

# *Energy and Resources and International Security: A few comments by a Chinese academic*

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## **Is US-India nuclear cooperation conducive to security in the Asian region?**

Back in 2005, the Bush administration offered to assist India to further develop the latter's civilian nuclear capacity. With the Nuclear Suppliers Group consensus, announced in early September 2008, the vision of a US-India nuclear partnership is one step closer to becoming a reality.

From its very inception, the US-India nuclear cooperation scheme has been touted as a strategic move: i.e., it would help the United States to have India as a more committed ally in counterbalancing China, while strengthening India's hand in dealing with China as well. An interesting phenomenon is that China has not shown much anxiety, at least not publicly, over these developments between the United States and India. Why not?

First, India, like China, has a huge population, which is going through a rapid process of urbanization. This fact alone guarantees that India's demand for energy is set to grow enormously. Also, like China, India is heavily dependent on a supply of energy resources from overseas. Therefore, when India has more of its electricity supply needs met through its nuclear power program it will help lessen the competition for third-country energy (oil, gas, and coal) supplies.

Second, the United States has not chosen sides between China and India when it comes to nuclear cooperation. In 2007, the United States agreed that China could purchase AP1000 plants, the latest nuclear reactors designed by Westinghouse. Although by the time of the Sino-American agreement a consortium of Japanese companies had acquired majority ownership of Westinghouse, should the United States have decided to make it impossible for China to acquire such reactors, there could not have been much recourse left for China. China's own need to drastically increase its nuclear power supply cannot wait.

Third, China-India relations have a dynamic of their own. How each country meets its energy demands is of much lesser significance than a host of other "high-politics" issues. Examples include demarcating their land border, India's treatment of Tibetan exiles (a faction of whom would not hesitate to pursue their cause through violent means), and how India approaches states like Nepal and Myanmar, countries that also border China.

Last but not least, it is possible for China and India to learn to constrain any confrontational impulses in their respective capitals through routine diplomatic activities such as the East Asia Summit, which both China and India participate in as full members. Although sometimes

ridiculed in some quarters in Europe and America as a "talking shop," Asian styles of diplomacy (i.e., emphasis on a public unanimity) does provide a useful and often powerful example for demonstrating that it is possible to refrain from pursuing confrontation as the only solution.

In short, the US-India nuclear cooperation scheme does not alter the Asian security landscape in any significant way. The challenge now is for the United States to deal with other countries that are pursuing their respective nuclear programs (invariably for "peaceful purposes only" as well) with sufficiently successful persuasion to make force the absolutely last resort. That, however, is outside the scope of this paper.

## **Is China's membership of the International Energy Agency desirable?**

The short answer is "yes" but the agency has some work to do to be more persuasive.

The International Energy Agency (IEA) is the single most broadly encompassing body aiming at collectively dealing with volatilities in the world energy market by drawing together the resources of the consuming countries. China has been heavily dependent on external sources of supply and the prospect of returning to self-sufficiency in its oil and gas supply is, quite probably, gone forever. In theory, China ought to have a strong self-interest in seeking assistance from the agency, including through formal affiliation.

Formerly China did not join the Organization of Petroleum Exporting Countries (OPEC) when it was a net oil-exporter. Nor did China actively pursue membership of the IEA when it became a net importer of oil. As a matter of fact, since the mid-1990s, it was the IEA secretariat that sought to engage the Chinese government agencies responsible for managing the country's energy sector, urging China (and providing technical assistance as well) to build up a Strategic Petroleum Reserve (SPR) stockpile capacity, with or without IEA membership.

One of the barriers for China's membership of the IEA is that OECD membership is a prerequisite and China's per capita income level is far from reaching that status. Additionally, it was not long ago when the mainstream thinking in China about the OECD and G7/G8 was that those were clubs of the rich nations and, by extension, as a developing country for many years still to come, China had little to gain in having membership thereof.

Now it seems there is a growing interest within the

IEA to bring China into the group, either as a full member or in a separate category that ensures fuller participation by China (and India). For example, in June 2008, at a public forum on Sino-American energy cooperation, US Under Secretary of State O'Sullivan made public the US interest in China showing more interest in IEA activities and even membership.

It is useful to note, however, that the previous interaction between the IEA secretariat and Chinese government agencies could have been more productive. Those exchanges were often focused on the single topic of urging China to build up its SPR. Since in the entire history of the IEA the coordinated release of its members' SPR was rather rare, it is not easy to convince Chinese government bureaucrats that the country should commit resources to building up an SPR equating to 90 days of consumption for an eventuality that is difficult to foresee. Besides, significant differences remain between China and some of the current IEA members over geostrategic considerations. Can China really rely on the IEA when a major threat to supply affects China but not the other members?

The IEA, on the other hand, has not shown any particular potency in living up to its second main mission: to promote energy efficiency. Technology is an important instrument for improving efficiency in consumption. Between China and the major economies of the world two issues stand in the way of technology transfer. One is intellectual property rights, and the other the concern regarding industrial competition from China. In terms of helping to iron out differences on either of these issues the IEA does not seem to be relevant.

To the best of my knowledge, today in China there is little ideological opposition to joining the IEA. Rather the question is over the utility of membership in yet another international organization. Gone are the days when China sought such membership for the sake of sovereign representation or diplomatic prestige. The IEA secretariat can do a more effective job by reaching out to the wider circle of the foreign policy-related bureaucracy in Beijing. One thing that can certainly help is that the secretariat rethinks its demand for OECD membership when it comes to staffing its team of in-house analysts responsible for the China market. Of course, on the Chinese side they should think about quality participation and contribution, rather than just membership.

