

# Pursuit of the Pariah: Iran, Sudan and Myanmar in China's Energy Security Strategy

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Beijing is on the hunt for energy, willing to trade economic and military aid; access to China's markets; and diplomatic support at the UN for the energy it needs. In the process it is pursuing relations with pariah states that the US seeks to marginalise. This gives rise to a tension that is at odds with China's so-called 'new diplomacy.' It is important for Australia and the rest of the world that these two energy hungry states adopt a co-operative energy security strategy but there are significant hurdles in the way.

## Introduction

It was not all that long ago that China's inclination to work within international rules and norms to pursue its interest was called China's 'new diplomacy.'<sup>1</sup> Today evidence of this diplomatic strategy abounds but Beijing's energy security policy does not fit so neatly as an example of its success. In 2006 China's energy security policies have increasingly come under international criticism. Paradoxically, energy security is an area standing as both a testament to application of the 'new diplomacy' but also as an area where the strategy appears to be just another case of rhetoric.

On the back of its energy deals China is successfully creating friendlier relationships across the globe, but simultaneously is raising the ire of the US in its pursuit of pariah states. To meet its energy needs, Beijing is forming cosy relationships with troublesome states that Washington seeks to marginalize, creating tension between the two giants in the process. Australia, along with the rest of the world, must carefully watch this area of US-Sino relations and encourage a co-operative approach to energy security. A failure to adopt a co-operative approach to energy will see both continuing on this perilous 'political collision course'<sup>2</sup> with consequences well beyond their borders alone.

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<sup>1</sup> Evan S. Medeiros and M. Taylor Fravel, 'China's new diplomacy,' *Foreign Affairs*, vol. 82, no. 6, (November/December 2003), p.22.

<sup>2</sup> Zao Daojiong, 'China's Energy Security: Domestic and International Issues,' *Survival*, vol. 48, no. 1 (March 2006), p. 182.

## The Meeting of 'Responsible China' and 'Energy Hungry China'

In more recently taking a friendlier approach to its international relations, Beijing seeks to reduce disquiet over the "China threat" and obtain the international respect that will assist in its rise to great power status. Instances of the 'responsible China' abound: leading efforts for a diplomatic resolution to the North Korean nuclear standoff; making friendly overtures to India by nudging its long-time ally Pakistan to be more conciliatory in its relations with New Delhi; signalling an increased willingness to engage with multilateral initiatives, such as the ASEAN Regional Forum; co-operating with the US over the war on terror;<sup>3</sup> and committing to hosting significant international events like the 2008 Olympic Games. There is no shortage of hard evidence supporting China's own claim that it seeks a 'peaceful rise to great power status'<sup>4</sup> or in more recent rhetoric, the creation of a 'harmonious world' via 'win-win co-operation'.<sup>5</sup>

This sophisticated diplomacy is particularly clear in the way China has enhanced its bilateral relationships all over the world on the back of its energy deals. While China's energy strategy is largely about 'fuelling the dragon',<sup>6</sup> it has certainly not missed the opportunity to compliment its real energy supply needs with building strategic reserve. This combination of making energy deals and winning influence bears some resemblance to a theory propounded by economist Albert Hirschman in a book published in 1945 which examined German's trading policies in the inter-war years.<sup>7</sup> Hirschman suggested that foreign trade can become a direct source of power. He states that commerce can become an alternative to war—by providing a method of coercion of its own in relations between sovereign nations. Hirschman calls this the 'influence effect' of foreign trade and helpfully provides a list of policies that he describes as conducive to increased national power.<sup>8</sup> A look at these policies indicates some similarity to the strategy currently being carried out by China in relation to its energy

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<sup>3</sup> For more detail see Brendan Taylor, 'US-China relations after 11 September: a long engagement or marriage of convenience,' *Australian Journal of International Affairs*, vol. 59, no. 2 (June, 2005), p. 179.

<sup>4</sup> Zheng Bijian, 'China's peaceful rise to great power status,' *Foreign Affairs*, vol. 84, no. 5 (September/October, 2005), p. 18. Some commentators observe that the term 'peaceful rise' has been dropped in favour of 'peaceful development' as it could be a potential constraint on Beijing using force over the Taiwan issue, see Minxin Pei, 'Beijing's closed politics hinder 'new diplomacy,' *Financial Times* (London), 13 September 2004, p. 21.

<sup>5</sup> President Hu Jintao, Address to APEC Summit, Sth Korea, 17<sup>th</sup> November 2005 <<http://www.fmprc.gov.cn/eng/topics/13apec/t222105.htm>> [accessed 26 August 2006].

<sup>6</sup> Gal Luft, 'Fueling the dragon: China's race into the oil market,' Institute for the analysis of global security, <<http://www.iags.org/china.htm>> [accessed 26 August 2006].

<sup>7</sup> Albert Hirschman, *National Power and the Structure of Foreign Trade*, Berkeley: University of California Press, 1945.

<sup>8</sup> *Ibid.*, p. 34.

strategy and confirms, rather than alleviates, concerns that it is using this strategy as a tool to wield greater power.

