Gawdat Bahgat

China and the Gulf Region: Opportunities and Challenges

GAWDAT BAHGAT
is Professor of Middle East Studies at the Near East South Asia Center for Strategic Studies, National Defense University, Washington, D.C.

Shortly after ascending to the throne in 2006, King Abdullah of Saudi Arabia chose China as the destination for his first international trip. This marked the first time that a Saudi king visited China. Three years later, 2009, President Hu Jintao visited Riyadh, addressed the Consultative Council (parliament), and called for strategic relations between the two nations. In January 2012, Premier Wen Jiabao paid another visit to Saudi Arabia, along with Qatar, and the United Arab Emirates. These top-level consultations have taken place amid high uncertainty in the region. First, the entire Arab World is going through unprecedented political upheavals that toppled the leaders in Tunisia, Libya, Egypt, and Yemen and brought mounting pressure on the Syrian regime. Though the Gulf monarchies have managed to survive these dramatic changes, Bahrain witnessed the worst tension in its history. Second, the United States withdrew its troops from Iraq at the end of 2011. In the aftermath of this withdrawal, ethnic and sectarian conflicts have further intensified. Finally, in recent years the confrontation over Iran's nuclear program has escalated and Tehran has been subjected to severe economic sanctions, cyber attacks, and a wave of assassinations of its nuclear scientists. The U.S. and Israeli leaders have insisted on keeping a military strike against Iran's nuclear facilities as an option and the European Union decided to impose oil embargo on Iran. In retaliation, Tehran threatened to close the Strait of Hormuz and stopped oil shipments to some European countries.

These recent developments suggest that the United States is still the dominant foreign power in the Gulf region, though, its influence has been increasingly challenged. The Gulf monarchies (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) have been angry at the United States' response to the Arab Spring, particularly Washington's turning its back on decades-long allies such as President Mubarak of Egypt. Saudi leaders did not appreciate President Obama administration's calling for political reform and peaceful negotiations between the opposition and the government in Bahrain. Instead, Saudi troops moved to Manama to reinforce the Bahraini army and police. In Iraq the majority of its people celebrated the U.S. withdrawal and the last minute attempts to negotiate an extension of American military presence failed. Finally, the decades-long tense relations between Washington and Tehran have further worsened.

Against this background, China has emerged as an increasingly attractive partner. China enjoys several advantages. It is the most populous country in the world with the fastest growing economy in the last two decades. Rapid economic development means industrialization, urbanization and motorization. Beijing is a nuclear power with permanent seat on the United Nations Security Council. Unlike the United States, China is seen by some people in the Gulf region and elsewhere as a developing country that lacks a colonial legacy. Furthermore, Chinese leaders do not raise issues of human rights and generally avoid intervention in domestic affairs. Finally, a close cooperation with Beijing would add to the Gulf leaders' bargaining power vs. the United States and other global powers and would indicate independence from the United States, which will play well domestically. On the other side, as rising global power, China has significant strategic and economic interests in the Gulf region.

These mutually-beneficiary relations between China and the eight Gulf states (the six Gulf monarchies, Iraq, and Iran) are multi-dimension. The partnership covers broad areas of strategic, political, and economic interests. In 2010 two Chinese naval warships made the first ever port calls in the UAE[1]. China is a major arms supplier to Iran and strongly opposes military strike against the Islamic Republic. Beijing is an important trade partner to all the eight Gulf States and Chinese state-owned companies have invested billions of dollars in different economic sectors in the Gulf. The heart of this strong and growing partnership between China and the Gulf states is undoubtedly energy. The concept "energy security" has at least four dimensions: availability (geological), accessibility (geopolitical), affordability (economic), and acceptability (environmental and social)[2]. China is the world's largest energy consumer and the Gulf States combined hold the world's largest oil and natural gas proven reserves. Cooperation between them would enhance their mutual energy security. The two sides need each other.

China Energy Outlook

Since 2010 China has become the world's largest energy consumer (overtaking the United States). The country's energy demand is projected to more than double in the next two decades. Oil imports are projected to jump from 3.5 million barrels per day (b/d) in 2006 to 13.1 million b/d in 2030, while the share of imports in demand rises from 50% to 80%. In the foreseeable future the world's largest increase in oil demand will come from China. Similarly, natural gas imports will also increase quickly as production growth lags demand[3].

China's huge energy consumption volume can be explained by two major factors: population and economic growth. With a population of approximately

[1] *PLA Naval Warships on Maiden Visit to Dubai*, in «China Daily», July 26, 2010.

