

**China's Pursuit of Energy Security:  
Implications for U.S.-China Relations**

An honors thesis for the  
Department of International Relations

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## **Executive Summary:**

This thesis examines whether China's pursuit of energy security is based solely on growing demand and the most economic solutions to meet that demand or if it is intended to weaken American power projection in highly strategic areas. The main argument is that China's economic interests are the driving force behind its pursuit of energy security. While China has acted increasingly aggressive towards the U.S. or U.S. interests in the context of energy security, it will only do so to a point due to the detrimental economic impact of a Sino-American conflict.

China has three core interests: to maintain China's fundamental system and state security, to protect its sovereignty and territorial integrity, and to continue the stable development of the economy and society. China's national security strategy is intended to protect these interests. This thesis examines how China's pursuit of energy security relates to China's national security strategy. It analyzes three components of China's pursuit of energy security: China's energy sector, China's maritime strategy and the China's alliances in the Middle East.

In the first chapter, the analysis of China's energy sector reveals that the government agencies involved with energy security lack the funding and manpower to be able to develop and implement a national strategy. Additionally, there is a significant disconnect between China's national oil companies and the central government. The companies pursue their corporate interests without considering foreign policy implications. The second chapter focuses on China's naval strategy with respect to energy security. It examines the China's rapid naval modernization and aggressive activity in sea-lanes of communication and the South and East China Seas. With respect to energy security and national security it is advantageous for China's naval strategy to be aggressive while ensuring that it does not lead to a conflict with the U.S. The final chapter examines China's pursuit of energy security in the Middle East, specifically in Saudi Arabia and Iran. With respect to both countries, China is primarily interested in oil. At times, China has taken advantage of its relations in the Middle East to diminish U.S. influence in the region. Nonetheless, when the well being of China's economy is at stake, it is more interested in cooperating rather than challenging the U.S.

## **Introduction:**

‘China’s rise’ is an increasingly important term in international affairs. It refers to China’s rapid economic growth, rise in political influence or power projection around the world, and increasingly powerful and modern army. China’s rise is often regarded as the event that will have the most significant impact on international security and affairs in the 21<sup>st</sup> century. It is reshaping the international system. It is altering the balance of power regionally, with the potential to do so globally. As a result, China’s rise is highly relevant to the U.S. and. It may have the potential to ignite conflict between China and the U.S., which will be discussed throughout this essay. It certainly will increase competition between the two powers, especially as China’s vies for influence in areas that the U.S. regards as strategic interests. This essay will examine one aspect of China’s rise, its pursuit of energy security, and the implications for Sino-American relations. It will analyze whether China’s pursuit of energy security is based solely on growing demand and the most economic solutions to meet that demand or if is intended to weaken American power projection in highly strategic areas.

Before discussing China’s pursuit of energy security, it is important to understand how China’s energy security strategy fits into China’s rise. In recent years, China has acted increasingly aggressive within the Asia-Pacific but also towards the U.S.<sup>1</sup>. Understanding China’s grand strategy can prevent U.S.-China tensions from escalating or enable actors to respond appropriately to China’s actions. China has not released any documents that explicitly outline its core interests, the threats it perceives to these interests, and its strategy to protect these interests<sup>2</sup>. However, a number of aspects are known of China’s national security strategy. During 2009 U.S.-China talks, then state councillor, Dai Bingguo remarked that China has three core interests.

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<sup>1</sup> Jisi, 2011, p. 68

<sup>2</sup> Ibid.

First is to maintain China's fundamental system and state security. This is interpreted to refer to maintaining the legitimacy and power of the Chinese Communist Party. Second is to ensure state sovereignty and territorial integrity. Included in this goal is the prevention of Taiwanese independence and gaining control of the disputed territories in the South and East China Seas. Third, is to continue the stable development of the economy and society. This goal is focussed on sustaining China's rapid economic growth<sup>3</sup>. China's national security strategy is intended to protect these interests. As a result, energy security is a key component of China's national security strategy. It is integral to achieving any of these three goals. Sufficient energy resources are needed to fuel China's economy. This need is only heightened as the legitimacy of the Chinese Communist Party's rule becomes increasingly tied to economic performance. Moreover, in order to protect its territories, China requires a powerful army (including navy and air force), which is not sustainable without energy security. This essay will analyze China's energy security strategy through this framework wherein energy security is a part of China's broader national security strategy.

While China's core interests have some foreign policy components, they tend to be very inwardly focussed. In fact, some commentators argue that without a clear external threat, the CCP will continue to focus its policy, including its foreign policy, on domestic interests<sup>4</sup>. Within China's policymaking elite, there are two main narratives regarding China's grand strategy. The first believes that the grand strategy should be centred on the idea that the U.S. is a threat<sup>5</sup>. This narrative promotes the idea that the U.S. is trying to contain China and prevent its rise as a great power. While China publicly states that it desires a peaceful rise, its increasingly aggressive actions, especially towards U.S. interests, suggest otherwise. In fact, some argue that the

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<sup>3</sup> Qiang, 2009

<sup>4</sup> Jisi, 2011, p. 69-71

<sup>5</sup> Jisi, 2011, p. 72

promotion of a peaceful rise represents China's former narrative and that the current narrative is much more aggressive and emphasizes the U.S. as a threat<sup>6</sup>. In this new narrative, China's rise is seen as a birthright and the U.S. is blamed for trying to prevent it<sup>7</sup>. Critics of this narrative recognize that the U.S. may, at times, be a challenge to China's strategic interests. They argue, however, that to establish China's foreign policy as anti-American would have severe economic consequences for China<sup>8</sup>. They tend to prefer the second narrative, which advocates for the grand strategy to maintain a domestic focus. The second narrative promotes the idea that the first 20 years of the 21<sup>st</sup> century are a "'period of strategic opportunity' for China's economic growth and development"<sup>9</sup> and that China's grand strategy should seek to preserve this period for as long as possible. As a result it should focus on its development and keep a low profile on the international stage. Critics of this narrative note that while a low profile may be advantageous for Sino-American relations, it may not be for other strategic interests including energy security<sup>10</sup>.

This essay will analyze the presence of both of these narratives in China's energy security strategy with the goal of gaining insight into China's broader national security strategy. I propose that China's economic interests are the driving force behind its pursuit of energy security. Nonetheless, China has acted increasingly aggressive towards the U.S. or U.S. interests in recent years. In the context of energy security, however, due to the relationship between energy security and economic growth, the increasing Sino-American tensions are unlikely to escalate into a conflict due to the detrimental economic impacts of a conflict. The remainder of the introduction will review China's growing demand for energy resources and the definition of energy security.

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<sup>6</sup> Testimony of David Lampton before the U.S.-China Economic and Security Review Commission, March 10, 2011

<sup>7</sup> Testimony of Dr. Ford before the U.S.-China Economic and Security Review Commission, March 10, 2011

<sup>8</sup> Jisi, 2011, p. 72

<sup>9</sup> "Military and Security Developments involving the PRC 2012", p. 2

<sup>10</sup> Jisi, 2011, p. 73

The first chapter focuses on China's approach to achieving energy security and the structure of China's energy sector, which includes government agencies and national oil companies. In this chapter I examine the ability of government offices to develop and implement a policy as well as the relationship between the national oil companies and the central government. This analysis is important, as it is necessary to understand the main actors behind China's energy security policies and their motives.

The second and third chapters analyze two components of China's pursuit of energy security: China's maritime strategy and the China's alliances in the Middle East. I chose to focus on these two aspects because of their importance to both China's energy security and to American power around the world. The second chapter focuses on China's naval strategy as it relates to energy security. It includes a discussion of the importance of sea-lanes of communication and China's territorial disputes in the South and East China seas. In 2011, approximately 80% of China's oil imports arrived via the sea.<sup>11</sup> Additionally, hydrocarbon reserves are located in the disputed areas of the South and East China Seas. As a result, China needs a powerful navy to protect these imports and its territorial claims. The U.S., on the other hand, is dependent on a naval presence in these waters and alliances with the countries engaged in territorial disputes with China in order to pursue its interests in the Asia-Pacific.

The final chapter examines China's pursuit of energy security in the Middle East, with a particular focus on China's pursuit of energy security with respect to Saudi Arabia and Iran. These two countries were selected as they are the two largest Middle Eastern suppliers of oil to China and because of their contrasting relationships with the U.S. The Middle East is central to Chinese energy security. In 2011, 51% of China's oil imports came from the Middle East. The second most significant regional supplier was Africa, which supplied only 24% of China's

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<sup>11</sup> Buszynski, 2012, p. 145

imports<sup>12</sup>. At the same time, the Middle East is a historically strategically significant region for the U.S. and remains essential to U.S. foreign policy interests even after the ‘pivot to Asia’. The conclusion will review the potential for conflict or cooperation between the U.S. and China over energy security. It will also examine the implications of China’s approach to energy security on China’s grand strategy.

In the past decade alone China’s demand for energy has increased dramatically. This essay will mainly focus on oil due to China’s high dependence on oil imports. Thus acquiring oil is a particularly critical aspect of China’s pursuit of energy security<sup>13</sup>. China imported over 50 percent of its oil consumption in 2010 and is predicted to import 80 percent by 2030<sup>14</sup>. From 2001 to 2011 China’s consumption of oil rose from 4859000 barrels per day to 9758000 barrels per day. Between 2010 and 2011 alone, China’s consumption rose 5.5 percent and in 2011, China’s oil consumption comprised 11.4 percent of world consumption<sup>15</sup>, up from 10.4 percent in 2009<sup>16</sup>. While the U.S. remains the largest consumer of oil in the world, the U.S. Energy Information Agency (EIA) predicted that between 2011 and 2013, China’s oil consumption would increase by 0.8 million barrels per day. This increase constitutes 64 percent of the projected rise in world demand for that period<sup>17</sup>. China’s demand for oil continues to increase in order to maintain its economic growth and due to growing domestic demand. Through the 1970s, China was energy self-sufficient, however, due to increasing demand and decreasing production, China became a net-importer of oil products in 1993<sup>18</sup>. The EIA predicts that China’s demand will be over 12 million barrels per day by 2035, nearly three times China’s demand in 2010. The concept

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<sup>12</sup> U.S. EIA, 2012, p. 8

<sup>13</sup> Downs, 2005, p. 2

<sup>14</sup> Kennedy, 2010, p. 138

<sup>15</sup> BP Global, 2012

<sup>16</sup> BP Global, 2010

<sup>17</sup> U.S. EIA, 2012, p. 3

<sup>18</sup> Daojiong, 2006, p. 179-180

of energy security is becoming increasingly important to China as these shifts in demand occur. Moreover, as the Chinese Communist Party (CCP)'s legitimacy in maintaining power becomes increasingly tied to economic performance, achieving energy security will be critical to regime survival<sup>19</sup>.

Generally, energy security means an affordable and reliable supply of energy resources that are sufficient for a state to continue to meet its demand and protect its strategic interests<sup>20</sup>. The definition alters slightly depending on the state in question. Energy security from China's perspective maintains the same general definition stated above, placing emphasis on a reliable and sufficient supply of energy resources, that is able to meet national interests at a reasonable price<sup>21</sup>. An adequate supply is critical not only to maintain economic growth but also to fuel China's growing military. A stronger military is integral to a number of national interests such as the prevention of Taiwan's independence. As noted above, a strong economy and military are necessary in order for China to continue to rise as a great power on the international stage and essential to the CCP's maintenance of power. With respect to ensuring a stable supply, China needs to protect the delivery of imports. China is far more dependent on oil imports that arrive via the sea than via land. Ensuring the safe passage of imports through the Malacca Strait, through which approximately 80 percent of Chinese oil imports pass, is a critical component of energy security. The passage of said imports could be jeopardized in the context of a China-U.S. conflict<sup>22</sup>. This will be elaborated upon in the second chapter. Additionally, this aspect of China's energy security is particularly relevant Sino-American relations in the Middle East. The Strait of Hormuz connects the Persian Gulf to the ocean. As of now, China is able to take

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<sup>19</sup> Lieberthal and Herberg, 2006, p. 11

<sup>20</sup> Ebinger, 2011

<sup>21</sup> Lee, 2012, p. 77-78

<sup>22</sup> Downs, 2005, p. 13-14

advantage of U.S. maintenance of stability in the Gulf in order to ensure a safe supply of imports from the region<sup>23</sup>. This will be discussed in greater detail in the third chapter.

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<sup>23</sup> Wakefield, 2011, p. 4-5

## **China's Energy Security Strategy and Energy Sector**

China's pursuit of energy security abroad is known as the "go out" strategy. It is based on the belief that China cannot rely on the international market alone to achieve energy security. This is due partly to the instability of the market but also to China's mistrust of the market as a Western created and dominated system where Chinese companies are technologically inferior and constantly playing catch-up. The "go-out" strategy seeks to eliminate these unattractive features of the international market by purchasing direct control of imports or of the transport systems through which China imports oil. As such, Chinese national oil companies (NOCs) have pursued equity oil or equity reserves, defined as the physical and direct control over the oil produced in a given country<sup>24</sup>. China's overseas equity oil production has increased dramatically from 140 000 barrels per day in 2000 to over 1.5 million barrels per day in 2011<sup>25</sup>.

There are a number of additional elements to China's pursuit of energy security abroad. First, China seeks diversification of supply and transport routes in order to avoid dependence just as it has sought to avoid dependence on the international market<sup>26</sup>. In 2005, China had 10 major suppliers of crude oil and by 2011 China had 13. While Saudi Arabia's share of Chinese oil imports increased from 18 to 20 percent, the amount contributed by all other states that remained significant suppliers from 2005 to 2011 decreased except for Sudan, which remained at 5 percent<sup>27</sup>. To deal with its transportation vulnerability, China has pipelines with Kazakhstan and Russia and most recently invested in a pipeline with Myanmar in an effort to create a new transport route from the Persian Gulf.

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<sup>24</sup> Lieberthal and Herberg, 2006, p. 13

<sup>25</sup> U.S. EIA, 2012, p. 7

<sup>26</sup> Lee, 2012, p. 84

<sup>27</sup> Downs, 2005, p. 31 and U.S. EIA, 2012, p. 9

Second, China has increased its refining capacities<sup>28</sup>. This is important for China to be able to meet its growing demand. In 2001, China's daily refining capacity was 5643 thousand barrels per day and, in 2011, it was 10834 thousand barrels per day<sup>29</sup>. China is continuing to invest in its refining capabilities. By 2015, China intends to be able to refine an additional 3 million barrels per day, which would make the total refining capacity 14 million barrels per day. By 2020, it is predicted that this will rise to 16 million barrels per day. Additionally, Chinese national oil companies are investing in their refining capacities and building new plants throughout China. This is important for energy security as it provides China with greater control over the oil production process. It also allows China to increase its share of the world market for downstream products<sup>30</sup>.

Third, China has pursued bilateral oil-for-loan deals since 2008. For example, China provided Venezuela with a \$32 billion in exchange for 430 000 barrels per day of crude oil and products. Other loan receiving countries include Angola, Brazil, Bolivia, Ecuador, Ghana, Kazakhstan, Russia and Turkmenistan<sup>31</sup>. Fourth, China maintains a non-interference policy in its interactions with countries from which it imports oil, which means that China will not involve itself in the domestic issues of a given country. This approach stands in contrast to that of the U.S. and other Western countries who may intervene in the domestic issues of the country they are trading with, for example in an attempt to mitigate human rights abuses<sup>32</sup>. China's non-interference policy is clear in the Middle East, not only from its relations with problem states such as Iran but also its efforts to avoid taking a side in the Arab-Israeli conflict. There is also a domestic component to China's energy security strategy wherein it seeks to control domestic

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<sup>28</sup> U.S. EIA, 2012, p. 9-10

<sup>29</sup> BP Global, 2012

<sup>30</sup> U.S. EIA, 2012, p. 10-11

<sup>31</sup> U.S. EIA, 2012, p. 7

<sup>32</sup> Lee, 2012, p. 89

demand. This is important to reducing China's dependencies abroad, however, it is unlikely to have a significant impact on China's growing demand due to the relevance of sufficient energy supplies to protecting China's core interests<sup>33</sup>.

In order to be able to understand the motives behind the "go out" strategy one must understand the role of domestic factors—namely the organization of the Chinese energy sector and relationship between the corporations and the government within the sector—in shaping said strategy. This will provide insight into the role of energy security in challenging or provoking the U.S. The Chinese government has consistently altered its approach to managing the energy sector but continues to struggle to establish an institution to oversee the implementation of a national energy strategy. Before the Cultural Revolution, China's energy sector was under the highly centralized control of the government. From 1978 through 1997, this system transitioned to a more market-based system<sup>34</sup>.

