China and the Middle East

The Quest for Influence

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China's Economic Relations with the Middle East: New Dimensions

Yitzhak Shichor

Throughout the Mao era the contribution of the Middle East to China's economy and vice versa was marginal at best. For domestic and international reasons, China's economic relations with the Middle East were limited not only in form (to two main activities—trade and aid), but also in content. More important, in the fifties and sixties both were primarily motivated and manipulated more by political and strategic considerations than by economic ones, as China made efforts to prepare the ground for the ultimate establishment of official diplomatic relations with as many Middle Eastern countries as possible and for enlisting Middle Eastern goodwill and support against China's adversaries: the United States, the Soviet Union, or both. China's trade relations with the Middle East reflected the ups and downs of its domestic politics and foreign policy: when regional governments rejected its policies, the People's Republic of China (PRC) drastically and immediately retaliated by reducing trade, primarily its imports; when it urgently needed Arab support, it suddenly expanded commercial exchanges, especially imports, and was ready to deliberately create a negative trade balance.

As China's economic policy became more 'rational' following the end of the violent phase of the Cultural Revolution, its trade with the Middle East, primarily exports, began to increase and by the mid-seventies, on the eve of Mao's death, trade nearly quadrupled creating a handsome surplus. This improvement, however, was impressive in absolute rather than in relative terms. While its trade with non-communist countries has consistently *increased* since the late fifties, the share of its trade with the Middle East consistently *decreased* from 7 per cent in 1957 to 5 per cent in the mid-sixties and further to 3–4 per cent in the mid-seventies.[1]

No less than trade, Chinese aid served as a political instrument and was at least equally manipulated. For one, Beijing often failed to implement its own aid offers once it realised that its policies had been rejected. For another, some of the prospective recipients, primarily Egypt, were often reluctant to accept China's aid offers for (real

[1] These and the following data are from Yitzhak Shichor, *The Middle East in China's Foreign Policy 1949–1977* (Cambridge: Cambridge University Press, 1979), pp. 203–12.

or mostly perceived) fears of subversion and interference, despite China's repeated assurances to the contrary. Less reluctant, the Yemen Arab Republic and the People's Democratic Republic of Yemen fully exploited China's relatively considerable aid offers not only because of their generous terms but also because the Chinese 'experts', unlike the Soviets and the Americans, adapted themselves to the local way of life and standard of living. While in the case of these two countries China's economic aid offers were almost equal to those of the Soviet Union and Eastern Europe, the value of Chinese aid offers to the Middle East in general lagged far behind both and accounted for no more that 8 per cent (as compared to 52 per cent offered by the Soviet Union and 40 per cent by Eastern Europe). The share of the Middle East in China's aid offers from 1956 to 1976 was 10 per cent (compared with 57 per cent to Africa and 28 per cent to Asia). Yet in some years, such as 1964 and 1976, the share of the Middle East was over 30 per cent. The considerable decline that followed was attributed to Mao's death and the fall of the radical Gang of Four.

With the emergence of post-Mao reformers headed by Deng Xiaoping, China's domestic (and international) agenda was transformed to accord the highest priority to economic development, growth and construction, through an active and conscious integration into the global economic community. Inevitably, this policy affected China's economic relations with the Middle East in several ways.[2] Most important, while in the Mao era China's economic relations with the Middle East were motivated primarily by strategic, political and ideological considerations and only secondarily by economic ones, since the late seventies China's economic relations with the Middle East have been motivated primarily by economic considerations and only secondarily by strategic and political ones.

Consequently, some traditional activities which had high political value but low economic value (such as economic aid) have been drastically curtailed and practically abandoned; other traditional activities which have added economic value (such as trade) have been expanded and at the same time modified in terms of size, composition and partners; and new economic activities, unacceptable and unheard of earlier (such as labour export and contracted services, the acceptance of loans, joint ventures and two-way investments) have been launched. The purpose of this paper is to explore and analyse these new dimensions of China's economic relations with the Middle East; the significance of this region in China's economy (and vice versa); and the possible strategic and political implications in a twenty year perspective.

[2] Although the term Middle East (*Zhongdong*) is frequently used by the Chinese, they also, often in official references, use the term West Asia (*Xiya*). There are variations as to the coverage of these terms. The minimal coverage includes thirteen countries (Saudi Arabia, the United Arab Emirates, Kuwait, Oman, Bahrain, Qatar, Israel, Iraq, Syria, Jordan, Lebanon, Yemen and Palestine). The intermediate coverage adds Iran, Egypt, Turkey and Cyprus, and the maximal coverage is extended to include North and East African countries (Sudan, Libya, Tunisia, Algeria and Morocco). The latter definition is used in this paper, unless indicated otherwise.

MODIFIED TRADE RELATIONS

Trade has continued to play a dominant role in China's economic relations with the Middle East, though in a modified way. The expansion of post-Mao China's diplomatic relations network in the Middle East[3] and the emergence of new economic needs have directed China's Middle Eastern trade towards new export markets and new sources of import, revised the composition of China's Middle Eastern trade, and affected its dimensions and balance.

PARTNERS

In the late seventies and early eighties, China's principal Middle Eastern markets were the traditional regional economic centres of Egypt and Iraq and, to a lesser extent, Kuwait and Iran. In 1981 Saudi Arabia lifted a long-standing politically and religiously motivated ban on direct imports from the PRC, an artificial trade barrier that had been relaxed in the late or mid-seventies. While a small volume of Chinese goods entered Saudi markets indirectly, since the early eighties Chinese exports increased dramatically and Saudi Arabia became one of China's most important Middle Eastern trading partners.[4] Most of this export comprised low quality cheap goods consumed not by the small and affluent Saudi elite but by millions of Muslim pilgrims and migrant workers. By the mid-eighties regular shipping lines had been opened between the two countries and in 1989 they established commercial representative offices in each other's capital. Most of China's actions were dictated not only by economic considerations, but also by political ones and its attempt to convince Riyadh to establish full diplomatic relations at the expense of Taiwan paid rich dividends in July 1990.[5]

In 1982 Jordan, a small country with a population of less than 2.5 million, suddenly became China's most important Middle Eastern customer and its fourth

[3] China's diplomatic relations with the Middle East expanded in three phases: the first, from 1956 to 1958, included seven governments: Sudan, Egypt, Syria, Yemen, Iraq, Morocco and Algeria. Tunisia established diplomatic relations with the PRC in early 1964 and the PDRY in 1969. The second phase, in 1971, included five governments: Kuwait, Turkey, Iran, Lebanon and Cyprus. The third, since Mao's death, included eight governments: Jordan (April 1977), Oman (May 1978), Libya (August 1978), the United Arab Emirates (November 1984), Qatar (July 1988), Bahrain (April 1989), Saudi Arabia (July 1990) and Israel (January 1992). Undoubtedly, the expansion of China's diplomatic relations with the Persian Gulf countries has upgraded its economic relations with the Middle East. In 1965 China recognised and established relations with the Palestine Liberation Organisation and in November 1988 it recognised, after some initial hesitation, the Palestinian State as declared at Algiers. Since then 'Palestine' appears in Chinese statistics as a separate state.

[4] 'New Era in Saudi–Sino Relations?', *Arabia: The Islamic World Review* (London), No. 7, March 1982, p. 37; Stephen Timewell, 'China Renews Middle East Trade Drive', *Middle East Economic Digest* (hereafter *MEED*), 12 August 1983, p. 40.

