The Externalities of Energy Security: China's International Oil Policy and its Ramifications

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The liberalization of oil and gas markets following the oil shocks of the 1970s turned the Chinese markets for oil and gas into increasingly global, liquid markets and permanently made energy commodities "politically charged."[1] As China's economy continues to expand, with concomitant growth in energy demand due to a growing population and industry-led structural demands, attaining energy security has become a priority of the Chinese government. In the most recent five-year plan (FYP) published by the Chinese Communist Party (CCP) in 2020, energy investment both at home and abroad has been pushed aggressively. Many of the most recent five-year plans have also placed a heavy emphasis on developing new sustainable energy innovations.[2] China's "going out" policy—designed to encourage Chinese enterprises to invest overseas—is one example of a strategy the government has used to increase access to energy. Under the policy, the government supports the efforts of National Oil Companies [NOCs] to increase energy access, and thereby attain energy security.[3]

However, the outcomes of these energy-led economic policies not only impact China's relations with other countries, but also change global perceptions of China as a rising power. Economic statecraft—or the study of "economics as an instrument of politics"—is a widely-used framework to describe motivations for state policy.[4] This paper will explore the question of how China's energy policy acts as a form of economic statecraft; that is, to what extent has China been able to deploy economic statecraft to advance its energy security as well as larger strategic and diplomatic goals? This question will be answered by: (1) understanding how the government has set up NOCs to coordinate its national needs, (2) analyzing how China has carried out oil diplomacy worldwide, and (3) evaluating how these oil diplomacy measures are simultaneously effective in fulfilling China's energy security and impact China's grand strategy—particularly its quest of rising and balancing against the US.

Defining Economic Statecraft: The China Case

David A. Baldwin, one of the first political scientists to explore economic statecraft in depth, defines the concept as "influence attempts relying primarily on terms of resources that have a reasonable semblance of a market price in terms of money."[5] To put it simply, economic statecraft can broadly be described as using international economic transactions as a vehicle to achieve political goals.[6] The cost of pursuing military force as an instrument to exert power has risen as a result of many

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factors, including the proliferation of states' nuclear arsenals and increased economic and financial interdependency created through trade liberalization. These factors heighten the risk surrounding war, rendering it a last-resort option for states. For this reason, economics is assumed to be a preferred alternative method by which to exert influence and attain strategic goals.[7] When international economic transactions occur, whether through commercial actors or state-led policies, there are always consequent "security externalities" or non-economic repercussions that cannot fully be internalized by just economics.[8] When a state deploys economic statecraft policies in the context of increasing overall influence or attaining its strategic goals, these policies are crafted such that the externalities of the transactions frequently touch political or military spheres. Therefore, understanding economic policies implemented by state or commercial actors cannot be done "without also considering the political and military contexts that frequently influenced ultimate economic outcomes."[9] Baldwin claims economic statecraft is a policy mechanism comprised of 3 basic components: (1) the type of policy used in the influence attempt, (2) the domain of this influence attempt, and (3) the scope of the influence attempt.[10] The scope of the influence attempt—also described as the non-economic dimensions of the target's behavior that policy tries to influence—is what renders "economic statecraft a political act"; this is where the security externalities of a transaction can be fully understood.[11]

As China is pursuing a "peaceful rise," it is arguable that economic statecraft would be the preferred instrument for its strategic objectives. In a world of increasingly interdependent trade and financial flows, leveraging and building regional economic relationships not only "facilitates Sino-centric economic integration", but also creates a dependency between China and other states that is so deep that states are incentivized to help China succeed, as otherwise the success of its own state is at risk.[12] Energy commodities are frequently referred to as "strategic goods."[13] As defined by Baldwin, strategic goods are commodities that are "needed to pursue a given strategy and are relatively inefficient to produce at home" (or not available in sufficient quantities). Strategic goods are highly politicized commodities, raising the security externalities of transacting with them.

With energy security quickly becoming one of the Chinese government's top concerns, economic statecraft policies could help the PRC government not only fulfill its energy demand problems, but also aid in its grand strategy of expanding geopolitical power.

Defining Energy Security: The China Problem

In order to understand China's energy policy, it is important to first define energy security, and analyze what this means for China. Energy security can be broadly defined as the ability to "assure adequate, reliable supplies of energy at reasonable prices and in ways that do not jeopardize major national values and objectives."[14] China's rapid economic liberalization spearheaded by Deng Xiaoping in the 1990s allowed China to expand into global markets. The growth of China's market economy and exports exponentially increased consumer and industry demands for energy commodities, with energy consumption growing to 15% of global demand in 2006, over four times faster than predictions.[15] After starting as a net importer of oil in 1993, China is now projected to "become the second largest oil consumer" on earth, meaning that securing oil supply will be of the utmost importance for the PRC.[16] While different countries have different interpretations of energy security, China's energy security is dependent on how the state can "rapidly adjust to [its] new dependencies" on these global markets in order to meet the country's growing energy appetite.[17]

