



Studies in Business and Economics

Spring 2017 - Vol. 20 - No.1

SBE



كلية الإدارة والاقتصاد
College of Business and Economics
جامعة قطر QATAR UNIVERSITY

Studies in Business and Economics

Vol. 20, No. 1

Spring 2017

Introduction

Studies in Business and Economics is a referred and indexed semiannual periodical published by the College of Business and Economics at Qatar University. The Journal is listed in Cabell's Directory of Publishing Opportunities. The Journal is devoted to the advancement and dissemination of theoretical and applied knowledge, through promoting scholarly research in the areas of Accountancy, Economics, Finance, Management, Marketing, Management Information Systems and related disciplines.

General Instructions to Authors

General Format

Manuscripts should be in English and of a professional style, be submitted electronically as an attachment to an email and should not exceed 25 pages (including all tables and figures). Wherever possible, author should arrange their material in well-defined sections: Introduction, Literature Review, Methodology, Results and Analysis, and Conclusions and Implications. Papers submitted to Studies in Business and Economics should not be submitted or under consideration by other journals. The submitted manuscripts must be written in the APA (American Psychological Association) editorial style.

Font Type and Size

Manuscripts should not be double spaced, Times New Roman, 12 points font using Microsoft Word.

Title Page

Start your paper with a title page. Include the title of the paper and names, addresses, and affiliation of author(s). Do not use titles such as Dr. or Assistant Professor, etc.

Abstract Page

The second page of the article will contain the title of the paper (no author listing) and a one paragraph abstract (not exceeding 150 words).

Keywords

List 4-6 keywords.

Headings

First level headings should be centered and in caps. Second level heading should be left aligned with initial letters capitalized. All headings should be in bold font.

Layout and Margins

Immediately after the abstract paragraph, the paper should be formatted using two columns (newspaper) format. Margins should be set to 1 inch top, bottom, left and right. Columns should have 0.25 inch between them. All text should be full justified.

Authors Biographical Information

Each author should submit a paragraph (50 words) of biographical information.

Footnotes

Footnotes are strongly discouraged.

Figures, Tables and Illustrations

Figures, tables and illustrations should be planned to fit the journal's page size which is 12 by 18 cm. Each figure, table or illustration should be kept on a separate page. The author should indicate the appropriate placement of each by inserting a statement such as "insert Table 1 about here" in a separate line.

Page Number

Do not type page numbers. Page numbers will be added in the final stage of publishing.

Appendices

Appendices, if necessary, should follow the body of the paper, before the references.

Reprints

Authors are entitled to 2 free of charge copies of the Journal.

References

References are to be identified in the text by including in parenthesis the last names of the authors and date of publication [i.e. (Smith, 2004)]. At the end of the paper, presented under the heading 'References', the cited literature should be listed alphabetically.

Abbreviations

Titles of periodicals should be abbreviated according to “The World List of Periodicals”.

The Articles included in this journal represent the views of the author, not necessarily the views of Qatar University.

Editor-In-Chief

Khalid Al Abdulqader

Co-Editors

Belaid Aouni (Managing Editor)
Omar Ben Ayed
Nitham Mohammed Hindi

Advisory Editorial Board

Ali Darrat	Louisiana Tech University
Ahmad Abdl-Rahman Ahmad	Kuwait University
Ahmad Karim	Indiana University - Purdue University Fort Wayne
Antonis Stylianou	University of NC at Charlotte
David Cooper	University of Alberta
George Hazboun	University of Jordan
Rodney Wilson	University of Durham
Roselyn Morris	Texas State University
Russel Belk	York University - Toronto
Sohail Chaudhry	Villanova University - USA
Stere Keen	University of Western Sydney
Vaman Rao	Western Illinois University

Correspondence

All correspondence should be addressed to the Editor Chief, Studies in Business and Economics, College of Business and Economics, Qatar University, P.O. Box 2713, Doha, Qatar. E-mail: busjournal@qu.edu.qa, Tel. No.: +974 4403-5012, Fax: +974 4403-5010

Subscription Order

Subscriptions are for a one-year (12 months) period. Please note that the journal is published twice a year. The subscription term may start at any time during the year. Requests for retroactive subscription will be honored as long as back issues are available.

Individuals		Institutions	
Country	One Year	Country	One Year
Qatar	70 QR	Qatar	150 QR
Other	\$30	Other	\$50

Subscription Order Form [www.qu.edu.qa / business](http://www.qu.edu.qa/business)

Send Cheque to:

College of Business & Economics, Qatar University P.O. Box 2713, Doha, Qatar
E-mail: busjournal@qu.edu.qa

CONTENTS

Ahmed Ali Mohammad **5-34**

Towards a Meta Theory of Accounting for Knowledge Management: Review the Realities to Stage the Critical Thinking of Knowledge Business Model

Justine Salam **35-57**
Hany Besada

The New Silk Road: China' Energy Policy and Strategy in the Mena Region

Meshari O. Al-Hajri **58-73**

The Relationship Between Internal Auditing and External Audit Fees: Evidence from Kuwait

THE NEW SILK ROAD: CHINA' ENERGY POLICY AND STRATEGY IN THE MENA REGION

Hany Besada

Deputy Executive Director,
Diamond Development Initiative International, Ottawa, Canada
hany.besada@ddiglobal.org

Justine Salam

PhD candidate at the Global Governance Program
at Balsillie School of International Affairs, University of Waterloo, Ontario

Abstract: China is in dire need of energy resources to sustain its growth. In recent years, China has been turning more to Saudi Arabia and Iran in the Middle East as well as Sudan in North Africa as trade partners to secure its energy supply and fuel its increasing growth. This paper explores China's energy policy in the Middle East and North African (MENA) region by studying three cases: Sudan in North Africa, and Saudi Arabia and Iran in the Middle East. Data was obtained from review of relevant literature. It is found out that China's oil policy is very much driven by the Beijing Consensus. China has applied an equity ownership strategy to have more control over oil flows as a shield against price fluctuations and to reduce supply interruption. Civil unrest and conflicts in the MENA region threatens to disrupt China's energy supply channels, which implies that China should work for peace in the MENA region to achieve its sustainable energy supply.

Keywords: Chinese diplomacy, energy policy, Middle East, North Africa, oil politics

I. INTRODUCTION

With more than 800 billion barrels of crude oil reserves, the Middle East has already made a name for itself. In North Africa, Sudan, Algeria, and Libya have also experienced increasing number of oil discoveries in the recent decades. As the second largest economy in the world, China is in dire need of energy resources to sustain its growth. Hence, China and MENA countries encounter mutual interests. Trying to secure its energy supply and fuel its increasing growth, China turned to Saudi Arabia and Iran

in the Middle East as well as Sudan in North Africa as trade partners. In 2013, China was a dominant trade partner to Saudi Arabia, Iran, and Sudan: China was the largest of Saudi Arabia's trade partners and the third largest importer of Saudi crude oil; China was the largest trade partner both of Sudan and Iran, as well as the largest importer of Sudanese and Iranian oil.

Since China's ascension to the world's top economies, China's energy needs have been studied as part of a growing literature.

Sager, Olimat and Kemp¹ have underlined the complexity of the relationship between China and oil-rich MENA countries, the direct benefits of such relationship for the states in partnership, as well as its global impact for other MENA oil-importers. Well known to protect Middle Eastern oil-sources to ensure that American energy needs are satisfied, one cannot analyze China's involvement in the region without touching on the United States' role. In *The Vital Triangle: China, the U.S., and the Middle East*, John B. Alterman and John W. Garver look at the trilateral relationship between China, the U.S., and the Middle East, arguing that all three regions' economies are intrinsically connected like the three sides of a triangle. The authors contextualize this complex relationship where each region's decision impacts the other two. China's trade relationships with some of the traditional U.S. allies (Saudi Arabia) and simultaneously with contested candidates (Sudan and Iran) has led to a deep politicization of China's involvement with these countries. Combined with the nature of oil as the most traded commodity in the world, China's oil interests has sparked discussions to say the least.

This paper explores China's energy policy in the MENA region by studying three cases: Sudan in North Africa and Saudi Arabia and Iran in the Middle East. We argue that China's oil policy is very much driven by the Beijing Consensus which advocates pure economic growth, and that Sudan, Saudi Arabia, and Iran

all have important mutual oil interests with China. Where necessary, we incorporate the concerns of the United States on diverse faces of the Sino-Sudanese, Sino-Saudi Arabian, and Sino-Iranian partnerships. We find that despite the apprehension exhibited by the United States regarding the increasing relations between China and the Middle East, China wishes to avoid direct confrontation with Washington and vehemently avoids the use of threat for economic gains. China's Middle East policy aims to mitigate or circumvent potential tensions with the US. Wu argues that China's involvement in the Middle East is only motivated by energy interests and is absolutely not going to weaken its relationship with the United States². Likewise, Chubin argues that China has constantly been cautious with the United States and has avoided provoking Washington³. By expanding its reach in MENA, China is also diversifying its trade relations—a concept that is encouraged by the Beijing Consensus—and so are simultaneously Sudan, Saudi Arabia, and Iran. Hence, the web of oil partnerships is shifting from an omnipotent bilateral relationship between the United States and oil-rich developing states to a more diverse arena where multidimensional relationships are possible between developing states.

