

# **The Impact of Strategic Hedging on the Foreign Politics of Great Powers: The Case of Chinese Energy Strategy in the Middle East.**

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## **ABSTRACT**

We present the strategic hedging framework as a way to trace the determinants of the foreign policies of great powers. We use the case of Chinese energy security strategy in the Middle East as an illustrative case study. We first use four criteria to establish that China's energy security strategy in the Middle East is a strong example of strategic hedging behavior. Then we examine the impact of oil production in the Middle East countries on growth of Chinese economic relationships with these countries. The results of this study show clearly that oil production plays an important role in the Sino-Middle East relations. We find a positive relationship between oil productions in Middle East countries on the one hand and the distribution and growth of China's trade and investment with these countries on the other hand. These results confirm that strategic hedging behavior leads to develop China's economic relations with the oil producing countries in order to cover its growing needs for energy to support its economic growth. This paper contributes to the support of strategic hedging framework as a new theory in international relations.

### **Keywords:**

Strategic hedging framework; Chinese energy security strategy; Sino-Middle East relations; Oil production in the Middle East.

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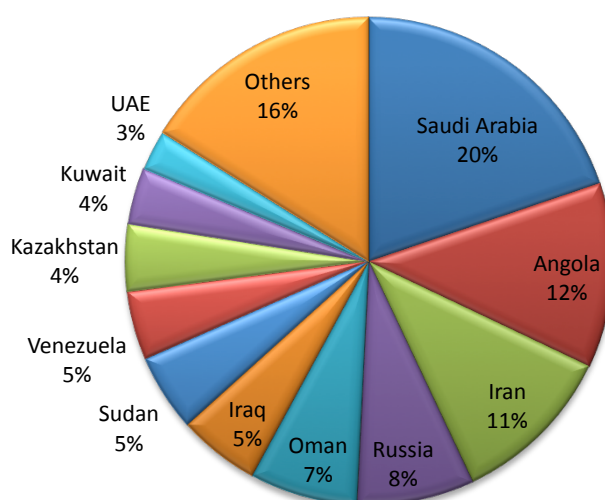
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## Introduction

The Chinese economy's energy needs have increased dramatically since the turn of the millennium. A combination of sustained high rates of economic growth and structural shifts in energy use -in the lead up to and following China's accession to the World Trade Organization (WTO) in December 2001- is responsible for this rapid growth in energy demand (Kahrl & Roland, 2009:894). According to the World Bank, China's GDP growth rate has approximated 10% annually and its aggregate GDP reached 8.227 trillion US dollars by 2012. Due to its rising energy demand, China became a net oil importer in 1993 and it has had to import large quantities of oil to meet its domestic demand (Ma, et al. 2010:106) to become the world's second-largest national consumer of petroleum products behind the United States, with total demand of 9.392 million barrels a day in 2010, and for the first time the second largest net importer of oil with total import of 4.542 million barrels a day in 2009 (IEA, 2010). The EIA expects China to import about 72 percent of its crude oil by 2035, a significant rise from the current 50 percent according to the International Energy Outlook. Toward this end, China's biggest National Oil Companies NOCs - such as China National Petroleum Corporation (CNPC), China Petroleum and Chemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC)- have made significant equity investments in at least 30 countries in the Middle East, Central Asia, Latin America, North America, Russia, and Asia (Houser, 2008:156). By the spring of 2010, Chinese NOCs had made almost 300 overseas equity investments, valued at over \$200 billion (Sainsbury, 2010). On the other hand, the Middle East region has vast reserves of petroleum and natural gas that make it a vital source of global economic stability. It has 60% of the world's oil reserves (810.98 billion barrels) (EIA, 2010). The Middle East accounted for 51 percent of China's oil imports in 2011(over 2.6 million bbl/d), with Saudi Arabia and Iran being two of China's largest sources of oil (Fig1).

**Figure1: China's Oil Import by Source, 2011**



Source: FACTS Global Energy

We assume that strategic hedging is a useful approach to explain China's foreign policy behavior as it seeks to cover its growing needs for energy from the Middle East. Strategic hedging is a foreign policy behavior by second tier states in their competition with the system leader. It helps them to cope with the uncertainties that are typical of unipolar systems. Therefore, strategic hedging is good model to explain China's approach to energy security (Tessman & Wolfe, 2011:236). This paper discusses Chinese energy security strategy in the Middle East as an example of strategic hedging.

