

# The Oil Politics & Geopolitical Risks with China “Going out” Strategy toward the Greater Middle East

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***Abstract:** China- the Greater Middle East oil relations are of strategic importance to China’s energy security. Beijing’s energy security is mainly that of geopolitics in the Middle East and North Africa (MENA). As the geopolitical conflicts in the MENA are defined as long-running and insolvable in the foreseeable future, oil supplies from these regions are inevitably unstable, which exerts direct impact not only on international energy market and oil prices, but also on China’s energy security itself. Despite the substantial progress made over the years in China-the Greater Middle East energy cooperation, restrictive factors such as resource nationalism are many, obstructing further development in this regard. Up to date, major cooperative breakthroughs are yet to be achieved in China’s involvement in the exploration and production of the upstream sector in oil-rich Gulf countries. Pipeline politics is another challenge. Overall, China’s incapability and policy for oil politics and geopolitical risks, the energy geopolitical risk will pose long-term impact on China’s energy security. Accordingly, the paper tries to come up with some reflection concerning policies or policy proposals that may help to push*

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*China-the Greater Middle Eastern energy cooperation.*

**Key Words:** *China Energy Security; Greater Middle East; Oil Politics; Energy Geopolitics; Pipeline Politics*

The main concern of China's energy security is that of supply of oil and gas, or more specifically, the structural contradiction between the rising rigid requirements on clean energy and the significant domestic shortage as well as continuous external demand. The issue of effectively securing the nation's external demand on oil and gas while maintaining positive international cooperation based on a "Going out" strategy has become one of China's major issues in energy security.

China began its implementation of a "Going out" strategy and "diversification strategy on energy supply" in the mid 1990s. Three national oil giants (CNPC, Sinopec, and CNOOC) have been actively seeking overseas opportunities for exploration, exploitation, production, investment and trading of oil and gas in the Middle East, Africa, Central Asia, Russia, Latin America and Southeast Asia, aiming at enlarging energy cooperation and greater participation in the international energy competition. Since then, China has been actively involved in energy investment and trading with a series of countries around the globe, signing multiple contracts on energy cooperation and gaining certain external assets of oil and gas (equity oil) as well, which have advanced energy cooperation with the resource-rich countries and improved the nation's energy security. More importantly, with the deepening of external energy partnership, China is developing its political, economic and diplomatic relationships with oil-producing countries in the Middle East, Africa, central Asia, Russia, Latin America and Southeast Asia, at the level of bilateral or multilateral energy cooperation at a steady pace.

However, China's "Going out" strategy and external energy cooperation toward the Greater Middle East has faced many difficulties, among which international oil politics or energy

geopolitical risks, resource nationalism and pipeline politics constitute the most threatening risks and challenges.

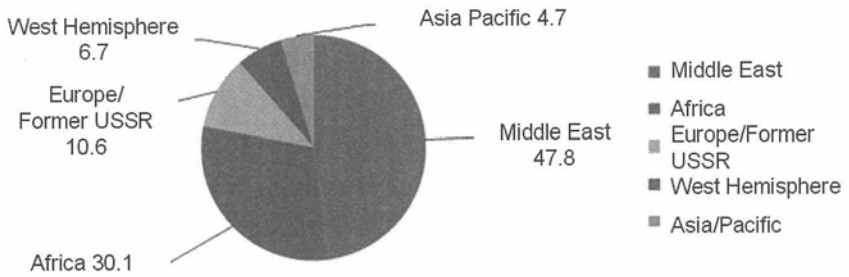
## **I. China's Energy Security is Mainly the Security of Geopolitics in Middle East and North Africa**

1. China highly relies on oil imports from the Middle East and North Africa.

China's energy security is mainly about oil security, and her oil security is mainly the security of geopolitics in MENA. In 2009, China's oil consumption recorded 8.3 million barrels per day (mb/d), whereas production capacity in the same period recorded 4 mb/d, lacking 4.3 mb/d with over 50% of foreign dependence rate. It is expected that China's oil consumption in 2012 would reach 9.6 mb/d, while production capacity would only be 4.2 mb/d, with foreign dependence of over 56 percent. According to FACTS Global Energy, China's oil import reached 4 mb/d in 2009, of which 2 mb/d came from MENA with 50% of foreign dependence rate. Seven countries among the top ten oil exporting nations to China are in MENA: Saudi Arabia, Iran, Sudan, Oman, Iraq, Kuwait and Libya respectively, and they have a significant influence on China's oil supply and energy security. Moreover, MENA is China's dominant supplier of LNG and fuel oil as well. Although China is implementing diversification strategy on energy supply to avoid energy supply risk, it is still necessary for China's energy security to assure a presence in MENA, considering the unprecedented position of the region in world's energy market, as well as its importance for China's energy security both in the short and long terms.

**Chart 1: Source of China's Crude Oil Imports in 2009 (Unit: %)**

The Oil Politics & Geopolitical Risks with China “Going out” Strategy  
towards the Greater Middle East



Source: Tian C., “China’s oil export and import analysis,” *International Petroleum Economy*, 2010, p. 3; pp. 7-8.

