

China-Arab states Energy Cooperation under the Belt and Road Initiative: Chances, Challenges and Policy Implications

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Abstract

Since China became a net importer of oil in 1993, China and the Arab countries have been conducting energy cooperation on the basis of mutual economic interests. Under the vigorous promotion of the China-Arab States Cooperation Forum in the 21st century, the cooperation in the past two decades has achieved fruitful results, and mutual benefit and win-win has created a strong vitality for China-Arab energy cooperation. Nowadays, the proposal and implementation of the Belt and Road initiative has once again provided a new opportunity for energy cooperation between the two sides. It is undeniable that opportunities are always accompanied by risks. China-Arab energy cooperation still faces challenges such as geography, competition, internal affairs, and so on. However, the prospects for China-Arab energy cooperation are considerable. In the future, the two sides should seize the new platform of the Belt and Road and focus on building a mutually beneficial, safe, reliable and long-term friendly China-Arab energy strategic cooperation relationship.

Key words: Energy Cooperation, The Belt and Road Initiative, Basis, SWOT Analysis, Prospect

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Glossary

B&R: The Belt and Road Initiative
TPP: Trans-Pacific Partnership
TTIP: Transatlantic Trade and Investment Partnership
GCC: The Gulf Cooperation Council
CASCF: China-Arab States Cooperation Forum
NOCs: National Oil Companies
CNPC: China National Petroleum Corporation
Sinopec: China Petroleum and Chemical Corporation

CNOOC: China National Offshore Oil Corporation
IMF: International Monetary Fund
WB: World Bank
AIIB: Asia Infrastructure Investment Bank
ADB: Asia development bank
CBD: China Development Bank
EXIM: China Export-import Bank
WTO: World Trade Organization
BP: British Petroleum
EIA: The U.S. Energy Information Administration
ISIS: Islamic State of Iraq and al-Sham
UAE: United Arab Emirates
LPG: Liquefied Petroleum Gas
GDP: Gross domestic product
EAEU: Eurasian Economic Union
OECD: Organization for Economic Cooperation and Development
OPEC: Organization of the Petroleum Exporting Countries
CASSTTC: China-Arab States Technology Transfer Center
FPCL: Fujian Petrochemical Company Limited
YASREF: Yanbu Aramco Sinopec Refining Company
SGI2: Saudi Gas Initiative 2
WTI: West Texas Intermediate
EIU: The Economist Intelligence Unit
RMB: Renminbi
RQFII: RMB Qualified Foreign Institutional Investor

Chapter I: Introduction

1.1 Background

China's Belt and Road initiative — the Silk Road Economic Belt¹⁾ and the 21st-Century Maritime Silk Road²⁾ — (hereinafter referred to as B&R), proposed by President Xi Jinping in 2013 and then issued in an official document from Chinese government in 2015,

which presents a perspective for future regional cooperation of Eurasia. Looking at the map below (**Figure 1**), the Belt and Road initiative is through Eurasian continent, the two ends are Europe and East Asia with strong economy and booming energy demands, the middle ground of the line is the developing countries (such as the Middle East, Africa and Central Asia) with high development potential and abundant energy resources. So to speak, the B&R closely links the energy consumption countries and production countries, which can effectively optimize the global energy governance system and promote energy cooperation.

Nearly five years since this program was proposed, it already drew worldwide attention and many countries have generally given high marks on the Belt and Road initiative. According to Helen Chin & Winnie He's article, 65 countries along the Belt and Road will participate in this initiative.³⁾ Also they identified 48 countries have taken part in or showed interest towards B&R initiative.⁴⁾ Among all countries, the Arab states⁵⁾

are important participants of this project, which occupy crucial geographical position of the world map and possess rich oil and gas resources with high reserves, production and export volume. On the one hand, China and the Arab states have common interest claims; these advantages have virtually helped the energy cooperation between China and the Arab states. Besides, there has been a solid historical foundation for energy cooperation between China and Arab countries. From the establishment of strategic partnership to the formation of a high-level China- Arab Cooperation Forum in 2004, China and Arab countries have launched a series of energy cooperation to promote the development of China and Arab countries. On the other hand, energy cooperation is an important part of whole strategy. The B&R initiative has its unique connotation and characteristic in China-Arab energy cooperation, which not only brings new development opportunities to China-Arab energy cooperation but also constrained by geopolitical, competitive and other risks.



Source: Xinhua, http://www.xinhuanet.com/english/2016-06/24/c_135464233.htm

Figure 1. The Map of the Belt and Road Initiative

1.2 Significance of the Study

This dissertation aims to investigate the chances and challenges of China-Arab energy cooperation under the Belt and Road initiative. Since B&R initiative was proposed in 2013, until now, China and the Arab states already reached a consensus to actively promote energy cooperation and jointly build the Belt and Road. What's more, from a great national strategy into practice, it can't be separated from a comprehensive and detailed theoretical basis and specific classified study. From strategy formulation to strategy implementation, a large quantity of literatures and research achievements as academic supports are needed. However, I found that the researches about China-Arab energy cooperation combining the B&R initiative were not abundant. Therefore, this thesis has a realistic theoretical significance. In addition, during the process of energy cooperation between China and the Arab states, various problems bound to be encountered. Thus this article will give policy recommendations in light of the development strategy of the B&R, with far-reaching practical significance.

1.3 Literature Review

1.3.1 The Connotation and Strategic Significance of the Belt and Road Initiative

He Maochun & Zhang Jibing (2013), scholars from Tsinghua University, considered the concept of the new Silk Road Economic Belt from the perspective of historical inheritance and international cooperation and deepened the connotation of B&R in the vertical and horizontal comparison. On the one hand, the development of science and technology today laid the foundation for the revival of the Silk Road. On the other hand, the concept of B&R not only conformed to the development trend both at home and abroad but also considered balanced

development of politics, economy and culture. Based on the analysis and forecast of future development trends, they believed the prospects for the "Belt and Road" would be substantial. By studying the model of international regional economic cooperation under the new situation, Shen Xianjie (2014) analyzed the important strategic significance of China's implementation of B&R initiative. He found that China could calmly cope with the pressure exerted by the United States on TPP and TTIP, and make China seize the initiative in an open international environment.

1.3.2 Current Status of Energy Cooperation between China and the Arab states

At present, there have been some relevant discussions and preliminary conclusions about the history, current situation and prospects of China-Arab countries relations among scholars. As pointed out by Shichor (1998), due to the constraints of domestic and foreign factors, the economic cooperation between China and the Arab countries was extremely limited before China's reform and opening up. Especially in the 1950s to 1960s, the close relations between the two sides were mainly motivated by political and strategic factors. Correspondingly, the political relations between the two parties also indirectly influenced the economic relations between the two sides. Another professor Wu Bingbing (2011) indicated that from 1958 to 1990, Iraq had been the focus of China's policy in Gulf region. While with the intensification of economic and energy interests, the relations between China and the Arab states were gradually heating up.

Since becoming a net importer of oil in 1993, China's dependence on oil imports by Arab countries has been rising. Oil has become the largest trade commodity of economic cooperation between China and Arab countries.

ME. Herberg (2009) and others called the energy relations between Asia and Arab countries as “The New Energy Silk Road.” He believed that the strong interest in the emerging market economies such as China, which reflected the geopolitical “Looking East” tendencies of Arab countries.

Regarding to the impact of the energy cooperation between China and the Arab states, it always remained two different camps. Some American scholars were pessimistic about the bilateral relations between China and the Arab states symbolized by the “New Silk Road.” They were more interested in the impact of China-Arab countries energy cooperation on the United States. The focus of the debate was whether China’s growing energy demands and the consequent engagement of China with the Arab states would threaten the U.S. oil hegemony in the Arab region and affect U.S. energy imports from the Arab oil-producing countries. In response, Zhao Xuchi (2016) said that China and the United States each has important interests in Middle East. In the foreseeable future, the dominance of the United States in the Middle East would not change. With U.S. strengthening military presence in this region, it together with certain western countries, would attempt to crowd out China in Middle East.

However, some scholars hold optimistic attitudes about this. Taking Saudi Arabia as an example, it has become an important cooperative partner that China sought in the Arab world, and the political ties between the two countries have also been increasingly strengthened. Al-Tamimi (2013) conducted an in-depth study of the nature of Sino-Saudi relations in response to the thinking of the U.S. strategic community about the close relations between China and Saudi Arabia. In his view, China’s economic cooperation with Saudi Arabia

was greater than its political contacts. The approach between China and Saudi Arabia didn’t intend to weaken the U.S. power. Accordingly, Afshin Molavi (2011) argued that while shaping the new geopolitical landscape between East Asia and Middle East, this New Silk Road would also intensify regional stability and global growth.

With regard to the future of energy cooperation between China and the League of Arab States, most scholars generally believed that there was a unique advantage and a bright future for the energy cooperation between China and the Arab states. Scholars Sun Degang & Yahia ZOUBIR (2014) suggested that sharing of common values emphasis on national dignity, revitalization, political multi-polarity, diversity of development modes and non-interference policy were positive factors that can promote China-Arab states energy cooperation. Wu Si’ke (2015), Chinese former envoy to the Middle East, also mentioned that security coordination, economic and trade cooperation and cultural exchanges were important strategic docking between China and the Middle East region under the B&R framework.

Under the new situation, the implementation of the Belt and Road strategy undoubtedly opened up new opportunities for China-Arab states energy cooperation. In his reception to the Gulf Cooperation Council (GCC) delegation, Xi Jinping pointed out that China would be willing to work jointly with the GCC to build the B&R initiative and pave the way for energy cooperation between two sides. The GCC representatives also expressed their strong desire to promote energy cooperation with China. Xi also stressed at the 6th Ministerial Meeting of China-Arab States Cooperation Forum in 2014 that China is ready to deepen cooperation with the Arab states in oil and gas,

infrastructure, trade and investment, nuclear power, aerospace and satellite and new energy.⁶⁾

Qian Xuming pointed out in his article (2017) that China has actively utilized the existing bilateral and multilateral cooperation mechanism to promote international energy cooperation under the context of B&R initiative. In Qian's another article (2016), he specially demonstrated that the energy relation with the Middle East countries lay at the core of B&R initiative. Moreover, researcher Yu Jianhua (2014) indicated that along with the new opportunities of the common construction of the Belt and Road, the two sides will build mutually beneficial, safe, long-lasting Sino-Arab energy strategic partnership in the future. Thus, the implementation of the B&R strategy has far-reaching practical significance for developing international energy cooperation among China and other countries.

1.3.3 Challenges of Energy Cooperation between China and the Arab states

While fully grasping the opportunities of China-Arab energy cooperation brought by B&R Initiative, we should also give full attention to existing problems and potential challenges. Thus experts and scholars at home and abroad have mainly explored from the perspective of energy security and energy strategy.

About energy security, Yang Guang (2004) found that as China relied more and more on oil imports from Arab countries, the following problems eventually began to emerge: seriously unbalanced China's trade with oil-exporting countries, the environmental pollution in the process of import and the impact of instability in the Arab countries on oil prices. Jin Liangxiang (2006) believed that the cooperation between China and Middle East in the energy sector was constrained to various factors, such as the

turbulent political environment in the Arabic countries, the backward infrastructure, the bottleneck of transportation and the cooperative mode of energy companies. The study by Scholars Sun Degang & Yahia ZOUBIR (2014) also showed that the intrinsic internal discords among Arabic countries, low integration and divergent attitudes towards the West were non-negligible negative factors during the process of energy cooperation. Besides, some potential challenges were stated in Qian Xuming's (2014) study, such as: complex and unstable energy cooperation environment, the distress if non-traditional security threats and the interference of big powers, which would hinder the process of energy cooperation.

By summarizing above relevant literatures and the discussions on the energy cooperation between China and the Arab states, it is not difficult for us to find the energy cooperation between two sides has been facing with both opportunities and challenges. Therefore, what those chances and challenges are, how to calmly deal with these risks under the strategy of Belt and Road, and how to improve China- Arab energy cooperation to a new level will be the main discussion of this dissertation.

