

Protecting China's Energy Interests in the Middle East

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Abstract: *In recent years, due to the political unrest in the Middle East, partnership on energy between China and Arab countries has been developing with fluctuations. Although oil and gas trade grew steadily as usual, cooperation in downstream industries, which was affected by the upheavals in the Middle East, was not entirely successful. Regarding energy issues, cooperation between China and the Middle East is the mainstream as China needs oil and gas from the Middle East and the Middle East needs the Chinese market, which is the foundation for bilateral cooperation. As long as the two sides make joint efforts, there must be a breakthrough in energy partnership.*

Key Words: *China; Energy Cooperation; Middle East*

China's energy interests in the Middle East lie mainly in the areas of energy cooperation with the Middle East oil-producing countries. Besides the oil and gas trade, the two parties have also collaborated on energy projects, such as energy exploration and exploitation, mortgaged contracts with risks, two-way investments, renewable

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energy development and asset acquisitions. In recent years, due to ongoing unrest in the Middle East, China's energy interests in the greater Middle East region have been seriously affected.

I. China's Energy Consumption and Oil and Gas Imports in Recent Years

According to media reports, in 2013, China's apparent consumption of oil had reached 498 million tons, which was an increase of 1.7% from the previous year; the apparent consumption of crude oil was 487 million tons, 2.8% higher than the 2012 level. The growth rates had dropped by 2.8% and 1.7 %, respectively, than those in 2012. In 2013, China's foreign dependence rate on oil was 58.1%, essentially the same as the 2012 level. Refined oil supply continued to exceed demand, which led to a substantial increase in exports. The consumption of natural gas was 167.6 billion cubic meters in 2013, an increase of 13.9% from the previous year. The proportion of natural gas consumption in China's total primary energy consumption had risen from 5.4% in 2012 to 5.9% (China Industry Research Network, 2014: January 20).

In 2014, China's oil demand has grown at a rate of about 4%. The total demand is expected to reach 518 million tons this year. To meet the needs of the domestic market, net imports of crude oil are expected to reach 298 million tons or 304 million tons if imports of petroleum products are counted, growing by 7.1% and 5.3%, respectively, compared to the previous year's figures. In 2014, China's dependence on foreign oil will be as high as 58.8%. The natural gas market is expected to maintain a tight balance between supply and

demand, with apparent consumption expected to reach 186 billion cubic meters, an increase of 11% over the amount in 2013. Natural gas consumption's proportion in the country's overall primary energy consumption has increased by 6.3% (China Industry Research Network, 2014: January 20).

1) Oil and Gas Imports

Crude Oil Imports: According to a report by the International Petroleum Network, in 2013, China had an average of 564 million barrels of daily crude oil imports (about 281.962208 million tons in a year), increased by only 4.03% compared to 2012, which was the smallest increase in the past decade (International Petroleum Network). Among China's major sources of crude oil imports, the Middle East has long been the largest one. According to the data released by the China General Administration of Customs in January 2014, the top ten countries as the origins of imported crude oil of China in 2013 were: (1) Saudi Arabia, 53.901165 million tons, 0.03% decrease than the previous year; (2) Angola, 40.00096 million tons, 0.36% drop than 2012; (3) Oman, 25.47347 million tons, an increase of 30.18% compared to the previous year; (4) Russia, 24.347583 million tons, an increase of 0.07 percent; and Iran, 2192.2385 million tons, down by 21.02%; (5) Iraq, 23.512941 million tons, an increase of 49.92%; (6) Iran, 21.448047 million tons, down by 2.2%; (7) Venezuela, 15.748579 million tons, an increase of 2.98%; (8) Kazakhstan, 11.980826 million tons, down by 0.03%; (9) United Arab Emirates, 10.275840 million tons, an increase of 7.52%; (10) Kuwait, 9.343907 million tons, down by 10.92%. Of these ten countries, Saudi Arabia, Iran, Oman, Iraq, Kuwait, the United Arab Emirates are the six major oil producers in the Middle East. The estimate is that China's imports of crude oil

from the Middle East countries account for about 56% of China's total crude oil imports.