[2] J. JEWELL, *The IEA Model of Short-term Energy Security (MOSES)*: *Primary Energy Sources and Secondary Fuels*, International Energy Agency, 2011, p. 19.

[3] International Energy Agency, *World Energy Outlook*, 2007, p. 44.

1.4 billion people, China is the most populous country in the world. This population is not only the largest in the world, but, equally important, economically the fastest growing. Since the late 1970s China's economy has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy. Reform started with the phasing out of collectivized agriculture and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of non-state sector, and opening up to foreign trade and investment. As a result, in the last three decades China's economy has been the fastest-growing economy in the world and the nation has become the chief economic driver of Asia.

In the last three decades China's economy has been the fastest-growing economy in the world and the nation has become the chief economic driver of Asia

This large and more affluent population consumes more electricity, lives in bigger homes, buys more appliances, and drives bigger cars and longer distances. Despite this steady rise in energy consumption, it is important to point out that Chinese energy consumption per capita is considerably lower than that of the United States or Europe. The nation's large population, however, makes up for this low per capita use. In short, growing population and wealth mean higher energy consumption.

China's population is about 20% of the world's population, but the country holds only 1.2% of the world's proven oil reserves and 1.3% of natural gas reserves. This disparity between energy consumption and fossil-fuel reserves leaves China with few options. Calls for energy self-sufficiency are long gone. Indeed, the inadequacy of indigenous resources to meet the large and growing demand has heightened the nation's sense of energy vulnerability and made the securing of sufficient energy supplies a matter of national security. Simply stated, China cannot maintain its high economic growth without adequate energy supplies. Most of these supplies are increasingly coming from overseas. China is already a large importer of a number of fuels. In order to secure energy supplies, the Chinese government and companies have pursued an aggressive strategy in equity acquisition and in establishing partnerships with major energy producers in the Middle East, Africa, Central Asia, and Russia, among others. Prior to 2000, the Asian national oil companies (NOCs) were not serious competitors to the international oil companies (IOCs). But since then Asian NOCs, led by the Chinese, have expanded their investment dramatically. Indeed the scale of overseas investments by Chinese NOCs since the early 2000s has been stunning.

China's large and growing volume of energy consumption and imports has significant environmental and geopolitical consequences. It has already over-taken the United States as the world's largest polluter. Beijing's participation in the global efforts to address climate change issues is essential. Chinese oil and gas companies compete with their American, European, Russian, and other Asian counterparts. In order to protect the interests of these state-owned companies, the Chinese government has established and strengthened diplomatic ties with producing countries. Beijing is also involved in several schemes to build and secure pipelines and shipping lanes from Russia, Central Asia and the Gulf region.

Following coal, oil is China's most important fuel. In the last few decades there have been major changes in the nation's oil consumption, production, and the overall policy to secure oil needs. Since the mid-1990s China has grown more dependent on foreign oil supplies. In 2010 it was the world's second largest oil consumer (after the United States) and the largest oil importer. This was not the case just a few decades ago. While major industrial countries in Europe, Japan, and the United States were suffering from strong fluctuations in oil prices in most of the 1970s and early 1980s, China was insulated from these oil shocks. Then, the nation's oil production exceeded its consumption and China was able to export oil to some of its Asian neighbors.

A combination of rising consumption and declining production has ended the state of self-sufficiency and made the country a major oil importer. As in other consuming countries, the transportation sector is the driving force in China's oil consumption, accounting for about one-third of total oil use. The impressive economic growth of the last few decades has created a large and growing middle class in most big Chinese cities. This, in turn, has led to a higher rate of motorization (i.e., ratio of automobile ownership per 1000 residents). Private automobile ownership has substantially increased from the early years of economic reform.

Despite significant efforts to increase domestic production, new discoveries have been proven insufficient to meet the growing demand. Accordingly, China has grown increasingly dependent on foreign supplies. About 40% of these supplies are imported by sea. These seaborne shipments are projected to further increase. Thus, this heavy dependency is likely to remain a major characteristic of China's energy policy in the foreseeable future. Before 1992, China's oil imports came primarily from the Asia-Pacific region. As recently as 1996, Beijing imported 70% of its oil needs from just three countries: Indonesia, Oman, and Yemen. Since then, it has established close energy ties with a variety of producing regions, particularly the Gulf and Africa.