We first examine China's growing need for oil, its strategy to ensure a steady supply, and its reasons for expanding its influence to the MENA. Since Chinese oil politics take place within the framework of the Beijing Consensus, we explain the dynamics underlying it and

¹ Sager, Abdulaziz, 'GCC-China Relations: Looking beyond Oil-risks and Rewards', in Abdulaziz, Sager, Geoffrey, Kemp (eds), *China's Growing Role in the Middle East*. Washington, DC: Nixon Center, 2010, Pp. 1–22. Yuan, (2010); Olimat, Muhamad S. "The Political Economy of the Sino-Middle Eastern Relations." *Journal of Chinese Political Science* 15 (2010): 307–35, and G. KEMP, *The East moves West: India, China, and Asia's growing presence in the Middle East*, Brookings Institution Press, 2010, Pp. 232.

² Wu, L. *The Middle East Oil and the Sino-U.S. Relations*. Cambridge: *Journal of Middle Eastern and Islamic Studies (in Asia)* 3(4), 2007. Pp-34.

³ Chubin, S. *Iran and China: Political Partners or Strategic Allies, in China's Growing Role in the Middle East: Implications for the Region and Beyond*. Washington: The Nixon Centre (2012). Available from <http://cftni.org/full-monograph-chinas-growing-role-in-me.pdf> [Accessed 21 November 2015].

compare it with the Washington Consensus that has dominated the second half of the twentieth century. Second, we look at China's involvement in North Africa through the case study of Sudan and analyze how this approach differs from its strategy in the Middle East. Next, we show that China has common interests with both Saudi Arabia and Iran. Thanks to the Beijing Consensus—which focuses exclusively on economics and consistently ignores political and cultural circumstances—Chinese energy security policy in the MENA has been particularly appealing to developing states. This is in contrast with the Washington Consensus, which frequently advocates political change in exchange for economic relations. Third, we provide an overview of the current partnerships and contracts between China and Saudi Arabia and Iran. Finally, we look at the challenges China faces in securing oil supplies and potential tensions it may encounter with the United States.

II. THE APPEAL OF THE MIDDLE EAST

Historically, the Middle East has always been the subject of strategic attention for various global powers all the way up to the modern times. After the First World War and the fall of the Ottoman Empire, Great Britain and France took control of the region and the infamous Sykes-Picot Agreement, which fragmented the region as a result of contrasting colonial influences, was signed. The Middle East was already known for its abundant natural resources, which had been exploited in the past. However, it was during this period of colonialism towards the early 20th century that technological advances led to modern armies assuming the hunt for oil as the newly coveted fuel of automobiles, aircraft, and other uses. Its rich natural reserves of easily extractable crude oil caused large-scale drilling operations to emerge, with the British taking the lead in Iran

in 1901 and the Anglo Persian Oil Company discovering oil in 1908⁴.

This structure of influence was sustained until the aftermath of the Second World War, where the Middle East experienced a shift in terms of the dominant external power. At that point, the United States had a growing economy and global political clout. The nation expanded its presence in the Middle East during the post-war period with an agenda, on which oil supply was a priority. Indeed, the need to fuel growth and compensate for what the United States could not provide from within its own domicile became a centerpiece of the country's foreign policy⁵. The United States saw a potential for secure oil supply in the oil-rich states of the Persian Gulf and the latter saw an opportunity to transform their vast oil reserves into direct wealth for their economies. American foreign policy continued to place an emphasis on strategically increasing its ties with the Middle East, as the country's dependency on oil grew for both domestic and military purposes.

III. CHINA'S FAST-GROWING NEED FOR OIL

With 1.3 billion people and one of the world's largest economies—second only to the United States.— China has a fast-growing need for oil. This need is not only driven by China's economic growth rate, but also by domestic factors like the increasing number of vehicles in the country, which jumped from one million a decade ago to more than 22 million⁶. China

⁴ Keddie, N. *Iran: Religion, Politics, and Society: Collected Essays*. London: Routledge. (1983).

⁵ Little, D. *American Orientalism: The United States and the Middle East since 1945*. University of North Carolina Press. (2008); Cooper, Andrew S. *The Oil Kings: How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East*. Simon & Shuster. (2011)

⁶ Olimat, M. *China and the Middle East: From Silk Road to Arab Spring*. New York: Routledge. (2013)

is, however, still a major producer of oil (and other natural resources). China holds Asia's largest oil reserves⁷. The problem is that its demand is so high and increasing, China still needs to import oil because its own reserves are not sufficient. Datta and Vigfusson foresee that due to its size and rapid economic growth, China will continue to be of primary importance in determining the path of global oil demand. China's future demand for oil will depend on both its economic growth and its energy choices. A high level of growth combined with energy-intensive choices could result in Chinese oil demand doubling by 2025. Even in a scenario with more moderate growth and less energy-intensive choices, China's oil demand would still grow by over 30% by 2025⁸.

In 1959, the discovery of the Daqing oilfield in Chinese territory had initially reassured China that oil supply would not be an issue for the Chinese economy and would help maintain self-sufficiency. However, due to intense economic growth in the 1970s, China became an importer of oil by 1993⁹. In addition, reformist leader Deng Xiaoping was convinced that the only path forward for China was economic modernization—which is fuelled by petroleum—and made his idea the centerpiece of China's domestic and foreign policy¹⁰. According to the International

⁷ Daojiong Zha and Meidan Michal, *China and the Middle East in a New Energy Landscape*, The Royal Institute of International Affairs, 2015. Pge 26

⁸ Datta D Deepa and Vigfusson Robert J., *Forecasting China's Role in World Oil Demand*, FRBSF Economic Letter, Research from Federal Reserve Bank of San Francisco, 2017. Pg 5

⁹ Sager, A. "GCC-China Relations: Looking Beyond Oil-Risks and Rewards," in *China's Growing Role in the Middle East: Implications for the Region and Beyond*. Eds. A. Sager and G. Kemp. Washington, DC: The Nixon Center. (2010)

¹⁰ Shirk, S. L. *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*. Brookings. (1994); Olimat Muhammad S.,

Energy Agency (IEA), China's oil demand reached 10-12 million barrels per day in 2017¹¹ and Bloomberg reported in 2013 that China had overtaken the United States as the world's highest energy-using economy, with imports and exports reaching \$3.87 trillion USD¹². Similarly, British Petroleum Statistical Review of World Energy 2014 indicates that China was the world largest producer and consumer of energy overall in 2013¹³. However, China only produces 44 percent of the oil it needs¹⁴. As energy shortfalls could slow down and even stop China's growing economy, China's top priority since the 1990s has been to secure steady foreign oil supplies to fuel its economy¹⁵.

With its large oil reserves and its geographical proximity to Asia, the Middle East is a logical candidate to sustain Chinese economic growth. The Asian continent imports more crude oil than any region in the world and is currently the single most important market for Persian

China and the Middle East: *From Silk Road to Arab Spring*, Reprint Edition, New York, Routledge, 2015. Pp. 53

¹¹ Gross Samantha, *Lower for Longer: The Implications of Low Oil and Gas Prices for China and India*, Foreign Policy At Brookings. 2017, pg 17)

¹² Bloomberg Business., "China Eclipses U.S. as Biggest Trading Nation." (2013) [Online] Available from: <http://www.bloomberg.com/news/2013-02-09/china-passes-u-s-to-become-the-world-s-biggest-trading-nation.html> [Accessed 21 November 2015].

¹³ British Petroleum. *Statistical Review of World Energy Workbook, Oil: Trade Movements*, Statistical Review of World Energy Workbook. London. (2014) <http://www.bp.com/en/global/corporate/about-bp/energy-economics/statistical-review-of-world-energy/review-by-energy-type/oil/oil-trade-movements.html> [Accessed 21 November 2015].

¹⁴ Al-Tamimi, N. "China-Saudi Arabia Relations: Economic Partnership or Strategic Alliance?" Durham: University of Durham (*HH Sheikh Nasser al-Mohammad al-Sabah Publication Series 2*). (2012).

¹⁵ Alterman, J. and Garver, J. (2008). *The Vital Triangle: China, the U.S., and the Middle East*. Washington, D.C.: CSIS Press. (2008)

Gulf oil producers¹⁶. While Asia is becoming the centre of the emerging global economic order, the Middle East is becoming its primary source of energy¹⁷. China is no exception; it is drawn to the Middle East because of its thirst for oil. When it became evident that China's energy production was insufficient to meet its growing needs, Deng Xiaoping extended its trade relations and economic ties with Middle Eastern and North African countries, including Saudi Arabia in the 1980s, and Iran and Sudan in the 1990s.

