

# China's Energy Security and Its International Relations†

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Contemporary China began with an ambitious goal of rapid industrialization and modernization but a very low base of oil production and consumption. In 1959 China's crude oil production stood at 3.73 million tons (Mt). It was only in 1963 that China ended its century of dependence on imported oil and oil products. In that year, the Daqing oil field in Northeast China produced 4.3 Mt of crude, making up the bulk of the 6.48 Mt of nationally produced oil. From the 1950s to the early 1970s, China was self-sufficient in energy. But its international relations prevented that self-sufficiency from serving the country's goal of economic and social development. Soviet supply of oil and technological assistance for developing the oil industry in China were critical for China to reach its level of self-sufficiency. However, along with the termination of Soviet aid program in July 1960, China found itself having to devote much of its energy resources to prepare for war with a major power. In addition, the U.S.-led comprehensive embargo, which began in 1950, did not end until the Sino-American rapprochement in 1971.

In other words, for two decades China had self-sufficiency under strained international circumstances. A country has meaningful energy security only when its management of balance in energy supply and demand serves the purpose of developing its economy and society well. But by mid-1970s, the Chinese economy was on the verge of collapse. China had energy self-sufficiency but not energy security. Improvement in China's international relations in the early 1970s began an era of China moving to lose its self-sufficiency in energy but improving its energy security. Energy, particularly oil and coal, became a primary export commodity for China, in exchange for industrial plants and technology from developed countries. Japan topped the key destinations for Chinese oil and coal exports. Indeed, oil and coal served a valuable strategic purpose for China to re-open its economic linkages with the industrialized world economies. In addition, China took advantage of the first international oil crisis by

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exporting crude oil to Thailand, the Philippines and other Asian countries as part of its drive to cultivate a favorable regional environment for modernization.<sup>1</sup> China continued to export crude oil to Japan according to negotiated annual quotas until 2004. In short, Chinese export of oil earned China the much-needed hard currencies for importing equipment and technology for developing its export-oriented economy, which in turn has proved critical for developing the Chinese economy and society.

The volume of China's crude oil exports peaked in 1985, reaching 30 Mt. Slower growth in domestic production coupled with growing levels of domestic demand contributed to the decline in Chinese oil export. China began to import crude oil from Oman in 1983, originally as a temporary measure for dealing with domestic transportation bottlenecks in moving crude oil from northern China to refineries located along the upper stretches of the Yangtze River. In 1988, due to increased demand, Chinese imports of crude and processed fuels began to rapidly rise. In 1993, China became a net oil importer of oil products and in 1996 China became a net importer of crude oil. The rest is history.

Since China lost its self-sufficiency in oil supply, China's access to oil imports has not been interrupted for politically motivated reasons. There have been no reported incidents of embargos being imposed by an exporting country or a third party. The only event that might have threatened the transportation of foreign oil to China's shores was the 1993 *Yinhe* (Galaxy) ship incident. The Chinese *Yinhe* container ship was the subject of a forced inspection by the United States in the Persian Gulf because it was suspected of carrying precursors and chemical production equipment on route to Iran. The incident concluded without there being any interruption to the Chinese import of oil from Iran. In 1993 China's import of crude from Iran did see a significant drop in comparison with the 1992 level, but the annual volume of the oil trade between China and Iran had previously been volatile (see Table 1).

Table 1 Chinese Import of Crude Oil from Iran, 1989-1994 (10,000 tons)

Year	1989	1990	1991	1992	1993	1994
Volume	26.62	30.12	5.50	11.50	6.79	6.90

Source: Chinese Customs Statistics

<sup>1</sup> Other key destinations included the Philippines, Thailand, Romania, and Hong Kong. See A. Doak Barnett, *China's Economy in Global Perspective* (Washington, DC: The Brookings Institution, 1981), 461.

Chinese concerns about oil supply security became widespread in 2000, when the volume of China's oil imports almost doubled from 36.6 Mt to 70.2 Mt (see Chart 1). The dramatic rise in import volume had several causes. First, domestic crude production was insufficient for consumption. Second, China's oil refining capacities had significantly improved, making it possible for China to import more types of oil for refining. Third, in June 2000 China began to reform its pricing system for processed fuel by pegging the domestic sales price level to that in the Singapore commodity futures market. This reform led to four separate increases in domestic oil prices within six months. The higher sales price encouraged Chinese oil refineries to increase imports, amidst concerns about supply interruptions worldwide. Fourth, China's customs statistics more accurately reflected the actual volumes of oil imports, thanks to a nation-wide campaign against oil smuggling between 1998 and 2001.<sup>2</sup>

