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China's Role in the World: Is China a Responsible Stakeholder?

CHINA'S GLOBAL ECONOMIC REACH AND US PRIMACY

China's diplomatic strategy and conduct in the Middle East are set in the broader context of the progressive development and global reach of the Chinese economy on the one hand, and US global preeminence on the other.

Beijing has long viewed economic progress as a necessary means of bolstering regime legitimacy and stability, as well as enhancing China's status and influence on the world stage. The economic modernization program has been designed with a distinctly outward focus, leading to China's deeper integration into the global economy. This is most visible in two respects: the rapid expansion of China's export capacity and the widening of its export market, and the equally rapidly rising appetite for foreign sources of raw materials with which to fuel the burgeoning industrial sector and to meet surging domestic consumption needs.

China's economic modernization efforts have helped bring about unprecedented high rates of growth, abundant foreign exchange reserves, and optimistic forecasts for growth in the near term. Nevertheless, there is grave concern in Beijing about the economy's exposure to the vicissitudes of the market. This concern is most acute with respect to China's growing dependence on foreign sources of vital industrial inputs and oil/gas supplies.

The paradoxical mix of self-confidence and anxiety ties in with the global geopolitical situation. From the Chinese perspective, American primacy is the dominant characteristic of the current international system. And Beijing is quite conflicted about it. In addition to having become a major stakeholder in the world economy, China, as the result of extensive economic ties with the United States, is also deeply invested in a stable Sino-American relationship. Yet the Chinese have deep misgivings about the purposes and conduct of US foreign policy. To Beijing, the basic precepts of the Bush Doctrine such as preventive war and democracy promotion are anathema. The Chinese are also uneasy about the forward projection of American military power into West and Central Asia.

Given that the primary locus for both China's international energy activities and US foreign policy priorities is the Middle East, current circumstance has created incentives and opportunities for China to become ever more engaged with the region—diplomatically, economically, and (though to a far lesser extent) militarily as well. As a result, the Middle East has emerged as a region where US and Chinese interests and policies intersect.

SEPARATING FACTS FROM FEARS

Sino-Middle Eastern relations are neither new nor can they be captured easily and accurately in a label. These relationships have developed in stages. In the 1950s,

Chinese statecraft consisted chiefly of diplomatic efforts to woo Arab nationalist leaders by declaring solidarity with them and encouraging them to set aside their differences with each other in the interest of forging with Beijing a “united front” against Western domination. Though this message had some resonance, Sino-Middle Eastern relations did not advance in any concrete way. In the 1960s, Beijing’s approach to the Middle East bore the imprint of the Chinese Cultural Revolution and the intensification of the Sino-Soviet rivalry. Accordingly, Beijing supported national liberation movements and other sub-state actors in the Middle East (as it did elsewhere in the developing world), ranging from the Algerian interim-government to various Palestinian factions and the Popular Front for the Liberation of Oman and the Arabian Gulf (PLFOAG). However, the level of priority and the amount of material assistance China provided to such groups in the Middle East were relatively low as compared to other regions.

There are four aspects worth noting about these early periods of Sino-Middle Eastern relations. First, in terms of what might be called a “Chinese cosmology” or worldview, the leadership in Beijing consistently regarded the Middle East as a focal point of great power rivalry whose control was a key determinant of the global distribution of power, and for this reason viewed developments in the Middle East as being linked, however tenuously, to China’s national interests. Second, China had a policy toward the Middle East in spite of the fact that it had virtually no economic interests to promote and protect. Even in the energy sector—the centerpiece of Sino-Middle Eastern business relations today—China remained, until 1993, a net oil exporter that purchased modest quantities mainly from three of the smaller Gulf producers. Third, Chinese diplomacy was geared mainly toward advancing *political* objectives. Fourth, insofar as most of the Middle East was concerned, China was a distant, little understood second-tier player in regional and global affairs.

The tide began to turn in the late 1970s. The strategic decision by Deng Xiaoping to make economic modernization China’s top domestic and foreign policy priority was a path-breaking development. This was coupled with the normalization of China’s relations with the West and specifically with the United States. While staking out an “independent” foreign policy vis-à-vis the superpowers in the 1980s, Beijing abandoned all but the pretense of revolutionary communist ideology in conducting statecraft. In terms of the wider Middle East, China effectively became a status quo, rather than a revisionist power.

