

# **China's Global Oil Diplomacy: Benign or Hostile?**

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## **Overview**

China is the new factor in global politics and economics. It is the world's second largest user of oil after the United States and also the third-largest importer of oil after the United States and Japan. China is also the fourth largest economy in the world after the United States, Japan and Germany. However, based on purchasing power parity (PPP) used by the World Bank and the International Monetary Fund (IMF) as a measuring stick, China is now unambiguously the world's second-largest economy – worth \$7.3 trillion compared with the US's \$11.6 trillion and Japan's \$3.8 trillion.

China's spectacular economic growth has significantly altered its position in the global oil market. In 2006, China accounted for 9% of global oil consumption compared to 5% in 1996, whilst its share of global production only amounted to 4.5%. Also in 2006, China imported 3.41 million barrels a day (mbd) of crude and oil products accounting for 46% of its consumption. Forecasts for the coming decades all point to a strong growth in demand and, above all, a great increase in oil imports projected to reach 11.30 mbd in 2020 and 18.83 mbd in 2030.

China's robust economic growth and its aspiration to become a superpower would falter without oil, particularly from the Middle East. China's global oil diplomacy is, therefore, geared towards ensuring that this never happens.

The Chinese government views the country's growing dependence on imported oil as a chink in its armour that must be defended. It has sought to do so through two initiatives. One is its 'Strings of Pearls' (SOP) strategy aimed at defending the shipping lanes that are vital to its oil lifeline, namely the Straits of Hormuz and Malacca, which are policed by the US navy and through which 80% of China's imported oil moves. The second initiative is to acquire foreign oil and energy assets to circumvent an over-reliance on the global oil market and also to secure oil and gas supplies overland by pipelines from central Asia.

For decades the doctrine of peaceful rise has meant that China has tried to secure energy without confronting the United States. China's long-standing willingness to deal with states that the West regards pariahs is, in part, a recognition that dealing with countries like Sudan, Angola, Iran or Uzbekistan allows it to avoid direct confrontation with Western interests. However, the larger China has become, the sheer scale of its energy needs has forced it more and more to intrude into areas that the United States regards as its own sphere of influence.

A network of Chinese-financed pipelines that will take oil away from the United States and towards China is appearing or planned in Canada, Venezuela, Sudan and Iran. China's penetration into the US backyard could have profound political and economic implications for the US, as it is dependent for one-third of its oil on imports from countries that it can't afford to lose to China.

There are three primary flashpoints between the two countries: oil, trade and currency. Looming over all of them is Taiwan and the possibility that one day China will test the commitment of the United States to defend Taiwan against a Chinese invasion.

The peak of world oil production is clearly imminent. According to some estimates it is already on us; if it is not, very few expect the peak much after 2020. So it is hardly a surprise that both the United States and China eye each other's intentions concerning oil with suspicion. Henry Kissinger has warned of a potential great-power conflict over oil: this is it.

## Methods

The author will use his own research and collate it with research from other credible sources, if necessary, in order to present a well-balanced analysis of China's global oil diplomacy and its implications for the price of oil, the global energy security and China's relations with the United States and other major oil consumers such as Japan and India.

## Results

The author will argue that China's thirst for oil and its growing dependence on oil imports has transformed the global energy market and is already impacting on the price of oil, the global energy security and is also creating energy insecurity for China itself.

## Conclusions

The author will warn that China's global oil diplomacy could bring it into conflict with the United States unless both countries find a constructive accommodation that allows them to do business. He will conclude, however, that underneath the tension lies a greater truth; the two sides are co-dependent and essentially benefit from their relationship. Indeed, the more China grows, the more likely it is to develop its middle class and an appetite for institutional changes that will make it a more comfortable partner. Both the benefits of cooperation and costs of non-cooperation have never been greater.

If the next century is going to be Chinese, it will be only because China embraces the economic and political pluralism of the West in general, and the Western institutions modified, of course, for the Chinese experience.

