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China and the Middle East: More Than Oil

Xiangming Chen

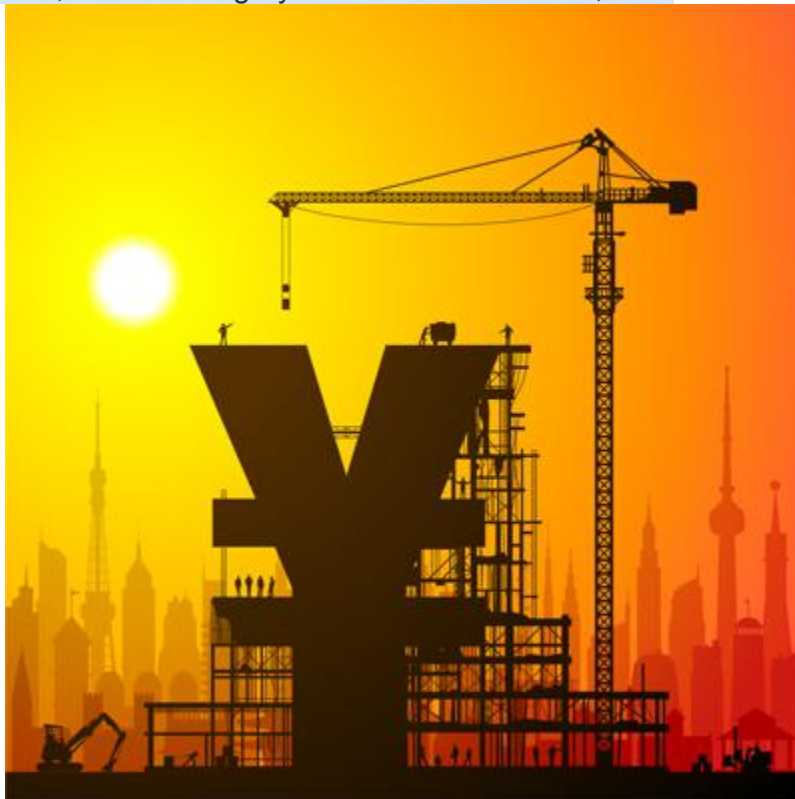
Trinity College, xiangming.chen@trincoll.edu

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China and the Middle East: More Than Oil

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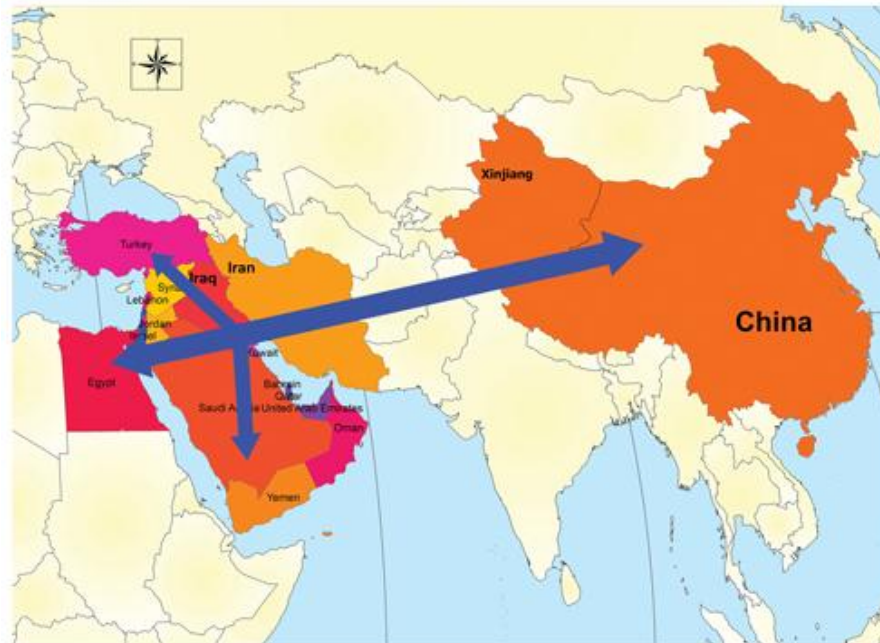


By Abbās Varij Kāzemi & [Xiangming Chen](#)

China has spread its ties to the Middle East in ways that go beyond oil. Below, Abbās Varij Kāzemi and Xiangming Chen argue that the Middle East is an important region to watch to gain a sense of China’s next moves globally.

