

# Exploring Economic Relations between China and the GCC States

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***Abstract:** The relationship between China and GCC is considered an important component in the economic relationship between China and the Middle East. The rapid economic development in China makes the demand of energy increased while the GCC states need a stable energy market for their economic development, since energy is their pillar industry. Cooperation in the field of energy becomes the core of bilateral economic cooperation, which is reflected in trade, investment and construction projects. The development of an energy relationship fuels trade, investment and construction project contracting, enlarging the scale of economic cooperation. It is believed that by maintaining and developing the bilateral economic relationship with the GCC, encouraging the smooth petrodollar recycling, increasing oil imports from the GCC states while keeping the balance of payment and stable oil import, China is able to maintain a positive economic operation. Therefore, the economic relationship between China and the GCC states is promising.*

***Key Words:** Economic Relations; China; GCC; Trade; Investment*

## I. The Rapid Development of Economic Relations between China and the GCC states

Since China and GCC signed the *Framework Agreement on Economic,*

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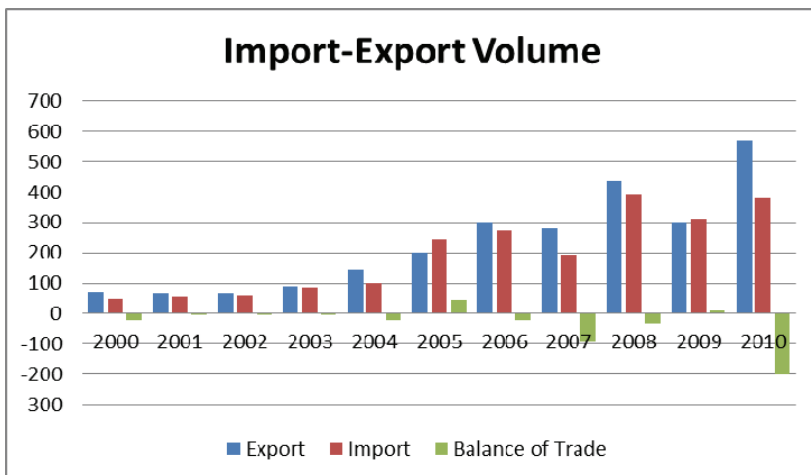
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*Trade, Investment and Technology Cooperation* and launched their negotiations on the China-GCC Free Trade Area, their economic relationship has developed quickly in the fields of trade, investments, project contracting. The GCC has become China's eighth largest trade partner, which is also an emerging market that China wants to explore.

### **1) The Acceleration of Bilateral Trade**

#### **1.1 Rapid and sustained increase in trade volume**

With the continuous development of China's foreign trade, especially the increase in oil imports, the bilateral trade between China and the GCC is also developing rapidly. The GCC states have become a key area to implement China's "making the best use of both international and domestic markets, and optimizing the allocation of two kinds of resources" policy and "market diversification" strategy. The trade regime between China and the GCC states has improved continuously, which promotes the development of the bilateral trade and the trade volume also increases rapidly. According to the National Bureau of Statistics of China, from 2000 to 2009, bilateral trade volume between China and the GCC states increased with an average annual growth of 57.8%. The volume of China's exports to the GCC states was rising from \$3.68 billion to \$31.25 billion; imports were increasing from \$6.45 billion to \$29.45 billion. Among the GCC states, Chinese trade to Saudi Arabia, UAE and Oman was relatively larger, reaching \$32.55 billion, \$21.23 billion and \$6.16 billion in 2009 respectively.



Data Sources: The data is collated by the information provided by *China Statistical Yearbook* from 2002 to 2010, which was compiled by the National Bureau of Statistics of China and was published by China Statistics Press. Also see <http://xyf.mofcom.gov.cn/aarticle/date/201106/20110607596690.html> Retrieved by 2011-06-28.

With the growth of the trade volume and the continuous upgrading of the trade structure between the two sides, especially after the 1990s, the “oil for industrial products” trade structure has gradually came into being. The core of the China-GCC trade structure is that China imports oil from the GCC states; the goods exported to the GCC countries are mainly industrial products and conventional finished products, for instances, machinery, electronic products, garments and luggage, which means an exchange oil with industrial products. China continues maintaining a deficit position in the trade.

