

GULF ANALYSIS PAPER



## China’s Balancing Act in the Gulf

By Jon B. Alterman

SUMMARY

China is increasingly reliant on Middle Eastern energy. Yet, China is reluctant to commit to a region in which the United States seems to have an overwhelming military and diplomatic advantage. The region’s deep divisions and swirling politics give the Chinese pause as well. Still, many Middle Eastern countries seek a greater role for China in the region, either to balance against the United States or to make the United States work harder for its alliances. Saudi Arabia accounts for one-fifth of China’s oil imports, and Saudi-Chinese non-oil trade is booming. China also imports significant amounts of oil from Iran, and it views its Iran relationship as a strategic hedge against U.S. influence. But Iran also causes problems for China—and for Chinese energy security. In the coming years, China will only grow more dependent on Middle Eastern energy, and China will face an even more challenging balancing act in the Gulf. ■

The Chinese government’s instinct in foreign policy is to balance between its interests, and that balancing act is becoming more treacherous in the Middle East.<sup>1</sup>

Over the two decades since it became a net oil importer, China has grown increasingly reliant on energy supplies from the Gulf, a part of the world which is both prone to instability and in which China has little influence. In this way, China’s economic growth—and the domestic political stability that growth helps provide—is dependent on energy that China cannot secure alone.

To secure that energy, China relies on the good will of the United States, a country it often sees to be its principal potential foe. China’s reliance on Middle Eastern energy therefore not only makes China vulnerable to regional upheaval, but also exacerbates potential Chinese vulnerability to U.S. action.

China has sought to diversify its sources of oil, looking to invest especially in Africa, and it has also pursued fuels other than oil and gas, such as coal and nuclear power. But its needs are growing so rapidly, including to fuel its growing fleet of automobiles, that increasing reliance on oil and gas seems to be a certainty in the coming decades, and the Gulf is where the oil is—20 percent of China’s oil imports come from Saudi Arabia alone.

Aspiring Chinese allies in the Gulf hope this reliance will push China to take on a new role in the region. Some seek to use a stronger China relationship to supplement strong relationships with the United States, and some seek to balance against U.S. power. China has sought carefully to build ties with all of them.

Yet, China has also sought to maintain distance. Even as Iran, Iraq, and the GCC states all seek stronger ties with China, and many seek a greater role for

GULF ANALYSIS PAPERS

In conjunction with its Gulf Roundtable series, the CSIS Middle East Program issues periodic policy papers addressing key economic and security issues in the Gulf region. Launched in April 2007, the Gulf Roundtable series convenes monthly and assembles a diverse group of regional experts, policymakers, academics, and business leaders seeking to build a greater understanding of the complexities of the region and identify opportunities for constructive U.S. engagement. Topics for discussion include the role of Islamist movements in politics, the war on terror, democratization and the limits of civil society, the strategic importance of Gulf energy, media trends, trade liberalization, and prospects for regional integration. The roundtable defines the Gulf as the United Arab Emirates, Saudi Arabia, Oman, Qatar, Bahrain, Kuwait, Iraq, and Iran and is made possible in part through the generous support of the Embassy of the United Arab Emirates. ■

China in the Middle East, China remains cautious. Wary of the Iran-GCC rivalry and keeping a watchful eye on the United States, China continues to seek to avoid becoming entangled in these regional dynamics. With growing domestic energy demands and a less certain U.S. global role, the balance may prove increasingly difficult to strike.

## CHINA IN A CHANGING MIDDLE EAST

As the Middle East has undergone political turmoil in recent years, its internal challenges have posed problems for China. Governments have risen and fallen, and Chinese diplomats have struggled to make sense of what was happening and how to orient their policies.

Analytically, Chinese analysts have approached the Arab uprisings principally in material terms. Uneven economic growth and high unemployment throughout the Arab world<sup>2</sup> combined with a global economic slowdown to upset a delicate internal balance.<sup>3</sup> While a diminution of U.S. global power and the communications revolution played a role, Chinese scholars have generally seen events in the Arab world as being a consequence of factors that, in a domestic context, the Chinese government is actively managing. Yet these analysts are also wary of delving too deeply into the region's internal developments, out of fear that their analysis of failing Middle Eastern authoritarian regimes will be taken as veiled critique of China's own leadership.

