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The Chinese Challenge to the Western Order

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A Thirsty Dragon

China's Oil Diplomacy

Antonio Fiori

1. Introduction

China's economic performance over the last three decades can only be characterized as impressive and unprecedented. The country has enjoyed double-digit annual economic growth since the launch of economic reforms and openings at the end of the 1970s, presently becoming the second largest economy in the world, having overtaken Japan in 2010. China's nominal GDP climbed from \$440 billion in 1993 to approximately \$8.390 trillion in 2013, accounting for roughly 30% of the increase in world GDP (World Bank 2012; 2013). This record growth, which has allowed China to become the world's largest exporter and manufacturer, is commonly attributed to factors such as market-oriented reforms, enterprise ownership changes, and the adoption of an export-oriented and foreign direct investment (FDI)-led development strategy.

It goes without saying that the above-mentioned degree of economic growth needs to be adequately and constantly nurtured by energy supply. In parallel with its economic development, China's presence in world energy markets has increased as rapidly as its energy needs, especially since the turn of the millennium. In 2010, China surpassed the US to become the world's largest energy consumer, and in the following year China alone accounted for 71% of global energy consumption growth. China's energy utilization has increased by more than 150% during the past ten years, and its share of global energy use has nearly doubled, rising from 11% to 21% (BP 2013). Chinese growth, outstripping that of all other major countries, has sharply increased its energy needs, and has placed the country in a central position in the global energy market. China's energy consumption *per capita*, which has always been very low, has also rapidly increased, and is now high in comparison with

non-OECD countries, though still only around one-third of the OECD average. In 2009, Chinese energy consumption *per capita* was just 20% of *per capita* use in the United States; however, over the past decade Chinese *per capita* use has risen sharply, by over 130% (Cohen and Siu 2012), and energy consumption *per capita* has increased at a growth rate of 46.7%. Within 10 years, the country's rapid urbanization will have turned China into a highly urbanized society, and projections from the UN indicate that by 2035, the Chinese urban population will total close to 1 billion people. This represents a potentially dramatic increase in *per capita* energy consumption, and it assumes relevance also for the future of the environment, as an increase in *per capita* energy consumption will be reflected by an increase of average emissions of CO₂ *per capita*, worsening a general situation which is already critical.

This chapter attempts to provide an overview of China's external initiatives for satisfying its domestic thirst for oil. The analysis begins by discussing the tremendous importance oil has for China, in consideration of its vital significance in sustaining the economic growth and the modernization of this gigantic nation. It then discusses the recent development of oil strategy in China, with a particular focus on the "going out" strategy. The chapter continues by discussing China's policy of diversification, developed over the past two decades in an effort to secure a stable and adequate supply of oil, the main difficulties China has encountered in realizing this goal, and how it has attempted to overcome them. The chapter concludes with an analysis of the impact that energy security has had on China's foreign policy and a projection of future developments.

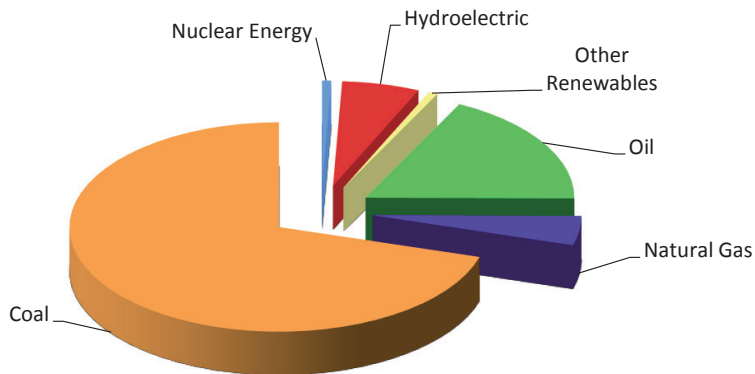
2. The dragon's oil voracity

Energy is definitely the key to economic development in China. As the country's economy continues to expand, China's energy needs become more intense. To meet these demands, China faces a range of choices. There is no costless solution for energy, and all energy sources available create their own sets of issues. The rapid rise in China's demand for energy has mainly been met by "dirty sources", which is an undesirable yet unavoidable option (Wang and Li 2005). Coal, in particular, is still the major source of energy in China and, despite the fact that the PRC is the largest consumer of coal in the world, demand continues to increase. China's demand for every primary form of energy is forecasted to increase over the next decades, but the basic structure of the

country's energy mix is not expected to change significantly, unless a series of political and technological changes were to make other fuels more competitive.

Though oil represents only slightly less than 18% of its total energy consumption, China is highly dependent on its oil imports, the stability of which it has not yet adequately secured. Oil is China's second-largest energy resource, and it has become vital to the support of the industrial and building sectors, as well as transportation, since the Chinese automobile industry is undergoing rapid expansion. China's automobile market, in fact, emerged as the largest in the world in 2009, with total vehicle sales reaching 13.6 million, and jumping to almost 18 million in 2013.

Figure 1. *China's Primary Energy Consumption by Fuel Type, 2011*



Source: US Energy Information Administration (2011)

Hydrocarbons, and oil in particular, are the resources on which China's development depends, and the drivers of China's dynamic growth. Consequently, the country's growing oil deficit is the issue at the heart of China's energy insecurity. This dependence on foreign supplies has implications for both China's energy security and its foreign policy. Oil is the only fuel that China imports in substantial quantities, and is thus the resource China is most concerned about securing. Moreover, Chinese efforts to reduce the country's dependence on oil imports and to secure and diversify energy supplies are also increasingly influencing China's international behavior. While Beijing's priorities vary by country, China's oil interests will continue to shape its foreign policy on non-oil issues as well.

Although China is the world's fourth largest crude oil producer, and progress in drilling technology has increased domestic production, the country has gone from being one of the largest exporters of oil outside of the Organization of the Petroleum Exporting Countries (OPEC) in the late 1980s to importing half of its oil needs by 2012. Over the past two decades, Chinese oil consumption has quadrupled to more than 10 million barrels per day (EIA 2014), and in 2009 China became the world's second largest oil consumer, behind the US; China is expected to surpass the US as the world's largest consumer of oil in 2014. The Chinese market alone is responsible for 40% of the global increase in oil demand since 2000, and the Chinese demand for oil is projected to continue its steady increase at an annual rate of 12% through 2020 (Jiang 2004).

Overall, China's rapid economic growth and rising demand for petroleum, particularly in the burgeoning transportation sector, have resulted in a correspondingly steep increase in imports. Although using a greater percentage of oil for electricity production, instead of coal, would diminish greenhouse gas emissions, China's leaders are reluctant to further increase China's dependence on foreign oil and the corresponding necessity to pay for imported energy supplies with precious foreign exchange. Half of China's oil imports are from the Middle East, although African countries, particularly Angola, have begun contributing more to China's imports in recent years. According to EIA, not only did China become the largest net oil importer in 2014, but it will import over 66% of its total oil by 2020 and 72% by 2040, as demand is expected to grow faster than domestic crude supply (EIA 2014). There is consensus among experts that China's domestic oil supply will continue to fall short of demand. China's largest oil fields are mature and production has peaked, leading companies to focus on developing largely untapped reserves in the western interior provinces and offshore fields. Domestic oil production has been increasing and reached 4.5 million barrels per day in 2013, due to an acceleration both in domestic exploration and production. Nevertheless, these improvements will only slightly offset the decline of production, and imports will play an increasing role in meeting China's demand for oil. China's national oil companies will also face immense pressures, including the lack of a sufficient Strategic Petroleum Reserve (SPR), the dramatic fluctuation of global energy prices and rising domestic energy prices.

