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**WITH THE GRAIN OR AGAINST THE GRAIN?
ENERGY SECURITY AND CHINESE FOREIGN POLICY IN
THE HU JINTAO ERA**

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Introduction

Are China's growing energy needs insatiable, and is a resource war between China and other major energy-consuming countries, such as the United States, inevitable? China's pursuit of overseas energy resources to feed its fast-growing economy has given rise to observations that energy is now the driving force behind Chinese foreign policy and predictions that potential conflicts between China and other countries are likely to arise as China becomes more aggressive internationally in search of resources.

Making reference to the power transition theory, David Zweig and Jianhai Bi, warn, "Although China's new energy demands need not be a source of serious conflict with the West in the long term, at the moment, Beijing and Washington feel especially uneasy about the situation. While China struggles to manage its growing pains, the United States, as the world's hegemon, must somehow make room for the rising giant; otherwise, war will become a serious possibility."¹ In fact the Chinese magazine *Liaowang Dongfeng*, in a widely quoted article titled, "Sino-U.S. war of competition for resources will become more intense," predicted that the next major war for human society "is more likely to be a war over resources rather than as a result of the clash of civilizations."²

China's energy usage began rising during the 1980s. In 1993 China became an oil-importing country and it is now the second largest oil consumer in the world, after the U.S. In recent years Chinese national oil companies have been very active internationally in the energy field. Some analysts are troubled by Chinese international energy policy. They find Beijing's efforts in securing new supplies to be aggressive. China's investments and acquisition of energy-related assets in countries shunned by the Western world on humanitarian or political grounds, and its purchase of equity oil are some of the key components of this perception. A *Business Week* report in early 2006 described China as "A bull in the energy shop."³ The argument that China's global quest for energy resources threatens to destabilize international and regional security, and may even lead to conflict, is widely shared among analysts outside of China and in the international press.⁴

From the energy-needs perspective China's international behavior may indeed appear aggressive, and potentially destabilizing, and in the longer run may lead to international conflict. Chinese foreign policy, however, has often characterized as seeking to avoid risk and develop good relationships with major powers, especially with the U.S., and maintaining a stable regional and international environment. The foreign policy perspective suggests that China would continue to secure a peaceful international environment and to benefit from the existing global economic order. The tension between

¹ David Zweig and Jianhai Bi "China's Global Hunt for Energy" *Foreign Affairs*, September/October 2005.

² Liaowang Dongfeng, December 2003, available online on *Renminwang* (People's Net): <http://bbs.people.com.cn/bbs/ReadFile?whichfile=4391&typeid=40>.

³ Brian Bremner, "A Bull in the Energy Shop", *BusinessWeek* Online, January 23 2006.

⁴ Chietigj Bajpae, "China fuels energy cold war" *Asia Times*, March 2, 2005.

a highly assertive international energy policy and its far more cautious foreign policy thus presents a paradox to students of Chinese international behavior. Are Chinese foreign and international energy policies becoming divergent? To what extent has China's foreign policy been driven by its need for energy resources under Hu Jintao? Are we witnessing the emergence of a more assertive foreign policy that is shaping China's overseas activities in the energy field?

This paper addresses these questions by looking at China's *nengyuan waijiao* (energy diplomacy) with special reference the developing world, especially Africa and Latin America—the regions that are geographically farthest away from the People's Republic and where Chinese presence and activities have been limited until recently. The paper will examine the following issues: first, China's growing energy needs and international concerns arising from China's pursuit for overseas resources; second, whether energy diplomacy has become the key issue on Hu Jintao's foreign policy agenda; third, China's broader links and policies towards the developing world with reference to Africa, Latin America and recent developments in the Middle East, especially in regard to Iran's nuclear weapon program; and fourth, China's overall approach in addressing its energy security/insecurity. The paper will conclude with a discussion on the implications of China's energy security needs for U.S.-China relations.

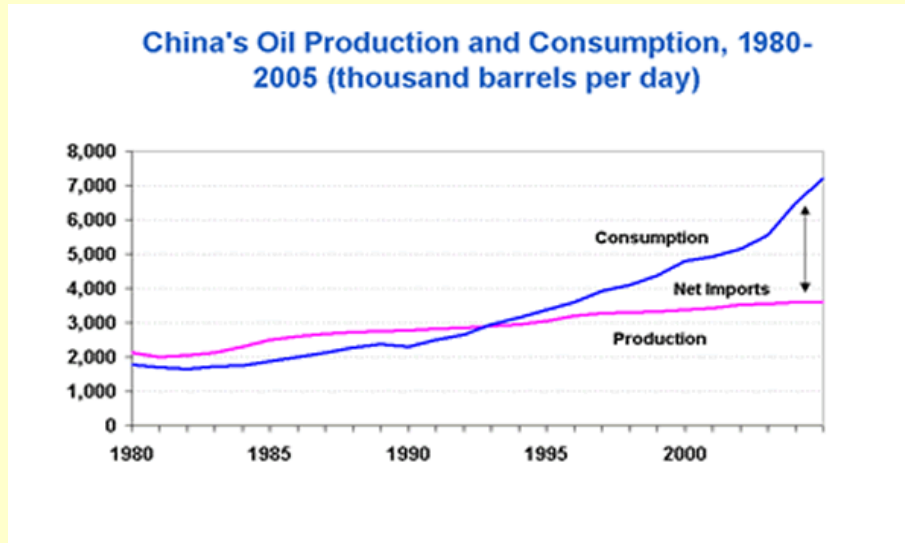
China's search for overseas energy

China became a net oil importer in 1993 and surpassed Japan in late 2003 to become the world's second largest oil consumer. By 2004, according to International Energy Agency, China's demand for oil grew 15 percent annually to 6.37 million barrels per day (bbl/d), about one-third the level in the United States. Chinese domestic crude production grew only slowly over the past five years. If there are no measures to reduce demand or to develop alternative energy resources, Chinese oil consumption is expected to grow very rapidly in the years to come. The gap between China's oil production and consumption, as indicated in the chart below, has been widening since 1993 and the trend is rather alarming. 2005 estimates by the U.S. Department of Energy's Energy Information Administration's (EIA) project Chinese consumption of 9 million bbl/d in 2010, 12 million bbl/d in 2020 and, applying a growth rate of 3.9% in 2025-30 (the same as in 2020-2025), 16.4 million bbl/d in 2030.⁵

⁵ Energy Information Administration (EIA), *International Energy Outlook 2005*, Energy, Washington DC.

Figure 1

China's Energy Needs



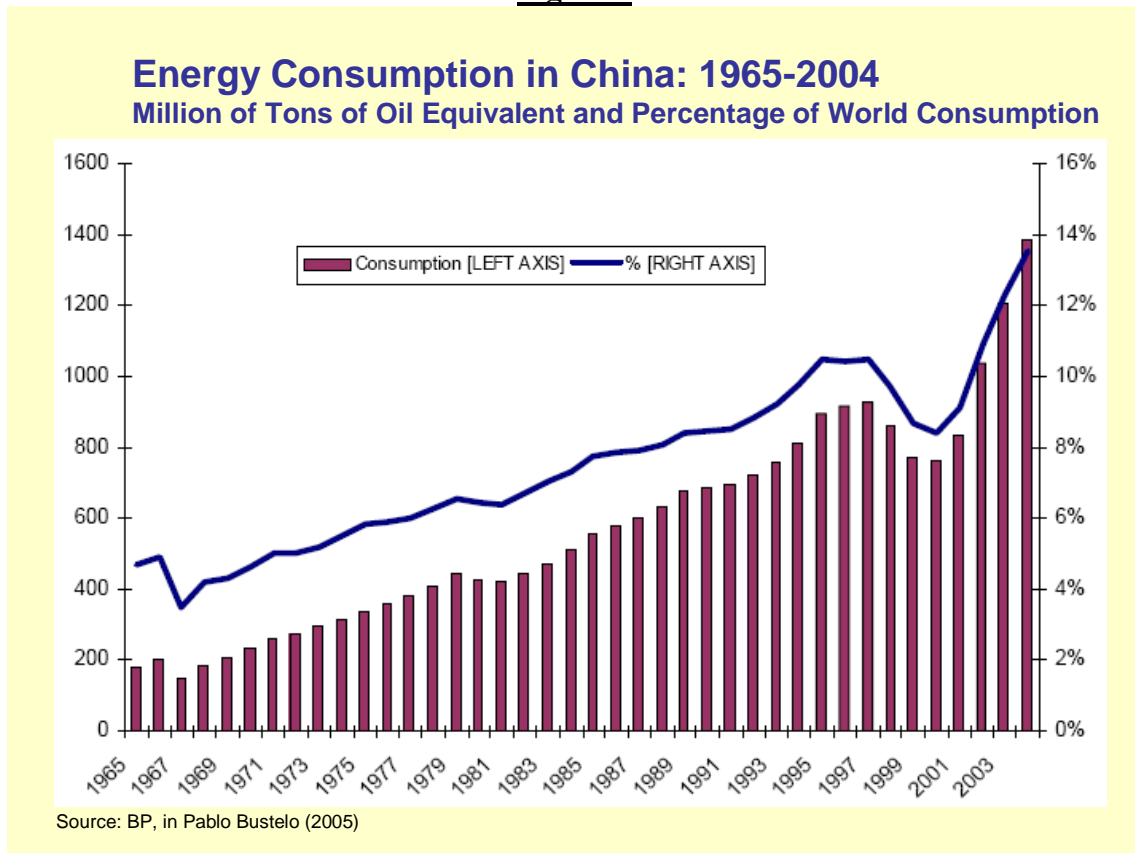
Source: China Country Analysis Brief, Energy Information Administration, US Government

The IEA's *World Energy Outlook 2004* forecasts Chinese petroleum demand in 2030 at just under 14 million bbl/d, about one-third less than current demand in the United States. China's import dependency will continue to grow, with imports reaching 75 percent of total consumption. In 2030, China is expected to import as much oil as the United States did in 2004. Other major studies carried out in 2004 and 2005 estimate a slightly lower rise, but still project a very similar trend suggesting that China's oil demand would reach 7.5 million bbl/d in 2010, 11 million bbl/d in 2020 and 13 million bbl/d in 2030. Only two studies offered different forecasts. Estimates by Goldman Sachs (2004) are significantly higher than average because of expected GDP growth with a higher energy intensity, and the Chinese government's Development and Research Center projects figures that are much lower than average.⁶

