Research on energy strategy and Chinese energy investment in the middle east

Yiling Huang
Southwest University of Political Science and Law, Chongqing, 401120, China; Tongji University, Shanghai, 200092
Email:kateyl@163.com

Abstract: The Middle East is a key node of “One Belt and One Road strategy”. Energy investment is an important part of Chinese investment in the Middle East. The political turmoil in the Middle East has brought the political risks to Chinese investors. In the future, with the globalization of Chinese resource distribution and the expansion of Chinese outward investment, it is significant for China to ensure its energy security. Based on the analysis of the situation of Chinese energy strategy in the Middle East, this paper tries to put forward some suggestion about Chinese energy investment in the Middle East in order to protect Chinese energy security effectively.

1. Introduction
For a long time, energy security has been a hot issue for Chinese economic development. Now energy directly affects the sustainable development of Chinese national economy. With the changing of the international energy pattern, all the countries in the world take corresponding energy strategies according to their respective national conditions such as their energy reserves or energy efficiency. Today many countries actively explore overseas energy markets in order to establish multi-channel access to energy. Meanwhile, those countries establish and strengthen the strategic energy reserves, especially by establishing strategic oil reserves in order to protect oil supply security. Some countries develop clean energy vigorously and utilize new energy and renewable energy. For example, the Japanese government put forward the "new sunshine plan" for the development and use of new and clean energy such as solar energy, wind energy, fuel cell, hydrogen and superconducting energy. The United States also put forward a comprehensive national energy strategy including the development of advanced renewable energy technologies, energy storage and conversion technologies. In recent years, improving energy efficiency is an important goal of energy development strategy in many developed countries. Some energy-consuming countries have passed laws to encourage energy efficiency and implement policies to support domestic natural gas production. Countries such as Denmark developed wind energy and Norway produced efficient energy systems and promoted the implementation of underground coal liquefaction, etc. The U.S. launched a "comprehensive national energy strategy" in the electrical power system in 1998, which planned to increase coal-fired power generation efficiency from 35% to 60%, in order to reduce the total energy consumption of major energy intensive industries to 25% by 2010. At present, Chinese energy demand growth is far more than supply growth, which is approaching carrying limit. For example, Chinese oil production accounted for 4.9% of the total output in the world, but Chinese oil demand accounted for 10.4% of the total demand of the world. Chinese current energy use intensity is 1.56 times that of the United States. So it is obvious that China
is facing the world energy strategic challenges, which also is a severe challenge of implementing "One Belt and One Road" strategy.[1]

2. Current situation of energy consumption and Chinese energy strategy

In recent years, on one hand, China has made great progress of energy development such as the production of coal, oil and natural gas exploration, large hydro-power station construction, the development of nuclear power and renewable energy. On the other hand, we should also realize that China is a big energy consuming country, and there are still many problems in the development and utilization of energy. At first, it is estimated that Chinese total energy production can reach 35.4 million tons of standard coal by 2050, including 33.5 million tons of raw coal, accounting for 67.7% of total energy production.[2] However, since entering the new century, Chinese economy has shown a new round of rapid growth, energy production growth cannot meet the growth of energy demand. China has become a net importer of oil. According to the forecast, the gap in the volume of Chinese domestic energy supply will exceed 2 million tons of standard coal by 2030. The constant rise of international oil price has brought great pressure on Chinese economic security. In addition, the structure of Chinese energy consumption is not reasonable. In Chinese energy consumption structure, coal consumption account for more than 60%, while the proportion of the new energy including natural gas, renewable energy and nuclear power is very low. Some Chinese people have not realized the strategic significance of developing and utilizing new energy and renewable energy. Long-term consumption of fossil fuels, bring a lot of pollution and greenhouse gas emissions, putting great pressure on Chinese environment. Last but not least, Chinese energy utilization efficiency is lower than the international level.

In the current era, the core of the issue of energy security is still the problem of oil security. The primary goal of Chinese long-term energy strategy should be to ensure the safety of the country's oil supply security. With the rapid growth of Chinese economy from high to medium growth, oil supply and demand meet the new changes. The demand for refined oil grows slowly. Expected domestic refined oil consumption growth will be about maintained 4% from 2017 to 2020, which has a relatively large decline comparing to 6.3% average growth rate from 2009 to 2013.[3] Chinese General Office of the State Council has put forwarded energy development strategy action plan (2014-2020), which is an important action plan for Chinese energy strategy. It notices the key period of building a moderately prosperous society in China from now to 2020. More and more countries recognize the importance of strengthening international cooperation and opening up a new pattern to ensure energy security. Now China should coordinate the use of two resources and markets of the international and domestic, adhere to the investment and trade simultaneously, in order to the construction of the Silk Road Economic Belt and Maritime Silk Road in 21st century.

