

Background

No. 1974
September 26, 2006



Published by The Heritage Foundation

China and the Middle East: A New Patron of Regional Instability

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The People's Republic of China (PRC) is a relative newcomer to Middle East geopolitics and, as far as U.S. interests are concerned, not a very welcome one. Home to the world's largest oil and gas reserves and one of the world's most volatile areas of conflict, the Middle East presents the Chinese leadership with vast opportunities to fulfill its growing energy needs and to profit from massive weapons sales to oil-rich regimes, regardless of the effect on regional stability.

China's indiscriminating and opulent oil and gas transactions with Iran's radical leaders, for example, seem to include the fringe benefit of providing them with Beijing's diplomatic shield for their nuclear ambitions. China has also prevented the United Nations from seriously addressing Syria's refusal to cooperate with the U.N.'s investigations into the assassination of former Lebanese Prime Minister Rafik Hariri.

The PRC's empathy for state sponsors of terrorism and terrorist organizations such as Hamas and Hezbollah and its cynical manipulation of Kurdish politics to leverage Turkey are just a few warning signs that Beijing's intentions in the region are not benign. The most troubling aspect of China's increasing presence in the Middle East is Beijing's continued endeavors to strengthen its diplomatic, economic, and military ties with Iran. Moreover, China's support for regional dictators could severely impede efforts by the U.S. and Europe to help their Arab partners with political, economic, and educational reforms and to encourage peace efforts.

Talking Points

- China sees its new diplomatic clout in the Middle East as a geopolitical counterweight to the United States. Beijing sees chronic crises in the Middle East as distractions for the United States, not as particular threats to world peace. Beyond straightforward petroleum and gas considerations, Beijing now regards its political patronage of Middle Eastern states such as Iran and Syria and radical groups such as Hezbollah and Hamas as crucial to its geopolitical successes.
- Beijing's continued proliferation of missiles and weapons of mass destruction to Syria and Iran has encouraged Tehran and Damascus to continue their attacks on the liberal and democratic evolution in the region.
- If Washington is to nudge Beijing into the habit of supporting peace, stability, and non-proliferation in the Middle East, U.S. leaders must confront Beijing publicly and forcefully about China's unsettling pattern of behavior in the region.

This paper, in its entirety, can be found at:
www.heritage.org/research/AsiaandthePacific/bg1974.cfm

Produced by the Asian Studies Center

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

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Although Beijing acquiesced in July 2006 to the passage of U.N. Security Council Resolution 1696, which gave Tehran until August 31 to suspend its uranium enrichment, it is doubtful that China will support sanctions on Iran for noncompliance. However, it does indicate that Beijing is not yet ready to alienate the United States, which is the largest market for Chinese exports.

If Washington is to nudge Beijing into a habit of supporting peace, stability, and nonproliferation in the Middle East, U.S. leaders should confront Beijing publicly about China's unsettling pattern of behavior in the region. Moreover, Washington should continue to support its allies and friends and to promote democratic governance, economic prosperity, and peace efforts in the Middle East through various reform and confidence-building programs.

Energy and Trade Interests

China needs Middle Eastern oil.¹ Even though the growth of China's oil imports has been decelerating lately, overall Chinese demand for fuel resources is still rising. Declining domestic petroleum production and burgeoning domestic automobile sales² exacerbate China's thirst to the point that the PRC has accounted for 40 percent of global oil demand growth since 2000 and will further increase its dependence on Middle Eastern oil in the coming years.

The Middle East currently provides over 45 percent of China's total oil imports. By 2015, 70 percent of China's oil imports is expected to come from the region.³ In 2005, the growth rate of China's oil

imports slowed by 30 percent, largely due to soaring oil prices,⁴ and China's overall dependence on oil imports slightly decreased.

Whether this trend will persist is uncertain, but Beijing's extensive interest in Middle Eastern energy resources is evidenced by the considerable number of major long-term oil and gas deals that it has signed with Arab countries. The government-run Chinese Academy of Social Sciences stated in a recent report that "China's dependence on Middle East oil is increasing" and that "the Middle East will be the most important supply source of international oil for China."⁵

Recent Chinese energy investments in major oil and gas suppliers, including Iran and Saudi Arabia, with unusually lengthy contract durations are aimed not only at locking up a continuous, secure stream of energy supplies, but also at taking control of the exploration and development of oil fields.

