



Oil, Security, and Politics

# IS CHINA CHALLENGING THE US IN THE PERSIAN GULF?



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## EXECUTIVE SUMMARY

This report explores the changing strategic roles of the USA and China in the Persian Gulf region, in particular in view of US (mis)handling of local conflicts and China's expanding economic interests there, in order to identify the implications for Danish Middle East Policy. Based on written sources including government papers from China and the USA, news reports, statistics, scholarly works, and interviews conducted in Beijing in May 2014, this paper seeks to answer the following question: Is the balance of power between the USA and China changing in the Persian Gulf? Will China's increasing economic interest in the Gulf lead to a more activist Chinese foreign and security policy there?

Since the 19th century the Persian Gulf has been one of the most strategically important regions in the global competition for power. This is due to two reasons: (1) strategically, for the great sea powers not to allow the Eurasian land power access to the ports in the Gulf (and later to gain control of the oil resources), and (2) due to the vast energy resources. Whereas the US's Middle East policy has been subjected to numerous academic analyses, in particular from a realist perspective, the identity politics and the new politico-economic axis between the Gulf region and China has not received much attention. Even though the US has provided the security umbrella in the region, its handling of ethnic conflicts and civil wars has irritated members of the Gulf Cooperation Council (GCC). Political developments, including 9/11 and the Arab Spring, have forced the member states of the GCC to take action to avoid the spread of democratic movements and reforms, while seeking to handle their own affairs without interference from the US, EU and UN. Problems in GCC-US relations also make GCC states look Eastwards for new partners, providing a power vacuum and opportunity for China to edge in.

China has expanding economic involvement in the Gulf, not least in oil: the majority of its oil comes from the Gulf, and China has overtaken the US as the biggest importer of oil from the GCC. Although China is trying to diversify its energy supplies from the Middle East, it will remain dependent on the Gulf for years to come. With expanding trade, investment and contract work in the Gulf, China seeks to protect its assets and citizens there. It can no longer follow the old diplomatic strategy of keeping a low profile and keeping business and politics separate. China has learned from crises in Libya and Sudan and changed its policy from non-intervention to active mediation, supporting UN sanctions, contributing to UN peacekeeping missions and securing peacekeeping to protect its oil interests. Beijing's opposition to Iran's nuclear programme, while enhancing politico-economic ties with Tehran, as well as representing a more active charm offensive towards the GCC, also indicates a more balanced approach towards the Gulf. Doubts remain both within the GCC and in Chinese policymaking circles as to what extent China should be strategically involved in the Gulf, and China does not seek to challenge or replace the US as the security provider of the Middle East. However, there is no doubt that active pragmatism has become China's guiding diplomatic strategy and that we will see more political and strategic activities from China in the region.

## **POLICY RECOMMENDATIONS**

This report has the following recommendations for Danish foreign policy in the Persian Gulf and more broadly in the Middle East:

- Recognise that China will increase both its economic and political presence in the Gulf, with a potential expansion of military presence through UN peacekeeping missions.
- Involve China in multilateral dialogues in order to establish norms and codes of conduct both for companies and for political entities in the region.
- In Denmark's relation with the GCC, it should establish dialogue with China concerning oil and conflicts in the Persian Gulf.
- Denmark and Western countries can use the commercial interests of Chinese companies in other parts of the world as bargaining chips to negotiate matters in the Gulf.



## LIST OF ABBREVIATIONS

b/d	barrels/day
CASS	Chinese Academy of Social Sciences
Chinalco	Aluminum Corporation of China Limited
CICIR	China Institutes of Contemporary International Relations
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
DPKO	UN Department of Peacekeeping Operations
EU	European Union
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
IEA	International Energy Agency
IS	Islamic State
ISIL	Islamic State of Iraq and the Levant
MOU	Memorandum of Understanding
PLA	People's Liberation Army
SCO	Shanghai Cooperation Organisation
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
USA/US	United States of America

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# INTRODUCTION

This report is conducted under the aegis of the Defence and Security Studies research area at the Danish Institute for International Studies. It explores and discusses the strategic roles of the USA and China in the Persian Gulf region in order to investigate whether there has been a change in the balance of power in the region and what that means for the Persian Gulf in international affairs as well as the implications it may have for Danish Middle East Policy.

The report seeks to contribute to the Danish discussion about Danish Middle East policy, which for years has been conducted in close relation to US policy. But if China is increasing its interest in the Persian Gulf, not only in economic terms but also concerning policy initiatives as well as security policy, Denmark should take this into consideration when developing its Middle East policy.

The report is based on written sources such as government papers from China and the USA, reports, statistics and scholarly work together with interviews conducted during a study trip to Beijing in May 2014. Although we are exclusively responsible for views and conclusions in this report, we want to thank the following for their input to our study: Research Fellow Yo Guoqing, Chinese Institute of Social Sciences (CASS); Professor Wang Suolao, Peking University; Associate Research Professor and Deputy Director Liao Baizhi, China Institutes of Contemporary International Relations (CICIR); Assistant Research Fellow Gong Zheng, China Institutes of Contemporary International Relations (CICIR); Assistant Professor Camilla T. N. Sørensen, Department of Political Science, University of Copenhagen; Ambassador Friis Arne Petersen, Danish Embassy in Beijing; Mads Toudal Kjeldsen, First Secretary, Danish Embassy in Beijing.

After introducing the main objective of this report, it continues with an overview of the strategic importance of the Persian Gulf from circa 1800 to the present. A classical realist approach to the study of the Persian Gulf would focus on resources, capabilities, material strength etc; but in the Persian Gulf area a more constructivist angle, with a focus on politics of identity, may be more appropriate given the narrative of Sunni–Shia conflict that plays a decisive role in interstate politics in the region. The report will first outline the ramifications of the Arab Spring for the Persian Gulf before proceeding with an analysis of China’s expanding economic footprint, starting from when the development of China’s attempts to balance her competing interests between the USA and Persian Gulf states began after 9/11. The report will demonstrate how China balances its policy towards the interests of the USA and it documents how economic policy has been followed by political initiatives and security concerns, especially when it comes to maintaining regional stability. These findings are discussed as we address the basic interest of this report: in the coming years will China play a larger role in the security dynamics of the Persian Gulf, and how will that affect the relation between USA and China and what will the ramifications be for Denmark?

### **Framing the problem**

The Middle East is in a process of radical restructuring following the Arab Spring of 2011, the escalation of sectarian conflict in Iraq, and the outbreak and development of the civil war in Syria. These circumstances give rise to enhanced security concerns. In order to understand the post-9/11 regional security dynamics we need to challenge the oft-repeated perception of American hegemony and analyse the rising importance of Asia, especially the role of China. Whereas US Middle East policy has been subjected to endless academic analyses, this new axis between the Gulf region and China has not received much attention. That does not mean that there have been no studies. We see a growing interest in the subject being addressed in academic journals and publications, and few books have already been published. Here the book of N. Janardhan, a political analyst based in the United Arab Emirates, especially inspires us.<sup>1</sup>

Due to China’s increasing global presence that is driven by growth in its domestic economic and energy demand, and its expanding political involvement in the Persian Gulf, we seek to answer the following question:

Is the balance of power between the USA and China changing in the Gulf? Will China's increasing economic interest in the Persian Gulf lead to a more activist Chinese foreign and security policy in the region?

From a Danish perspective it is of course of interest whether the answers to these three questions will be of relevance to the development of Danish Middle East Policy, which we address in the conclusion of the present report.



## THE STRATEGIC IMPORTANCE OF THE PERSIAN GULF

Since 1800 the Persian Gulf region has played a significant security role in international affairs. For The British Empire the Arab Gulf states (Trucial States) played an important role as a station between Britain and India and they were British protectorates from 1820 up to 1971 when Britain withdrew from the Persian Gulf. In British naval strategy the harbours of the Gulf have always played a crucial geopolitical role in containing the Great Eurasian land power, whether it was Russia or the Union of Soviet Socialist Republics (USSR), by blocking access to the sea in order to hinder the land power from gaining control of the high seas and thereby becoming a global hegemon.<sup>2</sup> This important strategic significance became further enforced after World War II and during the Cold War as The Baghdad Pact (1950), the Carter Doctrine (1980) as well as the US support of the Mujahideen in Afghanistan after the Soviet occupation of 1979–1989 clearly document. Furthermore, we can point to the international involvement in the Iran–Iraq war (1980–1988), the breadth of the Coalition of the Willing that expelled Iraq from Kuwait (1990–1991) followed by heavy sanctions directed at Saddam Hussein’s Iraq, and of course the Iraq war 2003–2011.<sup>3</sup>

The strategic role increased considerably as oil became a more important resource, which it especially did in 1912 when the British navy decided to use oil instead of coal, with the southern part of Iraq as the important supplier.<sup>4</sup> Around WWII Iran entered the world market, and from then on the whole region, where approximately two thirds of the world’s known resources are located, turned into being strategically the most important region globally concerning oil and gas resources.

