

# China's Global Search for Energy Security: cooperation and competition in the Asia-Pacific

Suisheng Zhao

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### Abstract

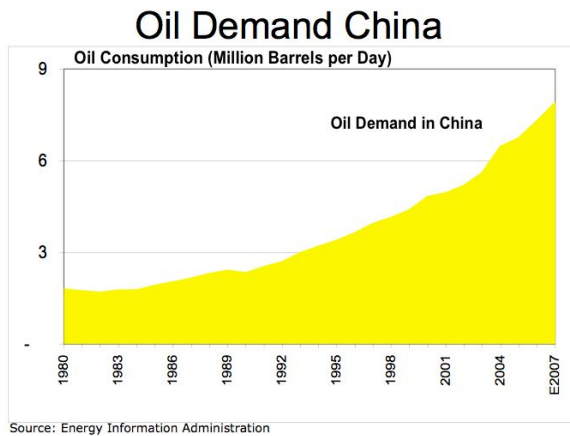
*China has adopted a state-centered approach towards energy security to deepen political and commercial relationships with all energy producing nations and to aggressively invest in oil fields and pipelines around the world. Applying this approach to its relations with its Asia-Pacific neighbors has produced mixed results. While China's energy diplomacy has brought about opportunities for cooperation with some of its neighbors, notably some countries in Central Asia and continental Southeast Asia, it has become a source of conflict with some other neighbors, especially those with border disputes over maritime territories which may have rich natural resources. This paper examines China's state-led search for energy security and its implications for China's relations with Asia-Pacific countries.*

### Introduction

To meet China's quickly growing energy demands, Chinese leaders have struggled between a market-oriented approach and a state-centered approach. The market-oriented approach seeks energy security through enhanced integration of national and international markets ...state intervention would be limited to the diffusion of information in a multilateral context, the support of innovation,

and, for some, the management of a strategic oil reserve which would be used in case of momentary supply disruption. [1]

In contrast, the state-centered approach is based upon neo-mercantilist thinking that relies on bilateral diplomatic contacts with oil producing countries to beef up energy security by the use of national resource and state-owned enterprise investments in overseas energy assets and tight control of exports and imports of energy products. Although market-oriented economic reform has been the direction of post-Mao reforms, the market-oriented approach has not gained momentum in the energy sector because the Chinese leadership has considered China's energy security strategically 'too important to be left to market forces alone'. [2] Taking over offices in 2002, 'President Hu Jintao and Premier Wen Jiabao decided that securing reliable supplies of petroleum and other scarce resources was not only crucial to sustained economic development, but also integral to China's national security'. [3] In 2003, Premier Wen Jiabao formalized seven small search groups to prepare for the first time a long term energy security strategy at the national level. Since then energy security has been prioritized by the Beijing leadership as a national security issue. [4]



### China's oil demand 1980-2007

Indeed, energy security is all about maintaining the nation's strong economic growth, a linchpin to social stability and ultimately the regime legitimacy of the Chinese Communist Party (CCP) as well as the foundation for China's rising power aspiration. As China's future economic growth and political stability depends more and more on continued economic growth fueled by readily available, affordable energy supplies from foreign sources, China has developed a series of diplomatic and administrative measures to enhance China's energy security by deepening political and commercial relationships with all energy producing nations and aggressively investing in oil fields and pipelines around the world to directly control overseas oil and gas reserves. Essentially a neo-mercantilist approach to energy security, China's energy diplomacy has produced a mixed result in relations with its neighbors in the Asia-Pacific. While it has brought about opportunities for cooperation with some of its neighbors, notably some countries in Central Asia and mainland Southeast Asia, it has become a source of conflict with some other neighbors, especially those with border disputes over maritime territories where rich natural resources are potentially located. This paper examines China's state-led search for energy security and its implications for its relations with Asia-Pacific countries.

### A state-led global search for energy security

Rapid economic growth in recent years has brought China to an unprecedented resource vulnerability that could threaten China's sustainable development. Zheng Bijian, a senior advisor to Chinese President Hu Jintao, listed the shortage of resources as the first of three fundamental challenges to China's peaceful rise in the twenty-first century. According to him, China's per capita water resources are a quarter of the amount of the world average, and its natural gas, copper, and aluminum resources in per capita terms are around 8.3%, 4.1%, 25.5% and 9.7% of the respective world average. [5] China's dependence on imported natural resources, particularly energy, has increased steadily and the trend is projected to continue as China's economic growth has produced voracious energy-gobbling industries which devour electricity and fuels, and a mushrooming middle class to embrace automobiles and modern apartment buildings that consume growing quantities of gasoline and heating oil. China shifted from a net petroleum exporter to a net importing country in 1993, overtook Japan as the second largest oil consumer next to the US in 2003, and became the third largest oil importer after the US and Japan in 2004. From 2000 to 2005, China's energy consumption rose by 60%, accounting for almost half of the growth in world energy consumption. Although China is able to meet more than 90% of its primary energy requirement with domestic supplies, it imports almost half of the oil it consumes. [6] The gap between domestic supply and demand has been increasing. The Chinese government estimates that it will need 600 million tons of crude oil a year by 2020, more than triple its expected output. [7] Analysts expect that by 2020 the country's demand for oil will reach 11 million barrels a day, natural gas consumption will more than triple, to 3.6 trillion cubic feet annually, and coal use will grow by 76%, to 2.4 billion tons a year. [8] China's oil import will account for 61% of the

country's estimated demand by 2010 and 77% by 2020. [9]

China has responded to the challenges by a state-led effort to reduce China's vulnerability to energy shortage, relying mostly upon bureaucratic agencies and state-owned corporations. State agencies in the energy sector have been reorganized constantly. The Ministry of Energy established in 1988 was reorganized into three giant state-owned oil and gas corporations in 1990. The China National Petroleum Corporation (CNPC) has more than two-thirds of China's crude oil production capacity and is assigned responsibilities mostly in China's north and west. The China Petroleum and Chemical Corporation (SINOPEC) controls more than half of China's refining capacity, is the primary importing company for crude oil, and was assigned responsibilities in the south. The China National Offshore Oil Corporation (CNOOC) handles offshore exploration and production. As China's increasing demand for energy has promoted concerns of its vulnerability to any threat to energy supplies, an Energy Leading Group headed by Premier Wen Jiabao was established in the State Council to oversee energy development and security as well as international cooperation in 2005. With government supervision, the state-owned corporations have stepped up exploration activities within its own borders and helped improve energy efficiency and conservation, and develop alternative fuels. The Chinese government has been building a strategic reserve of crude oil, based on US and European models, which would protect China's industries and military against sudden disruption of oil supplies.