China's current energy situation is illustrative of why the PRC places such a high priority on obtaining energy security. Energy demand, particularly petroleum consumption, has surged from 4.8 million barrels a day in 2000 to 11.2 million barrels in 2014.[18] However, this dramatic increase in petroleum consumption has not been matched with a surge in production; petroleum production over this same time frame increased from 3.4 million barrels per day in 2000 to only 4.6 million barrels in 2014.[19] This mismatch in levels of petroleum consumption and production is not unique to this commodity; similar trends of production/consumption disparities in other energy commodities—such as coal and liquid natural gas (LNG)—also exist.[20] However, for purposes of this paper, energy security will be analyzed primarily through the lens of oil. The reasons for China's increased energy usage are many. Although the prevalent assumption surrounds growing consumer patterns, studies have shown that "the main source of today's [energy usage] growth is energy-intensive heavy industry," chiefly iron and steel plants.[21]

Attaining energy security has an obvious economic dimension, but what is of greater importance are the political and geostrategic ramifications of this task.[22] It is clear that China's economic growth has risen in tandem with China's energy consumption, and maintaining a steady energy supply to fulfill growing consumer demand is thereby important to ensure China's long-term economic growth.[23] Beyond the structural demand for energy that necessitates economic growth, this energy security problem has broader political consequences for the PRC.[24] As a government that underpins its legitimacy on economic prosperity, the recent global spike in oil prices and fears of long term energy scarcity—coupled with China's increased inefficiency in energy use per dollar of GDP—have heightened anxiety within the PRC.[25] Thus, maintaining long-term energy security is "viewed by the [Chinese] ruling elite as critical to its long term survival."[26] It is within the governments best interests to do everything it can to "reduce China's energy vulnerabilities."[27]

Energy security is not an issue the PRC wants to leave to market forces, as the government believes energy security is "becoming a matter of 'high politics' of national security."[28] As the world becomes increasingly interdependent, the problem of energy security inherently transforms from one that simply encompassed global markets into one that is dependent on state-to-state relations.[29] Consequently, energy security is a problem that has significant geopolitical consequences. This is no different for China. The Chinese government has recognized that there is no way it can become energy self-sufficient, and, as a result, is putting "energy policy front and center in its diplomatic efforts," allowing energy policy to, to some extent, dictate the country's foreign policy.[30] Beijing has been incentivizing oil-producing nations with promises of aid, strengthened trade relations, infrastructure support and other concessions to "[win] access to key resources" worldwide. As the world's largest oil importer as of 2016, it is necessary for China to depend on other nations.[31,32]

In the present era, built on diplomatic relations and economic interdependence, countries can no longer simply focus on military strategy to attain dominance as a world power. Instead, as Aaron Friedberg writes for the National Bureau of Asian Research, states and their leaders must look at a grand strategy, the deployment of a "wider array of instruments, including diplomacy, finance, science, industry, propaganda, as well as armies, navies and air forces" in order to secure dominance.[33] In the case of China, it is widely noted in literature that although China has not "publically articulated an authoritative, official statement of its 'grand strategy,'" leaders have been using various instruments, particularly economic statecraft measures, to become the world's pre-eminent power.[34] The hunt for energy security is entangled in China's overarching aims. China is attempting to use almost any means necessary to attain an alternative source for its energy independent of the US-dominated oil market. The PRC's going out strategy is clearly derived from this material and strategic need.

The discussion above highlights how China's economic policies and actions taken to attain energy security have both domestic implications and impact China's position in the geopolitical world order. To illustrate and analyze these outcomes, this paper will frame China's energy problems within the context of economic statecraft. With this framework we can evaluate the extent to which China has effectively used economic statecraft to fulfill both its energy and grand strategy goals.

The Players: An Assessment of NOCs in China

In order to evaluate the effectiveness of China's economic statecraft, we must analyze the vehicle through which these policies are conducted by the Chinese government. Commercial actors—or the "entities that actually carry out the international economic" actions—are arguably the most important body necessary for the state to politically influence in order to achieve domestic and foreign policy goals.[35] The Chinese economy was initially developed through the growth of state owned enterprises (SOEs). These enterprises, although technically owned by the state, cannot be directly operated by the government and so the commercial activity of these enterprises is delegated to managers. Yet, to this day, SOEs function as the commercial actors of China.[36] The National Oil Companies (NOCs) of China are among the most prominent SOEs that still have a large functional importance to the state. Because they are not directly state-run, NOCs have incentive compatibility constraints and information asymmetries. These factors must be addressed when the PRC attempts to influence these organizations to act in a way that is beneficial to the state, or else works in the direction of the Chinese government's desired trajectory.[37] The PRC realizes that it is not enough to just be able to buy oil; moreover, the government believes the key to attaining energy security is by "tap[ping] existing technology and capital to exploit oil overseas."[38] When analyzing the evolution of the Chinese energy sector during and following Deng Xiaoping's period of economic liberalization in the 1990s, it is clear that the extent to which the government is willing to work to economically benefit the NOCs proves that there are clear intentions to align NOC interests with state interests. Through this alignment, the PRC aims to effectively use the NOCs as the state's commercial actors to lead China's rise through energy economic statecraft policy.

