

# Understanding China's Global Search for Energy and Resources

SIGFRIDO BURGOS CÁCERES

The need for massive amounts of energy supplies, raw materials, among other natural resources in part drives Beijing's defence, energy, and foreign policies. The dynamic economic growth rates experienced over the past twenty years, coupled with increased manufacturing levels, rising exports of low-cost goods, rapid urbanisation, and higher demands for air and land travel and transportation, among other things, are increasing China's appetite for crude oil, natural gas, timber, and other critical minerals. This article tackles the issue of how such demands shapes China and how the international community responds.

*Keywords: China, Beijing, energy, resources, raw materials, economic growth, oil, natural gas, timber, minerals, export, economic dynamism, trade surplus*

## Introduction

The need for massive amounts of energy supplies, raw materials, and other natural resources is, in part, driving Beijing's defence, energy, and foreign policies. The dynamic economic growth rates experienced over the past twenty years, coupled with increased manufacturing levels, rising exports of low-cost goods, rapid urbanisation, and higher demands for air travel and land transport, among many other things, are increasing China's appetite for crude oil, natural gas, timber, and critical minerals.<sup>1</sup> To give an idea of China's accelerated economic dynamism, one has to look at exports. China's exports increased from US\$184 billion in 1998 to US\$1.2 trillion in 2007. As a result, China's trade surplus increased from US\$44 billion in 1998 to US\$262 billion in 2007, leading to increasing pressure on China from both the United

States and the European Union to upwardly revalue its currency, the Yuan.<sup>2</sup>

Over the past two decades, the Chinese economy has grown at an annual rate of around 10%, a pace that stands out in 2012 especially as the global economy continues to suffer from a financial meltdown (2008+). However, experts note that there are three major problems that could derail China from its impressive track record of consistent economic throughput: 1. a property bubble burst, 2. unbalanced rebalancing, and 3. rising political unrest.<sup>3</sup> Even under temporary duress, China's hunger for aluminium, cement, copper, and steel have caused its gas and oil consumption to surge. Such accelerated use of resources turned it into the world's second-largest oil importer after the US.<sup>4</sup>

*Sigfrido  
Burgos  
Cáceres*

The most traded commodity in the world is oil since oil, and its derivatives, literally make the world move. It is used in transportation vehicles and to propel factory machinery.<sup>5</sup> In the absence of sustainable alternative energy sources, oil will remain the substrate of choice in global production. Moreover, aspirations to attain Western lifestyles are fuelling an unprecedented competition for gas, forest products, minerals, oil, and water as rapidly growing nations like Brazil, Chile, India, Russia, Turkey, and Vietnam pursue comfort, prosperity, and economic security for more and more of their people.<sup>6</sup> Energy is the essence of modern civilization; and as societies and economies around the globe grow, so does their energy consumption.

As the international community witnesses the growth of China (and India), it is pertinent to ask whether there is enough recoverable oil to see emerging market powers join the highest circles of global governance? Resource experts claim that the world already hit peak oil.<sup>7</sup> As demand meets supplies resulting in higher oil prices it becomes evident to energy analysts that the output of conventional petroleum will peak at about 95 million barrels per day in 2012. It will then begin an irreversible decline that could trigger a bitter competition for the remaining oil. In short, global reserves of crude oil are dwindling as demand rises.

In recognition of the much-heralded resource depletions and talk about climate change, China has set out to replace some of the coal, gas, and oil it consumes with alternative energies such as geothermal, nuclear, solar, and wind while addressing shortcomings that have interfered with a more successful expansion of renewable energy.<sup>8</sup> In the meantime, while Beijing continues to purchase oil from traditional oil-producing countries, it also seeks greater direct control and man-

agement over sources abroad. This has resulted in China's engagement with a variety of unstable and often dictatorial states in Africa, Central Asia, South America, and Southeast Asia. This situation is mirrored in China's other resource demands; it requires minerals, copper, iron ore, gold, and silver, as well as natural resources like timber and rubber.<sup>9</sup>