#### 1.2 The gradual promotion of negotiations on the Free Trade Area

Due to China’s accession to the WTO, China’s imports tariffs have been gradually reduced and the barriers for the GCC products entering the Chinese market has also been further reduced, which promotes the imports and exports of goods between China and the GCC states. To promote their bilateral economic relationship, China and the GCC states have begun the negotiations on the establishment of a Free Trade Area and in July 2004 launched their China-GCC Free Trade Area negotiations; on April 23-24, 2005, the first round of negotiations was held in Riyadh, Saudi Arabia. On June 20-21, 2005, the second round was held in Beijing; the two sides had specific consultations on market access, rules of origin and others and reached a consensus on the pattern of tariffs concessions. On January 17, 2006, the two sides again held third round negotiations in Beijing on the basis of the past two rounds, and made positive progress in the fields of checking process of customs, TBT, SPS, trade remedies, related law issues of trade in goods, the text of free trade agreement and others. On April 3, 2006, the fourth round negotiation was held in Muscat, the capital of Oman. The negotiation were mainly on the imports market access of general cargo trade including the reduction of imports tariffs

concessions, standardization of non-tariff measures and others. On June 22-24, 2009, China and the GCC reopened their negotiations in Riyadh. During the negotiation, the two sides had in-depth consultations and positive progress on their major concerns about trade in goods and made preliminary offerings of service trades, reached consensus in most areas of trade in goods and launched their negotiations on service trades. In 2010, China and the GCC had a consultation on launching the China-GCC Trade and Economic Joint Committee, which was accorded to the working mechanism that China and the GCC reached in the framework agreement on economic cooperation in 2004. Its task is mainly involved in exchanging views on strategic issues of overall China-GCC economic and trade cooperation and implementing relevant work planning. On July 31, 2011, China and the GCC had an in-depth discussion on the implementation of the mechanism of the China-GCC Trade and Economic Joint Committee and the arrangement of its first session. The two sides agreed unanimously that the establishment and operation of the committee would further play a positive role in boosting the development of bilateral trade, investment and technological cooperation.

## **2) Rising in Amount and Expanding in Fields Have been Seen in Bilateral Investments**

As the oil prices are increasing, the large amount of petrodollars is promoting the rapid economic development in the GCC states. On this basis, they continue completing infrastructure, developing a more lenient policy and both inflows and outflows of FDI are maintained in a rapid growth. From 2004 to 2008, the GCC states had a growth for five consecutive years in FDI inflows and outflows, which increased opportunities for mutual investments between China and the GCC. China's investments to the GCC states have increased year by year.

In the late 20<sup>th</sup> century, China started investments to the GCC states rather late with a smaller scale and relatively concentrated in some areas. China established several processing plants, such as plastic, weaving and leather factories and others, which were mostly located in the UAE. After 2001, with implementation of the

“Going-global Policy”, China’s enterprises began to gradually expand their scale of investments and areas inside the GCC states and the industrial layout is also becoming more reasonable. Although the size and the layout are different, from a business point of view, these projects generally have achieved good economic benefits. Exclusively funded ventures and joint ventures have increased gradually and their scale is also expanding, especially the investments and cooperation in oil field are deepening, which further expand the scale of the China-GCC oil and gas cooperation. The cooperation, which in the forms of complementary advantages, mutual benefits and win-win mode, has made a major breakthrough. Although China’s FDI to the GCC states has been increasing year by year since the early of the 21<sup>st</sup> century, however upon the whole, the portion of the GCC states in China’s whole FDI is still rather small, only less than 1%.

The investments of Chinese enterprises to the GCC states continue growing; at the same time, its overall size and portion are still relatively small. The volume of Chinese enterprises investment in the GCC states continues growing, but slow in its stock growth. In 2003, China’s total investments inflows to the GCC states were \$10.66 million, while in 2008 they were \$205 million; in 2003, the stock of Chinese investments in the area were \$33.63 million, while in 2008, they were \$1060 million. So over all, the GCC states have a smaller portion in China’s FDI. In the GCC states, Saudi Arabia was the largest country in attracting Chinese investments in 2008; the stock of China’s direct investment to Saudi Arabia was \$620 million, which accounted for 58.3% of the total stock of Chinese investments in the area. The next is the UAE; the stock of the investments in the country was \$620 million, accounting for 35.3% of the total. In addition, China’s stock investments to Kuwait, Qatar, and Bahrain are also increasing (Chinese Ministry of Commerce, China National Bureau of Statistics, China State Administration of Foreign Exchange, 2009).

