

Eximia Journal
(ISSN 2784-0735)

Vol. 13

2024

The Economic Conflict between the United States and China and Its Impact on the Arab Gulf Region in Light of the Saudi-Iranian Rapprochement

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Abstract. The Middle East, and particularly the Arab Gulf region, holds special importance for the major world powers, especially China and the United States. This has led to the emergence of a covert conflict, akin to the Cold War, between these two nations over the region. In recent years, this conflict between the two global powers has become conspicuously evident, as each seeks to win favor in this vital part of the world. For many decades, the United States has been the strongest and primary ally of the Gulf States. However, China has recently succeeded in penetrating this relationship to establish another strong, close, and robust relationship with the Gulf countries, centered on economic cooperation. In managing its relations with the Gulf states, China relies on diplomatic partnerships, which expand Chinese power and contribute to the decline of American dominance in the Gulf. In recent years, the Gulf states have sought to diversify their political, military, and economic alliances beyond Washington, as part of what is known as a 'hedging policy.' This approach serves as a means to gain political and economic supporters, and, on the other hand, as a power to be used when necessary to exert pressure on Washington. The Chinese rapprochement for economic cooperation with the countries of the region has resulted in comprehensive strategic partnership agreements, especially with the Kingdom of Saudi Arabia, and previously with the United Arab Emirates and Iran in various fields, most notably in energy and infrastructure. In this context, it is natural for there to be ongoing Chinese-Gulf diplomatic communication to achieve rapprochement between the Arab Gulf states, particularly between Saudi Arabia and Iran. Chinese diplomacy has succeeded in restoring Saudi-Iranian relations, ending over seven years of estrangement between the two countries. This was achieved after several rounds of negotiations between the two sides since 2019, under the sponsorship of Iraq and later Oman, in addition to a meeting between the foreign ministers of the two countries on the sidelines of the second session of the Baghdad Conference in Jordan in 2022. China seeks, through the restoration of Saudi-Iranian relations, to break the encirclement that the United States tries to impose on its international activities. Despite this, China has established strategic partnerships with many Gulf countries, especially Saudi Arabia and Iran, both of which have strategic interests with China. This is a reinforcing point for the reality of announcing the resumption of relations. Additionally, the visit of the Chinese president to Saudi Arabia in December 2022 marked an important milestone in strengthening their strategic relations. This visit resulted in building upon comprehensive partnership agreements, with a series of practical executive actions linked to timelines. These include memoranda of understanding aimed at aligning the Chinese Belt and Road Initiative with Saudi Arabia's Vision 2030. The same applies to Iran, where it is linked with China through a 'Comprehensive Strategic Partnership' lasting 25 years, signed in 2021. This partnership includes areas of transportation, especially rail transport, energy, and infrastructure.

Keywords. Economy, China, United States of America

Introduction:

The Middle East, and particularly the Arab Gulf region, holds special importance for the major world powers, especially China and the United States. This has led to the emergence of a covert conflict, akin to the Cold War, between these two nations over the region. In recent years, this conflict between the two global powers has become conspicuously evident, as each seeks to win favor in this vital part of the world. For many decades, the United States has been the strongest and primary ally of the Gulf States. However, China has recently succeeded in penetrating this relationship to establish another strong, close, and robust relationship with the Gulf countries, centered on economic cooperation.

In managing its relations with the Gulf States, China relies on diplomatic partnerships, which expand Chinese power and contribute to the decline of American dominance in the Gulf. In recent years, the Gulf States have sought to diversify their political, military, and economic alliances beyond Washington, as part of what is known as a 'hedging policy.' This approach serves as a means to gain political and economic supporters, and, on the other hand, as a power to be used when necessary to exert pressure on Washington. The Chinese rapprochement for economic cooperation with the countries of the region has resulted in comprehensive strategic partnership agreements, especially with the Kingdom of Saudi Arabia, and previously with the United Arab Emirates and Iran in various fields, most notably in energy and infrastructure. In this context, it is natural for there to be ongoing Chinese-Gulf diplomatic communication to achieve rapprochement between the Arab Gulf states, particularly between Saudi Arabia and Iran. Chinese diplomacy has succeeded in restoring Saudi-Iranian relations, ending over seven years of estrangement between the two countries. This was achieved after several rounds of negotiations between the two sides since 2019, under the sponsorship of Iraq and later Oman, in addition to a meeting between the foreign ministers of the two countries on the sidelines of the second session of the Baghdad Conference in Jordan in 2022. China seeks, through the restoration of Saudi-Iranian relations, to break the encirclement that the United States tries to impose on its international activities. Despite this, China has established strategic partnerships with many Gulf countries, especially Saudi Arabia and Iran, both of which have strategic interests with China. This is a reinforcing point for the reality of announcing the resumption of relations. Additionally, the visit of the Chinese president to Saudi Arabia in December 2022 marked an important milestone in strengthening their strategic relations. This visit resulted in building upon comprehensive partnership agreements, with a series of practical executive actions linked to timelines. These include memoranda of understanding aimed at aligning the Chinese Belt and Road Initiative with Saudi Arabia's Vision 2030. The same applies to Iran, where it is linked with China through a 'Comprehensive Strategic Partnership' lasting 25 years, signed in 2021. This partnership includes areas of transportation, especially rail transport, energy, and infrastructure.