As no two countries benefit equally from a trading relationship, one country (usually the one with a smaller and poorer economy) can become disproportionately dependent on the other. When commerce with a larger country accounts for a very large proportion of the total imports and exports of a smaller economy, the latter is increasingly vulnerable to coercion by the larger country. This gives rise to a preference by the larger country to trade with smaller, developing economies. China's search for energy means it is doing just that and is going to continue to develop an increasing number of intimate relationships with many developing countries.<sup>9</sup>

The very successful strategic element that China has incorporated into its energy deals has led some to suggest that one can never be sure whether a move by one of the three national oil and gas companies; Sinopec, Chinese National Petroleum Corporation (CNPC) or Chinese National Offshore Oil Corporation (CNOOC)—has commercial motivations, foreign policy impetus, or both.<sup>10</sup> China is securing deals with the kinds of sweeteners that only its state controlled entities can provide: billions of dollars in economic and military aid; access to China's growing markets; and diplomatic support at the United Nations where China can wield its veto power in the Security Council.

The panache evident in China's approach to energy means it is developing better strategic relationships in American strongholds. Australia is one of America's staunchest allies in the Asia Pacific, but the effect of large energy deals, the biggest being a A\$25 billion deal to supply natural gas to China's Guangdong province,<sup>11</sup> has been to enhance China's standing at the expense of the US. There have been indications that Australia has been prepared to show measured differences with the US in ways that promote its standing with China, two examples being the refusal to support the US in calling for the EU Arms Embargo not to be lifted, and calling into question whether the ANZUS treaty would require Australia to support the US in a dispute regarding Taiwan.<sup>12</sup> Other examples of China encroaching on territory traditionally the domain of the US are not hard to find,<sup>13</sup> indicating the 'influence effect' is clearly in play.

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<sup>9</sup> David Hale, 'China's growing appetites,' *The National Interest*, no. 76 (Summer 2004), p. 147.

<sup>10</sup> Mehmet Ögütçü, 'China's energy security: Geopolitical implications for Asia and beyond,' *Oil, Gas and Energy Law Intelligence*, vol. 1, no. 2 (2003), <[http://www.gasandoil.com/ogel/samples/freearticles/article\\_15.htm](http://www.gasandoil.com/ogel/samples/freearticles/article_15.htm)> [accessed 27 August 2006].

<sup>11</sup> See Tim Colebatch et al., '\$25 billion deal a coup for Australia,' *The Age*, 9 August 2002.

<sup>12</sup> Catherine Armitage, 'Downer assures China on Taiwan,' *The Australian*, 18 August 2004.

<sup>13</sup> In Canada for instance there is talk of using the 'China energy card' for political leverage over the US with regard to contentious trade disputes in lumber and beef. See Gary Park, 'Chinese invasion troubles US,' *Petroleum News (Canada)*, vol. 10, no. 23 (June 2005).

Yet China's energy security strategy, for all its success and sophistication, contains an inherent contradiction, and that is Beijing's pursuit of pariah states. In increasing its closeness with regimes that the rest of the world, but particularly the US, would prefer to see marginalised, Beijing is undermining its own objective of appearing to be a more responsible global citizen. To understand why Beijing departs so dramatically from its own strategy of seeking global good will, one need look no further than China's energy requirements—requirements so immense that need trumps the desire to be a good global citizen.

With a total demand of 6.37 million barrels per day (b/d), China surpassed Japan as the second largest consumer of petroleum products in 2003.<sup>14</sup> In the last four years, Chinese demand growth has accounted for forty percent of the increase in new global oil demand.<sup>15</sup>

Historically, energy has been viewed as a marginal factor in China's foreign policy process because its energy policy was based on the principle of self-reliance. When it became clear that the great need for energy meant indigenous production could never be the complete, or even a large part of the answer for China, a new strategy was developed. The core component of this strategy was a focus on the Middle East, with special attention toward the well endowed Iraq. The 2003 war in Iraq reshaped China's strategy, as it highlighted the risk of relying too greatly on a single source. An energy expert at the Chinese Commerce Ministry affiliated Academy of International Trade and Economic Co-operation summed it up:

the turning point in China's energy strategy was the Iraq war... After 2003, both the companies and the government realized China could not rely on one or two oil production areas. It's too risky.<sup>16</sup>

China has become more aggressive, acting in a manner that US Deputy Secretary of State Robert Zoellick describes as an attempt to 'lock-up energy supplies around the world.'<sup>17</sup> CNPC, Sinopec and CNOOC have been encouraged to seal long-term supply contracts and diversify such contracts all around the world.<sup>18</sup> A look at CNPC's recent activities demonstrates this drive. Since 2003 the company has signed twenty contracts to explore or purchase production facilities in over twelve countries. In 2004, the company's production of natural gas at overseas

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<sup>14</sup> Energy Information Agency, China – Country Analysis Brief, 2005, <<http://www.eia.doe.gov/emeu/cabs/china.html>> [accessed 26 August 2006].

<sup>15</sup> Ibid.

<sup>16</sup> Peter S. Goodman, 'Big Shift in China's Oil Policy,' Washington Post Foreign Service, 13 July 2005, p. D01.

<sup>17</sup> Robert B. Zoellick, Whither China: From Membership to Responsibility?, Speech delivered to the National Committee on US-China Relations, New York, 21 September 2005, <<http://www.state.gov/s/d/rem/53682.htm>> [Accessed 26 August 2006].

