



***“Resource Diplomacy” Under Hegemony:
The Sources of Sino-American Competition in the 21st Century?***

By

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Introduction

Is this “China’s century?” While many observers of East Asia see the 21st century as the century of China’s rise, a more insightful response should be an emphatic “NO!” Why? Because the global structure shows that while the next 20 years will be years during which China will continue to rise, that rise will occur within an international system dominated by U.S. “hegemony.” As a result, the evolution of this bilateral relationship will drive international politics for the coming several decades. Will China rise challenge what Americans see as their national interest and the international norms (that the U.S., as the hegemon, tries to support?) Will the US make room for China as its influence grows, or will it try to contain China’s rise and therefore, risk inducing a negative response?

I place no moral judgment on the concept of “U.S. hegemony;” it is merely a statement of fact. In terms of military, cultural, political, moral and “soft” power, the U.S. dominates the world. Its economic might is challenged only by the European Union, but not by any single member of that union. American influence waned in the 1980s, recovered in the 1990s, but the recent intervention in Iraq has sapped U.S. power and influence. But the U.S. still casts a huge shadow over the world, so China’s effort to rise, or our effort to understand that rise, must take into account the global distribution of power. In fact, according to Goldstein, in the mid-1990s, China’s leaders recognized that the key challenge to their Grand Strategy was to ensure continued growth of the civilian economy in light of a “surprisingly robust American primacy.”

“Resource Diplomacy” Defined

“Resource Diplomacy” is “*diplomatic activity designed to enhance a nation’s access to resources and its energy security.*” Resource security has three components: (1) insuring a stable supply of energy and resources; (2) keeping resource supplies at acceptable prices; and (3) being able to transfer those resources to fixed locations, not necessarily to the home country, where they

are processed or consumed. Enhancing resource security is a core component of China's foreign policy, as continued economic growth stabilizes China, insures the rule of the Chinese Communist Party (CCP), and increases national power. As Chu Shulong argues, in 1996, China introduced a "New Security Concept," which recognizes energy, food, technology, public health, anti-crime and anti-terrorism as key parts of national security under globalization. Also, China's increased overseas purchases of resources makes other countries dependent on China's economy for their own growth, thereby expanding China global influence.

Sino-American Relations and China's Resource Diplomacy

Because China's search for resources occurs within a hegemonic system, the United States can affect the supply, prices and delivery of the resources that China needs, and, therefore, can slow China's emergence as a great power. Through international organizations, such as the International Energy Agency (IEA), the OECD, and the G-8, the U.S. can influence energy and resource prices and China's ability to buy those resources. The U.S. has the military capability to threaten China's oil supplies should China engage in a conflict with Taiwan or Japan. American companies have worldwide resource partnerships with which China's neophyte national oil and resources companies must compete. As the moral hegemon, America decides which countries are violating international norms, such as nuclear non-proliferation or genocide, complicating China's trade and energy relations with "pariah" states, such as Sudan, Zimbabwe, Venezuela, and Iran. Chinese efforts to expand this in Latin America or Africa trigger conferences and congressional hearings in the U.S. America's press challenges China to improve its moral behaviors into a threat to America's own national security. So, as China evaluates its resources security, it finds that the Americans are everywhere.

On the other hand, Americans translate China's striving for resource security and its efforts to expand its web of trade relations as threat to their own national security. China's increased

leverage vis-à-vis US allies makes these allies reticent to follow the US lead. Chinese financial support to authoritarian regimes undermines Western efforts to exchange capital for transparency. And should the world soon face “peak oil,” China’s gains in equity oil mean U.S. losses, as a more zero-sum game emerges.

The Components of China’s “Resource Diplomacy”

While this paper proposes nine components of China’s “resource diplomacy,” the first very much reflects the core argument of this paper and how America’s hegemonic authority influences China’s rise and its search for resource security.

Table 1. The Components of China’s “Resource Diplomacy”

1. Foreign Policy “Triangularism”—*Tete a` Tete* or Sino-American *Menage a` Trois*
2. Playing in America’s “backyard”
3. China’s “going out strategy”
4. Courting America’s Allies: Australia and Canada
5. “Amoral” Diplomacy—”Partnering with Pariahs”
6. Resource Diplomacy in an Anarchic System Heightens Insecurity
7. New Stress on South-South Relations
8. Sino-U.S.-Japan Triangularism and Territorial Disputes
9. A Need for Increased Sino-American Cooperation

1. Foreign Policy Triangularism and U.S. Hegemony

A rising China builds ties with resource rich states. But as it does so, it bumps into American interests because, as the hegemon, the U.S. has global interests. So, while China believes it is establishing bilateral ties, or a “*tete a` tete*,” with another state, it suddenly discovers that it is involved in a “*menage a` trios*,” where the third partner in each triangle is the U.S.

