

China and Oil: The Middle East Dimension

by [Simon Henderson \(/experts/simon-henderson\)](/experts/simon-henderson)

Sep 15, 2004

ABOUT THE AUTHORS



[Simon Henderson \(/experts/simon-henderson\)](/experts/simon-henderson)

Simon Henderson is the Baker fellow and director of the Bernstein Program on Gulf and Energy Policy at The Washington Institute, specializing in energy matters and the conservative Arab states of the Persian Gulf.



Brief Analysis

Rapidly growing Chinese oil demand was one of the key factors influencing discussions at this week's meeting of the Organization of Petroleum Exporting Countries (OPEC), convened in Vienna by ministers from OPEC member states. During the first eight months of 2004, Chinese oil imports surged by 40 percent compared with the same period in 2003, contributing to the rapid rise in oil prices during the summer. China, the world's most populous nation, knows its economic growth must be fueled by oil imports, with the Middle East serving as the principal source. Accordingly, Beijing has begun to make energy security a priority, mounting a campaign to build improved commercial and diplomatic relations with Middle Eastern states. These efforts will entail increased competition with U.S. influence in the region.

Last week, Chinese foreign minister Li Zhaoxing paid a four-day visit to Saudi Arabia as part of a regional tour that also included Yemen, Oman, and Egypt (where he participated in the inaugural session of a new Chinese-Arab cooperation forum). Beijing and Riyadh have recently signed an agreement committing themselves to regular talks. While in the kingdom, Li met both with Crown Prince Abdullah and the ailing King Fahd -- the latter meeting suggesting Saudi acknowledgement of the importance of the visit. After meeting with the secretary-general of the Saudi-dominated Gulf Cooperation Council -- the regional grouping of conservative, and predominately energy-exporting, Arab states -- Li stated, "We will work together to deepen our cooperation in the field of energy."

Growth-Fueled Demand

With a mere 2.1 percent of world oil reserves (the United States has 2.7 percent), China has been a net oil importer since 1993. The country's annual gross domestic product growth has averaged nearly 9 percent over the past decade, however, as China has sought to establish itself as the world's manufacturing base. This growth has brought greater prosperity for the Chinese people (e.g., car sales have surged by nearly 70 percent). In 2003, China became the world's second largest consumer of petroleum products after the United States, surpassing Japan for the first time.

Despite efforts to diversify its sources of supply, about half of China's imported oil comes from the Middle East. In

2003, Saudi Arabia was China's largest supplier, accounting for 17 percent of its oil imports. Similarly, China was the kingdom's biggest customer.

In recent years, China has acquired oil exploration and production stakes throughout the world. These include shares in fields in Venezuela, Peru, and Indonesia, as well as in the (wider) Middle East: Azerbaijan, Kazakhstan, Iran, (Saddam Hussein's) Iraq, and Sudan. U.S.-Chinese rivalry on this front is already apparent. For example, Beijing's involvement in Sudan makes it reluctant to back UN sanctions against Khartoum aimed at curbing the genocide in Darfur. In Saudi Arabia, Chinese energy company Sinopec signed an agreement in March 2004 to explore Saudi natural gas reserves after years of negotiations between Riyadh and U.S. companies failed to bear fruit. In return, Saudi Arabia is expected to acquire a 25 percent stake in an oil refinery in China. There is over-capacity in Chinese refineries, but many plants would need to be upgraded to make them suitable for heavier Middle Eastern crudes.

Contentious Arms Sales

Only in recent years has Chinese diplomatic involvement in the Middle East developed a coherent shape. Military sales have been important in building China's relations with the region, usually in a manner at complete odds with U.S. interests. During the 1980-1988 Iran-Iraq War, Beijing reportedly sold large quantities of ammunition to both Baghdad and Tehran, directly contributing to the slaughter on both sides of the battlefield. Iran subsequently bought Silkworm surface-to-surface missiles from China, posing a potential threat to oil tankers -- and American aircraft carriers -- transiting the Persian Gulf. In the mid-1980s, Beijing clandestinely sold the CSS-2 medium-range missile system, capable of threatening both Iran and Israel, to Saudi Arabia, a development that was discovered while the missiles were being delivered. The missile system, capable of carrying either a nuclear or chemical warhead, is now obsolete, and its replacement is assumed to be the subject of bilateral discussions. Washington fears that the kingdom might alternatively choose missiles from Pakistan, which has models based on both Chinese and North Korean designs. Whatever design it chooses, the kingdom is likely to arm its missiles with nuclear warheads, possibly leased from Pakistan.

Given the absence of economic data on Chinese oil stocks, the widespread belief that Chinese companies are hoarding oil, and the negative effects of high oil prices, a market "correction" may soon emerge, with a consequent pause in Chinese economic growth. Nevertheless, the projections over the longer term are striking. Western estimates predict that Chinese oil demand will more than double within the next twenty years, with net oil imports increasing almost fourfold to a level that would account for all current Saudi exports.

Challenges for U.S. Policy

Economic growth in China has had considerable benefits for the U.S. economy, and Beijing has been appreciative of U.S. investment. Yet, China's record in the Middle East has often conflicted with U.S. interests. There is little doubt that China's challenge to U.S. preeminence in the region is attractive to more than a few Middle Eastern regimes. At the same time, China's efforts to secure access to oil outside the Middle East, and closer to home, suggest that Beijing is cautious about confronting the United States too directly. In addition, at a summer conference in Germany, China declared that it wants to generate 10 percent of its power from renewable resources such as wind and solar power by 2010 -- a move that may have resulted from concerns over energy security and, perhaps, environmental issues.

Being friendly with China because it is an important customer makes good business sense for oil-exporting states in the Middle East. Yet, Washington needs to emphasize to its Arab allies that China's efforts to secure its own diplomatic interests may lead to tension with the United States. Similarly, Washington must make clear to Beijing the importance of preventing its pursuit of energy supplies from raising tensions with the United States on regional political, diplomatic, and security matters. China could prove its bona fides while still pursuing a legitimate search

for additional energy by taking steps on two key diplomatic fronts: namely, offering clearer support for the Arab-Israeli peace process and helping to address international concerns regarding Iran's nuclear program.

Simon Henderson is a London-based associate of The Washington Institute and author of the Institute Policy Paper [The New Pillar: Conservative Arab Gulf States and U.S. Strategy \(templateC04.php?CID=33\)](#) (2003).

Policy #898

RECOMMENDED



BRIEF ANALYSIS

[Bennett's Bahrain Visit Further Invigorates Israel-Gulf Diplomacy](#)

Feb 14, 2022

◆
Simon Henderson

(/policy-analysis/bennetts-bahrain-visit-further-invigorates-israel-gulf-diplomacy)



BRIEF ANALYSIS

[Libya's Renewed Legitimacy Crisis](#)

Feb 14, 2022

◆
Ben Fishman

(/policy-analysis/libyas-renewed-legitimacy-crisis)



BRIEF ANALYSIS

[The UAE Formally Ceases to be a Tax-Free Haven](#)

Feb 14, 2022



Sana Quadri,
Hamdullah Baycar

(/policy-analysis/uae-formally-ceases-be-tax-free-haven)

TOPICS

Energy & Economics (/policy-analysis/energy-economics)

Gulf & Energy Policy (/policy-analysis/gulf-energy-policy)