⁶ "Energy Outlook for China: Focus on Oil and Gas," Testimony of Jeffrey Logan, Hearing on EIA's *Annual Energy Outlook for 2005*, Committee on Energy and Natural Resources U.S. Senate, 3 February 2005. Asia Pacific Energy Research Centre, Tokyo (APEREC), *Energy in China: Transportation, Electric Power and Fuel Markets*, 2004. British Petroleum (BP), *Putting Energy in the Spotlight. BP Statistical Review of World Energy June 2005*, London. Development Research Center, (DRC), *China's National Comprehensive Energy Strategy and Policy*, State Council, Beijing, 2003. DRC (2004), *China National Energy Strategy and Policy 2020*, State Council, Beijing. Energy Information Administration (EIA), *International Energy Outlook 2004*, Washington DC. EIA, *International Energy Outlook 2005*, Energy, Washington DC. Energy Research Institute (NDRC) – Lawrence Berkeley National Laboratory (ERI-LBNL), *China's Sustainable Energy Future. Scenarios of Energy and Carbon Emissions*, 2003, October. Goldman Sachs, "The BRICs and Global Markets: Crude, Cars and Capital", *Global Economics Paper*, nr

In addition to representing an increase in absolute terms, China's usage of oil is rising as a share of world consumption. Its percentage share of world consumption has grown rapidly from under three per cent in the 1960s to almost 14 per cent by 2004. In fact the rise is particularly sharp in just the past few years. Between 2000 and 2004, China's share of world oil consumption expanded by almost one third.⁷

Figure 2



China's growing oil needs have been attributed to a number of factors. Most important are the country's breath-taking GDP growth, above 8 per cent per annum for over a decade since the early 1990s; the dramatic increase in the number of vehicles; and the more frequent use of fuel oil and diesel than coal to generate electricity. The number of cars sold in the China market rose from fewer than 250,000 in 1999 to more than two million in 2003. The percentage of oil as an energy source rose from 19 percent in 1995 to 22 percent in 2004, while coal dropped from 77 percent to 69 percent. China's

118, 2004. The Institute of Energy Economics of Japan, Tokyo (IEEJ), 'Asia Outlook of Supply and Demand Trends of Petroleum Products and Crude Oil', July 2004, quoted in Pablo Bustelo, *China and the Geopolitics of Oil in the Asian Pacific Region*, Working Paper 2005, p.15.
http://www.nautilus.org/aesnet/2005/NOV3005/RIE_Bustelo.pdf.

⁷ Pablo Bustelo, *China and the Geopolitics of Oil in the Asian Pacific Region*, Working Paper 2005, p.6.
http://www.nautilus.org/aesnet/2005/NOV3005/RIE_Bustelo.pdf.

economic growth is expected to continue, and its demand for oil is likely to increase further as it reduces its dependence on coal. The proportion of oil as a primary energy source is expected to rise from 22 percent in 2004 to 29 percent in 2020, while coal will drop from 69 percent to 56 percent, based on forecasts by the Institute of Energy Economics of Japan (IEEJ). The number of vehicles in China, according to Goldman Sachs estimates, will increase from 19.2 million in 2005 to 42.5 million in 2010, to 131.6 million in 2020, and to 198.8 million by 2030. China's strategic petroleum reserve, initiated in 2005 in four locations in Zhejiang, Shandong and Liaoning provinces, is expected to rise from 100 million barrels in 2008 to over 600 million barrels in 2020.⁸

As a result of China's growing energy needs, the country has begun to actively pursue resources abroad, such as overseas energy related assets, and the purchase of equity oil. As noted above, however, such activities have generated international concerns about possible confrontation between China and the West over resources. These concerns include: first, that China would disrupt the existing oil supply through the acquisition of overseas assets in the energy field or purchase of equity oil; second, that China has become supportive of suppressive regimes, such as Sudan, that the West has tried to isolate for humanitarian reasons, or of countries that are hostile to the West, and; third, China's interest in developing stronger military capability to protect the safety of oil transportation.

These views are widely expressed in the American press and western mass media. *The Washington Post*, for example, in an article titled "As China, U.S. Vie for More Oil, Diplomatic Friction May Follow," cautions in April 2006 that, "China's oil industry has wooed countries that the U.S. has tried to isolate for political reasons such as Sudan, Iran and Burma, potentially undermining the isolation efforts." The article goes on to point out, "Even Saudi Arabia, despite its long-standing tight relationship with U.S. oil companies, is turning toward China and is today its largest oil supplier."⁹ In explaining China's reluctance to support sanctions against Iran because of its nuclear program, Tony Karon suggests, "Their motivations are pretty clear. China's strategic stake in Iran's energy sector makes comprehensive sanction intolerable."¹⁰

Concerns about the potential conflicts between the U.S. and China over energy resources have not been confined only to the press, but also have been expressed in policy circles and even in key policy documents issued by the U.S. government. While the 2006 *The National Security Strategy* report produced by the White House acknowledges that Chinese leaders had proclaimed a commitment to peaceful development, it also suggests, "China's leaders must realize, however, that they cannot stay on this peaceful path while holding on to old ways of thinking and acting that exacerbate concerns throughout the region and the world." The report highlights three

⁸ Pablo Bustelo, *China and the Geopolitics of Oil in the Asian Pacific Region*, Working Paper 2005 http://www.nautilus.org/aesnet/2005/NOV3005/RIE_Bustelo.pdf.

⁹ Steven Mufson, "As China, U.S. Vie for More Oil, Diplomatic Friction May Follow," *Washington Post*, April 15, 2006.

¹⁰ Tony Karon, "Iran Diplomacy: Why Russia and China Won't Play Ball," *Time*, Thursday April 20, 2006.

practices that it regards as “old ways.” First is the continuation of China’s military expansion in a non-transparent way. The other two, both related to energy, are: “Expanding trade, but acting as if they can somehow ‘lock up’ energy supplies around the world or seek to direct markets rather than opening them up – as if they can follow a mercantilism borrowed from a discredited era”; and “supporting resource-rich countries without regard to the misrule at home or misbehavior abroad of those regimes.”¹¹

Such sentiments were echoed by the Secretary of State, Condoleezza Rice. In testimony before the Senate Foreign Relations Committee on April 5, 2006, she stated, “I can tell you that nothing has really taken me aback more as secretary of state than the way that the politics of energy is – I will use the word ‘warping’ – diplomacy around the world.” Rice went on to name China as posing a challenge to the U.S., suggesting that the all-out search for energy has sent states like China and India into “parts of the world where they’ve not been seen before, and challenging, I think, for our diplomacy.”¹²

Many Chinese analysts are equally troubled by China’s growing dependence on foreign oil, from the perspective of the country’s energy security. A special feature about China’s energy needs on the popular website *Renmin Wang* (People’s Net), for example, uses the headline “Looking for New Blood: Striking at Four Fronts” to argue that the country has to go all out for energy resources because it has no other choices.¹³ For Chinese analysts, China’s reliance on foreign oil has made energy security central to the survival of the country, and therefore should be an important matter on the national strategy agenda.¹⁴

Zhu Feng, a Peking University scholar, suggests that China faces an imbalance between its rapidly expanding manufacturing economy and its shortage of resources. As a result, Zhu argues, resource diplomacy—in the form of the establishment and development of good relations with resource-rich countries, the development and creation of a favorable commercial environment for Chinese enterprises in the resource field, and a strategic alliance for resource cooperation—has become a logical extension of Chinese national interests.¹⁵ Another Chinese scholar, Pang Zhongying from Nankai University, maintains that China’s pursuit of resources overseas is part of a wider process of globalization. Pang considers energy security to be not simply a matter of market forces. Rather, as energy inevitably involves other major powers, energy security requires consideration of complicated geopolitics, economics, and strategies. He argues that Chinese foreign policy has been transformed in this way as a result of such interactions.¹⁶

¹¹ *The National Strategy*, March 2006, The White House, p.45-6.

¹² Steven Mufson, “As China, U.S. Vie for More Oil, Diplomatic Friction May Follow”, *Washington Post*, Saturday, April 15, 2006; Page D01.

¹³ <http://finance.people.com.cn/GB/8215/36401/index.html>.

¹⁴ See for example, Shang Chunying, “Nengyuan waijiao xumulakai” [The Opening of Energy Diplomacy Prelude], *Jingji*, April, 200, No. 88, Zhang Lijun, “Nengyuan Anquan yu waijiao” [Energy Security and Foreign Policy], *Beijing Weekly*, 2005, No. 29.

¹⁵ Zhu Feng, “Fuchu Daijia Gaoang: Zhongguo de Zhiyuan Waijiao Shangxu da zhihui” [A high price to pay: China’s resource diplomacy requires wisdom], *Xin Caojing*, May 2005.

¹⁶ Pang Zhongying, “Heping Fazahn yu nengyuan waijiao” [Peaceful Development and Energy Diplomacy], *Liaowang* [Outlook Weekly], 2006, Issue 6 and 7.

Compounding the dangers of the resource gap and its reliance on imported oil is the fact that most of China's imported oil comes from the Middle East and must be transported through the Strait of Malacca. This has been regarded as a source of energy insecurity, generating intense debates among scholars and researchers inside China about possible alternatives. President Hu Jintao had already highlighted the importance of the Strait to China's energy security as early as November 2003, during a meeting on economic work in Beijing. President Hu pointed out that almost 80 percent of China's imported crude oil was shipped through the Strait and suggested that some other powers were attempting to control the Strait.¹⁷

Chinese foreign policy and energy diplomacy under Hu Jintao

Energy diplomacy has been widely seen as a hallmark of Hu's Jintao's foreign policy. For example, China's diplomatic moves within a few days at the beginning of 2006 are arguably all closely related to its interests in overseas energy resources:

January 9:

- Sino-Japanese negotiations began over the oil fields in the East China Sea.
- Foreign Minister Li Zhaoxing met with visiting Iranian Deputy Foreign Minister Mehdi Safari.

January 11:

- Vice President Zeng Qinghong attended the inauguration ceremony of President of Kazakhstan Nursultan Nazarbayev. Zeng held talks with Nazarbayev and also met with Vladimir Putin, President of the Russian Federation, in Astana during the inauguration ceremony.
- Foreign Minister Li began an eight-day trip to six African countries including Cape Verde, Liberia, Libya, Mali, Nigeria, and Senegal.

January 12:

- Indian Oil Minister Mani Shankar Aiyar signed the "Memorandum for Enhancing Cooperation in the Field of Oil and Natural Gas" with Ma Kai, head of the National Development and Reform Commission. Ma is a ministerial rank official responsible for China's energy policy.

In fact the Chinese government arranged Hu's first formal official visit to the United States in April 2006 as part of a five-country visit that also included the resource-

¹⁷ The Chinese website *Nengyuan Wang* (Energynet) runs a special feature on the Malacca Strait and has a list of 246 articles on the subject from mid 2001 to early 2006. For some examples of Chinese analysis about the Malacca Strait see, Zhang Jie, "Zhongguo Nengyuan Anquan de Maliujia Yinsu" [The Malacca Factor in China's Energy Security], *Guoji Zhengzhi*, 2005, No. 3. Beijing TV's report on China's reliance on the Malacca Strait, June 14, 2004 http://www.btv.org/gb/content/2004-06/15/content_136226.htm. See also Ian Storey, "China's Malacca Dilemma", *China Brief*, Vol. 6 Issue 8, April 12, 2006.

rich countries of Saudi Arabia, Morocco, Nigeria and Kenya.¹⁸ In the Hu Jintao era, therefore, energy and resources have clearly emerged on China's foreign policy agenda. However, the bilateral diplomatic activities with Japan, Iran, Central Asia, Russia, and India, clearly have involved complicated issues.