From 1980-82, energy strategy initiatives were managed by the State Energy Commission (SEC) and were later taken over by the Ministry of Energy (MOE) from 1988-1993. The SEC was intended to oversee all energy-related activities including policy development. However, it lacked the power to influence other actors in the energy sector and its specific responsibilities within the sector were unclear, rendering it ineffectual. The MOE suffered from similar problems. Its responsibilities often overlapped with those of the State Development and Planning Commission and the national oil companies (NOCs). Additionally, a number of ministries were merged in order to found the MOE, including the Ministry of Petroleum Industry, the Ministry of Nuclear Industry and the Ministry of Coal Industry. These ministries opposed the merger because the leadership within them did not want to relinquish their political power. Their efforts

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<sup>33</sup>Downs, 2005, p. 1-2

<sup>34</sup>Bao, 2012, p. 5-6

to prevent the merger, including the Coal Ministry lobbying to be reinstated, prevented the MOE from being able to accomplish anything significant with respect to a national strategy<sup>35</sup>.

Following the discontinuance of the MOE, the government established the Energy Bureau within the National Development and Reform Commission (NDRC)<sup>36</sup> in 2003. The NDRC remains in place today, subordinate to the National Energy Commission, which was founded in 2010 and is lead by the premier. The NDRC's responsibilities include long-term energy policy development, determining energy prices, and approving Chinese NOCs' projects within China and abroad. The NDRC oversees seven offices including the Energy Bureau. The Bureau, which has been replaced, struggled to implement any unified policy due to a lack of political, financial and workforce power. The NDRC and the NOCs pressured the government to minimize the Bureau's power and ensure that it remained subordinate to both of them in the energy sector hierarchy<sup>37</sup>. The NDRC wanted to maintain as much of its power as possible and the NOCs wanted to maximize their autonomy from the government. When the Energy Bureau was founded it had 30 employees and in 2005 it had 57. A lack of manpower is a chronic problem for China's energy-related government agencies. A small staff results in an office that can only deal with small issues and, due to budget and time constraints, cannot focus on developing or implementing a broader strategy<sup>38</sup>.

In 2005, an Energy Leading Group (ELG) and State Energy Office (SEO) were established to further the effort for a clear energy policy. They were established in order to increase the involvement of the government's leaders. In China, a leading group is intended to have supra-ministerial power and is supposed to focus on the general direction for Chinese policies in a

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<sup>35</sup> Downs, 2005, p. 17

<sup>36</sup> Bao, 2012, p. 2-4

<sup>37</sup> Downs, 2005, p. 18

<sup>38</sup> Downs, 2005, p. 18

given sector rather than developing the individual policies. The ELG is lead by the Premier and the SEO is expected to report directly to the Premier. This was intended to improve the management of the energy sector since the NDRC was struggling to do so. Instead, the ELG and SEO added to the complicated the hierarchy of power within the energy sector, further slowing down the development of a national policy. There is no clear chain of command between the various institutions due to the indirect control certain offices have over others<sup>39</sup>.

In 2008 the National Energy Administration was established in another attempt at institutional reform, with the purpose of encompassing the activities of the ELG and Energy Bureau, thus increasing efficiency. As with previous organizations, the NEA lacked the manpower to ensure and track the implementation of a given policy. The NEA has approximately 100 employees<sup>40</sup>. This number is insignificant when compared with the NOCs employment numbers, which will be reviewed further in this chapter. The same issues arose in 2010 with the establishment of the National Energy Commission (NEC)<sup>41</sup>. The NOCs are not under the control of the NEA but are managed by a subsidiary of the NEC, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC)<sup>42</sup>.

The current structure of the energy sector is as follows: the NEC oversees the NDRC, SASAC, the Ministry of Land Resources and the Ministry of Commerce and 17 other bodies. The NDRC and SASAC continue to manage the NEA and the NOCs respectively<sup>43</sup>. The Ministry of Land Resources oversees the surveying, exploration and production of resources and approving licences of Chinese companies. The Ministry of Commerce oversees the licences for

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<sup>39</sup> Downs, 2005, p. 18-21

<sup>40</sup> Bao, 2012, p. 10

<sup>41</sup> Kennedy, 2010, p. 147

<sup>42</sup> Bao, 2012, p. 4-7

<sup>43</sup> Bao, 2012, p. 19

international corporations operating in China<sup>44</sup>. This constant shifting in government institutions in the energy sector in an attempt to establish and implement a coherent energy policy demonstrates the Chinese governments struggle do so. An overlap in the responsibilities of different offices further impedes China's abilities. In addition to a lack of power and efficiency, these institutions also lack sufficient funding and human resources in order to be able to complete their assigned tasks<sup>45</sup>.

China's energy sector is mainly comprised of three NOCs: China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC). Each of these companies has a different specialty with regards to the oil industry: CNPC focuses on upstream initiatives (exploration and production); Sinopec concentrates on downstream activities (selling and distribution); and CNOOC manages China's offshore exploration and production<sup>46</sup>. These companies play a significant role in China's energy policymaking, which further complicates the hierarchy of policymaking described above, especially since these companies often do not lack the resources that the government institutions do. There are two narratives regarding the relationship between the central government and the NOCs with respect to furthering China's foreign policy interests. The first describes the NOCs as autonomous from the government and focussed on corporate interests without considering the foreign policy implications. The second depicts the NOCs as a medium through which the government is able to pursue its strategic interests, beyond energy security.

The NOCs' were previously government ministries, which allowed them to obtain significant political power that has remained even after the shift in the 1980s from centralized to

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<sup>44</sup> Downs, 2005, p. 16

<sup>45</sup> Downs, 2005, p. 18-21

<sup>46</sup> Jiang and Sinton, 2011, p. 9

market based planning. CNPC and Sinopec have maintained their ministerial status within the policymaking hierarchy. CNOOC was originally a vice-ministry and, while not as influential as CNPC or Sinopec, it is still considered of higher rank than a bureau. This renders an institution such as the Energy Bureau ineffective<sup>47</sup>. The companies are also able to use their financial power in order to maintain a certain level of autonomy from the government. Their financial power is mainly comprised of their ability to create profits, which can be used to validate ignoring government demands, and the listing of their subsidiaries on international stock exchanges, which further distances the companies from government control. In 2012, all three were listed on the Fortune Global 500. Sinopec ranked fifth, CNPC was sixth and CNOOC was 101<sup>st</sup> on the list. Additionally, the NOCs' manpower far exceeds that of any government organization. Sinopec has 1,021,979 employees, CNPC has 1,668,072 and CNOOC has 98,750<sup>48</sup>. Thus the NOCs can potentially ignore some government regulations or policies and can also take advantage of the employment imbalance to increase their influence on policy. For example, the Chinese government often has to rely on the companies to staff its organizations. It is important to note that the companies are, nonetheless, closely tied to the CCP. Senior managers of the companies are also high-ranking members of the CCP. The CCP's Central Organization Department (COD) maintains the ability to appoint the three most senior positions—CEO, chairman and party secretary—in a given NOC. Thus the party can dismiss executives who pursue actions contrary to its goals. Additionally, all investments pursued by an NOC must receive CCP approval<sup>49</sup>.

The companies, government organizations, and CCP all want to forward the “go-out” strategy in order to achieve energy security. Many argue that the lack of a unified policy and ability to establish one suggest that China's drive for energy security is likely not focussed on a

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<sup>47</sup> Downs, 2005, p. 21-24

<sup>48</sup> Fortune Global 500, 2012

<sup>49</sup> Downs, 2005, p. 21-24

systematic effort to diminish U.S. influence<sup>50</sup>. Even though the government is deeply embedded in the NOCs there remains a lack of coordination between companies and between the companies and the government. This implies that the driving force behind the NOCs' actions is based on corporate rather than political or strategic interests. NOCs have competed with each other for contracts, which highlights the extent to which these companies are not a united front working towards a certain goal. This competition is in part driven by the fact that these companies compete with each other for influence within the party. The environment in which the NOCs operate abroad also plays an influential role in fuelling corporate interests. The NOCs are typically competing against international oil companies (IOCs), many of whom are motivated by their own corporate interests. In order to remain competitive and to rise in status to that of top global oil companies, China's NOCs mimic the behaviour of IOCs, even if they are somewhat less profit driven<sup>51</sup>.

Coordination between the NOCs and the Ministry of Foreign Affairs (MFA) has also been lacking at times. For example, diplomats are sometimes unaware of a NOC's contract in their country of assignment until after the contract is formalised<sup>52</sup>. In 2008, controversy emerged between the policymaking elite and NOC executives due to PetroChina's (another of China's NOCs) investments in Sudan. Experts such as Zhu Feng of Peking University's Centre for International and Strategic Studies argue that PetroChina's investment in Sudan runs contrary to China's foreign policy interests and, moreover, that the NOCs are willing to pursue profit at the expense of China's strategic interests<sup>53</sup>. It is also not completely clear that the CCP desires to use the NOCs to implement a political agenda in the first place. It seems as though the CCP's top

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<sup>50</sup> Lieberthal and Herberg, 2006, p. 17-19

<sup>51</sup> Downs, 2005, p. 21-24 and 35-38

<sup>52</sup> Kennedy, 2010, p. 139

<sup>53</sup> McGregor, 2008

concern within the energy sector is energy security, not using energy security in order to diminish U.S. influence abroad. With regards to dictating policy to NOCs, much of the government's activities have revolved around ensuring China's NOCs are not competing with each other. The most significant role the CCP can play in order to assist the NOCs is to establish positive relations with a potential partner states. The government can do so through financial, military or political assistance to a given country, which can then place the government in a position to advocate to the given country's government on behalf of the NOC<sup>54</sup>. This approach could explain China's relations with countries from which it imports oil.

On the other hand, there is evidence indicating that, to an extent, the NOCs coordinate their policies with the government and the MFA and, moreover, that the NOCs are a tool for pursuing China's foreign policy goals with respect to individual countries. As noted above, there is often crossover between CCP leadership and NOC leadership and that the CCP is able to influence the managements of the NOCs. The three main NOCs range in their level of government involvement. CNOOC is the most independent from the government of the three and most resembles a 'Western' corporation. CNPC is the company that is most closely involved with the government. In fact, it more closely resembles a government ministry than it does an international corporation. Interestingly, it is CNPC that pursues China's contracts or programs with countries that are considered 'problem states', including Sudan and Iran<sup>55</sup>. There are a number of explanations as to why China has opted to invest in problem states. As noted in the discussion of China's 'go-out' strategy, China places a priority on equity oil which these countries are often willing to provide. As well, since China's NOCs are playing 'catch-up' in the international oil market, they lack historical relations with energy resource-rich countries that

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<sup>54</sup> Downs, 2005, p. 40-42

<sup>55</sup> Lieberthal and Herberg, 2006, p.18

many IOCs have. As a result, they enter markets where there are fewer companies present. Nonetheless, it is possible that China's investments in rogue states are not solely motivated by economic and energy interests. When Chinese NOC's pursue a project in a problem state, diplomatic initiatives, trade, and aid often accompany it<sup>56</sup>. China might purposely seek relations with problem states because it allows them to extend their power projection. At the same time, these activities can undermine U.S. or Western efforts in certain countries. It may also enable China to build up its international support, perhaps strengthening its ability to ignore U.S. pressure<sup>57</sup>. Due to the lack of transparency surrounding China's foreign policy, it is challenging to determine whether it is the NOCs are a tool for challenging U.S. power. Many expert opinions, however, argue that the NOCs are focussed on their corporate interests and not the government's interests. At a 2008 Senate Committee on Foreign Relations hearing on the implications of China's growing presence in Africa for the U.S., Deputy Assistant Secretary of State for African Affairs stated: "There are often exaggerated charges that Chinese firms' activities or investment decisions are coordinated by the Chinese government as some sort of strategic gambit in the high-stakes game of global energy security. In reality, Chinese firms compete for profitable projects not only with more technologically and politically savvy international firms, but also with each other<sup>58</sup>."

This background to China's energy sector provides an important framework for understanding China's pursuit of energy security in the next two chapters. China's bureaucratic inefficiencies and the NOCs' corporate interests impede China's ability to implement a national energy security strategy and thus reduce the likelihood that China's energy security strategy is intended to confront the U.S. It is clear, however, that China's pursuit of energy security often

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<sup>56</sup> Alessi, 2012

<sup>57</sup> Ibid.

<sup>58</sup> Testimony of James C. Swan, Deputy Assistant Secretary of State for African Affairs, June 4, 2008

puts it in a position where it can easily challenge American interests and it is possible that China takes advantage of these situations to do so. As a result, the more in-depth analyses of specific components China's pursuit of energy security in the second and third chapters are essential to understanding China's pursuit of energy security. In addition, China's struggle to implement a policy is in and of itself a threat to China's pursuit of energy security. China tends to focus on dependencies on individual suppliers or transport routes as the obstacles to energy security. Without an efficient governing body that can coordinate with the NOCs, China will continue to struggle in its pursuit energy security<sup>59</sup>.

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<sup>59</sup> Downs, 2005, p. 6

## **China's Naval Strategy and Energy Security:**

As part of China's rise, it has been modernizing its navy at a rapid pace since the early 1990s<sup>60</sup>. Its increasingly powerful navy is often regarded by the international community as a point of concern with respect to China's rise, partly due to China's increasingly assertive activities in its surrounding waters. A strong navy is highly relevant to energy security in that it is necessary in order to protect Chinese oil imports and offshore claims. Additionally, in order to be able to maintain such a navy, China needs to maintain a reliable and constant supply of energy resources in order to fuel the navy. This chapter will analyze these two aspects of the relationship between China's naval strategy and China's pursuit of energy security: primarily, how China's naval power supports energy security needs; secondarily, how China's quest for energy plays into naval expansion. A powerful navy is also essential to China's defense of its core interests as outline in the introduction. Moreover, the use of China's navy in order to pursue energy security frequently results in China acting in an aggressive manner towards its neighbours or the U.S. Thus China's use of its navy in order to achieve energy security may also be a part of an effort to challenge the U.S. presence in the Asia-Pacific.

There are a number of different factors that fuel China's assertive behaviour. They include a desire to project power, a lack of coordination between government organizations, growing Chinese capabilities and domestic nationalist sentiments. This chapter will demonstrate that China's economic interests inform China's naval strategy with respect to energy security and ensure that China is highly unlikely to pursue conflict with the U.S. Nonetheless, due to the strategic importance (in terms of energy security and national security) of its surrounding waters and the increasing U.S. presence in said waters, China is willing to act increasingly aggressive towards the U.S. and U.S. interests. This chapter will begin by discussing the relationship

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<sup>60</sup> O'Rourke, 2013, Executive Summary

between a powerful navy and great power status. It will review China's naval strategy and the relationship between the government and the navy with respect to policy development and implementation. It will then analyze how China is modernizing its navy. Following this, it will examine the importance of China's navy for energy security focussing on sea-lane security and China's territorial disputes in the South and East China Seas. This chapter will conclude by discussing the importance of the navy to China's rise.

A strong navy needs a strong economy to support it. At the same time, a strong economy requires a powerful navy and a strong navy can, in fact, fuel economic development. As a result, China's navy, the People's Liberation Army Navy, is essential to protecting China's core interests. In his highly influential work "The Influence of Sea Power upon History: 1660-1783" (1890), Alfred Mahan defines 'sea power', examines how the British utilized it in order to become a great power, and argues that the great powers of the future will require great navies in order to achieve such a status<sup>61</sup>. Mahan's work has been extremely influential to modern naval strategy, including China's. Mahan believes that essential to becoming a great power is securing access to international markets<sup>62</sup>. This is true for China due to its dependency on foreign oil that is imported via the sea and its export-oriented economy. Thus it is in China's government's interest to assist PLAN with naval modernization. In order to secure access to said markets, a navy requires merchant capabilities for the transport of goods, battleship capabilities in order to deter and even combat foreign navies, and naval bases around the world in order to sustain the navy abroad. China has already incorporated some of these elements into its naval strategy such as initiatives to deter other countries and port calls abroad to lay the foundation for naval bases

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<sup>61</sup> Sakhuja, 2011, p. 8-9

<sup>62</sup> "Milestones: 1866-1898"

abroad. Mahan also noted how Britain's supremacy of sea enabled it to challenge its opponents<sup>63</sup>. If China's national security strategy is built on the perception of the U.S. as a threat then the government should be highly interested in working with PLAN on its naval strategy and involving PLAN in developing a maritime strategy. Admiral Sergei Gorchakov applied Mahan's theory to the Soviet Union's Navy. He believed that a powerful navy was not only essential for war, as Mahan noted, but that it was essential for power projection and increasing political influence in peacetime<sup>64</sup>. This is highly relevant to China's growing naval power in two respects. First, if China can use its naval power to create alliances along its main sea-lanes of communication it will be able to protect its pursuit of energy security. Second, it creates a medium through which China can challenge U.S. power without directly confronting the U.S. Thus PLAN is integral to both China's energy security strategy and national security strategy. In China, Admiral Liu Huaqing is the equivalent of Mahan or Gorchakov. Huaqing has recognized and promoted the relationship between a powerful navy, a strong economy, and great power status<sup>65</sup>.