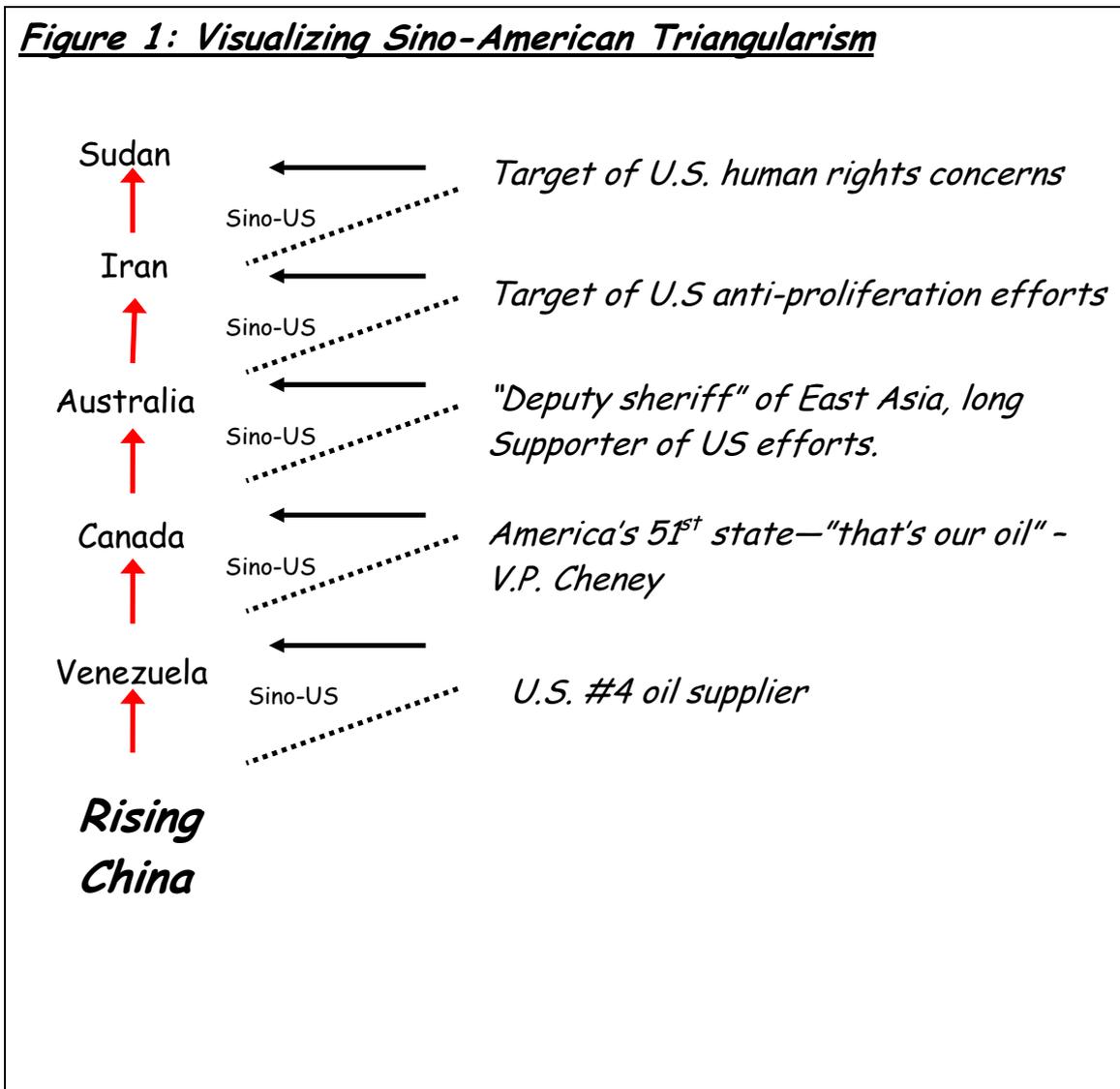
At times, this third partner is invisible; nonetheless, America affects each of China’s bilateral ties. When Chinese leaders talk to leaders of other countries, then bilateral, which has its own agenda is influenced by a hegemonic US, take on China’s ties with all these states. For example, China and Iran have had close ties since the days of the Shah; and Iranian efforts to build a nuclear bomb, while not popular in China, might not be an issue of great concern for China if the US did not force it onto the Sino-Iranian bilateral agenda. Thus when President Ahmadinejad attended the Shanghai Cooperation Conference in summer 2006, China felt pressured to discuss Iran’s nuclear program with the Iranian President. But China’s hesitancy to adopt many international norms places China and the U.S. at loggerheads over many international issues.

Figure 1 portrays my argument, showing how China’s bilateral ties become trilateral for both America’s enemies and its friends. As China rises and expands ties with each state in the figure, it discovers that the US already has a relationship with the target of China’s foreign policy efforts. For example, China wants to strengthen ties with President Chavez of Venezuela; but those efforts are viewed negatively by the U.S. because Venezuela is the number four oil supplier to the U.S. and President Chavez is actively building an anti-American alliance in Latin America. Similarly, Vice President Cheney reportedly told colleagues that it was ok of Canada sold oil to China, so long as the Canadian remembered that it was really America’s oil.

Sino-American tension over these energy contacts may fluctuate depending on the level of Chinese government involvement in the deals. Writing in Minerals & Energy (2006), Ma and

Andrews-Speed see a wide spectrum running from countries, such as Sudan, Iran and Kazakhstan, where the involvement of China's government is strong and strategic, through countries such as Angola and Venezuela, where government involvement is significant, to a large number of other states where China's government plays merely a supporting role. So, while the U.S. may see the Chinese government driving these acquisitions in order to expand energy ties, in many cases China's government may simply play a supporting role.

Figure 1: Visualizing Sino-American Triangularism



2. Playing in America's Backyard: China in Latin America

Projecting economic influence and “soft power” is far easier than projecting military strength, particularly for China at the start of the 21st century. American military supremacy remains unquestioned, particularly in the Western Hemisphere. But China's trading power and emerging interest in investing overseas, lets China wander around America's backyard. In 2004, 50 percent of China's outward FDI went to Latin America. Visits by top officials have become common. Vice-President Zeng Qinghong visited the Caribbean in February 2005, as did Vice Premier and trade guru Wu Yi. Hu Jintao visited four countries in South America in 2004 and signed many MOUs with Brazil. And in September 2006, Wu Bangguo, the second highest Communist Party leader in China, visited Brazil, Chile and Uruguay.

Venezuela President Chavez, who actively courts China to balance his dependency on the United States, told a meeting of Chinese businessmen in Beijing, in December 2004 that:

“We have been producing and exporting oil for more than 100 years, but these have been 100 years of domination by the United States. *Now we are free, and place this oil at the disposal of the great Chinese fatherland.*”

Concerned that Chavez could cut off oil supplies to U.S., Congress asked the Congressional Research Service to study how the U.S. should respond if Chavez stops oil sales to the U.S. As table 1 shows, in 2004 and 2005, Venezuela exported very little oil to China, as it has great difficulty redirecting oil exports away from the U.S. But in 2006, oil shipments to China grew.

3. A Mercantilist “Going-out” Strategy

The Chinese government actively urges state-owned enterprises (SOEs) to invest overseas to enhance China's energy security. Under the policy of “going-out” (*zou chu qu*), the

National Development and Reform Commission (NDRC) and the State Council placed a list on the web, outlining which countries (holding which resources) are preferred targets for takeover or investment by Chinese firms. Companies following these guidelines are eligible for soft loans from the Import-Export Bank or from other state-run banks. To support bids by Chinese firms, particularly for oil fields, China's leaders travel abroad to meet with the leaders of these target countries. Aid packages, such as Hu Jintao's promise to the president of Kenya that China would fix the roads in Nairobi, sweeten bids for oil concessions by China's National Oil Companies (NOCs). Similarly, building concrete bridges strengthens political bridges, linking government aid, foreign policy and international business in one neat package.