Research Problem:

The economic conflict between the United States and China has formed what is known as a Cold War between the two countries. Therefore, each country strives to extend its influence in the world's most economically powerful regions. The Arab Gulf region represents a significant economic force for both countries due to its vital petroleum energy resources on a global scale. This has increased the intensity of economic competition and conflict between the

two countries in the Arab Gulf region. Each country has followed its own policy to extend its influence in the region. The United States has adopted a military presence strategy to protect its economic interests in the Arab Gulf since the Gulf War in 1991 and the subsequent occupation of Iraq in 2003. China, on the other hand, continues to seek a role in this region. One of China's latest efforts was its role in facilitating Saudi-Iranian rapprochement, as it is in China's interest to reduce tensions between Iran and Saudi Arabia, with whom it has extensive economic and trade relations and significant investments. Ensuring stability serves to preserve China's interests in both countries and the region as a whole. Hence, the research problem can be summarized as investigating the extent of the impact of the U.S.-China economic conflict on the Arab Gulf region in light of the Saudi-Iranian rapprochement.

Research Objective:

The objective of the research is to present an analytical study on the state of economic conflict and commercial competition between the United States and China in the Middle East in general, and the Arab Gulf region in particular, in light of indicators of a decline in American power and the emergence of China as a balancing economic power in the international system. This has made China a significant economic and political force on the international stage, through which it has been able to establish its presence and political and economic influence. Perhaps one of its most important achievements is the return of Iranian-Saudi relations, through which China will achieve significant economic and political gains at both the regional and international levels.

Importance of the Research:

The significance of the research lies in the fact that the economic conflict between the United States and China affects the global economy in general and the economy of many countries, including the Arab Gulf states, both negatively and positively. This conflict serves as a real test for theoretical frameworks that address economic approaches as a means of dominance. The balance of global power, the nature of international interactions, and China's role in them represent a shift in American superiority. Additionally, the Saudi-Iranian rapprochement, facilitated by China, was the most prominent event in the world of international relations. This is attributed to the importance and role of China globally. Such rapprochement enables China to proceed with its strategic project, the Belt and Road Initiative, through strategic coordination and cooperation with the Arab Gulf states, as this project traverses its land and sea routes through Iran and the Arab Gulf states, forming a geo-strategic node not only for China and its project but also for the overall international relations and exchange of interests, especially in the field of energy.

Research Methodology:

The research will adopt a descriptive-analytical approach to analyze the nature of the relationship and the economic conflict between the United States and China and its impact on the Arab Gulf region in light of the Saudi-Iranian rapprochement. This will involve examining economic power rates, tracking the paths of competitive economic relations between the two countries, various related economic policies, and the consequences of Chinese economic influence in the Arab Gulf region.

Research Boundaries:

Spatial Boundaries: The research focuses on the economic conflict between the United States and China in the Arab Gulf region.

Temporal Boundaries: The research covers various stages of the American-Chinese conflict, especially since 2003 following the accession of the Chinese president to power, the American occupation of Iraq, and the imposition of American influence in the region, extending to the Saudi-Iranian estrangement from 2016 until 2023.

Thematic Boundaries: The impact of the American-Chinese economic conflict on the Arab Gulf region in light of the Saudi-Iranian rapprochement.

Research Variables:

Independent Variable: The economic conflict between the United States and China.

Dependent Variable: The trade balance between the Arab Gulf states and China.

Chapter one

Nature and Motivations of the Chinese-American Economic Conflict

Both China and the United States aim to become dominant economic powers in the global economy, seeking to infiltrate and impose economic influence in countries around the world. However, this ambition faces many challenges that affect the course of their plans and policies in achieving this goal. This conflict has its motivations and justifications. In this chapter, we will explain the outcomes and motivations of the Chinese-American economic conflict in the world in general, and in the Arab Gulf region in particular.

First Section - The Chinese-American Economic Conflict as a Cold War:

It is worth mentioning that the roots of the economic conflict between China and the United States date back to 1996 when the Chinese-American trade surplus was about 39.5 billion dollars. This led the United States to request China to open its doors to foreign goods, simultaneously threatening to use a number of measures and steps for this purpose, which include the following:

- Imposing restrictions on trade exchange with China.
- Reducing imports of textiles and clothing from China, as happened in 1983.

The Chinese response at the time was to impose restrictions on Chinese imports of American cotton.

- Threatening to reinstate certain legislations contrary to the policy of commercial interests on the one hand, and holding China responsible for cultural and intellectual piracy in copying music discs, computer discs, and electronic designs on the other hand.

China's pursuit of dominance in the global economy has propelled it towards achieving this goal, as evidenced by numerous economic indicators, especially after China became the second-largest economy in the world. Some of these indicators include:¹

1. The gap in the size of the domestic production between China and the United States decreased from about 9.072 trillion dollars in 2000 to about 7.170 trillion dollars in 2016, and to about 6.4 trillion dollars in 2017. The International Monetary Fund's forecasts indicated that this gap would reduce to about 5.469 trillion dollars by 2020, with the expectation that the U.S. gross domestic product in the same year would be around 21.927 trillion dollars, compared to 16.458 trillion dollars for the Chinese gross domestic product.