We describe that strategic hedging has significant effect on foreign politics of great powers and we use the case of Chinese energy security strategy in the Middle East as an illustrative case study. Although China's trade flows with the Middle East are a small proportion of MENA's total trade, it has grown very rapidly in recent years. Chinese demands for oil, gas, and other natural resources have been driving new relationships with Middle East countries on trade, investment, and political ties (World Bank, 2009). As a result, trade and investment between China and the Middle East countries have extensively increased in ways that will promote trade long into the future (Alterman, 2009:64).

In this paper, we first review the theoretical literature dealing with (1) the impact of oil on the Sino-Middle East relations and (2) with the strategic hedging framework. Secondly, we use four criteria to confirm that China's energy security strategy in the Middle East is a strong example of strategic hedging behavior. In the third section, we discuss the impact of strategic hedging behavior on China's policies in the Middle East. We examine the impact of oil production in the Middle East countries on the growth of the China's trade and investment with these countries. In the last section, we discuss the results and conclude the study then we outline ways in which the impacts of a strategic hedging framework can be developed.

## Literature Review

Since Beijing became a net importer of oil in 1993, the energy cooperation has been the dominant aspect of expanding relations between China and the Middle East countries (Calabrese, 1998:351). China's growing dependence on oil imports from this volatile region has raised concerns about possible oil supply disruptions and conflicts with the United States (Salameh, 2003:1085).

In unipolar systems, second-tier powers sometimes work against American objectives because of economic interest, regional security concerns, policy disputes, and domestic political incentives (Brooks & Wohlforth, 2005:74-75). Moreover, the unipolar order is leading to the establishment of a Chinese-led anti-hegemonic coalition, and to China's building up its internal economic and military capabilities in order to become a "peer competitor" (Foot, 2006:77). In the meantime, China will not stop its drive for energy resources in the Middle East, and it will not be possible for the U.S. to exclude China from the region (Leverett & Bader, 2005:197). In many cases, leaders of China have emphasized that. For example, when Zhou Wenzhong explains the relation between China and Sudan, he said, "Business is business. We try to separate politics from business. Secondly, I think the internal situation in the Sudan is an internal affair, and we are not in a position to impose upon them" (French, 2004).

At the same time, however, Beijing seeks to avoid serious antagonism of Washington. According to Medeiros (2005/2006) this explains why strategic hedging

occurs in the context of Sino-American relations (Medeiros, 2005 / 2006). Such hedging consists of "pursuing strategies that, on one hand, stress engagement and integration mechanisms and, on the other, emphasize realist-style balancing in the form of external security cooperation with Asian states and national military modernization programs" (Medeiros, 2005 / 2006:145). Foot (2006:93) confirms this trend in China's foreign policy behavior claiming that in light of the situation of uncertainty, the prudent course for Beijing is to avoid of avoid unduly antagonizing Washington while establishing a web of relationships with other states.

In 2009, Alterman in an attempt to explain china's soft power in the Middle East., confirmed that China's interest in the Middle East is shaped by its energy needs and China's growing relations with the Middle East countries lead to a decline in U.S. relations with these countries (Alterman, 2009:63).

In 2011, Tessman and Wolfe have presented the strategic hedging framework and explained how it can account for the new kinds of competitive strategies that second-tier states employ in the present unipolar system. They have proposed a set of four criteria that, together, serve as an identification mechanism to detect cases of strategic hedging. After assessing China's energy security strategy in light of these four criteria they arrived at the conclusion that "Chinese energy security strategy appeared to be a strong example of strategic hedging behavior" (Tessman & Wolfe, 2011:236).

We assume that strategic hedging has significant effects on foreign politics of second tier powers and that China seeks to cover its growing needs for energy from the Middle East by using this strategy. This behavior has effects on China's policies in the Middle East because incipient structural changes in the Chinese energy economy and sustained economic and energy demand growth in China pose important, and different, challenges for policymakers (Kahr & Roland, 2009:894).

We aim to connect the concept of strategic hedging with sustained economic and energy demand growth in China as a main driver of new relationships with Middle East countries, which cater based not only energy needs but also broader economic interests.