After the Iranian Revolution in 1979 and the Kuwait War in 1991, Iran and Iraq became 'States of Concern' or 'Rogue States' in the eyes of the West and Israel, due to suspicions that they were developing illicit weapons of mass destruction (WMD), supporting international terrorism, and competing for regional hegemony.<sup>5</sup> In response, in 1993 the Clinton administration initialised the dual containment strategy, formulated by Martin Indyk in a speech where he outlined President Clinton's US security strategy.<sup>6</sup> Indyk had served as Assistant Secretary of State for Near East Affairs and as US ambassador to Israel. In his speech, he pointed out that the US viewed Iran as a state sponsor of terrorism due to its support for Hizbollah and Hamas who committed terrorist acts around the globe, and developed biological and chemical weapons. He also recalled that during the Kuwait War it became evident that Iraq also possessed enormous stockpiles of weapons of mass destruction. The strategy aimed at isolating Iran and Iraq through sanctions, deterrence and pressure from the international community. The Martin Indyk speech became a touchstone of the Clinton policy in the Persian Gulf, with tough policy towards Iraq and Iran and close partnership with Saudi Arabia. While Iraq was already on the table in the UN Security Council after the war in 1991, sanctions against Iran were primarily a matter for the US. The Clinton administration strengthened sanctions in 1995 by banning any company that cooperated with the Iranian energy sector from doing deals with US companies and, in 1996, the Iran and Libya Sanctions Act (ILSA) was passed in US Congress. This act was very controversial in the US Congress, as well as in international society generally, as it codified punishment of third actors that had investments of over \$20 million in the development of Iran's petroleum sector, meaning that the USA could place sanctions on France if the French company Total made important deals with Teheran. In 2006 ILSA was renamed the Iran Sanctions Act (ISA), and as of March 2008 ISA sanctions had not been enforced against any non-US company. The act allows the president to waive sanctions on a case-by-case basis. After the election of Ayatollah Khatami in 1997 the US softened sanctions in limited areas, but since 2003 and up to 2012 the sanctions have been strengthened to target the Central Bank of Iran, as well as placing an oil embargo on the Islamic Republic.<sup>7</sup> In other words, since the 19th century the Persian Gulf region has been one of the most strategically important regions in the world in the global competition for power. This is due to three reasons: (1) strategically, for the great sea powers not to allow the Eurasian land power access to the ports in the Gulf (and later to gain control of the oil resources), and (2) due to the vast energy resources located in the region which became even more important after WWII. In addition it is fair to add a third reason: (3) relations to Israel.

## **BALANCE OF POWER – POLITICS OF IDENTITY**

The geostrategic importance of the Persian Gulf in Middle East studies has overwhelmingly been security-centric, with an emphasis on the post-war role of the US, particularly since the 1971 British withdrawal from the region that has provided Washington with a privileged role both as a partner to the Arab Gulf states and as a foe to Iran and Iraq. The inter-state dynamics in the Persian Gulf region are often analysed with a base in classical balance of power theory, either with a focus on competition between the three regional powers Saudi Arabia, Iraq and Iran, or seen in relation to developments in the Middle East, especially the Israeli–Palestinian conflict.<sup>8</sup> This theoretical approach can either overestimate the role of the US or underestimate specific regional dynamics; in particular what we will define as ‘politics of identity’, which lend insights into how states exploit ethnic and religious identity in power games. Balance of power theory (realism) underestimates, even ignores, politics of identity e.g. one state’s strategic intention of mobilising ethnic, religious or other groups in another state by utilising transnational links to create unrest or conflict in the target state. For example, Iran targeted Iranian Shia Muslim groups in the Arab Gulf states and Iraq in order to turn them against the regimes and thereby create an opening to export the Iranian revolution beyond Tehran’s borders, akin to Saudi Arabia supporting Sunni Muslim groups in other countries such as Pakistan, in order to disseminate Wahhabism and thereby expand the Saudi sphere of influence. In security policy, politics of identity is a double-edged sword that can either be a foreign policy asset applied offensively against other states, or a weapon that can be abused by ruling Persian Gulf regimes in their domestic politics to legitimate suppression of ethnic and religious groups.<sup>9</sup>

## **THE SHIA CRESCENT**

In the Persian Gulf there are many fault lines between peoples rooted in identity: Sunni–Shia; Kurdish–Arabs–Persian, and different religious communities (Christian and others), and historically the politics of identity has played a significant role in the security dynamics between states in the region. Since the Summer War in Lebanon between Israel and Hizbollah in 2006 and with the increased influence of Shia Muslim Iran after the fall of the Taliban and Saddam Hussein, the fault line between Shia and Sunni has become an ever more important issue which King Abdullah of Jordan, in 2006, framed as the threat from the ‘Shia Crescent’. The Shia Crescent refers to Shia Muslim Communities and parties covering Iran, the southern part of Iraq, and the eastern shores of the Arab Peninsula into Lebanon and Syria.<sup>10</sup>

**Figure 1: Map of the Shia Crescent, created by Abdul Nishapuri 2011**



During the 2006 Summer War demonstrations in the Arab world such as that in Cairo, which was organised by a Sunni Muslim Brotherhood, using posters displaying the Shia Hizbollah leader Nasrallah, highlighted for the conservative rulers in Jordan, Saudi Arabia and Mubarak in Egypt, a dangerous alliance between Islamists from different groupings spanning from Hamas, the Muslim Brotherhood, and al-Qaida sympathisers to Hizbollah, Iran and Syria. King Abdullah warned against this threat that subsequently fomented a new geopolitical realignment consisting of the conservative Arab States, Egypt, Israel and the US to keep Iran out and the Islamists down.<sup>11</sup> After the Arab Spring and the fall of Egypt's Mubarak, Saudi Arabia and Israel worried this Islamist alliance and the risk of an Islamist Egypt would open the gates of the Arab Middle East to Iran. Moreover, when the Arab Spring inspired young people in Bahrain to take to the streets with demands of reform and democratisation, the kingdoms in the Gulf Cooperation Council (GCC) immediately framed the Bahraini uprising as Iranian interference in the Shia Muslim communities on the peninsula, thereby legitimising brutal crackdowns on the rebellion.<sup>12</sup> Classical balance of power theories miss these important dynamics in the security policy of the Persian Gulf region.

Developments, especially in Syria after the Arab Spring and in Iraq after the US withdrawal at the end of 2011, have further enforced the Sunni–Shia conflict. Although the Syrian President Bashar al-Assad never based his power on religious dogma and ideology, unlike Saudi Arabia and Iran, his family belongs to the Alawi community, which is seen as a Shia Muslim sect, and his alliance with Iran, Hizbollah



and the Shia Muslim and Iranian-supported government in Baghdad is framed as a Shia Muslim alliance against the Sunni Muslim societies in Syria and Iraq, as well as the conservative monarchies in the Arab Gulf and Jordan. Bashar al-Assad has received major support from Iran, Iraq and Hizbollah for the narrative that the demonstrations which started the uprisings in Syria were orchestrated by Sunni Muslim groups from outside and based on jihadi militant ideology. On the other side, Sunni Muslim states like Saudi Arabia and Jordan, as well as Sunni Muslim groups in Iraq, have pointed to a Shia Muslim and Iranian-led conspiracy as being at the root of Sunni Muslim marginalisation in Iraq and elsewhere. The ongoing negotiations on the Iranian nuclear energy programme are framed in Saudi Arabia within the Shia–Sunni confrontation with Saudi Arabia claiming the programme is a cover for Iran to build the atomic bomb in order to threaten the Arab Gulf states.

The political developments in the Middle East, including the Arab Spring, will affect the regional security dynamics of the Gulf. The ramifications of the Arab Spring are illustrative of this point: the fall of Ben Ali in Tunisia in December 2010 and of Mubarak in Egypt in February 2011 had consequences for the Gulf that forced the GCC states to take action in order to avoid the spread of popular support for demands for democracy, reform and political influence in the conservative autocratic monarchies of the Arab Peninsula. Immediately after the fall of Mubarak, Saudi Arabia and other GCC states poured lots of money into their societies, followed by banning any attempts to organise demonstrations. The message was clear: the regimes would pay to keep order in their own backyards. For years the Rentier states of the Gulf have offered their citizens a deal: the State pays for your goods and welfare without collecting tax and the prize for the citizen is no representation in politics: No Taxation, No Representation rather than No Taxation without Representation. When people challenged the ban and took to the streets they were met by riot police and brutal violence, which happened both in Saudi Arabia and Bahrain, and to a lesser degree in the United Arab Emirates. At the same time the GCC states became increasingly active in international affairs, supporting the military intervention in Libya, brokering a deal in Yemen which led to resignation of Ali Abdullah Saleh who had held the presidency for 32 years, and supporting the uproar in Syria against the al-Assad regime.