China considers the Middle East as a viable source to secure its energy imports, relies heavily on the Middle Eastern oil, and wishes to establish durable economic ties with Middle Eastern states on the long-term¹⁸. Yet, the 9/11 attacks and the context of the war on terror have given China a sense of vulnerability regarding its oil imports from the Middle East and forced the political leadership to consider new energy sources to ensure China's energy security. Furthermore, Zhao points out that China used to receive most of its energy supply from the Middle East and the Asia Pacific region, but the shift of Indonesia from an oil exporter to an oil importer in 2004 has left a gap among China's usual suppliers¹⁹. Therefore, China's spread of economic ties with the oil-rich countries of North Africa is driven by a desire to further diversify its oil supply. It should be noted that before the emergence of ISIS, almost half of the oil Iraq was exporting was destined for China. President Xi Jinping

condemned the horror attacks in Paris. The terror group brutally murdered 129 people in Paris (November 2015). He vowed to step up the fight in the wake of the "barbaric" attacks by militants linked to ISIS. Xi's comments have led to speculation that China is set to bomb the terrorists to oblivion in Iraq and Syria. China's leaders see terrorism—as well as separatism and extremism—as posing significant potential threats to a wide range of China's national security interests. These interests include almost every one of China's "core" interests such as social stability, national unity, sovereignty and territorial integrity, and sustained economic growth. However, it also includes several of China's emerging interests like protecting its citizens abroad, energy security, maritime security, and China's ability to shape an international environment that is conducive to pursuing China's national interests. China pursues a broad range of bilateral and multilateral efforts in support of its counterterrorism objectives. This includes the strengthening of cooperation through multilateral organizations such as the Shanghai Cooperation Organization and its Regional Anti-Terrorism Structure. China also cooperates, including with the United States, on issues such as port security, trafficking in international materials, and money-laundering to help support the development of conditions in the international environment that make it difficult for terrorism to thrive. This cooperation supports the U.S. National Strategy for Combating Terrorism. China is also pursuing wide-ranging bilateral security cooperation. This includes meetings of law enforcement and intelligence leaders, military exercises, security force training, border security agreements, and agreements for some Chinese partners to remove anti-PRC terrorist groups from their soil²⁰.

¹⁶ Sager, A. (2010) "GCC-China Relations: Looking Beyond Oil-Risks and Rewards," in *China's Growing Role in the Middle East: Implications for the Region and Beyond*. Eds. A. Sager and G. Kemp. Washington, DC: The Nixon Center. (2010)

¹⁷ Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, New York, Routledge, 2015. Pp. 65

¹⁸ Wu, 2007. Pp 45

¹⁹ Zhao, H. "China's Oil Venture in Africa." *East Asia* 24.(2007)

²⁰ Tanner Murray Scot and Bellacqua James. *China's Response to Terrorism*, U.S.-China Economic and Security

Since China lost its self-sufficiency in oil supply, China's concern about oil supply and energy security has become widespread²¹. In this context, Muhamad S. Olimat argues that China's continuing growth and modernization is dependent finding and securing oil supplies²². China has three oil corporations through which it ensures that national energy security interests are secure: the China National Petroleum Corporation (CNPC), the China Petrochemicals Corporation (Sinopec), and the China National Offshore Oil Corporation (CNOOC)²³. With the Middle East's rich oil reserves, which make up over 60% of the world market²⁴, China's energy security and oil strategy are intrinsically linked to the region.

IV. CHINA'S EQUITY OWNERSHIP STRATEGY

To ensure steady oil supply, China has applied an equity ownership strategy: Chinese companies have tried to seek equity shares in oil projects abroad, hoping that this would allow them to have more control over oil flows and possibly reduce supply interruption²⁵. In the Middle East, China's first upstream investment and acquisition were made in Iraq. Since then,

Review Commission. 2016, Pg 5-7 available at: https://www.uscc.gov/sites/default/files/Research/Chinas%20Response%20to%20Terrorism_CNA061616.pdf

²¹ Hongtu, Z. (2010). "China's Energy Interest and Security in the Middle East." In *China's Growing Role in the Middle East: Implications for the Region and Beyond*. Eds. A. Sager and G. Kemp. Washington, DC: The Nixon Center. (2010)

²² Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, New York, Routledge, 2015. Pp. 68

²³ Meidan, M. (2016). "The structure of China's Oil Industry: Past Trends and Future Prospects." *The Oxford Institute for Energy Studies*, WPM 66: 1-55. (2016)

²⁴ Sun, D. (2011). "Six Decades of Chinese Middle East Studies: A Review" *Bustan: The Middle East Book Review* 2: 22. (2011)

²⁵ Alterman, J. and Garver, J. *The Vital Triangle: China, the U.S., and the Middle East*. Washington, D.C.: CSIS Press. (2008)

China has been consistently investing in the oil sector, including engineering and drilling in Gulf Cooperation Council (GCC) states, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The China Petroleum Engineering and Construction Corporation (CPECC) started to get involved in Kuwait and Iraq in 1983 through subcontracts whereas the Great Wall Drilling Company (GWDC) captured drilling opportunities in Egypt, Qatar, Oman, and other parts of the Middle East²⁶. Qatar, the largest liquefied natural gas producer, recently strengthened a strategic partnership with China, including its participation in China's Silk Road Economic Belt; Kuwait has had strong economic ties with China since the 1970s (Sager, 2010); Oman has received \$600 million from Chinese investments in several sectors, including oil, petrochemicals, upgrading oil transportation's efficiency²⁷.

In North Africa, China has more or less applied similar strategies. China started its "going out strategy" to Africa in the late 1990s²⁸. In Africa, China has been involved at many levels through the Chinese Communist Party, which created multiple institutions specialized in African matters, involved agents of the party on the ground, ensured consultation with both central and local governments (when seen necessary), and even attempted to create bounds with some African civil society groups²⁹. Through official partnerships such

²⁶ Hongtu, 2010; Romano, G. C. and Jean-François Meglio (2016). *China's Energy Security: A Multidimensional Perspective*. Routledge Contemporary China Series. (2016)

²⁷ Sager, Abdulaziz. 2010. 'GCC-China Relations: Looking beyond Oil-risks and Rewards', in Abdulaziz, Sager, Geoffrey, Kemp (eds), *China's Growing Role in the Middle East*. Washington, DC: Nixon Center, 2010, Pp. 1-22.

²⁸ Zhao, H. "China's Oil Venture in Africa." *East Asia* 24. (2007), Pp.401.

²⁹ Raine, S. *China's African Challenges*. London: Routledge.2009, Pp 54

as the Forum on China-Africa Cooperation (FOCAC), China has also ensured a constant dialogue with African countries in order to implement Chinese promises in the continent. At the 2006 summit of FOCAC for example, various policies were established such as the creation of the China-Africa Development Fund and the creation of trade and economic cooperation zones³⁰.

Despite its obvious interest in African oil and natural resources, China refrained from over-emphasizing it as it prefers to project itself as a reliable and long-term economic partner for Africa, thus expanding its interests on a broad range of economic exchanges³¹. Aid, for example, has been one of the main channels used by China to improve its prestige and influence in Africa, including “[g]rant aid, interest-free loans and concessional loans are all deployed, as are non-monetary forms of aid, such as technical assistance and training, and other simulative tools such as debt relief and tariff exemptions”³². FOCAC and the China Export-Import Bank (China ExIm Bank) are also involved in several projects focusing on energy, infrastructure (with the construction of hospitals and rural schools) and transportation (especially related to oil facilities in oil-rich countries like Sudan). Thus, China is looking at a long-term relationship and is already thinking ahead, helping some African states to develop economically and to become stable partners in the future.

³⁰ Ibid. pp. 67

³¹ Large, D. “Beyond ‘Dragon in the Bush’: The Study of China–Africa Relations.” *African Affairs*, 107/426: 2008, Pp. 45–61. ; Sun, Y. “China’s Increasing Interest in Africa: Benign but Hardly Altruistic.” Brookings. URL: <https://www.brookings.edu/blog/up-front/2013/04/05/chinas-increasing-interest-in-africa-benign-but-hardly-altruistic/> (2013); Ayodele, T. “Misconceptions About China’s Interests in Africa.” *Georgetown Journal of International Affairs*. URL: <http://journal.georgetown.edu/misconceptions-about-chinas-interest-in-africa/>, 2015

³² Raine, S. *China’s African Challenges*. London: Routledge. 2009, pp. 65.

On the other hand, China has been implementing its usual ‘win-win’ strategy, ensuring that both trade partners have (real) mutual benefits. By developing the oil sector in Sudan, China secured important oil supplies and the Sudanese government secured one steady economic partner—it has only a few—along other compensations (i.e. arms). Since many African countries are particularly in need of infrastructure development, China also followed a coalition investment strategy; Naidu and Davies summarize: “Multiple Chinese state-owned companies across diverse industries are politically orchestrated to engage a recipient African economy in a way that can include tying energy acquisitions to funding for infrastructure development.”³³. Overall, China’s goal is obviously long-term but similar to the Middle Eastern case, it has focused on purchasing assets to avoid over-reliance on the global oil market and protect its access to oil at all times³⁴.

China is taking its commitment to Africa very seriously and has explored new venues for cooperation in addition to natural resources. Furthermore, China’s equity ownership strategy has proven to be very efficient in terms of control over foreign oil supplies but has raised immediate concerns in Washington who worried about China’s growing influence. Among others, Washington has been particularly interested in China’s economic strategy, known as the Beijing Consensus, in order to determine whether it could become a threat to American business strategy and United States’ energy security in the Middle East and North Africa. I will briefly explain the the Beijing Consensus and the Washington

³³ Naidu, S. and Davies, M. *China Fuels its Future with Africa’s Riches*. Johannesburg: *South African Journal of International Affairs* 13: 69-83. (2006), pp. 80.