Sino-Japanese negotiations over the East China Sea old field, for example, have to be seen in the wider context of the two countries' political relations, which have deteriorated due to Prime Minister Koizumi's visit to the Yasukuni Shrine; China's economic success and rising stature, which affects the strategic balance in the region; and continuing Japanese economic interests in China. Beijing's relationship with Tehran is also a delicate issue given the complexity of Middle Eastern politics. American and European opposition to Tehran's plan to develop a nuclear weapon program also complicates China's interaction with Iran, which has become a major oil supplier for China. China's relationship with Central Asia is very much focused on oil, but given Kazakhstan's strategic location and with a population sharing the same ethnic origins as the Chinese Muslim population just across the border, other political and security calculations obviously also come into play. The evolving Sino-Russian relations are even more complicated, with a history of both conflict and cooperation. The rapid economic and social changes that are taking place in these two countries and the region as a whole have generated tensions between the two giant neighbors sharing the world's longest border. Finally, China shares interests with India as both are fast-growing energy consumers and there are some complementarities between the two economies, but again the two have been rivals and they have had a troubled bilateral relationship.¹⁹ Energy has clearly emerged as a new issue in China's foreign policy calculations, including in its relations with these countries. The question is whether energy diplomacy has become the most important driving force in Hu's foreign policy.

In his book, *Rising to the Challenge: China's Grand Strategy and International Security*, Avery Goldstein argues that by 1996, China's policy-making elite had reached a foreign policy consensus and developed a grand strategy in dealing with a U.S.-dominated post-Cold War world. According to Goldstein, China's grand strategy consists of two components: "The first, great power diplomacy... is to design, to make China an indispensable, or at least very attractive, actor on whose interest the system's major powers are reluctant to trample"; the second component "embraces an activist agenda designed to establish Beijing's reputation as a responsible international actor, reducing the anxiety about China's rise that CCP leaders recognized might prompt others to oppose it." This is a transitional strategy, in Goldstein's words, that addresses the period from the end of the Cold War to the end of a U.S.-dominated unipolar world.²⁰

¹⁸ For a Chinese perspective see Li Zhaoxing's interview on China News Net

<http://61.135.142.194:89/gate/big5/www.chinaneews.com.cn/news/2006/2006-04-29/8/724804.shtml>.

¹⁹ For a good review of China's relations with its Asian neighbors see Robert Sutter, *China's Rise in Asia: Promises and Perils* (Lanham: Rowman and Littlefield, 2005), p.4-5.

²⁰ Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security*, (Stanford University Press, 2005), p.17, 29-30.

If such a strategy to avoid confrontation with the U.S. and focus on an export-led approach to economic development indeed exists, it has served China rather well. As Michael Yahuda has observed, China has benefited both from post-Cold War U.S. supremacy and globalization. In the Asian region, as Robert Sutter has noted, Chinese leaders under both Jiang Zemin and Hu Jintao have “played down China’s global ambitions and adopted interests in Asia. They have come to terms, at least for now, with U.S. dominance of many key international regimes and regions, as long as the United States does not infringe on core Chinese interests.”²¹

Both Goldstein and Sutter, however, caution that in the longer run there is no guarantee that China will continue such a policy and that China could become more assertive toward the U.S. if conditions were to change. Sutter highlights, in particular, differences over Iran and Taiwan, and U.S. interests in promoting democracy world wide. He also notes that the broad public opinion in China still considers the country to be a target of depredation and pressure by outside powers and that the U.S. may be seen as the leading oppressor in recent years. Goldstein, however suggests that the grand strategy has survived periods of great tension across the Taiwan Strait, in 1995-96, 2000, 2003, and the challenge of a more assertive Bush in 2001, and as a result gained the confidence of the Chinese leadership at the beginning of the 21st century.²² If the grand strategy survived the Taiwan and Bush tests, can it also survive the energy test?

Since taking over from Jiang Zemin as General Secretary of the party and President of the state in November 2002, and Chairman of the Central Military Commission in September 2004—a leadership transition that has been described as “the first orderly, planned succession in the history of any major communist state”—Hu Jintao has gradually established a new style of governance.²³ The Hu Jintao-Wen Jiabao team has placed emphasis on collective leadership, reporting on leadership meetings, displaying a leadership commitment to public welfare, canceling the leadership summer retreat in Beidaihe, and highlighting official accountability. Hu and Wen obviously have tried to establish a new leadership style; it has been described by the *People’s Daily* as “enlightened, open, approachable, and pragmatic.” As Lyman Miller observes, within months of coming into power the new leadership survived a number of major domestic and international challenges—the outbreak of SARS, the American invasion of Iraq, the crisis over North Korea’s nuclear weapons program, and the massive demonstration in Hong Kong against the introduction of national security legislation—and managed to respond in ways that were sophisticated and pragmatic, often demonstrating a willingness to cooperate internationally when necessary.²⁴

²¹ Robert Sutter, *China’s Rise in Asia*, p.4-5.

²² Avery Goldstein, *Rising to the Challenge*, p.38, 177-203, Robert Sutter, *China’s Rise in Asia*, p.12-14

²³ H Lyman Miller, “How’s Hu Doing?” *Hoover Digest*, 2004 No. 1 Winter Issue <http://www.hooverdigest.org/041/miller.html>. A fuller version is H Lyman Miller, “The Hu-Wen Leadership at Six Months,” *China Leadership Monitor*, Fall 2003, Issue 8, <http://www.chinaleadershipmonitor.org/20034/lm.html>.

²⁴ H Lyman Miller, “How’s Hu Doing?” *Hoover Digest*, 2004 No. 1 Winter Issue, <http://www.hooverdigest.org/041/miller.html>.

While Hu has been regarded as a cautious leader with a low-profile, under his leadership Chinese diplomatic activities have expanded rapidly and become more intense in reaching out to almost all corners of the world—moving beyond its traditional area of influence in the East Asian region. In the first three years after taking over, Hu has traveled to every continent except Antarctica, and has visited each of the four other permanent members of the United Nations Security Council. China has also greatly enhanced its influences in East Asia to the extent that some observers, both in China and in the U.S., have suggested that Beijing has replaced the U.S. as a regional leader.²⁵ Indicating the success of this diplomatic offensive, a December 2004 poll conducted in 22 countries found that world opinion largely views China as playing a significantly more positive role in the world than either the U.S. or Russia. Most people were also positive about China significantly increasing its economic power in the world, even though most were negative about China significantly increasing its military power.²⁶

In many ways Hu has followed the Deng Xiaoping directive of keeping a low profile in the conduct foreign affairs while trying to thrive.²⁷ Under Hu's leadership, Beijing has played down China's rise as a major power by conducting what has been described by one leading Chinese international relations scholar, Jia Qingguo, as a "policy of reassurance."²⁸ In fact the Hu leadership is so careful that, after toying briefly with the idea of the "peaceful rise" of China (*heping jueqi*) put forward by Zheng Bijian, at the end of 2003, subsequently tried to remove the expression from the lexicon of Chinese foreign policy. The term, introduced to the international community in a speech by Wen Jiabao at Harvard University when he described China as a rising power dedicated to peace, was abandoned in favor of "peace and development" (*heping yu fazhan*). In a much anticipated speech by Hu Jintao on 24 April 2004, and subsequently Vice-President Zeng Qinghong's speech at the UN two days later, "*heping yu fazhan*" was used instead.²⁹ Mirroring his efforts to build a "harmonious society" domestically, Hu has also articulated the idea of a "harmonious world." In his speech to the United Nations General Assembly in September 2005, President Hu urged leaders around the world to "support the efforts to settle international disputes or conflicts through peaceful means and strengthen cooperation." He reiterated that China was committed to peace, development and cooperation and its development, "instead of hurting or threatening anyone, can only serve peace, stability and common prosperity in the world."³⁰

²⁵ See, for example, *Power Shift*.

²⁶ BBC World Service Poll by the international polling firm GlobeScan together with the Program on International Policy Attitudes (PIPA) at the University of Maryland. The 22-nation fieldwork was coordinated by GlobeScan and completed during December 2004 in most countries. http://www.pipa.org/OnlineReports/China/China_Mar05/China_Mar05_rpt.pdf.

²⁷ Deng's axiom was, "observe calmly, stand firmly, respond carefully; hide one's ability to buy time and do whatever necessary," (冷靜觀察、穩住陣腳、韜光養晦、決不當頭).

²⁸ Jia Qingguo, "Peaceful development: China's policy of reassurance," *Australian Journal of International Affairs*, Volume 59, Number 4, December 2005, Pages: 493 – 507.

²⁹ For an account of how the idea came about and later dropped see Robert L. Suettinger, "The Rise and Descent of 'Peaceful Rise,'" *China Leadership Monitor*, 2004 No. 12.

³⁰ Hu Jintao, "Making Great Efforts to Build a Harmonious World with Long-lasting Peace and Common Prosperity," September 15, 2005, delivered at the summit on the 60th anniversary of the establishment of the United Nations. <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t212614.htm>.

Despite this emphasis on harmony, some Chinese analysts suggest that Hu's diplomatic style is more frank and more direct, and that he is more willing than past leaders to express bluntly China's position on international issues. Hu also seems more eager to project China's image as a major country which is capable of participating in and resolving global problems. When Hu took over from Jiang the key components of Chinese foreign policy were centered on establishing a stable regional environment and developing strong partnership relationships with major powers. Under Hu, China has become even more active in multilateral forums, adopted a higher profile in the East Asian region, and expanded its efforts to develop strategic dialogues with other major players including India and Japan. By promoting the concept of a harmonious world, Hu also implicitly argues for a world order which is less U.S.-centric and in which collective security is developed, different social and political systems are respected, and the developing world's needs are more effectively addressed.³¹

As China is pursuing good relations with its key global economic partners including the United States and EU, analysts have identified a line of great power diplomacy (*daguo waijiao*). China also seeks to develop cordial relations with its neighbors, termed good neighbor diplomacy (*zhoubian waijiao*). Although Chinese foreign policy, through these two strategies, has continued to focus on maintaining a peaceful and stable international environment for economic growth and political stability, the country has clearly become far more concerned about energy security. Chinese analysts therefore have added energy diplomacy (*nengyuan waijiao*) as a third pillar of Chinese foreign policy in the Hu era.³²

The addition of this new strand to China's overall foreign policy raises several important questions. For example, how does China exercise its increased influence both regionally and globally, and how does it secure its energy needs while attempting to maintain a peaceful environment for economic development? To what extent have China's relations with other countries have been affected by China's energy needs, particularly oil? To what extent will China make use of such energy needs to facilitate its relationship with other countries? To what extent will China's pursuit of energy security internationally compel the Beijing leadership to take new political and economic risks? The following section reviews China's relations with two resource-rich regions, Africa and Latin America, where increasing Chinese presence and activities have attracted international interests since the turn of the century.

