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The Impact of the Arab Revolutions on China's Foreign Policy

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Executive Summary

The Arab revolutions have presented a serious test for China's foreign policy at a time when the country is facing its greatest domestic challenge for nearly two decades.

That said, the Middle East is less central to China's foreign policy than it is to the foreign policy of both Europe and the United States. In part, this is a matter of expediency given the country's still developing foreign policy capabilities and the demands of other regions, in particular the United States, Europe, and Southeast Asia. The fact that China's re-engagement with the Middle East is barely a decade-old is another factor.

Moreover, the Arab revolutions have not seriously threatened China's oil security: oil imports from Egypt, Libya, Syria, and Yemen account for just 5% of total oil imports.

Nonetheless, there has been a 'tactical' change in China's foreign policy in the Middle East. Most important is China's engagement with opposition groups in armed conflict with the state. There is growing recognition that political regimes can and do change through conflict, and so opening dialogue with opposition movements can help to mitigate against risk.

The long-standing policy of 'non-intervention' remains intact as a strategic objective: most academics and officials will still privately and publically declare their support for the principle. However, whether it can in fact survive the constant 'tactical' changes that have so far been evident in the Middle East is yet to be seen. But Chinese officials are certainly operating on the assumption of no change.

Europe should respond to China's tactical change in foreign policy. However, it is best advised to expect only a gradual evolution, rather than revolution, in policy.

Engaging with China through multiple parties is critical, whether through embassies or academics. Engaging through non-public means is also important, to avoid putting officials or academics in the awkward position of conflicting with state policy and ensuring healthy debate between all sides.

Above all, consideration must be given to China's long-term domestic interests, as this is how the country's foreign policy is determined. To this end, the stability of existing regimes best serves China's interests for now. This would change only in the event of conflict between major oil producers, or a sudden shift in 'international' public opinion away from China's position.

Main points

- China's policy of 'non-intervention' remains its strategic objective. Officials and academics will privately and publically declare their support for the principle.
- However, there is growing recognition that some 'tactical' flexibility is needed in order to respond to the fact that regimes can and do change.
- China's engagement with opposition movements in conflict with the state is one such example of 'tactical' flexibility, as previously the country dealt only with the ruling authorities.
- Nonetheless, the change is evolutionary, not revolutionary, and will not yet materially change the Middle East's outlook, or result in China abandoning its strategic policy of non-intervention.
- China's domestic interests remain central to the country's foreign policy and, in the Middle East, are best served by support for existing regimes.
- Europe must engage with change through multiple Chinese actors, while dampening expectations for significant short-term results.

Background Briefing: The Impact of the Arab Revolutions on China's Foreign Policy

Introduction

The Arab revolutions have presented a serious test for China's foreign policy at a time when the country is facing some of its greatest domestic challenges for nearly two decades: a leadership change as the fifth generation of leaders takes power; internal party tensions with the fall of Politburo member Bo Xilai; and risks from an economy that is increasingly reliant on state-owned and heavy industrial-led activity.

However, observing this change is not straightforward to the casual observer. The influences on China's foreign policy are markedly different to those in Europe and the United States - whether the result of China's status as a developing country, its short history as a participant in Middle East politics, its focus on economic security as opposed to political security, or its disinterest in political reforms. This also makes it difficult for Middle East observers to apply the same analytical framework to China's behaviour in the region as that used to understand the behaviour of Europe and the United States.

A good example is the Israeli-Palestinian conflict. The fact that China has no powerful Israeli lobby (unlike the United States) and no historical obligation to deal with the problem (unlike Europe) allows China to sit on the sidelines where possible. As a senior Chinese official once privately commented: 'Why should we get involved? Neither side is serious about finding a solution.'

The challenge is compounded by the fact that China's re-engagement with the Middle East is arguably only a decade old and one largely based on commercial relations. There is little published material on the subject and what is available dates relatively quickly. Field research, rather than academic theory, is therefore the more appropriate way to understand the changes taking place.