A stroll through the stores in Tehran reveals the omnipresence of China-made consumer goods. State-owned China Railway Construction Corporation completed the Mecca monorail project in Saudi Arabia in November 2010, just in time to accommodate the 2.8 million people who arrived for Hajj. The agreement between China and Iran to build a railway line from Tehran to the Iraqi border is part of an overall plan to link the Middle East to China through Central Asia¹ (see Map 1). Despite China’s great need to import a lot of oil from the Middle East, the latter is not generally seen as a major and familiar territory as other regions for China’s growing global presence and influence. That China has spread its ties to the Middle East beyond oil reinforces two important issues. One is that China’s global rise and power must be understood regionally and locally. The other is to see China’s distinctive footprints in the Middle East in comparison to other regions and countries.²

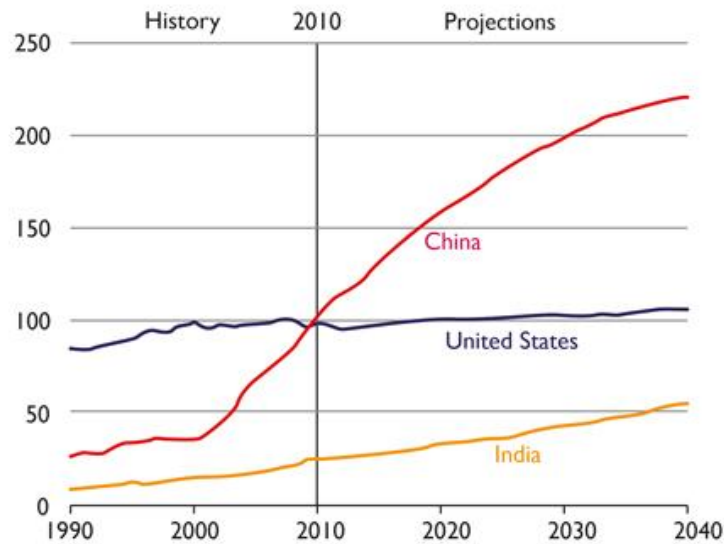
Map I: The China-Middle East Connections



Source: Produced by Mustafa Ibraheem.

Oil is where we start. Relative to other aspects of the China-Middle East relationship, oil is more critical. This is also true of China's strong efforts to engage with regions such as Central Asia to buy enough oil at reasonable prices. Fuelled by its sustained rapid economic growth over the past three decades, China has become the world's largest energy consumer in less than 20 years and accounts for almost 20% of the world's total energy consumption today. Its booming economy requires China to import more than half of the oil it needs. China's crude oil imports rose from 4.8 million barrels per day (bbl/d or pbd) in 2010 to 5.1 million bbl/d in 2011, and to 6 million bbl/d in May 2012. Looking forward, China's energy demand is expected to expand 75% by 2040 and double the consumption of United States (see Figure 1). According to the US Energy Information Administration (EIA), China may import about 75% of the crude oil it will consume by 2035 (Fazilov and Chen, p.38).²