⁽¹⁾ Abdul al- Hai, Walid Salim (2000), *China's Future Place in the International System 1978-2010*, Emirates Center for Strategic Studies and Research, Abu Dhabi, p. 155.

2. China has become the largest exporter of commercial goods in all forms since 2009, surpassing Germany in this regard, and became the largest country in terms of the total volume of foreign trade since 2014, after surpassing the United States of America.

3. China has become the most important partner for many countries around the world, including major economic nations.

4. The expansion of Chinese investment globally in the field of research and development, after it started spending about 20% of the total global expenditure on research and development in various fields.

China has implemented several economic measures to achieve its goal of becoming the largest international economic power. One of the most prominent of these measures is the economic initiative 'Silk Road,' announced by Chinese President Xi Jinping in 2013. This initiative is one of the most important tools for enhancing Chinese influence in the global economy, as the economy and trade are the main drivers for China to become a major economic power. This initiative is the ideological expression of China's pursuit to develop its international economic capabilities, as well as its political aspirations to become an international political pole in the world. It has already become so in the Asia and the Mediterranean region. China has sought to inject massive investments to develop the infrastructure of international economic routes, connecting more than 70 countries together. This project aims to create a network of land routes consisting of railways and roads between Central Asia and Russia, and a maritime belt allowing access to Africa and Europe via the South China Sea and the Indian Ocean, at a cost of about one trillion dollars. The Chinese initiative includes a number of measures, which are as follows:²

1. In November 2014, China announced the allocation of one billion dollars to establish the Silk Road Fund to support Belt and Road projects.

2. The number of freight trains used by China to transport goods to Europe reached about 10,000 by the year 2018.

3. During the period from 2014 to 2019, Chinese trade in goods with countries along the Belt and Road exceeded 5.5 trillion dollars, and Chinese direct investment in non-financial sectors in Europe reached more than 80 billion dollars.

4. By the year 2019, China had established 82 economic cooperation zones in countries along the Belt and Road, investing 28.9 billion dollars.

5. China signed agreements with more than 100 countries and organizations around the world in 2018 for economic cooperation within the framework of the Belt and Road Initiative. This led to the expansion of the initiative's scope with countries in Eurasia, Africa, the Caribbean, and the South Pacific region. In 2019, 105 countries and international associations signed 123 economic cooperation documents within the framework of the Belt and Road Initiative, including 37 African countries.³

Through the same initiative, and from a strategic economic standpoint, China sought to connect various countries around the world. It established the Nicaragua Canal, which aimed to link the Pacific Ocean with the Atlantic Ocean as an alternative to the Panama Canal, which was under the control of the American military. The work on the Nicaragua Canal began in 2016.³ Additionally, China announced the Pakistan Development Corridor in 2015 to connect western China with the Gwadar Port on the Arabian Sea. This included the construction of roads

²(Hussein, Khalid (2019), China's Transformation into More Realistic Policies on the International Stage, Journal of Trends of Events, No. (30), p. 10.

³(Hussein, Khaled, op. cit., p. 11.

and railways, facilitating the connection of western China with the Arabian Sea near the Arab Gulf. This corridor allows for the export of Chinese goods through the South China Sea, where the Seventh American Fleet is present. China also promoted the Northwest Passage, a seasonal route, in 2016, as a strong competitor to the Suez and Panama canals. This route shortens the time and distance between Chinese ports and ports in northern Europe, and has seen a significant increase in the number of ships passing through it.⁴

China's effort to secure its oil supplies through the Belt and Road Initiative, and to establish trade routes independent of America, led China to conduct transactions in its own currency, the Yuan. In 2018, China announced that it had signed contracts to purchase oil in its national currency, the Yuan, backed by gold. This move paralleled the start of transactions in the national currencies between China and countries like Russia, Turkey, and India, in an attempt to break the monopoly of the U.S. dollar as the sole currency of trade. These Chinese measures have led to a trend of trading in the gold-backed Yuan, with more countries joining the 'Gold Yuan Club,' signaling the potential end of the U.S. dollar's dominance in the global economy and the possibility of significant inflation in the American economy.⁵

This Chinese ascent has raised concerns among many international powers. China emphasizes the importance of a multilateral international system for achieving economic and political development around the world. The United States has expressed concerns about China's ambitious project known as 'Made in China 2025,' which aims to elevate Chinese industries, especially in high-tech sectors, to the top of the world. The U.S. fears that this could lead to near-complete Chinese control, along with other Western countries, over the global economy. The United States sees the Belt and Road Initiative as having military dimensions, potentially leading to Chinese military presence in countries participating in the initiative.

Former U.S. President Donald Trump accused the Chinese telecommunications company Huawei of using its networks to spy on the United States, as the introduction of new technologies leads to an increased risk of cyberattacks and espionage. In light of this, some countries and multinational companies found themselves compelled to align with one side, amid growing concerns about the impacts of the Chinese-American economic conflict and increasing protectionist measures, which could significantly affect the state of economic stability, especially in newly developing economies.