Natural Gas Imports: In 2013, China's natural gas import volume was 53 billion cubic meters, with the dependency rate on foreign gas reaching 31.6%, exceeding 30% for the first time. China has surpassed Iran as the world's third-largest natural gas consumer (International Petroleum Network). In 2013, among China's major natural gas import sources, four were Middle Eastern countries. They were Qatar, Yemen, Egypt, and Algeria; and imports from those countries reached 9.22 billion, 1.5 billion, 600 million, 100 million cubic meters (LNG Online, 2014: June), respectively, together accounting for 21.55% of China's total natural gas imports.

2) Collaboration on Projects

It has always been hard for Chinese companies to cooperate with Middle Eastern countries on energy projects. In spite of some progress in recent years, current project cooperation still cannot meet the needs of China's economic development. The following paragraphs list a few examples:

On August 30, 2013, Sinopec International Petroleum Exploration and Development Co., Ltd., bought out one-thirds of a US company Apache's oil & gas assets and equity in Egypt at a price of \$ 3.1 billion. This acquisition marked Sinopec's first entry into the Egyptian oil & gas market. It is also expected to increase production capacity of about 13 million barrels of oil equivalent per day (equivalent to annual output of about 6.5 million tons equivalent) for Sinopec in peak periods (Ran, Y., 2013: August 30).

China and Saudi Arabia achieved significant progress on energy cooperation in 2012. In addition to substantial growth in crude oil

imports, the Saudi Aramco established Saudi Aramco Asia and set its regional headquarter in Beijing, a step of great strategic importance for Saudi Aramco Company to enter the Asian market. In addition, China and Saudi Arabia have also made significant progress in nuclear energy utilization cooperation: the two sides signed a package of agreements on civil nuclear cooperation. However, due to China's lack of completed demonstration projects, it will be very difficult to establish solid bilateral cooperation in those nuclear energy projects due to the difficulty of implementation. On July 16, 2012, Habshan-Fujairah oil pipeline, which is under the general contracting with the China National Petroleum Corporation (CNPC), was built and operationalized (Xinhua News Agency, 2012: July 16). This pipeline has an oil transport capacity of 75 million tons, with a total length of 424 kilometers. Since the pipeline was put into operation, crude oil output capacity of Fujairah has reached up to 150 million barrels-180 million barrels per day, thereby greatly enhancing oil export capacity of the UAE.

On August 5, 2012, crude oil production of the three major oil projects of the CNPC in Iraq, which are Ahdab project, Rumaila program, and Halfaya program, reached more than 160 million barrels a day, a record high. It achieved the predetermined phased goal in advance, and led the company to a stage of rapid return on investment (ROC) comprehensively. The three projects have also become CNPC's main source of the overseas oil and gas products.

However, affected by the international environment, China's oil projects in Iran have been through tremendous difficulties. In September 2012, Wu Bangguo, then Chairman of the Standing Committee of the National People's Congress, paid a visit to Iran.

During this period, both countries reached a partial agreement on the South Pars project. Iran made two key concessions. First, Iran eventually agreed to allow CNPC to withdraw from projects in the South Pars offshore oil field, and to offer replacement; second, Iran agreed to modify some items in buyback contracts that were not in favor of China (Xinhua News Agency, 2013: January 5). In addition to the South Pars project, the CNPC has three more projects in Iran, namely, the Nasjed-Suleiman oil project, the North Azadegan oilfield and the South Azadegan oilfield project.

On August 5, 2013, three horizontal wells located in Block F of Daleel oilfield --the CNPC's oil project in Oman--achieved a daily crude oil production of around one thousand barrels by water flooding exploitation, beyond the average level of full-field single well production of 230 barrels daily. According to reports, production capability of all CNPC oil projects in Oman has amounted to more than 10 million tons (China National Petroleum Corporation, 2013: February 5).

