

China's Energy Strategy in the MENA Region

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Abstract: China is in dire need of energy resources to sustain its economic growth. In recent years, China has been turning more to Saudi Arabia and Iran in the Middle East, as well as Sudan in North Africa, as trading partners to secure its energy supply. This article explores China's energy strategy in the Middle East and North African (MENA) region through case studies of China's energy diplomacy with Saudi Arabia and Iran. It argues that China's energy strategy is very much driven by the "Beijing Consensus" that features respect for others' sovereignty, emphasis on sustainability, equality, and quality-of-life, as well as incremental change to past institutions and practices. China has applied an equity ownership strategy to gain more control over oil flows as a shield against price

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fluctuations and to reduce the possibility of supply interruption; however, civil unrest and conflicts in the MENA region threaten to disrupt China's energy supply channels, which implies that China should work harder for regional peace in order to achieve sustainable energy supply.

Keywords: Chinese diplomacy; energy strategy; Middle East; North Africa; oil politics.

With more than 800 billion barrels of crude oil reserves, the Middle East is a key player in the energy business. In North Africa, Sudan, Algeria, Libya, and Tunisia have also experienced an increasing number of oil discoveries in recent decades. As the world's second largest economy, China is in dire need of energy resources to sustain its rapid growth. Hence, China and countries in the Middle East and North African (MENA) region share mutual interests in the field of energy. China has in particular turned to Saudi Arabia and Iran in the Middle East as well as Sudan in North Africa for energy trade. In 2013, China was the largest trading partner to Saudi Arabia, Iran, and Sudan, the third largest importer of Saudi crude oil, as well as the largest importer of Sudanese and Iranian oil.

This article attempts to explore China's energy policy in the MENA region by studying China's energy diplomacy with Saudi Arabia and Iran. It argues that China's energy strategy toward these countries with mutual oil interests is very much driven by its long-held principles of mutual respect, incremental changes and mutual benefits in developing foreign relations, otherwise known as "the Beijing Consensus." Where necessary, it incorporates concerns from the United States and other related parties on diverse facets of the Sino-Saudi Arabian and Sino-Iranian partnerships. The article argues that despite the apprehension exhibited by the United States regarding the growing interactions between China and the Middle East, China wishes to avoid direct confrontation with Washington and tries its best to avoid the use of threat for economic gains. China's Middle East policy aims to mitigate or circumvent potential tensions with the United States.

The article first examines China's growing oil demands and its motivation for expanding influence into the MENA region. It then revisits China's energy strategy with a focus on the dynamics of Chinese oil politics that takes place within the framework of the "Beijing Consensus," which

usually prioritizes economic over political and cultural circumstances. In the third section, the article concentrates on the current energy partnerships and contracts that China has built with Saudi Arabia and Iran, simultaneously considering the approaches that China takes to separate economic interests from international politics. Finally, it concludes by mapping out some challenges China faces in securing oil supplies as well as potential tensions it may encounter with the United States.

China's Quest for Energy in the MENA Region

As the world's second largest economy with 1.3 billion people, China has a fast-growing demand for energy supply. This need is not only driven by China's economic growth rate, but also by domestic factors like the increasing number of vehicles in the country, which jumped from one million a decade ago to more than 22 million today.¹

In 1959, the discovery of the Daqing oilfield in Northeast China initially reassured China that energy supply would not be an issue for the Chinese economy and would help it maintain self-sufficiency. However, due to the rapid economic growth since the reform and opening-up, China had become an oil importer by 1993.² In addition, reformist leader Deng Xiaoping was convinced that the only path forward for China was economic modernization — fueled by petroleum — and made his idea the centerpiece of China's domestic and foreign policy.³ According to the International Energy Agency (IEA), China's oil demand reached 9.5 million barrels per day in 2012 and Bloomberg reported in 2013 that China had overtaken the United States as the world's largest energy-consumer, with

¹Muhamad S. Olimat, *China and the Middle East: From Silk Road to Arab Spring* (New York: Routledge 2013).

²Abdulaziz Sager, "GCC-China Relations: Looking Beyond Oil — Risks and Rewards," in Abdulaziz Sager and Geoffrey Kemp, eds., *China's Growing Role in the Middle East: Implications for the Region and Beyond* (Washington, DC: The Nixon Center, 2010).

³Susan Shirk, *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms* (Washington, D.C.: Brookings Institution Press, 1994); and Muhammad S. Olimat, *China and the Middle East: From Silk Road to Arab Spring* (New York: Routledge, 2015), p. 53.

imports and exports reaching \$3.87 trillion USD in total value.⁴ Similarly, British Petroleum's *Statistical Review of World Energy 2014* indicates that China was the world's largest producer and consumer of energy overall in 2013. Unfortunately, China only produces 44 percent of the oil it needs.⁵ As energy shortfalls could slow down and even stall China's growing economy, China's top priority since the 1990s has been to secure steady foreign oil supplies.⁶ Since China lost its self-sufficiency in oil supply, its concern about oil supply and energy security has deepened.⁷ In this context, Muhamad S. Olimat argues that China's continuing growth and modernization is dependent on finding and securing oil supplies.⁸ China has three oil corporations through which to meet its national energy security interests: the China National Petroleum Corporation (CNPC), the China Petrochemicals Corporation (Sinopec), and the China National Offshore Oil Corporation (CNOOC).⁹ With the Middle East's rich oil reserves, which make up over 60 percent of the world market,¹⁰ China's energy strategy is intrinsically linked to the region.

With its large oil reserves and geographical proximity to Asia, the Middle East is a logical candidate to sustain Chinese economic growth. The Asian continent imports more crude oil than any other region in the world and is currently the single most important

China looks to the MENA region for a stable oil supply to fuel its economy.

