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## *Policy Brief*

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## Kuwait Looks towards the East: Relations with China

By Khizar Niazi

*His Highness Shaykh Sabah Al-Ahmad Al-Jabir Al Sabah, Amir of Kuwait, led a high-level delegation to China from May 10-12, 2009, with a private stop-over at Hong Kong. Earlier in July 2004, his trip as Prime Minister to important Far Eastern countries had taken him to China, Japan, Singapore and South Korea. Subsequently, he visited Bangladesh, India, Pakistan and Thailand in June 2006. Kuwait is exploring the possibilities of further boosting mutually beneficial ties with the growing economies of the East. With this in mind, the author had written a research paper on Kuwait's relations with Japan, which was published by Gulf Research Centre, Dubai in November 2006. Second in the series, this Policy Brief explores Kuwait's relations with China.*

There is a growing tendency among the Gulf Cooperation Council (GCC) states to benefit from the favorable conditions in the rapidly growing economies of the East. As was amply demonstrated at a symposium organized by the Centre for Gulf and Arabian Peninsula Studies at Kuwait University in May 2009 on the “Reality of GCC-Asian Relationship — opportunities and challenges,” Kuwait exemplifies this trend.

Abdullah Bishara, Chairman of Diplomatic Centre for Strategic Studies (DCSS) recalled that, in the past, the GCC’s relations with Asian countries were confined to political and diplomatic domains. But now these have expanded to include economic, commercial, and even social fields. Ambassador Khalid Al-Meghamis, acting director of Asia Affairs Division of the Kuwaiti Foreign Ministry noted that “Kuwait’s decision to join the Asia Cooperation Dialogue (ACD) in 2004 [manifested] the country’s desire to strengthen ties with the Asian countries ... Kuwait would host the ACD meeting in 2011.”<sup>1</sup>

Dr. Abdullah Al-Ghanem, professor of political science at Kuwait University, hailed the Kuwaiti leadership for its far-sighted policy of “look towards the East.” Pointing to the vast prospects of mutually beneficial cooperation between Kuwait and China, Ambassador Khalid informed the audience that “the bilateral ties have kept growing [steadily] since the two countries forged diplomatic [relations] 38 years ago.” The two countries have signed a total of 29 agreements over the years.<sup>2</sup>

### *KUWAIT AND CHINA’S NATURAL AFFINITIES*

Kuwait, a tiny emirate with an area of about 18,000 square kilometers (km), is nestled atop the strategic Arabian Gulf, sharing 462 km of land boundaries with Iraq and Saudi Arabia and with a coastline of 499 km. A coastal desert village, settled in the 18<sup>th</sup> century by fishermen, merchants, and pearl divers, Kuwait is today a modern city state inhabited by about 2.7 million people, which include about 1.4 million nationals. It sits on proven crude oil reserves of about 104 billion barrels — 8% of world reserves — and natural gas reserves of 1.586 trillion cubic meters. Petroleum accounts for nearly half of the gross domestic product (GDP) of \$159.7 billion (2008 estimate), 95% of export revenues, and 80% of government income, with per capita income estimated at \$57,400 (2008). Kuwait has been experiencing rapid economic growth over the last several years, propelled by high oil prices. In 2008 it posted its tenth consecutive budget surplus. The drop in oil prices in late 2008 would reduce its fiscal surplus in 2009, and the global financial crisis would slow the pace of investment and development projects. But Kuwait is likely to weather the storm by using its considerable financial resources to stabilize the economy.<sup>3</sup>

According to 2008 estimates, Kuwait’s exports, totalling \$95.46 billion, consisted of oil, oil products, and fertilizer. Their destinations included: Japan 19.9%, South Korea 17%, Taiwan 11.2%, Singapore 9.9%, the US 8.4%, Netherlands 4.8%, and China 4.4% (2007). Kuwait, with only 130 square km of irrigated land (2003 estimate) and less



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1. “Experts eye enhanced GCC-Asian cooperation,” Kuwait News Agency, May 20, 2009, <http://www.kuna.net.kw/NewsAgenciesPublicSite/ArticleDetails.aspx?id=1999801&Language=en&searchtext=kuwait%20oil%20minister%20in%20china>.

2. “Experts eye enhanced GCC-Asian cooperation.”

3. CIA, “The World Factbook – Kuwait,” <https://www.cia.gov/library/publications/the-world-factbook/geos/ku.html#Econ>.

than 1% of arable land, and with an almost non-existent industrial base, depends entirely on imports for almost every necessity and luxury of life. According to 2008 estimates, it imported food, construction materials, vehicles and spare parts, and clothing worth \$26.54 billion (f.o.b.). Which came from: US 12.7%, Japan 8.5%, Germany 7.3%, China 6.8%, South Korea 6.6%, Saudi Arabia 6.2%, Italy 5.8%, and the UK 4.6% (2007).<sup>4</sup>

China, on the other hand, is a rapidly growing economic superpower. In the words of Kuwaiti Deputy Prime Minister and Foreign Minister Shaykh Dr. Muhammad Sabah al-Salim Al Sabah, it is the “economic dragon” which is “likely to be the cornerstone of the global economic growth in the 21<sup>st</sup> century.” The economic reforms which started in the late 1970s have made China a major player in the global economy. Annual inflows of foreign direct investment rose to nearly \$84 billion in 2007. The restructuring of the economy and the resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978. Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2008 stood as the second-largest economy in the world (\$7.8 trillion) after the US, although in per capita terms (\$6,000), the country is still in the lower middle-income bracket. China’s GDP composition by sector is: agriculture 10.5%, industry 49.2%, and services 40.2% (2008 estimate). In late 2008, as China commemorated the 30<sup>th</sup> anniversary of its historic economic reforms, the global economic downturn began to slow foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports for its GDP growth.<sup>5</sup>