In the meantime, the state has taken a neo-mercantilist approach to acquiring direct control of overseas energy production and supplies by the state-owned companies. This is to be achieved first through encouraging its giant state-owned energy corporations to acquire

overseas assets/companies and lock in supplies of oil and natural resources. While China's ninth five year plan from 1995 to 2000 called for, among other things, improving energy efficiency by 5% annually, in part by acquiring modern technology, the tenth five year plan in 2001-2005 added a call for seeking international sources of oil and gas. As one indicator of this new strategic move, all three major Chinese oil companies—CNPC, SINOPEC, and CNOOC—have moved quickly to internationalize their operations and expanded into a diverse range of international ventures, ranging from Venezuela to Sudan to Kazakhstan. For example, CNPC in the late 1990s began to transform into a multinational company by building its international subsidiary flagships, CNPC International (CNPCI) and China National Oil and Gas Exploration Development Corporation (CNODC), with overseas production accounting for 60-70% of profits. [10] Since 2003, the company has signed more than 20 contracts to explore or purchase production facilities in 12 countries, including Peru, Tunisia, Azerbaijan and Mauritania. In 2004, the company's production of natural gas at overseas facilities nearly doubled from the previous year and its overseas oil production climbed by a fifth. [11] Other state-owned energy companies have also been active in acquisition of production assets abroad and setting up overseas subsidiaries.

The corporate investment decisions have been made based on the consideration of the presence of competition from international oil companies and an assessment of political risk as well as technical factors. [12] Although each company has its own corporative objectives and their overseas investments are primarily driven by the companies themselves, the government has tried to help coordinate the companies to make sure that they will not compete against one another for overseas projects and have investment priorities in different parts of the world. [13] To enhance Chinese company's competitiveness and reduce political risk,

Chinese leaders have visited many oil producing countries helping Chinese corporations to secure acquisition deals, and Chinese diplomats have taken advantage of China's position in international organizations to promote energy cooperation. As a result, the Chinese search for overseas energy supplies has played a more and more important role in shaping China's foreign relations. To secure overseas energy supplies, China has intensified its efforts to deepen economic and political relationships with energy producing countries around the world. The main focus of this diplomatic drive is the Middle East. But a diversification strategy has led to a Chinese search for energy supplies in every part of the globe, including Africa, Latin America, and the Asia-Pacific.

China has become an active player in the Middle East, which Beijing used to consider a remote area for China's strategic interests but which now accounts for the majority of China's oil imports. The Chinese government has made a great effort to forge ties with all oil-rich Middle East countries during the recent decade, making deals in transportation and technology, showcasing its consumer goods and shoring up agreements to meet its enormous energy needs. Trade volume between China and the six countries of the Gulf Cooperation Council (GCC)—the United Arab Emirates, Saudi Arabia, Bahrain, Kuwait, Qatar and Oman—has increased rapidly through China selling military equipment and technology and investing in industries and energy infrastructure and pairing up to get oil and natural gas to China since China and the GCC countries began talks to try to strike a free trade agreement in summer 2004.

Iran is the largest Middle East oil supplier to China. In March 2004, SINOPEC signed a \$100 million deal with Iran to import ten million tons of liquefied natural gas over a 25-year period in exchange for Chinese investment in Iran's oil and gas exploration, petrochemical and pipeline infrastructure. The total deal worth \$70 billion

makes China the number one importer of Iranian energy. In late December 2006, CNOOC signed a memorandum of understanding to develop Iran's massive North Pars natural gas field. Under the deal, worth a whopping \$16 billion, CNOOC would cooperate with the National Iranian Oil Company to develop and liquefy the field's estimated 80 trillion cubic feet of natural gas. At around the same time, another Chinese firm, PetroChina, inked a deal to annually import some three million tons of liquefied natural gas from Iran over a quarter of a century. PetroChina's parent company, CNPC, followed suit, finalizing a \$3.6 billion project to explore and exploit Iran's South Pars gas field. The growing Sino-Iranian relationship undermines US sanctions against Iran. CNOOC is a publicly traded company on the New York Stock Exchange. So is PetroChina. As such, both potentially are subject to the provisions of the 1996 Iran-Libya Sanctions Act (ILSA). [14] In addition to Iran, Saudi Arabia is one of China's major oil exporters in the Middle East. The Sino-Saudi relationship has been enhanced by many high level visits in recent years. Chinese President Hu Jintao and Saudi King Abdallah made mutual visits to each other's country in 2006. King Abdallah's visit to China was his first trip outside of the Middle East since ascending to the throne in August 2005. During this visit, the two countries signed an agreement on energy cooperation that called for increasing joint investment in oil and natural gas fields.



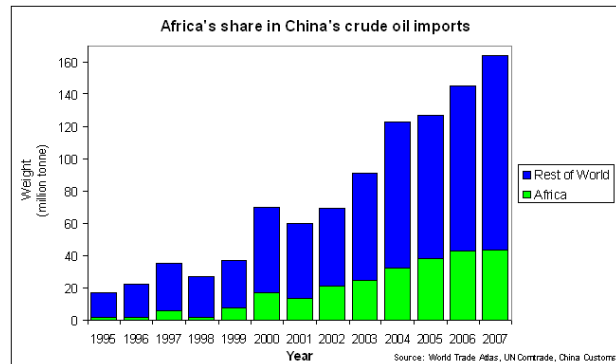
**Gholam Hossein Nozari (R) with the head of China's Sinopec international arm Zhou Baixiu in Tehran, December 2007 announce a two billion dollar contract to develop a major Iranian oil field**

Before the Iraq War in 2003, China's view of the global energy map focused mostly on the Middle East. Iraq was regarded as one well-supplied country. To develop some of Iraq's promising reserves, Beijing advocated lifting the UN sanctions that prevented investment in

Iraq's oil patch and limited sales of its production. China had been waiting for the end of sanctions to begin work on the Al-Ahdab field in central Iraq, under a \$1.3 billion contract signed in 1997 by CNPC. The field's production potential was estimated at 90,000 barrels a day. China was also pursuing rights to a far bigger prize—the Halfayah field, which could produce 300,000 barrels a day. Together, those two fields might have delivered quantities equivalent to 13% of China's domestic production. Then the United States went to war in Iraq in 2003. The war not only wiped out China's stakes in Iraq but also reshaped China's conception of the geopolitics of oil. To avoid the zero-sum contest for Middle East energy supplies with the US, Beijing has embarked on diversifying supplies beyond the Middle East and intensifying its search for new stocks in other parts of the world, including Africa, Latin America, and neighboring Asian countries.