Saudi Arabia. China and Saudi Arabia, its top oil supplier, seem to have a symbiotic investment relationship in the oil sector. In addition to purchasing Saudi crude oil outright—Saudi Arabia provides about 17 percent of China's oil imports—China National Petrochemical Corporation (SINOPEC), in cooperation with Saudi Arabia's largest oil company, Arabian American Oil Company (ARAMCO), has invested \$300 million to explore the Ghawar natural gas field in the Rub al-Khali desert in Saudi Arabia.⁶ In return, ARAMCO invested in a \$3.5 billion refinery expansion project in China's Fujian province in July 2005 to enable the plant to handle

1. For information about China's interest in the Sudanese oil industry and its support for the repressive Sudanese government, see Peter Brookes and Ji Hye Shin, "China's Influence in Africa: Implications for the United States," Heritage Foundation *Backgrounder* No. 1916, February 22, 2006, at www.heritage.org/Research/AsiaandthePacific/bg1916.cfm.
2. There are 20 million passenger cars on China's highways today. Private auto sales were up 54 percent over the previous year in the first three months of 2006, and 1,000 new cars are sold every day in Beijing alone. See Ted Conover, "Capitalist Roaders," *The New York Times Magazine*, July 2, 2006, at <http://travel2.nytimes.com/2006/07/02/magazine/02china.html> (September 14, 2006).
3. John Calabrese, "The Risks and Rewards of China's Deepening Ties with the Middle East," Jamestown Foundation *China Brief*, Vol. 5, Issue 12 (May 24, 2005), p. 3, at http://jamestown.org/images/pdf/cb_005_012.pdf (May 30, 2006).
4. Xinhua News Agency, "China's Oil Import Growth Continues to Fall in 2006, Official," November 19, 2005, at http://english.people.com.cn/200511/19/eng20051119_222491.html (May 30, 2006).
5. Peter Enav, "Uncertain Saudi Supplies Hold Key to China," Associated Press, August 23, 2005, at <http://sfgate.com/cgi-bin/article.cgi?f=/n/a/2005/08/23/financial/f101536D56.DTL&hw=china&sn=001&sc=1000> (May 30, 2006).

high-sulfur Saudi crude oil and is constructing another \$1.2 billion refinery in Qingdao with SINOPEC.

In January 2006, Saudi King Abdullah signed a broad energy, trade, and investment pact with China but did not reveal details.⁷ In April 2006, Chinese President Hu Jintao made a return visit to the Saudi capital, where he continued discreet negotiations on energy projects. In a speech to the Saudi Shura Council, Hu pledged that “China is ready to work with Saudi Arabia and other Arab countries to strengthen peace and development in the Middle East and to build a world of peace, stability and prosperity.”⁸

Whether Hu intentionally avoided mentioning any non-Arab states is unclear.⁹ Nonetheless, the visits underscored the importance that China attaches to a serious energy partnership with the Saudi kingdom.

Iran. China’s growing economic relationship with non-Arab Iran is its most important in the region and eventually will eclipse even its ties with Saudi Arabia. Iran, the world’s second largest oil producer, now provides 15 percent of China’s oil imports.

In March 2004, Zhuhai Zhenrong Corporation, an oil trading group owned by the Chinese government, concluded a \$20 billion deal to purchase 110 million tons of liquefied natural gas (LNG) from Iran over 25 years, beginning in 2008.¹⁰ In October 2004, SINOPEC signed a memorandum of understanding to buy 250 million tons of LNG from Iran over the next 25 years in exchange for the development of Iran’s Yadavaran oilfield.¹¹ Estimated at \$70 billion to \$100 billion, the preliminary agreement would offer SINOPEC a 51 percent stake in the Yadavaran oilfield¹² and deliver 150,000 barrels per day of Iranian crude oil to China for the same period of time.¹³

One week after the initial deal, Iranian Oil Minister Bijan Namdar Zanganeh expressed Tehran’s wish to see China replace Japan as its largest oil and gas importer,¹⁴ and by the end of 2004, China had become Iran’s top oil export market. (Iran is China’s second largest source of oil imports after Saudi Arabia.) China and Iran also agreed to build a \$1.5 billion gas condensates refinery in the southern Iranian city of Bandar Abbas, which will be run by the Chinese for the first 25 years of operation, after which ownership will revert to Tehran.¹⁵