Zweig and Jianhai note that China has been courting resource-rich states through

building goodwill by strengthening bilateral trade relations, awarding aids, forgiving national debt, and helping build roads, bridges, stadiums, and harbours. In return, China has won access to key resources, from gold in Bolivia, coal in the Philippines, oil in Ecuador and natural gas in Australia.<sup>10</sup>

Furthermore, as China enters Africa and consolidates its position as a major oil player on the continent, it gains leverage to prevent—or at least limit—others from entering upstream operations. Additionally, there are the long lead times required for funding and developing oil in territories that remain unclaimed or areas too logistically complicated to propose a profitable business endeavour.<sup>11</sup>

Tellingly, China's search for energy and resources is devoid of moral considerations. Given that sought-after energy supplies and natural resources are often found in states with weak governance and oppressive leaders, Beijing has reached agreements with governments that have little or no respect for international norms of conduct. Such business methods places China at odds with US and European foreign affairs because it undermines long-stipulated objectives in sensitive regions such as isolating obstreperous and undisciplined governments or punishing them for neglecting human rights, seeking WMD proliferation, hosting religious radicals and terrorists, noncompliance with international law, and failing to promote democratic reforms.<sup>12</sup>

Due to China's ascendancy, the international political system is shifting for the second time since the Cold War ended.<sup>13</sup> Europe and the US are closely following Beijing's assertiveness and newfound confidence in foreign affairs. They are also trying to bring China, other major emerging economies, and the developing world under a collaborative framework to address climate change, international terrorism, and resource depletions. The latter is particularly critical given that developing countries will generate nearly 80% of the growth in world energy demand by 2020, with the Middle East representing 10% and China representing approximately 30%, according to global consulting firms' forecasts.<sup>14</sup>

This work is based on answering the question of *how* China searches for resources globally and contributes to an increasing body of work on China's demand for resources. The work is broken into four substantive subsections dealing with: economic, environmental, geopolitical, and strategic aspects of China's resource demands. This is closely followed through the development of reflections which offer analyses to make better sense of the impact such behaviour stemming from Beijing is having on international political life in general terms.

*China's  
Global  
Search for  
Energy*

## Economic Dimensions

The first twelve years of the twenty-first century saw the rapid economic growth and increased consumption of energy, among other resources, by hyper-growth countries such as China, Brazil and India. This was quickly reflected in demand jumps, and with them, price hikes, for key resources. The hydrocarbons sector is indicative; between 2004 and 2012, supply could not keep up with demand, which led to market fluctuations and the formation of new price floors and ceilings.<sup>15</sup> The rapidly rising costs of energy and resources may be hurting oil-importing countries, but it is helping oil-exporting states to fill up their national coffers. China, now the second largest economy in the world, has—through its annual importation of energy and resources from developing countries—assists these states offset the increased costs of non-oil goods that are heavily reliant on gas and oil for their production and transport. Additionally, the oil-producing states, especially large producers such as Angola and Nigeria, increase their fiscal revenues as oil prices rise. Over the years, these countries have accumulated significant foreign exchange reserves that regrettably have been mostly used to the personal advantage of the ruling elite.<sup>16</sup>

In China, for now, this rapid economic growth and sharp consumption of resources is driven by export-oriented manufacturing of low-cost goods to the West. The contribution of domestic consumption and services is comparatively lower. For instance, consumption accounts for 42% of China's GDP; compared to 68% for the US, 64% for India, 58% for the EU, and 55% for Japan. One could say that Beijing has implemented a resource-mobilisation model of growth instead of a consumption-led approach. This is changing however. Officials in Beijing have begun to recognise that overreliance on exporting to high-income countries may come with a series of hidden risks. But change is difficult, especially for a country guided through one-party rule. In

this spirit, Das, former Chief Executive Officer of Procter and Gamble in India, notes that 'Beijing remains highly suspicious of fast-talking capitalists and entrepreneurs. Also, only about 10% of the credit goes to the private sector in China, even though the private sector employs 40% of Chinese workforce.'<sup>17</sup>