Table 1. Energy Consumption Structure

| Energy Type     | 2013  | 2020 |
|-----------------|-------|------|
| petroleum       | 18.4% | 13%  |
| coal            | 66.0% | 62%  |
| Natural gas     | 5.8%  | 10%  |

Source: energy development strategy action plan 2014-2020 issued by Chinese State Council

3. Chinese energy investment in the Middle East

Since the beginning of twentieth Century, Geopolitics science has been widely concerned by the academic circles, and has formed a variety of theories with great influence, including "sea power theory", "land power theory" and "theory of space right". Modern energy geopolitics will be closely related to the energy and geopolitical competition. Energy Geopolitics Layout in the world is formed from a large area of Maghreb to the Persian Gulf, the Caspian Sea, Russia, Siberia and the Far East. This area is extremely rich in oil and gas, which is called the heart of the world's energy supply.[4]
The Middle East is the current global energy rich region, which is belong to the heart of the world's energy supply. It is also an important part of “One Belt and One Road” strategy. BP is one of the largest oil and petrochemical companies in the world. According to BP's latest statistics, the countries in the Middle East can produce 7542 billion barrels, which is accounting for about 56% of the world's total reserves. China has been turned from an oil exporting countries into a major oil importing country since 1993, and the import energy volume has been increasing quickly. Chinese total energy consumption will reach about 54 tons of standard coal in 2020. Although China has been trying to implement the “multi source” in the energy import structure, the energy relations between China and the Middle East countries are still very important for Chinese energy security. China is the tenth largest source of crude oil imports from the Middle East in 2014. The rise of Chinese “energy investment fever” is mainly due to the rapid growth of Chinese domestic energy demand. In recent years, Chinese annual oil consumption increased more than 22 million tons. It is predicted that Chinese oil imports will reach 4.2 tons in 2020 and 6 tons of oil imports in 2030. Currently, the major contradiction in Chinese energy security is the contradiction between volumes of supply and demand. That means that domestic energy supply is becoming increasingly insufficient for demand. Chinese enterprises can make direct investment in the Middle East, which is conducive to the protection of the global oil supply, in order to meet domestic oil demand and to maintain Chinese sustainable economic development. For instance, one of the largest projects in the upper reaches of the industrial chain of China National Petroleum Corporation (CNPC) is located in Iraq. This Corporation quickly occupied its foothold in Iraq oil industry after the post-war, which is currently one of the largest foreign funded enterprises in Iraq.

With the continuous enhancement of Chinese national strength, Chinese enterprises overseas mergers and acquisitions also focus on the overseas energy sector. Chinese investment opportunities are mainly focused on these aspects, such as oil and natural gas development, pipeline construction, oil and gas exploration, oil refining and so on.[5] In recent years, especially under the “One Belt and One Road " strategy, Chinese enterprise investment in energy sector further increased in 2013. Chinese overseas petroleum enterprise mergers and acquisitions reached $30 billion in 2014. Chinese oil companies in overseas oil and gas direct investment and mergers and acquisitions obtained a huge oil and gas equity share, which has made great contribution to guarantee domestic oil supply and demand, providing energy security support for the domestic economy sustained and stable development. During the period of political integration in the Middle East, Both challenges and opportunities for energy cooperation between China and the Middle East countries are increasing.

Firstly, good relations between China and the Middle East are beneficial for Chinese companies to invest in the Middle East. Chinese President Xi Jinping visited Saudi Arabia, Egypt and Iran in 2016. President Xi Jinping said that China will provide a total of $55 billion loans and investments in the Middle East, in order to promote industrialization in the Middle East. He also called for the Middle East countries to participate in "One Belt and One road” construction. China issued the first China Arabia national policy documents in 2016. In addition, China, the United Arab Emirates and Qatar will set up a joint investment fund to carry out energy investment and infrastructure.

Secondly, China has maintained a large scale overseas crude oil investment, even though there are many security issues. The first security issue is the source of investment funds often from Petro China, Sinopec and CNOOC and other large state-owned enterprises. Many overseas mergers and acquisitions to those large state-owned enterprises brought the heavy burden on those large state-owned enterprises, thus causing the great enterprise risk. In the field of energy investment, China is often "targeted", making the host country prone to doubt and insecurity. What needs to be pointed out is that Chinese firms often “pick up the others remaining” in the Middle East. That is to say, some of the good environmental quality in the overseas oil and gas often has been taken by the western countries. Chinese enterprises often have to choose some of the higher risk projects which affected by the impact of regional situation and political factors in the Middle East.