6. Shai Oster, “China Will Strike an Energy Deal with the Saudis,” *The Wall Street Journal*, January 23, 2006, at <http://online.wsj.com/article/SB113791405835053009.html> (May 26, 2006; subscription required), and “Sinopec to Explore Saudi Reserves,” *People’s Daily*, March 10, 2004, at http://english.people.com.cn/200403/10/eng20040310_137076.shtml (June 2, 2006).
7. Oster, “China Will Strike An Energy Deal With the Saudis.”
8. “Hu Jintao Zai Shate Xieshanghuiyi Fabiao Zhongyao Yanjiang” (Hu Jintao delivers important speech at Saudi Shura Council), *Renmin Ribao* (Beijing), April 24, 2006, p. 1, at http://paper.people.com.cn/rmrb/html/2006-04/24/content_4628321.htm (September 14, 2006). This was the lead headline and main story in the *People’s Daily* for that day.
9. What is clear is that China’s state-controlled media have been “uniformly critical” of Israel and supportive of Israel’s adversaries in recent months. See Kin-ming Liu, “Meet the Chinese Press: In the People’s Republic, Coverage of the War in Lebanon Was Uniformly Anti-Israel,” *The Daily Standard*, September 12, 2006, at www.weeklystandard.com/Content/Public/Articles/000/000/012/687dlopok.asp (September 15, 2006).
10. Jephraim P. Gundzik, “The Ties That Bind China, Russia and Iran,” *Asia Times*, June 4, 2005, at www.atimes.com/atimes/China/GF04Ad07.html (May 29, 2006).
11. Matt Pottinger, “China and Iran Near Agreement on Huge Oil Pact,” *The Wall Street Journal*, November 1, 2004, at <http://online.wsj.com/article/0,,SB109925141463060464,00.html> (May 26, 2006; subscription required).
12. AFX News Limited, “China, Iran to Close Multi-billion Dollar Oil, Gas Deal in Coming Weeks,” *Forbes*, February 16, 2006, at www.forbes.com/home/feeds/afx/2006/02/16/afx2534020.html (September 14, 2006).
13. Gundzik, “The Ties That Bind China, Russia and Iran.”
14. Agence France-Presse, “Iran Wants China to Replace Japan as Top Oil Importer,” *Iran Focus*, November 6, 2004, at www.iranfocus.com/modules/news/article.php?storyid=678 (June 6, 2006).

China also has significant non-petroleum interests in Iran. A Chinese fiber optic firm is helping to build Iran's broadband network, and a state-owned Chinese appliance company is making television sets in Iran. China's Chery Automobile Company partnered with an Iranian company on an assembly plant in Iran to manufacture 50,000 micro-passenger cars per year. The car is called the "Geely" and reportedly sells for \$4,500. China North Industries Corporation (NORINCO), a Chinese military industrial firm, has a \$680 million contract for work on Tehran's subway system.¹⁶

Gulf Arab States. With the 17-member Greater Arab Free Trade Area having taken effect on January 1, 2005, this Middle Eastern economic bloc presents China with a unified, custom-free market with a population of 280 million where more than 94 percent of all inter-Arab trade takes place.¹⁷

In a broader perspective, trade between China and the Middle East has been gaining on U.S.–Middle East trade, taking advantage of the setback caused by tighter restrictions imposed after the terrorist attacks on September 11, 2001.¹⁸ In 1991, total trade between China and Arab countries was \$2.42 billion. Since then, China's trade with the Arab world has grown twentyfold to \$51.3 billion in 2005, and trade volume over the past five years has increased by an annual average of 40 percent. The China–Arab Business Conference, an important initiative of the China–Arab Cooperation Forum, plans to increase China–Arab trade volume to \$100 billion by 2010.¹⁹

The China–Arab Cooperation Forum—established in January 2004 to strengthen political, economic, and strategic ties between China and Arab countries—now seems poised to give China a privileged entrée into regional oil arrangements.²⁰ The China–Arab Cooperation Forum has matured into one of Beijing's two main vehicles for managing its regional ties in the Middle East. China also coordinates closely with the Gulf Cooperation Council, a grouping of Gulf Arab states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates), through which China is planning to organize a China–Middle East Free Trade Area.

Iraqi Kurdistan. China also seems to have a strong interest in Iraq's oil production, notably in Kurdish northern Iraq. This is perhaps because of its proximity to the Yadavaran field in Iranian Kurdistan. Kurds in Iraq have enjoyed *de facto* independence, and Iraq's 2005 parliamentary election gave Kurds unprecedented influence in Iraqi politics.

Since U.S. suspension of Chinese oil concessions with Iraq following the Iraq War in 2003, the Chinese have looked for opportunities to access the Kurds' rich oilfields, which contain an estimated 40 percent of Iraq's oil reserves and are in the only Iraqi provinces that are relatively secure from sectarian terrorism.²¹ High-level government visits between the PRC and the Kurdistan regional government have opened up business and investment opportunities in various sectors as well.

The Chinese also have used their relations with the Kurds to leverage Turkey to withhold

15. Islamic Republic News Agency, "Iran, China to Construct Gas Condensates Refinery," *Payvand*, October 30, 2006, at www.payvand.com/news/04/oct/1237.html (June 2, 2006).

16. Borzou Daragahi, "China Goes Beyond Oil in Forging Ties to Persian Gulf," *The New York Times*, January 13, 2005, p. C8, at www.nytimes.com/2005/01/13/business/worldbusiness/13oil.html (September 14, 2006; subscription required).