To ensure that the country remains competitive in the struggle to secure the resources necessary to sustain its explosive rates of growth,

China has crisscrossed the planet, searching for new investment opportunities and competing for every promising asset which appears on the market. State-owned enterprises typically deal with the formal aspects of these acquisition agreements, but the government has also sought to establish strategic alliances between Chinese national energy firms and those of major energy-producing states in Africa, Latin America, Central Asia, and the Middle East. In its global hunt for resources, China has often viewed India as a strong competitor. The two countries have, in some cases, stepped up the competitive pressure by trying to outbid one another, but they have also pioneered some forms of cooperation. Since 2005, Chinese and Indian energy officials have been meeting regularly to promote cooperation in the pursuit of overseas energy assets, and in the development of large infrastructure projects like oil and natural gas pipelines (Klare 2008).

Even though China is a latecomer to the international oil industry, the Chinese come equipped not only with oil field skills but the willingness and financial resources to pay a premium to get into the market. Chinese leaders appear to have had three key priorities since the country became a net oil importer: first, to diversify the country's sources of imported energy; second, to rely as much as possible on suppliers with overland, rather than maritime, connections to China; and third, to entrust the procurement of foreign energy supplies to state-controlled firms. Most analysts expect that China will continue to diversify import sources to reduce the risk of further global supply disruptions and uncertainty surrounding some areas of the world, notably the Middle East. Diversification as policy is evident in the steady expansion of its sources of supply. In 1996, two-thirds of China's imported oil was from just three countries: Indonesia, Oman, and Yemen. Since then, the country has rapidly diversified its suppliers, signing new agreements with producers such as Algeria, Chad, Nigeria, and Venezuela. Whenever possible, however, China, has preferred ties with producers on its periphery that are capable of delivering oil by overland pipelines, such as Kazakhstan, Russia, and Turkmenistan. China has been able to realize this strategy by improving the integration of the country's domestic oil pipeline network, as well as by establishing international oil pipeline connections with neighboring countries.

In light of its national interest in oil security, Chinese national oil companies (NOCs) have invested in international projects to develop technical expertise in unconventional resources, and to capture value upstream. They have also formed strategic commercial partnerships

with international oil companies (IOCs), and signed long-term contracts. The NOCs have purchased assets in the Middle East, North America, Latin America, Africa, and Asia. China is using its vast foreign exchange reserves—over \$3 trillion in 2012—and the current economic crisis to help the country purchase equity in projects or acquire stakes in energy companies (EIA 2014). Chinese officials have invested billions not only in procuring imported oil and natural gas, but also in gaining access to promising foreign reserves.

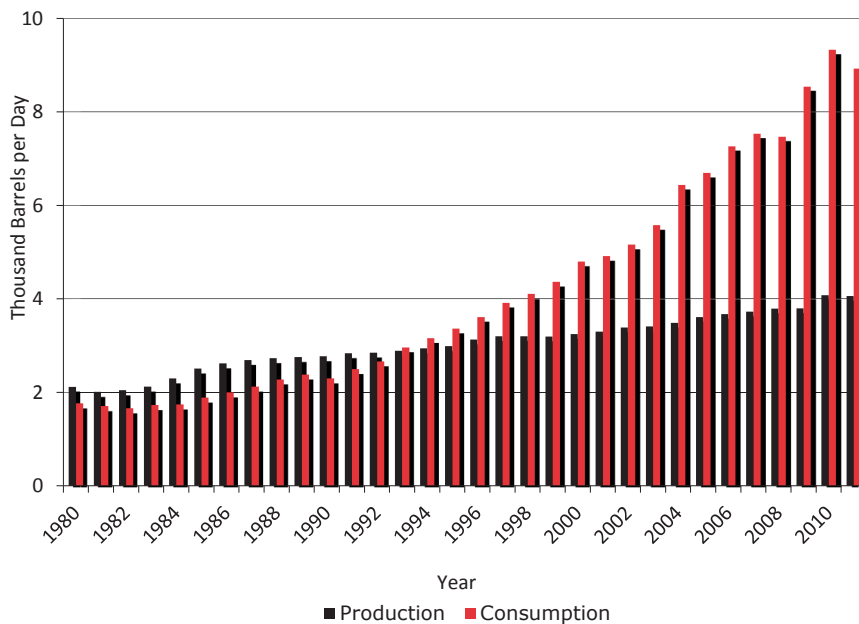
The Chinese government has also directly sought ties with exporting countries, and has exhibited a preference for forging alliances between Chinese state-controlled firms and the national oil companies of major supplying countries. These alliances establish political bonds between the two countries and allow for maximum participation by government officials in setting the guidelines for future deals. The signing of these accords, such as in the case of the Sino-Russian or Sino-Venezuelan agreements, is usually accompanied by numerous diplomatic activities and promises of cooperation on other endeavors. Chinese banks have worked in coordination with the Chinese oil companies and made multibillion-dollar loans to a number of countries that will be paid back in the form of oil and gas over a number of years. This behavior has engendered numerous controversies. Particularly in Africa, Chinese government-funded development packages, which include helping to build railroads, harbors, and roads and which make them partners of choice, have sometimes been considered as a modern form of colonization (Alden 2007, in particular ch. 4). China replies to this charge by saying that it is endowing the African continent with the basic infrastructure it lacks and creating markets for African commodity exports. It further argues that export earnings are better than foreign aid and do more to stimulate lasting economic growth, and that the relationship is thus founded upon a “win-win cooperation” strategy.

In sum, for the foreseeable future China’s growing dependence on imported energy will not be reduced, but probably only limited in the rapidity of its growth. In coming decades, China’s destiny is to rely more and more on the outside world to satisfy its thirst for oil, notwithstanding its considerable efforts to control domestic demand. For this reason, China’s leaders are pursuing a variety of supply-side policies to ensure their country’s future access to oil supplies.

3. The NOCs' "going out"

At the beginning of the 1990s, China was confronted by a dramatic new reality: its outstanding economic performance, over the course of the previous decade had substantially increased internal oil demand, and the immediate result was that the country had lost its cherished status as "self-sufficient" with respect to oil, and found itself incapable of meeting domestic oil needs on the basis of domestic production. Until that moment China had been considered an oil exporting country, but in 1993 it imported 9.88 million tons of oil, becoming a net oil importer.

Figure 2. *China Crude Oil Production and Consumption by Year*



Source: US Energy Information Administration (2011)

This situation fundamentally altered China's entire energy outlook, and pushed the country to become more actively involved in foreign energy markets. In addition, after having entered the group of oil-importing nations, China officially became a net energy importer in 1997, and thus began seeking a strategy designed to stabilize and secure its access to foreign energy resources. This condition fit perfectly with the CPC's guiding principle of opening China to the outside world. Already

in 1982, Hu Yaobang, then CPC secretary general, had announced that the Secretariat of the Central Committee had unanimously concluded that “to achieve modernization, China must utilize two types of markets—domestic and foreign markets, and master two types of skills—organizing domestic construction and developing foreign economic relations” (Kong 2010). Two years later, the Third Plenum of the 12th CPC Central Committee adopted the strategy enunciated by Hu as the main guidelines for China’s economic reforms. China’s President, Jiang Zemin, endorsed this position, followed by Premier Li Peng who, in an article titled *China’s Policy on Energy Resources* summed up the guidelines for the development of the country’s petroleum industry, making clear that “the development of the petroleum industry [in China] should place its basis at home and gear toward the world” (Li 1997), meaning that China should get involved in the exploration and production of oil and gas both in the country and overseas. China’s conviction was that not only was the energy market characterized by instability, but also that the system was created and dominated by Western powers. Therefore, the implementation of a different strategy, according to which it was possible to purchase direct control of imports, or of the transport systems through which China imports oil, was deemed necessary.

