China has significantly enhanced its position and interest in the Persian Gulf region over the past 25 years, making it an important newcomer in regional dynamics. Evidence clearly shows that it has expanded, in some cases dramatically, its diplomatic contacts, economic ties, and arms sales to regional states. This represents a novel development which is likely to accelerate in the future as China’s dependence on Persian Gulf oil grows. China’s rising position in the region has put Beijing and Washington at odds and could generate serious friction points in the future. Policy recommendations are sketched to avoid such an outcome.

In recent times, China has become increasingly dependent on Middle Eastern oil. China has no near-term substitute for Middle Eastern oil, given that its own oil fields are almost fully exploited. In fact, its oil imports are expected to grow fourfold from 2003 to 2030 with Persian Gulf oil accounting for much of that increase.¹ Energy security has become vital to China and central in its foreign policy. Indeed, China’s 10th Five Year Plan (2001-2005) refers explicitly and for the first time publicly to energy security, which is defined as guaranteeing and securing oil supplies from abroad as essential to China’s continued economic growth and modernization.² As one Chinese energy official put it, we “need to find oil fast.”³

From 1405 to 1433, China’s fleet made seven epic voyages, including trips throughout the Indian Ocean and Persian Gulf, but shortly after the last voyage, the emperor, partly in response to isolationist pressures, forbade overseas travel and ship building, putting in motion effects that would leave the fleet nearly extinct within 100 years.⁴ It would not be until the mid- to late 19th century that China would develop some interest in the Persian Gulf region. And, even then, its interests and involvement were quite limited compared to that of the great powers, caught in their rivalry for strategic position, territorial aggrandization, and outright colonial plunder.

China’s relative isolation continued into the 20th century. While two world wars

Steve A. Yetiv is a Professor of Political Science at Old Dominion University, and author of Crude Awakenings: Global Oil Security and American Foreign Policy (Cornell, 2004); Explaining Foreign Policy: U.S. Decision-Making & the Persian Gulf Crisis (Johns Hopkins, 2004); and No Grand Strategy: The United States and the Persian Gulf (forthcoming, Johns Hopkins, 2008). Chunlong Lu is a Ph.D. candidate in International Studies at Old Dominion University, and author of several articles on China in major journals.

drew European states into the Middle East and the Cold War made the region more important to the United States, China remained largely uninvolved. By 1941, China’s leaders did begin to realize that control of the region by hostile powers could prove very dangerous, but they were preoccupied with survival and nation-building. While China did seek to generate anti-colonial sentiment in the region in the 1950s and 1960s and to check Moscow in the 1970s, it was not until the late 1970s and 1980s that Beijing, in conjunction with its broader political opening to the world, started to become more seriously involved in the Middle East and the Persian Gulf in particular.

China has enhanced its position and interest in the Persian Gulf region significantly over the past 25 years. In order to ensure adequate energy to sustain its growing population and economy, Beijing has successfully established and in some cases dramatically expanded diplomatic, economic, and security ties across the region, which it lacked in 1980. These changes, when considered in toto and across a broad range of time, represent an important change in the international relations of the Persian Gulf, and they are pregnant with implications for the future of the region, for global energy security, and for Sino-American relations. Indeed, China’s rising profile already has contributed to tensions in Sino-American relations. These tensions have been tempered in some measure by global-level interdependence between the two countries, but they may well heighten in the future. Policy recommendations are offered in the conclusion of this article to help avoid such an outcome.

**AREAS OF CHINESE INVOLVEMENT**

**CHINA’S LACK OF MILITARY PRESENCE**

Unlike the United States, and to some extent Britain, France, and even Russia, China has no history of military basing or access agreements, much less using military forces for political or strategic advantage in or near the region. It has no prepositioning sites in the area, minimal if any access to regional facilities, and lacks the naval and air projection capabilities to influence developments in the region. Perhaps as a hedge, China has been constructing a naval base and port in Gwadar, Pakistan, not far from the mouth of the Strait of Hormuz, which will allow it to monitor maritime traffic, engage in surveillance of US and other naval activity in the Persian Gulf and Indian Ocean, and benefit from a transit terminal for crude oil imports from Iran and Africa to China’s Xinjiang region. Beijing also has continued to debate how to secure oil lanes, but China is decades away from having the military, logistical, and communications technology to cover the 7,000 miles of sea lanes that lie between Shanghai and the Strait of Hormuz. Some Chinese thinkers have argued that Beijing’s aim of ensuring secure oil supply lanes can be achieved more easily and economically by “free riding” on American protection rather than by China attempting to secure oil itself, but others

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6. For a good history on China’s regional approach, see Lillian Craig Harris, *China Considers the Middle East* (London: I.B. Tauris, 1993).
are not comfortable with this approach.⁵ For the foreseeable future, China cannot escape reliance on the American security blanket in the Persian Gulf.

China's lack of military capability in the Persian Gulf region has forced it to resort almost exclusively to other tools of statecraft to protect and advance its interests. In particular, as discussed below, it has focused on developing diplomatic contacts, trade and foreign direct investment, and arms sales, while also using its influence in the United Nations and in terms of its relations with France and Russia.

**DIPLOMATIC INTERACTION**

Since the late 1970s, when Deng Xiaoping launched the Four Modernizations, the People's Republic of China (PRC) has made major strides in establishing and nurturing diplomatic relations in the region. Before 1978, China's diplomatic relations with the Middle East had become paralyzed by its rigid ideological stand (revolutionary and anti-imperialist). Since 1978, Chinese leaders have implemented an "Open and Reform" policy to modernize its economy, and gradually downgraded the importance of traditional Marxist ideology. They have tried to make China's external relations serve the national goal of economic modernization and political stability. This internal dynamic paved the road for the normalization of the relations between China and all Middle Eastern countries. A set of substantive and tangible interests gradually have dominated China's Middle East policy since 1980s: Among these interests, the quest for oil is the most important one, followed by strengthening economic relations with the Middle East and arms sales. In the 1990s, Beijing successfully maintained good relations with all Middle East countries, ranging from America's close allies (e.g., Israel and Saudi Arabia) to intensely anti-American states (e.g., Iran and Iraq). Even though China's diplomacy in the Middle East is largely limited to economic affairs and arms sales, China has sought to gain a foothold on the political map of this region in recent years.