Paradoxically, when driving in Bahrain with the severe security measures in order to keep people away from the streets clearly in evidence, you could read posters calling for support to the Arab Spring in Syria.<sup>13</sup> The reaction in the GCC, then, was domestically to suppress any attempt to have an Arab Spring at home, and at the same time getting heavily involved in the political developments outside their own

region. This could appear contradictory, but seen from the region itself – at least from a regime perspective – it is meaningful because the more dependent international society is on an active GCC in the Arab league, the more the GCC states are able to handle their own affairs without interference from the US, UN and EU. Again Bahrain is an obvious example: the brutal repression here has been totally overshadowed by the GCC's (especially Qatar and Saudi Arabia's) involvement in the Arab League concerning Libya, Yemen and Syria. Instead of criticising the repression and human rights violations in Bahrain, the West has bought into GCC's way of framing the conflict, which is that the situation in Bahrain is exclusive and bound to Iranian interference, meaning that the demonstrations in Bahrain are not an offshoot of the Arab Spring but rather a threat from the Shia Muslim Crescent.

The way the GCC handled the situation in Bahrain is also indicative of an increasingly confident region where the states are willing to act in their own interest despite the interests of the US and the West. Actually, the White House did send messages to Saudi Arabia and Bahrain not to use military or any other kind of violence against the rebellion, which were absolutely ignored in Riyadh and Manama without causing reaction from Washington. The point is that after the Arab Spring, the US and the West are more dependent on the GCC states because they could convince the Arab League to give legitimacy to the intervention in Libya, they could broker a deal in Yemen, and they could take the lead in the turmoil in Syria.

The increasing importance of the Arab Gulf states in the security dynamics of the Middle East was underlined in June 2014 with the outbreak of full-blown civil war in Iraq when Islamic State of Iraq and the Levant (ISIL) captured the second largest city of Iraq, Mosul, and deployed troops just outside Baghdad and at the same time attacked Iraqi Kurdistan. At that time ISIL, now under the new name Islamic State (IS), attacked the Aleppo area in Syria and later on engaged in a battle in the Kurdish border city of Kobane on the border with Turkey.<sup>14</sup> When the US decided to engage militarily in the war against IS, which happened when IS attacked Iraqi Kurdistan at the beginning of August 2014, and to build a broad coalition of the willing, they found it necessary to involve Sunni Muslim states in the war. If America together with the Shia Muslim based Iraqi Government were to initiate a war against IS (which also is an enemy of the Bashar al-Assad regime and the Islamic Republic of Iran) it could be seen as if America had allied herself with a Shia Muslim coalition in order to conduct war against Sunni Muslims in Iraq and Syria. To avoid this framing of the war, America found it extremely important to engage the Sunni Muslim Arab

states and when the US, in September, initiated airstrikes against IS in Syria they were supported by jet fighters from Bahrain, Jordan, the United Arab Emirates, Saudi Arabia and Qatar.

## **THE US RELATIONS WITH GCC AFTER THE ARAB SPRING**

The situation after the Arab Spring and the outbreak of civil wars in Syria and Iraq is then that the GCC states have emerged stronger in the international community without buying into processes of liberalisation, democratisation or reforms – on the contrary. This situation can be seen as a direct consequence of the Arab Spring. The GCC states were very worried about President Barack Obama's support for the popular demonstrations in Egypt for two reasons: first, if Obama overnight could turn his back on one of the most loyal allies of the US, what would happen to the royal families in the Gulf if the Arab Spring took root in the peninsula? Second, how should the Arabs confront and contain Iran and the Islamists when Egypt was no longer the guarantor of the alliance? Their response to these two questions was to close the gates to the peninsula against the Arab Spring without taking note of US opinion on the matter and to boost their involvement in international affairs making the international community still more dependent on their policy.

This cooling down of the relations between the GCC countries, especially Saudi Arabia, has been developing at least since the US response to the terrorist attacks 9/11. Saudi Arabia was angry and irritated over the blaming tendency in the US to give the kingdom the responsibility for the development of al-Qaeda and, basically, for 9/11, which many American politicians and analysts 'inside the beltway' in Washington accused Saudi Arabia of having sponsored. Other developments in US policy also worried Saudi Arabia. In 2002 the kingdom was provoked by the American ignorance around the peace plan for the Palestinian conflict that Saudi Arabia had got Arab League support for, and also the kingdom was deeply uncomfortable with the Iraq war in 2003, which Riyadh saw as creating more insecurity than security and prosperity. Like Israel the Saudis wanted a much more tough American policy towards Iran, even if it would involve a military campaign and Saudi Arabia was – again like Israel – very critical when President Obama engaged the US in direct negotiations on the Iranian nuclear programme and possible lifting of sanctions. The way the US handled the Arab Spring also created a lot of anger in Riyadh because, in the eyes of the royal family, not only was an old and faithful ally, Hosni Mubarak, sacrificed, but the Obama government furthermore chose to support the Muslim Brotherhood which has been seen as an enemy for a long time in Saudi Arabia and was recently put on the Kingdom's list of terror organisations.<sup>15</sup> In 2013

it came to open diplomatic conflict between Saudi Arabia and the US when the Saudis announced they would not accept the offer of a seat in the UN Security Council after having lobbied for a least a year for exactly this: Saudi Arabia claimed the UN Security Council is only a puppet council that serves the interests of the USA, pointing to what is seen as the American and UN paralysis in solving the Israel–Palestinian conflict sustaining the present situation, which only serves the interests of Israel. Saudi Arabia was, furthermore, angry and frustrated over the situation in Syria where the kingdom argued for much greater support to the opposition involving supply of weapons and training. Instead the UN Security Council was blocked by vetoes from Russia and China and by US reluctant to take action in Syria together with the Saudis.<sup>16</sup> All these developments show a progressively more troubled relation between Saudi Arabia and the US that drives the GCC states to look for other potential strategic partners, e.g. China – despite China’s veto in the UN Security Council on the Syria problem.

Shortly after 9/11 the US left the newly finished Sultan base in Saudi Arabia and moved it to Qatar, while Saudi Arabia approached the Asian countries, especially China for closer cooperation, both economically but also more broadly in political affairs, including defence cooperation such as common naval exercises.<sup>17</sup> This tendency of decreasing the economic and trade links to the West and increasing them to the East is a general trend for the GCC states, meaning that while the influence of the US in the Persian Gulf is waning, the political significance and economic involvement of China, India and South Korea are increasing.

Seen from the perspective of the US it is important to stress that despite decreasing importance as a supplier of energy, the Persian Gulf will continue to be an important region in US security policy. This is indeed underlined in the current conflict between Islamist State in Iraq and Syria, where the US finds it important to have the support of the GCC states both in the military operations in Syria in order to counterweigh accusations that the US is fighting Sunni Muslims in alliance with Shia Muslims, and in order to be able to block financial support to Islamic State from wealthy groups in the GCC countries.

Many analysts focusing on US–Persian Gulf relations seem to have a rather fixed interpretation of the role of the US, where they take as a premise that it is the US alone that sets the conditions for the relations. They point to the fact that the whole security structure in the Arab part of the Persian Gulf is developed under a US umbrella: it is the US alone who is able to guarantee the security of the regimes. To this they would add that it is the US that has trained the security forces of the GCC

states, that the US has bases in Kuwait, Bahrain, Qatar and the United Arab Emirates (UAE), and that the GCC states are not able to secure their own safety without the support of the US. They would rightfully point to the Iraqi invasion of Kuwait in 1990 where only the US was able to expel Iraq in 1991. They would also argue that no other state, including China, would have the capacity to offer the same security umbrella. Even if all these arguments are valid, and basically they are, it does not imply that it is the US alone who sets the conditions for relations between the Arab Gulf States and the US; the developments both before and certainly after the Arab Spring clearly show otherwise. To understand how the GCC states seek to define these relations, it is necessary to analyse how they see the relations to both the US and to Asia differently. In other words, it is necessary to pay much greater attention to the developments that have taken place since 9/11 giving more space for China to invest and act in the Persian Gulf.