For a long time, energy cooperation projects in Sudan have been part of the list of the largest and most successful overseas oil projects with CNPC's largest investments. Since the independence of South Sudan, the North Sudan and the South Sudan have had big divergence on oil interests, which resulted in sporadic military conflicts. As a result, China's oil interests were gravely affected. In late April 2012, the President of South Sudan Salva Kiir visited China to talk about energy cooperation between the two countries. He said that South Sudan insisted to have the two sides resolve divergence and conflicts through consultations and negotiations, reducing tensions and achieving peaceful coexistence of the North and South Sudan. He said

he hoped China would assist in building an alternative oil pipeline for South Sudan. China showed a willingness to strengthen bilateral cooperation with South Sudan in economy, trade, energy, infrastructure and other areas, and to help South Sudan transform its advantages in resources into economic advantages (*Qianjiang Evening News*, 2012: April 25).

II. Problems in Energy Cooperation between China and the Middle East and their Causes

Though there are some problems in oil and gas trade between China and the Middle Eastern countries, the overall trend of development is stable; although the two sides had many achievements in energy, the overall situation is not good enough. There are problems and difficulties in their energy cooperation which has so far made it hard to have a breakthrough. Some of the existing problems are old ones that have been unsolved for years. These include: first, the two sides are still exploring a way for two-way investments. There is still room for improvement in term of number and size of the projects. Second, US companies and European companies have seized many opportunities. This leaves a small space for Chinese companies, which are latecomers. Third, China's oil companies still lack mental preparation to face competition and challenges. Their knowledge of targeting countries' conditions and relevant laws is insufficient. Meanwhile, their energy cooperation is restricted mainly in oil and gas trade, and need more cooperation in exploration and development of oil and gas, as well as downstream industrial projects. Fourth, due to political and historical reasons, Chinese oil companies have not yet

played a role in large-scale projects in oil and gas exploration in Middle Eastern countries, except in two Sudans, Iraq, and Iran. Fifth, there is an imbalance between oil and gas trade and investments. Therefore, although there is a great potential in project cooperation, improvement is still needed. Sixth, resource nationalism has become popular in Middle Eastern countries, which is unfavorable for deepening energy cooperation and attracting investments from Chinese oil enterprises on upstream oil and gas industry. Seventh, Chinese enterprises and personnel face increasing violent attacks and hijacks; those security threats on enterprises and their personnel have become increasingly serious (Wu, L., 2012: November).

There are many objective and subjective factors restricting the development of energy cooperation between China and the Middle East:

1) Continued Unrest in the region

Continued turmoil in the Middle East has been going on for more than three years. From an internal perspective, after the transfer of governments in some countries, re-division of power has resulted in tribal conflicts and sectarian conflicts. At the same time, terrorists took this opportunity and conducted terrorist attacks, which were serious threats to regional security. In addition, the Syrian civil war has lasted for a long time and spillover effects continued to expand. Those have exacerbated the unrest situation in the Middle East. From an external perspective, the geopolitical game between the United States along with some European countries, on the one hand, and Russia, on the other hand, has heated up regional problems like the crisis in Syria and the Iranian nuclear issue. Continuing turmoil in the Middle East has not only led to serious impact on Chinese oil and gas projects in

the Middle East, but also threatened Chinese overall imports of oil and gas. In Iran, for example, the United States and some European states have introduced the Intensive Sanctions Bill against Iran's central bank and oil export trade in 2012. Due to these sanctions by the United States and the European countries, and the decline in Iran oil exports, Chinese crude oil imports from Iran have dropped significantly. In 2011, China imported 27.76 million tons of crude oil from Iran; however, in 2012, as a result of the implementation of the international sanctions against Iran, its total import amount fell to 21.92 million tons, down by 21.02%. Moreover, the Middle East has some geographical advantages, which make it into the hub of the world oil and gas transportation. Iraq, Saudi Arabia, Kuwait, the United Arab Emirates and some other countries usually export oil through the Strait of Hormuz, with 85% export to China, Japan, Korea, and India. For China, about 36% of its crude oil imports are transported through the Strait of Hormuz (Yin, D. & Wu, B., 2012). If that strait were blocked, China's oil and gas imports would face a serious problem.