Thirdly, China needs to establish a secure energy transportation system. The oil producing areas are often located in the cultural complex and political and social unstable region. As we know, any
small-scale turbulence would likely lead to severe fluctuations in oil prices. China imports crude oil mainly from the Middle East each year. Nearly 80% of the imported oil and gas to China need to be transported by offshore channel. China imported oil from the Middle East is mainly channeled through the Persian Gulf and the Strait of Hormuz into the Indian Ocean via the Arabian Sea, and from the Strait of Malacca to the South China Sea and eventually to the Taiwan Strait and into the mainland of China. The Middle East airline route through the Strait of Hormuz and the actual control of the Strait of Hormuz is assured by the Iranian navy. Iran can find an excuse to blockade the Strait of Hormuz at any time, which will cut off about 90% of crude oil transportation. In addition, oil maritime transport is required to cross the Malacca Strait from India Ocean to the South China Sea. The width of Malacca Strait total length is only 2.4 km. So it is easy to be blockaded by some national militaries. While overseas evacuation and overseas escort missions can be completed by Chinese forces, but ocean strategic delivery capacity is still lacking. No country is not subject to international political and military structure in the era of globalization. When the unrest happened, Chinese companies were affected.

4. Some Possible Countermeasures:
There are complex internal geopolitical factors and potential geopolitical crisis in the Middle East. The major powers in the world attach great importance to the Middle East region, and strengthen the Energy Geopolitical Game in this region. Among them, America promotes the greater Middle East "Color Revolution", which tries to overthrow the anti-American regimes and maintain a proper military presence in order to ensure its oil and gas supply security. Meanwhile, Russia strengthens energy cooperation with Iran and other countries and with the United States in the strategic game. The EU has strengthened cooperation with oil and gas in the Middle East to ensure stable supply and the safety of the channel.[6]

Considering the poor security situation in some Middle East countries, Chinese energy investment projects and related facilities in the Middle East should be away from military targets as much as possible, such as military facilities, military communications and transport hub. In addition, we need to develop our company's safety precautions and make emergency plan, including personnel retreat and left plan in a state of emergency.[7] We also need know that there is not only competition between China and other countries in the global energy security issues, but also a broader space for cooperation. China should use “One Belt and One Road” opportunity and cooperate with Middle East countries to enhance bilateral relationship between China and Middle Eastern countries. For example, China - Egypt's new Suez Canal Project is a new capital project. At the same time, China also hopes to use the “sub investment bank” and other multilateral mechanisms for capital operation, to help Chinese overseas projects. Politically, China should pay more attention to keep the good relations with the Middle East countries.[8]

At present, many developed countries have formulated energy policy. For example, The European Commission also issued a special entitled “EU energy policy: European Union’s borders with partners and carry out dialogue and cooperation” energy policy file in 2011. This document proposes to strengthen a variety of partnerships to ensure energy supply safety, production safety, sustainability and competitiveness; in order to improve access to sustainable energy sources from developing countries.[9] Based on the principle of mutual benefit and win-win progress, for stable oil and gas supply market, we can consider the establishment of global energy market governance mechanism including energy supply countries, consuming countries and transit countries under the framework of the G20. We should build equal consultation, dialogue and negotiations mechanism, formulated fair and reasonable international rules, energy market forecasting and early warning system, price coordination and financial supervision multilateral coordination mechanism, in order to make the global energy market more secure, stable and sustainable.[10] Based on the task of national development strategy, security strategy, diplomatic strategy and energy strategy, as well as the background of economic globalization, China should advocate the new energy security concept including mutually beneficial energy cooperation, diversified energy development and cooperative
energy security.[11] Through the integration of politics, economy, foreign affairs, finance and other resources, tools and means, we can strengthen all-round international dialogue and cooperation in the field of energy and effective use of international resources, in order to achieve Chinese energy security under the opening condition.

At the domestic level, China needs the energy consumption revolution, changing gradually from extensive and inefficient pattern to save and high efficient pattern. In order to achieve the revolution, China should improve the energy market pricing mechanism and improve the energy legal system vigorously. Meanwhile, Chinese government should strengthen overall coordination and support energy technology, enterprises, equipment and engineering team "go out." China should deepen bilateral and multilateral cooperation in international energy, establish regional energy market and participate in global energy governance actively. China should strengthen international cooperation in order to achieve energy security under open conditions. we also need put emphasize to adhere to proceeding from the national conditions of our country, respect the laws of nature and economy, using the experience of other countries for reference and take the energy development road with Chinese characteristics. Chinese energy strategy should emphasize on making full use of the two resources and two markets, based on the domestic energy exploration, and actively participate in the cooperation and development of energy resources in the world. We should attach great importance to the strategic oil reserve construction and improve the diversification of energy supply.

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