<sup>18</sup> See Flynt Leverett and Jeffrey Bader, 'Managing China-US Energy Competition in the Middle East,' The Washington Quarterly, vol. 29, no. 1 (Winter 2005/06), p. 193.

facilities nearly doubled from the previous year and its overseas oil production climbed by a fifth.<sup>19</sup>

China's strategy reflects a deliberate decision not to rely on the market for its energy needs. As it is paying a premium for long-term contracts, the fluidity of the world oil market is affected through the removal of millions of barrels of oil from the supply pool. This aspect of China's strategy is a response to a long sense of exclusion from the global energy management institutions such as the International Energy Agency (IEA) and the conflicting signals from the US as it waivers between containment and engagement. China does not want to be too dependent on global oil markets and a global oil industry that is dominated by the US and the major international oil companies of the industrial countries. The recent anti-Chinese fervour surrounding CNOOC's June 2005 bid for US oil firm Unocal was confirmation for China that it cannot rely on US co-operation.<sup>20</sup> Instead of engaging with other large energy importers, China is unilaterally securing its future energy needs by a neo-mercantilist 'lock up' supply strategy<sup>21</sup>—even if this contradiction in the 'new diplomacy' regime gives rise to international condemnation.

### **Pursuit of the Pariah State**

In looking for oil supplies, Beijing is cutting deals with regimes that are politically isolated and therefore anxious to grab the lifeline that China's markets present. This is where the conflict really becomes apparent—the US wants these regimes isolated, while China provides them with both cash and political cover. In contrast to China's slick diplomacy in other areas, these relationships are costing China goodwill it has been at pains to develop. Whilst currently Beijing seems to think that the balance is still in its favour and that it can keep it this way, there must exist substantial doubt.

Here examination is given to China's relationships with the three states specifically identified by the Secretary for East Asian and Pacific Affairs in testimony to the Senate Subcommittee on East Asian and Pacific Affairs as 'problem states'; Sudan, Iran and Myanmar.<sup>22</sup> It is important to note that these are not isolated examples; China is not just pursuing pariah states in

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<sup>19</sup> See Goodman, *op. cit.*, p. D01.

<sup>20</sup> See Robert J. Samuelson, 'China's oil bid: A battle to avoid...', Washington Post, 6 July 2005, p. A17.

<sup>21</sup> Zoellick, *op. cit.*

<sup>22</sup> Christopher R. Hill, Emergence of China in the Asia-Pacific: Economic and Security Consequences for the US, Testimony before the Senate Foreign Relations Committee, Subcommittee on East Asian and Pacific Affairs, Washington, 7 June 2005, <<http://www.state.gov/p/eap/rts/rm/2005/47334.htm>> [Accessed 26 August 2006].

one particular region—it appears willing to seek out bad company wherever there is the lure of energy.<sup>23</sup>

## **SUDAN**

Since 1997 Sudan has been a no-go area for Western oil companies. American investment was officially banned and European multinationals steer clear due to the avalanche of protests that would accompany dealings with the regime of General al-Bashir. The country is accused by the United States of genocide in Darfur and accused by human rights groups of systematically massacring civilians and chasing them off ancestral lands to clear oil producing areas.<sup>24</sup>

China has stepped into this void to become the key player in Sudan's oil industry. The presence of China has provided the Sudanese government with the means to circumvent the economic pressure the United States sought to exert through its trade sanctions. The withdrawal of US oil companies has not left the country desperate for investment funds and oil-related technology. Instead, there has been a reconfiguration in trade toward China. China is not hindered by the scruples that prevent others engaging in this market and Sudan has become China's largest overseas oil project. It now depends on Sudan for seven percent of its oil needs and in turn Sudan's dependence on China is demonstrated by the fact that China now accounts for 67 percent of its total trade.<sup>25</sup>

Sudan, an oil importer before the arrival of the Chinese, now earns \$1.8 billion in oil exports annually.<sup>26</sup> Southern Darfur in particular is rich in oil, and CNPC holds the largest concession there. CNPC holds a 40 percent stake in the Greater Nile Petroleum Operating Company which built a 1600km pipeline from fields near the Red Sea Coast to an oil terminal near Port Sudan. It became operational in 1999 and the company is now developing large fields and builds a \$215 million export terminal. Another major project for which CNPC provided half the finance, was building and now operating the Khartoum Oil Refinery. It opened in 2000 and was upgraded in 2006 to have a crude refining capacity of 70,000 bbl/d. Another Chinese oil corporation, Sinopec also has substantial investments in Sudan and is erecting a pipeline to Port Sudan on the Red Sea, where China's

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<sup>23</sup> For instance, China's controversial relations with Zimbabwe, Angola, Uzbekistan and Kyrgyzstan and parts of South America also motivated by energy considerations. See Peter Cornelius and Jonathon Story, 'China and Global Energy Markets,' *Orbis*, vol. 51, no. 1 (Winter 2007), p. 15.

<sup>24</sup> See for instance 'U.N: Put Sudan's Top Leaders on Sanctions List,' Human Rights Watch Organisation, 12 December 2005, <<http://www.hrw.org/english/docs/2005/12/09/sudan12186.htm>> [Accessed 26 August 2006]. Also see Energy Information Agency, Sudan Country Analysis Brief, <<http://www.eia.doe.gov/emeu/cabs/sudan.htm>> [Accessed 31 January 2006].

<sup>25</sup> Sudan, CIA World Fact Book, <<http://www.cia.gov/cia/publications/factbook/geos/su.html>> [Accessed 26 August 2006]

<sup>26</sup> Energy Information Agency, op cit.