Figure 1: Energy Consumption in the United States, China and India

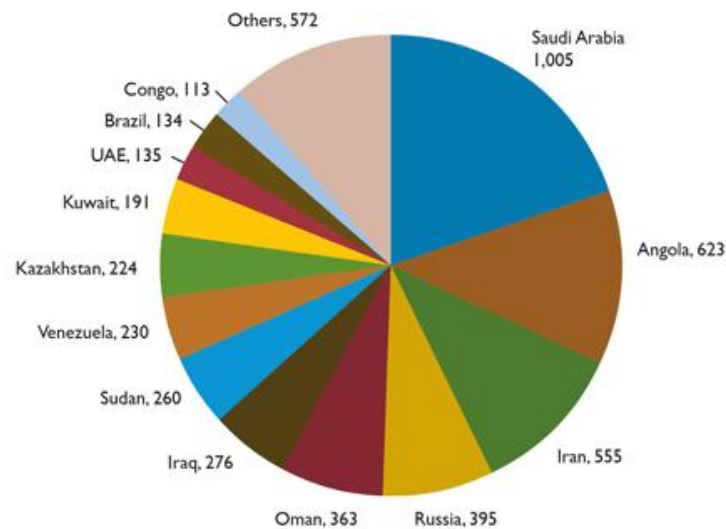


Source: <http://www.eia.gov/forecasts/ieo/world.cfm>

Oil Dependence

Despite China's attempt to look for alternative energy sources in different parts of the world such as Central Asia, its dependence on Middle Eastern oil has risen over time. The Middle East is currently the largest exporter of crude oil to China (see Figure 2). The share of oil imported by China from the Middle East was 48% in 1990, 49% in 2005, and 51% in 2011. It is expected that China's crude oil imports from the Middle East will reach 70% by 2020 and continue to grow until 2035, according to the International Energy Agency. Saudi Arabia is China's largest energy supplier with about one million barrels per day, accounting for 20% of China's crude oil imports. Not far behind Angola is another important Middle Eastern country, Iran, which contributes to about 10% of China's overall oil imports. However, it is worth pointing out that given China's somewhat reluctant support for UN sanctions against Iran (more on this later), its oil exports to China declined by 74% from 2009 to 2010, down from a peak of 16% of China's oil imports in 2009,³ when Iran was the second largest external source of oil for China.

Figure 2: China's Crude Oil Imports by Source, 2011
thousand barrels per day



Source: FACTS Global Energy

While China's heavy dependence on Middle Eastern oil is an established fact, less is known about China's early efforts to establish broad energy ties with the Middle East. Back in 1983, before the Chinese economy really took off, the overseas construction arm of China National Petroleum Corporation (CNPC) moved into the Kuwaiti market and later won an oil storage reconstruction project in 1995. Beijing also signed the Strategic Oil Cooperation agreement with Saudi Arabia in 1999, which laid the foundation for Saudi Arabia to become and remain China's largest oil supplier. In exchange for stable crude supply, China has courted Saudi investment for expanding its refining capacity. One example is China Petroleum and Chemical Corporation's (SINOPEC) meeting with Saudi Aramco to discuss a stake in a \$1.2-billion refinery in the Chinese city of Qingdao. The two sides further joined hands in a \$3.5-billion venture in Fujian province that included greater refinery capacity.⁴

China has maintained a friendly relationship with both Saudi Arabia and Iran. A number of top Chinese leaders including Hu Jintao and the current president Xi Jinping have visited Saudi Arabia. And China has been dragging its feet on the UN sanctions against Iran. These diplomatic postures toward the Middle East conform to China's pragmatic economic policies and interests in other energy- and commodity-rich regions.

“China has become the world's largest energy consumer in less than 20 years; China's oil consumption growth accounted for one-third of the world's oil consumption growth in 2013.”

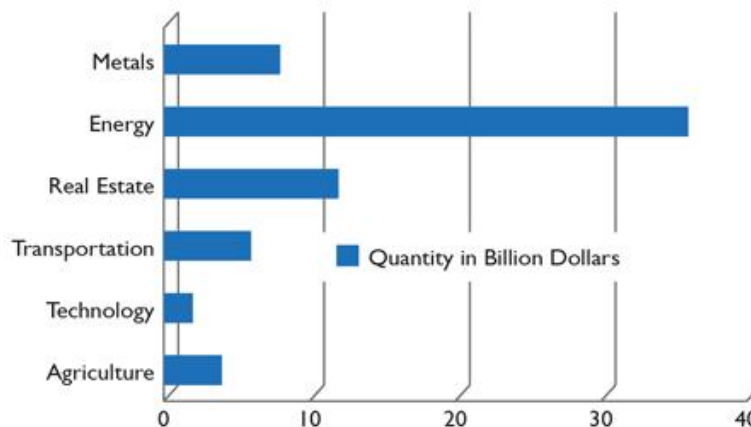
Beyond Oil

If the story about the China-Middle East nexus begins and ends with the familiar story of oil dependence, it is less interesting for illustrating China's global economic influence. As with other regions, China has rapidly expanded its economic ties with the Middle East through trade. From 2005 to 2009, China's total trade volume with the Middle East rose 87%, to \$100 billion and reached approximately \$222 billion in 2012, according to China's official statistics. This surge pushed China to surpass the United States as the top destination for the Middle East's exports