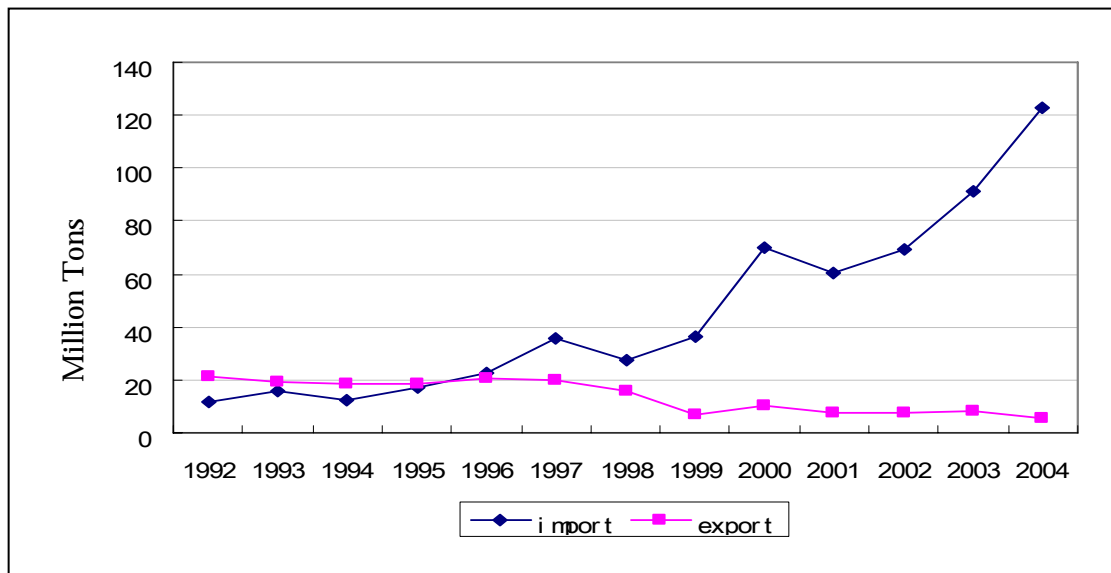


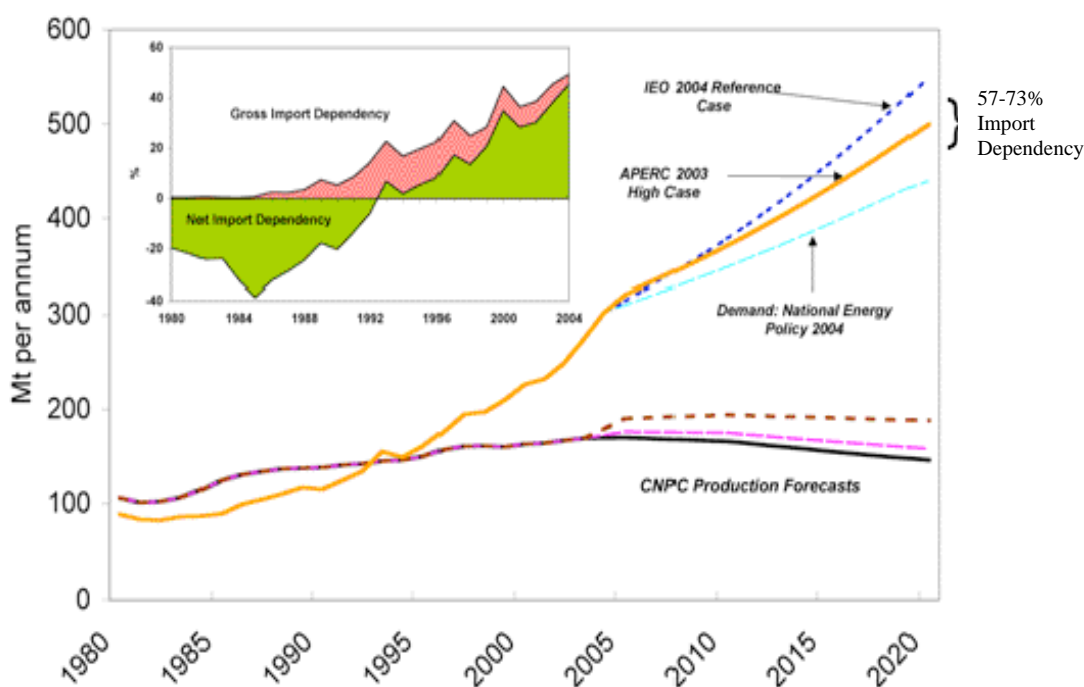
Chart 1 China's Crude Oil Import and Export, 1992-2004, Source: Chinese Customs Statistics