**2. China’s Investment in the MENA is considerable**

With the deepening of China’s “Going out” strategy on energy, investment on oil and gas in the MENA has become increased, including risk exploration, oil and gas development and exploitation, refineries, plant construction, pipeline laying and port building. These investments are usually in the form of joint-ventures, securing equity oil while avoiding geopolitical risks and their impact on energy supply. Currently, China’s oil and gas business cover nearly all the main oil counties, including Block B gas field in the Saudi Arabian desert, Iran’s Yadavaran oil field, Iraq’s Rumaila, as well as the founding of Red Sea Oil Company, the Greater Nile Petroleum Operating Co. Ltd., Khartoum Refinery and other oil refining companies. In particular, China's oil and gas investment in the Sudan has become industrialized and include exploration, production, refinery, transportation and distribution, producing 0.25 mb of oil per day.

**Table 1: China's Investment in Oil and Gas in Middle East and North Africa**

Nation	Project	Time	Company
Saudi Arabia	Block B Gas Field	February 2004	Sinopec

	Red Sea Oil Company	March 2011	Sinopec	
Iran	Yadavaran Oil field	December 2007	Sinopec	
	North Azadegan Oil Field	January 2009	CNPC	
	North Pars Gas Field	May 2009	CNOOC	
	South Pars Gas Field	June 2009	CNPC	
	Refinery Construction	2010	CNPC	
		Ahdab Oil Field	November 2008	China Oasis Oil Company
Iraq	Rumaila	June 2009	CNPC	
	Halefaye Oil	December 2009	CNPC	
	Maysan Oil Field	March 2010	Sinopec, CNOOC	
		Qatar Block BC Offshore Gas	August 2009	CNOOC
Qatar	Gas MOU	November 2009	CNOOC, CNPC	
		Block 1 / 2 / 4	1997	CNPC
Sudan		Block 3 / 7	November 2001	CNPC
		Block 6	September 1995	CNPC
		Block 15	2005	CNPC
		Greater Nile Petroleum Operating CO. Ltd.	June 1997	CNPC
		Khartoum Refinery	1997	CNPC
		Khartoum Chemical Plant	1997	CNPC

*The Oil Politics & Geopolitical Risks with China “Going out” Strategy  
towards the Greater Middle East*

Oman	Block 36、 38	October2004	Sinopec
Kuwait	Block 69、 71	2004	Sinopec
Algeria	Adfar Integration Project	July 2003	CNPC
	Block 112 / 102 &350 Risk Exploration	December 2003	CNPC
	Block 438B	July 2004	CNPC
	Oil Field Service	September 2004	CNPC
	Condensate refinery	May2005	CNPC
Libya	Block 17–4 On Risk Exploration	December 2005	CNPC
Yemen	Block 71 nabaa-1 Well	2010	CNPC

3. A peaceful geopolitical environment of Middle East and North Africa is a requirement for China’s energy security.

Until now, the situation in MENA is unclear. The leaders in Tunisia, Yemen and Egypt have been overthrown, while the conditions in those countries remain tense. The nations and people are not fully recovered from the upheaval, and their concern over internal conflicts the way they will be resolved would have a great impact on future development. The demonstrations in Yemen, Oman and Bahrain are still ongoing, with a number of casualties while the settlement between demonstrators and the government are unpredictable. After the war and death of Gaddafi, Libya’s future is uncertain. Despite the fact that Libya has a limited impact on international oil supply, the panic that descended on people towards the market remains, which would directly influence investment behavior on the international market of crude oil<sup>①</sup>. Standing on a

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<sup>①</sup> Libya’s oil production capacity records 1.65 mb/d, making up 2% globally; China’s import of oil from Libya is 0.13mb/d, representing 4% in total.

larger scale, it is hard to estimate future trends in the region. China's oil imports mainly rely on MENA countries that are experiencing unstable situations, except for Saudi Arabia, Qatar and Kuwait; if the upheaval spread out to other countries, China's energy security would be threatened profoundly. Some of the oil-producing countries, Yemen, Oman, the United Arab Emirates and Syria are all experiencing domestic upheavals, sharing similar problems--high unemployment rates, poverty, corruption, and economic recession, but there is no way to solve all these problems overnight. The fact that young people are the main force in the demonstrations makes it harder for the upheaval to subside soon. The political upheaval is significant, probably a historical watershed. The importance of Saudi Arabia for the international oil market and its influence on China's energy supply is evident, and if things go wrong there, there would be serious damage to the world economy. Based on statistics from BP, the proven oil reserves in MENA reached 881.9 billion barrels, taking up 66.2% in a total of 1333.1 billion barrels around the globe in 2009. Meanwhile, oil production in these areas recorded 34.06 mb/d, about 42.3% of the total supply in the world; the export reached 25.56 mb/d, taking up 48.3% of world's 52.93 mb/d. This is the main reason why oil importing countries highly rely on the MENA markets. According to FACTS Global Energy, China's oil imports recorded 4 mb/d in 2009, of which 2 mb came from the Middle East, taking up 50% in total; Africa contributes 1.2 mb/d, which is 30% in total. The above two sources combined amounted to more than 70% of all China's oil imports; other regions including Russia and central Asia take up the remaining 20%. As a result, if the ongoing upheaval in parts of MENA countries spread out to their neighbors, or even ignite wars as in Libya, China's energy security or even the world's energy market and economic sustainability would be greatly challenged.

