

### 3 Energy Security Motivations behind China's Foreign Policy

Although rapid economic growth has made Chinese economic growth dependent on the steady importation of natural resources, in dealing with China's energy needs, this paper deals primarily with China's oil supply security. This is because of the predominant role oil plays within China's imported energy mix,<sup>33</sup> and as an extension, in its energy foreign policy, which is the central topic of the thesis. A government study has in fact concluded that in a long-term, global point of view China's energy security directly equates to oil security, while Hu Jintao has personally identified finance and oil as the two key economic security issues for China.<sup>34</sup> This chapter will provide the background to the issue of energy security in China. In order to demonstrate the significance of the issue to the Chinese government, it is necessary to more thoroughly explicate the threats China faces or perceives owing from its growing dependence on foreign oil.

#### 3.1 Increasing Dependence on Oil Imports

Oil as a strategic resource has great importance in both Chinese and the global energy security. Oil is the largest single fossil fuel in the global energy mix and is expected to stay so through to 2030.<sup>35</sup> The availability of oil and its price fluctuations have an enormous effect on domestic and global economic as well as social and political development of any modern industrial or industrializing country. For example, oil prices are closely related to inflation and economic growth rates.<sup>36</sup> In addition to fuelling the majority of transport vehicles, oil is a necessary raw material for an enormous amount of goods-think about everything you own or consume that is plastic- as well as for the agricultural, petrochemical, and transportation sectors. Furthermore, the majority of modern military machinery depends on oil to function.

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<sup>33</sup> IEA (International Energy Agency). 2007. *World Energy Outlook 2007*. Paris: OECD/IEA.

<sup>34</sup> Kong, Bo. 2005. "An Anatomy of China's Energy Insecurity and Its Strategies." *Oil, Gas & Energy Law Intelligence*, Vol. 6(1): 1- 69, 24.

<sup>35</sup> IEA (International Energy Agency). 2006. *World Energy Outlook 2006*. Paris: OECD/IEA, 38.

<sup>36</sup> Rogoff, Kenneth. 2006. "Oil and the Global Economy." *Essay at Harvard University*. [http://www.nes.ru/public-presentations/Papers/Oil%20and%20the%20Global%20Economy\\_Rogoff\\_v2.pdf](http://www.nes.ru/public-presentations/Papers/Oil%20and%20the%20Global%20Economy_Rogoff_v2.pdf).

The evident widespread use of oil means that significant oil price fluctuations have a direct effect on the inflation rates of importers.

China was first truly faced with oil security issues when in 1993 it was finally forced to start importing oil in order to support its expanding economy and growing urban and middle-class population. Since then, economic growth together with middle-class enlargement and urbanization have only gained speed. As a result, between 1990 and 2000 Chinese energy consumption doubled, while between 2000 and 2005 it grew by another third. By 2003 China had become the second largest consumer of oil in the world. Together with the increased consumption and slow growth of domestic production, in the ten years spanning 1990 and 2000, China went from exporting 400,000 (0.4 million) barrels per day (mb/d) to importing 1.4 mb/d, and have more than doubled consumption between 2000 and 2005, when imports reached 3.1 mb/d.<sup>37</sup> China's growing need for oil has meant access to adequate supplies has become a central national priority.

The broad consensus among researchers and energy specialists is that if China's economic growth continues, Chinese dependence on foreign energy (mainly oil and gas) resources is set to increase swiftly in the near future.<sup>38</sup> Moreover, the International Energy Agency (IEA) points out that China's energy consumption per person is still low compared to world average and about 28% of that of OECD countries.<sup>39</sup> According to the IEA World Energy Outlook 2007, China and India will together be responsible for about 45% of the increase in global energy demand and 42% increase in global oil demand from 2005 to 2030. During the same period, China's individual annual demand for oil and gas is set to grow 3.7% and 6.4% respectively. While demand increases and domestic energy production starts to slowly decrease, Chinese oil imports are set to grow from 3.5 million barrels per day (mb/d) in 2006 to 13.1 mb/d in 2030, at which point imported oil is expected to make up about 80% of total oil consumption.<sup>40</sup>

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<sup>37</sup> International Energy Agency (IEA) 2007. "IEA World Energy Outlook 2007" IEA Publications: Paris: 263

<sup>38</sup> Downs, *Energy Security Series: China*, 10.