17. The members of the Greater Arab Free Trade Area are Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, the Palestinian Authority, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

18. For an excellent overview of China's economic ties in the region, see Daragahi, "China Goes Beyond Oil in Forging Ties to Persian Gulf."

19. "China, Arab States to Hold First Oil Meeting," *People's Daily*, June 1, 2006, at http://english.people.com.cn/200606/01/eng20060601_270304.html (July 14, 2006).

20. *Ibid.*

21. Yitzhak Shichor, "China's Kurdish Policy," Jamestown Foundation *China Brief*, Vol. 6, Issue 1 (January 3, 2006), p. 3, at www.jamestown.org/images/pdf/cb_006_001.pdf (January 10, 2006).

support for Turkic-speaking Uighur refugees from China's Xinjiang province.²² China has long been a fierce advocate of territorial integrity and has systemically oppressed separatist movements in Xinjiang and Tibet. Turkey has 15 million Kurds, roughly 20 percent of the total Turkish population, and is burdened not only with armed Kurd separatist movements, but also with Uighur separatist activists and refugee organizations. Allegedly, the Chinese government has implicitly threatened Turkey that Beijing would support Kurds if Ankara did not make life a bit more miserable for Uighur exiles.²³

Strategic Aims and Tactics

China sees its new diplomatic clout in the Middle East as a geopolitical counterweight to the United States. At bottom, Beijing sees chronic crises in the Middle East as distractions for the United States, not as threats to world peace *per se*.²⁴

Beyond straightforward petroleum and gas considerations, Beijing now regards cordial and cooperative ties with Middle Eastern states as crucial to its geopolitical successes. China offers itself as an alternative patron and advocate to the autocratic and theocratic regimes in the region that nurse grudges against America's perceived hectoring about human rights and political freedoms—regardless of whether or not those regimes are state sponsors of terrorism, terrorists themselves, nuclear proliferators, political assassins, or outright thugs. Beijing seems quite comfortable in its close patron-client associations with several entities of concern in the region, including Iran, Syria, Sudan, the Hamas-controlled Palestinian parliament, and Lebanon's Hezbollah state-within-a-state.

Iran. In 2004, Iran's continued noncompliance with its commitments under the Nonproliferation Treaty led to a U.S. move to refer Iran's nuclear weapons program to the U.N. Security Council. This move was immediately stymied by China, which earlier in the year had signed a \$100 billion gas deal with Tehran. The European efforts to persuade Iran to suspend its uranium enrichment activities permanently with offers of economic and diplomatic incentives have not produced any progress since the negotiations began in October 2003. The Iranians resumed uranium conversion operation at the Isfahan nuclear plant in August 2005, and the board of governors of the International Atomic Energy Agency (IAEA) finally voted in February 2006 to send the case to the U.N. Security Council. Even then, China insisted on delaying discussions of sanctions against Iran.²⁵

China's consistent rhetorical stance on Iran's nuclear program has been that "it must be resolved peacefully" without coercion. In July 2006, the Security Council, with the reluctant assent of China and Russia, passed Resolution 1696. Although its language was significantly watered down during the long debate, Resolution 1696 contemplated imposing sanctions on Iran under Article 41 of the U.N. Charter unless Iran suspended all uranium enrichment activities by August 31, 2006. Yet this still left some room for Beijing to maneuver, given the certainty that Iran would not comply. During the Security Council debate on imposing sanctions after August 31, both Beijing and Moscow tried to keep any sanctions to a minimum, especially if the sanctions could affect Chinese and/or Russian economic interests in Iran.

Rather than opposing Iran's nuclear program, China has instead actively assisted it. In the mid-

22. *Ibid.* Shichor cites a Chinese source for this speculation: Kuang Shengyan and Chen Zhihong, "Kuerde gongrendang wenti ji qi dui Tuerqi neiwai zhengce de yingxiang" (The Question of the Kurdish Workers Party and its impact on Turkey's domestic and foreign policy), *Xiya Feizhou* (West Asia and Africa), No. 4 (1995), pp. 19–24.

23. Shichor, "China's Kurdish Policy."

24. For example, at a conference in Beijing in November 2005, conferees reported that "the contradiction between the Islamic world and the U.S. as well as other Western powers has become ever more sharpened and complicated" without indicating that the Middle East posed a particular problem for China or Russia. See China Institute for International Strategic Studies, "The First Symposium of the Sino-Russian Strategic Forum Ever Sponsored by CISS," *International Strategic Studies* (Beijing), Issue 1 (2006), pp. 84–85.

