Sheikhs Fall in Love with the Renminbi. China eyes Investment Opportunities in the “Arabian Gulf”

By M. K. Bhadrakumar
Global Research, January 23, 2012
Asian Times 23 January 2012
Region: Asia, Middle East & North Africa
Theme: Global Economy, Oil and Energy

China and Qatar have been taking virtually opposite positions apropos events in Libya and Syria. Yet, they do not seem to be deterred by this little difference and are bonding in a big way in economic cooperation to mutual benefit.

Chinese Prime Minister Wen Jiabao, who visited Doha last week, disclosed at a press conference on Friday: a) China proposes to invest in the manufacturing of ”downstream oil products, which are most urgently needed by Qatar”; b) China and Qatar signed an agreement to jointly build a refinery in Taizhou, Zheijiang, in China; c) Chinese companies propose to participate in infrastructure projects in Qatar; and d) China and Qatar are discussing a “long-term, stable and comprehensive cooperative partnership” in natural gas.

Then, Wen quietly dropped a bombshell. He revealed “one more important point” as if it were an afterthought. He said: In order to address investment issues, we [China and Qatar] need financial support. Therefore, we reached another agreement, a cooperation agreement linking finance with investment. Qatar also proposed the use of local currency in trade settlement and even a specific ratio. I think this proposal can be studied. The short point is, the renminbi, the “people’s currency” also known as the yuan, is appearing in Doha. The China-United Arab Emirates (UAE) currency swap deal which was signed during Wen’s visit to Abu Dhabi last week already brings the yuan to the Emirates. The deal with the UAE is worth US$5.5 billion and the Chinese central bank statement said that it aims at “strengthening bilateral financial cooperation, promoting trade and investments and jointly safeguarding regional financial stability”.

Indeed, China is playing for the long term. Addressing an energy summit in the UAE, Wen made the startling proposal to create an international body that is mandated to determine the price of oil and which would regulate the policies of the entire supply chain involving the supplier countries, the consumers and even the transit countries.

Iran and Russia have already switched to their national currencies for conducting bilateral trade. Tehran’s ambassador to Moscow Seyed Reza Sajjadi said on Friday, “[Trade] with Russia is based on our national currencies. We started this work long ago. Iranian businessmen are buying products in Russia and are using the rouble as [payment] currency] … The US dollar has no [economic] support base … There is a similar interest on the Russian side.”

Last week, it also came to be known that India proposes to allow Iran’s central bank to open rupee accounts with two Indian banks as a long-term solution to the countries’ payment problems instigated by the US (which pressured New Delhi to terminate the traditional payment mechanism for Iran within the Asian Clearing Union.) An Indian delegation visited Tehran last week to finalize details.

The new arrangement envisages that while the payments for India's oil imports from Iran (roughly $12-14 billion annually) would be initially in Indian rupees, they would subsequently be converted into a separate designated currency. This is a pointed snub to Washington, which forbids friendly countries from dealings with Iran's central bank.

But, the UAE and Qatar are not to be compared with Russia or India. They are widely regarded as the anchor sheets of the Western strategy in the Middle East and they provide very substantial underpinnings to the petrodollar recycling.

Aren't we missing something here? Quite obviously, Persian Gulf countries are slowly, steadily probing their options in the Asia-Pacific to diversify their external relations that have been traditionally riveted to the West. With Europe in serious disarray and the US in decline and its reputation in the Middle East significantly dented, this trend is likely to become pronounced.

Smells like Arabic coffee … Equally, Wen made some candid remarks on Syria and Iran during his press conference in Doha, fully realizing that his host country would have a different point of view. Wen said Beijing is "very concerned" about the Syrian situation. He added in some detail: Syria's turmoil has been going on for quite some time. We have three comments on the Syria issue. First, we need to strive to seek a peaceful and political solution to the Syria issue. We oppose the killing of innocent civilians and should prevent it from happening. The order in Syria should be restored as early as possible.

Second, we must respect the requests of the Syrian people for change and their demands to safeguard their own interests. Third, we need to give play to the LAS' [Arab League's] role in this regard, especially its investigation and mediation role on the Syria issue, and enable LAS to provide help for the peaceful resolution of the Syria issue through dialogues and by political means.

Our goal is to find solutions, including meeting the requests of the people for change, continuing to develop economy and improving people's livelihood, so that states experiencing instability such as Syria could achieve stability and development. This is the first major policy pronouncement on Syria by the Chinese leadership and, most interestingly, it was made on Qatari soil. The impression one gets increasingly is that China is quite comfortable with both Iran and the Gulf Cooperation Council (GCC) states and doesn't see the security paradigm in the Persian Gulf in quite those zero-sum terms. The GCC comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.)

Again, we are blithely making assumptions on the basis of the sustained Western propaganda regarding an impassable Sunni-Shi'ite schism in the Persian Gulf, which completely overlooks that Iran and the GCC states (Saudi Arabia, in particular) have always maintained back channels to keep their discords in check.

Evidently, China is placing itself in the middle of the divide in the Persian Gulf while strengthening its interests on both sides. How its newfound influence plays out will be interesting to watch.

In turn, the GCC states also do not seem to mind that China has a strong strategic partnership with Iran. And, on its part, China seems justified in assessing that the GCC rulers are far from the one-dimensional moronic anti-Shi'ite fanatics that Western propaganda often makes them out to be. Beijing's new thinking opens up a fantastic panorama of China-GCC cooperation.

Wen said Iran didn't figure in his conversations with the leaderships in Saudi Arabia, the UAE or Qatar.

The Chinese commentaries have made it out to be that continued Iranian oil supplies are vital for China and implying that any increased purchases from Big Oil operating out of the GCC states would make China vulnerable to pressures. The government-owned China Daily featured a commentary on Saturday in a wrap-up of Wen's tour of the Persian Gulf, which said: US is lobbying the international community to put the screws on Iran. But China should read into this game and refrain from succumbing under other big powers' pressure … China should follow its own course, for Sino-Iranian trade is in accordance with international laws …

Iran is an essential overseas market for goods, especially technology-intensive ones, from China, which built the subway in Tehran … Oil imports from Iran are very important for China. If China stops importing oil from Iran, it will face an immediate shortage of fuel. Even if China can meet the shortage by importing from other countries, it would have to pay high prices and meet harsh conditions, which will deal a terrible blow to its economy. China has long suffered the whims of big oil-exporting companies and it is time their monopoly was curbed. Wen was plainly dismissive about Western media reports that he was scouting for GCC oil to replace Iranian oil. "Some people think I have come for the oil. I think they are too narrow-minded. It should be said that I have come for the friendship. The biggest harvest of my trip is the enhanced mutual political trust."

Thus, a new matrix is shaping up whereby within the framework of bilateral agreements, Persian Gulf countries – Iran and the GCC alike – are beginning to bypass the US dollar as an intermediary in their oil trade with Asia.

Neither the UAE nor Qatar is embarking on a strategic defiance of the US. But they know that the yuan smells like good Arabic coffee and it feels great to hold it in a volatile and ephemeral world, given that its appreciation in value in the future is a certainty.

Simply put, the UAE and Qatar are creating a cushion from exchange rate volatility. But the geopolitical reality is also that the renminbi will look great sitting in their vaults. The big question is when Saudi Arabia might make its move.

Ambassador M K Bhadrakumar was a career diplomat in the Indian Foreign Service. His assignments included the Soviet Union, South Korea, Sri Lanka, Germany, Afghanistan, Pakistan, Uzbekistan, Kuwait and Turkey.

Become a Member of Global Research

Articles by: M. K. Bhadrakumar