in 2010. China's exports to the Middle East are primarily low-cost household goods that benefit the average Middle East consumer. An example is growing numbers of Egyptians being able to afford inexpensive Chinese cars. Also, residents in the Gaza Strip suffering from the Israeli blockade depend on cheap Chinese goods in their daily lives.¹

China's investment in the Middle East has picked up speed and grown tenfold, from \$1 billion in 2005 to \$11 billion in 2009. According to a tracker map of China's global investment,⁵ its cumulative investment in Iran from 2005 to 2012 was estimated to be \$18.6 billion, including \$13.9 billion in energy sector, 2.1 billion in transportation, and 2.8 billion in metals. China invested around \$13.6 billion in Saudi Arabia, with \$5.2 billion in metals, \$3.3 billion in energy, \$2.2 billion in real estate, and the rest in transportation and other places. In Turkey, \$4.3 billion of China's \$6.4 billion investment went into the energy sector. China became the largest foreign investor in both Iraq and Iran. As many African countries have done, Middle Eastern governments have brought Chinese contractors in to work on major infrastructure projects. Egypt has also partnered with China to develop its Suez special economic zone, a development strategy that China had used itself and promoted in Africa and the least developed parts of Southeast Asia like Laos (Chen and Stone).² Despite China's more varied investments in the Middle East, it remains concentrated in the energy sector (see Figure 3). This further establishes China's significant dependence on the Middle East's for energy resources, namely oil.

Figure 3: China Investments in the Middle East, 2005 - 2013



Source: Compiled and graphed from the source in Note 7; see <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>

Of China's expanding economic presence in the Middle East, a lot is anchored to and funneled through Dubai due to its strategic crossroad location between Europe and Asia as well as its role as a global financial, trade, and logistics centre. Total China-UAE trade is expected to rise from \$21 billion in 2009 to over \$40 billion in 2013, and to nearly \$100 billion by 2015. According to Dubai International Finance Centre (DIFC), around 2,300 Chinese companies had registered in Dubai by December 2011. Major Chinese banks have branches in Dubai including the biggest in the Industrial and Commercial Bank of China (ICBC). Approximately 200,000 Chinese, primarily business expatriates, live in Dubai. About 70% of Chinese exports to the UAE are re-exported from Dubai to nearby destinations like Iran and Saudi Arabia. The Jebel Ali Free Zone (Jafza) in Dubai hosts more than 170 major Chinese companies. Jafza-China trade stood at \$11 billion in 2012, roughly 14% of the zone's total trade of \$82 billion.⁶ Dubai is also building a Chinatown, an 800-hectare project near Dubai International Airport costing \$47 million. It

includes a business district shaped like a dragon, a great wall, and a forbidden city. Once completed, the development is expected to accommodate 60,000 people and will claim to be the world's largest Chinatown.

Once we factor in the non-oil related Chinese economic activities, China's regional footprint becomes deeply visible and of significant importance. It also looks remarkably similar to the large and layered scope of China's economic influence in other regions where China has moved beyond energy and commodities into other sectors such as urban and transport infrastructure (Chen and Myers).² It is in the Middle East, however, that China's growing role is tangled up with some country-specific geopolitical threads that are normally absent elsewhere.