25. Alissa Rubin and John Daniszewski, "U.N Panel Puts Iran on Notice," *Los Angeles Times*, February 5, 2006, p. A1.

1990s, Chinese technicians built an electromagnetic isotope separation system to enrich uranium at Iran's Karaj nuclear research facility despite official Chinese protestations that it had not done so. In the end, Iran opted for Russian nuclear technology, and China dropped out of the Iranian nuclear program for a short period.²⁶

In October 1997, after building a small nuclear research reactor and a factory at Isfahan to fabricate zirconium fuel rod cladding and during preparations for Chinese President Jiang Zemin's state visit to Washington, the Chinese provided a secret letter to the United States that pledged no new nuclear cooperation with Iran. Yet as of 2003, Chinese state-owned companies continued to service the Iranian zirconium production facility, a plant that should have been under IAEA safeguards but was not.²⁷ Since then, a constant stream of intelligence has indicated that Chinese engineers still assist at the Iranian uranium mine at Saghand and a uranium centrifuge facility near Isfahan.

In 2003, the CIA reported that "some interactions" in nuclear enrichment between China and Iran that took place in early 2002 (around the time of Chinese President Jiang's visit to Tehran) apparently violated China's 1997 commitments to President Bill Clinton.²⁸ In fact, no evidence indicates that China has ever taken its nonproliferation commitments seriously. For instance, China signed a

comprehensive nuclear cooperation agreement with Pakistan in 1986 and assisted Pakistan's nuclear program for more than a decade, providing an array of fissile materials, equipment, and personnel.

Another reason for concern is China's weapons sales to Iran, particularly given Iran's patronage of major regional terrorist groups. Along with Syria and Libya, Iran provides an estimated \$50 million to \$200 million in annual financial and material support to Hezbollah and Hamas. During the armed confrontation between Israel and Hezbollah in July–August 2006, a Chinese-made C-802 missile struck an Israeli warship off Beirut. Although Hezbollah took responsibility for the attack, the missile apparently had been supplied by the Iranian government.²⁹ Iran purchased 75 C-802s from China in 1997 and allegedly has produced at least 75 more in collaboration with China.

The C-802 project is a fraction of China's overall weapons stake in Iran. China has sold several hundred Silkworm anti-ship cruise missiles to Iran since the late 1980s and has been Iran's major source of missile guidance equipment and technology since the early 1990s. In May 2002, Tehran reportedly purchased high-speed catamaran missile patrol boats, which are equipped with up to eight C-701 anti-ship cruise missiles.³⁰ A group of Chinese technicians were sent to assist in training the Iranian navy and equipping the new patrol

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26. Shirly Kan, "China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues," Congressional Research Service *Report for Congress*, July 22, 2003, p. 7. Kan cites several credible sources including congressional testimony by Secretary of Defense William Perry.
27. Central Intelligence Agency, "Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions, 1 January Through 30 June 2002," posted April 10, 2003, at www.cia.gov/cia/reports/721_reports/jan_jun2002.html (September 14, 2006).
28. Kan, "China and Proliferation of Weapons of Mass Destruction and Missiles," p. 9. See also John Pomfret, "U.S. May Certify China on Curbing Nuclear Exports," *The Washington Post*, September 18, 1997, p. A28.
29. Chinese Middle East envoy Sun Bigan, resident in Gaza, told reporters that, "[a]ccording to China's policy, it's impossible for us to sell missiles to Hezbollah," but he was unable to rule out that the C-802 missile that hit the Israeli warship could have been transferred to Hezbollah by a third party. See "China Denies Hezbollah Arms Export," *The Daily Telegraph* (Sydney), August 2, 2006, at www.news.com.au/dailytelegraph/story/0,22049,20221652-5006506,00.html (September 11, 2006). It was unclear whether the complete missile was manufactured in China or was a more recent Iranian-modified Chinese YJ-1 missile. See Nuclear Threat Initiative, "Iran Profile: Missile Chronology, 1997," at www.nti.org/e_research/profiles/Iran/Missile/1788_1812.html (September 14, 2006).
30. Bill Gertz and Rowan Scarborough, "Iran's Missile Boats," *The Gertz File: Notes from the Pentagon*, May 17, 2002, at www.gertzfile.com/gertzfile/ring051702.html (May 26, 2006).

boats. Earlier in 2002, the Chinese provided Iran with shorter-range anti-ship cruise missiles for its coastal patrol boats.

Since the enactment of the Iran Nonproliferation Act of 2000, which was intended to curtail international aid to Iran's weapons of mass destruction and missile programs, 40 foreign companies and individuals³¹—nearly one-fourth of them Chinese weapons and technology firms—have been penalized for delivering advanced dual-use missile components and technology to Iran. In particular, Chinese government-run firms, such as NORINCO, the Zibo Chemical Equipment Plant, and the China National Aerotechnology Import Export Corporation, have been banned repeatedly from doing business with the U.S. government and enterprises for violating the Missile Technology Control Regime, which China has violated continually since 1991 despite its repeated promises of compliance.