SOEs have always been emphasized as an important growth instrument for the Chinese government. Early encouragements in the 1990s by the PRC to engage in more "transnational operations" gave SOEs preferential treatment and aided them in their endeavors.[39] This preferential treatment highlights the strategic importance placed on these commercial actors by the government as a vehicle to pursue strategic goals. Focusing on the oil industry, the 1990s liberalization measures that de-centralized the power centers of the energy sector and the oil industry resulted in four "oligopolistic administrative companies," all of which were responsible for one or part of the energy supply chain between upstream and downstream and trading facets.[40] This proved to be inefficient as the company-split rift in the supply chain increased costs and diminished margins. Without vertical integration, companies adopt less flexibility and profit margins decrease, as a fragmented supply chain results in high transaction costs. Therefore, to build more efficient companies, vertical integration measures were integrated into the industry and the oil companies were yet again restructured, with the idea that "introduc[ing] market mechanisms … [will]… encourag[e] NOCs to behave more efficiently."[41] Following this transformation, China National Petroleum Corporation (CNPC) controlled northern upstream and downstream production, Sinopec dominated activity in southern China and China National Offshore Oil Corporation (CNOOC) controlled offshore operations. These restructurings, however, failed to help the government carry out its energy goals and meet energy demands. CNPC and Sinopec engaged in intense price wars, driving losses across all the companies. To prevent this, the Chinese government decided to create operating conditions such as "supply shortages [and] government-set prices" in the domestic market that would allow these companies to prioritize growth and not have to worry about price competition.[42]

To this day, the National Development and Reform Commission's Price Bureau controls the range of prices within which the domestic oil price is allowed to fluctuate.[43] The price ranges are pegged to a basket of "international market reference prices and the quality of crude." Although there are hopes to switch to a floating price market, the government considers it "still necessary for oil product prices to be regulated by the government for the time being."[44] This pegged price environment, coupled with the integrated supply chains present within each of the NOCs has made the Chinese oil industry an oligopolistic market, where four big firms (CNOOC, Sinopec, CNPC, and Sinochem) maintain control over the entire market. The market and company structural changes forced by the PRC are designed to allow NOCs to prioritize growth. These changes prove that the government has a significant stake in the success of these oil companies and wants cooperation between the NOCs and the state. Further, the fact that National Development and Reform Commission's Price Bureau sets domestic oil prices inherently creates a politicized relationship between the NOCs and the PRC government; NOCs are incentivized to cooperate with the government's policy objectives so as to swing prices, thereby aligning both parties' interests.[45]

PRC regulation favorable to the NOCs highlights the state's strategic interest in using NOCs as commercial actors to help solve China's energy security problem. The government's intent on using these companies as instruments for statecraft is revealed not only through the preferential treatment the PRC gives the NOCs, but also in the degree of "political clout" imparted.[46] Consequently, these actions should increase the investment risk threshold for NOCs in favor of helping the government for two reasons: first, as economic growth is crucial to China, the legitimacy of the PRC government rides on the effectiveness of its energy policy, rendering the state highly likely to support the NOCs in times of trouble[47]; secondly, the government's amenability to changing its industry structure and domestic energy policy to position the NOCs to succeed in the past represents a large advantage for the NOCs; they are now incentivized to collude with government energy policy and "[invest] on a cost-plus basis backed by government assurances" at a large scale.[48] In essence, the assurance of a government safety net for the NOCs incentivizes these companies to align their interests with those of the state and prioritize oil supply security over profits and efficiency.[49] The PRC has maintained a strong influence in rendering these companies commercial actors for the state and employing their power to achieve governmental goals.

Beyond transforming the oil market structure to incentivize NOCs to collude with state interests, the PRC has implemented other control mechanisms that blur the lines between the oil companies and the government and ensure the state's control over NOCs policy actions.[50] A prime example of these internal control mechanisms includes the roles of the State Assets Supervision and Administration Commission (SASAC) and the Central Organization Department (COD). Although the SASAC doesn't directly intervene in the daily affairs of the corporations, it "holds the majority of shares of SOEs and has executive control over corporate policy and executive appointment."[51] Having executive control over corporate policy and executive appointment means that this arm of the CCP can greatly influence the NOCs strategy, tethering the NOCs to the government and ensuring their support of the CCP. Further, COD's control of the appointment of the "5,000 top positions in the party"—which overlap with appointments of SOE executives—solidifies the commitment the NOCs must have to the CCP. All executive positions of CNOOC, Sinopec, and the other NOCs must be appointed by the COD and confirmed by the Politburo.[52] Beyond this direct link to the state, there are many individuals with high positions in National Oil

Companies that are directly linked to the party. Particularly, individuals such as Jiang Jiemin, the General Manager of the CNPC, are members of the CCP Central Committee, which consists of the "371 most politically powerful individuals in China."[53] These two internal political control mechanisms, on top of market structural changes, remove any incentive the NOCs have to defect from state strategy.