⁴"China Eclipses U.S. as Biggest Trading Nation," Bloomberg, February 11, 2013, <http://www.bloomberg.com/news/2013-02-09/china-passes-u-s-to-become-the-world-s-biggest-trading-nation.html>.

⁵Naser Al-tamimi, "China-Saudi Arabia Relations: Economic Partnership or Strategic Alliance?," Discussion Paper, June 2012, Durham University, HH Sheikh Nasser Al-Sabah Programme, Durham.

⁶John B. Alterman and John W. Garver, *The Vital Triangle: China, the U.S., and the Middle East* (Washington, D.C.: CSIS Press, 2008).

⁷Zhao Hongtu, "China's Energy Interest and Security in the Middle East," in Sager and Kemp, eds., *China's Growing Role in the Middle East: Implications for the Region and Beyond*.

⁸Olimat, *China and the Middle East: From Silk Road to Arab Spring*, p. 68.

⁹Michal Meidan "The Structure of China's Oil Industry: Past Trends and Future Prospects," OIES Paper WPM 66 (Oxford: Oxford Institute for Energy Studies, 2016), pp. 1-55.

¹⁰Sun Degang, "Six Decades of Chinese Middle East Studies: A Review," in *Bustan: The Middle East Book Review*, Vol. 2, No. 1 (2011), pp. 15-32.

market for Persian Gulf oil producers.¹¹ While Asia is becoming the center of the emerging global economic order, the Middle East is becoming its primary source of energy.¹² China is no exception. It is drawn to the Middle East primarily because of its thirst for oil. When it became evident that China's energy production was insufficient to meet its growing needs, Deng Xiaoping extended China's trade relations and economic ties with the Middle East and North African countries, including Saudi Arabia in the 1980s, and Iran and Sudan in the 1990s.

Historically, the Middle East has always been the subject of strategic attention for various global powers all the way up to modern times. After World War I and the fall of the Ottoman Empire, Great Britain and France took control of the region and the infamous *Sykes-Picot Agreement*, which fragmented the region due to conflicting colonial influences, was signed. At that time, the Middle East was already known for its abundant natural resources, which had been exploited in the past. However, it was during this period of colonialism in the early 20th century that technological advances led to modern nations' hunt for oil as a newly coveted fuel for automobiles, aircraft, and other uses. Its rich natural reserves of easily extractable crude oil brought about large-scale drilling operations, with the British taking the lead in Iran in 1901 and the Anglo Persian Oil Company discovering oil in 1908.¹³

This structure of influence was sustained until the aftermath of World War II, where the Middle East experienced a shift in terms of the dominant external power. At that point, the United States had a growing economy and global political clout. The nation expanded its presence in the Middle East during the post-war period with an agenda of which oil supply was a priority. Indeed, the need to fuel economic growth and compensate for what it could not provide by itself became a centerpiece of the United States' foreign policy.¹⁴ Washington saw a potential for secure oil supply in

¹¹Sager, "GCC-China Relations: Looking Beyond Oil — Risks and Rewards."

¹²Olimat, *China and the Middle East: From Silk Road to Arab Spring*, p. 65.

¹³Nikki R. Keddie, *Iran: Religion, Politics, and Society: Collected Essays* (London: Routledge, 1983).

¹⁴Douglas Little, *American Orientalism: The United States and the Middle East since 1945* (Chapel Hill: University of North Carolina Press, 2008); and Andrew S. Cooper, *The Oil Kings: How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East* (New York: Simon & Shuster, 2011).

the oil-rich states of the Persian Gulf and the latter saw an opportunity to transform their vast oil reserves into direct wealth. American foreign policy continued to place an emphasis on strategically increasing its ties with the Middle East, as the country's dependency on oil grew for both economic and military purposes.

For China, the Middle East is also a viable resource to secure its energy imports. The country relies heavily on Middle East oil and wishes to establish durable economic ties with Middle Eastern states. Yet, the 9/11 attacks and the context of the war on terror have given China a sense of vulnerability regarding its oil imports from the region and forced the political leadership to consider new energy sources to ensure China's energy security. As a Chinese scholar observes, China used to receive most of its energy supply from the Middle East and the Asia-Pacific region, but the shift of Indonesia from being an oil exporter to an oil importer in 2004 has left a gap among China's usual suppliers.¹⁵ In this light, China's spread of economic ties with the oil-rich countries of North Africa is driven by a desire to further diversify its oil supply.

Many scholars have underlined the complexity of the relationship between China and oil-rich MENA countries, the direct benefits of such relationship, as well as the global impact on other MENA oil-importers.¹⁶ As the United States is admittedly protecting Middle Eastern oil sources to serve its own energy demand, one cannot analyze China's involvement in the region without touching on the U.S. role. In *The Vital Triangle: China, the U.S., and the Middle East*, John B. Alterman and John W. Garver look at the trilateral relationship among China, the United States and the Middle East, arguing that all the three economies are intrinsically connected, akin to three sides of a triangle. The authors contextualize this complex relationship where each region's decision affects the other two. China's trade relationships with some of the traditional U.S. allies (such as Saudi Arabia) and simultaneously with contested candidates (Sudan and Iran) have led to a

¹⁵Zhao Hongtu, "China's Oil Venture in Africa," *East Asia*, Vol. 24, No. 4 (December 2007), pp. 399–415.