2) Resource Nationalism in the Middle East

Although being optimistic about China's energy market and consumption potential and willing to develop energy cooperation with China, Saudi Arabia, Kuwait and other Gulf oil producers have long pursued a policy of resource nationalism. For example, these countries have been "hiding" their upstream oil exploration, development and production projects from China for a long time. They are only willing to export oil and gas, and participate in the development of downstream oil and gas industry, rather than opening up the upstream area. This is not conducive to the deepening of bilateral cooperation in oil and gas (Wu, L., 2012: November).

3) High oil prices

In recent years, with the combined effects of many factors, oil prices have remained high in the international market. Given China's current economic situation, China's future oil demand will continue to keep rapid growth, which is expected to reach 620 million tons in 2020 and over 700 million tons in 2030 (Yin, D. & Wu, B., 2012). Given that the maximum crude oil production of China is 220 million tons, in 2020, China's oil supply and demand gap will reach up to 400 million tons, and nearly 500 million tons in 2030. Therefore, based on these import volumes, and given that one ton of crude oil equals 7.3 barrels, China will have to pay additional \$29.2 billion and \$36.5 billion, respectively, for every \$10 per barrel increase in international oil prices. The higher oil prices, the larger cost of imported crude oil for China.

4) Differential pricing mechanism

In order to protect their interests in energy exports, the Middle East oil-producing countries set up different prices for different destinations. Specifically, they charge differently for crude oil export to Asia, the Americas, and Europe. The prices for exports to Asia are much higher than those of exports to the United States and European countries.

In order to implement this differential pricing mechanism, the Middle East oil-producing countries effectively divide the international oil market into several sections, and then set up a destination clause in the sales contract signed by the buyers and sellers. This measure can effectively prohibit the flow of crude oil in the international secondary market. According to this clause, the Middle East oil-producing countries can issue a "no supply of crude oil"

threat to illegal buyers, which serves as a deterrent. Under the differential pricing mechanism, Middle East oil producers can maximize their interest and gain the largest surplus according to the consumption balance of the Asian market; China suffers from these high prices.

5) Chinese oil enterprises need to improve their management and technology

Chinese oil companies are facing many difficulties and risks in energy cooperation with the Middle East. Although China and the Middle East countries have signed several agreements on energy cooperation, the lack of a mechanism or institutional arrangements to safeguard implementation of these agreements make collaboration difficult to coordinate (Wu, L., 2012: November). Friendly relations and diplomatic interaction alone can hardly solve specific problems effectively and thoroughly. This situation is harmful for energy cooperation between China and the Middle East.

III. Suggestions to Protect China's Energy Interests in the Middle East

1) Thorough study the changes in energy strategy of Middle East oil and gas producers

In order to strengthen energy cooperation between China and the Middle East, we must first understand the oil and gas development strategy and basic policies of energy-producing countries in the Middle East. Since the new century, oil producers in the Middle East have become active in energy diversification strategy. They are cautious about foreign companies' investment in oil and gas resources.

Their diversification development strategy is mainly present in three areas: the type of energy resource, products, and exports. In terms of "type" diversification, these countries actively explore the development of solar, wind power, hydro, nuclear and other new energy sources, in addition to the traditional energy, such as oil and gas, to further enrich the kind of energy in the region. In terms of product diversification, they are keen in developing the downstream oil and gas industries, extending the industrial chain, such as increasing investment in the petroleum refining and petrochemical industries, and improving production capacity, and product variety. In terms of export diversification, traditionally, Middle Eastern countries export energy to the United States and Europe; however, since the new century, they have started to expand their export channels eastward to China, Japan, Korea, India and some other countries. They have treated these states as important oil-exporting destinations to ensure energy exports safety.