China's natural gas consumption has grown steadily since the late 1990s. However, natural gas is still a relatively minor fuel in the nation's energy mix, which is overwhelmingly dominated by coal. The Chinese government has been promoting natural gas use in order to improve energy diversification and energy efficiency, and to reduce pollution. Currently only around 10% of China's population has access to natural gas, well-below the world average of 40%. Power generation is also a major potential source of growth, with gas accounting for about 1% of electricity generated in China in 2008[4]. Under the 10th Five-Year Plan (2001-2005), the government set the target of raising natural gas use to 10% of the energy mix in 2020, which was basically reiterated in the subsequent plans.

China was self-sufficient until 2006 when it started importing liquefied natural gas (LNG). Qatar has recently become China's largest supplier of LNG. The continuing rise in demand means that China will grow more dependent on imported gas. Natural gas is used primarily in the industrial sector (including the petrochemical industry), power sector, and residential sector. The expansion of natural gas use was restrained largely for two reasons. First, natural gas production requires substantial investments in infrastructure; and, second, natural gas is a far more expensive fuel than coal. Another important character of natural gas production in China is that major gas fields are located inland in the western and north-central parts of the country, far away from major population and industrial centers.

In the 1990s China embarked on a path of overseas oil and gas investment. The start of the new millennium marked a new era in which Chinese national oil companies (NOCs) expanded their investments overseas, strongly supported by the government in Beijing. Zou Chuqu or "Going Out," as the then Premier Zhu Rongji called it, was the driving force for a broad strategy to pursue energy security. This strategy was accelerated by China's multi-trillion foreign reserves and the shortage of foreign investment in many oil and natural gas producing regions.

The Gulf Region Energy Outlook

Iran, Iraq, and the six Gulf monarchies enjoy several advantages as the world's major oil and natural gas producers. First, together these eight states hold the world's largest proven oil and gas reserves. In 2010 their combined share of the world's reserves is 56.2%, production is 29.6%, and consumption is 6.6%. The figures for natural gas are 40.1%, 13.4%, and 10.2% respectively[5]. No region in the world holds as much proven reserves. The high level of production and low (though growing) level of consumption mean that a substantial proportion of the oil produced in this region is exported to the rest of the world. Meanwhile, the massive natural gas reserves and the relatively small vol-

[4] International Energy Agency, *World Energy Outlook. Are We Entering A Golden Age of Gas?*, Special Report, 2011, p. 15.

[5] British Petroleum, *BP Statistical Review of World Energy*, 2011, pp. 6, 8, 9, 20, 22, 23.

ume of production mean that the region has the potential to play a leading role as a natural gas supplier, once gas deposits are developed.

Second, the cost of production in the Persian Gulf is one of the lowest in the world. Unlike Russia, the Caspian Basin, the North Sea, and the Gulf of Mexico, most oil and gas fields are either onshore or in the shallow waters of the Persian Gulf. This accessibility means that much of the oil and gas production in the Gulf region is less environmentally challenging and cheaper to produce.

Iran, Iraq, and the six Gulf monarchies enjoy several advantages as the world's major oil and natural gas producers. First, together these eight states hold the world's largest proven oil and gas reserves

Third, the Gulf region has been producing and exporting oil and gas for decades. Generally the energy infrastructure is well developed. Extensive pipeline networks connect the oil and gas fields to marine export terminals and loading platforms on the Gulf coast. From there the region has easy access to the high seas and global markets. Unlike other producing regions, shipping ports on the Gulf do not experience major storms or freezing.

Finally, traditionally most of the world's spare capacity of oil is concentrated in the Gulf, particularly Saudi Arabia. This spare capacity serves as an insurance policy against any unexpected interruption of supplies due to natural or political reasons. This concentration of spare capacity can be explained by the fact that oil and gas production is dominated by state-owned national companies. Unlike private international oil companies, which aim mainly at maximizing their profits, these state-owned and state-managed national oil companies are driven by both strategic concerns and commercial interests. Saudi Arabia and other Gulf producers maintain spare capacity to ensure short and long-term stability of global markets.

Given these advantages and despite rising production in Russia, the Caspian Basin, and Africa, the bulk of the increase in world oil output is projected to come from the Gulf producers. The region's oil and gas resources will continue to be critical in meeting the world's growing appetite for energy. Its massive hydrocarbon resources are sufficient to meet rising global demand in the foreseeable future.