1.4 Content

The whole thesis composed by five chapters. First chapter is introduction, which elaborates the background, the significance of the topic, analysis methodology and some limits of my research. Also, some previous studies are summarized in this chapter. The second chapter is to describe the basis for energy cooperation between China and the Arab states. Next, chapter three talks about case studies of energy cooperation between China's energy companies (represented by CNPC and Sinopec) and Arab countries. By using the SWOT method, this

part analyzes the favorable and unfavorable factors existing in the process of energy cooperation. Final chapter is about the policy recommendation. Under the background of Belt and Road Initiative, I will put forward some suggestions from five aspects, which related with five priorities that President Xi mentioned in his speech at Nazarbayev University in Astana of Kazakhstan. Last but not least, I will give some conclusion remarks.

1.5 Methodology

In my dissertation, I will mainly use qualitative research method—case study approach, and SWOT analysis method will be applied to analyze two cases, that is, the energy cooperation between China and Saudi Arabia and Sudan. All data collected from World Bank, IMF, AIIB, BP, EIA, CHINA CUSTOMS and other scholars' articles. Literature review based on some mainstream papers, reports, books and journals from JSTOR/ Google scholar or other official websites.

1.6 Limitation of the Study

Due to the limited space of articles and limited knowledge, I could not talk about all cases of energy cooperation between the Arab oil-producing countries and China, only a few representative countries were selected in the case analysis. Also, because of Belt and Road Initiative is remaining a ongoing process, which the progress and final results are not easily predictable. Thus my dissertation merely gives preliminary study, prediction and suggestion. And the author hopes this thesis will cast a brick to attract jade and stimulate more scholars to do more deepen studies.

Chapter II: The Basis for Energy Cooperation between China and the Arab States

2.1 The Strained U. S. -Arab relations Urged Arab Countries to Seek New Partners

(1) The Bush Administration's Foreign Policy towards the Arab countries

The September 11 attacks were a turning point, which affected President George W. Bush to make readjustments of U.S. grand strategy and form a new basis for U.S. foreign policy. He had to alter his focus from domestic issues, such as education and social security to international concerns.⁷⁾ Very soon, as a response to the attacks, the more comprehensive Bush Doctrine was announced. And the main characteristics of Bush's foreign policy were explicit: unilateralism and anti-terrorism. Based on neo-conservatism, Bush preferred the solution of prevention and unilateral military actions (without the approval of international society) to guarantee U.S. national security.⁸⁾ Also, he believed that the United States has been playing the role of world hegemon; it has right, responsibility and overwhelming power to combat terrorism and promote democratization and regime change in the Middle East.⁹⁾

As a result, Bush initiated the invasion of Afghanistan in 2001 and Iraq in 2003 subsequently, which not only made the United States bogged down in Iraq and Afghanistan for a long time, but also caused turbulence in the Arab world, such as the instability in Iraq and the suspension of Palestinian-Israeli peace talks¹⁰⁾, have become increasingly prominent. Such interventions just left irreparable harm on the hearts of the Arab people. Gradually, the rising dissatisfaction within the Muslim community has left a vacuum in the strategic security of

the Arab world and provided fertile ground for much more terrorist violence. Meanwhile, the anti-US sentiment around the world reached unprecedented high. As John Rielly's research mentioned, a poll conducted by Stern magazine in 2007 indicated that most Germans considered the U.S, as a greater threat to world peace than Iran, and many other polls proved that this sentiment was shared throughout most of Western Europe and many other parts of the world.¹¹⁾

(2) The Obama Administration's Foreign Policy towards the Arab countries

In the aftermath of the Bush administration, the financial crisis erupted in 2008, and the rise of emerging economies formed a considerable impact on the United States. Along with the Afghanistan war and the Iraq war remained unresolved, which not only widened the mistrust and animosity between America and Muslim peoples and societies,¹²⁾ but also weakened the dominance of the United States in the international order, Barack Obama has sought to adjust American foreign policy for improving the image of the United States.

Obama's grand strategy was more moderate, he has attempted to get rid of the unilateral rhetoric of the War on Terror and emphasized to work with allies to seek legitimacy.¹³⁾ In dealing with the relation with the Arab world, he actively called for mutual understanding, advocated the withdrawal of troops from Iraq and promoted to revive peace talks between Palestine and Israel from 2010. Under Obama's efforts, all U.S. soldiers withdrew from Iraq on 18 December 2011, almost nine years military presence ended. However, not all endeavors achieved expected results, for example, Palestinian-Israeli peace talks have not made substantial progress and terrorist attacks resurged and frequently

occurred. The fact was that Arab world was still in turmoil, leading to the rising of anti-American sentiment of the Arabic public. U.S. policy on Arab nations failed to win the heart of Arab world, it just brought casualties, destruction and displacement. In addition, for the United States, the study of Mark Boris Andrijanč (2015) demonstrated that the American energy revolution has increased its capacity of self-reliance, and the reduction in oil imports have also contributed to the change of the U.S. foreign policy, which has enabled the U.S. to perform a more independent and less involved role in the Arab region.¹⁴⁾ While for the Arab states, the impacts of American departure from this region were profound, which would gradually urge countries like Bahrain and Qatar to seek new regional powers as military protectors or drive to close relations with China.¹⁵⁾

(3) China's Foreign Policy is in the Interest of the Arab people

With the advancing of China's reform and opening up, China's economy has achieved remarkable success in recent decades. According to China's Arab policy paper released in January 2016, China established diplomatic ties with all 22 Arab countries since 1956. Over the past 60 years, China has always adhered to the "Five Principles of Peaceful Coexistence"(proposed by Premier Zhou Enlai in 1953), namely, "mutual respect for sovereignty and territorial integrity, mutual non-interference in each other's internal affairs, mutual non-aggression, equality and mutual benefit, and peaceful co-existence"¹⁶⁾ in dealing with the regional hot-spot issues. Thus I will list main regional conflicts and briefly describe China's stance towards those issues in **Table 1** below.

As scholar Wang Jinglie written in his article (2010), China's sincerity in dealing with

Table 1. China's Stance towards Main Region Conflicts in the Arab Region

Main regional conflicts	Participation of conflicts	China's stance
Syrian Crisis	The United States, Syrian opposition groups, Bashar al-Assad Regime, Russia, UN, Gulf Cooperation Council, EU	China vetoed against UN resolutions, opposed any military intervention, and addressed problems through dialogues and political means. ¹⁷⁾
Palestine-Israel Issue	Palestine, Israel	China insisted a neutral place and offered help with negotiation multiple times. ¹⁸⁾
South Sudan-North Sudan Conflict	Northern Sudan, Southern Sudan	China played as a mediator between two sides and it actively performed the responsibility of great power.
Darfur Issue	Sudanese government (military group), JEM (non-Arab Muslim)	China adopted a “responsible stakeholder role” to urge the Sudanese government to improve the humanitarian situation; China insisted that the essence of issue is the issue of development and continued to support the development of this region. ¹⁹⁾
ISIS	Syria, Iraq, Libya, ISIS	China actively participated the international cooperation of anti-terrorism activity and safeguard world peace.

Source: based on reference articles and author's own summaries

Note: Since Iran and Afghanistan are non-Arab states; I didn't list them in the table. However the existing issues remained considerable. Regarding to Iranian nuclear issue, China didn't favor unilateral sanctions against Iran and final settlement should basis on dialogue, negotiation and other means of cooperation. (Mu Chunshan, (2013), *The Iranian Nuclear Question: China's Perspective*, The Diplomat.) In terms of conflict between Afghanistan government and the Taliban, China kept low-key positions on Afghanistan and refused military involvement and take cautious approach to the Taliban, however China actively joined the postwar rebuilding of Afghanistan. (Zhao Huasheng, (2012), *China and Afghanistan: China's interests, stances, and perspectives.*)

relationships in common grounds, and its firm position on opposing imperialism and colonialism and supporting the oppressed people fighting for national independence and liberation, won the

general praise of Arab countries.²⁰⁾ To sum up, in my understanding, the relations between the United States and Arab countries have become increasingly rigid; the historical relations that

Arab countries have relied on the United States might not last long. While China has attained outstanding achievements after 30 years of reform and opening up, the increasing influence in international affairs and the peaceful foreign policy advocated has won Arab people's heart. As a more mature and more responsible major power, China has a great attraction to Arab countries and has gradually become a better candidate for developing bilateral or multilateral cooperation with the Arab states.

2.2 The Rising Importance of the Arab region to China

Since China has been pursuing Periphery Diplomacy, an enabling international environment was significant for achieving China's rise and peaceful development. The Arab region, shared tradition and comprehensive friendship with the link of ancient Silk Road, has gradually stepped into China's diplomatic horizon.

Politically, the countries in the Arab region and China all belong to the developing countries, they have common interest demands and all long for peace and development. At the same time, because of its unique geographical advantages, the Arab region has always been political whirlpool center of big power game and the places where civilization of East and West meets for centuries. After the founding of New China (1949), the Bandung Conference, which

took place in April 1955, has not only witnessed both sides supported each other in the liberation struggle for national independence, but also shared similar position and view towards many international issues. For example, the Chinese government supported Egypt to recover its sovereignty over the Suez Canal and Palestinian people fight for the national rights, their friendship stood the test of time and became constantly deepened and profound. As of 1990, China has already established diplomatic ties with all member states of the League of Arab States and the close development of their relations has laid a firm foundation for the economic and trade development. The good and close diplomatic relations between China and the Arab states have not only helped to promote the influence of developing countries in international affairs but also benefited to establish a more justice and a more reasonable new international political order.

Economically, since China begun reforming and opening up in 1978, and the China-Arab States Economic and Trade Forum established in 2010, China-Arab economic and trade cooperation made fruitful achievements under the joint efforts.²¹⁾ In recent years, the trade volume between China and Arabic states has kept rising sharply. For instance, referring to **Table 2** below, in 2004, the volume of Sino-Arab trade amounted merely \$36.7 billion but in 2011 it reached nearly \$200 billion.²²⁾ In 2016,

Table 2. China-Arab Trade Volume (Unit: Billion Dollars)

Year	2004	2005	2006	2007	2008	2011	2012	2014	2016
Volume	36.7	51.3	65.4	80	132.8	200	222	312	171.1

Source: Data collected from Sebastian Hornschild, (2016), *China in the Middle East: not just about oil*; Mohammed Numan JALAL, *The China-Arab States Cooperation Forum: Achievements, Challenges and Prospects*, Journal of Middle Eastern and Islamic Studies (in Asia) Vol. 8, No. 2, 2014

China-Arab trade volume totaled 171.14 billion US dollars, and the value of newly signed project contracting agreements stood at 40.37 billion US dollars, up by 40.8%.²³⁾ “China imported 380 million tons of oil in 2016, including 150 million tons of oil imported from Arab countries, accounting for 40 percent of China’s total imports”, Yang Fuchang, the former Vice Minister of Foreign Affairs, demonstrated in symposium “Belt and Road Initiative: Towards Greater Cooperation between China and the Middle East”.²⁴⁾ According to statistics from the UAE Ministry of Economic Affairs, between 2014 and 2016, UAE-China bilateral trade volume totaled 52 billion dirhams (about 141.8 billion U.S. dollars). For three consecutive years, China ranked first in the UAE’s major trading partners.²⁵⁾ With the size of China-Arab trade was enlarging, the prospect for cooperation was bright as well, which provided a solid foundation for further energy cooperation between two sides.

Culturally, Arab countries and China with time-honored history and civilization, have also conducted dialogues on many occasions, broadened the channels of people to people exchanges and deepened the friendship between two sides. In fact, under the promotion of the China-Arab States Cooperation Forum (CASCF), China and Arabic region have held three sessions of Arabic Art Festival and Chinese Art Festival respectively, five sessions of China-Arab Friendship Conference and other events that were beneficial to the cultural communication. These measures were true portrayal of the cultural exchange between China and Arabic nations, which vividly demonstrated diverse civilizations should make concerted efforts to learn from each other, seek common ground and reserve differences to achieve common development.