### CONTEXTUALIZING THE KUWAIT-CHINA RELATIONSHIP

#### *China and the Arab World*

China, a permanent member of the UN Security Council, is keen to commence a strategic dialogue with the Arab world and enter into negotiations on the establishment of a free trade zone. In 2003, China appointed a special envoy to the Middle East. Chinese Foreign Minister Yang Jiechi, who earlier this year visited Egypt, the Palestinian Territories, Israel, and Syria, presented a five-point proposal for pushing the peace process forward. China is on record as having declared that it would “continue to make contact and coordinate with all related parties and play a constructive role in achieving a comprehensive, just and permanent solution for the Middle Eastern crisis.”<sup>6</sup>

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During Shaykh Al Sabah’s visit to Beijing in May 2009, Prime Minister Wen Jiabao reiterated that China “valued traditional friendship with the Arab countries and supported their efforts to safeguard (their) sovereignty, independence and dignity.”<sup>7</sup> He expressed the resolve to “push forward exchanges between China and the Cooperation Council for the Arab States of the Gulf.”<sup>8</sup> In December 2008, Chinese Vice Premier Li Keqiang, during his meeting with Prime Minister Shaykh Nasir al-Muhammad al-Ahmad Al Sabah in Kuwait, stated that “China always sees its relations ... with the Gulf Cooperation Council (GCC) and its six members ... from a strategic perspective.”<sup>9</sup>

#### *China and the GCC States*

China’s dependence on Gulf oil has been increasing gradually since 1993, when it became a net importer of

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4. CIA, “The World Factbook – Kuwait.”

5. CIA, “The World Factbook – Kuwait.”

6. Chinese Ambassador to Kuwait Huang Jiemin’s press conference at Kuwait on May 2, 2009, reported in *Al-Waten Daily* (English) (Kuwait), May 3, 2009, p. 2.

7. “China, Kuwait pledge cooperation during global financial crisis,” *China View*, May 11, 2009, [http://news.xinhuanet.com/english/2009-05/11/content\\_11355089.htm](http://news.xinhuanet.com/english/2009-05/11/content_11355089.htm).

8. “China, Kuwait issue communique, stressing trade, energy resources,” *China View*, May 12, 2009, [http://news.xinhuanet.com/english/2009-05/12/content\\_11357753.htm](http://news.xinhuanet.com/english/2009-05/12/content_11357753.htm).

9. “China, Kuwait pledge to step up economic, energy cooperation,” *China View*, December 30, 2008, [http://news.xinhuanet.com/english/2008-12/30/content\\_10577808.htm](http://news.xinhuanet.com/english/2008-12/30/content_10577808.htm).

oil. Last year, it overtook Japan as the second largest importer of oil after the US. Today, it imports 32% of its energy needs. It is estimated that by 2030, China will need to import more than ten million barrels per day (b/d; i.e., more than three-quarters of its domestic consumption). In 2008, China's oil imports of about 3.6 million b/d are estimated to have cost it around \$130 billion. Presently, more than half of China's oil imports come from the Gulf, with Iran and Saudi Arabia claiming the lion's share. Within a decade, the Gulf's overall share is expected to rise to over 70%. Obviously, China's ever-growing reliance on imported oil will increase its dependency on the Gulf.<sup>10</sup>

China's energy thirst is not confined to oil alone. It is estimated that by 2020, China would be importing up to 60 million tons per year of liquefied natural gas (LNG).<sup>11</sup> Early last year, the China National Offshore Oil Company (CNOOC) signed a 25-year deal with Qatar for the annual supply of 2 million tons of LNG starting in 2009. At about the same time, PetroChina signed a separate 25-year deal with Doha to purchase three million tons of LNG per year. Earlier this year, China signed a gas deal with Iran.

Trade between the Gulf states and China is not a one-way affair. During the years 2003-2007, Gulf imports from China more than quadrupled, from around \$7 billion in 2003 to \$30 billion in 2007. Likewise, total two-way trade also grew almost four times over the same period, from \$15 billion to \$58 billion. Bilateral trade during 2008 is estimated to have topped the \$80 billion mark. Chinese President Hu Jintao envisages that the figure would double within the next five years.<sup>12</sup>

Side by side with rapidly growing trade, two-way investment also has seen an unprecedented increase. In pursuance of its "Go Outward" strategy, China has been steadily acquiring key energy and commodity assets throughout the world during the last ten years, with a view to diversifying and securing its energy supplies. The Gulf obviously has been the hub of this strategy. In April, China's Sinopec signed a \$350 million oil drilling deal with Kuwait Petroleum Corporation (KPC); in March, China announced its \$3.2 billion natural gas deal with Iran; in February, the China Railway Construction Corporation concluded a \$5.5 billion agreement to build a rail network in Saudi Arabia; in January, the Chinese National Petroleum Company (CNPC) started work on a \$3 billion oil project in Iraq; and in December 2008, the CNPC won a bid to build a \$3.29 billion oil pipeline in the United Arab Emirates. Since 2001, Chinese companies have signed about 3,000 contracts worth approximately \$2.7 billion in the Gulf oil services sector alone. The numbers are likely to swell when free trade agreements are finalized.<sup>13</sup>

Nor is investment a one-way affair. The Gulf states are also increasingly sending significant sums of portfolio investment into China. Bitten by American protectionism, such as the Dubai Ports debacle in 2006, and impressed by a higher growth rate and attracted by better returns in Asia, Gulf investors are gradually turning from West to East — mainly China. All the major sovereign wealth funds of the Gulf have already made significant investments in China; the Kuwait Investment Authority has doubled its investments in Asia over the past two years. The GCC's "look towards the East" policy and China's "Go Outward" policy are converging on a win-win position for both sides, with far-reaching consequences for the future of the global economy.<sup>14</sup>

### **BILATERAL RELATIONS**

Kuwait and China enjoy cordial and friendly bilateral relations. Both sides have been working steadily to broaden

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10. Philip McCrum, *A special report on China and the Gulf*, Kuwait China Investment Company, [http://www.kuwaitchina.com/UserFiles/file/KCIC\\_in\\_the\\_Press/The%20Gulf\\_China%20and%20the%20Gulf\\_Special%20Report\\_May%20Jun%202009.pdf](http://www.kuwaitchina.com/UserFiles/file/KCIC_in_the_Press/The%20Gulf_China%20and%20the%20Gulf_Special%20Report_May%20Jun%202009.pdf).