With that in mind, this paper is written from two perspectives: first, as an Arabic and Chinese-speaking scholar of China's reengagement with the Middle East; second, and arguably more importantly, as a private sector participant in China's strengthening trade and investment relations with the Middle East, focused on acquisition, joint-venture, and capital-raising opportunities between the two.

The Middle East in China's World View

It is popular to assume that the Middle East is a primary focus for China's foreign policy, just as it is for Europe and the United States. However, that is not the case. This might appear counterintuitive given that China's oil imports already account for half of domestic oil consumption, and the share is rising steadily. It is, however, a matter of expediency: China's foreign policy priorities are shaped by the country's still limited foreign policy capabilities—at least relative to the large developed countries—and the realities of its geography.

The United States—the world's major economic and military power—is naturally a primary focus. Europe is also a focus given the region's similar economic power, albeit more 'diluted' military and political power. Korea, Japan, Russia and Southeast Asia, while individually less important, are still a key focus, whether because of shared borders, commercial relations, or historical disputes.

The upshot of this is that China's Middle East policy is often a 'residual' of its foreign policy in other regions, especially with respect to China's broader relations with the United States. For instance, China's stance on Iran cannot be viewed in isolation, but rather against the backdrop of what China is simultaneously seeking from the United States in Taiwan, the South China Sea, or even trade issues.

Three additional realities underscore its secondary position.

First, China's long-standing policy of not intervening in the affairs of other countries has allowed it to avoid committing significant resources to dealing with the Middle East's most protracted problems, in contrast to Europe and the United States: the Israeli-Palestinian conflict is the most obvious example with China playing a negligible role since its re-emergence over the past decade.

This comes in spite of the fact China has emerged as a strong trade partner of Israel, even importing large amounts of Israeli arms. Israel has lobbied China aggressively, especially through sponsoring students, academics, and media to study and work in Israel. They form part of what is popularly called an 'Israeli faction', although this faction has only limited influence and cannot be compared to those in Washington.

In the Gulf, there was some criticism of China regarding the amount of aid paid for reconstruction of Gaza after fighting in 2009, which was a small fraction of the Gulf's aid for reconstruction of Sichuan after the earthquake in 2008. But the fact that the United States remains a far larger and more

partisan economic and political partner of Israel helps to deflect attention from China's relations with Israel.

Whether China can maintain this apparent neutrality is less certain, especially in the event of another Israeli attack on Gaza (or a neighbouring state). But its ability to 'avoid' the issue, for reasons cited above, mean observers should not assume that the Israeli-Palestinian conflict exerts the same pull over China's foreign policy in the Middle East as it does for Europe and the United States.

Second, China's commercial relations with the Middle East are growing, but are nonetheless less significant than the Middle East's commercial relations with Europe and the US. Chinese exports to the Middle East reached \$105 billion (EUR 82 billion) in 2011, just 4% of total exports, and considerably less than total exports to the United States (\$396 billion [EUR 310 billion]) and the European Union (\$381 billion [EUR 298 billion]), and not much larger than Korea at \$82 billion (EUR 64 billion).

Third, the Middle East is a relatively complex place for China's leadership to understand. Most Chinese are unfamiliar with the ethnic, tribal, and sectarian complexities of the Middle East. There are also few Middle East scholars in China, particularly those that speak Arabic. Much of the Chinese-language academic research on the Middle East is thus heavily reliant on work by foreign scholars, especially from the United States. Chinese Middle East scholars and Arabic linguists who do travel regularly to the region and are able to work from original Arabic-language documents are too small in number to influence policy. The number of Arabic-speaking diplomats is larger, but they tend to spend unusually long periods in the Middle East, limiting their ability to influence policymakers in Beijing.