<sup>39</sup> IEA, "World energy Outlook 2006," 286.

<sup>40</sup> IEA, "World Energy Outlook 2007," 117-120.

The main factors contributing to high energy demand in China are economic. First of all, the key reason for the rising energy demand is China's *rapid* economic growth, with a GDP averaging 9.8% between 1980 and 2005.<sup>41</sup> China has become the world's manufacturing hub and entering the WTO has only increased China's integration into the international economy and trade. However, what has influenced energy-dependence more is that China's economic growth has been extremely energy-intensive, consuming nearly twice the world average of oil per unit of GDP. This is because China's economic growth is industrially driven, accounting for more the 50% of GDP.<sup>42</sup> Moreover, a great part of it is energy-intensive heavy industry, led by manufacturing and automobile industries, as well as iron, steel, cement, and aluminium production.

In addition to dependence on heavy industry, increasing oil consumption can be attributed to the social transformations accompanying its economic growth – the growth of China's urban population and its middle class. China underwent a rapid urbanization process during the past decades and fast urbanization is expected to continue and reach 60% by 2030. These developments have increased the use of energy consumption because energy consumption in urban areas is much higher than in rural areas,<sup>43</sup> and because of increased incomes and wider use of various home appliances and transport vehicles. Residential energy consumption is expected to rise by 1.1% year-over-year between 2005-2030, where the use of natural gas will see a 7% rise over the same period.<sup>44</sup> Transport demand has risen from 5% in 1980 to 11% in 2005 and the transport sector is expected to grow around 5.5% per year through to 2030. According to the IEA, by 2030 the transport sector will be responsible for 55% of China's oil demand, up 20% from 2005.<sup>45</sup>

China's economic growth and the accompanying social developments necessitate increasing and reliable oil inputs at an affordable cost. Getting those inputs from domestic sources however is not possible. According to conservative estimates, most of Chinese oil fields have reached or passed their peak and new domestic discoveries

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<sup>41</sup> Ibid, 243.

<sup>42</sup> Ibid, 245.

<sup>43</sup> Ibid, 258.

<sup>44</sup> Ibid, 304.

<sup>45</sup> Ibid, 296, 297.

do not have reserves large enough to compensate this loss.<sup>46</sup> Therefore, China's energy supply will have to continue to grow by account of imported oil.

China currently imports the majority of its oil from the Middle East and Africa, which constitute 80% of all imports. Within these regions, the principal suppliers are Saudi Arabia and Angola, each making up about 16% of the import market share.<sup>47</sup> China has been working hard on diversifying its supply sources and therefore new important partners are emerging in Central Asia, Latin America, and Africa. As a result of increasing oil imports from a number of different, unstable, and far-away regions oil security has become an important foreign policy issue and will remain so in the near future.

It is clear from the data exhibited that China's oil imports have been on the rise for a while and will continue their rise in the next decades. Oil demand is of course dependent on China's economic growth and there are a number of different opinions regarding whether China's fast economic growth will continue without serious social, environmental or other setbacks. However, for the purposes of this paper, it is sufficient to say that as a result of the aforementioned trends, energy security has been of intrinsic importance to the agenda of Chinese policy makers for the past decade, and it seems unfathomable that it will not continue to do so in the near future.

According to Erica Downs, China's definition of energy security entails "the acquisition of sufficient energy supplies to protect the Chinese leadership's core objectives at prices that are neither too high nor too low to undermine those objectives."<sup>48</sup> There are important domestic factors which further increase the strategic importance of energy supply security and economic growth to the Chinese government and are therefore important for understanding the deeper domestic roots of the energy security issue.

Firstly, issues of economic and military strategic security closely connected to energy supplies have a special significance. Ensuring the continuation of its economic growth has been the cornerstone of foreign policy since Deng took over leadership of the country. Economic development has opened up countless opportunities for improving

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<sup>46</sup> Ibid, 123.

<sup>47</sup> Ibid, 325.