In short, history and geology put the Gulf oil and gas producers in the driver's seat. The region has been producing and exporting crude and natural gas for decades and is certain to maintain this policy and status in the future. The projected rise of the Gulf's share in meeting global demand means that major consumers (i.e., China, India, Japan, Europe, and the United States) are likely to grow more dependent on energy supplies from the Gulf. The smooth continuation of this mutual dependence between Gulf producers and major consumers requires close cooperation in addressing several strategic and commercial challenges. Some of these challenges are domestic while others are regional and international.

Most of the Gulf governments have achieved a modest success in initiating and implementing economic and political reform. There is much to be desired in pursuing economic development and political liberalization. Equally important, international sanctions, wars, ethnic and sectarian strives, terrorism, and overall regional instability have negatively impacted the full utilization of the region's hydrocarbon resources.

These domestic, regional, and international challenges have raised doubts about the reliability of oil and gas supplies from the Gulf. In the last few decades policy-makers, media outlets, and think-tanks in Washington, Brussels, Beijing, and Tokyo have frequently called for reducing energy dependence on the Gulf. U.S. officials, more than their European and Asian counterparts, have repeatedly talked about "energy independence" and stopping or reducing the nation's "addiction to oil".

A close scrutiny indicates that such calls are useful for political rhetoric and gaining votes. As an energy analyst suggests, «Presidents may declare an urgent need to cut imports and boost energy independence – no one ever lost political support by seeing evil and blaming foreigners»[6]. In reality and based on projections by U.S., European, and Asian governments as well as by major international organizations, the world will grow more dependent on oil and natural gas supplies from the Gulf. Furthermore, the region's long history of producing and exporting hydrocarbon fuels suggests that concerns over interruption of supplies from the Gulf are exaggerated. History shows that, with a few exceptions, the region has proven a reliable producer and exporter of oil and natural gas. The bottom line is American, Asian and European economies lack sufficient indigenous resources and they need Gulf oil and gas to sustain their high standard of living. The implication is that the call s for reducing dependence on the Gulf are unrealistic and, indeed, misleading.

Finally, it is important to point out that Gulf producers remain deeply dependent on oil export revenues. The implication is that they have great interest in the stability of global energy markets and the international system. Economic and political upheavals have significant ramifications on their stability. In short, they share the same economic and strategic interests as consuming countries. The growing interdependence between Gulf oil and gas producers and global consumers underscores their mutual interest in economic and political stability. A policy based on improving regional security, containing domestic tension, and creating the right environment for investment seems to be the right course. The region needs more cooperation and less confrontation.

[6] M.A. ADELMAN, *The Real Oil Problem*, in «Regulation», 27, 1, 2004, pp. 16-21.

China and the Gulf States

Its rising consumption and deepening dependence on foreign supplies mean that China and the Gulf States are bound to share mutual interests. The former wants to enhance its energy security while the latter need to secure markets for their major product. Little wonder, since the early 2000s Beijing has imported most of its oil needs from Gulf producers.

Its rising consumption and deepening dependence on foreign supplies mean that China and the Gulf States are bound to share mutual interests. The former wants to enhance its energy security while the latter need to secure markets for their major product

Compared to other major consumers such as Europe and the United States, China does not have a legacy of colonial rule or major political disputes. Instead, for the first three decades after its founding in 1949, China was considered a developing country with a strong resentment against foreign powers (both Western and Soviet). There were fundamental changes in this strategic/ideological framework in the late 1970s and early 1980s for at least two reasons. First, the reduction in tension between major global powers meant that international relations, including in the Middle East, became less about confrontation and more about cooperation and accommodation. Second, the inauguration of domestic modernization programs in China in 1978 suggested that the country's foreign policy had become increasingly driven more by economic and commercial interests and less by ideological and strategic considerations. As one analyst put it, China appeared to be behaving «more geo-economically than geo-strategically»[7].

Against this background and in order to promote its commercial interests, China sought to establish and strengthen diplomatic relations with all Gulf States. Iraq was the first regional power to establish diplomatic ties with Beijing in 1958, then Iran in 1970, Kuwait in 1971, Oman in 1979, the UAE in 1984, Qatar in 1988, Bahrain in 1989, and Saudi Arabia in 1990. In addition to these bilateral ties, China established relations with regional organizations such as the Gulf Cooperation Council (GCC) to encourage trade and investment between the two sides. Similarly, in 2004, China and Arab countries set up a China-Arab Cooperation Forum to accelerate and strengthen cooperation between them. This broad diplomatic representation means that China is involved in almost all regional issues including security, economic development, and trade.

