

China's Energy Dependence on the Middle East: Boon or Bane for Asian Security?

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Going strictly by its current energy usage and profile, China's coming over-dependence on oil from the Middle East is not necessarily a given.¹ According to sources culled from the International Energy Agency (IEA), China will import 5.9 to 6.9 million barrels per day (b/d) in 2020, constituting 63 to 70 percent of total oil consumption. In contrast, the Chinese observers put such imports at a lower figure between 3.6 to 5.0 million b/d in 2020, which translates into 46 to 54 percent of oil consumption.² In any case, with oil share in the energy mix projected to increase slightly from 25 percent in 2000 to just 27 percent in 2030 it can only remain as China's second most important fuel over the next two decades. Nevertheless, one of China's present acute pre-occupation is the stability and security of its energy supply, especially from the Middle Eastern region which currently supplies up to 57 percent of China's overall oil usage/imports.

China and Middle East in Future

China is now increasingly sensitive to events in the Middle East. While the region does not have a monopoly over world oil production, it has the world's largest oil reserves. The world's actual oil supply comes from a wide variety of sources, with the Middle East producing 29 percent of the total to date, followed by North America (accounting for 20 percent) and the remaining 51 percent fairly evenly distributed throughout the world. However, the fact remains that energy intensive countries, such as China, cannot be freed from the reliance on the Middle East in the foreseeable future.³

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¹ See for instance, the analysis by Peter S. Goodman, "Big Shift in China's Oil Policy: With Iraq Deal Dissolved by War, Beijing Looks Elsewhere," *Washington Post*, July 13 2005, D01.

² Erica S. Downs, "The Chinese Energy Security Debate," *China Quarterly* 177 (March 2004): 23.

³ International Energy Agency, *China's Worldwide Quest to Energy Security* (Paris: OECD/IEA, 2000): 50; for the geographic overview of worldwide oil production, see

This is because the Middle East wields great influence over the oil market since it is home to some of the largest members of Organization of Petroleum Exporting Countries (OPEC). OPEC accounts for almost 42 percent of world production. Member countries include: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. Not counting Indonesia, these members' net oil exports average 50 percent of total oil production in 2004.⁴ Some of the other major non-OPEC producers of oil have seen a decline in their production. The U.S. for instance has seen production fall from 10.6 million barrels/year in 1985 to the present rate of 7 to 8 million.⁵

According to OPEC's 2004 estimates, 75 to 80 percent of proven world crude oil reserves are located in OPEC member countries—a far higher concentration than current oil production.⁶ A rough distribution of some of the largest oil reserves worldwide is as follows (Table 1):

Table 1 Oil Reserves Worldwide (As of 2004 in billion barrels)

North & South America	USA: 21.8	Mexico: 14.8	Venezuela: 79.7
Western Europe	Norway: 9.6	UK: 4.5	
Eastern Europe	Russia: 90.1		
Middle East	Iraq: 115	Saudi Arabia: 264	United Arab Emirates: 97.8
Africa	Libya: 37	Nigeria: 35.9	
Asia	China: 17.1		

Source: OPEC Annual Statistical Bulletin⁷

As the U.S.'s Energy Information Administration warns, "because non-OPEC countries' smaller reserves are being depleted more rapidly than OPEC reserves, their overall reserves-to-production ratio—an indicator of how long proven reserves would last at current production rates—is much lower standing at about 15 years for non-OPEC states and 80 years for OPEC members. This implies that OPEC countries are expected to

Energy Information Administration, U.S. Department of Energy, "non-OPEC oil Fact Sheet," <<http://www.eia.doe.gov/emeu/cabs/nonopec.html>> (October 25 2005).

⁴ OPEC, *Annual Statistical Bulletin* (Vienna, Austria: OPEC, 2005): 94.

⁵ Energy Information Administration, U.S. Department of Energy, "United States Country Analysis Brief," <<http://www.eia.doe.gov/emeu/cabs/usa.html>> (October 25 2005).

⁶ OPEC, *Annual Statistical Bulletin* (Vienna, Austria: OPEC, 2005): 43.

⁷ *Ibid.*, pp. 42-3.

take up a higher proportion of world petroleum production over the long term.”⁸ China therefore, like the U.S. or other Western countries, would remain largely dependent on oil production in the Middle East. Put differently, the future portends that the Middle East will strengthen its domination of the world oil market.

In particular, China will find its reliance most acute, given its voracious demand for oil as it races towards more economic growth. As Erica Downs astutely noted, such dependence on energy has been characterized as a debate that revolves around China's future behavior. More precisely, how will China try to break “out” from this Middle Eastern trap?⁹ Is China on course for some destabilizing policies or will Chinese's reliance on foreign oil facilitate its deeper integration into the international system and mark the rise of a benign, status quo power instead?

