The New Geopolitics in the Middle East
The United States and China's Common Interests in a Regional Peace

January 2013
(Updated December 2013)

Abstract
China’s oil dependence on the Middle East and North Africa (MENA) countries has deepened over the past two decades, while the U.S. has developed new ways to exploit major oil and natural gas resources and has succeeded to decrease its reliance on MENA’s oil supply. In 2035, roughly 90 percent of MENA’s oil is estimated to flow Eastward, to the emerging economies of Asia-Pacific. This forecast entails a geopolitical shift according to which China, for the first time, will share the American interest to pursue peace and stability in the Middle East.
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The New Geopolitics in the Middle East - An Opportunity for Stability in the Region

MENA’s Oil exports are changing course from West to East (Figure 1). In recent years, MENA’s oil supply to the U.S. has been constantly declining. At the same time, due to new technological advancements, the U.S. is increasing the capacity of its domestic energy production (Figure 2). China’s rapidly growing transportation sector and oil demand deepens its reliance on MENA, which continues to be an important supplier and price setter of oil in a global market dominated by OPEC.

The U.S. wants to maintain its interests in the Middle East. Top American interests in the region include a stable oil price and the continuous activity of American oil companies. In an era of economic interdependency, addressing China’s energy demand by keeping a steady price and a supply of oil to China, is essential for the American economy.

China will become more strategically involved in the Middle East. As an economic superpower which has interests in MENA’s oil supply and pricing, it is inevitable for China to abandon its non-interference policy. Because oil supply and price are influenced by unrest and armed conflicts in the Middle East, and more than half of China’s oil imports come from MENA, we expect China to join the American pursuit for a stable region.

The Middle East becomes a region of high interest for Asia-Pacific nations. The growing Chinese oil dependency and the increasing oil imports from MENA combined with the American interests for a stable oil price and the interests of U.S. oil giants, creates a new shared interest for the two superpowers to seek stability in the Middle East.
**U.S. Growing Energy Independence**

**The U.S. has been reducing its oil imports from MENA region while increasing domestic production of oil and natural gas.**

The **U.S. has become less reliant on MENA’s oil supply.** From 2001 to 2011 the U.S. had lowered oil imports from MENA countries by 26 percent, while decreasing non-MENA oil imports by only 13 percent (Figure 3). During the same time the U.S. had dropped oil imports from the volatile Persian Gulf by 32 percent. U.S. net imports of oil had dropped from 60 percent in 2005 to 45 percent in 2011 and are estimated to drop further to 37 percent in 2040 (Figure 4). Reduced net imports are also a result of the reduced share of oil in the total U.S. energy usage, as they are estimated to fall from 36 percent in 2011 to 32 percent in 2040.1

America’s progress toward greater energy independence is achieved through the exploration and production of unconventional oil and natural gas, particularly shale gas and tight oil. New Technological advancements, such as horizontal drilling and hydraulic fracturing, significantly increase oil and natural gas reserves. Over the past decade, the combination of horizontal drilling and hydraulic fracturing has allowed access to large volumes of tight oil and shale gas that were previously uneconomical to produce.

**U.S. production of crude oil is estimated to increase from 6.5 million barrels per day (bpd) in 2012 to 7.5 million in 2019 - an increase of 15 percent.** Onshore tight oil production is estimated to account for 51 percent of total lower 48 onshore oil production by 2040.2 The production of natural gas from shale formations has rejuvenated the natural gas industry in the United States (see appendix A – Map of Lower 48 States Shale Plays).3 These technological advancements are expected to allow an increase in domestic production of natural gas by 44 percent from 2011 to 2040.4 Shale gas production is also expected to more than double from 2011 to 2040 with a projected increase of 113%, and is a major contributor to the projected growth in total U.S. natural gas production.

The **U.S. is projected to become a net exporter of natural gas in the foreseeable future.** The International Energy Agency (IEA) estimates that exploration and production of unconventional oil and gas will turn the U.S. into the largest natural gas producer sometime between 2015 and 2020.5 The Energy Information Administration (EIA) estimates that the U.S. will become a net exporter of natural liquid gas by 2016 and a net exporter of natural gas by 2020 (Figure 5).6

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1. Dan Poneman, U.S. Deputy Secretary of Energy: “In conclusion, developing these incredible unconventional oil and gas resources presents once in a lifetime opportunity for our country’s prosperity and security”.7
China’s Growing Dependence on MENA’s Oil and Increasing Involvement in the Region

China’s growing urbanization and transportation sector increase its demand for oil, and turns China rely heavily on MENA countries. The Chinese demand for oil and the dependence on MENA’s supply are estimated to grow in the next two decades.