China's diplomacy has not always been as deft or as agile as some would have hoped. Uprisings in Egypt and Tunisia happened so quickly that it was hard for China and leaders in the Gulf to respond. In Libya, the Arab League (with strong GCC support) called for the UN resolutions and NATO action that ultimately ousted Muammar el-Qaddafi. China supported sanctions imposed in UNSC Resolution 1970 but abstained from UNSC Resolution 1973, which had the effect of allowing NATO troops—with contributions from Qatar and the UAE among the Gulf countries—to support rebels fighting against Qaddafi. But China seems to have been looking to bet on both sides, supporting the status quo with offers of support to Qaddafi in July 2011<sup>4</sup> while opening a door to Qaddafi's foes.<sup>5</sup>

The Libya lesson that Chinese decisionmakers seem to have applied to Syria is that they were insufficiently opposed to international action, while GCC leaders have been among the most active proponents of intervention against Assad.

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China has vetoed three UN Security Council resolutions on Syria, and its calls for dialogue are consistent, regardless of the framework for such dialogue or the situation on the ground. But while China remains adamant in its opposition to international military action, it has reached out to the Syrian opposition much more effectively than it did in Libya. In fact, 24 hours after China cast a UNSC veto, a Syrian opposition delegation visited Beijing at the government's invitation for consultations.<sup>6</sup> In China's careful fashion, one can note simultaneously that the group only met a mid-level official and did not represent a diplomatic affront to the government of Syria, and also that China has reached out actively to the potential future rulers of the country.

China's Syria posture is likely guided by the desire to oppose Western-led intervention while letting Russia take the lead—and the greater share of global opprobrium—in actively supporting Assad. Earlier in the conflict Chinese officials expressed the hope that they might work with Arab Gulf leaders to promote a political solution in Syria, but that prospect has dimmed.<sup>7</sup> China's position creates some tension between it and the GCC countries that ejected Assad from the Arab League and have led the way in arming and supplying various rebel groups, but GCC leaders seem less frustrated by Chinese intransigence than by U.S. hesitation to back rhetorical opposition to the Assad regime with actions. On the whole, similar domestic political responses to the Arab uprisings have given China and the GCC countries more common cause than cause for tension.

## CHINA AND THE GCC

Amidst this regional instability, global trends have given oil producers in the Gulf reason to desire a greater role for China in the Middle East. In part, the interest in China

stems from insecurity about U.S. intentions, especially with visible U.S. fatigue at the posture it has maintained in the Gulf for decades. Taken at face value, the language the United States and China have used to describe the region was pointedly different: the United States called for “energy independence” and “ending addiction” to Middle Eastern oil; Beijing advocated “energy interdependence,” “energy security,” and “strategic partnerships.”<sup>8</sup> The United States’ language makes Gulf leaders uneasy, while China’s language makes them feel more secure.

The attraction of China is more than merely language, though. A return to more authoritarian patterns of governance could also help build Chinese ties in the Gulf. China and the GCC countries share a strong interest in preserving domestic stability and preventing spillover from the Arab uprisings, and some suggest that part of Gulf Arab governments’ attraction to China is an interest in the “Chinese model” of development amidst political stability.<sup>9</sup> Western countries’ insistence on political reform discomfits many conservative leaders, and should governments increase efforts to crack down on internal political dissent, a stronger Chinese relationship, if not a full-fledged “China option,” could help insulate governments from Western criticism. China’s historic disinterest in domestic affairs, its freedom to sell weapons without Congressional meddling, and its ability to move swiftly give these countries what they want quicker. It also spurs the United States to remove roadblocks to China acquiring desired U.S. goods. China is attractive on this level to all of the countries in the region, even countries such as Saudi Arabia, which have long and strategic ties to the United States.