The U.S. sees Chinese state involvement in these business deals as patently unfair and believes that the use of NOCs and other SOEs reflects a centrally coordinated, "mercantilist" approach to international business at odds with global norms of free trade promoted by the U.S. American oil companies and other resource providers complain of an unfair playing field because SOEs, unlike their American competitors, are not responsible to shareholders—they can pay higher prices for these assets because they get cheap money from the state. Perhaps the only legitimate objection by the U.S. Congress to the sale of Unocal to CNOOC in the summer of 2004 was the fact that Chevron's bid depended on market financing, rather than soft loans from the Chinese government while helped CNOOC.

However, while Americans see China's government driving these deals, Chinese observers see such business-government links as the "tail wagging the dog." According to Zha Daojiong of Renmin University, it is the NOCs that are pressing the Central government to help them compete with well ensconced powerful, foreign oil companies, rather than the government pushing the oil firms to go overseas with government assistance. As Zha argues,

for over a decade China has lived without a central ministerial agency to oversee the country's energy industry. This makes it difficult to ascertain whether a particular oil/gas venture overseas is the result of the Chinese government dictating its state-

owned energy company to carry out a governmental mission or the domestic energy industry seeking diplomatic assistance from the government.

While recognizing that Chinese NOCs receive encouragement from the government, Andrews-Speed et. al. believe that “it may also be the case that the NOCs are using the government’s energy security strategy as a lever to gain government support when it is required.” Miller, writing in the *Far Eastern Economic Review*, sees a “dysfunctional” Chinese energy industry and a miniscule energy bureaucracy where no one is in charge. Ma and Andrews-Speed agree that “there is little evidence to suggest that the government is doing other than support an initiative led by the NOC, develop associated economic activities and provide a coordination role.”

One might even speculate that, given the significant role local governments play in China’s economy, local officials and the oil companies could be driving China’s effort to bring oil from Russia to the Daqing oil field—a proverbial “coals to Newcastle.” As the Daqing field dries up, jobs and growth in the surrounding regions, which rely on oil related enterprises built up over decades at Daqing’s fields, must have stalled. Protests have rocked this region recently, giving the government and the oil companies a shared interest in influencing China’s oil policy.

4. Courting America’s Allies

U.S. allies, such as Australia and Canada, are accommodating themselves to China’s new status. China’s purchases of Australian resources now drive Australia’s economic growth. The July 1996 declaration--“Relations of Strategic Partners of the 21st Century between Australia and the United States”--announced that instability in the Taiwan Straits and the Spratly Islands created the need for “forward deployment of the U.S. military in Australia.” In the words of then U.S. Defense Secretary William Perry, Australia was one of two American “anchors” in the Asia-

Pacific Region, and key to America's establishment of a missile defense system in the Asia-Pacific region.

By the middle of the current decade, the scene had changed dramatically. In 2004, China surpassed the U.S. as Australia's #2 trading partner. More Australians favor a Free Trade Agreement with China than with U.S., even though the US and Australia have such an agreement. A survey in the South China Morning Post in April 2005 reported that, 58 per cent of Australians have "positive feelings" towards America, but 69 per cent have similar feelings for China. Remarkably, 12% of Australian grain production—not simply its grain exports—went to China in 2005. Such exports could form a pro-China lobby among traditionally conservative farmers. China's purchases of natural resources also greatly affect northwest Australia.

Such economic interdependence has foreign policy implications. While the Australian opposition has long accused the Howard government of being America's "deputy sheriff" in East Asia, riding along side the US to maintain regional stability, during the trip to East Asia in April 2006 by Secretary of State Condoleeza Rice, Australian Foreign Minister, Alexander Downer, carefully distanced his country from America's portrayal of China as a growing threat to the region.

To date, two Canada-China energy cooperation conferences have encouraged Chinese energy firms to invest in Canada's oil sands. But triangularization influences Sino-Canadian energy relations. American V.P. Cheney's National Energy Policy Report (2001) called Canada's oil sands part of U.S. "energy security." Paul Evans, CEO of the Asia Pacific Foundation is Vancouver. When a Canadian diplomat sought the U.S. view of Canadian oil sales to China, he was told that the US is *wary* of Sino-Canadian energy cooperation, but sees China having alternative sources of energy from Iran, Sudan and other "pariah states" in a positive light.

But the triangular nature of this relationship depends on the strength of Sino-Canadian ties, and the new Conservative Party government under Stephen Harper is less willing to play this game. Its strong pro-US views and effort to distance itself from the previous Chretien

government's pro-China posture, means that China's economic power cannot spill over into the political or military realm and weaken US-Canadian ties.

5. “Amoral” [Not Immoral] Foreign Policy

China's homage to national sovereignty means that it often ignores the domestic politics of its resources suppliers. And while the U.S. is guilty of selective moral outrage under its “Washington Consensus,” China's apparent agnosticism about some international norms exacerbates moral disagreements with the U.S. The IMF or World Bank would not have supplied much needed loans to many of China's new allies without them committing to economic and political liberalization. Arieh Neier, head of George Soros' Open Society Institute, who promotes a Resource Extraction Transparency Regime, targeting African governments who enrich themselves, not their people, through non-transparent energy deals, believes that Chinese loans which encourage resource cooperation undermine this effort. According to Roger Robinson, vice-chairman of the US-China Economic and Security Review Commission, "The executive branch is willing to look the other way on China on a lot of abuses because they want strategic momentum to be preserved; they want the North Korean thing resolved." But, he commented, China's strategy of rushing into "pariah" states largely to cater to its energy needs "shows a stunning indifference to human rights." Newspapers, such as the Washington Post and diplomats such as Christopher Hill, Assistant Secretary of State for East Asia, have hit out at this problem as well.