Shaped by the CCP to focus on growth-driven versus profit-driven strategies, the NOCs have, therefore, been more willing to engage in commercial activity that could benefit the government. Some argue that the number of previous restructurings gives rise to the de jure promise that the government will catch the companies if they crumble, thereby creating a high risk threshold among the NOCs. That said, the control mechanisms of the SASAC and the COD make sure that the companies generally act in favor of state goals, as these bodies essentially guarantee that party members occupy senior positions in the companies. The CCP has clearly set up its energy industry through these above factors so that it can implement international energy policies as an instrument of statecraft. NOC action in China's going out strategy is the best example of how the government employs these companies as commercial actors to carry out economic statecraft and advance both China's energy security and larger goals.

China's Going Out Strategy

The going out strategy, first led by CNPC, was encouraged by the government in 1993 as a method for China's industrial sectors to "engage in the global market as a way to enhance China's international competitiveness."[54] In the energy sector in particular, the going out strategy is useful for the government in gaining a stronghold and sphere of influence over certain countries and regions. The three big NOCs of China (CNPC, Sinopec, and CNOOC) have all been encouraged to seal long-term supply contracts with other nations worldwide. They have been using state provided "sweeteners"—such as access to China's growing markets, economic and military aid, cheap financing, and diplomatic support through China's veto power in the UN Security Council—to confirm deals with oil-producing states.[55] Using the going out strategy to attain energy security through China's NOCs without dependence on the US or Western oil companies is attune to the PRC's implicit grand strategy; namely, to employ "military, economic, and diplomatic measures…to displace the United States as the world's dominant power."[56] The Chinese government is clearly cognizant of the opportunity present. The PRC aggressively pushes the going out strategy as a key part of its Five Year Plans, which outline national policy agendas. According to the chief of the office of the secretary-general of the U.N. Conference on Trade and Development (UNCTAD), with the state pushing Chinese companies to look outwards for resources, China is now ranked 12th on the list of countries investing most abroad.[57] In the energy sector, this policy has fared well, as it provides NOCs with motives for pursuing and extending their global reach. For example, CNPC proudly proclaims on its website that it operates in 37 countries worldwide, maintaining relationships with important global oil players such as Iran, Venezuela, Russia, and Nigeria.[58]

In the PRC's quest to balance and rise up against the US, using the going out strategy for China's energy sector reflects a preference for not simply relying on the market to influence energy supply. There is a state fear of letting party legitimacy and China's economic livelihood ride on an "industry that is dominated by the US and the major international oil companies of the industrial countries."[59] This fear, coupled with policy motives to reach out to other countries, underpins the long-term contracts implemented by Chinese NOCs that remove around a "million barrels of oil per day from the supply pool," thereby reducing the liquidity of the oil market. China's going out strategy not only locks up the supply of oil, but also allows China to gain influence in foreign countries through the unilateral oil purchase contracts entered into by the NOCs. To analyze the going out strategy in greater detail, Chinese energy relations with Iran and Nigeria will be discussed and compared in the next sections. Through this analysis and evaluation of how the going out strategies in these countries impacts China-US relations, this paper will analyze the extent to which China has been able to implement economic statecraft to advance its energy and diplomatic goals.

Case Study: Iran

The Middle East is arguably the region of greatest strategic importance to China. Within the region, Iran is viewed by China as a nation with great tactical and commercial promise. As a result, China has attempted and in many ways succeeded in taking advantage of Iran to create a powerful strategic relationship.

Historical background, coupled with commercial potential envisioned by China, made Iran not only an easy choice as a target state to impact, but also allowed the PRC to foresee successful relations between the two countries. China's relationship with the Middle East was historically hallmarked by the Silk Road, a trade route between China, Central Asia and the Middle East. The Silk Road created a "rich context of mutual cultural influences and cooperation" and has underpinned "historical memory as a source of strength and legitimacy" for China's relationship with the region.[60] Both Iran and China have histories of war, conflict, and neocolonialism that accentuate their "civilizational and political identification." These histories funnel into an anti-imperialist rhetoric prevalent in both nations that motivates the formation of a closer alliance.[61]