Therefore, to secure strategic access to oil imports, the Chinese government adopted the “going out” (*Zouchuqu Zhanlue*) strategy, encouraging its oil companies to share overseas oil and gas resources (Xu 2006). This energy strategy was embraced in line with the general reform policies of the time, which aimed to convert the loss-making state-owned enterprises into a modern enterprise system through corporatization and the formation of large enterprise groups (Xu 2002). In 1982, China established the China National Offshore Oil Corporation (CNOOC) to handle offshore explorations and joint contracts with foreign oil companies; the following year, the state-controlled ministries of Petroleum, Chemical and Textiles were incorporated to form the China National Petrochemical Corporation (SINOPEC), and in 1988 the MPI underwent a restructuring process to form the China National Petroleum Company (CNPC). These three NOCs now comprised China’s petroleum industry. The Chinese oil companies (the NOCs) were among the first groups encouraged to expand into world-class corporations and to pursue direct, physical control over the oil produced in a given country (Lieberthal and Herberg 2006). NOCs have been involved in acquiring equity stakes in a number of foreign oil exploration and production projects, building pipelines and well as setting up long-term supply contracts,

approaches which serve to enhance direct control over energy supply (Chen 2008). The “going out” policy envisions government support for foreign investments on the part of NOCs that secure oil resources at the source and/or are involved in oil exploration and production. As a result, China’s overseas equity oil production has dramatically increased, from 140,000 bbl/d in 2000 to over 1.5 million bbl/d in 2011 (EIA 2014.).

Through the implementation of the “going out” strategy, therefore, China has sought diversification of supply and transport routes in order to avoid dependence, increasing the number of major suppliers of crude oil and trying, through the construction and improvement of domestic pipelines, to deal with transportation vulnerability. In addition, China has also significantly increased its refining capacities, in order to meet its growing demand. In 2001, China’s daily refining capacity was 5.643 thousand bbl/d, but by 2011 it had almost doubled to 10.834 thousand bbl/d (BP 2013). Chinese national oil companies are investing in their refining capacities, and this is crucial to the country’s efforts to gain greater control over the oil production process. The strategy, therefore, clearly reflects worries over the reliability of international markets and oil price fluctuations. Chinese leaders believe that equity oil can be useful in times of market disruption or during price hikes to mitigate negative impacts on the Chinese economy. In addition, the Chinese government hopes its NOCs will eventually increase the scope of their activities to the point where they can influence international energy markets and therefore give China a much greater say in international energy trade. Many Chinese think tanks and energy experts thus strongly recommend approaches that secure direct control of oil (Lewis 2007).

One of the results of the “going out” initiative was that NOCs established footholds in Africa, Central Asia, and Latin America, strengthened their presence in the Middle East and thereby have exponentially increased the number of foreign upstream projects; often, in their capacity as newcomers, they have had to invest in expensive or difficult projects. However, CNPC, the largest NOC, has been successful in rapidly expanding its presence worldwide, covering both upstream and downstream activities. In most cases, the NOCs have had the ability to choose their foreign ventures and acquisitions, based on business interests. However, when faced with deals involving low commercial feasibility but high strategic benefit, the NOCs sometimes still go ahead with the deal, encouraged and supported by the government.

The “going out” strategy was also supported by an effort of “summit diplomacy”, since the leaders understood that they had to strengthen relations with other oil-producing nations. China attaches utmost importance to leadership summits and bilateral meetings which serve to signify a high level of commitment to its energy projects. In the period between January 2004 and January 2007, President Hu Jintao visited 15 African countries, while the Foreign Minister visited an additional 22 in the same period and the Premier Wen Jiabao another eight. It is noteworthy, for example, that upon his appointment as president, Hu Jintao decided to visit the Middle East and Africa first, and went to the US only later.

The Middle East, home to two-thirds of the world’s oil reserves, was visited by President Jiang Zemin, who went to Saudi Arabia three times between 1999 and 2002, and Hu Jintao, who went there in 2006, elevating China and Saudi Arabia’s relationship to one of strategic cooperation. Chinese leaders also visited Iran, and in 2002 Jiang sought a closer relationship between the two countries on the basis of energy security cooperation, frustrating Washington’s attempt to convince China to sanction Iran for its nuclear weapons program development. Africa was no less important than the Middle East for the Chinese leadership: Hu Jintao’s trips to Gabon, Egypt, and Algeria in 2004, for example, resulted in oil cooperation agreements, while former president Jiang Zemin’s visit to Libya in 2002 led to a cooperative agreement between CNPC and the Libya National Oil Company. Beyond these frequent visits to the Continent, Jiang launched the idea of creating a Forum on China-Africa Cooperation (FOCAC) in 1999 that was started as a meeting at the cabinet ministerial level in 2000. Since then, the FOCAC has been held every three years, and in 2006 it was recognized as a summit meeting. In 2012, 50 foreign ministers and ministers responsible for international economic cooperation or their representatives from China and African states attended the conference, and this huge participation illustrates the significance of the African continent to Chinese energy security. Russia is another important actor with which China has sought active cooperation. In December 2002, Jiang and Russian President Putin reestablished their strategic partnership at a summit meeting, and began to officially promote energy cooperation. The following Chinese president, Hu, has continued lobbying for Russian oil, visiting Putin and asking for his intervention to deal with Japan’s “disturbance” of the East Siberia oil pipeline project. In addition, Hu also visited Kazakhstan in 2004 and agreed on the building of the Atasu-Alashankou oil pipeline, and has signed several contracts

with Uzbekistan. In addition, the Chinese leadership has made efforts to open “new frontiers”, strengthening its relations with Latin America, in particular Brazil and Argentina, but also with Venezuela. When Chavez visited China at the end of 2004, China invested several million dollars in Venezuela’s oil fields, and in the following year both nations agreed upon resource cooperation. As a result, in 2009, Latin America was the source of 6.5% of China’s oil imports, and 5.5% of its oil and natural gas reserves. The current leadership has confirmed the importance of strengthening the friendly relations with their “oil allies”, as evidenced by the recent visits of President Xi Jinping and Premier Li Keqiang to a number of states in Asia, Africa, Europe, and Latin America.

China’s energy partners are often smaller developing nations or diplomatically sidestepped countries that are very honored to host high-level visits from China and to attend pompous receptions in China, which support smooth negotiations.

4. The need for oil supply diversification

Prior to becoming the Prime Minister of the United Kingdom, Winston Churchill acted as the First Lord of the Admiralty for the British Navy. It was in that role, before World War I, that Churchill converted the British Navy from coal-power to oil, making the British fleet faster than the German Navy. In doing so, Churchill recognized that a new vulnerability had been created: coal was a domestic product, but oil had to be imported. Relying on oil meant that the British Navy would, for the first time, be dependent on foreign sources of fuel. It was as First Lord of the Admiralty, leading up to WWI, and in the context of the British Navy’s new dependence upon imported oil, that Churchill declared: “Safety and certainty in oil lie in variety and variety alone” (Yergin 2006). What he meant was, quite clearly, a variety of oil suppliers.