Finally, many in the Gulf see China as the future, a rising power that will be consuming their oil for decades more. China’s eagerness for economic growth makes it a necessarily less fickle power, and one with a reliance on the Middle East that the United States does not share in the same way. Some see the U.S. relationship as something that can only diminish, while the relationship with China is something that will likely grow.

Bolstering that sense of possibility is the strong growth of trade between China and Saudi Arabia, as well as other GCC countries, in recent years. In 2007, China-Saudi trade was \$25.4 billion, and by 2011, the number rose to \$64.32 billion (\$14.85 billion in Chinese

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exports and \$49.47 billion in imports).<sup>10</sup> Saudi Arabian sources say trade rose 14 percent in 2012 to reach \$73.4 billion.<sup>11</sup> GCC-China economic and personal exchange has expanded, too. A large population of Arab businessmen has established itself in Yiwu in China, where most goods exported to the Gulf are produced, and an estimated 200,000 Chinese reside in the UAE.<sup>12</sup>

Saudi Arabia and other countries, notably the UAE, have sought to position themselves as reliable energy producers to take advantage of these trends. Saudi behavior in global markets has been to reassure customers while increasing production to meet demand. Saudi Arabia has recently been increasing its gas production in order to reduce domestic demand for oil, creating greater flexibility for its exports,<sup>13</sup> and has said it will increase oil exports in part in order to meet greater demand from China.<sup>14</sup> The UAE has followed a similar strategy of positioning itself as a reliable energy producer through its construction (by a Chinese company) of the Fujairah pipeline that bypasses the strategically vulnerable Strait of Hormuz, though the pipeline’s capacity is limited and the UAE’s energy exports to China itself are currently minimal.

Saudi Arabia is not blind to the security implications of such actions. According to one scholar, “China is increasingly focusing its attention on the Kingdom as a reliable energy partner, while Saudi Arabia sees China as an enormous potential market and strategic partner.”<sup>15</sup> Saudi Arabia is a far greater producer of petroleum products than Iran, and in the last decade it has gone from supplying slightly more oil than Iran to China to

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supplying more than twice as much. From the Chinese perspective, the strategic relationship is with Saudi Arabia, which now accounts for more than 20 percent of all Chinese oil imports.<sup>16</sup> While China does have energy relationships with other GCC countries as well as Yemen, none is as important as its relationship with Saudi Arabia.

