China's relations with the Arab and Gulf States

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Key Points

• China has significantly increased its economic, political, and (marginally) security footprint in the Middle East in the past decade, becoming the biggest trade partner and external investor for many Arab and Gulf countries in the Central region.
• China still has a limited appetite for challenging the US-led security architecture in the Middle East or playing a significant role in regional politics.
• Yet the country’s growing economic presence is likely to pull it into wider engagement with the region in ways that could significantly affect US interests.
• The US should monitor China’s growing influence on regional stability and political dynamics, especially in relation to sensitive issues such as surveillance technology and arms sales.
• The US should seek opportunities for cooperative engagement with China in the Middle East, aiming to influence its economic role on constructive and security/stability initiatives.

Background Information

Although distant neighbors, China and the Arab countries have a rather ancient relationship that dates back to the first centuries of the Common Era, long before the advent of Islam. Nonetheless, until the end of the Twentieth Century, China and the Arab States only had a very limited trade relationship (spices, textiles etc).

From its emergence in 1949, the People's Republic of China was caught in the Cold War between the liberal-democratic West and the communist Soviet Union. At that time, China officially refused to pick a side and joined the non-aligned movement, established during the 1955 Asian-African Bandung Conference and later formalized in 1961 in Belgrade. However, this did not prevent China from supporting national liberation movements in the Third World and fighting both colonialism and imperialism. China indeed endorsed the people’s right to choose their own economic and political systems, which, for instance, explained China’s support to Egypt during the Suez crisis in 1956, the recognition of the Algerian provisional government in 1958 and even the early support to the Palestinian national movement. On their side, many Arab countries supported China’s permanent seat at the UN Security Council in 1971 and progressively established diplomatic relations with Beijing between 1956 and 1990. Nonetheless, between 1949 and 1978, the economic relations remained extremely limited and China focused on northeast and southeast Asian countries.
Analysis

For most of the 20th Century, China’s role in the Middle East was negligible, especially following Mao Zedong’s isolationism in the 1960s and 1970s. Under Deng Xiaoping (1978-1992), China however engaged in a cautious opening to the world economy, while conducting economic reforms aimed at strengthening the agriculture, industry, defense, and technology sectors. Slowly but steadily, over the next few decades, China accelerated its development policy, thus becoming the world’s industrial workshop, achieving significant trade benefits and raking in sovereign wealth funds. Nowadays, China is the Central Region’s largest foreign investor, having invested approximately $177 billion in the Middle East, of which $70 billion went to the Gulf States, in sectors ranging from energy to real estate and infrastructure development.¹ Within the framework of Chinese global ambitions, energy is not the only motivation of China, which also seeks to compete with the US influence and even challenge it in such a sensitive region.

As a global trading power, China relies heavily on shipping, which accounts for 90% of Chinese exports. Freedom of navigation and safety of shipping lanes are therefore of primary interest for Beijing. Of the four main chokepoints (Gibraltar, Malacca, Hormuz and Bab el Mandab), two are in the Middle East. China’s interests vis-à-vis the Arab world can therefore be assessed through the lenses of energy, economy, politics, and, somewhat, religion.

Energy

Since energy remains a significant driver of its economic growth, energy-hungry China is concerned with the stability of energy markets, and there is no region more important than the Arab Gulf region to China. Nearly half of China’s oil and gas imports transit through the Strait of Hormuz. Bab el Mandab is even more important since a fifth of Chinese exports to the Middle East, North Africa and Europe relies on this choke point, through which oil from Algeria, Libya and Sudan flow. Research firm Wood Mackenzie estimates that China will import 9.1 million barrels per day of crude in 2020, with some 3.5 million barrels, or 38%, of that total coming from the Middle East. (Russia and Africa, the next biggest suppliers to the globe’s second-biggest economy, are each expected to send 1.8 million barrels per day to China in 2020).² Given China's growing needs, it is highly likely that China's dependence on the Arab states and Middle East region will increase within the next 2 decades.