It seems that over the last two decades the Chinese have understood this lesson, and have begun to take Churchill’s advice into serious consideration. Back in 1995, in fact, China was almost completely dependent on just two regions—the Persian Gulf and the Asia Pacific—upon which it relied for fully 88% of its crude oil imports (Downs 2006). By 2005, however, China had begun to diversify its mix: this was evidenced by the fact that that year the African continent accounted for 31% of China’s imports, with an additional 10% coming from the Americas and Russia, as all three regions became significant sources of Chinese

energy supply, and vital elements of its strategy of diversification. This, however, did not solve the general difficulties: the first is that China remained reliant on the Middle East as it had traditionally been: not only in 2005, but also today the Middle East still is the main source of energetic supply for the Dragon. The other problem is given by the fact that, being more reliant on the Middle East and Africa, China has become even more dependent, as we will see, on the Strait of Malacca, through which 80% of China's oil imports must pass *en route* to the mainland, and which—because of its geographic conformation—represents a sort of bottleneck beset by numerous hindrances, such as piracy, traffic jams, collisions (Lai 2009), and the concrete possibility of eventually being controlled or blocked by another, more powerful, actor.

Against this backdrop, one possible solution China has actively sought to implement is the integration of the country's domestic oil pipeline network and, above all, the establishment of international oil pipeline connections with neighboring countries. In 2012, the domestic network was constituted by 14,658 miles of total crude oil pipelines (67% of which are managed by CNPC, and the remaining 33% by other NOCs) and 11,795 miles of oil products pipelines (EIA 2014). The bulk of China's oil pipeline infrastructure serves the more industrialized coastal markets and the northeastern region, but several long-distance pipeline links have been built or are under construction to deliver oil supplies from the northwestern region or from downstream refining centers to more remote markets in the central and southwestern regions (*ibid.*).

Table 1. *China's Crude Oil Imports by Origin (% share)*

Crude oil imports from	1990	1997	2005	2006	2008	2010
Middle East	39%	48%	46%	44%	46%	46%
Russia/Central Asia	n/a	n/a	11%	11%	10%	10%
Atlantic Basin	n/a	n/a	23%	5%	3%	3%
Asia Pacific	60.0%	26.2%	8.0%	4.0%	n/a	n/a
Africa	0.0%	16.7%	n/a	32.0%	23.0%	22%
Others	0.0%	9.6%	12.0%	4.0%	18.0%	19%
Total	100%	100%	100%	100%	100%	100%

Source: Zhang 2011

The Middle East region, in general terms, is a “maximum weight” in energy resources: Saudi Arabia, Iran, Iraq, Kuwait, the United Arab Emirates, and Qatar together hold 66% of the world’s proven oil reserves (OPEC 2012). Due to this extreme richness, as it has already been highlighted, the Middle East has traditionally been essential to China’s pursuit of energy security, and the relations between the two are close and intimate. Among the reasons for this friendship is Beijing’s policy of non-interference, which differentiates it from Western importers. In 2013, however, almost 52% (2.9 million bbl/d) of China’s oil imports came from the Middle East region, and Asian demand for Middle Eastern oil is constantly growing (EIA 2014). In addition, with the modification of the United States’ role in the region—both the reduction of its military presence and the strong decline in its demand for Middle East oil—there is a concrete possibility that China will increase its influence in this region, as, beyond oil, Beijing also nurtures economic, military, and diplomatic relations with many of the countries in the region.

The history of Sino-Saudi Arabian relations is relatively recent, with the two countries establishing diplomatic relations only in 1990, shortly before the outbreak of the Persian Gulf War (Kumaraswamy 1999). Since the mid-1990s, however, leadership exchanges regarding oil have become frequent: Saudi ministers overseeing the oil sector, or departments of finance or trade have visited China several times, and China’s president, Jiang Zemin, went to Saudi Arabia in 1999, and oversaw the signing of a memorandum on petroleum cooperation (Lai 2007). China-Saudi Arabia relations tightened in the wake of 9/11, as a consequence of the tension that originated between the Saudis and the Americans. This situation created a substantial advantage for China and its explicit non-interference clause, which forbids the Dragon to become involved in any domestic affairs of any state with which it is negotiating. In the field of energy this attitude creates an incommensurable advantage. Saudi Arabia not only found in China an ally with similar positions, but also an actor that could be of help by playing a more active role on the international scene. This was strongly reaffirmed with the Iraq War in 2003, when the Saudis were pleased that China openly objected to the use of force, and in the wake of Saddam Hussein’s overthrow, when officials of the two countries worked together opposing an occupation of Iraq while supporting post-war reconstruction in accordance with the U.N. charter. In 2004, China and Saudi Arabia formally agreed to regular political consultations with one another (Alterman and Garver 2008). In those years Saudi oil exports to China increased and China-Saudi energy

cooperation deepened: SINOPEC, one of the NOCs, obtained the right to extract natural gas in Saudi Arabia's al-Khali Basin. After ascending to the throne in 2005, King Abdullah bin Abdulaziz Al Saud visited China in 2006, his first foreign destination as king, and signed an agreement on economic cooperation.

In sum, it seems that Saudi Arabia is the most attractive of the pathways on which China is walking in the Middle East region. It is a trustworthy ally that is willing to supply China with a stable amount of oil, which at present comprises 20% of Beijing's crude oil imports, making Saudi Arabia the leading exporter of oil to China. Additionally, Chinese imports of Saudi Arabian oil have been increasing at a significant rate, to the extent that China became the world's leading importer of Saudi Arabian crude in 2009. In theory, this singular increase contradicts one of the core elements of the "going out" strategy, which is the avoidance of dependence on a given supplier, but can be easily understood by looking at the strong diplomatic alliance fostered by a mutually perceived threat by the US, as well as by the pressures which Western political norms—elections, medial control, human rights—exert on them.

Being the second largest producer of oil in the Middle East, Iran is another important partner for China in terms of energy. Relations between the two, formally established only in 1971, deepened after the events of Tiananmen Square, when China was estranged from the West, and found in Iran a means through which to increase its influence in the region. When, in 1993, China became a net importer of oil, Iran became one of its chief suppliers, a position it has kept to this day. Even though Iran's oil production level is significantly lower than that of Saudi Arabia, there is a strategic convenience for China in maintaining intimate relations with Teheran: the various sanctions that have been imposed on Iran by several actors, in fact, give Beijing the opportunity to act almost undisturbed in the Iranian oil market. This is particularly attractive for advancing the Chinese "going out" strategy. CNPC, for example, is developing an oil field in South Azerdegan, while SINOPEC is investing in the Yadvaran field (Seznec 2011). Involvement in Iran is relevant for China to diversify its search for energy security, while for Iran it is important to be provided with the necessary capital to further develop its energy sector, which has been unable to develop after the imposition of sanctions.

In 2012, however, as a result of a nearly 20% decline in its oil imports to China, Iran fell from its traditional position as the third largest oil exporter to Beijing, to the sixth. This collapse was the result of

a contract dispute between SINOPEC, China's key oil importer, and the National Iranian Oil Company, regarding prices and payment periods (EIA 2014). Even though this dispute was settled by mid-2012, China reduced its oil imports from Iran so as not to harm its relations with both Europe and the US in the face of global sanctions imposed on Iranian crude oil sales over disagreements regarding Iran's nuclear program.