Sino-Iraqi relations were established in 1958. Since then Beijing has been in competition with Soviet/Russian and U.S. influence in Baghdad. During the Iran-Iraq War, China supplied arms and ammunition to Iraq. Strategic and commercial relations with Saddam Hussein remained until the Iraqi invasion of Kuwait in 1990. Throughout the Gulf crisis, Beijing advocated a peaceful reso-

[7] R. MANNING, *The Asian Energy Predicament*, in «Survival», 42, 3, 2000, pp. 73-88.

lution of the conflict. China did not welcome a strong U.S. military presence in the region and instead called for a peaceful resolution within the scope of the Arab countries. China supported economic sanctions to force Saddam Hussein out of Kuwait but abstained on United Nations Security Council Resolution 678, which permitted the Coalition forces to use force to evict Iraq from Kuwait.

China participated in the comprehensive UN economic sanctions imposed on Iraq in the aftermath of the Gulf War. However, in June 1997, a consortium of Chinese energy companies signed a 22-year production sharing agreement with Saddam Hussein's regime to develop al-Ahdab, Iraq's second largest oil field, after the lifting of UN sanctions. In the aftermath of Saddam Hussein's toppled regime, China has sought to restore and strengthen the commercial ties it had with Baghdad. China canceled Iraq's debt and provided reconstruction assistance in order to secure cooperation with the post-Hussein regime in Baghdad. This policy seems to have paid off. In August 2008 the first major oil deal was signed between the Iraqi government and China National Petroleum Company, worth $305 billion. China National Offshore Oil Corp and Sinochem are currently helping develop the Maysan oil field.

The Chinese policy in the Kurdistan region of northern Iraq underscores the rise of pragmatism and waning of ideology as the main driver of Beijing's foreign policy. On one hand, opposition to separatism has been one of the basic components of China's policy. This policy reflects China's uncompromising adherence to the maintenance of territorial integrity – primarily with regard to Taiwan, but also to Tibet, Xinjiang, and Inner Mongolia. Similarly the Chinese are fundamentally and officially opposed to separatist movements elsewhere, suggesting that self-determination should not necessarily involve national independence and that stateless nations should not necessarily form, or be given, states. On the other hand, Beijing has looked for commercial and energy opportunities in post-Hussein Iraq. Against this background, Beijing hosted Jalal Talabani, Chairman of the Patriotic Union of Kurdistan, who was later to become the first president of post-Hussein Iraq. Similarly, Massoud Barzani, Chairman of the Kurdistan Democratic Party, held several meetings with Chinese officials. As a result, Chinese oil companies have negotiated oil agreements with the Kurdish authority.

China has established the strongest ties in the Gulf region with Iran. The foundations of this strong relationship between Beijing and Tehran are numerous. First, with more than 70 million people, Iran is by far the largest market in the Gulf. Second, for geopolitical reasons, Western powers, particularly the United States, have imposed a variety of sanctions and restrictions on Iran. This means that Chinese products, both civilian and military, face less competition in Iran than in other countries. Third, Iran's proven oil and natural gas reserves are largely underdeveloped and underutilized due to the lack of the necessary investments. China with its substantial financial assets and its growing need for energy seems the appropriate partner to the Islamic Republic. Fourth, in addition to these shared commercial and energy mutual interests between Beijing and Tehran, the two sides resent the prominent U.S. role in the Gulf and Central Asia. Finally, strategically, Iran and China need each other. The United States is likely to remain the dominant power and the main partner to post-Hussein Iraq and to Saudi Arabia. Since 1980, diplomatic relations between Tehran and Washington have been severed. For the last few decades, Iran has sought to establish close ties with other global powers to counter the United States; China has proven a reliable partner.

China with its substantial financial assets and its growing need for energy seems the appropriate partner to the Islamic Republic

Within this context, the close alliance between Beijing and Tehran has been a major development in the regional and international landscape for the recent decades. Diplomatic relations were established in 1970, but real improvements came following the 1979 Iranian Revolution and outbreak of the Iran-Iraq War. China supplied arms to both Baghdad and Tehran. Arms sales to Iran, particularly missiles, have continued and, indeed, expanded. Since the late 1980s China has sold several hundred silkworm anti-ship cruise missiles to Iran. Unlike several European powers and the United States, China was reluctant to support economic sanctions against Iran regarding its nuclear program. Though it backed United Nations Security Council Resolution calling on Iran to halt uranium enrichment activities, Beijing strongly calls for peaceful negotiations and a resolution within the International Atomic Energy Agency framework. China, along with Russia, strongly opposes using military strikes against Iran's nuclear facilities.