As the world’s biggest oil importer, and despite decade-long unsuccessful endeavors, China could seek to exploit Russia and Saudi Arabia’s struggle for market share to dictate conditions, thus demanding the world’s top two exporters to price and sell more of their crude in Yuan. Besides, within the framework of the Covid19 global crisis, China’s economy looks likely to revive before others. It should of course not translate into the end of dollar preeminence, especially since China is also more fragile financially than it was before its quarantine efforts, but China will definitely seek to capitalize on the current opportunities.

Economy

Over the past 25 years, China’s economic penetration of Arab markets has been spectacular. Chinese exports to Arab countries increased from $10 billion in 1990 to $36.7 billion in 2016 and $244.3 billion in 2018, especially thanks to a burgeoning middle class and increased demands for consumer goods. Yet, this only accounts for a slightly more than 5% of Chinese exports, estimated at nearly $4 trillion in 2016. Nonetheless, the current trend seems to indicate that Chinese trade with the Arab countries will exceed $300 billion before 2025. Yet, Africa is still attracting more investment than the Arab and Middle Eastern countries ($252 vs $177 billion) but the pace of

² https://fortune.com/longform/china-crude-oil-consumption-map/
growth in investment in the Arab countries has been particularly sustained over the last decade and, as such, should continue to increase in the coming years, especially thanks to the Belt and Road Initiative (BRI).

Seeking to expand its influence and economic interests in the Middle East, Beijing has already pledged $23 billion in loans and aid to the Middle East through the China-Arab States Cooperation Forum (CASCF) and signed BRI cooperation agreements with 17 Arab countries. In addition, it committed to building ports in Oman (al-Duqm), factories in Algeria and skyscrapers in Egypt, as well as reconstructing infrastructure and health facilities in Syria. Syria indeed lies in an important geostrategic location that links Central Asia and Middle East to Europe and Africa. The challenge for Beijing is that it must contend with Moscow and Tehran, both of whom want to cash in on their investments in supporting the Assad regime. Of note, China has also extended lines of credit to some struggling states, such as Djibouti, where it has built its first overseas military base.

The economic relationship has steadily solidified as China has sought to import increasing amounts of energy resources from the region’s oil and gas rich states. Therefore, China has continuously strengthened its presence in the Middle East through the China-Egypt Suez Economic and Trade Cooperation Zone, the China-Oman Industrial Park, and the China-UAE Industrial Capacity Cooperation Demonstration Park.

**Politics**

Some Arab states may also be looking to China as a model for their own economic development: pursuing economic liberalization while maintaining tight political control and using various tools of domestic repression. China indeed proposes an alternative way to the Western model, for which democracy is key to economic progress. The Chinese model, in many ways, is likely to appeal to autocratic leaders in many states in the Arab world. After the 1989 Tiananmen crackdown, political scientists bet that a political transition would eventually occur because of the emergence of the Chinese middle class. More than 30 years later, as democracy recedes and as a wave of neo-authoritarianism is gaining ground, democratic aspirations in China have been stifled, surveillance has increased through technological development, and the economic boom has finished establishing the legitimacy of the central government. This type of regime exerts fascination for many Arab countries for it is a subtle mix of organized dictatorship and capitalism. Besides, China is the only power that can challenge the hegemony of the Western model nowadays. Therefore, China seeks to exploit this alternative model and present it as a solution, with the idea of saying that it is possible to develop economically without resorting to democracy.

Arab countries do not need much to be convinced of the effectiveness of the model. Authoritarian regimes in the region have already undertaken many crackdowns in response to the democratic aspirations of the Arab Spring. In many Arab states, some of the ingredients of the Chinese model already exist: a very centralized power that does not tolerate criticism, an absence of full political rights, a strong social constraint, intense surveillance, etc. The Gulf countries, to a certain extent, are even much closer to the Chinese model despite the domination in China of the very structured and organized Communist Party. In addition, Mohamed bin Salman (MbS) and Mohamed ben Zayed (MbZ) most likely consider that the Arab populations are not ready for democracy, and are not afraid of saying so, preferring to clutch to stability and to a vision of an ultra-developed and technologically advanced Arabian Gulf, where the central government provides the dominant narrative. However, comparing China and the Gulf States also has its limits, both on socio-political aspects and on economic dynamics. The Gulf countries remain

3 https://www.policyforum.net/china-vies-for-role-in-reconstructing-syria/
4 https://www.policyforum.net/whats-china-up-to-in-the-arab-world/
5 http://www.xinhuanet.com/english/2019-01/20/c_137759840.htm
6 http://www.xinhuanet.com/english/2018-12/19/c_137683272.htm
7 http://www.globaltimes.cn/content/1111462.shtml
very close to the US as a security provider, while China remains an essentially economic partner in the Middle East.