### **Chinese Energy Security Strategy in the Middle East and the Strategic Hedging Framework**

Following Tessman & Wolfe (2011:220) we operate under the assumption that there is a mechanism for deciding when strategic hedging behavior occurs in the international system. This mechanism consists of four criteria; the second-tier state behavior must satisfy these criteria to be considered a case of strategic hedging:

1. Improve the competitive ability in anticipation of a military confrontation with the system leader (Type A hedging), and/or increase the strategic reserves of the public goods to dispense with the current aid provided by the system leader (Type B hedging).
2. Avoid outright provocation or direct confrontation of the system leader whether through entering military alliances against the system leader (external balancing), or through increasing the military arsenal provocatively (internal balancing).
3. The strategic hedging should be centrally coordinated at the highest levels of government because it addresses important issues related to the national security interest of the hedging state.

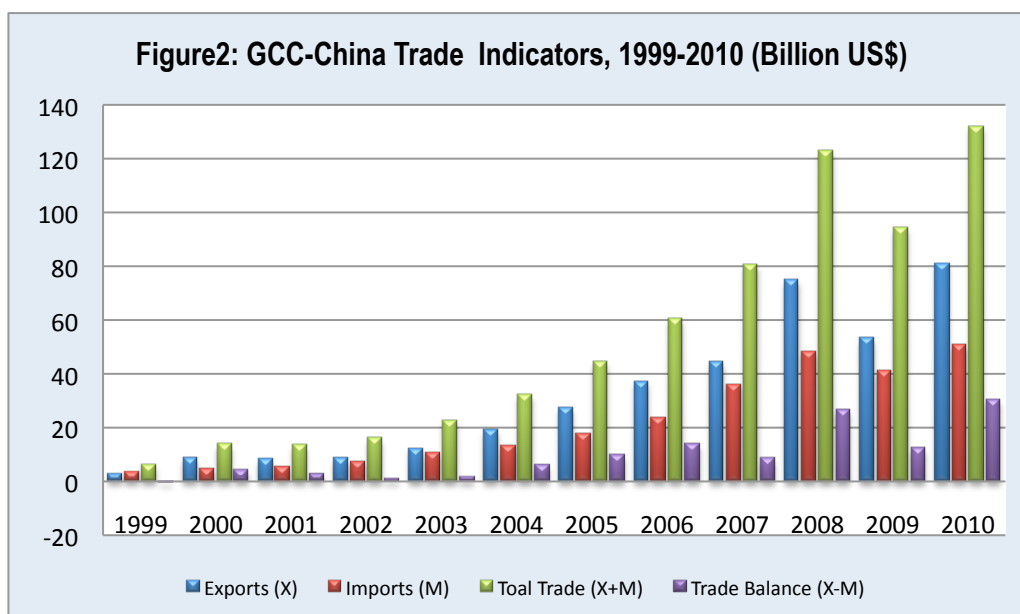
4. The hedging state should be ready to accept domestic and international costs in the short-term as part of strategic hedging.

Is China's energy security strategy in the Middle East an example of strategic hedging? In order to answer this question, we will assess Chinese energy security strategy in the Middle East in light of the four criteria.

*Criterion One: Improve the competitive ability (Type A and Type B Strategic Hedging):*

Since China became a net oil importer in 1993, the energy security has become a cornerstone of its Middle East policy (Liangxiang, 2005). Beijing paved the way to leverage its military diplomacy to secure guaranteed supplies of oil from the major Middle East producers through provision of arms to both Saudi Arabia and Iran in the past (Newmyer, 2009:217). China's growing thirst for energy resources has also prompted Beijing to improve the military means to protect its transport sea lines, which stretch from Chinese seaports to the Persian Gulf region and the Horn of Africa (Yoshihara & Holmes, 2008:123). In recent years, China uses its relations with the Middle East countries to expand its military influence. For instance, there is a belief that some Chinese companies, which work in Iran's energy sector, are playing a role in Tehran's military modernization (Pomfret, 2010). Furthermore, there is a correlation between China's naval power expansion and its oil import dependency rise, as China's leadership uses the country's resource needs as a pretext to improve its naval capabilities (Erickson & Collins, 2007:665). Moreover, Beijing's requirements of ensuring access to energy sources abroad is a major driver to acquire the capability to sustain a permanent naval presence overseas with the means to launch military operations. In the meantime, future Middle Eastern contingencies certainly fit such requirements (Cole, 2012). Undoubtedly, these policies by Beijing allow it to increase its strategic oil reserves in a way to improve its competitive ability if someday a military dispute with the United States would arise. China's energy security strategy in the Middle East, then, is an example of Type A hedging.