³⁴ Taylor, I. “China’s Oil Diplomacy in Africa.” John Wiley & Sons. New York: *International Affairs* 82: 942. (2006)

Consensus. The Beijing Consensus is a term coined in 2004 by Joshua Cooper Ramo, Professor at Tsinghua University, Beijing, China and former Foreign Editor for *Time* magazine. In his famous piece titled *The Beijing Consensus*, Ramo offers an analysis of the Beijing Consensus, which he argues, can be an appealing alternative to the Washington Consensus. The Beijing Consensus is founded on three “axioms”³⁵. First, China focuses on constant innovation while the Washington Consensus abhors drastic change. Second, sustainability, equality, and quality-of-life are as valid indicators of successful economies as per-capita GDP. Lastly, unlike the Washington Consensus, which is thirsty for power and advocates a hegemonic world system dominated by the United States, the Beijing Consensus places full self-determination as the greatest priority and value. In practice, self-determination has been translated by increasing multilateralism *inter alia*. In the case of China’s oil policy, China created new bounds with Middle Eastern oil-rich states such as Saudi Arabia and Iran but also reached out to other partners such as North Africa, Sub-Saharan Africa, and South America to diversify its oil supply. In Ramo’s words, “China’s new development approach is driven by a desire to have equitable, peaceful high-quality growth”³⁶.

Unlike the Washington Consensus, the Beijing Consensus has sought to prioritize economics over political and cultural differences especially in energy policy. In other words, China has focused on finding good trading partners regardless of their political and cultural diversity. From China’s point of view, China’s approach to MENA is mercantilist, thus, motivated by, and targeted solely for,

³⁵ Ramo, J. *The Beijing Consensus*. London: The Foreign Policy Centre. (2004), Pp.8.

³⁶ *Ibid.*, Pp. 6.

markets, profits, and securing oil provisions³⁷. On the other hand, the Washington Consensus is famous for using economic relations to influence its partners’ political and cultural practices. The Beijing Consensus is rooted in realism and *realpolitik*, while the Washington Consensus is driven by neo-liberal principles. One can easily see that some of Washington’s trading partners who struggled to adapt to Washington’s standards appreciate the Beijing Consensus. This has regularly frustrated the United States who feared that the appeal of the Beijing Consensus would diminish Washington’s chances of exerting political influence by preventing it from spreading its neo-liberal model in exchange for strategic partnerships with developing countries—particularly the Middle East.

In *The Beijing Consensus*, Stefan Halper states that China definitely threatens American interests—economic interests in particular. He recognizes that the Chinese model strongly appeals to developing countries, the latter preferring “market authoritarianism and its high growth” rather than “market democracy and its freedoms”³⁸. Recent military interventions in the Middle East, such as the United States initiating war in Afghanistan and Iraq in 2001 and 2003 respectively, have left painful memories of foreign mediators in the region. China’s lack of demand for political reform in exchange for aid or investment was received as a welcome new opportunity for oil-rich Middle Eastern countries who saw an opportunity to govern and conduct politics in their own manner without external questioning. A similar

³⁷ Feng, Z. “Oil Nexus vs. Diplomatic Crux: China’s Energy Demands, Maritime Security and the Middle East Aspirations.” In *China’s Growing Role in the Middle East: Implications for the Region and Beyond*. Eds. A. Sager and G. Kemp. Washington, DC: The Nixon Center. Pp. 31-42. (2010)

³⁸ Halper Stefan. *The Beijing Consensus: How China’s Authoritarian Model Will Dominate the Twenty-First Century*, 2010 , pp. iii.

argument can be applied to North Africa, especially in the case of Sudan. Still, concerns have been raised with regards to the Chinese approach, some arguing that democratic values are looked down upon, if not endangered by progressive preference for China's model of economic development and that "Beijing's example illuminates a path around the West"³⁹.

Furthermore, the Beijing Consensus is not only unique, but it is also highly controlled by the state. In fact, although neo-liberal economic policies allow the private sector to flourish, the state is keeping a firm grip on their development, along with a grip on courts, the military, and information flow. According to Halper⁴⁰, China is operating "state-guided capitalism" by ensuring that powerful companies are instruments of the Party's foreign policy. Some fear that market authoritarianism, including its economic liberalization coupled with authoritarian politics, may be appealing to developing states, thus endangering the Washington's Consensus' agenda⁴¹. Exploring the different national effects of the Consensuses is beyond the scope of this paper but it is important to keep the key characteristics of each consensus in mind, as well as the fact that many MENA states are authoritarian in nature.

- In relation to MENA, there are two key dimensions to China's economic strategy. First, China seeks to expand friendly, multidimensional relations with Middle Eastern states and to remain politically neutral especially with regards to conflicts. China adheres to its foreign policy of non-interference in other countries' internal affairs, but at the same time we can observe that China is getting more actively involved in the conflicts in the

region, adopting a certain stance at the UN Security Council and making efforts for intermediation, for instance between Israel and Palestine. China has proactive stance towards political issues in the Middle East, which surely affects its oil business⁴².

Second, China wishes to access Middle Eastern resources by exploiting markets, capital, and petroleum to fuel its own economic drive⁴³. However, the Chinese elite knows that in the last decades, the Middle East has been considered as the United States' economic fief⁴⁴, and therefore, by trading with the Middle East, China exposes itself to closer surveillance by Washington. Further, China perceives American concerns about the proliferation of weapons of mass destruction, terrorism, and democratization as pretexts for interventions on the ground, accusing the United States from engaging in a "new kind of imperialism" through the control of natural resources.⁴⁵ Yet, China is driven by its wish to become the "friend of all and the enemy of none"⁴⁶ by trying not to directly confront Washington. In the same vain the Silk Road Economic Belt is grand initiative of China in the entire Eurasian region. China's Silk Road Economic Belt and 21st Century Maritime Silk Road initiative aims to connect Asia, Africa, Europe, and their near seas. The Silk Road promotes China and Middle Eastern States' Common Interests.

⁴² Daojiong Zha and Meidan Michal, China and the Middle East in a New Energy Landscape, The Royal Institute of International Affairs, 2015. Pg 25

⁴³ Alterman & Garver, The Vital Triangle, China, The United States and the Middle East, CSIS, Centre for Strategic and International Studies, Washington DC. 2008, Pg 82

⁴⁴ Shen, D. (2006). "Iran's Nuclear Ambitions Test China's Wisdom." *The Washington Quarterly* 29, 2: 55-66. (2006); Salman, Pieper, and Geeraerts, 2015; Li, 2015

⁴⁵ Cited in Alterman, J. and Garver, J. *The Vital Triangle: China, the U.S., and the Middle East*. Washington, D.C.: CSIS Press. (2008), pp.12

⁴⁶ Ibid, pp.4.

³⁹ Ibid. Pp. v

⁴⁰ Ibid., Pp 102

⁴¹ Ibid., Pp.139

The Silk Road Economic Belt is creating—or at least offering the potential to create—new shared benefits and common interests for China and the countries in the region⁴⁷. Related to this, the Silk Road invigorates Chinese investments in the region. Chinese and Middle Eastern economies complement each other in the field of merchandise trade, foreign direct investment. China also has several investment projects in the region, not only in energy, but also other areas, such as transportation, infrastructure. Under the definition contained in Xi Jinping's New Security Concept that 'development equals security', China's One Belt One Road initiative can be conceptualized as both the most ambitious infrastructure and security initiative today. Linking to the Road and Belt project will enable member states to not just compete for the benefits of increased Chinese investments on their own territories, but embed China's initiative in their own strategic goal of gaining a larger security footprint in the Asian region⁴⁸.

Overall, Hongtu summarizes China's energy security policy in three points. First, China acts strategically with MENA. Not only does China wish to import oil, but also to secure oil provisions. Thus, China has increasingly been involved in upstream investments and obtaining equity oil in foreign enterprises. Second, China's oil companies are largely "instruments of the State" and treated as "an arm of the government's international expansion"⁴⁹. Finally, a growing dependence on Middle Eastern oil has led China to rethink its policy

⁴⁷ Miller, T. Investing Along the New Silk Road. *Gavekal Dragonomics*. Ideas March 4., 2015. Pp25

⁴⁸ Verlare Jikkie, In *EU-China Security Ties; The One Belt One Road Initiative*. 2017, pp. 14 Available at: <https://www.clingendael.org/sites/default/files/pdfs/Thesis%20-%20Jikkie%20Verlare%20-%20A%20New%20Opportunity%20In%20EU-China%20Security%20Ties-%20The%20One%20Belt%20One%20Road%20Initiative.pdf>

⁴⁹ Hongtu, "China's Energy Interest," pp. 54-55.

and strategy by exploring new energy sources in North Africa, and to adjust its international behaviour to ensure that its domestic interests do not come in conflicts with its foreign policy, especially with regards to the United States.