¹⁶Sager, "GCC-China Relations: Looking Beyond Oil — Risks and Rewards," pp. 1–22; Muhamad S. Olimat, "The Political Economy of the Sino-Middle East Relations," *Journal of Chinese Political Science*, Vol. 15, No. 3 (September 2010), pp. 307–335, and Geoffrey Kemp, *The East Moves West: India, China, and Asia's Growing Presence in the Middle East* (Washington, D.C.: Brookings Institution Press, 2010), p. 232.

deep politicization of China's involvement with these countries. Since oil is the most traded commodity in the world, China's oil interests have sparked discussions to say the least. A Chinese scholar even argues that China's involvement in the Middle East is only motivated by energy interests and is not going to weaken its relationship with the United States.¹⁷ Likewise, Chubin argues that China has constantly been cautious with the United States and has avoided provoking Washington.¹⁸ By expanding its reach in the MENA region, China is also diversifying its trade relations — a concept that is supported by the “Beijing Consensus” — and encouraged by Saudi Arabia, Iran, and Sudan. Hence, the nature of oil partnerships is shifting from an omnipotent bilateral relationship between the United States and oil-rich developing states to a more diverse arena where multidimensional relationships are possible among developing states.

China's Energy Strategy via the Beijing Consensus

To ensure steady oil supply, China has applied an equity ownership strategy. Chinese companies have tried to seek equity shares in oil projects abroad, hoping that this would allow them to have more control over oil flows and possibly reduce supply interruption.¹⁹ In the Middle East, China's first upstream investment and acquisition was made in Iraq. Since then, China has been consistently investing in the oil sector, including engineering and drilling in Gulf Cooperation Council (GCC) states, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). The China Petroleum Engineering and Construction Corporation (CPECC) started to get involved in Kuwait and Iraq in 1983 through subcontracts whereas the Great Wall Drilling Company (GWDC) captured drilling opportunities in Egypt, Qatar, Oman, and other parts of the Middle East.²⁰ Qatar, the largest liquefied natural gas producer, recently

¹⁷Lei Wu, “The Middle East Oil and the Sino-U.S. Relations,” *Journal of Middle East and Islamic Studies*, Vol. 3, No. 4 (2009).

¹⁸Shahram Chubin, “Iran and China: Political Partners or Strategic Allies,” in Sager and Kemp, eds., *China's Growing Role in the Middle East: Implications for the Region and Beyond*.

¹⁹Alterman and Garver, *The Vital Triangle: China, the U.S., and the Middle East*.

²⁰Zhao, “China's Energy Interest and Security in the Middle East”; and Giulia C Romano and Jean Francois Meglio, *China's Energy Security: A Multidimensional Perspective* (London: Routledge, 2016).

strengthened a strategic partnership with China, which includes its participation in China's "Silk Road Economic Belt"; Kuwait has had strong economic ties with China since the 1970s; Oman has received \$600 million from Chinese investments in several sectors, including oil, petrochemicals, and upgrading of efficiency in oil transportation.²¹

In North Africa, China has applied more or less similar strategies. China started its "Go Global" strategy to Africa in the late 1990s.²² In Africa, China has been involved at many levels through the Communist Party of China (CPC), which created multiple institutions specialized in African matters, involved representatives of the party on the ground, ensured consultation with both central and local governments (when seen as necessary), and even attempted to create bonds with some African civil society groups.²³ Through official partnerships such as the Forum on China-Africa Cooperation (FOCAC), China has also ensured a constant dialogue with African countries in order to fulfill Chinese promises in the continent. At the 2006 summit of FOCAC, for example, various policies were introduced, such as the creation of the China-Africa Development Fund and the creation of trade and economic cooperation zones.²⁴

Despite its obvious interest in African oil and natural resources, China has refrained from drawing too much attention to this area, preferring to project itself as a reliable and long-term economic partner for Africa, thus expanding its interests on a broad range of economic exchanges.²⁵ Aid, for example, has been one of the main channels used by China to improve its

²¹Sager, "GCC-China Relations: Looking beyond Oil — Risks and Rewards," in Sager and Kemp eds., *China's Growing Role in the Middle East: Implications for the Region and Beyond*, pp. 1–22.

²²Zhao, "China's Oil Venture in Africa," p. 401.

²³Sarah Raine, *China's African Challenges* (London: Routledge, 2009), p. 54.

²⁴*Ibid.*, p. 67.

²⁵Daniel Large, "Beyond 'Dragon in the Bush': The Study of ChinaAfrica Relations," *African Affairs*, Vol. 107, No. 426 (2008), pp. 45–61; Yun Sun, "China's Increasing Interest in Africa: Benign but Hardly Altruistic," Brookings Institution, April 5, 2013, <https://www.brookings.edu/blog/up-front/2013/04/05/chinas-increasing-interest-in-africa-benign-but-hardly-altruistic/>; and Thompson Ayodele, "Misconceptions About China's Interests in Africa," *Georgetown Journal of International Affairs*, October 20, 2015, <https://www.georgetownjournalofinternationalaffairs.org/online-edition/misconceptions-about-chinas-interest-in-africa?rq=Ayodele>.

prestige and influence in Africa, when “[g]rant aid, interest-free loans and concessional loans are all deployed, as are non-monetary forms of aid, such as technical assistance and training, and other stimulative tools such as debt relief and tariff exemptions.”²⁶ The FOCAC and the China Export-Import Bank are also involved in several projects focusing on energy, infrastructure (with the construction of hospitals and rural schools), and transportation (especially related to oil facilities in oil-rich countries like Sudan). Thus, China is looking at a long-term relationship and is already thinking ahead, helping some African states to develop economically and to become stable partners in the future.

China seeks a long-term partnership with MENA countries.