Petroleum Engineering Construction Group is building a tanker terminal.<sup>27</sup> Developing oilfields, erecting refineries, laying pipelines – the Chinese \$8 billion involvement in Sudan's oil industry can be witnessed at all levels.<sup>28</sup>

When the issue of the massacres in the troubled western Sudanese region of Darfur was debated at the UN Security Council in September 2004, the United States tried to impose economic sanctions on the Sudanese regime. The Bush administration labelled events in Sudan as amounting to 'state sponsored genocide'<sup>29</sup> in the hope of rallying the international community to action. Their draft resolution identified possible "measures with regard to the petroleum sector"<sup>30</sup> being put in place if the Sudanese government failed to rein in the proxy militias carrying out massacres in Darfur and if it refused the presence of a strengthened African Union peacekeeping force. Beijing threatened to veto such a resolution. Consequently, the Security Council passed a watered-down version, in which the US formulation that the Security Council would "take further action" against Khartoum was changed to the weaker "consider taking additional measures." Resolution 1564 merely contemplates the possibility of imposing sanctions, under Article 41 of the UN Charter, against the Government of Sudan if it fails to stop the humanitarian crisis in the region of Darfur. Even then, China abstained.

The link between the use of the veto and oil interests has been strenuously denied by China. Wang Guangya, China's Ambassador to the UN, dismissed suggestions that oil interests were a factor, instead arguing that stronger resolutions would eliminate the Sudanese government's incentive to co-operate.<sup>31</sup> However, other observers find this hard to believe; Zhu Weilie, director of Middle East and North African Studies at Shanghai International Studies University, puts it differently:

Oil from Sudan makes up one-tenth of all of China's imported oil... If we lose this source, how can we find another market to replace it? China has to balance its interests.<sup>32</sup>

The official justification for China's continued involvement, despite international pressure, can be found in a statement of mid 2004 by China's then-deputy foreign Minister, Zhou Wenzhong:

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<sup>27</sup> For a more detailed summary of China's engagement in Sudan see Yitzhak Shichor, 'Sudan: China's outpost in Africa,' The Jamestown Foundation: China Brief , 4 November 2005.

<sup>28</sup> See Jonathon Broder, 'Balancing Fuel and Freedom,' Congressional Weekly, 12 September 2005, p. 2384, <<http://resourcescommittee.house.gov/subcommittees/emr/news/Global%20Demand/cq09.10.05.pdf>> [Accessed 26 August 2006]. Also see Luft, *op. cit.*

<sup>29</sup> Colin Powell before the Senate Foreign Relations Committee, Washington, 9 September 2004, <<http://www.state.gov/secretary/former/powell/remarks/36042.htm>> [Accessed 26 August 2006].

<sup>30</sup> *Ibid.*

<sup>31</sup> Peter S. Goodman, 'China invests heavily in Sudan's oil industry,' Washington Post, 23 December 2004, p. A01.

<sup>32</sup> *Ibid.*

Business is business... we try to separate politics from business... the situation in the Sudan is an internal affair and we are not in a position to impose upon them.<sup>33</sup>

It is however difficult to find any separation between business and politics when it is Chinese cash that helped fund the two decade old north-south civil war and continues to supply the means for conflict in the Darfur region. Some of the oil was paid for by China in weaponry and over 4000 non-uniformed Chinese military forces are reported to provide physical protection for Beijing's investments.<sup>34</sup>

China's future plans for Sudan seem to be simple—more investment. It has consistently shown that, in its eyes, its own energy needs outweigh any need to join the battle to make Sudan heed international norms.

## **MYANMAR**

The military government of Myanmar (regularly referred to by US officials as Burma) is no favourite of Washington. The political relationship between the United States and Myanmar worsened after the 1988 military coup. In 2003, Congress adopted the Burma Freedom and Democracy Act (BFDA), which includes a ban on investment by US persons or entities in the country; a ban on imports from Burma; a ban on the export of financial services to Burma; a freeze on the assets of certain Burmese financial institutions; and extended visa restrictions on Burmese officials. Congress renewed the BFDA in July 2004, in July 2005 and again in August 2006. Relations remain estranged and the military government is frequently accused of ongoing human rights abuses.<sup>35</sup>

The economic isolation of Myanmar had the objective of coercing Myanmar's generals to share power and release the leader of the National League for Democracy, Aung San Suu Kyi, who won parliamentary elections in 1990 but whose party was never given power, and who is currently under house arrest. In conjunction with this tactic, Washington has also made calls for the United Nations to intervene in Myanmar to support political change.

Yet Washington's policies have been 'capsized'<sup>36</sup> by the response of Beijing. The economic sanctions have failed to reduce Myanmar to a situation of 'comply or perish' because China has come to the rescue. The US State

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<sup>33</sup> Keith Bradsher, 'Two big appetites take seat at the oil table,' *New York Times* (Late Edition East Coast), 18 February 2005, p. C1.

<sup>34</sup> Bill Gertz and Rowan Scarborough, 'Chinese in Sudan,' *The Washington Times*, 5 March 2004, p. C01.

<sup>35</sup> See 'UN: Security Council Should Take Up Burma's Human Rights Crisis,' media release, Human Rights Watch, New York, 14 October 2005, <<http://hrw.org/english/docs/2005/10/14/burma11873.htm>> [Accessed 26 August 2006].