In terms of economic benchmarking, copper is closely watched by analysts and traders. It is called "Dr. Copper" because it is a proven bellwether for the overall health of the global economy. Copper is used in many industries, so strong demand for the metal often indicates that the overall economy is in the process of expansion. By mid-2012, copper prices had more than doubled after a three-year upswing, which saw it go from US\$1.50 per pound in January 2009 to US\$3.60 in 2012.<sup>18</sup> This was largely driven by the belief that China, the world's largest copper user, has an insatiable hunger for the metal.<sup>19</sup> China's annual copper consumption hovers at roughly 7-8 million tonnes.<sup>20</sup> Recently, rising commodity prices can be partly explained by companies and individuals hoarding commodities of all types—from cooking oil and cotton to copper—betting that prices will increase. However, experts agree that successive rounds of interest-rate increases and moves to mitigate speculation will have a negative impact of commodities and other critical markets in the short run. On the whole, China's long term demand for commodities remains robust because of the economy's size and rapid growth.<sup>21</sup>

If copper wires the Chinese economy then oil is the economic lubricant that keeps the manufacturing and industrial sectors going at full speed. Beijing is becoming increasingly dependent on domestic and foreign oil, especially from Africa, Central Asia, and the Middle East. This creates interstate competitions, and with it, the threat of investment protectionism. The control of natural resources by sovereign wealth funds and state-owned investors is a primary concern. Many resource-rich countries are becoming increasingly anxious about China's thirst for direct and unimpeded control of natural resources, particularly gas, minerals, timber, and oil. As developed and developing countries face increases in the deployment of foreign direct investments from China—most of these occur in the natural gas, mining, and oil industries—a growing tendency to more closely examine deals is under way. In fact, transactions that involve government-controlled entities, oil-for-infrastructure deals, and natural resources are subjected to intense scrutiny.<sup>22</sup> A study by the Council on Foreign Relations (CFR) notes that in the recent past at least eleven powerful economies,

which together constituted 40% of all foreign direct investment in 2006, have cleared new laws that would restrict certain types of foreign investment or expand government oversight.<sup>23</sup>

One of the oil business' major points of attractiveness is its highly inelastic demand; that is, an increase in the price does not greatly decrease the demand for oil in the short run. This being the case, if oil companies can maintain a higher price for oil, they will not lose sales volumes and will reap high profits. This is why many states in the Middle East maintain amicable relations with both China and the US. For example, the US's oil import bill accounts for over two-fifths of the total US trade deficit. Another source of US trade deficit is the protectionist and mercantilist trade policies of its major trading partners, especially China. China accounted for about one-quarter of global growth between 2000 and 2010, stepping out beyond the US for the top spot as trade-maker.<sup>24</sup> This evolving oil competition is because the Chinese Communist Party's legitimacy and power, as well as the stability of the whole country, depends heavily on Beijing's ability to ensure sustained economic growth above 8%, generate employment for thousands of young people joining the labour force, and to provide rising living standards for its citizenry. While senior government officials are busy handling international affairs they must also pay attention to their evolving domestic dynamics that could very easily derail economic, military, and political plans.

China, as well as Europe and North America, have a healthy appetite for natural gas. This gas is considered a relatively benign fossil fuel. Peru has several trillion cubic feet of natural gas in its remote South Eastern jungles. Developing this resource is good for the world's energy security, air quality, and the Peruvian economy. China is fully aware that exploiting its natural gas reserves could transform Peru from a net importer of energy into a net exporter and Peru is cognizant that this transition can translate into boosting growth, job creation, and fiscal revenues.<sup>25</sup> A shift from oil to gas may lower energy prices. In general terms, when energy costs fall it brings food prices crashing down as well because the cost of producing foods are now closely tied to the price of crude oil and natural gas, given that petrochemicals are so widely and heavily utilised in the cultivation of cereals and grains.<sup>26</sup> This is important owing to the rising demand for food in China. The Earth Policy Institute estimates that if China keeps on growing at a baseline level of 8% annually, by 2030 the per capita income of 1.5 billion Chinese will be the same as the US in the mid 2000s.<sup>27</sup>

*Sigfrido  
Burgos  
Cáceres*

There have been attempts to stymie China's growth. With the help of its European allies, the US has stepped up pressure on China to re-evaluate its currency. This is easier said than done for Beijing. If the Chinese Communist Party (CCP) allows the Yuan to appreciate rapidly—not only to please critics but also to reduce inflation—it will generate a plunge of exports as these will become more expensive in foreign markets and less competitive. As a result unemployment will rise. Moreover, if inflation keeps climbing and dissatisfaction rises, mass unrest will likely follow. Evidently, China embraces free and open trade expansion because it is cognizant that if a country wants to be a world power, it has no choice but abide to the World Trade Organisation (WTO). To this effect, China's growing commitment to economic liberalisation has increased foreign investment and trade, as well as global commercial etiquette and trade rules.