The combined effects of having a limited pool of Middle East specialists and a foreign policy that is often just a residual of foreign policy in other parts of the world mean that it is less clear which parties or interests are driving China's Middle East policy. This comes in sharp contrast to Europe and the United States where policy is centre stage of the political debate. This makes it difficult to observe changes in China's stance towards the region as there is no single department or official whose statements carry significant weight.

Nevertheless, it is possible to identify a number of actors that help shape Chinese policy:

- The individual views of Politburo members on the Middle East have the greatest influence on policy (for instance, the opening of a branch office of the China Development Bank in Cairo was an impromptu decision taken by Li Keqiang after his visit to the country);
- The Ministry of Commerce and state-owned construction companies looking to win deals in the region are also influential in the absence of a more unified political strategy towards the region; and,
- Lastly, the Foreign Ministry and academics in Beijing who regularly brief the senior leadership on events in the region.

An Evolutionary Change in Policy

China's foreign policy stance has evolved in response to the Arab revolutions. The change is evolutionary, not revolutionary, but has important implications.

In private conversations with academics and officials, it is typically argued that China's strategic policy of 'non-intervention' is unchanged. However, there have been 'tactical' changes in the country's approach to the Middle East. As China's Special Envoy to the Middle East, Wu Sike, argued in an editorial published in the *People's Daily* in May 2011, 'Non-intervention is not equal to inaction'.

The most important of these changes has been recognition of opposition movements, especially those in armed conflict with the state. The Chinese state has historically avoided dealing with such movements for fear of setting a precedent by which foreign powers might deal with opposition movements in China. Two recent examples in Libya and Syria underscore this change.

In June 2011, the Chinese Foreign Ministry announced that the Libyan opposition movement was an 'important political force'. This was shortly followed by a visit by Mahmoud Jibril, the Chairman of the National Transitional Council, to Beijing in July. (The opposition Libyan movement was generally referred to in the Chinese media as a representative of the transitional government, rather than opposition force.) The pace of change in China's policy stance then further accelerated when Syria's unrest worsened during early 2012. Vice Foreign Minister Zhai Jun visited Damascus in mid-February meeting with both the ruling regime and opposition movements. Earlier that month, Zhai had met a

delegation from the National Coordination Committee for Democratic Change, a major opposition group, in Beijing.

The problem is relative perception. While these changes were significant to close observers of China's foreign policy, they meant little to Libyans and Syrians using Europe and the United States as their foreign policy benchmarks. Instead, attention was paid to China's refusal to participate in military action against the Gadhafi regime, or vote against measures raised against Syria at the United Nations Security Council.

As a reflection of this, China has anecdotally found it difficult to restore commercial relations with Libya. There is anecdotal evidence from Libya whereby officials have refused outright to deal with Chinese firms (and Indian, for that matter), a major concern for those firms wanting to return to the country. (That said, this stance depends on individual cases, and the extent to which Libya has alternatives to Chinese firms.)

The irony is that China's relations with the previous regime were in fact relatively weak. Indeed, the former Libyan Foreign Minister, Musa Kusa, publically accused China of having 'colonial interests' at a China-Africa Forum in 2009. But China's lack of support for sanctions and armed intervention against the regime in 2011 angered the Libyan opposition forces and suggested China was pro-Gadhafi.

China's Commercial Interests in the Middle East

Oil Interests

China prioritises its own economic stability as the best means of safeguarding its social and therefore political stability. This belief was central to a massive policy stimulus made in response to the global crisis. It also influences China's engagement with the rest of the world, especially the large commodity producers concentrated in the developing world.

This suggests that China should prioritise its reliance on oil imports from the Middle East. China's domestic oil production has largely peaked, and marginal increases in consumption are supplied by imports. The Middle East is already supplying 52% of China's oil imports and 28% of total oil consumption, a figure that is forecast to rise gradually in the coming years. To put that in perspective,

China's crude oil imports are worth 2.6% of GDP, compared with a figure of 0.8% of GDP in the United States in the early 2000s, shortly before the second Gulf War.

