

China in Northeast Asia: the energy-security nexus

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Introduction

This observation offers an answer to a key question for thinking about energy security in Northeast Asia: what is the emerging competition between China and Japan for Russian energy likely entail for security in the entire region? I try to accomplish the task by taking the following steps. First, I briefly go over the growing awareness inside China about China's dependence on offshore sources of energy, principally oil. Second, I address the security issues associated in the competition between China and Japan for Russian sources of energy. Finally, I argue for an alternative conceptualization of the links between energy and security in the Northeast Asian region.

China's Heightened Awareness of Its Energy Vulnerability

China's dependence on offshore sources of energy, particularly oil, is a decade-old phenomenon, dating back to at least 1993, when China became a net oil importer. The year 2003, however, saw a number of developments that became powerful reminders of the country's vulnerability when it comes to securing sufficient offshore oil supplies for sustaining economic growth.

In January and February of 2003, China's import of crude oil rose by 78% over the same period of 2002. Payment for oil import accounted for the first month-to-month trade deficit for China in six years. The pending invasion by the United States of Iraq led Chinese oil companies into panic buying of oil on the world market, partly because China had yet to establish a meaningful strategic oil stockpiling capacity. When crude oil prices fell after the actual invasion began, the external dimension of China's energy security attracted much discussion among Chinese economic policy makers and the general public at large.

It was little surprise that energy security became a prominent issue for debate by deputies of the National People's Congress and the Chinese People's Political Consultation Congress, both convened in March. Chinese media summaries of views aired in the two Congresses focus on reducing the level of dependency on offshore sources of oil. Policy proposals include establishment of China's strategic oil stockpiling system, further development of the coal industry, promotion of hydropower generation and clean energy, and relaxation of government policies for the purpose of enlisting private capital for the development of oil fields both on land and close to China's territorial waters. Obviously, such proposals were informed by a desire to reduce China's dependence on the outside world for energy.

While energy independence is a politically desirable goal. To implement policies so inspired would imply massive amounts of capital injection by the central government. In addition, it would require a re-centralization of energy policy decision-making by way of re-establishing a ministerial level bureaucracy under the State Council. In 1998, the

government abolished the Ministry of Energy and put some of its functions under the Ministry of Land and Natural Resources. The idea was to let the market play a larger role in meeting China's energy needs. The new leadership of the national government chose to maintain the status quo by setting up a small energy bureau under the re-structured State Development and Reform Commission.

For much of the rest of 2003, energy became a topic for discussion in the public domain. This is in part due to relaxed government controls on media reporting of international affairs, beginning with coverage of the war against Iraq. More importantly, the new national leadership champions the notion of 'governing for the people'. Energy became one of those issues gravitating concerns about the well being of the average Chinese and the energy security of the nation. The intensity of media coverage about energy-related developments both domestic and overseas is unprecedented in recent years.

Competition between China and Japan for Russian Oil

Against this background, there was much hope in China for the beginning of the construction of the Angarsk-Daqing pipeline in 2003. The entry of Japan as a party interested in the same Russian source of oil is understood as an untimely change of dynamics at best. It would take a separate research project to provide a full account of the range of Chinese views about the pipeline and issues originating from the ups and downs of its progression. In this section, I report a few recurrent themes in Chinese reactions to the ongoing indecision by the Russian government.

First, the failure to start construction of the pipeline, which, according to an agreement signed by the prime ministers of China and Russia in 2001, was designed to transport an annual amount of 20-30 million tons of crude oil for at least 25 years beginning in 2005, is largely a result of changing dynamics of government-business relationships within Russia. From the hindsight, the China National Petroleum Corporation (CNPC) probably overlooked the complexities in Russian politics by choosing Yukos rather than Gazprom as the Russian counterpart for the pipeline project. This is particularly true when the idea of a Russian pipeline to Nakhodka emerged in the second half of 2002. CNPC still went ahead by presenting the negotiations it had entered with Yukos as a virtual certainty when China's president Hu Jintao visited Russia in May 2003. After all, all things considered, Gazprom has both experience and a share in cooperating with CNPC in China's West-East gas pipeline project. It might have been less politically sensitive to Russia had CNPC chosen Gazprom as the partner.

Second, Japan's formal entrance into the competition, beginning with a visit by the Japanese prime minister to Moscow in January 2003, in the context of continuing difficulties in political ties between China and Japan, complicated Chinese understanding of the geo-strategic implications of the oil pipeline project. Some Chinese international relations experts challenged the Russian government to live up to its prior commitments of seeing oil flow to China from Siberia. According to this view, Russian governmental support for an oil pipeline to China is a necessary manifestation of the kind of rhetoric of 'strategic partnership' so characteristic of relations between Russia and China in the post Cold War era. Yet the power of Japan willing to provide funding for the construction of the pipeline itself, in contrast with China offering no such funding, is undeniable. It

remains a mystery why China has not made a counter offer to Russia after the Japanese entrance into the competition became clear.

