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The Dragon Nests: China's Energy Engagement of the Middle East

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China is the largest consumer of energy, the leading exporter of manufactured goods and possesses the second largest economy in the world. The great dragon's current economic activity extends to all corners of the world, including the hydrocarbon-rich Middle East. Since becoming a net importer of oil in 1993, China's engagement of the Middle East has focused heavily on energy acquisition as the country urgently needs reliable sources of oil and natural gas to continue its unprecedented economic rise. For now, Middle Eastern countries seem amenable to the nesting dragon, whose increasing energy consumption, rapidly expanding economy, lack of colonial history and a policy of 'offend no one', its vast cash reserves and a willingness to pay premium prices for energy sources render it a highly appealing partner, capable of balancing the hegemonic policies and unipolar presence of the US. This article provides a summary of China's expanding energy relations with seven major energy producing states of the Middle East, namely Saudi Arabia, Iran, Iraq, Kuwait, Oman, UAE and Qatar, and assesses the political implications of China's burgeoning relationship with the region.

Keywords: China, Middle East, energy, oil, gas

On 16 January 2012, *The Wall Street Journal* reported that Saudi Arabia and China signed a nuclear cooperation pact to jointly develop atomic energy for peaceful purposes (Said 2012). Whether that agreement will lead to the actual production of nuclear energy remains to be seen; however, the irony and implications of the announcement are hard to ignore. China is currently the largest foreign consumer of Iranian oil despite supporting four rounds of UN sanctions against the Islamic Republic for its stated intent of developing a nuclear programme. Considering the fact that Sunni Saudi Arabia and Shiite Iran are political rivals competing for regional prominence only adds to the sting of the announcement for Tehran, which is currently facing a

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fresh round of sanctions specifically targeting its energy industry and the Central Bank. That China and Saudi Arabia, two developing nations with a shared history of Western colonialism, are moving forward on nuclear cooperation based on technology, China obtained from Westinghouse Electric in exchange for access to the Chinese market, is significant and reveals the expanding range of China's energy-acquisition tools and the increasing sophistication of its strategy (Said 2012).

One day after the Sino-Saudi nuclear cooperation announcement, *Reuters* reported that China and the United Arab Emirates signed a 35 billion Yuan (US$5.5 billion) trade agreement and the two nations planned to use the Yuan, instead of the US dollar, for bilateral trade, including oil. China is now the world's largest exporting nation, as well as the second largest importer of energy, and holds more than US$3 trillion in foreign currency reserves at a time when the US national debt stands in excess of US$14.7 trillion. Beijing believes the Yuan should replace the dollar as the primary currency for the settlement of international trade and they are making their case by expanding economic relations across the globe, particularly in the hydrocarbon-rich Middle East (Buckley 2012).

These news stories are just two examples of the many recent developments involving partnerships between China and states of the Middle East, and they speak volumes about the changing dynamic in the region. For the past three decades, China posted an average annual Gross Domestic Product (GDP) growth rate of approximately 9 to 10 per cent as its economy expanded from US$307 billion in 1981 to US$5.927 trillion in 2010 (World Bank 2011). During this period, the Asian giant emerged as the largest consumer of energy in the world and is second, for now, only to the US in oil consumption. The Middle East remains home to approximately 60 per cent of the world's proven oil reserves and currently provides China with 47 per cent of its imported oil, a figure that is projected to increase to 72 per cent by 2035 (USEIA 2011a). Conversely, US imports of crude oil and petroleum products from OPEC, which is dominated by Middle Eastern states, have declined by more than 227 million barrels per year in the decade since the September 11 terrorist attacks, and Canada and Mexico now provide more oil to the US than Saudi Arabia (USEIA 2011b, 2011c).

As we enter the second decade of the twenty-first century, the great dragon appears to be nesting in the Middle East for the long term, by deeply embedding itself in the economies of the region and by signing long-term energy agreements with the major regional producers. Since becoming a net importer of oil in 1993, China has carefully expanded its diplomatic, economic and cultural ties with the Middle East. While its engagement remains broad in scope, the major focus for China is clearly on energy acquisition, as the country urgently needs reliable sources of oil and natural gas to continue its unprecedented economic rise. China's vast cash reserves, its willingness to pay premium prices and its potential as the major source of future demand for energy, all render it as an alluring partner. With its illustrious precedence of trade with the Middle East via the Silk Road and no history of colonial dominance in the region, China also represents a rising power capable of balancing the hegemonic policies and unipolar presence of the US.

While natural gas and nuclear energy hold great promise for China's future relations with the Middle East, data shows that the basis for energy trade, thus far, is oil, which remains a highly politicised commodity. Further, the Middle East is arguably one of the most unstable regions in the world today. The diminishing of US political capital in the region, in part due to its military involvement in Afghanistan and Iraq, the rise of Arab Spring, the emergence of post-uprising regimes that are likely to be more nationalist in their political orientation and the expansion of Chinese influence, have all transformed the regional strategic map in significant ways. As the self-proclaimed champion of the developing world and with less political baggage compared to its Western rivals, China has thus far skilfully navigated the turbulent waters of the region's politics and appears well positioned for long-term success in the Middle East.

As Table 1 indicates, China is certainly not alone in its pursuit of hydrocarbons from the Middle East. In addition to the continuing presence of the US and European nations, numerous Asian competitors exist for China in the region, as well. Japan and South Korea, for instance, have longer histories of energy relations with the Middle East than China, as well as a complete dependence on imports for their oil needs. India's rising energy demands and imports from the region, coupled with its massive population and expanding economy suggest it may assume a more active role in the future, as well. Yet, it is China's energy engagement with the region that demands our attention, both because of its momentum over the past two decades and its awesome potential for long-term growth. In fact, China has already surpassed Japan and South Korea in annual crude oil imports from key producers such as Iran, Iraq and Oman and it may soon surpass them in imports from Saudi Arabia and Kuwait (UN COMTRADE 2012).

Its energy and trade relations with the Middle East are transforming both China and the region, as evidenced by the two news stories alluded to at the beginning. To fully understand this transformation, one must look at the expanding role played in the Middle East by China's government, its National Energy Companies (NECs)

Table 1
Crude Oil Imports from the Middle East, 2010

China and Other Major Asian Importers

(Petroleum oils, oils from bituminous minerals, crude: HS – 2709)

Asian Importers	*Saudi Arabia (US$ millions)*	*Iran (US$ millions)*	*Iraq (US$ millions)*	*Kuwait (US$ millions)*	*Oman (US$ millions)*	*UAE (US$ millions)*	*Qatar (US$ millions)*
China	25,539	12,070	6,273	5,472	9,097	3,109	323
Japan	32,564	10,414	3,417	7,924	3,413	22,324	12,631
South Korea	22,818	5,592	4,409	8,497	842	8,823	4,943
India	16,206	9,343	7,245	7,631	2,753	7,277	2,960
Singapore	7,351	104	0	2,131	650	3,968	5,214

Source: United Nations COMTRADE database, DESA/UNSD.

and its policy banks, certainly since China became a net importer of oil in 1993, but particularly in the last decade.

