

# The Middle East arena of competition between the US and China

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Like every other part of the world, the Middle East is caught up in the intensifying US confrontation with China. Once merely a peripheral figure in the region, Beijing has become its most important trading and investment partner as it seeks to expand its global production networks.

Washington has no intention of allowing Beijing to extend its influence in the Middle East, or anywhere else in the world, and will not hesitate to use all the means at its disposal to prevent this—utilising support for Israel’s annihilation of the Palestinians in Gaza as the basis for an expanding war for control of the region initially targeting Iran.

## China’s growing reliance on energy from the Middle East

In the last 30 years, as its economy has expanded to become the world’s second largest, China’s economic presence in the Middle East has increased markedly. In 1993, it became a net oil importer for the first time, turning to the Middle East to fulfil its requirements. Just as the US was reducing its energy imports from the region as domestic shale gas production rose, Beijing moved in to fill the gap—becoming by far the largest purchaser of Saudi oil, the world’s second largest producer after the US. In the space of 20 years, China’s energy imports increased fifteen-fold, making it the world’s largest oil importer in 2016.

Last year, China sourced around half of its crude oil imports from five countries in the Middle East: Saudi Arabia (16 percent), Iraq (11 percent), Oman (7.3 percent), the United Arab Emirates (UAE) (5.5 percent) and Kuwait (5.1 percent). It has also started buying more oil from Iran, more than tripling its imports of Iranian oil in the past three years.

Hydrocarbons accounted for 73 percent of China’s imports from the region, a figure that rises to 92 percent when this is expanded to include petrochemicals made from oil and natural gas, while the region’s hydrocarbons exports to China account for nearly a quarter of its total hydrocarbons exports.

Beijing has signed long-term supply deals with Saudi Arabia, Iran and Qatar and invested in energy projects via Chinese state enterprises, such as the China National Petroleum Company (CNPC) and Sinopec (in Iraq and UAE). By 2022, its trade with the six-nation Gulf Cooperation Council (GCC) was more than \$230 billion. These joint ventures include the exploration and exploitation of oil fields and investments in storage, refineries and petrochemical industries.

In 2021, Amin Nasser, Saudi Arabia’s state-owned oil company Aramco’s CEO, said that the company viewed China as its top priority for the next 50 years. Not long afterwards, Aramco signed a memorandum of understanding with China’s state-owned Sinopec for cooperation in areas including “carbon capture and hydrogen processes.”

While the energy trade is at the heart of the China-Gulf economic relationship, trade relations go beyond the energy industry, with China

now Saudi Arabia and the UAE’s largest non-oil trading partner, overtaking the European Union to become the GCC’s largest trading partner in 2020.

## China’s investment in production and infrastructure networks in the Middle East

Alarm bells rang in Washington in 2015, when Beijing announced its *Made in China 2025* industrial strategy that seeks to transform its manufacturing capabilities from labour-intensive workshops into a technology-intensive powerhouse.

Its 2016 Arab Policy paper identified several key areas for its trade and investment in the Middle East: nuclear power, space technology, renewable energy, emerging technologies and AI, logistics and supply chains, and critical minerals. Chinese companies have partnered with the Gulf states in some of their largest renewable energy projects as they seek to diversify away from reliance on fossil fuels. They are involved in the construction of two of the world’s largest solar-energy projects in the UAE—the Mohammed bin Rashid Al Maktoum Solar Park and the Noor Abu Dhabi solar plant—while China’s Silk Road Fund has a 49 percent stake in the Saudi renewable-energy company ACWA Power, Riyadh’s main investment vehicle for renewable energy projects across the region and beyond.

In June 2023, Chinese electric car maker Human Horizons signed a deal worth \$5.6 billion with Riyadh to establish a joint venture to carry out research, development and manufacturing in Saudi Arabia. In 2022, the electric vehicle start-up Enovate formed a joint venture with Saudi Arabia’s Sumou Holding to establish a \$500 million manufacturing plant in the kingdom.