China's energy diplomacy in the developing world

In pursuing energy diplomacy, Beijing has developed much closer ties with countries that had relatively limited interactions with China in the past. From the 1990s onward,

³¹ See the Chinese Foreign Ministry's press release on Hu's talk at the UN on September 15, 2005. <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t212614.htm>.

³² The expression that energy diplomacy is a third ring of China's overall diplomacy is attributed to Beijing officials in a report by Ta Kung Pao in July 2004 and subsequently quoted widely in the mainland press. See also Zhang Lijun, "nengyuan anquan yu waijiao" [Energy Security and Foreign Relations], *Beijing Review* (Chinese Edition) 2005, Issue 29.

Chinese national oil companies began to turn their attention to Central Asia, Africa, and Latin America, and energy became far more important in Beijing's relations with resource-rich countries such as Russia, Australia, and Canada. After an exploratory period in the mid-1990s, Chinese oil companies began investing in countries like Sudan, Venezuela, Iraq and Kazakhstan, Ecuador, Indonesia, Iran, Myanmar in the late 1990s and early 2000s. Since Hu Jintao assumed power, China has been more aggressive in African countries such as Algeria and, Gabon; Middle Eastern countries like Egypt and Iran; and in Western hemisphere countries including Argentina, Brazil, Venezuela, and Canada. High profile examples of this investment surge include Sinopec's agreement with Teheran in November 2004 for the exploration and development of the Yadavaran oil field; with Caracas in December 2004 for the operation of fields in eastern Venezuela; and CNPC's take over of the Canadian oil company PetroKazakhstan for 4.18 billion dollars in August 2005.³³

The Chinese oil companies' activities were supported by more intense Chinese diplomatic activities in the resource-rich parts of the world. This section will highlight Chinese presence and interests in Africa and Latin America as well China's attitude toward Iran's nuclear ambitions. While the Middle East has remained China's major source of oil, Chinese initiatives in Africa and Latin America are most interesting because the two regions are geographically remote from the People's Republic and Beijing traditionally has had rather few substantive links with them, except for African aid projects and rhetorical support for revolutionary movements in these two regions during the 1960s and 1970s. Even in these cases, China has exercised rather limited influence in these regions. The Middle East presents challenges to Beijing because of the region's highly complex political and strategic landscape. Iran, whose interest in developing a nuclear weapons program has been condemned by the West, presents a particularly difficult test for the Hu leadership. On the one hand, Beijing has invested heavily in Iran and developed extensive oil interests that must be protected, but on the other hand China has to address Western concerns about Iran's ambitions.

China and Africa

China's recent activities in Africa have been widely attributed to the Chinese need for oil. In describing China's relations with Africa, a Council on Foreign Relations background note highlights that China "has crafted its foreign policy goals around getting the resources needed to sustain its economic development, and is taking its quest to lock down sources of oil and other necessary raw materials across the globe."³⁴ Beijing's ties with resource-rich African governments that have been accused of serious human rights violations have come under close scrutiny in the international press.³⁵

³³ See *The Power and Interest News Report* website for update and information on Chinese acquisitions. http://www.pinr.com/report.php?ac=view_region®ion_id=18&language_id=1.

³⁴ Esther Pan, "China, Africa, and Oil," *Backgrounder*, January 12, 2006. <http://www.cfr.org/publication/9557/>.

³⁵ See for example, Craig Timberg, "In Africa, China Trade Brings Growth, Unease Asian Giant's Appetite for Raw Materials, Markets Has Some Questioning Its Impact on Continent," *Washington Post*, Tuesday, June 13, 2006; Page A14.

There is little doubt that, under Hu, China has become more and more active in Africa, both economically and politically. Oil producing countries such as Sudan, Chad, Nigeria, Angola, Algeria, Gabon, and Equatorial Guinea have provided oil to China. In fact China's imports from Africa in 2005 went up by 33 per cent, making the continent the second fastest growing supplier to China after the Middle East at 45 per cent and almost double the world average. China's exports to Africa in 2005 also grew very rapidly at 35 per cent, making the continent the second fastest-growing market for Chinese goods, after Europe which expanded at the rate of 43 per cent during the year.³⁶ The importance of Africa to China during the Hu era was demonstrated by the fact that of the four other countries President Hu visited immediately following the Hu-Bush summit in April 2006—Saudi Arabia, Morocco, Nigeria and Kenya—three are African.

To help facilitate these new economic and political relationships, Beijing established the China-Africa Cooperation Forum in 2000. In that year, Sino-African trade surpassed US\$10 billion for the first time, and within four years it had grown to over US\$ 40 billion. By June 2004, 674 Chinese companies were operating in Africa, with business activities ranging from processing, manufacturing, transportation, telecom and agriculture to resource development—representing a gross investment of US\$1.51 billion. The Chinese Government has also set up a special fund for State Owned Enterprises and preferential loans for other Chinese enterprises operating in Africa. By mid 2004, 722 turnkey projects had been completed in 48 African countries with the assistance of Chinese enterprises.³⁷ The number of Chinese outbound tourists to Africa in 2005, according to the Public Security Ministry, stood at 110,000 in 2005, double the figure from the previous year.³⁸

At the second China-Africa Cooperation Forum, the Chinese government launched the Addis Ababa Action Plan (2004-2006) and made commitments to increase assistance to African countries; strengthen cooperation with Africa in human resources development and train up to 10,000 African personnel; open its markets and grant tariff-free market access to commodities from the least developed countries in Africa; expand tourism cooperation with Africa and designate 8 African countries—Ethiopia, Kenya, Tanzania, Zambia, Mauritius, Seychelles, Zimbabwe and Tunisia—as approved destinations for Chinese tourists; sponsor African cultural events; and increase people-to-people exchanges with Africa.³⁹

Beijing's increased political ties with African countries and economic presence in the continent should be viewed in the wider context of China's overall international presence and expanding economic activities world-wide. Oil-producing African countries such as Angola, Morocco, Nigeria, and Sudan are clearly key trade partners of China, but South Africa, which is not an oil producing country, was China's most important African market and second largest source of imports in 2005. Kenya, another non-oil producing

³⁶ *IMF Direction of Trade Statistics*.

³⁷ <http://www.chinese-embassy.org.za/eng/znjl/t177585.htm>.

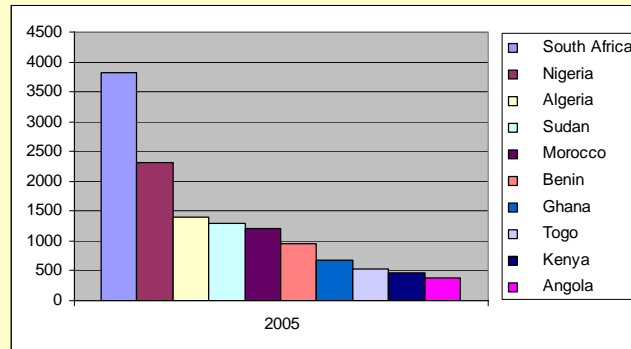
³⁸ http://news.xinhuanet.com/english/2006-01/22/content_4085700.htm.

³⁹ See statistics from China Foreign Ministry at <http://www.fmprc.gov.cn/zflt/eng/zyzl/hywj/t157710.htm>.

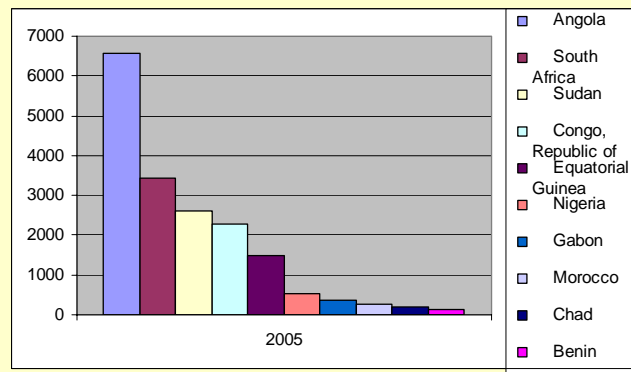
country, has also developed strong economic links with China. The following charts identify China's top markets and suppliers in Africa as well as the pattern of China's trade with both oil and non-oil producing countries, indicating that while energy resources are critical to China's presence in Africa, China's trade relations with the continent are not simply a matter of oil.

Figure 3

**China's
Top
10
African
Markets
in
2005**



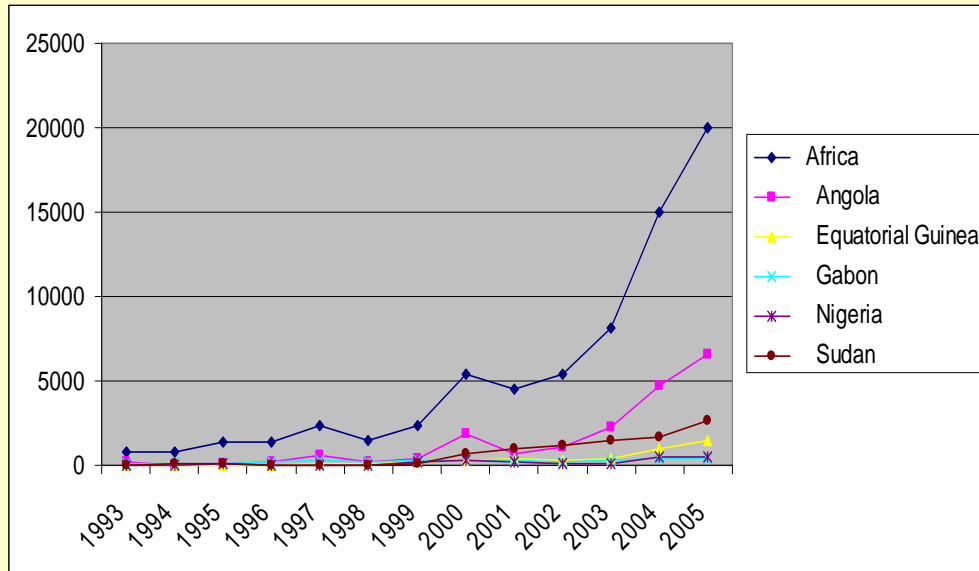
**China's
Top
10
African
Suppliers
in
2005**



Source: Direction of Trade Statistics, IMF
Figures in millions US\$

Figure 4

**China's imports from major oil producing African countries
1993 - 2005**



Source: Direction of Trade, IMF

Figures in millions US\$

China's Africa policy has to be seen in a larger context of China's changing position in the world too. During the 1980s, China was preoccupied with economic reforms and was busy cultivating links with the West and paid little attention to Africa. At the beginning of the 1990s, when China was isolated by the Western world in the aftermath of Tiananmen, the Beijing leadership renewed its interests in the continent.⁴⁰ Once again, China's interests in Africa are not all energy-related but are based on economic grounds; wider strategic and political considerations such as China's role in the developing world and its rivalry with Taiwan are also evident. As Drew Thompson argued, China's activities in Africa constitute part of a wider effort to better position itself in a multi-polar post-Cold war world by creating a "paradigm of globalization that favors China." Many African leaders find the so-called Beijing consensus – respect for sovereignty and non-interference in internal affairs, very appealing.⁴¹

Sino-African relations have become highly rewarding for both sides, but China's ascendancy as a new power in Africa is not without risks and new challenges. Although

⁴⁰ See Ian Taylor, "China's foreign policy towards Africa in the 1990s," *The Journal of Modern African Studies*, 36, 3 (1998), pp. 443-460.