The evolution of China's diplomacy is manifest in particular bilateral relations. In 1970, China and Iran established official relations, which had been broken off in 1949 following the establishment of the PRC. But it was not until the early 1980s that these relations improved significantly. High-level diplomatic interaction focused on generating cooperation on issues including the Iran-Iraq War (1980-1988), arms sales, and balancing global hegemony where Iran and China saw each other as useful partners.⁹ Concomitantly, China succeeded in the challenging task of enhancing ties with Baghdad. Sino-Iraqi relations were established in 1958, but remained poor until mid-1975. Thereafter, China became more concerned about Soviet designs in the region, and that made Iraq more important to China, while the Iran-Iraq War would make China more important to Iraq as an arms supplier. These complementary interests drove the two states closer.

In addition to Iran and Iraq, China established relations with other Gulf states such as the United Arab Emirates (1984) and Bahrain (1989). However, it still needed

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to develop influence with Saudi Arabia, the leader of the Gulf Cooperation Council (GCC). The first Sino-Saudi official meeting took place in Oman in November 1985, following several years of heightened contact between the two countries. By 1990, diplomatic ties were established, which enhanced Beijing’s influence with all states of the GCC. Relations expanded throughout the 1990s, and, in particular, after the two states signed a strategic oil partnership in 1999.

Beyond bilateral diplomacy, Beijing also has made efforts to cooperate with the GCC itself. On May 27, 1981, just two days after the GCC was formed, China established diplomatic ties with it. By 1996, the GCC and China established a regular consultative mechanism that supported increased economic and trade cooperation, with consultations to be held each year rotating between Beijing and Riyadh. China’s diplomatic relations with the GCC have been catapulted on the back of expanding trade. By 1992, the GCC-China Trade Conference was established, and, as we shall discuss later in this article, the PRC formally began to establish the types of institutional contacts that would expand into the 21st century.

Since the United States invaded Iraq in 2003, Riyadh has been concerned that the liberation of Iraq’s Shi’a from Saddam Husayn’s authoritarian rule might ignite anti-regime sentiment or pressures for democracy within the Kingdom, including among its Shi’a population concentrated in its major oil producing areas. As repressive societies, China and Saudi Arabia have been wary of outside intervention or pressures, and in this respect, have had a common set of interests. Riyadh has tended to believe that China’s pragmatic foreign policy will not aim to change its political system and way of life, in contrast to American foreign policy which sometimes aims in that direction, even if indirectly. Thus, it has had added reasons to look east to China both for markets and political allies. Furthermore, Beijing and Riyadh have believed that their political cooperation might help them check America’s regional influence, even as they both seek to cooperate with Washington for economic and strategic reasons.

In line with its security and energy goals, China also has sought to improve its position in the broader Middle East as well, beyond just the Gulf region. On January 30, 2004, China and Arab countries set up a China-Arab Cooperation Forum. Since then, it has held two ministerial meetings. In the second ministerial meeting in Beijing in 2006, China’s State Councilor, Tang Jiaxuan, asserted that “China and Arab countries should become partners in common development through deepening economic cooperation,” and “... should become partners in safeguarding world peace, security and stability through strengthening our coordination in a wide spectrum of international affairs.”

While the arenas of the Persian Gulf and the broader Arab world are distinct in many ways, the GCC has become an important focal point for Sino-Arab cooperation in the region.

10. The six member states of the Gulf Cooperation Council are: the United Arab Emirates, Oman, Bahrain, Qatar, Kuwait, and Saudi Arabia.
ways, leverage with Arab countries outside the Persian Gulf can enhance Beijing's position in the Gulf.

**CHINA'S ECONOMIC TIES IN THE REGION**

The PRC's diplomatic gains have facilitated significant economic ties with the Persian Gulf states, most of which have revolved around China's energy interests. First, China became an importer of crude oil for the first time in 1993. China's oil imports from the Persian Gulf have risen quickly since the 1990s, compared to those of Europe and America (See Table 1). In 2002, Saudi Arabia became China's top crude oil exporting country. By 2005, Saudi Arabia provided China with 17.5% of its imported oil, while in 1994 it only provided 1.2%. In 2005, Iran provided China with 11.2% of its imported oil, while in 1994 it only provided 0.6%. Moreover, in the first three months of 2006, oil imports from Iran to China increased 25%, and Saudi Arabia provided 20% of China's imported oil, a percentage that is expected to rise to 70% in the next few years.

On the other hand, America and Europe have become less dependent upon Persian Gulf oil since the 1990s. American oil imports from the Persian Gulf in general, and Saudi Arabia in particular, have been decreasing. For example, in 2005, Saudi Arabia only provided America with 11.2% of its imported oil, while in 1994 it provided 15.6%. And in 2005, Saudi Arabia only provided Europe with 7.1% of its imported oil, while in 1994 it provided 12.6%.

Furthermore, numerous foreign oil companies, including those from the United States and China, seek to exploit billions of dollars in potential oil exploration and production contracts in Iraq and Kuwait. China's oil-related trade and investment in the Gulf states has risen significantly and Beijing is committed to increasing it even more. In 1983, the China National Petroleum Corporation (CNPC) began to move into the Kuwaiti and Iraqi markets with limited contracts to provide labor and other services. From 1992 to 1997 alone, China's oil material and equipment exports to the Middle East grew 710 times, partly as a result of the maturing of China's business firms as international actors. The CNPC is one of several foreign firms which may well attempt to exploit Iraq's post-Saddam potential, if Iraq can achieve requisite stability in the next decade. Especially since 2000, China has been pressuring its oil companies to intensify mergers and acquisitions in the oil industry to help ensure China's energy security.