As the great hegemonic power of the last century, the United States has extensive interests in virtually all energy-rich regions of the world. Thus, similar to its involvement in the Middle East, China is very conscious of American interests and wishes to maintain good relations⁵⁰. However, tensions have heightened since the 2000s. Following pure economic interests, China has repeatedly disregarded the international community's attempts to undermine North African dictatorial regimes with poor human rights records. Despite being optimistic regarding U.S./China relations, U.S. House of International Relations Committee Representative Christophe Smith still expressed some concerns stating in 2005: "the Chinese intend to aid and abet African dictators" and "gain a stranglehold on precious African natural resources."⁵¹

One of China's great advantages compared to Western private oil companies in North Africa is the fact that most Chinese oil companies are state-owned. Consequently, China is able to outbid competitors in major contracts without the short-term concerns of private companies that are bound by considerations of profits and shareholders⁵². Overall, China also has a political advantage because it is not associated with colonialism and imperialism. In North Africa, unlike the scramble for Africa led by the European powers two centuries ago, "economic engagement is accompanied by investment in and upgrading of infrastructure and transport facilities, which are central to

⁵⁰ Raine (2009)

⁵¹ Zhao, (2007), pp. 408.

⁵² Taylor (2006)

Africa's development trajectory."⁵³ China tries not to act like a 'grab-it-all' power, but rather like a trade partner exclusively interested in conducting business. Furthermore, as Taylor underlines, "China's renewed interest in Africa coincided with an upsurge of western interest in promoting liberal democracy and human rights,"⁵⁴ a measure perceived as neo-imperialism by developing countries, especially authoritarian regimes. China took advantage of this context and re-assured many of its African trade partners that its sole interest is in business transactions. Beijing has also avoided framing its approach from a human rights standpoint and preferred emphasizing "economic rights" and "rights of subsistence" of developing countries.⁵⁵ Consequently, many African powers view China's presence as a chance to disengage from the West and its constant political demands, leaving China to balance its need for resources with "diplomacy to court African leaders."⁵⁶

The advantage of not being associated with colonialism and imperialism could have been a double-edged sword and disadvantaged China because it does not possess the historical linkages with strategic oil-exporting countries like European powers. However, China made the best of it by approaching its African partners as an independent business relationship. In the same vein, China has had access to countries where American and European companies are absent due to political instability and human rights violations. Some North African countries like Libya and Sudan have been isolated by American foreign policy; yet, as

with the Iranian case, China has tremendously benefited from this vacuum to seize important deals and gain assets⁵⁷. Unlike the Middle East, oil upstream markets are wide open for foreign investments in North Africa. As exploration is more risky, China has seized opportunities to invest in upstream markets, often becoming the most important investor⁵⁸. Indeed, North Africa is particularly in need of investment. Unlike its Middle Eastern counterpart where the oil sector is saturated, Africa has mostly been enthusiastic, and welcomed Chinese foreign direct investment to invigorate its neglected sectors, especially oil.

Given the uniqueness of the Middle East in relation to oil sustainability, geographical proximity, and strategic location, it is difficult for China to move away from the Middle East. The Beijing Consensus is especially appealing to developing states because it does not involve immediate political change. Unlike the Cold War era, current Chinese foreign policy is more concerned with economic development than ideology.⁵⁹ Both China and the Middle East have a clear preference for "a faster pace of economic reform compared to political change,"⁶⁰ which creates space for increasing cooperation.

In addition to oil, both economies complement each other because Persian Gulf states are huge markets with medium populations, striving for articles of production and daily use, which China produces cheaply and efficiently. The oil states are major consumers of Chinese

⁵³ Naidu and Davies, 'Who was the real winner in China?' China Monitor 13, Centre for Chinese Studies, University of Stellenbosch, 2006, pp. 70.

⁵⁴ Taylor (2006), pp. 939.

⁵⁵ Ibid, p. 939.

⁵⁶ Naidu and Davies, 'China fuels its future with African riches', South African Journal of International Affairs 13(2). 2006, Pp 80.

⁵⁷ Salman, M., Moritz, P., and Gustaaf Geeraerts. "Hedging in the Middle East and China-U.S. Competition." *Asian Politics & Policy* 7, 4: 575-596. (2015)

⁵⁸ Zhao (2007)

⁵⁹ Hontu (2010)

⁶⁰ Sager, Abdulaziz. 2010. 'GCC-China Relations: Looking beyond Oil-risks and Rewards', in Abdulaziz, Sager, Geoffrey, Kemp (eds), *China's Growing Role in the Middle East*. Washington, DC: Nixon Center, 2010, Pp.21.

light manufactured goods, machinery and equipment, vehicles, foodstuffs, and engineering labour services⁶¹. Furthermore, China has the capacity to export labour service to Arab countries because of the relative insufficiency of labour in these nations. Therefore, China's complementarity to Middle Eastern states has made it a major trade partner in the region.

From a Middle Eastern standpoint, China is a huge market for oil exports. With the decrease in oil demand after the global economic crisis and the growing desire of Western states to diversify their oil supplies, the GCC States have found a great trading partner in China: Saudi Arabia, Oman, United Arab Emirates and Kuwait alone have collectively constituted 43% of Chinese crude oil imports in 2013⁶². The GCC cluster owns some of the most oil wealth in the world in conjunction with relatively politically stable environments, an appealing combination for Chinese interests.

From a Chinese standpoint, diversifying China's oil sources is essential: Russia, Central Asia, Africa, and Latin America are all trading partners with China. China is practicing oil diplomacy, defined by Olimat as "the foreign activities with explicit involvement of the central government aiming to secure foreign oil and gas resources or promote interstate oil and gas business cooperation"⁶³ and has realized the importance of diversifying the source of its oil imports. Yet, despite trying to diversify its oil imports by trading with Eurasia, the Asia-Pacific region, and Africa, China is still very

reliant on the Middle East for crude oil. One thing for sure, both parties wish to move away from Western supremacy in the energy market. Asia and China in particular has become more reliant overall on Middle Eastern oil. Consequently, this shift in oil demand from West to East has created tensions between the United States and China. In fact, the Asian continent is expected to account for much of the growing demand in the next decades, and already, two-thirds of Saudi Arabia's oil exports go to Asia. As the United States and other Western countries search for new alternatives to oil consumption, Middle Eastern oil-rich countries are looking for steady, long-term demand. Asia and the Middle East have consequently found a ground for cooperation: while Asia wants to secure energy supplies, Middle Eastern oil-exporting states are eager to build a long-term relationship, ensuring regular and constant oil supply. Consequently, by expanding ties with China, Saudi Arabia, and Iran and Sudan to a lesser extent, diversified their international exports and reduced their dependence on Western powers, especially the United States⁶⁴.

V. SINO-SAUDI OIL POLICY

Although Chinese firms are participating actively in oil projects in other countries such as Kuwait, Oman, Qatar, Syria, the UAE, Yemen, and Iraq, their focus is mainly on two major oil producing countries: Saudi Arabia and Iran⁶⁵. China is well positioned to build an energy partnership with Saudi Arabia because unlike other oil-producing states in the Middle East, Saudi Arabia is well-established and well-resourced in oil industry. Saudi Arabia needs steady consumers and China provides a great

⁶¹ Alterman & Garver, *The Vital Triangle, China, The United States and the Middle East*, CSIS, Centre for Strategic and International Studies, Washington DC. 2008, Pg 66

⁶² EIA (2014)

⁶³ Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, New York, Routledge, 2015. Pp. 37.

⁶⁴ Sager, Abdulaziz. 2010. 'GCC-China Relations: Looking beyond Oil-risks and Rewards', in Abdulaziz, Sager, Geoffrey, Kemp (eds), *China's Growing Role in the Middle East*. Washington, DC: Nixon Center, 2010, Pp. 20.

⁶⁵ Hongtu (2010)

alternative to the “seemingly capricious”⁶⁶ consuming markets of the United States. Saudi Arabia exports more than half of its crude oil to Asia and less than fifth to the Americas. Yet, in 2012, Saudi Arabia was the second-largest petroleum exporter annually to the United States after Canada. Although the United States remains an important partner, Saudi Arabia has an even more important market in Asia.

Historically, relations between China and Saudi Arabia started with the ascendance to power of Deng Xiaoping in 1978. Xiaoping was determined to accelerate economic reforms, growth, productivity, and efficiency in order to rebuild China and Saudi Arabia became part of the solution.⁶⁷ Later on, several political exchanges and diplomatic visits between China and the Kingdom took place. In 1999, Chinese President Jiang Zemin visited Saudi Arabia and signed the Strategic Oil Cooperation Agreement. In 2006, Chinese President Jintao Hu visited the Kingdom as well, and Chinese Middle East envoy stated that the visit “laid a solid foundation for the growth of bilateral ties in the years ahead.”⁶⁸ President Jintao made another visit in 2009, and another agreement was signed, including a partnership in oil, gas, and mining. In 2012, Chinese Prime Minister Wen Jiabao went to Saudi Arabia; at the same time Saudi Arabia’s state-run oil company Aramco signed an agreement with China’s Sinopec to build an oil refinery in Yabu, Saudi Arabia. That agreement became the first major Chinese investment in Saudi oil industry. Saudi Arabia also found a great trading partner in China regarding its heavy crude oil. Saudi’s

heavy crude oil consists of a “distressed medium-grade crude oil,”⁶⁹ consuming a viscous, acidic, and often sulphurous product that Saudi Arabia has in abundance but that has few buyers internationally. In fact, although it sells 15% to 25% cheaper than premium grade of oil, heavy crude oil is hard to refine and only a few refineries have the capacity to transform it into usable products such as heating oil or gasoline. The United States has refused to buy heavy crude oil as processing it into usable oil has great environmental concerns, while China saw a great opportunity to obtain oil at a cheaper price. Consequently, Saudi Arabia has been trying to develop new partnerships with China by investing in specific refineries in Chinese territory, allowing China to purchase inexpensive oil and Saudi Arabia to ensure a steady demand.