There are several noteworthy aspects of China’s approach during this period (1970s and 1980s). First, there was a return to the primacy of state-to-state relations. Second, there was a willingness by Beijing to make common cause with regional governments and with the United States, as in supporting the Afghan *mujaheddin* mainly in order to weaken the Soviet Union. Here it is necessary to underscore that Afghanistan was an issue where there existed a broad region-wide consensus that China could join at a low level of risk and cost. Third was the opportunism China displayed in probing for business in the region, as in the weapons it sold to both Iran and Iraq during their 1980-1988 war. Fourth was the increasing salience of economic factors in China’s Middle East statecraft. The weapons sales just mentioned gave China a firm though narrow foothold in the regional arms market, a flurry of labor service and engineering contracts paved the way for much more lucrative turnkey projects, and the volume of Chinese oil imports from the Middle East began to rise in slow but steady increments. These burgeoning commercial activities eventually led Beijing to become more active on the diplomatic front.

Since 1993—the date marking China’s emergence as a net oil importer and the date often though misleadingly used to identify the *inception* of Sino-Middle Eastern relations—there has undoubtedly been a sea change in their scale and scope. Before turning to the questions posed by this Commission, which relate to how Chinese statecraft has been used to consolidate Sino-Middle Eastern ties and the possible implications for US interests and policies, it may be helpful to describe the actual *substance* of these relations.

China has cast a wide net in the Middle East. Its bilateral relationships with the countries of the region are multifaceted. Today, high-profile visits by senior leaders, cabinet ministers, mid-ranking and working-level ministry staff, and business delegations are the norm rather than the exception. Indeed, with the signing of long-term trade and economic cooperation agreements, many of these contacts have become institutionalized. Efforts are being made to bridge the Sino-Middle Eastern cultural divide, through tourism, educational and other exchanges. With every successfully negotiated contract and completed project has come greater familiarity with one another’s business practices and greater awareness of one another’s strengths and deficiencies.

Sino-Middle Eastern business is booming, both reflecting and reinforcing the aforementioned trends. Energy cooperation, which forms the core of the dynamic growth of Sino-Middle Eastern economic ties, has itself become a diverse field of business activity, with Chinese energy entities engaged in upstream and downstream development projects in the region and some of their Middle Eastern counterparts doing the same in China. The internationalization of operations by Chinese companies in *non-energy* sectors has also made its impact felt in the Middle East. Chinese firms are involved in mining, shipbuilding, dam and hydroelectric power plant construction, and to some degree in manufacturing as well.

It is important to mention that although Chinese commercial interests and activities span many economic sectors and encompass the entire Middle East, they are spread unevenly throughout the region. A number of factors have contributed to this differentiated landscape. Conflict and instability, for example, have constrained the development of energy relations in Iraq, as have domestic restrictions on foreign participation and ownership in the energy sector in Saudi Arabia. Geopolitical circumstances, such as US sanctions that bar American oil companies from doing business in Iran have created opportunities that Chinese enterprises (among others) have turned to their own advantage. Finally, it is worth noting that Chinese firms in the energy and non-energy sectors are fanning out throughout the region and simultaneously in all other regions, not simply as the result of strategic guidance by the state but in response to their own calculations of profit and risk and the corresponding incentives to diversify their business relationships and reduce their exposure.

That said, the Arabian/Persian Gulf is the commercial and geopolitical center of gravity of this relatively new and consequential dimension of Sino-American relations. Dependence on foreign sources of oil is an irreversible fact of life for China—a fundamental feature of its energy profile and of the global energy market for years to come. The Gulf is a natural magnet for China. Indeed, Gulf suppliers are already vitally important energy partners. Since 1996, the lion’s share of Chinese crude oil imports (about 60 percent) has come from the Middle East. Furthermore, this dependence has been highly concentrated *within* the region. As recently as 2002, for example, oil

purchases from just three Gulf countries—Saudi Arabia (11.53 mn tons), Iran (10.73 mn tons), and Oman (8.31 mn tons)—accounted for 43.3 percent of China's total oil imports. Facing the challenge of unavoidable dependence on a region of chronic geopolitical and market uncertainty and spurred by the Iraq War (2003), Chinese enterprises redoubled their efforts to diversify their sources of supply both *away from* and *within* the Middle East. By mid-2005, Chinese energy firms had invested \$15 billion and had bid successfully for exploration rights or had purchased equity shares in overseas oil/gas fields in 44 countries.