Beijing is also investing in infrastructure projects to make it easier to transport energy back to China as part of its Belt and Road Initiative (BRI), launched in 2013 as one component of its strategy to counter aggressive US efforts to undermine it on every front—diplomatically, economically and strategically. The BRI, aimed at placing China at the centre of global trade, is the basis of agreements with 21 countries in the Middle East and Central Asia, with the Middle East receiving about a quarter of its BRI investment in 2022, an all-time high.

Chinese companies have worked with Egypt, Oman, Saudi Arabia and the UAE on key port and industrial zone projects, including a terminal at Khalifa Port in the UAE, as well as Yanbu, Jizan and Jeddah ports on Saudi Arabia’s Red Sea coast that lie on China’s sea route to Europe and beyond. While the Persian Gulf has generally been the focus, Beijing views Egypt as a “comprehensive strategic partner,” given the importance of the Suez Canal not just as its gateway to Europe but for the manufacturing and distribution of its products in Africa. It invested around

\$20 billion in the country between 2016 and 2019 focusing on the Economic Development Zone of the Suez Canal Authority. China is also operating a new port terminal in Israel's Haifa Bay on the Mediterranean, strengthening its position on global trade routes.

As China finds itself increasingly locked out of markets in the advanced countries, it is seeking production facilities elsewhere in a bid to evade punishing tariffs. Last year, Saudi Arabia, Egypt and Morocco were among China's top five destinations for investment in greenfield production facilities overseas, accounting for around \$37 billion.

In 2021, Iraq received about \$10.5 billion of BRI financing for investment for infrastructure projects, with China seeking to invest a further \$10 billion in infrastructure projects in the Kurdistan Regional Government (KRG) in northern Iraq.

China's growing links with Iran have aroused Washington's ire. China's "Comprehensive Strategic Partnership" agreement with Tehran, signed in 2020, is worth \$400 billion over 25 years, an amount equal to 10 percent of China's total BRI budget. This is a crucial lifeline for Tehran, which has suffered years of crushing US-led sanctions targeted at Iran's oil exports that—on the pretext of preventing it from building nuclear weapons—have wrecked its economy. It includes the joint development of the port of Chabahar and a new oil terminal near the Jask port, south of the Strait of Hormuz, previously under a long-term contract with India. Amid the sanctions, China remains the largest buyer of Iranian oil and its biggest trading partner.

But investment flows are in both directions, to the extent that the Arab countries' investments in China are now on a par with China's in the Middle East as they seek to wean themselves from dependence on oil, diversify their investments and find new markets. The region's most important sovereign wealth funds—the Saudis' Public Investment Fund (PIF) and the UAE's Mubadala—have announced their intention of opening new offices in China as they search for investment opportunities there, particularly in electric vehicles, new energy, the Internet, semiconductors, artificial intelligence, smart infrastructure, pharmaceuticals, and high-end equipment manufacturing.

Despite Beijing becoming the largest single regional investor and trading partner of 11 countries in the Middle East and the growth of investment by China and the Arab states in each other's economies, Europe and North America remain by far the main source of foreign investment in the Middle East and the main destinations for the Gulf's overseas investment, with Europe's foreign direct investment in Saudi Arabia ten times that of China's.

### **China's digital networks in the Middle East**

The area that has aroused most concern on the part of US imperialism is Beijing's expanding digital networks. By 2010, China's tech giants—Lenovo, ZTE, Baidu, Tencent, Alibaba, Huawei and JD—not only dominated the domestic digital economy, largely shutting out US competition, but had established global operations. Its Digital Silk Road, announced in 2015, would further support its expansion overseas and threaten US digital supremacy.

This has involved increasing cooperation between Chinese tech companies and research institutes and Saudi Arabia and the UAE in the digitizing of their economies, with Riyadh and Abu Dhabi now working with Huawei and Alibaba to develop some of their tech infrastructure, including their 5G networks, smart city applications and large data centres. In September 2023, Huawei launched a new "cloud region" in Riyadh to support government services and AI applications.