[5] For a complete discussion of these issues, see Yitzhak Shichor, *East Wind over Arabia: Origins and Implications of the Sino–Saudi Missile Deal*, China Research Monographs 35 (Berkeley, CA: Center for Chinese Studies, Institute of East Asian Studies, University of California, 1989).

export destination in the world, following Hong Kong, Japan and the United States. Jordanian imports from the PRC skyrocketed from practically zero to nearly US $1.3 billion in 1982 and to over US $1.5 billion in 1983, and continued to overtake all other Middle Eastern markets by large margins till 1988–89 (see Table 1).[6] Obviously, this development had little to do either with Jordan itself or with economics, and had a lot to do with Iraq and with the military. In those years, Jordan was no more than a clearing house for Chinese arms transfers to Iraq. Following the end of the Iran–Iraq War, China's 'exports' to Jordan nose-dived. If the average annual value of exports in 1982–89 was around US $1.05 billion, it plummeted to a little over US $80 million in 1990–96.

While Jordan was an ephemeral economic phenomenon, since the early nineties the Persian Gulf and Southern Arabia have become China's main and long-term Middle Eastern markets.[7] Saudi Arabia (which became one of China's most important Middle Eastern markets in the early eighties, a decade before the establishment of diplomatic relations) and the United Arab Emirates (UAE) have absorbed over 50 per cent of China's total exports to the Middle East since the early nineties (over 75 per cent in 1995). A similar pattern is evident in China's imports from the Middle East. Till

Table 1
China's Trade with the Middle East, 1976–96 (in million US $)

	1976		*1977*		*1978*		*1979*		*1980*		*1981*		*1982*	
Country	*Exp*	*Imp*	*Exp*	*Imp*	*Exp*	*Imp*	*Exp*	*Imp*	*Exp*	*Imp*	*Exp*	*Imp*	*Exp*	*Imp*
1. Total	514	158	664	187	340	207	482	184	803	344	940	159	2,731	272
2. Bahrain	35	20	57	17	–	–	–	–	–	–	–	–	14	–
3. Egypt	41	57	47	38	54	63	69	57	215	97	230	115	254	61
4. Iran	85	–	59	–	65	54	37	31	121	59	149	19	41	89
5. Iraq	52	3	79	3	69	57	135	49	124	128	200	4	120	8
6. Israel	1	–	2	–	–	–	–	–	–	–	–	–	–	–
7. Jordan	13	–	20	–	–	–	–	–	–	–	–	–	1,287	5
8. Kuwait	68	11	118	44	93	33	136	39	157	42	146	9	109	22
9. Lebanon	25	7	28	8	–	–	–	–	–	–	–	–	29	–
10. Libya	62	–	50	–	22	–	37	–	50	2	47	–	167	21
11. Oman	6	–	7	–	–	–	–	–	–	–	–	–	11	–
12. Qatar	8	8	13	–	–	–	–	–	–	–	–	–	8	50
13. Saudi Arabia	16	–	30	–	37	–	68	8	136	16	168	12	180	10
14. Syria	33	41	46	61	–	–	–	–	–	–	–	–	71	4
15. UAE	45	–	75	–	–	–	–	–	–	–	–	–	78	–
16. Yemen AR	23	3	33	6	–	–	–	–	–	–	–	–	323	2
17. PDRY	1	8	–	10	–	–	–	–	–	–	–	–	39	–

Contd

[6] Current US dollars are used throughout this paper.

[7] Zhu Mengkui, 'The Gulf's Trade with China Looks to Further Increase', *Renmin Ribao* (People's Daily), 4 May 1995, p. 7, in *Foreign Broadcast Information Service, Daily Report: China* (hereafter *FBIS-CHI*), 31 July 1995, pp. 65–66.

	1983		*1984*		*1985*		*1986*		*1987*		*1988*		*1989*	
Country	*Exp*		*Exp*		*Exp*		*Exp*		*Exp*		*Exp*		*Exp*	
1	2,742	294	2,435	280	1,764	194	2,109	150	2,642	279	2,089	577	1,366	538
2	11	23	8	18	7	19	8	3	10	4	9	3	9	3
3	205	68	167	50	98	6	130	–	125	10	166	9	68	6
4	267	–	155	–	84	8	50	–	94	5	222	17	131	47
5	35	11	55	8	128	7	151	5	74	1	75	14	66	73
6	–	–	–	–	–	–	–	–	–	–	–	–	–	–
7	1,516	27	1,235	29	984	18	1,031	22	1,341	46	723	39	311	32
8	99	50	85	26	73	19	73	26	94	41	131	75	131	56
9	29	–	23	–	18	–	22	–	20	–	29	–	26	–
10	47	34	59	34	30	30	41	4	73	11	56	36	38	24
11	10	–	11	2	9	–	10	–	8	–	7	67	7	132
12	6	43	6	63	4	36	5	27	9	21	7	48	5	44
13	149	19	133	28	133	22	134	52	247	107	230	195	235	66
14	166	20	343	10	66	6	320	–	382	4	184	4	45	–
15	68	–	63	13	64	21	90	10	123	28	185	71	239	52
16	81	–	57	–	39	–	25	–	17	–	27	–	35	–
17	53	–	36	–	28	2	21	–	25	1	37	–	22	1

	1990		*1991*		*1992*		*1993*		*1994*		*1995*		*1996*	
	Exp		*Exp*		*Exp*	*Imp*	*Exp*	*Imp*	*Exp*	*Imp*	*Exp*	*Imp*	*Exp*	*Imp*
1	1,430	477	1,569	810	1,969	1,046	2,555	1,676	2,931	1,368	2,437	2,190	3,484	3,062
2	9	–	11	1	10	2	39	6	17	4	14	19	14	29
3	85	6	127	4	175	1	200	24	276	15	440	13	408	3
4	292	43	293	21	336	101	403	310	266	182	278	227	399	386
5	33	71	–	–	1	1	5	1	2	1	–	1	1	–
6	–	–	–	–	13	39	77	76	142	107	186	120	189	101
7	76	34	49	48	71	26	77	40	89	17	113	23	92	16
8	65	43	19	–	60	3	88	12	191	36	105	125	102	111
9	29	–	47	–	62	–	79	1	106	–	141	–	103	–
10	36	3	65	46	87	90	45	121	30	3	33	72	57	56
11	8	125	10	400	8	447	11	561	18	413	15	482	14	828
12	6	25	6	80	8	69	11	42	10	48	10	90	21	49
13	337	80	387	138	444	127	579	119	674	353	734	553	748	840
14	134	4	75	4	77	2	120	2	162	2	156	2	149	3
15	246	41	408	69	543	6	711	106	862	37	1,101	120	1,078	68
16	74	2	71	–	74	74	112	255	85	149	108	344	106	570

Source: International Monetary Fund, *Direction of Trade Statistics* (Washington, DC, various years).

1983 China's main sources of import from the Middle East were Egypt, Syria, Iraq and Iran; the share of Persian Gulf countries in China's imports from the Middle East gradually increased from around 56 per cent in 1984 to over 94 per cent in 1996. Saudi Arabia and Oman have accounted for some 50 per cent of all Chinese imports from the Middle East in the nineties (two-thirds in 1991). During the 1984–96 period, China's imports from Saudi Arabia and Oman increased from US $28 million to US $840 million, and from US $2 million to US $828 million, respectively. In recent years, these two countries have been followed by Iran and Yemen as the main sources of Chinese imports from the Middle East. Not surprisingly, most of this import consists of crude oil.

Since 1992, Israel has become China's new trade partner. Although indirect and invisible trade had existed before the establishment of diplomatic relations in 1992, two-way trade jumped from over US $50 million in 1992 to more than US $150 million in 1993, to nearly US $250 million in 1994, and to over US $300 million in 1995. Despite its impressive development,[8] Sino–Israeli trade failed to reach the expected US $500 million mark in 1997 and, in fact, has stagnated since the mid-nineties. The main reasons for this are the difficulties faced by small companies in penetrating the Chinese market and its bureaucratic barriers, and China's limited ability to provide commercial credits.