## **II. The Risks and Challenges in Resource Nationalism**

In recent years, with the shift in international oil prices and demand & supply of energy market, the so-called resource nationalism arises again. The governments of those resource countries can restrict or even ban external investment on their domestic upper stream oil and gas industry; through mandatorily modifying clauses to adjusting their relationships with foreign energy companies, these countries acquire the maximum profits from internal oil and gas. And the practice is being used in a wider scale, adding up variable factors to the already fragile international energy security, which in return, pushes energy security closer to resource nationalism. The threat coming from resource nationalism is implicit, legible, and fundamental, because resource nationalism is a nation’s domestic affairs, although it is bonded with key energy chain of the world supply and demand, they can still legally threaten countries’ national energy security worldwide<sup>①</sup>. The issue of energy security has never been a single one about market, trade or price. It is far more than a problem of market.

Resource nationalism appears to be a state of emotion towards national mineral resources, claiming that foreign companies steal valuable domestic assets while making lucrative profits, so resource-rich countries should control the national strategic, or it would be suspected of conniving with foreign interests. For example, India critics regarded exporting iron ore as selling national strategic resources; private individuals from Pakistan believe letting foreign

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<sup>①</sup> Charter of Economic Rights and Duties of States provides that: each country has full and permanent sovereignty over its property and natural resources, including the use and transfer of resources. Every country has the right to confiscate or transfer property owned by foreigners or to nationalization. Engaged in such acts, the nationalization of the country should follow the relevant legal provisions and circumstances, and the original asset owners should be given appropriate compensation. All the countries have the obligation to respect the rights of producers and should not take economic or political means to interfere in other countries indecision-making.



companies buy domestic oilfields equals betraying national interests. In the academic realm, it is regarded as an abuse of control over domestic resources.

Some scholars believe that resource nationalism refers to a number of resource-rich countries taking various political and economic measures to control their national resources, shifting goods from private hands and foreign countries to their own. They divide resource nationalism into four types. The first is revolutionary resource nationalism, which is represented by Venezuela and Russia, where extreme resource nationalism is practiced mainly through the enforcement of the resource sector nationalization. The Second is economic resource nationalism, which, unlike revolutionary resource nationalism, is more commonly found in a stable political environment where politics has little effect on its governmental ups and downs. A typical case is the environmental policy and government of Kazakhstan project for the development issues related to state-owned oil company KIVIG for a larger share of investment. The third is the legacy resource nationalism, for example, in Kuwait and Mexico, which has become the only acceptable option to win one's people over, and in turn leaves great pressure on these two governments. The fourth is soft resource nationalism, which can not only be seen in emerging markets, but also in OECD countries that seek to protect their local enterprises, mainly through changes in taxes and franchise policies. Other scholars believe that resource nationalism is a phenomenon that, with the emergence of emerging economies, appears in a way contrary to conventional wisdom in the world economy, with soaring oil prices, the stability of system specifications, as well as the sanctity of treaties and the compliance rate declining, the political risk is gradually increasing, which, as a result, leads to these phenomena collectively known as "resource nationalism"<sup>①</sup>. There are scholars who make an even more succinct

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<sup>①</sup> on the academic community is split over the issue of resource nationalism, some treat it as identical TO nationalism of oil and gas. Reference can be found in

The Oil Politics & Geopolitical Risks with China “Going out” Strategy  
towards the Greater Middle East

summary, arguing that, “resource nationalism is a transfer of power for countries with extensive resources from their foreign partners to their own” and “state-owned companies control or dominate energy resources and the possibility of using this power for political ends.” At the government level, resource nationalism is practiced as policy measures. The government of oil-producing countries restrict or prohibit foreign capital from investing in its upstream oil and gas industry in order to control the source of oil and gas production, or, through term-changing to mandatorily adjust their relations with foreign oil companies and achieve their objectives of maximizing the return of oil and gas resources, whose extreme cases can be found in forms of nationalization policy.

**Table 2 : Countries Following Resource Nationalism and Their Purposes**

Type	Name of countries	Reason	External Challenge
1. “National Domination” The government controls and owns strategic resources	Russia, Venezuela, Bolivia, Saudi Arabia	1. Geopolitical interests and resource diplomacy 2. The political and economic agendas of the public 3. Lead the trend of nationalization	1. Threats from confiscation or license Being withdrawn (nationalization) 2. The subordinate status of foreign companies 3. Innovative investment modes needed

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Edward L Morse, “A new political economy of oil?” *Journal of International Affairs*; Fall 1999; 53, 1; ABI/INFORM Global p.4.pdf.; George Washington University in D.C.’s Reid W. Click and Robert J. Weiner borrowed the trade press (Petroleum Intelligence Weekly 5 Feb 2007 and 8 Jan 2007) in his Resource Nationalism Meets The Market --Modeling Political Risk and the Value of Petroleum Reserves, claiming that oil, resource nationalism is a phenomenon contrary to conventional wisdom in world economy, with soaring oil prices, the stability of system specifications, as well as the sanctity of treaties and the compliance rate declining, the political risk is gradually increasing, which, as a result, leads to these phenomena collectively known as resource nationalism.

