

## Introduction

The scarcity of natural resources has long been a source of conflict between states. Access to water and land, possession of minerals, timber and spices, and control of energy supplies have caused or contributed to wars since the earliest recorded civilizations. From the struggle for control over the Tigris and Euphrates in Mesopotamia, through European colonial expansion, to competition for steel, wheat and rubber which contributed to World War I and II, states have repeatedly deployed military strength to secure access to natural resources.<sup>1</sup> Petroleum has played a prominent role in natural resource competition since the early twentieth century.<sup>2</sup> As the use of automobiles multiplied and industries began switching to oil as their primary fuel, developed nations began to seek out oil reserves around the world.<sup>3</sup> In the last 100 years, petroleum has transformed from a relatively valueless commodity to one of the most sought-after resources in the industrialized world, and just as with other resources, competition for oil has contributed to conflict. Faced with limited energy access and an oil embargo from the United States, Japan chose to bomb Pearl Harbor in 1941 in order to increase its access to oil fields in the East Indies. U.S. foreign policy in the Cold War, articulated in the Carter Doctrine, called for unfettered access to oil resources including the possible use of force as guarantor.<sup>4</sup> These same concerns have been significant factors in U.S. military action since the 1990s through the current Iraq War.

A new major player has appeared in the world oil market in the last fifteen years. Since outgrowing its domestic production and becoming a net-importer in 1993, China has become the second largest oil consumer.<sup>5</sup> Its surging demand—accounting for 40 percent of the global growth in demand this century<sup>6</sup>—has been blamed for skyrocketing oil prices, most recently reaching historic highs of close to \$120 a barrel.<sup>7</sup> Since the early 1990s, China has actively pursued what it calls its “going out” strategy and consequently secured exploration and production rights in 21 countries across four continents.<sup>8</sup> This new competition, coupled with dwindling reserves of easily accessible oil, led some American analysts and politicians to predict future conflict. According to these individuals, oil competition is a zero-sum game; China’s gain of oil access is the United States’ loss. “The seeds of what could be the next world war are quietly germinating,” warns Gal Luft, an analyst and chief proponent of this view. “China,

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<sup>1</sup> Michael T. Klare, “Energy, Resource Conflict, and the Emerging World Order,” interview by Barry S. Zellen, *Strategic Insights*, (Washington: U.S. Navy, n.d.), <http://www.ccc.nps.navy.mil/si/2008/Feb/klareFeb08.pdf> accessed April 21, 2008.

<sup>2</sup> Michael T. Klare, *Blood and Oil: The Dangers of America’s Growing Petroleum Dependency* (New York: Metropolitan Books, 2004), 148-149.

<sup>3</sup> *Ibid.*, 149.

<sup>4</sup> *Ibid.*, 150.

<sup>5</sup> Erica S. Downs and Jeffrey A. Bader, “Oil-Hungry China Belongs at Big Table,” (Brookings Institution, September 8, 2006), [http://www.brookings.edu/opinions/2006/0908china\\_bader.aspx](http://www.brookings.edu/opinions/2006/0908china_bader.aspx), accessed April 21, 2008.

<sup>6</sup> Esther Pan, “China, Africa, and Oil,” (Council on Foreign Relations, January 26, 2007), <http://www.cfr.org/publication/9557/>, accessed April 21, 2008.

<sup>7</sup> Pablo Gorondi, “Oil sets new record above \$118 a barrel on supply concerns,” *Associated Press*, 22 April 2008, <http://ap.google.com/article/ALeqM5i5TtajgUpSm7KY5jf-ICJGHBB-tAD906UKT80>, accessed April 22, 2008.

<sup>8</sup> Energy Information Administration, “Country Analysis Briefs: China,” (Washington: Department of Energy, August 2006), <http://www.eia.doe.gov/emeu/cabs/China/Background.html>, accessed April 21, 2008.

already a net oil importer, is growing increasingly dependent on imported oil ... Superpowers find it difficult to coexist while competing over scarce resources.”<sup>9</sup>

Luft’s statement represents an extreme—but important—view on the spectrum of interpretations of China’s foreign oil strategy. Arguments posited by oil and international policy experts range from alarming—proposing that this competition will breed conflict—to idealistic—claiming that China’s increased need for oil will provide a cause for increased relations between China and the West. But almost all agree that oil will play a central role in whatever outcome. In this paper I seek to understand China’s ‘going out’ oil strategy on a fundamental level; exactly how does China pursue its oil partnerships, and what effects does this strategy have on the world oil markets and international relations generally? In answering this question I hope to provide a sound basis for predicting how China will behave as a competitor with the United States and other major oil-importing regions as its needs increase. With an accurate understanding of China’s current behavior, as ascertained through several examples of its current dealings, I will be able to provide the proper framework to understand how China does and will behave as an actor in the world energy market, and shed some light on the likelihood of conflict over this issue. Ultimately this may provide one indicator of how China is likely to integrate into—or challenge—the world order.

In answering these questions, I first present a survey of the current literature on the topic. Using this literature I then outline five general characterizations of China’s oil strategy and the implicit motivations associated with these strategies. To evaluate these conclusions, I draw on three representative examples of its partnerships: Sudan, Iran and Venezuela. An analysis of China’s history of interaction with these countries provides a concrete basis for analysis of the various arguments set forth about China’s behavior. I then conclude with a discussion of what the case studies reveal about Beijing’s oil efforts and what, if anything, they indicate about the future of oil competition between China and the West.

## **Review of Relevant Literature**

A wealth of literature produced in the last decade addresses the topic of China’s international oil strategy. While generally drawing on the same set of facts and examples, the authors make competing assertions about long-term implications of China’s oil strategy. In supporting their claims, they draw on historical comparisons, political and economic philosophies, case studies and statistical evaluations. The body of relevant literature encompasses scholarly works, such as books and journal articles, policy position papers, opinion pieces, and news reports. There is also a significant body of government and industry-produced literature designed to provide details and which but which avoid overt political positions. All are critical to understanding the mechanics of the situation, and to providing multiple sets of interpretations and ideologies which set up analytical frameworks.

Interestingly there exists a considerable second body of literature on China and oil from the 1970s. Following the Yom Kippur War and the Organization of the Petroleum Exporting Countries (OPEC) oil embargo of 1973, a great number of Western scholars, politicians, economists and oil industry experts turned their attention eastward to China with the hopes of it becoming “the future Oriental Saudi Arabia.”<sup>10</sup> These analysts saw great potential in the Chinese

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<sup>9</sup> Gal Luft, “U.S., China Are on Collision Course Over Oil,” *The Los Angeles Times*, 2 February 2004, <http://www.iags.org/la020204.htm>, accessed April 21, 2008.

<sup>10</sup> Vaclav Smil, *Energy in China’s Modernization*, (New York: East Gate Books, 1988), 8.

expanses which had yet to be fully explored. This focus subsided through the 1980s and 1990s with the end of the oil embargo and disappointing oil discoveries in China's plains. While this collection of literature does not have direct bearing on today's analysis, it is nonetheless useful because it highlights how past academic analyses and predictions of oil supply and demand affected foreign policy of the time. It also reminds us that consensus analyses on the oil issue have proven drastically wrong in the past, and thus we should be humble with any conclusions we draw today.

By the time oil once again featured prominently in Western literature on China, it was for the opposite fear—that China's demand would be an undue drain on the world supply. Though China became a net importer of oil in 1993, there was still limited literature through the 1990s on China's rising energy needs. It was not until the early twenty-first century that the issue exploded into both academic and industry debate. This discussion was driven by fears of an impending world oil crisis, with great focus on the limited global oil reserves and spiking prices. Many economists and policy analysts shifted the blame to China, saying it was China's increasing reliance on oil imports which threatened the stability of the oil markets.<sup>11</sup> This literature, authored in 2004 and 2005, gave way to greater discussion about the endgame situation, with analysts questioning what will happen when oil competition heightens and major energy consumers like the United States, China and European nations are forced to directly compete over limited resources.

There are several resources which deserve special mention, as they provide a solid foundation for many of the other analyses, and will do so for mine as well. Both Robert Ebel's "China's Energy Future" and Philip Andrews-Speed's "Energy Policy and Regulation in the People's Republic of China" provide comprehensive examinations of the fundamentals of Chinese oil strategy. While each work has its own aim and ideology, the authors do an excellent job of laying out the information and making clear their analyses. I have supplemented Ebel's book with a personal interview conducted at his office in Washington. The International Energy Agency's (IEA) "China's Worldwide Quest for Energy Security" provides a detailed account of China's energy sector and data on its oil imports by country of origin. The Congressionally chartered U.S.-China Economic and Security Review Commission (USCC) puts out yearly reports on China, which while thoroughly detailed and a valuable source of expert testimony, tend to hyper inflate the threat of China's growth. For data on world oil consumption and long-term oil supply, the U.S. Energy Information Administration and BP's Statistical Review of World Energy constitute my authoritative sources.