<sup>48</sup> Downs, *Energy Security Series: China*, 13.

the life of a number of China's 1.3 billion people while also promising to restore China's lost great power position in the international system. Providing continuous economic development is imperative for the regime to avoid challenges to its economic and social legitimacy. Furthermore, the importance of maintaining high economic growth figures has only increased as Communism has gradually lost its position as the country's guiding ideology. The loss of a guiding political ideology has led to the development of a new state of affairs in society and politics, one where CCP's legitimacy has increasingly become dependent on providing continuous economic growth and development to the Chinese people. It is important to remember then, that the issue of economic growth and development is critical for China's political and social stability, as well as the legitimacy and survival of the CCP.

Second, the energy security issue is more critical for China because its economy is still growing at a high rate (even despite the financial crises crippling the other great global economic powers). Oil, and increasingly gas, are becoming more and more important in China's energy mix as China expands and modernizes its economy and as its middle class grows and there is no efficient and cost-effective substitutes available at present. Economic growth in China is dependent China's on heavy industrialization, led by manufacturing, steel, and automobile industries, which are all renowned for their intensive use of energy. In addition, economic growth leads to growing urbanization as well as an increasing middle-class which boosts the use of home appliances and of vehicle transport, especially cars and airplanes<sup>49</sup>. In order to maintain social stability, the government must also ensure that oil prices are not too high that they cripple the livelihoods of the country's farmers, taxi drivers, fishermen, and other professions that consume substantial amounts of energy. In this light energy prices causes headaches for the Chinese government, because China in addition to being an economy greatly dependant on oil, it is also an oil-intensive economy, consuming nearly twice the world average per GDP. Since Chinese currency is still pegged (although more loosely than before) to the United States dollar (USD), is suffers more from the rising oil prices, which are traded in USD.<sup>50</sup> China's growth and development thus necessitates increasing and reliable energy inputs at an affordable cost.

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<sup>49</sup> Ibid, 13.

<sup>50</sup> Lee, Pak K. 2005. "China's quest for oil security: oil (wars) in the pipeline?" *The Pacific Review*, Vol. 18(2): 265-301.

The importance of oil to the military industry was already mentioned, however the military-strategic perspective in China is entwined with nationalism, which is often used to underpin regime legitimacy. Thus not only is China's strong economic development at the centre of its nationalist sentiment, nationalism also stresses strong military power, that could guarantee the safety and unity of the Chinese territory, which for the Chinese includes Tibet and Xinjiang, as well as Taiwan. It is crucial to understand that nationalism is not only a tool for the government, but also can threaten the reign of the Communist government.<sup>51</sup> A strong military rests on the availability of necessary energy resources and thus an energy deficit or blockade against China has the potential to endanger Chinese military clout, national security and unity.

In conclusion, China has been tackling rising energy imports for a decade and will continue to do so in the future. Oil plays a vital role not only for China's economic growth, but for its military security, and social stability. Therefore, China has been using both domestic and foreign policy methods to increase the security against threats posed by oil import dependence. The chapter will now move on to analyse the nature of the threats to Chinese energy security before commencing an analysis of the foreign policy methods employed to enhance energy security.

### **3.2 Threat Perceptions behind Energy Supply Security**

Any international relationship based on dependence causes a considerable amount of insecurity, because of the inability to exert control over the actions of other states and multinational companies, or to predict unexpected events. Energy dependence relationships are no different. What is more, because of the highly strategic nature of oil politics, the accompanying insecurities and threats are a cause of greater anxiety.

Energy security is most often defined as secure access to sufficient and reliable energy resources at a stable and affordable price.<sup>52</sup> Accordingly, a country's oil security depends on both price, and the reliable and continuous availability of oil. When access to oil supply is restricted or unreliable; when the supply cannot meet the

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<sup>51</sup> Zhao, Suisheng. 2005. „China's Pragmatic Nationalism: Is It Manageable?“ *The Washington Quarterly*, Vol. 29(1): 131-144, 142.

<sup>52</sup> IEA, "World Energy Outlook 2007," 160.

demand of energy; and when energy prices are too high, too low, or altogether unaffordable, energy security is under direct threat. From the definition above it can be deduced that the causes of oil security threats are numerous. They can be divided into domestic and international, short-term and long-term threats.