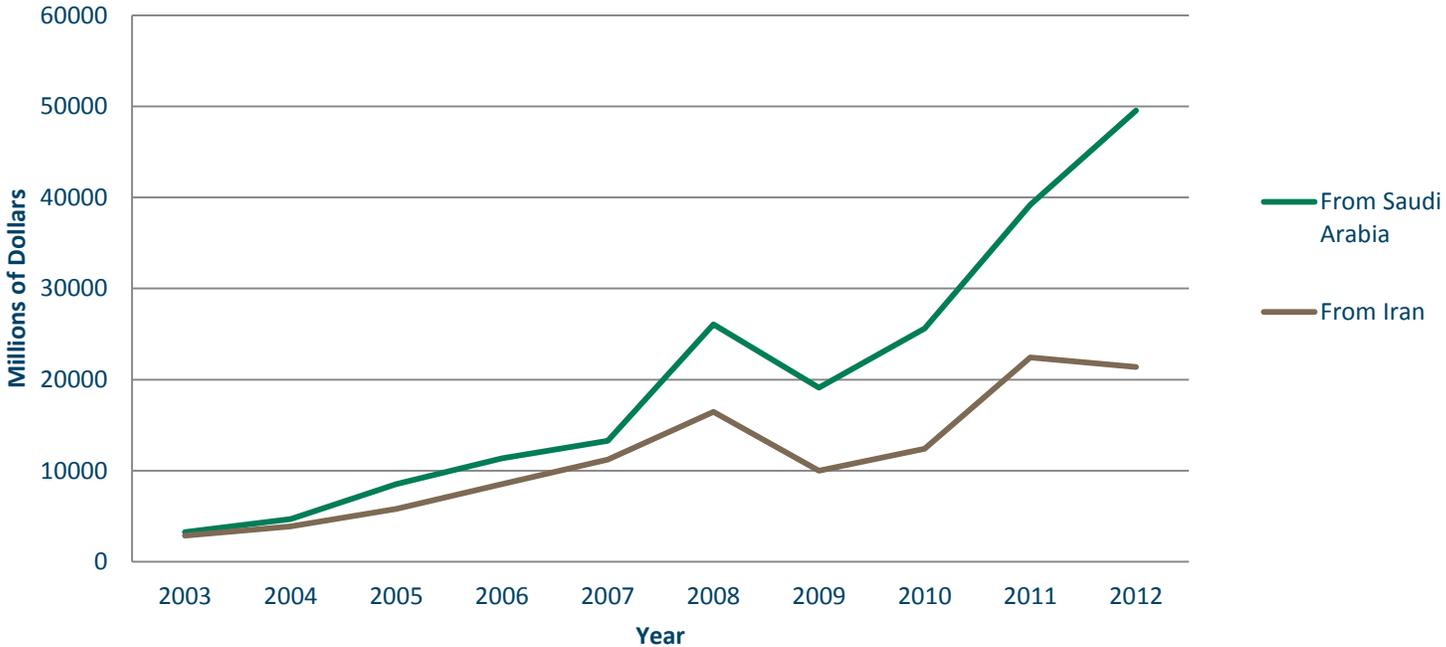
### CHINA AND IRAN

Like the GCC, Iran also hopes to pull China into the Middle East—albeit on the Iranian side. China’s relationship with Iran is important, but it is also China’s most difficult in the Middle East. The two countries share many interests, but China sees Iran threatening its interests as well. While Iran has grown increasingly reliant on China, that reliance has not been reciprocated.

Chinese-Iranian ties are deep. Their shared history dates back more than a millennium, and each former empire sees itself as much a civilization as a country. With a common view that the international order intends to constrain their actions unfairly,<sup>17</sup> each seeks a new order that allows it to achieve its rightful place in the world. In the current environment, Iran is both an important source of Chinese energy and also a power that distracts the United States from activity in other regions, particularly the Asia-Pacific.

An energy relationship with Iran has two principal benefits to China. The first is economic. Iran’s share of China’s oil imports has held relatively steady for the last decade,

Value of Chinese Oil Imports\*



\*Includes petroleum, petroleum products and related materials. 2012 values are estimates. In 2011, Saudi Arabia supplied just over 1 million bpd to China, and Iran supplied 555,000 bpd. Sources: UNCTAD and EIA.

ranging between 9 and 14 percent and more recently trending at the lower end of that range. But because Iranian exports have been declining overall, Iran's China trade has rocketed from 5 percent to 25 percent of its oil exports.<sup>18</sup> When global sanctions depress the demand for Iranian oil, China can obtain that oil at a discount. China is large enough to feel it is unlikely to be sanctioned by the United States, and it feels little obligation to sacrifice its own interests for U.S. strategy. China takes a dim view of sanctions overall, so subverting them—especially when they are not imposed by the United Nations—seems the natural approach.

Iran's other benefit to China is as a strategic hedge against U.S. influence. That is to say, in the event of conflict between the United States and China, it behooves China to have energy relationships that the United States cannot turn on and off. Chinese strategists continue to worry out loud about the potential for Sino-American conflict over Taiwan, even as the Chinese-Taiwanese relationship grows increasingly close, and they fear that one of the first U.S. steps in such an event would be to cut China's access to oil. China has taken many steps to ensure its energy supplies, from pursuing pipelines across the Asian steppes to developing port facilities in Myanmar that would allow some Chinese oil shipments to bypass the Straits of Malacca, which the U.S. Navy could conceivably control. One author urges, "Central Asia is a source of energy supply that demands no protection from any ocean navy. As China is still unable in the near future to build up an ocean navy strong enough to protect its oil shipping lines, this nearby energy source coming by land is obviously of great strategic significance for China's energy security."<sup>19</sup> Moreover, many Chinese strategists seem delighted at the prospect of the United States being tangled up in enduring tensions with Iran, which draws U.S. attention and resources<sup>20</sup> and allows others to portray the United States as a global hegemon.<sup>21</sup>