NEED AND NUANCE: INCREASING ENERGY DEMAND AND EXPANDING RELATIONS

In the early 1990s, a series of events created a unique opportunity for China to greatly expand its relations with the Middle East: Saddam Hussein's decision to invade Kuwait, the collapse of the Soviet Union, the Madrid Conference of 1991 and China's emergence as a net importer of oil. Following the collapse of the Soviet Union in 1991, Arab governments needed a new force to counterbalance the presence of the US in the Middle East, particularly following the Gulf War of 1991, which saw US forces in Saudi Arabia, Kuwait, Iraq, Bahrain and Qatar. Specifically, Arab leaders were looking for an Eastern alternative to the US for both trade and political partnerships (Fandy 2005: 1). The Madrid Conference of 1991 presented China with an opportunity to shift its position on the Israeli-Palestinian issue from total support of the Palestine Liberation Organisation (PLO) and the destruction of Israel to the establishment of diplomatic relations with the State of Israel, an indication of China's willingness to assume a less ideological and more pragmatic course in its foreign policy (Rubin 1999). This initiative helped integrate China in the global community.

As a result of its new political posture, China enjoyed full diplomatic relations with every country in the Middle East by 1992, a remarkable achievement considering the Sunni–Shiite dynamic, the ongoing Israeli-Palestinian conflict, and the diverse governmental structures in place throughout the region. By the time it became a net importer of oil in 1993, China had recast itself as a key player in the global energy market—one that strongly opposed Western Imperialism and hegemony in the region. This transition has greatly facilitated Beijing's efforts in looking abroad for greater supplies of oil and gas. In 2002, Hu Jintao initiated the policy of 'going out', which called upon China's three major NECs, the China National Petroleum Corporation (CNPC), the China Petrochemical Corporation (Sinopec) and the China National Offshore Oil Corporation (CNOOC) to go abroad, particularly to the hydrocarbon-rich Middle East, and secure greater supplies of energy through investment, exploration, drilling and the construction of refineries and pipelines (Leverett and Bader 2005: 187–93).

According to Yufeng Mao, the Chinese government facilitates its NECs by pursuing a three-pronged strategy in the Middle East:

> First, the state functions as an economic actor and uses diplomacy to advance Chinese economic interests in the region. Second, Beijing adopts an offend-no-one policy to regional politics to maintain an environment friendly to Chinese business interests. Third, Beijing exploits its soft power resources to cultivate goodwill and friendship in the region that serves China's long-term economic interests. (Yufeng Mao 2007: 113)

In the late 1990s, the Chinese government restructured its three NECs into more modern and independent enterprises (Yergin 2011: 202). CNPC dominates China's inland upstream oil and gas production assets. Sinopec leads China's downstream market by specialising in oil refining, marketing and petrochemical manufacturing. CNOOC, compared to the other two NECs, is a smaller, but highly profitable company investing in offshore hydrocarbon assets.

> From 2000 to 2001, all three NOCs created subsidiaries listed on Hong Kong's stock exchange, with PetroChina (CNPC's listed company) raising US$ 2.9 billion, Sinopec raising US$ 3.5 billion, and CNOOC raising US$ 1.3 billion. Today, all three are listed on the New York Stock Exchange and CNPC and Sinopec are also listed on the Shanghai Stock Exchange (Jiang and Sinton 2011: 9–10).

Rather than directly confront the West, China's NECs are partnering with Western corporations like British Petroleum and France's Total, and are using Western-based institutions, like the UN and the World Trade Organization, to advance their corporate and national interests.

China's energy acquisition strategy is greatly facilitated by its two major policy banks, China Development Bank and China Export-Import Bank, which 'are providing financing to China's NEC's for energy investment abroad, financing the development of infrastructure to deliver oil and gas to China, and providing credit to foreign energy companies in return for long-term energy contracts' (Dorraj and English 2012: 178).

When China advanced its 'offend-no-one' diplomacy in the 1990s, an important element of its energy acquisition strategy in the Middle East emerged. By taking a neutral tone on regional conflict, China discovered it could work with a wide variety of oil-producing states, including those politically and ideologically opposed to one another, like Iran and Saudi Arabia. Beijing also realised that by distancing itself from the hegemonic policies of the US, it could indirectly benefit through improved relations with key Middle Eastern states. As John Calabrese has observed, 'China gradually built a reputation as a supportive rather than subversive force in the region' (Calabrese 1992–3: 472). By 2009, 47 per cent of China's total oil imports originated from the Middle East and six of its top 10 crude oil suppliers were from the region: Saudi Arabia (First), Iran (Third), Oman (Sixth), Iraq (Seventh), Kuwait (Eighth) and Libya (Ninth) (Jiang and Sinton 2011). That same year, for the first time in over twenty years, Saudi oil exports to the US slipped below one million barrels per day (USEIA 2011g).

Undoubtedly, the Persian Gulf region remains the 'global centre of gravity' for the oil industry as it 'contains the largest oilfields, the lowest costs of production and approximately two-thirds of the world's proven reserves. Another significant advantage Persian Gulf producers have is their excess capacity, which can be, and indeed has been, used to mitigate global markets in times of crisis' (Bahgat 2005: 125). As China pursues its economic and strategic interests with the key energy producers of

the region, it must remain engaged in a constant, delicate balancing act vis-à-vis the US, the preeminent global economic and military power in the region.

A thorough examination of China's energy acquisition strategy in the Middle East not only involves looking at China's relationships with the major energy producers of the region, but also the role of the US, whose military protects oilfields, pipelines and shipping lanes. As the world's largest consumer of oil, the US is China's leading rival for energy, particularly in the Middle East where, for decades, the US reigned as the dominant foreign player in the oil industry. China's energy strategy in the Middle East involves a complex and fluid interplay with the US government, as these two nations are partners as well as competitors on important regional issues such as energy, security and trade.

Much of China's recent success in acquiring energy from the Middle East is directly linked to the post-Cold War policies of the US in the region. On numerous occasions, Beijing has skilfully exploited tensions between the US and key energy producers of the Middle East by presenting itself as the reasonable alternative to the US for the sake of expanding its own energy relations with those producers. This strategy is clearly working, as China's oil imports from the Middle East have grown from 8.4 million barrels per year in 1990 to more than 700 million barrels per year in 2011 (USEIA 2011a).

According to their 2010 Annual Reports, China's three major NECs posted a combined operating income of US$633.4 billion and a combined profit of US$59.6 billion (CNOOC Limited 2011: 2; China National Petroleum Corporation 2011: 1; Sinopec Group 2011). Based on the World Bank's 2010 ranking of nations by GDP, if these three Chinese NECs represented a country, it would rank 19th on the list of 193 countries in the world, between Indonesia with a GDP of US$706.6 billion and Switzerland with a GDP of US$523.8 billion (2011). For a point of reference, ExxonMobil, the largest publicly traded energy company in the world, reported a 2010 operating revenue of US$370.1 billion with a profit of US$30.5 billion (ExxonMobil 2012).

In terms of their size, China's NECs are beginning to rival the likes of ExxonMobil, British Petroleum, and Royal Dutch Shell, and their activity in the Middle East has played, and will continue to play, a critical role in their future development. In the next section, we examine China's energy relations with seven key energy-producing states surrounding the Persian Gulf: Saudi Arabia, Iran, Iraq, Kuwait, Oman, the United Arab Emirates and Qatar. All of these countries except Oman belong to OPEC and all of these countries except Iran and Iraq belong to the Gulf Cooperation Council. China's relationship with each of these countries is unique and merits individual treatment.