On the strategic realm, the "primacy of economic and political interests… drives the relationship" between the two countries. [62] Following the 1979 Iranian Revolution, Iran saw its traditional major trading partners—including the US and the UK—flee.[63] China, which had just enacted its economic liberalization policies in 1978, recognized the void in Iran and exploited the opportunity. In addition, Iran's foreign policy stance in the 1980s—hallmarked by the slogan "neither east nor west" and designed to resist both the Soviet Union and the US—appealed to China, signifying an underlying rhetoric of non-alignment and anti-imperialism. China set a clear goal to make Iran a strategic partner as it saw the potential alliance as a way to rise up and balance against the US and Russia.[64] Further, the resource drain in Iran that resulted from the Iran-Libya Sanctions Act—deployed by the Clinton Administration in 1996 to "deprive Iran of the ability to acquire weapons of mass destruction to fund terrorist groups by hindering its ability to modernize its key source of revenue - the petroleum sector"—allowed China to take advantage of the vacuum by bolstering Iran's infrastructure in exchange for the ability to exploit the country's vast oil reserves.[65]

On the commercial side, Iran has untapped potential in its extraction capabilities. The country has a relatively low extraction rate compared to other oil-producing nations; in 2015, it was recorded that although Iran has 158,400 million barrels of proven crude oil reserves, its crude oil production rate is only 3.2 million barrels per day.[66] This low rate signaled to China the commercial potential of a strategic relationship with Iran. Further, the distinguishing commercial feature of Iran—compared to the other competing Middle Eastern oil giant, Saudi Arabia—is that Iran's upstream sector is open to foreigners under the Islamic Republic's 1987 law, which "[permits] the Ministry of Petroleum and the National Iranian Oil Company (NIOC) to establish contracts with either local or foreign companies." This mandate gave China the commercial access needed to establish predominance in the Iranian market.[67]

The relationship between China and Iran has developed in a way that is inherently political and strategic; China's intentions to "ensure access to an important export market and develop a political relationship" are made extremely clear through the PRC's interactions in oil and gas contracts.[68] During the period when the Chinese NOCs began to search abroad for energy suppliers, Iran was primarily a state-led economy. Since "Chinese firms were quite familiar with operating under conditions of government control," Iran and China were easily able to meet and agree on projects through an institutionalized governmental entity called the "Joint Committee for Trade, Science, and Technology Cooperation" (simply known as the Joint Committee).[69]

Initially, under the Shah's regime in 1974, there were small, government-led purchases of Iranian oil organized through the Joint Committee. Soon, however, the volume of oil purchased expanded. China's purchase of Iranian oil grew from 300,000 tons in 1977 to 1 million tons in 1982, and up to 2 million tons by 1989-90.[70] As the Chinese economy became "highly marketized," NOCs spearheaded contracts in Iran, which were then retroactively bundled into Joint Committee Announcements.[71] In the 1990s, China began "extending credit to support expanded cooperation"; for example, in 1993, two loans were provided by China: "one of $150 million for the Tehran metro project and another of $120 million to refurbish and build 10 cement factories." This deal included "Iranian construction of a refinery in China" to process Iranian sour crude oil.[72] These contracts continued to strengthen the relationship between China and Iran, as seen by the marked growth in the volumes of oil exchanged over time.[73] One of the most prominent projects executed in Iran with active participation from China is the expansion of Caspian Sea oil and gas production. This project involves modernization of refining and exploration facilities in the city of Neka in order to "bring Caspian oil and gas through pipelines to the southern Iranian ports for shipping to Europe and Asia," a project the US is vehemently opposed to.[74]

With Iran as an oil exporter dependent on China to attain energy security, the alliance between China and Iran has grown stronger than ever. As voiced in the 1988 quote below by Iranian Foreign Minister Ali Akbar Velayi, the relationship between these two countries is one that is highly valued for reasons that are more than just commercial:

> "Bilateral cooperation between Iran and China is indisputably useful to maintaining regional peace, Asian peace, and stability and security, and even useful for upholding world peace. It is our hope that cooperation between Iran and China will become a model for cooperation between nonaligned and Third World nations."[75]

Through these initial commercial oil contracts with supplementary non-energy related development clauses, China has managed to create a critical alliance with Iran that has grown beyond a commercial scope. Evidenced by this growing relationship, we can conclude that China has been successful in deploying economic statecraft to achieve its goals in Iran.

Nigeria Case Study

Like Iran, Nigeria's economy is also largely oil dependent, with the petroleum industry accounting for more than 75% of government revenues and 30% of real GDP in 2008.[76] Unlike other OPEC nations such as Iran, where "a state owned national oil company often took direct control of production," Nigeria is unique in that— despite joining OPEC in 1971—it still permits multinationals to carry on operations under Joint Operation Agreements.[77] As a result, the Nigerian oil market was initially dominated by large Western multinational organizations, including Shell and Exxon Mobil, whose "established presence" actually shut China out of Nigeria's oil industry for a while.[78]