<sup>36</sup> Jane Perlez, 'Across Asia, Beijing's Star Is in Ascendance,' *New York Times*, 28 August 2004, p. A1. Also see Matthew E Chin, 'Chinese National Oil Companies and Human Rights,' *Orbis*, vol. 51, no. 1 (Winter 2007), p. 45.

Department estimates that in 2003 Myanmar lost about \$US 200 million as a consequence of the ban on exports to the US, but this was more than offset by increased trade to China which amounted to about \$US 1 billion in the same period. In the most recent report released by the State Department, particular note is made of the increased involvement China has had in the power and energy sector, including new offshore oil and gas exploration.<sup>37</sup> One recent proposal is that a pipeline be built from Myanmar's west coast port of Sittwe to Kunming, the capital of China's southwestern Yunnan Province. This would allow China more direct access to Middle Eastern Oil and reduce reliance on US patrolled shipping lanes. It reveals that one of the strategic motivations for China's deepening relationship with Myanmar is the need to develop other inlet points to feed southern and western China's energy needs as the east-coast infrastructure becomes more jammed.

Myanmar has also been the recipient of China's powerful diplomatic protection, which is evident from the way in which China has stalled US attempts to get the issue of Myanmar on the UN agenda. In June 2005 the United States attempted to bring the issue of political repression in Myanmar before the Security Council. China, in company with Russia and Algeria, argued that the issue was outside the council's mandate to ensure international peace and security because the problems in Myanmar were 'internal.' In November that year, another attempt was made by the US to have the council address the situation in Myanmar. Whilst a small step was made in the form of a one off briefing to the Security Council, it did not result in the situation of Myanmar going on the Security Council agenda for further action, as such a move continues to be opposed by China and other countries.<sup>38</sup>

China has made it clear that it will not support efforts by the US to isolate the junta, economically or otherwise. While statements have been made by the US to the effect that it understands the need for Myanmar's neighbours to engage with the state,<sup>39</sup> it did so with the qualifier that this engagement must be accompanied by a serious commitment to assist in pushing for political change. From the perspective of the US, China's commitment to pursue this political change appears hollow. While Beijing makes the right sounds,<sup>40</sup> when pressed, officials revert to the line that issues such as violation of human rights in Myanmar are 'internal affairs.' The closeness between

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<sup>37</sup> 'Conditions in Burma and U.S. Policy Toward Burma for the Period 28 March – 27 September 2005,' US Bureau of East Asian and Pacific Affairs Report to Congress, 11 October 2005, <<http://www.state.gov/p/eap/rls/rpt/56905.htm>> [Accessed 26 August 2006].

<sup>38</sup> See further Edith M. Lederer, 'US steps up pressure on Myanmar's junta,' *The Boston Globe*, 2 December 2005.

<sup>39</sup> 'Rice: Myanmar one of 'worst regimes in the world,' *USA Today*, 16 November 2005, <[http://www.usatoday.com/news/world/2005-11-16-rice-myanmar\\_x.htm](http://www.usatoday.com/news/world/2005-11-16-rice-myanmar_x.htm)> [Accessed 26 August 2006].

<sup>40</sup> See for example comments by Chinese Premier Wen Jiabao in Rowan Callick, 'Chinese Heat on Rangoon,' *The Australian*, 16 February 2006, p. 9.

Chinese Government and the ruling junta appear to help further the people of Myanmar's political oppression rather than encourage reform.

## IRAN

Similarly to the case of Sudan and Myanmar, China's relationship with Iran has grown out of China's energy needs. Iran is OPEC's second largest oil producer and holds 10 percent of the world's proven oil reserves. It also has the world's second largest natural gas reserves. Diplomatic relations between the two countries were established in 1971 and have deepened in recent times. In June 2000 a joint communiqué on enhancing bilateral cooperation was signed by both governments.<sup>41</sup>

China has become one of the most important trade partners of Iran. In recent years bilateral trade has increased rapidly; 2005's trade volume reaching \$3.3 billion.<sup>42</sup> In terms of energy, deals between the two have grown exponentially. In October 2004 Sinopec and Iran signed a contract for an estimated \$US70 - 100 billion for the development of the Yadavaran oilfield and shipment of 250 million tones of LNG and 150,000 bpd of crude oil over a 25 year period.<sup>43</sup> Other substantial deals include State oil trader Zhuhai Zhenrong agreeing to import more than 110 million tons of LNG from Iran over 25 years for a total of \$US20 billion.<sup>44</sup>

The energy deals might underpin China and Iran's relationship but there is a lot supplementing it. China is bolstering its image as a long term customer for Iranian gas and oil by expanding its ties through such measures as funding vital infrastructure in Tehran and opening manufacturing factories.<sup>45</sup> There are also strong military links, which lead to concerns about China supplying Iran with advanced missiles and missile technology, including anti-ship missiles that could threaten US military forces securing the Persian Gulf.<sup>46</sup> The sharing of missile technology is particularly of concern to the US at a time where it is worried about Iran's growing nuclear capabilities, as new advanced long range ballistic missiles could eventually carry nuclear warheads.

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<sup>41</sup> Joint Communiqué between the Peoples Republic of China and the Islamic Republic of Iran, Beijing, 22 June 2000.

<sup>42</sup> Sharif Shuja, 'China, Iran and Central Asia: The Dawning of a New Partnership,' Contemporary Review, vol. 287, no. 1676 (September 2005), p. 145.