**Religion as a factor in China-Arab relations**

From a Chinese perspective, religious understanding and compromise is an important feature of its relations with Arab Gulf states - and reciprocally for obvious economic reasons. China knows that its BRI project crosses or follows, in the North as in the South, many countries with Muslim majorities. In addition, more and more Chinese Muslims (estimated 20,000 in 2017) go to Mecca every year for pilgrimage. Similarly, China has multiplied initiatives aimed at showing its respect for Islam, as it did in 2016, opening the “World Muslim City” in Yinchuan."8

In Xinjiang, China however has to deal with a population of 10-15 million Uighurs, who consider themselves marginalized and stigmatized. China fears both their secession claims and likely radicalization since many joined the ranks of Daesh in Iraq and Syria. China has allegedly isolated up to one million Uighurs in Xinjiang’s re-education camps but Beijing has continuously denied such a figure and considered these camps “vocational training centers,” aimed at fighting radicalization. Human Rights groups and activists, as well as numerous countries, have all condemned China’s camps, describing them as “concentration camps.” A UN mission was also requested to investigate the case. Nonetheless, until now, Turkey is one of the very few Muslim countries to denounce the existence of camps in Xinjiang firmly.

Arab support for China was predictable, as many have started to see Beijing as an essential partner for the future, just as the US or the EU could be. Indeed, many consider Beijing as a real alternative to resorting to the International Monetary Fund (IMF). In the field of armaments, for Saudi Arabia and the United Arab Emirates, Beijing could also represent a counterweight and an essential ally in its strategic defense programs, even its nuclear program. China has indeed been the backbone of the Saudi ballistic missile program since the late 1980s, a program that was recently relaunched with the opening of a missile production line in Saudi Arabia. Meanwhile, Chinese drones play an important role in the Yemen war.

**The 2004 China-Arab States Cooperation Forum (CASCF)**

In view of overlapping interests, Beijing launched a China-Arab States Cooperation Forum in 2004. The results were rather quick: economic exchanges between China and the countries of the Arab League climbed from $ 36.7 billion in 2004 to $145.4 billion in 2010. In March 2012, China and the Arab countries took another step and launched the “Higher Council for Energy Cooperation.” During the Sixth CASCF in 2014, under the Chinese-Moroccan presidency, Chinese and Arab states lauded the results of the first decade of cooperation (2004-2014) and decided to enhance their exchanges for the upcoming decade (2014-2024), within the framework of the BRI. The aim is to diversify the fields of cooperation, to increase cross-investments and to enhance exchanges between civil societies.

**The 2013 Silk Road or Belt and Road Initiative**

Launched in 2013 by Chinese President Xi-Jinping in a speech in Kazakhstan, the BRI aims at connecting China to the rest of the world through a complex network of highways, railways and shipping routes, with the aim of increasing China’s trade with Asia, Europe and Africa while improving connectivity with its main partners. This multidimensional initiative is a large-scale project, which requires the mobilization of large investments. To finance this gigantic project, China intends to mobilize a multitude of actors both private and public, in particular the China Development Bank, the Fund of the Silk Roads, the Asian Infrastructure Investment Bank (AIIB), etc. Very early, many Arab countries expressed deep interest in the Chinese initiative and many countries have already joined the initiative, while Saudi Arabia and other Gulf or Arab countries also participate in the AIIB (Bahrain, etc.).

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Egypt, Iran, Jordan, Morocco, Oman, Qatar, UAE). China has been enthusiastic about the positive response of all Arab countries to its initiative. As such, China even published an official document on 14 January 2016 (China's Arab Policy Paper),9 in which China boasted that the Arab world has become China’s leading supplier of oil and the seventh largest trading partner (with trade exceeding $220 billion while Beijing wants to bring these exchanges to more than $ 300 billion by 2024).