To contain China's economic rise, the United States has taken a number of measures to confront this ascent, both commercially and electronically. The American administration under former President Donald Trump waged a trade war against China by imposing tariffs on their mutual imports, which many consider to be an economic war between the two global economic poles for dominance over the world economy. In the context of this conflict, the U.S. administration tried to persuade American commercial companies investing in China to transfer their investments back to the United States. If this were to happen, it would deal a blow to China by depriving it of massive investments and advanced technology. For example, then-President Donald Trump called on Apple Electronics to manufacture its products within the United States if it wanted to avoid tariffs on its imports from China, even promising high incentives in this

⁴(Kamal, Mustafa (2019), *Energy Geopolitics, The US-China Dispute in the South China Sea*, Journal of International Politics, Vol. (54), No. (218), p. 101.

⁵(Kamal, Mustafa, *op. cit.*, p. 102.

regard, such as complete tax exemption. According to the American perspective, this would hinder China's plans.⁶

The economic conflict between the United States and China has taken on intertwined dimensions, affecting many countries around the world, especially in the South China Sea region, as well as in Africa and the Middle East, where there is a struggle over oil, trade, and influence. This conflict intersects with the interests of other major powers in the world, such as the European countries that are hesitant between their traditional ally, the United States, and their major interests with China, and Russia, which shares China's policy in opposing American hegemony. What is most dangerous in this conflict is China's economic initiative (Silk Road), which poses a threat to American interests in Asia, the Middle East, Africa, and even Europe, aiming to connect Europe with the East and Japan, which are under U.S. control. This initiative presents itself as a global economic model for development, aligning its economic policy with the aspirations of many countries in the world, aiming to maximize mutual commercial benefits through building an interconnected infrastructure network. It also offers relative advantages to cooperating countries.⁷ It is noteworthy that Chinese loans are 10-15% less in interest over five years compared to American loans, which impose more than 25% interest, leading to an increased inclination to borrow from China rather than the United States. What distinguishes this initiative is that it has managed to attract many of the United States' allies to cooperate and invest in it, such as British banks, private American companies, and the signing of agreements worth 20 billion dollars by Saudi Arabia as an initial investment in the Chinese-Pakistani economic corridor. China also sought to include Italy in the Chinese economic initiative within the framework of special relations between the two countries, as well as rapprochement with France to form European-Chinese coordination.⁸

In response, at the beginning of 2017, former U.S. President Donald Trump announced a number of measures and executive steps to protect domestic industry and combat trade practices that directly affect the growth of American industries in the domestic market. These measures included the following:

- 1- Announcing the initiation of investigations to assess the impact of American imports from various industrial goods and intermediate products on domestic industry, starting with the iron, steel, and aluminum industries.
- 2- Independently announcing the start of investigations into unfair trade practices adopted by China against the United States, particularly concerning violations of intellectual property rights, and the non-application of fair trade principles within the framework of bilateral trade relations between the two countries.

In order to protect the American economy and prevent China's rise as the largest economy in the world, the United States imposed the first tariffs on Chinese imports in February 2018. These tariffs were placed on aluminum sheets, amounting to about 400 million dollars annually.⁹ This was followed by a series of consecutive tariffs on Chinese imports to the American market, prompting China to respond in kind. The value of goods subjected to tariffs from both sides reached around 360 billion dollars, which negatively affected the economies of both countries. In an attempt to contain the crisis, the two sides conducted their first direct talks

⁶ Merino, Miguel (2019), Dimensions of the US-China Conflict over Latin America, *Journal of Trends of Events*, No. (30), p. 83.

⁷ Suleiman, Hussein (2019), Increasing Pressures on Emerging Economies around the World, *Trends of Events*, Issue (30), p. 71.

⁸ Hussein Khaled, op. cit., pp. 20-21

⁹ El-Desouky, Abu-Bakr (2019), Will Trade Dispute and U.S.-China Conflict Ignite *Journal of International Politics*, Vol. (54), No. (218), p. 80.

in Shanghai, China, at the end of June 2019. However, these talks failed to reach an agreement to stop the trade conflict between them.

After failing to reach any agreement between the two sides, the American administration imposed additional tariffs of 10% on imported Chinese goods, especially those that had not been previously subjected to tariff hikes, in September 2019, estimated at about 300 million dollars.¹⁰ This was in response to the Chinese decision to suspend the import of American agricultural products. On October 5, 2019, the U.S. Treasury Department classified China as a currency manipulator, accusing it of seeking an unfair competitive advantage for its exports. This was despite the International Monetary Fund's announcement that the value of the Chinese currency (Yuan) was in line with China's fundamental economic conditions. China responded by imposing tariffs on American goods worth 75 billion dollars. Consequently, the American administration in this conflict aimed to bridge the gap between Chinese exports to the American market and imports from it, a gap that had been gradually widening.