The heads of some of the top AI research institutions and companies in

the UAE and Saudi Arabia, including King Abdullah University of Science and Technology in Jeddah and the Mohammed bin Zayed University of Artificial Intelligence (MBZAI) in Abu Dhabi, are senior Chinese or Chinese American academics, while a significant number of Chinese academics staff these institutions, including up to 40 percent in MBZAI. G42, the UAE's leading AI company that is working on some of the country's most important high-tech projects, collaborated with Chinese companies on several key projects, including the development of a Covid-19 vaccine and the launch of the Emirati Ministry of Health's genomics programme.

While both countries work with Chinese companies in the AI and high-tech sector, their major partners are the big US companies Microsoft and OpenAI, whom they consider more advanced, if much more expensive. Nevertheless, the US fears that this cooperation, which comes with less restrictive conditions in relation to intellectual property rights, transfer of know-how and data privacy, etc., will give their Chinese rivals access to sensitive US technologies. For example, the Saudi and Emirati research institutes involved in AI research have bought US-produced Nvidia chips to which China has very limited access.

Washington's security services also fear that China could use its equipment in the Gulf's digital infrastructures to gather intelligence. In 2021, the Biden administration, which feared that the Huawei 5G mobile phone network that China was installing in the UAE could somehow collect intelligence on the stealth aircraft without Abu Dhabi's knowledge, imposed such onerous conditions on its \$23 billion sale of F-35 fighter jets and Reaper drones to the UAE in the wake of the Abraham Accords, the UAE's normalization agreement with Israel, that Abu Dhabi suspended negotiations.

The US response has been to focus on limiting the global reach of China's high-tech giants through its Clean Network Initiative, launched in 2020, that seeks to prevent data entering American 5G networks if it has transited through Chinese-manufactured networks. Washington has also put pressure on the UAE and Saudi Arabia to divest from China on artificial intelligence (AI), restricting the sale of Nvidia semiconductors to the Gulf States for fear they would end up in China and forcing Prosperity7, a Saudi venture-capital fund, to sell its stake in US-based AI startup Rain AI and the UAE's leading AI company G42 to cut its ties with and investments in China.

### **China's defence and security deals in the Middle East**

China has increased its arms sales to the Middle East, including Dongfeng ballistic missiles, Wing Loong Bomber drones and counter-terrorist equipment, although these are minute in comparison to purchases from the US, France and Russia. But crucially, starting in 2017, Abu Dhabi and Riyadh have collaborated with Chinese companies to jointly develop and manufacture military drones and ballistic missiles in the Gulf in a bid to establish their own national arms industries.

Having frequently been subject to arms embargoes or sanctions by Washington, the Arab regimes have been keen to find alternative suppliers, while using their defence purchases from China as a bargaining chip to secure US commitment to back their "security" in the event of a new "Arab Spring" or mass movement to unseat them, and, in the case of Saudi Arabia, to develop their nuclear programme.

Relations cooled after President Barack Obama's "pivot to Asia" that signalled a turn away from the Middle East. His refusal to back Egypt's President Hosni Mubarak during the mass protests that brought down his government in 2011 and threatened Saudi clients in Bahrain and Yemen confirmed their view that the US had become an untrustworthy ally.

Relations became more strained after Washington signed the 2015 nuclear accords with Iran—whom Riyadh and Abu Dhabi accused of supporting the Houthi rebels who ousted Riyadh’s puppet government in Yemen in 2015. Riyadh was further riled by the US doing little to counter missile attacks by the Houthi rebels in Yemen, ending military support for its Yemen war, limiting arms sales and not responding to Saudi appeals for assistance in starting a civilian nuclear program.

The disastrous withdrawal of US troops from Afghanistan in 2021 reinforced their view of an unreliable US in decline. They responded by refusing to increase oil production and help bring down fuel prices in the wake of the US/NATO-led war against Russia in Ukraine.