China has also maintained good relations with other actors in the region, such as Yemen and Oman, both important oil suppliers to Beijing.

China's reliance on the Middle East is, of course, not without difficulties: since the region has become its chief oil supplier, Beijing has always been concerned about the potential political instability of the region, especially after 9/11. Therefore, China has decided to turn its attention to the African continent, reinforcing its relations with some countries, especially Angola, Sudan, the Democratic Republic of Congo, Nigeria, and Equatorial Guinea, thus very recently becoming the continent's largest trading partner. Apart from the long engagement process between Beijing and the African continent, based on shared colonial experiences, and the intense focus China has placed on that continent in the wake of the 1989 Tiananmen events, in order to distance itself from the main actors in the international community that had applied sanctions, Africa is relevant to China because its oil industry is open to foreign investment. In Africa, China has been actively supporting its energy suppliers with debt relief, aid, and investment for several years. A good example of aid and energy connection is China's activity in Angola, where it secured a major oil deal in 2004 with a \$2 billion loan and aid package, including funds for Chinese companies to build infrastructure, hospitals, schools, and offices, lay a fiber optic network and train Angola's telecommunication workers (Hanson 2008). Based on these loans, usually provided by the China Exim Bank, Chinese companies are contracted to undertake required projects and are directly paid by the bank, which writes down the contract amount against oil sales made to the Chinese government. Significantly, the loans are provided on terms that are generous in comparison to oil-backed financing provided by European and American banks. The China Exim Bank loan is tied to the agreement that the Angolan funds allocated for the construction and civil engineering contracts tabled for Angola's reconstruction will be primarily (70%) awarded to Chinese enterprises approved by the Chinese Government (Corkin 2011). It is evident that this process, which is becoming the standard for Chinese investment in Africa, is particularly advantageous for the Dragon. In addition, China's

non-interference policy places it in a position of strategic advantage with respect to many African states, especially those that—due to their lack of democracy and human rights violation—have been historically shunned by the European Union and the US. China's ties are thus totally free of any ideological or security obstacles, as well as of any links to past hostilities between the West and these countries (Lai 2007). Finally, Africa is also appealing for China because the continent's crude is of a high quality and low in sulphur, which is especially important for China as it lacks adequate refinery capacities for the heavier crude coming from the Middle East (Shin 2007).

Chinese influence in Africa has also been augmented by a generous policy of debt-forgiveness. After the launch of FOCAC in 2000, China announced a policy of debt-forgiveness for all heavily-indebted, poor countries on the continent with which it maintained diplomatic relations, and proceeded to cancel the outstanding debt which these countries owed China on interest-free loans maturing by the end of 2005. This cancellation involved 310 debt packages from 35 countries.

In recent years, China has also stepped up its oil cooperation with Latin America. Between 2000 and 2010, China-Latin America trade expanded by over 1,500%, and between 2008 and 2010 alone China's investment in the region expanded by more than 180% (Ferchen 2012). China's partner countries in this region include Venezuela, Brazil, Ecuador, Mexico, Cuba, Costa Rica, Peru, Argentina and Columbia, with the first three of those countries involved in nearly 80% of the Chinese oil-linked projects. Just as in Africa, according to the principle of non-interference, China pays no attention to the political "color" of the administration that rules a certain country. Beyond a large number of loan-for-oil deals with Venezuela, Brazil, and Ecuador, in 2010, thirteen large new deals were made by Chinese oil companies in Latin America, including the mergers and acquisitions of the regional assets of international oil companies such as Repsol, Pan American Energy, and Occidental Petroleum (Sun 2012). Given the new offshore discoveries in Brazil and the huge proven reserves in Venezuela, it seems likely that China can rely on Latin America to further diversify its supplies.

Venezuela is probably the most significant Latin American actor for China. Energy cooperation between these two countries started in 1985, with the ratification of a protocol on scientific and technological cooperation in oil surveys and exploration. After this period of exploration of forms of collaboration, the two governments signed an agree-

ment on joint oil exploration in 1996. Since then, the cooperation has deepened, reaching a peak during recent times, when China extended big loans to Venezuela, agreeing to provide more than \$32 billion to President Chavez's government. Venezuela has agreed to pay its debt in increasing amounts of oil, over the next decade. The relationship, which was probably driven by Chavez's eagerness to form non-US alliances, was also advantageous for Chinese companies, since Venezuela has been exporting about 460,000 bbl/d to China, i.e., about 20% of its oil exports, an amount that is expected to increase.

In Argentina, Chinese companies have even replaced US and British corporations in controlling lucrative natural gas and oil resources. In 2010, the state-owned Chinese oil company CNOOC entered into a 50-50 joint venture with Bridas Energy Holdings Ltd., a family-owned Argentinian company. The joint venture then bought out the British company BP's shares in Argentina-based Pan American Energy, giving it 18% of Argentina's oil and natural gas production. In the following year, the venture also purchased US-based Exxon Mobil Corporation's interest in Argentina, Paraguay, and Uruguay, including a refinery and more than 700 service stations. China also controls 50% of Argentina's largest oil field, Cerro Dragon, and will control all the oil and gas reserves in the far southern Argentine province of Santa Cruz over the next 40 years, deals that became anti-government campaign issues in provincial elections.

China's commercial ties with Brazil continue to grow. About 14% of the South American country's oil production went to China in 2009, and that portion is expected to expand because Brazilian oil company Petrobras signed, in the same year, a 10-year deal with Chinese-owned Unipet Asia to export 150,000 barrels of oil a day in the first year. The deal calls for exports of 200,000 barrels a day for the next nine years. At the same time, Petrobras secured a \$10 billion, 10-year loan from the China Development Bank.

The diversification of suppliers aims to reduce China's dependence on the Middle East and on international maritime routes, concentrating on regions such as Russia, Central Asia and Myanmar instead. Expanding transport routes is thus a central element of the diversification of energy suppliers. The diversification of its oil and gas suppliers is closely connected with the diversification of energy transport routes and an increase of their security, which together comprise the central goals of China's approach to enhancing energy security. The rest of the policy

measures (i.e. investments in exploration and production, sponsoring NOCs and promoting equity investments, as well as energy diplomacy) aim to serve these goals.

China's dependence on the Strait of Malacca and other sea lines of communication (SLOCs) is the key cause of anxiety for the Chinese government, and therefore strenuous efforts have been made to devise and execute policies to reduce dependence. These include diverting transport routes away from the SLOCs, and emphasizing pipelines and other land-based options as well as policies for alleviating the existing threats to strategic transport routes. Pipelines are preferred to maritime routes because they are thought to be both cheaper and more secure. Beyond the recently inaugurated pipeline that connects Myanmar to the Chinese province of Yunnan—which will be discussed in the following section—two important pipelines are the one extending from Alashankou to Dushanzi, and the East Siberia-Pacific Ocean (ESPO) oil pipeline with a spur to Daqing in China.