On the other hand, secure access to oil is one of the most important public goods and its price affects significantly the economic growth and inflation rate of China (Du, et al. 2010:4142). Together with other major oil importing countries China seeks to maintain the stability of global oil markets and oil supply lines to reduce the damaging oil price shocks (Zhang, 2012:698). Moreover, the diversification of oil import sources is one of the strategies to enhance energy security in oil-importing countries (Vivoda, 2009:4615). In the meantime, Beijing attempts to revive "the Silk Road" by creating a new strategy and an integrated system to transport energy between Asia and the Middle East (Mackenzie, 2010). This strategy leads to increase a relations between China and Middle East countries, for example, China's trade volume with Gulf Cooperation Council countries (GCC) has increased a twenty-one-fold between 1999 and 2010 (from US\$6.21 billion to US\$131.78 billion) (Fig2). China has thus become more independent on the public good of enhancing energy security and it clear attempts to protect Chinese interests independently from the United States. China's strategy also fulfills the criterion for Type B hedging.



Source: Own calculations based on United National Commodity Trade Statistics Database

Criterion Two: Avoid direct confrontation of the system leader:

Oil income generates strong incentives for foreign policy aggression and international conflict (Colgan, 2011:1669). Although Beijing attempts to be recognized as Washington's equal in international relations, it realizes that this is unlikely to happen any time soon (Foot, 2006:93). China, like other second-tier states, knows that it is too costly for any individual state and too risky for multiple states operating together to start directly confronting the U.S., such as military buildups, war-fighting alliances, and transfers of military technology to U.S. opponents (Pape, 2005:9). In the meantime, its Middle East policy seeks to avoid outright provocation or direct confrontation of Washington although conflict between the United States and China is far from inevitable (Cornelius & Story, 2007:5). For instance, although China has become Iran's largest trading partner, its largest oil purchaser, and its largest foreign investor, it seeks to benefit from its relationship with Iran without offending the United States and others (Mackenzie, 2010). In other words, while Iran is extremely significant to China's geopolitical and energy interests, as well as to its economic, trade, and non-traditional security interests, supporting Iran should not damage Sino-U.S. relations (Bingbing, 2011:22). In response to U.S. pressure, China's arms sales to Iran have been curtailed to support UN Security Council efforts regarding the Iranian nuclear file (Alterman, 2009:67). Beijing seeks to balance between its strategic alliance with Tehran and its commitments to the Western countries (Zhaogen, 2010). Moreover, although there is increase in China's military spending over the past several years, Beijing does not want to deplete its resources in an arms race with Washington (Foot, 2006:83). For instance, China's defense spending is approximately 2.1 percent of its GDP in while the military budgets of the United States exceeded 4.5 percent of GDP (SIPRI). We see then that Chinese energy strategy in the Middle East involves neither external balancing nor internal balancing and therefore fulfills the second criterion for strategic hedging.

*Criterion Three: strategy is centrally coordinated at the highest levels:*

China's economic growth has led to a large increase in China's energy needs. As a result oil and energy have become a key component of China's foreign policy (Cornelius & Story, 2007:5). The adequate management of energy policy has turned into a central challenge for China's leaderships to solve (Christie, et al. 2010:74). China has primarily chosen a politically driven and geostrategic approach to energy security. For instance, the fact that China's energy sector mainly relies on state-owned enterprises (SOEs), resulting in achieving the Chinese national security interests by securing foreign supplies of oil and refining oil products (Lee, 2012:75). Since 1994, Chinese government re-imposed central control over its oil industry by fixing the price of crude and petroleum products, and channeling virtually all sales through state agencies (Wang, 1995:627). Moreover, energy security has prompted China to follow "soft power diplomacy" in several regions, and China's strategic gaze has been turned to the seas for the first time in six centuries (Yoshihara & Holmes, 2008:123). By 1998, the Chinese government had reorganized the state-owned oil companies -CNPC, Sinopec, and China National Offshore Oil Corporation (CNOOC)- into vertically integrated firms to make them more competitive (World Bank 2009:86). Furthermore, China has followed a state-centered approach towards energy security to increase political and commercial relationships with all energy producing countries and to aggressively invest in oil fields and pipelines around the world (Zhao, 2008:207). In recent years, the Chinese government centrally controls the development, implementation, and review of energy security strategy and has expanded government's role in guiding and securing overseas investment deals (Tessman & Wolfe, 2011:233). As detailed in documents such as the 12<sup>th</sup> Five-Year Plan (2011-2015), released in March 2011, Chinese energy policy seeks to build a more cost-effective national system through central coordination at the highest levels of government (Lee, 2012:79). All this indicates that Chinese energy strategy in the Middle East is centrally coordinated at the highest levels of government.