Because many “pariah states” are resource rich, China seeks ties with them. As a late-comer to the energy game, whose NOCs must compete with Western firms who have well-established ties in many oil rich countries, China finds it difficult to say no to “pariah” states when they ask for political, economic, and military support. History links China with some of

these states. Ties with Iran go back to the Shah, long before the U.S. branded as a violator of international norms. Iran had abjured from the widespread international isolation of China that followed the 1989 Tiananmen crackdown, and has loyally purchased military hardware from China. If the U.S. brands Iran an “axis of evil” and calls on the world to support sanctions, must China turn against its old friend because that friend wants to develop nuclear weapons? In American eyes, China as a “responsible stakeholder,” has the moral responsibility to promote global norms, such as non-proliferation and oppose genocide. But Chinese scholars in the Chinese Institute of Contemporary International Relations see no record anywhere of sanctions stopping a state from developing nuclear weapons, once it has decided to do so. So, why should China complicate its relations with Iran in an effort that is likely to fail? Also, America’s commitment to such norms is not absolute; note its recent agreement to supply India with nuclear technology. Still triangular ties with the U.S. did force Iran’s nuclear weapons onto the Sino-Iranian agenda in the summer of 2006.

In the case of Sudan, Chinese companies have been active there since 1996, and have invested a great deal of political and economic capital to turn Sudan into a reliable source of oil. In 2003, Sudan supplied over 6 percent of China’s oil imports, and close to 5% in 2004. So sanctions against the Khartoum government could cost China. Yet, China’s claims that it does not mix business and politics, and does not get involved in these country’s internal affairs, rings hollow given that China sells jet fighters to the Sudanese military, which bomb rebels in Darfur, and reports say that the Sudanese army has used a CNOOC base to launch attacks on the rebels. Also, Chinese armed personnel, perhaps from the People’s Armed Police, protect the pipeline in Sudan from attacks by rebel forces. China protected Sudan from the UN in September 2004, when it threatened to water down a UN resolution against Sudan, forcing the United States to forgo sanctions. In the end, the United Nations sanctioned only four officials, not the government itself.

Nevertheless, Western (and U.S.) pressure has had an impact. When President al-Beshir of Sudan attended the Sino-African summit in early November 2006, Chinese President Hu Jintao reportedly called on Sudan to accept UN troops (not just ineffective forces from the African Union), and encouraged Sudan to negotiate with the rebels. And while, China has not agreed to sanctions, President Hu is expected to apply more pressure during his February trip to Sudan.

Sino-Burmese relations are also affected by China's energy security. In the past, ties between the two countries were rooted in joint support for authoritarianism. According to Bernard Cole, Burma is a possible site for transshipping oil to China, thereby avoiding the Straits of Malacca. China's National Development and Reform Commission, at the bequest of the provincial government, recently commissioned a feasibility study of the viability of a pipeline from Myanmar to Yunnan Province, but according to Chinese sources the high costs of the project worries the Central government.

6. Resource Diplomacy Under Hegemony Heightens Insecurity

Logically China's rapid growth and increased global status should generate a confident foreign policy. But the reverse is true as dependence on external resources actually increases China's insecurity. Again, quoting Andrews-Speed, et.al.,

“China clearly feels highly vulnerable with its emerging energy dependencies and its energy security policy will be influenced by the degree to which it perceives more general Western policy as seeking to engage, constrain or contain.... China's energy security policy is therefore inevitably affected by the broader strategic context and health of Sino-US and Sino-Western relations.”

China was free of many international constraints during Mao's era, when China was truly “self-reliant.” But today, Chinese fear U.S. efforts to “contain” their country's economic growth and its

rise to great power status. After all, the U.S. has the military capability to threaten China's access to strategic resources during war time. A military confrontation between the mainland and Taiwan, or China and Japan would definitely draw in the US.

A Canadian military observer, no doubt expressing a view shared by the US military, sees China building an aircraft carrier in the next 15 years. Given an aircraft carriers vulnerability to attack, it cannot be put out to sea until all key components of its protective battle unit—as many as 18 ships and submarines, replete with anti-aircraft missiles, anti-submarine destroyers, submarines and other types of ships—can be deployed. In this observer's view, China is building the pyramid of vessels needed to protect an aircraft carrier, and once the pyramid is completed with upgraded weapons systems, China will introduce the aircraft carrier.

Conservations I have held recently with academics in a PLA university confirm this point. They point out that only China among the five permanent members of the UN Security Council does not have any aircraft carrier. Thus supply for “face,” China needs to build one. Also, China's growing energy imports and its deep involvement in international trade make it incumbent on China to enhance its naval fleet.

Advisors to the Chinese government have met several times to gain a clear understanding of global conditions and how they do or do not threaten China's energy security. On meeting, held by the Chinese Institute of International Studies (CIIS) under the Foreign Ministry laid out an energy strategy for central leaders in a report written in March 2003. It pinpointed the dilemmas facing China's energy security as:

1. China's energy security faced an unfavorable shift;
2. The West, particularly the U.S., could contain China's efforts to exploit overseas oil and gas resources; and,
3. Violent fluctuations of oil prices and energy supply could affect China's energy security.

These three concerns strike at the heart of the three components of energy security: supply, delivery, and price.

To circumvent the American threat, China has looked at several options that would not be considered if not for America's global military power. China has helped Pakistan build a new, harbor at the port city of Gwadar, might beside the Straits of Hormuz at the mouth of the Persian Gulf. According to Niazi, "the Gwadar port will enable China to monitor its energy shipments from the Persian Gulf, and offer it, in the case of any hostile interruption in such shipments, a safer alternative passage for its energy imports from Central Asia." This hostile disruption could only come from American forces. Another strategy is to avoid the Malacca Straits. Thus for several years oil tankers have been traversing the Lombok and Sunda Straits, both in Indonesia. Also, as mentioned above, Yunnan Province is considering building a pipeline from Burma to Yunnan.

Still, the strategic threat to China's energy security posed by the U.S. is not as great as some might assert. According to one U.S. Defense Department study, it would be quite a challenge for America to blockade shipments of oil to China. How would the U.S. military know which oil tankers were going to Taiwan, Korea and Japan, rather than China as well? In wartime, China would use its enormous coal reserves to supply energy throughout the country. Also, the countries of N.E. Asia, are busy trying to find a mutual solution to their common energy dilemma. According to Gaye Christofferson, the western press has ignored the ongoing negotiations among South Korea, Japan and China to insure energy flows to N.E. Asia.