In the short-term, energy supply can be threatened by political, social, or economic instability, as well as technical difficulties in the exporting country brought about by such calamities as revolutions, natural disasters, international conflict and civil war. In addition, nationalist and other market distorting policies enacted on behalf of importing or exporting governments, or major national oil companies, can lead to insecurity and instability on the energy market. The most important oil is the Middle East and this means that geopolitical stability in the region is crucial for maintaining the security of supply and stability of prices. Finally, on top of calamities in exporting countries or market distorting policies, long transport routes and energy pipelines, which often cross vast distances and country borders, or pass narrow sea lanes, are exposed to a number of security threats, such as piracy or political manipulation.

In the long term, energy security can be damaged by more systemic factors, such as a lack of reserves or spare capacity, little investment into technological innovation, new field development projects, and exploration. This means the long-term security of energy supply depends on the accessibility to and attractiveness of producing countries and areas and the ability to bring the oil to the market.<sup>53</sup>

Owing to the globalized nature of modern oil markets (and commodity and financial markets in general), oil importers face many similar threats to their energy security, and any sharp changes in the global supply or demand of oil will be felt by most countries through price hikes and cuts in supply. Nevertheless, although countries are facing similar energy security issues, their policy responses can be different, and are dependent on variables such as their level of dependence; the number and nature of their supply sources; as well as economic, political or military power capabilities, factors that all come to influence threat perceptions.

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<sup>53</sup> Correljé, Aad and Coby van der Linde. 2006. "Energy Supply and Geopolitics: A European Perspective." *Energy Policy*, Vol. 34: 532-543, 534.

Like any other country, China faces all of the above challenges. The striking distinction between China and most other energy importers lies in the extremes of its strengths and weaknesses- on one hand it possesses great political, economic and military capabilities, but is paradoxically stricken by a greater dependence on oil and complex domestic economic and political problems, an explosive combination that allows for and perhaps necessitates more independent action. For China then, energy security has its own meaning, threat perceptions and optimal policy solutions.

Asian energy geopolitics has both a maritime and a territorial aspect. One of the key security threats undermining the reliability of energy supply for the Chinese government emanates from maritime complexities and the long transport routes that China's oil cargo has to travel before it reaches China. All of China's oil coming from Latin America, the Middle East, and Africa (about 80% of its oil imports) is shipped to China by sea and passes through a number of strategic sea lanes of communication (SLOCs) around the Indian Ocean – the Strait of Hormuz (Iran), the Strait of Malacca (between Singapore, Indonesia, and Malaysia), and the Lombok/Makassar Strait and other smaller ones. Heavy dependence on these maritime routes, especially for strategic goods, such as oil, has increased their strategic significance to the Chinese government.

Undoubtedly, the most vital of these SLOC is the Strait of Malacca and as a result a great concern has been voiced from the Chinese side over the so called “Malacca dilemma,” the essence of which is the belief that the growing reliance on the Malacca Strait is a great strategic weakness. President Hu Jintao has also commented on the issue, pointing it out as a key question for China's energy security.<sup>54</sup> Over 80% of China's oil and oil-products move through the Strait of Malacca while 60% of all vessels passing through the strait annually are heading for China<sup>55</sup>. Therefore the Strait of Malacca is often more descriptively called the “lifeline of rising dragon.”

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<sup>54</sup> Chen, Shaofeng. 2008. “Motivations behind China's Foreign Oil Quest.” *Journal of Chinese Political Science*, Vol. 13(1): 79-104, 83.

<sup>55</sup> Zhang, Xuegang. 2008. „China's Energy Corridors in Southeast Asia.“ *China Brief*, February 4. [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[tt\\_news\]=4693](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=4693).



Nevertheless, China has yet no sufficient naval capacity to project its power to defend its cargo ships.<sup>56</sup>

There are a number of threats originating from high dependence on Malacca, and can be divided into maritime security threats such as terrorism or piracy; and political/strategic threats, resulting from competition or conflict between great powers. Firstly, since the Malacca Strait is the shortest route for ships to reach East Asia from Europe, Africa, or the Middle East, with 25% of world trade (about 60 000 ships) moving through it annually<sup>57</sup>, the narrow Malacca Strait is heavily congested and working at near full capacity, which means that in the future it will not be able to absorb increasing import traffic moving to China.<sup>58</sup> In addition the narrow strait exposes maritime traffic to risks from piracy, a prominent concern in the region from 2003 to 2004, as well as terrorist attacks, due to the lack of any significant security measures.<sup>59</sup> However, terrorism and piracy do not figure prominently among China's concerns and have generally been deemed to be low-probability threats, especially in the Straits of Malacca.<sup>60</sup>