Nevertheless, there were many factors that made Nigeria a target country for China's going out strategy. First, as Nigeria is a resource-abundant country with a heavily oil-dependent economy, China sought to form a close relationship with Nigeria to secure its energy supply. Moreover, the PRC believed that, as quoted by Minister Shi Guansheng at the 2000 Sino African Forum and reported in the People's Daily: "as more African countries improve political stability and make headway in economic growth, the continent's nations will have more to say in international affairs."[79] The PRC government believed it was important to form relationships with African nations such as Nigeria in order to capitalize on the future diplomatic potential of these states. Further, China's going out policy is designed to be hands-off and respect the sovereignty of other nations. [80] This tenet allows China to have a higher risk threshold when drilling in countries such as Nigeria, where "Western oil companies are…. hesitant to do so fearing the political risk." For this reason, the PRC believed it could help

Nigeria fill the gaps that Western firms have failed to.[81] From Nigeria's perspective, the prospect of collaborating with China is favorable because of the potential for generous aid and benefit packages that will supplement long-term oil contracts, essential for helping to refurbish Nigeria's underdeveloped infrastructure.[82]

China has not hesitated to pursue significant deals with Nigeria. Because, unlike Western corporations already operating there, China assists Nigeria in infrastructure projects and aids in provision to clear debts and soft loans, Nigeria has welcomed China's presence with open arms.[83] Initially, China used political contingencies in establishing its partnership with Nigeria; China was "recruiting support among the UN general assembly… to vote in favor of Beijing taking the 'China' seat at the UN" and replace Taiwan's seat, and agreed to financially back anyone in support of the One-China policy.[84] Once Nigeria agreed to this stipulation, China began establishing a strategic relationship with this oil-rich nation. In 2009, Sinopec took over Addax Petroleum in a $7.2 billion contract, and in 2006 CNOOC created a $2.3 billion deal to buy stake in an offshore oil field in Nigeria, which has estimated proven reserves of over 620 million barrels of oil and approximately 3.5 trillion cubic feet of natural gas, "[making it] larger than any single field the company operates today in China or Indonesia.[85,86] PRC leadership has continuously thanked Nigeria for its unwavering diplomatic support; during President Obasanjo's visit to China, Hu Jintao frequently "expressed China's appreciation for Nigeria's consistent adherence to the One-China policy and its support to China's adoption of the Anti-Secession Law."[87,88]

These strategic ties are clearly regarded with great importance by both nations. An excerpt from a speech discussing the benefits of the strategic relationship given by He Xiaowei, the Assistant Minister for Foreign Trade and Economic Cooperation at the Closing Ceremony of the Fifth China-Africa Seminar for Economic Management, highlights this dynamic:

> "It is my belief that the forum shall have far-reaching effects on the cross-century development of Sino-African relations… and the establishment of a new international political order which is just and rational, forming a new pattern of China-Africa friendly relationship and economic cooperation. There is a broad prospect of.... [playing] to the complimentary features of Chinese and African Economies, and The Chinese government stands ready to encourage companies to develop economic and trade cooperation with African countries by adhering to the principles of Equality and mutual benefit, adopting different forms, pursuing practical results and seeking common development."[89]

Similar to Iran, Nigeria was desperate for resource help that was not fulfilled by the established Western multinationals in the region. Thus, Chinese NOCs were quickly able to employ the going out strategy to meet Nigerian resource needs and exert influence over the nation.

Impacts of Chinese Policy's Security Externalities on China's Rise

The case studies above clearly prove that China has successfully been able to use its NOCs as vehicles for its going out strategy to deploy economic statecraft and gain influence in many countries. The official statements presented in both case studies by Nigerian, Iranian, and Chinese government officials evidence that relationships which initially started as economic also have security externalities that have allowed these countries to forge even closer alliances. These alliances have further moved beyond their commercial significance. For example, China has used its diplomatic power in the UN to rally behind Nigeria's bid for a permanent seat on the United Nations Security Council. Similarly, despite considerable US pressure, China has stated that it opposes sanctions against Iran on its nuclear weapons program.[90,91]

However, although these security externalities have been useful in allowing China to forge alliances and facilitate its rise in the geopolitical order, the hands-off nature of China's going out policy has resulted in externalities that anger status quo powers, particularly the US. The fact that China's going out policy allows NOCs to invest anywhere, regardless of political circumstances and strategic threats to the status-quo geopolitical order, makes the US wary of China's employment of economic statecraft. In the eyes of the US, although countries uch as Nigeria and Iran are falling under the influence of China, the PRC's methodology raises questions about China's responsibility as a rising power. The same security externalities that have solicited close relationships between China and a range of nations have also precipitated a negative reaction from the US and its allies. In many cases helping corrupt governments by providing them with arms—as in the case of Nigeria—or else operating in "troublesome [states] which Washington seeks to marginalize"—such as Iran—China's actions have been alarming to the US; Washington understands how China is hoping to use foreign trade as "a direct source of power," and believes that if this pattern goes unbalanced by US counter-action, there will potentially be negative global consequences. To analyze this dynamic in depth, we will revisit the case studies of Nigeria and Iran, looking at examples of balancing actions or scenarios where the US and China have butted heads due to China ignoring international norms while deploying economic statecraft.