Yet China remains cautious toward Iran, for several reasons. First, Iran's estrangement from many countries—most pointedly the United States—brings great scrutiny to the Chinese-Iranian relationship and imposes costs on China that it would rather avoid. The vice president of the China Institute of International Studies told an Arab researcher, "We never hear the U.S. complaining about China's relationship with Saudi Arabia. But we hear them complain about Iran."<sup>22</sup> An Iranian scholar points out the problem from a Chinese perspective aptly:

**Seen from the perspective of a consumer, which China assuredly is, Saudi Arabia's behavior tends to support China's economic needs, while Iran's undermines them.**

Chinese trade with Iran is a seemingly impressive \$22 billion, but is less than one-fortieth of China's trade with its three largest trading partners: the United States, the European Union and Japan.<sup>23</sup> It is with these countries that China has a strategic imperative to manage its relations.

Iran has also not positioned itself as a reliable supplier. In contrast to GCC leaders' sensitivities to market demands and client concerns, Iranian behavior has been to threaten the stability of supply in order to deter attack, meanwhile presiding over a decline in actual production. Seen from the perspective of a consumer, which China assuredly is, Saudi Arabia's behavior tends to support China's economic needs, while Iran's undermines them. China is especially vulnerable when it comes to Middle Eastern energy. The United States has a unique ability to control the sea-lanes between China and Middle Eastern oil producers (in terms both of protecting Chinese supplies and being able to threaten them in case of conflict), and land-based pipelines are far from able to meet China's needs. If, as one Chinese scholar notes, "a peaceful geopolitical environment of the Middle East and North Africa is a requirement for China's energy security,"<sup>24</sup> there is little appetite for a confrontation with the United States, because, as the scholar admits frankly, "China lacks the capability of dealing with international energy politics and risks."<sup>25</sup>

The Chinese government appears concerned but not alarmed over the Iranian nuclear program. Chinese interlocutors consistently assess that more time remains, oppose military action, and encourage the Iranians to negotiate with their adversaries. One possibility is that China is merely seeking to maximize its own bargaining position with both sides by finding a posture that is minimally acceptable to each and then playing one off against the other. It is possible, too, that

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Chinese diplomats do judge that a resolution is possible on these terms. Overall, the Chinese position appears to flow from an assessment that China cannot much affect Iranian decisionmaking, and that the United States could manage the fallout of Iranian proliferation if it came to that. A senior think tank scholar close to the Foreign Ministry observed, “When we set our objectives, we know our means...[and] we have very limited means to influence the Gulf.”<sup>26</sup>

## THE FUTURE OF ENERGY

On both sides of the Gulf, political contingencies could challenge Chinese interests. One such contingency would be a precipitous drop in oil prices. In the short term, China would benefit economically from lower prices. Yet, GCC governments rely on oil income for most of their government receipts, and they have become accustomed to prices in the \$100/barrel range. A drop in prices, and particularly a swift one, would bring back the spartan times of the 1990s when investment was scarce and infrastructure decayed. Government workers—in some cases upwards of 90 percent of the national workforce—that have grown accustomed to double-digit annual raises would have to make do with less, and recent graduates would find themselves waiting years upon finishing education before they could find jobs. Countries currently producing at their maximum capacity would be especially hard hit. Iran would likely be the hardest hit, since its break-even oil price is higher than any of its neighbors, and its cash reserves per capita have been hard hit by decades of sanctions.

Some argue that the relatively higher price of unconventional oil and gas and the relative ease with which production of unconvensionals can be stopped puts a high floor under current oil prices. And yet, betting on current levels of demand and future costs for unconventional oil and gas is a perilous business.

Another contingency that could challenge Chinese interests is the possibility that successful negotiations with Iran could bring the Iranian petroleum industry out of its current isolation. The GCC states have their own fears of what an unconstrained Iran would mean for their security, and a resurgence of Iranian production could threaten to drive prices down. Their discomfort, combined with an Iranian desire to show strength, could introduce greater political instability into the Gulf rather than less. Either contingency would create challenges for the Chinese economy and for China’s diplomacy.