Meanwhile, China has been implementing its long-adopted “win-win” strategy, ensuring that both trading partners reap reasonable benefits. For instance, by developing the oil sector in Sudan, China secured important oil supplies and the Sudanese government secured a steady economic

partner — it has only a few — among other compensations (i.e., arms sales). Since many African countries are particularly in need of infrastructure development, China also followed a coalition investment strategy. As Naidu and Davies summarize, “Multiple Chinese state-owned companies across diverse industries are politically orchestrated to engage a recipient African economy in a way that can include tying energy acquisitions to funding for infrastructure development.”²⁷ Overall, China’s goal is obviously long-term; but like in the case of the Middle East, it has focused on purchasing assets to avoid over-reliance on the global oil market whilst protecting its access to oil at all times.²⁸

China is taking its commitment to Africa very seriously and has explored new venues for cooperation in addition to natural resources. Furthermore, China’s equity ownership strategy has proven to be very efficient in terms of control over foreign oil supplies, but has raised immediate

²⁶Raine, *China's African Challenges*, p. 65.

²⁷Sanusha Naidu and Martyn Davies, “China Fuels its Future with Africa’s Riches,” *South African Journal of International Affairs*, Vol. 13, No. 2 (2006), p. 80.

²⁸Ian Taylor, “China’s Oil Diplomacy in Africa,” *International Affairs*, Vol. 82, No. 5 (September/December 2006), pp. 937–959.

concerns in Washington, with increasing worries about China's growing influence. Among others, Washington has been particularly interested in China's economic strategy, known as the "Beijing Consensus," in order to determine whether it could become a threat to American business strategy and U.S. energy security in the Middle East and North Africa.

The "Beijing Consensus" is a term coined in 2004 by Joshua Cooper Ramo, Professor at Tsinghua University and former Foreign Editor for *Time* magazine. As he sees it, the "Beijing Consensus" is founded on three "axioms."²⁹ First, China focuses on constant innovation while the "Washington Consensus" favors drastic change. Second, sustainability, equality, and quality-of-life are considered as valid indicators of successful economies as is per-capita GDP. Lastly, unlike the "Washington Consensus," which reflects a thirst for power and advocates a hegemonic world system, the "Beijing Consensus" places full self-determination as the greatest priority and value. In practice, self-determination has been translated by increasing multilateralism *inter alia*. In the case of China's oil policy, China not only created new bonds with Middle Eastern oil-rich states such as Saudi Arabia and Iran, but also reached out to other partners such as North Africa, Sub-Saharan Africa, and South America to diversify its oil supply. In Ramo's words, "China's new development approach is driven by a desire to have equitable, peaceful high-quality growth."³⁰

Unlike the "Washington Consensus," the "Beijing Consensus" has sought to prioritize economics over political and cultural differences. In other words, China has focused on finding good trading partners regardless of their political and cultural diversity. To some observers, China's approach to MENA is mercantilist, motivated by — and targeted solely for—markets, profits, and securing oil provisions.³¹ Yet some of Washington's major trading partners tend to appreciate the "Beijing Consensus," which triggers the U.S. fear that the appeal of the "Beijing

²⁹Joshua Cooper Ramo, *The Beijing Consensus* (London: The Foreign Policy Centre, 2004), p. 8.

³⁰*Ibid.*, p. 6.

³¹Zhu Feng, "Oil Nexus vs. Diplomatic Crux: China's Energy Demands, Maritime Security and the Middle East Aspirations," in Sager and Kemp eds., *China's Growing Role in the Middle East: Implications for the Region and Beyond*, pp. 31–42.

Consensus" would undermine its efforts to spread its neo-liberal model in exchange for strategic partnerships with developing countries, particularly the Middle East.

With regard to the MENA region, there are two key dimensions of China's economic strategy. One is that China seeks to expand friendly, multidimensional relations with Middle Eastern states and to remain politically neutral to those states' internal conflicts. The other is that China wishes to access Middle Eastern resources by exploiting markets, capital, and petroleum to fuel its own economic drive.³² However, Chinese elites know that in the past decades, the Middle East has been considered as the United States' economic fief,³³ and therefore, by trading with the Middle East, China exposes itself to growing concerns by Washington. Although China perceives American condemnation of the proliferation of weapons of mass destruction and terrorism to much extent as pretexts for interventions on the ground and for promotion of democratization, accusing the United States of engaging in a "new kind of imperialism" through the control of natural resources,³⁴ it has been striving to become a "friend of all and the enemy of none"³⁵ by trying not to directly confront Washington.

According to Chinese scholar Zhao Hongtu, China's energy strategy can be summarized into three points. First of all, China acts strategically in the MENA region. Not only does China wish to import oil, but also to secure oil provisions. Thus, China has been increasingly involved in upstream investments and obtaining equity oil in foreign enterprises. Second, China's oil companies are largely "instruments of the state" and treated as "an arm of the government's international expansion."³⁶ Third, a growing dependence on Middle Eastern oil has led China to reconsider its policy and strategy, exploring new energy sources in North Africa, and adjusting its international behavior to ensure that its domestic interests do not come into conflict with its foreign policy, especially with regard to China-U.S.

³²Alterman and Garver, *The Vital Triangle, China, The United States and the Middle East*, p. 82.

³³Shen Dingli, "Iran's Nuclear Ambitions Test China's Wisdom," *Washington Quarterly*, Vol. 29, No. 2 (Spring, 2006), pp. 55–66.

³⁴Alterman and Garver, *The Vital Triangle: China, the U.S., and the Middle East*, p. 12.

³⁵*Ibid*, p. 4.

³⁶Zhao, "China's Energy Interest," pp. 54–55.

relations, for, as the only global superpower, the United States has extensive interests in virtually all energy-rich regions of the world.