The Enduring Rivalry between Saudi Arabia and Iran

Despite a long history of supplying oil to Western powers, one of Saudi Arabia’s policies is to isolate Iran. Through “petro-political partnerships,”⁷⁰ Saudi Arabia has been trying to contain Iran’s political and economic influence. Saudi Arabia is ready to do whatever it takes to dismiss Iran and strengthen its own ties with China. For example, Saudi Arabia’s ability to increase its oil production is certainly a card that Saudi Arabia could use to marginalize Iran, but also to calm world markets and boost economic growth during crises⁷¹.

As per China, when Saudi Arabia finally opened up its upstream sector, Chinese investments

⁶⁶ Alterman & Garver, *The Vital Triangle, China, The United States and the Middle East*, CSIS, Centre for Strategic and International Studies, Washington DC. 2008, Pg 57-58.

⁶⁷ Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, New York, Routledge, 2015. Pp. 43

⁶⁸ Al-Tamimi (2012), pp. 5.

⁶⁹ Alterman & Garver, *The Vital Triangle, China, The United States and the Middle East*, CSIS, Centre for Strategic and International Studies, Washington DC. 2008, Pg 58.

⁷⁰ Al-Tamimi (2012), pp. 10.

⁷¹ Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, New York, Routledge, 2015. Pp. 62

poured in while Saudi Arabia invested in China's downstream refining business. In fact, Saudi Arabia planned to develop supply contracts through mutually beneficial joint-venture investments in exploration, refining, petrochemicals, and infrastructure projects⁷². As energy sits at the core of Saudi-Chinese cooperation, it covers a wide umbrella of oil processes, whether oil imports, upstream, downstream, oil reserve tank building, and refining petrochemical industries. In sum, Saudi Arabia provides oil while China offers consumer goods, services, markets, and oil imports. While China is increasing its oil imports from Saudi Arabia, the latter is "more than delighted" to increase its oil exports and production capacity as it announced its "willingness, ability, and desire to increase production capacity to meet any demand caused by the decline in Iranian oil export."⁷³

The New Rivalry between China and the United States

The U.S. and Saudi Arabia have long had a privileged relationship mainly based on trade partnership, and especially oil. However, the 9/11 attacks and the proven involvement of Saudi citizens in international terrorism caused tension in the Saudi-U.S. relationship. At the same time, Sino-Saudi relations intensified and Saudi leaders began to view China as a convenient alternative, especially with regards to the Beijing Consensus and its policy of strict non-interference in Saudi Arabia's internal affairs, which contrasted with Washington's drive for constant political reform. Politically, both China and Saudi Arabia felt threatened by U.S. insistence on global political norms, as

both countries maintain state control over the media and civil society on grounds of political and social stability⁷⁴. However, Saudi Arabia still maintains a special relationship with the United States and both governments continue to cooperate on several security issues. Nonetheless, the economic reality is that United States' demand for oil is constant and the Washington Consensus constantly raises tensions. These factors increasingly push Saudi Arabia to rely more on China.

VI. SINO-IRANIAN OIL POLICY

Due to decade-long economic sanctions under United States' watch, Sino-Iranian relations have received particular attention. As one of four countries that imported Iranian oil in 2014, China has been receiving the largest share of the pie. On Iran's side, the collapse of the Soviet Union combined with international sanctions, slow economic growth, and under-developed oil and gas industries, have all encouraged Iran to look east for new partners⁷⁵.

China's oil imports from Iran started in the 1960's. After the Iranian revolution, China assisted Iran in rehabilitating its oil and gas fields especially by importing some of its oil technology. China helped Iran maintaining and upgrading three of its oil refineries in 2000, tapping into oil reserves in the Caspian Sea Basin and the gas fields of the Persian Gulf⁷⁶. Since then, China has been following two major projects in Iran: the North Pars gas field and the Yadavaran oil field. In 1997, China entered the Iranian energy sector by bidding

⁷² Sager, Abdulaziz. 2010. 'GCC-China Relations: Looking beyond Oil-risks and Rewards', in Abdulaziz, Sager, Geoffrey, Kemp (eds), *China's Growing Role in the Middle East*. Washington, DC: Nixon Center, 2010, Pp. 18.

⁷³ Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, NewYork, Routledge, 2015. Pp.159.

⁷⁴ Alterman & Garver, *The Vital Triangle, China, The United States and the Middle East*, CSIS, Centre for Strategic and International Studies, Washington DC. 2008, Pg 64

⁷⁵ Chubin . 2010. Pp 24

⁷⁶ Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, NewYork, Routledge, 2015. Pp. 42

on 43 projects worth \$8 billion⁷⁷. In January 2001, Sinopec and the National Iranian Oil Company (NIOC) signed an agreement to exploit Zavareh-Kashan oil field, and Sinopec took charge of the operation. Simultaneously, the two companies also signed an agreement worth \$150 million to upgrade two NIOC refineries⁷⁸. On December 9, 2007, Sinopec signed an agreement with the Iranian Ministry of Oil to develop the Yadavaran oil field in southwestern Iran, which turned out to be one of the most significant deals that China signed with Iran so far.

China also applied its equity ownership strategy in Iran through Sinopec who holds a 51% equity share of the Yadavaran field. As a side note, the field is supposedly the largest untapped oil field in the world, with an estimated oil reserve of over 300,000 million barrel of crude oil. By 2009, Iran provided 11% of China's oil import, ranking third after Saudi Arabia and Angola. According to Chubin⁷⁹, Chinese oil companies have signed long-term contracts with Iran worth \$200 billion. More than a hundred Chinese companies are currently operating in Iran's oil and gas facilities. The essence of Sino-Iranian relations comes from the abundance of Iranian oil and gas reserves, associated with Western withdrawal from Iranian markets and economic sanctions. China simply moved into the economic vacuum created by U.S. policy,⁸⁰ which helped Iran obtain a reputation of "reliable supplier,"⁸¹ weakening the impacts of sanctions, and allowing Iran to create new bonds with China.

Iran's Nuclear Program and International Sanctions

The Sino-Iranian relationship has worried many actors in the region. Giving the lack of trust between the Kingdom and Iran, Saudi Arabia is concerned about the current state of affairs between China and Iran. Thanks to China's growing investment in hydrocarbons, it is evident that Chinese companies have successfully obtained several oil contracts in Iran, strengthening the ties between two countries. However, Beijing has been cautious in its approach towards Tehran: China's foreign policy is driven by commerce and China has carefully separated its oil interests from rising nuclear concerns in Iran⁸². As suspicions rose regarding Iran's potential nuclear programs, China's support for Iran became a significant source of conflict in U.S.-Sino relations in the 1990s. Later on, as confrontation with Iran intensified in 2004, Washington pressured Beijing to cease its cooperation with Iran on the Yadavaran oil field. In 2005, when the International Atomic Energy Agency (IAEA) determined that over a period of eighteen years, Iran had conducted nuclear activities without reporting them, China attempted to delay and soften U.S. measures against Iran. In particular, China opposed U.S. efforts to send the matter to the United Nations Security Council and insisted that the IAEA was the adequate venue for dealing with the issue. In 2006, China repeatedly urged Iran to respond "positively" and "flexibly"⁸³ to the proposals made by the European Union or Russia.

However, when Iran declared that it would continue uranium enrichment and ignored the deadline specified in Resolution 1696, China finally agreed to join the other permanent

77 (Hongtu, 2010. Pp 21

78 Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, NewYork, Routledge, 2015. Pp. 56

79 Chubin .2010 pp. 31

80 Alterman.2008. Pp. 21

81 Chubbin (2010), pp. 65-66.

82 Feng .2010.Pp 23

83 Alterman & Garver, *The Vital Triangle, China, The United States and the Middle East*, CSIS, Centre for Strategic and International Studies, Washington DC. 2008, Pp 43.

members of the United Nations Security Council and Germany (P5+1) in implementing gradual sanctions against Iran. Thus, while China delayed the imposition of sanctions, it was also fundamentally opposed to Tehran's acquisition of nuclear weapons due to its potential negative impacts for China's economic well-being. In fact, some Chinese analysts argue that allowing Iran to obtain nuclear weapons would make several other states of the Middle East more likely to obtain their own arsenals. This would then weaken China's status as a major nuclear power. Proliferation of nuclear weapons could also lead to political instability in the region, which would be disruptive for Chinese business⁸⁴. Consequently, the Iranian nuclear issue provides a good example of Beijing's attempts to balance its policy of cooperation with the U.S. and with the Middle East, especially with oil-rich states such as Iran.