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15. "Yijiu zhongguo cong yilang jinkou shiyou zeng 25%, rihan jinkou rujian" ["The Oil Imports from Iran to China Increased 25 Percent during the First Quarter of this Year, while the Oil Imports from Iran to Japan and South Korea Decreased Dramatically"], Dongfang zaobao [Oriental Morning Post], June 6, 2006.
Table 1: Percentage of Petroleum (Oil) Imports from Saudi Arabia, Iran, and the Persian Gulf* in the Total Gross Petroleum (Oil) Imports, 1994-2005

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<td>Persian Gulf</td>
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* Persian Gulf is inclusive of Saudi Arabia and Iran.

** "OECD Europe" (Organisation for Economic Cooperation and Development Europe) consists of Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, and the Netherlands.
Moreover, China has expanded its economic ties to Iran and Saudi Arabia. China often tends to view the United States as a strategic rival, and has become very concerned about becoming dependent on oil imports from the Persian Gulf where American forces have control. Thus, China has sought to buy equity stakes in Middle Eastern development projects and to improve ties with two of its main suppliers: Iran and Saudi Arabia. For instance, in October 2004, China and Iran signed a memorandum of understanding in which Iran would allow the China Petroleum and Chemical Corporation Group (SINOPEC) to develop Iran’s Yadavaran oil field (which is its largest undeveloped field) in exchange for agreeing to buy 10 million tons of Iranian liquefied natural gas annually for 25 years. This massive deal has solidified Sino-Iranian energy relations against the interest of the United States to isolate Iran, and it has been followed by several other critical gas and oil contracts in 2005 and 2006.19 Equally important, and as part of the strategic cooperation, the two countries plan to build a pipeline in Iran to deliver oil to the Caspian Sea, which will then be carried along another pipeline between Kazakhstan and China. This is likely to complicate further US efforts to check Iran.

In the 1990s, Beijing improved its economic relationship with Saudi Arabia, culminating in the 1999 Strategic Oil Cooperation agreement signed in Riyadh by then-President Jiang Zemin. At its core, the relationship was struck on a simple quid pro quo. The Saudis opened their market to Chinese investment, and Saudi companies began participating in China’s downstream refining business, thereby winning a foothold in the Chinese market. This cooperation was elevated to a new level when Saudi King ‘Abdullah, on his first trip outside the Middle East since assuming the throne, signed five major agreements in China on energy cooperation in January 2006.20 Chinese President Hu Jintao asserted that this cooperation would “write a new chapter of friendly cooperation between China and Saudi Arabia in the new century.”21

In part, Beijing has sought Saudi money and expertise to help it upgrade its refineries to handle its growing oil imports. Meanwhile, as one Saudi official put it, Saudi Arabia must aim to “invest heavily” in Chinese refining if Riyadh is to have a “dominant presence in China.”22 Moreover, it is probable that Riyadh will divert some of its lower-sulfur crude exports away from Europe and the US toward China, or enhance its refineries overseas so as to provide China with higher quality oil. The enhanced Sino-Saudi relationship is important. Indeed, their bilateral energy agreements will likely solidify Riyadh’s role as China’s top supplier of oil, and create interdependencies between the two countries that will increase future cooperation, and Beijing’s influence in Riyadh.

Fourth, in the 1970s, China had minimal non-oil related trade with the region; by the late 1980s, the Middle East had become an important consumer of China’s light industrial, consumer, and technological goods. China’s exports to and imports from the Middle East have risen quickly since the 1990s, compared to those of Russia and

America (See Table 2). The close ties between China and the GCC were strengthened with the establishment of a Free Trade Area Agreement (FTA), which was initiated during a GCC delegation visit to Beijing in July 2004. It has represented an important advance on economic, trade, investment, and technological cooperation, and has committed the parties to "establish a joint economic and trade co-operation commission and officially launch a bilateral consultative mechanism."24

Table 2: Exports to and Imports from the Middle East (value in million US dollars)

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<tr>
<td>Exports to the Middle East</td>
<td>2417.2</td>
<td>2658.2</td>
<td>3252.5</td>
<td>3285.8</td>
<td>3954.3</td>
<td>4448.6</td>
<td>4797.8</td>
<td>6677.3</td>
<td>7047.5</td>
<td>9228.8</td>
<td>14410.1</td>
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<td>Imports from the Middle East</td>
<td>1957.6</td>
<td>1604.3</td>
<td>2129.4</td>
<td>2981.3</td>
<td>3779.3</td>
<td>3075.1</td>
<td>3431.3</td>
<td>9778.7</td>
<td>8909.6</td>
<td>9246.9</td>
<td>14269.1</td>
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<td>Russia</td>
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<tr>
<td>Exports to the Middle East</td>
<td>3081.3</td>
<td>1473.2</td>
<td>2483.5</td>
<td>3110.6</td>
<td>3565.4</td>
<td>3573.8</td>
<td>2921.6</td>
<td>6141.1</td>
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<td>6385.4</td>
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<td>Imports from the Middle East</td>
<td>1129.4</td>
<td>400.5</td>
<td>541.5</td>
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<td>Exports to the Middle East</td>
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<td>14787.4</td>
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<td>18712.2</td>
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<td>15194.5</td>
<td>15194.9</td>
<td>15203.1</td>
<td>15705.5</td>
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<td>Imports from the Middle East</td>
<td>13296.3</td>
<td>13174.6</td>
<td>13533.3</td>
<td>14515.6</td>
<td>16386.4</td>
<td>14250.4</td>
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<td>30895.4</td>
<td>29873.1</td>
<td>26999.8</td>
<td>35061.2</td>
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In the context of the multitude of regional trade blocs that have been established to meet the challenges of globalization, China's FTA initiative has been important. China sought to establish the FTA as its national strategy due to the fact that its economic modernization is export-oriented and that it lacks any de facto trade blocs to stabilize its foreign economic relations. In 2001, China and the Association of Southeast Asian Nations signed a framework trade agreement aimed at establishing the world's largest FTA by 2010.25 The GCC has been the second organization willing to have FTA talks with China. In April 2005, the first round negotiation on the FTA was held in Riyadh. It set up the working outline for the FTA negotiation. The second round negotiation was held in Beijing in June 2005. The negotiations focused on market access for the FTA and rules guiding this interaction, and yielded an agreement on tariff reductions on goods traded. The third round negotiation was held in Beijing in January 2006. The two


sides believed that this negotiation set a good foundation for future cooperation.  