Their major measures include: continue to maintain good political and economic relations with Western countries; increase oil revenues, and ensure the healthy development of the national economy; rely on multilateral cooperation agencies to coordinate oil and gas production, and compete using reasonable strategies to get more market share and gain maximum benefits; protect oil resources and extend the service life of oil resource for as long as possible; alter the status of a single export of crude oil and a single economic structure, and gradually develop other industries, establishing a complete system of the oil industry step by step; attract foreign investments and invest overseas and, at the same time, open the market with resources, and achieve globalization in industry and business.

Middle East oil producers mainly rely on OPEC, Arab Petroleum Exporting Countries (OAPEC), and the Gulf Cooperation Council (GCC) to coordinate actions within the region. The main objective is to coordinate with a unified pace to enhance consistency among member countries on their external energy policies. Since the new century, the main roles of OPEC is to work on two core objectives—to stabilize prices and to expand the share, collaborating and gaming simultaneously with consumer countries in the field of accelerating the development of natural gas and enhancing environmental protection. The role of Arab Petroleum Exporting Countries is to coordinate the petroleum policies among member states, collect statistical data, and provide consultancy for decision-making on joint venture petrochemical projects. GCC aims at influencing the world oil market and oil prices, in order to maximize the interests of Middle East countries in oil and gas development (Ma, H & Che, C & Li, F., 2011: 23-30).

Currently, Middle East countries have gradually opened up their oil and gas industry. Chinese oil enterprises should take it seriously and conduct some research in order to be well prepared for future investment in the Middle East. In terms of projecting future situations in the Middle East, Chinese oil companies should analyze the key elements that may affect the evolution of the situation and factors that may lead to future development, as well as potential impact on the companies' investments and operation, based on SWOT strategy. In this way, companies can make investment strategies with much flexibility to react wisely to an adverse, uncertain environment (Lu, R & Xiao, L & Zhu, Y., 2013: 102-103). ^①

^① SWOT analysis is a strategic analysis approach. It helps identify an enterprise's

2) Different strategies for different targeting countries

Middle East countries' political and economic situation and their foreign policies on energy cooperation vary. Chinese oil enterprises' previous participation and development in the region also vary. Therefore, Chinese oil companies should have a clear position in energy cooperation, according to different situations of each Middle East country. For resource-rich countries with relatively stable political situations, Chinese enterprises should be proactive, continue to expand the scale of cooperation, and strive to establish long-term strategic cooperative partnership; for countries with more favorable policies for oil and gas cooperation and where China has a better foundation of cooperation, Chinese companies should maintain the existing achievements and seize the opportunity to compete for more oil and gas projects; for countries that are more greatly affected by the United States and European countries and are suffering political turbulence, Chinese companies should be cautious, and should strictly control the speed and scale of investment to reduce investment risks effectively.

3) Cooperate and compete with US and European companies

United States and European oil companies have an advantage as "early birds". They have a lot of assets and equity in the Middle East, which is an important manifestation of the interests of America and European countries in the Middle East. Chinese oil companies worked together with American and European oil companies in the past. They still need to seek cooperation in the future with competition in place.

business advantages, disadvantages and core competitiveness based on a company's own internal conditions. Strategic internal factors include: S represents strength (advantage) and W means weakness; external factors include: O represents opportunity (chance) and T is threat.

Chinese companies should understand US and European companies' advanced technology in oil production and their way of scientific management through cooperation, thus gaining experience. In addition, Chinese companies can also ally with US and European companies like CNPC's cooperation with BP in Iraq. With the influence of Western companies, Chinese companies can have a stronger voice in negotiation to get the most favorable conditions.