For a long time, China had been concerned about the tension between Iran and the West and had opposed a military strike against Iran⁸⁵. These fears were mollified in 2015 when Iran and the P5+1 reached a landmark deal over the nuclear program of Iran. Accordingly, Iran agreed to reduce its nuclear capabilities and provide greater access to the International Atomic Energy Agency in exchange for the removal of the sanctions⁸⁶. This agreement is likely to have substantial implications for the relations between China and Iran.

From the Iranian perspective, it is obvious that during the long period of sanctions, China replaced the West as a source of investment and support. In fact Sino-Iranian relations

had worried the United States as it made total isolation of Iran unattainable. These relations allowed Iran to survive from the economic sanctions imposed on its nuclear program and kept Iran "independent."⁸⁷ Furthermore, Iran certainly had political goals in maintaining strong ties with China. According to Chubin, Iran wished "to use China as a balancer against the U.S., to use it as a source of technology in defence and energy fields, and to create a deep and reliable commercial relationship which can translate into a more substantial strategic relationship."⁸⁸ Thus, Iran's focus had been on short-term relations while China focused on long-term. Whereas Iran may wish to use its natural resources as a political instrument, China's foreign policy is primarily focused on economic relations.

Overall, the end of the sanctions creates several opportunities and challenges for Chinese influence in Iran. Firstly, it is clear that Iran would start enjoying the sudden increase in investments and commerce with the United States and the EU. However, with Donald Trump as president of the United States in office, circumstances may be different as he pursues his presidential promise to put "America First" policies that are critical of world liberal order. Donald Trump's conservative nationalist approach to foreign policy, no matter how skillfully presented, has been noted to be flawed. The U.S. cannot be strengthened through a process of even partial withdrawal from the vicissitudes of international politics and trade⁸⁹. Meanwhile China would benefit from the increase in the production of oil and gas in Iran. On the other hand, Chinese companies would now have to compete with their Western counterparts. Particularly, various Eastern

⁸⁴ Ibid.

⁸⁵ Feng 2010..Pp 47

⁸⁶ BBC News. "Iran's Nuclear Deal: Key Details." January 16, 2016. URL: <http://www.bbc.com/news/world-middle-east-33521655>

⁸⁷ Chubin .2010. pp. 64-65.

⁸⁸ Ibid, pp. 67.

⁸⁹ Thompson Jack. American Affairs and U.S. Foreign Policy, *Policy Perspectives*, Vol. 5/3, June, 2017. Pp 2

European countries would be highly interested in the natural gas reserves of Iran as a means to address their energy dependence to Russia. Overall, China now has to take into account a complex geopolitical chessboard when playing in the Middle East energy arena.

VII. THE CHINESE CHALLENGES OF SECURING STABLE OIL SUPPLIES

Energy security is critical for economic security and can influence the sustainable development path, peace, and stability of a country. One of the crucial points of energy security is securing a stable oil supply. China, like many other Asian countries, has felt the impact of civil unrest and conflicts in MENA because political instability threatens to disrupt energy supply channels. As a large importer and consumer, China is very sensitive to the volatility of oil price and supply. Olimat recommends that China avoid a nationalist approach towards energy security and/or establishing military bases in the region⁹⁰ while Sager argues that because China's policy is to protect energy routes, it will increasingly engage in the security debates, seeking to have a say regarding issues over oil transportation (maritime security) and supply security⁹¹.

Energy security is not as simple it may sound. Olimat discusses three main impediments to energy security of China: (1) insufficient domestic oil production; (2) China's lack of control over oil transport routes (sea and land); (3) price fluctuation⁹². China's lack of

⁹⁰ Schenker, D. "China-Middle East Relations: A Change in Policy?" Washington DC: Carnegie Endowment for International Peace. 2013. Pp 68.

⁹¹ Sager, Abdulaziz. 2010. 'GCC-China Relations: Looking beyond Oil-risks and Rewards', in Abdulaziz, Sager, Geoffrey, Kemp (eds), *China's Growing Role in the Middle East*. Washington, DC: Nixon Center, 2010, Pp. 11.

⁹² Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, New York, Routledge, 2015. Pp. 82.

self-sufficiency has been discussed earlier; however, we could add that Chinese presence in MENA's oil market creates a balance against the United States' omnipresence. Regarding China's lack of control over transportation, China has attempted to move forward with the creation of new pipelines, which would ensure a relatively safe transport of oil. China is moving away from maritime transportation, as the Malacca Straits have limited waterways and cannot meet the demand of oil tankers.

Pipelines are faster and provide a sustained volume of transiting oil; they are also more reliable and economically more efficient. China is directing three pipelines in particular: the Sino-Burmese oil and gas pipeline from China to the Middle East; the Sino-Kazakh pipeline from China to the Caspian Sea; and the Sino-Russian pipeline from China to Russia. China is hoping that through pipelines and its multiply-routes strategy, it will increase the security and reliability of its oil supply.

Finally, a fluctuation in oil prices could be disastrous for China—and it has been. In 2008, when prices of oil spiked at \$147.50 per barrel, China struggled to meet its growing need for energy. Yet, the 52% fall of oil prices later⁹³ has played in China's advantage. To balance unstable oil prices, China adopted a strategy of equity ownership in order to have more control over the management of oil resources and used it as a shield against price fluctuations. However, this strategy created tensions with Western states engaged in oil partnership in MENA as they saw it as "a deceptive practice seeking to place Western consumers in a less

⁹³ Friedman, N. and Kantchev, G. (2015). "Oil Prices Post Biggest One-Week Gain since 2011." *The Wall Street Journal*, February 6, 2015. Pp 52

Available from <http://www.wsj.com/articles/oil-prices-rise-again-in-volatile-week-1423218645> [Accessed 21 November 2015].

favourable position.”⁹⁴ China's other move has been to diversify its supply sources by entrusting other oil-rich regions of the world such as Sub-Saharan Africa and South America. Although more costly, it could provide an interesting alternative to unstable oil markets and allow China for more control over its energy investments.

VIII. CONCLUSION

China's energy policy in the MENA follows the agenda of the Beijing Consensus and has mostly been prudent, yet far-reaching. As a major growing economy, China needs concrete energy strategy to fuel its continuous growth. To ensure stable and steady oil supply, China did not hesitate to diversify its sources in MENA, sometimes even challenging economic sanctions in the case of Sudan and Iran. But China has also been a loyal partner to Saudi Arabia and both states have found common interests, strengthening their relationship overtime. China promised to be a secure oil importer and Saudi Arabia proved eager to become a regular oil-exporter. The Beijing Consensus has been especially appealing to Saudi Arabia and Iran because both states are increasingly displeased by the American approach, which is often seen as too intrusive. However, Sino-Saudi Arabia and Sino-Iranian relations are not all that simple. Although Saudi Arabia and Iran have proven to be perennial rivals, their expectation regarding their relationship with China is quite similar: they both wish to escape from, or at least balance, Western influence. Saudi Arabia has felt the growing tensions with the United States on the issue of global terror while Iran had been under international sanctions until last year. Similarly, Sudan was completely isolated after

the American government forbade American companies to invest in the area. In all cases, China has been a convenient alternative: Sudan developed its oil industry and obtained arms from China, Saudi Arabia diversified its exports by bringing in a new dependent client, and Iran was able to export its oil during the sanctions. Consequently, there has been a gradual shift from the West and diversification has been the primary focus of both suppliers and demanders.

As a relatively 'new' player in the game, China has had the opportunity to develop a prudent strategy, which could succeed in ensuring the country with a steady flow of oil without destabilizing its relationship with other powers in the international arena. While the United States certainly disagrees with China's equity sharing policy, it is not yet fully convinced that China represents a threat to its national interests in the region⁹⁵. In fact, although Washington opted for alternate energy sources such as shale gas and renewable energy, the United States remains reliant on Middle Eastern oil supplies. Accordingly, the United States still prioritizes political stability in the Middle East for the sake of its own national security. The United States has historically been vigorously active in protecting its energy security in the region, resulting in plenty of military interventions in the past. China has opted to maintain its non-interference foreign policy strategy to date, aware that the United States is as involved, but the feasibility of maintaining this approach into the future is questionable.

Furthermore, findings reveal that while the United States is a significant player in the oil arena, China's rise could slowly narrow the sphere of American influence in favour of multilateral relationships between developing states. However, China does not

⁹⁴ Olimat Muhammad S., *China and the Middle East: From Silk Road to Arab Spring*, Reprint Edition, New York, Routledge, 2015. Pp. 46.

