Chapter Four

IMPLICATIONS OF CHINA’S ENERGY SECURITY ACTIVITIES

The Chinese government’s fear of dependence on foreign oil lies behind its energy security activities. The government’s unease with its status as a net oil importer has its origins in China’s unhappy experience with Soviet participation in China’s oil sector in the 1950s and China’s use of its oil exports to Japan to influence Japanese foreign policy in the 1970s. As mentioned earlier, Soviet advisers had a major impact on the development of China’s oil industry in the 1950s. Their departure following the Sino-Soviet split in 1960 created severe energy shortages and left China dependent on the Soviet Union, its new adversary, for more than 50 percent of its critical refined oil products. After China became an oil exporter in the 1970s, the Chinese government emulated the Soviet Union in its use of oil exports as a foreign policy tool. China sold oil to Japan at below-market prices in order to dampen Japanese enthusiasm for investment in Siberian oil and gas development projects. The Chinese leadership was afraid that the development of these resources would strengthen the transportation and communications infrastructure in Siberia and enhance the Soviet Union’s ability to attack northeastern China, the country’s industrial heartland and region of greatest strategic vulnerability.¹ These experiences made

China’s leaders acutely aware that dependence on foreign oil can bring foreign economic and political pressures that can threaten national security. The Chinese government’s fears of foreign oil dependency and the possible exploitation of this vulnerability have resurfaced now that China is once again a net oil importer.\(^2\)

Chinese analysts view the United States as a major threat to China’s energy security. The United States is the most powerful country in the world in military, economic, and technological terms. Many Chinese analysts perceive the United States to be uncomfortable with China’s rising power and are suspicious that the United States seeks to constrain China’s emergence as a potential rival. They cite as evidence American criticism of China’s human rights record, arms sales to Taiwan, the deployment of two aircraft carrier battle groups to the waters around Taiwan during China’s 1996 missile tests, the revision of the U.S.-Japan security guidelines, the bombing of the Chinese Embassy in Belgrade, the passage of the Taiwan Security Enhancement Act by the United States House of Representatives, and the possible deployment of Theater Missile Defense (TMD) and National Missile Defense (NMD) systems.\(^3\) Of particular concern to Chinese analysts is that there is no state (or groups of states) powerful enough to balance against the United States. They regard China as being especially vulnerable to American power in a world in which the United States is the sole superpower.\(^4\)

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\(^4\)See, for example, Xiao Feng, “Views on Some Hot-Spot Issues in International Situation,” Xiandai guoji guanxi (Contemporary International Relations), No. 12, December 1999, pp. 1–5, in FBIS (Document ID: FTS20000212000168); and Chu
China’s recent shift from a net oil exporter to a net oil importer means that energy security is another issue the United States could exploit to pressure China. The Chinese government is uncomfortable with the fact that the United States Navy dominates the sea-lanes stretching from the Persian Gulf to the South China Sea through which the bulk of China’s oil imports must pass. There is a concern that if Sino-U.S. relations sour, the United States could use its superior military power to disrupt China’s oil supply. Indeed, an article in the Chinese international affairs journal *World Economics and Politics* contends that the United States could use its control of Middle East oil to “check” China.5 Another Chinese commentary goes even further and argues that the United States has already implemented an “energy containment” policy against China. This policy’s objective, according to the article, is to weaken China by gaining control of the energy resources in western China and blocking China’s access to oil imports.6 The United States currently is not pursuing such a policy, but Chinese analysts clearly consider the interruption of its oil supply as a possible future containment measure.

Although not explicitly mentioned by Chinese analysts, it is also possible that the United States could apply oil sanctions against China to punish behavior it deems undesirable on a variety of issues ranging from human rights abuses to arms sales. Economic sanctions have been an important tool of U.S. foreign policy in the post–Cold War era. Given China’s vulnerability to U.S. economic pressure and relative lack of allies, the threat and imposition of oil sanctions could appeal to the United States.