11. McCrum, *A special report on China and the Gulf*.

12. McCrum, *A special report on China and the Gulf*.

13. McCrum, *A special report on China and the Gulf*.

14. McCrum, *A special report on China and the Gulf*.

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and deepen cooperation in the political, economic, and social fields. The Chinese fondly recall that Kuwait was the first Gulf state to establish diplomatic relations with them 38 years ago, on March 22, 1971.<sup>15</sup> Beijing also “appreciate[s] Kuwait’s “valuable support” on such issues as Taiwan, human rights, and others.”<sup>16</sup> Kuwait continues to “firmly adhere” to the one-China policy, opposes any attempt to forge “two Chinas” or “one China, one Taiwan” and supports China’s any efforts in safeguarding national sovereignty and territorial integrity.”<sup>17</sup>

China “strongly support(s) Kuwait’s sovereignty, independence and territorial integrity” and appreciates “its interest in resolving all pending issues related to the Gulf War.”<sup>18</sup> Within days of the Iraqi invasion of Kuwait on August 2, 1990, the Chinese Ministry of Foreign Affairs issued a statement, calling for respect of Kuwait’s independence and territorial integrity.<sup>19</sup> China was one of the first countries to praise the liberation of Kuwait in February 1991. In July 1991, Chinese Prime Minister Li Peng visited Kuwait to convey his nation’s congratulations and best wishes to the people and leadership of Kuwait. He also availed himself of the opportunity to explore the ways and means of strengthening bilateral relations in various fields.<sup>20</sup> Even today, China “condemns the former Iraqi regime’s killing of Kuwaiti prisoners of war (POWs), understands and supports Kuwait’s legitimate claims on the unsolved problems caused by Iraq’s occupation in Kuwait, involving the POWs and compensation.”<sup>21</sup>

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Shaykh Al Sabah’s visit to China in July 2004, in his capacity as the Prime Minister of Kuwait, gave renewed momentum to bilateral relations between the two countries. According to the joint press *communiqué* issued at the conclusion of the eight-day visit, the two sides reiterated their resolve to strengthen relations and enhance cooperation in political, diplomatic, and economic fields. They signed three agreements on economic and technology cooperation; oil and natural gas; and environmental protection, and agreed to promote two-way investment and trade.<sup>22</sup>

Shaykh Al Sabah visited China in May 2009 as the Amir of Kuwait. On his arrival in Beijing, he declared that Kuwait was “seeking to increase political coordination with China and create new horizons for boosting a two-way trade exchange.”<sup>23</sup> At the start of the formal talks, he informed the Chinese President that Kuwait attached “great importance to advancing cooperation with China in various fields, including ... economy and trade and politics.”<sup>24</sup> President Hu Jintao reciprocated by underlining the need to cement mutual political trust and maintain high-level exchanges; expand energy cooperation; and, to promote cooperation in trade, transportation, telecommunications, and engineering.<sup>25</sup> China, he added, was willing to work closely with Kuwait to establish a mutually beneficial long-term and strategic energy partnership. He indicated that China would encourage its entrepreneurs to invest and establish their businesses in Kuwait. Agreeing with his host, Shaykh Al Sabah said that Kuwait highly valued its relations with China.<sup>26</sup> The joint statement issued at the conclusion of the visit reflected a serious desire to “further strengthen the relations for the interest of the two countries and their people.”<sup>27</sup>

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15. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

16. *Arab Times* (Kuwait), May 10, 2009, p. 2. Also *Al-Watan Daily* (English) (Kuwait), May 3, 2009, p. 2.

17. “China, Kuwait stress UN’s role in Iraq, condemn terror,” People’s Daily Online, July 8, 2004, [http://english.people.com.cn/200407/08/eng20040708\\_148857.html](http://english.people.com.cn/200407/08/eng20040708_148857.html).

18. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

19. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

20. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

21. “China, Kuwait stress UN’s role in Iraq, condemn terror.”

22. “China, Kuwait stress UN’s role in Iraq, condemn terror.”

23. *Al-Watan Daily* (English) (Kuwait), May 11, 2009, p. 1.

24. *Kuwait Times*, May 11, 2009, p.1.

25. [http://big5.people.com.cn/gate/big5/search.people.com.cn/was40/people/GB/english\\_index.jsp?type=1&channel=@UTF-8](http://big5.people.com.cn/gate/big5/search.people.com.cn/was40/people/GB/english_index.jsp?type=1&channel=@UTF-8).

26. *Kuwait Times*, May 11, 2009, pp. 1 and 14.

27. *Arab Times* (Kuwait), May 13, 2009, p. 2.