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The Iran Factor

While Saudi Arabia is critical to China as the latter's largest oil supplier from the Middle East, much of China's existing and expanding role in the region is linked to Iran and its larger geopolitical importance. China-Iran trade rose from \$400 million in 1994 to \$11 billion in 2008 and finally to \$50 billion in 2012. Fifty percent of Iran's total trade is now with China, Iran's third largest trading partner. Since the early 1990s, China has been helping Iran build and rebuild infrastructure projects such as highways, subways, factories, dams, ports, airports, shipyards, and energy projects, some of which were severely damaged during the Iran-Iraq war. One of the few countries that have violated the US-led sanctions against Iran, China opposed tougher sanctions pushed by the United States to curtail Iran's oil exports before the recently concluded nuclear deal in Geneva to ease overall sanctions. China's reason for opposing the sanctions was that 'the sanctions that will hurt the interests of a third party',⁷ which refers to none other than China itself. Beginning in 2014, China is looking to raise crude oil imports from Iran that could cause more tension with the United States. In addition, China's state-owned Zhuhai Zhenrong Corp, which was sanctioned by Washington in early 2012 to supply gasoline to Iran, has begun talks with the National Iranian Oil Company (NIOC) for a new contract.⁸

While economically invaluable to China, Iran poses a political and diplomatic dilemma to China. Iran is one of very few countries in the world that supplies plenty of oil to China and offers lucrative opportunities for China to undertake infrastructure projects. These economic benefits weigh heavily in China's strenuous effort to balance them against doing the diplomatic 'right thing' when it comes to sanctioning Iran or not. The 'middle of the road' approach taken by China thus far is to officially advocate diplomacy and negotiation as a solution on one hand, and go along with the UN sanctions on the other. In navigating this 'happy medium', China continues to stay close to Iran for its oil and other business opportunities.

One added benefit for China in dealing with Iran is to exploit its favorable geographic location. Bordering the Caspian Sea and the Persian Gulf, Iran can serve as an inevitable geographic bridge to China's efforts to secure energy resources in Central Asia and the Middle East (see Map 1), a critical locational influence Robert Kaplan calls 'the Iranian pivot'.⁹ China imports a lot of energy, both oil and gas, from the Caspian Sea to reduce its dependence on oil from the Persian Gulf nations. An active participant in the Caspian Sea oil and gas projects, China has brought and channeled energy through the long pipelines that fan out east from the Caspian Sea and snake through Turkmenistan, Uzbekistan, and Kazakhstan into Xinjiang and the rest of China (Fazilov and Chen).² China's ambition to secure more Central Asian oil has been

facilitated by the Neka pipeline in northern Iran, constructed by a consortium of Chinese oil companies including both CNPC and SINOPEC in 2003.

“The entire Middle East is fast becoming a region where China’s shadow of activity and influence looms larger.”

A Larger Shadow

While Iran is close to the heart of China’s presence in the Middle East, economically and geopolitically, the entire Middle East is fast becoming a region where China’s shadow of activity and influence looms larger, with implications beyond the China-Middle East bilateral relationship.

Firstly, China has extended its economic interests far and wide in the Middle East beyond its heavy purchase of oil. China has obtained substantial growth in trading with and building infrastructure in many Middle Eastern countries. In the midst of all this economic gain, China has maintained a pragmatic, non-interventionist stance regarding the big issues. Besides the Iran nuclear issue discussed earlier, China has stayed more or less neutral in the Palestinian-Israeli conflict and managed to earn a constructive role in the eyes of both Palestinian and Israeli leaders. Regarding the crisis in Syria, China has adopted a moderate position and advocated for a political solution supplemented by its humanitarian efforts to help build hospitals in Jordan for Syrian refugees. In a nutshell, China is ‘looking for the Middle in the Middle East’.¹⁰ As in other regions, China has followed its economic inroads and political non-interference in the Middle East with a strong push for cultural exchange. The China-Arab States Cooperation Forum founded in 2002 aims to promote cultural exchange through the Confucius Institutes in the Middle East and cooperative academic programs. Universities in the Middle East have launched programs in Chinese Studies, while leading regional academic institutions such as University of Tehran and Cairo University already have Chinese Studies programs. Around 1,500 Saudi students studied in China recently.¹¹ Approximately 200 Arab graduate students studied in China from 2005 to 2010.¹² Cultural exchange has also opened the door for Chinese tourists to the Middle East. Prior to the recent revolution in Egypt, some 65,000 Chinese tourists were reported to have travelled to Egypt. Chinese also top the list of the yearly 10 million tourists in Dubai. Every year, around 15,000 pilgrims from China visit Saudi Arabia. This raises a longer-term question of whether China’s cultural ‘soft power’ will catch up to its economic power in the Middle East.