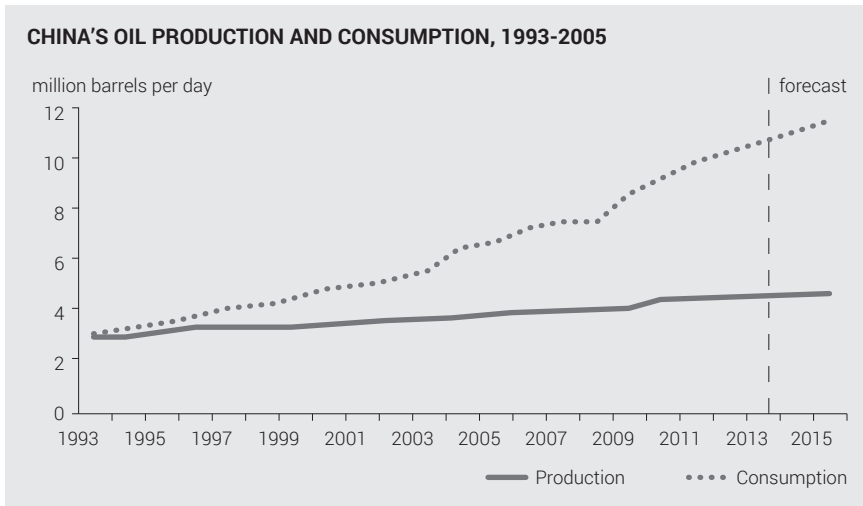


## CHINA'S GROWING ECONOMIC INVOLVEMENT IN THE PERSIAN GULF AFTER 9/11

China's most important interest in the Gulf is oil. Oil made up about 18% of its energy use in 2013. Another major source of energy that China imports from the Gulf is natural gas, which constituted 5% of China's domestic use in 2013.<sup>18</sup> The Gulf states are also rich in other natural resources like aluminium and phosphate.

China is the world's second-largest consumer of oil and is projected to move from second-largest net importer of oil to the largest in 2014. Despite rising domestic oil production, the gap between China's oil consumption and domestic supply has been enlarging (see figure 1).<sup>19</sup> In 2013 crude oil imports contributed to over half of China's oil consumption. The government's current Five Year Plan targets oil imports reaching no more than 61% of its demand by the end of 2015, but the trend towards increasing oil imports is expected to continue in the coming years. In addition, the government intends to build a strategic crude oil storage capacity of at least 500 million barrels or 90 days' worth of net oil imports by 2020, through both state-owned strategic petroleum reserves and commercial crude oil reserves.

**Figure 2**



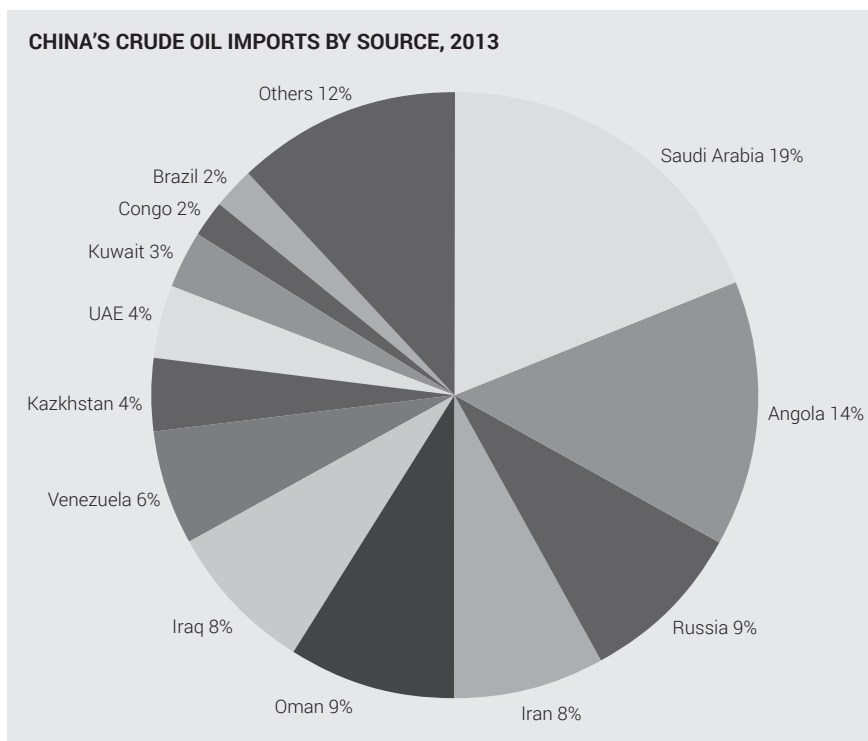
Source: EIA International Energy Statistics and Short-Term Energy Outlook, January 2014.

Chinese companies have been operating in the Middle East for over three decades, expanding from mainly construction and oilfield services in the 1980s and 1990s to upstream oil exploration as well as infrastructure and refineries today. China is also the region's biggest oil consumer. In 2013 China imported more than 3m barrels/day (b/d), compared with US imports of 2m b/d from the Middle East.

The majority of China's oil imports from the Middle East originate from the GCC, Iraq and Iran. It imports about 55% of its oil from the Persian Gulf. Amid stagnant demand for energy resources, and in an effort to reduce dependence on foreign oil from the US and other Western countries, China is emerging as an important energy importer and investor in the Gulf. It has overtaken the US as the biggest importer of oil from the GCC. In 2009 China surpassed the US as the biggest importer of oil from Saudi Arabia. China has also been the top oil importer from Oman since 2007 and from Kuwait since 2008. In 2013, 19% of China's crude oil imports originated from Saudi Arabia. This was more than twice as much as that from Iran, which was China's fourth largest supplier and provides 8% (figure 2).<sup>20</sup> China's national oil companies are not only gaining upstream exploration and drilling rights, but also downstream refining opportunities. Sinopec is gradually investing in refining assets overseas, and the company purchased a 37.5% stake in Saudi Arabia's 400,000b b/d Yanbu refinery, set to beginning processing heavy crude oils by the end of 2014.



**Figure 3**



Source: FACTS Global Energy, Global Trade Information Services.

Iraq's oil export to China has significantly grown after the Iraq war. China has been importing 50% of Iraqi oil production and planned to upgrade to 70% at 850,000 bpd (Saudi at 1.1 million bpd in 2013) before the outbreak of ISIS conflict in 2014. Chinese companies have actively bid on Iraq's oilfields, although in joint venture with other firms, including BP, Petronas and Total. Upon completion, these bids could potentially turn Iraq into China's largest supplier of crude oil by 2020.<sup>21</sup> Chinese national oil companies are either partners or operators of several oil contracts awarded by the Iraqi government to international oil companies between 2008 and 2010 to develop super giant oilfields, including Rumaila and Halfaya.<sup>22</sup> The International Energy Agency (IEA) estimated in 2012 that the Chinese oil companies were involved in projects that would produce 2m barrels a day by 2020, and almost 3m b/d by 2035, when a quarter of Iraq's oil (2m b/d) would be exported to China.<sup>23</sup> China's most productive upstream activities are located in Iraq, with CNPC holding substantial stakes in Al Ahdab, Rumaila, Halfaya and West Qurna in the south.<sup>24</sup> At the same time, Iraq shares problems with Iran in their unstable security conditions.

The recent resurgence of ISIS has heightened China's risks in Iraq again. As ISIS is destabilising Baghdad and threatening Chinese oil interests in the south, China is trying to safeguard and expand its oil interests in northern Iraq, by upgrading ties with the Iraqi Kurdistan semi-autonomous region where it is more stable. Seventeen Chinese companies are currently operating in the Kurdistan region, including Sinopec. Although Baghdad vehemently opposes oil deals between Kurdistan and foreign countries, China seems determined to strengthen its ties with the region. In September 2014 Beijing established a consulate general in Erbil in the midst of negotiations for new oil deals between China and Kurdistan. Furthermore, Chinese officials have expressed interest in providing humanitarian aid to internally displaced people in Iraq.<sup>25</sup>

Although China is trying to diversify its energy supplies from the Middle East, China will remain dependent on the Gulf for years to come. China has sought supplies from Africa (particularly Angola, Congo, Sudan and South Sudan), Russia, Venezuela, Brazil, Kazakhstan, Australia and others. However, the Gulf remains the most proximate source of oil for China, and it has more reserves than other places. The GCC member states are estimated to have 45% of the world's recoverable crude oil. As a result the GCC is key to China's 'economic security,' according to Chinese experts at the China Institute of International Studies.<sup>26</sup>