This new strategy encourages Chinese state-owned oil corporations to secure investment agreements involving energy exploration, pipelines and refinery facilities with all states around the world that produce oil, gas, and other resources. China has successfully expanded its relations with many oil rich African countries, which supplied about a quarter of China's oil imports in recent years. China already started oil-investments in Sudan, a country accused by the US of genocide in its Western region of Darfur, in the mid-1990s. Sudanese oil began pumping in 1999 and has become China's first successful overseas effort to produce significant output. During the period, China invested more than \$4 billion in Sudan and Sudanese output now accounts for the majority of CNPC production. As late as 2000, China's only energy presence in Africa was in Sudan, but today its involvement on the continent includes Algeria, Libya, Nigeria, Angola and Guinea-Bissau, as well as a number of other sub-Saharan African nations. In 2006 alone, China paid \$2.2 billion for exploration rights in a field off Nigeria's coast, and is

aggressively expanding exploration of offshore fields in Angola. [15]



**China's oil imports: Africa and the world**

A relative newcomer to Latin America, China has moved quickly to become an important trade partner with many countries in the region. Chinese Vice-President Zheng Qinghong made a historical tour of three Latin American countries and signed multi-billion dollar agreements for investment in oil, gas and other projects in January 2005. One of the major outcomes of this tour was a series of oil exploration and purchase agreements with Venezuela under anti-American President Hugo Chavez, who has made no secret of his concern about his country's dependence on oil exports to the US and has built his popularity at home by tapping anti-American sentiment. [16] The fifth largest oil producer in the world, Venezuela has shipped more than 60% of its crude oil to the US and provided the US with 13-15% of its oil imports in recent years. The Sino-Venezuelan agreements committed CNPC, which already operates in two Venezuelan oil fields, to spend over \$400 million in developing Venezuelan oil and gas reserves, and thus may divert oil from the US to China.

China's energy diversification strategy is welcomed by many African and Latin American countries as it has not only allowed them to exploit as yet untapped resources but also gain leverage to negotiate better deals with other oil-importing countries. For example, China's 'holistic approach'—offering exploration,



development and financing packages to its African partners—has become an attractive alternative to traditional Western companies, which do not have a similar integrated package of carrots to offer. For African nations in financial trouble or unwilling to meet the transparency and accountability requirements of the World Bank and other international lenders, a Chinese deal literally can mean an 'alternative economic lifeline'. For example, in 2003, when Angola 'found itself facing a severe cash crisis', China stepped in with a \$2 billion loan the next year that bailed that country out. In Chad, where international lenders threatened to withdraw support from its new pipeline, 'the Chinese were willing to offer an alternative package of technical assistance, if World Bank discussions broke off'. Unlike US government development agencies, the Chinese do not focus on human rights, anti-corruption or economic reform as requirements for their support. This is a distinct draw to nations like Zimbabwe and Sudan against whom the US government, the European Union and the United Nations have imposed sanctions because of human rights violations. [17]

China's strategy has alarmed the United States, the world's largest energy consumer, and raised concerns among some in the US that China is not only challenging the United States' historic dominance in Africa, Latin America, and Asia but also undermining Western efforts to promote transparency and human rights in these developing countries, damaging US interests and values as China has vied for energy resources in some of the most unstable parts of the world and often ignored the promotion of transparency, good governance and responsible behavior with its partner nations. It is particularly a concern of the US as China has pursued deals with countries that are off-limits to Western companies because of sanctions, security concerns or the threat of bad publicity. Some observers have worried that China's active quest to secure energy supplies in Africa and Latin America may have fueled an energy

cold war. In this case, it is not totally a surprise to see that when CNOOC put together an \$18.5 billion takeover bid for California-based firm Unocal Corp in early 2005, the fierce opposition in US Congress prompted CNOOC to abandon the bid.

From the Chinese perspective, however, implementation of the diversification strategy has bared fruits. As a Chinese scholar stated, with 'strengthening international cooperation and diversify energy supplies' in mind, 'tapping into energy resources in countries that do not have sound oil and gas infrastructure and helping them establish their own energy industries will bring about a win-win situation where both are able to share the benefits'. [18]

### **China's good-neighboring policy and energy cooperation**

The Asia-Pacific is one crucially important area in which China's energy diversification strategy has been targeted. China often calls its Asia-Pacific neighbors 'periphery countries' (zhoubian guojia), where China has for centuries engaged in competition for leadership and now joined a new competition to access energy supplies close to home that could reduce China's dependence on cross-ocean oil shipping lanes. For a long time in the early years of the PRC, however, China was 'a regional power without a regional policy'. [19] To create a favorable international/regional environment for economic modernization after the early 1980s, Chinese leaders made a deliberate effort to devise an integrated regional policy, known as 'zhoubian zhengce' (periphery policy) or 'mulin zhengce' (good neighboring policy).

Energy security was not an issue when China began to make its periphery policy. A study by two Chinese scholars pointed to three developments in Asia that led Chinese leaders to pay special attention to its periphery at that time. [20] The first was the prospect of a 'Pacific century', which Beijing embraced with the hope that fast economic growth in the Asia-Pacific

region could offer new opportunities to China's economic prosperity. The second was the emergence of 'new Asianism', which claimed that the success of Asian modernization was based on its unique values. The third was the development of regional or sub-regional blocs following the collapse of the bipolar system. Beijing decided to take advantage of the collectivism that might provide new mechanisms useful for China to face the West. In light of these developments, Beijing's periphery policy was aimed at exploring the common ground with Asian countries in both economic and security arenas by conveying the image of a responsible power willing to contribute to stability and cooperation in the region. Implementing this policy, China improved its relations with most of its periphery countries roughly in two chronological stages: the late Cold War period of the 1980s and the post-Cold War period of the 1990s.

Two policy shifts were significant during the first stage. One was to abandon ideology as the policy guide and to develop friendly relations with neighboring countries regardless of their ideological tendencies and political systems (*buyi yishi xingtai he shehui zhidu lun qingsu*). The other was to change the practice of defining China's relations with its neighbors in terms of their relations with either the Soviet Union or the United States (*yimei huaxian, yisu huaxian*). China would develop normal relations with neighboring countries regardless of their relations with the Soviet Union and the United States. These policy changes resulted in an improvement of China's relations with some periphery countries previously in tension. One example was the normalization of its relationship with Mongolia, which had long been perceived as a Soviet satellite in China's northern frontier. A border agreement between the two countries was signed in November 1988.