One of China's greatest advantages compared to Western private oil companies in North Africa is the fact that most Chinese oil companies are state-owned. Consequently, China can outbid competitors in major contracts without the short-term concerns of private companies that are bound by considerations of profits and shareholders. Besides, China enjoys a political advantage because it is not associated with colonialism

China tries to avoid challenging U.S. interests directly while strengthening economic ties with MENA countries.

and imperialism. In North Africa, contrary to the acts of European powers two centuries ago, "economic engagement is accompanied by investment in and upgrading of infrastructure and transport facilities, which are central to Africa's development trajectory."³⁷ China tries not to act like a "grab-it-all" power, but rather like a trading partner exclusively interested in conducting business. Furthermore, as Taylor underlines, "China's renewed interest in Africa coincided with an upsurge of western interest in promoting liberal democracy and human rights,"³⁸ a measure perceived as neo-imperialism by developing countries, especially authoritarian regimes. China took advantage of this context and re-assured many of its African trading partners that its sole interest is in economic affairs. Beijing has also avoided framing its approach from a human-rights standpoint and preferred emphasizing "economic rights" and "rights of subsistence" of developing countries.³⁹ Consequently, many African nations view China's presence as a chance for them to disengage from the West and its constant political demands, leaving China to balance its demand for resources with "diplomacy to court African leaders."⁴⁰

Nevertheless, the advantage of not being associated with colonialism and imperialism may also be considered a disadvantage for China as well,

³⁷Sanusha Naidu and Lucy Corkin, "Who Was the Real Winner in China?," *China Monitor* (November 2006), pp. 4–5.

³⁸Taylor, "China's Oil Diplomacy in Africa," p. 939.

³⁹Ibid.

⁴⁰Naidu and Davies, "China Fuels its Future with African Riches," p. 80.

because it does not possess the historical linkages with strategic oil-exporting countries like European powers. However, China has made the best of the situation by approaching its African partners to form independent business relationships. In the same vein, China has had access to countries where American and European companies are absent due to political instability and “human rights violations.” Some North African countries like Libya and Sudan have been isolated by American foreign policy. Yet, as with the Iranian case, China has benefited tremendously from this vacuum to seize important deals and gain assets.⁴¹ Unlike in the Middle East, upstream oil markets are wide open for foreign investments in North Africa. As exploration is more risky, China has seized opportunities to invest in upstream markets, often becoming the most important investor.⁴² For unlike its Middle Eastern counterparts where the oil sector is saturated, Africa has been enthusiastic for Chinese investment to invigorate its neglected sectors, especially oil.

Given the uniqueness of the Middle East in oil sustainability and strategic location, it is difficult for China to move away from the region. The energy strategy framed on the “Beijing Consensus” is especially appealing to developing nations because it does not involve immediate political change. Unlike the Cold War era, current Chinese foreign policy is more concerned with economic development than ideology. Both China and Middle Eastern countries have a clear preference for “a faster pace of economic reform compared to political change,”⁴³ which creates space for increasing cooperation.

From the Middle Eastern standpoint, China is a huge market for oil exports. With the decrease in oil demand after the global economic crisis and the growing desire of Western states to diversify their oil supplies, the GCC States have found China a great trading partner. Saudi Arabia, Oman, United Arab Emirates, and Kuwait alone constituted 43 percent of Chinese crude oil imports in 2013.⁴⁴ The GCC cluster owns some of the biggest oil

⁴¹Mohammad Salman, Moritz Pieper, and Gustaaf Geeraerts “Hedging in the Middle East and China-U.S. Competition,” *Asian Politics & Policy* Vol. 7, No. 4 (October 2015), pp. 575–596.

⁴²Zhao “China’s Oil Venture in Africa”.

⁴³Sager, “GCC-China Relations: Looking Beyond Oil — Risks and Rewards,” p. 21.

⁴⁴See EIA data analysis, <https://www.eia.gov/beta/>.

wealth in the world in conjunction with relatively politically stable environments, an appealing combination for Chinese interests.

From the Chinese standpoint, diversifying China's oil sources is essential. Russia, Central Asia, Africa, and Latin America are all trading partners with China. China is practicing oil diplomacy, defined by Olimat as "the foreign activities with explicit involvement of the central government aiming to secure foreign oil and gas resources or promote interstate oil and gas business cooperation,"⁴⁵ and has realized the importance of diversifying the source of oil imports. Similarly, by expanding ties with China, Saudi Arabia, Iran, and Sudan to a lesser extent, has been diversifying their international exports and reducing their dependence on Western powers, especially the United States.⁴⁶

In addition to oil, both China and the Middle East complement each other because the Persian Gulf states are huge markets with medium-sized populations, striving for goods of daily use, which China produces cheaply and efficiently. The oil states are major consumers of Chinese light industrial goods, machinery and equipment, vehicles, foodstuff, and engineering labor services.⁴⁷ Furthermore, China has the capacity to export labor service to Arab countries because of the relative insufficiency of labor in these nations. Therefore, China's complementarity to Middle Eastern countries has made it a major trading partner in the region.

China's Energy Diplomacy with Saudi Arabia and Iran

Although Chinese firms are actively participating in oil projects in other countries such as Kuwait, Oman, Qatar, Syria, the UAE, Yemen, and Iraq, their focus is still on two major oil-producing countries, namely Saudi Arabia and Iran. China is well positioned to build an energy partnership with Saudi Arabia, because unlike other oil-producing states in the Middle East, Saudi Arabia is well-established in the oil industry. Saudi Arabia needs steady consumers and China provides a great alternative to the

⁴⁵Olimat, *China and the Middle East: From Silk Road to Arab Spring*, p. 37.

⁴⁶Sager, "GCC-China Relations: Looking Beyond Oil — Risks and Rewards," p. 20.

⁴⁷Alterman and Garver, *The Vital Triangle: China, The United States and the Middle East*, p. 66.