Syria. China's support for Syria is on a similar track. In April 2003, Beijing's state media announced that China was very proud of Syria for "not succumbing to U.S. pressure" and praised Syria, saying that "it has always joined with the world's force of justice and peace to make tireless diplomatic efforts to seek political solution to the Iraqi crisis."³² In June 2005, while the U.N. was investigating the Syrian-inspired killing of former Lebanese Prime Minister Rafik Hariri, Syrian President Bashar al-Assad welcomed visiting Chinese Foreign Minister Li Zhaoxing by praising "China's significant role as a great power and permanent member to the U.N. Security Council."³³

In October 2005, the U.N. Security Council unanimously adopted Resolution 1636, which demanded Syria's full cooperation with an investigation into Syrian involvement in the Hariri assassination and threatened "further action" in the event of noncompliance. Three co-sponsors of the resolution—the United States, Britain, and France—had to drop a threat of sanctions to get China's vote.³⁴ Russia also balked. To date, Syria still has not fully cooperated in the investigation or suffered any sanctions.

China also has long been Syria's preferred arms broker. In May 2004, China dispatched technicians to Damascus to help to expand Syria's medium-range Scud missile program.³⁵ China has also transferred missile guidance systems, engines, and solid fuels to Syria and has assisted Syria in developing surface-to-surface ballistic missiles.³⁶

The Palestinian Authority and Hamas. China's duplicity has been particularly visible with the Palestinian terrorist organization Hamas, which took over the administration of the Palestinian Governing Authority in March 2006.

When Palestinian Foreign Minister Mahmud al-Zahar, who is a member of Hamas, announced in April 2006 that he intended to visit Beijing, an alarmed U.S. Deputy Secretary of State Robert Zoellick asked the Chinese whether it was true. A Hamas visit to Beijing undoubtedly would have complicated Chinese President Hu Jintao's April 20 visit to Washington. By April 6, the Chinese Foreign Ministry denied Zahar's statement. In a speech the

31. Bill Gertz, "U.S. Puts Sanctions on Chinese Firms for Aiding Tehran," *The Washington Times*, December 27, 2005, at www.washingtontimes.com/national/20051227-124948-5253r.htm (May 25, 2006).

32. Wu Wenbin, "Guoji Rexian: Xu-Mei guanxi jinzhang" (International hotline: Syria-U.S. relations are growing tense), *Renmin Ribao*, April 14, 2003, p. 3, at www.people.com.cn/GB/paper464/8941/834181.html (September 14, 2006).

33. "Syria Underlines China's Role as a Great Power at U.N.," *Arabic News*, June 24, 2005, at www.arabicnews.com/ansub/Daily/Day/050624/2005062406.html (October 12, 2005).

34. See Robert McMahon, "U.N. Security Council Adopts Resolution Demanding Syrian Cooperation in Hariri Probe," *Radio Free Europe/Radio Liberty*, October 31, 2005, at www.rferl.org/featuresarticle/2005/10/9dc03740-a5bb-4a88-9a50-9b1177328a7d.html (July 13, 2006).

35. Middle East Newswire, "China Increases Aid to Syrian Missiles," May 13, 2004, at menewswire.com/stories/2004/may/05_13_1.html (May 25, 2006).

36. Center for Nonproliferation Studies, "China's Missile Exports and Assistance to Syria—Statements and Developments," Nuclear Threat Initiative, at www.nti.org/db/china/msyrchr.htm (November 3, 2005).

day before President Hu's arrival, Zoellick said that he saw this as an example of U.S.–China cooperation. He again expressed his satisfaction with the Chinese response in his testimony before the House International Relations Committee on May 10.³⁷

On May 18, however, the Chinese Foreign Ministry announced that Zahar had indeed been invited to the China–Arab Forum in Beijing, where China likely discussed alternative funding for Hamas.³⁸ One diplomat in Beijing connected with the Zahar issue said, “[M]ay I suggest that before the visit of Hu to Washington it was ‘not convenient’ to the Chinese to confirm the [Zahar] invitation.”³⁹

As for Hamas's espousal of terrorism and the destruction of Israel, the Chinese Foreign Ministry dryly commented that “we don't necessarily agree with Hamas's policies, but as it is chosen by the Palestinian people, we should respect their choice.”⁴⁰ Zahar left Beijing quite pleased with his four-day trip at the end of May.⁴¹ Apparently angered by Beijing's behavior, Israeli intelligence officials later leaked reports of Chinese intelligence services' overly intimate ties with Hamas leaders.⁴²

In any event, Zahar's visit to Beijing did not seem to have a moderating effect on Hamas's militant wing, which killed two Israeli soldiers in

June 2006 and kidnapped a third. For its part, Hamas now believes it has in China a great-power patron that will help to diffuse the pressures from the United States and the European Union to renounce terrorism and its ultimate goal of eliminating the Israeli state.