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As part of China’s economic, political, and cultural ties with the Middle East, there is a distinctive religious dimension. Islam offers an additional channel for interactions between China and the Middle East. China has a significant Muslim population who are committed to the rituals of Islam. China has begun sending a number of its Muslim students to the Middle East to serve religious communities and activities as well as to acquire Arabic language skills. Religious commodities are manufactured in China and exported to Muslim countries. In holy cities in Iran (Qom), Iraq (Karbala and Najaf), and Saudi Arabia (Mecca and Medina), which attract large numbers of Muslims for religious rituals, Chinese commodities with religious meanings and usage are being sold and include the digital Quran, prayer items, and veils and scarves for women.¹³ The majority of these religious products are produced by communities of Chinese Muslims in Ningxia province of northwestern China. This dimension of the contemporary China-

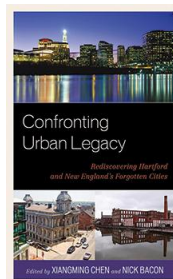
Middle East relationship is not unexpected given the extensive network of economic and cultural ties that have existed historically along the ancient Silk Road. For China to connect with Europe and Africa, the Middle East is the necessary geographic bridge in China's official scheme to enact a 'New Silk Road' from its northwest through Central Asia. Couched with a historical nostalgia, the concept of a 'New Silk Road' could be used by China as a grand politico-economic strategy to (re)build a modern grid of pipelines and roads for energy supplies and trade ties from its own region through Central Asia to the Middle East and farther beyond.¹⁴ Finally, the ancient Silk Road serves as a modern-day political lens for how the Middle East and China see each other's development. Given their shared ancient civilisations, strong traditional values, collectivist cultures, patriarchal social systems, and centralised political systems, do some Middle Eastern countries view China's model and road of development as more appealing? The city of Singapore not only has inspired some of Dubai's approach to development¹⁵ but also influenced how China has attempted to achieve fast economic growth without losing political control and social stability. As China and the Middle East have become more connected, they are also considering where these strong ties may take them on their respective paths of development. All in all, the Middle East is a prominent world region to watch to gain a sense of China's next moves globally.

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About the Authors

Abbās Varij Kāzemi is a visiting scholar at the Center for Urban and Global Studies at Trinity College and a former professor of sociology at the University of Tehran. He received his PhD in cultural sociology from the University of Tehran in 2005. His teaching and research focuses on media, urban spaces and everyday life in Iran and sociology of modern Islam. Kāzemi has published four books in Iran in the field of sociology of culture. He is the author of *Appropriating the Past: The Green Movement in Iran* published by Global Dialogue, the International Sociological Association (Volume 3, Issue 3, 2013).

Xiangming Chen is the founding Dean and Director of the Center for Urban and Global Studies and Paul E. Raether Distinguished Professor of Global Urban Studies and Sociology at Trinity College, Connecticut, and a Distinguished Guest Professor at Fudan University, Shanghai. He has published extensively on urbanisation and globalisation with a focus on China and Asia. His most recent book is *Confronting Urban Legacy: Rediscovering Hartford and New England's Forgotten Cities* (co-edited with Nick Bacon, Lexington Books, 2013).



“Chen and Bacon offer a provocative view of the sprawling New England conurbation. This region is thoroughly global and highly problematic, divided between poor cities and rich suburbs, ethnic groups representing the Caribbean, Africa, and the U.S. South, a shrinking industrial and

white-collar economy and a growing non-profit sector.”

— Sharon Zukin, Brooklyn College and CUNY Graduate Center

“Chen and Bacon compile a rich and original set of research that positions Hartford and similar small New England cities firmly on the global stage. This is a great platform for rebirth and renewal.”

— Bruce Katz, Brookings Institution and Founder, Metropolitan Policy Program

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