Third, although for analysts in the Chinese oil industry it is both desirable and feasible to see that between twenty to thirty percent of China's imported oil to come from Russian sources by the year 2010, now that Nakhodka has become a viable option for the Russian government, China will have to work harder in convincing both Russian and Japanese governments that materializing its access to Russian sources of oil and gas is in their interest as well. Energy featured as a key commodity in Chinese exports to Japan until the mid-1980s. Since then, Japan has become a key supplier of energy products (aviation oil, for example). In other words, there continues to be mutual dependence between the Chinese and Japanese economies in energy. The challenge now before all the three governments is to find the wisdom and utilize the competition as an opportunity for a three-way cooperation.

There is no cause-effect relationship between political ties in Sino-Japanese relations and Japan's pursuit of a Russian pipeline. After all, like China, it is in Japanese interest to diversify its sources of offshore energy as well. The unfortunate state of affairs is that the political atmosphere in Sino-Japanese diplomacy makes it difficult, if not impossible, to put the competition in a proper context.

An Alternative Conceptualization of the Energy-Security Links in Northeast Asia

Realist logic in International Relations has us see the competition between China and Japan for Russian oil as a zero-sum game. The security arrangement in the Northeast Asian region remains unchanged from the Cold War era. Since the thrust of the regional security arrangement continues to be bilateral alliances and agreements between the United States and a country in the region, the regional strategic landscape is bound to be a volatile one. In this context, China's success in diversifying its sources of offshore oil means a strategic gain on several grounds. The Angarsk-Daqing pipeline would indeed serve as a boost to the strategic ties between Russia and China, in addition to aiding the development of China's northeastern provinces, a rustbelt industrial region that has fallen behind in China's high-speed development of the past two centuries. China's gain would then mean a loss for Japan, a country that is struggling to regain from the kind of regional prominence it enjoyed until the burst of the bubble economy. It is therefore not surprising that in the Japanese proposal to Russia Nakhodka is presented as a strategic choice in that it serves as a convenient transit port for Russian oil to third destinations, including the United States and Taiwan. Ideas being floated in Russia about a pipeline that connects to both Nakhodka and Daqing reflect a desire to maximize the strategic gains Russia can reap from selling the same source of oil.

Such logic fails to pay adequate attention to a number of important issues associated with the Chinese and Japanese search for reduced dependence on oil from the Middle East by turning to Russia. Recognition of such issues can lead us to view the current state of affairs less strategically.

First, for China to secure supply of oil from Russia through pipeline is conducive to avoid the same kind of Chinese panic buying of oil as was seen in early 2003. Panic buying by China cuts against the interest of all oil importing countries, as it pushes up the prices of oil for all. Theoretically, China can avoid panic buying through the construction

of strategic oil stockpiling as well. China has just begun to take concrete steps towards constructing a strategic oil stockpiling system. In the process, it is still in the interest of all oil importing countries, Japan included, that China has a high degree of confidence in securing uninterrupted access to offshore oil.

Second, China is becoming a ‘factory of the world,’ referring to the extent of products made in China supplying the economies of the entire world. Because the majority of Chinese exports remain labor-intensive and low-tech ones, it benefits the rest of the world economy for the Chinese economy to have stable development. Major shocks to Chinese access to offshore oil are not only detrimental to the Chinese economy but also entail costs for countries importing products manufactured in China as well. In other words, there is room for seeing economic growth in China free from major interruptions to its access to offshore oil to be in the self-interest of all China’s neighbors as well.

Third, there has been a quiet change in China’s handling of military security in the Northeast Asian region. China’s turn to enlisting international collaboration to put an end to North Korea’s nuclear weapons program is a good case in point. Although the parties to the international framework for dealing with North Korea may have differences as to the process and eventual goal of engaging North Korea, through action China has demonstrated its willingness to cooperate with interested parties in managing a common security challenge. When we view the change of China’s policy towards North Korea’s nuclear weapons program together with the end of official rhetoric from China with regard to the deployment of Theatre Missile Defense systems in China’s Northeast Asian neighborhood, it points to a level of confidence in China’s regional security environment in the foreseeable future.

An alternative conceptualization of the China-Japan competition for Russian sources of energy, then, means that we de-emphasize the geo-strategic imaginations associated with the pipeline designs. Instead, we should begin to ask ourselves

- What does China, Japan, and Russia each stand to gain from joint development of oil and gas in Siberia and the Russian Far East?
- How can China and Japan contribute to fostering overall economic development in those Russian regions, rather than concentrating on the mineral resources there only?