China’s energy security activities are aimed, in part, to reduce the vulnerability of China’s oil supply to American power. China’s interest and investment in the development of Central Asian and Russian energy resources can largely be explained by the Chinese perception

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that these regions are less vulnerable to U.S. power than is the Persian Gulf and the sea-lanes connecting it to the South China Sea. Meanwhile, China’s “oil diplomacy” in the Middle East is an effort to ensure continued access to oil from a U.S.-dominated region that provides China with the bulk of its oil imports. These activities reflect Beijing’s larger strategy of attempting to reduce its vulnerability to American power through the development of a broad network of secure bilateral relationships, particularly with its neighbors.7 Similarly, the internationalization of CNPC is a way for China to gain a foothold in the world oil market, which is dominated by companies from the United States, Japan, and Europe. Finally, the Chinese government is pursuing a number of other measures to reduce the amount of oil it has to import and to increase China’s ability to manage supply disruptions, including those created by the United States.

Chinese analysts regard Central Asia as a region where energy exports to China are less vulnerable to American power. A report on Central Asia published by the China Society for Strategy and Management Research, a Beijing-based research institute, argues that U.S. involvement in Central Asia does not directly threaten China’s energy security. Although the United States is a competitor for Central Asian energy resources, its ability to threaten China’s oil supply from this region is limited. Not only did CNPC defeat several major American oil companies in acquiring development rights to Kazakhstan’s Uzen and Aktyubinsk oil fields, but geography dictates that Central Asia’s energy cooperation with China is likely to be greater than its energy cooperation with the United States. According to the report, the countries of Central Asia give first priority to cooperation with their neighbors, which obviously puts the United States at a disadvantage. Furthermore, the location of the United States far from Central Asia would hamper efforts by the United States to use military force in the region.8

The lack of a strong U.S. military presence in Central Asia explains China’s enthusiasm for the proposed oil pipeline between China and Kazakhstan. The major attraction of this pipeline is that it would provide China with an oil supply route that avoids the sea-lanes dominated by the United States Navy and passes through regions where China’s land power has the advantage. Although many industry analysts immediately dismissed the pipeline as economically infeasible, it continues to appeal to a number of Chinese analysts and officials because it would help free China from dependency on oil controlled by an adversarial power in the event of a severe downturn in Sino-U.S. relations.

China’s interest in the development of Siberian energy resources can similarly be explained by their location in a region that is not dominated by U.S. military power. Proposed oil and gas pipelines, if constructed, would also provide China with an oil supply route free from the threat of the U.S. Navy. It should be noted, however, that this view is not uniformly held throughout the Chinese government. A number of China’s leaders and People’s Liberation Army officers reportedly are opposed to increasing energy cooperation with Russia on national security grounds. They are concerned that in the event of a Sino-Russian crisis, Russia would stop the flow of energy resources to China.

The Chinese government wishes to reduce the vulnerability of its Middle Eastern oil supply to American power. China’s leaders are uncomfortable with the fact that the United States is the preeminent power in the Middle East, the region that provides China with the bulk of its oil imports. Chinese energy security analysts point out that the United States controls access to oil in the Middle East and that Japan and the major European countries—allies of the United States—are large consumers of oil from this region. Despite the abundance of oil in the world today, these analysts perceive China to be in competition with the United States and its allies for Middle Eastern oil. They contend that China is at a disadvantage in this

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9 Zhang Wenmu, pp. 102–104.
11 Ögütcü, p. 137; Nixon.
“struggle” because China is not as influential in the region. There is a concern that the United States, Japan, and the major European powers are apprehensive about China’s entry into the ranks of those importing oil from the Middle East. Chinese analysts are afraid that these Western countries may seek to limit China’s access to Middle East oil out of fear that there is not enough to go around. This possible course of action is particularly troubling to China because its ties to Middle East oil producers are not as strong as are the ties of the United States and its allies. According to one analyst, “China was late in developing a strategy for establishing resource import relationships, and as a result, its relationships are not stable. This is especially true of those countries and territories from which China might import oil.” The Chinese government believes that the cultivation of strong bilateral relationships with oil-producing countries in the Middle East can help China secure the oil resources it needs from the region. China’s efforts to establish closer ties with the Middle East have economic, political, and military dimensions.

