



A wary eye on Middle East and North Africa oil resources

Overview

Crisis in the Middle East and North Africa has elevated as Western powers sent troops to Libya after the passing of a UN resolution to bring humanitarian support to the country. The situations of Libya remain highly uncertain with the ongoing military conflict but the war will not spread. On the other hand, situations in other countries including Egypt, Saudi Arabia, UAE, Kuwait, Qatar as well as Iran have been under control and are beginning to stabilize. Overall, the negative impact of the crisis on oil prices will lead to large oil price fluctuations in the short-term which will not last long. First, the estimated oil destruction in Libya could be compensated by production increase in Saudi Arabia. Second, the rapidly increasing food prices, which were the major catalyst to the riot outbreak, will gradually decline with rise in production. Nevertheless, the war for oil resources will never end as Western powers fight to defend their own interests in the region.

The unrest impacts China in both the short-term and long-term. In the short-term, surging oil prices affect China as the country's dependency on foreign oil exceeds 50%. Chinese enterprises, nonetheless, are only slightly affected as they have limited investments in the region. More important is the implications of the riots on China's long-term oil strategies. Given the high instability of the region, China would have to reduce its foreign oil dependence, develop alternative energy such as nuclear power, diversity its sources of energy imports, as well as to strengthen its oil reserves. Equally important is the challenges for China's diplomatic strategies in a new age of global transition. As a major power and given its increasing investments and interests overseas, China would inevitably become more active in the world stage, and it is important to develop a more comprehensive strategy.

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	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~ 10%
	Underperform	Relative performance over MSCI-China Index > -10%

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