### **China's Naval Strategy:**

China has three main naval goals: to prevent Taiwanese independence, to protect Chinese trade routes and, in order to deter U.S. action, to be able to deploy a sea-based second strike nuclear capability<sup>66</sup>. In pursuing these goals, the People's Liberation Army Navy (PLAN)'s naval strategy has a three-pronged approach. First, China performs military exercises in order to deter neighbouring states, and potentially even the U.S., from confronting China. Thus, while China does not regard conflict as advantageous, it demonstrates its capabilities in order to ensure

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<sup>63</sup> Sakhuja, 2011, p. 8-9

<sup>64</sup> "Sergei Gorshkov Dies at 78; Admiral Built Soviet Navy", 1988

<sup>65</sup> Sakhuja, 2011, p. 15

<sup>66</sup> Buszynski, 2012, p. 145

that conflict is not realized. This aspect of China's naval strategy is particularly important in the context of China's territorial disputes and will be elaborated upon later in this chapter. Second, China pursues opportunities that allow it to test its technology, train members of the navy and project its power beyond its territorial waters. These opportunities include participation in international anti-piracy efforts. These anti-piracy efforts, in particular, are significant because they demonstrate China's willingness to cooperate with international efforts and the potential benefits of an increasingly powerful PLAN. Lastly, China increases its naval presence in the region and abroad as a form of diplomacy. For example, China uses port calls to improve relations in the region and potentially prevent countries from strengthening their alliances with the U.S. With respect to energy security, port calls abroad—in Africa, the Middle East, and Latin America—allow China to establish and strengthen relations with countries from which it imports energy resources<sup>67</sup>.

#### **PLAN, the Government, and Naval Policy:**

China's naval strategy does not reflect the whole of its maritime strategy. While both are national policies, a naval strategy is a subset of a maritime strategy. The navy develops the former<sup>68</sup> while all government agencies involved with oceanic issues develop the latter; for example: law enforcement agencies, the coast guard, oceanographic agencies, and marines in addition to the navy. The relationship between PLAN and the government can be a significant impediment to implementing a national policy. Previously, the government focussed on the foreign policy aspects of oceanic activity while high-ranking PLAN officials concentrated on modernizing the navy. This division has resulted in PLAN officials accumulating significant power, providing them with the authority to advance their interests with the policy-making elite.

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<sup>67</sup> Holmes, 2011

<sup>68</sup> Holmes, 2011

As PLAN's budget has increased so to has their ability to advance their interests due to the correlation in China between an organization's share of the budget and its political power. PLAN and the government are not necessarily always at odds with regards to China's maritime strategy. At the same time, this power accumulation by PLAN allows them to pursue their interests when they disagree with the government. For example, in terms of energy security, there is a division between the government and PLAN as how to best deal with China's vulnerabilities in terms of China's dependence on sea lines of communication for oil and other natural resources. PLAN is interested in taking advantage of offshore resources while the government has shown a preference for developing China's strategic reserve. As such, PLAN actions towards China's territorial disputes may only reflect PLAN's goals, not the Chinese government's<sup>69</sup>.

Taylor Fravel and Alexander Liebman, in "Beyond the Moat: the PLAN's Evolving Interests and Potential Influence", analyze the role of PLAN with respect to implementing a national maritime strategy. In order to demonstrate uncoordinated agendas and a difference in interests between the government and PLAN, Fravel and Liebman search for the frequency of a number of phrases pertaining to China's maritime interests in the government and navy's major publications<sup>70</sup>. It is important to note that their analysis only covers publications until 2005 or 2006, depending on the topic. As such, the results do not reflect the increasing prominence of maritime issues in China over the past five years. Nonetheless, they do demonstrate a number of noteworthy trends. PLAN's publications place a greater emphasis on sovereignty disputes and the authors conclude that PLAN would seek to promote these issues if in a policymaking position. Taiwan is the most mentioned dispute, however, that is subject to change were more recent data included. PLAN frames the importance of the Taiwan dispute as a justification for

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<sup>69</sup> Fravel and Liebman, 2011 p. 41-44

<sup>70</sup> Ibid.

naval modernization. This is because of Taiwan's geostrategic location with respect to the Chinese mainland, which will be elaborated upon in a later discussion of China's anti-access and area denial strategy. This is also significant in that it demonstrates PLAN's interest in naval modernization, potentially as a means for acquiring greater power within the Chinese bureaucracy<sup>71</sup>. With respect to China's disputes in the SCS and ECS, the navy mentions these issues, especially the SCS, far more than the government. Thus it seems that the PLA, which is far more nationalistic than the government, is framing the issue of territorial disputes to the public. As well, the idea of creating a rationale for naval modernization re-emerges in the context of the SCS and ECS.<sup>72</sup> In terms of energy security, Fravel and Liebman note that the government's publications stress the term "energy security" while the naval and PLA publications emphasize the term "resource security". This difference is particularly significant in the context of the ECS and SCS disputes. While both sets of islands have hydrocarbon reserves, they are also substantial sources for natural minerals and fish. If the PLA and PLAN are more focussed on resource security then they are likely to be more concerned with establishing Chinese sovereignty over these islands<sup>73</sup>. Thus, PLAN's current activity towards the disputes may reflect PLAN's goals rather than those of the government. The government's disconnect with PLAN reduces the likelihood that China is using the disputed territories to challenge the U.S. position in the Asia-Pacific. Moreover, There is clear advantage for PLAN to promote issues where the navy is likely to have a dominant role. The more the civilian government regards said issues as important, the more likely PLAN is to yield a higher proportion of the budget, and, moreover, a greater role in policymaking. These issues include protecting China's jurisdiction over exclusive economic zones, China's claims to sovereignty over the territorial

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<sup>71</sup> Idem. p. 45-48

<sup>72</sup> Idem. p. 48-54

<sup>73</sup> Idem. p. 54-58, 60-62

disputes, the security of sea lanes, and China's maritime rights with respect to international law. The incentive for the PLAN to advance these issues alters the way in which tensions with respect to China's naval actions are regarded<sup>74</sup>.

In addition to a lack of coordination between PLAN and the government on a maritime strategy, there may also be a lack of coordination and chain of command between government agencies that focus on maritime issues<sup>75</sup>. The lack of a maritime strategy has sometimes resulted in a misunderstanding of China's intentions as well as the implementation of contradictory policies. Many commentators argue that the range of government agencies involved with maritime policies, which have overlapping responsibilities, hinders China's ability to rise as a maritime power. A report by the International Crisis Group, "Stirring Up the South China Sea", takes this argument further and states that without a top-down policy with which to adhere, government agencies pursue actions that reflect their interests, without considering the broader implications for China. The conclusions of the report are based on interviews with insiders in the fishing and oil industries, officials, diplomats, scholars and journalists in China, Vietnam, the Philippines, Malaysia, Singapore, Japan, Indonesia, Taiwan and Washington, DC. Thus, aggressive Chinese activity in the Asia-Pacific may be unrelated to, and even counterproductive for China's foreign policy goals<sup>76</sup>.

As in the case of China's energy sector, there have been a number of efforts to restructure the bodies within the civilian government that oversee maritime issues. For example, there are nine different government bodies, often referred to as the nine dragons, that oversee activities in the SCS. They include the Bureau of Fisheries Administration, China Marine Surveillance, local governments, PLAN, the Ministry of Foreign Affairs (MFA), national oil companies (NOCs),

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<sup>74</sup> Idem. p. 74-77

<sup>75</sup> International Crisis Group, Stirring Up the South China Sea I 2012, p. i, 1-2

<sup>76</sup> Ibid.

and five smaller government agencies. The MFA, which is supposed to be in a position to coordinate agencies in order to prevent confusion, lacks the resources and authority to do so<sup>77</sup>. The aforementioned government agencies that do contribute to growth, including the PLA and NOCs, yield greater clout when it comes to the territorial disputes. These groups also happen to be far more nationalistic which results in them pursuing more hawkish behaviour. This is, at times, counterproductive the government's interests. The same is true of the provincial governments of Hainan, Guangdong, and Guangxi. The SCS is significant to the economies of all three of these provinces and as such they have pursued actions in the SCS that are perceived as aggressive by China's neighbours<sup>78</sup>. In December 2012, the Hainan Province decided that it would board and search ships that pass through the disputed part of the SCS that borders the province<sup>79</sup>. The MFA is the only one of these bodies that has the diplomatic authority to be effective in negotiating with other countries yet any efforts to do so are impeded by the actions of other domestic actors. These actors do not know how to engage with other countries over the disputes nor are they necessarily interested in the impacts of their actions on China's foreign policy agenda<sup>80</sup>. As a result, China's bureaucracy may promote assertive behaviour beyond the government's intended goals.

The activities of China maritime law enforcement agencies, are central to China's increasingly aggressive actions in its surrounding waters. China requires strong maritime law enforcement capabilities in order to protect its core interests, especially that of territorial sovereignty which is also central to energy security. Recently, China has invested in

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<sup>77</sup> Idem. p. 12

<sup>78</sup> Idem. p. 10

<sup>79</sup> Page, 2012

<sup>80</sup> International Crisis Group, Stirring Up the South China Sea I 2012, p.12

strengthening its maritime governance capabilities as part of its rise as a sea power.<sup>81</sup> There are five maritime law enforcement agencies: the Maritime Police of the Border Control Department, the Maritime Safety Administration, the Fishing Law Enforcement Command (FLEC), the General Administration of Customs (GAC), and the State Oceanography Administration (SOA). Overlapping mandates and a lack of coordination continue to be a problem within maritime enforcement<sup>82</sup>.

The aforementioned five maritime enforcement agencies began as different provincial agencies, all of which evolved into national agencies—meaning their funding and policies are now under the control of the national government<sup>83</sup>. As a result, these agencies have overlapping missions and have reported to different agencies within the government’s hierarchy. They also lack foreign policy experience. As such these agencies have, at times, unnecessarily increased tensions in the region. The law enforcement agencies, as well as local governments, have taken advantage of the national government’s lack of a clear definition of China’s territorial claims by acting particularly assertive in a disputed area. Additionally, just as the NOCs have competed for the same contracts, there has been competition between the maritime enforcement agencies as to which policies fall under which agency’s mandate<sup>84</sup>. This rivalry reflects the need, within China’s bureaucracy, for agencies to compete for a greater share of the national budget in order to accumulate power and maintain relevance.

In order to reduce the inefficiency described above, the government has often tried to reorganize the agencies overseeing maritime issues in order to increase effectiveness and coordinate interests. Most recently, in March 2013, an effort to consolidate the agencies that

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<sup>81</sup> Goldstein, 2010, p. 1-21

<sup>82</sup> Idem. p.25-26

<sup>83</sup> Morris, 2013

<sup>84</sup> Morris, 2013

focus on maritime enforcement was proposed at the 12<sup>th</sup> National People's Congress. This initiative will bring the Maritime Police and Border Control (BCD), the Fisheries Law Enforcement Command (FLEC), and the Maritime Anti-Smuggling Police under the control of State Oceanic Administration (SOA). The China Marine Surveillance (CMS) is already under the jurisdiction of the SOA. There was no mention as to whether China's 5<sup>th</sup> maritime enforcement agency, the Maritime Safety Administration, would also be brought under SOA control<sup>85</sup>. Additionally, a new agency under the control of the SOA, the China Maritime Police Bureau, was established mainly to protect Chinese territory. Thus one might conclude that each agency is focussed on its own interests, not China's national interests, and moreover, are too competitive and uncoordinated to be in a position to implement a policy to challenge the U.S. position in the Asia-Pacific.

On the other hand, some commentators argue that the central government uses the maritime enforcement agencies in order to gradually expand its control over disputed territories and to provoke its neighbours and the U.S. By using its maritime enforcement agencies, rather than PLAN, China avoids the repercussions associated with militarizing the disputes. Some argue that there is actually increased cooperation between these agencies, PLAN and the MFA and that this indicates China's interest, not just the interests of individual offices in increasing tensions in the region<sup>86</sup>. It remains to be seen, however, if the purpose of China's aggressive behaviour is to secure resources and the safe passage of trade or to diminish U.S. power projection in the Asia-Pacific.

### **China's Naval Modernization:**

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<sup>85</sup> Ibid.

<sup>86</sup> Hosford and Ratner, 2013, p. 1-6

Before analyzing China's naval modernization, it is important to understand this build-up in a historical context. China's growing navy is generally regarded as aggressive. However, when compared with the naval development of other rising powers since 1500, China's actions appear relatively normal. Other states for which naval development has played a critical role in their rises as great powers include: Portugal, Spain, the Netherlands, France, Britain, Germany, Russia, Japan, and the United States<sup>87</sup>. For these countries, and China, a strong navy has been an essential means for increasing and consolidating economic and political power. Perhaps most significantly, the accumulation of naval power by a rising power has not made war more likely. While accumulating a strong navy may be a high priority for a rising power, there is no historical correlation between that and said country's intentions for war<sup>88</sup>.

There has been much debate surrounding the extent of China's naval modernization—namely whether or not China has the capabilities to compete with the U.S. Some predict that by 2016 or 2017, China could achieve regional maritime hegemony due to its rapid modernization and the overstretched U.S. presence in the region<sup>89</sup>. Other predictions are more conservative arguing that China appears to be at least two decades behind the U.S. navy in terms of capabilities, including technology, and power projection abilities. Presently, for example, China's navy would be unable defend China's maximal claims in the SCS<sup>90</sup>. Nonetheless, China's neighbours and the U.S regard three elements of this modernization—the lack of transparency, the pace, and the acquisition of asymmetric capabilities—with concern. Little is made public about China's modernization program, including the types of weapons being developed, the budget, and China's intentions. This lack of certainty results in surrounding states

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<sup>87</sup> Swartz, 2011, p. 1-12

<sup>88</sup> Swartz, 2011, p. 12-20

<sup>89</sup> Alexandroff and Ognibene, 2012, p. 29-30

<sup>90</sup> Yoshihara and Holmes, 2011

and U.S. taking action in order to ensure they are not at a disadvantage with respect to China<sup>91</sup>. This has fuelled the perception of an aggressive China seeking conflict in the region.

While little is known about China's defense spending, in March, the Chinese government stated that it will raise its military budget by 10.7% in 2013, totalling \$116 billion. China is second to the U.S. with respect to worldwide military spending; the U.S. still spends approximately 6 times as much as China on defence. At the same time, China spends more than Japan, Taiwan, and South Korea<sup>92</sup>. If China's defence spending continues at its current rate (15% over the past decade) then it is possible that by 2023, it would equal that of the U.S.<sup>93</sup> In the past two decades, China has acquired six new classes of destroyers and four new classes of submarines<sup>94</sup>. Additionally, the percentage of modern units in China's submarine force has increased from less than 10 percent in 2000 to 56 percent in 2008. The percentage of modern units in its surface combatant force has increased from less than 10 percent in 2000 to 26 percent in 2010. Yet, it is important to note that technology that is regarded as 'new' in China is often regarded as 'old' in the U.S., which further reduced concerns regarding China's capabilities<sup>95</sup>. In terms of numbers, China is also far behind the U.S. The U.S. has 14 nuclear powered submarines with ballistic missiles while China has 3. The U.S. has 29 principal amphibious ships and 57 nuclear submarines and China has 1 and 5 respectively<sup>96</sup>. Perhaps most significantly with respect to China becoming a competitive blue-water navy, the U.S. has 11 aircraft carriers while China's

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<sup>91</sup> Alexandroff and Ognibene, 2012, p. 28-29

<sup>92</sup> "China Boosts Defense Spending as Military Modernized Arsenal", Bloomberg News, 2013

<sup>93</sup> Chipman, 2013

<sup>94</sup> Buszynski, 2012, p. 145

<sup>95</sup> Alexandroff and Ognibene, 2012, p. 31-32

<sup>96</sup> "China's Military Rise", The Economist, 2012

first aircraft carrier only became functional in 2012<sup>97</sup>. China is expected to construct another carrier by 2015<sup>98</sup> and a nuclear powered carrier by 2020<sup>99</sup>.