Again it is important to emphasize that though the oil supply relationship is the central strand of the burgeoning commercial ties between China and Middle East, it is by no means the only one. Nor are these increasingly extensive business relations a one-way street, with the Chinese side always taking the initiative. And, while geopolitical considerations undoubtedly inform and in some instances are conceivably the primary drivers of commercial activity, simply doing business has been a strong enough incentive to spur Sino-Middle Eastern economic cooperation.

Finally, it must be said that not every aspect of Sino-Middle Eastern economic cooperation poses the same type or level of challenge to the United States. Nor does every bilateral relationship present the same potential problem for US policy-makers or American businesses. Record-high energy prices and prognostications of “peak oil,” the escalating diplomatic crisis over the Iranian nuclear program, and, as will be shown, aspects of China's past and present involvement in the Middle East have, quite understandably, raised questions about Chinese intentions. However, we might be best served to avoid taking it as a given that Sino-Middle Eastern relations are designed by Beijing mainly in order to challenge American preeminence by subverting US interests and policies in the region, or that they are inexorably headed in that direction.

CHINESE STATECRAFT—OPENING THE DOOR FOR ENERGY TRADE

1. The Military Tool: China does not currently possess the ability to project military force directly into the Middle East. Nor is there evidence that China can develop such capacity any time soon or has made the strategic decision to pursue this objective in the longer term. There are at least two factors that might explain why China has not embarked on this path: (1) the prohibitive risks and costs of challenging the United States in an area where the latter's military presence is extensive and deeply entrenched; and (2) the fact that China benefits from the role that US forces play in ensuring the safe passage of oil from the Middle East to the global market.

Meanwhile, Middle Eastern states' appear uninterested, at best, in a Chinese military presence in the region. This is perhaps because they regard China as a poor substitute for or inadequate shield against American military power. Alternatively, it might be because they view China as they do Russia, mainly as a second-tier military partner (i.e., primarily as a source of weapons and technology), possibly *in extremis* as a hedge against a deterioration of relations with Washington, and most likely as leverage in dealings with Washington.

Since the mid-1980s, China has been an active participant in the Middle Eastern arms market. China's purchases from Israel have caused some consternation in Washington.

But most of the concern and controversy surrounding Sino-Middle Eastern arms transfers has stemmed from China's role as a *weapons supplier*, not as a customer. Clearly, not *all* Chinese arms transfers to the Middle East pose a high risk for American forces, or threaten to alter the regional balance of power in a way that endangers US allies and interests. Of the wide assortment of weapons that Chinese companies have transferred to the region over the years, there are three main areas of special concern: (1) missiles and associated technology, (2) material related to the possible manufacture of chemical weapons, and (3) nuclear technology.

Beijing's claim that Middle Eastern states have legitimate defense needs and that Chinese companies have a legitimate interest in competing in the regional arms market is a valid one, and is generally regarded as such by US officials. Since the early 1990s China's non-proliferation posture has improved considerably. There has been notable progress in spelling out and gaining Beijing's acceptance of norms and standards of conduct regarding the transfer of specific types of weapons and technology. Yet, of the three sensitive areas listed above, the proliferation of missiles and missile-related technology—mainly to Iran—remains the most persistent and arguably the most dangerous aspect of Sino-Middle Eastern relations. The US State Department and Treasury Department have repeatedly cited and sanctioned Chinese companies for their proliferation activities. Three companies (or their respective subsidiaries) stand out as “serial violators” of Beijing's non-proliferation pledges and commitments—the Norinco Group, the Great Wall Industrial Corporation, and the China Aerospace Science and Technology Corporation (CASC).

These troubling aspects of China's involvement in the Middle East are of course far from transparent. This poses several problems for the United States. It makes any such transaction and the scope of activity hard to detect, and the direct responsibility of Chinese state authorities hard to pin down. It is exceedingly difficult to establish conclusively that proliferation by a given Chinese company is linked to access to energy. Yet, while an energy-for-arms link can neither be simply assumed nor easily proven, what gives cause for concern is that all three companies identified above as “serial proliferators,” besides having poor track records on proliferation are state-owned civilian defense enterprises enterprises (SOEs) at least nominally under the direct supervision of the State Council.