Kuwait and China share a deep understanding on the regional and international issues of their concern and interest. The GCC countries usually evolve a consensus on various multilateral issues before or during international conferences and, therefore, vote as a bloc. This explains why China and, for that matter, all major powers and regional blocs deal with them as a group. Accordingly, while Kuwait and China agree on the significance of “coordination with them in regional and international organizations,” they underline “the importance of boosting cooperation between China and the GCC states.”<sup>28</sup>

### High-Level Visits

High-level contacts and bilateral visits reflect the state of relations between countries. The members of the Kuwaiti ruling family holding important positions in the government visited China even before establishment of diplomatic relations in 1971. The late Amir Shaykh Jabir al-Ahmad Al Sabah visited Beijing in February 1965 when he was Minister of Finance, Industry, and Commerce.<sup>29</sup> Again, in his capacity as Amir of Iraqi-occupied Kuwait, he visited China for three days, beginning on December 26, 1990, to canvass support for ending the Iraqi occupation of his shaykhdom.<sup>30</sup> Following the liberation of Kuwait in February 1991, the late Amir again paid a three-day visit to China to convey his country’s gratitude to the government and people of China for their invaluable support during the darkest days of Kuwait’s history.<sup>31</sup>

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The late Father Amir Shaykh Sa’ad al-‘Abdallah Al Sabah paid a six-day visit to China in April 1995. He met with senior Chinese officials with a view to reinforcing bilateral bonds to the mutual benefit of the two countries.<sup>32</sup>

Shaykh Sabah al-Ahmad al-Jaber Al Sabah paid several official visits to China. As Foreign Minister, he visited Beijing in both 1977 and 1988, and twice in 1990. His visit to China in July 2004 was in his capacity as the Prime Minister<sup>33</sup> and Chairman of the Supreme Petroleum Council. During the visit, several bilateral economic, trade, oil, and gas agreements were signed to boost bilateral trade and mutual investment.<sup>34</sup> This visit reinforced Kuwait-China relations and underlined Kuwait’s “Look toward the East” policy.

In June 1999, Kuwait opened a Consulate General in Hong Kong.<sup>35</sup> To boost economic ties with China, Kuwait recently opened a consulate in Guangzhou and will inaugurate a consulate in Shanghai in the near future.<sup>36</sup>

Over the years, the goodwill between the two countries gradually translated into a more concrete relationship. The need to strengthen mutually beneficial relations was echoed during Shaykh Al Sabah’s visits to China in July 2004 and May 2009, when Shaykh Al Sabah, in his capacity as the Amir of Kuwait, paid a state visit to China. The visit, in the words of the Chinese Ambassador to Kuwait, meant to “boost ... friendly relations and take cooperation to a new level.”<sup>37</sup> During the visit, the Amir held talks with the Chinese President Hu Jintao and Premier Wen Jiabao and discussed bilateral, regional, and international matters of mutual concern.<sup>38</sup> Shaykh Al Sabah and President Jintao presided over the signing of five agreements in the fields of energy, finance, telecommunications, transportation and education.<sup>39</sup>

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28. Joint Statement issued at the conclusion of the visit of the Amir of Kuwait to China, on May 12, 2009. *Arab Times* (Kuwait), May 13, 2009, p. 2.

29. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

30. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

31. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

32. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

33. *Al-Watan Daily* (English) (Kuwait), May 3, 2009, pp. 1-2.

34. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009.

35. Kuwait News Agency’s report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

36. *Kuwait Times*, May 11, 2009, p. 14.

37. *Kuwait Times*, May 3, 2009, p. 2.

38. Joint statement issued at the conclusion of the Amir of Kuwait H.H. Shaykh Sabah al-Ahmad al-Jaber Al Sabah’s visit to China from May 10-12, 2009.

39. *Kuwait Times*, May 11, 2009, p. 1.

Kuwaiti Oil Minister Shaykh Ahmad al-'Abdallah Al Sabah visited China in April 2009.<sup>40</sup> He met with senior officials in the oil sector and discussed the ways and means of further deepening cooperation in the field of oil.<sup>41</sup>

### *Economic Relations*

Economic contacts between the two countries preceded not only the establishment of diplomatic relations in 1971 but also Kuwait's independence in 1961.<sup>42</sup> "People-to-people" trade started in 1955.<sup>43</sup> China is both a major consumer (of energy and raw material) and a giant producer and exporter (of commodities and services). It has been courting governments around the world to diversify its sources of energy. Kuwait, on the other hand, is a major producer of oil and an ever-ready importer of everything under the sun. As such, cooperation between the two countries, particularly in economic fields, looks quite natural.

### *Oil Sector*

As discussed above, China is the second largest economy and the second biggest consumer of oil in the world. Kuwait is the eighth largest supplier of oil to China.<sup>44</sup> During Shaykh Al Sabah's visit as Kuwait's Prime Minister to Beijing in July 2004, the two sides, *inter alia*, signed the Framework Agreement for Cooperation in the fields of oil and gas.<sup>45</sup> This was followed by the Kuwait Petroleum Corporation (KPC) opening an office in Beijing in 2005.<sup>46</sup> Towards the end of that year, Kuwait Petroleum International (KPI), a subsidiary of KPC, signed a Memorandum of Understanding with Sinopec Corp. to jointly construct an oil refinery and a petrochemical complex in China.<sup>47</sup>

The planned facility would include a refinery that could process 15 million tons of Kuwaiti crude oil a year (300,000 b/d)<sup>48</sup> and an ethylene cracker unit with an annual production capacity of one million tons.<sup>49</sup> According to Kuwaiti Ambassador to China Faysal al-Ghays, the project would also include "a retail network."<sup>50</sup> The \$9 billion project, which is China's largest joint venture with a foreign country, was expected to become operational in 2013.<sup>51</sup>

The project was initially planned to be built in Nansha area of Guangzhou, the provincial capital of Guangdong Province. In 2006, the Chinese government and the National Development and Reform Commission, China's top economic planning agency, gave preliminary approval of the project and the designated site.<sup>52</sup> Subsequently, however, amid growing concern over the environmental impact of the project on the densely populated area, which includes Hong Kong, both the central and local Chinese governments proposed the relocation of the facility.<sup>53</sup> KPC preferred the original site which led to protracted negotiations. To break the deadlock before the visit of Shaykh Al Sabah to

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40. *Al-Watan Daily* (English) (Kuwait), May 3, 2009, p. 2.