<sup>43</sup> Energy Information Agency, China – Country Analysis Brief, 2005, <<http://www.eia.doe.gov/emeu/cabs/china.html>> [Accessed 26 August 2006].

<sup>44</sup> For a more detailed discussion of China's interests in Iran see Leverett and Bader, *op. cit.*

<sup>45</sup> See *Ibid.* Also see Shuja, *op. cit.*

<sup>46</sup> See Luft, *op. cit.*

The relationship between the US and Iran is a long and complicated one.<sup>47</sup> The US lists as objectionable the Iranian efforts to acquire nuclear weapons and other weapons of mass destruction; its support for and involvement in international terrorism; its support for violent opposition to the Middle East peace process; and its human rights record.<sup>48</sup> The overall policy the US has chosen to address these problems has been one of isolation, although it supports a diplomatic solution to Iran's nuclear ambitions and the regime's support of terrorism.<sup>49</sup>

Economic sanctions have long been an aspect of US-Iran relations. Under the Iran-Libya Sanctions Act passed by the Clinton Administration in 1996 and since renewed, sanctions are imposed on companies that invest US\$20 million or more annually in oil and gas projects in Iran. The Act is designed to deprive Iran of the ability to acquire weapons of mass destruction and fund terrorist groups by hindering its ability to modernise its key source of revenue – the petroleum sector.<sup>50</sup> China has simply stepped in to provide the means for that modernisation and in the process gained the windfall of closer relations with Iran. A flow on effect is that other countries have become unwilling to sit by while China invests in Iran, further undermining US efforts to deprive Iran of revenue. Japan's decision in 2004 to sign a \$US2.5 billion deal to develop part of the Azadegan oil and gas fields was in part a response to the knowledge that if they did not make the deal, China would.<sup>51</sup>

Recent developments concerning Iran's nuclear activities have exposed the balancing act that China has been attempting to pull off. In a major diplomatic development, on 10 January 2006 Iranian officials broke IAEA seals on equipment at a nuclear facility and resumed small-scale uranium enrichment activities, ending a two year suspension. Initially China stuck with its usual calls for discussions to be re-opened and diplomatic solutions to be explored. However, on 4 February 2006 China joined the US and EU in reporting Iran's nuclear activities to the Security Council. Subsequently, China has indicated its unwillingness to vote for a resolution to punish Iran, removing some of the significance of its decision to support the referral to the Security Council in the first place. However, putting this later backtracking aside, the 4 February decision suggests at least the possibility

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<sup>47</sup> Under Secretary for Political Affairs R. Nicholas Burns, US policy toward Iran, Speech delivered to the Johns Hopkins University Paul H. Nitze School of Advanced International Studies, Washington, 30 November 2005, <<http://www.state.gov/p/us/rm/2005/57473.htm>> [Accessed 26 August 2006]

<sup>48</sup> Background Note: Iran, Bureau of Near Eastern Affairs, US State Department, August 2005.

<sup>49</sup> Burns, *op. cit.*

<sup>50</sup> Kenneth Katzman, 'The Iran-Libya Sanctions Act,' Congressional Research Service Report for US Congress, 20 July 2001, <<http://www.au.af.mil/au/awc/awcgate/crs/rs20871.pdf>> [Accessed 26 August 2006].

<sup>51</sup> Leverett and Bader, *op. cit.*, p. 196. Japan has subsequently agreed to give up its controlling interest in Iran's massive Azadegan oilfield amid international tensions over Tehran's nuclear program.

that at some point considerations of good global citizenship can and will outweigh the benefits obtained from close relationships with energy rich pariah states. It is also perhaps an indication that Beijing is aware that Washington's concerns are in a different league altogether from those of Sudan and Myanmar.<sup>52</sup>

## Chasing the Elusive 'Co-operative' Energy Model

The tension over China's energy security policies does not exist in isolation from broader Sino-US relations and it is a change in attitude at this broader level that will be required to make any progress on the more specific issue of energy security. In September 2005 Robert Zoellick, US Deputy Secretary of State, gave a speech which some called 'groundbreaking'<sup>53</sup> as it appeared to set a new tone for US-China relations.<sup>54</sup> The key message was that the US could not afford to pursue a containment strategy and hold China at arms length because the two countries were too interdependent. Instead a pragmatic, co-operative policy had to be pursued between the two states as this was the only way to deal with the significant global challenges that lay ahead.

Zoellick signalled that the US was willing to take this non-confrontational and pragmatic approach if China would pay the asking price. The price was that China become a 'responsible stakeholder' in the international system; that it become more than just a member and instead a proactive player in upholding the system and its values. If China can take steps to prove it is making efforts to become the 'responsible stakeholder' that the US appears to be asking for, the two states will have a better chance of turning this rhetoric into a real blueprint for their bilateral relationship.

It is by no means clear just what the US means by 'responsible stakeholder.' Zoellick only gave the barest of clues in his speech and President Bush has failed to expand on the concept during his subsequent meetings with President Hu Jintao. Despite this lack of clarity, Zoellick's speech did make clear what one component of the transformation would require—China must adjust its relationships with the pariah states. Zoellick stated:

China's involvement with troublesome states indicates at best a blindness to consequences and at worst something more ominous. China's actions – combined with a lack of transparency – can create risk.

