

The Quest for Middle East Oil: The United States Versus China Scenario

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As we approach the twenty-first century, two very powerful geopolitical factors will decisively determine whether the quest for Middle East oil (mainly Gulf oil) could enhance global oil security and, therefore, usher in a period of growth and interdependence in the global economy or could lead to the collapse of the new political order in the Gulf and also instability and conflict in the Asia-Pacific region. The two factors are the United States' growing dependence on Gulf oil and China's growing thirst for oil and the increasingly likely Chinese dependence on oil from the region.¹

So a new United States-versus-China scenario begins to emerge which links global oil security to oil geopolitics in the Gulf and the Asia-Pacific regions. The question is, can these two issues be reconciled.

With the end of the Cold War, the Gulf region has become more important for the United States' national interests. Not only does the region contain 65 percent of the world's proven crude oil reserves, but there is also a growing global and U.S. dependence on Gulf oil. In 1995, more than 35 percent of the industrialized world's oil was supplied by the Gulf. And should current trends hold, the world's dependence on Gulf oil will increase with Gulf producers accounting for a projected 40 percent of the world's oil needs in 2000 and 48 percent in 2010.

Victories in both the Cold War and the Gulf War have helped the United States and its allies gain a substantial degree of oil security. There is very little prospect that Gulf oil will be withheld from international markets in the near future.²

United State Growing Dependence on Gulf Oil

The United States is the biggest consumer of oil in the world accounting for 26 percent of current world production, or nearly 18 million barrels a day (mbd), while itself producing only about 12 percent, or 8.36 mb.³

In 1995, the United States imported 55 percent of its oil needs, or 10 mbd, more than half of which came from the Gulf. By 2000, the United States could be importing 66 percent of its oil needs, or 12.95 mbd, three-quarters of which will also come from the Gulf (see Table 1).

Table 1
United State Crude Oil Imports, 1985-2000
(mbd)

	1985	1990	1991	1992	1993	1994	1995	2000	85-00	% Chg.
Production	10.58	8.92	9.08	8.87	8.59	8.36	8.11	6.65	-37	
Consumption	15.17	16.61	16.85	17.10	17.24	17.75	18.16	19.60	+29	
Total Imports	4.59	7.69	7.77	8.23	8.65	9.39	10.05	12.95	+182	

Source: BP Statistical Review of World Energy, June 1996; IEA; U.S. Information Administration (EIA); Author's calculations.

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¹ See footnotes at end of text.

U.S. Strategy and Objectives in the Gulf

It is not in the United States' national interest and the interest of the region for the Gulf to be dominated by either Iran or Iraq. The primary long-term U.S. objective is, therefore, to preclude such a development.

The Gulf War produced a rough military balance between Iran and Iraq. However the balance between the two, it appears, will soon begin to shift in favor of Iran in view of the harsh UN sanctions against Iraq and Iran's rearmament program.

Iran has embarked on a huge military modernization program and a build-up of military capability. But it is Iran's attempts to acquire nuclear and missile technology that are worrying the United States. The worry is that China could be a source of assistance to Iran having helped Pakistan's nuclear program in the early 1980s.⁴

Asia-Pacific Region's Oil Demand, Supply & Imports

The "center of gravity" of oil consumption is really shifting to the Asia-Pacific region. In 1990, the region overtook Western Europe in oil consumption and if the oil demand trend discernible in the region continues into the future, the Asia-Pacific region is projected to overtake North America (including Mexico) by 1998 to become the world's biggest consumer of crude oil (see Table 2).⁵

Table 2
Oil Demand: North America & Western Europe
Versus Asia-Pacific, 1990-2000
(mbd)

	1990	1992	1994	1995	1996	1997	1998	2000
North America	19.45	19.42	20.31	20.54	20.76	20.99	21.22	21.70
Western Europe	13.27	13.77	13.80	13.93	14.20	14.47	14.74	15.31
Asia-Pacific	13.70	15.26	16.85	17.88	18.97	20.20	21.36	23.54

Source: Authors' projections.

The Asia-Pacific countries are growing increasingly concerned about their ability to supply enough oil to fuel future economic growth. Nowhere are these concerns as manifest as in China. In 1995, the Asia-Pacific region imported 10.9 mbd of crude oil and refined products or 61 percent of its oil needs. By 2000, the region could be importing about 17 mbd or 72 percent of its needs, most of which will come from the Gulf (see Table 3).⁶

Table 3
Current & Projected Oil Demand, Supply and Imports
in the Asia-Pacific Region, 1990-2000
(mbd)

	1990	1993	1995	1996	1997	1998	1999	2000	90-00	% Chg
Production	6.70	6.94	6.98	6.88	6.78	6.67	6.60	6.50	-3	
Consumption	13.70	15.88	17.88	18.97	20.20	21.36	22.66	23.54	+72	
Total Imports	7.00	8.94	10.90	12.09	13.42	14.69	16.06	17.04	+143	

Source: BP; East-West Center, Honolulu, HI, USA; Author's projections.

The China Oil Factor

China's spectacular economic growth has led to a corresponding leap in oil consumption and a growing dependence on oil imports which now account for 12 percent of its oil needs. In 1993, China became a net crude oil importer for the first time. And if China's economic growth continues at

its current pace, it will become the world's third largest importer of crude oil after the United States and Japan. By 2000, China will need to import more than 2 mbd, or 45 percent of its oil needs, if no substantial new oil reserves are found in its territory (see Table 4).