SAUDI ARABIA

During the Cold War era, the Saudi monarchy's conservative ideological disposition and its close alliance with the US predisposed it negatively toward Communist China. In addition, China's support for the Communist government of South Yemen and the

Maoist guerrilla movement in Oman further intensified the deep suspicion that the monarchy in Riyadh harboured towards China. However, after the US normalised relations with Beijing in 1972 and the gradual integration of China into the global community, the Saudis began to reassess their policy. By 1990 the dramatic shifts in China's global status and economic power convinced the cautious Saudi elite that the time was right for normalisation of relations.

With the largest oil reserves in the world (262 billion barrels) and a production capacity of 8.5–12.5 million barrels per day, and lacking the political baggage associated with Iran, Riyadh now represents Beijing's most significant energy partner in the Middle East. By 1996, after six years from normalisation of relations between the two countries, Saudi Arabia also emerged as the number one trade partner for China in the region, accounting for more than 30 per cent of its total exports (Bin Huwaidin 2002: 228–36). While in 2007, Saudi Arabia ranked second after Angola as the major supplier of oil to China, by 2008, it had become China's number one supplier in the World, accounting for more than one-fifth (roughly 21 per cent) of China's total imports in 2009. Saudi Arabia's oil export to China increased from just 50,000 barrels per day in 1999 to 841,000 b/d in 2009. In addition, China overtook the US as the largest consumer of Saudi oil and later in December of 2009, Saudi oil exports to China exceeded one million b/d for the first time (Downs 2010: 62–3).

The International Energy Agency projects that in the next two decades all the major growth in demand for energy is going to come from non-OECD countries, while Organisation for Economic Co-operation and Development (OECD) demand would fall. China's oil demand for example, is projected to rise from 7.7 million b/d in 2008 to 16.3 million b/d in 2030, accounting for a 42 per cent of increase for oil demand globally. In contrast, the demand for oil in the US is expected to fall from 18.5 million b/d to 17.2 million b/d (Downs 2010: 64). The International Energy Agency also projects Saudi Arabia's crude production will increase from 9.6 million barrels per day in 2009 to 14.6 million barrels per day in 2035 (IEA 2011a: 6). These statistics indicate that Saudi Arabia is well positioned to satisfy China's expanding energy demand for decades to come and it would be increasingly looking to Asia (especially China) for security of demand. It is not accidental that since 2008, while Saudi oil exports to the US have declined, its exports to China have expanded considerably. Once the top supplier of oil to the US, Saudi Arabia now trails Canada, Mexico and Venezuela in that category. In 2009, the Saudis abandoned the practice of providing their oil to American refineries for US$1 per barrel less than what they charged the Asian countries (Dorraj and Currier 2011: 71). These trends demonstrate that there is indeed a dramatic shift in the geopolitics of oil globally, in which China plays a very significant role.

In January 2006, King Abdullah became the first Saudi king ever to visit China. Three months later, China's president, Hu Jintao visited Riyadh and introduced his idea of a 'Harmonious Middle East', whereby China's pursuit of expanded relations would be based on the pursuit of mutual interests and a respect for sovereignty and

independence (Tonnesson 2007: 8). This was followed by a second trip in 2009 in which the Saudis promised China the security of energy supplies for decades to come. As Khalid al-Falih, CEO of Saudi Aramco, put it, 'Chinese industry and commerce depend on the reliable supply of our (Saudi) oil to fuel their factories, and we in turn use Chinese equipment and services in our (oil) fields and facilities to maintain our reliability' (McCrum 2010). In 2010, Saudi oil exports to China exceeded 1.4 million b/d, a development that prompted the Aramco chief executive officer to describe Saudi–China energy relations as 'one of the most important in the World' (Davidson 2010: 29)

China is beginning to invest in domestic refineries capable of processing Saudi crude, which is higher in sulphur. China believes the refineries will enhance its energy security but they also reflect the fact that the Middle East in general and Saudi Arabia in particular will remain a key source of oil and gas for China for years to come (Downs 2006: 31). Sinopec, ExxonMobil and Aramco opened a refinery and petrochemical plant in the southern Chinese province of Fujian in 2008. China also granted a license to Aramco to operate 600 fuel stations in Fujian, in return for the kingdom's consent to a 30-year contract that would export 30,000 b/d of crude oil to China (Davidson 2010: 29; Dorraj and Currier 2011: 70).

The 2012 US-imposed economic sanctions, targeting Iran's energy sector and the Central Bank that handles its energy transactions, has increased the pressure on China to diminish its import of Iranian oil and seek to expand its import of oil from other regional producers, most notably Saudi Arabia. During an official visit of Hu Jintao to the region, the Saudis pledged their willingness to expand production in order to make up for the shortfall of Iranian oil and maintain stability of supplies, which bodes well for China–Saudi relations.

IRAN

The relationship between Iran and China has deep historical roots going back to the ties between the Hans and the Parthians in 139 BCE. These relations continued and expanded later through 'the Silk Road' that linked the two empires and the Arab world. Persian civilisation had a considerable cultural influence on ancient China (Garver 2006: 14). As the Silk Road began to crumble with the fall of the Mongol dynasty and starting in the sixteenth century the Western powers began their encroachment on both the Persian and the Chinese empires, the two countries endured the humiliating experience of colonialism and neo-colonialism. It is against this background of historical ties and common political experiences that Iran–China relations in the modern era unfold.

In the twentieth century, while their economic ties expanded, China and Iran's political relations were constrained considerably after the Chinese revolution of 1949. Iran's post-Second World War alliance with the US and its Western allies

pitted it against Communist China and the Soviet Union. China's relations with Iran improved in the 1960s, when the Sino–Soviet split provided an opportunity for Beijing to develop closer relations with the Shah. Tehran recognised the People's Republic of China in 1967 and supported China's bid for UN membership in 1969. Despite a lack of formal political relations, China's trade with Iran increased 20-fold during the 1960s (Bin Huwaidin 2002: 154–5).

The Islamic Revolution of 1979 led to the deterioration of Iran's relations with the US and Great Britain and created an opportunity for China to expand its relations with Tehran. China provided weapons to both Iran and Iraq during their war (1980–88). Following the Iran–Iraq war, as Iran attempted to end its international isolation, it abandoned the slogan of neither East nor West that guided its foreign policy for the first decade of its revolution, and began to reach out to both China and Russia. In 1989, then Iranian President Ali Khamene'i, visited Chinese leader Deng Xiaoping and assured him of Iran's commitment to expanding cordial relations between the two nations. This was followed by visits from Premier Li Peng and President Yang Shangkun in 1991, in which both leaders affirmed China's interest in expanding relations with Iran. President Rafsanjani reciprocated by visiting China in 1992. In the aftermath of these visits, China's export of goods to Iran increased dramatically, from less than US$100,000 in 1991 to nearly US$5 million in 1993 (see Table 2). Iranian President Khatami visited China in 2000, which was followed by Chinese President Jiang Zemin's visit to Iran in 2002, in which the Chinese Premier affirmed his government's aspiration for deepening ties between the two nations. China's export of goods to Iran in 2002 topped US$1.3 billion for the first time (see Table 2). In 2006, President Ahmadinejad made a state visit to China in order to expand and solidify the relationship between the two countries in the face of growing Western attempts to isolate Iran.