⁹⁵ *Ibid.* Pp. 62

wish to increase tensions at the international level and has been trying to follow its own agenda and chose a detached and unimposing take on foreign policy. Its conventional approach as a growing superpower has been unobtrusive, opting to avoid involvement in any nation's political affairs but its own, and mostly concentrating on trade relations and investment agreements. This is in stark contrast to the historically more forceful nature of Western economies' involvement globally. After colonialism was over, the West took to democracy and capitalism as its respective political and economic models. Their implementation became perceived as recurring items on the agenda when a Western nation was involved with a MENA nation. While trying to gain, regain, or maintain security of its own economic interests and political influence

abroad, military intervention was increasingly used by the United States, particularly in the Middle East. In effect, the West demanded that certain political and economic conditions be met with regards to the rule of law and good governance in exchange for formal relations, whereas China's approach has been virtually unrestricted with regard to a regime's own affairs, and has been, for the most part, strictly about business. The relevance of China's presence in the MENA is crucial at such a rapidly changing and interconnected world, and the nature of its foreign policy will have to evolve with it. For now, China's energy security policy—although aggressive—has been successful; time will tell whether China will be subtle enough to avoid conflict in the MENA region.

REFERENCES

- Alterman, J. and Garver, J. (2008). *The Vital Triangle: China, the U.S., and the Middle East*. Washington, D.C.: CSIS Press.
- Al-Tamimi, N. (2012). "China-Saudi Arabia Relations: Economic Partnership or Strategic Alliance?" Durham: University of Durham (HH Sheikh Nasser al-Mohammad al-Sabah Publication Series 2).
- Ayodele, T. (2015). "Misconceptions About China's Interests in Africa." *Georgetown Journal of International Affairs*. URL: <http://journal.georgetown.edu/misconceptions-about-chinas-interest-in-africa/>
- BBC News. (2016). "Iran's Nuclear Deal: Key Details." January 16, 2016. URL: <http://www.bbc.com/news/world-middle-east-33521655>
- Bloomberg Business. (2013). "China Eclipses U.S. as Biggest Trading Nation." [Online] Available from:
<http://www.bloomberg.com/news/2013-02-09/china-passes-u-s-to-become-the-world-s-biggest-trading-nation.html> [Accessed 21 November 2015].
- British Petroleum. (2014). *Statistical Review of World Energy Workbook, Oil: Trade Movements, Statistical Review of World Energy Workbook*. London.
<http://www.bp.com/en/global/corporate/about-bp/energy-economics/statistical-review-of-world-energy/review-by-energy-type/oil/oil-trade-movements.html> [Accessed 21 November 2015].
- Cooper, Andrew S. (2012). *The Oil Kings: How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East*. Simon & Shuster.
- Energy Information Administration. (2014). *Energy Information Administration, Sudan and South Sudan Analysis*, United States. Washington DC: United States Department of Energy.
- Government. <http://www.eia.gov/countries/cab.cfm?fips=SU> [Accessed 21 November 2015].
- Energy Information Administration. (2015). *International Energy Statistics*. Washington DC: United States Department of Energy <http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=57&aid=6&cid=r5,&syid=2006&eyid=2014&unit=BB> [Accessed 21 November 2015].
- Energy Information Administration. (2014). *International Energy Statistics -Total Petroleum and Other Liquids Petroleum Production 2014*. Washington DC: United States Department of Energy.
<http://www.eia.gov/beta/international/?fips=su> [Accessed 21 November 2015].
- Feng, Z. (2010). "Oil Nexus vs. Diplomatic Crux: China's Energy Demands, Maritime Security and the Middle East Aspirations." In *China's Growing Role in the Middle East: Implications for the Region and Beyond*. Eds. A. Sager and G. Kemp. Washington, DC: The Nixon Center. Pp. 31-42.

- Keddie, N. (1983). *Iran: Religion, Politics, and Society: Collected Essays*. London: Routledge.
- Olimat, M. (2013). *China and the Middle East: From Silk Road to Arab Spring*. New York: Routledge.
- Friedman, N. and Kantchev, G. (2015). "Oil Prices Post Biggest One-Week Gain since 2011." *The Wall Street Journal*, February 6, 2015
Available from <http://www.wsj.com/articles/oil-prices-rise-again-in-volatile-week-1423218645> [Accessed 21 November 2015].
- Halper, S. (2010). *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century*. New York: Basic Books.
- Hongtu, Z. (2010). "China's Energy Interest and Security in the Middle East." In *China's Growing Role in the Middle East: Implications for the Region and Beyond*. Eds. A. Sager and G. Kemp. Washington, DC: The Nixon Center.
- Large, D. (2008). "Beyond 'Dragon in the Bush': The Study of China–Africa Relations." *African Affairs*, 107/426: 45–61.
- Luo, Y. (2010) "China's Strategic Interests in the Gulf and Trilateral Relations Among China, The US and Arab Countries." In *China's Growing Role in the Middle East: Implications for the Region and Beyond*. Eds. A. Sager and G. Kemp. Washington, DC: The Nixon Center. pp. 23-30.
Available from <http://cftni.org/full-monograph-chinas-growing-role-in-me.pdf> [Accessed 21 November 2015].
- Li, X. (2015). "Dealing with the Ambivalent Dragon: Can Engagement Moderate China's Strategic Competition with America?" *International Interactions* 41:480–508.
- Little, D. (2008). *American Orientalism: The United States and the Middle East since 1945*. University of North Carolina Press.
- Meidan, M. (2016). "The structure of China's Oil Industry: Past Trends and Future Prospects." *The Oxford Institute for Energy Studies*, WPM 66: 1-55.
- Naidu, S. and Davies, M. (2006). *China Fuels its Future with Africa's Riches*. Johannesburg: South African Journal of International Affairs 13: 69-83.
- Shen, D. (2006). "Iran's Nuclear Ambitions Test China's Wisdom." *The Washington Quarterly* 29, 2: 55–66.
- Sun, Y. (2013). "China's Increasing Interest in Africa: Benign but Hardly Altruistic." Brookings. URL: <https://www.brookings.edu/blog/up-front/2013/04/05/chinas-increasing-interest-in-africa-benign-but-hardly-altruistic/>
- Raine, S (2009). *China's African Challenges*. London: Routledge.
- Ramo, J. (2004). "The Beijing Consensus." London: The Foreign Policy Centre.

- Romano, G. C. and Jean-François Meglio (2016). *China's Energy Security: A Multidimensional Perspective*. Routledge Contemporary China Series.
- Sager, A. (2010) "GCC-China Relations: Looking Beyond Oil-Risks and Rewards," in *China's Growing Role in the Middle East: Implications for the Region and Beyond*. Eds. A. Sager and G. Kemp. Washington, DC: The Nixon Center.
- Salman, M., Moritz, P., and Gustaaf Geeraerts (2015). "Hedging in the Middle East and China-U.S. Competition." *Asian Politics & Policy* 7, 4: 575–596.
- Schenker, D. (2013) "China-Middle East Relations: A Change in Policy?" Washington DC: Carnegie Endowment for International Peace.
- Chubin, S. (2012). *Iran and China: Political Partners or Strategic Allies, in China's Growing Role in the Middle East: Implications for the Region and Beyond*. Washington: The Nixon Centre. Available from <http://cftni.org/full-monograph-chinas-growing-role-in-me.pdf> [Accessed 21 November 2015].
- Shirk, S. L. (1994). *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*. Brookings.
- Sun, D. (2011). "Six Decades of Chinese Middle East Studies: A Review" *Bustan: The Middle East Book Review* 2: 22.
- Taylor, I. (2006). "China's Oil Diplomacy in Africa." John Wiley & Sons. New York: *International Affairs* 82: 942.
- The Observatory for Economic Complexity, Country Data, 2012-2014. <http://atlas.media.mit.edu/en/>
- United States Department of State (2005). "China No Threat to United States in Africa." U.S. Official. Available from: <http://iipdigital.usembassy.gov/st/english/article/2005/07/200507281821401ejrehsif0.5898096.html#axzz3ViUtsTNf> [Accessed 21 November 2015].
- Wu, L. (2007). *The Middle East Oil and the Sino-U.S. Relations*. Cambridge: *Journal of Middle Eastern and Islamic Studies (in Asia)* 3(4).
- Zhao, H (2007). "China's Oil Venture in Africa." *East Asia* 24.

Prof. Hany Besada is a Deputy Executive Director, Diamond Development Initiative. He is also a Senior Fellow with the Centre on Governance at the University of Ottawa, a Non-Resident Senior Research Fellow with the UN University Institute for Natural Resources in Africa and a Research Professor, Institute of African Studies, Carleton University. Until very recently, he was Regional Advisor, African Mineral Development Centre (AMDC) at the United Nations Economic Commission for Africa (UNECA). Prior to that he was Theme Leader: Governance of Natural Resources at the North-South Institute (NSI) in Ottawa, Canada and Research Specialist on the United Nations High Level Panel Secretariat-Post 2015 Development Agenda, United Nations Development Program (UNDP) in New York.

Justine Salam is a PhD candidate at the Global Governance Program at Balsillie School of International Affairs, University of Waterloo, Ontario. Justine is interested in many aspects of Middle East politics, especially energy governance and security, federalism, and Kurdistan. She worked on the British legacy and the oil question in Iraqi Kurdistan as well as petro-political-partnerships between China and the Middle East. With Dr. Bessma Momani, Justine is currently working on petroleum management in federal states and is also a visiting scholar at the Paris School of International Affairs, Institute of Political Studies in Paris, France.