The early 1990s mark the beginning of China’s rapid economic growth with an annual average GDP growth of 10 percent (Figure 6). In 2011, China became the world's second-largest oil consumer and importer (after the U.S.), the leading consumer of coal, and the fourth-largest consumer of natural gas. China’s oil demand is expected to increase in the next two decades (Figure 7). In the first half of 2013 China even surpassed the U.S. in total oil imports from OPEC countries - a trend that is projected to continue annually from 2014 onwards.

China’s transportation sector energy consumption is the main reason for its increasing demand for petroleum and its growing dependence on MENA’s oil supply. China’s energy consumption for transportation grew at a rate of more than 10 percent a year in the last decade, and from 2008 to 2035 it is projected to increase by a total of 310 percent. By 2050, the number of China’s highway vehicles is estimated to be 10 times higher than it was in 2010 (Figure 8).

China’s oil dependency on MENA started in the 1990s. Ever since then, MENA countries have assisted China to satisfy its steadily growing thirst for oil. MENA’s share of China’s oil imports increased from 39 percent in 1990 to 44 percent in 2006 and this trend continues. In 2012, MENA supplied 54 percent of China’s imports of crude oil, particularly from Saudi Arabia and Iran. MENA’s share of Chinese Oil imports is expected to increase to 60-70 percent of total consumption by 2015. By 2035, roughly 90 percent of MENA’s crude oil exports will go to Asia, as China, India and the Middle East will account for 60 percent of the growth in global energy demand.

As part of China’s “Going Global” economic policy, its outward foreign direct investment (OFDI) grew dramatically in the recent two decades, together with a growing economic activity in the Middle East. China’s OFDI stock increased from $4 billion in 1990 to $298 billion in 2010 (excluding OFDI in financial services), partly due to China’s extensive international energy investments and acquisitions. Other factors that account for the growing economic, political, and cultural ties between the China and the Middle East are immigrant labor, non-energy trade and investment, tourism, and educational exchange. From 2003-2012 the bilateral trade between China and the Middle East had skyrocketed and increased twelvefold, from $20.8 billion to $262.1 billion. During that time, Chinese exports to the Middle East have increased more than seven times while imports have grown six times and in 2009 China overtook the U.S. position as
the leading exporter to MENA (Figure 9). The McKinsey consulting group estimates that by 2020, total trade flows between China and the Middle East will reach $350-500 billion.

**Chinese National Oil Companies (NOCs) have increased their overseas acquisitions and investments in international projects.** Chinese NOCs conform to the government’s energy policy objectives, which encourage overseas merger and acquisition activities, domestic exploration, greater oil storage capacity and long-term oil supply deals from overseas producers. China also established a strategic oil reserve program (SPR) to shield itself from oil supply disruptions. From 2003 to 2010, Chinese energy enterprises made 74 investments in the Middle East with 146 property rights of oil fields, including infrastructures, extraction, investigation, and supply of oil and gas, most notably in Iraq and Iran (Figure 10).

**China becomes more strategically involved in the Middle East and in Central Asia, attempting to secure its growing oil imports from MENA region.** Chinese leaders recognize strategic vulnerability in China’s growing dependence on foreign energy and in China’s heavy reliance on U.S. naval security of maritime trade routes and checkpoints like the Straits of Malacca and Hormuz. To minimize that vulnerability China is on route to constructing three oil pipelines, adding to its single operational transnational pipeline. The planned network of pipelines is aimed at reducing the reliance on the Strait of Malacca, through which 70-80 percent of Chinese oil imports from the Middle East and Africa pass. The Gwadar seaport in Pakistan, which was substantially funded by China, is expected to allow land transportation of oil from the Persian Gulf and Africa to China by circumventing the strait of Malacca. In addition China is engaged in many mega infrastructure projects especially in the Gulf, deepening future commercial and economic relations with the region.