The first scenario presents a realist perspective whereas the second, which adduces a more pacific outcome, is informed by liberalism. Analysts with realist persuasions foresee the emergence of China as a revisionist, if not a belligerent state. They speculate that China's oil needs could prompt it to pursue destabilizing policies such as naval arms build up and oil for arms exchanges. While these scenarios have not happened, China's embrace of rogue regimes such as Sudan and Iran, in exchange for obtaining almost exclusive rights for “overseas infrastructural investment” has clearly been regarded as alarming; and to the realists, reflects a “preliminary” form of behavior that is within the ambit of what they are predicting.¹⁰

Liberals on the other hand anticipate more Chinese cooperation with neighboring states to bring remote resources to consumers. In this regard, China has also begun forging ties with Russia and Kazakhstan to pipe natural gas and oil into China; though in the case of the former China's bid to win over Russia is being actively rivaled by Japan in every step of the way.¹¹ In response to the realist position, it is necessary to point out the nuances of China's relations with Sudan and Iran. While China has supported the two countries in the United Nations Security Council, it

⁸ Energy Information Administration, U.S. Department of Energy, “Non-OPEC Fact Sheet,” <<http://www.eia.doe.gov/emeu/cabs/nonopec.html>> (October 25 2005).

⁹ Erica S. Downs, “The Chinese Energy Security Debate,” *China Quarterly* 177 (March 2004).

¹⁰ For an early explication of the “China threat theory,” see for example Denny Roy, “Hegemon on the Horizon? China's Threat to East Asian Security,” *International Security* 19, 1 (Summer 1994): 149-68. See also Herbert Yee and Ian Storey (ed.), *The China threat: Perceptions, Myths and Reality* (London: Routledge Curzon, 2002).

¹¹ Sergei Blagov, “Russia tangles with Japan and China,” *Asia Times Online*, September 1 2004, <http://www.atimes.com/atimes/Central_Asia/FI01Ag01.html> (October 30 2005). See also James Brooke, “Japan and China Battle for Russia's Oil and Gas,” *New York Times*, January 3 2004.

has not aligned itself completely with these regimes as a full-fledged patron in other areas. For instance, China, having acceded to the Missile Proliferation Control Regime and due to U.S. pressures, has agreed, at least in theory, to stop selling its nuclear and missile technology to Iran,¹² unlike in the 1980s when China sold arms to both parties of the Iran-Iraq War.¹³

Therefore, contrary to what the realist may believe, China has been adopting a liberal economic approach and this has presented it with more policy options for addressing its energy needs. Indeed, contemporary economic diplomacy offers a richer mix of policy options that does not necessarily require the flexing of military muscle. China's state owned oil companies for instance now recognize the benefits of equity share in overseas companies, including American ones and have thus set about an acquisition policy as part of its strategy for energy security. And under the "equity oil" arrangements whereby the Chinese oil companies split the production output with the host government, China is entitled to buy the oil at a relatively cheaper price and such a setup involves lesser risk than buying oil on the international oil market.¹⁴ As of 2001, the "equity oil," constituted 15 percent of oil import yearly; and it is predicted that the import level can go up to 30 percent in a long run under such equity arrangements.¹⁵

Equity position acquisition, above all, is an alluring option for China to secure oil supply without exposing itself to competitions largely dominated by major Western international oil companies in order to gain exploration rights.¹⁶ Furthermore, the equity option also reduces, if not eliminates, market price risk because it enables the investor to predict exactly how much oil it will receive and at what cost over the life of the field. In a long run, the price is generally lower from that in the international market because the buyer, as an equity owner, usually produces and transports its oil below the market clearing price. It also enhances safe and stable supply as the equity ownership eliminates the need for middlemen, such as other oil companies, between the oil in the ground and the consumer, which could cut off supply.¹⁷

¹² Alastair Iain Johnston, "Is China a status-quo power?" *International Security* 27, 4 (Spring 2003): 5-56.

¹³ Sharif Shuja, "Warming Sino-Iranian Relations: Will China trade Nuclear Technology for Oil?," *China Brief (The Jamestown Foundation)* 5, 12 (2005): 8-10.

¹⁴ Erica S. Downs, "The Chinese Energy Security Debate," *China Quarterly* 177 (March 2004): 35.

¹⁵ *Ibid.*

¹⁶ Amy Myers Jaffe and Steven W. Lewis, "Beijing's Oil Diplomacy," *Survival* 44, 1 (Spring 2002): 126.

¹⁷ Erica S. Downs, "The Chinese Energy Security Debate," *China Quarterly* 177 (March 2004): 35-6.