Coupled with interest in the rapidly growing levels of China's oil imports and their broader impact, international attention began to turn to Chinese oil companies "going abroad," i.e., acquiring concession rights in foreign oil fields. Chinese oil companies first entered the upstream of the international oil market in 1993, when a subsidiary of China National Petroleum Corporation (CNPC) bought the Talara Block in Peru for \$25 million. Since then, Chinese oil companies, principally CNPC, have entered into an array of overseas oil investments. However, as a RAND

<sup>2</sup> Tian Chunrong, "Analysis of Oil Import and Export in 2000," *International Petroleum Economics*, (March, 2001): 6 (original in Chinese).

study concludes, “CNPC’s foreign oil exploration and development projects are moving slowly and probably will not produce enough oil to offset China’s projected growth in oil imports over the next 20 years. Furthermore, transportation and logistical costs may well prevent most of the oil produced in China’s overseas oil fields from entering China. This oil will most likely be sold on the international market or swapped for other oil that would enter the Chinese market.”<sup>3</sup> Research on China’s energy market changes and future possibilities has become a highly prolific industry both in China and internationally. The associated issues are numerous. There is, however, convergence on one conclusion: no matter how China plans and carries out its energy policies, dependence on imported oil will have to continue.<sup>4</sup> There is also convergence over the view that domestic oil production will stagnate. China therefore will have no choice but to rely on imported oil accounting for a growing proportion in its total oil consumption to satisfy the demands of its economic development (Graph 2).

Graph 2 A Projection of China’s Oil Production and Import Dependence



Source: Jonathan E. Sinton, et al, *Evaluation of China's Energy Strategy Options* (The China Sustainable Energy Program, May 2005), 5.

<sup>3</sup> Erika Downs, *China's Quest for Energy Security* (Santa Monica, CA: Rand, 2000), 22-23.

<sup>4</sup> Development Research Center of the State Council, *National Energy Strategies and Policies*, 2003 <[http://www.efchina.org/documents/Draft\\_Natl\\_E\\_Plan0311.pdf](http://www.efchina.org/documents/Draft_Natl_E_Plan0311.pdf)> (November 1 2005).

The accuracy of this and other projections is not the key issue here. What matters are the conclusions that should be drawn concerning China's energy security. In terms of historical experience, China's security was under threat in the 1950s through the 1970s. Embargo from both land and sea at the same time contributed to a policy of self-reliance in overall economic policymaking. Since the early 1970s, when China launched its modernization drive, domestic energy reserves soon became insufficient for meeting demand. Gone is the era of energy independence for China. Also gone for China is the viable application of self-reliance as an ideology guiding its energy policymaking. China's dependence on overseas consumer and technology markets means it has no choice but to learn how to live in a world of interdependence.<sup>5</sup>

As such, at the turn of the new century, as far as China is concerned, the concept of energy security has to be seen in terms of economic threats and market solutions rather than in terms of military threats and diplomatic responses.<sup>6</sup> Indeed, China's sources of oil imports have been diversified. China does rely heavily on the Middle East for its supplies (see Table 2 below). But the possibilities of a politically motivated embargo against China by a Middle Eastern exporting country remain low. There are several reasons for this optimism. First, China has pursued a balanced foreign policy toward the long running Arab-Israeli conflict in the region. This reduces the possibility of Arab oil exporters joining hands to blockade against China. Second, China, by way of opening talks with the Gulf Cooperation Council member countries toward establishing a free trade area, has moved from singly focused on obtaining oil supplies to enlarging the scope of economic exchanges with key oil exporting countries in the Middle East. Deepening of economic ties implies that Middle Eastern countries will have to consider the losses to their own economies in considering punitive actions against China in the area of oil supply. In short, growing levels of interdependence between China and the Middle East serves as a useful warrant against blockade against China.

In the mid-stream of Chinese oil importing, there is no clear threat of a transportation embargo against China. The risk of a military conflict across the Taiwan Straits involving the United States has been existent for decades. The worst-case scenario is that the United States repeats its policy of the 1950-1970 period by organizing China's maritime Asian

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<sup>5</sup> Zha Daojiong, "Interdependence and China's Energy Supply Security," *World Economics and Politics*, 298 (June 2005): 15-21 (in Chinese).

<sup>6</sup> For this distinction, see Dennis O'Brien, "Mightier than the Sword," *Harvard International Review* 19, 1 (Summer 1997): 8-13.

neighbors to launch a comprehensive blockade against China, in the event of the Chinese mainland initiating a military attack on Taiwan. Nonetheless, as China's economy becomes more deeply integrated into the regional production chain, the associated costs of launching such a blockade are increasing as well. Economic interdependence again serves as perhaps the single most powerful deterrent against an embargo or blockade by China's neighbors.