**China and the Gulf Cooperation Council States**

**Saudi Arabia-China relations.**

The relations between Saudi Arabia and China are regarded the strongest and fastest-growing relations. In 2018, China was Number One for Saudi Arabia’s exports and imports (respectively $9.72 billion and 22.24 billion).10 It is expected that the volume of oil exports will reach one million barrels per day by the end of the current decade.11 The Sino-Saudi relationship reached an advanced stage in January 2006, during the visit of late King Abdullah to Beijing, the first of its kind between the two countries. The visit itself evidenced a strong desire to establish strategic relations between the two countries. During this visit, five agreements were signed regarding oil and gas, raw materials, trade, technical cooperation and taxes. However, discussions also started on a large number of cooperation projects in the areas of development and construction.12

In February 2019, Saudi Crown Prince MbS also visited China. During his official visit, he signed a series of agreements (worth $28 billion) to enhance bilateral relations. Most importantly, in Beijing, MbS confirmed that the BRI was fully matching his Vision 2030 economic development plan. Within the oil industry, the share of Aramco alone amounted to $10 billion, as the company signed an agreement to establish a complex for oil refining and petrochemical industries in China.

**UAE-China relations.**

In July 2019, the UAE hosted Xi Jinping. During the visit, the first of its kind in 29 years, Abu Dhabi and Beijing announced their commitment to establish a comprehensive strategic partnership in eight axes, including politics and military. Talks between the two countries also stressed the importance of enhancing cooperation and of the exchange of critical information and experiences regarding counterterrorism and nuclear proliferation. They also announced a further strengthened cooperation and mutual investments in the fields of renewable energy, water, oil, and gas. Today, China is one of the first trading partners of the UAE, with about $53.3 billion annually from non-oil trade. In 2018, China was the first country regarding the UAE imports and the tenth regarding the UAE exports (respectively $38.01 billion and $5.12 billion).13 The two countries are also planning to build the largest Chinese center in the Middle East in the UAE.

**Kuwait-China relations.**

Kuwait is also a critical partner for Beijing. As China is the main trading partner of Kuwait, the volume of trade exchange between the two countries continues to grow. In 2018, China was the first country regarding Kuwait imports and the second regarding Kuwait exports (respectively $5.98 billion and $952.57 million).14 About 40 Chinese companies already operate in Kuwait, mainly in the oil, construction, and infrastructure sectors.

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9 https://thediplomat.com/tag/chinas-arab-policy-paper/
10 https://tradingeconomics.com/saudi-arabia/exports
12 https://www.youtube.com/watch?v=w1Dto3sBrhw
13 https://tradingeconomics.com/united-arab-emirates/exports-by-country
14 https://tradingeconomics.com/kuwait/exports-by-country
Additionally, Kuwait was among the first Arab countries to invest in the Chinese sovereign fund and sign up to the BRI. On a July trip to China, where Beijing hosted the eighth session of the CASCF at the ministerial level, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, the Emir of Kuwait, held talks with Xi Jinping to strengthen economic ties further, and establish a strategic partnership between the two countries. According to a joint statement issued at the end of the visit, the two countries will work to unify the BRI and Kuwait Vision 2035, while seeking to establish a free trade area between China and the Gulf Cooperation Council countries at the earliest.

**Qatar-China relations.**
The development of trade cooperation between China and Qatar continues to grow significantly. In 2018, China was the number two for Qatar imports and number four for Qatar exports (respectively $3.85 billion and $9.61 billion). The volume of trade exchange increased to about 49.22 billion riyals in 2018, achieving a 27% growth compared to 2017. In trade volume terms, China is the number three trade partner of Qatar, accounting for 11.65% of the total volume foreign trade of Qatar around the world. Today, the total number of Chinese companies and representative offices operating in Qatar amounts to more than 265 companies and representative offices. Among them, 244 companies have Qatari-Chinese joint capital and operate in several vital economic sectors such as trade, contracting, construction, information technology, and engineering consulting. The Emir of Qatar, Sheikh Tamim bin Hamad Al Thani, visited China several times. Last June, he met Xi Jinping again on the sidelines of the Fifth Summit of the Conference on Interaction and Confidence-Building Measures in Asia (CICA), where the leaders of the two countries reached a broad consensus on the necessity to give new impetus to China-Qatar relations. In November 2018, Qatar already signed an agreement to provide China with about 3.4 million tons of Qatari liquefied natural gas (LNG) for 22 years. Nonetheless, in Beijing, in an attempt to strengthen the strategic partnership between the two countries further, 12 cooperation agreements were also signed, covering all fields.