As a nation, with 137 billion barrels (bbl) of proven oil reserves, roughly 9.3 percent of the world's total, Iran ranks fourth after Saudi Arabia (263 bbl), Venezuela (211 bbl) and Canada (175 bbl). With 1,046 trillion cubic feet (Tcf) of natural gas, Iran possesses the second largest gas reserves in the world after Russia. With an annual production of 5.2 Tcf, Iran is the world's fourth largest producer of natural gas (USEIA 2012). As such, Iran has much to offer China in its quest for new sources of energy. In order to subsidise its post-war reconstruction, the Islamic Republic expanded its export of oil to China. In 1989 for example, China's oil imports from Iran increased 26-fold from the previous year (UN COMTRADE 2012). In subsequent years, China continued to expand its oil imports from Iran. From 1995 to 1998, China's oil imports from Iran increased four-fold from approximately 930,000 tons to 3.6 million tons and then from 1998 to 2001 China's Iranian imports tripled to 10.8 million tons. From 2001 to 2004, China's oil imports from Iran nearly quadrupled, reaching 13.2 million tons. By 2010, China's imports reached 21.3 million tons (see Table 3). In 2012, China imported 543,000 b/d from Iran, which constitutes 10 per cent of its total import. In contrast, Chinese oil imports from Saudi Arabia have surpassed one million b/d and account for 21 per cent of China's imports (Reuters 2012a).

Table 2
China's Exports to the Middle East, 1991–2010

(Goods only, does not include services)

Year	*Saudi Arabia (in US$)*	*Iran (in US$)*	*Iraq (in US$)*	*Kuwait (in US$)*	*Oman (in US$)*	*UAE (in US$)*	*Qatar (in US$)*
2010	$10,366,444,546	$11,092,187,779	$3,589,866,730	$1,848,592,266	$944,496,934	$21,235,460,530	$855,444,268
2009	$8,977,851,553	$7,918,687,116	$1,838,448,828	$1,542,682,893	$747,450,792	$18,632,295,505	$872,411,299
2008	$10,823,467,968	$8,163,428,066	$1,271,161,565	$1,751,301,291	$794,515,075	$23,643,689,550	$1,074,163,869
2007	$7,839,958,562	$7,363,291,644	$724,940,246	$1,345,995,091	$548,029,426	$17,104,968,130	$622,613,468
2006	$5,055,833,989	$4,448,951,660	$491,158,084	$861,310,584	$339,541,394	$11,404,780,331	$436,809,052
2005	$3,824,415,297	$3,296,584,988	$408,108,934	$628,472,230	$190,992,985	$8,729,838,759	$203,668,491
2004	$2,775,457,898	$2,554,760,983	$149,552,912	$484,051,041	$111,020,889	$6,841,135,192	$103,518,127
2003	$2,146,802,960	$2,315,162,332	$56,055,724	$674,986,905	$81,959,217	$5,036,996,813	$61,802,055
2002	$1,671,543,733	$1,393,302,849	$420,819,101	$262,977,977	$60,180,274	$3,450,903,775	$49,543,400
2001	$1,354,114,676	$888,579,972	$394,940,602	$192,256,436	$66,735,658	$2,377,322,092	$31,555,930
2000	$1,144,742,927	$713,440,642	$327,258,501	$316,669,745	$59,540,496	$2,078,437,246	$31,225,962
1999	$943,821,749	$662,733,737	$147,953,912	$137,414,240	$27,075,088	$1,443,757,159	$27,846,730
1998	$895,811,968	$656,503,035	$104,671,088	$110,252,480	$39,419,416	$1,291,306,368	$16,169,333
1997	$854,249,024	$496,445,973	$58,978,730	$93,467,797	$16,956,039	$1,301,152,656	$14,930,282
1996	$747,796,768	$394,580,868	$1,034,510	$101,645,977	$12,129,264	$1,076,876,963	$21,602,373
1995	$733,897,056	$277,889,317	$297,682	$104,767,926	$14,879,873	$1,101,085,285	$9,527,929
1994	$624,850,617	$265,738,366	$1,552,785	$188,275,141	$17,656,028	$864,720,614	$10,429,942
1993	$578,835,883	$402,698,810	$4,870,525	$87,644,367	$11,028,682	$711,394,765	$10,870,828
1992	$444,251,503	$335,642,162	$665,680	$59,950,430	$8,178,144	$542,953,749	$8,301,609
1991	$387,419,001	$229,248,631	$79,886	$19,310,084	$9,039,554	$404,535,571	$6,395,221

Source: United Nations COMTRADE database, DESA/UNSD (based on China's reporting).

Table 3
China's Crude Oil Imports from the Middle East, 1991–2010

(Petroleum oils, oils from bituminous minerals, crude: HS–2709)

Year	*Saudi Arabia (Kilogrammes of Oil)*	*Iran (Kilogrammes of Oil)*	*Iraq (Kilogrammes of Oil)*	*Kuwait (Kilogrammes of Oil)*	*Oman (Kilogrammes of Oil)*	*UAE (Kilogrammes of Oil)*	*Qatar (Kilogrammes of Oil)*
2010	44,646,861,488	21,319,451,771	11,237,565,209	9,830,660,037	15,867,621,081	5,285,062,211	560,176,522
2009	41,857,126,400	23,147,243,520	7,162,810,880	7,075,507,712	11,738,232,832	3,307,030,784	614,822,848
2008	36,368,396,288	21,322,399,744	1,860,080,000	5,896,301,056	14,581,537,792	4,578,884,096	877,816,512
2007	26,333,689,856	20,536,768,512	1,412,107,904	3,632,297,472	13,677,730,816	3,651,214,848	282,692,544
2006	23,871,514,624	16,772,171,776	1,045,842,432	2,809,167,872	13,183,067,136	3,044,007,936	333,555,008
2005	22,178,924,544	14,272,826,368	1,170,434,176	1,645,740,800	10,832,468,992	2,567,744,768	343,218,144
2004	17,243,549,696	13,237,232,640	1,306,510,592	1,253,980,160	16,345,276,416	1,343,865,216	142,395,008
2003	15,080,108,032	12,393,833,472	0	907,244,288	9,267,937,280	863,522,688	675,820,032
2002	11,390,760,960	10,629,865,472	536,836,480	1,069,696,000	8,044,875,264	0	457,608,992
2001	8,778,376,192	10,847,008,768	372,055,776	1,459,822,976	8,140,355,072	649,765,824	1,325,552,768
2000	5,730,211,328	7,000,465,408	3,183,182,080	433,428,000	15,660,839,936	430,473,920	1,598,901,888
1999	2,496,967,621	3,949,291,179	974,154,687	330,443,000	5,020,825,218	0	0
1998	1,807,618,176	3,619,988,736	607,352,384	282,284,992	5,793,430,528	514,506,112	0
1997	499,908,500	2,756,717,578	239,010,312	68,790,000	9,033,023,070	48,438,457	80,752,000
1996	230,635,187	2,311,105,285	0	0	5,654,649,179	0	0
1995	338,551,062	931,220,500	0	0	3,653,164,894	367,813,375	0
1994	146,449,062	69,119,187	0	0	3,367,376,359	65,527,812	0
1993	214,794,000	67,860,000	0	0	4,088,791,000	571,823,000	0
1992	187,323,875	114,989,812	0	0	3,060,391,117	232,792,812	0
1991	84,001,000	55,000,000	0	0	2,654,079,468	59,080,109	0

Source: United Nations COMTRADE database, DESA/UNSD (based on China's reporting).