DIMENSIONS

In 1996, China's trade turnover with the Middle East reached US $6.546 billion, a twelve-fold increase over 1978 (but still below the nearly fourteen-fold increase in China's total trade growth in those years). The value of exports was US $3.484 billion (ten times over 1978, compared to fifteen times China's total export growth), while the value of imports was US $3.062 billion (fifteen times over 1978, compared to 12.5 times total import growth). This means that in relative terms, China sells more and buys less from the Middle East. This is also evident from the share of the Middle Eastern trade in its total trade (see Table 2). From 7.3 per cent in 1982, it consistently declined thereafter touching 1.6–1.7 per cent in 1990 and 2.3 per cent in 1996, fluctuating around 2 per cent since 1989.

Traditionally, Chinese exports to the Middle East were always more important than imports in absolute as well as relative terms. The highest share of its exports to the Middle East in its total exports was in 1982 and 1983 (12.4 per cent in each, up from 4.4 per cent in 1981 and 3.4 per cent in 1978), undoubtedly reflecting China's growing arms sales during the Iran–Iraq War. This share gradually declined but rose again to 4.4 per cent in 1988. Since then, the average annual share of its exports to the Middle East in its total exports has fluctuated between 2.2 and 2.8 per cent. As mentioned earlier, this has always been much higher than the share of its imports from the Middle East which since 1978 has fluctuated between 0.3 and 2.2 per cent of its total imports with an annual average of 1.2 per cent. China's share in Middle Eastern trade is even smaller.

Throughout these years, Chinese exports to the Middle East exceeded imports thereby creating a considerable surplus. This surplus, particularly accumulated during the Iran–Iraq War (nearly US $15 billion in 1982–88), began to shrink after the ceasefire. China's trade surplus with the Middle East reached US $1.563 billion in

[8] Ma Xiuqing, 'Woguo he Yiselie jingmao guanxi de fazhan' (The Development of Sino–Israeli Economic and Trade Relations), *Xiya Feizhou* (West Asia and Africa), No. 2, March–April 1996, pp. 42–47.

Table 2
The Share of the Middle East in China's Foreign Trade, 1976–96 (in million US $ and %)

Year	*Export*	*Share(%)*	*Import*	*Share(%)*	*Total*	*Share(%)*	*Surplus*
1976	514	7.4	158	2.4	672	4.9	356
1977	664	8.8	187	2.6	851	5.8	477
1978	340	3.4	207	1.9	547	2.6	133
1979	482	3.5	184	1.2	656	2.2	298
1980	803	4.4	344	1.7	1,147	3.0	459
1981	940	4.4	159	0.7	1,099	2.5	781
1982	2,731	12.4	272	1.4	3,003	7.3	2,459
1983	2,742	12.4	294	1.4	3,036	7.0	2,448
1984	2,435	9.8	280	1.1	2,715	5.3	2,155
1985	1,764	6.5	194	0.5	1,958	2.8	1,570
1986	2,109	6.7	150	0.3	2,259	3.0	1,959
1987	2,642	6.7	279	0.6	2,921	3.5	2,363
1988	2,089	4.4	577	1.0	2,666	2.6	1,512
1989	1,366	2.6	538	0.9	1,904	1.7	828
1990	1,430	2.3	477	0.9	1,907	1.7	953
1991	1,569	2.2	810	1.3	2,379	1.8	779
1992	1,969	2.3	1,046	1.3	3,015	1.8	923
1993	2,555	2.8	1,676	1.6	4,231	2.2	879
1994	2,931	2.4	1,368	1.2	4,299	1.8	1,563
1995	2,437	2.3	2,190	1.7	4,627	1.7	247
1996	3,484	2.3	3,062	2.2	6,546	2.3	422

Source: Adapted from International Monetary Fund, *Direction of Trade Statistics*.

1994, but declined to US $247 million in 1995, and rose again to US $422 million in 1996. From 1990 to 1996, PRC's exports to the Middle East increased 2.4 times, its imports (primarily oil) increased 6.4 times. Since the prospects of large-scale Chinese arms sales to the Middle East have diminished whereas its need for Middle Eastern oil will certainly increase, this trend will continue leading, within a few years, to an inevitable deficit in China's trade relations with the Middle East.

COMPOSITION: ARMS AND OIL

China's traditional exports to the Middle East consisted of foodstuffs, primarily vegetables and fruit, live animals, farm implements, iron and steel, basic manufactures (primarily textiles and silk) and machinery, tools, electrical and mechanical products, transport equipment, chemicals, clothing and footwear. Traditional imports from the Middle East largely consisted of crude and manufactured fertilisers, small amounts of petroleum and petroleum products, textile fibres and waste, and non-ferrous metals.[9] In the post-Mao era, a large part of China's trade with the Middle East has remained 'traditional', yet this trade has undergone a quantitative and qualitative transformation

[9] For details, see General Administration of Customs, PRC (Ed.), *China's Custom Statistics* (Beijing and Hong Kong quarterly), and Institute of Developing Economies, *Trade Statistics of China* (Tokyo, annual).

not only because of the changing balance between the share of exported machinery and capital goods (which increased) and the share of exported light industrial goods and agricultural products (which declined), but also because of the inclusion of new commodities in China's exports (primarily arms) as well as imports (primarily oil).

Under Mao, China used arms transfers as a means of promoting its politico-strategic, rather than economic interests. Until the late seventies Beijing had supplied free arms mainly to its buffer states (North Korea, North Vietnam and Pakistan whose share in China's arms transfers had reached 85 per cent). Consisting of light weapons and military training, Chinese arms transfers to the Middle East had been limited not only because of ideological and revolutionary reasons, but also because the US, the Soviet Union and their allies have maintained a near monopoly on the Middle Eastern arms market.

By the late seventies, the situation, however, underwent a change. Political upheavals and continuing violence in the Middle East offered Beijing unprecedented opportunities for arms transfers which traditional suppliers could not or would not provide. Overturning Mao's time honoured policy, the Chinese leadership seized this opportunity and began to perceive arms transfer as a legitimate commercial transaction. Consequently, in the eighties the Middle East became China's principal arms market absorbing around 90 per cent of its military exports.[10] While obviously contributing to China's defence modernisation, arms sales inflated the volume of China's exports to the Middle East and helped generate a huge trade surplus. The end of the Iran–Iraq War, the collapse of the Soviet Union, and the spectacular display of high-tech weapons in the US-led offensive in the Kuwait War considerably reduced the demand for China's low-tech and outdated weapons while introducing new and alternative suppliers. Since the early nineties, Chinese arms exports to the Middle East have been declining whereas Chinese oil imports have been steadily increasing.

Shortly after the formation of the PRC, China began to import refined oil from the Soviet Union which never exceeded 3 per cent of its energy consumption.[11] In 1962 China began to export oil in small quantities and in 1973 it became a net oil exporter. By 1985 China's oil and oil product exports reached the peak at over 36 million metric tons, valued at US $6.8 billion, or nearly 25 per cent of China's total exports.[12] After 1985, however, China's oil exports began to decline reflecting not only the decrease in international demand for oil, but also the dramatic increase in China's demand for oil to meet the needs of its thriving economy. In 1988 the share of oil in China's total exports declined to 8 per cent and China became an enormous energy consumer second only to the US (see Table 3).