Over the last decade, China’s economic and trade relations with the GCC have expanded greatly. Since the mid-1990s, Sino-Saudi trade has been increasing dramatically (See Figure 1). In 2002, Saudi Arabia’s total trade volume with China exceeded $5 billion, making it the largest trade partner with China in the Middle East. The Sino-GCC trade volume has jumped from $1.5 billion in 1991 to $33.7 billion in 2005. By 2004, the GCC countries emerged as China’s eighth largest trading partner, eighth largest export destination, and ninth largest source of import. As Middle East oil producers invest in China’s downstream oil refinery and petrochemical industry and upstream off-shore oil exploration, and as China invests in Middle East oil exploration and production, Beijing believes that the close upstream-downstream mutual investment can help secure a more stable oil supply from the Middle East.  

Figure 1: Sino-Saudi Trade Statistics

![Sino-Saudi Trade Statistics](image)

Source: Data for this figure are drawn from Chinese Customs Statistical Yearbook, Various Issues (Beijing: Customs General Administration of the People’s Republic of China).

The establishment of the FTA, which aims to facilitate mutual investments, may lead to even better economic integration between China and the Gulf Bloc. The “China Plan” of the leading petrochemical company in the Gulf, Saudi Basic Industries Corporation (SABIC), confirms this point. Abdulrahman Al-Ubaid, SABIC’s Vice President, has asserted that SABIC’s strategic goal has been to support China’s economic develop-

27. Wu, “Pact Ensures Benefits for Both China, GCC.”
opment, to be in strong supply partnerships with China, and to meet its dramatically growing demand as effectively as possible.\textsuperscript{30} SABIC has initiated three projects with Chinese companies to establish joint-venture production bases in China.\textsuperscript{31} In the next ten years, there is likely to be a dramatic expansion in bilateral trade and mutual investment in each other’s upstream-downstream energy and oil sector, as a way of creating more enduring and sustainable interdependencies.

### Table 3: China’s Exports to and Imports from Iraq (value in million US dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>135.72</td>
<td>133.05</td>
<td>2.67</td>
</tr>
<tr>
<td>1986</td>
<td>158.32</td>
<td>155.08</td>
<td>3.24</td>
</tr>
<tr>
<td>1987</td>
<td>76.67</td>
<td>73.45</td>
<td>3.22</td>
</tr>
<tr>
<td>1988</td>
<td>63.78</td>
<td>63.78</td>
<td>0</td>
</tr>
<tr>
<td>1989</td>
<td>94.74</td>
<td>60.91</td>
<td>33.80</td>
</tr>
<tr>
<td>1990</td>
<td>79.52</td>
<td>33.64</td>
<td>45.88</td>
</tr>
<tr>
<td>1991</td>
<td>0.36</td>
<td>0.08</td>
<td>0.28</td>
</tr>
<tr>
<td>1992</td>
<td>1.27</td>
<td>0.67</td>
<td>0.60</td>
</tr>
<tr>
<td>1993</td>
<td>5.52</td>
<td>4.87</td>
<td>0.65</td>
</tr>
<tr>
<td>1994</td>
<td>2.42</td>
<td>1.55</td>
<td>1.07</td>
</tr>
<tr>
<td>1995</td>
<td>0.91</td>
<td>0.30</td>
<td>0.61</td>
</tr>
<tr>
<td>1996</td>
<td>1.15</td>
<td>1.04</td>
<td>0.11</td>
</tr>
<tr>
<td>1997</td>
<td>93.20</td>
<td>58.98</td>
<td>34.22</td>
</tr>
<tr>
<td>1998</td>
<td>164.53</td>
<td>104.67</td>
<td>59.86</td>
</tr>
<tr>
<td>1999</td>
<td>264.07</td>
<td>147.95</td>
<td>116.12</td>
</tr>
<tr>
<td>2000</td>
<td>974.90</td>
<td>327.26</td>
<td>647.64</td>
</tr>
<tr>
<td>2001</td>
<td>469.99</td>
<td>396.97</td>
<td>73.02</td>
</tr>
<tr>
<td>2002</td>
<td>517.06</td>
<td>420.82</td>
<td>96.24</td>
</tr>
<tr>
<td>2003</td>
<td>56.38</td>
<td>56.06</td>
<td>0.32</td>
</tr>
<tr>
<td>2004</td>
<td>46.98</td>
<td>14.94</td>
<td>32.05</td>
</tr>
<tr>
<td>2005</td>
<td>82.40</td>
<td>40.80</td>
<td>41.60</td>
</tr>
</tbody>
</table>


Beyond the GCC, Sino-Iraqi trade has been influenced greatly by Iraq’s political situation. After the 1991 Gulf War and the accompanying UN sanctions against Iraq, Sino-Iraqi trade was minimal (See Table 3). By the end of the 1990s, it rose dramati-

\textsuperscript{30} "Fang shate a’la’bo jichu gongye gongsi fuzongcaí a’er wubeide" [“Interviewing the Vice President of the Saudi Basic Industries Corporation — Al-Ubaid”], People’s Daily (Overseas Edition), July 8, 2004, p. 2.