There is a fair amount of work detailing China's search for oil resources around the world. However, much of it is done with a particular aim or argument in mind, meaning that the conclusions they draw must be examined critically. Some writers provide a survey of China's oil resources, while others focus specifically on regions, including Africa, Latin America, the Middle East and Central Asia. Analysts including Ebel, Philip Andrews-Speed, Erica Downs, David Zweig & Bi Jianhai, and Xu Yi-chong aim for a broad perspective on China's energy strategy, using several examples to illustrate their core arguments. While many of these scholars provide compelling arguments, as broad arguments they are subject to challenge due to examples of exceptions. This makes the region-specific analyses particularly helpful, as they provide data to either challenge or reinforce the broader theories. These works tend to be oriented more

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<sup>11</sup> Esther Pan, "China, Africa, and Oil," Council on Foreign Relations, January 26, 2007, <http://www.cfr.org/publication/9557/>, accessed April 21, 2008.

heavily around specific arguments, such as Thomas Woodrow's "The Sino-Saudi Connection" which asserts that China's interest in securing an oil partnership with Saudi Arabia is to supplant American influence in the region, and so must be evaluated more critically. However there are also several pieces which are more expository than argumentative. For example, Kerry Dumbaugh and Mark P. Sullivan's overview of China's involvement in Latin America and Esther Pan's similar analysis of China's activity in Africa provide helpful data without setting forth arguments about long-term implications.

One consistent shortcoming in much of the literature is that the analysts speak past each other rather than addressing the different views about the subject. For example, as Yi-chong makes the case for China's oil strategy driving it to a Liberal world order, Luft highlights only those elements which indicate that conflict is on the horizon. While not a universal issue, there is still insufficient literature which puts the competing theories in conversation. This may be a factor of the relative recency of the literature; there simply has not been enough time or literature for comprehensive analyses.

The rush over the last decade to produce literature on China's oil strategy is indicative of two important conclusions. First, China's increase in oil needs is thought to be of great importance in the shaping of the balance of power. Throughout the extensive literature on China's growth on the global stage, few analysts disagree that its energy needs will play an important role. Second, China's oil strategy is yet to be understood clearly. Conflicting examples, incomplete information, changing circumstances and an occasional measure of paranoia has led to speculation over concrete analysis. This provides a window for more analysis and evaluation of current theories.

## Research Design

Deriving any of China's political, social or economic strategies is a challenging prospect, and its energy policy is no different. The People's Republic of China has a history of saying one thing and doing another, and skewing its publicly reported data and news. With the state controlling the media and huge parts of its economy—including the petroleum industry—the model is further complicated by "protectionist tendencies" which are not necessarily related to the oil strategy.<sup>12</sup> With these factors it is particularly difficult to ascertain trends, much less recognize a whole strategy. This effort carries an inherent assumption that China has a unified strategy for international oil acquisition, which could be incorrect. "There are several strategies rather than a single one, and many actions which may or may not reflect policy," describes the International Energy Agency (IEA). "Policy drift persists despite a great deal of apparent activity."<sup>13</sup> But the prospect of defining China's overall strategy is not entirely a fool's errand. Whether or not the policy is explicitly articulated is of secondary interest in this inquiry. Policy can be formed by pen and paper or organically through a series of events, and is usually influenced by both. So even if there is no express policy, the patterns which emerge from its dealings are still revealing of how China is likely to continue in the future. There is a considerable base of activities China has engaged in stretching back to the early 1990s which shed light on its oil import tendencies. By gathering information on each of these, we can formulate as close to a concrete understanding of China's oil policy as is reasonably possible.

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<sup>12</sup> International Energy Agency (IEA), *China's Worldwide Quest for Energy Security*, (Paris: OCED/IEA, 2000), 9.

<sup>13</sup> *Ibid.*, 8.

There is no one-stop shop for information on China's specific oil partnerships. Instead a wide swath of material must be evaluated, and I draw on a variety of analyses, industry reports, U.S. governmental reports, international energy group reports (such as the IEA and OPEC), and news articles. Each source has its own inherent biases, which must be taken into account. For instance a RAND Corporation report written for the U.S. Air Force on China's energy strategy overemphasizes where China has made military commitments for oil,<sup>14</sup> while a liberal journal article deemphasizes those relationships.<sup>15</sup> There is also the inherent problem of incomplete information—a news report about China's \$400 million contract with Iran may omit information about prior oil deals, or worse, another deal may be struck without the media noticing. There is thus no way to ensure absolute thoroughness in data collection. But it is possible to gather enough data and information to serve as a reasonably representative sample.

*Case Studies: Sudan, Iran and Venezuela*

To attempt to gather information on each of China's hundreds of energy partnerships with dozens of countries would be as impractical as it would be unhelpful. Instead, I focus on three principal example countries that China has forged relationships with, which will help illuminate Chinese energy policy as a whole. Several important characteristics influence which countries are most representative of China's strategy as a whole.

First, we must look at where China has sought to open new oil markets, as this is generally accepted to be a hallmark of their energy strategy. Nowhere has this occurred as widespread as in Africa, and while China has secured partnerships with at least eight African nations, none has received as much attention as its relations with Sudan. The continuing violence in the Darfur region, highlighted by Beijing's upcoming hosting of the summer Olympics, has made China's oil partnerships and military support of the Sudanese regime a hot issue among human rights activists and multinational organizations. But beyond the controversy, Sudan is also an excellent representation of China's efforts to directly invest in the development of oil industry and infrastructure. The Sudanese partnership has also had more time to develop than some of China's other new markets, and so reveals more about how the strategy has evolved over time.

Any analysis of international oil policy would be incomplete without a look at the Middle East, as it is home to the largest proven oil reserves, making up 61 percent of the world supply.<sup>16</sup> Analysts agree that the Persian Gulf region will continue to be the flashpoint in the geopolitical struggle over oil for years to come. And while China is actively seeking oil around the world, the Middle East is still the provider of 40 percent of China's oil imports.<sup>17</sup> The Persian Gulf region is particularly important for our question of how China and the United States will compete for oil, as it has become the primary source of oil imports for both nations. I focus on Iran specifically, for a few key reasons. For one, Iran is second only to Saudi Arabia as China's oil supplier and is

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<sup>14</sup> Erica S. Downs, *China's Quest for Energy Security*, (Washington: RAND Project Air Force, 2000), [http://www.rand.org/pubs/monograph\\_reports/MR1244](http://www.rand.org/pubs/monograph_reports/MR1244), accessed April 21, 2008.

<sup>15</sup> Xu Yi-chong, "China's Energy Security," *Australian Journal of International Affairs* 60, no. 2 (June 2006), <http://www.informaworld.com/smpp/ftinterface~content=a747647541~fulltext=713240930>, accessed April 21, 2008.

<sup>16</sup> *BP Statistical Review of World Energy*, (London: BP, June 2007), 6, <http://www.bp.com/multipleimagesection.do?categoryId=9017892&contentId=7033503>, accessed April 21, 2008.

<sup>17</sup> Philip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China*, (The Hague: Kluwer Law International, 2004), 335.

continuing to expand its exports.<sup>18</sup> Additionally, Iran's challenge to the West over nuclear technology and terrorism serves as a test for China; in dealing with importing oil from Iran, China may have to choose between its energy interests and international relations.

The final case study of Venezuela serves as an excellent example of how China competes directly with the West over oil resources. While the United States has historically been the primary consumer of Venezuelan oil, China has made a concerted effort to increase its own access to petroleum fields there. Not only does this raise concerns among American analysts about decreased access to oil, but some say China's involvement in South America has as much or more to do with challenging American supremacy in the Western hemisphere than it does with simply securing energy access. Evaluating China's actual actions in Venezuela will give substance to speculation, and illustrate better what consequences increased competition may bring.

While these three countries provide a solid representation of aspects of China's foreign oil activities, they do not make up a comprehensive review. It is important to consider what did not make the list. One area of particular growing interest is Central Asia, where China is negotiating partnerships with many former Soviet states. These could be of strategic and political importance to China, but generally speaking these partnerships are not yet developed enough to draw insights about China's strategy. China's developing relationship with Russia is also worth keeping an eye on, but is opaque and shifting. Even China's efforts to secure access to Canadian oil fields has some American analysts concerned, but the small magnitude and speculative nature of this relationship make it as of yet inconclusive. Certainly these and other examples will be used in the discussion, but I have not focused on them as heavily in their own right in the research process.

### **China's Energy Needs in the Long-Term**

Before analyzing China's oil strategy in the long-term, it is important to have a minimal understanding of the future of China's oil needs. The growth in China's energy demand is directly linked to its economic growth. Production of crude oil was minimal before the Communist takeover in 1949, at which point it accelerated quickly.<sup>19</sup> With stagnant oil production meeting fast increasing economic growth, China began to rely more heavily on imports in the 1980s and the tipping point came in 1993 when China became a net importer.<sup>20</sup> Analysts range in their expectations for China's growth. The Chinese economy, and by extension its energy needs, is driven by the state's desire to continue increasing its exports, rather than to satisfy its domestic needs.<sup>21</sup> Some see the current pace of growth in oil demand as staying consistent into the future, but this is perhaps an unreasonable assumption; China's current gross domestic product growth rate of about 10 percent<sup>22</sup> is not sustainable in the long term, and as it further integrates into the world economy, China will have no choice but to slow its growth.<sup>23</sup> Industry analysts and academics agree that China's domestic oil supply will peak, and demand

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<sup>18</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 45.

<sup>19</sup> *Ibid.*, 7.

<sup>20</sup> *Ibid.*, 8.

<sup>21</sup> Philip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China*, (The Hague: Kluwer Law International, 2004), 23.