⁴¹ Drew Thompson, "Economic Growth and Soft Power: China's Africa Strategy," *China Brief*, Volume 4, Issue 24 (December 07, 2004).

Beijing has repeatedly emphasized its identity as a developing country that had also suffered from western domination, China occasionally has been portrayed as only the latest foreign power seeking to dominate the continent for its own benefit and is sometimes the target of outbursts of African nationalism and resentment. As one African newspaper owner put it, "If the British were our masters yesterday, the Chinese have come and taken their place."⁴²

China and Latin America

In January 2005, Vice President Zeng Qinghong visited Caracas with a delegation of 125 business representatives and signed 19 cooperation agreements including Chinese investment projects in Venezuelan oil and gas fields. President Hugo Chávez. Chávez himself had visited China one month earlier, and President Hu Jintao had traveled to Brazil, Chile, Argentina and Cuba in November 2004.⁴³

China's new-found interest in Latin American oil and its "entry" into America's "backyard" were watched with concern by many in Washington. Observers were particularly uneasy over the development of closer ties between Chinese leaders and Venezuela's Chávez, who had been engaged in a war of words with President Bush. A *New York Times* report, for example, noted that while Venezuela ships more than 60 percent of its crude oil to the U.S., has emerged as "an obvious contender for Beijing's attention." Indeed, "China's sights are focused mostly on Venezuela." The Senate Foreign Relations Committee even asked the Government Accountability Office to examine contingency plans should Venezuela stop supplying oil to the U.S. A senior committee aide interviewed by the press warned that the Chinese were taking advantage of American inattention to the region.⁴⁴ Some analysts have warned Latin America is likely to emerge as a major stage of this energy competition or confrontation between China and the United States and others suggested that "China is redrawing geopolitical alliances in ways that help propel China's rise as a global superpower."⁴⁵

Relations between China and Latin America have indeed expanded rapidly since the turn of the century. In fact the intensity of high-level visits in the past 2-3 years has been described as unprecedented in Chinese diplomacy by one of China's leading Latin Americanists. In 2004-2005, President Hu visited Latin America twice (November 2004

⁴² Craig Timberg, "In Africa, China Trade Brings Growth, Unease Asian Giant's Appetite for Raw Materials, Markets Has Some Questioning Its Impact on Continent," *Washington Post*, Tuesday, June 13, 2006; Page A14.

⁴³ "China and Venezuela sign oil agreements," *China Daily*, 2005-01-30 Willy Lam, "China's Encroachment on America's Backyard," *China Brief*, Volume 4, Issue 23 (November 24, 2004).

⁴⁴ Juan Forero "China's Oil Diplomacy in Latin America," *New York Times*, 28 Feb 2005. The Congressional Research Service produced a report on the issue in April 2005. See Kerry Dumbaugh, and Mark P. Sullivan, "China's Growing Interest in Latin America," CRS Report for Congress, April 20, 2005

⁴⁵ Chietigj Bajpae, "Chinese Energy Strategy in Latin America," *China Brief*, Volume 5, Issue 14 (June 21, 2005). Mohan Malik, "China's Growing Involvement in Latin America," *The Power and Interest News Report (PINR)*, 12 June 2006.

http://www.pinr.com/report.php?ac=view_report&report_id=508&language_id=1.

and September 2005), Vice President Zeng visited in early 2005, and two other top Chinese leaders went to Latin America.⁴⁶

Since the establishment of the People's Republic, Beijing's interests in Latin America were rather minimal; this has begun to change in recent years. While China signed a trade pact with Chile in 1952, there were limited interactions between the People's Republic and the continent from the 1960s to the 1990s. The relationship between the two really blossomed only from the beginning of the 21st century. Bilateral trade between the two sides grew from merely \$1.3 billion in 1980 to almost \$13 billion in 2000 – a ten-fold increase in only twenty years. Latin American exports to China are growing at 47 percent a year, with Argentina, Brazil, Uruguay and Paraguay accounting for 85 percent of the total. China is investing more in Latin America than any region outside Asia. During his November 2004 visit, President Hu pledged over \$100 billion of investments in Latin America over a decade and announced investment in railways, oil and gas exploration, construction and communications satellites.⁴⁷ Overall, China has emerged as the region's third largest trading partner.

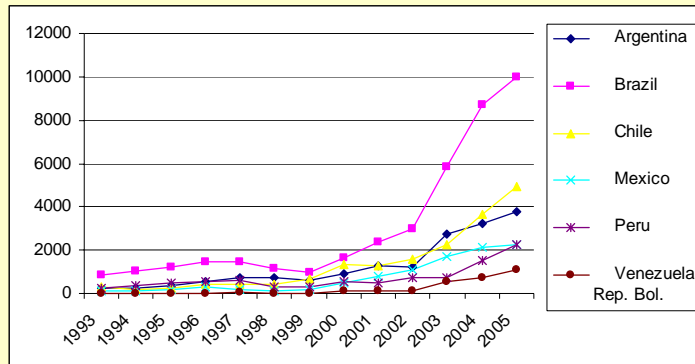
This trend has been especially impressive under Hu Jintao's leadership. Trade between the two increased spectacularly from \$15 billion in 2001 to more than \$50 billion in 2005. China's imports from Latin America grew at the rate of almost 21.96 per cent in 2005, which is above the world average of 17.6 per cent and very close to Asia at 22.09 per cent, but behind the Middle East, Africa, and Europe, which grew at the rates of 45.18 per cent, and 32.71 per cent, and 23.99 per cent respectively. China's exports also grew rapidly. The annual increase of exports to Latin American countries reached 27.64 per cent which was very close to increase rate of China's total exports to the world at 28.48 per cent, but it still lags behind regions such as the Middle East at 31 per cent and Africa at 34.97 per cent. Like the situation in Africa, China's interests in Latin America are not driven by energy alone, though that is an important consideration. Among China's top economic partners in the region, as shown by the following charts, China's trade with Brazil is far more significant than oil-rich Venezuela.

⁴⁶ Jiang Shixue, "Latin America: China's Perspective", Latin Business Chronicle, May 8, 2006, <http://www.latinbusinesschronicle.com/reports/opinion/050806/china.htm>. For a comprehensive review of China's relations with Latin America see Jorge I. Dominguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes" Working Paper, The Inter-American Dialogue, June 2006.

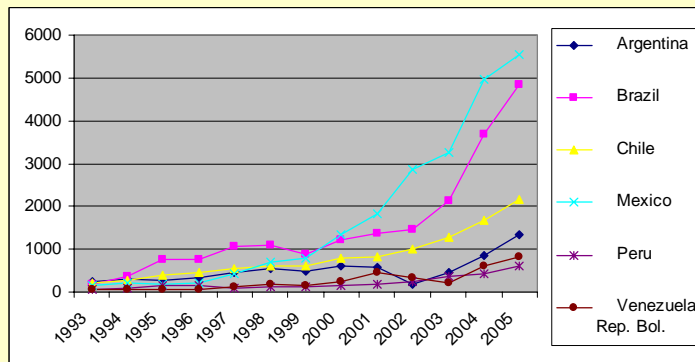
⁴⁷ IMF Direction of Trade Statistics, see also Foreign Minister Li Zhaoxing's comments on Hu's visit in 2004. <http://www.fmprc.gov.cn/eng/wjb/zzjg/gjs/gjsxw/t172349.htm>.

Figure 5

China's Imports from Selected major Latin American Countries 1993-2005



China's exports to Selected major Latin American countries 1993-2005



Source: Direction of Trade Statistics, IMF
Figures in millions US\$

Likewise, economic concerns in general are not the only motivation for China to improve its relations with Latin America – cultivation of wider support in the developing world for China and Beijing’s rivalry with Taipei are also important calculations. In fact most countries that continue to maintain diplomatic relations with Taipei are from Central and South America. However, similar to China’s experiences in Africa, as the country has become more deeply involved with Latin America, Chinese companies and their operations are increasingly under the scrutiny that is more familiar to Western companies.. One example is the local attention to China’s Shougang steel company which has been operating an iron ore mine in Peru. The company has been accused of dumping effluents into a nearby bay, and its treatment of local workers has also received local press attention.⁴⁸

While China’s economic activities in both Africa and Latin America have become far more noticeable, overall trade between China and these two regions are still very limited compared to China’s trade with the rest of the world. In 2005 China’s imports from Africa were only 3.02 percent of its total and those from Latin America were only 3.97 per cent of the total. China imported mostly from developing countries, representing 53.47 per cent of the total but industrialized countries remained very significant with 38.05 of the total, making them more important than any other regions in the world,

⁴⁸ See Thomas L. Friedman, “Red China or Green”, *New York Times*, June 30, 2006.

including Asia at 37.99 per cent of the total. Both Africa and Latin America are small markets for Chinese exports. In 2005 only 2.14 per cent of total Chinese exports went to Africa, and only 2.98 per cent went to Latin America. Industrialized countries have remained the largest market for Chinese exports, representing 53.76 of the total, but gradually the developing world is becoming more and more important, reaching 45.97 per cent in 2005. The most important regional market for China in 2005 was still Asia at 32.76 per cent.⁴⁹

China and the Middle East

Compared with Africa and Latin America, the Middle East is a more critical source of energy supply for China. Beijing's relations with Middle East since the late 1990s, has shifted from "Taiwan first" to "energy first," i.e. from preventing Arab states to maintain official relations with Taiwan to securing a stable oil supply from the region.⁵⁰ Iran and Saudi Arabia in particular are key suppliers to China, accounting for almost two-third of China's total import from the region in the mid 2000s. Some observers have suggested that as a result of its pursuit of energy resources in the Middle East, Beijing has been willing to undercut American non-proliferation efforts and support Middle Eastern governments that have sought to export Islam.⁵¹

Although the Middle East was once an important market for Chinese weapons, its importance has declined. China is now a relatively insignificant player in the region's arms market.⁵² Moreover, as China becomes more active in the Middle East, the Beijing leadership has attempted to be more even-handed and attempted to avoid becoming embroiled in the Arab-Israeli conflict by both supporting the need for an independent Palestinian state and recognizing that the security of Israel should be guaranteed. The importance of the region to the Beijing leadership has also been reflected with the appointment of a special envoy for Middle East. In the aftermath of the Lebanon crisis in 2006, the Chinese envoy, Sun Bigan, visited Syria, Jordan, Israel, Palestine, Egypt, and Saudi Arabia in early August, to make clear the Chinese government's support of UN efforts in addressing the conflicts in the region and to urge the resumption of negotiations.⁵³

The Iran case, however, is one of the most telling examples of how the Chinese leadership has to balance its energy security concerns, role, and aspirations as a major global power in a troubled region, and its relations with both the Islamic and Western worlds. The world was alarmed in 2002 and 2003 when Iran's plans for building uranium enrichment facilities were exposed. Under international pressure, Tehran agreed to cooperate with the IAEA and signed the Additional Protocol to the Non-Proliferation Treaty. It continued voluntary suspension of enrichment until August of 2005, when

⁴⁹ *IMF Direction of Trade Statistics*.