The investments of the GCC states to China have also seen an ascending trend since 2003, rising from \$790 million in 2003 to \$7.76 billion in 2008, with Saudi Arabia in the first place and UAE in the second place (Department of Trade and External Economic Relations

Statistics, China National Bureau of Statistics, 2006: 678; 2009: 764).

The investments of the GCC states are carried out through sovereign wealth funds and joint ventures. For instance, sovereign wealth funds of the GCC states have become shareholders of 9D Salt Corporation, Industrial and Commercial Bank of China and other China's enterprises. Among other funds, the Kingdom Holding Company of Saudi Arabia, Saudi Arabia Al Azizia Commercial Investment Co. and other several investment companies have purchased \$2 billion-shares of the Bank of China.

### **3) Increase in the Volume of Project Contracting**

The GCC states are an important market for China's project contracting industry. With the high-rising oil costs, the prosperous economy and a strong demand for local construction markets, China's project contracting business in the GCC states has developed steadily the volume which has increased gradually. Before 2004, quantities of China's contracting projects were relatively small; a rapid growth has been seen in recent years. In 2001, the realized revenue of China's contracting projects in the GCC states was \$340 million, compared with \$9.25 billion in 2009. The average annual growth rate was 76%. Both figures witnessed a large growth compared with 37%, the average annual growth of total contract revenue of China's overseas contracting projects and 31%, the average annual growth of sales revenue over the corresponding period and also more than one time compared with the average annual growth rate of global top 225 construction enterprises' contract revenue in the Middle East.

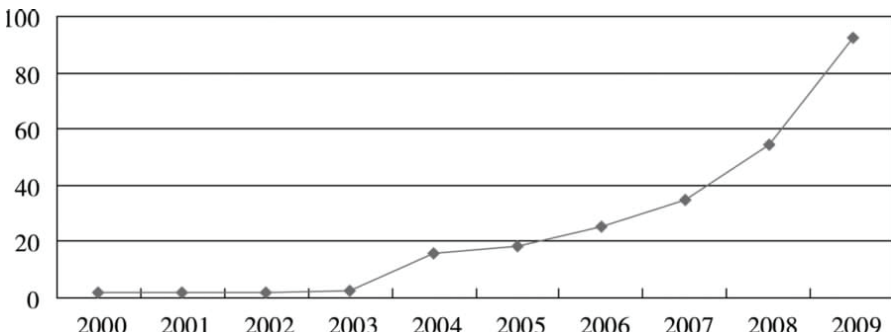


Figure 2 The Realized Revenue of China's Contracting Projects in the GCC States from 2000 to 2009 (Unit: billion US dollars) Data Sources: *China Statistical Yearbook* from 2002 to 2010

With the increase in oil imports and in bilateral trade, a rapid increase has been seen in investments in the field of oil-related industries. The rise in oil prices leads to the boom of the contracting projects market in the GCC states, which further makes more opportunities for China's enterprises in obtaining projects.

## **II. Energy is the Main Driving Force in the Development of the China-GCC Economic Relationship**

The China-GCC economic relations are reflected in the fields of bilateral trade, investments, project contracting, and the feature of all these fields is energy. The development of energy promotes the development of trade, investment and project contracting, which gradually extends the scale of bilateral economic cooperation. China's rapid economic development increases the demand for energy, while the character of the GCC states' economies, in which the energy industry is their pillar industry, determines that stable energy markets are needed for their economic development. Therefore, energy cooperation has become the core issue of bilateral economic cooperation. To establish strategic partnership between China and the GCC states will help both sides to achieve economic security, mutual benefits and win-win results.

### **1) Oil Is the Main Commodity of the Bilateral Trade**

The fact that China imports oil from the GCC states is the core issue of the China-GCC trade structure. Besides Bahrain, the volume of China's petroleum imports and its related products accounts for more than 50% of China's total imports volume in the region and the trade structure is based on the exchange of manufactured products with energy.

Table 1 China's Trade with the GCC States in 2008 (Unit: billion US dollars)

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	Exports	Imports	Oil Imports	Oil Imports rate in Total Imports
Oman	0.794	11.63	11.25	96.7%
Saudi Arabia	10.82	31.02	25.82	83.2%
UAE	23.64	4.61	3.36	72.9%
Kuwait	1.75	5.04	4.28	84.9%
Qatar	1.07	1.31	0.66	50.4%
Bahrain	0.66	0.13	--	--

Data Sources: *China Customs Statistics Yearbook* in 2009.