<sup>22</sup> "Country Briefings: China," *Economist*, 10 April 2008,

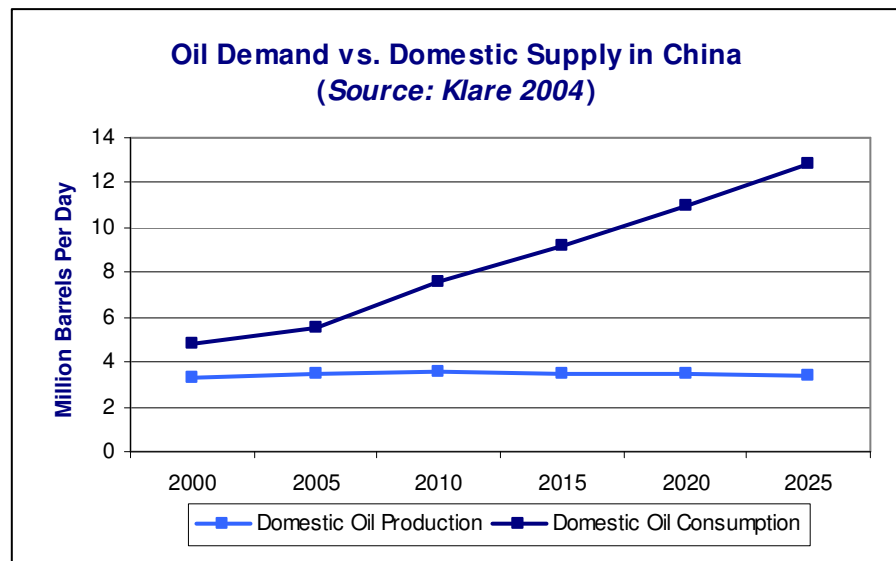
<http://www.economist.com/countries/china/profile.cfm?folder=Profile-Forecast>, accessed April 21, 2008.

<sup>23</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 32.

will continue to grow, but a multitude of factors influence when the peak will occur, including the growth rate of China's GDP, the use of alternative energy sources, and the effect of higher prices on demand within China. However most agree the domestic supply peak will come around 2020,<sup>24</sup> and that by this point, China's demand may account for 10 percent of world oil needs.<sup>25</sup> At this time increasing demand and decreasing supply may push the oil markets to, or beyond, their limits.

### Characterizations of Strategy and Motivations

As discussed, the current literature lays out a variety of



characterizations of China's oil strategy and speculates on its potential motivations. While each author derives their own unique view of the strategy, taken as a group I have identified five primary depictions. Analysts argue that China's drive to secure oil strategy is defined by: 1) opening new markets; 2) competition with Western oil consumers in current markets; 3) using market-disrupting tactics in competing for oil access; 4) enhancing interdependency with oil-producing nations; and 5) building up military capability to secure oil transport security. Additionally, inherent in these characterizations is the assumption of four distinct motivations in pursuing international oil agreements: 1) ensuring energy security; 2) seeking respect as a world leader; 3) reinforcing domestic stability; and 4) challenging American military supremacy. These lists are derived from the current discussion and are simplified versions of developed arguments. Some of the characterizations are complementary to each other, and any one grand theory of China's energy strategy, which leaves out aspects of the others, would be incomplete. There is also no reason to think that these are the only possible characterizations, and that there are not other better possible versions. After outlining these arguments, we can see how they mesh with the case studies, and how the characterizations interact with one another.

#### Opening New Markets

While the Gulf is certainly the current and likely the future source of oil imports, China has distinguished its international oil strategy from other consumers by seeking out new markets where others have hesitated due to risks of instability or political difficulties, or physical barriers to access.<sup>26</sup> Nowhere is this more true than in Africa, where China has crafted oil partnerships

<sup>24</sup> Philip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China*, (The Hague: Kluwer Law International, 2004), 19.

<sup>25</sup> *Ibid.*, 15.

<sup>26</sup> Xu Yi-chong, "China's Energy Security," *Australian Journal of International Affairs* 60, no. 2 (June 2006), 278, <http://www.informaworld.com/smpp/ftinterface~content=a747647541~fulltext=713240930>, accessed April 21, 2008.

with eight countries. Analysts say its strategy is aggressive, using a combination of aid packages, military arrangements and generous payment to secure access.<sup>27</sup> China has also pursued new markets in Central Asia, particularly Kazakhstan, and speculated in newly developing markets such as the oil sands in Canada. Some, like Andrews-Speed, say this is a hallmark of China's oil strategy.<sup>28</sup> This argument holds that China's strategy is to avoid direct competition with other oil consumers by securing its own exclusive sources of oil. In addition, Ebel argues that this can only be good for other oil consumers, because in a highly competitive market, new sources benefit everyone by lowering prices: "Any new oil that can be brought into the market is advantageous to everyone."<sup>29</sup> Challengers to this characterization of China's oil strategy do not deny China's remarkably broad efforts around the globe, but point to the fact that the lion's share of Chinese imports still come from the Middle East.

Most, including China's own government, argue that China's motivation in opening new markets is driven at the simple concept of energy security through diversification.<sup>30</sup> Diversification limits the impact of shocks to the market caused by regional circumstances—if, for example, China loses access to oil from the Persian Gulf because of conflict there, it should be able to rely on its other sources to mitigate the effect of the loss. In this regard, many argue that China's strategy is no different than those pursued by other major consumers.<sup>31</sup> However others argue that at least some of China's 'going out' strategy cannot be attributed to oil diversification, as some of the partnerships have yielded very little oil imports to date. One prominent explanation holds that China uses oil partnerships as a way to solidify political partnerships. For example, many point to China's pursuit of Kazakh oil as a means to further expand its influence in Central Asia so that its control over an unstable region in Western China goes unchallenged.<sup>32</sup> Another argument holds that China's investment in unproven Latin American oil fields may be a way to induce these countries to revoke their recognition of Taiwan as a sovereign entity.<sup>33</sup> Finally, China's expanding web of oil partnerships can give it influence and command respect on the world scale, which is a major aim of its foreign policy.

#### *Competing With the West in Key Markets*

Yet some disregard China's efforts to diversify its oil supply around the world, saying it is insignificant in the big picture. After all, China's huge oil need means it will have to compete with Western consumers in the proven markets. This is evidenced mostly by China's pursuit of oil from the Gulf, but perhaps more surprisingly in places which are traditionally far more aligned with the United States, including Latin America, Canada and Australia.<sup>34</sup> This strategy

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<sup>27</sup> Esther Pan, "China, Africa, and Oil," (Council on Foreign Relations, January 26, 2007), <http://www.cfr.org/publication/9557/>, accessed April 21, 2008.

<sup>28</sup> Philip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China*, (The Hague: Kluwer Law International, 2004), 342.

<sup>29</sup> Robert Ebel, interview by author, 27 March 2008, Washington, DC, tape recording.

<sup>30</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 39-40.

<sup>31</sup> International Energy Agency (IEA), *China's Worldwide Quest for Energy Security*, (Paris: OCED/IEA, 2000), 74.

<sup>32</sup> Philip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China*, (The Hague: Kluwer Law International, 2004), 345-347.

<sup>33</sup> Kerry Dumbaugh and Mark P. Sullivan, "China's Growing Interest in Latin America," CRS Report for Congress (Library of Congress: Congressional Research Service, April 20, 2005), 4, <http://openrs.cdt.org/document/RS22119>, accessed April 21, 2008.

<sup>34</sup> David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs* (September/October 2005), <http://www.foreignaffairs.org/20050901faessay84503/david-zweig-bi-jianhai/china-s-global-hunt-for-energy.html>, accessed April 21, 2008.

has led China to make “some remarkable inroads, venturing into the United States’ traditional sphere of influence,” Zweig and Jianhi write.<sup>35</sup> The growing competition makes some Western observers nervous about China’s intentions and about the future prospects for their own oil.<sup>36</sup> “Investments in the Western Hemisphere may be good for China’s energy security but for the U.S. they are trouble in the making,” writes Luft.<sup>37</sup>

These actions are once again attributed to seeking energy security, and many argue that as the second-largest consumer of oil it of course needs access to the large reserves of oil which are traditionally dominated by the West. “China requires a strong place in the system,” writes the IEA. “Other players must make room for it.”<sup>38</sup> But others see less benign motivations. They argue that China feels vulnerable by American dominance of oil reserves, and seeks to undermine American influence. Woodrow, for example, argues that China’s partnerships in the Middle East, particularly with long-term U.S. ally Saudi Arabia, might be driving at “a long-term goal ... to replace the United States as the Persian Gulf’s security guarantor.”<sup>39</sup> Similarly some fear that China is trying to get a foothold in the Latin America “to challenge the United States supremacy in the western hemisphere and to build a third world coalition of nations with interests that may well be at variance or even inimical to American interests and values.”<sup>40</sup>

#### *Using Unfair Competition*

Having addressed *where* China is pursuing its oil, it is equally important to look at *how* it does so. While a number of analysts argue that China acts as an equal player in the world market, there are also those who say China’s strategy is marked by unfair competition. For one, the major oil companies are, for all intents and purposes, state-run, and so offer far greater resources than traditional International Oil Companies. This allows China to incorporate foreign direct investment, aid packages and arms sales and military support as incentives in negotiating oil partnerships, which private companies are unable to do.<sup>41</sup> Others complain that China overpays for its access to oil, disrupting market-set pricing and locking out other potential investors.<sup>42</sup> In addition, China’s willingness to sell arms to places hostile to the United States, such as Iran, or to conflict zones, such as Sudan, make for impossible competition with International Oil Companies. This leads some to say China is being intentionally antagonistic toward American interests. But others point to similar behavior by other oil-importers, including the United States’ support of, and arms sales to, Saudi Arabia, and argue that China’s oil companies are in fact not behaving differently than their competitors.<sup>43</sup>

#### *Seeking Out Interdependency*

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<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> Gal Luft, “In search of crude China goes to Americas,” (Washington: Institute for the Analyses of Global Security, 18 January 2005), <http://www.iags.org/n0118041.htm>, accessed April 21, 2008.