U.S. Policy Options

The United States does not have many attractive policy alternatives in dealing with China's expanding presence in the Middle East. However, the U.S. government can and should:

- **Take a strong stance against China on proliferation issues.** Rogue states such as Iran and Syria continue to sponsor regional terrorist groups, including Hezbollah and Hamas. Iranian Revolutionary Guards train Hezbollah terrorists and have provided them with sophisticated bombs and long-range Katyusha rockets. Syria also has supported Hezbollah and permits Iran to use Syrian airfields to transport weapons, ammunition, and equipment to its Lebanon-based allies.

China's reckless weapons dealings with these terrorist-sponsoring regimes often translate into the terrorist elements gaining possession of powerful Chinese-made missiles and other

37. Robert B. Zoellick, Deputy Secretary of State, “Remarks and Q&A at the Institute for International Economics,” Washington, D.C., April 18, 2006, at www.state.gov/s/d/former/zoellick/rem/2006/64700.htm (September 14, 2006). See also Robert B. Zoellick, testimony in hearing, *A Resurgent China: Responsible Stakeholder or Robust Rival*, Committee on International Relations, U.S. House of Representatives, May 10, 2006.

38. The announcement of Zahar's China trip came on the same day as news that China would participate in the alternate funding mechanism. See Kuwait News Agency, “EU Does Not Seek to Overthrow Hamas—EU Official,” May 18, 2006, at www.kuna.net.kw/home/story.aspx?Language=en&DSNO=867147 (September 14, 2006). China's Foreign Ministry later said that “economic assistance” was not discussed with Zahar, although “humanitarian aid” was. Xinhua News Agency said the Chinese would urge Hamas to “renounce violence” and recognize Israel, but there was no announcement that it actually happened. See Xinhua News Agency, “China Calls for Hamas to Renounce Violence, Recognize Israel,” May 30, 2006, at http://news.xinhuanet.com/english/2006-05/30/content_4621487.htm (September 14, 2006).

39. Private communication to one of the authors.

40. Chinese Foreign Ministry, quoted in Verna Yu, “China Eyes Closer Energy, Political Ties at Sino–Arab Forum,” Agence France-Presse, May 29, 2006.

41. Verna Yu, “Hamas' Zahar Hails China Trip as a Success,” *Yahoo News*, June 1, 2006, at <http://uk.news.yahoo.com/01062006/323/hamas-zahar-hails-china-trip-success.html> (September 14, 2006).

42. Bill Gertz and Rowan Scarborough, “Inside the Ring: China–Hamas Links,” *The Washington Times*, June 16, 2006, p. A8, at http://washingtontimes.com/national/20060615-111752-3841r_page2.htm (September 14, 2006). The report names Gong Xiaosheng, China's ambassador-ranked representative in Gaza, as a Chinese intelligence officer, although it seems that Gong was replaced by Yang Weiguo at the beginning of 2006.

military equipment for use against Israel and potentially against U.S. military installations in the Middle East. China will not moderate its behavior while Washington still refuses to confront China. However, Beijing is still sensitive to public perceptions in the United States about its covert backing of murderous terrorist organizations. Washington should address these issues with the Chinese leadership and call for China to modify its policy in the region.

- **Enforce sanctions on Chinese companies that invest in Iran's oil and gas industry by renewing the Iran–Libya Sanctions Act (ILSA).** ILSA was adopted in 1996 and renewed for another five years in 2001. It is designed to deter foreign investment in the Iranian and Libyan energy sectors, which have been major sources of funding for their efforts to acquire weapons of mass destruction and to support terrorist organizations.⁴³ ILSA requires the President to impose at least two out of six available sanctions on foreign companies that invest more than \$20 million in one year in Iran's energy sector.

Over the past five years, Iran's pursuit of nuclear weapons and support for terrorist groups have intensified as China has established itself as Iran's key financial benefactor through massive energy investment. Congress should reauthorize ILSA for Iran before it expires in September 2006⁴⁴ to tighten pressure on the Iranian regime and foreign companies with large investments in the Iranian energy sector—Chinese firms in particular—that indirectly fund Iran's illicit activities.

- **Encourage trade and economic relations with the Middle East.** The repercussions of the 9/11 terrorist attacks severely hindered U.S.–Arab trade in 2002 due to heightened restrictive security measures instituted throughout the

U.S. economy. Since then, U.S.–Arab trade has expanded at an unprecedented rate of over 20 percent per year for the past three years, reaching a record high of \$94.4 billion in 2005—almost twice the volume of China–Arab trade.