⁵⁰ Jin Liangxiang, "Energy First: China and the Middle East," *Middle East Quarterly*, Spring, 2005.

⁵¹ Dan Blumenthal, "Providing Arms: China and the Middle East," *Middle East Quarterly*, Spring 2005.

⁵² Yitzhak Shichor, "Mountains out of Molehills: Arms Transfers in Sino-Middle Eastern Relations," *Middle East Review of International Affairs (MERIA)*, Fall 2000, p. 73.

⁵³ "China calls for new approaches to resume Middle East peace process", Xinhua, August 23, 2006.

nuclear activities resumed, triggering wide-spread international concern.⁵⁴ The Beijing leadership has been accused of protecting Iran from Western pressure to stop its nuclear weapon program. Just before Hu Jintao's summit meeting with President Bush in April 2006, a leading Washington think tank suggested that despite China public posturing, the Beijing leadership had no interests in supporting American efforts to prevent Iran's nuclear program. Instead Beijing was trying to "undermine any leverage the international community may have over Iran's nuclear ambitions" because of China's security interest in preventing the global domination by the U.S.⁵⁵ The Hu leadership, however, decided to support UN action when Iran was unwilling to respond to incentives offered by the West.

In fact China's demand for energy and Iran's oil and gas reserves have made the two strong economic partners in recent years, and bilateral trade has been growing very strongly. In 2005, China was Iran's fifth biggest importer and seventh biggest exporter, with two-way trade surpassing US\$10 billion. China imports petroleum, natural gas, and petrochemicals from Iran and exported electronics, steel, and railway construction to Iran.⁵⁶ It is therefore not surprising that the Beijing leadership would prefer a multilateral approach to resolving the Iranian nuclear crisis and views UN sanctions against Iran as counterproductive and detrimental to Chinese interests.⁵⁷

The following charts, identifying the trends of China's trade relations with the Middle East, however, suggest that while Iran has become one of China's the most important economic partners in the region, overall trade with the whole region is expanding much faster than the bilateral China-Iran trade.

⁵⁴ The IAEA website has a special focus on Iran which provides useful background information and documents on the subject. <http://www.iaea.org/NewsCenter/Focus/IaeaIran/index.shtml>.

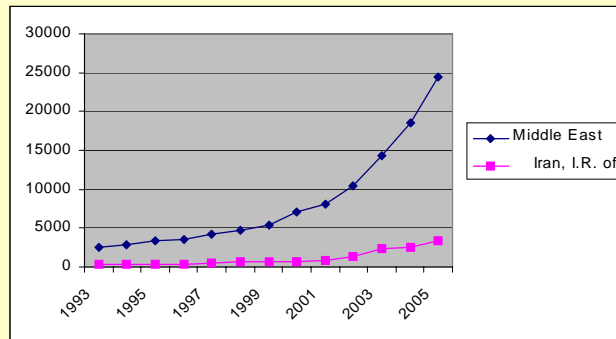
⁵⁵ John J. Tkacik, Jr., "Confront China's Support for Iran's Nuclear Weapons", WebMemo #1042, Heritage Foundation April 18, 2006. <http://www.heritage.org/Research/AsiaandthePacific/wm1042.cfm>.

⁵⁶ *SinoCast China Business Daily News*, July 12, 2006.

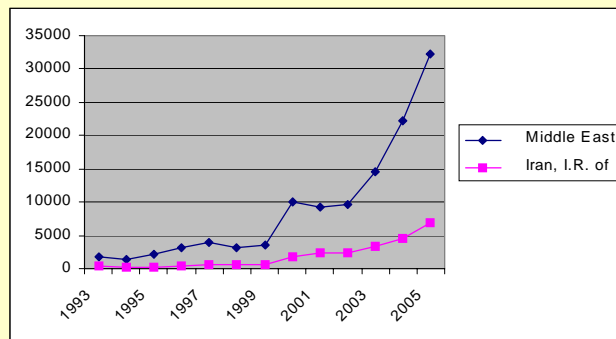
⁵⁷ See for example commentary in Wang Hang, "Yilang heweiji kaoyinzhongguo waijiao" [The Iranian Nuclear Crisis is a test for Chinese Diplomacy], *Qingnian Bao* [Youth Daily] Jan, 18, 2006. See also Yu Jun, "PRC Role Should Not Be Misread on Iran Nuclear Issue" *Beijing Review*, 28 April, 2006.

Figure 6

China's Exports to
the Middle East
and Iran,
1993-2005



China's Imports from
The Middle East
and Iran
1993-2005



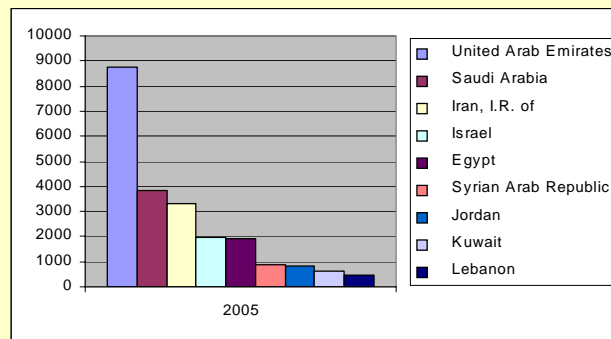
Source: Direction of Trade Statistics, IMF

Figures in millions US\$

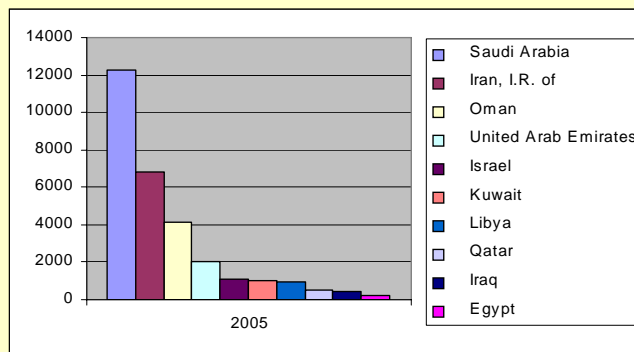
As the following charts on China's top ten markets and suppliers in 2005 indicate, the United Arab Emirates and Saudi Arabia were China's largest market and supplier, respectively. Iran was China's third largest market in the region and second largest supplier. It is interesting also to note that Israel remained one of China's most important trade partners in the region, standing as its fourth largest market and fifth largest supplier. It is true that Iran is a key source for oil supply to China and a major economic partner, but China's economic interests in the Middle East are obviously rather diverse. Beijing's attitude toward Iran and the region also has to be seen in the larger context of its broader relations with other major powers including not only the U.S., but also EU countries and Russia.

Figure 7

China's top 10 Markets
in the Middle East, 2005



China's top ten suppliers
in the Middle East, 2005



Source: Directions of Trade Statistics, IMF

Figures in millions US\$

Some developments in Iran do pose a test for Hu Jintao, who decided in early 2006 to vote against Iran at the UN's International Atomic Energy Agency (IAEA) meeting, allowing Iran's referral to the Security Council. Both China and Russia had resisted earlier U.S. pressure to impose sanctions against Iran, but they agreed to a tougher response after the U.S. joined Britain, Germany, and France in offering a new package of incentives to Iran in exchange for verifiable assurances that it had no intention to develop nuclear weapons.⁵⁸ By July 2006, however, when it was clear that Iran was not willing to take up the offer, China joined other members of the Security Council in approving a resolution that demanded that Iran suspend its enrichment and reprocessing of nuclear fuel by the end of August or face possible sanctions. It was a major step for the Beijing leadership. As the *Washington Post* suggested, the UN resolution “represented the first time that the international body has legally required Iran to halt its enrichment of uranium” and increased pressure on Tehran to begin negotiations -- from Britain, China, France, Germany, Russia, and the United States.⁵⁹ Although China has attempted to

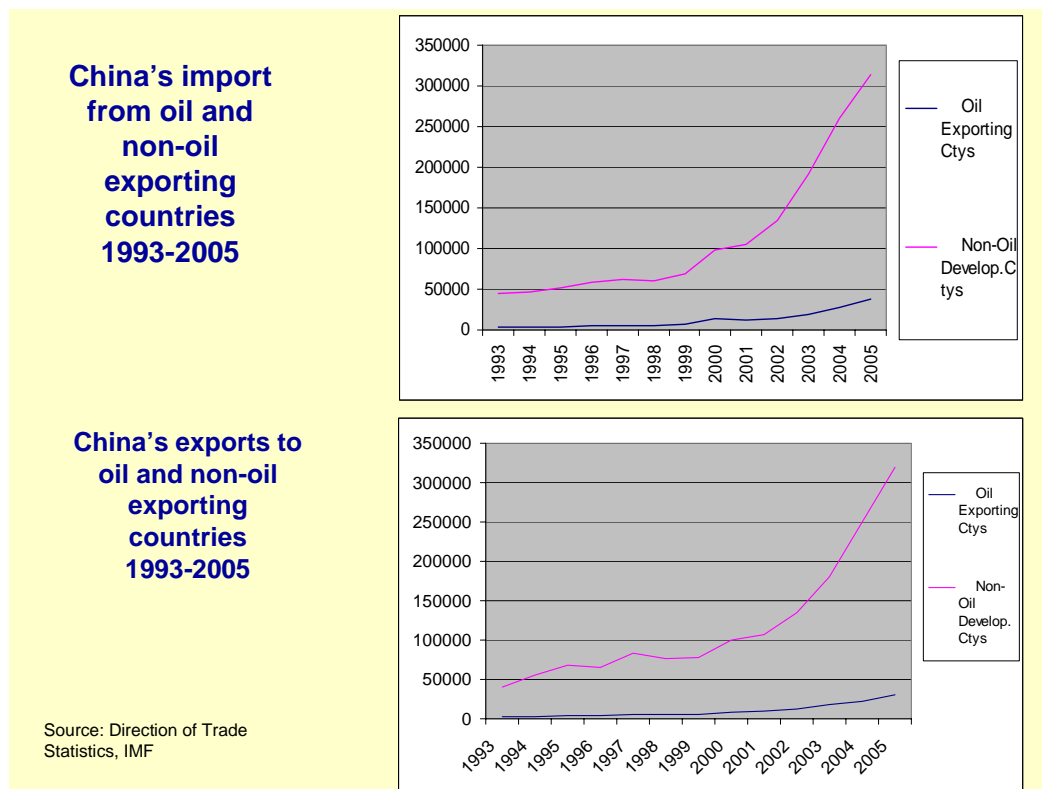
⁵⁸ Kaveh L Afrasiabi, “China's energy insecurity and Iran's crisis,” *Asia Times*, February 10, 2006. www.atimes.com/atimes/Middle_East/HB10Ak01.html. See also news report by BBC on January 31, 2006. www.news.bbc.co.uk/2/hi/middle_east/4664378.stm.