4) Efforts to build the core competitiveness of Chinese energy companies

The Middle East is an important destination for overseas investments from Chinese oil companies. In spite of many difficulties and challenges, Chinese enterprises must overcome these problems and make progress. Chinese oil firms not only need to participate in the exploration and development of onshore and offshore oil and gas resources, but also participate in technical research and development in unconventional oil and gas exploration and other emerging areas. They also need to establish project operations management system in line with national policy and international norms, train personnel who can deal with various situations under internationalization, continue to increase brand awareness and reputation in the course of construction and operation of oil and gas projects in the Middle East, and gain a strong competitiveness. Only in this way can they effectively reduce geopolitical risks under turbulent circumstances, maintain stable investment and business, compete with international oil companies, and gradually change their current disadvantage. Chinese oil companies must also establish an effective risk alerts mechanism, constantly improve their ability to withstand risks and reduce their loss to a minimum level in an adverse situation (Lu, R &

Xiao, L & Zhu, Y., 2013: 102-103).

1) Increase support of “going out” strategy

At present, the scale and intensity of Chinese oil enterprises’ “going out” strategy are not optimal. This is not due to the lack of specialized encouraging policies or strategic guidance, nor is the lack of financial support or information, but, instead, it is because of the lack of comprehensive national power and diplomatic support. In this respect, the government should learn from other countries’ experience, conduct more energy diplomacy, and provide active diplomatic service for Chinese oil companies to “go out” and lay foundation for investments in the Middle East. Currently, China’s Middle East energy cooperation is mainly borne by the large state-owned enterprises. With China becoming more open, private capital will have more shares. Involvement of private capital will help enhance China’s core competitiveness, improve China’s ability to cope with challenges imposed by the world’s large oil companies and oil oligarchs. The “going out” of private capital requires more guidance and support from relevant administrations.

2) Prepare targeted strategies against risks in countries like Iran and North and South Sudan

Given the important role of Iran, Sudan, South Sudan, and the Gulf oil producers in energy cooperation between China and the Middle East, China should develop targeted strategies.

During the energy cooperation with Iran, Chinese oil companies must be subordinate to the national interest, as well as encouraged to follow the guidance and arrangement of China’s overall foreign strategy. Under the government guidance, they should also establish a scientific risk alert mechanism against risks, make reasonable

judgments when dealing with risks, develop a responses policy with flexibility based on risks analysis, and ensure China's interests in Iran without bringing harm to great power relations or the international order.

Regarding the conflict between North and South Sudan, China should deal with it properly. First, China must continue to enhance mutual political trust, make efforts to coordinate their political divergences and conflicts among different factions in Sudan, maintain stability and development of Sudan. Secondly, in terms of the ethnic conflicts, armed conflicts, and occasionally violent hijacking incidents in Sudan, the Chinese government should continue to contribute to international peacekeeping efforts in Sudan. This action will not only help maintain regional peace and stability, but also guarantee the safety of Chinese oil enterprises and personnel, and safeguard China's interests in this area. Thirdly, Chinese enterprises should understand and respect customs and local traditions in this region, improve reputation of Chinese corporations, and promote local economic and social development. When expanding their business, Chinese enterprises should also pay attention to protection of the local natural environment and cultural heritage.

Since its independence in 2011, the South Sudan administration has heavily relied on oil exports for its treasury. As South Sudan inherited a part of the original oil agreements of the old Sudan, it can continue energy cooperation in a certain period with petroleum investors, including China. However, China is facing serious challenges including North-South conflicts and instability within South Sudan itself. China should focus on the following aspects: first, strengthen coordination and communication with both the North and

South Sudan based on the traditional friendly relations to successfully resolve the lingering problems brought by the separation of North and South Sudan. In terms of oil interest distribution, border demarcation, debt repayment and other issues between the North and the South, both sides have some misunderstanding about China. For example, South Sudan has accused Chinese companies of assisting the Sudanese government of “stealing” South Sudan’s oil shares. China should take these accusations seriously and provide clarification. Second, China should show support to South Sudan on transparency issues in project operations and oil revenue distribution. It should help monitor and examine the real income in oil and mineral sectors under international standards, in order to ensure transparency, openness and fairness of government revenue. This can also ease the tension between Chinese oil companies and local laws caused by tax payment issues, which contributes to improvements of Chinese companies’ local and international image. In terms of the oil contract review, China should actively consult with South Sudan, and reach a supplementary agreement on oil contracts review process as soon as possible. Third, while vigorously expanding the energy market, Chinese oil companies should actively help South Sudan develop a diversified economy, transform its economic structure, expand non-oil revenues, and improve people’s livelihood in South Sudan at the same time.