Central Asia, and Kazakhstan in particular, is an important new source of oil supply for Beijing. Energy cooperation between China and Kazakhstan was officially begun in 1997, when Vice Premier Li Lanqing signed an agreement on energy cooperation (Lai 2007). The most important outcome in this relation was represented by the oil pipeline that connects Alashankou, on the western borders of the Xinjiang region, and Atyrau, the northern harbour of the Caspian Sea in Kazakhstan. The pipeline, completed through a triple-step construction (the first one from Aktobe to Atyrau completed in 2003; the second from Atasu to Alashankou in 2005; and the third line from Kenkiyak to Kumkol in 2009) has an overall length of more than 2,228 kilometers, and it was realized through the common effort of CNPC and the Kazakh oil company KazMunayGas. Through this pipeline, China is provided with 200,000 bbd per day, but expansions are underway on the Atasu-Alashankou section to nearly double the capacity in 2014. In Alashankou, the pipeline is connected with the Alashankou-Dushanzhi crude oil pipeline—constructed by the CNPC and operational since December 2005—which has a capacity of 10 million tons of oil per year and mainly supplies the Dushanzhi refinery. In February 2011, the Chinese President Hu Jintao and his Kazakh counterpart, Nazarbayev, had a summit and discussed the construction of a second China-Kazakhstan pipeline. China promised its support with a \$1 billion loan to Kazakhstan to construct a petroleum refinement facility at the shore of the Caspian Sea.

Russia has periodically expressed a strong desire to tap Asia's booming energy markets, not limited to China, but also including those of India, Japan, and South Korea (Jakobson *et al.* 2011), even though most of Russia's oil continues to be delivered to Europe. Since 1999, China and Russia have been edging toward a strategic partnership, holding annual bilateral energy cooperation talks as part of regular Sino-Russian meetings (Lai 2007), and Russia has become one of the principal oil suppliers to China. Before 2011, China's crude oil imports from Russia were transported by rail, but this represented a real problem for Beijing, because Siberia's harsh weather conditions caused delivery disruptions, and capacity depended on a limited number of Russian tanker wagons. To overcome these difficulties—and, at the same time, to benefit from geographic proximity and lower operating costs, and to stabilize supply—China deemed the building of a pipeline of vital importance. The decision over where to build the pipeline, however, encountered some difficulties: China sought an exclusive pipeline to northeast China, while Japan lobbied for a route to Russia's Pacific coast (Taishet-Nakhodka). It was not easy for Moscow to make a decision on this issue: the line with China was undoubtedly cheaper and lead to a more prosperous and promising market, but an exclusive China pipeline bore the risk of giving China strong leverage in price negotiations; on the other hand, the Pacific line would have given Russia the possibility of connecting to a multitude of Asian markets, but with the risk of alienating China. Ultimately and conveniently, Moscow decided to build the East Siberia-Pacific Ocean (ESPO) oil pipeline with a spur to Daqing in China, despite concerns over insufficient supply. The first stage of the ESPO included the construction of a 600,000 bbl/d pipeline from Taishet to Skovorodino.

In early 2006, following a series of meetings between Russian President Putin and the Chinese leadership, it was decided that the spur to the ESPO towards China had to be built, even though the construction began as late as in February 2009, after a "loan-for-oil" agreement had been reached in which the China Development Bank granted \$25 billion in soft loans to the largely state-owned Russian oil company Rosneft and the Russian pipeline monopoly Transneft. In exchange for the Chinese loans, Russia pledged to sell China 15 million tons of oil annually over a period of 20 years, starting in 2011 (Jakobson *et al.* 2011). The Chinese section of the pipeline spur, realized by the CNPC, was put into operation in January 2011, and most of the oil is refined in the Liaoyang refinery near Daqing. The second stage of the ESPO came

online at the end of 2012 and delivers oil to the Russian Pacific port of Kozmino, near Nakhodka, from where the Russians have the option to deliver more crude oil to China by sea. Russia's intention is to further expand ESPO's transmission capacity to Skovorodino by 2018, so as to augment the supplies to China. In the meantime, Rosneft has agreed to send 140,000 bbl/d of Western Siberian oil to China through the expanded pipeline from Kazakhstan to western China, starting in 2014, until the ESPO spur to China will be brought to full capacity (EIA 2014).

The two pipelines analyzed here—and the one from Myanmar—are directly connected to China without passing through any other nation. In addition, China is planning to construct a 4,000 kilometer pipeline connecting Kashgar in the Xinjiang region to Gwadar Port in Pakistan, and a 2,560 kilometers pipeline connecting Iran and China through the Indian Ocean. The practical effects of this new infrastructure are thus pivotal for the diversification of China's crude oil import routes because they avoid the jammed traffic of the Strait of Malacca. However, Western analysts tend to believe that pipeline projects close to the Arabian Sea do not minimize Beijing's vulnerabilities in the Strait of Hormuz, between Iran and the United Arab Emirates, through which two-fifths of China crude oil imports pass every year (Lai 2010). Other alternatives could be a high-capacity railway across Southeast Asia, linking China to Singapore, or a canal across the Isthmus of Kra, linking Thailand's north and south borders, that would allow tankers carrying crude oil from Africa and the Middle East to bypass the Strait of Malacca (Cáceres and Ear 2012).

5. Energy security: the “Malacca Dilemma” and its alternatives

China's growing reliance on seaborne oil imports has raised serious concerns regarding the security of the SLOCs through which its oil shipments flow. There is particular concern about China's imports coming from Africa or the Middle East, given the strong reliance on these regions in terms of energy supply. These shipments, in fact, are obliged to transit through the Strait of Malacca, between Malaysia and Indonesia, which surely is the most important sea lane for the Chinese, and in general terms one of the most important trade routes in the world. This tiny corridor, 800 kilometers long, 134.5 nautical miles wide at the northern end and 35 at the southern end, is essential to exporting goods from major Asian economies, including China, India, South Korea, and Japan, around the world. It is the primary route for energy resources from the Middle East and Africa to Asia. According to the EIA, approximately one-

third of the world's crude oil trade and over half of the world's liquid natural gas trade travels through the South China Sea (EIA 2013). This translates into 14 million barrels of crude oil per day, 90% of which passes through the Strait of Malacca. More than 50,000 vessels pass through the Strait of Malacca every year, and a relevant percentage is represented by Chinese oil tankers: around 80% of China's imported oil transits through the Strait of Malacca (Buszynski 2012). In 2004, President Hu Jintao had already commented on the problem, mentioning that the absence of stability in the routes of energy transport posed a serious threat to China. He referred to this issue as the "Malacca dilemma", and announced that he was concerned that "certain powers have all along encroached on and tried to control the navigation through the Strait" (Lanteigne 2008, p. 144). It is imaginable that he was referring to the United States. With India modernizing its military facilities on the Andaman and Nicobar Islands at the northern end of the strait, China feels sandwiched in and strategically vulnerable. As a result, Beijing is increasingly concerned with ensuring the security of the Strait and its imports that pass through it.

One of the most prominent strategic responses to the "Malacca Dilemma" is the so-called "String of Pearls" strategy. This strategy is based on the modernization of China's navy and transport fleet, cultivating strategic diplomatic ties with countries bordering the SLOCs and building ports as well as airstrips and surveillance bases. Thus, in the area extending from the Middle East to the South China Sea, incorporating Sri Lanka, Bangladesh, Pakistan, Myanmar, Thailand, and Cambodia, Beijing has been involved in many projects that have been supported by active diplomacy. The region is, on the whole, extremely important for China, as in addition to possible alternatives to maritime routes, many Southeast Asian countries are rich in energy reserves.