The disruption to Libya's oil supply was a warning signal of the potential risks to China. Libya supplied 3% of China's total oil imports pre-revolution, implying a physical disruption to supplies, alongside a price disruption as international oil prices soared to around \$100 a barrel. The rise in prices compressed profit margins among Chinese manufacturers and drove gasoline prices higher for the middle-class. That noted, the Arab revolutions have not resulted in a material disruption to supply: together, Egypt, Libya, Syria, and Yemen were worth 5% of China's total imports pre-revolution.

The bigger challenge for China then is potential conflict between Iran and Saudi Arabia. Together, the two supply 31% of China's total oil imports, not including the exports from Kuwait and the United Arab Emirates (UAE) that would be disrupted in the event that oil tankers are prevented from travelling through the Strait of Hormuz. China has unsurprisingly remained reluctant to take sides in cross-straits disputes for fear of antagonising either party.

Oil imports from Iran did fall in early 2012. It is unclear to what extent this reflects a variety of factors: the growing pressure of sanctions; the resumption of Libya's oil exports to China around the turn of the year, which made up half the loss from Iran; and, worries about a reliance on Iranian supplies in the event of an Israeli or American attack on Iran, among other reasons. This development is also still relatively new and we have seen oil imports from Iran fall to this level as recently as mid-2009.

The extent of China's support for Iran is also easily overstated. Academics talk of 'China being a strategic partner for Iran, but Iran not being a strategic partner for China'. The former special envoy to the Middle East, Sun Bigan, wrote in 2009 about concerns that Iran would strive for its 'maximum self-interest' and would be quick to sign agreements with Western oil companies in the event of any political settlement.

What is clear is that the politicisation of China's oil imports is a growing risk. Indeed, Arabic-language reports surfaced in March 2012 claiming that Saudi Arabia had lobbied for China's support for United Nations action against Syria through the promise of increased oil supply. (Much as Saudi Arabia was reported to offset any declining supply from Iran if China acted more firmly against Iran's nuclear ambitions).

The reports are unsubstantiated and may be fabrications of the Syrian opposition, but they do reflect the growing ties made in the Middle East between the region's oil exports to China and the latter's growing importance to the Middle East's politics. It would not be a surprise to see such pressure grow in the long-term, especially in the event of conflict between Iran and Saudi Arabia.

Still, oil supply and prices, while at risk, have not yet been dislocated to the extent that China's foreign policy towards the region might change significantly.

Non-Oil Interests

China's non-oil commercial relations with the Middle East have meanwhile flourished since the early 2000s, but are not yet motivation for the country to take a more activist position in the region.

First, the magnitude of trade with the Middle East, while growing, still accounts for less than 4% of China's total exports. This is similar to its exports to Africa (4%) and modestly smaller than exports to Latin America (6%). It is thus not significant enough to represent a material risk to China's export sector and social stability in the event that the region's export demand collapsed.

Second, Chinese workers have not flooded the Middle East as they have Africa. This owes to far tighter restrictions on the entry of foreign workers to most Middle East countries. Egypt, for instance, only permits one in ten workers on any single project to be foreign nationals. Temporary exceptions are only granted in high-tech sectors where local labour supply is considered insufficient.

Libya and Algeria (and, to a lesser extent, Yemen) are obvious exceptions to the rule, and there were an estimated 35,000 Chinese workers in each country prior to the recent social unrest. Chinese state-owned firms have suffered large losses in these countries as construction sites were looted. And those losses may in part help explain the 'tactical' change in China's foreign policy towards Libya's armed opposition groups.

The other implication is that the region's social unrest has not exposed large numbers of Chinese workers to violence. Libya is again the clear exception. Yet, while Chinese nationals had an often harrowing time trying to evacuate the country, as armed groups occupied and ransacked many building sites, there were no serious attacks against Chinese nationals or loss of life.