As the world entered the COVID-19 pandemic at the end of 2019 and the beginning of 2020, the intensity of the economic conflict between the United States and China escalated, reaching the peak of conflict and reciprocal economic sanctions between the two. Due to the pandemic, there was a significant decrease in production, with many factories halting operations and transportation movement slowing down as a result of the precautionary measures imposed primarily by China in an attempt to limit the spread of the pandemic and minimize its resulting losses. However, it initially failed to contain it, leading to the virus spreading to most countries in the world, including the United States, Europe, and other nations. The World Health Organization then declared the pandemic as a global health emergency.¹¹

China accused the American administration on February 3, 2020, of overreacting to the virus outbreak and spreading panic. The United States denied these accusations. Each country had no choice but to take measures to combat the spread of the virus. However, each action had its economic costs and trade losses for both sides. The People's Republic of China, despite having customs measures, lost about 20% of its exports to the United States due to the protectionist measures then taken by U.S. President Donald Trump. China moved towards devaluing the Yuan, indicating the presence of cheaper and more competitive Chinese exports compared to the more expensive American products. China also worked to reduce American debt holdings, as it held about 1.17 trillion dollars in U.S. government debt, causing confusion and a slowdown in the American economy.¹²

Here, it is important to mention the American trade balance, which suffered from a deficit and a surplus in favor of China, despite the economic impacts of the COVID-19 pandemic on both sides. The following table shows the increase in the Chinese-American trade surplus from February to May 2020 in millions of dollars:¹³

¹⁰ Zahran, Iman (2019), Trade Protectionism, the Outcome of the US-China Trade Dispute, *Journal of International Politics*, Vol. (54), No. (218), pp. 84-85.

¹¹ Suleiman, Mona (2019), The Repercussions of the US-Chinese Competition on the Future of the Middle East, *Journal of International Politics*, Vol. (54), No. (218), p. 110

¹² Strategic Think Tank for Studies, Monitoring and Analysis Unit, The Effects of the Corona Pandemic on China-America Economic Competition, Situation Assessment, 2020, p. 3

¹³ "Trade in Goods with China", U.S. Department of Commerce (12/06/2020), see the link: <https://bit.ly/3ezJtwY>

Month	Chinese Exports	Imports from China	Trade Surplus in Favor of China
January	7,215.3	33,280.6	-26,065.3
February	7,215.3	22,813.1	-15,597.8
March	6,815.0	19,805.4	-12,990.4
April	7,971.9	31,070.8	-23,098.9
May	8,604.7	36,598.2	-27,993.5
Total	37,822.2	143,568.1	-105,745.9

From reading the previous table, it is apparent that the United States, despite its efforts to reduce the trade deficit with China, still experienced a trade surplus in favor of China. Despite the closures of borders, airports, and trade restrictions due to the COVID-19 pandemic, the maximum of this surplus was reached in May 2020, exceeding 26 million dollars.

Section Two - Motivations of the Chinese-American Economic Conflict and Interest in the Arab Gulf Region:

The motivations of the Chinese-American economic conflict, especially regarding the Arab Gulf region, can be summarized in the following points:

First - Economic Motivations:

The American trade balance has suffered from chronic deficits despite the trade partnership between the United States and its high-advantage trade partners, such as China, Canada, Mexico, Germany. The trade deficit reached 891 billion dollars, with 65% of it pertaining to U.S. trade with China. This percentage persisted despite the United States adopting protectionist policies, which were expected to reduce U.S.¹⁴ imports from China and lower the trade deficit. The U.S. trade deficit with China is attributed to China's ability to produce a range of products at lower costs compared to similar products in the United States. This prompted many American companies to shift their production operations to China. Moreover, American trade companies cannot reduce production costs in the short term, leading them to move their production operations to China, which offers lower labor costs. As a result, the United States pays a high price, namely increased unemployment, which in turn leads to decreased competitiveness of the American market compared to China. Consequently, China has become one of the largest creditors of the United States, with more than one trillion dollars in 2019.¹⁵

Secondly - The Political Motive:

The United States strives to maintain its international status as a superpower. The rapid economic rise of China and its recent expansion in leading the global economy threatens the U.S. position, which is not in line with the vision of various American administrations, given their military capabilities, maneuvers, and pressures to prevent being displaced from this position that ensures its continued dominance as an economic power in the world. This is especially crucial as it is closely linked to the prosperity of the American people and their continued consumerism. Additionally, this issue is one of the most important strategic files that

¹⁴ Al-Desouki, op. cit., p. 81.

¹⁵ Emad, K. (2019) "US Trade Deficit by Country, With Current Statistics and Issues: Why America Cannot Just Make Everything It, Needs", Updated 25 June, 2019, Available at : <http://www.thebalance.com/trade-deficit-by-county-3306264> [Accessed 20 August 2019]

guarantee voter support for American politicians of both major parties, Democratic and Republican.¹⁶

Thirdly - Technological Motivations:

A country that possesses an advanced technological sector is among the productive and economically active countries in the world, and China has become one of these significant nations. The technological factor has played a role in fueling the Chinese-American economic conflict. The United States has accused China of practicing discriminatory policies against foreign companies operating in China through restrictive measures related to technological purchases. The United States considered this as a forced transfer of Chinese technology abroad. Additionally, the United States accused China of intellectual property theft and industrial espionage, in exchange for granting greater opportunities for products and goods in the Chinese market.¹⁷

Fourthly - Working to Reduce the Value of the Chinese Currency (Yuan):