<p>2. "Balanced State Participation"</p> <p>The government tries to control but allows the entry of foreign capital</p>	<p>Kazakhstan, Chile, Qatar</p>	<p>1. From external alliances with resource advantages</p> <p>2. Gain bigger economic benefits from resources</p>	<p>1. Threats related to Investors' rights</p> <p>2. The issue of governments' ownerships of key enterprises</p>
<p>3. "Geopolitical Expediency"</p> <p>The government changes its control over assets due to geopolitical considerations</p>	<p>Kyrgyzstan, Uzbekistan</p>	<p>1. Leverage resources to secure economic and diplomatic goals</p>	<p>1. Threats from confiscation or license being withdrawn (nationalization)</p> <p>2. Geopolitical risks</p>
<p>4. "Greater Economic Participation"</p> <p>The government seeks more economic benefits</p>	<p>Mongolia, Peru, South Africa</p>	<p>1. Domestic economic goals</p> <p>2. Political agenda</p>	<p>1. Profits and taxes</p> <p>2. Change of tax rates</p> <p>3. Pressure to profit</p>

The security of oil and gas transportation is an important part of energy security as well as an indispensable component for the protection of national energy and economic security. Cross-border oil and gas pipelines are energy transport pipelines that span over one or more "sovereign" state, as well as an important way of transporting oil and gas resources, a bilateral or multi-stakeholder-driven result, and a reason of contradictions and conflicts of interest. However, the current domestic cross-border oil and gas transportation safety research is relatively weak and the risk warning system is missing. Bias remains in terms of strategic awareness and understanding of the problem that we tend to take oil and gas pipeline construction as

safety promise of national energy security. But for the real issues concerning pipeline transportation security, such as geopolitical impact of the struggles, cross-border national political changes, differences and contradictions in transit fees, third party intervention, performance of the main changes (the covenant is central government, while it is the local government and companies in practice), lack of jurisdiction institutions and dispute settlement mechanisms, and the lack of understanding and analysis of forward-looking, not to mention the proposing macro-policies and measures as well as specific proposals.

The biggest risk of pipeline politics is the probable interruption of normal oil and gas transportation. Oil and gas supply would face disruption, the downstream refining industry, consumers and the normal operation of the normal economic and social development be affected, leading to national energy and economic security risk exposure and an increase in bilateral tensions. Historically, oil and gas pipeline operations have not been secure and stable. There are always problems that result from pipeline transportation capacity and supply reduction, even eventually leading to pipeline operations completely disrupted, making the commercial activities rise to political issues. Although the transit transport terms of European Energy Charter listed the transit and non-discrimination principles of dispute settlement, it did not prevent the occurrence of pipeline politics.<sup>①</sup> Western consumer countries, especially in Europe, have been suffering from imported oil and gas transportation safety problems, and the recent “battles between Russia and Ukraine” highlight the complexity

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<sup>①</sup> Pipeline transportation on the cross-border legal document is written, European Energy Charter in terms of energy transit, including the transit, the transit of the definition of the basic principles of transit, transit dispute settlement provisions of the charter are all included, for Arising from cross-border pipeline has an important political issues such as the legal basis, although it can also solve the problem much worth the wait.

of the political pipeline. On January 1, 2006, Russia cut off gas to Ukraine; on January 1, 2009, Russia once again interrupted gas supplies to Ukraine; and on June 21, 2010, Russian President ordered Russia's Gazprom to restrict the flow of natural gas exports to Belarus. Although these last few "grudge" events only lasted a few days, the influence was enormous for Ukraine, Belarus and the European countries.

Historically, the nationalization of oil and gas in oil-producing countries was aimed at national independence and to build one's national economic base. Oil-producing countries promote the government through domestic legislation and international law, so as to ensure sovereignty over their own resources legally. Starting from the new century, resource nationalism has become not only the legal basis for nationalization of oil resources, but rather an administrative method to split interests of oil and gas resources with international oil companies to form new distribution patterns. The ongoing control of oil and gas in producing countries has more to do with nationalism. It seeks to control more resources in pursuit of economic benefits, so it is not fully accurate to label it as nationalization of oil and gas. In the past, successive waves of the nationalization processes were largely practised through the confiscation of assets of foreign oil companies, mergers and acquisitions, so as to strive completely to break the Western monopoly of oil companies in oil-producing countries, while in contrast, the current wave of nationalizations is not a mere repetition, during which most of the oil-producing countries do not discriminate against foreign oil companies completely, but rather through the amendments of legislation, policy making, and review controls to strengthen governmental effort. With the purpose of controlling oil resources; it is more obvious that oil-producing states focus on playing the "economic card" for a specific political purpose.