2. The Diplomatic Tool: As mentioned earlier, China's Middle East diplomacy is an extensive network of personal and institutional relationships conducted through bilateral and multilateral channels. While this diplomacy encompasses regional and international issues, it is primarily focused on promoting and supporting Chinese economic interests in the region. And Beijing's economic diplomacy in the Middle East, as previously mentioned, while concentrated in the energy sector nonetheless consists of a broad-based effort both to attract Arab investment to China and to pave the way for Chinese firms to expand their market presence in non-energy sectors throughout the region.

Whereas in the past Chinese business had tended to lead and Chinese diplomacy to follow, in recent years the two are more tightly synchronized. This is partly a reflection of the increased size and professionalism of the Chinese diplomatic apparatus. It also reflects the cumulative experience of the growing number of Chinese diplomats who have served in the region. And of course it reflects the assignment of a higher level of priority and the dedication of greater resources by the senior leadership in Beijing to the Middle East.

In terms of the actual conduct of Chinese diplomacy, this has translated into (1) efforts to boost the prospects for Chinese enterprises to lock in long-term access to energy resources and (2) efforts to extend political support to Middle Eastern partners at least partly in order to protect and expand Chinese energy interests.

In the Middle East as in other regions, China has shown a propensity for “paying a premium” to gain or enlarge access to resources. Here diplomacy has been used to support the entry into and expansion of the presence of Chinese energy companies in the Middle East regional market.

Beijing can perhaps be faulted both for lack of transparency in making these arrangements and for encouraging unfair business practices. But the success of Chinese energy companies in the Middle East cannot be explained as the natural consequence of state-led and state-supported predatory practices. Chinese energy entities have shown a greater patience in overcoming the political and bureaucratic obstacles to doing business in the Middle East, as well as greater flexibility and higher tolerance for risk than many of their foreign competitors. A case in point is Sinopec’s willingness to purchase oil from Iran on a buy-back basis, terms which many Western oil firms are reluctant to adopt. Chinese companies are clearly willing to ignore political and human rights considerations, as well as to exploit US sanctions barring American companies from doing business. Of course it remains to be seen whether their willingness to assume greater financial risk and exposure than are many of their Western or East Asian competitors will pay off or backfire.

Furthermore, it is not clear how much “extra push” is required by Beijing to help pry open the door for energy business in the Middle East. For years, energy experts, reporting on global market trends, have projected South and East Asia as the two fastest growing energy consuming markets. Gulf producers were quick to realize this and have sought to capitalize on it. For example, both Saudi Aramco and Saudi Basic Industries Corporation (SABIC), the latter the Middle East’s largest petrochemical company, quite apart from any obvious political guidance or geopolitical consideration, altered their business strategies, pouring investments into China mainly in order to cash in on East Asian demand for petroleum products.

3. The Business Tool: Diplomacy has helped pave the way for lucrative deals whereby Chinese energy enterprises have expanded their presence in the regional energy market in exchange for their commitment to invest in other sectors. Following President Hu Jintao’s recent visit to Yemen, for example, Sinopec reached agreement to finance the modernization of a cement factory, finalize investment in electricity, minerals, and telecommunications sectors as well.

But if wielding the business tool has its upside, it has its downside, too. In the case of Iran, for example, with every visit and joint communiqué there are pledges by China to expand private sector investment in small and medium-sized non-energy industries in Iran. However, relatively little investment of this kind has been forthcoming, and Iranian authorities are plainly disappointed. Instead, relatively inexpensive Chinese consumer products have been saturating the Iranian market, in some sectors having the perverse effect of crowding out local producers.

Chinese business activity in the Middle East and the diplomacy supporting it is aimed not only at prying open the door to the region's energy supplies, but also at *offsetting the financial costs* associated with the growing volume and rising prices of crude oil imports from the region. China's share of the entire Gulf market is just \$25 billion, representing a mere 5 percent of the region's trade volume. In order to balance and reinforce the energy relationship, China has taken two corrective measures. The first is aimed at boosting the export of capital goods and consumer merchandise. Here the United Arab Emirates (UAE) figures prominently as a hub for Sino-Middle Eastern commerce. As of 2002, there were about 350 Chinese businesses with offices in the UAE and about 8,000 Chinese workers employed there. Though UAE is China's largest trading partner in the Gulf and Arab world, an estimated two-thirds of Chinese exports to the UAE are then shipped elsewhere in the region. The second corrective measure is the effort to negotiate a free trade agreement with the Gulf Cooperation Council (GCC).