Individual Chinese traders are present across the region. Reports surfaced in 2010 of Chinese traders leaving Dubai for cities across Iraq, attracted by the country's recovering demand and margins as

high as 50%. Indeed, a short YouTube movie released in 2012 showed Chinese traders sponsoring a Shi'ite religious festival near one of Iraq's second-tier cities and embedding themselves within the local community. These individual traders are a risk for China's Foreign Ministry in the event that they are killed or kidnapped, but their limited numbers are unlikely to spark a sudden change in China's foreign policy.

Nonetheless, China's economic interests are large enough that the Ministry of Commerce plays an important role in the country's relations with the Middle East—it was Ministry officials that took the lead in coordinating with Chinese firms in Libya and providing aid to both Chinese nationals and Libyans. (It is common for academics to play down the importance of the Ministry of Foreign Affairs.)

That said, most of China's construction interests are in the Gulf region where the opportunities are significantly greater—there are over 50 Chinese companies in Saudi Arabia with a permanent presence and hundreds more in the UAE. The upshot is that the large bulk of China's economic interests have been largely unaffected with the exception of those in Libya and, to a lesser extent, Algeria and Yemen.

If Chinese firms start to lose commercial contracts in the Gulf as a result of China's stance towards Syria, the Ministry of Commerce might attempt to exert greater influence over China's foreign policy in the Middle East. So far, there are only rumours of this. Saudi Arabia will also be careful to avoid upsetting its largest oil buyer. However, such an event would likely have a material effect on China's stance.

The large state-owned firms also have the ability to indirectly affect China's relations with the region through their business practices. The best example of this was the reported attempt by a Chinese firm to sell arms to the Gadhafi regime in early 2011. The tendency to hire Chinese labourers also creates tensions with the local community mainly in the Levant and North African regions.¹

¹ However, at a conference in the western Chinese province of Ningxia in late-2011, the Arabic-speaking business development manager for China State Engineering Construction, emphasised the importance of localising the company's workforce in the Middle East in response to the recent unrest - a move that might change local attitudes towards China. He spoke of reaching 50% local hires.

China's Domestic Policies

China's domestic politics are a further restraint on the country's ability, and willingness, to act more decisively in response to the Arab revolutions, albeit a restraint that is often overlooked.

China's economy has reached an inflection point as imbalances in the composition of growth built-up over the past decade, but especially since 2008, have raised the risks of a sudden slowdown in growth. Coupled with worsening income inequalities, whether because of slow real income growth or rising food and house prices, this has raised the threat of serious social unrest.

Many of the complaints made by Middle East protestors about living costs and corruption thus resonated in China, and there was some fear among China's senior leadership of a spillover revolt. (In fact, Prime Minister Wen Jiabao, while speaking at the National People's Congress in 2012, went so far as to publicly deny a link between events in the Middle East and China's own challenges.)

China's large Muslim population is an additional reason for the state to avoid direct intervention in the Middle East. Official estimates put the population at 20 million, while unofficial estimates put it significantly higher. While tensions with the 8 million Muslim Uyghurs are long-standing, there are legitimate worries that intervention might shake the so far healthy relations with the 10 million Hui Chinese.

It is also easily overlooked that China's western provinces are bordered by a number of Muslim states, many host to extremist groups. Unlike the more geographically isolated United States, Chinese academics have noted concerns about the trouble Muslim states could cause China in its own 'backyard' should the country intervene more forcefully in the Middle East and oppose long-standing regimes.

Implications for Europe

China's policy of 'non-intervention' remains in force. However, there has been a 'tactical' change in the country's approach to the Middle East. Whether that change is material enough to change the trajectory of other countries, or Europe's interests in those countries, is still far from clear. So far, the evidence from Libya and Syria is 'no'. Nonetheless, the change is sufficient to require a response.

With this in mind, a few points can be made with respect to Europe's engagement of China in the Middle East.