The problems of China are not limited to the economic realm. There are also environmental, legal, and social conflicts. For instance, Nobrega notes that 'between 1992 and 2005, 20 million farmers were evicted from agriculture due to land acquisition, and from 1996 to 2005, more than 21% of arable land in China has been put to non-agricultural use.'<sup>28</sup> In environmental terms, China is now home to a large number of polluted cities. The following section examines these issues.

## Environmental Dimension

From the 1800s to the 2000s, the world witnessed exponential monetary growth, economic development, expansion of trade, urbanisation, a sustained boom in residential and commercial construction, an explosion of manufacturing and industries, and the irresponsible use of the world's limited energy sources. But, one may ask, why? Well, the answer is why not. During this timeframe, all the coal, gas, and oil to fuel the monetary-market economic model seemed relatively harmless, extremely cheap, and seemingly inexhaustible. Indeed, it was this paradigm that permitted acceleration of energy usage and our inability to stop consuming it, to the point that some Western countries are now termed 'oil addicts.'<sup>29</sup> Regrettably, this carries a collective burden: environmental problems. Some suggest that one can manage risk only when it can be measured—this is China's dilemma with carbon dioxide. It is an invisible, odourless, tasteless gas that is known to cause global warming. But today it does not appear to significantly hurt anyone in China, so the perception is that managing this gas (and other pollut-

ants) is not only costly but also with negligible economic payoffs.

A World Bank study estimates that pollution costs China between 8% and 12% of its annual GDP because of increased medical bills, lost work due to illness, damage to fish and crops, and money spent on disaster relief.<sup>30</sup> Similarly, China's National Bureau of Statistics estimates that the health problems, environmental degradation, and lost work-days from pollution cost China anywhere from 4% to 9% of its total economic output.<sup>31</sup> It is often said that China has an edge related to the amount of pollution produced without regulation in comparison to industries in the US that face the highest compliance costs. Companies such as Dow Chemical and US Steel spend about 3% of their revenues on environmental-related expenses. In comparison, Chinese competitors such as Sinopec and Bao Steel spend only about a tenth as much. Unfortunately, this polluting largesse comes at a steep price to Chinese citizens. China is now home to 16 of the world's 20 most polluted cities. In fact, of China's almost 100 cities with over one million people each, 66% fail to meet World Health Organisation air quality standards.<sup>32</sup> Ultimately, it comes full circle: whatever China's pollution-based competitiveness and environmental cost advantages are at the individual enterprise level, they are likely being offset by aggregate social costs (i.e. healthcare).

In terms of energy utilisation for food production, it takes 35 calories of fossil fuel to make one calorie of beef in confinement and 68 calories of fossil fuels to make a calorie of pork.<sup>33</sup> China, with 1.3 billion people, is adopting a richer meat-based diet that will need to be supplemented from abroad. If this is indeed the case, the intensification of livestock production systems will demand more energy and resources that are already dwindling. No wonder people ask: will it be food or fuel? To avoid reaching a carbon dioxide level of 560 parts per million, world leaders will require a massive global energy project aimed at conservation, emission mitigation, and oil substitution. This initiative will have to leave room for developed countries to grow using fewer fossil fuels, and for countries like Brazil, China, and India to progress under a progressive pollution cutback programme, until they fully climb out of poverty and are able to become more energy efficient.<sup>34</sup> These are ambitious ideas that merit consideration given dwindling resources.