### **What about the differentiation of international oil companies and national oil companies?**

One fashionable thing to do, as has evolved in the past several years, is to make a distinction between international oil companies (IOCs) and national oil companies (NOCs). Such a distinction is no mundane matter. As frequently alluded, IOCs are more market driven than NOCs; it is the growing strength of the NOCs that has made IOC access to new reserves more difficult, both financially and politically—in short, students of present-day international oil politics are taught to identify with the IOC cause and to move away from that of the NOCs.

A very important dimension to this distinction is

whether or not an NOC operates as a political agent of the government it belongs to, both domestically and globally. When it comes to the Chinese NOCs, it has been quite fashionable to conclude that their asset acquisitions abroad were more for diplomatic purposes than business ones. As a matter of fact, when Robert Zoellick proposed that China become a responsible stakeholder in international affairs, he made it clear that a basis for his call was that Chinese NOCs were being mercantilist by "locking up" oil reserves and removing them from the world oil market.

Now, according to statistics compiled by IOCs like BP, Chinese oil companies have shipped about 10% of their overseas production capacity back to China and the rest has been sold to the international market. More and more US scholars, including Professor David Victor of Stanford University (principal author of a Council on Foreign Affairs study on energy and US foreign policy), conclude that the accusations concerning Chinese NOC behavior do not have much of a factual basis.

NOCs and IOCs are different, the key therein being that an IOC is more driven by shareholder interests, while an NOC may not have to be that responsive. As the most recent spate of worldwide economic difficulties should tell us, however, mindless pursuit of short-term shareholder interests, as some of the best-known financial institutions in Wall Street did, can in the end be destructive.

Additionally, although I certainly need to educate myself about this topic a lot more, news reports about IOC collaboration with the United States and European governments over oil and gas transportation out of the Caspian-Caucasus region seem to confirm that IOC behavior can be political in nature as well. Again I must make clear that I am not taking sides here.

Is it possible to make a judgment about the merit (and/or the lack thereof) of an IOC and an NOC by looking at how much oil and gas they would bring to the international oil market? After all, somebody has to be doing the job of bringing those barrels out of the ground. Of course, other issues, such as corporate ethics in the resource extraction industry, are relevant. But let's not lose sight of what we want from an energy company in the first place: oil production. On that basis it is perhaps going to be easier to have further international dialogue.

### **Do Chinese see any problems at all in its energy and resource relationships with African states?**

At the outset, it is necessary to be aware that there is the noticeable lapse of tracking and analyzing the evolution of contemporary China's ties with Africa. In the West, study of China-Africa ties was never in the mainstream, even in Chinese Studies. Most of the works were done by a few ethnic Chinese scholars in American and European institutions (George T. Yu was actually probably the only person), who had some access to Africa, but no access to China. Even this trickle began to dry up in the early 1980s, as interest in superpower competition in Africa began to wane and as China became accessible to Western academic interest. Within Chinese academic circles, studying Africa and tracking China-Africa ties has never been mainstream

either. The proliferation of international studies in China heavily depends on outside funding for travel to do field research, and such funding from or regarding Africa has been extremely rare.

In the West, interest about China-Africa ties received a major boost because of the China-Africa summit in October 2006. In China, a similar interest probably began in the year 2000, when China hosted a ministerial-level meeting, bringing the ministers of finance and foreign affairs from dozens of African capitals to Beijing. Ironically, the Chinese probably took a leaf from Japan's book on diplomacy toward Africa. It was in a workshop to coordinate aid to Africa held in Yokohama, Japan, back in 1993, when officials of the Chinese Ministry of Finance heard African calls for investment rather than aid. As a matter of fact, it was not until after 1995, when then Chinese Vice Premier Zhu Rongji (premier 1998-2003) was persuaded to go on a trip to Africa, that high ranking Chinese officials began showing an active interest in the continent.

Therefore the first thing we ought to do, and this has not been properly done yet, is to educate ourselves—to the extent that we can get hold of solid data—about the evolution of the energy and resources industry in Africa and the whole spectrum of actors outside that continent who participate in the extraction industries there. This needs to be done because quality research ought to have the interests of Africa in mind, not that of vested interests outside Africa that are wary of competition—from China or elsewhere.

It is also significant to note that China itself used to

rely heavily on minerals and other raw materials as major export items for earning hard currency. For the year 1979, 40% of the value of China's exports to the United States came from one commodity: crude oil. From 1973 on, China entered into "long-term trade" arrangements with Japan, under which China committed to exporting oil, coal, and minerals to Japan in exchange for the Japanese side's sale of industrial equipment and technology to China. Even though China became a net importer of oil in 1993, that agreement with Japan bound China to ship millions of tons of crude oil to Japan until the end of 2006. The overall picture is that until the late 1980s, energy and resources made up over half of the total value of Chinese exports.

So, it is not easy for the European and North American parties concerned to gain a readily sympathetic ear when they try to get Chinese bureaucrats and decision makers to be on the same ideological wavelength regarding China's import of energy and resources from Africa. An unspoken, yet powerful, self-justification could be that it is up to the Africans to take their countries through the same growth trajectory as China has.

Let me make it very clear here: I am not trying to justify China's behavior at all. Yet I do hope such knowledge can help those interested Europeans and North Americans to think about approaching Chinese interests concerning African development and China's role therein. My basic advice: be on the ground with the Chinese in Africa and, together explore a possible meeting of minds and collective action.