The bilateral trade structure between China and Oman is highly skewed. China's imports account for a vast majority of bilateral trade, the main imported commodity is crude oil and China's main exports are mechanical and electrical products, steel and its products, high-tech products, textiles and others. China's exports to Oman in 2010 were only \$940 million, while imports amounted to \$9.77 billion; China's trade deficit is difficult to change in the short term. China has ranked Oman's the largest crude oil importer for years. In 2010, Oman exported 111.3 million barrels crude oil to China, a sharp increase of 43.4%, which accounted to 41.4% of Oman's total oil exports (Chinese Ministry of Commerce, 2011: February 8).

Saudi Arabia is China's largest source of crude oil imports. In 2008, China's imports from Saudi Arabia amounted to \$31.02 billion, of which the oil imports reached \$25.82 billion and 83.2% of China's total imports volume. In 2010, China imported 44.643 million tons crude oil from Saudi Arabia, an increase of 7% over the corresponding period, which accounted for 18.7% of China's total crude oil imports in that year. In addition, China also imports energy and raw products including natural gas, plastic and steel products from Saudi Arabia. China's main exports to Saudi Arabia are garments, textiles and mechanical and electrical products. In April 2008, China National Petroleum Corporation signed a huge natural gas agreement with Qatar Petroleum and Royal Dutch Shell The Corporation decided to buy three million tons of liquefied natural gas from Qatar annually; in



the same month, China National Offshore Oil Corporation also announced that it signed a framework agreement with Qatar Petroleum to buy two million tons of liquefied natural gas each year. With China's deepening dependence on the imports of Qatar's energy, the oil's core position in the China-Qatar trade structure is difficult to challenge in the short term.

## **2) The Growth of Bilateral Investments is Closely Related to Oil**

By contrast, the mutual investments between China and the GCC states fell behind the bilateral trade. However, the investments of both sides have increased in the recent years. China's investments in the GCC states mainly focus on oil-related areas, carrying out mutually beneficial cooperation, seeking complementary and win-win situations.

China National Chemical Industry Import and Export Corporation acquired Atlantis Holding Norway AS in 2003, which obtained the benefits of exploration and development of 12 natural gas blocks in the UAE, Oman and other countries in which the proven resources are likely equivalent to 10 million tons of oil and gas and have a good potential. This is the first time that the company entered the upstream area of important oil projects and further expanded the scale of oil and gas cooperation between China and the oil-producing GCC states. In 2007, Aluminum Corporation of China reached an agreement with Malaysian and Saudi Arabian companies to construct an electrolytic aluminum plant with an annual production of 1 million ton by using Chinese technology and equipment in Jazan Economic City, Saudi Arabia. Saudi Basic Industries Corporation (SABIC) and China Petroleum and Chemical Corporation (SINOPEC) formed a joint venture, SINOPEC&SABIC (Tianjin) Petrochemical Company, a 50: 50 proportion of shares. The two sides invested 26.8 billion Chinese Yuan to the main construction. It is a total RMB 34 billion investment added with supporting projects. The two corporations also invested RMB 18.3 billion to construct a millions-tons ethylene project in Tianjin, China with the same proportion of shares. Saudi Aramco, Fujian Petrochemical Company and Exxon Mobil Corporation jointly invested and constructed a refinery and petrochemical integration project in Fujian, China. In addition, the refinery and petrochemical

integration project in Tianjin, which is jointly owned and constructed by SINOPEC and SABIC, has been completed and has gone into operation in 2009. On March 16, 2011, SINOPEC and Aramco, a Saudi oil giant, signed a memorandum to establish a partnership, with the two sides jointly developing a Yanbu refinery project with daily production up to four hundred thousand barrels oil. An asphalt company, owned by SINOPEC, signed a cooperation agreement with Saudi Bitucorp in Shanghai to provide Saudi Bitucorp with the newest technology and support for its polymer modified asphalt and other asphalt products. In 2010, as a shareholder for China Gas which held 7.66% of its shares, Oman Oil has totally invested \$131.5 million to purchase 45% of Petro Power (Shanghai) Holding Company (Chinese Ministry of Commerce, 2010: November 29).