**Table 3: Cross-border Oil & Gas Pipelines Related to China**

*The Oil Politics & Geopolitical Risks with China “Going out” Strategy  
towards the Greater Middle East*

Name	Length(km)	Planned Annual Transport (10 k Ton/100M Cuber Metres)
China-Russia Oil	1030	1500
China-Kazakhstan	3070	2000
Central Asia Gas Pipeline	10896	300
China-Myanmar Oil & Gas Pipeline	1100	2200
Gas Pipeline	2806	120

Source: A. Gorbansky, Frontier Strategy Group, PDAC 2007 order is made, see “Coping with Success: PDAC Presenters Suggest Methods for Managing Boom-Cycle Issues,” *Engineering and Mining Journal*, April 2007, 208, 3, ABI / INFORM Global, p.4. [www. e-mj.com](http://www.e-mj.com).

We should not neglect the impact of resource nationalism on China’s energy security, especially for Chinese energy companies with the “Going out” strategy and their cooperation with foreign energy companies, since Chinese energy companies are faced with the same problem of “resource access” as other international oil companies. Countries in MENA, Central Asia, Russia and Latin America have a long history of nationalism, and their tradition of resource nationalism can limit the expansion of China’s cooperation with these countries, including upstream energy investment and bilateral energy cooperation. Due to political and historical reasons, the upstream oil and gas investment opportunities in the Greater Middle East, especially the Gulf region, seem to concentrate on Iraq at present. In

addition, Saudi Arabia, Kuwait, UAE and other countries still strictly restrict international capital, including restrictions on Chinese NOCs to its upstream oil investment, which is the main reason why, so far, there has not been any major breakthrough in the upstream oil investment between China and the Middle East oil-producing cooperation. For Central Asia and Russia, China's "Going out" strategy is also faced with huge challenges of resource nationalism. There is still a long way to go before China finds an effective way to crack this nationalism in the Middle East, Latin America and other regions and countries. China needs to be patient and wait for opportunities, and to transform its strategies, searching for oil and gas investment opportunities in other countries and regions.

### **III. Cross-border Oil & Gas Pipelines Politics and China Foreign Energy Cooperation**

For a long time, China's energy import relies on sea transportation; while an over-reliance on the sea is not conducive to China's energy security, especially when most of China's imported oil comes from the Middle East and Africa, which must come through the North Indian Ocean and the South China Sea via the Strait of Malacca, putting transport security severely at risk. Therefore, China has been trying to diversify routes for energy imports. Since the construction of the oil and gas pipelines from Myanmar in 2011, until the opening of the China-Russia crude oil pipeline early 2012, four channels of Chinese foreign energy imports have been formed, three channels being cross-border pipelines.

Cross-border oil and gas pipelines politics is virtually a geopolitical risk. The security of oil and gas transportation is an important part of energy security as well as an indispensable component of the protection of national energy and economic security. Cross-border oil and gas pipelines are energy transport pipelines that span over one or more "sovereign" state, as well as an important way

of transporting oil and gas resources, a bilateral or multi-stakeholder-driven result, and a reason of contradictions and conflicts of interest. However, the current domestic cross-border oil and gas transportation safety research is relatively weak and the risk warning system is missing. Bias remains in terms of strategic awareness and understanding of the problem that we tend to take oil and gas pipeline construction as safety promise of national energy security. But for the real issues concerning pipeline transportation safety, such as the geopolitical impact of the struggles, cross-border national political changes, differences and contradictions in transit fees, third party intervention, performance of the main changes (the covenant is central government, while it is local government and companies in practice), lack of jurisdiction institutions and dispute settlement mechanisms, and the lack of understanding and analysis of “forward-looking”, not to mention the proposing macro-policies and measures as well as specific proposals.

The biggest risk of pipeline politics is the probable interruption of regular oil and gas transportation. Oil and gas supply would face disruption, the downstream refining industry, consumers and the normal operation of the normal economic and social development be affected, leading to national energy and economic security risk exposure and an increase of bilateral tensions. Historically, oil and gas pipeline operations have not been secure and stable. There are always problems resulting from pipeline transportation capacity and supply reduction, even eventually leading to pipeline operations being completely disrupted, making transforming commercial activities into political issues. Although the transit transport terms of the “European Energy Charter” listed the transit and non-discrimination principles of dispute settlement, it did not prevent the occurrence of pipeline politics.

Western consumer countries, especially in Europe, have suffered from imported oil and gas transportation safety problems, and the recent “battles between Russia and **Ukraine**” highlight the complexity



of the political pipeline. As seen earlier, on January 1, 2006, Russia cut off gas to Ukraine; on January 1, 2009, Russia once again interrupted gas supplies to Ukraine; and on June 21, 2010, Russian President ordered the Russian Gazprom to restrict the flow of natural gas exports to Belarus. Although these last few “grudge” events only lasted a few days, the impact was enormous for the Ukraine, Belarus and the European countries.