Several projects are linked to the "String of Pearls" strategy. The first is the creation of a container port and navy base in Gwadar, a former fishing village in Pakistan, which is now growing into a world-class port. Work on this project started in 2002 and was completed in 2008, with its significance to China clearly illustrated by Premier Wen Jiabao's presence at the ceremony for the conclusion of the first phase of the project. Its importance is also clear from China's financial commitment to the project, since the implementation of the port project and of a coastal highway to connect Gwadar with Karachi cost more than \$1 billion. The Chinese advantage, however, rests in the possibility of transporting its oil from the Middle East or from Africa to Xinjiang,

Map 1. *String of Pearls*



Source: Author's own elaboration

through a coastal highway linking Gwadar to China by the Karakorum Highway, and thus bypassing the Persian Gulf, the Indian Ocean, the Malacca Strait, and the South China Sea. In addition, the port is very convenient in terms of strategic positioning, as it is located near the mouth of the Strait of Hormuz, through which a great number of oil resources travel, including to destinations such as Japan and South Korea, that China could use as a lever if its own vessels were blocked elsewhere. Moreover, the port provides China with a better strategic position in the Indian Ocean, thereby strengthening its influence in South Asia. Additionally, the port will be furnished with a modern air defence unit, a garrison, and a first-rate international airport. Pakistan promised China “sovereign guarantees” in its use of the port facilities in return for Chinese financial and technical assistance for the port project, thus guaranteeing the Chinese priority access (Niazi 2005).

A second important alternative route to the Strait of Malacca is the long awaited project connecting the port of Kyaukpyu, on Myanmar’s west coast, to Yunnan province, on China’s southwest border, through a pipeline that went into full operation in May 2013. The two countries had started talks on energy cooperation projects at the beginning of the century, but they had chiefly focused on natural gas supply; in November 2008, however, Beijing and Naypyidaw agreed on the construction of a \$1.5 billion oil pipeline, and the agreement was signed in June 2009. The oil pipeline, 771 kilometers long and running parallel to a natural gas pipeline, has a capacity of 12 million tons of crude oil per year, which will eventually be expanded to 22 million tons (Watkins 2010). The project, jointly implemented by CNPC and Myanmar Oil and Gas Enterprise (MOGE), has sparked vigorous protests from the Myanmar population over environmental and safety concerns and inadequate compensation for local residents. In any case, the pipeline has the capacity to reduce China’s dependence on the Malacca Strait by one third, while reducing the distance that oil has to travel by 1,200 kilometers. As a result, the Chinese vessels arriving from Africa and the Middle East are now able to unload their cargo in Myanmar, bypassing the Strait of Malacca as well as cutting about a week’s worth of travel time and fuel costs.

A third outpost for China in the Indian Ocean is in Sri Lanka, with whom China signed an infrastructure development project for a harbor facility in Hambantota, bunkering facilities, and a tank farm, which will be completed over 15 years at an estimated cost of \$1 billion. The port will be able to provide facilities for merchant ships, container vessels, oil and gas tankers, and military vessels, including nuclear submarines.

In addition to providing China a strategic port in Sri Lanka, Hambantota possesses other geopolitical advantages, including the capacity to monitor Indian naval activity, both civilian and military; set up space monitoring systems critical for its ballistic missiles program (able to challenge US aircraft carriers and other forces); and provide China's intelligence gathering fleet a port in a strategically important location.

Lastly, another prominent and ambitious, however yet unrealized, plan under the general "String of Pearls" strategy is the idea of building a canal across Thailand's Kra Isthmus, a flat terrain with a minimum width of 50 kilometers. The canal would allow up to 90% of the vessels from the Malacca Strait to be redirected and would cut fuel usage in half. The project, however, has not seen much progress since 2006 when negotiations came to a halt because of the Muslim insurgency in Thailand's southern provinces. In addition, the canal is an issue of domestic political debate in Thailand and prone to change along with Thailand's volatile domestic politics.

Although the Chinese government is actively involved in the modernization of the People's Liberation Army Navy (PLAN) in addition to the diplomatic efforts, the idea that the modernization and expansion of China's Navy can protect its maritime interests against a US-backed campaign, or can enable China to overtake the US Navy's position as the protector of sea lanes is doubtful. Even though Chinese strategists entertain such thoughts, there are a considerable number of academics that seem certain that US dominance of maritime routes (especially with the help of its allies) will not be challenged any time soon. The Chinese are largely improving their naval capabilities—investing enormous amounts of money—but this process will take a considerable amount of time. In addition, a possible American-led blockade is clearly a remote possibility, for given the growing interdependence of the two economies the disruption of the Chinese economy would have immediate and severe repercussions on the American economy. By contrast, a more modest naval force would be more useful from the standpoint of China's energy security, not for competing with the Americans, but to support international efforts to combat piracy and terrorism around major shipping lanes (Kennedy 2011). Thus, despite its efforts in developing a strong navy, China has perhaps placed greater emphasis on creating new transport routes and diversifying sources through the help of its NOCs, as well as on using oil diplomacy to strengthen relations with suppliers.

Finally, for Beijing, the “Malacca Dilemma” has even more dramatic contours since the country does not have a significant SPR, which they are trying to build in order to bolster energy security. An official plan to address this problem was launched by the government with the 10th Five Year Plan (2001-2005), and it has been intended to have proceeded in three phases. The first phase was completed, and the construction of four stockpile bases (Zhoushan and Zhenhai in Zhejiang province, Dalian in Liaoning province, and Huangdao in Shandong province)—with a storage capacity of 102 million barrels—should give China oil reserves equivalent to slightly less than a month’s supply. The second phase, which involves eight more bases currently under construction, should expand China’s holdings by another 170 barrels, while the third phase, to be completed by 2020, should bring the storage capacity to 500 million barrels, enough to meet China’s demand for approximately 90 days (Daiss 2012). Some other 168 million barrels could be added through the commercial reserves of China’s oil companies, but this figure remains unverified (Zhou and Shen 2011). By way of comparison, the US SPR is composed of approximately 700 million barrels, for a supply of 90 days. China’s investment in its SPR system has the potential to make a significant contribution to the country’s energy security, providing the country with multiple choices in case of sudden disruption of its energy supply. However, China needs to pursue additional initiatives, and it has, as a matter of fact, determined to do so.

Beyond improving the SPR, as has already been evidenced, China has decided to increase its use of pipelines and imports from different actors—Russia, Central Asia, Latin America—that have in common the avoidance of the Strait of Malacca. The most significant result for China is that the use of pipelines would decrease its dependency on sea lanes and increase its control over the security of its imports.

6. Conclusions

Oil is indisputably a strategic resource for any modern country, since it “fuels” the economy as well as military growth and development. China has perceived that increasing dependence on imported energy makes it vulnerable to the volatility of market forces, as well as manipulation by other states or developments within other states and regions. This perception has meant that energy security has a great impact on Chinese foreign policy, effectively widening China’s foreign policy priorities as well as threat perceptions. Owing to China’s continuing economic growth and

aspiration for military development and modernization, it is clear that energy dependence is going to be a long-term issue in China's domestic and foreign policy-making. The question is how will China respond as its interests and threat perceptions expand and take on global scope?

China's choice of a strategic approach to energy supply security as opposed to a more liberal market approach has given its foreign policy a whole new dimension. The diversification policy underlying this approach, supported by energy investments and active energy diplomacy, has expanded China's foreign policy both geographically and in terms of threat perceptions and interests that China has to consider.