- China's engagement with opposition forces is not conducted for the same purpose as that of Europe and the United States, for example, support for the principles of a multi-party democratic political system. It instead reflects a growing recognition that political regimes can and do change and so, opening dialogue with opposition movements in conflict with the state is a pragmatic means of hedging against this risk.
- China will rightly worry that as long as Europe and the United States lobby more aggressively for regime change, they will be the greater beneficiary from such change. This discourages China from taking a more assertive stance in support of opposition movements in conflict with the state, as the benefits from such a stance are unclear, unless international opinion has firmly swung against the ruling regime (as in the case of Libya).
- China's domestic interests remain primary when considering the country's actions in the Middle East. Most important is China's economic security, especially its growing reliance on oil imports. To this end, the stability of existing regimes best serves China's interests, especially given that intervention by Europe and the United States over the past decades have yielded limited results.
- Observers should be cautious about reading too much into small shifts in China's policy towards the region. The fact that its policy is a residual of China's interests in the rest of the world; the fact it has a shortage of Middle East expertise; and that the bulk of China's commercial interests are in the Gulf and largely unaffected, means policy changes so far are partly opportunistic and not necessarily a good guide to future behaviour.
- Europe should engage China's tactical adjustment in its foreign policy stance towards the Middle East. However, Europe should expect only a gradual evolution, rather than revolution, in policy. Forcing a faster pace of change is unlikely to yield results.
- First, and as a general rule, engaging with China through multiple parties is critical, in part owing to the diffuse nature of China's Middle East policies, but also the country's increasingly consensus-driven rule. Engaging through non-public means is also important, to avoid putting officials or academics in the awkward position of conflicting with state policy and so ensuring healthy debate between all sides.
- Second, China is increasingly keen on being viewed as a responsible global power. This *may* tempt its leadership to play a more active role in the region given the importance of the

Middle East to all the world's major powers. Europe should consider establishing whether China might join a group such as the Quartet on the Middle East; however, in the author's view, the chances of acceptance are small.

Indeed, pragmatism will remain China's guiding rule, especially in a region where there are so many competing strategic powers (Europe, the US, Russia, Turkey, Israel and Iran). And, as long as China's interests remain mercantilist, trying to balance commercial relations with Iran, Israel, and Saudi Arabia will further restrain the country's ability to take a more public position.

- Third, engaging China as a partner in plans for economic aid or post-conflict reconstruction would demonstrate that Europe's support for regime change is not an attempt to squeeze China's economic interests in the Middle East (a popular fear in China). It would also better suit China's interests to engage at an economic, rather than political, level, and so maintain its strategic policy of 'non-intervention'.

That noted, it would be better to divide priorities so that China can at least appear to be acting independently of Europe, rather than propose joint-aid programs. To illustrate, the China Development Bank might make a direct loan to Egypt for highway construction, albeit after having coordinated with other European development banks on a list of construction priorities.

- Fourth, working with China's major oil suppliers, especially Saudi Arabia, as an indirect form of lobbying. This is especially important on the issues related to Syria and Iran, as Europe and Saudi Arabia share a similar stance on these two countries. It might be that such pressure is later publicly realised through the cover of the Arab League, but discrete bilateral lobbying through China's oil suppliers is the more immediately effective approach.

However, it is important to point out that Saudi Arabia's interest in lobbying China aggressively is weakened by the fact that Saudi Arabia is as dependent on China's oil demand as China is dependent on Saudi Arabia's oil supply. This 'co-dependency' is strengthened by the fact the two sides are ideal partners in so far they both have a preference for long-term oil contracts made between producers and final users.

- Finally, when observing China's changing foreign policy towards the Middle East, events in Syria are more important than those in Libya, owing to the greater complexities of the

unrest. China's support for the armed opposition in Libya was more straightforward given Gadhafi's almost universal unpopularity in the Middle East. This is less true of Syria, especially given its Sunni-Shi'ite backdrop.

Above all, consideration must given to China's long-term domestic interests, as this is how the country's own domestic policy is determined, and, by consequence, foreign policy.