From historical experience, there are in politics many forms of cross-border oil and gas pipelines, and there are a variety of causes: historical factors, territorial and boundary disputes, geopolitical struggles with reclaimed land, the rise of resource nationalism (Latin America), cross-border political changes, big country factor, terrorism, or even other complex motives along political, military and diplomatic means to interrupt or limit the cross-border oil and gas transport. The resolution of oil and gas pipelines politics can be political, economic, military and legal, depending on the incentives. At present, China’s bilateral relationship with Russia, Kazakhstan, and Central Asia have entered the best period in history. China’s political and economic relations with these countries would be tightened with the construction of the oil and gas pipeline project, which would in turn benefit those countries’ foreign exchange earnings, oil and gas industry, as well as economic and social development. From the current and future political vision, in particular the economic vision, Russia, Kazakhstan, Myanmar and other countries do not have the major political and economic motivation for pipeline transportation interruption. However, this does not mean that during and after the completion of construction of oil and gas pipelines, there will not be economic, engineering, technical and environmental risks, particularly geopolitical risks and problems with long-term security and stability. Once there are problems that come out triggering oil and gas pipeline transportation interruption, or that transport safety being limited or disrupted, China's energy supply security, as well as economic and social development will be affected.

This article will focus on two China-related cross-border oil and gas pipelines relating to the Greater Middle East and their related geopolitical risks.

The first is the risk in the China-Kazakhstan crude oil pipeline, including the possibility of oil source shortage, the concern of shares distribution, the contention of multiple resources.

Bakhytzhan Isengaliyev, Vice President of Petro Kazakhstan who is in charge of the strategic collaboration stated on September 23, 2009 during the "2009 China-Russia-Central Asia Oil and Gas Forum," that China should not worry about the supply of the China-Kazakhstan crude oil pipeline. But Isengaliyev also said that Kazakhstan's crude oil production would reach 1.5 million tons in 2015, and the oil would mainly be used to satisfy the domestic market of Kazakhstan, through deep processing as well as the establishment of new petrochemical enterprises to meet the needs of local oil products. Isengaliyev said: "we will consider export after Kazakhstan's need has been met. It is now too early to estimate the proportion of exports." Reports from *Caijing* released what they acquired in the previous interview that actual capacity of Kazakhstan crude oil pipeline reached 20 million tons per year, while China's current oil interests in Kazakhstan recorded only 13 million tons per year; the remaining 700 million tons can only rely on trade. China is indeed worried about oil sourcing in a certain way.

Just like the process of "twists and turns" of the China-Russia oil pipeline, the construction of the China-Kazakhstan oil pipeline is not smooth either. Kazakhstan is located in inland Asia, and it has to seek safe passage to the international market. Therefore, the Kazakh government requires the oil pipeline to be operated and technically defended by Kazakh companies. Kazakh Prime Minister Akhmetov said in April this year that the Sino-Kazakh oil pipeline has great strategic significance, and the Kazakh government is trying to seize 51% share in the Kazakhstan pipeline project in order to win initiative in the project. China and Kazakhstan held talks and consultations

during May and June 2004. On June 30, the two sides finally reached a consensus: CNPC and Petro Kazakhstan signed a pipeline contract and limited liability company articles of association to create the partnership in Kazakhstan Astana, with each side accounting for 50% shares. Thus, the preparatory work before the second phase of the Sino-Kazakh oil pipeline has been completed. Experts on international politics believe that Kazakhstan has made substantial concessions, and the reason China and Kazakhstan are able to reach a consensus on the final equity issue signals the "diversification of Kazakhstan oil transportation", which has been repeated by Kazakh leaders many times. The project allows Kazakhstan to establish a "unified, flexible, and long-term pipeline system".

Kazakhstan is located in the hinterland, with the strategic objective of resource diversification on export. Besides the Sino-Kazakh pipeline, there are a few more options: First, the Atyrau-Samara oil pipeline. Its current oil output capacity reaches 1,500 tons/year, and it may increase its transport capacity to 2500 tons/year. Second, the Caspian oil consortium of international oil transportation pipeline system (KTK, from Kazakhstan's Tengiz territory to the Russian Black Sea port of Novorossiysk). The current transport capacity reaches 2800 tons/year, and the pipeline's transport capacity can be increased to 67 million tons/year. Third, transport through Aktau port with a small oil tanker transporting oil to Baku, Azerbaijan, and then oil transportation by pipeline to the Georgian Black Sea port. Fourth, the cross-border "Baku-Tbilisi-Ceyhan" (BTC) oil pipeline. The Badger pipeline started from Baku, Azerbaijan in the west and Turkey's Mediterranean port of Ceyhan to the east, with a total length of 1,767 km (of which 443 km in Azerbaijan, 248 km in Georgia, and 1,076 km in Turkey). Badger project laid the foundation stone in September 2002. Officially started in April 2003, the project was scheduled to be completed in the fourth quarter of 2004, and to be put to use in the second quarter of 2005, with annual traffic volume of 5,000 tons.