[10] On China's arms sales in general, and to the Middle East in particular, see R. Bates Gill, *Chinese Arms Transfers: Purposes, Patterns, and Prospects in the New World Order* (Westport: Praeger, 1992); Yitzhak Shichor, 'Unfolded Arms: Beijing's Recent Military Sales Offensive', *The Pacific Review*, Vol. 1, No. 3, October 1988, pp. 320–30.

[11] Tai Hwan Lee, *Politics of Energy Policy in Post-Mao China* (Seoul: Asiatic Research Centre, Korea University, 1995), p. 210.

[12] *Ibid.*, p. 212.

Table 3
China's Trade in Mineral Fuels, 1980–96 (in million US $ and %)

	Export		*Import*	
Year	*Value*	*Share in Export*	*Value*	*Share in Import*
1980	4,280	23.5	200	1.0
1981	5,230	23.8	80	0.4
1982	5,310	23.8	180	1.0
1983	4,670	21.0	110	0.5
1984	6,020	23.0	140	0.5
1985	7,130	25.9	170	0.4
1986	3,680	11.8	500	1.2
1987	4,540	11.5	540	1.3
1988	3,940	8.3	790	1.4
1989	4,320	8.2	1,650	2.8
1990	5,240	8.4	1,270	2.3
1991	4,750	6.6	2,110	3.3
1992	4,693	5.5	3,750	4.4
1993	4,109	4.5	5,818	5.6
1994	4,061	3.4	4,034	3.5
1995	5,335	3.6	5,127	3.9
1996	5,930	3.9	6,880	4.9

Source: *Almanac of China's Foreign Economic Relations and Trade, 1997/98* (Beijing: China Economics Publishing House, 1997), pp. 457 and 459.

Nonetheless, by the mid-nineties the PRC had become the world's fifth oil producer (following Saudi Arabia, the CIS, the US and Iran), with an output of 157 million tons in 1996 and over 160 million tons in 1997. Though its oil production growth has been steady (2.4 per cent in 1997), it has been much slower than the overall economic and GDP growth (8.8 per cent in 1997), as well as the growth of alternative energy resources (4.5 per cent of electricity in 1997).[13] Since 1988 China's oil production increased by an annual average of 1 per cent while oil consumption increased by an annual average of 5 per cent. Consequently, if in 1976 the share of oil in China's energy production was around 25 per cent (the highest since 1949), by 1992–93 it fell to 19 per cent (the global share is 43 per cent). Total industrialisation requires an annual energy output of at least 3 tons of standard oil per capita as against its present production of 0.7 ton. Its eastern oilfields (primarily Daqing and Shengli) are nearing exhaustion after several decades of exploitation while new ones (such as Liaohe, Tuha and the Tarim and Karamai Basin in the northwest) and offshore resources are still being developed and are at present unable to augment domestic supplies.

In short, China's domestic oil supply could not keep pace with its dynamic economic growth. While China is committed to oil export through long-term contracts, oil import has become essential and in 1993 it outstripped oil export and China became

[13] 'National Economy Performance in 1997', *Beijing Review*, Vol. 41, No. 5–6, 2–15 February 1998, p. 27.

a net oil importer.[14] This trend will continue and is even likely to become more pronounced in the future. By the year 2000 the gap between China's predicted oil output (165–170 million tons) and consumption would be around 34–55 million tons; by the year 2010 the gap between predicted oil production (200 million tons) and consumption would reach 90–177 million tons. This shortfall will have to be covered by increased imports.[15]

As mentioned earlier, China has been importing small amounts of oil regularly since 1950. In view of the emerging shortages, imports of oil and petroleum distillates (primarily diesel) and products increased from less than 800,000 metric tons in 1985 to over 3 million in 1986, to nearly 4 million in 1988, to 8.6 million in 1989 and further to over 10.5 million metric tons in 1991.[16] In 1990, most of China's crude oil imports (2.9 million metric tons) came from three sources: Indonesia (42.1 per cent), Malaysia (11.5 per cent) and Iran (10.3 per cent). Oil imports doubled in 1991 reaching 5.97 million tons and doubled yet again in 1992 reaching 11.36 million tons. In 1993 China's oil imports reached 15.67 million tons of crude and 17.47 million tons of distillates, valued at US $5.3 billion. The excessive oil and oil product imports of over 33 million tons led to a bloated inventory. Consequently, in 1994 China's total oil imports declined to 25 million tons, including 12.3 million tons of crude oil (down 21.5 per cent), 60 per cent of which was met by Oman and Indonesia.[17] Most of China's oil product imports come from Singapore. In 1995 China's total oil imports reached over 31 million tons, including 17.1 million tons of crude oil.[18] In 1996 China imported 22.6 million tons of crude oil, an increase of 32.3 per cent over 1995. The share of the Middle East in China's oil supply has been growing steadily and in 1996, for the first time, it accounted for more than half (53.5 per cent) of China's crude oil imports (see Table 4.)

China's decision to increase oil imports from the Middle East, primarily from the Gulf oil producing countries reflects a number of considerations. First, this is not simply the richest oil producing region in the world, but the gap between its output and consumption is the widest. Crude oil produced in other regions is either hard to develop (such as in the Russian Far East), consumed locally (such as in the Pacific Rim countries), or earmarked for specific export destinations (such as in South America and the newly expanded oilfields of West Africa). Second, oil from the Middle East is cheaper. And third, China can offset at least some of its expenditure on importing oil from the Middle East in general and from the Gulf in particular by exporting

[14] Ji Chongwei and Zheng Dunxun, 'Wo guo chengwei shiyou jinjingguo mianlin de tiaozhan' (China is Facing Serious Challenges While Becoming a Net Oil Importing Country), *Guoji Maoyi* (International Trade), No. 7, July 1994, pp. 23–24.

[15] Shuang Zhou, 'China's Energy Development Strategies', *Beijing Review*, Vol. 41, No. 4, 26 January–1 February 1998, pp. 9–12; 'Imports of Oil Expected to Escalate', *China Daily*, 3 October 1994, p. 2.

[16] Lee, *op. cit.*, p. 271

[17] James P. Dorian, *Energy in China: Foreign Investment Opportunities, Trends and Legislation* (London: Financial Times Energy Publishing, 1995), pp. 47–48.

[18] See also Jonathan E. Sinton, David G Fridley and James Dorian, 'China's Energy Future: The Role of Energy in Sustaining Growth', in Joint Economic Committee, Congress of the United States (Ed.), *China's Economic Future: Challenges to US Policy* (Armonk, NY: M.E. Sharpe, 1997), pp. 247–48 and 259–60.

Table 4
China's Import of Crude Oil from the Middle East, 1993–96 (in rounded million tons and million US $)

	1996		*1995*		*1994*		*1993*	
Origin	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*	*Quantity*	*Value*
Oman	5.655	809.190	3.653	480.042	3.367	412.707	4.089	557.235
Yemen	3.766	568.793	2.473	343.614	1.258	148.956	1.655	254.129
Iran	2.311	337.072	0.931	121.317	0.069	8.715	0.068	9.513
Saudi Arabia	0.231	32.640	0.339	45.904	0.146	18.425	0.215	33.386
Libya	0.139	20.42	0.208	29.433	–	–	–	–
UAE	–	–	0.368	51.330	0.066	9.397	0.572	92.825
Algeria	–	–	0.130	20.563	0.006	0.909	–	–
ME Total	12.101	1,768.114	8.310	1,092.204	4.913	699.109	6.599	947.088
Grand Total	22.617	3,406.548	17.090	2,356.427	12.346	1,573.401	15.671	2,323.412
ME Share	53.5%	51.9%	48.6%	46.3%	39.8%	44.4%	42.1%	40.8%
Oil Products	2.0%	2.6%	0.6%	0.7%	0.6%	0.4%	–	–

Source: Adapted from *Almanac of China's Foreign Economic Relations and Trade*, various years.

labour and construction services, by setting up joint ventures, by drawing Middle Eastern loans and investment, and by investing in the Middle Eastern oil production infrastructure.[19]

As mentioned earlier, a large proportion of China's Middle Eastern oil imports is from Oman, although its share has steadily declined from 62–68 per cent in 1993–94 to 44–47 per cent in 1995–96. Its second oil supplier is Yemen, whose share has increased from around 25 per cent in 1993–94 to 30–31 per cent in 1995–96. In 1996 Iran's oil exports to China increased 2.5 times compared to 1995, making it China's third largest Middle Eastern supplier with a share of 19 per cent. Related to its 1995 agreement to invest US $850 million in Iran, China's oil imports from Iran were expected to reach around 3.65 million tons (70,000b/d) in 1997, an increase of 58 per cent; 5.2 million tons (100,000b/d) in 1998; and 10.4 million tons (200,000b/d) in the year 2000. These three countries—Iran, Oman and Yemen—already provide 97 per cent of China's Middle Eastern oil.