To sum up, China has lost its self-sufficiency in energy, particularly oil and gas. But in terms of traditional military-related risks, the possibility of a risk turning into a threat to China's energy security is getting lower, thanks to the forces of economic globalization. As long as China does not initiate a military conflict with Taiwan or its neighbors, particularly its maritime neighbors, the primary actor in maintaining the stability-based security China has enjoyed for the past three decades is China itself, not an external actor.

### **China's Structural Weakness in Managing Energy Security: Governance**

On an everyday basis, the key energy security risk for China is to manage its demand, which is as important as, and indeed more important than, securing adequate foreign supply. China accounted for nearly 40 percent of the increase in world demand for oil in 2004. Most estimates conclude that energy efficiency in China has worsened since 2001. High oil prices directly cut into profits in the Chinese economy and force the Chinese government as well as oil companies to pursue more aggressively international sources of supply, both short term and long-term. This in turn drives up international apprehension about China draining an already tight international oil trade market. In short, China is paying a growingly high price for being the central party in this vicious cycle.

In 2005, the Chinese government again launched a comprehensive campaign for curbing consumption, with improving consumption efficiency as the centerpiece of its stated strategy. International media analysis was quick to cast doubt on the prospects of such plans.<sup>7</sup> As a matter of fact, China has had great difficulty in finding an appropriate mechanism for governing its energy industry. A case in point is the frequent re-formation of its energy ministries since the founding of the People's Republic. China's Ministry of Fuel Industries was abolished in 1955, when separate ministries for coal, electricity, and oil were established. Then in 1970, a new Ministry of Fuel and Chemical

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<sup>7</sup> Geoff Dyer, "China on mission to quench thirst for petrol: The need to restrain energy use has become imperative, but doubts persist about the efficacy of Beijing's plans," *Financial Times*, June 29 2005, p. 9.

Industries combined the functions of those three ministries, but it had to be dissolved five years later. In 1988, a Ministry of Energy was launched to oversee coal, oil, nuclear and hydropower development, but it was again dissolved in 1993. Since 1993, the country has lived without a ministerial-level agency devoted to the country's energy development. The absence of a central government level ministry to oversee the country's energy development policies greatly reduces the value of strategic plans the central government intends to implement. Frequent changes to and confusion in the lines of authority in energy development policy also created great difficulties for foreign participation in the Chinese energy markets.<sup>8</sup>

It was not until 2002 when industry experts began to call for the strengthening of the macro-management of China's energy system.<sup>9</sup> Widespread public discussions about the wisdom of decentralized energy management did not emerge until later the year, when concerns about United States military action in Iraq and its impact on Middle Eastern oil exports began to concern Chinese society.

Today, China still does not have a ministerial level agency to oversee the country's energy development. While it is wishful thinking to expect such an agency to magically transform China's energy industry, the fact is that in "a quasi-market economy, energy issues must reach the top of the policy agenda to meet China's ambitious goals. This emphasis on government leadership reflects both China's tradition as a planned economy and current interests of major economic players."<sup>10</sup> In other words, the Chinese government must learn how to guide its various vested interests in the domestic energy market for its announced policy goals to be successful. In the oil sector, two large state-owned companies, CNPC and China National Petrochemical Corporation (Sinopec), continue to enjoy a monopoly of the domestic upstream and downstream markets respectively. The third largest Chinese oil company is the China National Offshore Oil Corporation (CNOOC), whose domain of activities is to develop oil and gas resources in China's exclusive economic zones. It was only after China began to implement its obligations under WTO rules that the government began to quicken the pace of reforms to open the oil industry to competition. China does have a regulatory commission for the electricity industry but no similar

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<sup>8</sup> Such difficulties are partially discussed in Zha Daojiong, "Changes in China's Electricity Industry Governance: implications for energy cooperation in Northeast Asia," *ERINA Report*, 42 (October 2001): 31-37.

<sup>9</sup> Pan Wei'er, "A Discussion about Our Country's Energy Management System," *China Energy*, (September 2002): 9-12 (in Chinese).