2.3 The Outstanding Complementarity in Energy Structure between China and the Arab states

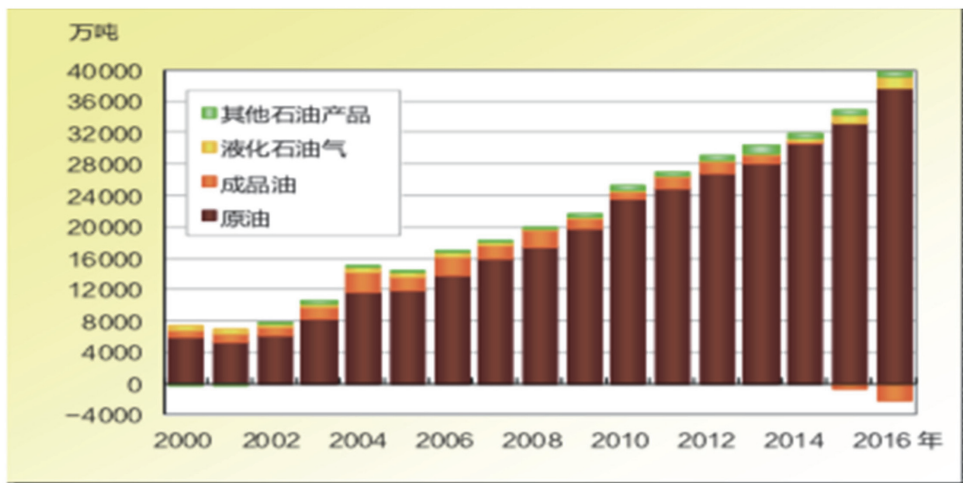
According to BP Statistical Review 2017, China remained the world’s largest energy consumer, accounting for 23% of global energy consumption and contributing 27% to global energy demand growth in 2016. Although Chinese economic development demonstrated a new trend of medium-high rate of growth, companying with the weakening energy demand growth; the situation that China’s energy production rate couldn’t catch up with the growth rate of energy demand has still not been greatly improved. For example, China’s net oil imports (included crude oil, refined oil, LPG and other products), exceeded 300 million tons for the first time in 2014, and reached 378.3 million tons until 2016 (**Figure 3**), a year-on-year increase of 9.9%, with a high degree of import dependence of 67.3%, almost the highest in its history (**Figure 2**). However, oil production declined by 310 Kb/d to 4 Mb/d in 2016, the largest annual decline ever.²⁶⁾

What’s more, the proportion of coal was too large, the contradictions of energy structure of other small proportion of energy, such as oil and natural gas, have become increasingly prominent. In terms of clean energy sources, such as natural gas and nuclear energy, the gaps between production and demand were relatively large. It is predicted that by 2020, China would not only continue to maintain its position as world’s largest importer of crude oil, but also become the largest importer of natural gas.²⁷⁾ The first two decades of the 21st century stands for a critical period for China to build a well-off society in an all-around way and speed up its industrialization. Thus the solution to the energy issue concerns the development of China’s economy, the improvement of people’s living



Source: Tian Chunrong, *Analysis of China's Oil Import and Export Situation in 2016* (田春荣, 2016年中国石油进出口状况分析) Note: 消费量: Consumption, 净进口量: Net Import, 进口依存度: Import Dependency Ratio

Figure 2. China's Oil Import Dependency Ratio 2000-2016



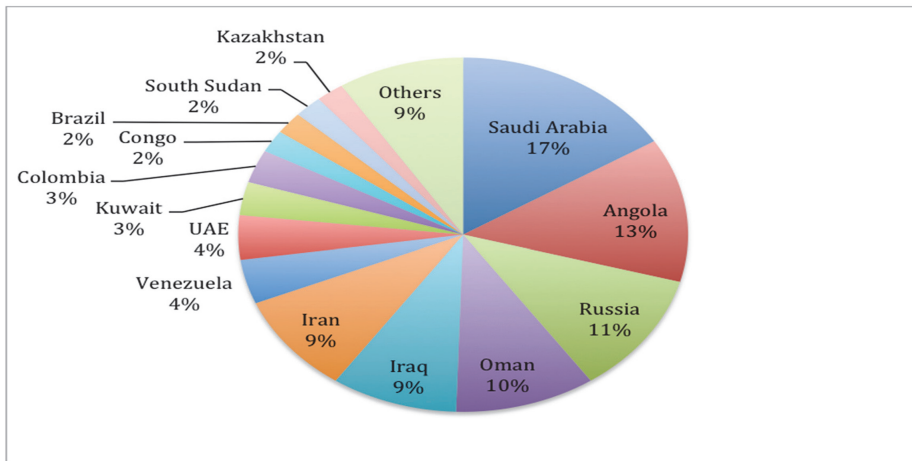
Source: Tian Chunrong, *Analysis of China's Oil Import and Export Situation in 2016* (田春荣, 2016年中国石油进出口状况分析) Note: 成品油: Refined Oil, 原油: Crude Oil, 其他石油产品: Other petroleum products, 液化石油气: Liquefied Petroleum Gas (LPG).

Figure 3. China's Oil Net Import 2000-2016

standard and even the rejuvenation of a nation.

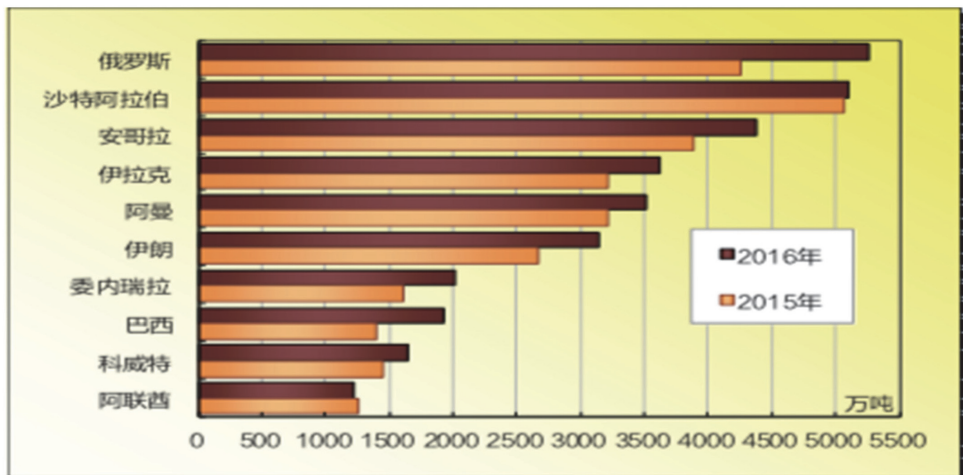
The League of Arab States, including 22 Arab countries, accounts for the large proportion of China's oil import sources, playing the pivotal role. It is clear from (Figure 4) below,

the Arab League accounted for about 44% of China's oil import share in 2014, about 53% if including Iran, that is, almost half of China's oil was imported from the Middle East. Since 2002, Saudi Arabia has been China's largest



Source: Facts Global Energy, Global Trade Information Services, Inc.

Figure 4. China's crude oil imports by source in 2014



Source: Tian Chunrong, *Analysis of China's Oil Import and Export Situation in 2016* (田春荣, 2016年中国石油进出口状况分析) Note: 俄罗斯: Russia; 沙特阿拉伯: Saudi Arabia; 安哥拉: Angola; 伊拉克: Iraq; 阿曼: Oman; 伊朗: Iran; 委内瑞拉: Venezuela; 巴西: Brazil; 科威特: Kuwait; 阿联酋: UAE.

Figure 5. Top 10 Oil Suppliers of China in 2016

oil supplier. Among the top 10 oil suppliers to China in 2014, Saudi Arabia, Oman, Iraq, United Arab Emirates and Kuwait ranked No. 1, 4, 5, 8 and 9 respectively. Even though in 2016, China's largest supplier of imported crude oil was

replaced by Russia, Saudi Arabia has remained one of top suppliers in the list. (Figure 5)

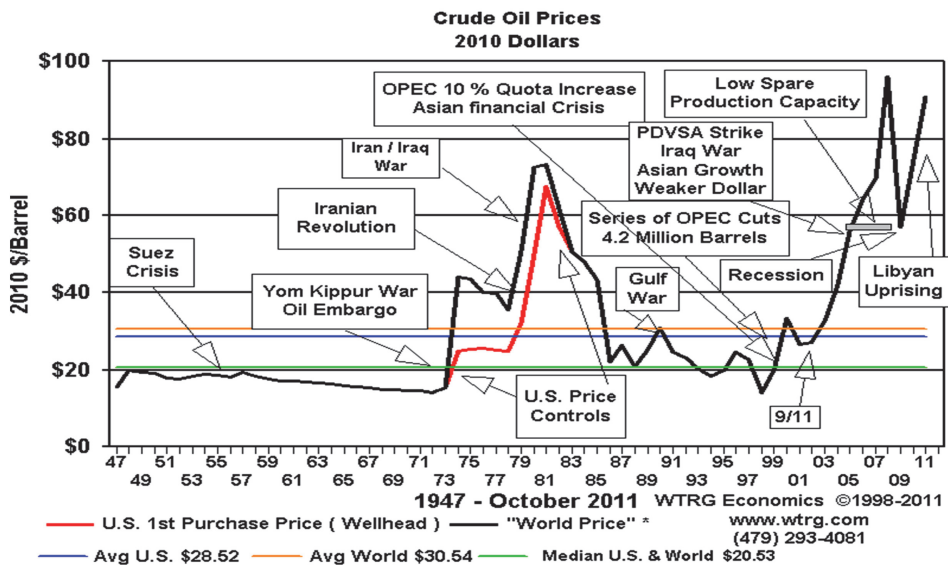
Judging by the current economic developments both at home and abroad, China urgently needs to conduct all-round and friendly

cooperation with the Arab League, which includes the energy sector. The Arab League, which is dominated by oil and gas resource countries, also sincerely wishes for energy cooperation with China.

First of all, the main pillar industries of these Arabic countries are oil and gas resources. For example, Saudi Arabia heavily relies on oil revenues, accounting for 88% of total export earnings, about 75% of state revenues and 40% of GDP.²⁸⁾ They had to seek a long-term, secure oil and gas export market by using their own unique resource advantages and developing their economies through the implementation of sustainable energy development strategies. However, having experienced the downturn in oil prices between the 1980s and 1990s (Figure 6), the oil-producing countries in the Arab region were unable to make ends meet, so the idea of changing the oil industry system and adjusting energy strategies was

increasingly pressing. Taking Saudi Arabia as an example again, the sharp decline of oil price led to dramatic reduction of its oil revenues, then causing the lower GDP growth, as well as higher budget deficit.²⁹⁾ As a result, these oil-producing countries had to endeavor to increase their production capacity and seize the leading position in the world crude oil market. They had to actively seek for new and safe investment destinations, intensify overseas investment and strengthen export capacity; broaden diversified export channels and build an oil and gas industry integrating exploitation, refining, transportation and marketing system. Moreover, due to the shale gas revolution, the U.S. dependence on oil and gas in the Arab region has been reduced, which led to those Arab states become more rely on Asian market.³⁰⁾

In addition, in dealing with Arab countries' matters, China won the unanimous appreciation of the Arab people for its great power, but



Source: James L. Williams, *Oil Price History and Analysis*, WTRG Economics. <http://www.wtrg.com/prices.htm>

Figure 6. Crude Oil Prices from 1947 to 2011

also attracted the Arab people because of its rising economy. More and more Arab countries were optimistic about China's oil and gas consumption market and actively carried out energy cooperation with China on energy exploration, exploitation and extraction. When Vice Foreign Minister Zhang Ming visited Oman in 2015, Oman has expressed its willingness to strengthen cooperation with Chinese side in the fields of production capacity, infrastructure construction, energy, technology transfer and human resources development.³¹⁾ This showed that the energy cooperation between China and the Arab states would promote direct investment and trade between the two sides, such as finance, manufacturing, agriculture and tourism and other mutual benefit cooperation. To sum up, in my understanding, the feasible and enduring national interests, along with the mutual complementarity and mutual needs of economic development will become the major driving force for energy cooperation between China and Arab states in the 21st century.

2.4 The Belt and Road Initiative Provides a New Opportunity for Energy Cooperation between China and Arab states

On March 28, 2015, with the authorization of the State Council, China's National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce jointly issued the "Vision and Actions on jointly Building Silk Road Economic Belt and the 21st-Century Maritime Silk Road"³²⁾. So far B&R has become the key word for China's grand strategy for diplomacy in 2015, in advancing this initiative, the Chinese government comprehensively pushed forward this strategy from the aspects of economy, politics, society and culture. The "keeping-low-profile" Chinese foreign policy for many years has been gradually

altering.