Compared to them, Saudi Arabia's oil supply to China was insignificant till the mid-nineties, not only because diplomatic relations between the two countries had been established as late as in July 1990 but also because of China's limited ability to refine the heavy Saudi crude. Both expressed their willingness to increase the volume of oil transactions. When 'Ali Bin-Ibrahim al-Nu'aymi, the Saudi Minister of Oil and

[19] An Baojun, 'Zhongdong shiyou shichang fazhan jinkuang ji kuoda wo yu haiwan guojia jingmao hezuo de sikao' (Reflections on the Recent Situation and Development of the Middle Eastern Oil Market and Expanding Economic and Trade Co-operation between China and the Gulf Countries), *Xiya Feizhou* (West Asia and Africa), No. 4, July–August 1996, pp. 63–65; Shen Qinyu and Wu Lei, 'Shiyou jingmao guanxi de sikao jiaqiang woguo yu haiwan diqu' (Reflections on Strengthening China's Oil Trade and Economic Relations with the Gulf Regions), *Guoji Maoyi Wenti* (Intertrade—Problems of International Trade), No. 2, February 1995, pp. 9–12.

Mineral Resources visited China in December 1995, he said that China had begun importing Saudi oil two years earlier and added 'that Saudi Arabia is ready and capable of providing China with *all* its oil needs.'[20] Indeed, in 1997 China's import of Saudi oil reached 30,000b/d (about 1.56 million tons, almost seven-fold increase over the 1996 volume), and a letter of intent signed in June between Saudi Arabi's Aramco and China's Petrochemical Corporation (SINOPEC) provided for further expansion.[21] The recent economic, political and ethnic instability in Indonesia may lead to increased Chinese oil imports from the Middle East. China's growing needs would require not only an expansion of its refinery infrastructure, but also a modification and upgrading of existing refineries to adapt them to the expected growth in the import of higher sulphur Middle Eastern crude.

LABOUR EXPORT AND CONTRACTED SERVICES

Despite its more rational economic policy, post-Mao China by no means renounced its time-honoured tradition of providing Middle Eastern governments with economic aid. In 1996, for example, the aid programme included a government interest subsidy to Syria; interest free loans to Lebanon and Jordan; and free aid to Yemen and the Palestinian Authority (PA). Recent aid projects in the Middle East include repair of the Damascus Gymnasium; Habul River water conservancy project and expansion of al-Hama Woolen Mill in Syria; the Neian Dam and highway projects in Yemen; and donations of rice and sugar and technical assistance and personnel training to the PA. Nevertheless, since the late seventies China's aid offers to the Middle East (and to other countries) have been drastically reduced.[22]

Beijing has launched a new international economic activity—labour export and contracted (and later consultation) services. Regarded as complementary and supplementary to aid, this activity has been motivated primarily by purely economic considerations.[23] First, sending workers abroad helps alleviate China's problem of

[20] *SPA* (Riyadh), 18 and 20 December 1995, in *FBIS-CHI*, 20 December 1995, pp. 10–11. Emphasis added.

[21] *Middle East Economic Survey* (Nicosia) (hereafter *MEES*), Vol. 40, No. 24, 16 June 1997, p. A2

[22] John F. Copper, 'China's Foreign Aid Programme: An Analysis and Update', in Joint Economic Committee, Congress of the United States (Ed.), *China's Economy Looks toward the Year 2000* (Washington, DC: US Government Printing Office, 1986), pp. 510–11; Bruce D. Larkin, 'Emerging China's Effects on Third World Economic Choice', in Lillian Craig Harris and Robert L. Worden (Eds), *China and the Third World: Champion or Challenger?* (Dover, MA: Auburn House, 1986), pp. 112–13. Data on Chinese aid offers can be found in the annual volumes of the *Almanac of China's Foreign Economic Relations and Trade*. A large part of China's economic aid now goes to Africa.

[23] For an early discussion of these issues, see Tang Zhixin, 'Jiuyibu fazhan woguo duiwai chengbao yu laowu hezuo shiye' (Further Develop the Cause of China's Foreign Contracting and Labour Service Co-operation), *Guoji Maoyi*, No. 7, 27 July 1984, pp. 20–23, translated in *Joint Publications Research Service, China: Economic Affairs* (hereafter *JPRS-CEA*), 17 December 1984, pp. 40–45. See also Zhang Feifei, 'Preliminary Discussion on the New Way of Exporting China's Labour Forces—Labour Export', *Renkou yu Jingji* (Population and Economics), No. 5, 25 October 1984, pp. 42–44, in *JPRS-CEA*, 13 May 1985, pp. 147–51.

rising unemployment. Second, it provides an additional and external source of income and contributes to raising the standard of living as well as to enhancing foreign exchange reserves. Third, since some of the projects are in cooperation with foreign companies, the experience gained by Chinese workers, engineers and foremen who are continuously exposed to advanced foreign technologies, equipment, and management methods is invaluable for China's own economic development. Finally, such activity creates additional opportunities for further expanding China's economic relations, primarily the export of raw materials, commodities, equipment and tools, and also helps offset increasing expenditure on oil imports.[24]

As a part of China's overall economic transformation this new activity, which was launched in 1979 on a modest and experimental basis, and faced theoretical and practical problems, has been expanded by leaps and bounds. In 1996 around 250,000 Chinese managers, technicians and workers were employed in contracted engineering and other projects overseas through at least 600 formally authorised national and local Chinese companies which handle labour and construction contracts with overseas clients in 180 countries and regions, mainly in Japan, South Korea, Hong Kong and some Southeast Asian countries. By that time, 1.1 million Chinese had travelled overseas as contract labour.[25] The cumulative value of these contracts between 1979 and 1996 was US $60.33 billion; in 1996 alone it was US $10.273 billion.

From the very beginning, China's contracted labour export and construction services focused on the Middle East (see Table 5). This was based on the Chinese realisation that the centre of the international labour market had gradually shifted in the seventies from Western Europe and North America to the Middle East. There were three main reasons for this: one, the large number of workers and skilled technicians needed for the exploitation of the abundant regional oil resources; two, the regional use of huge amounts of petro-dollars accumulated especially since 1973 for large-scale economic construction projects; and three, the scarcity of local personnel and technology needed for these enterprises. Therefore, the Chinese stated, 'we consider the Middle East as the main direction of labour export not only because of such factors as geographical position, society, history, custom and tradition but more importantly because of a series of economic, social and population factors which play a long-term restrictive role.'[26]

Indeed, by the mid-eighties, over 62 per cent of the combined value of this new Chinese activity was concentrated in the Middle East: more than 83 per cent of its labour export and nearly 58 per cent of its construction contracts. Over 90 per

[24] In fact, some of these contracts were to be paid in terms of oil. Li Bida, 'In First Half of Year, China Signed New Contracts Worth almost $700 million for Contract Labour Overseas', *Guoji Shangbao* (International Commerce Daily), 1 September 1986, p. 1, in *JPRS-CEA*, 13 March 1987, p. 44.