3) Fully expand energy cooperation with the Gulf oil producers

Saudi Arabia and other Gulf oil producers have rich oil and gas resources and abundant petrodollars revenues. They have relatively low needs of capital, and thus have a stronger position of resource protectionism. Regarding China’s economic and trade relations with the Gulf countries, oil and gas trade between the two sides plays a

great role, while the level of oil and gas projects cooperation needs more improvements. Below are some suggestions for addressing this situation:

First, Chinese oil companies have advantages in exploration and development design, geological technology, drilling technology, field development, pipeline construction, and refineries building technology, as well as cost advantages. China should use its strengths, develop construction teams composed of well-trained professional personnel, and strengthen oil and gas cooperation between Chinese oil enterprises and the Gulf countries (Zhang, S & Liu, W., 2006).

Second, efforts should be made to sign long-term trade agreements to stabilize Gulf countries' oil and gas supply to China in terms of amount type, place of origin, time, transportation and other aspects. With the upgrading of China's economic development pattern and improvement of quality of industrial products, the Gulf oil producers have increasingly more confidence in the Chinese market, which makes repurchase in oil and gas trade possible—when China imports oil and gas, it requests the oil producing countries to purchase Chinese goods with their oil revenues at the same time, which is certainly important as it contributes to Chinese export increase and the reflux of petrodollars and helps maintain the balance of trade.

Third, China should create new patterns of cooperation to diversify the ways of cooperation:

(1) Capital and technical service. For countries with low capital needs, such as Saudi Arabia and Kuwait, China can adopt the “Capital + technical services” pattern as one of the long-term cooperation modes, especially in areas such as the transformation and update of production devices, equipment maintenance, safety issues, technical

training, and exchange programs. This will not only help China reduce costs of oil, but also help prevent risks and ensure oil security.

(2) Exchange goods and services for oil and gas. The UAE is also a country with low capital needs; therefore, the “loans-for-oil” mode is unattractive for the UAE. As a result, China should expand cooperation based on the characteristics of Dubai as a hub of regional trade, finance, services, and shipping and based on the social development of the UAE. For instance, China should prioritize bilateral cooperation in investment areas to form a partnership with mutual reliance and mutual benefits. When the two countries' cooperation in goods and services trade develops to a certain scale, we can try the model of “Exchange goods and services for oil and gas” (Liu, Y., 2013).

(3) The model of establishing large-scale oil base. In recent years, many Gulf oil producers including Saudi Arabia and Kuwait, have built a large oil reserve base with East Asian countries. This is a new way of win-win cooperation. Among large energy consumers in the world, China was the last one that has benefited from this cooperation model. China first built an oil reserve base in Hainan, then another one in the Jebel Ali Harbor in the United Arab Emirates. The Jebel Ali Harbor is the world's second largest port for oil transshipment, following Singapore. Chinese companies can use it as a place for transported petroleum storage, which contributes to oil trade with Saudi Arabia (Wang, W., 2012: August). This cooperation model is particularly conducive to ensuring China's energy supply security, therefore should be promoted.

(4) China must adhere to the “going out” and “bringing in” policies and strengthen cooperation with the Gulf oil-producing

countries. Meanwhile, China must also pay attention to “bringing in” by attracting petrodollars investment from the Gulf oil producers, and promote two-way investment cooperation.

At present, the growing insufficiency in domestic oil and gas resources cannot meet the requirement of rapid development of the Chinese economy. China’s dependence on imported energy continues to increase. China needs oil and gas from the Middle East, while the Middle East needs the Chinese market. This has laid a foundation for bilateral cooperation. Although there will be ups and downs, energy cooperation between China and the Middle East reflects the overall trend. As long as the two sides work together, China will achieve a mutually satisfactory outcome.

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