China has been particularly focused on acquiring asymmetric capabilities in its naval modernization, namely anti-ship ballistic missiles (ASBMs), anti-ship cruise missiles (ASCMs). China has been developing an ASBM known as the DF-21D. The DF-21D has a maneuverable reentry vehicle, which would allow it to hit a moving target, and a range greater than 1500km. The DF-21D would provide China with the ability to hit an aircraft carrier or other U.S. ships in the Western Pacific. Acquisition of this ASBM would make the U.S., for the first time, vulnerable to a missile that could hit a moving ship.<sup>100</sup> As a result, the U.S. is developing technology that could be used for defense against such capabilities. Asymmetric capabilities allow China to focus on an anti-access and area-denial strategy (A2/AD) in its surrounding waters. Such a strategy aims to prevent a rival from entering an area and to limit a rival's abilities within a given area<sup>101</sup>. This strategy could hinder or even prevent the U.S. from assisting Taiwan in the event of an attack from China. China's current capabilities allow it to pursue an A2/AD strategy within the first island chain, which begins with South Korea and goes to the bottom of the SCS and encompasses Taiwan. China is likely able to implement the A2/AD strategy as far as the second island chain, which is from Japan down to the Philippines.<sup>102</sup> This chapter will soon turn to the relationship between China's naval capabilities and energy security and will demonstrate the importance of these areas to said pursuit. It is important to keep in mind the strategic significance of the island chains to both the U.S. and China in order to determine if

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<sup>97</sup> "China lands first jet on aircraft carrier", CNN, 2012

<sup>98</sup> Ibid.

<sup>99</sup> Buszyinski, 2012, p. 145

<sup>100</sup> O'Rourke, 2013, p. 9-11

<sup>101</sup> Alexandroff and Ognibene, 2012, p. 32-35

<sup>102</sup> Abisellan, 2012, p. 11-14

these capabilities are intended for sea-lane protection or power projection. As China continues to modernize its navy, especially due to its focus on asymmetric capabilities, it may be able to reduce or eliminate the U.S. presence in these waters.

It is also worthwhile to note that the potential threat that China could pose in the Asia-Pacific might be overstated. First, China's weapon acquisitions are mainly of a defensive, not offensive, nature. China is focused on protecting its regional security rather than projecting power abroad as a comparable and alternative global power to the U.S.<sup>103</sup> Second, China's navy is likely to become overstretched in terms of the number of interests that it needs to defend. In addition to protecting its surrounding waters, its growing dependence on will result in a need to protect Chinese interests beyond its immediate water<sup>104</sup>. The protection of sea-lanes of communication (SLOCs) will be discussed in the following section. It is clear that China regards a modern navy as strategically significant. Nonetheless, it does not appear that it will be able to successfully confront the U.S. Navy in the Asia-Pacific with the use of conventional weapons or replace the U.S. Navy's presence around the world, at least in the near future. Thus importance of asymmetric capabilities, such as cyber weapons, should not be understated, as they could enable China to confront the U.S. Moreover, by placing an emphasis on asymmetric capabilities in order to become a legitimate threat to the U.S. in the Asia-Pacific, China might be able to reduce the likelihood of war. This is in China's interest due to the economic impacts of a U.S.-China conflict that will be discussed later in this chapter.

### **China's naval power and its pursuit of energy security:**

China's growing naval power is significant for China's pursuit of energy security in two respects: sea-lane security and protecting territorial claims in the South and East China Seas. The

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<sup>103</sup> Ibid.

<sup>104</sup> Scobell and Nathan, 2012, p. 135, 141-144

central government in China regards PLAN as necessary to protecting energy resources and China's economic growth<sup>105</sup>. This image of PLAN runs contrary to the one portrayed in international media which is focussed on projecting Chinese power and diminishing the U.S. presence in the Asia-Pacific. This does not mean, however, that both are not possible. It is clear that much of China's growing presence in surrounding and international waters and modernization are fuelled by the imperative to protect Chinese oil imports or secure access to resources. The Strait of Malacca, South China Sea and East China Sea are all potential points of conflict due to their significance for oil imports in the Asia-Pacific but also due to their role in power projection. As a result of both of these factors, China is becoming increasingly concerned with protecting these areas.

The most critical sea-lane for China with respect to energy security is the transport route from the Indian Ocean, through the Malacca Strait and then the South China Sea to Chinese ports. In 2003, then President Hu Jintao labelled this dependence as a weakness known as the "Malacca Dilemma"<sup>106</sup>. This route is also of great importance internationally as the Malacca Strait connects the Indian Ocean to the Pacific Ocean. It 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 U.S. EIA, approximately one-third of the world's crude oil trade and over half of the world's liquid natural gas (LNG) trade travels through the SCS. This translates into 14 million barrels of crude oil per day, 90 percent of which pass through the Strait of Malacca<sup>107</sup>. Moreover, 80 percent of China's oil imports arrive via the Malacca Strait.<sup>108</sup> In 2011, 51 percent of China's oil

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<sup>105</sup> Fravel and Liebman, 2011, 41-44

<sup>106</sup> Storey, 2006

<sup>107</sup> "World Oil Transit Chokepoints" U.S. EIA, 2012

<sup>108</sup> Buszynski, 2012, p. 145

imports arrived from the Middle East and 24 percent from Africa and three percent arrived from the Asia-Pacific.<sup>109</sup> In terms of sea-lane security, the SCS is significant in particular because of its connection to the Malacca Strait. Thus, the route via the Malacca Strait and the SCS is one of the most important trade routes in the world.

The Malacca Strait is 800 kilometres long, 134.5 nautical miles (nm) wide at the northern end and 35 nm wide at the southern end. At its most narrow point, it is 1.7 nm wide, which occurs in the Phillips Channel of the Singapore Strait. This creates a vulnerable natural bottleneck<sup>110</sup>. There are a number of obstacles that have the potential to be devastating to those dependent on the Strait, including: piracy, terrorism, natural disaster, control by a great power, traffic jams and collisions<sup>111</sup>. As a result, China is increasingly concerned with ensuring the security of the Strait and its imports that pass through it. Acquiring a blue-water navy and exploring offshore resources (to be discussed later in the chapter), as advocated by PLAN, are two ways through which China can ensure the security of its imports<sup>112</sup>. The Chinese government has undertaken a number of programs in order to reduce China's high dependence on the Malacca Strait. The development of China's strategic petroleum reserve (SPR) and the diversification of sources of oil imports are the two initiatives that will be discussed in this chapter. The government's focus on alternatives to the Malacca Strait demonstrates the extent to which China is focussed on energy security and not on energy security as a pretext for increasing China's power.

A blue-water navy is essential for China to be able to escort its tankers and cargo through the Strait and for the prevention of a single country gaining control of the Strait. It is important to

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<sup>109</sup> "China" U.S. EIA, 2012

<sup>110</sup> "World Oil Transit Chokepoints" U.S. EIA, 2012

<sup>111</sup> Lai, 2009, p. 55-60

<sup>112</sup> Fravel and Liebman, 2011, p. 55

note that China's economy is reliant on the Malacca Strait for energy resources but also because a large portion of its exports must pass through it<sup>113</sup>. This further underlines the economic importance of a blue-water navy to China. Elements of the aforementioned naval modernization are critical for becoming blue-water ready, in particular the acquisition of aircraft carriers. In recent years, PLAN has publicly stated its increasing focus on a far-sea strategy. Its purpose is to have warships accompany imports as they leave the ports of their exporting countries through the Malacca Strait to Chinese ports<sup>114</sup>. This goal contributes to China's broader "go out" approach towards energy security where it seeks to maximize Chinese control of energy security.

China is particularly exposed to the damaging effects of a problem in the Strait because it does not have a significant strategic petroleum reserve (SPR). China is in the process of developing its SPR. A government sponsored SPR initiative began with the 10<sup>th</sup> Five Year Plan, 2001-5<sup>115</sup>. The original plan involved 3 phases, the first of which was to build four stockpile bases by 2005. While construction began on these four bases in 2004, they were not completed until 2009 and have the combined storage capacity of 103.2 million barrels. This is enough to supply China for approximately one month.<sup>116</sup> The next phase, with eight bases currently under construction, is intended to triple China's SPR. The combined capacity of the eight new sites would be 206.9 million barrels bringing China's total SPR to 315 million barrels. Half of these new sites are completed. Phase Three, to be completed by 2020 will dramatically alter China's SPR. It will increase China's storage capacity to 500 million barrels, which should be able to meet China's demand for 90 days<sup>117</sup>. In comparison, the U.S. SPR is approximately 700 million

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<sup>113</sup> Lai, 2009, p. 55-60

<sup>114</sup> Wong, 2010

<sup>115</sup> Lai, 2009, p. 52

<sup>116</sup> Daiss, 2012

<sup>117</sup> Daiss, 2012

barrels, which would supply the U.S. for 90 days<sup>118</sup>. This has the potential to reduce China's vulnerability to a choking of supply in the Malacca Strait, especially considering that as of 2011, China's SPR could only last 40 days<sup>119</sup>. In the meantime, however, China cannot focus solely on developing its SPR as a means for securing oil imports. Thus, China is pursuing a number of additional initiatives to do so.

In addition to improving its SPR, China has thus made a concerted effort to increase its use of pipelines and imports of oil from Russia, Central Asia and North and South America, which all avoid the Strait. The use of pipelines would allow China to decrease its dependency on imports via the sea and increase its control over the security of its imports. China's first pipeline, which completed construction in 2006, delivers oil from Kazakhstan and Russia to China. Its capacity is 200000 barrels/day (bbl/day) and is expected to double by 2014<sup>120</sup>. Also in 2006, Transneft (a Russian state-owned oil company) began construction on a pipeline to deliver oil into China. The first phase of the pipeline was finished in 2011 and now delivers 300000 bbl/day, which is expected to increase to 600000 bbl/day. China has secured imports from this pipeline in a 20-year agreement. Annually, this amounts to 15 million barrels. The second phase, which will deliver imports to the Russian port Kozmino, is likely to be completed by the end of 2013. However, it has yet to be determined the amount that will be delivered to China from Kozmino even though China has requested its entirety<sup>121</sup>. This past February, CNPC and Rosneft (a Russian NOC) were engaged in negotiations for a 30 billion dollar loan from China to Rosneft in exchange for Rosneft doubling its supply to China<sup>122</sup>. Additionally, Myanmar-China pipeline for natural gas is expected to be operational in May 2013 and the corresponding oil pipeline is

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<sup>118</sup> "SPR- Quick Facts and FAQs", DOE, 2013

<sup>119</sup> "China" U.S. EIA, 2012

<sup>120</sup> Ibid.

<sup>121</sup> Ibid.

<sup>122</sup> Zhdannikov and Soldatkin, 2013

expected to be running next year<sup>123</sup>. This pipeline is particularly significant as it would deliver oil from the Middle East and Africa without going through the Strait<sup>124</sup>. It is expected to supply 22 million tonnes annually<sup>125</sup>. These pipelines are, nonetheless, unlikely to drastically reduce China's dependence on the Malacca Strait. For example, while the Myanmar-China pipeline may deliver 22 million barrels per year, in 2011 China imported 2.6 million bbl/day from the Middle East and 1.2 million bbl/day<sup>126</sup>. A pipeline is unlikely to be able to deliver that great a quantity and, therefore, could not relieve China of its dependence on the Malacca Strait.

Of the thirteen major exporters of oil to China in 2012, four—Russia, Kazakhstan, Venezuela and Brazil—do not send their imports through the Malacca Strait. Nonetheless, Russia, Kazakhstan, Venezuela, and Brazil's imports comprise only 7.7%, 4.4%, 4.5%, and 2.6% respectively<sup>127</sup>. However, in comparison with 2005, of the 10 major exporters, Russia and Indonesia were the only countries whose exports avoided the Strait<sup>128</sup>. Thus over the course of 7 years China has made an effort to reduce its reliance on countries whose exports pass through the Strait. Other noteworthy activities include China's oil-for-loan deal with Venezuela<sup>129</sup> and China's purchase of Nexen, a Canadian oil and gas company.

The Malacca Strait will only increase in importance as other Asian powers, in addition to China, becoming more dependent on oil from the Persian Gulf. China, however, may be the only Asian power capable of protecting oil imports in the Persian Gulf through the Malacca Strait for the foreseeable future. An increasing PLAN presence in the Gulf has both the potential to put China at odds with other Asian powers and the U.S. and to foster grounds for cooperation. Thus

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<sup>123</sup> Anderlini and Robinson, 2013

<sup>124</sup> "China" U.S. EIA, 2012

<sup>125</sup> Anderlini and Robinson, 2013

<sup>126</sup> "China" U.S. EIA, 2012

<sup>127</sup> Ibid.

<sup>128</sup> Downs, 2006

<sup>129</sup> "China" U.S. EIA, 2012

China's pursuit of energy security may in fact be beneficial for U.S.-China relations in the long run, especially as U.S. reliance on Middle Eastern oil decreases.

PLAN is also significant for China's pursuit of energy security in order to establish control over China's exclusive economic zone (EEZ). A stronger PLAN, in conjunction with China's other maritime law enforcement agencies, have the ability to patrol and defend China's EEZ. An EEZ, as defined by the United Nations Convention on the Law of the Sea (UNCLOS), is the area that extends 200 nm (320km) from a country's shores. A country has the right to resources found in its EEZ, including oil and natural gas<sup>130</sup>. China's territorial disputes in the South and East China Seas (SCS and ECS) are highly relevant to China's EEZ as they have the potential to greatly increase China's EEZ. For example, in the case of the SCS, China's claims would extend its EEZ to cover almost the entire SCS. In addition to natural resources, China would be able to monitor the flow of international trade and presence of other navies in its EEZ<sup>131</sup>. This could become problematic for China's neighbours, the U.S. and international corporations that rely on the SCS as the route connecting the East and the West.

Due to the potential oil and natural gas reserves in the SCS and ECS, China's territorial disputes are highly relevant to China's energy security. In the context of China's "go out" strategy, gaining control of these areas is particularly important to China, as China would have direct control of the exploration, extraction and refining processes. Taking advantage of these resources also allows China to continue to diversify its suppliers. Thus, they could also help mitigate the effects of an obstruction to imports passing through the Malacca Strait. In recent years China has increased the use of its navy in both of the SCS and ECS to expand its control and deter other countries from taking military action. China's increasingly aggressive actions

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<sup>130</sup> Buszynski, 2012, p. 140

<sup>131</sup> O'Rourke, 2012, p. 4

towards its territorial disputes have become a cause for concern for the states that also claim said territories and for the U.S. As a result, China's pursuit of energy security in the SCS or ECS seems to have increasing potential to ignite conflict between the U.S. and China. The remainder of this chapter will focus on China's territorial disputes in the SCS and ECS, their relevance to China's energy security, and whether China's actions towards these disputes are intended to reduce the U.S. presence and influence in the Asia-Pacific. The analysis will demonstrate that China will not initiate a conflict in the SCS or ECS because it would be too detrimental economically.

The South China Sea is an energy-rich region whose control is contested by China, the Philippines, Malaysia, Brunei and Vietnam. The SCS is approximately 1.4 million square miles and extends from the Malacca Strait to the Taiwan Strait making it essential for connecting the Indian and Pacific Oceans<sup>132</sup>. It is rich in natural resources, including oil, gas, and fish. Within the SCS are a number of groups of Islands, control over which is disputed by the states listed above. The two main groups of Islands are the Spratly Islands and the Paracel Islands<sup>133</sup>. As previously noted, control of these islands extends a country's EEZ and access to natural resources. These islands would be considerably less significant without either of these factors. Most of the islands are uninhabitable and insignificant in size. For example, the area of all the Spratly Islands combined amounts to less than three square miles<sup>134</sup>.

There has been some difficulty in estimating the oil and gas reserves in the South China Sea due to the territorial disputes and under-exploration. The U.S. EIA estimates that the SCS contains 11 billion barrels (bbl) of oil reserves and 190 trillion cubic feet (Tcf) of natural gas. A number of competing estimates have also been published. For example, in 2012 China National

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<sup>132</sup> "South China Sea" U.S. EIA, 2013

<sup>133</sup> Ibid.

<sup>134</sup> Ibid.