The Tiananmen Massacre in 1989 and the subsequent end of the Cold War started the

second stage of improvement in China's relations with periphery countries. It was ironic that while China's relations with Western countries soured, its relations with Asian-Pacific neighbors improved after the Tiananmen Incident as the human rights records in most of these countries were no better than that in China. China normalized diplomatic relations with several influential Southeast Asian countries in the early 1990s—Indonesia, Singapore, Brunei, and Vietnam. At the first ASEAN-plus-1 summit meeting between the leaders of nine ASEAN members and the Chinese president in Kuala Lumpur in 1997, a joint declaration was published to establish a good-neighboring and mutual-trust partnership between China and ASEAN oriented towards the twenty-first century. A formal diplomatic relationship with South Korea was established in 1992, which marked the success of China's policy to secure a balanced relationship with both South and North Korea. Beijing's relationship with Russia improved spectacularly after the disintegration of the Soviet Union. Following Boris Yeltsin's first official visit to China in December 1992, Beijing and Moscow institutionalized a twice-a-year summit meeting system at president and premier levels. The Sino-Russian relationship was first defined as a 'constructive partnership' in 1994 and finalized as a 'strategic cooperative partnership oriented towards the 21st Century' in 1997. At the July 2001 summit in Moscow, Presidents Jiang and Vladimir Putin signed the Good Neighborly Treaty of Friendship and Cooperation to defend mutual interests and boost trade. [21]

The energy issue became a factor in China's periphery policy in the mid-1990s as runaway energy deficit began interfering in China's efforts to sustain economic growth. This new variable has helped China develop cooperative relations with some of its neighbors, notably some countries in Central and mainland Southeast Asia. The search for energy resources has greatly enhanced China's cooperative relations with Central Asian states, which were

considered remote to Chinese foreign policy during the Soviet occupation. China has demonstrated growing interest in the energy resource-rich expanses of the Caspian Basin in recent years because securing its relations with Central Asian countries involves both energy supplies and border area stability, 'the twin pillars of its future economic growth: political stability and plentiful energy'. [22] Seeking energy supplies under the name of good neighboring policy, China has taken the following four major initiatives and successfully developed cooperative relations with Central Asian countries.

First, following the disintegration of the Soviet Union, China secured a good start with the newly independent central Asian states of Kazakhstan, Tajikistan, Kyrgyzstan, Uzbekistan, and Turkmenistan in 1992. Three of the five central Asian states share borders of more than 3,000 kilometers with China. China also shares with these countries the concern that radical Islam could stir ethnic and popular revolt. China's westernmost region is inhabited by Turkic-speaking Muslim Uighurs, and Beijing fears the possibility of fundamentalist fervor erupting in that region. Russia has been bogged down in guerrilla war with Muslim nationalists in Chechnya. Tajikistan, Kyrgyzstan and Uzbekistan have cast militant Islam as their main enemy. This common concern has led these countries to work with China to contain ethnic fundamentalism. Eager to prevent Islamic militancy from fueling separatism in Xinjiang, China has dispatched waves of senior officials and military delegations to Central Asia. It gave parachutes, medicine and other supplies to airborne forces and border guards in Tajikistan, which has been convulsed by civil war. It also pledged military aid to Uzbekistan, which has been raided annually by an opposition group called the Islamic Movement of Uzbekistan.

Second, China initiated a 'Treaty of Enhancing Military Mutual Trust in the Border Areas', which

was signed by China, Russia, Kazakhstan, Tajikistan, and Kyrgyzstan in Shanghai in April 1996, then known as the 'Shanghai Five'. At its June 2001 meeting in Beijing, the Shanghai Five accepted a new member, Uzbekistan, and agreed to meet under a new name, the Shanghai Cooperation Organization (SCO). Although the SCO was originally designed as a talking shop on minor issues of borders and territory among China and its Central Asian neighbors, the SCO has increasingly focused on security issues since September 11. The six countries agreed on political, military and intelligence cooperation for the purpose of cracking down on the 'three forces' of terrorism, separatism and extremism, and to maintain regional security. It announced in November 2002 that an anti-terrorism center was established in Bishkek, Kyrgyzstan, with a secretariat in Beijing. Together with security issues, energy security has quickly become an important issue on China's SCO agenda, particularly in relations with Central Asian countries. Oil from the Caspian was traditionally exported to Russia, or more recently to Western markets via the Black Sea. Some Central Asian countries have looked for new markets for expanding production in recent years. The vast and growing energy market in China is attractive. Beijing has, in response, been cultivating economic ties with Central Asian countries. A Beijing Review article told these countries that 'The large oil market in China is no doubt a big magnet to Central Asian countries that are placing priority in energy industry development'. [23] Beijing certainly took a note that energy cooperation, for the first time, became one of the hotly discussed issues at the 2004 SCO summit held in Tashkent Uzbekistan. In response, Chinese analysts have increasingly talked about using the SCO to turn the old Silk Road across Central Asia into an 'energy road'. [24]

Third, setting Kazakhstan at the center of its Central Asia energy diplomacy, the Chinese government and state-owned energy



corporations have made a coordinated effort to secure energy supplies from this energy resource-rich country. Bordering between Russia and China, trade over the vast Kazakhstan-China border was historically low thanks to shabby roads and lingering border disputes. Kazakhstan's economy has grown strongly in recent years, largely due to foreign investment in oil and gas production around the Caspian Sea. Investment from major Chinese companies has been a large part of this. In July 2005, Chinese President Hu Jintao visited Kazakhstan and signed agreements aimed at developing a 'strategic partnership' with the Central Asian republic. As a result, the economic and political relationship between these two countries has grown quickly. China, largely through CNPC, has invested heavily in several oil- and gas fields in Kazakhstan. CNPC owns 85.42% of Aktobemunaigas Corporation (now CNPC Aktobe), 100% of the Bars exploration and development block formerly owned by Nimir Petroleum Bars Holding BV of Great Britain, and 50% of the North Buzachi oil and gas field located in northwest Kazakhstan, also formerly of Nimir and Chevron Texaco. In the summer of 2005, CNPC outbid the Indian state-owned company Oil and Natural Gas in reaching a deal to acquire PetroKazakhstan for \$4.18 billion. The transaction was the biggest overseas Chinese acquisition, followed only by Lenovo's purchase of IBM's personal computer unit for \$1.25 billion in May 2005.

The acquisition of PetroKazakhstan was feted in China as a major victory at a time when the country was still smarting from the failed attempt by CNOOC to bid for Unocal Corp. As it was reported, 'PetroKazakhstan's acceptance of the CNPC bid is a consolation prize for China's oil industry after another state-controlled Chinese company, CNOOC, withdrew an \$18.5 billion offer for Unocal on Aug. 2 after encountering strong opposition in the US Congress'. [25] PetroKazakhstan, based in Calgary, Canada, but managed from Windsor, England, is Kazakhstan's second biggest

foreign-owned energy venture. Although it is a considerably smaller company than Unocal, and without Unocal's extensive natural gas reserves or Unocal's reputation for high technology, its main asset lies in its full ownership of one field, Kumkol South, and half-ownership of two smaller ones, Kumkol North and Germunaigaz, locked in the heart of Central Asia, and the company's ability to operate in Kazakhstan. In addition to CNPC, other Chinese state-owned companies have also invested in Kazakhstan. CNOOC, after dropping its bid for Unocal, signed a memorandum in Beijing on 31 August 2005 to cooperate with CNPC and Kazakhstan's state-owned oil and gas company KazMunaiGaz on jointly exploring oil and gas in the northern Caspian Sea. [26] The CITIC group, a diversified state-owned investment giant with few oil interests, furthered Beijing's drive for overseas energy assets with the \$1.9 billion purchase of the Karazhanbas field on Kazakhstan's western border in December 2006. [27]