\textsuperscript{31} “Zhongdong huagong jutou jiyu zhongguo shichang” [“The Middle East Petrochemical Giants are Seeking Opportunities in China’s Market”], Guoji jinrong bao [International Finance News], July 5, 2004, p. 16.
cally when the UN began to allow Iraq to sell its crude oil and petroleum products in exchange for humanitarian supplies. In 1997, the CNPC signed a contract with Iraq to develop its al-Ahday oil field and began negotiating for the Halfayyah field in 1998.  

The 2003 Gulf War deflated Sino-Iraqi trade, but China has shown interest in helping reconstruct Iraq and has made efforts to restore its investment position there. In late 2003, interim Trade Minister ‘Ali ‘Allawi was invited by the Chinese Ministry of Commerce to visit Beijing to promote Sino-Iraqi economic relations, and China pledged $25 million in humanitarian assistance to Iraq.

The PRC has attempted to lay the political groundwork for strong relations with post-Saddam Iraq. As Chinese Assistant Foreign Minister Shen Guofang pointed out, Chinese companies have helped Iraq in the past and the “Chinese Government will adopt all necessary measures to support these companies in their participation in Iraqi reconstruction.” At some stage, Iraq, which holds the world’s second largest oil reserves, may regain a vital role in the Middle East. Gaining a foothold in Iraq can serve China’s energy security, and promises major business opportunities which Beijing values highly.

In line with its growing interest in Iraq, Beijing has stressed repeatedly that the UN should play a crucial role in Iraq. In March 2004, when meeting Bahr Ul-Uloum, the visiting President of the Iraq Interim Governing Council, Chinese President Hu Jintao said that, “China will consolidate and develop bilateral co-operation with Iraq on the basis of mutual respect, equality and reciprocity” and emphasized again the role of the international community and the idea of “Iraqis governing Iraq.” In the Fourth Session of the Tenth Chinese National People’s Congress, which was held in Beijing in March 2006, Minister of Foreign Affairs Li Zhaoxing stressed three principles in the reconstruction of Iraq: Iraqi independence, sovereignty, and territorial integrity, and he called for a greater role for the United Nations and international community in the reconstruction of Iraq. In effect, that means in part that Beijing prefers less American power in Iraq, a notion that ties into its broader global strategy of seeking a multipolar world in lieu of a hegemonic one. Among other things, a diminished American role


35. See, for instance, Beijing Xinhua, May 27, 2004 in FBIS: CHI-2004-0527 (WN C#0hy-fec9014j2c). Also, Beijing Xinhua, March 25, 2004 in FBIS: CHI (WN C#0hv68e03plqy9).


may increase the PRC’s economic prospects, because Washington is a prime competi-
tor and has sought to check China’s ability to penetrate post-war Iraq. Of course, the
PRC must also at least consider that if the United States fails in Iraq, Iraq may descend
into even more serious civil strife and China’s economic prospects there will diminish
dramatically.

ARMS SALES

Arms sales have been an important part of China’s broader strategy in the region.
In the 1980s, China began to see the Middle East as a large market for arms, a percep-
tion that was buoyed by the Iran-Iraq War. Arms sales provided it with hard currency
which was a key interest, but also enhanced its influence. Beijing developed an arms
relationship with Iraq and Saudi Arabia, as well as with some of the smaller Arab Gulf
states, but its relationship with Iran was the most developed and dangerous, from the
US perspective. Iran increasingly viewed China in the 1980s as a potential ally against
both Moscow and Washington. For instance, Iran’s Speaker of the Parliament, Akbar
Hashemi Rafsanjani, noted in meetings with the Chinese in 1987 that he had confi-
dence that China would “win back a major part of the international arena” from the
superpowers. And China had financial and political interests in pursuing its ties to
Iran, not to mention the strategic goal of balancing the superpowers.

China’s arms sales to the region expanded significantly during the Iran-Iraq War
to the tune of over $12 billion. Its relationship with Iran developed in earnest after Raf-
sanjani visited Beijing in 1985 and signed agreements for the sale of missile technol-
ogy, which launched broader cooperative efforts in the design, building, and testing of
missiles. Subsequently, China sold Iran large quantities of conventional weapons, and
the equipment, materials, and technical assistance that could be useful in producing
weapons of mass destruction and ballistic missiles.

Chinese technology transfers and, in particular, the sale of Silkworm anti-ship
missiles to Iran in 1986, posed several problems for Washington, with one being key.
Significant global oil travels through the narrow Strait of Hormuz, which is only 34
miles wide and connects the Gulf of Oman to the Arabian Sea. The Strait consists of
2-mile wide channels for inbound and outbound tanker traffic, as well as a 2-mile wide
buffer zone.

Iran dominates the Strait in part through its control of key islands inside the Gulf
and positions along the northern coast of the Gulf. As a result, Iran could harass oil
tankers exiting the Gulf as it did when US ships reflagged Kuwaiti tankers in 1986-87.
Iran tripled the number of missiles deployed on its Gulf coast and began fitting Chi-
nese-built cruise missiles on its naval boats in 1995-96, which added a “new dimen-
sion” to its threat. Beijing’s arms connection to Iran troubled Washington enough that
Secretary of Defense William Perry raised it with his Chinese counterparts as “the first
issue” that could be a “potential flashpoint” in Sino-American relations. In a press

38. See Gill, Chinese Arms Transfers, pp. 116-117.
40. “Remarks by Secretary of Defense William H. Perry to the Washington State China Relations

cine of the Assistant Secretary of Defense, 1995).
conference, Iran’s Deputy Foreign Minister asserted that Iran supported the free flow of oil through the Strait, but reserved the option to close it down if it was threatened. It is, of course, possible that Iran would take such action if the United Nations or the United States took serious action to curb its nuclear program. A United Nations’ economic embargo of Iran might trigger Tehran to try to close the Strait, as would the US-led use of force. Closure of the Strait of Hormuz would cause a severe spike in global oil prices and require the use of alternative routes (if available), such as the Abqaiq-Yanbu natural gas liquids line across Saudi Arabia to the Red Sea. But that would impose higher transportation costs and greater lag times for delivery.