Offshore Oil Company estimated that the SCS has an undiscovered 125 bbl of oil and 500 Tcf of natural gas. With respect to the disputed islands, the EIA predicts that Spratly Islands contain 0.8-5.4 bbl of oil and 7.6-55.1 Tcf of natural gas. The Paracel Islands, on the other hand, do not have significant potential in terms of hydrocarbon reserves<sup>135</sup>. Currently, countries are able to engage in the production of oil and natural gas in the SCS, however, this typically occurs close to a country's shoreline rather than in the contested areas. In 2011, China produced approximately 250000 barrels of oil per day and 600 billion cubic feet of natural gas from the Pearl River Mouth Basin and the Qiongdongnan Basin. CNOOC has opened these two areas to joint ventures with foreign firms, including BP, Chevron, ExxonMobil, Husky and Shell<sup>136</sup>. This is advantageous for China as it gains access to these companies deepwater exploration and drilling expertise, technology and equipment. China's NOCs' increasing willingness to partner with international, and often American, companies demonstrates the extent to which it puts energy and economics ahead of ideology or challenging U.S. interests. An increase in the presence of U.S. corporations makes it less likely that the U.S. military presence in the region will diminish. Additionally, it is worthwhile to note that the government did not encourage CNOOC to pursue this venture because its neighbours are likely to view it as an aggressive assertion of Chinese sovereignty<sup>137</sup>.

While China has been able to take advantage of the resources in its coastal waters in the SCS, it has not yet been able to do the same in the rest of the SCS due to competing claims to the territory. The Chinese claim is known as the nine-dash line and encompasses the entirety of South China Sea, including the area claimed by the other disputant states. This line is based on

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<sup>135</sup> Ibid.

<sup>136</sup> Ibid.

<sup>137</sup> Stirring Up the South China Sea I International Crisis Group, 2012, p. 12

its historical presence rather than on the dictates of international law<sup>138</sup>. PLAN is highly relevant to China's territorial disputes for a number of reasons. First, each of the disputed islands is occupied by one of the disputant states. As a result, military force would be necessary in order to gain control of an island. Second, the PLAN is important to protect China's current claims from other competing states. China's naval modernization and deterrence-oriented activities are essential to preventing other states from using force to challenge China's claims. Lastly, naval force has been used to stop other countries from pursuing resource production in the SCS<sup>139</sup>. It is also important to note the role of other governmental organizations, including maritime law enforcement offices, that play a role in protecting China's claims but are also responsible for much of China's aggressive behaviour. The South Sea Region Fisheries Administration Bureau has been involved in a number of provocative incidences with the Philippines and Vietnam<sup>140</sup>. The State Oceanic Bureau uses the China Marine Surveillance in order to patrol China's claims in the SCS. It has also been involved in a number of confrontations with China's neighbours<sup>141</sup>.

China's approach to the SCS is that of gradual expansion wherein China balances aggression with diplomatic efforts. In 1994, China seized the Mischief Reef from the Philippines even though the Reef falls within the Philippines EEZ. Since then, however, China has not resorted to force in order to expand its presence in the SCS<sup>142</sup>. Today the Chinese government agencies and PLAN implement a number of assertive actions in order to do so. It is important to recall the discussions earlier in this chapter regarding the disconnect between many of the government agencies involved in the SCS and the central government, especially the Ministry of Foreign Affairs. These actions include maritime patrols, detaining fisherman, demonstrating its

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<sup>138</sup> O'Rourke, 2012, p. 7

<sup>139</sup> Stirring Up the South China Sea II International Crisis Group, 2012, p. i, 1-2

<sup>140</sup> Stirring Up the South China Sea I International Crisis Group, 2012, p. 8-9

<sup>141</sup> *Idem.*, p. 9

<sup>142</sup> Alexandroff and Ognibene, 2012, p. 13

capabilities to deter other states, targeting ships that are exploring the region for resources. In 2012 there were a number of incidences, which reflects the growing importance of these SCS disputes.

From April through June, China and the Philippines were engaged in a standoff over the Scarborough Shoal. Filipino warships stopped and boarded a Chinese fishing boat and found live sharks and illegally harvested coral. In response, China sent surveillance ships leading to a confrontation that lasted two months<sup>143</sup>. The new Chinese passport, which came into distribution in November, contains a map of China that includes the territorial disputes as part of the Chinese mainland. The map was met with objection by India, the Philippines, Taiwan and Vietnam<sup>144</sup>. In December, two Chinese ships cut the cables of a Vietnamese ship that was exploring the Gulf of Tonkin for oil and gas reserves<sup>145</sup>. Tensions between China and Vietnam tend to be particularly high because both claim the entire SCS and Vietnam is a major oil producer in the SCS<sup>146</sup>. In response to the cable-cutting event, there were anti-China protests in Vietnam. International media often highlights these thereby creating the impression that conflict is about to ignite between China and one of the disputant states or even between China and the U.S. It is often forgotten that China is not the only instigator of aggressive activities. Still, China's neighbours' naval capabilities are inferior to China's limiting their ability to act aggressively.

At the same time China has demonstrated a willingness to cooperate with other disputant states. Following seizure of the Mischief Reef, China and the Philippines signed a declaration agreeing to resolve the issue peacefully and according to the dictates of UNCLOS<sup>147</sup>.

Beforehand, the ASEAN states signed a declaration in 1992, which focussed on resolving the

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<sup>143</sup> Landler, 2012

<sup>144</sup> McDonald, 2012

<sup>145</sup> Page, 2012

<sup>146</sup> Buszynski, 2012, p. 140-141

<sup>147</sup> Alexandroff and Ognibene, 2012, p. 9

disputes peacefully rather than on resolving how to determine sovereignty<sup>148</sup>. As such, this declaration was not able to have a meaningful impact on diminishing tensions in the SCS. A decade later, China and ASEAN agreed upon the 2002 China-ASEAN Declaration on the Conduct of Parties in the SCS<sup>149</sup>. The Declaration was unable to bring about significant change to the disputes, as it was not a binding agreement. China has also proposed the use of joint-development agreements, which would allow participating countries to set aside the dispute in order to collaborate to extract resources<sup>150</sup>. This demonstrates the extent to which China is concerned with energy security over nationalistic goals. In 2005, a joint development agreement between China, Vietnam and the Philippines was reached. It did not, however, come to fruition due to a number of reasons including domestic opposition in the Philippines and China's insistence that countries must acknowledge China's sovereignty over the disputed territories before an agreement can be made<sup>151</sup>.

While it is understandable why conflict in the SCS could be likely between China and one of the disputant states, it is less clear as to how the territorial disputes might be able to lead to a Sino-American confrontation. Specifically, how China's actions to secure resources in and passage through the SCS might be part of a Chinese strategy to diminish U.S. influence in the Asia-Pacific. In 2010, China declared the SCS to be a "core interest"<sup>152</sup> to which the U.S. responded by declaring the SCS a "national interest" due concern regarding Chinese intentions in the region<sup>153</sup>. As mentioned above, the SCS is strategically significant to the U.S. because it is a significant trade and oil supply route upon which the U.S. relies. Moreover, the SCS provides the

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<sup>148</sup> Ibid.

<sup>149</sup> O'Rourke, 2012, p. 6

<sup>150</sup> Stirring Up the South China Sea I International Crisis Group, 2012, p. 29

<sup>151</sup> Stirring Up the South China Sea I International Crisis Group, 2012, p. 29-30

<sup>152</sup> Alexandroff and Ognibene, 2012, p. 1

<sup>153</sup> Buszynski, 2012, p. 148

U.S. with an avenue through which it projects power in the Asia-Pacific. As a result, the U.S. has a naval presence in the SCS. China's interpretation of UNCLOS is that it can deny other countries' navies access to its EEZ. Were this notion to become more widely accepted, the U.S. might be at risk at lose its entire presence in the SCS<sup>154</sup>.

One of the foreign policy pillars of the Obama administration is the 'pivot to Asia'. The 'pivot' refers to the Administration's recognition of the significance of the Asia-Pacific in the 21<sup>st</sup> century and decision to increase its commitments to and focus on the region<sup>155</sup>. Even though the U.S. has declared its neutrality with respect to sovereignty issues in the SCS, in order to protect its interest in the SCS, the U.S. has strengthened its alliances with coastal states and increased its naval presence in the region<sup>156</sup>. In particular, the Philippines and Vietnam have sought strengthened relations with the U.S. The U.S. and the Philippines have had a mutual defence treaty (MDT) since 1951. The U.S. has not yet confirmed whether due to the MDT that it would honour the treaty or whether the U.S. considers the SCS under the jurisdiction of the treaty. Rather, the U.S. has maintained its emphasis on a diplomatic resolution to the disputes<sup>157</sup>. Nonetheless, it is clear that the Philippines have an expectation that U.S. would "act to meet the common dangers."<sup>158</sup> The Philippines believes that were the U.S. to declare its willingness to do so then that would be able to deter China from military action. The Filipino navy would not be able to independently successfully confront PLAN. The U.S. has in recent years provided the Philippines with military assistance, for example, a radar system for tracking the presence of ships in its coastline<sup>159</sup>.

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<sup>154</sup> O'Rourke, 2012, p. 4

<sup>155</sup> Xu, 2013

<sup>156</sup> Ibid.

<sup>157</sup> O'Rourke, 2012, p. 30-33

<sup>158</sup> Idem. p. 31

<sup>159</sup> Stirring Up the South China Sea II International Crisis Group, 2012, p. 25-27

With respect to Vietnam, the U.S. does not have the same ambiguous historical commitment. Vietnam has shown its interest in using the U.S. to increase the importance of the SCS disputes and to deter China. Unlike the Philippines, however, Vietnam is not interested in a formal military alliance. Vietnam is eager to take advantage of increased U.S. interest in the SCS as a means to getting China to diplomatically engage with Vietnam over the disputes<sup>160</sup>. In 2011, Vietnam and China signed their first military agreement to collaborate military medicine research. This has the potential to lead to more U.S.-Vietnam military cooperation<sup>161</sup>. Rather than deterring China, however, China interprets these actions as the U.S. pursuing its goal of preventing China's rise. As a result, China seems more likely to respond with assertive behaviour rather than pursuing negotiations with the Philippines or Vietnam<sup>162</sup>.

As noted above, the U.S. is seeking to increase its naval presence in the region as part of its pivot to Asia. The U.S. is seeking to reopen a few military bases in Southeast Asia that it had previously left. These bases include U-Tapao Royal Thai Navy Airfield in Thailand, Cam Ranh Bay in Vietnam and Subic Bay Naval Base and Clark Air Force Base in the Philippines. Although the initial increase in U.S. presence will be centred on joint exercises or port visits, the Pentagon is interested in a long-term military presence in the region<sup>163</sup>. Following a visit to Thailand, Vietnam and the Philippines in June 2012, Gen. Dempsey, chairman of the Joint Chiefs of Staff, stated that: "We want to be out there partnered with nations and have a rotational presence that would allow us to build up common capabilities for common interests<sup>164</sup>." In addition, in the past year, the U.S. has made steps towards gaining permission from New Zealand for U.S. naval ships to visit New Zealand ports. Such a visit has not occurred since 1984 since

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<sup>160</sup> Idem. p. 22-25

<sup>161</sup> Buscynzki, 2012, p. 149

<sup>162</sup> Stirring Up the South China Sea II International Crisis Group, 2012p. 27-28

<sup>163</sup> Whitlock, 2012

<sup>164</sup> Ibid.

New Zealand has banned port visits from nuclear-powered ships<sup>165</sup>. The Pentagon intends to place three squadrons of F-22 fighters in the region and has made plans for 9000 Marines to be assigned to four bases in Hawaii, Guam, Japan, and the northern coast of Australia<sup>166</sup>. Perhaps most significantly, the U.S. has placed four lightly armed ships in Singapore to operate in the Malacca Strait<sup>167</sup>.

Increased US involvement in the region has been welcomed by many disputant states, especially when considering their navies in comparison to PLAN. China, however, views these actions as an attempt by the U.S. to contain China. Last September, General Cai, the deputy chief of the PLA, in a conversation with a U.S. general, asked “Why are you containing us?”<sup>168</sup> China’s perceives the U.S. as intent on containing China. The U.S. lacks an understanding of China’s intentions in the SCS and towards the U.S. This has created significant tensions between the U.S. and China with regards to the SCS. Moreover, it has created an impression that China may take advantage of situation in the SCS to remove the U.S. presence in the Asia-Pacific. Upon closer analysis, however, it is clear that conflict with the U.S. would be detrimental to China’s pursuit of energy security and, moreover, to its main goal of continued economic growth<sup>169</sup>. Conflict in the South China Sea would prevent any exploration activities, greatly impede, if not halt, China’s current extraction activities in the SCS and slow or stop the flow of oil imports through the Sea. Additionally, due to the U.S. naval presence in the Malacca Strait and the Persian Gulf, there could be serious repercussions for China’s oil imports beyond the immediate reach of a U.S.-China conflict. With respect to economic growth, a conflict in the SCS would greatly affect China’s economy. First, it would have to divert resources towards the

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<sup>165</sup> Cloud, 2012

<sup>166</sup> Ibid.

<sup>167</sup> Ibid.

<sup>168</sup> Cloud, 2012

<sup>169</sup> Carlson, 2013

conflict and away from the economy. Second, as noted earlier in this chapter, China's economy is heavily reliant on being able to export Chinese goods. This renders secure passage in the SCS a necessity for economic growth. The division in interests between the civilian government and the navy in China has been further fuelled the potential for conflict. It is the civilian government that recognizes the serious economic repercussions of conflict in the SCS and seeks to avoid it. The nationalistic PLAN, however, sees a conflict as potentially advantageous<sup>170</sup>.

East China Sea:

China is also engaged in territorial disputes with Japan in the East China Sea over control of the Daiouyu/Senkaku (Chinese name/Japanese name) islands. The East China Sea is approximately 482000 square miles. It is bordered by the Yellow Sea on the north, Taiwan on the south, the Japanese Ryukyu Islands on the east and Chinese mainland on the west<sup>171</sup>. The U.S. EIA estimates that 60-100 million barrels of oil in proven and probable reserves. Some Chinese estimates, which do not limit estimates to proven and probably reserves, claim there are 70-160 billion barrels in the ECS. The EIA estimates that the ECS also contains 1-2 trillion cubic feet of natural gas while Chinese estimates state 250 trillion cubic feet<sup>172</sup>.

Much like the islands in the SCS, these islands are beneficial in terms of energy needs and extending economic and military power. Since China and Japan are the two largest energy consumers in Asia, both regard the ECS as strategically significant. China's approach to the ECS resembles its approach to the SCS. China is pursuing a gradual expansion through the use of limited force, including: navy combat drills, the deployment of law enforcement ships, deployment of military aircrafts over the disputed territories<sup>173</sup>. Due to recent clashes between

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<sup>170</sup> Fravel, 2012

<sup>171</sup> "East China Sea" U.S. EIA, 2012

<sup>172</sup> Ibid.

<sup>173</sup> Dangerous Waters: China-Japan Relations on the Rocks International Crisis Group, 2013, p. i

China and Japan and the resulting nationalistic sentiments in both countries, conflict seems increasingly likely<sup>174</sup>. The U.S. does not, however, regard the ECS as strategically significant as the SCS. Nonetheless, due to the U.S.-Japan alliance, a China-Japan conflict over the islands could involve the U.S. In addition, China's pursuit of energy security in the ECS is important in order to better understand China's actions in the SCS, namely does economic interest continue to inform Chinese actions.

Similar to the U.S.-Philippines Mutual Defence Treaty, there is a U.S.-Japan Treaty on Mutual Cooperation and Security. Article V of the Treaty states that: "an armed attack against either Party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes<sup>175</sup>." The U.S. has acknowledged that the Senkaku Islands are under Japan's administration. Yet, it still remains unclear as to whether the U.S. would assist Japan if China were to attack the Islands<sup>176</sup>. Nonetheless, this past February, Japan and the U.S. participated in a joint military training exercise, known as Iron Fist, in California. Elements of the exercise clearly implied that Japan was preparing for a conflict over the islands and intended to rely on U.S. assistance. In the war game, Japanese soldiers were sent to recapture an island from an invader and in the process called upon a U.S. warship to fire at the enemy<sup>177</sup>. The strengthening of the U.S.-Japan alliance with respect to the island disputes is perceived by China as an attempt by the U.S. to use Japan as a proxy in its efforts to contain China<sup>178</sup>. This view of the U.S. is thus not solely restricted to the U.S. actions in the South China Sea but reflects China's broader perception of U.S. intentions in the Asia-Pacific. Thus, were China seeking to

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<sup>174</sup> "China and Japan Square Up: The Drums of War" The Economist, 2013

<sup>175</sup> O'Rourke, 2012, p. 28-29

<sup>176</sup> Ibid.