⁵⁹ Colum Lynch, “U.N. May Impose Sanctions Unless Nation Ends Nuclear Activity by Aug. 31,” *Washington Post*, Tuesday, August 1, 2006; A11.

prevent UN sanctions against Tehran, it clearly would not sacrifice its broader interests with the West, and the U.S. in particular, over Iran.

It is clear that despite China's growing energy interests in the developing world and activism in Africa, Latin America, and the Middle East, the Beijing leadership still has to consider its overall economic interests and wider political relations with the Western world. In fact China's overall economic relations and trade with non-oil producing developing countries are still far more important than its trade with oil-exporting countries. Imports from non oil-producing countries grew from US\$ 44.76 trillion in 1993 to US\$ 314.5 trillion in 2005, an increase of more than seven times. Imports from oil exporting countries went up at an even more dramatic rate, from US\$ 2.76 trillion in 1993 to US\$ 38.5 trillion in 2005, a 14-fold increase. As these figures indicate, however, the value of China's imports from non-oil developing countries is still over eight times greater than the value from oil-exporting countries. The charts below provide a graphic representation of China's trade relations with oil and non-oil exporting countries.

Figure 8



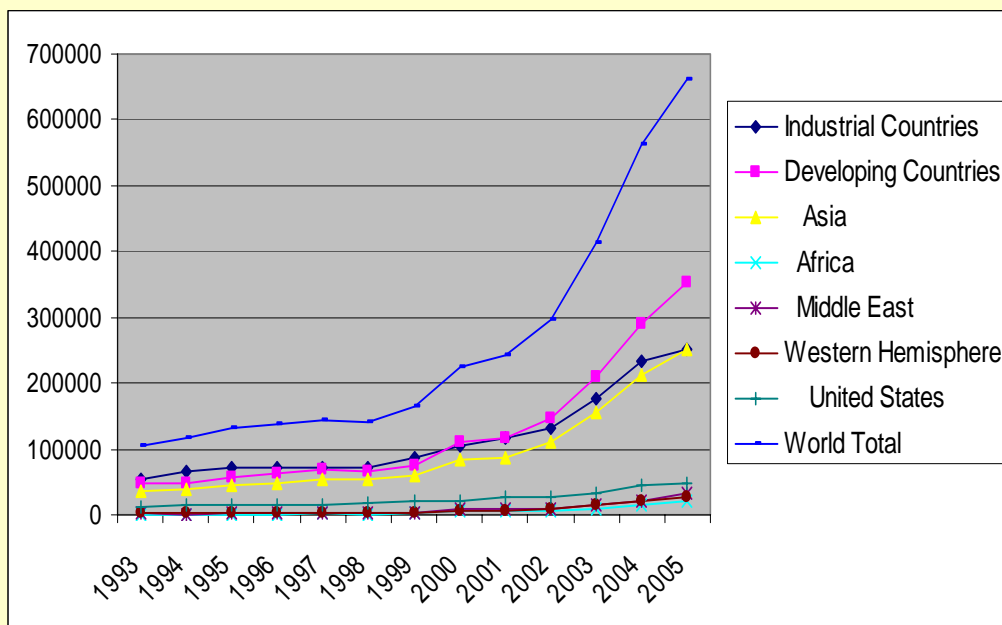
Figures in millions US\$

It is true that Beijing has stepped up its diplomatic efforts in Africa and Latin America and built up better relations with other oil-exporting countries in the Middle East and Central Asia. It is also clear, however, that China's economic interests are clearly still very much focused on the industrialized world and the Asian region. The

Iranian case also demonstrates that as China becomes more active in other parts of the world, international pressure on China to behave as a responsibly has also become stronger. Beijing has to steer carefully in balancing its economic and energy needs, against its broader strategic interests and its image as a responsible power. The following charts on China's imports and exports from 1993 to 2005 show clearly that China's economic links with the industrialized world and Asia are far more important than the developing world.

Figure 9

China's Imports from the World, 1993-2005



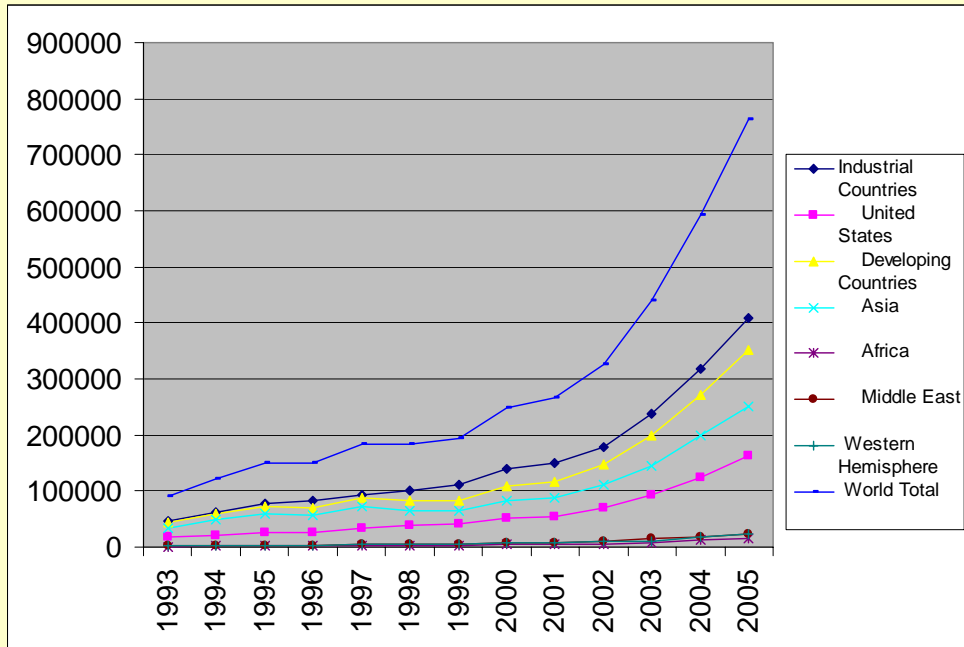
Source: Direction of Trade, IMF

Figures in millions US\$

Figure 10

China's Exports to the World, 1993-2005

Unit: US dollars million



As Philip Saunders argues, China's increased global outreach is intended to serve the country's economic and strategic objectives to: "secure inputs for the economy; protect against a possible U.S. containment strategy; expand its political influence; and pursue its commercial interests." In addition to domestic economic competition which has driven Chinese companies abroad, Beijing's activities in the Middle East, Africa, and Latin America reflect not only Beijing's need for resources and to build export markets in developing countries, but also shared interests in resisting U.S. influences and intervention. However, as Saunders also pointed out, China's economy is very much intertwined with the global economy and foreign companies are still playing a very significant role in linking China to the outside world. In seeking new markets and expansion of their businesses, Chinese companies are imitating Western firms rather than creating successful new models; Beijing is still operating within the framework global institutions established by the U.S.⁶⁰

In many ways, China's energy diplomacy in the developing world is only part of a broader energy security strategy, involving competing visions and both domestic and international components.

⁶⁰ Philip Saunders, *China's Global Activism: Strategy, Drivers and Tools*, (Washington DC: Institute for National Strategic Studies Occasional paper Series No. 4: National Defense University Press, 2006).

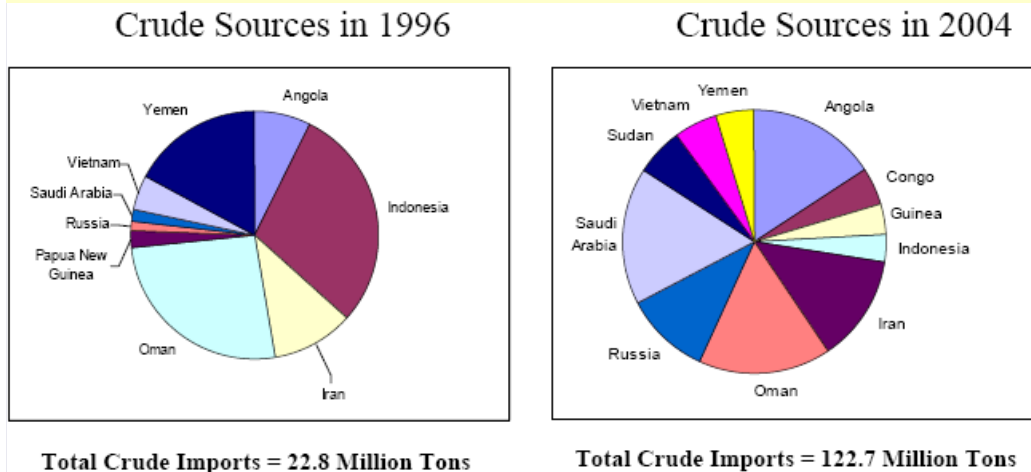
China's energy security strategy – the domestic dimension

Facing the serious challenges of its rapidly rising energy demand, China has adopted a complex response, which sometimes includes ad hoc measures, in addressing its perceived vulnerability. In a comprehensive review of China's energy security, Bo Kong identified factors in China's energy insecurity, dividing them in terms of actual and perceived insecurity. Actual insecurity includes cyclical, structural, and institutional insecurities. Cyclical security refers to the different energy consumption level and patterns over time such as higher demand for electricity during summer months, leading to regular short-term power shortages. Structural factors include environmental insecurity, namely pollution from coal, which is China's single most important source of energy and will remain so for sometime to come; and oil insecurity as China turns to other energy sources. Oil insecurity has become a major structural insecurity problem largely because of China's growing dependence on foreign oil. Institutional security refers to the fragmented energy policy-making system with a large number of players. China's policy is influenced by various planning departments, regulatory bodies, and ministries in charge of different power industries, as well as power companies, oil companies, and even local government agencies. Each of these bodies have and often pursuing different interests. China's perceived insecurity of energy focuses on availability, reliability, and affordability of oil supply from overseas.⁶¹ The following charts on China's sources of crude oil in 1996 and 2004 demonstrate that while China has attempted to diversify its sources of oil supply in the past decade, it is still heavily reliant on Middle Eastern oil.