Following the Iran-Iraq War, China’s regional arms sales fell by about 40%, although the Middle East remained China’s largest arms market. From 1994 to 1997, China’s arms agreements with states in the Middle East, as a percentage of all such agreements to the region, was approximately 3.49%. From 1998 to 2001, China’s arms agreements with states in the Middle East, as a percentage of all such agreements to the region, decreased from approximately 3.49% to 2.23%. From 2002 to 2005, China’s arms agreements with states in the Middle East, as a percentage of all such agreements to the region, jumped slightly back to 2.85%. While China and Iran signed a formal nuclear research cooperation agreement in 1990, and had engaged in some cooperation as early as 1985, it was not until after then-President Rafsanjani’s visit to China in 1992 that China became Iran’s chief supplier of conventional arms and became more seriously involved in its nuclear program. Despite the relatively low percentages of China’s share of arms transfers to Persian Gulf states, the nature and sophistication of the technology involved (specifically missile technologies) has made such technology sales a major issue and has raised serious concerns in Washington and elsewhere.

The sale of missile-related technology to Iran and Iraq continued throughout the 1990s, despite sporadic formal and informal commitments by China to limit the sales. And Beijing also continued to support Iran’s nuclear program, albeit arguing (as did Russia) that Iran’s program was peaceful and respected International Atomic Energy Agency (IAEA) safeguards. China backed off only when the United States exerted significant and repeated pressure, and even then its compliance fell short of what Washington desired.

Throughout the 1990s, the United States not only continued to challenge the PRC’s arms relationship with Iran and Iraq, but also to defeat its efforts to gain market share across the Gulf. Indeed, after the 1991 Gulf War, Kuwait forged defense and security pacts with all five permanent members of the UN Security Council, and, in fact, bought $186 million of 155mm howitzers from China rather than Britain or the United States.

States — a deal that drew criticism from Washington and London. A senior Kuwaiti official asserted that China had coerced Kuwait by hinting strongly that if Kuwait did not engage in the $300 million purchase, China would withhold its support at the UN for extending trade sanctions against Iraq. But Kuwait also may have been seeking to improve ties with a critical UN member.

As with trade and foreign investment, China also angled for significant arms trade with Saddam's Iraq and can be expected to do so with the new regime in Baghdad if it manages to stabilize the country. Iraq may find it politically attractive to establish an arms relationship with Beijing so as to allow it some distance from Washington, while also benefiting from American know-how and technology. That would be especially true after US forces withdraw from Iraq and relations between Washington and Baghdad diminish in relative importance.

The PRC’s arms approach in the region is not divorced from its broader political and economic goals. Arms sales and technology transfers help China develop regional political and economic ties, and also provide China with bargaining leverage on global-level issues. These factors, in addition to the monetary benefits of arms sales, help explain why the United States has had to exert much pressure to obtain China’s sometimes half-hearted compliance on arms sales and transfers.

Like Russia, China also argues, to some extent legitimately and to some extent for effect, that it has difficulty controlling its defense-related companies. In fact, President Zemin did order the Chinese military in June and July 1998 to halt business activities (involving perhaps 18,000 firms), saying that they were a huge source of corruption. That did indicate his intention to curb illicit activity. The problem, however, has been exacerbated by sheer numbers. In the era of Chairman Mao, few Chinese trading companies existed, but by the early 1990s there were well over 1,000 trading entities at the national level.

It was only from 1997 to 2000 that Beijing began to address this problem more seriously, by putting in place new export control regulations in September 1997 covering the export of technologies and materials with direct nuclear applications, and in June 1998 dealing with the sale of dual use nuclear equipment. Yet, as a relative newcomer to global trade, Beijing’s export controls are still in development and may not be effective for some time. The problem of establishing effective export controls is complicated by sheer numbers, but also by the fact that China’s many firms are producing dual use capabilities for commercial and military purposes. That makes it harder to follow their activities and to determine which are problematic, even if the government demands that companies abide by internal regulations. Overall, while it may well be that missiles or nuclear production capability have not been exported without a genuine and deliberate decision from the government, lesser items of military importance have been.

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50. This paragraph is based on several off-the-record interviews with American and Chinese of-
So far, China has been largely responsive to the US State Department’s efforts to help Beijing set up a rigorous system of export controls to regulate these companies, and has attempted to rein in its companies, as was the case, for instance, after the US charged the PRC with helping develop Iraq’s fiber optic cables, which would be beneficial for modernizing Iraq’s air defense system. But Beijing’s cooperation has been far from consistent and comprehensive. Indeed, the United States sanctioned one American and five Chinese companies in June 2006 for assisting Iran’s ballistic missile programs and had previously sanctioned 33 Chinese companies. In addition, with the aid of Chinese technology, Iran has developed more recently the Noor radar-guided anti-ship missile, which is modeled after the Chinese C-802. And Iran armed Hizbullah with this Noor anti-ship missile. On July 14, 2006, Hizbullah struck an Israeli ship with the Noor missile, which appeared to surprise the Israeli military.

While Beijing has taken some measures to reign in its military exports, its position on Iran has been controversial in Washington. The Iranian nuclear crisis has unfolded in slow motion, but it escalated on January 10, 2006 when Iranian officials broke the IAEA seals on equipment at the Natanz facility in order to restart prohibited uranium enrichment activities. Since then, in particular, China has been on the horns of a dilemma. It wants to develop relations with Iran for strategic and economic reasons, but not to strain Sino-American relations too much in the process.