### **3) Construction contracts are closely related to oil revenue**

The variation in the international oil prices has very much affected the oil revenue of the GCC states and has a positive correlation with the changes of the scale of construction contracts market in the region: when the oil prices rise, the sales revenue of the market would rise with it; when the oil prices fall, the sales revenue would also drop together.

The bilateral project contracts are mainly in the fields of the petrochemical industry, water conservancy, electric power and other infrastructure constructions. Saudi Arabia is one of China's important project contracting markets. Since China and Saudi Arabia signed the infrastructure cooperation agreement in 2006, the project contracts have conducted an orderly process under both governments' regulations. Chinese enterprises have constructed several projects covering railway, port, telecommunications, road and bridge, housing construction, cement and petrochemical production line construction, oil exploration and drilling services and in many other fields. In 2008, there were 88 Chinese enterprises in Saudi Arabia; their realized revenue of project contracts reached \$3.61 billion (China National Bureau of Statistics, 2010: 6-22). In recent years, with the rise in oil prices, Chinese enterprises have won a lot of large projects. For example, in 2008, SINOPEC won the engineering, procurement and

construction contract of the crude oil pipeline in Abu Dhabi; its price was as high as \$3.29 billion. The UAE has become a major market for Chinese construction contracts in the Gulf region. The realized revenue of construction contracts for Chinese companies in the UAE soared from \$55.16 million in 2001 to \$3.62 billion in 2009 (China National Bureau of Statistics, 2002: 17-22; 2010: 6-22).

### **III. The Prospect of Economic Cooperation between China and the GCC states**

With the energy ties strengthening and the mutual common markets promotion China's economic cooperation with the GCC states will have good prospects.

#### **1) Continue to Strengthen the Energy Ties**

Over the years, the Middle East remains China's major source of its international oil supply and its position will be difficult to change in the foreseeable future. This is mainly determined by the following two factors. First, the oil reserves, production and capacity of the Middle East are superior to the rest of the world and will remain the center of its international oil supply in the future. For China, of course, it is also the main source of the oil supply. In 2010, China imported 130 million tons crude oil from the Middle East, accounting for 47.1% of China's total imports which mostly was from the GCC states. Second, China has favorable conditions to import oil from the GCC states. China has maintained largely sound political relations with these states and has economic and trade bases to develop good prospects with them. Stable oil supplies are needed for China's economic development, while the GCC states need stable energy markets for their economic development, since energy is their pillar industry. The China-GCC economic cooperation is developing with the increase in energy trade, which further promotes the development of bilateral strategic partnerships.

1.1 China's economic growth leads to more dependence on energy imports and strengthens the status of China as an energy-importing country.

With China's rapid economic growth, the oil demand and consumption sharply increased from the early 1990s and there was an expanding gap between supply and demand. Onshore oil is the main body of China's oil industry, accounting for 90% of its total crude oil production. Crude oil production in the eastern region accounted for 75% of national output. However, the development of oilfields in the eastern region is entering at a late stage, the production growth is stagnant (China National Petroleum Corporation). The western region has succeeded for the strategy of China's oil industry, for the growth in the onshore oil production is mainly from this region since the 1990s. But with the complex geological conditions and the harsh natural environment in the region, the cost of production is not only higher than China domestic level but also higher than the international level. Due to the unfavorable conditions, it will cost time and substantial investments to form a certain scale of production capability. The offshore oil development is a special industry with high-tech, high investment and high-risk. There is promising oil and gas resources in some part of the East China Sea and the South China Sea, but the territorial disputes with the neighboring countries have not yet been resolved, so it is difficult to access the oil and gas resources in large amounts in the short term.

China has become a net crude oil importer since 1996. The overall trend of the crude oil net import is upward and reached 239 million tons in 2010. From January to May of 2011, China's domestic apparent consumption of crude oil was 191 million tons with a growth of 8.5% and the foreign dependency rate was as high as 55.2%, already surpassing America's 53.5% (CCTV News). China's domestic oil production capacity is relatively limited and the increase in production falls largely behind the increase in demand, which leads China's oil imports to increase year by year because of the gap and thus it strengthens China's dependence on oil imports; as a result, it strengthens China's status as an international energy importer.