4. The Aid Tool: With its dramatic economic growth over the past two decades, China has transitioned from aid recipient to international donor. Even in leaner years, China dispensed aid. Until recently, the largest beneficiaries of Chinese foreign aid had traditionally been countries such as Pakistan, Bangladesh, and North Korea. In the hunt for resources, Africa has emerged as a prime destination. China appears willing to provide generous sums of unconditional aid and soft loans to Africa partners such as in the cases of Angola, Sudan, Zimbabwe, and Zambia.

Insofar as the Middle East is concerned, China was arguably more generous in its aid disbursements when it had far less to contribute than it does today. With respect to gaining access to Middle Eastern energy resources, trade and investment rather than aid seem to be China's preferred tools. That said, China has provided humanitarian aid in response to the Bam earthquake in Iran and other similar tragedies in the region. However, it is likely that China would have disbursed aid for these purposes even were its energy interests in the region not as substantial as they have recently become.

SINO-IRANIAN RELATIONS AND GLOBAL EFFORTS TO SECURE PEACE

There are two main areas where China's relationship with Iran could conceivably undermine prospects for peace: (1) the stabilization of post-Saddam Iraq and (2) the settlement of the Arab/Palestinian-Israeli conflict.

There is no discernible connection between Sino-Iranian relations and efforts by Iran to consolidate its influence whether by peaceful or violent means, either to support Shi'a power or to undercut the United States.

With respect to the Arab/Palestinian-Israeli conflict, China has good relations with Israel, as it does with all of the Arab states and with Fatah. There are no apparent links between China and Hamas, Islamic Jihad, or Hezbollah. Beijing ritualistically endorses the Palestinian claim to national self-determination, expresses support for a two-state solution, emphasizes the need for a comprehensive negotiated settlement, and balances its condemnation of Palestinian terrorism with calls for Israel to exercise restraint. China has aligned itself with the mainstream or moderate Arab position. Thus, Chinese and Iranian policies toward Israel and the Arab/Palestinian conflict actually diverge.

However, mainly as the result of its proliferation practices, China's own conduct has undercut the tenor and thrust of its own diplomacy. As the recent upsurge in violence in the Levant has revealed, the missile fired by Hezbollah that struck the Israeli warship *Sear* on July 14th was reportedly of a type built and provided by Iran that incorporated Chinese technology. If these reports prove correct, then although several steps removed from the actual military operations launched at Israel, China's proliferation practices are nonetheless partially responsible for exacerbating the conflict.

A key point to add here is that while Beijing has consistently sought to avoid being drawn into regional disputes and has thus preferred to play a cautious and limited diplomatic role, there are growing expectations and pressures in the Middle East for China to be more proactive. Beijing's Middle Eastern partners are therefore seeking to capitalize on China's deepening energy dependence on the region and rising global economic power not just on the business front, but on the international diplomatic front as well.

CHINA'S STRUGGLE TO RECONCILE COMPETING INTERESTS

Arguably the clearest case where China has sought to reconcile competing interests is in the escalating diplomatic crisis over the Iranian nuclear program. Chinese officials at various levels have been actively engaged in nuclear diplomacy: working behind the scenes in the UN and IAEA to advance Chinese positions; joining with other major powers, as in the May 2006 meetings in Vienna to discuss how to achieve a breakthrough; and conferring by telephone, as in President Hu Jintao's conversations with German Chancellor Angela Merkel and President George W. Bush. Chinese diplomats have consulted closely with their Iranian counterparts as well. At critical intervals, Chinese and Iranian officials have shuttled between capitals. Foreign Minister Li Xiaoxing traveled to Iran in early November 2004 to discuss the nuclear issue. Just prior to the November 25, 2005 meeting of the IAEA Board of Governors, Iran's envoy, Hoseyn Musavian, was dispatched to China for discussions. Chinese Foreign Minister Li Zhaoxing conferred with Iranian Deputy Foreign Minister Abbas Araghchi in Beijing shortly after the Western incentives package was presented to Iran in May 2006.