Historically, in 1994, the United States classified China as a currency manipulator and urged the People's Bank of China not to resist the gradual liberalization of its currency to the extent that it would not negatively affect the competitiveness of Chinese exports globally and its implications on employment and economic growth. Consequently, the People's Bank of China continues to control and support the Yuan whenever it approaches certain levels. Moreover, the foreign currency reserves of the People's Bank of China do not exceed 3 billion dollars, whereas the U.S. Federal Reserve holds about 120 billion dollars in foreign currency reserves. In response, China created artificial inflation to lower the exchange rate of the Yuan, reducing its value to increase Chinese exports, thereby decreasing their purchase value in foreign currencies. The United States viewed this measure as an attempt to mitigate the impact of tariffs on Chinese exports to the United States and saw it as entailing other risks. China has used U.S. debt to invest in U.S. Treasury securities, thereby possessing the capability to influence U.S. financial policy and control interest rates.¹⁸

Chapter Two

Impact of the American-Chinese Economic Conflict on the Arab Gulf Region

The American-Chinese economic conflict is centered on targeting economically significant regions around the world, and the Arab Gulf region, with its economic importance derived from global oil reserves, has become one of the most crucial areas of this economic conflict. The American policy from 2008-2020 towards China has often reflected a hardline approach. In contrast, China tended more towards dialogue rather than confrontation due to its policy based on peaceful aspects. Naturally, the primary goal of both countries is the Arab Gulf region. China attempts to deepen its presence in the region and expand its economic activities, while the United States focuses on strengthening its relations with the Arab Gulf states in security, counter-terrorism, and combating Iranian threats. This competitive situation has made the conditions of neutral countries, especially the oil-rich Arab Gulf states, more difficult. Therefore, the consequences and impacts of this conflict are clear and numerous.

¹⁶ The world bank , Available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US> ccessed 20 DEC 2019

¹⁷ Mouritz, F. (2017) "China's Economic Coercion" in: China's Global Influence: Perspectives and Recommendations

¹⁸ Al-Husseini, Irfan (2020), Trade Tensions between the United States of America and China, Arab Monetary Fund, p. 161

Section One - Impact of the Direction in the American-Chinese Economic Conflict:

The United States relies on strategic military influence in the region, as the security of the Gulf and the stability of energy are among the most important American strategies. American military bases in the Gulf act as barriers of security and stability. Additionally, the United States depends on its economic relations with the Gulf countries, which primarily revolve around oil in exchange for protection. When a major country like China competes with the United States in the region and builds good relations with the largest oil producer in the region, Saudi Arabia, this will have serious political and economic consequences for U.S.-Saudi relations. Saudi Arabia uses oil as a political weapon in many confrontations to pressure consuming countries, especially through raising prices, and to weaken its competing oil producers. This occurred in 2014 when oil prices fell, as Saudi Arabia relied on increasing its oil production for several reasons, most importantly to weaken Iran's position in the oil market and to destabilize American shale oil. However, its attempts were unsuccessful as U.S. oil production negatively impacted Saudi oil exports and undermined its political and economic status. Oil is the basis of influence both internationally and locally.¹⁹¹⁹

The economic conflict between the United States and China has several impacts in the oil sector, apart from the mutual threats of imposing tariffs on trade between them. This step has a negative effect on China, as it will lead to a decline in Chinese economic growth and consequently reduce its oil revenues from the Gulf, since it constitutes China's largest market. As for the Arab Gulf states, they stand to gain significantly; China will work to reduce the prices of its goods, and the Gulf States will import large quantities of goods and sell them at prices that ensure profit. The relationship for the United States is also complex; it would be difficult for the U.S. to forsake Chinese goods, as it is unlikely to cut them off from its markets, being a major importer of Chinese exports.

The danger lies when the United States imposes sanctions on countries that deal with China, as it did with Iran. In such a case, the economic and political losses for the Arab Gulf states would be significant. They would lose their strategic ally, the United States, if they do not comply with the embargo. Additionally, they would lose their economic relations with China if they comply. If the economy of the Arab Gulf states suffers, the American economy will be affected in turn; many of the major American investments are originally from Gulf countries like the United Arab Emirates, Kuwait, Saudi Arabia, Qatar, and others. Similarly, the Arab Gulf states see America as a strategic military ally.²⁰²⁰

Section Two - The Gulf Position on the American-Chinese Economic Conflict in the Region in Light of New Developments:

The similarity in many aspects of American and Chinese attitudes towards the Gulf States has led to sometimes conflicting positions by the Arab Gulf states towards these two world economic powers. Considering that China shares with the Gulf States a conservative and peaceful approach to conflicts, this has at times led them to lean towards China. China tries to attract the Arab Gulf states through its influence in international bodies. Conversely, the United States pressures the Arab Gulf states, both security-wise and politically, to destabilize their relations with China, based on the similarity of dialogue and shared interests between the Gulf

¹⁹ To which countries does America export oil, Website Figures 26/8/2019: www.argaam.com/ar/articledetail/id/1310628

²⁰ Hussein, Mohiuddin (2019), Gulf States affected or benefited from the Trade War between Washington and Beijing, 16/8/2019, <https://www.dw.com/ar>.

States and the United States. This has impacted the balance of the Gulf market and its relations with other countries like China.²¹

In this context, the Gulf states have sought to balance supply and demand for their oil, as continuing to deplete their old oil resources due to economic and population growth without discovering new sources to cover the increasing demand for oil will make the few producing regions a major subject of geopolitical and strategic international competition. The annual Chinese demand for oil has increased by an average of 5.5% since 2008, compared to the United States, whose annual demand for Gulf oil has increased by an average of 0.5%.