Revisiting Iran: The Azadegan Oil Field

The US has been wary of the impacts of the growing China-Iran relationship on the possible proliferation of Iran's nuclear program. Despite the 1996 Iran-Libya Sanctions Act—under which the "US government was mandated to impose sanctions on foreign firms doing business with Iran"—and following measures such as the series of oil sanctions imposed by the United States and the EU in late 2011 and early 2012, China has persisted and continued to maintain close relations with Iran.[92] Among other worries, there is a particularly longstanding fear that the unregulated money given to Iran by China as part of the PRC's going out contracts could be used to fund an Iranian nuclear weapons program. As a result, there have been efforts by the US, with help from its allies, to attempt to balance against China.

One example of US counter-action is seen through the negotiations of development rights to Iran's largest Azadegan oil field, located in the western province of Khuzestan near the border with Iraq.[93] During initial talks about developing the field in the late 1990s and early 2000s, Japan had been willing to participate in a $2.8 billion deal. In order to uphold good relations with China, Iran also "granted the CNPC with an 85 million dollar contract to drill 19 wells in existing natural gas fields in southern Iran."[94,95] However the US was concerned that Iran was using these oil revenues to fund their nuclear development programs, and as a result convinced Japan to not take part in the deal. Under US pressure, Japan missed the 2003 deadline to gain exclusive rights to the oilfield.[96] Despite concerns voiced by the US and its allies, China participated in the tender for the development rights to the Azadegan oil field, estimated to contain 3.55 billion ton of oil.[97] In an attempt to then dissipate the potential negative security externalities of China's tender, the US helped facilitate talks between Tokyo and Tehran to convince Tehran to join the International Atomic Energy Agency (IAEA). Tehran's membership in the IAEA would allow the US "to monitor Iran's nuclear facilities" and thereby keep any negative externalities of a growing Chinese influence in check.[98]

In 2003, Iran voluntarily implemented and signed the Additional Protocol (AP) of the IAEA. Following this, Tokyo—backed by the US—continued in bilateral talks with Tehran regarding the Azadegan oil field tender to further deter China.[99] However, China's close relationship with Iran prevailed over these counterbalancing measures. A 2004 deal between Iranian Vice President Mohammad Sattarifar and Sinopec executives entailed Sinopec importing "at least 5 million tonnes of liquefied natural gas" in exchange for "rights to exploit the Azadegan oilfield."[100] Angered by the delaying tactics implemented by US-backed Japan, the PRC supplemented the 2004 deal with an oil exploration and development, buy-back style deal, which called for "Sinopec … to buy 250 million tonnes of Iranian LNG over thirty years and develop the Yadavaran oilfield in the Southwest."[101,102]

The undiscriminating presence of China in Iran is clearly not one welcomed by the US. The PRC is undoing previous US actions to marginalize Iran and promote the status quo morals of "democratic good governance."[103] Because Iran and other "rogue states" continue to support regional terrorist groups including "Hezbollah and Hamas," China's active support of Iran through its long-term oil contracts paints China as an irresponsible power in the eyes of the US and the greater international community.[104]

Revisiting Nigeria: Combating MEND

Unlike in Iran, there is already an established presence of US and other Western multinational corporations in Nigeria. However, the actions of Western actors are solely commercial in scope; unlike the PRC, Western organizations are not ready to help the government and its security forces due to the rampant corruption throughout the country. US and Western hesitancy to aid countries with unsafe political circumstances, like Nigeria, has weakened traditional "US influence and control over oil in this region. " Chinese NOCs have leveraged the hands-off nature of China's going out policy and Nigeria's resulting need for infrastructure resources and aid to gain significant influence.[105] Because China is willing to give aid and weapons to Nigeria in ways other countries are not, Nigeria views the PRC as a crucial partner, allowing China to balance against established Western investors. However, the image effects of this dynamic are negative for China; its negligence in giving aid to potentially dangerous actors tarnishes the image of a "responsible China" that the PRC has worked hard to cultivate.[106]

This condition can be seen clearly in the way in which China has helped Nigerian security forces gain weapons to fend off "Movement for the Emancipation of the Niger Delta" (MEND) militias that are attacking Nigeria's oil supply. Despite Nigeria's oil resources falling within the bounds of its sovereign territory, the state's control "where the oil is actually being exploited" is, in reality, relatively weak. Terrorist groups such as MEND and Boko Haram terrorize the region frequently.[107] MEND's attacks in the Niger Delta, where most of Nigeria's oil is concentrated, adversely impacts Nigeria's oil supply, decreases national production by 20%, and raises global oil prices.[108] The security situation for locals and foreign workers alike is becoming increasingly problematic, characterized by occurrences such as a car bomb attack in April 2006 and "kidnappings of foreign oil workers to showcase their "demand[s] [of] more local control of the region's oil wealth."[109] In the face of this debilitating situation, when the Nigerian government requested US assistance for their security forces and asked for "200 boats to guard the delta," the US did not provide Nigeria with what it needed, and only sent over "four old coastal patrol boats" instead.[110] The Nigerian government has not been pleased with the US's hesitancy, as evidenced by a statement from the Nigerian vice-president: "the US has been too slow to help protect the oil rich Niger Delta from a growing insurgence."[111] As a result of this vacillation, the Nigerian government moved to request China for weapons, which China willingly agreed to provide. While the US has been "squeamish" about helping Nigeria with its weapons demands due to human rights atrocities allegedly committed by Nigerian security forces—such as politically motivated killings and prostitutions—China, on the other hand, "needs little compulsion to sell weapons to such actors." As its main priority is securing Nigeria's oil supply, China has been able to quickly squeeze in and balance against existing Western stakeholders and establish close strategic ties with Nigeria.[112]