Economically, China is pursuing what two analysts describe as a strategy of “two imports and one export” to strengthen its energy ties to the Middle East. The “two imports” refer to oil imports and capital to invest in the development of China’s oil industry. Chinese oil companies have signed long-term supply contracts with Middle Eastern countries. For example, in May 1995, China negotiated with Iran to triple its oil imports from 20,000 b/d to 60,000 b/d. In October 1997, Saudi Aramco announced that China would also triple its crude imports from Saudi Arabia to 60,000 b/d. The Chinese government has encouraged the participation of Middle Eastern oil companies in China’s oil industry. As mentioned earlier, Saudi Aramco, the Kuwait Petroleum Corporation, and possibly the National Iranian Oil Company are upgrading and expanding China’s

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12Li Weijian, “Petroleum from the Middle East: China’s Strategic Option in the 21st Century,” Zhongguo pinglun (China Review), No. 15, 3 March 1999, pp. 74–77, in FBIS (Document ID: FTS19990326000433); Wu Lei, p. 33.
14“Key Issues of Energy Development Strategy.”
refineries to process sour crudes from the Middle East. The “one export” refers to China’s investment in oil exploration and development projects in the Middle East. In 1997, CNPC signed an agreement to develop and operate Iraq’s al-Ahdab field. CNPC and CNOOC are also interested in investing in Iran. The Chinese government hopes that the development of strong Sino–Middle Eastern energy ties will help China secure the oil that it needs from this region.16

Politically, China is seeking to enhance the security of its oil imports from the Middle East by increasing its diplomacy in the region. The Chinese government appears to believe that strong bilateral political relationships can produce greater supply security during crises, despite historical evidence to the contrary. In 1999, several of China’s top leaders visited Algeria, Israel, Jordan, Morocco, Saudi Arabia, and Syria—high-level visits to strengthen China’s ties to states in a region where the U.S. has many allies and China has few. A recent report by the China Society for Strategy and Management Research suggests that this diplomacy may be successful with states unhappy with the American presence.17 Indeed, China’s closest bilateral relationships are with Iran and Iraq, the respective targets of UN and U.S. sanctions. It is likely that China’s leaders view political support of these countries as a key measure to gain access to their energy supplies. China’s permanent membership in the United Nations Security Council and its participation in the United Nations bodies dealing with sanctions were reportedly instrumental to China’s success in its oil deal with Iraq.18

Militarily, it is possible that China could use its arms sales to the Middle East to foster closer ties to oil-producing nations and possibly to decrease its oil import bill.19 China has a history of weapons ex-

16For more information on the “two imports, one export” strategy, see Wu Lei, pp. 32-33; and Shen Qinyu and Wu Lei.
17Wu Qiang and Xian Xuemei, p. 50.
ports to Iran, Iraq, Libya, and Saudi Arabia. Of particular concern are China’s sales to Iran of C-801 and C-802 antiship cruise missiles, which pose a threat to oil tanker traffic and American naval vessels in the Persian Gulf. Some Western analysts have speculated that despite China’s September 1997 and January 1998 commitments to the United States to halt the export of antiship cruise missiles to Iran, arms-for-oil barter arrangements could still appeal to the Chinese government. Indeed, one analyst has speculated that NORINCO, a Chinese ordnance producer and major arms sales agent, is participating in the Chinese consortium formed to develop Iraq’s al-Ahdab field to collect unpaid arms debts from the Iran-Iraq War.20 Given the Chinese government’s difficulties in collecting arms transfer payments from Iran, it is possible that China’s leaders would consider exchanging arms for oil with Iran, especially when oil prices are high. There are, however, compelling reasons for the Chinese government not to continue selling antiship cruise missiles to Iran. First, Chinese officials may realize that Iran could use these weapons to interrupt the free flow of oil from this region. Second, U.S. officials consider Chinese cooperation on nonproliferation of weapons to be an important issue in Sino-U.S. relations, so that continued arms sales would strain China’s relations with the country that is perceived to pose a great threat to China’s energy security.