1.2 The GCC states are in a rising position in China's international oil and gas supply structure.

Except Bahrain, the GCC states in the Gulf region are all rich in oil

and are world's largest oil producers and suppliers. Sixty percent of the world's super massive 5-billion-barrel oil fields are located in the Gulf region. The GCC states are not only rich in oil reserves with high output and quality, but also with advantages in its easy drilling and low cost. As of 2010, 50% of global oil production has been from the Middle East, mostly from the Gulf region, or in other words, the GCC states.

The Gulf region is the key area in the global oil market and its importance is increasingly evident. In 2010, three GCC states were represented in the world top 10 oil-producing countries, namely Saudi Arabia the second, the UAE the seventh and Kuwait the ninth, with 12%, 3.3% and 3.1% of world total oil production, respectively (BP, 2011: 8). Qatar, Saudi Arabia and UAE, these three GCC states, are among the world's top five natural gas producing countries. Qatar is the world's largest liquefied natural gas exporter and its position will not change in the short term. According to America's "New Energy Plan" released in 2001, the global economy would continue relying on the Gulf States and Saudi Arabia would remain the key country to ensure the stable global oil market. America, Western Europe and Japan's rate of foreign oil dependency were then 50%, 60% and 99%, respectively, of which 25% of America, 60% of Western Europe and 80% of Japan's imports oil were from the Gulf region which were mainly the GCC states (US Energy Information Administration, 2001). The rate of the Asia-Pacific region's foreign oil dependency has reached more than 94%. With the recovery of the world economy, the world's oil demand will continue increasing and the oil-producing countries in the Gulf, especially the GCC states will have a more important position in the international oil and gas supply structure.

1.3 Both China and the GCC states are needed to strengthen the security of energy imports and exports.

For China, the security of energy supply is required for the development of its national economy. The first issue is to ensure the easy access to oil, followed by the possibility of better access to oil. Since China is still basically a developing country and has a large population, the per capita oil possession is quite low. By the end of 2010, the world's proven oil reserves were 18.88 billion tons and

China's reserves were 2 billion tons, accounting for only 1.1% of the world reserves. The world reserves-to-production ratio was 46.2 years, while China only accounted to 9.9 years (BP, 2011: 6). In the process of economic development, the energy-intensive industries occupy an important position in the industrial structure. Meanwhile, with the process of urbanization and improvements in living standards, more and more people have become modern energy consumers. These factors all drive the oil demand. In addition, the traditional energy structure has become an important factor in China's environmental pollution and especially the use of coal has become the main reason for China's air pollution. Therefore, the energy structure optimization also promotes the increase in oil and gas energy demands. It is an important guarantee for the economic security to have stable sources of an energy imports supply.

For the GCC states, oil exports are their major source of state revenues, therefore, stable energy exports market are needed for their economic stability and development. Moreover, due to the popularity of the "low-carbon economy" concept, the Western countries have increased their efforts to develop solar, wind, nuclear energy and other clean energies, to reduce their consumption and dependence on oil and other non-renewable resources. The oil exports market, on which the GCC states are highly dependent, faces a crisis. To ensure the stability of the future energy export market is also an important way for the oil-exporting GCC states to secure their economy. In this context of mutual benefits, both sides tend to strengthen the energy ties.

## **2) The Promising Prospects of Economic Development**

2.1 The mutual benefits are boosted by good bilateral political relations.

As for China's political and economic developments, it needs more friends in the international arena. To develop relations with the GCC states is an important part to enhance China's international influence; while for the GCC states, to strengthen cooperation with China is a strategy to confront the pressure from America. In the contemporary world system, the Middle East has always been under

interventions of the great powers. The European powers as well as the United States and the Soviet Union in the Cold War all made the Middle East countries difficult to get rid of the political unrest. After the 9/11 attacks, America implemented an anti-terrorism and democratic transformation strategy in the Middle East and increased its efforts to put pressure on the Arab countries. In order to counter this pressure, the Arab countries adjusted their foreign policies one after another and implemented the "Eastward" strategy, by which means they used China to balance America. As China's pursuit of "the Five Principles of Peaceful Coexistence" developed seeking common ground while shelving differences in the system and culture, against confrontations and conflicts and rising various proposals and policies, China is becoming a constructive force in promoting the stability in the Middle East. For this reason, the relationship between China and the GCC states is a strategic partnership. Both sides have common strategic interests and help each other on major international issues. China has built the contact with the GCC since its establishment. Since 1990, Chinese Foreign Minister met with the GCC foreign ministers (or their representatives) and the GCC secretary-general each year while attending the UN General Assembly. Overall, the political relations between China and the GCC countries are developing quite well. The mutual trust and mutual benefits in politics and economy promote the sustainable development of the China-GCC bilateral friendship. However, there are also some problems in the development of their economic relations, such as the mutual investment flows and stocks which have only a small proportion in both sides' FDI; also a series of trade and investment agreements that China and the GCC signed have not yet been implemented; and the China-GCC free trade agreement has not yet to be signed. However, these are all the problems in the process, with the further development of bilateral economy; these issues are expected to have a better solution.