41. *Al-Watan Daily* (English) (Kuwait), May 3, 2009, p. 2.

42. *Kuwait Times*, May 3, 2009, p. 2.

43. Kuwait News Agency's report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

44. *Kuwait Times*, May 10, 2009, p. 13.

45. *Kuwait Times*, May 6, 2009, p. 2.

46. *Kuwait Times*, May 10, 2009, p. 13.

47. *Kuwait Times*, May 10, 2009, p. 13.

48. *Arab Times*, May 12, 2009, p. 1.

49. *Al-Watan Daily* (English) (Kuwait), p. 14.

50. *Kuwait Times*, May 10, 2009, p. 2.

51. *Kuwait Times*, May 10, 2009, p. 13.

52. "Kuwait seeks common ground on China's Refinery," Kuwait News Agency, April 28, 2009, [http://www.kuna.net.kw/NewsAgenciesPublicSite/ArticleDetails.aspx?id=1993814&Language=en&searchtext=kuwait oil minister visit to china](http://www.kuna.net.kw/NewsAgenciesPublicSite/ArticleDetails.aspx?id=1993814&Language=en&searchtext=kuwait%20oil%20minister%20visit%20to%20china).

53. *Arab Times* (Kuwait), May 12, 2009, p. 43.

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## *Kuwait Looks towards the East: Relations with China*

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China in May 2009, the Kuwaiti Oil Minister Shaykh Ahmad al-'Abdallah al-Ahmad Al Sabah visited Beijing in the last week of April 2009.<sup>54</sup> But the Chinese authorities did not give in, citing concerns over pollution.<sup>55</sup>

During their meeting on May 10, 2009, the Kuwaiti Amir and the Chinese President stressed the importance of concluding the agreement without any further loss of time. Accordingly, it was decided to sign the agreement on the understanding that the project will be relocated to another city in the same province. According to the National Energy Administration (NEA), the project could be moved to Zhanjiang in western Guangdong<sup>56</sup> or some other "mutually acceptable location."<sup>57</sup> The agreement was thus signed by Kuwaiti Oil Minister Shaykh Ahmad and NEA chairman Zhang Guobao the same day. Kuwait will now submit the relocation plan, along with environmental assessment, to the Chinese authorities.<sup>58</sup>

The KPC and Sinopec Corporation also have been joined in by other international partners in the field of refining and petrochemical industries. In the \$9 billion project, KPC holds a 30% stake and Sinopec Corporation 50%, while Dow Chemical Company of the US and Royal Dutch Shell each hold a 10% share.<sup>59</sup> On the other hand, China's Sinopec oil company signed an oil well drilling agreement with Kuwait Oil Company (KOC) whereby the Chinese company will construct and operate five oil wells in Kuwait over five years.<sup>60</sup>

### *Agreements*

Kuwait and China signed an Agreement on Economic and Technical Cooperation in 1977, which was revised in 1989 to address new economic developments and changes.<sup>61</sup> They also clinched bilateral deals in air transport and trade in 1980, followed by agreements in media, investment protection and avoidance of double taxation in 1985.<sup>62</sup> A Memorandum of Understanding on Military Cooperation was signed at Beijing in March 1995 and an oil contract worth \$400 million was completed in Kuwait in December 1995.<sup>63</sup>

A GCC ministerial delegation of finance ministers, headed by Kuwaiti Finance Minister of the State Mahmud 'Abd al-Khaliq al-Nuri visited China in July 2004, coinciding with the visit of then Kuwaiti Prime Minister Shaykh Al Sabah. The two sides signed the Framework Agreement on Economic, Trade, Investment, and Technological Cooperation between China and the GCC states. The agreement "aims to encourage cooperation and technological exchanges in the above-mentioned areas, expand bilateral trade exchanges, encourage exchanges between the business communities of the two sides and promote mutual investment through various measures." The agreement also stipulates the establishment of a joint committee for cooperation, whose responsibility is to implement this agreement and other agreements or protocols signed based on this."<sup>64</sup>

During Shaykh Al Sabah's recent visit to China, the following agreements were signed at the Great Hall of the People on May 10, 2009:<sup>65</sup>

- Memorandum of Understanding (MoU) on cooperation in the field of infrastructure for highways and water channels, signed by the Kuwaiti Deputy Prime Minister and Foreign

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54. "Kuwait seeks common ground on China's Refinery."

55. *Kuwait Times*, May 11, 2009, p. 14.

56. "Sinopec, Kuwait Petroleum reportedly to partner on China Refinery," MarketWatch, May 10, 2009, <http://www.marketwatch.com/story/sinopec-kuwait-petroleum-reportedly-to-partner-on-china-refinery?siteid=rss>.

57. *Arab Times* (Kuwait), May 11, 2009, pp. 1 and 43.

58. *Arab Times* (Kuwait), May 11, 2009, pp. 1 and 43.

59. *Al-Watan Daily* (English) (Kuwait), May 14, 2009, p. 14.

60. *Kuwait Times*, May 6, 2009, p. 2.

61. Kuwait News Agency's report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

62. Kuwait News Agency's report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

63. Kuwait News Agency's report published in *Al-Watan Daily* (English) (Kuwait), May 4, 2009, p. 2.

64. "The Joint Press Communiqué between the People's Republic of China and The Cooperation Council for the Arab States of the Gulf (GCC)," Ministry of Foreign Affairs of the People's Republic of China, July 7, 2004, <http://www.mfa.gov.cn/eng/wjw/zzjg/xybfs/dqzzywt/t142542.htm>.

65. Kuwait News Agency, May 10, 2009.



Minister Shaykh Dr. Muhammad Sabah Al-Salim Al Sabah and the Chinese Minister of Transportation Li Shenglin.