<sup>38</sup> International Energy Agency (IEA), *China’s Worldwide Quest for Energy Security*, (Paris: OCED/IEA, 2000), 74.

<sup>39</sup> Thomas Woodrow, “The Sino-Saudi Connection,” *China Brief* 2, no. 21 (24 October 2002), [http://www.jamestown.org/publications\\_details.php?volume\\_id=18&issue\\_id=661&article\\_id=4680](http://www.jamestown.org/publications_details.php?volume_id=18&issue_id=661&article_id=4680), accessed April 21, 2008.

<sup>40</sup> Kerry Dumbaugh and Mark P. Sullivan, “China’s Growing Interest in Latin America,” CRS Report for Congress (Library of Congress: Congressional Research Service, April 20, 2005), 5, <http://openocrs.cdt.org/document/RS22119>, accessed April 21, 2008.

<sup>41</sup> Robert Ebel, interview by author, 27 March 2008, Washington, DC, tape recording.

<sup>42</sup> Ibid.

<sup>43</sup> Jin Liangxiang, “China and the Middle East: Energy First,” *Middle East Quarterly* (Spring 2005), 5.

Trade creates interdependency between nations, and this is a particularly important of China's energy partnerships. Agreements with close to two dozen countries create a web of interdependence for China, and tie its politics to those nations.<sup>44</sup> Not only is China reliant on these countries for oil flow, but these nations become dependent on China for its trade accounts and aid packages. In situations where China is the primary investor, the economies of these oil-producing nations become almost entirely supported by China's interests.<sup>45</sup> In some cases this interdependence is intentional, and Andrews-Speed observes that in making the oil deals Chinese officials include use "deliberate policy to enhance political and economic links with oil and gas exporting states."<sup>46</sup> These links have the advantage of making the partnerships more stable, and stability is a key aspect of energy security.<sup>47</sup> Yet in other cases these linkages have forced China to alter long-standing foreign policy, such as in the Middle East where Andrews-Speed writes that China's historical attitude has "tended to resemble that of disinterested by-stander," but as their energy interests escalate, Chinese leaders have "enhanced concern with political and security dimensions of this turbulent region."<sup>48</sup> In addition to enhancing energy security, China may also be seeking the interdependent relationships to increase its influence in the world community. Analysts argue that China seeks this standing either to better integrate itself with the world order of nations, or to in fact increase its own ability to challenge it and assert its own standing as a superpower.

#### *Building Up Military Capability*

Finally, many analysts point to China's military buildup, as an integral facet of its oil strategy. With 80 percent of China's oil imports travelling through the vulnerable Strait of Malacca, analysts say China wants to increase its navy capability to protect the shipping lanes.<sup>49</sup> To this end some analysts, including those at the Pentagon, say that China has pursued a "string of pearls" strategy, designed to exert its military influence along key shipping routes.<sup>50</sup> Analysts range from pragmatic to pessimistic as to why Beijing has pursued this military strategy, which has given China the third largest military budget in the world.<sup>51</sup> Some say China feels threatened by U.S. military supremacy, and worry that if there came a day that the United States chose to cut off China's oil, it would be vulnerable.<sup>52</sup> Others, like Yi-chong, say that these concerns are misplaced and that China's buildup of a blue water navy has more to do with political and diplomatic desires to be recognized as a world power rather than to assert control of key oil routes.<sup>53</sup>

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<sup>44</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 41-45.

<sup>45</sup> Ibid.

<sup>46</sup> Philip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China*, (The Hague: Kluwer Law International, 2004), 343.

<sup>47</sup> International Energy Agency (IEA), *China's Worldwide Quest for Energy Security*, (Paris: OCED/IEA, 2000), 52.

<sup>48</sup> Philip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China*, (The Hague: Kluwer Law International, 2004), 351.

<sup>49</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 56.

<sup>50</sup> Sudha Ramachandran, "China's pearl in Pakistan's waters," *Asia Times*, 4 May 2005, [http://www.atimes.com/atimes/south\\_asia/gc04df06.html](http://www.atimes.com/atimes/south_asia/gc04df06.html), accessed April 21, 2008.

<sup>51</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 3.

<sup>52</sup> Erica S. Downs, *China's Quest for Energy Security*, (Washington: RAND Project Air Force, 2000), [http://www.rand.org/pubs/monograph\\_reports/MR1244](http://www.rand.org/pubs/monograph_reports/MR1244), accessed April 21, 2008, 45.

<sup>53</sup> Xu Yi-chong, "China's Energy Security," *Australian Journal of International Affairs* 60, no. 2 (June 2006), 284, <http://www.informaworld.com/smpp/ftinterface~content=a747647541~fulltext=713240930>, accessed April 21, 2008.

### *Assessing and Applying*

These five characterizations of China's energy strategy are a fair, though not entirely comprehensive, representation of the major views. We will now apply them to the case studies, albeit not in a direct manner. While it would be possible to evaluate each of the three case studies on each of the five frameworks, it is far more revealing to take each case on its own merits, and see what each reveals about the strategy in its own right. This will allow for a more nuanced view of the strategy as a whole, and not tie the discussion solely to the pre-existing frameworks.

### **China and Sudan: Oil or Challenge to Peace?**

China and Sudan's relationship is far deeper than the oil that runs between the two countries. The Chinese-Sudanese relationship has received intense scrutiny in the last five years as the conflict in Darfur has developed. China has protected Sudan from international efforts to sanction the Khartoum-based government which critics around the world, including the U.S. government, have assailed. For all of China's stated interest, it has proven resistant to international demands which could jeopardize their oil supply.

To China, Sudan is a pet project in which it takes great pride, and where it has built its largest directly-run foreign oil project. Supplying 10 percent of Chinese oil, Sudan has developed to be a critical source of oil, and one that is almost entirely controlled by the Chinese.<sup>54</sup> Since acquiring the controlling share of the Greater Nile Operating Petroleum Company in 1997, China has built Sudan's oil industry from the ground-up. "We started with Sudan from scratch," said a senior Chinese trade official in a news report. "When we started there, they were an oil importer, and now they are an oil exporter. We've built refineries, pipelines and production." The role China has taken on in Sudan is much more active than a traditional buyer-seller arrangement. Chinese firms have sent their own workers overseas,<sup>55</sup> and the government has reinforced its commitment by stationing at least 4,000 non-uniformed troops in Sudan, ostensibly to protect Chinese oil interests.<sup>56</sup> China's initial investment in Sudan was also unusual, as they built two wells, a 1,000-mile pipeline and an oil refinery at such cost and speed that they made no profit.<sup>57</sup> Top Chinese government officials have taken a special interest in Sudan, with several government officials regularly making personal trips there.<sup>58</sup> China's actions in developing its oil arrangements in Sudan are markedly different from how most International Oil Companies are able to secure oil deals. While they may be able to build oil drilling infrastructure, at the end of the day the international oil companies' only real leverage is money and whatever political support their native governments might choose to lend.<sup>59</sup> China is willing to throw its whole state resources behind the proposal, and even take on the projects for a loss.

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<sup>54</sup> Peter S. Goodman, "China Invests Heavily In Sudan's Oil Industry," *Washington Post*, 23 December 2004, <http://www.washingtonpost.com/wp-dyn/articles/A21143-2004Dec22.html>, accessed April 21, 2008.

<sup>55</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 48.

<sup>56</sup> David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs* (September/October 2005), <http://www.foreignaffairs.org/20050901faessay84503/david-zweig-bi-jianhai/china-s-global-hunt-for-energy.html>, accessed April 21, 2008.

<sup>57</sup> Peter S. Goodman, "China Invests Heavily In Sudan's Oil Industry," *Washington Post*, 23 December 2004, <http://www.washingtonpost.com/wp-dyn/articles/A21143-2004Dec22.html>, accessed April 21, 2008.

<sup>58</sup> David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs* (September/October 2005), <http://www.foreignaffairs.org/20050901faessay84503/david-zweig-bi-jianhai/china-s-global-hunt-for-energy.html>, accessed April 21, 2008.

<sup>59</sup> Robert Ebel, interview by author, 27 March 2008, Washington, DC, tape recording.