*Criterion Four: Ready to accept domestic and international costs:*

Promoting the strategic oil reserve is the most important strategy for China's energy security because it supports the China's development tendency from the angles of economy growth, petroleum supply, technology advancement, environmental protection, and human development (Jun, et al. 2008:62). Besides that, China's crude oil import risk is affected extensively by the fluctuation of international oil prices (Wu, et al. 2007:4190). In the meantime, assuring the uninterrupted flow of oil and natural gas through the sea lines occupies an increasingly prominent place in China's foreign policy so there are growing calls within the Chinese strategic community to provide enough money for Chinese naval power to defend China's growing dependence on secure seaborne oil imports (Yoshihara & Holmes, 2008:124). Also, China supports oil-resource exploration and development worldwide through international and state-owned oil companies to obtain a stable overseas oil supply in order to achieve that it is ready to accept multiple difficulties and costs such as large capital budgets, long construction periods, and high uncertainty of investment (Fan & Zhu, 2010:627). Moreover, Beijing provides political and economic support for state-owned companies in order to own offshore oil assets and to win contracts in several countries to ensure the security of supplies from offshore oil fields (Lee, 2012:76).

For instance, China is ready to accept domestic and international costs to deepen bilateral relations with oil-producing countries such as Iran, Sudan, and Venezuela by infrastructure construction, waiver of loans and providing other economic, political, and diplomatic incentives in order to pave the way for its NOCs (Lee, 2012:88-89; Shaofeng, 2011:620). As well as, the operations of Chinese policy banks support the achievement of the Chinese Government's policy objectives, including securing oil and natural gas supplies. For example, the China Development Bank (CDB) has previously provided loans for this purpose (Zhang, 2013:2). Furthermore, China seeks to expand its oil tanker fleets and to increase its naval power for militarily protecting these vessels (Erickson & Collins, 2007:665).

In the Middle East, China is ready to accept additional costs to ensure access to energy supplies by building more pipelines in order to avoid sea routes and the narrow straits of Hormuz and Malacca. For instance, there is the Iranian-Chinese strategic energy-cooperation agreement to transfer Iranian oil by constructing a pipeline about 620 miles from Iran to the Caspian Sea to connect with the planned pipeline between China and Kazakhstan (Vakil, 2006:55). There is another scheme to construct a pipeline from Iran to Pakistan and then transport energy by rail, road, pipeline or ship to China (Tunsj, 2010:36). We see that China is willing to take on immediate and significant short-term costs (domestic, international, or both) in order to achieve the long-term benefits it seeks in general and in the Middle East in particular.

In meeting these four criteria of strategic hedging behavior, we conclude that China's energy security strategy in the Middle East is a strong example of strategic hedging behavior.

## **The Impact of China's Energy Security Strategy on Sino-Middle East relations**

Communication, technology transfers, bilateral agreements and investment in the oil infrastructure all contribute to strengthen the relations between oil exporting countries and importing countries (Herman & Ming-Yen, 2011:406). China's growing thirst for energy resources has played an important role in China's foreign policy and its relations with other countries. While China's energy diplomacy has brought about opportunities for cooperation with some of its neighbors, it has become a source of conflict with some other neighbors (Zhao, 2008:207). Next we will discuss the impact of China's strategic hedging behavior on Sino-Middle East relations. More specifically we will present the relation between oil productions in every MENA's country on the one hand, and China's trade and investment with this country on the other hand.

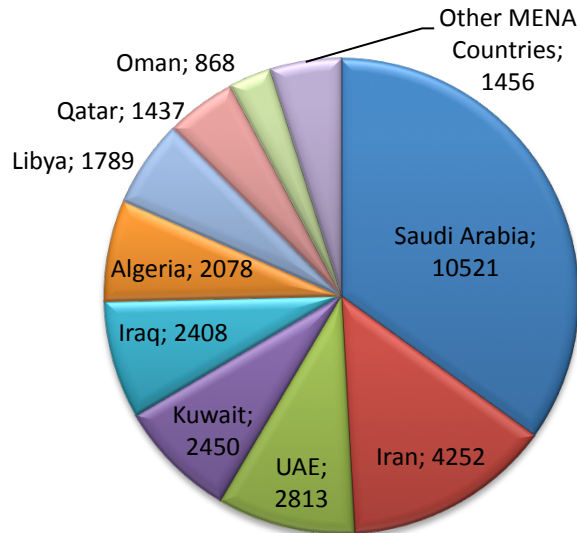
### **1- The impact on China's trade with the Middle East:**

Undoubtedly energy is the most important factor in the Sino-Middle East relation, and it makes up for the vast majority of bilateral trade (Brandon, 2005:115). China's



energy security policy as a form of strategic hedging has affected the trade flows between China and Middle Eastern countries. We seek to monitor this effect by a comparison between China's trade with oil-producing countries and China's trade with non-oil-producing countries in the Middle East (Fig3).