China is also important for Iran's financial and national security in other ways. For example, as the US and EU attempts at economic strangulation of Iran escalate by imposing targeted sanctions that include the export of refined gasoline to Tehran, China has thus far come to the rescue. Despite its vast oil reserves, Iran imports 25 to 40 per cent of its gasoline due to its inadequate refining capacity. Some press reports indicate that Chinese firms may be supplying Iran with half of its gasoline imports. This has rendered China as a life raft for Iran during this period of economic isolation (Downs 2010: 69). This indicates a delicate balancing act that China's diplomacy with Iran entails in regards to its larger bilateral relations with the US and the global community.

China has also displayed an interest in investing in Iran's unexplored oil and gas sector and its decrepit energy infrastructure, which is in dire need of modernisation. In 2004 for example, Sinopec signed an agreement to develop Iran's Yadavaran field and to purchase 250 million tons of liquefied natural gas for the next 30 years valued between US$70 and US$100 billion (Garver 2006: 271). This was followed by additional agreements. In 2009, CNPC signed a 25-year agreement to develop Iran's North Azadegan field and a memorandum of understanding was signed to develop the first phase of the South Azadegan field as well (Jiang and Sinton 2011: 42). Iran's low rates of production (3.5–4.3 million b/d versus Saudi Arabia's 8.5–12.5 million b/d) and its untapped supplies of energy, potentially renders it as a reliable source of long-term supplies. Current pressure from the international community over Iran's nuclear programme may ultimately derail these agreements, and it remains to be seen if these contracts would be fully implemented, but China continues to keep its options open in Iran.

Iran however, needs more than US$100 billion investment to modernise and develop its energy infrastructure and unlike Saudi Arabia, lacks such funds. With a cash reserve of more than US$3 trillion, China is an alluring potential investor. China's decision to cut back on oil imports from Iran since 2010, partially caused by pressure of the US and its allies, is the cause of some consternation in Tehran. While China does not favour crippling sanctions on the Islamic Republic in order to protect its own interests, the sanctions provide it with a dual opportunity. First, it gives it an unprecedented access to the Iranian market and it intensifies Iran's economic dependence on China. Thus, since 2007, China has been Iran's number one trade partner in the world. Second, it allows Beijing to use the sanctions (that it always initially opposes but ultimately votes for) as an opportunity to extract political and economic concessions from the US before it relents. While the Islamic Republic finds Chinese behaviour opportunistic, in light of its international isolation and the pressure of sanctions, it does not have many other options. China still remains the largest buyer of Iran's oil and its number one trade partner in the world. Should there be a fundamental political change in Tehran in future, or should US–Iran tensions ease substantially, the future course of Iran–China relations may change fundamentally. In the absence of that alternative, given the economic dependence of Iran on China chronicled so far and China's demand for Iran's energy sources, Iran–China relations would continue at the current pace albeit with many twists and turns.

IRAQ

While Saudi Arabia is considered the stalwart of Middle East oil, Iraq, which possesses the fourth largest proven oil reserves of 115 billion barrels, aims to rival the kingdom as one of the leading crude producers in the world. Iraq faces multiple challenges before it can hope to significantly increase its oil production, particularly an infrastructure that is badly in need of repair and upgradation, following years of sanctions and war. Additionally, if Iraq hopes to substantially increase its crude production, the country desperately needs additional refining and exporting facilities, as well as substantial amounts of water and electricity, two commodities in short supply in Iraq. Finally, most of Iraq's oil reserves exist in Shi'a dominated areas of the south and the Kurdish Autonomous Region of the north with significantly less oil located in Sunni-controlled central areas. Developing these resources could lead to political confrontation among Iraq's various religious and ethnic groups, which could result in a breakdown of cooperation and security within the country (USEIA 2010).

China established formal diplomatic relations with Iraq in July 1958 after the nationalist government headed by Abd al-Karim Qasim overthrew the Faisal monarchy. Official visits and cultural exchanges soon followed and despite briefly supporting a communist movement in Iraq, China ultimately supported the Qasim regime and the nationalisation of the Iraq Petroleum Company as a step toward eliminating colonialism in the region (Emadi 1994). Overseas labour service contracts and construction contracts initially generated income for the PRC following the economic reforms of 1978. According to Xiaojie Xu (2000: 127), 'China Petroleum Engineering and Construction Corporation (CPECC), the overseas construction arm of the China National Petroleum Corporation, moved into Iraq in 1983 in order to compete for subcontracts and small turnkey projects as its entry strategy'. In the 1980s, Chinese construction companies received contracts to build bridges in Mosul, residential complexes in Baghdad, and irrigation projects on the Euphrates River (Emadi 1994: 3317). In the same period, as China's flourishing economy required more of the nation's domestic oil production, Chinese crude exports declined and the sale of weapons emerged as a primary source of export income. During the Iran–Iraq War, China remained neutral and provided weapons to both sides. From 1982 to 1986, Iraq imported US$3.3 billion worth of weapons from China, making it Beijing's top customer for arms (Bin Huwaidin 2002: 144).

As a result of its skilful and shrewd handling of the First Gulf War, Beijing convinced the international community to drop sanctions against it for the Tiananmen Square incident, re-established economic relations with Kuwait following the expulsion of Iraqi troops, expanded relations with Saudi Arabia and positioned itself to resume relations with Iraq in the future. When the UN initiated its Oil for Food programme in the 1990s, China purchased US$2 billion worth of oil from Iraq every six months and with the revenue, Iraq was able to purchase foodstuff, medicine and other commodities from the Chinese (Bin Huwaidin 2002: 145–7). Some scholars believe

that by abstaining on the UN resolution authorising the US-led coalition's military intervention in Iraq and by maintaining its friendship with Iraq, China emerged as the primary beneficiary of the First Gulf War (Emadi 1994: 3318).

China's stand in the UN against the US invasion of Iraq in 2003 further enhanced Beijing's political capital in Baghdad. Thus, despite a massive expenditure of US blood and treasure in Iraq, Chinese energy companies appear better positioned to sign energy contracts with the new Iraqi government. For example, in 2008, CNPC negotiated a 22-year, US$3 billion technical services contract to develop the Al Ahdab oilfield southeast of Baghdad. This contract is a renewed version of an agreement China previously signed with Saddam Hussein in 1997 (Goode and Mohammed 2008). In December 2011, CNPC announced that it had completed phase two of the Al Ahdab project, attaining production of 120,500 b/d, three years ahead of schedule, as the company loaded its first 650,000 barrel shipment of crude from the field (*Market Watch* 2011).