Thus far, Chinese oil companies, in particular the China National Petroleum Corporation (CNPC) have been involved in the acquisition of equity position and are participating in various geological prospecting and explorations projects in oil fields and potential sites in more than 20 countries, mostly in Middle East and North Africa.¹⁸ The most recent high profile case was the attempt by China National Offshore Oil Corporation (CNOOC) to buy Unocal in the United States, a venture which was eventually foiled by the U.S. Congress' opposition in August 2005.

“Perception Is Reality” in Energy Security

In spite of equity ownership as a measure for energy security, the possibility of major supply disruption continues to exist in the minds of Chinese leaders. So, despite the validity of the liberal argument, realism continues to dog the Chinese leaders' thinking. This is because of the transport routes used for delivery of imports. The seaborne oil import, largely through the strategic chokepoints of the Straits of Malacca and the South China Sea, are beyond Chinese reach, while the land based pipelines through Kazakhstan can easily be held hostage to adversarial elements and antagonistic policies of other countries.¹⁹

Similarly, equity ownership, as attractive as this option may seem to be, is also not a fool-proof strategy. This is because there is always the realist's fear that stable energy supply could still be disrupted by pressures from countries who oppose China. There are in fact historical reasons why realism continues to affect Chinese thinking, particularly with regards to the energy issue. There have been precedents of energy blockade, sanctions and intercession in Asia to which China became an indirect victim.²⁰ For example, the Japanese invasion of China in 1937 was intensified by Tokyo in order to replenish its energy supply back home. Later on, the manner with which the United States shut down Japan's economy in June 1941, led to the latter's fateful attack of Pearl Harbor six months later, and also renewed conquest of China. Thus, the historical precedent continues to hold certain salience in the “policy lesson/universe” of the Chinese leaders and strategic analysts. Furthermore, the U.S.' tendency to attack the electric and energy grids of

¹⁸ An official list of the projects can be found on CNPC, “Overseas Oil and Gas Operation,” <<http://www.cnpc.com.cn/english/inter/OverseasOil.htm>> (October 25 2005).

¹⁹ Philip Andrews-Speed, Xuanli Liao and Roland Dannreuther, *The Strategic Implication of China's Energy's Needs*, Adelphi Paper 346 (London: Oxford University Press, 2002), chapter 2.

²⁰ Christian Constantin, *China's Conception of Energy Security: Sources and International Impacts*, Center of International Relations, The University of British Columbia, Working Paper no. 43 (March 2005).

its opponents first—as witnessed in Iraq during the first and second Gulf War—also underscored the importance of securing the integrity and independence of a reliable energy network. After the September 11th terrorist attack, the increasing control and influence of the U.S. over Saudi Arabia, Bahrain, Qatar, and Iraq, which together control 75 percent of the total oil production of OPEC, in addition to U.S.’ presence in Central Asia, has made it difficult for China to ignore the strategic implications of being over-reliant on Middle Eastern oil; or alternatively being undermined by the United States.

Overall, in trying to overcome this Middle East conundrum, Beijing has resorted to a three-pronged strategy: engaging in diplomatic offensive to secure long-term energy supply arrangement, such as the conclusion of the “strategic oil partnership” with Saudi Arabia in 1999 and a similar declaration with Kazakhstan in 2005;²¹ intervention of Chinese oil companies (most notably CNPC and its subsidiary Chinese National Oil Development Corporation) to gain rights to invest and develop oil fields in the region; and finally encouraging counter-/cross-investment by Gulf petroleum companies investing in Chinese refinery and marketing sectors to promote “closer links” with the Middle East countries and overcome the domestic capital bottleneck.²²

Yet, such measures cannot ensure or guarantee a safe buffer between China and the Middle East because they are premised on working more closely with the Middle East, not less. This is also because the biggest energy basin at this stage is in the Middle East, not elsewhere. Thus, China’s foreign policy geared towards the Middle East would only be enhanced if greater attention is spent on the Middle East. In this context, China has already established a China-Gulf Cooperation Council Forum to discuss its relations with the region.²³ To put things in perspective, however, it is unlikely that China’s dependence on Middle Eastern oil would result in any balance-of-power implication predicted by realists. This is because China does not yet have the military muscle to challenge the U.S. and its regional allies in the Asian seas successfully. Thus a naval build-up is not a foregone conclusion.²⁴ As Ronald Soligo and Amy

²¹ Virtual Information Center, “China’s Hu Visits Russia, Kazakhstan, Attends SCO- A Special Press Summary,” July 7 2005.