Proposed in 2003, the Middle East Free Trade Area Initiative is intended to revitalize U.S. trade and investment with the Middle East. The initiative seeks to lay a foundation for economic development and transparency through support for accession to the World Trade Organization, free trade agreements (FTAs), and other trade and investment programs. This initiative has already produced bilateral FTAs with five countries (Israel, Jordan, Morocco, Bahrain, and Oman), and Washington should continue to urge individual countries to participate in comprehensive free trade agreements that lower trade and investment barriers, protect property rights, and strengthen government and commercial regulations. Washington should also encourage a broader integration of the Greater Arab Free Trade Area into the global economy.

- **Promote democratic processes, the rule of law, and civil rights.** The Middle East Partnership Initiative (MEPI) demonstrates the strong U.S. commitment to promoting democratic principles, economic growth and development, fundamental educational opportunities, and human rights in the Arab world. MEPI was established in 2002 to create basic educational and economic opportunities and foster civil rights, the rule of law, and democratic processes in the Middle East. The U.S. government has devoted over \$293 million in four years to more than 350 reform programs in both the government and private sectors.⁴⁵ These investments are supplemented by annual U.S. bilateral economic assistance of \$1 billion.

43. The Iran–Libya Sanctions Act (ILSA) was terminated with respect to Libya in April 2004 after Libya fulfilled the requirements of all U.N. resolutions relating to the bombing of Pan Am flight 103. Kenneth Katzman, "The Iran–Libya Sanctions Act," Congressional Research Service *Report for Congress*, RS20871, updated April 26, 2006, at <http://fpc.state.gov/documents/organization/66441.pdf> (September 14, 2006).

44. ILSA was scheduled to expire on August 5, 2006, but Congress extended it until September 29, 2006.

45. U.S. Department of State, "Middle East Partnership Initiative," at <http://mepi.state.gov/mepi> (July 31, 2006).

MEPI has increased transparency and pluralism in national and local elections, has provided technical and financial support to build an open and business-conducive environment, and has created educational opportunities, especially for women. The United States should make a consistent effort to restrain the behavior of oppressive Arab regimes and to help Arab governments and nongovernmental organizations to make successful reform transitions by deftly implementing MEPI.

- **Organize international support for democratic oppositions within such repressive Middle Eastern regimes as Iran and Syria.** International support should be provided to democratic oppositions that are reform-minded and opposed to terrorism through discreet financial aid, organizational training, and educational exchanges. Moreover, it is critical that Washington help to create a suitable atmosphere for free speech and publication to facilitate the free flow of uncensored political ideas.
- **Diversify energy sources.** Middle Eastern oil currently accounts for 17 percent of total U.S. oil imports. The percentage of world oil reserves concentrated in the Middle East is expected to grow even higher than the current 80 percent level as oil production in many of today's large oil suppliers such as the United States, Mexico, and Norway decreases. According to the International Energy Agency, U.S. dependence on Middle Eastern oil imports will increase to 50 percent by 2030.⁴⁶

Given the increasingly severe worldwide competition for Middle Eastern oil, China's aggressive energy policy poses a serious threat to U.S. energy security. Dependence on Middle Eastern oil also means that the United States is potentially vulnerable to the erratic policies of Arab energy suppliers. The United States should continue to search for additional reliable oil

and gas suppliers while reducing its dependence on energy from abroad and developing renewable energy sources.

Conclusion

If Washington is firm, China will remain sensitive to U.S. perceptions that it is aiding and abetting Iran's nuclear ambitions, Syria's murderous designs on Lebanon and Israel, and Hamas's continued violence against Israel despite the withdrawal of international funding.

However, China will not moderate its behavior while Washington still refuses to confront China. Since the 1990s, U.S. Administrations have turned a blind eye to China's complicity in the proliferation of dangerous weapons in the Middle East, especially in Iran. Chinese state-owned and state-directed companies provide dangerous weapons, technologies, and scientific assistance to Iran and Syria as a matter of state policy. Because Washington refuses to acknowledge that these "commercial" transactions are, in fact, in fulfillment of Beijing's policies, each incident provokes only a round or two of Washington wrist-slapping while the Chinese continue their activities unabated.

At this point, only tough, public confrontation of Beijing's behavior will get China's attention. As U.S. consumers learn that Beijing's irresponsible tactics and policies are antithetical to the interests of stability and freedom in the world's most volatile territory, they will find it harder to buy the "made in China" label, especially if they feel that China is unjustly retaliating against U.S. exports. Facing down China's dangerous behavior in the open will get the attention of the American public, to whom China wishes to sell \$250 billion of exports each year.

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46. Gal Luft, "Dangerous Dependence," Institute for the Analysis of Global Security, at www.iags.org/n1020032.htm (July 19, 2006), previously published in *Near East Report*, October 20, 2003.