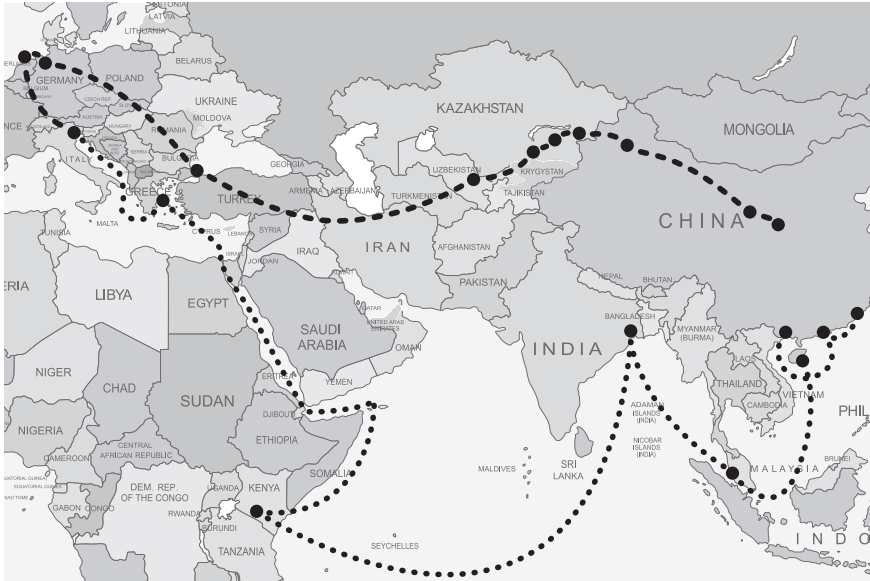
Economic interactions between China and the Gulf are not restricted to oil. In the past decade, China's trade volume with the Middle East increased almost tenfold, from US\$25.5bn in 2004 to US\$239bn in 2013. The GCC China Business Forum was founded in 2010 for strengthening bilateral economic relations, not only in the oil sector. China has signed a \$5.5 billion currency swap with the UAE so that trade transactions can be made with their own currencies instead of through the US dollar, in order to reduce transaction costs and exchange rate fluctuation risks. China also established the China–Arab Cooperation Forum in 2004 to facilitate relations between China and Arab states. China is now the second biggest trading partner of the Arab world and the top trading partner of nine Arab states. During the past decade, trade volume between China and the Arab states has risen from 25.5 billion US dollars to 239 billion US dollars.<sup>27</sup> During a visit to the Gulf states in January 2012, former Chinese Premier Wen Jiabao signed a series of bilateral agreements with Saudi Arabia, including investments and nuclear energy cooperation. In recent years China has been active in acquiring uranium assets abroad as well as obtaining advanced Western nuclear technology, which it hopes to localise in China and then export during the coming decades. In June 2014 China announced its hope of increasing Chinese non-financial investment in Arab states

from US\$10bn in 2013 to US\$60bn in the coming decade, in traditional sectors such as energy, infrastructure and trade as well as in new sectors including nuclear energy, aerospace technology and new energy.

China has proposed a free trade agreement (FTA) to the GCC, and they launched formal negotiations in 2005. The negotiations stalled in 2009 because China sought to limit access of GCC petrochemical exporters to its markets in order to protect its own producers from competition. At the third round of 'GCC-China Strategic Dialogue' in January 2014 in Beijing, the Chinese President Xi Jinping called for a speedy completion of FTA negotiations, and Chinese officials reassured the GCC that they were ready to provide the utmost flexibility on outstanding FTA issues.

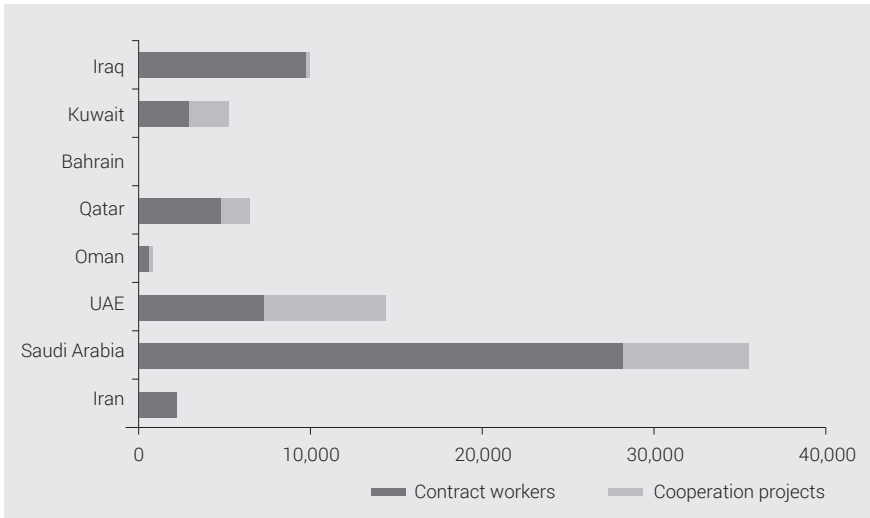
The Gulf figures prominently in the 'New Silk Road' initiative China is promoting to expand its external trade. The Chinese government has been promoting the establishment of two new Silk Roads since 2013 – one land-based road or 'economic belt' and one maritime trade route. The original Silk Road was a series of ancient trade routes that linked the major economies of Asia to trading partners in Europe and the Mediterranean, running through Central Asia and the Middle East. As envisioned by Chinese officials, the new land-based Silk Road would go through Central Asia to northern Iran and through Iraq, Syria and Turkey, ending in Europe. The maritime Silk Road would go through the Malacca Strait to India, Kenya and then north around the Horn of Africa, through the Mediterranean before meeting the land-based Silk Road in Venice (figure 3).

**Figure 4: Map China's New Land and Maritime Silk Roads<sup>28</sup>**



Due to oil investments, contract work and other economic interactions with the Gulf, today there is a significant Chinese population in the region (figure 4). China now has a total of about 74,000 workers in the Gulf countries, both contract workers in foreign companies and those in cooperation projects working for Chinese companies. There are roughly 35,000 workers in Saudi Arabia, 14,000 in UAE, 10,000 in Iraq, 6,000 in Qatar, 5,000 in Kuwait, and 2,000 in Iran. Additional worker hubs in the Middle East include Israel, Algeria, and the Palestinian Territories.<sup>29</sup>

**Figure 5: Number of Chinese workers present in Gulf countries**



Source: China National Bureau of Statistics website

## CHINA'S OLD STRATEGY CHALLENGED

After the Tiananmen Square incident in 1989, China faced international isolation and adopted a diplomatic strategy in the 1990s of 'keeping a low profile while accumulating material strength' and 'never claiming leadership'. Through such pragmatic, low-profile diplomacy, China developed commercial relations with a broad range of countries, and did not shun countries that had problematic human rights records. In response to international criticism that China supports autocratic regimes by investing there, Chinese officials stated that it does not interfere in the internal affairs or sovereignty of other nations. Through its status as one of the five permanent members of the UN Security Council, China has blocked international action over some governments.

China's pragmatic low-profile diplomacy embodied in its Middle East policy in the 1990s was 'being detached generally and involved appropriately', avoiding conflicts with the US and expanding economic interests by free-riding on the US security umbrella there.<sup>30</sup> Chinese analysts even described the long-standing US aircraft carrier presence there as a 'public good'.<sup>31</sup> These days, therefore, Beijing is concerned about what Washington's pledge to downsize the US presence in the Middle East means for energy and regional security.

After the civil war in Afghanistan in 1996 and the 9/11 terrorist attack in 2001, the Middle East began to be regarded by China as a 'strategic extension' relevant to the security of Muslim regions in West China. Given its energy interests there, China defined the Middle East as its 'Greater Neighbouring Areas', attaching higher foreign policy importance to it and rating the Gulf as more important than the Mediterranean region of the Middle East.<sup>32</sup>

China appears not to have made up its mind about international intervention in Middle East affairs, though there are signs in recent years of a more active stance. On the one hand China rejected an international response through the UN to the Syrian crackdown when the Syria conflict erupted in 2011, calling it an internal affair not to be interfered with. That was partly due to China's surprise, after it abstained over the no-fly zone over Libya, about how much international intervention can amount to in terms of military force. Together with Russia, China has vetoed UN Security Council resolutions related to the Syrian conflict four times. On the other hand, if China struggles to extract its own citizens from a destabilised zone or loses significant economic assets, it would face criticism at home. The principle of non-interference in domestic affairs is increasingly at odds with China's global economic presence. The following examples from Libya, Sudan and Iran provide useful indications of how China could become active in local political and strategic affairs where China has important commercial interests, particularly the Gulf.