<sup>10</sup> Jonathan E. Sinton, et al., *Evaluation of China's Energy Strategy Options* (The China Sustainable Energy Program, May 2005), 4 <<http://china.lbl.gov/publications/nesp.pdf>> (November 1 2005).

agency to oversee oil, gas, and coal development. The proper independence of a regulatory agency also poses a challenge. As analysts of China's energy policy environment have pointed out, the skewed nature of China's energy industry levies heavily against the country's economic and social interests. It is fair to say that the threat from ineffective energy industry governance is probably as great as that from the international energy market.<sup>11</sup>

The issue of energy industry governance is critical for the future evolution of China's energy sector. For example, if a level of energy independence is a key strategic objective, then the trajectory of China's nuclear power industry development does not demonstrate any significant attempt to achieve that aim. Nuclear-generated electricity accounts for a miserable 1.4 percent of China's total power supply, compared to a 16 percent average for developed countries. It was only in 2004 that China decided to quicken the pace of nuclear power construction.<sup>12</sup> China does not have to look far from its borders to learn about achieving independence in power supply. South Korea, a country that is totally dependent on offshore sources of energy, has managed to have forty percent of its electricity consumption met by nuclear power.

Today, development of nuclear power in China can have a particularly profound bearing on China's energy consumption and by extension the pressure China presents on the world energy market. China's coastal cities are the main driving force of industrial activity in China and therefore are also the major consumers of energy. There will be significant dividends when these areas—which are naturally suited for nuclear energy supply—become dependent on nuclear energy supplies. China's coal reserves are located in the north, making transportation to the southeast and south a serious bottleneck.<sup>13</sup> Nuclear power construction requires strong and consistent national-level leadership and resource commitment. It is naïve to expect provincial government leadership, which survives by producing instant high GDP growth figures, or corporate actors to foot the bill for providing an essential public good for the country's development.

Another area of China's energy industry that requires serious improvement in governance is the coal industry. "Coal as the primary" is both a reality of Chinese energy supply and a national energy industry

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<sup>11</sup> Philip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China* (Hague: Kluwer Law International, 2004).

<sup>12</sup> "China's nuclear electricity to hit 36 mln kw in 2020," *People's Daily*, September 1, 2004 <[http://english.people.com.cn/200409/01/eng20040901\\_155568.html](http://english.people.com.cn/200409/01/eng20040901_155568.html)> (November 1 2005).

<sup>13</sup> The World Bank noted this challenge soon after it began operating in China. See, the World Bank, *China: the Energy Sector* (Washington, D.C.: World Bank, 1985).

strategy.<sup>14</sup> China is not just the world's largest coal producer and consumer but also the country where the largest number of deaths in mine accidents occurs, in addition to the heavy environmental costs that are also incurred. In order to put a stop to the "race to the bottom" trend in lack of investments in coalmine safety, the government must intervene in the interest of the coal miners and that segment of the population affected by coalmining. It goes without saying that in order for China to address its environmental challenges and be a responsible actor in combating global warming, it must deal with the challenge of its energy governance head on.<sup>15</sup>

The Chinese government has certainly proved itself to be inefficient in making decisions on energy policies aimed at encouraging conservation. For example, going back to 1996 the government controlled media endorsed calls for creating a fuel tax.<sup>16</sup> After nearly a decade of academic and public discussions, including debates in the national people's congress, China is still waiting for the "opportune" time to actually establish such a tax. In short, runaway growth in energy consumption, i.e., growth in total amounts of energy consumed without significant improvement in efficiency, is posing a real threat to China's energy security. To address inefficiency, there has to be changes to China's policy instruments and mechanisms of the Chinese energy industry. Without significant improvement in Chinese energy governance, China cannot hope to get out of the vicious cycle in the world energy market it is in today.

### **Energy and China's International Relations**

China today is on the defensive when it comes to the international reaction to the Chinese pursuit of supply security through the exploitation of offshore sources of energy, particularly oil and gas. The state of affairs is in some ways a repetition of the Japanese experience in the 1970s and 1980s, when the pursuit of high economic growth by going global led to serious debates about the impact of Japan on the world economic and political structures. A critical difference here though is that China is not regarded as a "like-minded" country, in the way that Japan was, when it comes to the international structures established for managing the world economy. For example, China has only just begun to

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<sup>14</sup> See International Energy Agency (IEA), *Coal in the Energy Supply of China* (Paris: IEA, 1999).

<sup>15</sup> For an overview of China's environmental challenge, see The World Bank, *Clear Water, Blue Skies: China's Environment in the New Century* (Washington, DC: The World Bank, 1997).

<sup>16</sup> Liu Aihong, "How about Levying Fuel Tax instead of Road Tax?" *Liaowang*, 37 (September 1996): 22-23 (original in Chinese).

participate in the G8's dialogue mechanisms for developing countries, whereas Japan was, from the start, a participant in the process of consultation among the most developed countries. The structural gap between China and the major industrialized powers of the world is significant for us to put difficulties in China's energy-related international relations in perspective: lack of symmetry in policy dialogue contributes to misperception and even undue apprehension about future prospects.