Table 4
China's Crude Oil Production, Consumption and Imports, 1990-2000
(mbd)

	1990	1993	1995	1996	1997	1998	1999	2000	90-00	% Chg
Production	2.79	2.89	2.90	2.82	2.75	2.67	2.58	2.47	-11	
Consumption	2.27	3.09	3.30	3.50	3.70	3.93	4.18	4.53	+100	
Total Imports	0.52	0.20	0.40	0.68	0.95	1.26	1.60	2.06	+296	

Source: BP; China Energy Study, 1995; Author's projections.

One thing, however, is certain. China will be as robust as the United States in defending its access to oil supplies. Furthermore, China may not shy away from the use of force to defend its rights of access. However, to satisfy its needs, China may look to the Middle East, southeast Asia or Siberia. It could trade arms for oil with the Middle East or could use arms to secure oil from southeast Asia, especially from the South China Sea.⁷

It is this growing thirst for oil which is behind China's assertion of its sovereignty over the Spratly Islands and other specks in the South China Sea. The Spratly's which are claimed in whole or in part by China, Vietnam, Taiwan, Malaysia, the Philippines and Brunei, lie atop substantial undersea oil and gas resources estimated by some accounts at 7-130 billion barrels.⁸

However, oil wealth beneath the South China Sea is fueling an explosive arms race in southeast Asia. So the threat of conflict is real. This raises the question as to whether China will risk upsetting its southeast Asian neighbors over the South China Sea when it is trying to attract investment and secure markets. The answer to that question will be determined by the power structure in post-Deng China and also by China's need for foreign investment and technology.⁹

This leaves the Gulf as the other major source of oil supplies for China. China has for years been supplying arms to the Gulf countries especially Iran and Iraq not only as source of hard currency but also in exchange for oil. However, at a time when the United States is trying to prevent both Iran and Iraq from rearming, any attempt by China to sell sophisticated weapons systems to Iran and assist it in acquiring nuclear and missile technology, will incur the wrath of the United States and would prompt it to orchestrate an embargo on oil supplies to China by the Gulf producers and possibly take a preemptive action against Iran's nuclear installations.

Tying China Into the International System

The United States will have to accord a higher priority to the nation most likely to present a challenge in the Asia-Pacific region, namely China. The United States has a special interest in improving relations with China. China is one of two nations (the other is Russia) with the greatest potential either for working with the United States to control nuclear proliferation or for undermining the nuclear control regime possibly through passing nuclear technology to countries like Iran.¹⁰ So a strategy of "positive conditionality" geared towards tying China into the international system and composed of at

least some of the following features, begins to emerge:¹¹

1. China could have access to Gulf oil supplies provided it refrains from transferring nuclear and missile technology to countries like Iran.
2. China is offered high technology from the developed world in exchange for not passing its own nuclear technology to countries like Iran.
3. Provision of foreign technology and investment to China's oil sector will be conditional on its agreement to a peaceful settlement of the territorial disputes in the Spratly Islands and a joint exploitation of the resources in the area.

Conclusions

If China responds positively to the strategy of "positive conditionality," then global oil security (based on Gulf oil supplies) would be enhanced, the new political order in the Gulf strengthened and stability in the Asia-Pacific region assured.

However, there is a remote but disturbing possibility that a post-Deng China may decide to reject this strategy in an attempt to assert its growing weight and independence in foreign affairs. China may then go on to actively pursue its policy of achieving sovereignty over the South China Sea and may also decide to continue its policy of arms for oil with Iran. And should the United States and its allies respond by blocking Gulf oil supplies to China, the Chinese might retaliate by going as far as to assist Iran in acquiring nuclear and missile technology, thus leading to a direct armed conflict between the United States and Iran and the possible mining of the Straits of Hormuz by Iran. In such a dire situation, oil shipments through the Straits of Hormuz could be threatened and global oil security and the new political order in the Gulf would be undermined leading to rocketing oil prices reminiscent of the late 1970s.

Footnotes

¹ Zalmy Khalidzad, "The United States & The Persian Gulf: Preventing Regional Hegemony," *Survival*, Vol. 37, No. 2, Summer 1995, pp. 95-96.

² *Ibid.*, p. 96.

³ *BP Statistical Review of World Energy*, London, June 1996, pp. 7-10.

⁴ Khalidzad, "The United States & The Persian Gulf", pp. 99-106.

⁵ Daniel Yergin & Joseph Stanislaw, "Oil Shines Brightly" (*The World Paper*, Boston, July, 1995), pp. 1-2.

⁶ Mamdouh G. Salameh, "The Geopolitics of Oil in the Asia-Pacific Region & Its Strategic Implications" (A Paper presented to the Energex'96, Beijing, China, June 3-7, 1996), pp. 2-3.

⁷ Gerals Segal, "Tying China Into The International System," *Survival*, Vol. 37, No. 2, Summer 1995, pp. 62-63.

⁸ Michael Leifer, "Chinese Economic Reforms & Security Policy: The South China Sea Connection," *Survival*, Vol. 37, No. 2, Summer 1995, p.44.

⁹ Mark J. Valancia, "China & The South Sea Disputes," Adelphi Paper 298 (Oxford: Oxford University Press for the IISS, 1995), pp. 25-33.

¹⁰ Douglas T. Stuart & William T. Tow, "A U.S. Strategy for the Asia-Pacific," Adelphi Paper 295 (Oxford: Oxford University Press for the IISS, 1995), pp. 4-7 and also pp. 21-23.

¹¹ Segal, "Tying China Into The International System", pp. 70-73.