2.2 The potentials of economic cooperation are expected to be further explored.

At present, with the slow recovery of the world economy, the increased oil demands of oil-consuming countries will accelerate the

expansion of the oil trade with the GCC states. The investment of the related industries such as petroleum and petrochemical industries will increase and the demands for the corresponding construction contracts will also expand. In the case of China, it maintains a high growth rate of industrialization and its overall economic strength has improved. China's production capacity of 170 commodities ranks at the first position in the world and 40% of the world's mobile phones, 40% of computers and 45% TV are now made in China. China has become a major exporter of manufactured products and their quality and the price competitiveness have gradually improved, thus better able to meet the demands of the GCC states in the fields of mechanical and electrical products as well as complete sets of equipment. The ability of China's foreign projects contracting companies is also growing, especially in their construction and supporting capability and coupled with their design capability in some areas. So, they now have the ability to do large and huge projects in the region.

Because of the GCC's own conditions, the consumption of major industrial products relies on imports. After the recent financial crisis, the investment activities of the GCC states' sovereign wealth fund in America and Europe have shrunk dramatically and they have begun to turn to China. The millionaires of Saudi Arabia, the UAE, Kuwait and other countries are entering China's market one after another to explore investment opportunities. Meanwhile, the shrinkage of the GCC's wealth is expected to increase its demands for cheap goods by 30%, which provides opportunities for more Chinese products to move into the GCC market. It is worth noting that the increase in economic and trade exchanges and high-level visits between China and the GCC states will promote rapid, comprehensive and in-depth development of bilateral economic cooperation. In particular, with the establishment of the China-Arab economic forum and the platform of China-GCC FTA negotiations in 2009, the two sides have further promoted their bilateral economic cooperation through governmental levels and institutionalization aspects. The frequent exchanges between enterprises also provide a guarantee to strengthen the bilateral trade. Furthermore, the complementary economy structure of China and the GCC states is a



powerful force to promote their bilateral economic cooperation. China's daily necessities, mechanical and electrical products as well as whole sets of equipment are welcomed in the GCC market.

In short, as economic growth and the increased energy demand develop, China will continue relying on the oil supply from the GCC states. Therefore, the "oil for industrial products" structure will continue existing in the economic cooperation between China and the GCC states. In addition to oil, China's demand for natural gas imports also becomes a character in the new energy cooperation, for example, China will import natural gas from Qatar. The bilateral trade and economic cooperation of China and the GCC will further strengthen and bilateral markets will have a good development.

#### **IV. Conclusion**

The oil supply of China is a complex system that includes domestic and international measures. The domestic measures include energy conservation, energy efficiency, developing alternative energy sources and establishing strategic oil reserves. The international measures include the "Going-global" strategy, diversification of oil sources, and developing good relations with oil-producing countries. China is an emerging oil-importing country, so a lot of experience is from oil-importing countries in the past. Meanwhile, China is a developing country that has learned the lessons from the past oil-importing countries, which makes China's security policy of oil imports with China's character in the very beginning. This is mainly reflected in the relations between China and the oil-exporting countries. The system reflects the concept of mutual benefits and common development, which will not only strengthen the interests of oil-importing countries, but also oil-exporting countries as well and thus showing a new energy security concept.

Development of the economic relations with the GCC states is a practice of the new energy concept. China's economic development needs stable and safe supply of oil, developing the economic relations with oil-producing countries including the GCC states to realize mutual

support of relative advantages, mutual benefits and win-win results. China and the GCC states strengthen the cooperation on bilateral trade, investments, construction contracting and other economic areas, by which will not only be conducive to the stability of oil trade market, but also conducive to the health and rapid increase of both economies.

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