The first two directions of oil transplantation are for Russia. Russia still hopes Kazakhstan could deliver oil according to the established traffic; the two latter directions are supported by the United States and its Western allies. Every direction in the above four directions has the capacity of more than 1.5 times of China's, the largest is even 2.5 times. Based on recent BP data, Kazakhstan produced 78 million tons of oil in 2009, consuming 12 million tons. However, Kazakhstan's five directions' maximum design capacity totals 162 million tons! If resources are to be provided by these Kazakh pipelines alone, competition between these directions would be intense.

The second pipeline constitutes a risk for the China-Central Asia natural gas pipeline. As crude oil pipeline in Kazakhstan, China-Central Asia natural gas pipeline also faces the following three challenges:

1. Natural gas dispute: the Central Asian gas export route only has one direction, i.e. Russia. With the independence of Central Asian countries, they are adjusting energy strategies and looking for resource diversification as well. Although the China-Central Asia natural gas pipeline is the largest one designed with a capacity of over 300 billion cubic meters, which is of great significance for China, this direction is only one of their many energy exports and part of export diversification strategy. In addition to directions of traditional line of Russia, European countries are also actively promoting the construction of the Trans-Caspian, a route in Europe through the Caucasus pipeline. According to Russian media, the competition between Russia, the European countries and China has been fierce. Meanwhile, in the southwest direction, the United States has tried to prevent the construction of the "IPI" cross-border natural gas pipeline in order to isolate Iran, while strongly supporting the "TAPI" cross-border natural gas pipeline, which is also a potential competitor. The gas transported by TAPI pipeline is consumed by India and Pakistan, and until then, Central Asian countries would be other

customers.

2. Pipeline operation safety concerns: extremist activities in Central Asia have multiplied, marked by the impact of “three forces” to Tajikistan on September 19, 2010, which not only constitutes a threat to Central Asian countries, but also to the stability of the surrounding areas. “Three evil forces”, i.e. religious extremism, ethnic separatism and international terrorism, are attempting to overthrow the Central Asian governments and their secular regime. In accordance with the so-called “pure national doctrine” to establish a “pure Islamic state”, these three extremisms are not only a serious threat to the Central Asian countries, but also to the security and stability of neighboring countries. The China-Central Asia natural gas pipeline lies across the borders of these four countries, stretching thousands of miles. Starting from the first transit in Uzbekistan, the “Uzbek Islamic Movement” has been accused of being involved with “Islamic Jihad Union” terrorist organizations in planning the riots in southern Kyrgyzstan. The “Islamic Movement of Uzbekistan” is considered as the most threatening terrorist organizations in Central Asia. Overall, considering the newly independent Central Asian region, these are various and complex forces both inside and outside the region, which make it a relatively unstable political environment. The energy channel that China and Central Asian countries put into numerous sums of money may have safety challenge and potential risk.

3. Price. Although a year has passed since the construction of the Central Asia gas pipeline, the import price is still higher than domestic price of natural gas. Even low-priced imports from Central Asian gas prices are at least one time higher than the current price of first-line gate stations from the “West-East” pipeline. The contradictions on prices might raise domestic gas prices as a whole.

#### **IV. China’s Incapability and Policy for Oil Politics and Geopolitical Risks, the Energy Geo-political Risk Will Pose**

## **Long-term Impact on China's Energy Security**

1. From the perspective of energy security, obtaining adequate, stable and diversified oil and gas supply at a reasonable price is the strategic goal of China's energy security. Oil supply disruptions and soaring raise and fall of international oil prices are the largest risks of China's energy security. Historically, the international oil and gas issues and the stability of supply are always in trouble, and the international oil prices have never been stable, or are only relatively stable. These are not only the fundamental issues of market supply and demand. International energy geopolitics cannot be ignored either, and to a considerable extent, the impact of geopolitical forces on world oil markets is as large as economic factors.

2. International Energy geopolitics can affect any part of the supply chain and international oil prices. The recent geopolitical changes in MENA have posed a great warning about international energy security and China's energy security. The current situation in MENA is only the geopolitical representation of its structural contradictions; neither the United Nations nor the United States nor China can resolve the structural geopolitical conflict, which means that the safety and adequacy of oil and gas supply in the Middle East and North Africa will remain unstable. Besides, it indicates that international oil prices will not stabilize at any level, and that China's energy security will long be influenced by geopolitics in the MENA, as well as other countries.

3. In general, China lacks the capability of dealing with international energy politics and risks. China's foreign policy of "non interference in other countries' internal affairs" does not allow China to accomplish much on the international energy geopolitical issues. Just like the MENA policy posed by the western countries make them become "self-trap victim", China's own shortcomings and related policy may be put at risk of being "hostage" to international energy geopolitics, which may further affect the country's "going-global"

strategy and external energy cooperation as well as energy security interests as a whole. Ultimately, it would form a paradox between strategic theory and practical sense on this issue, leaving behind the difficulty that traditional principles are unmatched with practical interests.