International concerns about how China's economic growth will translate into geopolitical clout are an integral part in the lack of symmetry in China's overall international relations with the major powers of the world. China's search for overseas oil supplies has led the Chinese government to pursue close diplomatic ties with Iran, Sudan, Uzbekistan, and Venezuela. These are countries that pursue questionable domestic policies and in many cases foreign policies in defiance against American and European interests and/or preferences. The situation leads to concern about the strategic intent behind China's oil- and gas- related diplomacy. As one article on China's oil diplomacy questions: why is China seemingly working to challenge the interests of industrialized countries in North America, Europe, and Northeast Asia, while logic tells us oil should serve as a linchpin of closer relations instead?<sup>17</sup>

As mentioned earlier, for over a decade China has lived without a central ministerial agency to oversee the country's energy industry. This makes it difficult to ascertain whether a particular oil/gas venture overseas is the result of the Chinese government dictating its state-owned energy company to carry out a governmental mission or the domestic energy industry seeking diplomatic assistance from the government. In any case, the Chinese government has to be responsible for its foreign policy actions. It should be noted that Chinese energy companies have a short history of managing the political risks in venturing into an overseas market. It should also be noted that the international energy market has not been generous to intended entry by newcomers. For example, in 2003 both CNOOC and Sinopec were blocked from participating in the development of an oil field in the Caspian Sea after the existing partners decided to increase their own stakes.<sup>18</sup> When one views such developments from a strategic perspective based on China's interests, a question arises: where can Chinese oil companies go and not incur either political or business, or both, obstacles from the international community? Meanwhile, the political question the international community poses for China is how China matches its commercial power

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<sup>17</sup> Amy Myers Jaffe and Steven W. Lewis, "Beijing's oil diplomacy," *Survival* 44, 1 (Spring 2002): 115-133.

<sup>18</sup> "China Oil Giant Dealt a Setback," *New York Times*, 13 May 2003, p. C9.

with responsibility? The above review tells us that the challenge is for China and other leading consumers of the world's energy resources to learn to work together to cooperate in defining and addressing the political and social challenges that arise in many of the oil states of the world.

The Middle East has been and is likely going to continue to be the largest source of energy supply for China (Table 2). At the industry level, the oil refining industry in China faces the challenge of coping with expanding crude oil imports, increasing processing volume for Middle East high-sulfur crude (sulfur content of 1 percent or more) and improving the quality of oil products with the increase in domestic demand for petroleum products.<sup>19</sup>

Table 2 China's Sources of Crude Oil Import by Region, 1999-2004 (in percent)

Year	1999	2000	2001	2002	2003	2004
Middle East	46.1	53.5	56	49.5	50.8	45.4
Africa	19.8	24.1	22.4	22.7	24.3	28.7
Asia Pacific	18.6	15.1	14.4	17	15.2	11.5
Europe and Western Hemisphere <sup>20</sup>	15.4	7.2	6.9	10.6	9.5	14.3

Source: Chinese Customs Statistics

The one lesson that China has not yet learned, in sharp contrast to Japan after the oil crises of the 1970s, is the need to massively increase its capacity to process heavy oil from the Middle East. This means that China for some time to come will have to rely on selective brands of oil from the Middle East, thereby leading to a tight supply market in the lighter types of crude oil around the world. In addition, along with the expansion of China's oil refining capacity, the Chinese market would then be able to consume a larger portion of high-sulfur oil from the Middle East. In either case, Chinese dependence on Middle Eastern oil will grow.

Since the 1980s, China's pursuit of relations with the Middle East has been a contentious issue with the United States. China is routinely accused by the United States of selling weapons in exchange for oil and

<sup>19</sup> Guo Sizhi, *Oil Refining Business in China* (Japan Energy Economics Institute, May 2005) <<http://eneken.ieej.or.jp/en/data/pdf/285.pdf>> (November 1 2005).

<sup>20</sup> Note: Russia, Kazakhstan, Brazil, Argentina, Venezuela and Norway are recorded as 'Europe and Western Hemisphere'.

thereby undermining the global campaign against the proliferation of weapons of mass destruction. China's behavior over the two Iraq wars indicates that China does have shared interests with the United States and other powers in supporting stability in the Persian Gulf region. That shared interest is to keep Middle Eastern oil flow to the rest of the world, even when it means a heavy U.S. military presence in the region.<sup>21</sup> In the more recent years, China has become more active in Middle Eastern affairs. Securing energy supply is a primary objective.<sup>22</sup>

In the Middle East, China and the United States seem to be on a political collision course over China's pursuit of oil supplies from Iran. For example, in 2004, Sinopec, which accounts for over eighty percent of Chinese oil imports and is the single most important refiner in China, continued with its bidding for developing 16 Iranian oil fields in spite of attempts by the United States to persuade it to drop out of the race. This episode, while still unfolding, underscores the seriousness of Sino-American differences.