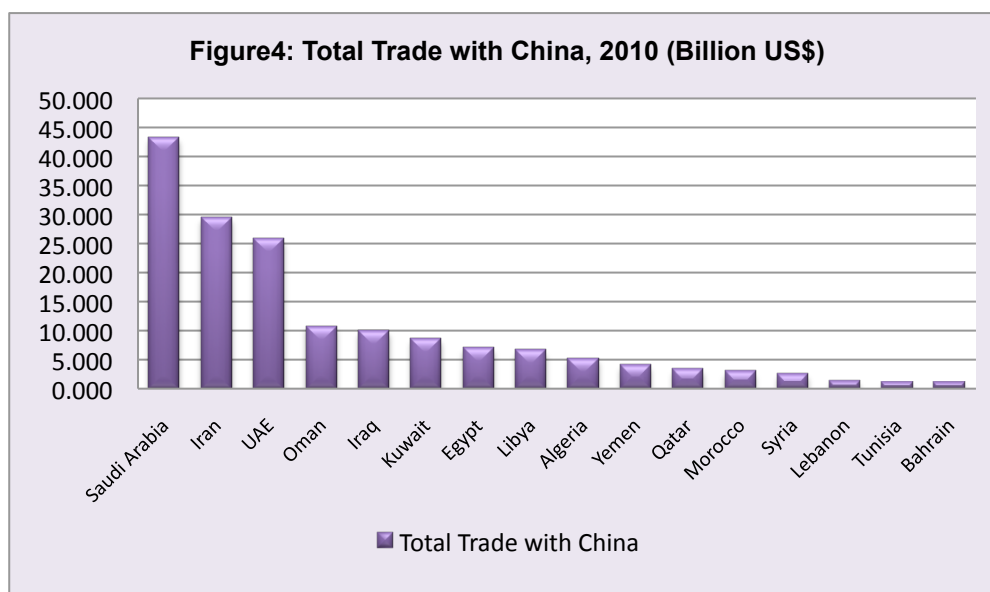
**Figure3: Total Oil Supply in MENA Countries, 2010 (Thousand Barrels Per Day)**



*Source: U.S. Energy Information Administration (EIA), International Energy Statistics*

Since the end of the Cold War, economics, trade, and energy cooperation between Saudi Arabia and China have strengthened rapidly, especially after China joined the WTO in 2001. In the last few years, Saudi Arabia has become China's largest trade partner in the Middle East and China has become the second-largest source of imports to Saudi Arabia (Jing, 2012). Riyadh has become the largest provider of crude oil to Beijing, and the volume of Saudi oil exports to China has become more than its exports to U.S. for the first time in 2009 (Bingbing, 2011:20). Recently, the figures continue to climb with total bilateral trade volume reached the highest level of US\$73.4 billion in 2012; including US\$54.95 billion worth of imports from Saudi Arabia and US\$18.45 billion exports from China, an annual increase rate by 35% between 2000 and 2012. Li Zhiwen, the Chinese Ambassador in Riyadh, explained that the largest trade item between the two countries is the importation of Saudi petrol to China (Xinhua, 2013).

Moreover, bilateral trade between Beijing and Tehran has significantly improved. In 1990, the total of this trade was approximately US\$314 million; it rose to approximately US\$700 million by 1993 (Rubin, 1999). In the following years, the Sino-Iranian bilateral trade has been skyrocketing due to China's ever-growing thirst for energy resources and Iran's desire to protect its position as a great power in the Middle East (Brandon, 2005:111). By 2010, bilateral trade between the two countries totaled approximately US\$29.3 billion; with an annual increase rate has reached approximately 35% between 2000 and 2010 (Fig4).