The evolution of China's reaction to the crises in Libya and Sudan suggests that China's principle of non-intervention in domestic matters is not an ironclad rule. China was caught off guard by the Arab Spring revolutions. One of the three major Chinese oil companies, the China National Petroleum Corporation (CNPC), complained that its operations in Libya were attacked by rampaging mobs during the initial upheaval.<sup>33</sup> In a pragmatic break with its sovereigntist approach, China intervened to protect thousands of its citizens and its growing commercial interests in North Africa and the Middle East. It supported UN sanctions in February 2011 against former Libyan leader Muammar Gaddafi for domestic human rights abuses. It abstained on the UN resolution imposing a no-fly zone on Libya, which amounted to tacit agreement. The Chinese military, which was already deployed on a first-time anti-piracy operation in the Gulf of Aden, was redeployed to evacuate Chinese citizens from Libya. Four Chinese military transport planes were also sent to assist the evacuation. China's decision to acquiesce to UN action in Libya was also

influenced by traditional South–South cooperation, which made it pay attention to the views of the other Arab nations and regional organisations such as the Arab League and the African Union.<sup>34</sup>

China's changing role in Sudan and South Sudan provides a good example of the kind of diplomacy and intervention that it may carry out in other parts of the world where it has important commercial interests. In Sudan, China changed attitude from initial standard calls for stability to more active involvement in resolving local conflicts. It provided observers to monitor the referendum on independence in South Sudan in January 2011. When South Sudan descended into civil and ethnic conflict since late 2013, China pushed rival factions to talk and halted negotiations over an arms deal with the government. Chinese officials participated actively in the peace negotiations and held frequent consultations with diplomats from the US, UK and Norway - the main Western donors of South Sudan - to propel the peace negotiations. China has given more than \$1 million to an international monitoring mechanism to record violations of a ceasefire deal. In one bilateral diplomatic intervention, the Chinese ambassador to South Sudan convinced the government to allow the UN to relocate a camp of 15,000 displaced people of one of the fighting ethnic groups, although the government had argued against relocation and instead wanted to dismantle the camp. The South Sudanese government changed tack after talks with the Chinese ambassador and when China's state oil firm promised almost \$2 million to build the new camp.<sup>35</sup> China also ensured that the US-sponsored new UN Security Council resolution contained measures to protect its own oil interests there. In May 2014 Beijing quietly secured a deal that will task the UN's peacekeeping mission to protect workers in South Sudan's oil installations, where China has invested billions of dollars over the years and holds a major financial stake - at least 40% - in South Sudan's largest oilfield.

The decision to commit UN peacekeepers to the protection of the oil industry initially encountered resistance from within the UN Department of Peacekeeping Operations, or DPKO. DPKO warned that it risked undercutting the UN's neutrality, and that it would be unseemly to put the Nobel Prize-winning peacekeepers at the service of commercial enterprises. However, China received the backing of the US, UK, France, and other key powers, whose representatives argued that attacks on South Sudan's oil infrastructure threatened to further destabilise the country.<sup>36</sup> For its part, China offered to provide as many as 850 additional Chinese peacekeepers to the mission to join their 350 non-combat Chinese troops - the first time China had contributed a full infantry battalion to a UN peacekeeping mission.

Lessons in Libya and Sudan have taught China about the importance of political stability for its assets overseas and energy security. Sudan and South Sudan became significant oil exporters (no. 7 in 2011) to China until political conflicts in early 2012 stopped their oil exports completely. As production in the two African countries returned, China resumed a reduced level of imports. The ensuing shut-in of some of Libya's oil production during the latter half of 2013 due to political uprisings has also affected oil exports to China.<sup>37</sup> That is why China values the stability of supply in its energy relations with Gulf countries. Beijing's changing attitude towards Iran demonstrates a more balanced and active diplomacy to ensure political stability in the Gulf.

### **LITMUS TEST IN IRAN**

China's relationship with Iran is a crucial indicator of Beijing's strategy towards the Gulf – it offers a litmus test of the extent to which Beijing is guided by political ideology or economic pragmatism and to what extent it is willing to involve itself in local political affairs. China picked Iran as its strategic pillar in the Gulf in the 1990s, when the Saudi-led GCC countries hesitated to get closer to China, and Beijing supported Tehran in the latter's confrontations with the West over nuclear and security issues. While Beijing tried to downplay ideological differences and expand economic relations with pro-US governments in the GCC, it relied on Tehran to balance against US influence and to provide energy. Iran became the largest provider of crude oil to China in 2001. In recent years Beijing has adopted a more balanced approach towards Iran, by firmly opposing Tehran's nuclear programmes while safeguarding its energy interests in Iran. China does not seek direct conflict with the US on Iran and has in fact supported multilateral sanctions over Iran's nuclear programme. At the same time, Beijing presents itself as a mediator between Tehran and Western countries, in order to have a diplomatic and economic hedge in Iran.

China slowed its energy investment in Iran from late 2010 up till late 2013. China's oil imports from Iran reduced 20% from 2011 to 2012, and a further 2.3% from 2012 to 2013. The latter reduction would have been higher if not for the progress at nuclear negotiations between Iran and six countries, including the US and China, at the end of 2013.<sup>38</sup> As a result, Iran was only the fourth largest supplier of crude oil to China in 2013, behind Saudi Arabia and Angola and surpassed by Russia. Chinese companies have signed some massive deals with Iran, but these deals have been signed as memoranda of understanding (MOUs), and few of them have yet been converted into contracts. By 2011 only two sizable investments had actually been made in oilfields (South Azerdegan and Yadvaran fields). The CNPC's engineering



arm and the upstream research unit have halted work on the South Azadegan oil project, despite CNPC's declared interest to advance the deal from an MOU to a contract. Sinopec, which had done more work on the ground than the other two major Chinese oil companies, delayed the start date of the \$2 billion Yadavaran oil development. In 2011 the China National Offshore Oil Corporation (CNOOC) pulled its team from Iran's North Pars gas venture, after it was told by the Chinese government to stop work on the project. At the same time, the CNPC delayed drilling exploration wells after it had signed a \$4.7 billion deal to develop Phase 11 of the giant South Pars natural gas field in 2010.

China's slowing investment was aimed at easing tension with the US and cutting the risk of Chinese oil firms being hit by US sanctions. Moreover, China's energy companies are also trying to gain greater access to the US energy sector, including resources in the US and partnerships with US companies overseas. China has so far worked to ensure that UN sanctions on Iran do not imperil its energy investments and oil and gas purchases. But unilateral US sanctions could be invoked to punish Chinese firms with operations in the US for their work in Iran. The US Congress vigorously supported such sanctions, although the Obama administration has tried to avoid them by directly pressing the Chinese government and Chinese state energy companies. The Chinese government informally instructed its state-owned companies to slow down after the US imposed unilateral sanctions on Iran in June 2010. According to a senior US congressional aide, China began to signal to the US very clearly in late 2010: 'We can't say it publicly, but you will notice that we're not proceeding with these new contracts.' Tehran has noticed this trend and has warned Chinese firms that they need to make progress on energy projects or else they risk losing them.<sup>39</sup>

China already sees the risks of relying too much on Iran. While Chinese officials and oil executives regard Saudi Arabia as a reliable oil supplier and Iraq as a land of upstream opportunities, Iran is perceived as a tempting but tough place to do business.<sup>40</sup> Both the ambitious nuclear programme and growing Islamism in Iran are potential threats to China's energy interests there and political stability at home. International sanctions imposed on Iran make the oil supply to China potentially unstable, and its nuclear programme is perceived as a threat to regional stability by Beijing. Moreover, China does not want North Korea to possess nuclear weapons, and Iran represents a parallel case at the UN. Even as China criticised the EU's ban on Iranian oil imports in January 2012, its then Premier Wen Jiabao insisted that 'China adamantly opposes Iran developing and possessing nuclear weapons'. China later told an Iranian delegation to Beijing that returning to nuclear talks was a top

priority.<sup>41</sup> China therefore presents itself as a neutral mediator between Iran and the West in Iran nuclear talks, standing firm against Tehran's nuclear ambitions while safeguarding its energy interests in Iran.

Since the Iran nuclear talks made progress in November 2013, Beijing has been moving closer to Tehran, provided that international conditions allow. Chinese oil imports from Iran surged to 630,000 b/d in the first six months of 2014, up 48% from the same period in 2013, thanks in part to reduced Western sanctions as part of the interim agreement.<sup>42</sup> At the same time, Beijing and Tehran are enhancing their diplomatic and military ties. In September 2014 the two countries held their first joint naval exercise in the Gulf, followed up by meetings between their naval chiefs in Beijing in October, where both countries promised more military cooperation in the future. On the diplomatic front, Iranian Foreign Minister Zarif travelled to Beijing for the Istanbul Process on Afghanistan at the end of October, and met with Chinese State Councillor Yang Jiechi to discuss deepening China–Iran cooperation. Chinese President Xi Jinping has also met several times with Iranian President Hassan Rouhani, most recently in Shanghai on the sidelines of the Conference on Interaction and Confidence Building Measures in Asia. Multilateral organisations sponsored by China, including the Shanghai Cooperation Organisation (SCO) and Asian Infrastructure Investment Bank, are also potential channels for Iran to break diplomatic and economic isolation imposed by the West. Iran has been an observer and seeking full membership of the SCO since 2005. In September 2014 the SCO finalised procedures for taking in new members, with observer members India, Pakistan, and Iran first on the list.

As Iran is the only independent power that challenges the US in the Gulf, Iran will remain strategically important for China. However, the above evidence shows that ties between Tehran and Beijing are becoming subtler, as China becomes more balanced and actively involved in local political affairs and works to ensure regional stability.

## **IMPROVING RELATIONS WITH OTHER GULF COUNTRIES**

China replaced the share of oil lost from Iran, Sudan and South Sudan, and Libya in recent years with imports from other Middle Eastern countries, Angola, Venezuela, and Russia.