**Bahrain-China relations.**
In 2018, China was the number two destination for Bahraini imports and number six for Bahraini exports (respectively $1.88 billion and $332.45 million). Today, Chinese companies operating in Bahrain are mainly engaged in the fields of information, communications, high-level manufacturing, environmental protection, engineering contracting, etc. For example, Huawei strives to advance cooperation with Bahrain in the field of information and communications; Chongqing Polycomp International for Fiberglass (CPIC) endeavors to expand production lines in Bahrain ($500 million); China Machinery Engineering Corporation (CMEC) seeks to negotiate with the Bharani Ministry of Housing regarding a social housing project, reaching $550 million. In addition, since Bahrain announced the discovery of its largest oil and gas field in April 2018, Chinese companies remain on the lookout to invest.

**Oman-China relations.**
Due to its geographical location at the crossroads of maritime trade routes, and for its oversight of major waterways, Oman is considered one of the most critical economic front despite a rather “introverted” foreign policy. Oman had continuously welcomed and supported the Chinese BRI. It joined the initiative as one of the founding member of the Asian Infrastructure Investment Bank. Besides, both countries are actively cooperating with a third party in the field of interconnection and communication, as evidenced by the Bagamoyo Port in Tanzania and the Camport Pier in Turkey. In Oman, Duqm remains the cornerstone of the 12-square-kilometer

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15 https://tradingeconomics.com/qatar/exports-by-country
18 https://tradingeconomics.com/bahrain/exports-by-country
19 https://www.mubasher.info/news/3465061/
Chinese endeavor to build its first industrial city in the Gulf region. There, the Chinese extended a loan of $3.55 billion to Oman.\textsuperscript{20} Additionally, China has become Oman's largest trading partner and the largest importer of Omani oil for years. In 2017, the volume of trade exchange between the two countries also amounted to $15.53 billion, while China imported 31 million tons of crude oil from Oman, which constituted 7.39% of China's total imports of crude oil. Within the framework of the BRI, the Salalah Independent Power Station, as well as other projects, has already achieved extremely beneficial results, thus allowing numerous Chinese companies to win good reputation in Oman with regard to energy and communications (China National Petroleum Corporation (CNPC), Huawei, Geophysical Exploration Company of China National Petroleum Corporation, etc.).

Why Gulf countries feel the need to cooperate with China?

After the 2014 oil crisis and the sharp decline of oil prices, many oil-exporting countries understood the danger of relying on a single source of income and began exploring options for diversifying their production base. According to official economic reports, oil prices indeed decreased from about $115 a barrel to less than $50 in November 2016,\textsuperscript{21} the largest drop since the 2008 economic crisis. After the release of their Economic Visions for the next years or decades ,\textsuperscript{22} Gulf and Arab States have therefore sought new ways to diversify their oil-dependent economies. The new Silk Road, though strengthening Beijing’s position economically and strategically, have thus been extremely attractive because of loans and infrastructure investments (and mega projects). In recent years, China has significantly increased its economic and diplomatic engagement with the Middle East. Most of Beijing’s investment in the region focuses on energy, infrastructure construction, nuclear power, new energy sources, agriculture, and finance. These investments serve not only China’s interests but also those of Middle Eastern countries hoping to boost their economies as a means of strengthening social stability. Observers have noted that China has therefore skillfully exploited its soft power and economic advantages to build strong relations with the Arab and Gulf States thanks to its non-colonial power status and to the absence of claims for democracy.