[25] Xiao Shen, 'Policy Nails down Labour Exports', *China Daily (Business Weekly)*, 2–8 June 1996, p. 1.

[26] Zhang Feifei, *op. cit.*,p. 150. See also Yang Haitao, 'Cong guoji laowu shichang de bianhua kan fazhan woguo duoceng laowu chukou de kexing xing' (Looking at the Feasibility of Developing a Multi-level Labour Export in View of the Changes of the International Labour Market), *Guoji Maoyi Wenti*, No. 5, September–October 1984, p. 38, in *JPRS-CEA*, 19 January 1985, p. 84. Wang Jianguo, 'Zhongdong chengbao gongcheng shichang ji ying zhuyi de wenti' (Problems of the Middle Eastern Contract Construction Market and Issues to Note), *Guoji Maoyi*, No. 5, 1983, pp. 53–54 and 21.

Table 5
China Foreign Engineering Projects and Labour Services Contracts with the Middle East, 1979–96 (in million US $ and %)

Country	*Years*	*Total*	*Engineering Projects*	*Labour Services*
Iraq	1979–91	1,949.20	1,173.41	775.79
Kuwait	1982–96	1,269.37	991.72	277.65
Iran	1984–96	1,237.06	1,088.55	148.51
Algeria	1980–96	930.23	890.92	38.59
Yemen	1979–96	822.48	786.26	36.22
Libya	1982–96	768.38	482.58	285.80
Egypt	1979–96	442.90	440.44	2.46
Sudan	1982–96	318.72	295.34	23.38
Jordan	1980–96	315.99	297.46	18.53
UAE	1983–96	258.75	208.26	50.49
Tunisia	1984–96	184.51	183.79	0.72
Israel	1992–96	181.43	15.80	165.63
Morocco	1985–96	118.92	109.22	9.70
Syria	1981–96	113.26	109.37	3.89
Saudi Arabia	1990–96	40.05	27.55	12.50
Qatar		28.89	27.47	1.42
Oman	1984–96	19.65	11.64	8.01
Bahrain	1981–96	11.41	9.31	2.1
Cyprus	1986–96	9.20	3.30	5.90
Turkey	1984–96	8.71	3.96	4.75
Lebanon	1988–96	5.69	1.62	4.07
Total Middle East		9,034.80	7,157.97	1,876.83
Grand Total		57,760.22	45,101.29	12,658.93
Share of Middle East		15.64%	15.87%	14.82%
Total Middle East 1996		902.77	750.15	152.62
Grand Total 1996		7,696.10	5,820.51	1,875.59
Share of Middle East 1996		11.73%	12.89%	8.12%

Source: Adapted from *Almanac of China's Foreign Economic Relations and Trade*, various years.

cent of China's overseas labourers were engaged in projects in three Middle Eastern countries—Iraq, Jordan and the erstwhile North Yemen. By 1985 Iraq became China's leading customer, accounting for nearly 30 per cent of the combined value of this activity: over 22 per cent of the value of construction contracts and 63 per cent of the value of labour export. It was followed by Yemen, Libya and Egypt.[27] The initial Chinese success in securing construction contracts and in outbidding well-established and experienced international companies was not only because of China's lower tender offers but also because China as a rising Third World country was no longer perceived as a threat to the Middle Eastern governments and societies. While for China labour

[27] Special instructions had to be formulated for the growing number of Chinese workers in Iraq. See Tian Xue, 'Fu Yilake laowu renyuan kuzhi' (Guide for Labour Service Personnel Going to Iraq), *Guoji Maoyi*, No. 7, 1983, p. 43.

export and construction services has been a new, attractive and meaningful activity generating considerable direct income in addition to other indirect fringe benefits, its impact on the Middle East economy in general, and the labour market in particular, remains marginal.[28]

Since the mid-eighties and early nineties, however, the share of the Middle East in China's labour export and construction services has been declining steadily. For one, instability in the Middle East, especially the Iran–Iraq War, and even more so the Kuwait War, seriously disrupted China's economic presence. Following the Iraqi invasion of Kuwait in August 1990, China began to evacuate its 10,000 workers from both countries, its most important and profitable clients worldwide. In an early November 1990 official statement, Beijing admitted that as a result of joining the international sanctions against Iraq it was suffering a direct economic loss of US $2 billion in trade, transport and civil aviation, and the loss amounted to $4 billion if Chinese labour services and other economic activities were also included.[29] For another reason, the reduction in oil prices and the devaluation of the US dollar eroded the income of the Middle Eastern countries and slowed down the pace of construction. Many Middle Eastern projects have already been completed and new projects have become less labour intensive and more technology intensive, thereby undermining China's relative advantage. Finally, as China's international economic activity has expanded, new and more accessible markets for labour export and construction services have been opened, primarily in East Asia, dwarfing the Middle East. Compared to other Chinese international economic activities, the share of the Middle East in labour export and construction services remained the largest, around 15 per cent from 1979 to 1996, but is gradually decreasing (see Table 5).

LOANS AND INVESTMENTS

Following its painful experience with the Soviet Union, Mao's China neither received, nor was it offered, external loans and investments. This policy has been changed by post-Mao China's leaders who opened the Chinese market to international economic forces and began to integrate the Chinese economy into the world economy. As a part of this new policy, China has been willing to accept, and has been regularly offered, loans by foreign governments and international monetary institutions as well as foreign direct investments and joint ventures, unheard of in Mao's time. Comprising some of the richest countries in the world, the Middle East has also offered China loans and

[28] China is hardly mentioned in Osman H. Chowdhury, 'Labour Migration to the Middle East: An Asian Perspective', *Asian Profile* (Hong Kong), Vol. 15, No. 1, February 1987, pp. 73–91. Chinese personnel accounted for less than 1 per cent of the total number of foreign workers in the Middle East.

[29] *Xinhua*, 1 November 1990, in *FBIS-CHI*, 1 November 1990, p. 1; *China Daily (Business Weekly)*, 26 November 1990, p. 1. See also 'Beijing and the Gulf War', *China News Analysis*, No. 1428, 1 February 1991, p. 4.

Table 6
Middle Eastern Loans to China, 1991–96 (in million US $ and %)

Country	*Total*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*
Kuwait	233.22	30.00	62.00	30.22	31.00	33.00	47.00
Israel	92.53	–	–	–	11.00	81.53	–
ME Total	325.75	30.00	62.00	30.22	42.00	114.53	47.00
Grand Total					10,688	11,288	7,962
ME Share					0.39	1.01%	0.59%

Source: *Almanac of China's Foreign Economic Relations and Trade*, various years.

investments, though on a rather small scale, both in terms of amount and in terms of the number of contributing countries.

One of the earliest contributors, almost the only one, has been Kuwait. In the eighties the Kuwait Fund for Arab Economic Development (KFAED) offered the PRC around US $400 million in long term, low interest soft loans for construction projects (mostly airports, highways, ports and industrial plants, in which private investors usually have no interest) in addition to several joint ventures that had already been set up. Unaffected by political developments in China, including the Tiananmen massacre, this contribution, among other things, later shaped China's negative attitude towards the Iraqi invasion of Kuwait. After the war, Chinese companies actively participated in the reconstruction and rehabilitation of Kuwait, helped to extinguish the fire set by the Iraqis to ten Kuwaiti oilfields, and undertook the renovation of Kuwait's Mina al-Ahmadi Oil Refinery.