China is acutely aware of how the US/NATO war in Libya in 2011 led to the loss of its \$18 billion investment in the country and the evacuation of more than 35,000 of its nationals working on construction projects there. It has started strengthening its political and diplomatic presence in the region, opening nine consulates in Saudi Arabia and Egypt. In 2022, it held its first China-Arab States Summit, when President Xi Jinping said he wanted to strengthen cooperation between the Chinese and Arab defence ministries, including carrying out joint military exercises, counterterrorist cooperation and even training of Arab military personnel. This follows the opening of China’s first overseas military base in 2017, in Djibouti, the Red Sea port between the Gulf of Aden and the Suez Canal. Since then, its navy has increased its port calls and naval exercises in the region, holding joint exercises with Saudi Arabia, Iran and Russia.

In 2021, it approved as “dialogue partners” Egypt, Qatar and Saudi Arabia, and then, in 2022, Bahrain, Kuwait and the UAE in its Shanghai Cooperation Organization (SCO), established in 2001 by China and Russia as a counterweight to the US in Eurasia. Iran joined as a full member in 2023.

In March 2023, Beijing brokered a reconciliation agreement between Saudi Arabia and Iran, indicating its increasing economic influence over both countries. The two rival powers had been engaged in a fierce competition for influence throughout the Middle East, fuelling the region’s conflicts and worsening instability as the two countries backed rival coalition blocs in Lebanon and opposing sides in the wars in Yemen and Syria.

At the August 2023 summit in South Africa of BRICS—Brazil, Russia, India, China and South Africa—China pushed through the expansion of the group to include Argentina, Egypt, Iran, Saudi Arabia and the UAE, with others to be added later.

### China’s efforts to build financial networks

A significant feature of all these meetings was the discussion around the use of the yuan and local currencies in trade, including pricing some oil sales to China in yuan. Such a move would undermine the dollar’s role in the global petroleum market. Under a 1974 agreement between the US and Saudi Arabia, all oil sales anywhere in the world are conducted in dollars, recycled back to the US and to a lesser extent Britain as sovereign reserve holdings in return for military support and security under what is known as the petrodollar system.

The petrodollar system has underpinned the US financial system, allowing it to finance its soaring debts—the US is the world’s largest debtor nation—and the dollar’s status as the world’s reserve currency. While the US accounts for around 20 percent of global GDP, nearly 90 percent of international currency transactions and 60 percent of foreign exchange reserves are in dollars.

But foreign investment no longer finances US debt to the same extent as it once did. Since the 2008 financial crisis and more recently the pandemic

crisis, the Federal Reserve has sought to protect financial markets with quantitative easing and has bought up US debt. As a result, the holdings of US Treasury bonds by foreign central banks and foreign investors have fallen to just 14 percent of total US public debt, down from 25 percent before the pandemic and a record 40 percent in 2008.

The use of the yuan for gas and oil trade is as yet minuscule. But concerns about potential Western sanctions, particularly the US-led freezing of the \$300 billion-worth of the dollar assets of the Russian central bank, largely held in the European banking system, together with other financial sanctions, is fuelling efforts to limit US financial domination, including digital yuan transactions.

The prospect of Riyadh and/or Abu Dhabi switching to the yuan is totally unacceptable to Washington. It would significantly undermine the dollar-based system, following on from Russia and Iran’s attempts to strike payments in different currencies under the pressure of US sanctions. Iraq’s efforts to avoid sanctions by selling its oil for euros was one of the factors that led the Bush administration to declare war on Iraq in 2003, despite opposition from the European powers.

If successful, it would break up international trade and global supply chains into competing trade blocs and signify a return—but at a much higher level—to the kinds of conflict that fractured the world market in the 1930s and that the institutions set up in the postwar period, starting with the General Agreement on Tariffs and Trade (GATT), the predecessor of the World Trade Organisation, were intended to prevent.

The deteriorating economic outlook for the world economy is furthering economic warfare and increases the prospect that it will lead to a military conflict. The US views a war against Iran and its allies as a means of depriving China of its access to oil and gas supplies as well as restricting Beijing’s investments in the region, above all its plans for the digitisation of the Gulf economies, given its strategic significance to China’s economy. It would be a stepping stone in a far deadlier conflict with China that US war strategists are actively preparing and plotting, largely behind the backs of the population.



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