Then, what's behind the changes in China's Greater Middle East policy? Similarly to the case of Iran, the readjustment of China's stance on Sudan was clearly driven by the realization that China's traditional principles ran counter to its present-day interest, or at least partially so. The context in which China has traditionally exercised its diplomacy has changed. This new context is defined externally by the loosening and pooling of national sovereignty, the emergence of trans-border or global problems, such as energy, environmental protection and antiterrorism, the deepening of mutual dependence and the strengthening of collective security awareness and internally by the rise of a nation's status, the increasing of a nation's capabilities, the re-positioning of a nation's profile, the adjustment of a nation's pursuit of its interests and the reformulation of a nation's diplomatic conceptualization and foreign policy. As a result, in this new context, it should not be surprising that China's traditional principle of "non-interference in other countries' internal affairs" is somewhat losing its ground, attesting to the necessity and urgency for China to fine-tune some of its outdated principles and policies.

Readjusting the principle of "non-interference in other countries' internal affairs" will hopefully bring three-fold benefits to China. First, it helps China to redefine its diplomatic conceptions for the good of its peaceful development. Policies that keep pace with changing situations will guide China in redefining its status as a world power and in rearranging the order of the pursuit of interests. They will allow China to act as a more active and responsible stakeholder on the international scene, making contributions to the emergence of a harmonious world while building up its international influence and reaping the gains it deserves. In countries where China has

fundamental interests, appropriate involvement in their affairs are necessary and fair and this does not have to be covered up, either. Secondly, readjustment of related principles and policies will make China's diplomacy more flexible and more operational, giving it more space in which to maneuver. With China's international status and influence rising substantially and rapidly, her national interest will keep getting more internationalized and its international interest more varied but, as the West is concerned about China's rise, taking every opportunity possible to damage China's international image and thwart China's diplomatic efforts, China should be more careful of any policy change. Under this circumstance, for China to stick to the "non-interference" principle and always choose to be on the defensive does not work well to deflect possible crises and to maximize its national interest. Lastly, by offering to adjust outdated principles and policies in a timely manner, China will be able to seize the commanding heights to offset international pressures and provide the West with no excuses to take advantage of China when crises occur in the future.

However, it must be borne in mind that while adjustment is necessary, it may produce some adverse effects. First, China's total abandonment of the rigid principle of "non-interference" will distort its international image as a "moral model", a model that was nurtured with the five principles of peaceful co-existence advocated by China. Second, some countries, neighboring countries in particular, will have reason to worry about China's possible interference in their internal affairs, which is not helpful to the implementation of China's diplomatic guideline of "being good to the neighbors and making friends with the neighbors in the process of peaceful rise." Third, the adjustment may in the future be used to justify the West's interference in China's own internal affairs.

The adjustment of existing principles and policies is necessary as well as costly. With this in mind, China is well-advised not to make fundamental changes to the critical mass of the "non-interference"



principle, but only to some of its aspects to make them applicable and adaptable to the changing situations at the moment. Adjusting in a measured and partial manner and at a slow and steady pace is fine-tuning as opposed to total abandonment and partial abandonment, the two types of adjustment different in magnitude. Obviously, total abandonment is the complete denial and betrayal of old traditions and, given the current internal and external restrictive factors, it is not the right way of making an adjustment. Therefore, fine-tuning is what is left for the adjustment of the “non-interference” principle. To be specific, while still adhering to the basic meaning of the “non-interference” principle, China may impose some preconditions on it, citing that “non-interference” applies and works only when the conduct of internal affairs is not in violation of the UN charter and international law or that the internal affairs are not posing a threat to regional and global peace and stability. In doing so, China will still have to take the feelings of the developing countries into consideration and make necessary explanations to them about this change in China’s diplomatic conceptions. Of course, before the actual implementation of the adjusted principle, dissemination of information is needed to seek the understanding and accommodation of the target countries. This can be done through multilateral mechanisms, UN diplomacy, behind-the-scene diplomacy, and public diplomacy.

Changes in China’s energy-related policies may well serve as a preference to the issues discussed above. Energy security is by nature a global issue. Given this, China should be well positioned to seek solutions to the problems arising from regional and global energy cooperation. Also, it should work together with the international community to properly address the Darfur crisis and the Iranian nuclear issue, with an aim to maintaining regional and global peace and stability and creating a good environment for the energy market to develop. Regarding China’s energy security and the prospects for the China-Greater Middle East energy cooperation, necessary

adjustment of China's energy policy toward Africa should really be made. In fact, in July, 2006, when President Hu Jintao was in Moscow attending the G-8 summit, he proposed a "new energy security conception", stressing the importance of "a good political environment" and "stability in oil producing regions" to the safeguard of energy security. This shows that China's thinking on energy security is getting more mature and accommodating and that China's adjustment of its energy security policy is the right thing to do. In addition, the delicate change in China's stance on Sudan and Iran over the years may provide some support to issues to be discussed in the future research.

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