“seemingly capricious”⁴⁸ markets of the United States. Saudi Arabia exports more than half of its crude oil to Asia and less than one-fifth to the Americas. Yet, in 2012, Saudi Arabia was the second-largest annual petroleum exporter to the United States after Canada. Although the United States remains an important partner, Saudi Arabia has an even more important market in Asia.

Historically, relations between China and Saudi Arabia started with the ascendance to power of Deng Xiaoping in 1978. Deng was determined to accelerate economic reforms, growth, productivity, and efficiency in order to rebuild China, and Saudi Arabia became part of the solution.⁴⁹ Later on, several political exchanges and diplomatic visits between China and Saudi Arabia took place. In 1999, then Chinese President Jiang Zemin visited Saudi Arabia and signed the *Strategic Oil Cooperation Agreement*. In 2006, then Chinese President Hu Jintao also visited, and Chinese envoy to the Middle East stated that the visit “laid a solid foundation for the growth of bilateral ties in the years ahead.”⁵⁰ President Hu made another visit in 2009, during which another agreement was signed, including a partnership in oil, gas, and mining. In 2012, then Chinese Premier Wen Jiabao went to Saudi Arabia. At the same time, Saudi Arabia’s state-run oil company Aramco signed an agreement with China’s Sinopec to build an oil refinery in Yabu, Saudi Arabia. That agreement became the first major Chinese investment in the Saudi oil industry.

The Sino-Saudi partnership is based on their mutual political and economic interests.

Saudi Arabia also sees China as a great trading partner in heavy crude oil. Saudi’s heavy crude oil consists of “distressed medium-grade crude oil,”⁵¹ a viscous, acidic, and often sulphurous product that Saudi Arabia has in abundance but which has few buyers internationally. In fact, although it

⁴⁸Alterman and Garver, *The Vital Triangle, China, The United States and the Middle East*, pp. 57–58.

⁴⁹Olimat, *China and the Middle East: From Silk Road to Arab Spring*, p. 43.

⁵⁰Al-tamimi, “China-Saudi Arabia Relations: Economic Partnership or Strategic Alliance?,” p. 5.

⁵¹Alterman and Garver, *The Vital Triangle: China, The United States and the Middle East*, p. 58.

sells for 15 to 25 percent cheaper than premium grade oil, heavy crude oil is hard to refine and only a few refineries have the capacity to transform it into usable products such as heating oil or gasoline. The United States has refused to buy heavy crude oil as processing it into usable oil would trigger great environmental concerns. But China saw a great opportunity to obtain oil at a cheaper price. Consequently, Saudi Arabia has been trying to develop new partnerships with China by investing in specific refineries in China.

When Saudi Arabia finally opened up its upstream sector, Chinese investments poured in while Saudi Arabia invested in China's downstream refining business. In fact, Saudi Arabia planned to develop supply contracts through mutually beneficial joint venture investments in exploration, refining, petrochemicals, and infrastructure projects.⁵² As energy sits at the core of Saudi-Chinese cooperation, it covers a wide umbrella of oil processes, including oil imports, upstream, downstream, oil reserve tank building, and refining petrochemical industries. In short, Saudi Arabia provides oil while China offers consumer goods, services, markets, and oil imports. When China increased its oil imports from Saudi Arabia, the latter was "more than delighted" to raise its oil exports and production capacity as it announced its "willingness, ability, and desire to increase production capacity to meet any demand caused by the decline in Iranian oil export."⁵³

Traditionally, Saudi Arabia has a long and privileged relationship with the U.S. mainly based on oil trade. However, the 9/11 terrorist attacks and the proven involvement of Saudi citizens in international terrorism caused tension in the Saudi-U.S. relationship. Meanwhile, Sino-Saudi relations were strengthened and Saudi leaders began to view China as a convenient alternative, especially with regard to the "Beijing Consensus" and its policy of strict non-interference in Saudi Arabia's internal affairs, which contrasted with Washington's drive for constant political reform. However, Saudi Arabia still maintains a special relationship with the United States, and both governments continue to cooperate on several security issues. Nonetheless, the economic reality is that the U.S. demand for oil is flagging and the "Washington Consensus" constantly raises tensions. These factors are increasingly driving Saudi Arabia to rely more on China.

⁵²Sager, "GCC-China Relations: Looking Beyond Oil — Risks and Rewards," p. 18.

⁵³Olimat, *China and the Middle East: From Silk Road to Arab Spring*, p. 159.

Saudi Arabia, as a major rival of Iran in Middle Eastern oil politics, has been trying to check against Iran's political and economic influence through "petro-political partnerships."⁵⁴ Thus Saudi Arabia is more than ready to strengthen its own ties with China vis-a-vis Iran. For example, Saudi Arabia's ability to increase its oil production is certainly a card that it could use to dwarf Iran's production, apart from calming the world markets and boosting economic growth during crises.⁵⁵ Due to decades-long economic sanctions by the United States and other Western countries, Iran's oil exploitation and oil trade have also caught the attention of China. As one of the four countries that imported Iranian oil in 2014, China has been receiving the largest share of the pie. On the Iranian side, the collapse of the Soviet Union, combined with international sanctions, slow economic growth, and underdeveloped oil and gas industries, has encouraged an eastward look for new partners.⁵⁶

China's oil imports from Iran started in the 1960s. After the Iranian Revolution, China assisted Iran in rehabilitating its oil and gas fields, particularly by introducing some of its oil technologies. China helped Iran maintain and upgrade three of its oil refineries in 2000, tapping into oil reserves in the Caspian Sea Basin and the gas fields of the Persian Gulf.⁵⁷ Since then, China has been engaged in two major projects in Iran: the North Pars gas field and the Yadavaran oil field. In 1997, China entered the Iranian energy sector by bidding on 43 projects worth \$8 billion.⁵⁸ In January 2001, Sinopec and the National Iranian Oil Company (NIOC) signed an agreement to exploit the Zavareh-Kashan oil field, and Sinopec took charge of the operation. The two companies also signed an agreement worth \$150 million to upgrade two NIOC refineries.⁵⁹ On December 9, 2007, Sinopec signed an agreement with the Iranian Ministry of Oil to develop the Yadavaran oil field in southwestern Iran, which turned out to be one of the most significant deals that China has signed with Iran so far.