In June 2009, Sinopec paid US$8.8 billion for Addax, a Swiss energy company with access to two oil fields in the autonomous Kurdish region of Northern Iraq (Jiang and Sinton 2011: 13). In November 2009, the Iraqi government awarded the team of CNPC and British Petroleum (BP) a contract to develop the massive Rumaila field near Basra. CNPC and BP agreed to increase production at Rumaila to 2.85 million barrels per day for a remuneration fee of just US$2 per barrel (Deloitte Petroleum Services Group 2009). In January 2010 a consortium involving CNPC, France's Total and Malaysia's Petronas received a contract to operate the Halfaya oilfield in southern Iraq for a remuneration fee of just US$1.40 per barrel. The consortium expects production at the field to increase from 12,000 b/d to 90,000 b/d in the first quarter of 2012 (Reuters 2011), and ultimately hopes to attain a daily output of 535,000 barrels with CNPC as the lead operator (CNPC.com 2011). In May of 2010, the China National Offshore Oil Corporation (CNOOC) and the Turkish Petroleum Corporation (TPAO) reached an agreement with the Iraqi government to help develop the 2.5 billion barrel Maysan oilfield complex for a remuneration fee of US$2.30 per barrel. CNOOC and TPAO plan to increase production at the complex to 450,000 barrels per day within six years (Rasheed 2010).

These awards demonstrate China's willingness to accept greater risk and lower returns in exchange for access to Iraq's massive oil reserves. They also demonstrate a pragmatic willingness on the part of China's NECs to partner with private and state-owned oil companies from around the world. In June 2011, Deputy Prime Minister Hussein al-Shahristani, reiterated Iraq's desire to increase its oil production capacity to 12 million barrels per day by 2017 and to help achieve that goal, his country planned to invest US$1.3 billion to expand export facilities in the Basra region through the construction of two marine pipelines, one onshore pipeline and four single point moorings for loading oil tankers (El Gamal and Mohammed 2011). While these projects are overly ambitious, the International Energy Agency projects Iraq's crude oil production will increase by 1.87 million barrels per day over the next five years, which would take

the country's output to 4.36 million barrels per day by 2016 (USIEA 2011b). In July 2011, Nuri Al-Maliki became the first Iraqi Prime Minister to visit China since the two countries established diplomatic relations more than 50 years ago. Chinese Premier Wen Jiabao and Al-Maliki discussed a long-term relationship for oil and natural gas trade, as well as China's role in rebuilding Iraq's infrastructure (Xinhua 2011).

KUWAIT

When Britain granted independence to Kuwait in 1961, Beijing promptly sent a message congratulating the Kuwaiti people for opposing imperialism and colonialism and wishing them success in building their nation. Kuwait's membership in OPEC and the Arab League, along with its consistently harsh rhetoric toward the Soviet Union, all appealed to Beijing and further opened the door to cooperation between the two states. In 1971, Kuwait became the first Persian Gulf state to establish full diplomatic relations with China (Bin Huwaidin 2002: 188–90). The Kuwaiti government sought to counter the threat of Soviet expansionism in the region, particularly in Iraq, while Beijing recognised Kuwait as 'a potential stepping stone to other Persian Gulf monarchies' (Davidson 2010: 8, 10–11).

Despite their official diplomatic ties, China's relations with Kuwait did not improve substantially until it initiated economic reforms and de-radicalised its foreign policy in the late 1970s. From 1982 to 1983, the Kuwait Fund for Arab Economic Development loaned more than US$150 million to China. In the mid-1980s, the Kuwait Petroleum Corporation (KPC) 'took a 15 per cent stake in China's Yacheng offshore gas field, while the following year KPC set up a joint venture—the Sino Arab Chemical Fertilizer Company to invest in the Qilu petrochemicals facility in China's eastern Shandong province' (Bin Huwaidin 2002: 194, cited in Davidson 2010: 48). By 1989, Beijing had received US$300 million in long-term, low interest loans from Kuwait for thirteen construction projects within China (Bin Huwaidin 2002: 194–5).

Prior to Saddam Hussein's invasion of Kuwait in 1990, China enjoyed US$700 million in trade with Kuwait and had 20,000 of its workers living in the emirates. When Iraq invaded the country on 2 August 1990, China initially called on the Iraqi government to respect the sovereignty and territorial integrity of Kuwait by withdrawing its forces. Beijing even supported each of the UN Security Council resolutions concerning the Gulf crisis except Resolution 678, which sought to authorise the use of force against Iraq. China abstained on that one on the grounds that it violated the principle of peaceful resolution of conflict (Bin Huwaidin 2002: 194–9).

Soon after US-led coalition ground forces intervened in February of 1991, retreating Iraqi forces set fire to an estimated 750 Kuwaiti oil wells. For approximately eight months, six to eight million barrels of Kuwaiti oil burned each day, an environmental nightmare that impacted health, vegetation, wildlife and water within a 2,000 kilometre

radius (Janardhan 2011: 194). Iraq's invasion of Kuwait served as the first major test of China's new foreign policy in the Middle East. Although the crisis represented an immediate threat to Chinese economic interests, Beijing also recognised the greater opportunities within the threat. By remaining supportive of Kuwait yet refusing to advocate the use of force against Iraq, Beijing solidified its role in the region as a non-aggressor and firm opponent of Western hegemony. By leveraging its position as a permanent member of the UN Security Council, China parlayed its willingness to abstain on the UN vote to authorise the use of force against Iraq in exchange for the elimination of sanctions against Beijing for its handling of the Tiananmen Square incident. By making the international community question Beijing's final intent to support, abstain, or veto on the vote to authorise the use of force, China may have even secured additional advantages for itself in terms of post-war contracts and access to oil. Always pragmatic, China has demonstrated a willingness to support the international community on issues such as waging war against Iraq and sanctioning Iran, but only for a price, conditioned on China's definition of its principles and national interests.

Since the liberation of Kuwait, China has worked vigorously to strengthen its relationship with the country. In 1995, the two governments signed a memorandum of understanding on military cooperation—China's first military agreement with a Persian Gulf state, and in 1998, Beijing signed its first arms deal with Kuwait. The Kuwaiti government resumed its long-term, low interest loans to China following the war, while Sinopec and other Chinese firms received multiple oilfield service contracts for refinery renovation, oil tank construction and pipeline installation (Bin Huwaidin 2002: 199–201). China's export of goods to Kuwait increased from US$19 million in 1991 to more than US$316 million in 2000, and during the first decade of the twenty-first century, China's export of goods to Kuwait increased more than nine-fold from US$192 million in 2001 to US$1.85 billion in 2010. During this same period, China's crude oil imports from Kuwait increased nearly seven-fold, from 1.46 million tons to 9.8 million tons (see Tables 2 and 3).

Kuwait currently produces approximately 2.5 million b/d and claims proven reserves of over 100 billion barrels. The state's petroleum exports account for half of its GDP, 95 per cent of its export earnings, and 95 per cent of its government revenues. The Kuwait Petroleum Corporation intends to invest US$90 billion 'to upgrade Kuwait's production and export infrastructure and its tanker fleet, expand exploration, and build downstream facilities, both domestically and abroad' (USEIA 2011d: 3). In 2005, KPC and Sinopec embarked on a US$9 billion joint venture to construct a 300,000 b/d oil refinery and ethylene plant in Zhanjiang City in southern China. In 2009, Sinopec also received a US$400 million contract to build installations within Kuwait that will help boost the state's oil production by more than four million b/d by 2020 (Davidson 2010: 49, 59).