As Arab countries are located in the convergence zone of Asia, Europe and Africa, they have geographical advantages and will be main beneficiary countries during the implementation of the B&R initiative. China has mainly played economic cards towards Arab countries and emphasized the establishment of infrastructure such as roads, airports and ports, as well as the interconnection and interoperability of various oil and gas pipelines and power grids, in order to strengthen the alliance with Arab countries in the field of energy exchanges and cooperation. Meanwhile, the Arab states have given positive responses towards this strategy. For instance, Kuwait is planning a \$130 billion project to build a new city in the coastal region of Sofia in northern Kuwait. Once completed in 2035, it will become an important strategic hub of the Silk Road connecting China and Europe.³³⁾ Qatar hopes that China could actively participate in the construction of its own railways and ports and then pave the way for the smooth implementation of whole B&R strategy. Turkey and China have reached cooperation in fields such as aerospace, finance, investment and high-speed rail, to push forward the process of the B&R strategy. The smooth implementation of B&R initiative undoubtedly brought unprecedented opportunities for energy cooperation between two sides.

Chapter III: SWOT analysis on Energy Cooperation between Chinese Energy Enterprises and the Arab states

SWOT analysis, known as the four English letters represent: Strength, Weakness, Opportunity, Threat, which S&W are mainly used to analyze the internal environment; O&T are used to describe the external environment.

In this chapter I will choose Sudan and Saudi Arabia as two case studies to describe energy cooperation between China's energy companies and Arab countries. By using the SWOT method, I will specifically explain the favorable and unfavorable factors existing in the process of CNPC's energy cooperation in Sudan and Sinopec's in Saudi Arabia, as well as the opportunities and challenges, providing references for China to further expand its energy cooperation with the Arab states.

3.1 Energy Cooperation between China and Sudan

1. Sudan at A Glance

Sudan, located in the transition zone between West Asia and North Africa, is an extremely significant international strategic channel. It is an important gateway from North Africa to the hinterland of Africa, a traffic hub from the Red Sea to the middle of Africa and

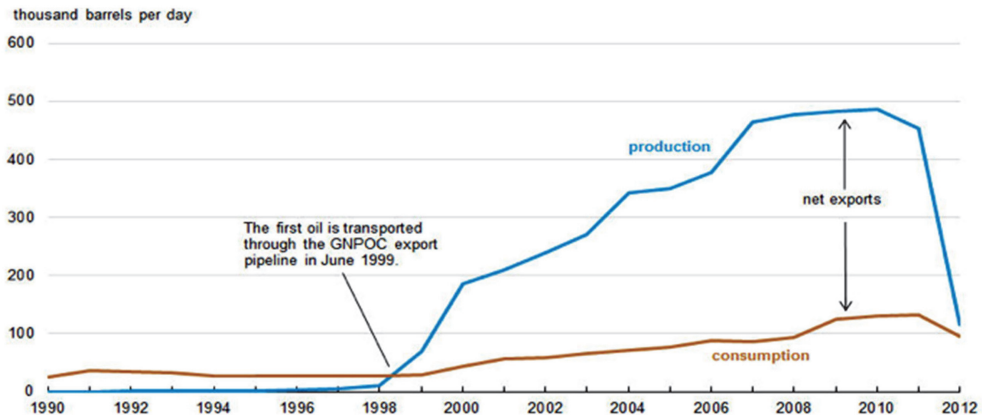
from the Mediterranean to the Indian Ocean as well. (Figure 7) As World Bank described, the country has been beset by conflict for most of its independent history.³⁴⁾ Until 2011, the southern part of Sudan seceded and formed the Republic of South Sudan under the terms of a peace agreement in 2005.³⁵⁾

In the 1990s, oil fields with abundant reserves were found in Sudan. According to BP Statistical Review of World Energy 2016, the proved oil reserves of Sudan rose from 0.3 thousand million barrels in 1995 to 0.6 thousand million barrels in 2005 to 1.5 thousand million barrels in 2015. With the growing oil reserves and increasing oil production (respectively 9000 bb/d in 1997, 294000 bb/d in 2005 and 475000 bb/d in 2009³⁶⁾), Sudan's status in oil-exporting countries has gradually risen. Prior to the split, the unified Sudan was the second-largest oil producer in Africa in 2010, outside of the Organization of the Petroleum Exporting



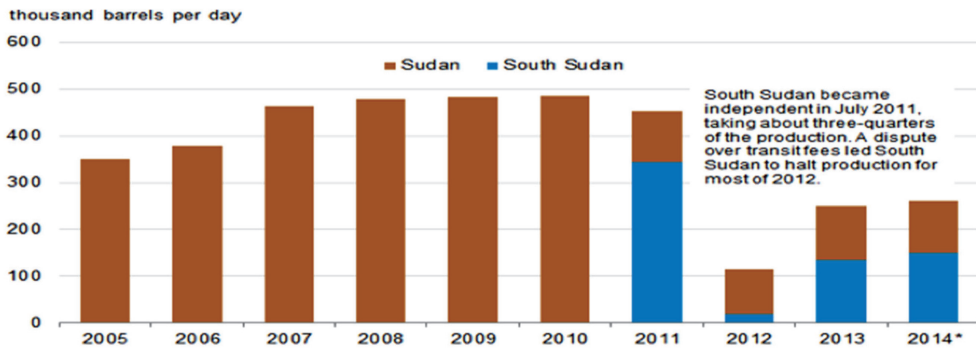
Source: africaguide.com

Figure 7. The Map of Sudan and South Sudan



Source: U.S. Energy Information Administration

Figure 8. Crude Oil Production (including lease condensate) and Consumption in Sudan and South Sudan, 1990-2012



Note: 2014 is January to June

Source: U.S. Energy Information Administration

Figure 9. Oil Production in Sudan and South Sudan

Countries (OPEC).³⁷⁾ However, about three-fourths of the oil production was gained by South Sudan since the split in 2011. At present, although Sudan and South Sudan's oil sectors are closely linked, disagreements over oil revenue sharing and armed conflicts still frequently occurred in both countries, the total production of oil has dramatically declined (see two figures from EIA below), which led to the huge loss of Sudan's economy.³⁸⁾

2. Profile about China-Sudan Energy Cooperation

China and Sudan have established diplomatic relations as early as 1959. However, until the mid-1990s, two countries just maintained a stable bilateral political relationship, while cooperation in other areas were very limited. Until 1995, a production-sharing contract (PSC) signed by China National Petroleum Corporation (CNPC) and

the Sudanese Ministry of Energy and Mineral Resources for Block 6 in the Muglad basin.³⁹⁾ So to speak, oil as a key medium, began to closely linked two distant countries and greatly promoted the process of exchange between two countries. Since then, China and Sudan oil cooperation has kicked off; Chinese enterprises have started large-scale investment in Sudan oil industry. As Sudan's top oil exporter, oil cooperation between two countries developed rapidly. Over the past two decades, the outcome of China-Sudan energy cooperation has been reflected in the Sudan economy and all aspects of people's lives.

First of all, the Sudanese oil industry has formed a complete system. China National Petroleum Corporation (CNPC) had upstream investment projects in five major oil fields: Blocks 1/2/4, Blocks 3/7, Block 6, Block 13 and Block 15 oil fields⁴⁰⁾ and put into operation, its output accounted for the majority of daily crude oil production (50 million barrels). Simultaneously, China-Sudan jointly construction of Khartoum Refinery, with an annual crude processing capacity of 2.5 million tons,⁴¹⁾ which not only solved the Sudan's domestic demand for gasoline and other refined oil, but also helped export some refined oil. In addition, China has helped Sudan to build oil pipeline and other oil industry facilities, such as crude oil pipelines of Blocks 1/2/4 to Red Sea, of Blocks 3/7 to Port Sudan, and Block 6 to Khartoum refinery, were also constructed by CNPC.

Second, the cooperation between China and Sudan has further developed from oil projects to a large number of engineering contracting projects, which has achieved positive results.⁴²⁾ One example is the El Gaili Power Station project that Harbin Power Engineering Company Limited built in Sudan; it served to solve the

power shortage problem that troubled Sudan for many years and benefited to the livelihood of people.⁴³⁾ The local people even sincerely called the Chinese and Sudanese workers who participated in this project the “bringers of Light”.⁴⁴⁾

Third, China-Sudan energy cooperation has greatly increased the local employment opportunities, including more than 10 million direct employees. All the ongoing CNPC projects in Sudan employed large numbers of local Sudanese employees, and over 90% of the staff were local Sudanese in some projects, according to Zhu Junfeng, head of the CNPC Coordination and Leading Group for Sudan Projects and general manager of CNPC International (Nile) Limited.⁴⁵⁾

Fourth, while helping Sudan to develop energy and mining, China also helped train local Sudanese employees, which not only satisfied the demand of skilled manpower for these projects, but also produced a large number of operatives and managerial talents for Sudan's oil industry.⁴⁶⁾ In addition, Chinese companies constructed roads, hospitals and water supply and other supporting facilities, which improved the local residents' living environment significantly. In sum, CNPC's energy investment in Sudan was its largest investment project overseas, and the first upstream and downstream integration project as well. The energy cooperation between two sides brought tangible economic benefits, but also made outstanding contributions to the world's energy security.

Sino-Sudan energy cooperation can be regarded as the most successful case in the history of China's energy diplomacy, which is also the main reason I chose Sudan as one of cases. Nowadays, Sudan has also been one of crucial participants in China's Belt and Road initiative and has benefited from China's active

investment in many projects ranging from infrastructure to education. After the general overview, I will use SWOT method to analyze the advantages and disadvantages of future energy cooperation between the two countries.

3.1.1 Analysis of Strengths of Internal Environment

(1) CNPC's Advanced Technical Conditions Had a Great appeal to Sudan

CNPC had a wealth of experience and advanced exploration technology in the energy operations, which was also a major factor contributing to the energy cooperation between CNPC and Sudan. Since the geological conditions of Sudanese oil area were similar to that of Bohai Bay basin in China, and coincidentally Chinese side had mature experiences and techniques in exploration and development of such fields, which made the energy cooperation between CNPC and Sudan even more powerful and reliable. Hence, on September 26, 1995, CNPC and Sudan Ministry of Energy and Mines reached a consensus jointly signed a Production Sharing Agreement about Block 6 oilfield of the Muglad Basin in Darfur, located in southern part of Sudan. As the earliest wholly-owned project of CNPC in Sudan, by the end of 2004, CNPC achieved 210 million barrels of accumulated recoverable reserves and over 1 billion barrels of proven geological reserves in Block 6.⁴⁷⁾

In November 1996, CNPC won the right to exploit the oil block 1/2/4 of the Muglad Basin. CNPC adopted a series of mature domestic technologies to effectively increase the production capacity of the oilfield. The annual production capacity of Block 1/2/4 was increased to 10 Mt within eighteen months.⁴⁸⁾ Besides, applying its technical strength, CNPC discovered Palogue, a world-class oil field in the Meluft Basin in Block 3/7 of in 2003, followed

by the 100 Mt Moleeta Oilfield and several smaller oilfields of around 10 Mt.⁴⁹⁾ Another successful example is Khartoum Refinery, the largest refinery in Sudan, which jointly operated by CNPC and the Sudan Ministry of Energy and Mining. Complying with Chinese national standards, KRC adopted state-of-the-art technology, and the output of the refinery jumped up to 5 million t/a until 2006 by using overall oil-processing techniques, advanced inventions and materials.⁵⁰⁾

(2) The Government Support Provided the Strong Guarantees for Energy Cooperation between Two Sides

Government support for energy cooperation is mainly reflected in the two aspects: financial assistance and policy support. In terms of financial support, China Development Bank (CBD) and the China Export-Import Bank (Exim) played leading role, which were established in 1994.⁵¹⁾ For example, CNPC's acquisition of Sudanese oil fields (Block 6) was initially met with disapproval and only after intense lobbying did the China Exim Bank provided CNPC the aid to pursue the project.⁵²⁾ And in Block 3/7 project, CNPC also obtained 400 million Yuan loan support from former Ministry of Foreign Trade and Economic Cooperation.⁵³⁾