⁵⁴Al-tamimi, "China-Saudi Arabia Relations: Economic Partnership or Strategic Alliance?," p. 10.

⁵⁵Olimat, *China and the Middle East: From Silk Road to Arab Spring*, p. 62

⁵⁶Chubin, *Iran and China: Political Partners or Strategic Allies*.

⁵⁷Olimat, *China and the Middle East: From Silk Road to Arab Spring*, p. 42.

⁵⁸Zhao, "China's Energy Interest and Security in the Middle East".

⁵⁹Olimat, *China and the Middle East: From Silk Road to Arab Spring*, p. 56.

China also applies its equity ownership strategy in Iran through Sinopec which holds a 51 percent equity share of the Yadavaran field, supposedly the largest untapped oil field in the world, with an estimated reserve of over 300,000 million barrels of crude oil. By 2009, Iran provided 11 percent of China's oil import, ranking third after Saudi Arabia and Angola. Reportedly, Chinese oil companies have signed long-term contracts with Iran worth \$200 billion; more than 100 Chinese companies are currently operating in Iran's oil and gas facilities.⁶⁰ The essence of Sino-Iranian relations lies in the abundance of Iranian oil and gas reserves, associated with Western withdrawal from Iranian markets and economic sanctions, so to speak.

The increasingly closer Sino-Iranian relationship has worried many actors in the region. Given the lack of trust between Saudi Arabia and Iran, Saudi Arabia is concerned about the current state of affairs between China and Iran. Thanks to China's growing investment in hydrocarbons, it is evident that Chinese companies have successfully obtained several oil contracts in Iran, strengthening ties with the country. However, Beijing has been cautious in its approach towards Tehran and prefers careful separation of its oil interests from rising nuclear concerns in Iran.⁶¹ As suspicion grew regarding Iran's potential nuclear programs, China's support for Iran became a significant source of conflict in China-U.S. relations in the 1990s. Later on, as confrontation with Iran intensified in 2004, Washington pressured Beijing to cease its cooperation with Iran on the Yadavaran oil field. In 2005, when the International Atomic Energy Agency (IAEA) determined that Iran had conducted nuclear activities over a period of 18 years without reporting them, China attempted to delay and soften U.S. measures against Iran. In particular, China opposed U.S. efforts to submit the issue to the United Nations Security Council (UNSC) and insisted that the IAEA was an adequate venue for dealing with the issue. In 2006, China repeatedly urged

China's support was crucial to the UN resolution on sanctions against Iran for its sustained nuclear program.

⁶⁰Chubin, *Iran and China: Political Partners or Strategic Allies*.

⁶¹Zhu, "Oil Nexus Vs. Diplomatic Crux: China's Energy Demands, Maritime Security and the Middle East Aspirations."

Iran to respond “positively” and “flexibly”⁶² to the proposals made by the European Union (EU) or Russia.

However, when Iran declared that it would continue uranium enrichment and ignored the deadline specified in UN Resolution 1696, China finally agreed to join the other permanent members of the UNSC and Germany (P5+1) in implementing gradual sanctions against Iran. Thus, while China delayed the imposition of sanctions, it was also fundamentally opposed to Tehran’s acquisition of nuclear weapons. Some Chinese analysts argue that allowing Iran to obtain nuclear weapons would make several other states of the Middle East more likely to obtain their own arsenals, which would then weaken China’s status as a major nuclear power. Proliferation of nuclear weapons could also lead to political instability in the region, which would be disruptive for Chinese businesses.⁶³ Consequently, the Iranian nuclear issue provides a good example of Beijing’s attempts to balance its policies between cooperation with the United States and with Middle Eastern countries, especially with oil-rich states such as Iran.

For a long time, China had been concerned about tensions between Iran and the West and had opposed any military actions against Iran.⁶⁴ These fears were mollified in 2015 when Iran and the P5+1 countries reached a landmark deal over Iran’s nuclear program. Accordingly, Iran agreed to reduce its nuclear capabilities and provide greater access to the IAEA in exchange for the removal of the sanctions.⁶⁵ This agreement is likely to generate substantial implications for China-Iran relations.

From the Iranian perspective, it is obvious that during the long period of sanctions, China replaced the West as a source of investment and support. In fact, Sino-Iranian relations worried the United States as it made total isolation of Iran unattainable. These relations allowed Iran to survive despite the economic sanctions imposed on its nuclear program and kept

⁶²Alterman and Garver, *The Vital Triangle: China, The United States and the Middle East*, p. 43.

⁶³Ibid.

⁶⁴Zhu, “Oil Nexus vs. Diplomatic Crux: China’s Energy Demands, Maritime Security and the Middle East Aspirations”.

⁶⁵“Iran’s Nuclear Deal: Key Details,” BBC October 13, 2017, <http://www.bbc.com/news/world-middle-east-33521655>.

Iran “independent.”⁶⁶ Furthermore, Iran certainly had political goals in maintaining strong ties with China. According to Chubin, Iran wished “to use China as a balancer against the United States and a source of technology in [the] defence and energy fields, and to create a deep and reliable commercial relationship which can translate into a more substantial strategic relationship.”⁶⁷ In short, Iran’s focus seems to be on short-term goals while China cares more about long-term objectives. Whereas Iran may wish to use its natural resources as a political instrument, China’s foreign policy is primarily focused on economic relations.