In 2005, the Bush administration responded to what it sees as a continued Chinese challenge to American efforts to contain Iran by supporting India's pursuit of nuclear energy while maintaining its sanctions against Chinese acquisition of the same technologies.<sup>23</sup> Such policies may produce unintended consequences by giving weight to voices in China that see politically motivated diplomacy as the ultimate instrument for securing China's oil supplies.

It is true that the Shanghai Cooperation Organization (SCO) granted Iran, together with Pakistan and India, observer status in 2005. In contrast, while the United States has wanted to be formally involved in the SCO process, it has not been granted such status. It is also true that the SCO is one of the regional organizations that China actively supports as part of its "new security concept", which emphasizes the importance of consultation and cooperation as a means for achieving security with its neighbors. But it should be noted that inclusion of Iran in the SCO framework does not necessarily mean a deliberate challenge to U.S. interests and dominance in the Persian Gulf and the wider Middle Eastern region. After all, to have Iran in the SCO is meaningful for the organization to be effective in combating terrorism in Central Asia, which has a direct bearing on China. A possible compromise would be to

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<sup>21</sup> Toshi Yoshihara and Richard Sokolsky, "The United States and China in the Persian Gulf: challenges and opportunities," *The Fletcher Forum of World Affairs* (Winter/Spring 2002): 69-75.

<sup>22</sup> Jin Liangxiang, "Energy First: China and the Middle East," *Middle East Quarterly* 12, 2 (Spring 2005) <<http://www.meforum.org/article/694>> (November 1 2005).

<sup>23</sup> Steven R. Weisman, "U.S. to Broaden India's Access To Nuclear-Power Technology," *New York Times*, July 19, 2005, p. A1.

include the United States, China, Iran and other key partners for the purpose of building regional consensus to address Iraq and Afghanistan, and then turn it into a regular forum for the purpose of reducing animosity.<sup>24</sup> Indeed, if the North Korean nuclear crisis leads to considerations of a Northeast Asian Regional Forum, there is no reason why the same idea cannot be applied to the Middle East and Central Asian energy-security regions too.

China shoulders a good part of the blame for the current state of affairs because it has been very poor at making its energy transactions with countries such as Iran and Sudan transparent. Lack of transparency fuels speculation that China has a well-coordinated project of countering U.S. influence, particularly when it comes to dealing with what the United States labels "rogue states."<sup>25</sup> For example, there is little information about CNPC's Sudan operation except that it started as a four-way joint venture involving Canadian, Malaysian, and Sudanese oil companies. Only through off the record interviews can one learn that a small fraction of CNPC's Sudanese oil production gets transported back to China due to its high level of sulfur. The majority is sold in the international markets.<sup>26</sup>

In addition, international energy companies have tried hard to enter the Chinese markets but met with varying levels of difficulties. Out of frustration grew imaginations about China doing all it can, and doing it alone, to protect and expand its acquisition of oil reserves worldwide. Lack of synergy in business cooperation between Chinese and international oil corporations has led to high profile competition for access to international oil fields. The clash of business interests between Chinese and international oil majors becomes political when an international oil major seeks political assistance from their home government. CNOOC's competition with Chevron-Texaco for Unocal is the latest case that may have long-term geopolitical ramifications for Sino-American relations.<sup>27</sup>

Central Asia is another region where images of a new "Great Game" easily re-emerge due to China's thirst for oil and gas. At present, the only

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<sup>24</sup> James Dobbins, "Iraq: winning the unwinnable war," *Foreign Affairs* 84, 1 (Jan/Feb 2005): 16-25. But Robbins does not suggest a more permanent forum.

<sup>25</sup> Borzou Daragahi, China Goes Beyond Oil in Forging Ties to Persian Gulf, *New York Times*, 13 January 2005, p. C8.; Howard W. French, "China in Africa: All Trade, With No Political Baggage," *New York Times*, 8 August 2004, p. 1.

<sup>26</sup> Author interview with a CNPC researcher, Beijing, July 10, 2005.