Kuwait remains China's leading Middle Eastern source of loans. During 1991–96 it offered the PRC US $233.22 million in loans, including a US $33.3 million loan given in July 1996 for the construction of a large irrigation project in Muslim populated Ningxia Hui, a small Autonomous Region in Northwest China, to be completed by the year 2001. Also populated by Muslim nationalities, the Xinjiang-Uygur Autonomous Region used Kuwaiti loans for building a chemical fertiliser plant in its capital, Urumqi. KFAED loans were also used for a fertiliser plant in Qinhuangdao (Shandong Province), the Shaxikou hydro-electric station (Fujian Province), and for the country's largest plywood plant in Changsha (Hunan Province). Providing US $92.53 million, Israel ranked second as China's Middle Eastern source of loans during that period. While professing long-standing friendship with the PRC, other Middle Eastern countries offered Beijing token amount of loans at best. The share of Middle Eastern loans was no more than a fraction (0.5–1.0 per cent) of the total amount of loans China received during the 1991–96 period (see Table 6).

The marginal role of the Middle East in the Chinese economy is even more pronounced in the case of foreign direct investment and joint ventures. The share of Middle Eastern joint ventures is insignificant (0.2 per cent and less, see Table 7). During the 1992–96 period, in terms of joint ventures the share of the leading Middle Eastern states was (geographically, at least) marginal: Israel (in the lead with nearly US $80 million), Cyprus (US $42 million), the UAE (over US $37 million) and Turkey

Table 7

Middle Eastern Investment in China, 1992–96 (in million US $, %, and number of agreements)

	1996		*1995*		*1994*		*1993*		*1992*		*1992–96*	
Country	*No*	*Value*	*No*	*Value*	*No*	*Value*	*No*	*Value*	*No*	*Value*	*No*	*Value*
Iran	2	1.10	3	0.95	5	0.62	5	0.99	6	0.67	21	4.33
Iraq	–	–	–	–	–	–	1	0.50	–	–	1	0.50
Turkey	9	7.75	6	11.91	4	8.41	7	4.41	1	0.34	27	32.82
Cyprus	3	0.58	10	36.10	7	1.74	–	–	13	3.62	33	42.04
Syria	2	0.18	2	0.15	2	0.33	1	0.23	–	–	7	0.89
Lebanon	–	–	–	–	1	0.12	2	0.65	1	0.09	4	0.86
Jordan	1	1.92	2	2.53	1	0.23	7	3.66	1	0.28	12	8.62
Palestine	1	0.20	–	–	2	0.48	–	–	–	–	3	0.68
Yemen	3	0.96	–	–	–	–	2	0.78	–	–	5	1.74
Saudi Arabia	1	0.40	3	1.43	6	0.92	2	1.03	1	1.00	13	4.78
Kuwait	3	0.06	1	0.68	4	5.99	–	–	–	–	8	6.73
UAE	10	2.63	13	5.64	19	6.96	57	16.27	28	5.83	127	37.33
Oman	–	–	1	1.20	1	0.19	1	0.30	–	–	3	1.69
Israel	9	22.37	14	28.87	18	23.41	7	4.64	2	0.21	50	79.50
Egypt	–	–	2	0.32	1	0.57	3	0.58	1	0.06	7	1.53
Sudan	3	14.43	1	1.10	2	0.66	2	0.26	1	0.70	9	17.15
Tunisia	–	–	–	–	–	–	5	3.81	2	0.51	7	4.32
Libya	?	10.08		–	1	0.28	2	1.51	1	0.27	4+	12.14
Morocco	–	–	–	–	2	0.52	–	–	–	–	2	0.52
ME Total	47+	62.66	58	90.88	66	51.43	104	39.62	58	13.58	343+	258.17
ME Share (%)	0.19	0.086	0.24	0.10	0.14	0.062	0.12	0.032	0.12	0.012	0.14	0.059

Sources: Adapted from Ding Yansheng (Ed.), *1994 China Foreign Economic Statistical Yearbook* (Beijing: China Statistical Publishing House, 1995), pp. 262–73; and *Almanac of China's Foreign Economic Relations and Trade*, various years.

(nearly US $33 million). Though small in quantity, some of these joint ventures have a potential long-term economic impact, especially in the field of oil.

Designed to process light crude, China's existing refineries are unsuitable for processing higher sulphur Middle Eastern crude. Since its import of Middle Eastern oil has been growing rapidly and is expected to grow even faster, Beijing decided to upgrade five coastal refineries in cooperation with foreign partners. These include two Sino–Saudi joint ventures, one to build a new large scale refinery in Zhanhua (Shandong Province) with an oil refining capacity of 200–300,000b/d, and the other to increase the refining capacity by 100,000b/d of an existing 170,000b/d refinery in Maoming (on the Southern coast of Guandong Province), both designed to process Saudi crude.[30] Iran also agreed to participate in a US $250 million project to upgrade a refinery (with a 200,000b/d refining capacity) in Guangdong, designed to process Iranian crude. In 1993 the UAE was involved in a number of large Chinese refineries and petrochemical projects, and Kuwait was engaged in a dialogue with China along similar lines.

[30] An Baojun, *op. cit.*, p. 65; *MEES*, Vol. 40, No. 16, 16 June 1997, pp. A2–A3.

As mentioned earlier, in addition to offering loans to the PRC,Kuwait has also set up a number of joint ventures with the Chinese. An example is the partnership between the China National Offshore Oil Corporation, the Atlantic Richfield Company (US) and the Foreign Petroleum Exploration Company under the Kuwaiti State Oil Corporation, for the exploration and development of the Yacheng 13–1 gas field. Located 100 km south of Hainan Island in the Yinggehai Basin, it is the largest in China—with a reserve of 100 billion cubic metres and an annual output capacity of 3.4 billion cubic metres, 2.9 billion of which will be sent to Hong Kong—and is large by world standards. It should provide a stable supply of natural gas for at least twenty years. The total investment is US $1.2 billion and Kuwait owns 14.7 per cent of the shares. This first large-scale Sino–foreign offshore gas venture was launched in 1992 and it began operations in January 1996.[31] In 1995 China and Kuwait signed a protocol on establishing two oil storage facilities and extending pipelines at the cost of US $400 million.[32]

It is in the area of oil production infrastructure that the most recent and innovative developments in China's international economic relations in general, and with the Middle East in particular can be seen. Aware of the urgent, and at the same time long-term need to pump more and more oil to feed their country's rapid growth, in the early nineties China's economic planners proposed a number of policies designed to overcome the anticipated oil shortage. These included maximum utilisation of the existing oil resources; accelerating the development of additional oilfields; reforming state-owned oil enterprises; developing alternative energy resources; modernising and expanding oil refining capacity; launching energy saving campaigns; increasing oil imports and, most important, establishing Chinese oil bases overseas by investing and participating in the exploration and development of oilfields and pipelines abroad 'so as to guarantee our country's long term and steady supply of crude oil import' (*quebao woguo jinkou yuanshi de changqi wending gongying*).[33]

Intended to develop China's independent and external sources of oil, this latter policy has been implemented slowly and persistently since 1992, in the Middle East and in other regions.[34] Aimed at accumulating a total of 190–200 million tons of 'share oil' (*fen e you*, that is oil from shared production by Chinese-owned foreign oilfields), this effort began to bear fruit in 1997 when for the first time China included 'share oil' from other countries in its *own* crude production (rather than import).[35] China's investments in foreign oilfields (sometimes based on agreements with foreign

[31] *Xinhua*, 10 January 1996, in *FBIS-CHI*, 16 February 1996, pp. 3 and 7.