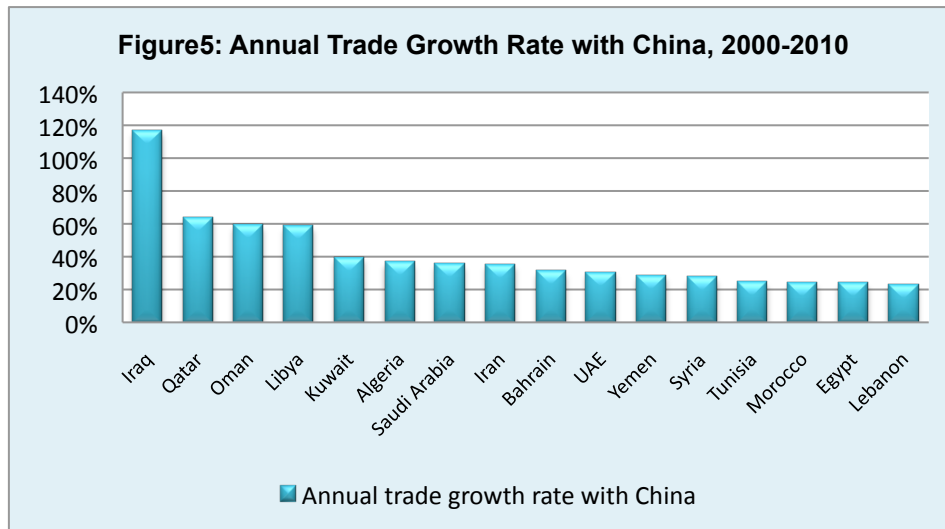


Source: Own calculations based on United National Commodity Trade Statistics Database

In addition, China has sought to permanently import Iraqi oil although the Sino-Iraqi bilateral trade has been disturbed due to the political situation of Iraq in the 1990s. After the fall of Saddam Hussein's regime in 2003, bilateral trade between the two countries has significantly increased. In 2004 alone, it rose approximately 733% from US\$56 million in 2003 to US\$469 million in 2004. Over the following years, the figures continue to climb: in 2010 it had reached US\$9.86 billion with an annual increase rate of approximately 116% between 2000 and 2010.

Also in North Africa, China's efforts to find new sources of oil are clearly visible. For instance, the Sino-Algerian bilateral trade has grown rapidly. Trade value stood at US\$198.8 million in 2000, and reached US\$5.177 billion in 2010; with an annual increase rate of 36% for the same period. In the meantime, trade flows between China and Libya reached US\$6.57 billion in 2010; with an annual increase rate of 58% since 2000.

On the other hand, despite the growth of bilateral trade volume between China and the non-oil producing countries in the Middle East, these increases were modest in comparison with oil-producing countries. For instance, the annual increase rate of Chinese bilateral trade did not exceed 24% with non-oil producer countries such as Tunisia, Morocco, Egypt and Lebanon in the period between 2000 and 2010 (Fig5).

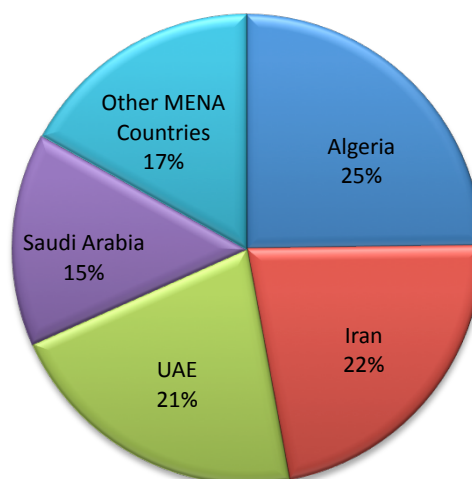


Source: Own calculations based on United National Commodity Trade Statistics Database

## 2- The impact on China's outward FDI to the Middle East:

There are several factors affecting foreign direct investment flows to developing countries such as GDP, natural resource availability, human capital, economic openness and infrastructures. In the Middle East region the size of the host economy, the size of government, natural resources and institutional variables are the most important determinants of FDI inflows (Eltayeb & Sidiropoulos, 2010:75). By contrast, Chinese outward FDI is focuses on large markets and countries combining large natural resources and poor institutions (Kolstad & Wiig, 2012:26). Clearly, oil is one of the most important factors for attracting Chinese investment to the Middle East region (Fig6).