<sup>177</sup> Fackler 2013

<sup>178</sup> Kleine-Ahlbrandt, 2012

push back against such an effort, a conflict with Japan over the Senkaku Islands would be an obvious means for doing so. Yet, despite rising tensions, China has yet to demonstrate a genuine intention of starting war, whether provoked or not. In fact, the implied presence of the U.S. in the ECS due to the Treaty has resulted in China avoiding actions that would be aggressive to the point of starting conflict. China has not yet placed Chinese nationals on any of the islands which is one of the most provocative things it could do, save of attempting to forcefully seize the islands. This latter action is highly unlikely unless it is the only viable response to aggressive action by Japan. Even in this case it is not entirely clear that China would choose to pursue conflict. Recently, China has made a clear effort to manage more closely its movements in the ECS waters and airspace<sup>179</sup>.

The narrative that is emphasised by international media depicts China's actions as unprovoked, increasingly aggressive in comparison to previous actions, and as building up to a China-Japan conflict. In fact, China's recent activity in the East China Sea does not stray from its approach to this region for the last decade<sup>180</sup>. Moreover, this activity appears to be the result of adjusting to increased naval capabilities and, often times, responding to other countries provocations. Additionally, the level of nationalism that emerges in response to provocation, in particular by Japan, further distorts international perception of the current situation in China. While the rise of anti-Japanese nationalism in China (and vice versa in Japan) may seem to make conflict more likely, neither government wants to be seen as giving in to nationalistic pressures<sup>181</sup>. It is particularly important to note both that China and Japan initiate aggressive activity and have demonstrated a willingness to cooperate<sup>182</sup>. Additionally, in 2008 China and

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<sup>179</sup> Swaine, 2013, p.7

<sup>180</sup> Ibid.

<sup>181</sup> Ibid.

<sup>182</sup> Swaine and Fravel, 2011, p. 9-10

Japan signed a joint development agreement in order to provide both with access to the natural resources of the ECS. This demonstrates the importance of energy resources to China over proving territorial sovereignty<sup>183</sup> (Swaine and Fravel).

As in the case of the SCS, the economic implications of conflict with Japan are a very important factor that near guarantees that the disputes will not escalate into a conflict. Much like China and the U.S., China and Japan are very economically interdependent. Japan is China's second largest trading partner and bilateral trade between has tripled in the past 10 years, totalling 340 billion dollars in 2011<sup>184</sup>. China is the largest importer of Japanese exports and Japan is the largest investor in China. It remains unclear which of the two will be the most negatively impacted by conflict. There is also a possibility that were tensions to escalate significantly, either side may consider whether the other side has more to lose and use a conflict in order to damage the other economically. With respect to China, such an action would be very uncharacteristic of China's current policies. Additionally, the interconnected roles of China and Japan within the broader Asian economy further decrease the likelihood of war. Both are able to use their resources to their benefit and take advantage of scale economics, meaning average costs decrease as the quantity produced increases<sup>185</sup>. It seems that, as in the case of the South China Sea, economics are informing Chinese actions. This is significant because it demonstrates the extent to which economics impact China's foreign policy. It assists in establishing the notion that this is the main driver behind China's policies towards the region and the U.S more generally.

An adequate supply of oil is critical not only to maintain economic growth but also to fuel China's growing military. This reliance will only increase as China's pursues its goal of becoming a blue-water navy. A stronger and more sustainable military is integral to two of

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<sup>183</sup> Ibid.

<sup>184</sup> Huang, 2012

<sup>185</sup> Ibid.

China's core interests, namely economic growth and the maintenance of territorial sovereignty including the prevention of Taiwan's independence. It is also clear that using PLAN to pursue conflict in the surrounding waters would be counterproductive to China's rise due to the likely negative impact on China's economic growth. Yet, one cannot ignore China's aggressive behaviour towards the U.S, rapid naval modernization or acquisition of asymmetric capabilities. China's use of a naval strategy to pursue energy security has placed it in a position where it can challenge the U.S. directly or indirectly by targeting U.S. interests. It seems that with respect to energy security and national security, China has an interest in acting aggressively as long as the actions do not escalate to conflict. This allows China to protect its oil imports and oil reserves in the SCS or ECS while deterring other countries, from responding to China's assertiveness. Thus China's naval strategy, in terms of energy security may be about balancing resource protection with power projection. As noted at the beginning of the chapter, Alfred Mahan recognized the importance of commercial and military forms of maritime power. Both of these types of power are essential to becoming a great power. It seems that China's naval strategy, with respect to energy security, is based on economic concerns but also on taking advantage of these opportunities to hedge against the U.S. in the Asia-Pacific and beyond.

### **Chapter 3: China's Pursuit of Energy Security in the Middle East**

The previous chapter demonstrated that while China's maritime strategy is increasingly assertive towards the U.S. or U.S. interests, these actions are unlikely to escalate into a conflict. This chapter will examine China's pursuit of energy security with respect to the Middle East and whether China intends to use its growing presence to reduce the U.S. role in the region. The Middle East is essential to China's pursuit of energy security because it is extremely rich in energy resources. Saudi Arabia, Iran, Iraq, Kuwait, the United Arab Emirates, and Qatar hold 22.1%, 12.9%, 11.8%, 8.5%, 8.2%, and 2.1%<sup>186</sup> respectively or 65.6% total of the world's proven oil reserves in 2011. Additionally, the Middle East is closer to China than other oil-rich regions such as Latin America or West Africa<sup>187</sup>. Middle Eastern countries see China as an attractive importer for a number of reasons, including China's non-interference policy that stands in contrast with the policies of many Western importers. In 2011, 51% of China's oil imports came from the Middle East. In general, East Asian demand for Middle Eastern oil is on the rise. Currently, 54% of Saudi Arabia's oil exports go to East Asia while only 15% go to the U.S.<sup>188</sup>. The Middle East is an advantageous region for China for a number of additional reasons. It is a large market for Chinese goods and Chinese weapons. It is also a strategically significant region for the U.S. and which is of growing concern for the U.S. China's increasing power projection in the region may have the potential to displace the U.S. in the future. Moreover, China may use its position in the region and alliances to hurt U.S. interests. The U.S.' important role in the Middle East, which began following WWII, developed out of a demand for oil, involvement in the Arab-Israeli conflict, and competition with the Soviet Union during the Cold War<sup>189</sup>. While the U.S.

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<sup>186</sup> OPEC Share of World Crude Oil Reserves, 2011

<sup>187</sup> Alterman, 2011, p. 32

<sup>188</sup> U.S. EIA, 2013, Saudi Arabia p. 9

<sup>189</sup> Shuster, 2004

remains important to the Arab-Israeli conflict and its demand for Middle East oil has decreased. While Russia and the U.S. may not agree on all issues in the region, U.S.-USSR regional competition has ended. After two wars and the Arab Spring, the U.S. remains a central actor in the region even if its role is changing. As a result, there is an opportunity for China to increase its influence in the region. If China's grand strategy is based on the U.S. as a threat then the Middle East could become the grounds for challenging that threat.

This chapter will focus on China's approach to energy security in the Middle East and how it relates to U.S. interests in the region. It will focus on Saudi Arabia and Iran in particular for two reasons. First, Saudi Arabia and Iran are the two largest exporters of oil to China in the Middle East. Second, they have contrasting relations with the U.S. The former's being positive and the latter's very negative. Beyond oil, China has economic, military and diplomatic relations with both of these countries. The following analyses of Sino-Saudi Arabian relations and Sino-Iranian relations examine whether China's relations with these countries beyond oil are intended to facilitate the trade of oil or if China is using its relations with these countries to contain or limit the U.S. role in the region. Some commentators argue that China's soft-power relations in the Middle East are in fact a strain of its anti-access and area denial strategy discussed in the previous chapter<sup>190</sup>. Applying this strategy to the Middle East could ensure a stable supply of oil to China that could not be blocked by the U.S. and thus allows China to protect its economic interests. It could also place China in a position to limit U.S. power and influence in the region. The following analyses will demonstrate that China's strategy in the Middle East is based on its economic interests. While China may take advantage of opportunities in the region to challenge the U.S., it will not pursue a policy that would be highly detrimental to U.S.-China relations.

#### **Saudi Arabia:**

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<sup>190</sup> Abisellan, 2012, p. 1-9

Saudi Arabia is in a unique position with respect to the U.S. and China because both desire strong relations with the kingdom and Saudi Arabia has much to gain from relations with either. For China, Saudi Arabia is critical for energy security. Saudi Arabia is the only country whose share of China's oil imports increased from 2005 to 2011. As such, Sino-Saudi Arabian relations are increasingly essential to China's drive for energy security. The U.S. relies on its alliance with Saudi Arabia to maintain security and a U.S. presence in the region. As such, an increasing Chinese presence has the potential to threaten U.S. interests in Saudi Arabia and the Middle East.

Sino-Saudi Arabian relations began solely as an economic partnership following Saudi Arabia's elimination of its ban on Chinese imports in 1981. Since then, especially after China joined the WTO in 2001, Saudi Arabia has become one of the largest importers of Chinese goods in the region<sup>191</sup>. In 1981, China reported exporting \$USD168 million to Saudi Arabia \$USD12.6 billion to Saudi Arabia in 2009<sup>192</sup>. In fact, Saudi Arabia imports more Chinese goods than American goods<sup>193</sup>. China and Saudi Arabia established diplomatic relations in 1990, shortly before the outbreak of the Persian Gulf War<sup>194</sup>. More recently, the strength of Sino-Saudi Arabian diplomatic relations were highlighted in an event known as "three firsts". After ascending to the throne in 2005, King Abdullah bin Abdulaziz Al Saud's visit to China in 2006 was his first visit to another country as king, China was the first country on Abdullah's multi-country tour, and, most significantly, this was the first time a Saudi Arabian monarch visited China<sup>195</sup>. During this visit, the Chinese and Saudi Arabian leaders' talks focussed on oil and energy security. The "three firsts" are particularly significant in the context of Saudi Arabia's shifting alliance with the U.S. following 9/11.

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<sup>191</sup> Bingbing, 2011, p. 20-21

<sup>192</sup> Seznec, 2011, p. 59

<sup>193</sup> "Looking East" The Economist, 2010

<sup>194</sup> Kumaraswamy, 1999, p. 16

<sup>195</sup> Alterman and Garver, 2008, p. 44

China's interest in Saudi Arabia is twofold. Primarily, Saudi Arabia is crucial to China's energy security. Secondly, strengthening relations with Saudi Arabia is an indirect way for China to challenge the U.S.<sup>196</sup>. Saudi Arabia, in comparison to other Middle Eastern oil producers, is a particularly attractive option for China. It can and is willing, if not eager, to supply China with a stable supply of oil. In 2011, Saudi Arabian oil comprised 20% of China's crude oil imports and remains the leading exporter of oil to China<sup>197</sup>, a position it has held since 2002<sup>198</sup>. Additionally, Chinese imports of Saudi Arabian oil have been increasing at a significant rate, jumping from 26.33 million tons of crude oil in 2007 to 41.86 million tons of crude oil in 2009, the year China became the leading importer of Saudi Arabian crude in the world<sup>199</sup>. As noted above, Saudi Arabia is the only country whose share of China's imports has increased in recent years. This is interesting because it is contradictory to one of the core elements of the go out strategy—to avoid dependency on a given supplier. There must additional factors that are relevant to Sino-Saudi Arabian energy relations.

A critical component of China's energy security pursuit strategy is its desire to own a stake or be able to exert control over oil supplies directly from producers<sup>200</sup>. Within this context, another attractive feature of Saudi Arabia is its willingness to enter into joint ventures with China<sup>201</sup>. The 1999 Strategic Cooperation Agreement ensured China's access to domestic oil and gas markets, except for upstream exploration and production, in exchange for China providing Saudi Aramco (a Saudi Arabian NOC) with access to China's downstream sector. China's benefits were twofold: China increased its access to Saudi Arabian oil and gained Saudi

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<sup>196</sup> Alterman and Garver, 2008 41-45

<sup>197</sup> U.S. EIA, 2012, p. 9

<sup>198</sup> Downs, 2011, p. 62

<sup>199</sup> Bingbing, 2011, p. 20-21

<sup>200</sup> Lieberthal and Herberg, 2006, p. 11

<sup>201</sup> Seznec, 2011, p. 56

partnership for developing crude refining technology<sup>202</sup>. Other joint initiatives include a \$3.5 billion refinery complex at Quanzhou in Fujian Province between Sinopec, Saudi Aramco and ExxonMobil in 2004, the 2005 Saudi Aramco-Sinopec decision to jointly develop the natural gas field at Rub al Khali and the 2006 joint initiative to build a storage facility on the Island of Hainan<sup>203</sup>. Unlike Iran, the second largest Middle Eastern oil exporting country to China and third largest overall<sup>204</sup>, Saudi Arabia can guarantee a constant supply due to its superiorly managed oil fields and production system, superior refining technology, and lack of significant tensions with the Western world.

Chinese patronage in the oil industry is also highly beneficial for Saudi Arabia. Saudi Arabia exports a significant amount of ‘heavy’ or ‘distressed’ crude which is an acidic and sulfurous medium-grade crude that requires a particular refining process in order to be transformed into heating oil or gasoline. There is little demand for this crude on the international market due to the refining requirement and as a result Saudi Arabia sells it at a significant discount. The U.S., for example, is not especially interested in this distressed crude because, due to environmental regulations, it cannot construct the appropriate refineries. China, on the other hand, is better positioned to purchase this crude. Saudi Arabia, recognizing the potential market in China, invested in two refineries on the Chinese coast that would be able to convert the heavy crude<sup>205</sup>.

While energy is central to Sino-Saudi Arabian relations, it is not the only significant aspect of this relationship. It remains to be seen if energy is the driving force behind China’s pursuit of said relations or a means to hedging out U.S. influence in the region. As described above, Sino-Saudi Arabian trade has developed significantly over the course of the past two decades. Initially

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<sup>202</sup> Leverett and Bader, 2005, p. 190

<sup>203</sup> Alterman and Garver, 2008, p. 25

<sup>204</sup> US EIA, 2012, p. 9

<sup>205</sup> Alterman and Garver, 2008, p. 68-69

one might assume that Sino-Saudi Arabian economic relations are somewhat asymmetric where China has more to gain mainly due to its drive for energy security. China may value the economic aspects of this bilateral relationship more and Saudi Arabia may value the diplomatic and military aspects more. Nonetheless, Saudi Arabia also has much to gain from the economic aspect. Economic relations have developed into a significant economic partnership beyond the energy sector. There are a range of opportunities available in Saudi Arabia for Chinese companies in the infrastructure, railway, desalination, petrochemical and power generation industries. For example, China Railway Construction Corporation (a state-owned railway company) received part of the contract for the Haramain High-Speed Rail Project, which is a project to build a railway between Mecca and Medina and that began construction in 2010<sup>206</sup>.

Arms sales are a particularly significant aspect of the Sino-Saudi Arabian relationship from the Saudi Arabian perspective. This element of the bilateral relationship began in the 1980s, before the establishment of formal diplomatic relations. In 1988 it became known that China sold 50 CSS-2s, an intermediate range (3000km) ballistic missiles whose payload is equipped with a nuclear warhead. The U.S. regarded this sale as aggressive and after a period of refusing U.S. demands, China agreed not to repeat a sale of such significance<sup>207</sup>, although in 2005 there was some speculation that Saudi Arabia was looking at the updated version of this missile, the CSS-6. The fact that such a sale has not been repeated for nearly 25 years demonstrates that Saudi Arabia and China acknowledged the negative impact of arms sales of such significance on their respective relations with the U.S. and as such, felt it advantageous not to pursue such sales any further. It also shows that China is only willing to pursue certain policies in Saudi Arabia. China would not avoid these types of policies if it desired to diminish U.S. influence in the region as

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<sup>206</sup> Chen, 2011, p. 2

<sup>207</sup> Alterman and Garver, 2008, p. 32-33

arms sales are a clear medium through which to strengthen Saudi Arabian patronage and to indirectly confront the U.S. Nonetheless, both likely view such sales as a ‘card’ that can be played should either or both desire to provoke the U.S. It is also worthwhile to note that as of 2007, Saudi Arabia was the third largest purchaser of Chinese arms in the region. However, China’s military sales in the Middle East are significantly smaller and technologically inferior to those provided by the U.S. or Europe and thus, price is their most attractive feature<sup>208</sup>. Additionally, in 2012, China and Saudi Arabia signed a nuclear cooperation pact<sup>209</sup>. The agreement is intended to assist Saudi Arabia with developing its atomic energy capabilities for peaceful purposes. In and of itself, this agreement is not cause for concern. When analysed in the context of Iran’s pursuit of a nuclear weapon, however, this agreement could become a cause for concern should Saudi Arabia feel it needs to acquire a nuclear weapon in order to balance against Iran.