7. New Stress on South-South Ties

China's open door foreign policy, begun in 1978, shifted the focus of China's external ties from its Maoist preoccupation with the Third World, to the developed economies. With Deng

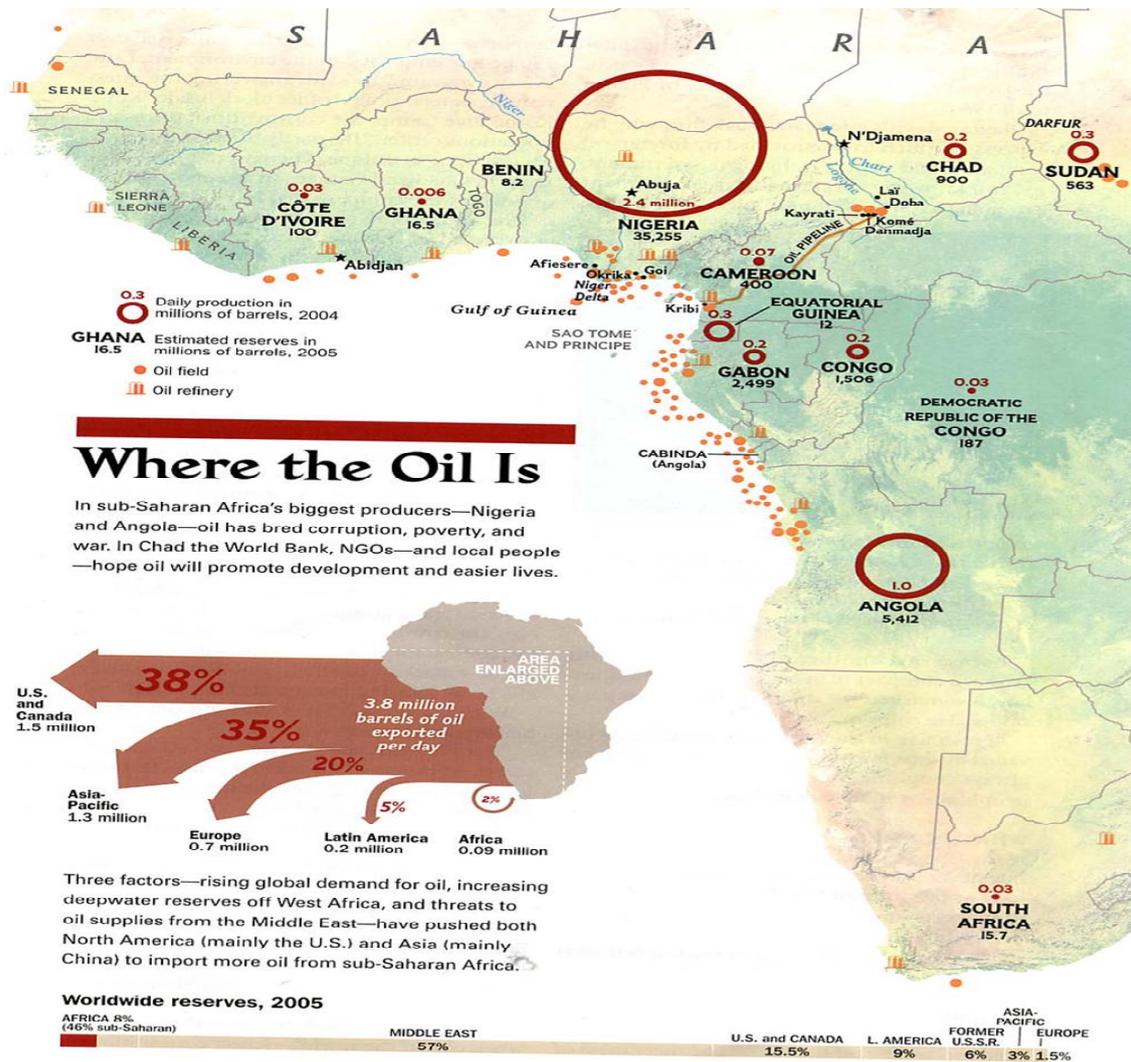
Xiaoping guiding China's search for advanced technology, foreign investment, and Western management techniques, Chinese foreign policy ignored the developing world for many years. Resource hunger, however, has heralded a new era of South-South cooperation and new challenges by China to American interests in the Third World.

According to George Soros' Open Society Institute, which runs an Extractive Resources Transparency Initiative, China's increased loan activity allows African leaders to circumvent conditional loans from the IMF that would otherwise force them to disclose where Africa's enormous oil revenues are being spent (or sent!). According to Eisenman and Kurlantzick,

Over the past decade, while the United States has too often ignored sub-Saharan Africa policy, other than counterterrorism cooperation and aid initiatives, Beijing has quietly established relationships with the continent's political and business elites..... building close ties with countries from Sudan to South Africa, becoming a vital aid donor in many African nations, signing trade initiatives with more than 40 African states, and developing military relationships with many of the continent's powers.

But African enthusiasm towards China had various components, including dramatic increase in aid and trade. Between 1999 and 2005, China's imports from Africa increased 10 times, and became the number three importer after the U.S. and France. Overall trade since 2000 has more than tripled, reaching nearly \$30 billion in 2004, and is expected to reach US\$50 billion by the end of 2006. In 2005, a large Chinese training program for African diplomats allowed it to present its case, relative to the American case, to African diplomats. Beijing has signed at least 40 oil agreements with various African countries. The Chinese government has been building concrete bridges to cement "political bridges" in Africa, which help Chinese firms compete with U.S. interests there. Medical teams from China train counterparts in numerous African countries and provide free equipment and drugs to fight AIDS, malaria and other scourges. In particular, China's links to Angola have increased greatly, through loans, construction projects, foreign aid

and visits by top leaders. In 2006, Angola became the largest supplier of oil to China, surpassing Saudi Arabia. The Africa-China Cooperative Forum, held in November 2006 was a historic event in China's African ties, with almost 50 leaders traveling to Beijing. According to data show that Africa and the Middle East are China's major energy partners (table 1). Little wonder China's top leaders, President Hu Jintao and Prime Minister Wen Jiabao, visited over 10 countries in the region in 2005 and 2006, all of which are major oil suppliers to China. Hu's 2007 trip has followed suit. A map of Western Africa, created by *National Geographic*, shows the major oil fields in the region, explains why so many Chinese leaders have been visiting Africa, particularly the Gulf of Guinea. (Map 1)