Perhaps it is China's intense investment that has made it hesitant to apply pressure to the Sudanese government over the conflict in Darfur, which has been termed by many states as genocide. Sudan, which the United States lists as a state supporter of terrorism and once gave safe haven to Osama bin Laden, has few international allies, but is able to count on China's support.<sup>60</sup> China has regularly protected Sudan on the international stage, using its veto power on the UN Security Council. For instance China was able to remove sanctions against Khartoum from a July 2004 resolution.<sup>61</sup> China has also become Sudan's largest arms supplier, including providing more than \$100 million worth of fighter planes.<sup>62</sup> Indeed many of the weapons used in the massacres in Darfur have been traced back to China.<sup>63</sup> China has been decried heavily by governments and NGOs alike, but thus far China has defended its actions, saying "We try to separate politics from business ... The internal situation in the Sudan is an internal affair, and we are not in a position to impose upon them," said the deputy foreign minister in 2004.<sup>64</sup> Its support has persisted under growing international scrutiny; in January 2007, Chinese President Hu Jintao offered an interest-free loan to build a presidential palace, cancelled \$80 million of debt and announced a plan to build a new railroad.<sup>65</sup>

It may indeed be true that China sees its oil interests in Sudan as too valuable to jeopardize through international action, but the situation raises an important and revealing dilemma for China. Should it prioritize its oil interests, even when that may injure its standing in the world community? China's actions indicate that its top officials think so. "If we lose this source, how can we find another market to replace it?" asks one Shanghai academic. "China has to balance its interests."<sup>66</sup> But it is not possible to take the "business is business" argument at face value either, as China has tied its politics to the Darfur issue by wielding its power on the Security Council. China answers the charges of obstruction by saying Western efforts are too extreme, and that Sudan's issues should be resolved through dialogue rather than sanctions.<sup>67</sup> China has taken some positive action toward Sudan. For example, President Hu visited Sudan to encourage a diplomatic settlement last February.<sup>68</sup> After blocking heavier actions by the U.N., China supported Security Council Resolution 1769 in July 2007 which established a U.N.-African Union peacekeeping force in Darfur of close to 20,000 troops. China even backed up this

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<sup>60</sup> Peter S. Goodman, "China Invests Heavily In Sudan's Oil Industry," *Washington Post*, 23 December 2004, <http://www.washingtonpost.com/wp-dyn/articles/A21143-2004Dec22.html>, accessed April 21, 2008.

<sup>61</sup> "China-Sudan Trade relations Complicate Darfur Crisis," *PBS NewsHour*, 25 April 2006, [http://www.pbs.org/newshour/updates/china-darfur\\_04-25-06.html](http://www.pbs.org/newshour/updates/china-darfur_04-25-06.html), accessed April 21, 2008.

<sup>62</sup> Esther Pan, "China, Africa, and Oil," (Council on Foreign Relations, January 26, 2007), <http://www.cfr.org/publication/9557/>, accessed April 21, 2008.

<sup>63</sup> Nicholas D. Kristof, "China and Sudan, Blood and Oil," *New York Times*, 23 April 2006, <http://select.nytimes.com/2006/04/23/opinion/23kristof.html?scp=1&sq=China+and+Sudan%2C+Blood+and+Oil&st=nyt>, accessed April 21, 2008.

<sup>64</sup> David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs* (September/October 2005), <http://www.foreignaffairs.org/20050901faessay84503/david-zweig-bi-jianhai/china-s-global-hunt-for-energy.html>, accessed April 21, 2008.

<sup>65</sup> U.S.-China Economic and Security Review Commission, "2007 Report to Congress," (Washington: USCC, November 2007), 178, [http://www.uscc.gov/annual\\_report/2007/report\\_to\\_congress.pdf](http://www.uscc.gov/annual_report/2007/report_to_congress.pdf), accessed April 21, 2008.

<sup>66</sup> Peter S. Goodman, "China Invests Heavily In Sudan's Oil Industry," *Washington Post*, 23 December 2004, <http://www.washingtonpost.com/wp-dyn/articles/A21143-2004Dec22.html>, accessed April 21, 2008.

<sup>67</sup> Lindsay Beck, "China defends role in Sudan against Olympic critics," *Reuters*, 10 January 2008, <http://www.reuters.com/article/idUSPEK27142820080110>, accessed April 21, 2008.

<sup>68</sup> Howard W. French, "Chinese Leader to Visit Sudan for Talks on Darfur Conflict," *New York Times*, 24 January 2007, <http://www.nytimes.com/2007/01/25/world/asia/25china.html>, accessed April 21, 2008.

commitment with a combat engineer battalion from its own army in October 2007, though this was largely a token gesture amounting to only 315 soldiers. And in May 2007, China appointed a special envoy to Sudan to express China's desire that the conflict in Darfur be resolved.<sup>69</sup> It is difficult to evaluate the direct impact of such actions—particularly when they are coupled with the continued economic and arms support of Khartoum—but they do show some movement on behalf of China to address international interests in Sudan. Yet so far China has only taken action which works with the Khartoum government, rather than challenging it.

China's limited actions to prevent the Sudanese conflict do not conversely mean it is supporting it, as some have suggested.<sup>70</sup> There is no evidence that China's troops in Sudan have been used for anything other than the protection of oil facilities. Indeed it is to China's advantage that there is limited bloodshed, as conflict breeds uncertainty and instability, which could threaten China's access to oil.<sup>71</sup> Then again, it is advantageous for China that the Khartoum government remain in power, as if the Sudanese rebels gain influence, they may seek to punish China for its support of the oppressors. An October 2007 rebel attack of a Chinese-controlled oilfield may indicate this to be the case. A leader of the attack demanded that China sever ties with the Sudanese regime, and that the rebels considered China "a partner for this genocidal government in Khartoum."<sup>72</sup>

China has prioritized its oil needs over other considerations in Sudan, but China's desire for respect on the world stage may yet convince it to change tactics. The next year will be a critical time to see how China will balance these interests. With the international focus on China for the summer Olympics in Beijing, China has been challenged over human rights issues in Sudan, Tibet and within its own borders. If China continues to prioritize its oil interests over those of the international community, it will be an important indicator of how highly China rates its oil access and a rebuttal to the argument that China seeks through its oil strategy to gain international respect and better integrate into the world system. It may even feed the argument that China is actively seeking to antagonize Western interests. If, however, it begins to make concessions, or even rises to the occasion and fills the role of negotiator in the Sudanese conflict, then perhaps it will allay some concerns about the idea of a behemoth oil-consuming China acting only of self-interest.

### **China and Iran: Oil or Challenge to U.S. Security?**

China's relationship with Iran is the most similar to other oil consumers, yet quite possibly also one most distasteful to the United States. Iran, the second largest source of Chinese oil imports, is a key Persian Gulf producer.<sup>73</sup> But it is also a growingly antagonistic adversary of

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<sup>69</sup> U.S.-China Economic and Security Review Commission, "2007 Report to Congress," (Washington: USCC, November 2007), 178, [http://www.uscc.gov/annual\\_report/2007/report\\_to\\_congress.pdf](http://www.uscc.gov/annual_report/2007/report_to_congress.pdf), accessed April 21, 2008.

<sup>70</sup> Rep. Barbara Lee, "China's record does not reflect the Olympic spirit," *San Francisco Chronicle*, 8 April 2008, <http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2008/04/08/ED8L101BS0.DTL&type=printable> accessed April 21, 2008.

<sup>71</sup> U.S.-China Economic and Security Review Commission, "2007 Report to Congress," (Washington: USCC, November 2007), 178, [http://www.uscc.gov/annual\\_report/2007/report\\_to\\_congress.pdf](http://www.uscc.gov/annual_report/2007/report_to_congress.pdf), accessed April 21, 2008.

<sup>72</sup> "Rebels tell China 'leave Sudan'," *BBC News*, 25 October 2007, <http://news.bbc.co.uk/2/hi/africa/7061066.stm> accessed April 21, 2008.

<sup>73</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 45.

the United States, which calls it a sponsor of terrorism.<sup>74</sup> In fact, as tensions between the West and Iran have escalated for the last fifteen years, ties between China and Iran have grown ever closer. The question of how China will deal with the international community over the question of Iran has the potential of becoming the critical issue defining the geopolitical impact of China's oil search. If China persists in supporting Iran against international action, the potential for armed conflict between China and the West—be it direct or through proxy warfare—increases dramatically. Yet Iran also presents the opportunity for China to serve as an international mediating body, where it could demonstrate to the international community that it is seriously committed to collective action through pre-existing systems.

China's need for oil imports grew just as relations between Washington and Tehran soured. In 1995, just weeks after President Clinton ordered all U.S. oil companies to stop purchasing Iranian oil, Iran announced that it would triple its exports to China and invest \$25 million in China's domestic refining capacity.<sup>75</sup> This relationship has only grown closer. While Iranian oil made up only one percent of China's imports in 1994, by 2002 it accounted for 15 percent, netting \$2 billion worth of oil.<sup>76</sup> Two years after President Bush named Iran as part of his infamous "axis of evil"<sup>77</sup> and three years before the U.S. Congress declared Iran's Revolutionary Guard a terrorist organization, China made an Iranian oil investment valued at \$70 billion.<sup>78</sup> The deal binds the two countries in the long term, committing China to purchase 10 million tons of Iranian oils every year for 25 years. It also gives China a 50 percent stake of the 17 billion barrel reserve in the Yadavaran oil field, making it China's single largest investment in the Middle East.<sup>79</sup> Including this project and a multitude of smaller other projects across Iran, China's oil investment may exceed \$100 billion over the next 25 years.<sup>80</sup> The United States responded negatively to news of the deal. "Major new deals with Iran, particularly ones like these involving investment in oil and gas, really undermine international efforts to pressure the Iranians to comply with obligations already in place under the UN Security Council resolutions," said a State Department spokesperson.<sup>81</sup>

The Iranian relationship is an important oil source for China, yet unlike its relationship with Sudan and other exporting-states, further trade between the two nations is limited. Bilateral trade accounts between two countries account only for .06 percent of China's total trade. This

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<sup>74</sup> Robin Wright, "Iranian Unit to Be Labeled 'Terrorist'," *Washington Post*, 15 August 2007, <http://www.washingtonpost.com/wp-dyn/content/article/2007/08/14/AR2007081401662.html>, accessed April 21, 2008.

