
SUMMARY

China's two decades of rapid economic growth have fueled a demand for energy that has outstripped domestic sources of supply. China became a net oil importer in 1993, and the country's dependence on energy imports is expected to increase significantly over the next 20 years. It is projected that China will need to import some 60 percent of its oil and at least 30 percent of its natural gas by 2020. This scissors-like gap between domestic supply and demand has forced the Chinese government to abandon its traditional goal of energy self-sufficiency and look abroad for energy resources. China's increasing energy imports are a matter of great concern to both the Chinese government, which seeks to ensure that China has the energy resources it needs to sustain economic growth, and Western analysts, who are worried about the international political implications of China's quest for energy security.

This report examines the measures that China is taking to achieve energy security and the motivations behind them. It considers China's investment in overseas oil exploration and development projects, interest in transnational oil pipelines, plans for a strategic petroleum reserve, expansion of refineries to process Middle Eastern crudes, development of the natural gas industry, and gradual opening of onshore areas to foreign oil companies.

The study concludes that China's energy security activities can be explained in terms of China's long-standing fear of dependency on foreign energy. The Chinese government regards oil imports as a strategic vulnerability that could be exploited by foreign powers seeking to influence China. The United States is currently the most

powerful country in the world and is perceived by many in China as uncomfortable with China's rising power. As a result, the Chinese government views the United States as the primary threat to China's energy security, and China's energy security activities, which are largely defensive in nature, reflect this concern. China wishes to minimize the vulnerability of its oil supply to American power. The Chinese government's keen interest in the development of Central Asian and Russian oil reserves and the construction of pipelines to transport oil from these regions to China can be explained by the desire of Chinese planners to secure an oil supply that avoids the American-controlled sea-lanes. Similarly, the Chinese government's efforts to increase its economic, political, and possibly military ties to oil-producing states in the Middle East are aimed at securing access to oil from a region—where the United States is the preeminent military power—that provides China with the bulk of its oil imports. The internationalization of the China National Petroleum Corporation also reflects the desire of the Chinese government to gain a foothold in a world oil market where the leading companies belong to the United States and its allies.

China's international oil and gas investments are unlikely to significantly enhance China's energy security through supply diversification or a reduction of the vulnerability of China's energy supply to American power. Not only is it doubtful that many of the proposed pipelines will not be built, but China's overseas oil concessions probably will not yield enough oil to come close to matching China's growth in net oil imports over the next two decades. Furthermore, most of this oil will not physically enter China as a result of transportation and logistical costs. Instead, it will be sold on the international market or swapped for oil that would enter the Chinese market. Consequently, China will remain reliant on American protection of the sea-lanes for its energy (in)security.