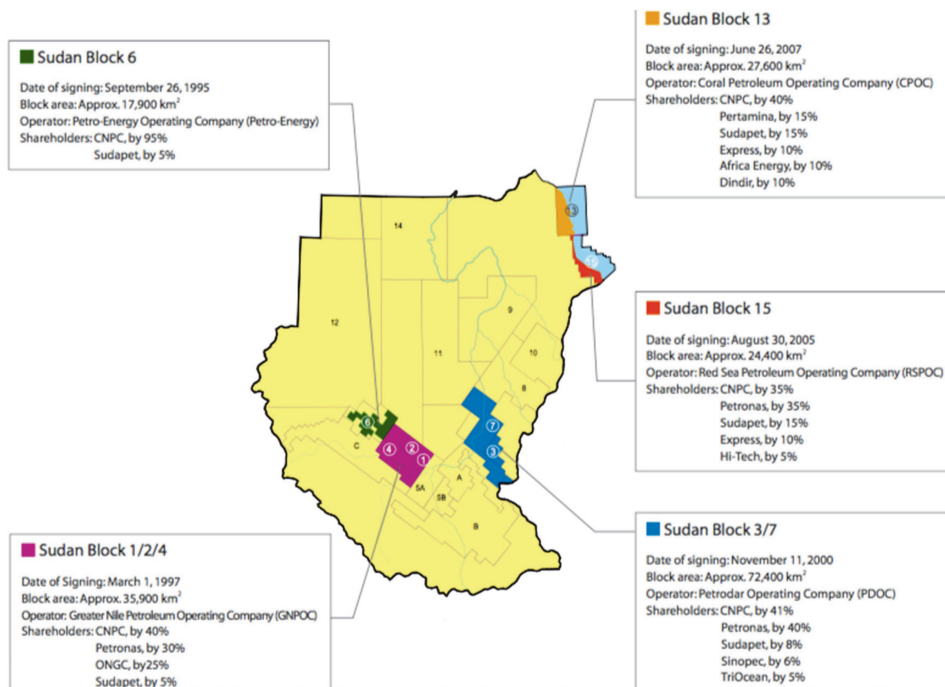
With regard to policy support, the government support national oil companies through diplomatic channels can be defined as "petroleum diplomacy". The increasing attention given in Sudan evidenced by the increasing number of high-level visits to Sudan. For example, from 1959 to 1999, Chinese top leaders merely visited Sudan six times during four decades. While from 2000 and 2009, five times official visit and four of them were arranged to visit CNPC's projects, which implied that

two governments showed great concern and increasingly played the “escort” role in bilateral energy cooperation. Moreover, the Chinese government has strengthened its political relations with Sudan by reinforcing high-level meetings on various multilateral occasions, promoting the China-Sudan joint ministerial committee mechanism and promoting inter-party exchanges and military cooperation.

(3) CNPC’s Joint Venture Mode Has Promoted the Energy Cooperation Process

Among all projects CNPC invested in Sudan, only the Block 6 project and the construction of petrochemical plant were solely owned by CNPC. Others have adopted a joint venture

model consisting of CNPC with the Sudanese government and various shareholders. This model could not only effectively spread the risk, but also help to form the scale effect, making the pie bigger. (The figure below provides an overview of the joint venture model used by CNPC in its Sudanese oil investment projects.) What’s more, “under this model, the Chinese Government and enterprises provided capital, technology, and equipment for Sudan, but also attached great importance to Sudan’s human resources development,” Awad Ahmed Al-Jaz, Sudanese Minister of Energy and Mining, once told the reporter of Chinese News Agency Xinhua.⁵⁴⁾



Source: CNPC in Sudan—Review of 15 years of Sino-Sudanese petroleum cooperation, p6. Available at <http://petrochinaintl.com.cn/csr/xhtml/PageAssets/CNPC%20in%20Sudan.pdf>

Figure 10. CNPC’s projects in Sudan

3.1.2 Analysis of Weaknesses of Internal Environment

(1) Dispute over the Redistribution of Oil Interests after the Separation of North and South Sudan

South Sudan possessed about 75 percent of the oil production when it became independent in July 2011. According to the US Energy Information Administration (EIA) there are three refineries located in Sudan; Khartoum, Port Sudan and El-Obeid with total refinery capacity just less than 122,000 bpd.⁵⁵⁾ Although most of the oil production capacity is now in South Sudan, South Sudan remains dependent on North Sudan to use its refinery, export pipelines and port,⁵⁶⁾ thereby the heart of the dispute is that South Sudan must pay Sudan transit fees in order to transport South Sudan's oil from the oil fields located in South Sudan to the sea ports in Sudan.⁵⁷⁾ This led to a big divergence over the distribution of oil interests between two sides: South Sudan needed to rely on North Sudan's transport facilities and desired more income distribution, while North Sudan expected to control the southern oil revenues under the central government. As a result, due to the unresolved issue of the redistribution of oil interests, the two sides have been continuously conflicting and contradictory for many years. In January 2012, because of the disagreement over the distribution of petroleum interests between North and South Sudan, South Sudan announced that the oilfields in Block 1/2/4 and Block 3/7 have all been shut down,⁵⁸⁾ which has seriously affected China's oil interests in Sudan. Until April 2013, South Sudan started to resume production due to the active promotion of the international community and the Chinese government. So to speak, if the redistribution of oil interests between north and south Sudan cannot be properly handled, it

would become the biggest stumbling block in the future bilateral energy cooperation.

(2) The Issue of Border Security has been Another Major Hidden Danger during the Energy Cooperation

North and South Sudan have yet to reach a final agreement on the issue of border demarcation. The issue of attribution of Abyei region has been seen as a potential "gunpowder" for the conflicts between North and South. This fertile land is located in the North-South border and possesses rich underground petroleum reserves, which has been an important oil-producing area. And one of important Sudanese oil pipeline, the Great Nile, passed through the Heglig oil field in this region directly to the Red Sea port. In order to compete for oil interests, many conflicts broke out between North and South, so that tension has been mounting in this region.

In addition, after the split between South and North Sudan, there were still some differences in religion, ethnicity, culture and politics, two sides continued to encounter contradictions and disputes. Most of northern people were Sunnis, while the south dominated by tribal people. The frequent clashes affected people's lives and property safety, the cases of attack, kidnapping and robbery of the employees of Chinese oil companies sporadically occurred. This has seriously influenced China's oil security in the region and has to a certain extent restricted the process of oil exploration by Chinese energy companies in this area.

3.1.3 Analysis of Opportunities of External Environment

Since the United States imposed sanctions on Sudan in 1997,⁵⁹⁾ the United States and other major Western powers have withdrawn from the

Sudan oil market, which has given tremendous space for advancing the investment of Chinese oil and gas companies in Sudan. Seeing that South Sudan split from Sudan, the United States might return to South Sudan oil market. However, based on the current situation, first, the exploration range in South Sudan was rather small, United States large-scale return still lacks substantial motivation; second, North and South Sudan had a strong wish to strengthen mutually beneficial cooperation, whereas the United States won't be willing to share a piece of cake with North Sudan, thus it might not open oil and gas resources to South Sudan in the short term. In view of this, on the one hand, the threats from the United States would not be large, and other Western developed countries still took a wait-and-see attitude and were more cautious about oil and gas investments in Sudan. On the other hand, China has kept maintaining close contact with South Sudan, not only providing financial support in various fields but also rich experience and technical assistance in oil exploration in South Sudan. Therefore, the prospect of energy cooperation between China and Sudan would be very promising.

3.1.4 Analysis of Threats of External Environment

(1) Respond to the Challenge of Resource Nationalism Wave

One Economics professor Geoff Riley pointed out those have natural endowments such as minerals and other commodities have been continually assessing how they can acquire more revenue by various means, such as taxes, royalties or full-scale state-ownership from these resources while it might inhibit foreign direct investment (FDI) and affect existing operation.⁶⁰⁾ Indeed, with the increasing importance of African petroleum resources in

the global energy landscape, there was a trend of rising resource nationalism in African oil-producing countries.

In the new wave of resource nationalism from 2003 to 2008, various energy-producing countries in Africa experienced threats of tax increase to varying degrees (such as Ghana and Sierra Leone) and renegotiation of condition (such as the new regulation of oil companies in Nigeria, Libya and Algeria), the expansion of participation and nationalization of state-owned companies (such as Namibia), especially in the oil and gas industry. Although following the global financial crisis in 2008, with the sharp drop in international oil prices, the momentum of resource nationalism in Africa has been suppressed. However, South Sudan, which has just been independent, facing of severe domestic economic problems, might still be able to boost its energy revenue by resource-nationalist approach such as renegotiating oil contracts with foreign oil companies or increasing oil revenues.⁶¹⁾

3.2 Energy Cooperation between China and Saudi Arabia

1. Saudi Arabia at A Glance

Saudi Arabia was established in 1932 by King Abd-al-Aziz and it has been a main player located in Arabian Peninsula. Although most of Saudi land consists of inhospitable deserts and barren wilderness, it became one of the wealthiest countries in the Arab region. It is the only country that has both the Red Sea and Persian Gulf coastlines (see the map below). As BBC news described, the stature of Saudi Arabia is built on its geographical size (twice that of France and Germany combined), its prestige as the custodian of the birthplace of Islam and its colossus status as an oil producer.⁶²⁾

Saudi Arabia is known as the “oil kingdom”.



Source: <https://geology.com/world/saudi-arabia-satellite-image.shtml>

Figure 11. The Map of Saudi Arabia

According to the data from OPEC Annual statistical bulletin 2017, its proven crude oil reserves are 266.2 billion barrels at the end of 2016⁶³⁾ and the daily crude oil production capacity reaches 10.5 million barrels possessing around 22% of the world's proven petroleum reserves and ranks as the largest exporter of petroleum.⁶⁴⁾ Except the vast oil resources, Saudi Arabia's remaining recoverable reserves of natural gas is 8.2 trillion cubic meters, accounting for 4.1% of the world's reserves, ranking fourth in the world. The oil and gas sector contributes about 50% of gross domestic product (GDP), and about 85% of export earnings to Saudi Arabia.⁶⁵⁾ As a member of WTO, OPEC, the GCC and G20, Saudi Arabia has been playing a decisive role in the political, economic, and religious fields in the Arab region and even in the world.

2. Profile about China-Saudi Arabia Energy Cooperation

The researcher Naser Al-Tamimi⁶⁶⁾ once wrote this in his book:

China and Saudi Arabia moved to an advanced stage when the diplomatic relations was officially established in July 1990. And the bilateral links grow rapidly and further expanded in the following decades. The economic cooperation in petrochemical sector is a case in point. (Al-Tamimi, 2014)

Therefore, during the visit of the then-President Jiang Zemin to Saudi Arabia in 1999, the two sides have established a strategic petroleum partnership and signed an oil cooperation agreement. The agreement stipulated that Saudi Arabia would open its domestic oil and gas market to China and allow Chinese companies to enter the oil exploration and production field. China has also agreed to open the domestic oil processing and consumption market to Saudi investors,

which has created favorable conditions for the economic, trade and energy cooperation between the two countries. As a result, China Petroleum and Chemical Corporation (Sinopec) and Saudi Aramco have collaborated on downstream projects in China, joining forces to build a refinery in Qingdao in eastern Shandong province and to expand a petrochemical facility in Quanzhou in the province of Fujian.⁶⁷⁾ The joint venture has expanded China's refining scale and raised China's refining level.

In the 21st century, with the continuous development of economic globalization, China and Saudi Arabia have become increasingly important in the world energy market. By April 2006, then-President Hu Jintao paid a state visit to Saudi Arabia. The energy issue was naturally one of important agendas for Beijing and Riyadh. The two sides signed a series of cooperation agreements, one of which was the energy framework cooperation agreement between Sinopec and the Saudi's national petroleum company that the two sides promised to strengthen cooperation in joint exploitation of oil, natural gas and mineral. By the time Wenchuan earthquake occurred in China in 2008, Saudi Arabia donated US\$60 million to Chinese government. One month after that, the Chinese vice president visited Saudi Arabia and the two sides signed the joint statement of PRC along with Saudi Arabia on strengthening cooperation and strategic and friendly relations.⁶⁸⁾ During the visit of the President Xi Jinping to Saudi Arabia in 2016, the two countries issued the Joint Statement Between the People's Republic of China and the Kingdom of Saudi Arabia on the Establishment of Comprehensive Strategic Partnership,⁶⁹⁾ further signed the Belt and Road cooperation intergovernmental documents, and decided to establish a high-level joint commission of the

two countries.

