

China's Innovative Approach to Energy Security

By Ryan Opsal*

Despite the deteriorating political situation in Venezuela, China keeps lending massive amounts to the country, disbursing \$5 billion this year alone.¹ Why does China continue to make such large investments in politically unstable countries, like Venezuela? In the majority of these cases, the answer is obvious: oil. However, this still doesn't explain why China continues to deepen relationships with some countries, and not others.

China's choices for loan programs are not only based on access to ample oil reserves, but are also highly political, and are at the forefront of Chinese national security thought. In many of these cases, the host governments themselves provide an added level of usefulness for their stalwart political opposition to the United States, which creates a value-added source of petroleum. China has made a concerted effort to forge partnerships with Venezuela, and oil suppliers in similar political situations vis-à-vis the United States and the West, over the past two decades. China reaps economic gains through these relationships, but it is the security gains that are particularly interesting. These relationships serve to prepare and harden energy supply lines for The Middle Kingdom in response to a potentially hostile United States in the Asia-Pacific that could impose some type of political or economic stress on the state through sanctions or a Cold War style containment policy. If China continues this strategy, it would boost the energy security of the state and would re-shape the security environment in Asia, directly impacting the amount of coercive leverage available to the United States and its allies in any future conflicts.

The strategy begins to reveal itself when one considers the extreme importance of secure sources of petroleum to Chinese national security, and the evolution of Chinese security considerations, which radically shifted after party leadership witnessed the first demonstration of modern warfare conducted by the United States during the First Gulf War. This presentation revealed just how far China lagged militarily behind Western powers, and perhaps even more devastating was the eventual realization that even Japanese weapons technology far outstripped anything fielded by the Chinese military. This event spurred China to action and forced a reorientation of their security strategy. At its core, China understood it had to rapidly develop its military power and at the same time cultivate coping strategies for a militarily, economically, and politically powerful United States in the Asia-Pacific and further abroad. In a sense, the past twenty-five years of Chinese military modernization has been directed with the intent of developing the ability to resist American power and influence. This capacity to resist would be required in the case of any conflict, especially over Taiwan, and now includes many asymmetric capabilities.

Understanding that the United States has the greatest potential to pose a future threat to China, the government has also noted the trajectory of U.S. foreign policy over the past twenty-five years, and determined there is a recurring, salient feature of that policy: sanctions. In fact, since the end of the World War II, the United States has frequently stopped short of open conflict and relied instead on containment and sanctions to degrade its principal adversaries. The first policy step by the U.S. tends toward the implementation of sanctions, whether dealing with large states, or small. From Iran to Russia, this is the favored first-step. Sometimes, sanctioned states can resist this type of economic pressure for quite some time depending on the type of sanctions and their own resources. However, states without sufficient domestic energy supplies, are backed into an incredibly weak position. Strategic commodities are essential to state survival, and China is no exception as a massive oil importer. It simply cannot forgo substantial oil imports, and if tankers were in some manner prevented from reaching Chinese ports, they would be left in a very precarious position.

Understanding China's strategic concerns and its threats, we can begin to explain some of the bilateral agreements, and burgeoning relationships, made by China, like the one with Venezuela. Many commentators believe China engages in these equity deals, loans, and other bilateral agreements to "control" these sources of oil and send them directly back to China, buffering their own supplies. However, as several analysts have pointed out, the majority of the oil produced under these agreements is not shipped directly back to China, but is instead sold on the spot market, to the highest bidder. The only oil shipped back to China from these sources is the oil that is profitable to be shipped back. The tendency is then to believe that these bilateral agreements are a traditional preference of China, without any actual value aside from boosting reserves and revenue for the national oil companies. But, this misses the security benefits of these oil sources entirely.

China wants to foster strong relations with these suppliers because they are a

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See footnotes at end of text.

source of, what can be termed, sanctions-resistant oil supplies. This falls in line with the grand strategic approach of China by enhancing their abilities to counter and resist American hard power in the Asia-Pacific, utilizing both symmetric and asymmetric means. Following this logic, we can conclude that the potential for the emergence of a new containment style policy, enacted by the United States, is at the forefront of the minds of China's leadership. If relations deteriorated to this level, much of the market based oil supplies available to China would most likely dry up, severely crippling the state until the situation was resolved. Even if the U.S. opted merely for more traditional sanctions on China's energy supplies, these sources of relatively secure oil will matter. This is a strong possibility: the United States, even now, still has export restrictions in place on China, as a fallout from the Tiananmen Square crisis in 1989.

Country	Exports	Total "Sanctions-Resistant" Exports
Venezuela	15551965	79159231
Russia	24348420	Total Chinese Imports
Sudan	2375687	281742074
Iran	21411546	Percentage of Imports Resistant to Sanctions
Kazakhstan	11980620	0.28 (28%)
South Sudan	2490992	

2013 Oil Exports to China by Country, in metric tons

Some of the key oil-based relationships China has been developing are with Russia, Iran, Venezuela, Kazakhstan, Sudan, and South Sudan. These six exporters accounted for nearly 80 million metric tonnes of exports to China in 2013, covering over 28 percent of China's oil imports,² most with the ability to increase future export capacity. Further strengthening the

bilateral relationship these countries have with China, Sudan, South Sudan, Venezuela, Russia, and Iran, five out of the six states mentioned, are current targets of U.S. based sanctions.³ This makes them more politically opposed to the United States, and increases their reliance on China even further as a reliable import partner. With secure energy suppliers, the large and growing Chinese flagged tanker fleet would then simply transport this crude back to the mainland, immune to any financial or political repercussions. While the amount of oil received from these suppliers would not be enough to keep prices at satisfactory levels in China, nor is it a panacea for China's energy security requirements, it certainly buys time by buoying supplies at a critical juncture, adding to government and industry controlled stocks on the mainland.

Absent the direct application of military force against their global oil infrastructure, China would have the capacity to remain partially immune to any energy-based sanctions, by continuing to import from several countries that will resist cooperating with Western powers on a sanctions package, and would do all they could to hold on to China as a key export partner. This is a major advantage for Chinese energy security, as it reduces leverage and coercive power that can be applied in the future by any powers hostile to its strategic interests. As a result of this reduction in leverage over China's oil supply chain, the United States will have to give serious consideration to the efficacy of any sanctions program, or containment policies, implemented in the future.

Footnotes

¹ <http://www.reuters.com/article/2015/04/20/venezuela-china-idUSL1N0XH0NW20150420>

² <http://data.un.org/>

³ <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>

MEMBER GET A MEMBER CAMPAIGN A SUCCESS

Sarah Jezernik Wins Complimentary Registration to attend the Pittsburgh USAEE/IAEE North American Conference

IAEE's *Member Get a Member* campaign was a smashing success with 27 new members added in the April to August period.

Members had their membership expiration date advanced three months for each new member referred. Advancements ranged from three months to 21 months as 17 members referred new members.

Dr. Sarah Jezernik, Deputy General Manager, PLINOVODI d.o.o., Slovenia, referred the most new members – 7! She won complimentary registration to the Pittsburgh USAEE/IAEE North American Conference. In the process, she has helped to establish a new Affiliate of IAEE in Slovenia and hopefully her organization will help support a forth coming IAEE conference in the country.

We encourage members to recommend their friends and colleagues to join IAEE.