China's move to diversify suppliers geographically has meant that in a short period of time, China has gained a foothold in energy-rich countries in Latin America and Africa, while strengthening its presence in Central Asia and the Middle East. This change signifies a successful policy to increase China's influence over the globe in order to secure its vital interests. It is important to note that instead of cooperating over energy security and trusting markets, China is using its growing capabilities to secure its presence from the beginning of the oil extraction process to the end and uses bilateral deals with energy-rich countries or newly created international organizations. Chinese foreign policy therefore foresees an active energy diplomacy, which includes financial, economic, and political measures. The aim of such policies is the creation of close partnerships between China and energy-rich countries and regions, in order to secure better access to their energy resources as well as to reduce chances of political manipulation.

Due to the high consumption levels of both the US and China, China's energy partnerships have increasingly lead to a weakening of the role of the US in these regions, and at other times have simply strengthened China's strategic influence, and are thereby contributing to bilateral competition. The US has therefore been understandably anxious when observing this spread of Chinese influence in regions that are central to US energy security as well as for maintaining its general global influence and authority.

China's energy security foreign policy has great potential to undermine the US agenda and influence in energy-rich countries and regions while spreading unease about pro-Chinese political realignments. One such example is Central Asia, where China's active energy diplomacy has significantly weakened the US presence and has undermined its energy, security, and democratization concerns.

Although China and the US in fact share a number of interests in the region as both countries gain from the existing security and stability, the common concerns have not facilitated cooperation: this is because next to common concerns stand diverging interests, an important one of which is democratization. The US sees democracy and a strong civil society as the basis for a stable and US-friendly Central Asian region, while China does not prioritize this. Furthermore, based on the events in Uzbekistan in 2005, when China gave its support to the Uzbekistani authoritarian leader after domestic violence, it might seem that China is even actively undermining these priorities.

When it comes to energy, more competitive interests emerge. First of all, all energy consumers, both in the East and West, are interested in Russian resources. China has recently been making headway in securing favored access to them. The pipeline through Siberia to Daqing in China offers China a rich source of energy that does not pass through maritime routes. However this means China will offer Russia an alternative and thus increases its leverage against the Western markets, especially since the Siberian pipeline has two destinations.

In the central Asian region, there will be similar issues over the direction of Kazakhstani oil. China's energy partnership with Russia and Central Asia is being solidified through the Shanghai Cooperation Organization (SCO). While the organization has a number of purposes and is not openly anti-US, it is widely perceived "as a Chinese tool to counter US presence in Central Asia and promote Beijing's economic interests", and as a way to advance its worldwide power status as a rising power. While the US presence is weakening, the SCO has an increasing list of observer nations, including such strategically important nations as Iraq, Iran, and Pakistan.

China's undermining effect on Western and especially US interests is also noticeable in other countries, such as Venezuela, Iran, and Burma. In addition, China's energy diplomacy has also had a hand in reviving US interest in Africa. In conclusion, competition rather than cooperation has been the result of China's increasing strategic global involvement, and this points to a rising China that is challenging the existing power balance and inviting competition. Moreover, this challenge is not only evident through the cultivation of strategic relationships, but also in the military field. Despite Chinese efforts to diversify its energy routes, it is still highly dependent on maritime channels for transporting its energy supply. China's diplomatic response to the threats it perceives

from overwhelming dependence on sea lanes has brought about a substantial number of projects and policy initiatives in the countries lining the South Asian coast, as well as pipeline projects on the mainland. Ultimately, however, China still maintains that a strong navy is necessary, with or without the coastal projects and diplomatic connections. As a result, Beijing has been active in promoting the modernization and development of the PLAN.

According to Chinese analysts, the greatest threat the Chinese perceive to the security of these sea lanes emanate from the presence of the US Navy in the region. The US sees itself as having the role of the sole protector of the free movement of goods in the region and around the world, as well as of a regional order conducive to the operation of free markets. The position is also crucial for maintaining its position of economic hegemony.

Cooperation between China and the US on maritime security in the region is inhibited by mutual distrust. The Chinese government remains very suspicious of US naval activity in the region, and its indirect control over China's economic lifelines. China's leaders realize that the United States' position as a guarantor of the free movement of energy resources can also be used for containing other powers or exerting political pressure. In addition to the US naval force, China is also increasingly watchful of India's modernizing navy and the Japanese Maritime Self-Defense Force, navies of US allies in the region.

Although common security carries with it an increased capacity for defense against piracy and terrorism, China does not trust the forces of such major powers in possible political turmoil, and believes the routes can be used as political leverage against China, especially in the potential instance of a conflict with Taiwan. History offers China worrying precedents of similar US policies used in 1939 against Japan, or more recently in the case of an oil blockade against Iraq during the oil embargo

Chinese military forays into Southeast and East Asia (the quest for territories in the South China Sea and East China Sea) and the growth and modernization of the PLAN is very worrying to the US. While the likelihood of a direct conflict between the US and China over energy security on maritime routes is slim, conflicts between US allies in the region and China are a possibility in the long term in the South China Sea, especially if any significant offshore energy resources are found. Recently, China's activity around the South China Sea issue has taken

on a more decisive character, and the principle introduced in the 1990s, to “set aside differences [and] jointly develop” seems to be sinking as China’s energy needs surface. In 2007, China unilaterally expanded administrative control over two islets in the South China Sea, claiming “indisputable sovereignty”. In May 2009, China was accused of harassing a US ship in the South China Sea, while China claimed it was intruding in its Exclusive Economic Zone and conducting hostile activities, and thereby caused further friction in Sino-US maritime affairs. However, the greatest potential for a conflict lies with the Taiwan issue, which is considered the main reason for China’s worries over a blockade of its oil tankers.

The increasing Chinese naval presence thus creates a much more explosive situation on regional waterways. Rivalries between China and India and the rise of the Chinese naval presence on the Indian Ocean’s strategic sea lanes and disputed territories can cause additional problems for the US and will seriously challenge its role as the global defender of free trade and stability in the region.

In conclusion, it can be said that the impact of strategic energy security issues on China’s foreign policy have increased China’s global influence and have thereby reduced Western presence as well as strategic influence. This also applies to US dominance of strategic sea lanes in the Indian Ocean, where the growth of China’s navy challenges the role of the US as the protector of maritime trade routes. All of this is not to say that there could not be cooperation over issues of maritime or energy security. It is clear, however, that China prefers to act alone to secure its strategic interests and still demonstrates a clear distrust of Western involvement indicated by signs of a soft balancing against the West when securing its strategic interests. This policy foresees limited, tacit, and indirect bargaining strategies through coalition building and diplomatic bargaining within regional or international institutions. The strategy is also characterized by the use of largely non-military tools to delay, challenge, undermine or raise the costs of US policies. Energy security foreign policy reveals China’s campaign of increasing regional presence and institutionalization without the participation of the US, which while not directly presenting a challenge, is not conducive to cooperation between the US and China. It is rather indicative of China’s viewpoint that a multilateral international order is the ideal, and it reveals China’s quest to decentralize international relations in order to reduce the power of the US.

Strategic issues of power balancing are not the only ones that come in to play when talking about China's rise and the West. As a result, the impact of energy security on China's foreign policy, resulting from its growing dependence on foreign energy, has left the Chinese government facing issues that require a wider commitment to world affairs and international security. China has consequently been confronted with the question of whether it should manage such threats through existing institutions and by following existing international norms and values or anticipate future competition over resources and therefore prioritize its interests over wider global concerns and develop its close strategic channels of cooperation with energy exporters, striving to independently achieve protection against perceived threats.