CHINA'S INTENSIFIED ENERGY ENGAGEMENT IN THE MIDDLE EAST

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Executive Summary

1. The Middle East, once a low priority for Chinese foreign policy makers, has assumed heightened strategic importance for China that has sharply increased its dependence on overseas energy supplies.

2. Among the six leading oil exporters to China, four (Saudi Arabia, Iran, Oman and Sudan) are located in the Middle East. Saudi Arabia is exporting the most crude oil to China, accounting for about 20% of China's total oil imports.

3. In early 2009, China overtook the United States as the world's largest exporter to the Middle East. It is also very likely to be the Middle East's largest trade partner (including export and import) by the end of 2010.

4. Despite the enhanced energy and economic ties, Beijing currently has no intention to play a leading political role in the Middle East although its profile is increasing somewhat.

5. Yet China's energy-first strategy towards Iran and Sudan has challenged the "rules of the game" set by the US and thus challenges the hegemonic power in not only economic, but also diplomatic terms.

6. There is a perception amongst some in the US that China is a "free rider" in Iraq as it did not participate in the invasion and yet it has benefitted economically. There is likely to be continued American pressure on Iraq to limit the scale and scope of its energy cooperation with China.

7. However, American leverage on this issue is likely to be limited as China was the first country to re-open its embassy in Iraq following the American offensive and has actively engaged successive Iraqi governments.

8. Today, oil producing nations in the Middle East have far less power vis-à-vis consumer nations than they did in the 1970s. While China is dependent on

Middle Eastern oil, the region also relies on China’s purchases and its domestic market.

9. China’s energy dealings in the Middle East are largely confined to countries where Western companies are reluctant or are simply not able to invest. China is not actually directly competing with American and other Western companies for access to energy resources in the Middle East at this point in time.