## CONCLUSION

It is all but certain that China will have a larger role in the Middle East in the coming decades, but it will likely take on such a role more slowly and cautiously than many in China and the Middle East would prefer, calibrating its movements so as not to jeopardize its bilateral relationships. A senior Chinese scholar of the Middle East put the Chinese balancing act well: He told an Arab researcher, “It would be the end of the world if China had to choose between the United States, Saudi Arabia and Iran.”<sup>27</sup> Still, Gulf powers see China as a source of leverage against one another and in their relations with the United States, regardless of whether that is how China sees itself.

China will not be able to avoid making hard decisions amidst the tangle of regional relations for a simple reason: There is no scenario in which China does not become increasingly reliant on the Middle East for energy over the next several decades. Some point to a potential spike in Chinese domestic energy production. Yet, China’s limited efforts to expand development of its domestic energy resources<sup>28</sup> face numerous technical obstacles, most importantly a shortage of the water that current technology requires to produce unconventional oil and gas. While it remains possible that future technological developments will remove this hurdle, such advancement can be neither predicted nor guaranteed. Even so, it likely would not be enough. Movement out of oil into gas and other energy sources would take decades, and even shifting to natural gas as a transportation fuel would help China do little more than gain some leverage over domestic prices. Instead, China’s increasing reliance on the Middle East for energy security is here to stay.

For China, the Middle East is complicated, it is conflictual, and it brings unwelcome scrutiny. This frustrating

dynamic is especially evident in China's engaged but hamstrung posture toward Iran and its strategic yet underdeveloped alliance with Saudi Arabia. Still, China has no choice. Its growing influence in the region means that its actions—and inaction—will shape the Middle East more and more in the future. China will need to continue to balance its interests in the Middle East, and doing so will be an increasingly difficult task.

## NOTES

1. This analysis paper draws substantially on Jon B. Altermann's testimony, "China in the Middle East," presented before the U.S.-China Economic and Security Review Commission, June 6, 2013, <https://csis.org/testimony/china-middle-east>.

2. See, for example, Wu Bingbing, "Change in the Middle East: The case of Egypt," *Journal of Middle Eastern and Islamic Studies (in Asia)* 6 no. 1 (2012): 24.

3. An Huihou, "The Reasons and Consequences of Political and Social Unrest in Arab Countries," *Journal of Middle Eastern and Islamic Studies (in Asia)* 6 no. 2 (June 2012): 3.

4. Graeme Smith, "China offered Gadhafi huge stockpiles of arms: Libyan memos," *Toronto Globe and Mail*, September 2, 2011, <http://www.theglobeandmail.com/news/world/china-offered-gadhafi-huge-stockpiles-of-arms-libyan-memos/article1363316/>.

5. China's foreign minister hosted both Qaddafi's foreign minister and the head of the Transitional National Council in Beijing in June 2011. See, for example, "Libya: China welcomes opposition figure Mahmud Jibril," BBC, June 21, 2011, <http://www.bbc.co.uk/news/world-africa-13853210>.

6. Yun Sun, "Syria: What China Has Learned From its Libya Experience," *Asia-Pacific Bulletin* no. 152 (February 27, 2012): 2, [http://www.eastwestcenter.org/sites/default/files/private/apb152\\_1.pdf](http://www.eastwestcenter.org/sites/default/files/private/apb152_1.pdf).

7. "China willing to work together with GCC on Syria: envoy," Xinhua, March 12, 2012, [http://news.xinhuanet.com/english/china/2012-03/12/c\\_131461742.htm](http://news.xinhuanet.com/english/china/2012-03/12/c_131461742.htm).

8. Khalid R. Al-Rodhan, *China's Strategic Posture in the Gulf, 1980-2010* (Ph.D. Dissertation, Girton College, Cam-

bridge University, 2011), 250.

9. Naser al-Tamimi, "China-Saudi Arabia Relations: Economic Partnership or Strategic Alliance?" (Discussion paper, Durham University, HH Sheikh Naser Al-Sabah Programme, Durham, UK).