The GCC in particular is a target of China's charm offensive. China has for some time made it clear that it considers the GCC, as an organisation, to be one of its top priorities in diplomacy, in addition to its interest in GCC member states individually. With its keen advocacy of Third World capabilities, it considers the GCC an effective regional organisation composed of and run by developing nations like China itself. Former President Hu Jintao twice made that point during his visits to Saudi Arabia, to express his support and interest in the organisation.<sup>43</sup> Apart from the FTA negotiations mentioned earlier, China and the GCC established a ministerial-level Strategic Dialogue with the GCC in June 2010. The first meeting not only highlighted growing bilateral ties, but also produced a statement denouncing Israel's attack against the Gaza Freedom Flotilla in May 2010 and a call for the lifting of Israel's blockade against Gaza.

Partly due to disagreement over Syria and partly because of the transition in the Chinese leadership, a fully-fledged Strategic Dialogue meeting had been postponed for over two years. The new Chinese government therefore made great efforts to make the third one happen because of the importance it attaches to its Gulf ties. At their third Strategic Dialogue meeting in January 2014, the two sides agreed to work towards a Strategic Partnership, the highest label China attaches to its diplomatic relations, as well as to rely on diplomatic means for resolving the Syria conflict, a hot regional issue at the moment.

The question is how close the political and strategic relationship between China and GCC countries can get, as each of the GCC members is covered by a strategic alliance with the US. Take, for example, the leader of the GCC countries, Saudi Arabia. Although Saudi Arabia is rich in oil reserves, it is militarily weak and needs security guarantees, which can only be provided by the US for the time being. China lacks the ability to provide such a security guarantee, and is not sure how far its relationship can go with pro-US Gulf countries.<sup>44</sup> A subsidiary of a Chinese state-owned enterprise Aluminum Corporation of China Limited (Chinalco) is interested in developing an aluminium plant in Saudi Arabia. The process of negotiation, however, has not been completely smooth. Sources from Chinalco said that the reasons for this were domestic opposition based on environmentalism and resource nationalism, as well as the Saudi monarchy's preference to provide aluminium to the US.

## WHO DECIDES CHINA'S FOREIGN POLICY?

Chinese domestic opinion is divided on how proactive China should be in its overseas strategic activities. The Chinese Foreign and Defence Ministries have often been at odds in defining China's proper international role. Whereas the Foreign Ministry places a high level of importance on improving China's image on the world stage, the Defence Ministry has been less interested in whether the rest of the world sees China as being responsible.<sup>45</sup>

Opinions among policy advisors are also divided into conservative and 'neo-classical' schools. The conservative school insists on 'Marxism with Chinese characteristics' as the bedrock of China's foreign policy. It consists of adhering to Deng Xiaoping's guiding principle of maintaining a low profile in international diplomacy while accumulating material strength, pointing to China's status as a developing economy with a low per capita gross domestic product (GDP). They are afraid that by supporting foreign intervention in turbulent countries, China would face more pressure for external intervention in its own domestic matters. When the Arab Spring revolutions started, China was also afraid that it would spread to its territory in the form of a Jasmine revolution. Indeed, anonymous online organisers took the opportunity of protests in Tunisia and Egypt and called for citizens to participate in protests in designated places in major cities, followed by increased advocacy for democracy from journalists, lawyers and activists.

The neo-classical school advocates taking on greater international responsibility, consistent with its status as the world's second-largest economy. It relies on Chinese traditional political thought, particularly Confucianism, which studies how a big open country wins friends using its material and moral superiority and becomes a 'benign hegemon' in Western terms. According to Confucianism, morality is central to domestic and international political power, and the sphere of concern for any humane ruler should be the whole world.

Today, the impact of the conservative school seems to be limited mostly to official statements, while the neo-classical school is gradually gaining policy influence.<sup>46</sup> While China's official newspaper the People's Daily constantly attacks the 'China responsibility' discourse as a Western plot to add a burden of guilt to China's development path, China's recent record of foreign policy behaviour speaks otherwise. Moves such as dispatching evacuation teams for Chinese as well as other countries' citizens, supporting UN sanctions against Libya and expanding its

presence in UN peacekeeping troops, reveal China's intention of more active political involvement in international and local affairs in order to depict China as a moral great power while protecting its pragmatic interests.

That does not mean, however, that China seeks to challenge the US as the most influential external power in the Gulf. Beijing views its bilateral relations with Washington as the most important in its foreign policy. Although China actively seeks to combat the perceived containment strategy of the US, the highest priority of its foreign military strategy is to avoid actual conflicts with the US, according to a source close to the top PLA commanders.

### **CHINA ON THE WAY TO THE FUTURE**

China is undoubtedly diversifying the resources of its energy supply, including oil, through overseas investments and long-term contracts conducted by its state-owned enterprises. Africa is rising in importance, with Angola having become the second largest oil supplier to China, and most of China's recent direct acquisitions were channelled to deep water oil from off the coasts of West Africa and Brazil, and oil sand and shale gas projects in North America. However, the Middle East remains the largest source of oil supply to China and will remain so in the coming years. To ensure stable energy supply there, China summarises its policy towards Arab states as 'four supports' in its latest Middle East policy paper, China supports Arab states in: following their chosen paths; in resolving the region's hotspot issues through political means; in achieving a win-win and common development with China; in playing a bigger role in regional and international affairs and in more effectively safeguarding their legitimate rights and interests.<sup>47</sup>

This rising activism is not only on paper; China has an increasing military presence in the Arabian and the Mediterranean Seas, and China has become much more active in UN peacekeeping missions.

In recent years China has played an increasing role in UN peacekeeping missions around the world, including in Mali, Sudan, Lebanon and Libya. China began its participation in UN peacekeeping operations in 1990, when Beijing sent five military observers to the Middle East. China has, over the years, contributed a total of more than 20,000 peacekeepers in more than twenty missions.<sup>48</sup> China ranked no. 6 in financial contributions to UN peacekeeping operations in 2013 (the highest amongst developing countries), and in May 2014 about 2000 Chinese personnel were

participating in ten of sixteen ongoing UN peacekeeping missions.<sup>49</sup> Although China has stepped up its participation in international peacekeeping missions since 2002, earlier Chinese missions had involved only logistical and medical personnel, and the international community demanded more contributions from Beijing. The mission to Mali in August 2013 was the first time China sent security forces to help maintain peace. As mentioned earlier, China also plans to raise the number of its troops in the UN peacekeeping operation in South Sudan. At the same time, to avoid the 'China threat' fear, China has been adhering to three principles of UN peacekeeping: gaining the consent of the host country, maintaining neutrality, and using force only in self-defence. Moreover, China has been keen to gain the support of regional organisations before it decides to participate in peacekeeping.

Thanks to the shock of evacuating 40,000 Chinese workers from Libya, which the embassy was not capable of, as well as the cost of abandoning vast amounts of equipment, China is augmenting its embassies and nascent military presence in the Middle East.<sup>50</sup> China is building strategic infrastructure and diplomatic ties along the sea lanes from the South China Sea and the Indian Ocean to the Middle East and Africa to protect China's energy interests. The 'string of pearls', coined in a 2004 US study,<sup>51</sup> includes Chinese investment in ports in Southeast Asia but also stretches to Colombo in Sri Lanka, and Gwadar in Pakistan. Now China is trying to rebrand the initiative as the 'maritime silk road' to underline its economic purposes.<sup>52</sup> This rebranding, however, does not disperse external suspicion of its strategic significance to Beijing. The original ancient Silk Road was protected by Chinese naval forces and armies to ensure that commerce ran smoothly, and China's recent assertiveness in the South China Sea is perceived as part of its current strategic initiative to protect economic interests.<sup>53</sup>

Beijing's warming up to GCC countries and adoption of a 'double' attitude towards Iran indicate that a balanced, pragmatic approach is the ultimate decider of its stance on matters in the Gulf. It has learned that investing in unstable regimes can have a direct negative impact on China's overseas political and economic interests. This pragmatic approach means that China seeks to protect its economic interests and citizens in the Gulf, in particular to ensure a stable supply of energy. Moreover, in contrast to the earlier, low profile, pragmatic diplomacy, China's increasing engagement in Libya, Sudan and South Sudan, suggests that China is moving towards proactive pragmatic foreign policy, or 'high-profile pragmatism'.