**As China’s economic and commercial involvement in MENA grows it gradually becomes more politically involved in region.** China became engaged in the UN Interim Force in Lebanon (UNIFIL) in 2006 as it deployed 182 engineers to UNIFIL to rehabilitate Lebanese infrastructure. The number of Chinese members in the organization later increased to 1,000. Moreover, China has provided health aid to Yemen and has deepened health cooperation with all Arab League nations. Recently China took an unusual step and promoted its own four stages plan to stop the crisis in Syria. With this move, China tried to gain strategic points in the international arena and in the Middle East. By its energy acquisitions and the billions China invests in the region, it inevitably becomes more entangled in Middle Eastern geopolitics.
MENA’s Centrality in the Global Oil Market

**MENA countries, as part of OPEC, remain major exporters and price setters in the global oil market.**

**Armed conflicts and unrest in the Middle East and North Africa are of a great concern to major economies and oil importers.**

From 1980 to 2012 MENA’s proved oil reserves have more than doubled - from less than 400 billion barrels in 1980 to more than 800 billion barrels in 2012 (Figure 11). During that period, MENA’s share of the global proved oil reserves has averaged more than 60 percent. MENA’s oil exports equal roughly 40 percent of the world’s oil trade and its share of the world’s total production of liquid fuels is predicted to go up from 31 percent in 2009 to 34 percent in 2035 (Figure 12).

With 55 percent of total global proved oil reserves, Persian Gulf countries are the leading oil suppliers in MENA. According to the U.S. Geological Survey, over 50 percent of the undiscovered oil reserves and 30 percent of natural gas reserves are concentrated in MENA, primarily in the Persian Gulf area, in Saudi Arabia, Iran, Iraq, Kuwait and the United Arab Emirates. According to recent EIA report, there are more than 110 billion undiscovered barrels of oil in the region.

The Strait of Hormuz, through which the bulk of MENA’s oil exports are transported, is the world largest oil checkpoint. In 2011, over 50 percent of the world’s oil was shipped by tankers through maritime routes. Over 85 percent of MENA’s oil is transported through strategic shipping lanes such as the Straits of Hormuz, Malacca and Suez (Figure 13). Roughly a third of the world’s oil trade is shipped through the Strait of Hormuz. Thus, any confinement of transit can substantially raise oil prices and impact global economy.

In the global oil market the policies of larger producer and consumer nations have more influence than others. Higher oil prices have a negative impact on major nations’ economic growth, as an increased cost of oil is a burden on households and businesses. As long as MENA’s and OPEC’s share of the global oil production remains high, unrest or uncertainty over the stability in the Middle East has major effect on oil prices. Events such as the Yom Kippur war in 1973, the Iranian revolution of 1979 and the Arab spring of 2010 demonstrated the major impact of Middle Eastern unrest on oil prices.

Conflicts and unrests in the Middle East may jeopardize oil supply, prices stability, and economic well-being. Interstate conflicts, as well as piracy, terrorism, and nuclear arms proliferation are the major threats for the region’s stability. In December of 2012, Crown Prince of the Kingdom of Bahrain outlined the regional challenges shared by many governments as follows: Iran’s aim to obtain nuclear capacity, sectarian non-state actors, piracy and other threats on oil transit, unstable regimes and failed states in the region, and the stalled Israeli-Arab peace process. The worsening of instability caused by any of these concerns may have destructive influence on oil market and price stability.
A stable Middle East, which will enable a steady global oil price and allow unhampered outflow of oil from MENA is critical for sustaining U.S. and China’s economic growth.

China attributes great importance to its cooperation with the U.S. to maintain energy security and economic development. China’s 2012 energy policy points out that “the international community should work collaboratively to maintain stability in oil producing and exporting countries”. China’s current incapacity to secure oil imports shipping routes and its incapability to assure stability in the volatile MENA region, force China to pursue American collaboration, going as far as asking for American assurances that the U.S. will maintain security in the region. As Premier Wen Jiabao stated in 2010 relating to energy security, “our common interests far outweigh our differences”. For many years to come U.S. maritime power will be crucial to ensuring stability and keeping sea lanes open for international commerce.

The U.S. is securing oil price stability by uninterrupted maritime transportation of oil while defending the operation of U.S. Major oil companies. Former deputy Secretary of Defense, Ashton Carter, explains that “energy security is a part of national security and it, like national security, can’t be pursued entirely within our own borders”. The same U.S. forces that secure the maritime transportation of oil from MENA to China also sustain the oil companies’ interests. Currently there are around 65,000 troops in the Asian-Pacific region and around 35,000 in MENA and the Persian Gulf in addition to two carrier strike groups, one in each region (Figure 14).