- A minute on exchanging validation documents on oil and gas cooperation, signed by the Kuwaiti Oil Minister Shaykh Ahmad al-'Abdallah Al Sabah and Director of the National Energy Administration (NEA) Zhang Guabao.
- A cooperation agreement in the field of higher education, signed by Kuwaiti Foreign Ministry Undersecretary Ambassador Khalid Sulayman al-Jarallah and Chinese Deputy Minister of Education Hao Bing.
- The executive program on sport cooperation, signed by Kuwaiti Foreign Ministry Undersecretary Ambassador Khalid Sulayman al-Jarallah and Chinese Deputy Director of the Public Sport Authority.
- A loan agreement for the protection and development project of a Chinese lake, signed by Kuwaiti Director of Kuwait Fund for Arab Economic Development (KEFAED) 'Abd al-Wahab Ahmad al-Badr and the Chinese Deputy Finance Minister.

### *Trade*

Sino-Kuwaiti trade has expanded rapidly over the years, and today China is one of Kuwait's key trade partners. According to official statistics, the two-way trade between the countries jumped from \$642 million in 2001<sup>66</sup> to \$3.67 billion in 2007 and \$6.78 billion in 2008.<sup>67</sup> Kuwait's key imports from China are textiles, electrical appliances, toys, gifts, foodstuffs, and cattle, while its main exports to China are crude oil, urea, and scraps.<sup>68</sup>

Kuwait is China's eighth largest crude oil supplier.<sup>69</sup> According to Chinese customs data, Kuwaiti oil accounted for 4.6% of Chinese oil imports.<sup>70</sup> It imported 3.63 million tons of crude oil from Kuwait in 2007 and 5.36 million tons in 2008.<sup>71</sup> In the first quarter of 2008, Kuwaiti oil exports to China stood at 374,000 b/d.<sup>72</sup> The Kuwait Petroleum Corporation is seeking to increase its exports to China to 500,000 b/d by 2015.<sup>73</sup>

### *Investment*

Kuwait welcomes foreign investment in heavy and light industries and the accompanying modern technology. On the other hand, "Beijing welcomes Kuwaiti investments and also encourages Chinese companies to invest in Kuwait."<sup>74</sup>

Kuwait was the first Arab country to directly invest in China. The investments in the public as well as private sectors were mostly in oil and gas, and also in the banking and industrial sectors.<sup>75</sup> The Sino-Arab Chemical Fertilizer Company Ltd. (SACF) was established in 1985 as a Sino-Kuwaiti-Tunisian project. Shaykh Al Sabah's visit to Beijing in his capacity as Prime Minister of Kuwait in 2004 laid a solid foundation for meaningful cooperation between the Public Investment Authority (PIA) of Kuwait, an autonomous government body administering the general reserve fund, also known as the Kuwait Investment Authority (KIA) and its Chinese counterpart, the China Investment Cor-

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66. Kuwait News Agency's report published in *Al-Waten Daily* (English) (Kuwait), May 4, 2009, p. 2.

67. *Kuwait Times*, May 10, 2009, p. 13.

68. *Kuwait Times*, May 10, 2009, p. 2.

69. *Arab Times* (Kuwait), May 10, 2009, p. 2. and Kuwait News Agency's report published in *Al-Waten Daily* (English) (Kuwait), May 4, 2009, p. 2.

70. *Kuwait Times*, May 10, 2009, p. 13.

71. Kuwait News Agency's report published in *Al-Waten Daily* (English) (Kuwait), May 4, 2009, p. 2.

72. *Kuwait Times*, May 10, 2009, p.13.

73. Kuwait News Agency's report published in *Al-Waten Daily* (English) (Kuwait), May 4, 2009, p. 2.

74. *Kuwait Times*, May 3, 2009, p. 2.

75. *Kuwait Times*, May 10, 2009, p. 13.

poration (CIC). As a result, KIA acquired stakes worth \$720 million in the Industrial and Commercial Bank of China (ICBC), China's second-largest bank, in February 2006.<sup>76</sup> Both sides also set up Kuwait China Investment Company (KCIC) with a capital of KD 80 million.<sup>77</sup>

The cooperation between the Kuwait Investment Authority (KIA) and the China Investment Corporation (CIC) has been growing steadily since then. After buying a stake in the Industrial and Commercial Bank of China, China's biggest commercial lender,<sup>78</sup> KIA sent a delegation to China the following year to explore the property market but found that prices were too high. However, as prices for Chinese real estate and stocks have since come down, Kuwaiti investment funds are now likely to step up their efforts to exploit opportunities.<sup>79</sup> As Shaykh Al Sabah told the media in Beijing in May 2009, Kuwait runs investments in real estate funds in Asian countries, including China. And the Kuwaiti private sector would now invest in diverse sectors of the Chinese market.<sup>80</sup>

The Kuwait China Investment Company (KCIC) was formally incorporated in December 2005 by an Amiri Decree as a Kuwaiti shareholding company with a total capital of KD 80 million (US \$280 million).<sup>81</sup> Fifty percent of the paid up capital was contributed by the founding shareholders, while the remaining equity was publicly placed in Kuwait, attracting a large number of investors. The key holders are business leaders in Kuwait, who bring significant resources and business relationships to the company.<sup>82</sup> KCIC's mission is to facilitate and participate in capital flows between the Middle East and Asia.<sup>83</sup>

During a meeting with the Amir of Kuwait at Beijing on May 10, 2009, Chinese Prime Minister Wen Jiabao pledged to allow the Public Investment Authority (PIA) of Kuwait to enroll at the Shanghai Stock Exchange in the capacity of a local investor and thus trade in the Chinese currency as a domestic trader.<sup>84</sup> This would obviously give Kuwait "a strong impetus to enhance and diversify ... [its] investments in one of the most important global economies."<sup>85</sup> Kuwaiti investments in China were so far restricted to Hong Kong.<sup>86</sup>

China also has been investing in Kuwait. It has won several mega construction bids, including the Boubyan Bridge and other causeway projects.<sup>87</sup> Until 2006, Chinese companies invested roughly \$6.3 million in Kuwait.<sup>88</sup> At present, more than ten Chinese companies are operating in Kuwait in the fields of communications, infrastructure, construction, labor, engineering services, and other areas.<sup>89</sup>

During Shaykh Al Sabah's visit to Beijing in May 2009, a serious effort was made to attract more Chinese investors to Kuwait. In an exclusive interview with *The People's Daily*, he affirmed Kuwait's ambitious plans to reduce its reliance on oil and step up industrialization in the fields of petrochemicals, foodstuffs, and construction material. Kuwait, he said, was seeking to become a regional financial and trade center by developing infrastructure, overhauling legislation, streamlining procedures,

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76. *Arab Times* (Kuwait), May 11, 2009, p. 43.