**Figure6: China's outward FDI flows to MENA Countries, 2003-2010**



Source: Ministry of Commerce People's Republic of China

Since the end of the 1980s, China's interest in investing in the oil sector has driven Beijing to improve its presence in the Middle East by increasing its investment in MENA's energy projects and sending materials, technical assistance, and laborers to a number of Gulf States (Brandon, 2005:115). Moreover, Chinese state-owned oil companies such as CNPC, Sinopec, and CNOOC, have supported significantly investment cooperation between China and the Middle East countries in recent years. (World Bank, 2009:89). For instance, China National Petroleum Corp (CNPC) has three oil projects in Iraq - the Al-Ahdab, Rumaila and Halfya oilfields, with an overall daily output of about 1.6 million barrels, equivalent to half of Iraq's oil production (Juan, 2013).

In the meantime, China's outward FDI stock in Saudi Arabia has increased from US\$0.24 million in 2003 to over US\$760 million in 2010. In the same period, FDI in Iran has increased from US\$22 million in 2003 to over US\$715 million in 2010. Moreover, Chinese investment in Iraq has reached US\$483.45 million in 2010. In North Africa, China's outward FDI stock in Algeria has exploded from US\$5.7 million in 2003 to over US\$937.26 million in 2010. Conversely, the figures of Chinese investment in the non-oil producing countries were significantly lower in the Middle East. For example, China's outward FDI stocks in countries such as Lebanon, Tunisia and Syria were US\$2.01 million, US\$2.53 million, and US\$16.61 million respectively (Table1).

**Table1: China's outward FDI stocks by MENA Countries, 2003-2010  
(Million US\$)**

	2003	2004	2005	2006	2007	2008	2009	2010
Algeria	5.7	34.49	171.21	247.37	3939.9	508.82	751.26	937.26
Bahrain	0.15	0.15	1.99	0.27	0.75	0.87	0.87	0.87
Egypt	14.29	14.28	39.8	100.43	131.6	131.35	285.07	336.72
Iran	22.15	46.68	56.08	110.59	122.35	94.27	217.8	715.16
Iraq	436.96	434.87	434.87	436.18	22.45	20.79	22.58	483.45
Kuwait	0.17	2.53	1.23	6.31	0.51	2.96	5.88	50.88
Lebanon	0	0.02	0.17	0.44	0.44	0.44	1.57	2.01
Libya	0.86	0.87	33.06	70.83	378.62	81.58	42.69	32.19
Morocco	4.31	9.06	20.59	29.65	107.23	28.06	48.78	55.85
Oman	0	0.01	6.53	33.87	37.17	14.22	7.97	21.11
Qatar	1.9	2.7	2.7	8.84	39.79	49.79	36.28	77.05
Saudi Arabia	0.24	2.09	58.45	272.84	404.03	620.68	710.89	760.56
Syria	0	0.33	3.76	16.81	5.55	4.38	8.49	16.61
Tunisia	1.56	1.28	2.15	3.57	28.18	3.57	2.27	2.53
UAE	31.17	46.56	144.53	144.63	234.31	375.99	440.29	764.29
Yemen	12.76	31.02	77.77	63.76	107.23	140.54	149.3	184.66

Source: Ministry of Commerce People's Republic of China

## Conclusion

In this paper, we have attempted to present one possible impact of strategic hedging behavior on great powers' policies. We have sought to support the strategic hedging framework as a new theory in international relations and an effective way to reinvigorate the theoretical development and policy relevance of structural approaches to international relations. Throughout the paper, we focus on the case of China's energy security strategy in the Middle East. We chose to examine this case precisely because it appeared to be a strong example of strategic hedging behavior. By using the four strategic hedging criteria, we found that it meets each of the requirements necessary for classification as strategic hedging behavior. Then we examined the impact of this strategy on the economic relationships between China and Middle East countries. The results confirm that strategic hedging behavior leads to develop China's economic relations with the oil producing countries in order to cover its growing needs for energy and to support its economic growth.

As we look to develop a research program focusing on the impact of strategic hedging, we formulate three basic propositions that can be tested in future research:

1. Strategic hedging behavior will often have positive effects on political and economic relations between the hedging state and other countries. In our study, we saw it led to improved economic relationships between China and Middle East countries.
2. However at times this behavior will have adverse effects on the relations between the hedging state and other countries. Future research needs to establish when this would be more likely.
3. In general, more powerful second-tier states will be more likely to engage in Type A hedging than Type B hedging so they will have less positive political and economic relationships with the system leader, while weaker states will employ the latter more frequently than the former so that their relationship with the system leader will tend to be more benign.

We are aware those in social science theories are always contingent and that we cannot expect to predict the impact of strategic hedging behavior on great powers' policies. Still we are quite confident that strategic hedging behavior represents an underlying mechanism that significantly affects the foreign policies of great powers.

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