The Sino-Iranian economic relationship revolves fundamentally around Iran providing China with crude oil and strategic minerals, while Beijing provides a growing quantity of technology and engineering expertise to Iran’s industrial, mining, transportation, construction, and energy sectors. But this economic relationship is tied to broader political realities and goals. Indeed, it is also probable that China and Russia see Iran as a quasi-ally in the effort to check American global power and influence in the Middle East. In July 2005, Iran (together with India and Pakistan) was granted observer status in the Shanghai Cooperation Organization, a regional security arrangement aimed at combating terrorism, extremism, and separatism. Iran sought to join the organization to enhance its relations with Beijing and possibly to increase its leverage with Washington, although Beijing, while seeking stronger energy ties to Tehran, has been reluctant to allow Iran such leverage. Washington, meanwhile, has been concerned that this organization may aim to gain increased influence in the oil-rich Persian Gulf and Central Asia. It is conceivable that if the group effectively merges security and energy concerns, and if Iran assumes a more important role in the group, Iran may be able to use the group periodically to balance US pressures and to enhance its own

[Continued from previous page]

54. “Yilang xiwang jiari shanghai hezuo zuishi” [“Iran is Eager to Join the Shanghai Cooperation Organization”], Qingnian cankao [Elite Reference], May 20, 2006.
influence in the Persian Gulf.

At the global level, it also may be true that China opposes a strong stance against Iran because it could damage China’s image in the developing world. Beijing may not be aggressively pursuing global influence, but it does not want to alienate an important base of support in the developing world, which it has sought to cultivate.

While China has good economic and political reasons to want to support and even protect Iran, Beijing also has ample reason to temper its position. First, China’s economic growth depends on American support in international institutions and especially on the US market, technology, and investment, and Beijing is acutely aware of this reality. The United States is far more important to China than is Iran, because China can achieve economic growth without Iran’s oil, but not without American support. The global oil market is fluid and if oil does not come to China from Iran, it will be imported from elsewhere, although along insecure oil lanes and routes. However, it is very hard for China to replace the massive growth benefits that accrue from its relationship with the United States. This type of asymmetry in interdependence at the global level affects China’s behavior in the Persian Gulf arena.

Second, reflecting broader views in Beijing, Chinese Foreign Ministry Spokesman Qin Gang has asserted that “China’s position has been consistent on the Iranian nuclear issue. We stand for maintaining the rigor and effectiveness of the international nuclear non-proliferation regime and hope to solve the issue properly through negotiation.” Proliferation in Iran, North Korea, or in other countries would create instability that could hurt Beijing’s prospects for economic growth and generate security concerns as well.

The benefits and costs to China vis à vis its relations with Iran have left it with what appears to be a split policy. On the one hand, the PRC has opposed the use of outright economic sanctions against Iran and has argued that member states to the Nuclear Nonproliferation Treaty are entitled to peaceful use of nuclear technology, so long as they comply with the nonproliferation provisions; and it also has stressed repeatedly that the dispute should be resolved within the IAEA framework through negotiation. On the other hand, while Tehran clearly wants China to check the United States in the UN Security Council, Beijing has been reluctant to challenge the US. It has strongly encouraged Iran to accept an offer from the five permanent members of the United Nations Security Council.


Nations Security Council plus Germany to suspend its uranium enrichment program and to satisfy other international concerns about its nuclear programs. Overall, China reluctantly accepts the notion that Iran should be punished for enduring non-compliance, but its definition of “punishment” has differed from that of the United States. The more defiant Iran becomes, and the more pressures Washington puts on Beijing, the more likely China will support tougher measures.

CONCLUSION

The foregoing pages underscore the evolution of China’s role in the Persian Gulf. Of all outside states, China is the most significant newcomer to the international relations of the Persian Gulf, an evolving development of much importance. Prior to World War I, China appeared to be a vulnerable target for European colonial aspirations which from 1875 to the turn of the century had been realized over three-quarters of the globe. Yet, by the 1980s, China was beginning to develop as a major global actor and one of growing importance in the Gulf. Whereas in 1980, China’s interest in the region was not significant, by 2000 the Middle East had become a major area of importance.

In 1980, China’s trade and foreign direct investment in the region was limited, but had developed significantly. Whereas in 1980, China’s arms sales to the region were negligible, they became more significant throughout the 1980s and 1990s, although China also became more circumspect in what it would sell. Whereas in 1980, China’s ability to challenge US actions in the region was not significant, by 2000 it would join sporadically with France and Russia to do so.

Overall, Beijing’s involvement and interest in the region have increased significantly, and its power has risen as well. It seems likely that the PRC will seek to play an increasingly salient regional role, which will stand in sharp contrast to its previous distanced and passive role. Indeed, it has multiple motivations for enhancing its position in the Gulf region: the monetary benefits of trade and arms transfers, the over-riding importance of trying to ensure a future supply of oil, and the geopolitical benefits of playing a role in a critical region, including the potential of checking Washington and other major powers.

The PRC’s rising role in the region is important for Washington to consider in and of itself and within the context of its broader concerns about the position of China globally. China will continue to have important reasons not to challenge US interests too much in the region. This is largely because, in an interdependent world where China increasingly needs the United States for a variety of economic benefits, Beijing cannot as easily afford to be bold in threatening US interests in various regions and issue
areas. Thus, in the 1990-91 Gulf crisis, Beijing knew full well that Washington would do whatever was necessary to meet its goals and it did not want to jeopardize relations by crossing the United States. Not dissimilarly, Beijing opposed the 2003 US invasion of Iraq, but its position was much more moderate than that of France and Russia, both of which threatened to wield their Security Council veto. Even with regard to Iran's nuclear program, Beijing has been careful not to assert itself too strongly, while still joining Russia in promoting negotiations with Iran over the use of economic sanctions, much less force.

Nonetheless, the PRC's growing role, while checked by the pressures of interdependence, cannot bode well for the United States on the whole, unless the Sino-American relationship at the global level is transformed more effectively from one of cautious rivalry mixed with some cooperation to one of more significant cooperation mixed with some rivalry. This is largely because Beijing is concerned about American global power and perceived US efforts to contain it; it prefers a more limited US role in the region and competes with it in key issue areas; and because Beijing may be enticed to assist "rogue states" (and other countries) with arms transfers, missile components, and conventional or unconventional technology in order to safeguard its own energy security.