In 2006, the Kuwait Investment Authority (KIA), which is the state's Sovereign Wealth Fund, purchased US$720 million worth of shares in the Industrial and Commercial Bank of China, which is the largest Chinese bank. KIA Managing Director,

Bader al-Saad described the acquisition in the following terms: 'This participation demonstrates Kuwait's deepening economic ties with China…(and) marks the beginning of KIA's long-term strategic investment plan in China, which the KIA hopes to extend to many other sectors' (*International Herald Tribune* 2006). China's relations with Kuwait today are firmly rooted in bilateral trade, including oil and the pursuit of mutually beneficial joint ventures and investments that tightly link the economies of the two nations.

OMAN

In the 1950s and early 1960s, China supported Imam Ghalib bin Ali's revolutionary movement against the Sultanate of Oman. In 1967, China even invited members of the Dhofar Liberation Front (DLF) to Beijing for discussions and offered the DLF weapons and cash. Chinese support for the DLF expanded as the rebellion intensified and by 1970, Beijing represented the movement's primary source of external support. Sultan Qaboos bin Sa'id, who still rules Oman today, blocked China's attempts at establishing diplomatic ties with his country until Beijing abandoned its support for the DLF. Oman finally established diplomatic relations with China in 1978, several years after fighting with the DLF ended, primarily to balance against pro-Soviet regimes in South Yemen and other states of the region (Bingbing 2010: 13; Bin Huwaidin 2002: 2003).

Oman provided China with its first Middle Eastern oil imports in 1983—a move Beijing considered a temporary solution to supplying refineries on the Yangtze River. By 1988, this arrangement with Oman had become permanent 'as Chinese demand for oil was accelerating rapidly in tandem with its increasing population and intensifying industrialization' (Davidson 2010: 12). In 1989, China and Oman set up a bilateral trade commission to facilitate commerce between the two nations (Davidson 2010: 41). From 1991 to 2010, China's export of goods to Oman increased from approximately US$9 million to over US$900 million. During this same period, China's oil imports from Oman increased six-fold (see Tables 2 and 3). Chinese state officials have visited Oman 19 times during the last 20 years, while Omani officials have visited China 23 times during this same period (Davidson 2010: 89).

Oman figures prominently in China's energy strategy because Omani crude is highly compatible with China's refining technology and it can be shipped from the country's Indian Ocean ports, which keeps Chinese tankers out of the Strait of Hormuz. With nearly 30 years of energy trade history, Oman's hydrocarbon exports to China are arranged at the NEC to NEC level, as opposed to the more formal government to government level (Davidson 2010: 29). All of these factors have contributed to China remaining the leading importer of Omani oil for the past six years (Zambelis 2010: 14).

Oman produces approximately 860,000 barrels of crude oil per day and has proven oil reserves of 5.5 billion barrels, the largest among non-OPEC countries in the Middle East. Petroleum Development Oman (PDO) is the state-controlled energy company that oversees 90 per cent of Oman's oil reserves. The government owns a 60 per cent share in PDO while Royal Dutch Shell holds 34 per cent, France's Total holds 4 per cent and Portugal's Partex owns 2 per cent. Extraction is more challenging in Oman, which has smaller, less accessible fields. As such, Oman tends to offer greater equity to foreign partners than other Persian Gulf producers (USEIA 2011e). Oman also has natural gas reserves of 30 trillion cubic feet (USEIA 2011e). China imported 59,300 tons of natural gas from Oman in 2007 and 65,600 tons in 2009 (UN COMTRADE 2012). While Oman's resources are not the most impressive compared to other GCC countries, it remains an important partner for the reasons discussed earlier.

UNITED ARAB EMIRATES

The United Arab Emirates is a federation comprised of seven separate emirates, which together represent the third largest economy in the Middle East behind Saudi Arabia and Iran. The UAE, which has the seventh largest proven reserves in the world of both oil and gas, produces 2.3 million barrels of crude per day, as well as 5.1 billion cubic feet of natural gas per day. The energy industry in the UAE is controlled by the Abu Dhabi National Oil company, which includes 14 subsidiaries operating throughout the oil and gas sectors. ExxonMobil, BP, Shell and Total are among the major international energy companies working in the country (USEIA 2011h).

The United Arab Emirates declared its independence from Britain in December of 1971. Within a week, China recognised the new country, but did not establish formal diplomatic relations with the UAE until November of 1984 (Bin Huwaidin 2002: 236–8).

The United Arab Emirates is, by far, the top destination for Chinese goods in the Persian Gulf, primarily because of its role as a major port and re-exporter. In 2010, China exported more than US$21 billion worth of goods to the UAE while Iran was China's second largest export market with US$11 billion (see Table 2). China's export of goods to the UAE has increased 10-fold since 2000, a reflection of its expanding economic role in the region, and its oil imports from the UAE during the same period have increased more than 12-fold (see Tables 2 and 3). In 2010, China imported 64,500 tons of liquefied natural gas from the UAE valued at more than US$23 million (UN COMTRADE 2012).

The China Petroleum Engineering and Construction Corporation, a division of CNPC, is helping with construction on the 230-mile Abu Dhabi Crude Oil Pipeline Project, which will have the capacity to transport 1.5 million barrels of crude oil per day from Abu Dhabi's collection point at Habshan to the export terminals at Fujairah.

Oil transported through the pipeline will bypass the narrow Strait of Hormuz, which Iran has repeatedly threatened to block if it is attacked militarily. Although the US$3.3 billion project has experienced repeated delays, the pipeline is projected to open sometime in 2012 (Stanley et al. 2012).

QATAR

As the country with the third largest gas reserves in the world (only Russia and Iran have more), and number one exporter of liquefied natural gas (LNG), Qatar has emerged as a major player in global energy markets. Qatar is also home to Al-Jazeera news network, whose global presence and political impact have been profound, most notably manifested in its instrumental role in enabling the 'Arab Spring'. In the last decade, Qatar has assumed a more prominent role in regional political affairs—mediating regional conflicts (Palestine–Israel–Lebanon) and helping to overthrow the Qaddafi regime in Libya—all are indicative of a nation on the rise that is playing a larger role than its small size may otherwise indicate. Qatar, however, is a part of a larger union, the Gulf Cooperation Council (GCC), that both enables and constrains its policies and it simultaneously competes and cooperates with other GCC members.

Following the First World War and the collapse of the Ottoman Empire, Qatar existed as a British Protectorate until 1971. Qatar only has 1.5 million residents of which three-quarters are foreign. The tiny Gulf state has the highest GDP per capita in the world and aims to be the world's largest natural gas producer (Yergin 2011: 311). The massive North Field and South Pars field, which Qatar shares with Iran, is the largest conventional reserve of natural gas in the world (Yergin 2011: 312). Qatar currently serves as host state for the Gas Exporting Countries Forum, which promotes the interests of gas producers worldwide. In 2010, Qatar's oil and gas industry accounted for more than half of the country's GDP (USEIA 2011f).