The greatest concern to the Chinese government with regard to the Strait of Malacca is the exploitation of these straits for political purposes by powers with a strong navy. In November 2003 Hu Jintao declared that certain major powers were out to control the Strait of Malacca by using superior naval vessels and called out for new approaches to reduce the risks concerned.<sup>61</sup> This also applies to the whole Indian Ocean maritime area, which has the same strategic importance for China as the Straits

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<sup>56</sup> Chen, Shaofeng. 2009. "China's Self-Extrication from the "Malacca Dilemma" and Its Impact on Southeast Asia." Draft Paper for the Conference "China's Future: Pitfalls, Prospects and the Implications for ASEAN and the World" at the University of Malaya, 5-6 May. <http://ccm.um.edu.my/umweb/ics/may2009/chensf.pdf>.

<sup>57</sup> Zubir, Mokhzani. 2004. "The Strategic Value of the Strait of Malacca." *Centre for Maritime Security and Diplomacy*, Maritime Institute of Malaysia. [www.mima.gov.my/mima/htmls/papers/pdf/mokhzani/strategic-value.pdf+malacca+key+to+energy+security+hu+jintao&cd=1&hl=en&ct=clnk](http://www.mima.gov.my/mima/htmls/papers/pdf/mokhzani/strategic-value.pdf+malacca+key+to+energy+security+hu+jintao&cd=1&hl=en&ct=clnk).

<sup>58</sup> Mu, Xueaquan. 2006. "Stable, long-term energy supply predicted." *China Daily*, May 29. [http://news.xinhuanet.com/english/2006-05/29/content\\_4624195.htm](http://news.xinhuanet.com/english/2006-05/29/content_4624195.htm).

<sup>59</sup> Storey, Ian. 2006. "China's "Malacca Dilemma." *China Brief*, Vol. 6(8). [http://www.jamestown.org/programs/chinabrief/single/?tx\\_ttnews\[tt\\_news\]=31575&tx\\_ttnews\[backPid\]=196&no\\_cache=1](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=31575&tx_ttnews[backPid]=196&no_cache=1).

<sup>60</sup> Ho, Joshua J. 2006. "The Security of Sea Lanes in Southeast Asia." *Asian Survey*, Vol. 46(4): 558-574, 561-565. Piracy has recently become an issue for China on the African coast, in the Gulf of Aden, but the problem has been successfully tackled by international forces.

<sup>61</sup> Storey, Ian. 2007. "New Energy projects help China reduce its 'Malacca Dilemma'." *OpinionAsia.org*, May 14. <http://www.opinionasia.org/NewEnergyProjectshelpChinareduceitsMalaccaDilemma>.

of Malacca.<sup>62</sup> The “major powers” mentioned by Hu most conspicuously imply the US, whose navy is the most powerful along the SLOCs.<sup>63</sup> Reducing dependence on the Strait of Malacca as well as increasing China’s leverage on SLOCs has therefore been one of the greatest concerns with regard to China’s energy supply security.

During the past year, however, it has been the Strait of Hormuz that has figured more prominently in news media coverage and the posturing of global statesmen as a result of Iran’s warning (directed mainly towards the US and Israel) that it would be prepared to block access to the strait if it felt threatened. Such threats would affect China through an immediate spike in oil prices. Although about one third of China’s oil imports are transported through the strait, the effects of closure to China would be limited, as it has the option of using other sea lanes, albeit more time-consuming ones. Further, an Iranian blockade is not expected to last much longer than a few days to two weeks, meaning that the establishment of oil reserves would enable China to comfortably endure a short-term crisis.<sup>64</sup> Nevertheless, the maritime geopolitics of oil ultimately causes great anxiety for the Chinese government from a political-strategic perspective because of the uncertainty stemming from their overwhelming dependence on them.