When it comes to unilateral Chinese military activity, the PLA has maintained tentativeness, ambivalence and restraint in the Middle East, in contrast to its assertiveness in Asia. It has instead increased activity mostly in the Mediterranean Sea. In 2012 and 2013, the PLA Navy has sent one or more warships through the Suez Canal to visit southern European ports. The navies of Russia and China have agreed to conduct joint exercises in the Mediterranean Sea and Pacific Ocean in spring 2015.<sup>54</sup> China does not seek to directly challenge or replace the US military presence in the region. China's Middle East analysts say that the PLA is not yet capable of playing a security role in the Middle East. Its navy's first deployment outside of Asia – a three-ship anti-piracy escort mission in the Gulf of Aden – was reportedly a stretch for the force. When a Chinese destroyer and frigate sailed through Suez into the Mediterranean in August 2013 amid tensions between Russia and USA over the issue of Syria, several analysts suggested they were aiming to join joint naval exercises being held between Moscow and Damascus. But instead, they sailed up through the Bosphorus to the Black Sea to visit Ukraine, Bulgaria and Romania.<sup>55</sup>

A comment by a Chinese special envoy for Africa, Zhong Jianhua, on China's increasingly active role in conflict zones is a good summary of Beijing's current attitude towards intervention in local affairs: "It's a new challenge for us. Since it is new for us, we ... always do things pretty cautiously... We are not only a participant, but also learning."<sup>56</sup>





## Discussion:

# CHINA AND A NEW GLOBAL BALANCE OF POWER IN THE PERSIAN GULF

The analysis of the development of US relations with the Arab Gulf countries since 9/11 shows increasing problems that made the GCC states look Eastward for new partners in economic and political cooperation, while the US has directed her interests more toward the Pacific and away from the Middle East. The conflict between Iran and the US escalated steadily up to the start of direct talks after the election of Hassan Rohani to the presidency in 2013. The analysis of China's policy and interest in the Persian Gulf in the same period shows that it has clearly been in accordance with these developments: China has increased its economic and political involvement in the Persian Gulf considerably. Following these findings we are now ready to address the questions of interest in this report:

Is the balance of power between the USA and China changing in the Persian Gulf? Will China's increasing economic interest in the Gulf lead to a more activist foreign and security policy there?

Asking the second question of analysts from think tanks and government institutions and scholars in Beijing, the answer is immediately a 'no', but after a while it very often changes to a cautious 'maybe', and after more discussion we could recognise a tendency to change the rejection to a much more affirmative 'yes, sure'.<sup>57</sup> This confusion in the answers mirrors a situation in Beijing where the interpretation of China's role in the world is in a kind of flux and, as demonstrated, different schools of thought reach different conclusions. The fact is, though, that there are discussions among Chinese specialists in international relations and that these discussions

reflect a situation where China's increasing presence almost everywhere across the globe forces it to adjust its once low-profile diplomacy in order to cope with this new situation.<sup>58</sup> The analysis of China's policy towards the Persian Gulf and the GCC states clearly demonstrates this observation: the statements at the third Strategic Dialogue meeting between GCC and China in January 2014, the decision to upgrade relations to a Strategic Partnership, and the 'four supports' recommendations in the latest Middle East policy paper all document a more proactive Chinese Middle East policy. This is not only defined by China's policy for securing energy, but is also the consequence of a much deeper economic presence in the Middle East and a need to develop a preparedness to protect its assets and evacuate Chinese citizens if necessary. In Libya China experienced the need for military involvement in evacuating citizens after an outbreak of conflict and the fragmentation of a formerly stable state. Now China could face similar problems in Iraq. In Sudan and South Sudan China is engaged in peacebuilding operations and operations in order to secure stability and oil interests; China is an active partner in the military counter-piracy operation in the Gulf of Aden, and China admits the necessity of developing operative units to be able to protect investments and evacuate citizens from the Persian Gulf if conflict and destabilisation, as already is the case in Bahrain, disseminates in the GCC states.

The analysis of US relations to the Arab Gulf states shows that the US is being forced to adjust its policy to developments in the region, such as the states' reactions to the Arab Spring. Even if the US is the sole provider of security in the region, the US cannot force either Bahrain or Saudi Arabia to adopt a more reform-oriented policy, but has to tolerate exactly what it would not tolerate in Egypt – namely brutal crackdowns on pro-democracy demonstrators. So America is constantly forced to balance its policy between its own interest in security and its values: the USA is able to promote democracy as long as it does not challenge vital national interest. The more China gets involved in international economic relations, policy engagement, and security issues, the more China needs to adjust its foreign and security policy to domestic needs of growth, including securing political stability of the location where it has investments and crucial economic interests. It is only a matter of time before China will need to develop its own way of manoeuvring through the Scylla and Charybdis narrative of Sunni–Shia conflict. Just like the US, China will be dragged into the security dynamics of the Persian Gulf including the Gulf states' politics of identity power games, which will force China to have a still more active foreign and security policy, as is already the trend in China's Persian Gulf policy after 9/11. That

means China will increase both its economic and political presence in the Gulf, with potential expansion of military presence, most likely through UN peacekeeping missions.

The lessons for China from Sudan and Libya are clearly that stability in partner countries is very important for its economic interests. As China needs to get more involved in the region to fulfil its growth needs, Beijing needs to balance its interests not only in economic and political contexts but also in security. The policy towards Iran indicates that China conducts its policy in a way that will not challenge its relationship with the USA and at the same time secures its need for energy by being less active in Iran and increasing ties with GCC. There is no doubt that China is a rising power in the Persian Gulf, but that does not mean that China will replace America and play the role of a new security provider for the Arab Gulf states. Everybody, both inside and outside China, states that China does not have the capacity either to be a security provider in the Persian Gulf or to challenge the USA. Still, China will increase its power in the Gulf but as the policy towards Iran in the last decade indicates, probably in a very different and surely more pragmatic way than how the USA has followed her interests. For example, China's New Land and Maritime Silk Roads could be seen as a Chinese contribution to increasing stability in the Middle East, instead of as a direct challenge to the USA by laying a 'string of pearls'.<sup>59</sup>



## CONCLUSION

China is an increasing power in the Middle East and in particular in the Persian Gulf. Even if the US is still the only external power that can provide a security umbrella in the Persian Gulf, the global balance of power has changed, both due to China's growing presence and due to the US growing strategic interest in the Pacific and hence lesser involvement in the Persian Gulf. The last four decades, and especially since the end of the Cold War, the world has gotten used to seeing the USA as the hegemon of the Persian Gulf, but – if it ever has been the case – this is no longer the reality. China is playing a more important role than before that will balance the policy and interest of the USA, which Denmark, in its Middle East policy, will need to cope with.

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- 2 In their book *The Middle East and North Africa. A Political Geography* (Oxford: Oxford University Press 1985), Alasdair Drysdale & G.H. Blake outline the geopolitical theory first developed by the British geographer Halford J. Mackinder that throughout the 20th century the big land powers in Eurasia were Great Britain and the USA (seen as the pivotal power) while the coastline stretching from the Balkan Sea to the Persian Gulf was labelled 'the marginal crescent', Drysdale 1985: 23pp
- 3 With the US withdrawal of troops at the end of 2011 the war formally ended. Already from the last months of 2013 it was obvious that a civil war was threatening Iraq with fragmentation and with Islamic State (IS) taking over Mosul, and the Coalition of the Willing military operations in Iraq a new Iraq war was developing.
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- 6 Fawaz A. Gerges: *America and Political Islam. Clash of Cultures or Clash of Interests?* (Cambridge: Cambridge University Press 1999): 98pp.
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- 8 The conceptual history and analysis of 'Balance of Power' theory is explored in Richard Little: *The Balance of Power in International Relations. Metaphors, Myths and Models* (Cambridge: Cambridge University Press 2007). Balance of Power approaches in studies of the Persian Gulf are discussed by F. Gregory Gause III in 'The Persian Gulf as security region' in Gause: *The International Relations of the Persian Gulf* (Cambridge: Cambridge University Press 2010) and more broadly concerning the Middle East in Raymond Hinnebusch: *The International Politics of the Middle East* (Manchester: Manchester University Press 2003). For a comprehensive overview of security studies of the Persian Gulf see Matteo Legrenzi (ed.): *Security in the Gulf: Historical Legacies and Future Prospects* (London: Routledge 2011)
- 9 Shibley Telhami & Michael Barnett (eds.): *Identity and Foreign Policy in the Middle East* (Cornell University Press 2002); Anoushiravan Ehteshami & Raymond A. Hinnebusch: *Syria and Iran. Middle powers in a penetrated regional system* (London: Routledge 1997), Chapter 2: 'Middle East international relations: a conceptual framework'. The increasing problem China faces with its politics in Xinjiang province and parts of the Uyghur minority is also important in the context of the politics of identity and could be a factor in Sino-Turkish relations. We will address this problem, and the developments in Xinjiang in general, especially in the perspective of the US and NATO withdrawal from Afghanistan, in a coming report in 2015.
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- 11 Lars Erslev Andersen: *Innocence Lost. Islamism and the Battle over Values and World Order* (Odense: University Press of Southern Denmark 2007); Postscript: 'After Lebanon. A New Cold War in the Middle East'
- 12 Lars Erslev Andersen: *Bahrain and the global balance of power after the Arab Spring*, DIIS Working Paper 2012:10
- 13 Study trip to Bahrain February 2012
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