However, these "undiscriminating and opulent" transactions come at the cost of impeding US and European efforts to help promote democratic good governance and improvements in the region. Members of the Western international community have expressed unhappiness with the lack of regulation China has shown in its dissemination of aid and weapons.[113] Although the impacts of supplying Nigerian security forces with weapons is arguably less severe than that of aiding Iran on its quest for nuclear weapons through unregulated contracts, when China engages in similar actions across Nigeria as well as in other countries such as Sudan and Zambia, the cumulative impact of neglecting the PRC's role as a responsible power transforms the nature of China's rise into one that is predatory and viewed unfavorably by the US.

Impacts of Chinese Economic Statecraft on China's Rise: Conclusions and Implications

As shown in revisiting the cases of Nigeria and Iran, the single-minded focus of China's policy implementation in foreign countries, regardless of political climate or international security implications, has cost China goodwill in the eyes of the US, negatively impacting how the US views future US-China interactions.[114] In the Nigeria case study, it is clear that Nigeria's dangerous political situation and human rights atrocities caused hesitation among Western governments to support such activity, causing an anxious Nigeria to "grab the lifeline that China … present[s]" in the form of cash and political cover.[115] China's speed in blindly responding to such aid requests from Nigeria and its treatment of national political matters as merely trivial has tarnished its reputation. Although the Nigeria case shows a scenario in which China's disregard can impact regional instability, the implications of the Iran case study show a scenario where China's slackness can have detrimental global security implications. China's callous mindset did not deter business relations with Iran—despite the disciplinary sanctions put forward by the United States and other countries—but it did have negative consequences that caused global uneasiness. China's indifferent attitude forced the US to respond to China's economic statecraft policies in the manner that it did, underlying the ineffectiveness of China's policies in improving the country's reputation as a leader on the international sphere.

US responses to the security externalities of China's economic statecraft policies show that although the US may feel strongly towards China's increased sphere of influence, what is more significant and extremely unwelcomed by the US is the destructive nature of China's policies to the established practices of democratic good governance that the US has worked hard to uphold. As a result, in the eyes of the US and the larger international community, China's economic statecraft policies tarnish the PRC's grand strategy of a peaceful rise, allowing us to conclude that China's deployment of economic statecraft policy has been only somewhat effective.

Following this conclusion, the next question to ask is: how will China's economic statecraft impact future US-China interactions? Although many argue that in terms of energy security policy, the best way for the US to approach China is through cooperation, others are not so positive.[116] Another common view is that as China continues to pursue different actions on the international stage, the US is weighing these against each other to decide whether to be confrontational or cooperative towards China in the future.[117] The more likely China is to pursue a path of neglect for international norms, the more likely it is that a confrontational interaction between the US and China will occur; however, if China moves to present itself as a state that is a responsible stakeholder whilst attaining energy security, confrontation will be a less likely outcome, raising the possibility of a "co-operative framework between the two states."[118] China needs to consider to what extent it values its relationship with the US and other global powers upon deploying economic statecraft prior to pursuing further energy security policy.

Appendix

Table 1: Source: John W. Garver, China and Iran: ancient partners in a post-imperial world (University of Washington Press, 2006), Table 9.5.

TABLE 9.5

China's Crude Oil Imports from Iran, 1983–2003

Year	*Metric tons*	*US $*
1983	0	
1984	0	
1985	0	
1986	0	
1987	0	
1988	9,987	1,637,790
1989	266,215	34,500,619
1990	301,240	39,534,000
1991	55,000	7,641,000
1992	114,990	15,574,000
1993	67,860	9,513,000
1994	69,119	8,715,000
1995	931,105	121,317,000
1996	2,311,105	337,072,000
1997	2,756,718	418,409,000
1998	3,619,989	414,915,000
1999	3,949,291	519,838,000
2000	7,000,465	1,464,018,000
2001	10,847,008	2,068,760,522
2002	10,629,865	1,901,986,000
2003	12,393,834	2,635,085,866

SOURCE: *Zhonghua renmin gongheguo haiguan tongji nianjian* [People's Republic of China Customs Statistical Yearbook] (Beijing: Zhongguo haiguan, 1983–2004).

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