⁶¹ See the analysis in Bo Kong, "An Anatomy of China's Energy Insecurity and Its Strategies," Pacific Northwest Center for Global Security, December 2005. See also Ni Jianmin, ed., *Guojia Nengyuan Anquan Baogao* [Report on National Energy Security] (Beijing: Renmin Chubanshe [People's Publisher], 2005).

Figure 11

**The Diversification of China's Crude Oil Supplies:
1996 and 2004**



Source: IEA

In fact Chinese analysts have sounded alarm bells and argued that such a degree of dependence, coupled with the turbulent global oil market, would pose a major challenge to China's economy and security. According to a study produced by the policy research division of the Communist Party, "The shortage of oil is the most important challenge for China's energy security in the foreseeable future. The question of importing oil is not a pure economic issue, but more an issue involving international politics."⁶² It is clear that Chinese policy analysts linked energy security with the much wider international political environment. As a result of China's sense of vulnerability arising from its dependence on foreign oil, Chinese analysts have identified the need for diversification of sources of supply, oil and gas pipeline projects, keeping the Malacca Strait safe, planning for maritime oil transportation, building up a larger strategic reserve, encouraging oil companies to adopt the "going-out" strategy, and energy diplomacy.

The overseas activities of Chinese national oil companies, however, are not always part of the national strategy for energy security. Although these companies have invested heavily overseas and purchased equity oil from different parts of the world, their activities are often linked to their own commercial interests, not to grand strategic interests. CNPC, for example, has reported that 90 percent of the total Chinese equity oil production in 2003 was sold in the international market. As a result the resources secured

⁶² Ni Jianmin, ed., *Guojia Nengyuan Anquan Baogao* [Report on National Energy Security] (Beijing: Renmin Chubanshe [People's Publisher], 2005), p.400.

by Chinese companies have so far served the global market more than China's own needs.⁶³

Acknowledging the importance of energy for China's development and the vulnerability of the country as a result of its dependence on foreign oil, Hu's energy security strategy is largely domestically focused. In August 2005, Zhang Guobao, vice-chairman of the National Development and Reform Commission, disclosed that the medium and long term national energy plan had been finalized. Summarizing the plan, Zhang suggested that the most important guiding principles were: "save energy first; efficiency is the basis." He also suggested that while the country would try to diversify the sources of its energy, coal would remain the most important source and the country would devote more effort in developing renewable energy sources.⁶⁴ According to the China Medium and Long Term Energy Conservation Plan, which was drawn up by the National Development and Reform Commission (NDRC) and unveiled on November 25, 2004, China's total energy consumption would be maintained at below 3 billion tons of coal equivalents by 2020, through improving energy efficiency. The energy conservation plan focuses on cutting consumption in power-hungry industries.⁶⁵ On February 28, 2005, with the introduction of the Renewable Energy Law, the government imposed a national renewable energy requirement that is expected to increase the use of renewable energy from 3 percent at the moment up to 10 percent of total energy consumption by the year 2020.⁶⁶ There also has been discussion about alternative energy such as hydro-electricity, wind, and solar energy, and about improving the regulatory framework.

Some observers have suggested that China's multi-pronged approach has not dramatically improved China's energy security. While there are indications that the Hu leadership is keen to develop a more coherent and effective energy policy, such as the creation of a leading small group chaired by Premier Wen Jiabao, its dependence on oil will in fact be deepened and the institutional capacity in formulating effective energy policies is still relatively limited.⁶⁷ From a comparative perspective, China's dependence on foreign energy supply, however, is still relatively less than countries such as the U.S. and Japan. China's own estimates suggest that the country is 94 per cent self-sufficient and its dependence on oil and gas still only amounts to around 20 per cent of its overall energy needs. Beijing's overall energy security policy therefore is not primarily driven by a desire to secure overseas resources but a more comprehensive set of measures, comprising both international and domestic components. While there are concerns about

⁶³ Speech by Gary Dirks, BP Group Vice President and Asia Regional President at the International Symposium on Energy Security in Beijing, May 24, 2006; www.bp.com/genericarticle.do?categoryId=98&contentId=7018331.

⁶⁴ *Zhongguo kuangye bao*, August 16, 2005.

⁶⁵ See Xinhuanet report on January, 20, 2005. news.xinhuanet.com/english/2005-01/20/content_2484389.htm See also Power-Starved China Inks Energy Conservation Plan, Reuters, December 7, 2004 which is available on www.climateark.org/articles/reader.asp?linkid=37055.

⁶⁶ The full text of the law is available at: www.renewableenergyaccess.com/assets/download/China_RE_Law_05.doc.

⁶⁷ Kong Bo (2005).

foreign competition, international cooperation is also an important theme in these discussions. In the past couple of years, Chinese officials have begun to address international concerns about potential conflicts with China over resources. Vice-Minister Zhang Guobao, for example, emphasized at the World Economic Forum in January 2006 that China would concentrate on improving energy efficiency and renewable energy.⁶⁸ Domestically, how successful China can be in improving efficiency and in developing renewable energy resources and to what extent the current energy policy-making framework is effective, are still open to question, but the domestic dimension is clearly critical in China's energy security strategy.

Conclusion and implications for China-U.S. relations

This paper presents the argument that while energy has become a new and increasingly important factor in Chinese foreign policy, the impact of China's energy needs on its international behavior is only one dimension, and must be analyzed in the context of China's multiple and competing policy priorities. In short, energy security has become important in influencing Chinese thinking and behavior internationally, and has become more closely linked with other dimensions in Chinese foreign policy, but it is not always the most important factor in China's overall foreign policy calculations. A better understanding of the impact of energy on Chinese foreign policy requires a more comprehensive approach with an in-depth examination of China's interactions over energy related matters with other countries. This paper is an effort in addressing the role of energy in the wider context of Chinese foreign policy.

Given the country's rapidly rising energy needs and dependence on overseas oil, especially from the Middle East, as well as its limited capability to protect the safety of the key oil shipment routes, China does have a sense of energy insecurity. Its pursuit of energy security is making an impact on Chinese foreign policy under Hu Jintao. It has influenced China's bilateral relations with major powers, including the United States where growing concerns about potential conflicts over resources have added a new dimension to policy thinking in Washington. China's relations with Japan had already been difficult because of Japan's war-time atrocities in Asia and former Prime Minister Koizumi's insistence on visiting Yakusuni Shrine, as well as the mutual adjustments that are necessary as a result of China's growing economic and political influences in the region. China's dispute with Japan over the oil fields in East China sea has only exacerbated the tensions. What is more notable, however, is China's growing presence in the resource-rich parts of the developing world and the intensity of high-level diplomatic activities in the Middle, East, Africa, Central Asia, and Latin America.

China's expanding global outreach, however is not entirely the result of its growing reliance on imported oil and its efforts to secure supplies globally. Rather, it is consistent with China's overall economic growth and enhanced political standing.

⁶⁸ See [www.weforum.org/documents/ Newsletter/106/nl_1_06_en_seite6.html](http://www.weforum.org/documents/Newsletter/106/nl_1_06_en_seite6.html) Report on press conference, Sept 13. 2005; www.china.org.cn/chinese/2005/Sep/968715.htm.

As China has become more involved in regions where the Chinese presence formerly was limited, Beijing has encountered new challenges, such as the humanitarian problem in Sudan or Venezuelan efforts to play the China card as a counterbalance to the U.S.

Although China has competed with the U.S. and European countries and does not always share the same interests as the Western world as it expands its outreach in the developing world, maintaining good relationships with major western powers has remained a key foreign policy objective for the Chinese leadership. Beijing's positions toward the North Korean and Iranian nuclear crises are two good examples. China's cooperation with the United States, Japan, South Korea and Russia over the North Korean nuclear program as a leading player at the six-party talks is a good indication that the pursuit of energy has not altered China's policies of maintaining strong partnership relationships with major powers, even if they are potential competitors for resources and a stable regional order. More notable, perhaps, is Beijing's willingness to work with the U.S., EU, and Japan over Iran. While China has remained reluctant to support sanctions against Iran, where Chinese energy interests were substantial, it shifted its position to align closer with the West when Iranian intransigence and unwillingness to engage with the international community forced the Chinese leadership to support tougher position against Tehran by mid-2006. With its extensive interests in Iran, it is not surprising that Beijing has not always followed the lead of the Western world over the nuclear problem, but the Hu leadership clearly also does not want to damage its relations with the U.S. and the EU over the Iranian nuclear crisis.

The build-up of closer ties with the developing world and China's growing presence should be seen in the context of Beijing's expanding economic interests worldwide and growing international political clout, not simply as a symptom of its pursuit for energy. Furthermore, it must be considered in the context of both China's domestic adjustment and relations with other players. In short, energy has influenced Chinese international behavior but not transformed Chinese foreign policy.

To a large extent, the development of China's international energy policy depends largely on how successful China can be in improving energy efficiency, developing alternative energy sources, adjusting its industrial development, and developing a better energy policy management framework. Of course, other countries' perceptions of China's energy needs are also important.

The impact of energy security on China's relations with other countries and its foreign policy depends on the varying degrees of strategic/political/economic importance of these countries to China – we are likely to see a convergence of foreign and international energy policies, rather than a divergence of the two. It is difficult to predict whether Beijing would adopt a more assertive foreign policy as China becomes even more powerful, but so far the country has remained cautious and continued to seek cooperation rather than confrontation with other major powers, including the U.S.

A resource war between China the West is therefore unlikely, especially when China's energy security need is recognized as legitimate for a fast-growing economy of

such a size. China's post-Cold War grand strategy, as described by Avery Goldstein, has so far survived the energy test. In the longer run, where China's growing power and international presence will lead the country may depend partly on how the rest of the international community can convince the People's Republic that it serves its own interest to be a responsible major power and work within a stable world order in cooperation with other players in the system.

The energy issue, however, has made the highly complex U.S.-China relationship even more complicated, but as this paper has tried to demonstrate, bilateral relations between these two major powers should be seen in their wider strategic, political and economic context, not in terms of energy alone. Energy security is a collective problem and should provide an opportunity for these two countries to define a cooperative world order rather than a confrontational one.

How the two countries approach this common problem in a responsible manner may prove critical to the future of the world. Opportunities for bilateral cooperation exist; Beijing and Washington can work together on energy security issues such as working to create, and then actively supporting, a multilateral global energy security system; and working together for the development of energy-saving and environmentally friendly technology and practices. Leaders of these China and the United States should approach the energy security problem responsibly and encourage cooperation to prevent fears of a resource war becoming a self-fulfilling prophecy.