The end of sanctions creates several opportunities and challenges for Chinese influence in Iran. On the one hand, it is clear that Iran would start enjoying a sudden increase in investment and commerce with the United States and the EU; meanwhile, China would benefit from the increase of oil and gas production in Iran. On the other hand, Chinese companies would now have to compete with their Western counterparts. Particularly, some East European countries would be highly interested in Iran’s natural gas reserves as a means to address their traditional energy dependence on Russia. Therefore, China now has to take into account a complex geopolitical chessboard when playing in the Middle Eastern energy arena.

Conclusion

Energy security is critical for economic security and can be influential on the development pathway, peace, and stability of a country. One of the crucial points of energy security is securing a stable oil supply. China, like many other Asian countries, has felt the impact of civil unrest and conflicts in the MENA region, because political instability threatens to disrupt energy supply channels. As a large importer and consumer, China is very sensitive to the volatility of oil price and supply. Olimat recommends that China avoid a nationalist approach towards energy security and/or establish military bases in the region,⁶⁸ while Sager argues that China’s policy is to

⁶⁶Chubin, *Iran and China: Political Partners or Strategic Allies*, pp. 64–65.

⁶⁷Ibid, p. 67.

⁶⁸David Schenker, “China-Middle East Relations: A Change in Policy?,” Carnegie Endowment for International Peace, March 18, 2013, <http://carnegieendowment.org/events/?fa=4063>.

protect energy routes, so that it will increasingly engage in the security debates, seeking to have a say regarding issues over oil transportation (maritime security) and supply security.⁶⁹

It must be noted that Chinese presence in the oil market of the MENA region creates a balance against the U.S. omnipresence. Lacking in means to ensure maritime transport of oil, together with the limitation on oil tankers through the Strait of Malacca, China has begun to construct new pipelines for more reliable energy supply from the MENA region. Currently, China is directing three pipelines in particular, namely the Sino-Burmese oil and gas pipeline from China to the Middle East, the Sino-Kazakh pipeline from China to the Caspian Sea, and the Sino-Russian pipeline. China hopes that these pipelines and its multiple-route strategy will increase the security and reliability of its oil supply.

Furthermore, a fluctuation in oil prices could be disastrous for China — and it has been. In 2008, when international oil prices spiked at \$147.50 per barrel, China struggled to meet its growing demand for energy. Yet the downfall of oil prices since 2014 would in general play to China's advantage. To balance against unstable oil prices, China adopted a strategy of equity ownership to have more control over the management of oil resources and used it as a shield against price fluctuations. However, this strategy created tensions with Western states engaged in oil partnership in the MENA region as they saw it as "a deceptive practice seeking to place Western consumers in a less favorable position."⁷⁰ China's other move has been to diversify its supply sources by engaging with other oil-rich regions in the world such as Sub-Saharan Africa and South America. Although costlier, it could provide a necessary alternative to the unstable oil markets and allow China more control over its energy investments.

By and large, China's energy strategy in the MENA region follows the agenda of the "Beijing Consensus" and has mostly been prudent, yet far-reaching. To ensure stable oil supply, China did not hesitate to diversify its sources, sometimes even challenging economic sanctions in the case of Sudan and Iran. Nevertheless, China has also been a loyal partner to Saudi Arabia, and both states have found growing common interests, strengthening their relationship over time. The "Beijing Consensus" has been

⁶⁹Sager, "GCC-China Relations: Looking Beyond Oil — Risks and Rewards," p. 11.

⁷⁰Olimat, *China and the Middle East: From Silk Road to Arab Spring*, p. 46.

especially appealing to Saudi Arabia and Iran because both states are increasingly displeased by the American approach, which is often seen as too intrusive. However, China-Saudi and China-Iran relations are no less complex. Although Saudi Arabia and Iran have proven to be perennial rivals, their expectation regarding their relationship with China is quite similar. They both wish to escape from, or at least balance, Western influence. Saudi Arabia feels growing tensions with the United States on anti-terrorism, while Iran had been under overall international sanctions until a few years ago. Similarly, Sudan was completely isolated after the American government forbade American companies to invest in the country. In all cases, China has been a convenient alternative. Sudan developed its oil industry and obtained arms from China, Saudi Arabia diversified its exports by bringing in a new dependent client, and Iran was able to export its oil during sanctions. Consequently, there has been a gradual shift from the West and diversification has been the primary focus of both suppliers and consumers.

As a relatively “new” player in the game, China has the opportunity to develop a prudent strategy, which could help to ensure a steady flow of oil without destabilizing its relationship with other powers in the international arena. While the United States certainly disagrees with China’s equity sharing policy, it is not yet fully convinced that China represents a threat to its national interests in the region.⁷¹ In fact, although the United States has opted for alternative energy sources such as shale gas and renewable energy, it remains reliant on Middle Eastern oil supplies. Accordingly, Washington still prioritizes political stability in the Middle East for the sake of its own national security, which is in China’s national interests as well.

Although China’s rise could be seen as slowly narrowing the sphere of American influence in favor of multilateral relationships among developing states, China does not wish to increase tensions in the international arena. Its conventional approach as an emerging power has been to avoid involvement in any nation’s political affairs and to concentrate on trade relations and investment agreements. This is in stark contrast to the more forceful global involvement of Western powers in history. The relevance of China’s presence in the MENA region is important to such a rapidly

⁷¹Ibid, p. 62.

changing and interconnected world, and the nature of its foreign policy will have to evolve with it. For now, China's energy strategy — albeit various challenges — has been successful. Only time will tell whether China will be proactive and subtle enough to avoid being involved in serious conflicts in the MENA region.