In addition to maritime geopolitics, or more specifically, related to it, are the problems emanating from a low level of diversification within China’s energy supply sources. The National Development and Research Centre (NDRC) paper on energy strategy stresses the need for China to search and develop new oil supply areas and regions.<sup>65</sup> In fact, both Chinese energy companies and the government agree that diversification

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<sup>62</sup> Ye, Hailin. 2009. „Securing SLOCs by Cooperation – China’s Perspective on Maritime Security in the Indian Ocean.“ Position paper, the International Maritime Conference 3, National Maritime Policy Research Center, Bahria Univeristy, Pakistan, March 7.  
<http://iaps.cass.cn/english/articles/showcontent.asp?id=1233>.

<sup>63</sup> Wesley, “The Geopolitics of Energy Security in Asia,” 6.

<sup>64</sup> An Iranian blockade is not expected to last much longer than a few days to two weeks. See: Cordesman, Anthony H. 2007. „Iran, Oil, and the Strait of Hormuz.“ *CSIS Washington Centre for Strategic Studies*, March 26. [http://www.csis.org/media/csis/pubs/070326\\_iranoil\\_hormuz.pdf](http://www.csis.org/media/csis/pubs/070326_iranoil_hormuz.pdf); Shichor, Yitzhak. 2008. „Iran Keeps China in a Chokehold.“ *Asia Times*, September 26.  
<http://www.atimes.com/atimes/China/JI26Ad01.html> .

<sup>65</sup> Zhang, Kang. 2003. *China’s Oil and Gas Resources and Safety Countermeasures: Chinese Energy Comprehensive Development Strategy and Policy*. China Development and Research Centre of State Council, October 2003.  
[http://www.efchina.org/csepupfiles/report/2006102695218245.49798158411193.pdf/4\\_Oil\\_supply\\_security.pdf](http://www.efchina.org/csepupfiles/report/2006102695218245.49798158411193.pdf/4_Oil_supply_security.pdf).

of transport routes and energy suppliers is crucial for enhancing energy security.<sup>66</sup> In 1995 China's supplies primarily came from the Middle East (46%), and the Asia-Pacific (46%)<sup>67</sup>. At present, the situation has changed somewhat, however according to a number of sources, including the Chinese government energy strategy, the Middle East will remain the primary source in the future, according to some making up 75% of China's oil sources by 2015.<sup>68</sup>

In addition to low diversification, China's leaders worry about the fact that energy suppliers are all situated in very volatile regions. In the Middle East and Africa the problem of instability endangers continuous flow of oil. The Iraqi war is said to have been an important stimulant for the Chinese diversification policy. The Israeli-Palestinian conflict, Iraqi domestic turmoil as well as the Iranian nuclear issue are all political hotspots of great concern to China, while domestic instability and internal conflict potentially harm oil installations and economic stability in Africa.

Additionally, both regions are geographically far from China, forcing China to depend on maritime routes to access energy. In regards to expanding its supply sources and reducing dependence on maritime routes, NDRC has identified the Caspian Sea and Central Asian regions as practical supply regions next to the Middle East in the future.<sup>69</sup>

Next to threats from maritime geopolitics and risks emanating from supply sources, China's energy security policy is influenced by a more abstract threat – deep rooted distrust of the US and international markets. Although China trades its oil and buys oil on the international markets, China still perceives a certain amount of insecurity from this arrangement due to its prevailing unconditional dependence. As has been pointed out by various scholars, not only China, but a number of other Asian countries believe energy security to be an issue of “high politics” concerning national security, which cannot be left entirely to the market forces.<sup>70</sup> As one Chinese academic explains, the international market is increasingly influenced by “non-supply-demand

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<sup>66</sup> Downs, *Energy Security Series: China*, 30.

<sup>67</sup> Ibid.

<sup>68</sup> Zhang, *China's Oil and Gas Resources and Safety Countermeasures*, 13; Downs, *Energy Security Series: China*, 32.

<sup>69</sup> Zhang, *China's Oil and Gas Resources and Safety Countermeasures*, 12.

<sup>70</sup> Herberg, Mikal E. 2004. „Asian Energy Insecurity: Cooperation or Conflict?“ in *Strategic Asia 2004-5: Confronting Terrorism in the Pursuit of Power*, edited by Ashley J. Tellis and Michael Wills, 339-378. National Bureau of Asian Research, Washington.

factors”, often “subject to (the) influence of major international political, military and economic events.”<sup>71</sup> In fact, the Chinese government believes the market to be influenced by “Western manipulation, speculated by hedge funds, and agitated by price volatility.”<sup>72</sup>

The abovementioned fears are aggravated by the Chinese government’s conviction that the international market is dominated by Western multinationals. China’s own companies are latecomers to the international markets and have only carved out a tiny share of the energy markets for themselves, because the oilfields with the greatest amounts and best quality oil are already under Western control. Therefore, China feels the international energy market is one of unfair competition.