If China were to make a positive effort in this area, and conducted itself with more respect for international norms, it would make a visible sign of being willing to embark on this co-operative relationship with the US. This will

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<sup>52</sup> Cornelius, *op. cit.*, p. 19.

<sup>53</sup> Richard J. Ellings, 'Whither US-China Relations?', Roundtable Discussion, National Bureau of Asian Research Analysis, vol. 16, no. 4, (December 2005), p. 3.

<sup>54</sup> Zoellick, *op. cit.*

involve two main steps: a shift on China's behalf to take a greater interest in the 'internal' affairs of the pariah states; and for both the United States and China to engage in a co-operative model of energy security to reduce China's need to pursue these states.

The positions that the US and China take on the internal affairs of countries described above have been diametrically opposed. The US, by reason of its long held position as the world's only superpower, tends to act in the presumption that its overwhelming power creates an opportunity, and perhaps a responsibility, to shape political developments.<sup>55</sup> To this end the US has often used its clout to isolate countries in an attempt to bring about political objectives, and economic sanctions against Sudan, Iran and Myanmar are manifestations of this approach. China on the other hand has a strong respect for state sovereignty and in the past has preferred not to engage in what it sees as internal disputes, due in part to the substantial criticism it receives over its own human rights record. China justifies its involvement in these states by simply arguing that it keeps business and politics separate.

There is reason to be optimistic that these different approaches that China and the US take to foreign relationships may cease to be so polarized. The 'new diplomacy' with which China is experimenting is said by some to create a mutually reinforcing mechanism:

the more deeply embedded China becomes in the web of regional and global institutions, the more the beliefs and expectations of leadership will come to conform to the emerging consensus that those institutions embody.<sup>56</sup>

According to this view, China's involvement in institutions such as the United Nations will ultimately lead it to share the values held by the body and to stop it from using its power to block moves merely to protect its own interest. The weakness of this expectation is that so far China has been willing to use the threat of its veto power on the Security Council to protect its dealings with countries that most other states would wish to sanction, which suggests that it may instead choose to pursue a different strategy.

Clearly, China is endeavouring to win acceptance as a great power, and to do this it must calm the 'cauldron of anxiety'<sup>57</sup> that exists about what kind of superpower it will become. The best way to do this is to act in a manner the international community considers responsible. This is exactly what the 'new diplomacy' has been about. That China has taken a more internationally acceptable position in other areas is the best indication that it

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<sup>55</sup> Aaron L. Friedberg, 'The future of US-China Relations: Is conflict inevitable?', *International Security*, vol. 30, no. 2 (Fall 2005), p. 7.

<sup>56</sup> *Ibid.*

<sup>57</sup> Zoellick, *op. cit.*

would be willing to do so in relation to energy as well—if this willingness was not overpowered by the concern as to how its energy needs are to be met. If a more co-operative energy environment can be created that reassures Beijing that the international community, led by the US, will work with and not against it on this issue, it is possible that the ‘new diplomacy’ might lead to an end of the pursuit of the pariahs. However, the very importance of energy to China’s survival means firm and solid commitments will be required, not vague promises to work ‘with’ or ‘alongside.’

Very recently, creating this co-operative framework seems to have been bumped up the US priority list, but any moves made in response to this change are still in their infancy. In July 2005 a new Asia-Pacific Partnership on Clean Development and Climate (the ‘partnership’) was established between six countries, including China and the US.<sup>58</sup> The partnership is designed to focus on promoting cleaner energy whilst still meeting increased energy needs.<sup>59</sup> There is a temptation to be cynical given that none of the six partnership members are members of the Johannesburg Renewable Energy Coalition which organised the 2002 World Summit on Sustainable Development to promote renewable energy. On that front, it may thus be a divisionary tactic rather than a solid commitment to finding alternative cleaner energy. However, it does signal at least a willingness to work together and sets up a framework within which China and the US can co-operatively discuss energy. The bilateral dialogue initiated in 2005 by the US Department of Energy and China’s National Development and Reform Commission is another channel through which discussion can take place. The early stages of both these measures prevents any assessment as to how effective they will prove to be, all that can be said at this point is that they at least indicate some willingness to work together.

The efforts to engage specifically on the issue of cleaner energy reflect that it is in both countries’ interests to do so. China in particular has invested less in oil infrastructure than the US, and with more technological assistance could partly ‘leap frog’ oil dependency and move to next generation energy sources.<sup>60</sup> The US can help China develop alternative sources of energy, including hydropower, natural gas, nuclear, solar and wind power. In offering this technological assistance, the US would be helping to ease the demands that its greatest energy competitor makes of the oil market, and

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<sup>58</sup> Other member countries are Australia, India, Japan and Republic of Korea.

<sup>59</sup> Vision Statement of Australia, China, India, Japan, the Republic of Korea, and the U.S. for a New Asia-Pacific Partnership on Clean Development and Climate, US Bureau of Oceans and International Environmental and Scientific Affairs, 28 July 2005, <<http://www.state.gov/g/oes/rls/fs/50335.htm>> [Accessed 26 August 2006].

<sup>60</sup> ‘Interview with Dr. Gal Luft of the Institute for the Analysis of Global Security: China and US should set up a strategic dialogue on energy issues,’ Institute for the Analysis of Global Security, 15 April 2004, <<http://www.iags.org/n041904a.html>> [Accessed 26 August 2006].