Conclusion

China supports its ultimate objectives through economic activities, while slowly but steadily building its military capabilities. For several decades also, Chinese arms manufacturers produced low-cost weapon systems that could not match the sophistication of the Western arms manufacturers in the US and Europe. However, recent advances in defense equipment have enabled Chinese defense contractors to compete more effectively while retaining lower prices, making Chinese arms an increasingly attractive choice for customers worldwide, especially with regard to drones. Opportunities for future Chinese arms sales, which could total more than $275 billion over the next decade,\textsuperscript{23} include many niche footholds through which China can further chip away at the market share of Western defense contractors. Buying Chinese could also become even more appealing when coupled with China’s willingness to finance arms sales with large loans, with few restrictions on end use of weapons. Nonetheless, China continues to strive to avoid infuriating or provoking the US by intensifying its military presence in the Gulf region for now, though it is constantly enhancing its military capabilities at crossing points, and wherever oil and gas pipelines flow from the Middle East, Central Asia and Iran. Overall, Chinese efforts remain focused on mitigating geopolitical fluctuation as much as possible, which likely includes avoiding any kind of Western pressure.

To support its economic growth, China does not intend to engage in internal political affairs. Neither does it seek to establish alliances that could see its partners confront other partners in the region. Thinking rationally, China

\textsuperscript{20} https://alkhaleejonline.net/اقتصاد/عمان-فتقر-355 مليارات دولار سن-بنك-صينية
\textsuperscript{21} https://www.economist.com/the-economist-explains/2014/12/08/why-the-oil-price-is-falling
\textsuperscript{22} These include Saudi Arabia’s Vision 2030, UAE’s Vision 2021, Jordan’s Vision 2025, Turkey’s Middle Corridor, Egypt’s Vision 2030 and Suez Canal Corridor Development Project, Oman’s Vision 2020, and Kuwait’s Vision 2035
\textsuperscript{23} https://www.nationaldefensemagazine.org/articles/2020/3/9/china-chipping-away-at-the-west-defense-market-share
knows this could impede its ability to make business with everyone and cut off some of the benefits of its BRI economic deals. However, beyond great power competition, China’s policy toward the Middle East unfolds within a complex regional context that involves multiple rivalries. The Chinese therefore seek to maintain a balance among several priorities that sometimes conflict and prefer to put development on the forefront. As such, Beijing might face the issue of commitment and bear the costs of such a non-alliance. China is indeed currently benefiting from good relationships with all Gulf States, as it is benefiting from good relations with the Arab or Central Asian States or even Iran. In keeping with this policy, China seeks to forge a mutual interdependency to leverage its economic strength. The ultimate objective remains to make the BRI a success. Xi Jinping is prone to proclaim, “Development holds the master key to solving all problems,” meaning economic development and security are interdependent and mutually reinforcing. The Chinese approach is based on the assessment that the root causes of various security threats can all be traced back to underdevelopment and poverty.

The Middle East, Arab and Gulf States should therefore remain at the heart of the Chinese BRI, for mutual benefits. According to China Customs Statistics (export-import), China-Middle Eastern countries’ trade volume increased to $294.4 billion by 2019, up from $227 billion in 2018. The Middle East also accounts for more than 40% of China’s oil imports and is a key supplier of LNG. Forty-five countries supply crude oil to China. Close to 50% of Chinese imported crude oil originates from just nine Middle Eastern nations, and six Gulf States are among the top 15 crude oil suppliers to Beijing and the International Energy Agency (IEA) expects China to double its oil imports from the region by 2035.

Since China does not seek to openly confront other great powers, and since Washington remains both a key trading partner and security provider, CSAG does not believe the economic relations between China and the Gulf countries will push them away from their strategic ally, the US. Though seeking economic development and diversification, Gulf and Arab States know that a too strong political alliance with China is all the more risky and useless than China, by essence, will never pick up a side or play an effective role in the current crises. As such, the US, which also remains a key economic partner for many Arab and Gulf States, should remain the most vital strategic partner.

**Recommendations for the US / for USCENTCOM**

- Reinforce US economic presence in the region.
- Continue to demonstrate strength and resolve with regard to regional security, stability and internal disputes (Qatar crisis).
- Monitor China’s growing influence on regional stability and political dynamics, especially in relation to sensitive issues such as surveillance technology and arms sales.
- Engage with China to refocus its economic role on constructive and security/stability initiatives
- Expose the risks of Chinese economic penetration into the Central region further.

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