10. As reported by China. UN Comtrade International Trade Statistics Database, <http://comtrade.un.org>.

11. "China, Saudi trade reaches record high of \$73.4 billion," Xinhua, January 31, 2013, <http://english.people.com.cn/90883/8115328.html>.

12. Jacqueline Armijo and Lina Kassem, "Turning East: The Social and Cultural Implications of the Gulf's Increasingly Strong Economic and Social Relations with China," in "The Gulf and Asia," *Singapore Middle East Papers* vol. 1 (2012): 22-45, <http://www.mei.nus.edu.sg/wp-content/uploads/2012/06/Vol.-1-The-Gulf-and-Asia1.pdf>.

13. Ajay Makan and Ed Crooks, "Saudi ramps up gas drilling to ease demand for oil," *Financial Times*, July 7, 2013, <http://www.ft.com/intl/cms/s/0/a71248b2-e59a-11e2-ad1a-00144feabdc0.html#axzz2akHiRtWi>.

14. "Saudi Arabia ready to lift oil output," Reuters, February 20, 2013, <http://www.thenational.ae/business/energy/saudi-arabia-ready-to-lift-oil-output>.

15. Al-Tamimi, "China-Saudi Arabia Relations," 1.

16. One author points out that neither President Hu Jintao nor Premier Wen Jiabao visited Iran or Syria since October 2007, but Hu, Wen and then-Vice President Xi Jinping all visited Saudi Arabia. Bo Zhiyue, "China's Middle East Policy: Strategic Concerns and Economic Interests," *MEI Insight* no. 61 (Middle East Institute, National University of Singapore, April 19, 2012): 2.

17. One author points out that while both countries are "revisionist" powers with regard to the international system, they are at odds because Iran is a revolutionary revisionist power intent on bringing down the existing international order while China is a reformist revisionist power that seeks to enhance China's position in that order. Mohsen Shariantnia, "Iran-China Relations: An overview of critical factors," *Iranian Review of Foreign Affairs* 1 no. 4 (Winter 2011): 64.

18. United States-China Economic and Security Review

Commission, *China-Iran: A Limited Partnership* (Arlington, VA: CENTRA Technology, 2012), 19.

19. Guang Pan, “China’s Energy Strategy and Primary Role of the Middle East in This Strategy,” *Journal of Middle Eastern and Islamic Studies (in Asia)* 2 no. 2 (2008): 67.

20. International Crisis Group, “The Iran Nuclear Issue: The View from Beijing,” *Asia Briefing* no. 100 (February 17, 2010): 4.

21. On Chinese schadenfreude over Iraq, see Xiong Guangqing, “The Iraq War’s Weakening of U.S. Soft Power,” *Academic Expression* no. 4 (2005): 95-98, quoted in Michael Chase, “China’s Assessment of the War in Iraq: America’s ‘Deepest Quagmire’ and the Implications for Chinese National Security,” *China Brief* 7 no. 17 (September 19, 2007).

22. Al-Rodhan, *China’s Strategic Posture*, 115.

23. Shariantnia, “Iran-China Relations,” 75.

24. Wu Lei, “The Oil Politics and Geopolitical Risks with China ‘Going Out’ Strategy toward the Greater Middle East,” *Journal of Middle Eastern and Islamic Studies (in Asia)* 6, no. 3 (September 2012): 63.

25. *Ibid.*, 79.

26. Al-Rodhan, *China’s Strategic Posture*, 113.

27. *Ibid.*, 115.

28. The EIA predicts that China’s oil production will increase from around 4.5 million bbl/d in 2013 to 4.7 million bbl/d in 2035, at which point China would still need to import about 75 percent of its crude oil due to increased demand. China’s largest oil fields contain few new prospects, so recent exploration and production efforts have been focused on oil and gas fields offshore and in the western interior provinces. See “China: Analysis,” U.S. Energy Information Administration, April 22, 2013, <http://www.eia.gov/countries/cab.cfm?fips=CH>.

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## CSIS MIDDLE EAST PROGRAM

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