Fourth, making acquisitions and investments in oil fields, China completed a major construction project of a 3,000 km pipeline across the plains of central Kazakhstan for exporting oil to China's Xinjiang through a landmark agreement signed in 1997. When the original agreement was signed, the 3,000-kilometer pipeline made little commercial sense. Instead, the deal was part of Beijing's strategic efforts to partner with Central Asian nations to protect against potential pro-independent uprisings along the Xinjiang border and to counter growing US presence in the region. That is why after seven years only the first 400 kilometers of the pipeline were completed. China began to push for the construction of the second session only after it began large-scale energy investment in Kazakhstan. CNPC and Kazakhstan's KazMunaiGaz in 2004 signed an agreement to jointly invest in the construction of the second section of the trans-border trunk line, a 1,240-kilometre-long pipeline from Atasu in northwestern Kazakhstan to the border of China's Xinjiang. Before the signing ceremony,

President Hu Jintao told visiting Kazakhstan President Nursultan Nazarbayev, 'Focusing on the construction of Sino-Kazakh oil pipeline, the two nations should seek new breakthroughs in their cooperation of energy sources'. [28] The push to complete the second section of the project demonstrated Beijing's yearning to lock in new energy supplies and the Chinese determination in accruing oil and gas fields in Central Asia. After the pipeline's completion in 2005, it has handled 200,000 barrels a day and is hailed as 'the new Silk Road'. [29]

In addition to Central Asia, China has developed energy-based cooperative relations with some of the mainland Southeast Asian countries. The cooperation is either bilateral or multilateral largely through two mechanisms, the Greater Mekong Sub-region Cooperation (GMS) created at the instigation of the Asia Development Bank and the ASEAN Mekong Basin Cooperation (AMBDC). GMS has two levels: the ministerial level at annual meetings attended by China, Vietnam, Laos, Cambodia, Thailand and Burma; and an agency head level attended by Yunnan Province, Jiangxi Province, Vietnam, Laos, Cambodia, Thailand and Burma. GMS cooperation areas include transportation, energy, telecommunications, environment, tourism, human resources development along with trade and investment. Engaging with GMS of its engagement with GMS, China signed multilateral agreements with its Mekong River neighbors on navigation along the river and trade in electric power. [30] As a result of an agreement signed in March 2006 by China, Laos, Myanmar and Thailand to cooperate on the shipping of oil along the Mekong, which connects Yunnan with the three South-east Asian countries as well as Vietnam and Cambodia, an oil transport route has been built to transport oil from Southeast Asia to China. The initial accord to ship oil to China via the Mekong allowed for a monthly shipping quota of 1,200 tons of refined oil, but the quota has since been raised after China established an emergency response team to monitor oil

transport on the river and respond to any accidents. The route is a rather risky one for the countries on the Mekong as any spills or accidents would flow southward, affecting the environment and economies of the five countries downriver from Yunnan. But China is expecting to receive 200,000 tons of refined oil via the new route, which makes it possible to circumvent shipping oil through the pirate-infested Malacca Strait. [31]

Among the mainland Southeast Asian countries, China has established a unique relationship with Burma, a country rich in natural resources, including vast untapped reserves of minerals, oil, and natural gas. Ruled by one of the world's most brutal military regimes since 1962, many Western countries have imposed trade and investment sanctions on Burma. As a result, many Western corporations have avoided investing in this country. However, China has not been reluctant to import energy from Burma. One study by the Burma Project published in September 2007 found more than 26 Chinese multinational corporations involved in more than 62 hydropower, oil & gas, and mining projects in Burma. The projects vary from dams to dual oil and gas pipelines across Burma to China's Yunnan province. [32] China has planned to build a \$2 billion oil pipeline from Burma's coast on the Bay of Bengal to China's Yunnan Province. Such a pipeline would allow oil from the Middle East to reach China without having to pass through the Malacca Strait, a waterway that is plagued by piracy and that could easily be closed off in a war or international crisis. [33]

China's energy investment has been enforced by its financial assistance to the Burma regime in the form of 'no-condition-attached' loans, political support, and military armaments. Similar to their operations in countries such as Sudan, which have drawn much criticism, China's operations in Burma have been criticized by Western countries for the lack of environmental and social standards. The Burma

Project report indicates that China's many major projects in Burma, including large dams, oil & gas exploration and extraction, and mining operations, take place in ethnic minority areas along Burma's borders with India, Bangladesh, China and Thailand. Burma's laws allow for no public participation in decision-making, no environmental, social, or human rights impact assessment, and effectively no access to justice. As a result, these projects often result in environmental devastation and loss of land and livelihood for those communities that depend on the land and natural resources. Increased militarization around project areas also often results in the use of forced labor, forced relocation, and other abuses. [34]

### China's energy competition and territorial disputes in the Asia-Pacific

Although the state-led search for energy security has helped deepen China's relations with some neighboring countries in cooperative terms, latent in the energy drive is a rise of conflict with Asian-Pacific countries that either have border disputes over potentially energy-rich maritime territories or are competitors for energy resources. China has not hesitated to flex its muscles against competitors for energy resources. In this case, 'Beijing's obsession with energy—and its assertion of a Chinese-style Lebensraum doctrine—could render the country at loggerheads with many of its neighbors'. [35] China's thirst for foreign energy has sparked concerns from some of China's neighbors. As one study indicates, while much of the world is fixated on China's booming economic growth and its ravenous appetite for energy, untidy diplomatic loose ends in the form of territorial disputes with neighbors have many of the countries bordering the Asian giant nervous. Though Beijing's claims over Taiwan remain the focus of world attention, China is embroiled in unresolved territorial maritime and land issues with many of its neighbors. Given that China's military capability is growing apace with its economy, the potential for military conflict over

the disputed regions is similarly on the rise. While China up to now has attempted to address these issues diplomatically, the fact that many of the unresolved border disputes involve potential energy reserves might prompt China to use military force to resolve issues of strategic and economic interest. [36]



### Disputed areas of Senkakus (Diaoyutai)

China's border disputes may be divided into two categories. One is over land boundaries in its north and southwest borders, most notably, with Russia and India. The second category is over maritime boundaries involving both bilateral and multilateral relations. Bilaterally, China is in dispute with Vietnam over the demarcation of the Tonkin Gulf and with Japan over the Senkaku Islands (Diaoyu Islands in Chinese), a group of rocky islets lying on the

edge of the continental shelf about 100 miles northeast of Taiwan. Japan considers these islets as part of the Ryukyus whereas China claims them as part of the Taiwan province and therefore part of China. The major multilateral dispute is over the Spratly/Nansha islands in the South China Sea.