<sup>75</sup> "China Said to Triple Oil Imports From Iran," *New York Times*, 31 May 1995, <http://query.nytimes.com/gst/fullpage.html?res=990CEFDD113DF932A05756C0A963958260>, accessed April 21, 2008.

<sup>76</sup> Jin Liangxiang, "China and the Middle East: Energy First," *Middle East Quarterly* (Spring 2005): 3-10.

<sup>77</sup> President George W. Bush, "State of the Union Address," 29 January 2002, <http://www.whitehouse.gov/news/releases/2002/01/20020129-11.html>, accessed April 21, 2008.

<sup>78</sup> Gawdat Bahgat, "Energy partnership: China and the Gulf States," *OPEC Review* 29, no. 2 (June 2005), <http://www.blackwell-synergy.com/doi/pdf/10.1111/j.0277-0180.2005.00147.x>, accessed April 21, 2008.

<sup>79</sup> Jin Liangxiang, "China and the Middle East: Energy First," *Middle East Quarterly* (Spring 2005): 3-10.

<sup>80</sup> Flynt Leverett and Jeffrey Bader, "Managing China-U.S. Energy Competition in the Middle East," *The Washington Quarterly* 29, no. 1 (2005), [http://muse.jhu.edu/journals/washington\\_quarterly/v029/29.1leverett.pdf](http://muse.jhu.edu/journals/washington_quarterly/v029/29.1leverett.pdf), accessed April 21, 2008.

<sup>81</sup> "China signs \$2bn Iran oil deal," *Al Jazeera*, 11 December 2007, <http://english.aljazeera.net/NR/exeres/5423D57A-20A3-4CB7-B3CC-1DEECBA6D97C.htm>, accessed April 21, 2008.

small interdependence indicates either that China has pursued a somewhat different strategy in forming relations with Iran, or that Iran is not interested in this sort of dependence. But that does not indicate that China is otherwise unimportant to Iran. From Tehran's perspective, China provides two important features other than its energy market: sales of conventional weapons and international sway over the restriction of Iran's nuclear program.

Under international sanctions, arms sales to Iran have been restricted. Yet China, not party to those sanctions, has supplied \$800 million worth of arms to Iran between 1995 and 2002.<sup>82</sup> These sales have persisted even though Iran has purportedly supplied terrorist groups in Iraq, Lebanon and Afghanistan.<sup>83</sup> Deputy Assistant Secretary of Defense David Sedney testified to the U.S.-China Economic and Security Review Commission in July 2007 that China has turned down U.S. requests to stop arms sales to Iran. "China's response that these transfers are not governed by any international regime or treaty and therefore are 'allowed,' is irresponsible and is at odds with the statements by Chinese leaders that China is prepared to be responsible and seeks a cooperative partnership with the United States."<sup>84</sup>

But what worries Western observers more is China's support of Iranian nuclear weapons programs. Some worry that China will supply Iran with components for weapons of mass destruction, as it did to Saudi Arabia in the mid-1980s.<sup>85</sup> China has already assisted Iran with its own production of ballistic missiles.<sup>86</sup> The chairman of the Congressional U.S.-China Economic and Security Review Commission testified in 2003 that competition in the Gulf "may also encourage China to offer incentives to energy supplier nations, as it has in the past, including missile and WMD components and technologies, for secure long-term access to energy supplies."<sup>87</sup> Though China accepted the 1992 Nuclear Nonproliferation Treaty, China continued its assistance to Iran in developing nuclear reactors and uranium enrichment, which the Commission's 2007 report said could be a violation of UN Security Council Resolutions.<sup>88</sup> But rather than direct support, most international observers are concerned about China's willingness to give cover to Iran's nuclear program in the UN and the International Atomic Energy Agency (IAEA). This has already paid off for Iran in China's weakening of the penalty requirements of an IAEA referring their nuclear program to the United Nations.<sup>89</sup> U.S. defense experts say this type of action prevents China from becoming a responsible stakeholder in the region.<sup>90</sup>

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<sup>82</sup> Michael T. Klare, *Blood and Oil: The Dangers of America's Growing Petroleum Dependency* (New York: Metropolitan Books, 2004), 176-177.

<sup>83</sup> U.S.-China Economic and Security Review Commission, "2007 Report to Congress," (Washington: USCC, November 2007), 117, [http://www.uscc.gov/annual\\_report/2007/report\\_to\\_congress.pdf](http://www.uscc.gov/annual_report/2007/report_to_congress.pdf), accessed April 21, 2008.

<sup>84</sup> *Ibid.*, 117.

<sup>85</sup> Thomas Woodrow, "The Sino-Saudi Connection," *China Brief* 2, no. 21 (24 October 2002), [http://www.jamestown.org/publications\\_details.php?volume\\_id=18&issue\\_id=661&article\\_id=4680](http://www.jamestown.org/publications_details.php?volume_id=18&issue_id=661&article_id=4680), accessed April 21, 2008.

<sup>86</sup> U.S.-China Economic and Security Review Commission, "2007 Report to Congress," (Washington: USCC, November 2007), 118, [http://www.uscc.gov/annual\\_report/2007/report\\_to\\_congress.pdf](http://www.uscc.gov/annual_report/2007/report_to_congress.pdf), accessed April 21, 2008.

<sup>87</sup> Jin Liangxiang, "China and the Middle East: Energy First," *Middle East Quarterly* (Spring 2005): 3-10.

<sup>88</sup> U.S.-China Economic and Security Review Commission, "2007 Report to Congress," (Washington: USCC, November 2007), 114, [http://www.uscc.gov/annual\\_report/2007/report\\_to\\_congress.pdf](http://www.uscc.gov/annual_report/2007/report_to_congress.pdf), accessed April 21, 2008.

<sup>89</sup> Flynt Leverett and Jeffrey Bader, "Managing China-U.S. Energy Competition in the Middle East," *The Washington Quarterly* 29, no. 1 (2005), [http://muse.jhu.edu/journals/washington\\_quarterly/v029/29.1leverett.pdf](http://muse.jhu.edu/journals/washington_quarterly/v029/29.1leverett.pdf), accessed April 21, 2008.

<sup>90</sup> U.S.-China Economic and Security Review Commission, "2007 Report to Congress," (Washington: USCC, November 2007), 8, [http://www.uscc.gov/annual\\_report/2007/report\\_to\\_congress.pdf](http://www.uscc.gov/annual_report/2007/report_to_congress.pdf), accessed April 21, 2008.

Yet some shifts in China’s behavior on this matter have been evident in the last two years. One high-ranking U.S. ambassador pointed to China’s acknowledgment “that the acquisition of nuclear weapons by Iran and North Korea is not in [its] interest.”<sup>91</sup> China voted in December 2006 and March 2007 to approve two U.N. resolutions imposing sanctions on Iran for its nuclear weapons programs, though China supported them only after watering down the punitive measures.<sup>92</sup> Some argue that these efforts show China is committed to working with the international community, even if it could harm their own oil partnerships.<sup>93</sup> Yet others point out that China has not reduced its oil activities in Iran, nor has it reduced its arms sales, so it has not made any real sacrifice.<sup>94</sup> China’s willingness to protect Iran from harsher sanctions shows this to be the case.

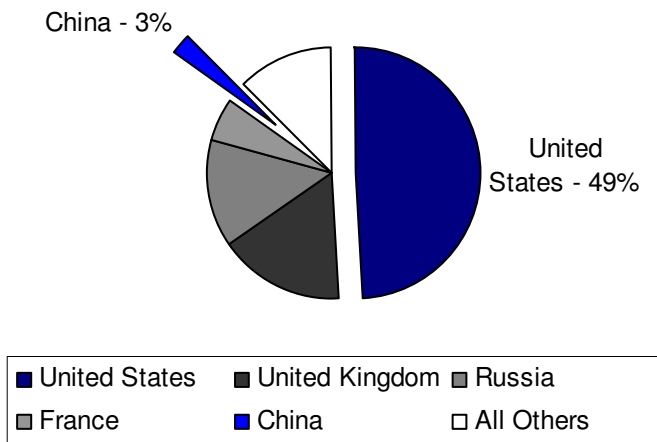
Others argue that China’s involvement with Iran is no different than other consumers’ relationships with oil-suppliers in the Middle East. On the issue of arms sales, one analyst calls China “an almost insignificant player in Middle East arms market,” and points to the United States arms sales to Saudi Arabia.<sup>95</sup> While China’s sale of arms to the region between 2003 and 2006 increased by \$400 million over the prior three-year period, sales to the region as a whole

increased by \$17 billion, driven largely by sales from Western Europe and a \$1.5 trillion boost directly to Iran from Russia.<sup>96</sup> Considering the United States accounts for almost half of the arms sales to the region, it does seem hypocritical that China is criticized for at least the conventional weapons component of its partnership.

