign policy succeeded in continuation of its economic drive seeking more and more energy resources. The Middle Eastern countries, especially the energy producers were developing various mechanisms for their further cooperation with Beijing without following any suggestions from the West to ignore China. Thus, perhaps the smartest and potentially more successful US Middle Eastern policy in accordance with its relations with China would be an attempt to cooperate rather than compete with Beijing. If so, China could gain a vital sense of energy security. Washington and Beijing would have shared interests in the region, and a possibility to see more stable Middle East could become a reality.

The significance of development of Sino-Saudi trade and investment ties simply mean, that China achieved in its efforts to establish itself in the Kingdom's computations as pleasant and desirable long-term customer for importing Saudi's oil. On the other hand, Saudi Arabia was a long-standing US ally in the region, therefore Chinese leaders believed, that by establishing closer ties with the Kingdom they could have an opportunity to force the United States take China more seriously and accept its role as a global player.

Beijing has developed three major methods to satisfy its growing domestic oil demands: expanding overseas oil supplies from the region of the Middle East, diversifying its imports by cooperating with Russia, Central Asia, as well as reaching to Africa and Latin America, and finally implementing various programs for securing its oil transport routes. China's oil diplomacy along with its huge demands for imported-oil has a potential to strengthen its energy ties with oil-producers, meanwhile such a policy complicates its relations with other oil-importing countries.

Thus, in accordance with its huge energy needs China has striven to expand its overseas oil supplies. Beijing will simply continue its strategy of maximally strengthening its cooperation with the world's oil producers, meanwhile gaining as much oil as it is possible or still available.

China's leaders seemed to be aware and sensitive enough to comprehend completely the possible international reactions regarding Beijing's oil diplomacy. Consequently, they are initiating peaceful approaches for minimizing negative repercussions.