An important aspect of oil transportation is pipelines, a vast array of pipes linking the oil and gas fields to the refineries and ports (see appendix B). Peace and stability in the region will open the possibility of new oil pipelines between the Arab countries and Israel. Thus, helping to lower the risk in transportation through naval chokepoints like the straits of Hormuz and the Suez canal, further insuring the price stability.

In spite of China’s engagement in military modernization, its defense policy is mostly concerned with national development and maintenance of world and domestic stability. China lacks the ability and the desire to protect waterways and strategic sites in the Middle East, and remains reliant on American military to secure the energy supply that is the country’s lifeblood. China’s current engagement in the Middle East has almost no military component. China does not aspire to overshadow Western hegemony in the region and it unofficially appreciates U.S. military presence as a contributor to regional stability and energy security and welcomes every act which promotes stability in the region. China officially declares that it “will never seek hegemony, nor will it adopt the approach of military expansion now or in the future, no matter how its economy develops”.

In recent years institutions like the U.S.-China Economic and Security Review Commission (USCC) were established in order to promote cooperation between the two states. In October 2000, the USCC was created in order to examine national security implications of the economic relationship between the U.S. and China. Other settings such as U.S-China Clean Energy Research Center (CERC) were established to enhance cooperation in energy related topics. In the 2012 fourth meeting of the Joint U.S-China Economic Track-U.S China Strategic and Economic Dialogue (S&ED) it was agreed upon that "recognizing the U.S.-China economic relationship is based on a wide range of common and overlapping interests, the two countries reaffirm their commitments to continue to promote communication and cooperation from a strategic, long-term, and overarching perspective, to add to prosperity and welfare in the two countries, and achieve strong, sustainable, and balanced growth of the global economy".
In addition to the common interest of energy and trade security, Sino-American economic interdependence is on the rise. China is not only the U.S.' second largest trading partner, but also holds more than $1.2 trillion in U.S. treasury bonds, which accounts to nearly 10 percent of U.S. debt. Additional reasons for this interdependence are the U.S. heavy reliance on China for its critical mineral imports and the rising oil and gas Chinese acquisitions in North America. U.S. exports to China were $111 billion in 2012, while U.S. imports from China reached $426 billion in 2012, and during the last decade China’s share of U.S. trade deficit with the world more than doubled (Figure 15). Another aspect of that interdependency is China's worldwide energy acquisitions, which are beneficial to the U.S. for the reason that enlarging the diversity and quantity of oil supply in the international market is in every major oil consumer's interest. In the current state of affairs, both China and the U.S. are interested in a continued economic growth of each other to benefit the global economy and their own.

Promoting a resolution for the Israeli-Arab dispute enhances regional stability and lower uncertainty. The mutual China-U.S. interest for energy security in the region is assumed to prevail in the next two decades. Since both the U.S and China are greatly exposed to the increasing costs and worsening reliability of global oil supplies, reducing uncertainty and avoiding inter-state conflicts, become a strong mutual interest. As Wu Sike, China’s special envoy to the Middle East, said: "Maintaining peace and stability in the Middle East is also a common interest of both countries. There is a great deal both countries can achieve through cooperation, which will help bring about the balanced development of the world economy and global geopolitical stability".

**Conclusion**

In the past two decades a non-revolutionary revolution took place. China's growing dependence on oil imports from MENA and the U.S.' reduced dependence on MENA's oil supply, together with the American concern for its major oil companies’ activity, created a strong interest for regional peace and stability.

Both the U.S. and China recognize the global economic interdependency and the significance of coordinated policy for securing energy resources and transport. The dominant U.S. military presence in the Middle East and Asia-Pacific regions is aimed at achieving stability in the region, secure the transportation of oil and at protecting the operation of the American oil companies.

The shift of MENA's oil export from West to East occurred, in contrast to common prophecies, in a peaceful manner. China, as an emerging economy, plays a key role in the increasing demand for MENA's oil. The U.S. is on course to become free from MENA's oil supply, but it still has a very oil dependent economy. Therefore, both the U.S. and China would like to minimize oil price, which is still being defined by MENA and OPEC.

The Israeli-Arab conflict is one of the major threats for Middle East stability. Resolution for this dispute has an enormous economic potential both for Israel and the Palestinians, as it is the potential center of a main oil and gas pipeline, connecting East to West and vice versa.

China, as a key investor in the region, cannot afford to continue its non-interference policy and has a strong incentive to become more politically engaged in the Middle East. We argue that China should take an active role in promoting a solution to the Israeli-Palestinian conflict.
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