If Chinese-Iranian relations become a serious cause for concern, it will likely be because conflict arises between Iran and the United States. There is nothing inherent in China’s interactions with Iran which are exceptionally

inflammatory. Saudi Arabia has received far greater support from the United States than China provides to Iran, and few cry afoul of that relationship in the international community. But if tensions continue to escalate between Iran and the United States, China will become a participant, voluntarily or not. Beijing will be faced with an uncomfortable prospect. Should they

**Arms Sales to Middle East 2003-2006**  
(Source: Congressional Research Service 2007)



<sup>91</sup> Ibid., 115.

<sup>92</sup> Ibid., 117.

<sup>93</sup> Jin Liangxiang, “China and the Middle East: Energy First,” *Middle East Quarterly* (Spring 2005), 5.

<sup>94</sup> U.S.-China Economic and Security Review Commission, “2007 Report to Congress,” (Washington: USCC, November 2007), 177, [http://www.uscc.gov/annual\\_report/2007/report\\_to\\_congress.pdf](http://www.uscc.gov/annual_report/2007/report_to_congress.pdf), accessed April 21, 2008.

<sup>95</sup> Jin Liangxiang, “China and the Middle East: Energy First,” *Middle East Quarterly* (Spring 2005), 5.

<sup>96</sup> Richard F. Grimmett, “Conventional Arms Transfers to Developing Nations, 1999-2006,” CRS Report for Congress (Library of Congress: Congressional Research Service, September 26, 2007), 50, <http://opencrs.com/document/RL34187>, accessed April 21, 2008.

oppose the United States in favor of attempting to maintain their important oil supply? Or should they support the international community's decision? Because of the high degree of reliance on Iranian oil, China could risk domestic instability by alienating Iran. Yet its economy is equally or more so intertwined with the United States, presenting the same risk of volatility. It is doubtful that China has pursued Iranian oil to create this dilemma. Rather China's relationship with Iran is more likely to be one of necessity, and it will be in China's best interest that the friction between the United States and Iran never develop into armed conflict.

### **China and Venezuela: Oil or Challenge to U.S. Supremacy?**

China's entry into the Western hemisphere's trade market in its search for oil is both a powerful symbolic and potentially threatening move against United States supremacy in the global oil market. Venezuela is important to the United States as a major oil source outside the volatile Middle East, and is its fourth largest source of oil just behind Saudi Arabia.<sup>97</sup> But in a strong parallel to the Iranian example, as the Chinese oil search has expanded, relations between Venezuela and the United States have deteriorated. As the United States voluntarily cut its imports from Iran, it is being edged out of oil involuntarily in favor of China in Venezuela.<sup>98</sup> In the extreme situation, some U.S. analysts and policy-makers are already preparing for a total loss of Venezuelan oil in the case that there is a full diversion to China.<sup>99</sup> In Venezuela, the United States and China are facing off over oil more directly than anywhere else.

In this case, concerns about China's intrusion on American oil claims are not purely speculative or alarmist. Since Hugo Chavez assumed the Venezuelan presidency in 1999 he has criticized the country's reliance on trade with the United States, saying it has made them subject to American interests, with 60 percent of their oil going to American companies as recently as 2004.<sup>100</sup> After signing a deal in China to increase oil cooperation in December 2004, Chavez said, "We have been producing and exporting oil for more than 100 years. But these have been 100 years of domination by the United States. Now we are free, and place this oil at the disposal of the great Chinese fatherland."<sup>101</sup> Skeptics warn that Chavez's rhetoric does not always align with action. Ebel, for example, argues that Venezuela recognizes the benefits of close trade ties with the United States, and will not quickly give them up.<sup>102</sup> But there is a significant body of evidence to show that Venezuela's oil exports to China are supplanting those to the United States. According to data from the U.S. Department of Energy, imports of Venezuelan oil have decreased from a high of 6.5 billion barrels in 1997 to 5 billion in 2007, while total U.S. oil imports have risen by 1.2 trillion barrels in the same period.<sup>103</sup> Data on Chinese-Venezuelan oil

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<sup>97</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 46.

<sup>98</sup> Kerry Dumbaugh and Mark P. Sullivan, "China's Growing Interest in Latin America," CRS Report for Congress (Library of Congress: Congressional Research Service, April 20, 2005), 3-4, <http://openocrs.cdt.org/document/RS22119>, accessed April 21, 2008.

<sup>99</sup> Andy Webb-Vidal and Doug Cameron, "U.S. mulls losing oil supplies from Venezuela," *MSNBC*, 14 January 2005, <http://www.msnbc.msn.com/id/6826081/>, accessed April 21, 2008.

<sup>100</sup> "Venezuela and China sign oil deal," *BBC News*, 24 December 2004, <http://news.bbc.co.uk/2/hi/business/4123465.stm>, accessed April 21, 2008.

<sup>101</sup> Juan Forero, "China's Oil Diplomacy in Latin America," *New York Times*, 1 March 2005, <http://www.nytimes.com/2005/03/01/business/worldbusiness/01oil.html?pagewanted=all&position=>, accessed April 21, 2008.

<sup>102</sup> Robert Ebel, interview by author, 27 March 2008, Washington, DC, tape recording.

<sup>103</sup> Energy Information Administration, "U.S. Imports by Country of Origin," (Department of Energy, 2008), [http://tonto.eia.doe.gov/dnav/pet/pet\\_move\\_impcus\\_a2\\_nus\\_ep00\\_im0\\_mbb1\\_m.htm](http://tonto.eia.doe.gov/dnav/pet/pet_move_impcus_a2_nus_ep00_im0_mbb1_m.htm), accessed April 21, 2008.

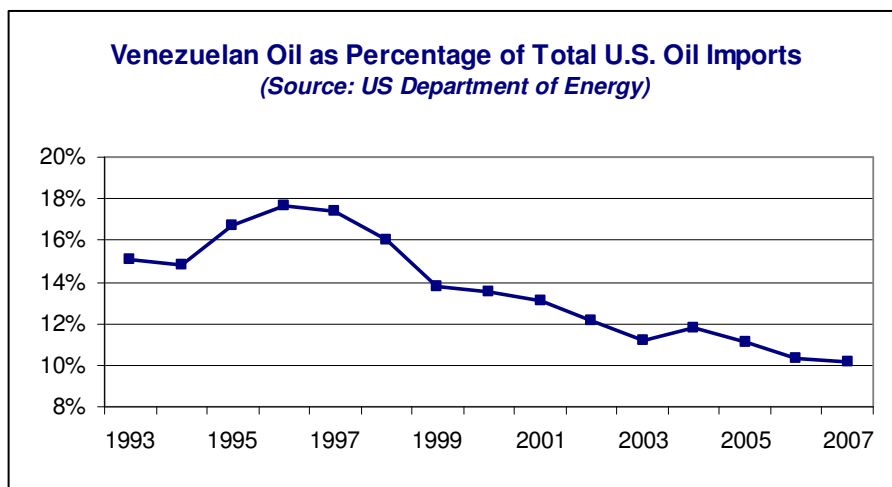
trade is not as easy to come by, but media reports and statements from state leaders in both countries indicate rapid growth and a close partnership. One recent report revealed that Venezuela plans to increase its exports by over four-fold to 300,000 barrels a day by 2012, and that it aims to ultimately fulfill 15 to 20 percent of China's import needs.<sup>104</sup>

Venezuela has also taken direct action in an attempt to reduce exports to the United States. Chavez has pushed for nationalization of the oil industry, which would allow him to cancel large oil stakes held by three major American companies.<sup>105</sup> Just last month Venezuela announced that it is now sending to China all oil previously shipped to an Exxon Mobil refinery in Louisiana. This arrangement is the first clear example of how China has directly benefited at the United States' expense.<sup>106</sup>

Chinese strategy in Venezuela is notable for the active interest its highest leaders have taken. Numerous high-level delegations have been exchanged between the two countries, including the presidents of both countries.<sup>107</sup> Rather than a heavy focus on economic ties, Beijing has built strong ties with Venezuelan leadership, benefiting from their desire to weaken ties with the United States.

The fact that the Venezuelan oil market is framed as a zero-sum game makes it prime grounds for breeding resentment and fear. Some, like June Dreyer of the U.S.-China Economic and Security Review Commission, claim that China "is using Latin America to challenge

United States supremacy in the western hemisphere and to build a third world coalition of nations that may well be at variance or even inimical to American interests and values."<sup>108</sup> Gal Luft argues that "Chinese penetration into Venezuela could strengthen the voices of Marxism and anti-Americanism in Latin



America to the detriment of both the U.S. and Venezuela."<sup>109</sup> But there is little hard evidence to support these assertions about Beijing's motivations. If anything, China has sought to influence

<sup>104</sup> Wang Ying, "China, Venezuela firms to co-develop oilfields," *China Daily*, 27 August 2005, [http://www.chinadaily.com.cn/english/doc/2005-08/27/content\\_472663.htm](http://www.chinadaily.com.cn/english/doc/2005-08/27/content_472663.htm), accessed April 21, 2008.

<sup>105</sup> "Venezuela aims for China oil deal," *BBC News*, 25 March 2007, <http://news.bbc.co.uk/2/hi/business/6492833.stm>, accessed April 21, 2008.

<sup>106</sup> "Venezuela says all Chalmette oil sent to China," *Reuters*, 28 March 2008, <http://www.reuters.com/article/marketsNews/idUSN2844501220080328>, accessed April 21, 2008.