The final significant element of Sino-Saudi Arabian relations is the diplomatic alliance. Both China and Saudi Arabia feel threatened by U.S. or Western political norms and have found common ground in their respective approaches to elections, media control, and human rights<sup>210</sup>. As described above, the relationship has evolved significantly following the establishment of formal diplomatic relations in 1990 and has increased substantially in significance following 9/11. An important aspect of China’s pursuit of energy security is its non-interference clause wherein China is explicitly uninvolved in the domestic affairs of a state from which it purchases oil<sup>211</sup>. The U.S. and Saudi Arabia found themselves at odds following 9/11 because a number of the terrorists involved in the attacks were Saudi nationals. This rendered China’s non-

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<sup>208</sup> Blumenthal, 2005, (note: accessed online as article on website, no page number)

<sup>209</sup> Said, 2012

<sup>210</sup> Alterman and Garver, 2008, p. 80-81

<sup>211</sup> Lee, 2012, p. 89

interference approach quite appealing especially in the context of the U.S. pushing for domestic reforms throughout the region. Saudi Arabia found an ally in China with similar positions and the interest and political clout to advance them on the international stage. Moreover, Saudi Arabia has often turned to China for political support when it does not share the same position as the U.S. Thus by partnering on such an issue, China is able to challenge U.S. authority. In terms of the 2003 Iraq War, officials met to discuss their respective positions on the U.S.' push for the use of force with regards to Iraq. Saudi Arabia was very pleased to find that China opposed the use of force. After the fall of Saddam Hussein in April 2003, Saudi Arabian and Chinese officials worked in tandem to develop their respective policies with the same goals of 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 each other<sup>212</sup>. In recent years, China has adjusted to dealing with new transnational threats, including international terrorism. China sees combating terrorism as a significant aspect of the Sino-Saudi Arabian relationship<sup>213</sup>.

Saudi Arabia may view strengthening its political alliance with China as important especially in the context of tensions with the U.S. regarding U.S. actions in the region. This does not mean, however, that Saudi Arabia is seeking to abandon its historically strong and positive relations with the U.S. A lack of a blue-water navy is one factor that is preventing China from providing the regional security guarantees that the U.S. can. More significantly, in terms of the political alliance, Saudi Arabia appears to rely more heavily on and pursue more opportunities with China than vice versa. The issues on which they have partnered in the past, while at odds with the U.S. position, are also not focussed on removing the U.S. as a power in the region. Thus, it would

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<sup>212</sup> Alterman and Garver, 2008, p. 60-64

<sup>213</sup> Bingbing, 2011, p. 20-21

seem that China's alliance with Saudi Arabia, beyond the energy sector, is intended to facilitate China's pursuit of energy security in Saudi Arabia.

### **Iran:**

Iran, on the other hand, has historically poor relations with the U.S. As a result, Sino-Iranian relations are often depicted as particularly strong because of the perception of China as attempting to confront the U.S. or challenge the U.S. status on the world stage. However, China's interests in good Sino-American relations and issues with Iran's energy sector, pursuit of a nuclear weapon, and heavy reliance on China indicate that China mainly views Iran as an attractive source of oil and not as a partner in a systematic attempt to decrease U.S. power.

China and Iran both take great pride in their respective histories as ancient and great civilizations, which plays a significant role in how each approaches international affairs and in their interactions with each other. The two also find common ground in their perception and resentment of the international system as a Western or U.S. dominated system. Additionally, both have experienced isolation from the U.S. and Russia. Throughout the course of their relationship, international isolation has been cause for either one to strengthen the bond<sup>214</sup>. Formal diplomatic Sino-Iranian relations did not begin until 1971, as in the context of the Cold War, China and Iran were on opposing sides. By the early 1990s, as China became increasingly distanced from the West, Sino-Iranian relations deepened. China's initial interest in developing relations with Iran was because Iran could be a means through which China would increase its influence in the region. The economic component of the relationship, which is critical to the

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<sup>214</sup> Harold and Nader, 2012, p. 2-5

relationship today, began when China became a net-importer of Iranian oil in 1993<sup>215</sup>. As of 2011, Iran was the third largest crude oil supplier to China<sup>216</sup>.

Strong Sino-Iranian relations are beneficial to China mainly because of the role Iran can play in China's pursuit of energy security. Iran's oil production level is significantly lower than that of Saudi Arabia. In 2010, Saudi Arabia ranked first in the world, producing 10,520,000 barrels per day, while Iran ranked fourth, producing 4,252,000 barrels per day<sup>217</sup>. Saudi Arabia's oil production is also increasing at a faster pace than Iran's. From 2007 to 2011, Saudi Arabia's production increased from 10,248,600 bbl/day to 11,153,000 bbl/day while Iran's production only increased from 4,039,000 bbl/day to 4,234,100 bbl/day (note: in this 4 year span, Iran's production peaked in 2010)<sup>218</sup>. Iran does, however, present China with a unique opportunity to advance its energy security. Due to the number of sanctions that Iran faces from the U.S., the international community, and multilateral organizations, China faces little competition in and is able to become a significant stakeholder in the Iranian oil market<sup>219</sup>. This is a particularly attractive feature of the Iranian oil industry for advancing China's "go-out" strategy. In terms of oil field development, for example, China National Petroleum Corporation (CNPC) is developing in South Azerdegan and Sinopec is investing in the Yadvaran field<sup>220</sup>. In the summer of 2009 alone, Chinese companies signed a number of agreements with Iran, including a \$5 billion deal to develop a natural gas field in South Pars, a \$42.8 billion agreement to build seven refineries and a trans-Iran pipeline<sup>221</sup>.

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<sup>215</sup> Zha, 2012, p. 25

<sup>216</sup> U.S. EIA, 2012, p. 9

<sup>217</sup> U.S. EIA Data, 2012

<sup>218</sup> U.S. EIA Data, 2012

<sup>219</sup> Zha, 2012, p. 19-29

<sup>220</sup> Seznec, 2011, p. 56

<sup>221</sup> Wines, 2009

For China, involvement in Iran means equity reserves, access to upstream markets<sup>222</sup>, and, moreover, means a medium through which to play catch-up in the global competition for energy security<sup>223</sup>. China can provide the capital necessary for Iran to further develop its energy sector, which has been unable to develop nor can Iran finance the development alone due to the sanctions. China is integral for upstream investigation and improving refining technology, efforts that are necessary for Iran to continue to advance its energy industry. Moreover, China's investment in Iranian oil has prevented Iran from feeling the full impact of the sanctions that the U.S. and others have imposed. Additional economic reasons, from the Chinese perspective, for strong Sino-Iranian relations are Iran as a market for Chinese arms and military technology and Iran as a growing market for Chinese goods more generally<sup>224</sup>.

A strong security relationship with Iran is a highly strategic medium through which China could challenge the U.S. and continue to grow as a world power. As noted above, China is a significant supplier of arms and technology to the Iranian military, which could eventually place Iran in a position to challenge the U.S.-Gulf Cooperation Council alliance and U.S. dominance in the Persian Gulf and region more generally. If Iran and the U.S. were locked in conflict, China would gain an opportunity to increase its influence in the region. Seeing how important energy security is to China and the role the Middle East can play in securing energy supplies to China, a U.S.-Iran conflict may be beneficial<sup>225</sup>. Some argue that China sees selling arms to Iran as particularly advantageous because an Iran-U.S. conflict wherein Iran is using Chinese equipment could act as a testing ground for China to see how its weapons and strategies fare against the U.S. Moreover, were the U.S. preoccupied with Iran, it is less likely to be able to simultaneously

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<sup>222</sup> Zha, 2012, p. 23-25

<sup>223</sup> Lieberthal and Herberg, 2006, p. 16

<sup>224</sup> Harold and Nader, 2012, p. 14-16

<sup>225</sup> Idem. p. 18-20

contain China's pursuit of power in East Asia. Beyond confronting the U.S., an Iranian hegemon in the Middle East could also be beneficial to China in terms of energy security<sup>226</sup>.

Iran, in contrast with China, places the Sino-Iranian political and military alliance as the most important aspects of Sino-Iranian relations and views economic factors as secondary.

Interestingly, Iran is keen to declare the strength of Sino-Iranian relations while China is far more hesitant to do so<sup>227</sup>. Iran views China as critical to its goal of challenging the U.S. and specifically to removing the U.S. from the region, thereby allowing Iran to become a regional hegemon. Iran's international isolation has caused significant economic suffering rendering Iran dependent on a more powerful backer to pursue this goal. Iran regards China as well suited to be that backer. In terms of Iran's hegemonic aspirations, removing the U.S. is also beneficial because it would be severely damaging to Iran's regional opponents, namely Israel, Turkey, and Saudi Arabia, all of who are backed by the U.S. In addition, similar to Saudi Arabia, China's non-interference policy in terms of domestic affairs increases China's appeal to Iran.

Militarily, China has been the integral force in modernizing the Iranian military. Beyond supplying small arms, China has supplied Iran with more complex arms including anti-ship cruise missiles and tactical ballistic missiles. This past March Chinese anti-aircraft missiles, including heat-seeking anti-aircraft missiles, were found on a Iranian vessel off the coast of Yemen<sup>228</sup>. More significantly, China has given Iran the knowledge to build its own weapons of this calibre and many Iranian weapons mimic their Chinese counterparts in design and technology<sup>229</sup>. China has also assisted, although likely indirectly, Iran in its goal of developing a nuclear weapon. From 1985 to 1996 China sent Iran the machinery and technology necessary to

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<sup>226</sup> Ibid.

<sup>227</sup> Alterman and Garver, 2008, p. 66-69

<sup>228</sup> Worth and Chivers, 2013

<sup>229</sup> Harold and Nader, 2012, p. 6-8 and 18-20

develop nuclear capabilities, peaceful or otherwise. It is worthwhile to note that China stopped such transfers in 1997 with the hopes of strengthening Sino-American relations<sup>230</sup>.

Unlike in the case of Saudi Arabia, China's approach to Sino-Iranian relations is not as easily defined as based on energy security interests and using political or military alliances to facilitate pursuing said interests. This is largely due the fact that Iran and its pursuit of a nuclear weapon is regarded as a significant threat to the U.S. and U.S. interests. As a result, China's interactions with Iran are seen as highly concerning and even as a part of China's attempt to challenge the U.S. China has taken advantage of American-Iranian or Western-Iranian relations to pursue energy security and balance against the U.S., however, it will only do so as long as the repercussions are not detrimental economically. While China is willing to cooperate with the U.S. at times, it is unlikely that Iran's pursuit of nuclear weapons will foster Sino-American Cooperation.

China is opposed to Iran acquiring a nuclear weapon. As stated in a recent article in the People's Daily (the official newspaper of the Communist Party of China): "China has made it clear from the very beginning that Iran must not produce or possess nuclear weapons, but sanctions and confrontation are not conducive to resolving the issue"<sup>231</sup>. China's public approach to Iran's pursuit of a nuclear weapon resembles its approach to the South China Sea territorial disputes. China places an emphasis on a diplomatic resolution but has been reluctant to participate in one. Moreover, continued Chinese involvement with Iran, as described above, and a lack of willingness to assist the U.S. suggest otherwise. Many suggest that China is able to channel some of its resentment towards the U.S. through its relations with Iran and could take advantage of the situation to balance against the hegemonic position of the U.S. in the Middle

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<sup>230</sup> Alterman and Garver, 2008, p. 65-68

<sup>231</sup> Sheng, 2012

East, especially since a U.S.-Iran conflict could restrict U.S. power in the region<sup>232</sup>. Moreover, China is concerned that America's true intentions with respect to Iran are to implement a regime change. A pro-U.S. regime in Iran would not be beneficial for China's pursuit of energy security with respect to the Iran. Additionally, China may view Iran as a part of its 'grand periphery' and, as a result, regime would be harmful with respect to China's strategic interests<sup>233</sup>.

China's opposition to U.S. and international sanctions is the most obvious medium through which China has challenged the U.S. and U.S. interests in the Middle East. China has opposed the implementation of sanctions on Iran due to its interest in Iranian oil and the reasons mentioned in the preceding paragraph. Additionally, China does not believe that sanctions are the best means for gaining cooperation from Iran with respect to its nuclear program. China's official position regarding the sanctions imposed on Iran is that: "China imports oil based on its economic development needs without violating relevant resolutions of the UN Security Council (UNSC) and undermining the third party's and international community's interest"<sup>234</sup>. The U.S. needs Chinese cooperation on sanctions in order for the sanctions to have a significant impact on Iran. Additionally, there is some concern that if Chinese NOCs continue to do business in Iran, other international companies may return or lobby their governments to relax sanctions in order to prevent losing competitive ground to China. It is important to note that while China does not want Iran to acquire a nuclear weapon, were Iran to do so, it would not pose the security threat to China that it would to the U.S. or other Western countries. China's approach to sanctions, for example in UNSC, has often been to delay votes and, in the process of doing so, to weaken the sanctions. This is very similar to China's approach to its territorial disputes where it has postponed negotiations while strengthening its position thereby weakening the relative positions

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<sup>232</sup> Alterman, 2011, p. 30-31

<sup>233</sup> Kleine-Ahlbrandt, 2010

<sup>234</sup> Zha, 2012, p. 23

of the other disputant states. This approach allows China to take advantage of its position. On the one hand hindering the progress of sanctions is advantageous for Sino-Iranian relation. On the other hand, China is able to gain concessions from the West. Nonetheless China is highly unlikely to veto a UNSC resolution because it would be very politically costly for China to act alone (Russia is unlikely to oppose a resolution).

China's economic development is dependent on the U.S. while Iran is entirely independent of the U.S.<sup>235</sup> and has Iran has been an easy business partner for China. Disputes have arisen between Sinopec and the National Iranian Oil Company regarding prices and payment periods<sup>236</sup>. Iran is likely to become an increasingly difficult business partner as international sanctions continue. Both the U.S. and Saudi Arabia have indicated their willingness to ensure China's oil supply will not diminish as a result of decreased ties to Iran<sup>237</sup>. Regional instability in the Persian Gulf would be particularly damaging to China as the Strait of Hormuz, which connects the Persian Gulf to the Arabian Sea, is critical for China to receive oil imports. Prices, in addition to supply, are likely to become instable in such a scenario. This regional instability could be caused by a U.S.-Iran conflict due to Iran's efforts to gain a nuclear weapon or a regional arms race or conflict caused by Iran's acquisition of a nuclear weapon. As the secure transportation of oil is a central element to China's energy security, Iran, even though it can provide equity reserves, is actually a risky partner for pursuing energy security.

Although China has 'dragged its feet' on Iran, it has also cooperated with the U.S. and international efforts to constrain the Iranian nuclear weapon program. In 1988, China, after receiving significant pressure from the U.S., agreed to stop selling Iran anti-ship missiles. In 1997, following efforts to normalize Sino-American relations, China agreed to end all nuclear

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<sup>235</sup> Harold and Nader, 2012, p. 12-14

<sup>236</sup> Keiswetter and Barrett, 2012

<sup>237</sup> Downs, 2011, p. 67-72

cooperation with Iran<sup>238</sup>. In June 2010, China voted to pass UNSC Resolution 1929, which demands that Iran stops its uranium-enrichment program. The resolution includes a sanction that bans states from selling eight categories of weapons to Iran. The resolution does not ban energy investments or trade and thus does not impact China's central interest in Iran. In July the U.S. implemented an additional set of sanctions known as the Comprehensive Iran Sanctions Accountability and Divestment Act (CISDA). CISDA significantly expands the sanctions on Iran's energy sector and China demonstrated some cooperation with CISDA<sup>239</sup>. In June 2012, the U.S. exempted China from its severe Iran sanction laws because China reduced its Iranian oil imports by 25% from January to May 2012 when compared with January-May 2011<sup>240</sup>. This demonstrates the extent to which China's actions are based on economic considerations. China's economy, due to its dependence on the U.S. would have suffered dramatically had the sanctions been enforced. Chinese NOCs have often advocated for to increase Chinese activity in Iran's energy industry, even in the face of severe repercussions from the U.S. When such activity would be too detrimental for China, then it is able to prevent the NOCs from further activity. These considerations, as well as a general effort by China to avoid conflict with the U.S. have led to U.S.-China cooperation and China's resistance to assisting Iran in balancing against the U.S.<sup>241</sup>. At the same time, China is willing to take advantage of Iran's position with respect to indirectly hurt U.S. strategic interests.