Indeed, the frequent head-of-state exchanges promoted closer Sino-Saudi political relations, which led to greater economic cooperation in terms of energy and trade. Saudi-Chinese trade has exploded from around US\$1 billion in 1990 to more than US\$70 billion by 2013, surpassing Saudi-U.S. bilateral trade in the process.⁷⁰⁾ Also, China's imports of energy from Saudi Arabia further increased year by year. Among them, the growth of crude oil imports was the most representative. From 2002 to 2010, the total crude oil exported from Saudi Arabia to China increased from 11.93 million tons to 44.63 million tons. During the eight years, the average annual growth rate of Saudi crude oil exports to China reached 18.61%. The customs data also showed that Saudi Arabia ranked first in the source country of China's crude oil imports in 2015, with an import share of approximately 15.1%.⁷¹⁾ The energy cooperation between the two countries continues to heat up, and more attention has been paid to large-scale energy projects.

As the Chinese ex-ambassador to Saudi Arabia, Song Wei said, there are two key words as far as ties between China and Saudi Arabia is concerned, they are "energy cooperation".⁷²⁾ Indeed, although China-Saudi energy cooperation started late, its development demonstrated a sound momentum of growth. Saudi Arabia has a wealth of energy reserves and energy development prospects, while China can provide a large and stable consumer market and talent technical cooperation resources for Saudi Arabia's foreign energy trade. In my understanding, the relations between China and Saudi Arabia led by energy cooperation, driven by economic interests, while with the changing pattern of global governance, the bilateral cooperation already develop beyond oil to multi-

level cooperation, which is mutually beneficial to their strategic demands and national security.

3.2.1 Analysis of Strengths of Internal Environment

(1) Long-term Friendly Cooperative Relations between Sinopec and Saudi Arabia

Saudi Arabia, with its abundant oil resources, has been the world's largest supplier of crude oil, which occupied a decisive position in global energy production and supply market. Since the establishment of diplomatic relations between China and Saudi Arabia in 1990, China has placed more emphasis on developing energy cooperation with Saudi Arabia. As a result, mutual cooperation and investment in the energy sector started, both sides have gradually developed their energy strategic partnership. In 2002, Saudi Arabia became China's largest crude oil supplier. Three years later, Sinopec, together with Saudi Aramco and U.S. Exxon Mobil, jointly invested 3.5 billion dollars to build Fujian integrated refining project. Aramco and Exxon each have 25 percent of the refinery and petrochemical joint venture, and the Fujian Petrochemical Company Limited (FPCL) holds the remaining 50 percent.⁷³⁾ After the project was completed in 2007, the three companies formed a joint venture with a refined oil sales company, which eventually brought the total investment to US\$ 5 billion.

In addition, Sinopec and Saudi Aramco have had a gentlemen's agreement that Saudi Arabia guaranteed that China could obtain crude oil from Saudi Arabia at any time. Saudi Arabia has been fulfilling its commitments and it has maintained China's No.1 crude oil supplier for many years. Although Russia overtook Saudi Arabia in 2016 as China's biggest crude oil supplier,⁷⁴⁾ Saudi is remaining among the top three suppliers. Moreover, on January 14,

2012, Sinopec and Aramco jointly established the Yanbu Aramco Sinopec Refining Company (YASREF) oil refinery in Yanbu Industrial City of western Saudi Arabia, which was Sinopec's first overseas refinery, and Sinopec's largest investment project in Saudi Arabia as well.⁷⁵⁾ The leaders of two countries attached great importance to it, President Xi Jinping and Saudi King Salman together attended the launching ceremony on January 20, 2016. And Xi pointed out the YASREF is not only in line with Saudi Arabia's national development strategy of optimizing and upgrading economy and energy industry, but also fits with China's development thoughts of conducting mutually beneficial cooperation under the framework of the Belt and Road.⁷⁶⁾ In fact, not only oil industry, Sinopec had also obtained opportunities for the development of natural gas in Saudi Arabia, initially investing US\$300 million to develop the Saudi Gas Initiative 2(SGI2) natural gas project and signed a contract for exploration and development. As Saudi Aramco's former CEO Khalid A. Al-Falih said, some observers, especially who outside of China and Saudi Arabia superficially see the relationship with China as a one-way flow of oil from Saudi's company to China. However, in fact, on the other side, Saudi Arabia also relies on China as a consumer as much as China looks to it as a producer.⁷⁷⁾ China's vast energy market is also important for Saudi's energy security. Therefore, the long-term friendly and stable cooperation relationship between China and Saudi Arabia laid the solid foundation for the greater development of both parties in the future.

(2) The Strong Complementarity in Petroleum Policy of China and Saudi Arabia

On the one hand, as a country with a high reserve-production ratio,⁷⁸⁾ Saudi Arabia

pursued medium-long term interests and strove to use long-term, moderate methods to extract oil and obtain stable oil revenues. Thus the basic objectives of Saudi's external oil policy are to stabilize oil prices and develop powerful and competitive oil industries with high levels of integration at home and abroad in order to ensure stable fiscal revenues. It has been pursuing prudent oil policy and actively seeking cooperation with oil consuming countries to reduce oil price fluctuations and mitigate risks, which was mainly implemented through two levels: national and international organizations. At the national level, Saudi Arabia's oil diplomacy can be described as oil-for-security, that is, Saudi Arabia kept cheap oil flowing to the United States and the United States helped maintain Saudi security by committing military resources to the defense of the nation.⁷⁹⁾ At the level of international organization, in the 1960s, Saudi Arabia, allied with Venezuela and other countries, formed Organization of Petroleum Export Countries (OPEC)⁸⁰⁾ to achieve the goal of keeping oil price stable, reducing oil price volatility and adjusting world oil supply.⁸¹⁾ Saudi Arabia has played a pivotal role in the major strategic changes in OPEC's oil policy.

Saudi Arabia considers China as the world's largest oil market and an indispensable partner in the future. As one senior executive of Saudi Aramco explained, "We need the Chinese market and we are going to get it just as we got Japan and the United States through aggressive marketing subsidies."⁸²⁾ Thus, in order to gain market share in China, Saudi Arabia provided China with some benefits, including below-market oil prices and access to Saudi's higher-quality, low-sulfur crude oil, even take precedence over existing European and American customers.⁸³⁾

On the other hand, China's cooperation

with Saudi Arabia is not only driven by economic interests but also based on strategic considerations. The Middle East has always been the traditional sphere of influence of the United States. Although the region is the main source of Chinese oil imports and China invested a lot in this land, China's influence in the region is still relatively limited and these investments are not enough to guarantee China's energy security. China also worries that Sino-American tension or disruption of oil supply would lead to United States blockade of China's access to Middle East oil. The history that U.S. inclined to staunch the flow of oil during the embargo of Saddam Hussein's oil exports from Iraq and the tacit threats to block China's oil import during a conflict over Taiwan has caused China's bigger fear.⁸⁴⁾ Thus, in my understanding, the complementarity in petroleum policy and strategic demands would contribute to the deeper and more comprehensive cooperation between China and Saudi Arabia.

3.2.2 Analysis of Weaknesses of Internal Environment

Although China has become the world's largest energy consumer and net oil importer, its lack of oil pricing power and discourse power is also an indisputable fact, which has made China's energy companies were in the passive position on crude oil imports. At present, the total oil consumption in North America and Europe has been gradually declining, The Asia-Pacific region has surpassed America and Europe in oil consumption, but the WTI⁸⁵⁾ and Brent crude oil price⁸⁶⁾ still dominate the global crude oil futures exchange price, a benchmark with high recognition in Asia-pacific region is absent. As a result, Asian countries pay more than Europe and America for imported oil. It is an additional \$2 billion a year in the case of

China.⁸⁷⁾ What's more, the prices of European and American exchanges have been difficult to reflect the supply and demand conditions in the Asian oil and gas markets. For the Chinese market, sometimes the domestic market has been oversupplied, while the oil price has to be raised. During the time of domestic supply was insufficient, while the oil price was lowered. This affected the normal production, consumption and brought incalculable losses to consumers and oil companies. At the same time, the lack of oil pricing power and discourse power also had negative impacts on China's foreign energy cooperation. Being forced to accept high oil prices that do not reflect real energy demand led to constant frictions in bilateral energy trade and imbalances in international payments. In 2018, China launched crude oil futures on March 26, which can better reflect the condition in Asia, however analysts pointed out that it could take time before China's new oil futures challenge the dominance in oil trading of the two current global benchmarks.⁸⁸⁾

Furthermore, even though both China and Saudi Arabia want to maintain the stability of global oil market, it does not mean that both sides hold the same view of "what kind of oil price is reasonable". As a big oil importer, China's priority is to ensure the reliable supply of oil, followed by the pursuit of cheaper prices as much as possible. China against uncontrolled high oil prices, as it will cause inflation and hinder its domestic economic growth. Saudi Arabia, on the other hand, has sought to avoid a sustained downturn in oil price because Saudi's population has soared and it needs to provide a large amount of work, water, electricity, education and medical facilities, while its fiscal deficit is huge. As an executive from Unipex, the trading arm of China's Sinopec, told Reuters, Sinopec plans to cut its crude imports from

Saudi Arabia by 40% in June and July because of "unjustified" high official selling prices (OSP) of Arab Light.⁸⁹⁾ If this situation couldn't be solved, the divergences between the two nations in oil prices would cast a shadow over the bilateral energy cooperation in the future.

3.2.3 Analysis of Opportunities of External Environment

Li Chengwen, the Chinese ambassador to Saudi Arabia once said that the Belt and Road initiative is a rare opportunity for the development of China-Saudi Arabia relations. Two thousand years ago, Chinese Ming Dynasty Muslim navigator Zheng He led the fleet to visit Saudi Arabia, the ancient Silk Road has linked those two distant countries. Under the new situation of building the Belt and Road initiative, Saudi Arabia is at the hub of the B&R initiative and has enthusiastically supported the Chinese initiative. In 2015, Saudi Arabia joined the AIIB and invested 20 billion U.S. dollars as start-up capital, hoping to attract Chinese investment. Subsequently, from January 6 to 8, 2016, during the visit to Saudi Arabia by Vice Foreign Minister Zhang Ming, Saudi Arabia responded positively to the B&R strategy and expressed its willingness to become China's faithful partner to work together with China on the construction of energy, trade, and infrastructure.

Moreover, China's Belt and Road initiative shares many similarities with Saudi's Vision 2030. In 2017, Saudi King Salman visited Beijing, he signed a commercial agreement worth about US\$65 billion and promised to work with China to promote Saudi Arabia's Vision 2030 aiming to diversify Saudi Arabia's economy and the Belt and Road initiatives. Indeed, Saudi Arabia has played a prominent role in the construction of the Belt and Road initiative, especially in the energy sector. For example, Saudi Aramco's

refining-chemical integration project in Fujian, China, has been serving the petrochemical market in China since it was put into operation, and continued to seek more investment opportunities in southwestern China market. Saudi Aramco was also willing to provide necessary support for China's establishment of strategic oil reserves and development of oil reserve facilities.

Furthermore, regarding to the construction of roads, railways, oil and gas pipelines and other infrastructures, Saudi Aramco utilized its technical advantages in oil and gas pipelines and management experience, helping China build oil and gas pipeline facilities that link coastal and inland areas to meet China's long-term energy needs. At the same time, Saudi Arabia's oil pipeline infrastructure projects are opening the door for more and more Chinese construction companies. Therefore, the docking of China's B&R initiative and the Saudi Vision 2030 would provide an opportunity for promoting bilateral energy cooperation to an advance level.