<sup>27</sup> Bernard Wysocki Jr. and Jacob M. Schlesinger, "For U.S., China Is a Replay of Japan; Washington Sees Parallels To '80s Battles With Tokyo, But Oil Changes the Stakes," *Wall Street Journal*, 27 June 27 2005, p. A2.

country in Central Asia from which China imports oil is Kazakhstan. The amount of oil involved is small (Table 3).

Table 3 Chinese Import of Crude Oil from Kazakhstan, 1999-2004 (10,000 tons)

Year	1999	2000	2001	2002	2003	2004
Import Volume	49.08	72.42	64.96	100.36	119.82	128.56
Percent of Total Import	0.013	0.010	0.010	0.014	0.013	0.013

Source: Chinese Customs Statistics

The oil pipeline under construction linking Kazakhstan and China may indeed have a geopolitical significance, since a bilateral pipeline binds the interests of the two countries together. Additionally, a successful experience in running the pipeline can serve as precursor to the realization of an eventual Eurasian pipeline network to China. By extension, China would be placed in a strategic position in deciding whether or not Eurasian oil and gas can pass through China to reach Japanese and South Korean markets.

However, Central Asia cannot be expected to play a significant role for China to meet its energy supply. Transporting Central Asian oil and gas to China's eastern and southern regions, where chronic energy shortages exist and where blackouts impose a heavy toll on economic growth, is against economic logic. This has been made clear by China's domestic West-East pipeline. When Xinjiang gas reaches Shanghai, it loses competitive value when compared with imported liquefied natural gas from such sources as Australia and Indonesia. Increased Chinese use of oil and gas from Central Asia can be helpful in altering the energy mix of China's northwestern provinces. This in turn is conducive to improving the environmental and atmospheric conditions in those localities, thereby providing an important public good for the rest of China and the entire Northeast Asian region.

China has in the past few years worked hard to improve its ties with Africa. This has included frequent visits to Africa by top Chinese leaders, increasing the Chinese profile in U.N. peacekeeping operations in Africa, the launching of a cooperation forum with Africa, and the offer of debt reduction to African states. China's differences with the United States in the United Nations over dealing with the Darfur atrocities in Sudan led to media speculation that China was "staking a claim" to Africa before America gains a stronger foothold in the region, especially the countries

around the oil-rich Gulf of Guinea basin.<sup>28</sup> Put in the broader context of Chinese diplomacy, the contention has to do with long-running Sino-American differences over economic sanctions as a diplomatic instrument. But clearly China also faces the challenge of doing its share to address questionable domestic policies in Sudan.

China's dependence on imported sources of energy is spreading Chinese economic and diplomatic presence to wherever there is spare supply. Out of this dependence arises the question of China's relations with the major powers in the world: how can China and the major industrialized nations co-exist with each other in the field of energy diplomacy? As a consumer country, China does not really have much of a choice in choosing its source of supply. Combined with the learning curve Chinese oil companies are going through as they interact with international oil majors in the Middle East, Central Asia, and Africa, contention between China and United States and its allies over China's pursuit of energy supplies can be expected to last for some time to come.

## Conclusion

For China, dependence on foreign sources of energy supply is not in itself a threat to its energy security. Over the past two decades, the rest of the world has not attempted to use energy as a weapon against China's pursuit of growth and prosperity. A key source of threat to China's energy security is ever growing consumption in China without significant improvement in China's energy efficiency. China's energy security, meanwhile, is increasingly an international concern. At the market level, Chinese consumption has become an important determinant of change in the global economic scene. At the political-diplomatic level, the international community increasingly demands China to behave in politically acceptable and responsible ways in its pursuit of energy supplies. China must enhance its transparency in those government-business interactions associated with its pursuit of energy interests overseas, so as to increase the level of confidence the international community can have on China's geopolitical intents.

A sensible direction in policy interactions between China and the international community over China's pursuit of energy security is to make China's efficiency in energy consumption a priority area for international collaboration. Focus on energy efficiency in China is probably the single most effective way to prevent against the nightmarish scenario of China crowding out the global energy market, at the expense

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<sup>28</sup> Karby Leggett, "Staking a Claim: China Flexes Economic Muscle Throughout Burgeoning Africa; Beijing Forges Deep Alliances With War-Torn Nations, Countering U.S. Influence; A Dam Gets Built on the Nile," *Wall Street Journal*, March 29 2005, p. A1.

of energy needs of both industrialized and industrializing countries. This focus should include working with China to improve its mechanisms for energy governance. In a nutshell, by giving priority to improving energy efficiency in China, the entire world can benefit from having a managed rise in Chinese demand for overseas oil and gas. It goes without saying that such an orientation is conducive to deepening interdependence between China and the rest of the world and thereby reducing the risk of more diplomatic clashes between China and major industrialized countries of the world.