China has now overtaken the US as the top polluter in the world. This reality is in large measure due to the fact that coal still accounts for 70 per cent of China's domestic energy needs. Natural gas, in contrast, is a much cleaner source of energy. Thus, China is scrambling to expand its import of natural gas to replace coal. The fact that Qatar currently controls 14 per cent of the world's natural gas reserves is a major catalyst behind Qatar and China's mutual interest in expanding their bilateral relations in recent years.

China imported 400,000 tons of LNG from Qatar in 2009 and 1.2 million tons in 2010 (UN COMTRADE 2012). Qatar's ambitious plan to export 77 million tons of natural gas annually by 2012 suits China well. In 2010, China expected to import 20 million tons of LNG annually (Kemp 2010: 86). Whereas the value of Qatar's gas exports to China was US$100 million in 1999, by 2010, it was estimated to be worth US$1 billion (Davidson 2010: 30). In 2009, with the establishment of CNOOC's

office in Doha, they announced their joint plan with PetroChina to import 5 million tons of Qatar's gas from 2010 to 2035. This would make Qatar the largest supplier of natural gas to China in the world (Davidson 2010: 30).

Zhou Jiping, Vice President of CNPC and President of its subsidiary PetroChina, remarked that 'demand for natural gas in China could reach 230 billion cubic meters in 2015, 350 billion cubic meters in 2020 and 500 billion cubic meters in 2030' (CNPC.com 2010). Based on these projections, China's relationship with Qatar is likely to expand significantly. Qatar provides China with stability of supplies and China provides Qatar with market reliability and a source of sustained demand for its natural gas. Therefore, the Chinese practice of entering into long-term contracts and paying premium prices for its energy imports suits Qatar well. This may partially explain why in 2009, Qatar diverted 10 per cent of its gas exports intended for the United Sates to China (Davidson 2010: 30). This development also reflects a consensus between the Chinese and the Qataris leadership that the global balance of power is shifting. The words of Emir of Qatar, Sheikh Hamad bin Khalifa Al-Tahni in March 2009 reveals this new perception: 'China is coming, India is coming and Russia is on its way….I think they will recover. I don't know if America and Europe will still be leading' (Ulrichsen 2010: 4).

Qatar has 25 billion barrels of proven oil reserves, which is approximately one-tenth the size of Saudi Arabia. Compared to other OPEC members, Qatar only exceeds Ecuador in output, with a daily crude production of approximately 850,000 barrels (USEIA 2011f). CNPC, Qatar Petroleum, and Royal Dutch Shell are moving forward with plans to build a US$12.6 billion refinery in Taizhou, a city on the east coast of China. The project will include a 400,000 b/d refinery and a 1.2 million-ton-per-year ethylene complex (Reuters 2012b). Qatar's Associated Fertilizers Corporation exports the largest amount of fertilisers to China. Since 2004, Qatar Airways has been operating flights to China. In 2008, as the trade ties expanded, these flights increased to eight flights per week to different Chinese cities. Since 2006, the two countries have also expanded their military cooperation (Kemp 2010: 86). The Qatar Investment Authority, the state's Sovereign Wealth Fund, invested US$206 million in the Industrial and Commercial Bank of China (ICBC), which is planning to open a branch in Doha, the capital of Qatar (McGiffert 2009: 66).

According to Mamoun Fandy (2007), Qatar has at times 'felt it might face a similar invasion like that of Kuwait, but the aggressor this time would be either Iran or Saudi Arabia. The conflict between Iran and Qatar over gas is almost a replica of the conflict between Kuwait and Iraq over oil before the invasion'. While as recently as 2010 the two countries displayed cordial behaviour towards each other, in 2012, as Qatar has played a proactive role in bringing about the demise of Bashar al-Assad government in Syria, a close ally of the Islamic Republic, tensions between the two countries have escalated. As rising powers, though with desperate variations, China and Qatar are poised to forge closer relations and expand their bilateral ties in energy and trade relations that have proven mutually beneficial to both nations.

CONCLUSION

According to projections from the International Energy Agency (2011b), the world demand for energy will increase by a third over the next 25 years, with China alone accounting for 30 per cent of that increase. By 2035, China will further solidify its position as the world's leading consumer of energy, perhaps consuming 70 per cent more energy than the US. The global demand for oil during this period is projected to increase from 74 million b/d in 2009 to 99 million b/d in 2035. China is expected to consume approximately half of the additional 25 million b/d required by the global market while OPEC members, specifically those in the Persian Gulf region, are expected to provide the bulk of the additional oil (IEA 2011c). These figures confirm that most, if not all of the seven Persian Gulf states discussed in this chapter will remain critical partners for China well into the twenty-first century.

The success of China's energy acquisition strategy is based on the premise of working with as many suppliers as possible, so that if China must diminish or suspend its dealings with one state, it has the capacity to maintain or expand its energy ties with other suppliers. This ability to work with as many states as possible has proven to be especially critical in the Middle East where, at any time, a nation and its hydrocarbons may no longer be accessible due to political developments. The increasing isolation of Iran and the political demise of regional leaders such as Saddam Hussein, Hosni Mubarak and Muammar Quaddafi are all good examples of why the dragon has elected to nest and spread its wings throughout region and not simply with one or two key producers.

Beijing appears committed to a long-term approach in the Middle East, looking far beyond the immediate acquisition of oil and gas to a point on the horizon where China, by virtue of its diplomatic, economic and cultural ties, is the inevitable and logical partner of choice for major energy producing states. China is even engaging countries in the Middle East with little or no quantities of oil and gas like Egypt, Israel, Syria, Turkey and the Palestinian Authority, to gain broader acceptance for its presence in the region.

Beijing believes that economic interdependence fosters international cooperation and for this reason, it is not only engaging individual states within the Middle East, but is also developing relations with regional associations like OPEC, the Gulf Cooperation Council and the Arab League (Ziegler 2006: 1). China and OPEC began a formal 'energy dialogue' on 22 December 2005 to establish a framework for cooperation on all levels of energy issues. China will require abundant and dependable sources of energy to sustain its economic growth throughout the twenty-first century, while OPEC members, most prominent among them Middle Eastern producers, which produce approximately 40 per cent of the world's oil, are intent on securing a share of the world's fastest growing energy market (*CCR* 2006: 7).

The International Energy Agency projects a large-scale investment, perhaps US$38 trillion over the next 25 years, would be needed in order to satisfy the increasing global

demand for energy (2011). With foreign currency reserves in excess of US$3 trillion, China is well positioned to play a leading role in providing the necessary investment to secure future supplies of energy for itself and other energy importing nations.

Future economic development and long-term domestic stability are priorities for the Chinese government, which needs adequate supplies of energy to sustain its impressive economic growth while maintaining its territorial integrity. China's national interests may prove increasingly arduous to defend, as the nation's growing dependence on oil and gas from abroad render it susceptible to the vagaries of the global energy market and the inherent instability within key areas of production like the Middle East (Ziegler 2006: 20). As the case studies reveal, China's NECs are now employing an increasingly sophisticated energy acquisition strategy that includes investment in foreign energy companies, expanded bilateral trade and downstream joint ventures. These are indications that the dragon is likely to nest in the Middle East for decades to come.

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