Map 1. Where the Oil Is

Table 2. China's Crude Oil Imports, by country and region,
in percentages, 2001-2005

Country/Region	% of 2001 Supply(a)	% of 2002 Supply (a)	% of 2003 Supply (b)	% of 2004 Supply (b)	% of 2005 Supply (c)
Saudi Arabia	14.6	16.4	16.7	14.0	17.5
Oman	13.5	11.6	10.2	13.3	8.5
Iran	18.0	15.3	13.6	10.8	11.3
Yemen	n.a.	n.a.	7.7	4.0	5.4
UAE	n.a.	n.a.	n.a.	n.a.	2.0
Qatar	2.2	0.7	n.a.	n.a.	n.a.
Iraq	0.6	0.8	n.a.	n.a.	n.a.
Kuwait	2.4	1.5	n.a.	n.a.	n.a.
Others	n.a.	n.a.	n.a.	3.3	2.5
Middle East			50.9	45.4	47.2
Angola	6.3	8.2	11.1	13.2	13.8
Sudan	8.3	9.3	6.9	4.7	5.2
Congo	1.1	1.5	3.7	3.9	4.4
Equatorial Guinea	3.6	2.6	1.6	2.8	2.9
Libya	n.a.	n.a.	n.a.	n.a.	1.8
Nigeria	1.3	0.7	n.a.	n.a.	1.0
Algeria	n.a.	n.a.	n.a.	n.a.	0.6
Gabon	n.a.	n.a.	0.3	0.4	0.0
Others	n.a.	n.a.	n.a.	n.a.	0.5
Africa	n.a.	n.a.	24.3	28.7	30.2
Russia	2.9	4.4	5.8	8.8	10.1
Norway	1.5	3.0	1.0	1.6	0.4
Brazil	n.a.	n.a.	0.1	1.3	1.1
Kazakhstan	n.a.	n.a.	1.3	1.0	1.0
Venezuela	n.a.	n.a.	0.5	0.3	1.5
Argentina	n.a.	n.a.	0.1	0.6	0.7
U.K.	0.8	1.8	n.a.	n.a.	n.a.
Others	n.a.	n.a.	n.a.	0.4	0.8
Europe & Western Hemisphere			9.6	14.3	14.9
Vietnam	n.a.	n.a.	3.8	4.4	2.5
Indonesia	4.4	4.7	3.7	2.8	3.2
Malaysia	1.5	2.4	2.2	1.4	0.3
Australia	1.2	1.7	2.0	1.2	0.2
Thailand	n.a.	n.a.	1.8	0.7	0.9
Brunei	n.a.	n.a.	1.5	0.7	0.4
Australia	1.2	1.7	2.0	1.2	n.a.
Others	n.a.	n.a.	n.a.	n.a.	0.1
Asia-Pacific			15.2	11.5	7.6
Import Total					100.0

Source: (a) *China Foreign Economic Statistical Yearbook, 2003*, China Statistics Press.

b. Chen Wenxian and Mo Lin, "CNPC's 2004: a fruitful year," *China Oil, Gas and Petrochemicals* (1 Feb. 2005) at www.chinaaogp-online.com.

c. Ministry of Commerce of China, <http://www.mofcom.gov.cn>.

China now actively partners with several Middle East countries, of whom the Saudis are particularly welcoming. While President Bush could not decide how to treat President Hu Jintao during his 2006 visit to the U.S.—he would not recognize it as an official state-to-state visit because China is not a formal ally of the U.S.—the Saudi's withheld no niceties, treating Hu like royalty, with all the pomp and circumstance of a penultimate state visit. The Saudis see Chinese purchases of energy and energy cooperation with the Middle Kingdom as an opportunity to diversify its markets and lessen its dependence on the U.S. And they are protecting their profits by investing in China's oil refinery sector. So again we find that China's rise weakens America's influence by loosening the bilateral dominance that the US has over its allies.

The New “Great Game” in Central Asia

China's high profile in Central Asia, especially Kazakhstan, and improved ties with Russia, are energy-driven. An overland supply route for oil and gas can circumvent China's “Malacca dilemma.” Military cooperation with Central Asia countries via the Shanghai Cooperation Organization (SCO), the first multilateral organization built by China, can protect pipelines that now bring oil from Kazakhstan to refineries in Xinjiang. China and Russia, despite possible tension over Kazakh energy, share a common goal: limiting American influence in Central Asia. So, the 2005 meeting of the SCO called on the American military to withdraw from Central Asia. Over lunch in Hong Kong, a former Assistant Secretary of State expressed his discomfort with China, who while claiming comfort with a U.S. presence in the region, was obviously challenging American interests.