The question of China, global energy, and the Middle East will only become more germane over time, as China's dependence on Persian Gulf oil increases. This, in turn, suggests that the trends in the evolution of China's position in the Gulf, as laid out herein, will likely accelerate, yielding China more influence in the region. This may put China and the United States on a collision course in the region, or simply make it harder for the United States to secure China's cooperation on a range of vital issues. While the future is hard to predict in this regard, what is more clear is that serious and dangerous friction points may well arise in Sino-American relations, if not managed well. Several measures may help avoid such an outcome.

First, both China and the United States should take prior steps to decrease the potential for great power involvement and rivalry in the Persian Gulf. The most important longer run step in this regard is a far more serious independent and coordinated effort to reduce oil dependence. To be sure, the Persian Gulf is important for reasons other than oil, including issues of weapons proliferation and transnational terrorism, but lesser global dependence on oil will make it less likely to be a focal point of great power tension.

Second, Beijing has committed to finishing its first strategic oil reserve facility capable of holding 32.7 million barrels of oil by the beginning of 2007. But that is minor given its future energy needs and minimal compared to America's 700 million barrel reserves. A far more developed Chinese strategic petroleum reserve is important in that it will increase China's real and perceived energy security. In turn, this may decrease Beijing's proclivity in the future to protect its energy security in ways that are inimical to Sino-American relations and broader global energy security.

Third, the United States has initiated talks with China about its potential involvement with the International Energy Agency (IEA). While such membership requires

64. For extensive evidence, see Yetiv, *Crude Awakenings*, chp. 7.
65. See Yetiv, *Crude Awakenings*, chp. 7.
that China take greater steps to become democratic, Beijing should be afforded some role short of membership in the near term. An IEA role for China is important in that it would encourage scientific cooperation between China and industrialized IEA members; encourage a market-oriented energy policy in China under the IEA umbrella; and get China involved in the IEA’s response to energy emergencies some of which may arise from the Persian Gulf. Such confidence-building measures are critical for putting China on the right energy path in the 21st century.

Fourth, the United States and China should recognize that in a globalized world, regional and global politics are increasingly linked rather than separate. Sino-American relations in the Gulf will affect their interactions on global issues and vice versa, especially given China’s heightened role in the region. This is meaningful for both countries because rivalry in the Gulf can undermine their global level goals, while global level rivalry may impede potential cooperation in the Gulf. For instance, the United States’ massive trade deficit with China has some obvious negative effects for America, but it also makes the United States more important to China than it otherwise would be. That provides Washington with some increased leverage in affecting China’s behavior in regions such as the Persian Gulf. Indeed, it is precisely this type of asymmetry in interdependence that places some limits on just how far Beijing will challenge American interests. When American politicians consider the costs and benefits of this trade deficit, such regional effects need to be considered.

Fifth, greater bilateral efforts should be made for joint Sino-American business involvement in oil exploration and development, and for their cooperation with Gulf states in this arena. Cooperation at the business level can be a confidence-building measure and can create a constituency that helps and prods leaders in both countries to achieve greater cooperation in the energy sphere. Such cooperation could be especially important in Iraq in the future, whether or not it achieves some rough semblance of stability. Indeed, even if Iraq descends into outright civil war, it will be important for the United States, with cooperation from other countries such as China, to develop a plan to prevent Iraq’s oil assets from being exploited by extremist elements in Iraq.

Sixth, China needs to avoid a nationalist approach to energy security. Until 1973, oil prices were posted and controlled largely by the big international oil companies. National oil companies rose in influence in the 1970s, slowly over-shadowing these companies. But a tectonic change occurred in the early 1980s: Power over oil prices shifted from international and national oil companies, to newly created oil markets like the New York Mercantile Exchange. Global oil markets provide stability in the sense that all actors can have access to oil at similar prices. If countries start to pursue nationalistic oil practices, focused on buying or securing particular oil assets in various regions for the home country, the global oil market may weaken and rivalry for energy will increase. China’s behavior in the Persian Gulf and elsewhere suggests nationalistic inklings in the global oil sphere, which can contribute to this outcome. Beijing should consider this possible effect as it plans its future course of action in the region.

Seventh, as the 21st century proceeds, China should be careful about how it approaches the Persian Gulf strategically. It is one thing to increase its economic and political influence there, but it would be unwise for China to try to enhance its military position in and near the region, as its efforts at Gwadar in Pakistan seem to suggest at a more minor level. The United States has developed a sophisticated, multi-billion dollar
capability for this purpose, in conjunction with local states. China cannot conceivably protect the 7,000 miles of oil lanes from the Persian Gulf, much less Gulf oil supplies in general. Indeed, efforts aimed at doing this will not only be costly to Beijing, but may generate tensions with Washington that leave China feeling less rather than more secure. As part of a broader understanding about mutual cooperation in energy security, China should indicate that it will not compete in this manner.

Eighth, China and the United States should expand their bilateral energy policy dialogue. The first meeting of this kind, which involves chiefly US and China energy analysts and officials, was held in June 2005, with a second meeting held in September 2006. This dialogue is important for dealing with energy efficiency, confidence-building measures, and China’s potential role in the IEA. It would be worthwhile to institutionalize these meetings; to expand them to include more departments in both countries as well as higher level officials; and to lay out a set of achievable short-term goals between the two countries.

Sino-American relations will likely shape important contours of the 21st century, and energy issues which fundamentally criss-cross the Middle East are likely to be increasingly important in affecting relations between the two. The United States and China must do more to achieve an understanding on how to protect their energy security and, in turn, that of the world. Failure to reach such an understanding will increase the potential for tensions in bilateral relations, tensions that may spill over into other areas of Sino-American relations and generate instability not only in the Middle East, but also around the world.