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Will China replace the U.S. in the Middle East?

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Is the U.S. pulling out of the Middle East while China's role in the region grows? The U.S. has withdrawn its troops from Iraq and is withdrawing them from Afghanistan. It is also becoming less dependent on imported oil, especially that from the Persian Gulf. U.S. reluctance to get involved in the fighting in Syria or to go beyond economic sanctions in the conflict with Iran also suggests its desire to retreat from the region. On the other hand it remains the main interlocutor between Israel and the Palestinian Authority, and the U.S. Navy’s Fifth Fleet, numerous U.S. military bases, and approximately 40,000 troops remain in the Gulf.

China's interests are mainly economic: it needs oil if its economy is to continue growing. The imminent emergence of China as the world's largest net oil importer has been driven by steady growth in demand, trade, power generation, transportation sector shifts, and refining capabilities and flat demand for oil in the U.S. market. China is undiscriminating in its relations with other states and so has close links with some of the worst regimes in the region, such as Sudan, and is willing to trade with Iran as well as Iraq and others. While this is largely explained by its need for oil, the reality is more complex.

Table 1 shows how China's merchandise trade with the Middle East (including Israel but not North Africa) has grown much faster than that of the U.S. In 2012, its exports to the region were 23 percent larger than those of the U.S. while its imports were 21 percent higher.

Table 1:Trade with the Middle East ($ billions)

	USA		China	
	Exports	Imports	Exports	Imports
2002	18.9	35.8	9.5	9.5
2003	19.4	43.9	13.3	14.4
2004	23.5	54.2	16.9	21.6
2005	31.5	65.7	22.2	31.0
2006	37.2	74.7	24.2	40.8
2007	45.1	80.3	44.3	47.9
2008	55.0	115.3	58.8	78.9
2009	44.8	61.0	51.1	56.2
2010	48.7	76.9	62.6	86.7
2011	58.3	106.3	79.7	134.1
2012	69.6	119.6	85.6	145.2

Source: World Trade Organization

The main reason for this growth was that China imported more oil from the Middle East than any other part of the world and these imports increased rapidly. In 2011, it imported 2.9 million barrels per day (mb/d) of Middle Eastern oil, which accounted for 60 percent of its oil imports. In the same year, the United States imported 2.5 million barrels per day of oil from the Middle East, accounting for 26 percent of its total oil imports.

According to China's Development Research Center of the State Council, if consumption is not curbed by 2030, China will then import about 75 percent of its oil. China is set to surpass the United States this year as the world's largest oil importer and much of this will come from the Middle East. In 2012, oil accounted for about 18 percent of Chinese energy consumption while coal accounted for almost 70 percent. In the United States, oil accounted for 37 percent of energy consumption and coal accounted for 22 percent. The international oil market is therefore, in some respects, even more important for the United States than for China, both directly as a source of energy for its economy and indirectly as a source for its allies.

Decreasing United States reliance on Middle Eastern oil, coupled with rising Chinese dependence has significant geopolitical implications, according to the Chinese report. While the United States will not abandon its oil interests in the Middle East, its efforts to support democratic movements in the region will not be as constrained as in the past by its need for oil, according to the report, with the result that international energy markets will become more unstable. China should therefore decrease its reliance on oil imports from the Middle East.

The International Energy Agency (IEA) projects that the U.S. oil imports from the Middle East will fall from 1.9 million b/d in 2011 to 100,000 b/d or 3 percent of total oil imports in 2035 as a result of increasing domestic oil production and decreasing demand. In contrast, China's oil imports from the Middle East are projected to grow from 2.9 million b/d in 2011 to 6.7 million b/ or 54 percent of total oil imports in 2035. This will leave China increasingly exposed to the vagaries of Middle East politics while the U.S. becomes less so, which could result in an increased Chinese strategic reliance on the U.S.

Table 2: Chinese Oil imports, 2010-2013 (millions of barrels a day)

	2010	2011	2012	2013
Middle East	2714	2990	2972	3175
-Iran	425	554	438	429
-Saudi Arabia	893	1005	1075	1078
OPEC	3015	3150	3562	3594
Total	4790	5061	5415	5655

Source: China, Customs Data

In 2001 the Persian Gulf accounted for 23 percent of U.S. oil imports, while in 2013 it accounted for 20.5 percent. During that period, the total volume of oil imported by the U.S. fell by 20.5 percent while that from the Gulf declined by 27 percent.

U.S. annual oil production rose by nearly 30 percent between 2011 and 2014 to nearly 13 million barrels per day, primarily from shale oil, tight oil, and Gulf of Mexico. In the meantime, Chinese production has increased at a much lower rate – 6 percent over this period – and is forecast to be just a third of U.S. production in 2014.

On the demand side, China's liquid fuel use is expected to grow by 13 percent between 2011 and 2014 to more than 11 million barrels per day while U.S. demand hovers close to 18.7 million barrels per day, well below the peak U.S. consumption level of 20.8 million barrels per day in 2005.

In January 2014, China had 24.4 billion barrels of proven oil reserves, 0.7 billion barrels more than in 2013. It total oil production, the fourth largest in the world, has risen by about 54 percent over the past two decades and serves only its domestic market. However, production growth has not kept pace with demand during this period. In 2013, China produced an estimated 4.5 million barrels per day (mb/d) of total oil liquids, of which 93 percent was crude oil. The U.S. Department of Energy's Energy Information Administration (EIA) forecasts that by the end of 2014 China's oil production will increase to about 4.6 mb/d. Over the longer term, the EIA projects steady growth for China's oil and liquids production, reaching 4.6 m b/d in 2020 and 5.6 mb/d by 2040.