In light of this, the Gulf States can develop strategic plans to enhance relations with both the United States and China in the oil sector and manage the growing relations between the two competing countries in a way that maximizes benefits for the Gulf States. They can also cooperate with the Organization of Petroleum Exporting Countries (OPEC), the United States, and China to devise strategic plans to maintain a balance between supply and demand among them. Additionally, they can work to keep oil prices at a reasonable and predictable level for the future, given the mutual interests of the countries involved. Imbalances in the supply and demand can exacerbate the conflict over diminishing oil resources.²²

In light of this, the motivations for Chinese and American interest in the Arab Gulf region are:

Firstly - Geographical Location and Geopolitical Importance:

Despite its small size, covering an area of 239,000 square kilometers, and a total area of no more than 4.5 million square meters, this region is among the richest in the world in petroleum, encompassing about 70% of the world's oil. The Arab Gulf region's oil reserves reached about 800 billion barrels in 2008. The region's importance also lies in its strategic water straits, such as the Strait of Hormuz, which separates Iran and Oman, connecting the Arab Gulf and the Arabian Sea, and is known as the 'world's safety valve.' It is one of the most important and busiest waterways in the world for commercial ships carrying various types of cargo, especially petroleum products. About 21% of the global oil demand passes through this strait. It also serves as a bridge between the Gulf region and other countries' oil imports. The U.S. Energy Information Administration estimated that about 20.7 million barrels per day of oil passed through the Strait of Hormuz in 2018. The United States and China are among the largest importers of oil through the strait. The United States imported about 1.4 million barrels in 2018 through the Strait of Hormuz, which accounted for 7% of the total U.S. oil consumption. China imported about 1.5 million barrels.

Additionally, there are oil pipeline shipping routes outside the Gulf owned by Saudi Arabia and the United Arab Emirates. The total capacity of these pipelines is about 6.5 million barrels per day.²³

²¹ Al-Mashaqba, Ahed Muslim (2014), The Political Dimension of Arab-Chinese Relations and Their Future Prospects, Journal of Humanities and Social Sciences, Al al-Bayt University, Vol. (41), Appendix (1), p. 308.

²² Verbochen, Richard (2008), The Relationship between the Future of Demand and Supply Potential: The Landscape to 2030 in China, India and the United States of America, Competition for Energy Resources, Emirates Center for Strategic Studies and Research, Abu Dhabi, 1st Edition, p. 49.

²³ Barden. , Justine BIC, The Strait of Hormuz is the world's most important oil , transit chokepoint 20 June 2019: p2. <https://www.bcrmagazine.com>.

Secondly - The Economic Importance of the Gulf Region:

The trade relations, which are an extension of the oil relations between the United States and the Arab Gulf states, are of utmost importance for the United States, especially with Saudi Arabia, which has one of the largest global trade exchanges with the United States. American economic statistics showed that U.S. exports to the Arab world in 2018-2019 reached about 50 billion dollars, of which approximately 37 billion dollars were to Saudi Arabia, with 24 billion in Saudi imports to the U.S. and 13 billion in U.S. exports to Saudi Arabia. The most significant Saudi imports are Saudi oil, followed by the United Arab Emirates, with a total trade volume of about 24 billion dollars, including 19 billion in American exports and 5 billion in UAE imports to the United States. This means that the trade balance is in favor of the United States.

With the increase in American oil production, U.S. oil exports also rose in 2020. The U.S. crude oil exports reached 8.51 million barrels per day, including 3.18 million barrels of crude oil. These exports were to various countries around the world and U.S. allies, particularly Canada, which imported about 73.5 million barrels at the beginning of 2019, followed by South Korea with approximately 52.5 million barrels, and India with about 43.5 million barrels. China, which is engaged in an economic conflict with the U.S., ranks ninth as a buyer of American oil with about 16.8 million barrels. The U.S. exports it at reasonable prices with customs facilitations that ensured profit and achievement of its goals.²⁴

In anticipation, China worked to achieve a breakthrough among the Gulf States, especially between Saudi Arabia, the world's largest oil-exporting country, and Iran. The Chinese mediation successfully led to the announcement of the resumption of Saudi-Iranian relations, ending seven years of estrangement between the two countries. After several rounds of negotiations held since 2019 under the auspices of Iraq and then Oman, and a meeting between the foreign ministers of the two countries on the sidelines of the second Baghdad conference in Jordan in 2022, Saudi-Iranian relations over the past decade, with their differences in positions and stark contradictions on many regional files and issues, became one of the most important topics when discussing the regional equation of the Middle East. These relations have had an impact on many of the region's crises in Yemen, Syria, Lebanon, and Iraq, and have extended into international contexts by contributing to influencing global events and cementing their relationships with international actors.²⁵

China, too, sought to break the encirclement attempted by the United States by entering into a challenging and volatile regional environment like the Middle East. China formed strategic partnerships with many countries in the region, especially Saudi Arabia and Iran, both of which have strategic interests with China. This was a reinforcing point for the reality of the announcement of the resumption of relations. Moreover, the visit of the Chinese President to Saudi Arabia in December 2022 marked a significant milestone in strengthening their strategic relations. It resulted in building upon comprehensive partnership agreements, with a series of practical executive actions linked to timelines, including memorandums of understanding aimed at aligning the Chinese Belt and Road Initiative with Saudi Vision 2030. Similarly, with Iran, it is tied to China through a 'comprehensive strategic partnership' spanning 25 years, signed in 2021, encompassing sectors like transportation, particularly rail transport, energy, and

²⁴ The trade balance of five Arab countries with the United States losses except for a sharp RT in Arabic, 10/7/2019: website: <https://Arabic.rt.com/business>.