Progress towards the settlement of the border disputes has been made largely in the first category. The most important progress is over land disputes with Russia, which shares a total of a 4,300-odd-kilometer border: about 4,245 kilometers on the Manchurian sections and 55 kilometers between Kazakhstan and Mongolia. China signed the first border agreement in 1991 with the USSR on the Manchurian sections of the common border. In 1994, the second agreement was reached on the delimitation of the Sino-Russian border in the Altai region, between Mongolia and Kazakhstan. Ratified in 1996, it led to concrete demarcation in 1997. The Chinese-Russian Border Demarcation Commission was disbanded upon its work drawing to an end in 1999 when more than 2,084 border signs and markers along their borders were set up and 2,444 islands on the border rivers were divided. About 1,163 of these islands went to Russia and the others went to China. The last three large islands, two on the Ussuri River and one on the Argun River, were finally settled by an agreement signed when President Putin visited Beijing in 2004.

However, the territorial disputes with several countries along China's East and South frontiers, where China's major economic and political centers are located, have not been improved as much. Other than sovereignty principles, maritime energy resources have become an increasingly difficult issue in settling territorial disputes. Many of these maritime countries, such as Japan, the Philippines and Indonesia, possess almost no petroleum, natural gas, or coal resources on their land. Maritime resources are rich in some areas of the region, but tend to be located in waters that are not

clearly demarcated with respect to national sovereignty, and hence are prone to disputes and potential military conflict. China's unquenchable thirst for petroleum has flared up in its dispute with some Southeast Asian nations over their claims to the Spratly Islands in the South China Sea and complicated Beijing's efforts to peacefully settle territorial disputes with Japan over the group of supposedly oil-rich islands claimed by China and Japan.

The South China Sea is a semi-enclosed area surrounded by nine states. It stretches across 800,000 sq. km., with hundreds of features—outcroppings of rock and coral, islets and islands that dot the surface. It not only contains oil and gas resources strategically located near large energy-consuming countries but also is the world's second busiest international sea lane that links Northeast Asia and the western Pacific to the Indian Ocean and the Middle East, traversing the South China Sea. More than half of the world's shipping tonnage sails through the South China Sea each year. Over 80% of the oil for Japan, South Korea and Taiwan flows through the area. Jose Almonte, former national security adviser to the Philippine government, is blunt about the strategic importance of the area:

The great power that controls the South China Sea will dominate both archipelagic and peninsular Southeast Asia and play a decisive role in the future of the western Pacific and the Indian Ocean—together with their strategic sea lanes to and from the oil fields of the Middle East. [37]

It is in China's vital interest to secure its position in the South China Sea, particularly the narrow Malacca Strait, as 80% of China's oil imports flow through the 630 mile-long strait, a single, pirate-ridden ocean choke point between the Indian Ocean and the South China Sea. The

Strait is just 1.5 miles wide at its narrowest point. Currently, only 10% of China's crude oil imports come aboard Chinese vessels. Therefore, China is pushing to acquire a national fleet of Very Large Crude Carriers (VLCCs) that could be employed in the case of supply disruptions brought on by an accident or terrorist attack along the Malacca Strait or a US-led blockade during a conflict over Taiwan. To avoid the seas and the perilous straits, China has examined a range of options from the plausible to outlandish, including pipelines to Burma and Pakistan or even a Panama-style canal across Thailand. [38] In addition, China is transforming its armed forces, particularly China's naval capacity, well beyond what is required to protect its coasts and the Straits of Taiwan. Some Western observers point out that China has built up a sizable submarine fleet as well as made efforts to conclude agreements on the use of port facilities along the tanker routes in the South China Sea and in Burma, Bangladesh, and Pakistan. [39]

Facing these challenging strategic planning issues, the Chinese leaders have found it even more difficult to reach border demarcation agreements or compromises with Southeast Asian countries. Beijing draws a maritime boundary running from Taiwan southwestward virtually along the coasts of the Philippines and East Malaysia and Brunei and then northward more or less along the coast of Vietnam. The Philippines, Malaysia, Brunei, and Vietnam have disputed this claim. While Beijing has shown a certain degree of flexibility by suggesting 'shelving the disputes and working for joint development' (gezhi zhengyi, gongtong kaifa), China's maritime neighbors have been very assertive in contesting Beijing's sovereignty claims. As one study indicates, 'although China has offered joint development to other claimants, its concept of joint development seems to involve joint development of the producing oil and gas fields on other claimants' continental shelves—and then only after China's sovereignty has been recognized'. In addition,

Beijing has continued to 'insist on bilateral solutions and its interest and sincerity in participating in a multilateral cooperative solution remains in doubt'. [40]

China's position is criticized and even ridiculed by other claimants in the South China Sea. Vietnam is one of them and its volatile relation with China has become a particular source of tension. Beijing and Hanoi reached an agreement in defining their disputed 1,300-km land border after Chinese Premier Zhu Rongji visited Vietnam in December 1999. But no resolution was found over the two large islands groups—the Paracels (or Xisha and Zhongsha), over which China had military clashes with Vietnam in 1988 and 1992. Vietnam occupies most of the Spratlys to which China claims sovereignty. In early 2004 Vietnam announced that it would start commercial flights and tours of the disputed Spratlys and the PetroVietnam would welcome international bids for drilling and exploration activities in the disputed waters. Beijing protested Hanoi's actions as impinging upon China's territorial sovereignty. The tension has resulted in frequent skirmishes between Vietnamese boats and their Chinese counterparts in the disputed areas. It was reported that in early April 2007, Chinese naval vessels captured four Vietnamese fishing boats for operating in waters near the Spratlys. In July 2007 the Chinese authorities detained 41 Vietnamese fishermen in waters near the Spratlys and released them only after fines were paid. The reporter believed that 'Apart from the sovereignty issue, it is the resources beneath the surface that are the key to the latest skirmishes'. The potential for serious conflict has caused some oil companies to pull out. British Petroleum and its partners US oil giant ConocoPhillips and state-owned Petrovietnam halted a US\$2 billion project to develop a gas field off southern Vietnam in June 2007. [41]

The Chinese foreign ministry also decried efforts by some other Southeast Asian countries to



invite multinationals to explore oil and gas in the Spratlys. On 26 October 2004, a partnership of Malaysia's Petronas Carigali Overseas, American Technology Inc., Singapore Petroleum Co. and Petrovietnam's Petroleum Investment and Development Co. announced it had discovered oil at its offshore Yen Tu oilfield, 43 miles off Haiphong, with a preliminary estimate of reserves at 181 million barrels. On the same day, Chinese Foreign Ministry spokesman Zhang Qiyue stated that 'China is seriously concerned and strongly dissatisfied'. [42]