The energy sector is another area where Chinese-Iranian cooperation has made tremendous progress. Chinese companies have recently been successful in concluding a number of high-profile deals in Iran. Chinese activities in Iran include refinery upgrades, pipeline construction, and engineering services, among others. Chinese companies are actively involved in developing Iran's huge South Pars natural gas field and Yadavaran oil field. Two overlapping reasons explain the close cooperation: (a) Iran is one of a few Gulf States where Chinese companies can participate in upstream exploration and development operations; (b) unlike European and Japanese companies, Chinese corporation have proven less likely to be deterred from investing in Iran's energy sector. As a result, since the mid-2000s Iran has become a major oil supplier to the Chinese market. This partnership is likely to endure for many years to come. In early 2012 China reduced its oil imports from Iran due to a dispute over contract terms. Iran exports about 20% of its crude to China. Beijing opposes the EU oil embargo against Iran and is likely to maintain its strong ties to the Islamic Republic.

It was almost inevitable that the world's largest oil producer and exporter should have strong ties with the world's fastest-growing economy and a top oil consumer and importer. Saudi Arabia and China established diplomatic relations in 1990 in the middle of the Gulf crisis (e.g., Iraq's invasion of Kuwait). This coincided with China becoming a net oil importer. Naturally, energy has served as the foundation for the growing Sino-Saudi partnership. Visit exchanges by top officials from the two sides have further strengthened cooperation between Beijing and Riyadh.

The two nations invest in each other's oil and natural gas sectors, including refineries, petrochemical plants, and gas marketing and distribution. In 2004 Sinopec won a concession to develop the kingdom's natural gas in the Rub al-Khali (Empty Quarter) Desert. In 2012 Sinopec signed agreement with Saudi Aramco, Saudi Arabia's state-owned oil company, to build a 400,000 b/d refinery at the Red Sea port of Yanbu. This facility is Sinopec's first overseas refinery and follows a similar joint venture with Aramco to build a joint refinery in China's Fujian province. Aramco has been further increasing its Chinese presence by building a refinery in the south of the country in partnership with PetroChina, and by sending students to Chinese universities (mirroring similar programs in the United States and Europe).

This close cooperation has expanded the trade volume between Beijing and Riyadh. Saudi Arabia buys significant amounts of cheap Chinese products while China imports a substantial proportion of Saudi oil. Indeed, the kingdom has emerged as a top oil exporter to China since the early 2000s. In 2009 China surpassed the United States as the top buyer of Saudi oil. In short, while the U.S. still is the kingdom's primary security partner, China has emerged as Riyadh's largest economic partner.

Conclusion: China and the Gulf States – What Lies Ahead?

Given China's size, population, economy, and standing in international system, the nation's current and future energy outlook and the choices its leaders make will have important economic, geopolitical, and environmental implications not only inside China, but also way beyond its borders. Several conclusions can be drawn from this brief survey of China's relations with Iraq, Iran, and Saudi Arabia. First, the Gulf region has been and is likely to continue to be China's largest source of oil and natural gas. Currently more than half of China's oil imports come from the Gulf region. The two parties meet each other's energy security needs: Gulf producers seek a large and growing consumer market for their hydrocarbon products while China needs to secure reliable supplies. Second, like other major consumers (i.e., Europe, Japan, and the United States), China is interested in promoting political stability and economic prosperity in the Gulf region. Conflicts and turmoil are likely to threaten the steady flow of oil and natural gas supplies.

Third, global powers' commercial interests in the Gulf should not be seen in zero-sum terms. They are not mutually exclusive. For example, China's participation in developing oil and gas in Iran means more supplies in the global market. Fourth, generally, Gulf States have a positive perception of China. Indeed, the "Chinese model" (i.e., promoting economic modernization while maintaining an authoritarian form of government) is popular among political elites in the Gulf and the broader Middle East. Finally, though oil trade is the core of the China-Gulf partnership, strategic considerations play a significant role. China is a global power with a permanent seat on the United Nations Security Council. China is also a major arms supplier to the Gulf region and the broader Middle East. In recent years the economic partnership between China and the eight Gulf States has grown stronger, Beijing's political influence still does not match its economic muscles.