Table 3 compares the sources of energy used in the U.S. and China. Oil is nearly twice as important in the U.S. as in China. Coal dominates energy consumption in China and is domestically sourced. There is strong domestic and international pressure to reduce reliance on coal given that it is such a polluting fuel. China will continue to import more oil and the Middle East is an ideal source, despite its political instability. In contrast the U.S., blessed with shale resources and will need to import less oil over time.

Table 3: U.S. and Chinese Energy Consumption, 2012

(million tons of oil equivalent; for oil: millions of tons)

	Total	Oil	Natural Gas	Coal	Nuclear	Hydro	Renewables
U.S.	2208.8	819.9	654	437.7	183.2	63.2	50.3
Percent		37.1	29.6	19.4	8.4	2.9	2.4
China	2735.2	483.7	129.5	1873.3	2.0	194.8	31.9
Percent		17.6	4.7	68.5	0.1	7.1	1.2

Source: BP

According to the EIA, China's oil consumption growth eased after a high of 14 percent in 2009, reflecting the effects of the global economic downturn. Despite slower growth, China still accounted for nearly a third of global oil demand growth in 2013.The EIA forecasts that China's oil consumption will continue growing through

2014 at a moderate pace to approximately 11.1 mb/d, and its net oil imports will reach 6.6 mb/d compared to 5.5 mb/d for the United States.

Despite their rivalry, U.S. – China relations are quite different from those between the two Cold War superpowers: the U.S. and U.S.S.R. The U.S. and Chinese economies are much more interdependent: the two countries are massive trading partners. In 2013, China's exports to the U.S. came to $439 billion while U.S. exports to China totaled $120 billion. China therefore has a huge merchandise trade surplus with the U.S. and it is also a major holder of U.S. bonds. It therefore has a vital interest in the health of the dollar as well as the U.S. economy more generally. In December 2013, China held $1.27 trillion worth of U.S. government bonds, an eight-fold increase over the last decade. The United States is in effect borrowing from China to pay for the fact that its imports from the latter are much larger than its exports to it. The U.S. is, of course, interested in China maintaining this holding while China has interests in U.S. prosperity and stability. This is always a factor when China considers its policies in the Middle East.

The fact that China has surpassed the U.S. as importer of Persian Gulf crude has added to tensions because it means that the U.S. military is protecting China's growing oil shipments in the region at a time Beijing resists pressure to back U.S. foreign policy in the Middle East.

The U.S. dominates military security of Middle East oil exports as the U.S. Fifth Fleet patrols the Persian Gulf. For years, China and other oil-consuming nations have benefited as Washington spent billions of dollars a year to police chokepoints such as the Strait of Hormuz and other volatile parts of the Middle East to ensure oil flowed.

According to Professor Roger Stern, on an annual basis the Persian Gulf mission now costs about as much as the Cold War did. Stern has estimated the cost of the U.S. military presence in the Gulf from 1976 to 2010 at $8 trillion, or $235 billion a year. The Persian Gulf mission pins down the U.S. military and limits its ability to project force elsewhere. Major General Yin Zhuo, director of China’s navy information committee, has noted that it would take the United States time to return forces to Asia and China needs to grasp this strategic opportunity presumably by maintaining its strength in East Asia while the U.S. protects fuel sources in the Middle East. Antiterrorist wars still constrain U.S. power. Without the extensive long-term U.S. military presence in the Persian Gulf, it seems an open question whether anti-U.S. suicide terrorism such as the USS Cole and 9/11 attacks would have taken place, Stern has noted.

China's rise as a dominant buyer of Middle East oil presents a conundrum. The Chinese economy has become partly dependent on oil from a region protected by the U.S. military. When tankers leave Persian Gulf terminals for China, they rely in significant part on the U.S. Fifth Fleet policing the area.

For the U.S., China's oil demand means justifying military spending that benefits a country many Americans see as a strategic rival and that frequently opposes the U.S. on foreign policy.

Signs of tension are surfacing. Beijing has asked for assurances that Washington will maintain security in the Persian Gulf region, as China doesn't have the military power to do the job itself. This is despite the fact that China's military spending is rising. In March 2014, China announced a 12.2 percent increase in defense spend over last year, to almost $132 billion, the second-largest military budget in the world after the United States (which remains far larger at $523 billion). According to the Stockholm International Peace Research Institute, between 2002 and 2012, China's military spending rose three-fold per cent in real terms while that of the United States increased by about 50 percent.

China maintains a three-ship antipiracy task force in the Indian Ocean and occasionally sends military ships to the Mediterranean. It has also contributed troops to the U.N. peacekeeping force in Lebanon. Turkey's decision to acquire the Chinese FD-2000 missile defense system for $3.4 billion rather than rival U.S. or European systems may be a sign of things to come.

Chinese officials are reported to have sought to ensure continued U.S. commitment to the region, particularly as the Obama administration has tried to increase its strategic focus on East Asia.

In return, U.S. officials have pressed China for greater support on issues such as its foreign policy regarding Syria and Iran. U.S. officials in private discussions have pressed China to lower its crude imports from Iran.

The U.S. has other interests in keeping a large presence in the region, including protecting Israel and shoring up shipping lanes for allies such as Japan and South Korea. It is not clear whether the U.S. would soon welcome greater Chinese military involvement in the Middle East, which could challenge America's role in the region.

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