Beijing cannot give up its claims of sovereignty over these islands because the claims keep all of China's options open regarding resources. However, these territorial disputes have the potential to escalate into larger international conflicts, given the number of bilateral security commitments between regional states and major world powers, such as between the US and the Philippines. Were that to happen, 'China's ability to use force' would be 'constrained by the possible reactions of the United States, Japan, and ASEAN, which would probably view such action as an attempt by Beijing to dominate the South China Sea'. [43] Although exercising sovereignty over the disputed territories is crucially important for Beijing's leaders, it is certainly an extremely difficult decision for them to squander China's military resources and their political capital to seize these currently barren flyspecks. That is why China signed the 'Code of Conduct in the South China Sea' with the Association of South East Asian Nations (ASEAN), committing all signatories to peaceful resolutions of outstanding issues. As one observer indicated, 'While predicting future Chinese actions is difficult, it would seem that China is willing to modify its historic claims in return for increased access to indigenous energy reserves'. [44] China also signed with ASEAN the Treaty of Amity of Friendship and Cooperation and the Declaration on the Conduct of Parties in the South China Sea in 2003. However, tensions remain. For example, in violation of the

'Declaration', five states have permanent military garrisons on the atolls in addition to surveillance facilities under the guise of 'bird watching' towers, weather huts and tourist facilities. The fact that Taiwan is not a signatory to any of these agreements is also a cause for concern.

The dispute between China and Japan over the Diaoyu/Senkaku Islands has been a recurring issue since the US decided to hand the disputed islands over to Japan along with the islands of Okinawa in 1970. The islands lie in the East China Sea, about 12 nautical miles northeast of Taiwan and 200 nautical miles southwest of Okinawa, on the Chinese side of the Okinawa shelf. None of the five small volcanic islands and three rocky outcroppings, totaling only 2.7 square miles, are inhabited. The dispute is mostly about the surrounding EEZ. Because neither Japan nor China made a convincing case for sovereignty over the islands, the two governments essentially agreed to put off the issue. A crisis took place in July 1996 when a right-wing Japanese group went to the islands to renovate a lighthouse they constructed in 1978 and demanded the Japanese government recognize the lighthouse. Ethnic Chinese people in Taiwan and Hong Kong responded angrily. Beijing's response, however, was very calculated because of the forthcoming 65th anniversary of the Japanese invasion of Manchuria on 18 September, an anniversary very sensitive in Sino-Japanese relations. Pragmatic leaders in Beijing feared the dispute would fan popular anti-Japanese sentiment that in turn would force the government to take proactive action seriously damaging relations with Japan. As a result, throughout the dispute, there was minimal coverage of the overseas Chinese demonstrations in the Chinese media. The dispute was not reported at all in the Chinese media until tensions subsided.

The energy imperative has gradually changed Beijing's attitude towards the disputed islands. One Japanese newspaper editorial complained

that China is racing to develop natural resources to meet rapidly growing domestic demand for energy amid vigorous economic expansion. It will undoubtedly continue exploring and developing resources in the East China Sea. This could lead to more territorial disputes between Beijing and its neighbors. [45]

It is revealing that when seven Chinese activists shook off Japanese coast guard vessels and landed on one of the islands in March 2004, the Chinese government did nothing to stop these protesters setting sail from a Chinese port. When they were taken into custody by Japanese police and coast guards, the Chinese foreign ministry made official protests. After the seven finally returned to Shanghai from Okinawa, they were hailed as national heroes. As one Hong Kong reporter noticed, what's new this time was the marked change in Beijing's attitude toward the actions of the protesters. Until two years ago, police and state-security departments repeatedly prevented Diaoyu activists from setting sail for the archipelago, or even protesting outside Japanese diplomatic missions in China.

According to the reporter, the changing position was due to the petroleum imperative, evident in the statement of a leader of the group: they were risking their lives 'for the sake of our children and grandchildren ... the room for existence for the Chinese race will be bigger' if Beijing could reassume sovereignty over the Diaoyus and exploit their mineral riches. [46]

Both China and Japan are net oil importers, with Japan importing as much as 80% of its oil needs and China catching up quickly. In addition to the territorial disputes, the relations between the two countries have been troubled by political and military competitions. China has opposed a Japanese permanent seat on the United Nations Security Council and protested a Japanese history textbook, which is perceived as whitewashing Japanese WWII atrocities in China, and the Japanese Prime Minister's visit to the

Yasukuni Shrine that honors Japan's war dead, including war criminals. Japan has talked about cutting its overseas development assistance to China in the presence of China's improving standard of living, high growth levels and confrontational relations with Japan. These two countries' quest for energy security has enflamed these tensions. In response to a rising China-Japan struggle for scarce oil and other natural resources and China's voracious quest for energy, the Center for Safety and Security Research (CSSR), a research institute under Japan's Education, Science and Technology Ministry, released a report in June 2005, suggesting two crisis scenarios that China's actions regarding energy would impact Japan. The first scenario assumes that if China reinforces its procurement of energy without taking cost-efficiency into consideration, the world will be plunged into a situation in which each country competes for oil by ignoring international market mechanisms. As a result, political tension between the two countries over resources in the East China Sea will mount. The second scenario assumes that if China succeeds in concluding free trade agreements with Southeast Asian countries, their reliance on China will increase, leading to the isolation of Japan. Both scenarios portray shocking futures for Japan. [47]

It is against this background that there has been mounting tension between Japan and China over China's development of an offshore Chunxiao gas field in the East China Sea. The dispute has been fueled by reports of vast supplies of oil and gas in the region. Japan and China have been in dispute over the boundary between their exclusive economic zones in the East China Sea. Japan places it at a median line between the two countries, while China cites the size of its continental shelf, placing the boundary closer to Japan's territory. Both sides have proposed joint exploration of gas fields but their positions are far apart. Japan said it would share costs of areas already developed by China and would enter a joint exploration agreement

without prejudice to the broader EEZ dispute, but China began drilling in the Chunxiao field after the Japanese rejected a Chinese proposal to develop the field jointly in 2003. Although the field lies largely on the Chinese side of the median line, Japan claimed that China might be siphoning energy resources within its maritime border extending from the southern island of Okinawa. Japan wanted its share of the bounty. Japanese Foreign Minister Kawaguchi Yoriko raised the issue with her Chinese counterpart, Li Zhaoxing, in June 2004. In response, Li proposed that Japan and China consider jointly developing the project and putting their differences aside. However, the Japanese side complained that 'China has formally incorporated the disputed Senkaku islands near Okinawa into its territory under its territorial sea law. China has also been operating research vessels within Japan's EEZ without notifying the Japanese government in advance'. [48]