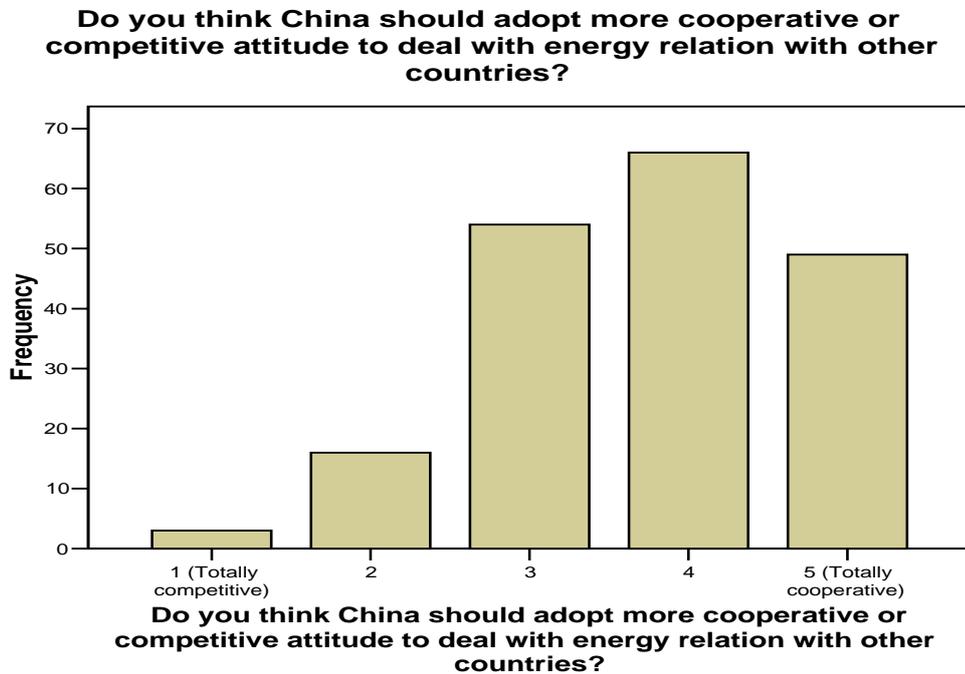
Despite a failed effort to buy an oil field in the Caspian Sea in the mid-1990s, China thereafter purchased PetroKazakhstan from a Canadian firm which has oil fields in the Caspian Sea and central Kazakhstan. China was so keen to get access to strategically located Kazak oil fields that, according to Ma and Andrews-Speed, it overpaid for the oil that is now flowing through its newly completed pipeline. But Chinese are wary of overdependence on Russia as a future source of energy, as the Russians in 2006 showed in their dealings with Ukraine and Europe that they will wield energy as a weapon in the pursuit of their foreign policy interests.

8. Sino-Japanese-American Ties: The Dangers of Triangularism

As China scans its surroundings for resources, intense competition with its long-term rival, Japan, looms. Both face a hard-to-resolve dispute over boundaries and gas fields in the East China Sea. China claims that those fields are within 200 miles of its continental shelf, while Japan claims the fields because they are on Japan's side of the mid-point between islands it controls and the Chinese coastland. Despite diplomatic meetings at the ministerial level, neither side has shown much interest in backing down, and in April 2005, Japan gave drilling rights to Japanese firms in these disputed areas. The Japanese Defense Force sees this situation as one scenario of a future Sino-Japanese war. And with the U.S. and Japan's have twice signed accords to enhance their military ties, —since 1996, they have twice signed stronger accords—a Sino-Japanese conflict would draw in the U.S. on Japan's side.

In a recent survey at Shenzhen University, 190 students reported their views on China's energy security. The specific question was: "Do you think China should adopt a cooperative or competitive attitude in dealing with other countries on energy?" The mean score (figure 2) was 3.76 (1 for "totally competitive" and 5 for "totally cooperative"), suggesting that in the abstract, Chinese students support cooperation with other states over energy.

Figure 2. Shenzhen University Students' Views on Energy Cooperation

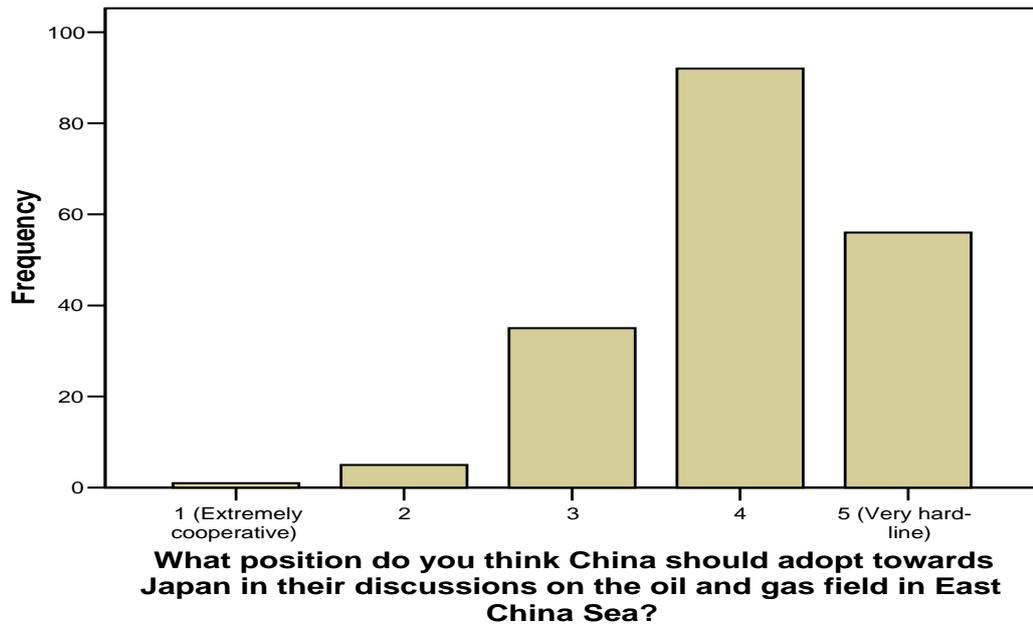


Yet when asked, “What position do you think China should adopt towards Japan in their discussions on the oil and gas field in East China Sea,” the mean responses was 4.03 (1 for “very cooperative” and 5 for “very hard-line”), reflecting a much harder line (figure 3). Moreover, the more Shenzhen students saw China facing an energy “crisis,” the more extreme their position vis-à-vis Japan. Such support for a tough line against Japan on the East China Sea may increase the possibility of conflict.

According to a 2006 Pew survey, Japanese public opinion also moved against China in 2005, when 63 percent of Japanese surveyed held negative views of their neighbor. No doubt, widespread protests in China against Japan in spring 2005, contributed to these hostile feelings.

Figure 3. Views of Shenzhen University Students on Energy Ties with Japan

What position do you think China should adopt towards Japan in their discussions on the oil and gas field in East China Sea?