²² Xiaojie Xu, “China and the Middle East: Cross Investment in the Energy Sector,” *Middle East Policy* 7, 3 (June 2000): 122-36; Philip Andrews-Speed, Xuanli Liao and Roland Dannreuther, *The Strategic Implication of China’s Energy’s Needs*, Adelphi Paper 346 (London: Oxford University Press, 2002), 66-7.

²³ “China, GCC economic ties highlighted in Beijing,” *People’s Daily Online*, July 7 2004, <http://english.people.com.cn/200407/07/eng20040707_148737.html> (October 22 2005).

²⁴ Eric Heginbotham, “The Rise of The Fall and Rise of Navies in East Asia: Military Organizations, Domestic Politics, and Grand Strategy,” *International Security* 27, 2 (September 2002): 86-105.

Jaffee of the Baker Institute write, "China lacks the military capability and the basing facilities to close Asian sea lanes for any extended period of time—should the U.S. Navy intervene to reopen them. At the moment, Chinese capabilities do include short-to-medium range ballistic and cruise missile systems that could threaten commercial energy shipments operating in Asian sea lanes. But even such capability would not be sufficient to defend its own incoming shipments of oil and other goods from retaliation by American or regional militaries in response to its own aggressive acts."²⁵ Indeed, even if China successfully increases its submarine fleets, a naval strategy Beijing is currently pursuing, their deployment would still face considerable difficulties. This is due to the peculiar maritime characteristics both in the Taiwan Straits and the Sea of Japan, both of which are too shallow to allow significant maneuverability.²⁶ In November 2004, for instance, Chinese submarines was spotted off the coast of Fukuoka, and tracked in open aerial view by a Japanese self defense force (SDF) for nearly two days.²⁷

The above events do not suggest that China's status quo position would forever remain the same. China's intention has come under some scrutiny lately, due to its allegedly large defense budgets. In fact, there has been long suspicion since 1990s, in particular from the U.S. defense community, that the announced defense budget of the Chinese military is in fact much lower than the actual expenditure. The budget, according to Pentagon, is at least about three times the publicly known figure.²⁸ However, according to Singapore Mentor Minister Lee Kuan Yew's own observation it would take another 50 years for China to be able to develop a blue water navy fleet comparable to that of the U.S., Japan, and even India's.²⁹ Beyond this window, the future long-term balance in the region could only hold precipitously, unless future Chinese leaders are able to work with others, and in due course shed their vaunted nationalism too.

²⁵ Ronald Soligo and Amy Jaffee, *China's Growing Energy Dependence: The Costs and Policy Implications of Supply Alternatives*, The Baker Institute Energy Forum, Rice University, <<http://www.rice.edu/energy/publications/asianenergysecurity.htm>> (October 15 2005).

²⁶ Michael O'Hanlon, Lyle Goldstein and William Murray, "Damn the Torpedoes: Debating Possible U. S. Navy Losses in a Taiwan Scenario," *International Security* 29, 2 (Fall 2004): 203-204. See also Phar Kim Beng, "The Chinese Dragon submerges," *Asia Times Online*, October 28 2004, <<http://atimes.com/atimes/China/FJ28Ad04.html>> (October 29 2005).

²⁷ Reiji Yoshida and Nao Shimoyachi, "Unidentified submarine intrudes near Okinawa," *Japan Times*, November 1 2004.

²⁸ Mark Mazzetti, "Pentagon Says China Seeks to Extend Military Reach," *Los Angeles Times*, July 20 2005.

²⁹ "Lee Kuan Yew: China to Overtake the US in 2050," *People's Daily Online*, May 24 2002, <http://english.people.com.cn/200205/24/eng20020524_96387.shtml> (October 28 2005).

Conclusion

To be sure, China will become more reliant to the oil produced in the Middle East. But this is not surprising because other countries will also be dependent on the Middle East. Since China does not have the means to protect its supply from the Middle East, it is almost inevitable that China's sensitivity to events in the region will increase proportionately. Hence, China is adopting market measures to secure the supply line in future. The latter, however, is bound to be a long term strategy because China cannot adopt a forceful or military profile without scaring other countries. Such an act would trigger an arms race which China wants to avoid in order to concentrate its economic resources on modernization. Hence, in the short to medium term, while it would make China more sensitive to the events in the region, China's reliance on the Middle East will not lead to the destabilization of Asia's security just yet. Also, China cannot be considered "vulnerable" in the way Joseph Nye and Robert Keohane has denoted in their book on complex interdependence.³⁰ Their concept of vulnerability suggests a scenario where a problem emerges when there are completely no policy alternatives. But China does have alternatives for its energy import strategy such as reaching out to other African, and Central Asian countries, or to Russia. Aside from market-centric measures, this diversification also includes using alternative energy, such as wind, nuclear, and solar power to secure its energy supply.

³⁰ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (New York: Longman, 2001).