A Chinese exploration group started drilling there and plans were drawn up for a pipeline to ship the stuff back to the mainland. As a countermeasure, the Japanese government planned to begin procedures to grant private developers the right to test-drill on the Japanese side of the median line. To add to the sensitivity of the competition, a Chinese nuclear-powered submarine incurred into Japanese waters off the Okinawa islands in April 2005. The intrusion was followed by a two-day chase across the East China Sea. While China offered a swift apology for the incursion, this was soon followed by the intrusion of a Chinese research vessel into Japanese waters near the island of Okinotori. The vessel was believed to have been surveying the seabed for oil and gas drilling purposes. This was the 34th maritime research exercise by Chinese vessels within Japan's EEZ in 2004, up from eight in 2003, with China not giving prior notification in 21 of the 34 cases. [49] In a muscular display of its rising military might, China deployed a fleet of five warships on 9 September 2005, near the Chunxiao gas field. It was the first time that Chinese warships were

seen in that area. In response, in March 2007, Japan proposed new laws to protect offshore oil and gas rigs in the country's EEZ. One senior Japanese foreign ministry official expressed concern that this move 'could bring the territorial dispute with China to a head'. [50] In light of these developments, it is not totally out of line that a Japanese newspaper article calls the East China Sea 'the sea of conflict'. [51]

In addition to these disputes, China and Japan were locked in a diplomatic battle over access to energy resources close to home, the big oil fields in Siberia. While Japan desperately lobbied Moscow for a 2,300-mile pipeline from Siberia to coastal Japan, China saw Russian oil as vital for its own energy security and pushed for a 1,400-mile pipeline south to Daqing. The rivalry became so intense that Japan offered to finance the \$5 billion pipeline, invest \$7 billion in development of the Siberian oil fields and throw in an additional \$2 billion for Russian social projects. Chinese Prime Minister Wen Jiabao also pledged to invest about \$12 billion in the Russian energy sector during his Moscow talks in September 2004. The construction of the pipeline experienced several up-and-downs. Although Beijing sought a shorter route, Japan won the bit in 2004 because a security-obsessed China insisted on having full control of the end of the pipeline, and thus Russian oil supplies, within its borders. This Chinese solution would give the Russians zero flexibility in selling their oil to other customers. However, with the sometimes tense relations between Japan and Russia over Koizumi's sail around the disputed Northern Territories/Southern Kurils in September 2004 and the failure of Japan and Russia to sign a formal peace treaty ending the hostilities of World War II, Russian Industry and Energy Minister Viktor Khristenko signed on 26 April 2005 a decree On Determination of the Stages of the Construction of the Eastern Siberia-Pacific Ocean Pipeline System, which succeeded in satisfying both China and Japan as the oil will reach both countries through the pipeline. According to construction schedule,

the first branch of the oil-pipeline starting in Tayshet, Irkutsk region, and ending in Skovorodino, Amur region, near the Chinese border will be pumping 20 million tons per year in 2008. The pipeline is designed primarily for oil supplies to China. However, the next article of the decree says that once the oil-pipeline's first branch to Skovorodino is launched, the first starting complex of the oil terminal in the Perevoznaya bay, Primorye region, of the same capacity (up to 30 million tons) will be placed in operation. This means that the oil will go where the Russian authorities would turn it to, either from Skovorodino to China or to Japan. [52]

Other than the problems with these maritime neighbors, China's rising energy profile has coursed tensions with India, a major competitor for energy resources. Both countries' domestic resources are inadequate to meet demands and, therefore, increasingly in competition to acquire energy supplies abroad. One Indian paper believes that India is more vulnerable than China, given that it imports more than 70% of its crude oil needs as opposed to China's 40%. Although Indian oil companies have been attempting to aggressively maneuver and expand internationally, with the aim of tripling the annual flow of oil from overseas assets to 20m barrels by 2010, more often than not they find themselves running up against Chinese heavyweights. Indian companies have complained that Chinese energy companies are not only comparatively cash-rich but also receive solid financial backing from the central government. The political backing behind Chinese oil companies was on display in October 2004 when the ONGC-Mittal combine reportedly attached two conditions along with their \$3.98 billion bid for PetroKazakhstan but was defeated by CNPC on 15 August 2005 because the Chinese were able to raise their bid price (originally less than ONGC-Mittal's price) to \$4.18 billion and were ready to go ahead without any conditions attached. China's flexing of its well-oiled muscles demonstrates the depth of the competition between the two Asian titans

at a time when world energy supplies are already tight and the economies of India and China are galloping upwards. [53]

## Conclusion

China's state-centered approach towards energy security has led to a mercantilist strategy to bolster energy supplies by gaining direct control of oil/gas fields and supply routes. This strategy has produced a mixed result in its foreign relations. On the one hand, it has brought an opportunity to enhance cooperation with some of its neighbors, which seem to be giving support to China's claim of pursuing a 'peaceful rise' policy. On the other hand, fueled by the neo-mercantilist approach to locking up energy supplies, the competition for energy resources may become the spark for regional and international instability. As one study indicates,

Armed with foreign exchange reserves approaching \$1 billion, China has the option of paying whatever it takes to secure the energy resources it needs to fuel economic growth as a cornerstone for social stability. But such a stance, reflecting China's concern about growing energy dependency, runs into conflict with the leadership's declared objective to ensure China's peaceful rise. [54]

China's quest for energy resources to fuel its rapid economic growth, therefore, has posed a serious challenge not only to the Western powers but also to many developing countries, including its Asian neighbors. This challenge is not limited to the economic sphere and has spilled over into the political and military spheres. As oil prices continue to rise and China imports an increasing amount of its energy needs, China's search for energy resources is likely to intensify its competition with the US and its Asia-Pacific neighbors. As one American

scholar warned,

“The results of China's energy diplomacy are being watched with growing unease, especially in Asia but in other parts of the world as well ... There is a danger that China's neo-mercantilist strategy to bolster energy security by gaining direct control both of oil and gas fields and supply routes could result in escalating tensions in an already volatile region that lacks regional institutions for conflict resolution and is in the midst of a difficult transition process, which is due in fact to the rise of China. Competition for energy is exacerbating existing rivalries between China and a number of its neighbors.” [55]

From this perspective, China's claim to pursuing a 'peaceful ascendancy' policy and putting aside areas of disagreement in favor of creating a stable environment for economic development is limited to areas where China's vital strategic interests are not threatened. It is not by coincidence that China has made progress in resolving its border disputes with Russia, while failing to make progress on territorial disputes with Japan and Vietnam, given that the latter involve access to potential oil and gas resources. China's relations with these neighbors could become testy, if not tempestuous, should Beijing's energy imperative translate into aggressive tactics in border disputes.

*This article appeared in Journal of Contemporary China, issue 55, 2008, pp. 207-27.*

*Suisheng Zhao is Professor at the Graduate School of International Studies, Executive Director of the Center for China-US Cooperation, University of Denver, and the founding editor of*

*the Journal of Contemporary China. He is the author of China-US Relations Transformed: Perspectives and Strategic Interactions.*

*Recommended Citation: Suisheng Zhao, “China's Global Search for Energy Security: cooperation and competition in the Asia-Pacific” The Asia-Pacific Journal, Vol 49-4-08, December 7, 2008.*

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