#### **Enter the U.S.:**

As the analysis of Sino-Saudi Arabian relations and Sino-Iranian relations demonstrate, China's pursuit of energy security remains based on an economic approach. Moreover, this

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<sup>238</sup> Alterman and Garver, 2008, p. 38

<sup>239</sup> Downs, 2011

<sup>240</sup> Gladstone, 2012

<sup>241</sup> Downs, 2011, p. 67-72

approach has not diminished U.S. influence in the region even though, at times, it has obstructed the U.S. from pursuing its goals in the Middle East. China and the U.S. have contrasting approaches to the Middle East. In contrast to China, the U.S. implements a security-based approach to bilateral relations in the Middle East. Today, much of the U.S. involvement in the region is based on arms sales and the presence of U.S. military bases the Gulf Cooperation Council states (except Saudi Arabia). While the U.S. is not dependent on the Middle East for energy security, its presence in the region is essential to many of its allies' pursuit of energy security. As well, the U.S. remains involved in the Arab-Israeli conflict and in combating the spread of radical Islam<sup>242</sup>.

American-Saudi Arabian relations have always had an economic component, mainly in terms of the Saudi Arabian energy sector; however, the defense and diplomatic aspects have consistently played a more significant role. Unlike China, U.S. demand for Saudi Arabian oil is not increasing nor is it interested in Saudi Arabia's heavy crude oil. From 1993 through 2012, the U.S imported a relatively stable amount of Saudi Arabian oil. For example, in January 1993, the U.S. imported 1,687 thousand barrels per day and in January 2012, the U.S. imported 1,422 thousand barrels per day<sup>243</sup>. Additionally, while Saudi Arabia is the second largest supplier of oil to the U.S., it supplies significantly less than the leading supplier, Canada.

Historically Saudi Arabia is one of, if not the most important Arab ally of the U.S. in the Middle East. This commitment, through present day, has comprised of military deployments, weapon sales and military training programs<sup>244</sup>. As noted earlier, 9/11 placed significant strain on the American-Saudi Arabian relationship. This strain was lessened somewhat by two bombings on foreigner housing compounds in May and November 2003 perpetrated by Saudi

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<sup>242</sup> Alterman, 2011

<sup>243</sup> U.S. EIA Data, 2012

<sup>244</sup> Blanchard, 2012, p. 5-7

Arabian jihad militants. As a result, Saudi Arabia had to acknowledge that Islamist militant terrorism was also a Saudi Arabian domestic issue. Additionally, the bombings provided an opportunity for collaboration on counterterrorism between the U.S. and Saudi Arabia <sup>245</sup>.

The U.S. security commitment to Saudi Arabia remains very strong, regardless of Sino-Saudi Arabian relations and the removal of U.S troops from Saudi Arabia in 2003. China cannot compete with the U.S. as an arms supplier. For example, in 2010, the U.S. and Saudi Arabia signed one of the largest arms deals in U.S. history. The deal included the sale of 84 F-15SA Fighter Aircrafts, and the proposed sale of AH-64D APACHE, UH-60M BLACKHAWK, AH-6i Light Attack, MD-530F Light Turbine Helicopters, and AH-64D Longbow Helicopters, Engines and Night Vision Sensors. Included with the sale of any of these products is U.S. provision of training and support, including the deployment of contractor and U.S. Government representatives on a full-time basis to Saudi Arabia<sup>246</sup>.

The U.S. approach to relations with Iran, while still based on maintaining regional security, involves working against, not with, Iran in order to achieve this goal. Since the 1979 Revolution, American-Iranian relations have become increasingly strained particularly due to Iran's desire for regional hegemony, pursuit of nuclear weapons, involvement in international terrorism, position towards Israel, and human rights abuses<sup>247</sup>. In objection to these goals, the U.S. has continued to impose sanctions of increasing severity on Iran. Overtime, energy security has become an additional factor in determining the U.S. position towards Iran.

In terms of Iran's pursuit of a nuclear weapon, the Obama Administration implements a dual-track approach, focussing on talks and sanctions. The Administration has also stated that it will not pursue a containment policy, meaning the only options are diplomatic resolution or military

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<sup>245</sup> Alterman and Garver, 2008, p. 63-64

<sup>246</sup> Blanchard, 2012, p. 5-7

<sup>247</sup> U.S. State Department, 2012

action<sup>248</sup>. In 2011 the U.S. congress passed severe sanctions that banned any country that interacts with the Iranian Central Bank from the U.S. financial system. These sanctions have been very damaging for the Iranian economy, although the impact has certainly been mitigated by China's support of Iran. Today, it seems diplomatic discussions to improve U.S.-Iran relations are highly unlikely without each side receiving significant concessions from the other. Iran perceives U.S. actions as aimed at regime change or limiting Iranian power and as the application of a double standard as to which states the U.S. will tolerate as nuclear. Additionally, the hidden nature of Iranian nuclear goals is impeding progress. Some maintain that Iran is set on acquiring a nuclear weapon while others argue that Iran has acquired its desired level of nuclear capability and is now willing to negotiate, especially if the U.S. were to permit Iran to possess a specified level of enriched uranium<sup>249</sup>. In April 2013, talks between Iran and world powers (including the U.S. and China) regarding Iran's nuclear program were unable to achieve any progress. As discussed above, China's efforts to cooperate with the U.S with regards to Iran's nuclear program, when significant pressure is applied, demonstrate that China's intentions are not mainly intended to challenge the U.S. via Sino-Iranian relations.

The U.S. presence in the region is unlikely to diminish in the coming years. At the same time, China is unlikely to downsize its activities in the region. If, as has been argued, China regards Saudi Arabia and Iran as means to energy security then the U.S. presence in the region has the potential to be highly beneficial. China reaps the rewards of trading in the region without providing the security measures that the U.S. provides in order to maintain regional stability and thus reliable trade. As a result, China's pursuit of energy has the potential to foster cooperation between China and the U.S in the Middle East. This is made all the more so likely in the context

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<sup>248</sup> Keiswetter and Barrett, 2012

<sup>249</sup> Keiswetter and Barrett, 2012

current changes in the Middle East and in the global energy sector. Maintaining the current status quo in the Middle East is likely the most advantageous outcome for China, however, this seems unlikely to occur.

With respect to Saudi Arabia, China remains uninvolved with domestic politics. Nonetheless its strong ties to the current leadership are highly beneficial for China's energy needs. As a result, an 'Arab Spring' movement in Saudi Arabia could be harmful to China, especially if it turned into civil war, which would be a serious threat to China's energy security. At the same time, China's non-interference policy could prove valuable to Sino-Saudi Arabian relations as U.S.-Saudi Arabian relations may be tested in the near future in the context of the Arab Spring and Saudi Arabia's unwillingness to pursue domestic reform<sup>250</sup>.

With respect to Iran, as noted above, China is able to benefit from its current position wherein it balances its relations with Iran and the West. China is unlikely to maintain this position indefinitely as the U.S. seeks to increase pressure on Iran and as Saudi Arabia becomes more concerned with Iran's nuclear capabilities. Saudi Arabia and Iran have a history of tensions due to sectarian differences and their relative power stances in the region. Saudi Arabia is particularly concerned about Iran's hegemonic aspirations and pursuit of a nuclear weapon<sup>251</sup>. Saudi Arabia has stated that if Iran acquires a nuclear weapon, it may see it as necessary to do so as well. This may then produce greater incentives for China to continue to distance itself from Iran, especially because an arms race in the Middle East would likely be detrimental to China's energy security. As such, it may become advantageous for the U.S. to encourage strong Sino-Saudi Arabian relations, without diminishing U.S.-Saudi Arabia relations. From China's

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<sup>250</sup> NPR, 2011

<sup>251</sup> Blanchard, 2012

perspective, it is beneficial for the U.S. presence to persist as it provides regional stability that China cannot provide.

A recent report by the U.S. EIA, predicted that by 2017 the U.S. will be the world's leading oil producer and that by 2030 the U.S. will be a net exporter of oil<sup>252</sup>. As the U.S. becomes less reliant on foreign oil, it will be in a unique position to further promote U.S.-China cooperation. This shift will likely open new opportunities for China, not necessarily in the U.S. but in other countries where the U.S. may previously have been a large importer, for example Canada. Additionally, since 2010, CNOOC and Sinopec have invested in shale gas opportunities in the U.S. Increased interdependence will provide the U.S. with leverage to use when pressuring China to assist in anti-Iran efforts. More generally, such a strategy will benefit the U.S. in that China may become less likely to turn to problem states in the first place. China will also benefit as it can pursue its “go-out” strategy in countries with the infrastructure and ability to provide a reliable supply of oil<sup>253</sup>.

Jon Alterman, of the Center for Strategic and International Studies, writes that “there is something inherently unstable about a region that relies on the West for security and the East for prosperity<sup>254</sup>.” While the opportunity for cooperation exists, it is also necessary to recognize that it is not unlikely for tensions to arise between China and the U.S. with respect to the Middle East. The U.S. will not indefinitely allow China to benefit from its security guarantees without contributing to them<sup>255</sup>. China must also recognize that as it uses political and military ties to encourage stronger economic ties, it will not be able to remain just an economic player in the

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<sup>252</sup> Rosenthal, 2012

<sup>253</sup> Downs, 2012, p. 1-2

<sup>254</sup> Wakefield, 2011, p. 5

<sup>255</sup> Alterman, 2011, p. 31-33

region<sup>256</sup>. As China's role in the region increases, so too does its ability to indirectly challenge the U.S. in Middle East. This is made more likely by the U.S. pivot to East Asia. Thus it is important for U.S., as it pivots to Asia, to remember to focus on all of Asia, including West Asia (as China does), if it does not want to lose its power projection capabilities in the Middle East<sup>257</sup>.

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<sup>256</sup> Che, 2011, p. 1

<sup>257</sup> Nasr, 2013

## **Conclusion:**

China's pursuit of energy security provides a number of important insights into China's national security strategy but also the policymaking apparatus behind it. The three elements of China's pursuit of energy security presented in this essay demonstrate that economic interests drive China's approach to energy security. Yet, China has acted increasingly aggressive towards U.S. interests. At times, China has taken advantage of its pursuit of energy security to indirectly challenge U.S. power projection or strategic interests. China's naval modernization, actions in the South and East China Seas and relations with Iran indicate that China desires to increase its power projection capabilities while ensuring that these actions do not lead to a U.S.-China conflict.

With respect to the broader narrative of China's national security strategy, China's pursuit of energy security is congruent with the economic focussed narrative of China's approach to national security. Nonetheless, one cannot ignore that China's activities in its surrounding waters or in the Middle East also forward an anti-access and area denial strategy that targets the U.S. If, on the other hand, China's increasingly aggressive actions indicate that the U.S.-oriented narrative is the driving force behind China's grand strategy, then economic considerations still play a significant role. It is economic consequences that ensure that China is highly unlikely to initiate a full-scale conflict with the U.S. Economic interest also guarantees that the U.S. will not seek conflict with China. A number of commentators refer to this phenomenon as Mutually Assured Economic Destruction (MAED). MAED states that a conflict between the U.S. and China would have detrimental economic consequences for both sides due to the interdependent nature of their respective economies<sup>258</sup>. This deters either side from using an economic weapon such as severe sanctions on the part of the U.S. or the dumping of U.S. treasury bonds by China.

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<sup>258</sup> Dobbins et al., 2011, p. 8-9

It also deters the two countries from employing conventional weapons because such a conflict would also negatively impact both economies. Additionally, MAED creates common ground for China and the U.S. This is clear in the context of energy security. Both economies are dependent on the SCS for international trade. Regardless of China's aggressive activities towards the disputed territories in the SCS or America's growing alliances with the other disputant states, a conflict in the SCS is not advantageous for either side. In the Middle East, while the U.S. is not highly dependent on the region for oil, many of its allies and China are. A conflict in the Persian Gulf would be more damaging for the China in terms of oil supplies but it would also cause oil prices to spike, which would hurt both the U.S. and China.

It is important to note, however, that while economic interests clearly impacts, and even dictates, China's national security strategy, that does not necessarily mean that the economic growth narrative is the dominant narrative of China's grand strategy. It does imply that regardless of which narrative determines Chinese policy, economic interest and maintaining economic growth are of high priority for China. It is still possible for China to base its grand strategy around the perception of the U.S. as a threat. In that case, it seems that China understands the limitations to its actions in challenging the U.S. This could potentially explain China's acquisition of asymmetric capabilities, especially cyber capabilities, and use of soft power to hedge against the U.S. in the Asia-Pacific and in the Middle East.

While China's pursuit of energy security may not clearly indicate which of the two narratives dominates China's grand strategy, a number of insights into said strategy can be gained from the analysis of China's pursuit of energy security presented in this thesis. The division in interests between government agencies, the government and NOCs or the government and PLAN demonstrate that there is a large range of opinions in China. As such, there may not

be one narrative that drives China's grand strategy. Both narratives could be promoted by different actors, depending on how they believe China's core interests are best protected. China's struggle to implement an effective energy policy-making apparatus likely reflects a broader inefficiency in China's bureaucracy. This inefficiency could also impact China's ability to develop a national security strategy.

The U.S. focussed narrative appears most prominently in China's naval strategy while the economic interest narrative seems more dominant in China's relations in the Middle East. This difference may appear due to the proximity of China and the U.S. to each other in the Asia-Pacific compared with their proximity in the Middle East. In the Asia-Pacific, both the U.S. and China see a possibility for their worst strategic fear to be realized. For China, it is to be contained by an external power and for the U.S., it is to be removed from the region altogether by another power<sup>259</sup>. Thus, it is more likely for them to take a hawkish stance with respect to each other. Both regard the Middle East as strategically significant as well. However, neither fear removal from the region because the Middle East is too dependent on the U.S. for security and on China for economic growth. This allows China and the U.S. to coexist in the region even if they do clash on certain issues. With respect to China's grand strategy narrative, it is possible that both are present in China and that one likely plays a greater role depending on what is perceived as the greatest threat to China's prosperity at a given time or in a given region.

As noted earlier in the conclusion and in the conclusions of chapters two and three, there is a possibility for aspects of China's pursuit of energy security to foster U.S.-China cooperation, including but not limited to joint efforts to secure sea-lanes of communication or U.S. and China endorsed sanctions on Iran. Former Premier Wen Jiabao once stated, when speaking about the

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<sup>259</sup> Kissenger, 2012

U.S. and China, that “our common interests far outweigh differences<sup>260</sup>.” China and the U.S. have common interests with respect to China’s pursuit of energy security and as a result, even considering rising tensions between the two, there is a possibility for U.S.-China cooperation that could have implications for U.S.-China relations beyond energy security. Both increasingly face issues where the assistance of the other is necessary in order to succeed. A number of issues emerged in this analysis of China’s pursuit of energy security that, if improved, could reduce rising U.S.-China tensions. There are three main issues that China needs to deal with First, is inefficiency and poor policy coordination within China’s bureaucracy. As was noted throughout this essay, overlapping mandates and the ability of actors to pursue their own interests hinder the central governments’ pursuit of its interests. Second, the rising nationalism within China’s army and the general population has the potential to derail China’s more peaceful approaches to certain issues. Lastly, a lack of transparency regarding Chinese intentions in the Asia-Pacific or with respect to the U.S. cause misunderstandings between the two powers that sometimes raise tensions unnecessarily. The U.S. also needs to clarify its intentions with respect to China and the goals of its ‘pivot’ to Asia. Once both better understand the others intention, especially in the Asia-Pacific, both may be able to reduce their assertiveness towards the other. Currently the U.S. approach to soliciting Chinese cooperation on an issue such as Iran involves balancing economic ‘threats’ with international pressure. While this has had some success, it is not always enough to sway China. Another approach that the U.S. can integrate is involving China in international initiatives that are in China’s interest but that will also facilitate China’s transition into a ‘responsible stakeholder’ in the international system. While these recommendations are only the first steps on a long road towards fostering U.S.-China cooperation they are essential to

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<sup>260</sup> Jisi, 2011, p. 73

doing so. In the meantime, it is apparent, as former Secretary of Henry Kissinger stated “conflict with China is a choice, not a reality<sup>261</sup>.”

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<sup>261</sup> Kissinger, 2012

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