In short, the Chinese government hopes that the development of close relationships with oil-producing states in the Middle East can help China secure its fair share of oil from a region in which the United States is the preeminent power. China’s economic, political, and military activities in the Middle East may facilitate investment there in oil exploration and development projects and the negotiation of long-term supply contracts with oil-producing states, particularly those at odds with the United States. However, increased Chinese involvement in the Middle East, in general, and its energy market, in particular, does not reduce the potential interference of the United States Navy with China’s oil imports.

The corporate ambitions of CNPC, which are shared by the Chinese leadership, are also relevant to the Chinese government’s efforts to decrease the vulnerability of its oil supply to American power.

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20Email correspondence with oil industry analyst, 25 June 1999.
CNPC, not satisfied with being merely a state-owned enterprise, seeks to become a successful multinational corporation like Royal Dutch/Shell and Exxon-Mobil. The company’s 1998 Annual Report asserts, “Our mission is to join the ranks of the world famous petroleum companies.”\textsuperscript{21} CNPC president Ma Fucai intends for his company to rank “among the 10 leaders of the world’s top 50 oil companies in terms of major economic quotas” by 2005.\textsuperscript{22} Participation in the international oil market is essential to the achievement of this goal. CNPC’s foreign investments give company officials the opportunity to prove they can do business overseas, learn the skills necessary to operate in a foreign environment, and gain exposure to new technology and management practices. In fact, the CNPC-owned China Petroleum Engineering and Construction Company so valued the opportunity to gain overseas work experience that they were willing to build a 940-mile pipeline and refinery in Sudan without a profit.\textsuperscript{23} It is also likely that CNPC officials regard overseas deals as a way to enrich themselves personally from bribes and kickbacks.

The Chinese leadership supports CNPC’s ambition to become a world-class oil company. The internationalization of CNPC is not only part of the Chinese government’s plan to create internationally competitive firms but also its strategy to achieve energy security. The Chinese government appears to be uncomfortable with the dominance of the world oil market by companies from the United States, Japan, and Western Europe, allies that could potentially seek to limit China’s access to oil.\textsuperscript{24} It is likely that China’s leaders regard the internationalization of CNPC as another way to ensure that China has access to the oil it needs. Furthermore, given the Chinese government’s long-standing fear of dependency on foreign oil and its traditional need to control energy resources, the participation of Chinese oil companies in international oil exploration and develop-

\textsuperscript{21}CNPC, 1998 Annual Report, www.cnpc.com.cn. This statement is in the section on international cooperation.
\textsuperscript{24}“Key Issues of Energy Development Strategy.”
ment projects probably provides China’s leaders with a measure of psychological security. There appears to be a perception among Chinese energy planners and analysts that equity holdings in overseas oil fields increase China’s control over that imported oil. However, most of the oil produced by CNPC in places like Venezuela, Sudan, and Kazakhstan will not physically enter China because of logistical difficulties and transportation costs.

China’s other energy security activities also seek, in part, to lessen the influence of the United States over China’s energy supply. First, the Chinese government is attempting to reduce the amount of oil it has to import through increased domestic production. The involvement of foreign oil companies is essential to this goal because they possess the capital, technology, and large-project management skills that the Chinese companies lack and are necessary for exploration in promising but geologically complex areas. Second, the Chinese government seeks to reduce its oil imports through the development of China’s natural gas industry. Although natural gas is generally regarded as a substitute for coal, it could be substituted for oil in the transportation sector. Natural-gas-driven vehicles are already used in several cities in China and may spread to others. Finally, if China establishes a strategic petroleum reserve, it could deter short-term disruptions of China’s oil supply. In fact, a strategic petroleum reserve would be a key measure in reducing China’s energy vulnerability.

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25 Logan and Chandler, p. 41.