77. Kuwait News Agency's report published in *Al-Waten Daily* (English) (Kuwait), May 4, 2009, p. 2.

78. *Kuwait Times*, May 11, 2009, p. 14.

79. "China and the Gulf: Orient Express," *the gulf*, May 30-June 5, 2009, [http://www.kuwaitchina.com/UserFiles/file/KCIC\\_in\\_the\\_Press/The%20Gulf\\_China%20and%20the%20Gulf\\_Special%20Report\\_May%20Jun%2009.pdf](http://www.kuwaitchina.com/UserFiles/file/KCIC_in_the_Press/The%20Gulf_China%20and%20the%20Gulf_Special%20Report_May%20Jun%2009.pdf).

80. *Kuwait Times*, May 11, 2009, p. 14.

81. "About KCIC," KCIC, <http://www.kuwaitchina.com/?id=1>.

82. "Shareholding Structure," KCIC, <http://www.kuwaitchina.com/?id=2&sid=5>.

83. "Mission Statement," KCIC, <http://www.kuwaitchina.com/?id=2&sid=2>.

84. "China to let KIA trade on Shanghai bourse," *Opelsque*, May 13, 2009, [http://www.opalesque.com/SWF\\_Briefing/?p=2889](http://www.opalesque.com/SWF_Briefing/?p=2889).

85. "China to let Kuwait fund trade on Shanghai bourse," *Reuters India*, May 12, 2009, <http://in.reuters.com/article/fundsNews/idINLB49218720090511>.

86. *Arab Times* (Kuwait), May 11, 2009, p. 43.

87. *Kuwait Times*, May 10, 2009, p. 13.

88. Kuwait News Agency's report published in *Al-Waten Daily* (English) (Kuwait), May 4, 2009, p. 2.

89. *Arab Times* (Kuwait), May 10, 2009, p. 2.

offering tax incentives, and shoring up human development. In fact, it already had passed legislation to ensure transparency, curb corruption, and increase the private sector's share in the gross domestic product. A World Bank office had been opened in Kuwait to set out an integrated strategy for governmental priorities in education, health, trade, and investment.<sup>90</sup>

### *Loans*

Kuwait was the first Gulf state to offer soft loans to China. The Kuwait Fund for Arab Economic Development (KFAED) has been extending financial assistance to the impoverished regions of China.<sup>91</sup> According to an agreement signed in Beijing in the presence of the Amir of Kuwait and the President of China, KFAED will provide over \$23 million in soft loans for an environmental project in China's northwest Xinjiang region, known for its sizeable Muslim population. The Lake Bosten River Basin Environment Protection and Development Project is designed to achieve sustained economic and social development in the region through the proper use of water resources in Xinjiang's largest lake and its surrounding areas. The project includes the construction of 204 wells, agricultural drainage works, recovery of reed wetland in the lake and the installation of a central environmental monitoring system.<sup>92</sup> KEFAED has so far financed 33 Chinese projects in infrastructure, the environment, and health.<sup>93</sup>

### *CONCLUSIONS*

For a variety of reasons, there is a growing realization amongst the businessmen, intelligentsia, politicians, civil servants, and governments of the GCC states that instead of depending on the West for many things, they also must look towards the East to diversify their economic links and reap the benefits of cooperation with Asia's rapidly growing economies, particularly China.

One of the basic reasons for this phenomenon is the strength of China's economy, which has grown, on average, at a staggering rate of 9.7% per annum during the last 15 years. The country's massive industrialization has transformed it into the world's industrial area. Today, it is said to produce three-quarters of the world's toys; two-thirds of the world's digital electronics; around half of all computers; and more than a quarter of the world's clothes. Quite naturally, therefore, its demand for energy has skyrocketed. So has its dependence on the Gulf, which provides half of its energy needs today — Saudi Arabia and Iran alone account for a third of China's oil imports. The Gulf region is projected to meet 70% of China's energy needs in a decade or so.<sup>94</sup>

On the other hand, Chinese exports to the Gulf region also have been steadily increasing over the years. The region's imports from China registered an increase of over 400% between 2003 and 2007. China expects that the volume of this trade to double within the next five years. According to a recent survey, 52% of Middle Eastern buyers intend to source more goods from China this year.<sup>95</sup>

The same is true in regards to two-way investment. China has been meticulously implementing its "Go Outward" strategy," which enables it to acquire key energy and commodity assets throughout the world to strengthen its security of supply. The Gulf has been a central plank in this strategy. Since 2001, Chinese companies have signed almost 3,000 contracts totalling approximately \$2.7 billion in the Gulf oil services sector alone.<sup>96</sup>

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90. *Kuwait Times*, May 11, 2009, p. 14.

91. *Al-Watan Daily* (English) (Kuwait), May 3, 2009, p. 2.

92. *Al-Watan Daily* (English) (Kuwait), May 12, 2009, p. 2.

93. *Kuwait Times*, May 10, 2009, p.13.