²⁵ The Strait of Hormuz is an energy corridor in the world hostage to politics_ Anadolu News Agency, 24/7/2019. <https://www.aa.com.tr/a>

infrastructure. Regarding Saudi Arabia, the course of its relations with the United States is going through an important phase of re-prioritization, especially under the administration of the Democratic U.S. President Joe Biden, who, along with some members of the U.S. Congress, announced a 'reassessment' of Washington's relations with Riyadh following OPEC Plus's decision to reduce oil production by about 2 million barrels in October 2022.²⁶

Months after U.S. President Joe Biden's visit to Saudi Arabia in July of the same year for discussions about increasing oil production, the Saudi-Iranian rapprochement aligns with the shifts in Saudi foreign policy and changes on the international stage. This comes along with other conclusions reached by Riyadh after being involved in regional crises over the past decade. These conclusions suggest that resolving these conflicts in favor of one party is extremely difficult, if not impossible, with the crisis in Yemen being a primary example. Saudi Arabia realized that its continued involvement in Yemen constitutes a drain on its financial capabilities, economic pillars, and military efforts, thus moving towards resolving the crisis even before the talks with Iran. As for Iran, the other party in the event; it is experiencing international isolation amid a range of challenges and threats, and amidst political and social chaos since the outbreak of protests on September 8, 2022. However, the impact of the agreement on the American role in the Middle East remains limited. The agreement does not enhance China's role beyond the diplomatic framework, nor does it eliminate the significant American role on both security and economic levels, especially in its relations with Saudi Arabia. Following the announcement of the resumption of Saudi-Iranian relations, the White House announced the completion of two deals by Boeing with Saudi Arabia for the manufacture of up to 121 787 Dreamliner aircraft, with an estimated value of 37 billion dollars.²⁷

China today is more capable than ever of playing regional and international roles, especially after the Chinese President has put his domestic affairs in order, starting from closing the COVID-19 file and returning life to normal in China, through the resumption of the production wheel, and anticipating a growth rate of more than 5% in 2023.

Some of the main reasons behind China's engagement and desire to achieve peace between the two countries (Saudi Arabia and Iran) are:²⁸

- Achieving significant economic interests between China and both Saudi Arabia and Iran; where huge economic agreements were signed with the Kingdom during the visit of the Chinese President, while Beijing has a 25-year strategic agreement with Tehran.
- Ensuring the continuous flow of oil from the Middle East, which is vital for sustaining China's production wheel.
- China's aspiration to fill the void in the Middle East following the American withdrawal from the region. Although Beijing benefited from the American presence, which secured stability in the region and thus guaranteed the flow of oil to China without Beijing bearing any burdens.
- Beijing's desire to present itself as a peace sponsor in the world, relying on its historical reputation of having no colonial history.

²⁶ Strategy, Regional Equation after the Resumption of Saudi-Iranian Relations, 19/3/2023, <https://strategiecs.com/ar/analyses>

²⁷ Previous Reference.

²⁸ Al-Shaher, Shaher (2023), A Reading of the Saudi-Iranian Agreement Under Chinese Auspices, Iranian Orbits, International Refereed Periodical, Vol. (6), No. (20), Arab Democratic Center, German, pp. 10-11

- China's pursuit of more strategic partnerships with influential countries in the world, especially with Russia, Iran, and Saudi Arabia, to counter American threats against Beijing.

- Beijing's aim to enhance its soft power and counter Western accusations of oppressing Muslim Uighurs, by seeking to bridge the gap between the two largest Islamic nations despite their sectarian differences.

- Announcing a new phase in Chinese foreign policy, characterized by engaging in international problems and affairs.

As for the American stance on the agreement, the United States still has significant influence in the Middle East, and strategic relations with Saudi Arabia, along with a historical hostility towards Iran. This means that any agreement that overlooks the American factor will not achieve its intended purpose. Therefore, Beijing did not oppose informing the United States about the steps of this agreement, as openly stated by the Saudis, who said they kept the U.S. administration informed of every step taken. The American position can be understood from two perspectives: the United States is in favor of any reconciliation between the two countries to ensure the flow of oil and because the Middle East is no longer among its top priorities, especially in light of the Russian-Ukrainian war and the growing Chinese influence and the U.S. desire to counter it. As for the Chinese policy, the task was made easier as the United States had welcomed the idea, believing it would inevitably fail from their perspective. Thus, the U.S. opposition was not to the principle of reconciliation, but because it came through Chinese mediation, which increased Beijing's soft power, especially in the Middle East.

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