Throughout this period, China's nuclear diplomacy has rested upon three broad principles: (1) no intervention in the domestic affairs of another country, (2) no nuclear proliferation, (3) and no disruption of energy supplies from the Middle East. Beijing has sought to balance its interests in the nuclear standoff by emphasizing both Iran's rights and obligations under the NPT. In their public remarks, Chinese officials have made explicit their opposition to Iran's acquiring nuclear weapons and have repeatedly called upon Tehran to honor its treaty commitments and to cooperate fully with the IAEA. At the same time, they have strongly endorsed Tehran's position that, as an NPT signatory, Iran is entitled to access to nuclear technology and to nuclear energy for peaceful purposes.

Chinese officials have been quick to praise instances of cooperation by Tehran, as in President Hu Jintao's remarks following his meeting with then-Foreign Minister Kamal Kharrazi in Beijing in August 2003. At the same time, however, Beijing has urged Iran to clarify the details of its program. China has consistently maintained that negotiation—through dialogue and consultations—is the best way to resolve the issue. Chinese Foreign Ministry spokesmen have frequently expressed support for European and Russian diplomatic initiatives, welcoming them as “constructive proposals.” As

frequently, they have insisted that the Iranian nuclear issue be addressed within the framework of the International Atomic Energy Agency (IAEA), and by implication, *not* within the UN Security Council.

Yet, during the past six months, China has found itself caught in a cycle of escalating Iranian defiance and mounting Western pressure. The Chinese response to this development has been measured and cautious. When in January 2006 Tehran removed UN seals on enrichment equipment, triggering the EU-3's decision to suspend talks, Chinese officials urged restraint and pledged to promote the resumption of diplomatic negotiations. While having previously resisted the US-led effort to transfer the Iranian nuclear dossier to the UN Security Council, in February 2006 Beijing cast its vote with the majority of the IAEA Board of Governors members in favor of referral. The next month, Beijing also fell into line with other UN Security Council members, agreeing to a statement of "serious concern" and a deadline for further action.

However, Beijing does appear to have drawn a red line—stopping short of endorsing economic sanctions or leaving open the door to the possible use of military force to gain Iran's compliance. Beijing, which has seemed quite comfortable in having Russia play a proactive role in resolving the nuclear crisis, joined with Moscow in blocking the US-led attempt in May 2006 to introduce a Chapter VII resolution at the United Nations. This blocking maneuver, conducted in tandem with Russia, had the salutary effect of providing a breathing spell during which Western countries could explore an alternative approach. Indeed, China welcomed the incentives package subsequently presented to Iran by EU High Representative for the CFSP Javier Solana, though Chinese Ambassador to the United Nations Wang Guangya noted that the US should set no preconditions and later cautioned against setting arbitrary deadlines for Iran to give an official response.

Iran's aim *vis-à-vis* China has been rather clear and straightforward from the beginning—to win Beijing's support and thus divide the major powers. In contrast, China's position stems from *several* considerations. Though protecting its burgeoning energy interests in Iran is arguably the most important, China's other concerns should not be discounted. The first is China's longstanding opposition to "power politics." Following from this is Beijing's aversion to levying sanctions and its steadfast refusal to endorse military force to resolve international disputes. The second is China's sympathy and solidarity with Iran, a developing country, in the face of Western pressure. The third is the conviction—shared with Russia and Europe—that exerting too much pressure on Tehran is likely to backfire, resulting in either Iran's withdrawal from the NPT or unilateral military action by the United States. The fourth is cultivating an image and reputation as a responsible member of the international community and keeping its relationship with the United States on an even keel. Related to this is the fact that China has come to accept global arms control and non-proliferation norms, having joined the NPT in 1992. Last but not least is Beijing's desire to ensure that support for Iran does not compromise its relationships with Iran's Arab neighbors, all of which live in the shadow of Iranian power and with which China has developed profitable relationships. Illustrative of this concern is China's support for a nuclear-free Middle East, which was spelled out in the communiqué issued at the second Ministerial Meeting of the China-Arab Cooperation Forum in May 2006.