9. Sino-US Cooperation

Despite the pessimistic tone of this paper, many Americans are aware of the need for Sino-US energy cooperation. Amy Jaffee at Rice University has been advocating joint US-China efforts to protect oil supplies and stabilize prices, thereby countering the influence of producers and enhancing both countries' energy security. Lieberthal and Herberg penned a study in 2006 advocating numerous ways the U.S. government could integrate China into the world's energy regime. From their view, it remains illogical that the world's number two oil importer sits outside the International Energy Agency (IEA), the OECD organization tasked to maintain oil price stability and supply. Some members of the U.S. Congress also seek common ground with China. Congressman Ranneberger asserted that:

China's growing presence in Africa is a reality, but it can increase the potential for collaboration between the United States and China. . . . China should have many of the same interests in Africa as the United State's, based, among other elements, on our shared reliance on a global oil market, shared desire to diversify sources from the Middle East and shared concern over volatile oil prices.

Similarly, the U.S. can improve China's energy efficiency. In July 2005, Assistant Secretary of State for Economic and Business Affairs, reporting to the Senate Foreign Relations Committee, called on the U.S. to engage with China on energy efficiency so as to decrease its fear of energy dependence.

Enormous room for conservation is available on the demand side due to China's gross energy inefficiencies, and China's leaders know the risks of energy dependency. In November 2004, Hu Jintao called on officials to "*give equal weight to economizing and resource exploitation . . . and actively developing oil substitutes.*" In spring 2005, Premier Wen Jiabao focused on China's international vulnerability when he called on China's international dependency in energy not to exceed 5 percent of its total needs by 2020. In April 2005, albeit with some difficulty, China tried to strengthen government control over energy development by establishing a new State Energy Office under Ma Kai, director of National Development and Reform Commission which reports directly to the State Council. Conservancy is a key component of the current 11th Five Year Program outlined in 2006.

What Forces Limit States from Tilting Towards China?

This *ménage a` trois*, based on the attraction of China's growing economy, compels third parties who are American allies, or within the U.S. sphere of influence, to cuddle up to China and distance themselves from the United States. Yet not all states succumb to such enticements.

As the economic hegemon, America wields enormous commercial power. Venezuela has great difficulty disassociating its economy from the U.S. It has enormous investments in American refineries and the sale of its refined petroleum products depend on the U.S. market. Despite Chavez's bluster, as of 2005, only 1.5% of China's total oil imports came from Venezuela, though the share is growing. Similarly, the U.S. can pressure allies, such as Canada, not to sell their oil companies to China, although U.S. efforts in this matter are often resisted by government leaders.

Despite asserting its "peaceful rise," China's track record as a benign great power can not stop many states from balancing against China's expanding power. A BBC survey in 19 countries in March 2005 found that while 48% of citizens in these countries felt positively about China's economic rise, 59% disapproved of China's increasing military power. These states will keep strong American ties even as they strengthen relations with China. For example, the new Conservative government in Canada under Prime Minister Harper, will remain anti-communist and anti-China, allowing ideology to trump national economic interests. With the entire China relationship under review, Canada's position on a China=US axis is moving back closer to the Americans.

America's enormous soft power, and China's relative lack of it, can keep states close to the U.S. China has little to offer culturally to most Westerners, relative to American culture. Confucian centers sponsored by China around the world have minimal influence relative to the number of movie theaters that project American culture; they will, however, spread the Chinese language. The emergence of the "ugly Chinese" in parts of Africa reminds Africans that China's economic influence is not entirely benign. Chinese have minimal experience managing overseas businesses, and despite training programs for senior managers going abroad by Price Waterhouse Coopers, Chinese firms face angry workers and voters in Africa and Latin America. Yet the enormous gap between US normative posture—calling on China and other developing countries to improve the quality of their governance—and America's behavior in Guantanamo, Iraq and its

rejection of numerous intentional treaties, undermines US normative legitimacy worldwide. A CNOOC official told me that China had been very sensitive to America's moral authority and had fretted about how the U.S. government perceived its actions. But, he argued, after the U.S. government foiled China's effort to buy Unocal on a trumped up charge of national security, America has no right to demand that Chinese firms follow free market principles and eschew mercantilism. Moreover, even if they do CNOOC will not listen.

Conclusion

Chinese observers at the Chinese Institute for Contemporary International Relations note that when American officials talk about China's energy security, they see it in terms of the risks China's energy hunger poses to American "national security." Moreover, it is coupled with China's overall enhanced power capabilities and the challenge this poses to U.S. hegemony. Some U.S. congressman admitted that blocking the Unocal sale in 2005 was seen in the context of slowing China's growing global influence. Little wonder most Chinese analysts do not see the U.S. as a benign superpower in its dealings with China, and believe that the U.S. would block China's access to energy as part of a strategy of "containing" China's economic and national growth.

On the other hand, these same Chinese argued that when they think about "energy security," they focus on the strategies China must adopt to insure a continued supply of energy for its economic development. China's ruling elite understands well that it needs to import energy and raw materials at a hectic clip to maintain enough economic growth to satisfy demands for nine million new jobs a year and to improve the living standards of its rural and urban inhabitants alike. In the view of Zha Daojiong, "as far as China is concerned, the concept of energy security has to be seen in terms of economic threats and market solutions, rather than in terms of military threats and diplomatic responses."

To influence the actions of its Chinese challenger, the American government and Congress has constantly called on China to play by the rules of the international system; in the words of former Assistant Secretary of State, Robert Zoellick, China should strive to be a “responsible stake holder.” Clearly, China’s support for pariah regimes and actions that contravene global norms need to be curbed. Even the African Union takes a tougher position on Darfur than China. But, is the U.S. prepared to create space for a rising China if it behaves responsibly? Many Chinese doubt it, as do some Americans. Bader and Downs of the Brookings Institution writing in September 2006, argued that “Oil Hungry China Belongs at Big Table.”

Given China’s rise, the points of intersection between Chinese and American interests, particularly in the energy realm, grow daily. And there, at the local level, in countries all around the world, the U.S. and China may find themselves bumping heads, as each seeks to enhance their “energy security.” But will the U.S. allow China to pursue new sources of energy without interfering or slowing that process significantly? If the U.S. responds negatively to Chinese efforts to secure resources or improve China’s “energy security,” the U.S. will not be creating incentives that encourage China to behave responsibly. Energy disagreements, then, may indeed become a source of a new cold war.

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