3.2.4 Analysis of Threats of External Environment

Energy is not only an important driving force for promoting the development of one country's economic status, but also a strategic resource for ensuring one country's discourse power in world politics. Saudi Arabia is known as its abundant energy storage capacity. As early as the last century, the United States, Britain, France, Russia and other major countries have engaged in a series of competitions over the oil exploration and exploitation rights in the Saudi region, which formed a situation that Saudi Arabia's energy resources were divided up by Western powers in the end. For China, who has entered the Saudi Arabia's energy cooperation market relatively late and lacked mature core

technology, it undoubtedly increased more challenges and potential threats.

What's more, the U.S.-led Western powers attempted to implement Western-style democracy and reform movements in the Middle East region. To achieve this goal, the U.S. Bush administration has specifically unveiled the "Greater Middle East Initiative" in 2004 -a strategy aimed at exporting the American democratic model to the Arab-Islamic world and redefining borders and nations in tune with America's geopolitical ambitions.⁹⁰ The famous "Arab Spring" movement led by the U.S. and other Western powers has resulted in the tumult of regime changes in the Middle East and west Africa, causing the local people suffered in the fiery war. In addition to the more moderate democratic revolutionary movement that has caused political instability in the Arab world, the Western powers headed by the U.S. have also triggered many brutal wars in this region. Among them, the U.S. had occupied Iraq, a major energy exporting country, and the Iraqi people still lived in the flames of war; the U.S.-led Afghanistan war not only plunged the U.S. itself into the quagmire, but also bred the rampant terrorism; the U.S. and other Western powers continued to provide arms, capital, and information support for aggravating the five Middle East wars, the Yemen conflict, and the Syrian conflict.

The increasingly close oil cooperation between China and Saudi Arabia will inevitably arouse the attention of the United States. As early as before the 9/11 incident, American scholars have already showed worries, such as: China's desire for oil might lead to "the worst nightmare in the West: the combination of Islam and Confucianism",⁹¹ and "the alignments between Islamic and Sinic civilizations would intensify the world conflict".⁹² Despite the fact that the relationship between the United States

and Saudi Arabia once fell into a depression after the September 11 attacks, the relations of oil-for-safety between them still exists. Indeed, the U.S. has reduced its reliance on military bases in Saudi Arabia and the U.S. energy giant also intended to reduce its share of oil imports from Saudi Arabia. However, the close relations between Saudi Arabia and the U.S. have already gone beyond oil and the U.S. will not allow China to fill its own vacuum of interests. Therefore, the game led by the U.S. in Saudi Arabia would have directly or indirectly impacts on the external political environment during the process of energy cooperation and limit the scope and depth of future energy cooperation between China and Saudi Arabia.

Chapter IV: Prospects of the China-Arab states Energy Cooperation

To summarize, the findings of this thesis are reflected in the following aspects:

First, energy relations between China and Arab countries are highly interdependent: China needs the continuous and large-scale of oil and natural gas which import from Arab countries, while Arab countries are relying on China as a huge consumption market. The energy cooperation between China and the Arab states is mainly led by the government and high-level exchanges, and they adopt long-term intergovernmental agreements.

Second, energy trade and investment are the primary forms of China-Arab energy cooperation: Chinese NOCs invest in the oil and gas resources of some Arab countries, providing technical services for Arab countries and investing in oil and gas exploration, oilfield services, and infrastructure construction, while some Arab countries invest in China's downstream oil and gas markets as well.

However, Chinese companies have so far been unable to obtain a significant share of oil and gas production investment opportunities in some countries. Chinese NOCs' foreign oil and gas cooperation project are mostly concentrated in overseas mergers and acquisitions or equity participation of some small-medium-sized or marginal oil and gas fields, thus acquired controlling rights and actual resources are very limited, and the scope and depth of China-Arab energy cooperation are still insufficient.

Third, China's energy diplomacy is more of a top-down form. That is, the Chinese government plays a major role in foreign affairs, and non-governmental actors are less involved. In my opinion, the successful cooperation experience between CNPC and Sudan has demonstrated that energy enterprises, not only national companies, should be encouraged to act firstly to carry out cooperation in the further cooperation, while the government should play the guiding and escorting role.

Fourth, China-Arab energy cooperation is mostly oil-centered cooperation. However, after entering the 1990s, the concept of sustainable development has been increasingly introduced into the energy development strategies of various countries. In responding to climate change issues and reducing excessive dependence on fossil energy, the concept that promotes the development of low-carbon economy and the development of alternative energy is increasingly accepted by the international community. Therefore, the Sino-Arab cooperation in clean energy and new energy sector apparently has greater development prospects.

Last but not least, the Arab countries have played a crucial role in the smooth process of China's Belt and Road initiative. The Arab League includes 22 countries, and each country has its own political and economic situation.

Facing the countries with backward economic development and political turmoil represented by the Sudan or the countries with relatively stable economic development and political situation such as Saudi Arabia, China should have different focuses and varying degrees of risk considerations during the cooperation with each of them.

The prospect section of this thesis aims at providing some policy recommendations on strengthening and deepening the energy cooperation relationship between China and the Arab states. To be specific, I would put forward some suggestions from five aspects: policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds,⁹³⁾ which are on basis of five priorities of the Belt and Road initiative and China's Arab Policy Paper.

4.1 Strengthen Policy Coordination to Promote the Development of Cooperation Mechanisms between China and Arab countries

4.1.1 Give Full Play to the Official Platform Effect and Improve the Functions of Various Cooperation Mechanisms

Up to now, various cooperative activities organized by China and Arab states under the framework of the China-Arab States Cooperation Forum have made remarkable achievements in the field of energy, economy, personnel exchanges, environmental protection and tourism. Therefore, to further improve the cooperation mechanism and exert the official platform effect between China and Arab states, two sides should continue to maintain the role of "Forum" and its main mechanisms, such as Ministerial Conference, Senior Official Committee Meeting, China-Arab Business Conference, Liaison Group and other existing

cooperation mechanisms in the process of the Belt and Road initiative, helping make decisions and monitor their implementation.⁹⁴⁾

Furthermore, paying attention to nurturing the functions of the China-Arab Cooperation Energy Conference, so that it can play a leading role in facilitating and accelerating the establishment of the more comprehensive energy cooperation framework, thereby helping to launch mutual beneficial energy cooperation between China and Arab countries. Besides, in the implementation of the B&R strategy, through policy communication, China could actively seize the opportunity that Arab oil-producing countries establish large-scale oil refineries in China to promote China and Arab countries to form closer strategic cooperation relations.

4.1.2 Consolidate Various Communication Channels

Since the main body of policy communication is multi-level, it is necessary to make greater efforts to integrate domestic resources and strengthen policy support from both parties. The two sides should not only keep the frequent high-level exchanges and dialogues, but also advocates intergovernmental communication within the Arab countries, communication among various ministries within China, exchanges between local governments—such as the establishment of more sister cities and provinces—,⁹⁵⁾ as well as communication between think tanks.

At the same time, in the process of building the B&R initiative, the partner countries also should attach importance to ensure the security of interests faced by energy companies in the process of going out and the both governments ought to play the escorting role. Also, China and the Arab states should actively participate in policy communication on the issue of

environmental protection and anti-terrorism operations to enhance mutual political trust and jointly safeguard regional peace and stability, creating the better external condition for stable and far-reaching cooperation.

4.2 Promote Facility Connectivity to Strengthen the Construction of Energy Infrastructure

As the global cooperation platform, the Belt and Road initiative provides a cross-continental transportation channel for China-Arab energy cooperation. There are six major economic corridors⁹⁶⁾ under the B&R Initiative, including the China-Central Asia-West Asia Economic Corridor that starts east from China and westward through Central Asia to the Arabian Peninsula. It is a major energy channel, which is the vital areas for the China-Central Asia oil and natural gas pipelines and it will connect Arab countries in the future. It also witnessed the Chinese enterprises have expanded their projects in the Arab countries from housing construction, road and bridge to oil pipelines, communications, railways, ports, building materials and many other fields. Therefore, for satisfying all the needs of the better energy cooperation, the two sides should jointly promote the construction of transport infrastructure firstly, such as railways, highways, ports and aviation. Second, reinforcing the interconnection of energy infrastructure, for example, ensure the security of oil and gas pipelines and other transport routes, build cross-border power supply networks and power-transmission routes, and cooperate in regional power grid upgrading and transformation.⁹⁷⁾ Besides, both sides could not neglect the importance of advancing other infrastructure facilities related to the communication, such as cross-border optical cables, satellite stations.

Judging from the current and long-term development strategic plans, the Arab countries need a large number of infrastructure start-up and construction funds, and it is hard for the World Bank (WB) and the Asian Development Bank (ADB) alone to fill the funding gap. The China-led Asia Infrastructure Investment Bank (AIIB) has been established for two years since 2016, which actively plays a financial support role in implementing the Belt and Road strategy and provides more guarantees for infrastructure projects between China and Arab countries. Although the AIIB's business focus is in Asia region, the actual investment scope has covered 12 countries including East Asia, Southeast Asia, South Asia, Central Asia, the Middle East, and West Asia, and 24 projects, including two programs located in Oman: Duqm Port Commercial Terminal and Operational Zone Development Project and Broadband Infrastructure Project, and one in Egypt: Round II Solar PV Feed-in Tariffs Program.⁹⁸⁾

Facing the situation that fluctuate crude oil prices and the irrational pricing mechanism in the international energy market, some countries attempt to use their own economic hegemony to arbitrarily manipulate the market and bring negative impacts on the world economy; although the AIIB may not be able to completely change this situation, it still can help these affected countries to a certain extent. In addition to the role of stabilizing financial markets brought by the short-term financial assistance, considering from the perspective of infrastructure construction alone, in my opinion, giving full play to the role of AIIB could also greatly increase oil and gas output efficiency, reduce transportation costs, release production capacity, and stabilize prices, thereby benefiting those energy exporters and consumers and improving their bargaining power in international

energy market, which have a positive impact and significance on promoting China-Arab energy cooperation.

What's more, based on this report's analysis, I consider that the Belt and Road is an international strategy that requires the concerted efforts of all parties. In addition to the participation of the AIIB, other financial institutions should also be encouraged to take part in cooperation with Arab countries in the field of infrastructure construction, such as the BRICS Bank and Silk Road Funds, which can also provide financial support to expand the scale of investment in infrastructure.

4.3 Ensuring Unimpeded Trade to Reduce Trade Friction in the process of Energy Cooperation between China and Arab Countries

4.3.1 Encourage Diversification of Energy Investments and Improve Relevant Laws and Regulations

The investment and cooperation in the oil and gas industry has always been the leading industry for China-Arab energy cooperation. However, the global energy pattern is in transition, in order to conform to the trend of environmental protection cooperation, both sides should encourage diversification of energy investment and increase investment in new energy, clean energy, and renewable energy. In my opinion, Chinese companies should follow the direction of local policies while entering the energy markets in Arab countries, especially when the local emerging market is immature. Moreover, Chinese enterprises should collaborate with local companies or companies from other countries, allowing them to learn other companies' advanced technology and management experience, enhancing their ability to deal with risks, increasing investment success

rate.

Simultaneously, it is necessary to use established trade dispute resolution mechanisms or set up more comprehensive mechanisms to encourage both parties to resolve commercial disputes and trade friction through mediation and arbitration.⁹⁹⁾ Furthermore, I would suggest both sides improve relevant laws and regulations in the legal framework of trade and economic cooperation, such as agreement on avoidance of double taxation, agreements on prevention of tax evasion and fraud, cooperation agreement on infrastructure construction, labor service cooperation and other legal systems, and properly solving trade problems such as dumping, so as to remove obstacles for friendly China-Arab energy cooperation.

4.3.2 Strive to Establish the China-GCC Free Trade Zone

In the Arab world, the Gulf Cooperation Council, referred to as the GCC, consisting of the six countries: Bahrain, Qatar, Oman, Kuwait, Saudi Arabia, and the United Arab Emirates, which was established in May 1981. The GCC countries are China's largest source of oil and liquefied natural gas imports and the important trading partner in the Arab region. Although the EU remains the largest trading partner for the GCC, a report by The Economist Intelligence Unit (EIU) predicted that by 2020, China would be the biggest export market for the GCC.¹⁰⁰⁾ Locating at the junction of the Silk Road Economic Belt and the Maritime Silk Road, the GCC has great significance to strengthening China-Arab energy cooperation and promoting the successful development of the Belt and Road initiative. Gulf oil-producing countries led by Saudi Arabia, have relatively high economic levels, and the political situation of each country is relatively stable, thus the cooperation between

China and the GCC has potential to be tapped. If the two sides actively engage in negotiations and docking, contribute to the early signing of the China-GCC Free Trade Agreement and the successful establishment of a free trade zone, it would deepen energy trade, establish a more perfect cooperative partnership, and promote more energy cooperation projects. Also, it would embody the institutionalization of the Belt and Road cooperative development concept in the Middle East, which would become an important regional fulcrum for the successful implementation of the whole strategy.