94. Philip McCrum, *A special report on China and the Gulf*, Kuwait China Investment Company, [http:// www.kuwaitchina.com/UserFiles/file/KCIC\\_in\\_the\\_Press/The%20Gulf\\_China%20and%20the%20Gulf\\_Special%20Report\\_May%20Jun%2009.pdf](http://www.kuwaitchina.com/UserFiles/file/KCIC_in_the_Press/The%20Gulf_China%20and%20the%20Gulf_Special%20Report_May%20Jun%2009.pdf).

95. McCrum, *A Special Report on China and the Gulf*.

96. McCrum, *A Special Report on China and the Gulf*.

On the other hand, all of the Gulf's major sovereign wealth funds have made significant investments in China. "Deterred by protectionism in the US — the Dubai Ports debacle in 2006 raised serious concerns around the region — and attracted by high growth and high returns in Asia, as well as by the region's long-term potential, the flow of investment funds emanating from the Gulf is slowly shifting from West to East."<sup>97</sup> Alessandro Magnoli Bocchi, chief economist at the Kuwait China Investment Company (KCIC), believes that Gulf sovereign wealth funds will "increasingly and incrementally" allocate more funds to the East in general and China in particular. This is because "macroeconomic indicators are quite favourable for Chinese companies and ... sovereign wealth funds are prudently positioning themselves to benefit from that."<sup>98</sup> The Federation of the GCC Chambers of Commerce and Industry (FGCCI) expects that the flow of investment from the Gulf to Asia will rise to \$250 billion over the next five years, with a lion's share going to China.<sup>99</sup>

However, investment in China cannot, in all fairness, be categorized as totally risk-free. A drop in demand for Chinese goods has cut China's year-on-year GDP growth from 13% to just 6.1% in the first quarter of 2009. Some economists are of the view that unless growth levels of 8% are maintained, China would face a serious threat of social unrest from millions of its poverty-stricken people.<sup>100</sup> But Bocchi, who previously covered Asia as a senior economist for the World Bank, is, somehow, confident in the Chinese government's ability to manage the downturn.

Another important factor which explains the phenomenon is that while China has taken pains to accelerate business links with the GCC states, the EU has somewhat disappointed them. The GCC-EU trade talks have dragged on for years, without any positive outcome, leading the Gulf countries to accuse the Europeans of "using politics over human rights to leverage terms of trade."<sup>101</sup> Saudi Arabia's Prince Turki recently blasted the EU over its prevarications in trade negotiations and warned that Arab countries would step up their already burgeoning trade and investment in the East if the EU did not get its act together. With an obvious reference to China, he complained that the GCC states would turn to those partners who were treating them with consideration and mutual respect.<sup>102</sup>

China has, no doubt, been treating the GCC states with consideration and respect. But the two sides still need to translate fine words into formal agreements in order to boost the level of trade and investment through an institutionalised framework. Following their disappointment with the EU, business leaders in the Gulf already have urged their politicians to make serious efforts in negotiating deals with China which would remove or reduce tariffs and bolster trade and investment.

Kuwait's oil wealth and China's thirst for oil as well as the prospects of higher returns on investments in China underline the key to the rapidly growing economic relationship between the two countries. They are, obviously, linked together by their common interests in that their economies supplement and complement each other. China's "Go Outward" policy and Kuwait's "look towards the East" stance makes them natural partners in trade, commerce, investment, and industry. They appear to be keen to further enhance cooperation in almost every field other than automobiles and defense.

Kuwait's defense — and for that matter the defense of the GCC states — has been under-written by the West in general and Washington in particular. As such, their defense requirements are and will continue to be met by the US and the EU in the foreseeable future. China offers no competition and poses no threat whatsoever to Western inter-

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97. McCrum, *A Special Report on China and the Gulf*.

98. Rosamund de Sybel, *A Special Report on China and the Gulf*, Kuwait China Investment Company, [http://www.kuwaitchina.com/UserFiles/file/KCIC\\_in\\_the\\_Press/The%20Gulf\\_China%20and%20the%20Gulf\\_Special%20Report\\_May%20Jun%202009.pdf](http://www.kuwaitchina.com/UserFiles/file/KCIC_in_the_Press/The%20Gulf_China%20and%20the%20Gulf_Special%20Report_May%20Jun%202009.pdf).

99. Nigel Gibson, *A Special Report on China and the Gulf*, Kuwait China Investment Company, [http://www.kuwaitchina.com/UserFiles/file/KCIC\\_in\\_the\\_Press/The%20Gulf\\_China%20and%20the%20Gulf\\_Special%20Report\\_May%20Jun%202009.pdf](http://www.kuwaitchina.com/UserFiles/file/KCIC_in_the_Press/The%20Gulf_China%20and%20the%20Gulf_Special%20Report_May%20Jun%202009.pdf).

100. de Sybel, *A Special Report on China and the Gulf*.

101. Gibson, *A Special Report on China and the Gulf*.

102. Gibson, *A Special Report on China and the Gulf*.

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## *Kuwait Looks towards the East: Relations with China*

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ests in the field of defense. Similarly, the Gulf is a lucrative market for automobiles, which is dominated by Germany, Japan, and the US, to the exclusion of China.

Kuwait imports every necessity and luxury of life, from a needle to an aeroplane, from vegetables to meat to grains. Its major trade partners include China, Germany, Italy, Japan, Saudi Arabia, South Korea, the UK, and the US. Any increase in its trade with any one of these countries — including China — obviously will be at the cost of the rest. But Kuwait's imports from China — consumer goods, light machinery and equipment, construction material, textiles, etc. — do not significantly impinge on the US trade share. However, the shift in investment from the West to the East, which has been spurred by the loss of trillions of petro-dollars in the recent market crashes in the West, does constitute a valid cause of concern for the West. The investment of the Gulf sovereign funds in China is an important development which could be pregnant with far-reaching consequences.