[32] *Xinhua*, 23 February 1996, in *FBIS-CHI*, 26 February 1996, p. 1

[33] Ji Chongwei and Zheng Dunxun, *op. cit.*, p. 24.

[34] The following paragraph is drawn from Ahmed Rashid and Trish Saywell, 'Beijing Gusher: China Pays Hugely to Bag Energy Supplies Abroad', *Far Eastern Economic Review* (Hong Kong), 26 January 1998, pp. 46–48.

[35] Han Zhenjun, '1997: China's Energy Industry Blended into the Great Tide of Market Economy', *Xinhua*, 8 January 1998, in *FBIS-CHI*, 9 February 1998. 'Share oil' is expected to reach 12 million tons by the year 2000.

oil companies in Italy and India) have been spread over a number of continents and countries including Peru, Venezuela, Canada, Angola, Thailand, Turkmenistan, Kazakhstan and a number of Middle Eastern states. In May 1997, for example, China National Petroleum Corporation (CNPC) agreed to pay US $1 billion for 40 per cent share of Sudan's Heglig oilfield including a 1,540 km pipeline for carrying 250,000b/d to Port Sudan, a Red Sea terminal, reportedly to be built by a Canadian consortium, the Arakis Energy Corporation.[36]

Apart from their explicit economic implications, these endeavours reflect implicit and perhaps deliberate strategic and political considerations. In June 1997 the CNPC along with NORINCO (China's Northern Industries Corporation, an ordnance production conglomerate) signed a 50 per cent production-sharing agreement to be implemented in twenty-two years, pledging to invest US $1.26 billion in Iraq's Al-Ahdab oilfield (which has an output capacity of 80–90,000b/d and an estimated reserves of 140 million tons).[37] This, however, was not enough, as China entered into negotiations to acquire rights in at least four more Iraqi oilfields (Halfaya, Luhais, Rafidain, Suba) with a combined output capacity of 700,000b/d. The CNPC also expressed an interest in Iraq's Western Desert Block 5 (which borders on both Saudi Arabia and Jordan). Undoubtedly, these initiatives were undertaken in anticipation of Iraq's increased oil production and export once the UN sanctions were lifted. This explains why Beijing is interested in ending Iraq's economic isolation and in maintaining stability in the Middle East.

Beijing's attempt to end the US-enforced economic isolation of Iraq is being duplicated in Iran. In 1997, the CNPC negotiated with Iran's National Oil Company for a joint venture for the development of the Balal offshore oilfield, with an output capacity of 40,000b/d. While these talks were continuing, China promised to build two pipelines from Uzen (near the Caspian coast, Kazakhstan's second largest oilfield with reserves estimated at 200 million tons, 60 per cent of which were bought by the CNPC for US $1.3 billion in August 1997).[38] One pipeline would carry oil south along a 1,000 km route, across Turkmenistan and Iran all the way to the Persian Gulf and to the consuming centres in China and Europe. The initial agreements to build the pipeline were signed, in spite of Washington's visible irritation at Iran's suspected meddling in Central Asia and Beijing's plans to consolidate the Central Asian continental bridge under its auspices. The other pipeline would carry oil east into Xinjiang along a 3,000 km route thereby not only increasing China's oil supplies but

[36] Some of this and the following information is drawn from *MEES*, Vol. 40, No. 13, 31 March 1997, pp. A3–A5; Vol. 40, No. 23, 9 June 1997, pp. A4–A5. The China National Petroleum Corporation is part of the Sudan Project Consortium and the China Petroleum Engineering Construction Corporation was well placed to win the contract for building the new production facilities at Mughlad Basin oilfields as well as the pipeline. *MEED*, 2 January 1998, p. 25.

[37] The minutes had been signed in November 1995 and initialled in August 1996. INA (Baghdad), in *FBIS-CHI*, 20 November 1995, p. 20.

[38] Anthony Davis, 'The Big Oil Shock: How China Beat the West in Central Asia and Helped Secure Its Future', *Asiaweek* (Hong Kong), 10 October 1997, pp. 16 and 18.

also creating additional jobs and wealth which could help mitigate regional discontent among the Muslim Uygur minority, fuelled by nationalist and religious grievances.[39] Beijing committed itself to invest a total of US $9.5 billion in these projects.

CONCLUSION

For methodological reasons, China's international economic activities in and with the Middle East have been divided into trade, labour export and construction services, investments and joint ventures, etc. Though these activities have been separated, in practice they are often combined and complementary. An example is China's economic relations with Iran. In a series of bilateral agreements, not directly related to oil, signed in mid-1995, China committed itself to invest a total of US $850 million in a number of projects including a cement factory, power installations and an underground station in Tehran, in return for an increase in Iranian oil deliveries to China.[40]

As a part of these projects, three Chinese companies competed with German, Italian, South Korean and Russian companies and secured a US $573 million contract for the completion of Tehran's subway system, including a 43 km electrified railway connecting Tehran and Karaj, which would be the greatest and longest subway system in the Middle East.[41] This reflects China's new and multidimensional economic relations with the Middle East.

The China International Trust and Investment Corporation (CITIC) organised over a dozen Chinese commercial banks and monetary institutions to provide a syndicated loan of US $270 million as buyer's credit for the Tehran subway project. This is the first time that an overseas client has been offered Chinese credit as a means of joint financing. It is the largest organised Chinese consortium in terms of the number of participating banks and the size of financing, as well as the biggest project export deal to use such a method.[42] In addition, the three Chinese companies involved in the project (including the partly converted military ordnance conglomerate NORINCO) have to provide and manufacture the needed equipment and facilities, such as 218 passenger carriages, locomotives, trains guiding system, as well as electricity.[43] Since the sale of four 325 megawatt China-made nuclear power reactors to Iran was aborted under American pressure, this is China's largest contract with Iran.

[39] On this issue, see Yitzhak Shichor, 'Separatism: Sino-Muslim Conflict in Xinjiang', *Pacifica Review* (Bundoora, Victoria), Vol. 6, No. 2, 1994, pp. 71–82.

[40] Voice of Russia World Service in Persian (Moscow), 2 June 1995, in *Foreign Broadcast Information Service, Near East and South Asia* (hereafter *FBIS-NES*), 6 June 1995, p. 63.

[41] IRNA (Tehran), 22 May 1995, in *FBIS-NES*, 24 May 1995, p. 49; Editorial, 'China and Iran—Natural Trade Partners', *Tehran Times*, 22 May 1995, p. 2, in *FBIS-NES*, 31 May 1995, pp. 62–63.

[42] *Xinhua*, 25 July 1996, in *FBIS-CHI*, 26 July 1996, pp. 44–45.

[43] A China-built hydroelectric power station, with a generation capacity of 10,000 kilowatts-hours was completed 128 km southwest of Tehran. *Xinhua*, 23 April 1996, in *FBIS-CHI*, 26 April 1996, p. 30.

These types of economic activity, particularly China's growing dependence on Middle Eastern oil, have political and strategic implications. Though the role of the Middle East in China's economy is and will remain marginal in quantitative terms, its importance is and will become considerable in qualitative terms. Aware of the vulnerability and instability of this region, Beijing will inevitably, and perhaps unwillingly, become more involved in the Middle East in general, and the Persian Gulf in particular. Moreover, as the Middle East (and Central Asia) become a major source of oil urgently needed for China's accelerating industrialisation, ways will have to be devised to guard and guarantee the uninterrupted flow of oil in China's new arteries, both on land and at sea.