<sup>107</sup> "China and Venezuela sign oil agreements," *China Daily*, 30 January 2005, [http://www.chinadaily.com.cn/english/doc/2005-01/30/content\\_413475.htm](http://www.chinadaily.com.cn/english/doc/2005-01/30/content_413475.htm), accessed April 21, 2008.

<sup>108</sup> Kerry Dumbaugh and Mark P. Sullivan, "China's Growing Interest in Latin America," CRS Report for Congress (Library of Congress: Congressional Research Service, April 20, 2005), 5, <http://openocrs.cdt.org/document/RS22119>, accessed April 21, 2008.

<sup>109</sup> Gal Luft, "In search of crude China goes to Americas," (Washington: Institute for the Analyses of Global Security, 18 January 2005), <http://www.iags.org/n0118041.htm>, accessed April 21, 2008.

Venezuelan society far less than it has in regions like Sudan, and has challenged American interests less than it has with its arms sales in Iran. Yet the data trend indicates that U.S. companies are losing out to China, and so to some extent Beijing is challenging American interests. But from all indications this shift is driven not by China, but by Venezuela, and in particular by Chavez. To date it does not appear that China has taken direct control over formerly American-run oil fields.

China has certainly benefited from Venezuela's growing distrust of the United States, but it is difficult to determine whether Beijing has actively promoted this schism. A lack of complete information means it would be pure speculation to suggest that Beijing is intentionally cultivating ill will in Caracas. Yet, China is also happy to benefit from the expanded access. Just as Venezuela is important to the United States as a non-Persian Gulf source, it is to China as well, and fits well with its goal of security through diversification. On the whole, the Chinese-Venezuelan partnership does not presently appear to be a great cause for concern for Chinese-American relations. But if China continues to benefit directly from the United States' loss, as it did with the diversion of Louisiana-bound oil last month, bitterness and fear could overcome rationality.

### **Looking Ahead: Where Does China's Oil Plan Lead?**

It seems that wherever China goes for oil, controversy follows. To some extent this can be linked to Beijing's own behavior, like its apathy toward Darfur. In other cases, they obtain unearned baggage, such as U.S. bitterness carried over from Chavez's actions in Venezuela. With the highly competitive nature of the oil market, it should be no surprise that many see a step forward for China as a step back for the United States, and so many people are wary of China's advances. Ultimately, China is, and will continue to be, a major oil consumer and needs to be allowed to access resources. Yet to be treated as an equal, China must first act as a responsible member of the international community. The areas of conflict must be resolved in a collaborative manner.

It is too broad a statement to say that China has behaved like any other actor in the oil game.<sup>110</sup> China's willingness to exchange political and strategic support for oil access, as in the cases of Sudan and Iran, not only give it an unfair advantage over International Oil Companies, but leads China to act in a way that is inimical to the international community's interests.<sup>111</sup> Weapon sales to Iran are a clear affront to the United States, and support of Khartoum offends a host of multinational organizations focused on the Sudanese crisis, including the United Nations. But while China is responsible for its actions, it should not bear the whole burden for its strategy. It is, after all, following precedents set up by other major importers, including the United States. If Beijing is to be held responsible for "propping up these regimes and (thwarting) multilateral efforts to get the leaders of these nations to comply with international standards of behavior," then should not the United States also be held responsible for complicity in human rights violations in Saudi Arabia, Syria or any of the other dozens of countries where the United States takes its oil?<sup>112</sup> As long as China is held to a double-standard it will have reason to avoid submitting to international norms.

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<sup>110</sup> Robert Ebel, *China's Energy Future*, (Washington: CSIS, 2005), 39.

<sup>111</sup> U.S.-China Economic and Security Review Commission, "2007 Report to Congress," (Washington: USCC, November 2007), 178, [http://www.uscc.gov/annual\\_report/2007/report\\_to\\_congress.pdf](http://www.uscc.gov/annual_report/2007/report_to_congress.pdf), accessed April 21, 2008.

<sup>112</sup> *Ibid.*, 184

The case studies of Sudan, Iran and Venezuela reveal a China whose primary focus is securing long-term oil access. That is not to say that China does not have other foreign policy considerations or alternative motivations in their oil policy. But in each of the three cases we looked at, China seems to have made conscious decisions to prioritize oil access over these concerns. In Sudan, China's pride and considerable investment outweigh the will of most of the world. China's sway there is immense, and there is every reason to believe it could have significant impact simply by withdrawing its support from Khartoum, and even earn considerable credit from the international community in doing so. But it has as of yet only made only token gestures. China has repeatedly affirmed its opposition to the spread of nuclear weapons, yet it protects Iran at almost every turn.<sup>113</sup> In Venezuela, China appears to have less culpability for deteriorating relations than is sometimes attributed to it, but the shifting oil partnerships serve as a powerful symbol of the China-U.S. competition which will only grow in years to come.

Another important theme to emerge from the case studies is China's eagerness for long-term, high-stakes deals. Even in cases where profitability is unlikely, as with the early Sudanese projects, China fervently pursues the partnerships. These long-term interests are enhanced by deliberate steps aimed at increasing interdependency in the long-term. In Sudan, this means huge aid packages, weapons deliveries, and building up a trade portfolio so large that Sudan is totally reliant on Chinese products. With Iran, China trades its considerable political power and status as a power-broker in international organizations, which is far more valuable to Iran than the oil revenue. And in Venezuela, People's Republic of China leaders have made considerable personal political investments with the Chavez government. These investments make it clear that China is thinking about long-run energy security, rather than short-term profitability. This also helps explain China's dealings in other regions, such as Kazakhstan where it has paid hugely in treasure and political capital to secure access, but for which China has yet to see any payoff.<sup>114</sup>

Since China will remain aggressive in securing oil access, it is easy to see the possibility of conflict with the United States. But I propose that China's controversial partnerships actually provide a unique environment for advancing cooperation rather than conflict. The interdependency Beijing has crafted can serve to bring about change amicable to all parties, perhaps most of all China. For instance in Sudan, China would benefit from a stop to hostilities because then threats to its oil facilities would subside. China could also gain considerable international clout for negotiating a settlement. The threats to China are minimal: as the major trading partner for Sudan, Khartoum would be ill-able to leverage against Beijing's intervention. China has considerably more to offer than simple sanctions, which have sometimes proven ineffective. It can provide direct incentives and further investment in Sudan as an enticement to bring the parties to a negotiating table in a way that the international community, which has little respect and history in Sudan, could not do.

On the volatile nuclear issue in Iran, Beijing is in a prime position to serve as intermediary between Tehran and Washington. China's considerable interdependence with both nations could be a hindrance, because they might rather an unstable status quo than the risk of stirring the pot, but the interdependence also makes China a power-broker for both parties. China has already proven deft at negotiating the nuclear issue through its efforts to water down

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<sup>113</sup> Ibid., 114.

<sup>114</sup> Philip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China*, (The Hague: Kluwer Law International, 2004), 347.

sanctions. If it used these skills with the aim of a long-term agreeable solution, China would be a formidable force. This role of intermediary could prove particularly critical, because without it, Washington and Tehran may enter into a showdown of the likes that led to the 2003 invasion of Iraq.

Another important cause for cooperation is the shared interests China and the United States have as the world's largest importers. Just as during the Cold War the U.S. and USSR both sought to limit rogue states to maintain a bipolar world, China and the U.S. have common goals in controlling the oil market. For instance, both should be committed to keeping production levels consistent, oil prices low and shipping lanes open.<sup>115</sup> If they could settle controversy on issues like Darfur and Iran, and if they could accept each other as fair competitors in the world oil market, Washington and Beijing could work together as a counterweight against the influence of oil producers, like OPEC.<sup>116</sup> This would ease China's apparent drive for long-term energy security at all costs, and decrease fears of conflict and undue competition in the United States.

Still, the potential for conflict is real and evidenced through the case studies we have examined. In areas like Venezuela and Sudan, ill feelings may not be enough to bring about an armed clash, but the Iranian situation certainly has that potential. In addition, isolated disruptions to the oil supply can escalate tensions rapidly and cause otherwise rational actors to act nonsensically.

Of course oil strategy is only one facet of an immense interconnected system of international relations. Any number of factors can influence conflict and cooperation, including trade disputes and cultural differences. One facet of Chinese energy strategy not addressed in our case studies is the issue of China's military buildup. Even if China seeks to build its blue-water navy capability with the just aim of protecting its shipping routes, the action could be misinterpreted as offensive. So while oil strategy will certainly feed into China's emergence as a great power, it should not be viewed upon in isolation.

China has only had fifteen years to adapt to oil import dependency—a short period of time in terms of a large country's policy development. The patchwork of oil partnerships it has forged reflects a struggle to satisfy present needs and create a long-term strategy. China is at a critical juncture in the development of this strategy, and faces many crossroads where its oil strategy intersects with other foreign policy considerations. If China continues its strategy of prioritizing oil first and foremost, it may alienate further the international community. But if it seizes the opportunities available to it as an emerging great power, it may find that its search for oil guides it into a world system as an equal stakeholder with the goal of sustainable stability.

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<sup>115</sup> David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs* (September/October 2005), <http://www.foreignaffairs.org/20050901faessay84503/david-zweig-bi-jianhai/china-s-global-hunt-for-energy.html>, accessed April 21, 2008.

<sup>116</sup> *Ibid.*

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