The international energy multinationals are indeed stronger in terms of profit creation. Total revenues of China’s three NOCs – CNPC (China National Petroleum Company), Sinopec (China National Petrochemical Corporation) and CNOOC (China National Offshore Oil Corporation) – were less than either Exxon Mobile’s or BP’s.<sup>73</sup> According to CNPC strategists, Western multinationals control more than 80% of world’s high quality reserves, more than 30% of the world petroleum industry, 80% of cutting edge petrochemical technology, and 65% of world petroleum trade and investment.<sup>74</sup> Chinese NOCs that have to face competition with these established and strong multinationals for investment and a limited access to rich oil and gas fields therefore often are pressured to succumb to investing in countries largely ignored by Western governments, or into projects which require high financing.

The vast majority of Chinese analysts remain distrustful of international markets and believe monopoly capital, international speculation and international political events exert an unreasonable and unpredictable influence on international markets. This is a very significant issue for the Chinese government, who see high oil prices as detrimental to its economy and social stability.<sup>75</sup> In addition, another important concern arising from China’s unconditional dependence on international markets is that in a time of crisis, they do not believe the market will function freely and China

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<sup>71</sup> Jiang, Zemin. 2008. „Reflections on Energy Issues in China.“ *Journal of Shanghai Jiaotong University*, Vol. 13(3): 257–274: 261

<sup>72</sup> Chen, *Confronting Terrorism in the Pursuit of Power*, 85.

<sup>73</sup> *Ibid*, 86.

<sup>74</sup> Kong, “An Anatomy of China’s Energy Insecurity and Its Strategies ,” 25.

<sup>75</sup> *Ibid*: 26

might find itself in a situation where its free access to oil markets is restricted by US/Western intervention.<sup>76</sup> This is accompanied by a strong disapproval of the US's intervening *modus operandi*, evident in China's frequent references to events such as the US invasion of Iraq, perceived intervention in CNOOC's unsuccessful bid for UNOCAL and China's failure to acquire the Kashagan oil field.<sup>77</sup> Thus, China's lack of trust in the free functioning of international markets and deep suspicion about the US' ability to control international markets and exert influence on key energy supplying countries contributes considerably to China's sense of insecurity from growing energy dependence.

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Enhancing energy security is a key strategic priority in Chinese domestic and foreign policy. It is now clear that the principal motivation behind China's worry over increasing energy dependence is Chinese anxiety over the damage the ensuing energy security issues can deliver on China's economy, and by extension its social stability and political regime. One can thus empathize with the strong emphasis China places on energy security within the broader national security framework. While China is naturally vulnerable to any security threat that has an impact on international oil prices as well as the supply/demand balance, there are energy security threats that China stresses separately, and believes could have a detrimental impact on its energy security. These threats include China's great dependence on strategic SLOCs, low levels of diversification and the instability of suppliers, distrust of the international market, as well as US intentions on both maritime routes and international markets.

Having identified exactly how the energy security issue is critical to the Chinese government and to what threats it feels most vulnerable from the outside, it can be seen that energy security is a vital issue. Since China perceives a number of threats emanating from outside its borders, it is clear why China would modify its foreign policy to enhance its energy security.

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<sup>76</sup> Downs, *Energy Security Series: China*, 37; Chen, "Motivations behind China's Foreign Oil Quest," 86.

<sup>77</sup> Chen, "Motivations behind China's Foreign Oil Quest," 88; Lieberthal, Kenneth and Mikal Herberg. 2006. "China's Search for Energy Security: Implications for US Policy." *National Bureau of Asian Research*, April 2006. <http://www.nbr.org/programs/energy/index.html>, 16.

Increasing oil dependence coupled with the rising's China's growing economic and military capabilities point to the fact that that although China's foreign policy has a wider array of threats to deal with it also has a greater number of policy options on how to reduce threats emanating from the growing dependence. The following chapter will analyse how China has used its greater capabilities to face these threats.