US companies providing the assistance would also benefit.<sup>61</sup> A method of facilitating this technology sharing is to encourage joint ventures between US and Chinese firms, however, the reaction to the CNOOC bid for Unocal means that within the US there is substantial domestic opposition to overcome first.

China's sense of exclusion from global energy management institutions such as the IEA must be overcome in order to create a less confrontational energy environment. The IEA, established during the oil crisis of 1973-1974, is a leading energy policy adviser for its 26 member countries. Given China's size, its actions will have a large effect during any future crisis and it too should be a part of the body that would co-ordinate the strategies of response.<sup>62</sup> Unfortunately there are substantial barriers to China's inclusion in this organization, the least of which being the condition that any member country needs to have strategic oil reserves equivalent to at least 90 days of net oil imports (currently China's reserve is less than 30 days). Despite this there is growing awareness that the IEA's effectiveness would be improved if China was working within the organization. In his speech on US-China energy policies in the Council on Foreign Relations Senator Lieberman stated, for example, that

allowing China to stay out of the IEA and the global effort to deal with energy problems makes no sense when you look at it in light of our shared economic and security needs.<sup>63</sup>

Whether the US moves forward with these co-operative measures will depend on which political camp within the US wins the tussle. Zoellick's call for pragmatic co-operation is just one voice among many and whilst it seems to have recently gained some ground, there are strong factions who see the situation differently.<sup>64</sup> If proponents of a more hard line approach gain the upper hand, the prospect of co-operation over energy becomes more distant. China will have no reason to drop its pursuit of the pariah and stick to its 'new diplomacy', if faced with policies openly directed at containment. In such a scenario, China's closeness with these pariahs becomes a strategic advantage.

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<sup>61</sup> Ian Bremmer, 'Are the US and China on a Collision Course,' *Fortune*, vol. 151, no. 2 (January 2005), p. 50.

<sup>62</sup> Ian Bremmer, 'China and America's common energy interests,' *Financial Times* (London), 16 March 2005, p. 13.

<sup>63</sup> US Department of State Bureau of International Information Programs, 'U.S., China Must Cooperate To Meet Energy Needs, Senator Says,' media release, 2 December 2005.

<sup>64</sup> Paul Kelly, 'Rising China a test for a stable and balanced US Approach,' *The Australian*, 14 December 2005, p. 12. Also see, US Defence Secretary Donald Rumsfeld, Speech to International Institute Strategies Studies East Asian Summit, Singapore, 4 June 2005. Rumsfeld's criticism of China's military defence spending was indicative of his more suspicious attitude toward China's long term goals. Text available at <[http://www.usembassy.it/file2005\\_06/alia/a5060303.htm](http://www.usembassy.it/file2005_06/alia/a5060303.htm)> [Accessed 26 August 2006].

## Considerations for Australia and the Rest of the World

Abandoning the pursuit of the pariah state would remove an inconsistent element from an otherwise successful and sophisticated Chinese diplomatic strategy. In other areas, Beijing has been embracing international values and assisting in upholding international norms—a strategy that it is in everyone's interest to encourage.

A China that is perceived to be making the necessary moves toward being a 'responsible stakeholder' strengthens the argument of the American camp advocating a co-operative framework between the two states, whilst simultaneously weakening the case of those advocating a more confrontational stance.<sup>65</sup> Curbing relations with the pariah states is one of these necessary moves, constituting a visible signal to the world that China is further committing itself to its own 'new diplomacy.' The moves China will make in its capacity as a veto wielding member of the Security Council in relation to Iran will offer the best indication yet as to how far China is prepared to support pariah states that scoff at global norms.

For Australia in particular, the adoption of Zoellick's pragmatic co-operative framework would extend the life expectancy of Australia's 'best of both worlds'<sup>66</sup> approach, which has seen Australia simultaneously deepen ties with both the US and China. It has been suggested that Australia can help its own case by taking active steps toward influencing the attitude of the US towards China.<sup>67</sup> The ability of Australia to do so is certainly limited, but some experts suggest that Canberra's warm diplomacy with China and Howard's even handedness are already sending a message to the US that Australia sees a leading role for China in the region.<sup>68</sup> More particularly with regards to the issue of energy, Australia as a member of the Asia-Pacific Climate Partnership can help shape the body so that it is conducive to meaningful discussion between China and the US on the topic of energy security. Ironically, what gives Australia some potential for influence is the closer ties it has been forging with Beijing via its strategy of keeping business and politics—specifically, the issue of China's human rights record—separate. It is this same separation between business and politics that the US is calling unacceptable in relation to Beijing's conduct with the pariah states.

The pursuit of pariah states is just one of many potential trigger points in relations between Beijing and Washington. Yet abandonment of the pursuit would constitute a very clear signal of Beijing's desire to work within the

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<sup>65</sup> See Kelly, *op. cit.*

<sup>66</sup> William T. Tow, 'Sino-American relations and the Australian factor: inflated expectations or discriminate engagement?', *Australian Journal of International Affairs*, vol. 59, no. 4 (December 2005), p. 454.

<sup>67</sup> *Ibid.*, p. 478.

<sup>68</sup> *Ibid.*, p. 479.

international system, potentially easing US-Sino tensions across the breadth of diplomatic relations. China must be given the support it needs to relieve some of its energy insecurity concerns, as only then will it abandon the very perilous pursuit of the pariah.

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