4.4 Safeguard Currency Circulation to Enhance the Ability to Resist Financial Risks

First of all, China should increase its foreign exchange reserve. Petroleum reserve¹⁰¹⁾ can be used as an important supplement to foreign exchange reserves. The petroleum reserve can be divided into three types according to the main body of reserves. The first is the government reserves. As the name suggests, it is entirely funded by the government to purchase, control and maintain the oil reserve, which is included in the government budget. It can serve as a strategic reserve to timely solve and alleviate the problem of the shortage of oil supplies and the soaring oil prices.¹⁰²⁾ The second is enterprise reserves, which are borne by oil producers, oil refining companies, sales companies, importers, and large consumers.¹⁰³⁾ It contains statutory reserves and the most common commercial reserves. The third is institutional reserves, which are also called intermediary organization reserves, undertaken by public organizations or non-governmental organizations.¹⁰⁴⁾

These different type of reserves perform their duties and complement each other, therefore how to organically combined and

coordinated with each other to establish a systematic national reserve system is remained for scholars to research. As Zhang Guobao, the former director of the National Energy Administration once pointed out that China should encourage companies to use idle commercial capacity to increase oil reserves. It means that China should gradually reduce the scale of government reserves, steadily expand commercial reserves, and fully utilize the functions of private enterprise reserves, which will not only reduce the government's financial burden, but also form the combination of government and corporate power, optimizing the role of them, so as to more effectively safeguard the national oil supply security. At the same time, China should also vigorously develop institutional reserves. The central government could try to organize and encourage oil companies and larger consumers to form a reserve alliance organization with legal personality at an appropriate time, and promulgate relevant oil reserve law that stipulates rights and obligations among the government and alliance agencies and enterprises. Ultimately, the reserve alliance would become the main body of China's petroleum reserves and assume the main task of national oil reserves.

Secondly, China should make full use of financial institutions, commercial banks and multilateral financial institutions including the AIIB and Silk Road Fund to open up financing channels for China-Arab energy cooperation.¹⁰⁵⁾ Also China could actively cooperate with exchanges, securities companies and develop futures, contracts and other forms of transactions to improve the energy market system. In addition, China should expedite settlement in local currency, support financial cooperation negotiation on currency swaps between China and Arab countries, encourage

both sides to sign bilateral currency swap agreements¹⁰⁶⁾ in energy cooperation which would help to enhance their abilities to jointly resist financial risks. Taking the UAE as an example, the People's Bank of China and the central bank of the UAE signed a memorandum of cooperation on RMB clearing in the UAE and agreed on expanding the RMB Qualified Foreign Institutional Investor (RQFII) to the UAE at a quota of 50 billion Yuan on December 14, 2015.¹⁰⁷⁾ The currency swap agreement that signed in 2012 was also extended on the same day.¹⁰⁸⁾ Although the process of changing the petroleum dollar pricing system and realizing the internationalization of the RMB is still tortuous and lengthy, the use of RMB in cross-border trade is emerging. SWIFT data shows that the UAE's use of the RMB in 2015 accounted for 74% of payments by value to China, representing an increase of 52% compared to 2014.¹⁰⁹⁾

4.5 Promoting People-to-people Exchange to Consolidate the Historical Basis of the Friendship between China and the Arab states for Generations

4.5.1 China Should Maintain Political Independence and Respect the National Freedom and Dignity of Arab countries

The friendship of China and the Arab states can be traced back to the ancient Silk Road over centuries ago. As the former Prime Minister Wen Jiabao once said at the Opening Session of the Fourth China-Arab Business Conference, "both sides went through many hardships and untold sufferings. The Chinese people would never forget that when a massive earthquake struck Wenchuan, China in 2008, the Arab brother offered prompt and generous help".¹¹⁰⁾ At present, facing the turbulent situation in the Arab region, such as Syria crisis, China would keep maintaining political independence, call

on the peaceful political settlement to solve the hot issues, oppose big powers to bully the weak, defend the national dignity of the Arab countries and increase mutual political trust.

4.5.2 Deepen Dialogues among Civilizations, Eliminate Misunderstandings, Seek Common Values, and Respect the Diversity of Civilizations

First, through deepening the dialogue between the Chinese and Arab civilizations, both sides should jointly explore common values and eliminate misunderstandings of each other's civilization. It is undeniable that some Western scholars tried to distort the Chinese civilization and Islamic civilization. For example, Samuel Huntington described Arab Islamic civilization and Chinese civilization as new enemies of the West in his book "Clash of Civilizations and World Order."¹¹¹⁾ In response to the proposal of the Belt and Road Initiative, many people have gradually formed a negative view of China and interpreted it as a new Marshall Plan. In addition to the excitement of terrorist and extremists in recent years, many people still equate Islam, Muslims to extremism. Thus, scholars of both sides should correct some irrational misconceptions, maintain right values, and lead positive attitude towards each other.

Furthermore, both sides need to use media a tool, through developing media cooperation and deepening various media plans to communicate, interact, integrate and understand each other, gradually strengthen public diplomacy and improve their soft power. In this regard, the media take the responsibility to convey the correct knowledge and information, which help the public of the two sides to understand the meaning and importance of cooperation.

In addition, the cultural centers could be

the important platform to carry out dialogue between China and the Arab world and the talents on language and culture are the urgent need. The establishment of the Confucius Institute in the Arab world is a good example. Thus, I would recommend that no matter in China or Arab countries, more Arabic or Chinese language teaching center be supported and play a role on training personnel who are familiar with Chinese and Arabic cultures, and cultivating professionals who specialize in culture of both sides.

Both China and Arab countries should respect the diversity of each other's culture, learn from each other and complement each other. It is necessary to fully develop folk cultural exchanges and non-governmental organizations, encourage and support the exchanges of young people for education, arts, culture, sports, tourism and science and technology, ultimately achieving mutual understanding between the people of both sides at the grassroots level.

Conclusion

This dissertation mainly introduces the opportunities and challenges of energy cooperation between China and the Arab states, which uses PEST analysis method. And then I choose Sudan and Saudi Arabia to do case study, respectively analyze the strengths and weaknesses in the process of energy cooperation of Chinese energy companies with those two countries via the SWOT analysis method. In combination with the Belt and Road development strategy, it also provides policy recommendations for future energy cooperation

between the two sides.

By systematically generalizing and summarizing related cases, the findings of this paper are intended to show that the global energy governance model is quietly changing in the context of the restructuring of global oil maps and the large-scale flow of global energy elements, coupled with the energy independence policies of the Western countries and low crude oil prices. Under this new situation, the smooth development of energy cooperation between China and the Arab states highly relies on the close cooperation between the two sides. It not only needs to handle issues concerning the upstream and downstream of the energy sector, but also has to deepen into new energy and other sources and diversify energy products, allowing both parties to realize a win-win situation.

In addition, facts have proved that the maturity of the enterprise construction is directly related to the development of energy cooperation between China and the Arab states. And it is important to seize the good opportunities brought by the Belt and Road initiative, which provide the platform for China and Arab energy cooperation. Enriching the “going out” experience, strengthening the internal management system of the company, Chinese energy companies have to fully realize marketization and carry out energy cooperation with Arab states with a more professional market-oriented operation mechanism. So that they can take the initiative in the upper, middle, and downstream oil fields and maximally resist external shocks and ensure real energy security in the turbulent international energy landscape.

Notes

- 1) Note: The “Silk Road Economic Belt” concept is introduced by Xi during his visit to Kazakhstan in September 2013. He suggests China and Central Asia cooperate on such a belt.
- 2) Note: Xi proposes a China-ASEAN community and offers guidance on a “21st Century Maritime Silk Road” in October 2013.
- 3) Helen Chin & Winnie He, 2016, *The Belt and Road Initiative: 65 Countries and Beyond*, FUNG BUSINESS INTELLIGENCE CENTRE. https://www.fbicgroup.com/sites/default/files/B%26R_Initiative_65_Countries_and_Beyond.pdf
- 4) Idem. pp. 5–6.
- 5) Note: The concept of Arab states in this paper mainly refers to 22 member countries of the Arab League (1945): Countries in West Asia include Palestine, Jordan, Syria, Lebanon, Saudi Arabia, Iraq, Yemen, Kuwait, United Arab Emirates(UAE), Qatar, Bahrain, and Oman. Countries in North Africa include Algeria, Morocco, Tunisia, and Libya. Sudan, Mauritania, Egypt; countries in northeastern Africa are Djibouti, Somalia, and the Comoros.
- 6) Xinhua, Chronology of China’s Belt and Road Initiative. http://www.xinhuanet.com/english/2016-06/24/c_135464233.htm
- 7) Birkenthal, Sara M., “Grand Strategy in U.S. Foreign Policy: The Carter, Bush, and Obama Doctrines” (2013). CMC Senior Theses. Paper 598. http://scholarship.claremont.edu/cmc_theses/598
- 8) John Rielly, *The Bush Administration’s Foreign Policy Legacy*, *Politique américaine* 2008/3 (N° 12), pp. 73–86. DOI 10.3917/polam.012.0073
- 9) Birkenthal, Sara M., “Grand Strategy in U.S. Foreign Policy: The Carter, Bush, and Obama Doctrines” (2013). CMC Senior Theses. Paper 598. http://scholarship.claremont.edu/cmc_theses/598
- 10) Note: The Israeli-Palestinian peace process is “an ongoing American-mediated effort to broker a peace treaty between Israelis and Palestinians. The goal is a ‘final status agreement’, which would establish a Palestinian state in Gaza and the West Bank in exchange for Palestinians agreeing to permanently end attacks on Israeli targets”—cited from <https://www.vox.com/cards/israel-palestine/peace-process>
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- 17) Michael D. Swaine, (2012), *Chinese Views of the Syrian Conflict*, China Leadership Monitor, no. 39.
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- 19) Gaafar Karrar Ahmed, (2010), *The Chinese Stance on the Darfur Conflict*, SAIHA OCCASIONAL PAPER NO 67
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- 21) Qian Xuewen, *Sino-Arab Economic and Trade Cooperation: Situations, Tasks, Issues and*

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- 22) Roschanack Shaery, *Arabs in Yiwu, Confucius in East Beirut*, MER 270 -CHINA IN THE MIDDLE EAST, Vol. 44, 2014.
 - 23) MOFCOM Holds Press Conference of China-Arab States Expo 2017, <http://english.mofcom.gov.cn/article/newsrelease/press/201706/20170602594956.shtml>
 - 24) Note: The Brookings Doha Center (BDC) and the Shanghai Academy of Social Sciences (SASS) held a joint workshop in Shanghai, China on January 13-14, 2018. The workshop brought together academics and policymakers from China and the Middle East and North Africa (MENA) to discuss China's Belt and Road Initiative (BRI) and its implications for cooperation with the MENA region. <https://www.brookings.edu/events/belt-and-road-initiative-towards-greater-cooperation-between-china-and-the-middle-east/>
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 - 25) <http://www.mofcom.gov.cn/article/tongjiziliao/fuwzn/swfalv/201708/20170802631105.shtml>
 - 26) BP Statistical Review 2017— China's energy market in 2016. <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy/country-and-regional-insights/china.html>
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 - 28) Roy Mathew, *Effect of Declining Oil Prices on Oil Exporting Countries*. https://web.stanford.edu/class/e297c/trade_environment/energy/heffect.html
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- 75) Note: The YASREF refinery, is 62.5-percent held by Saudi oil giant Aramco, while China Petroleum & Chemical Corp (Sinopec) holds the balance. It is a world-class, full-conversion refinery that covers about 5.2 million square meters in the Yanbu Industrial City, and is considered to be a key anchor project for the future of Yanbu.
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