Sceptics are asking how to verify the claim that the international community reached peak oil. The answer to this question rests on several indicators. First, many of the significant gas and oil fields that have supplied global demands previously are experiencing diminished



outputs. For example, Burgan in Kuwait, Cantarell in Mexico, Ghawar in Saudi Arabia, and Samotlor in Russia are either in steep decline or about to become so. Second, while in recent years major oil producers have been spending more resources to discover new gas and oil reserves, they are finding less. In fact, the last decade in which new discoveries exceeded the rate of extraction from existing fields was the 1980s. In the past 25 years, only two major gas and oil fields have been discovered: the Kashagan field in Kazakhstan's sector of the Caspian Sea and the Tupi field some 150 miles off the coast of Rio de Janeiro, Brazil.<sup>35</sup> The solution to declining oil supplies will revolve around some combination of renewable, eco-friendly, domestically-produced energy supplies, including bio-fuels, geothermal, solar, ocean waves, and wind energy generation.

To be sure, 2.5 out of 7 billion people currently depend on wood and other biomass fuels that cause further deforestation and air pollution. As an energy source, coal replaced wood because—pound for pound—it contains twice as much energy as wood does. In the 1850s crude oil emerged as an alternative source and this was burned in the form of kerosene to light lamps in households and streets. Today, for many countries the preferred energy sources are natural gas and methane, which burns cleanly and with the added advantage of low emissions of carbon dioxide and even lower emissions of other noxious pollutants. Regrettably, it has not been widely adopted because most gas supplies lie disparate from consumers, so transportation costs are high. However, industrial engineers and energy experts have considered and proposed importing natural gas from distant suppliers by transporting it, in liquefied form, by sea in ships fitted with high-pressure containers. The only problem with this proposal is that special terminals need to be designed, built, and equipped to receive liquefied gas which adds another layer of upfront costs that disincentives investment in infrastructure projects of this magnitude.<sup>36</sup>

China, Europe, and the US should embrace the challenge of developing—as much as possible—green economies as decidedly, and with the same creativity, dedication, entrepreneurship, investment, and intelligence that they once committed to accelerating economic growth. Comparatively speaking, this is a minor challenge compared to the major global crises the international community faced and learned to overcome over the last 500 years. In fact, such large-scale projects should proceed as public-private partnerships enjoying strong government and corporate commitments, with engineering, industrial, and

university leadership across many countries and an internationally binding climate change mitigation framework designed to engage in sustainable and sustained economic growth.<sup>37</sup> Commentators have also pointed to China's evolving water crisis. In other parts of the world this is nothing new. Finnegan, reporting from Cochabamba, Bolivia, notes that 'the world is running out of fresh water, at a time when demand is rapidly increasing [...] with protestors fighting the water privatisation that has taken place.'<sup>38</sup>

*Sigfrido  
Burgos  
Cáceres*

In terms of international climate negotiations, some observers note that if China is pushed too hard some of its poorest yet populous provinces—with low per capita emissions and relatively high levels of energy inefficiency—may ask to start negotiating for themselves with intergovernmental organisations to receive more favourable terms and lenient treatment than Beijing would impose on them.<sup>39</sup> The success of Suntech Power Holding, China's leading manufacturer of modern silicon solar panels, has opened the eyes of many CCP officials that now see this subsector as a profitable industry that could be successfully developed. And if it is successful, increasing supplies and investments in research and development will bring the price down so far that businesses and households would be able to afford solar cells to reduce coal-burning and greenhouse gas emissions.

Environmental concerns are overshadowed by China's emergence as both a military and economic rival (to the US, and European states to a lesser degree)—heralding a profound shift in the distribution of global power. As China's power spikes, two outcomes are likely to occur in international politics: states will begin to view China as a security threat, and China will use its growing influence to reshape the rules and institutions of the international system to better serve its interests. The following section examines this eventuality.

## Geopolitical Dimension

Between 1970 and 1990, a small group of countries that produced and exported oil managed to seize control over the international gas and oil system. These countries managed to restrict supply in order to reap the benefits of much higher prices. The US, in large part motivated by concerns about control of gas and oil reserves in the Middle East, engaged in the Gulf War in 1991, its invasion of Iraq in 2003, and the subsequent occupation of Iraqi territories. At present, the overriding US fear—exacerbated by the media—is that Beijing's discourse of peaceful

development in the region may be a ruse to deceive Asian leaders and the international community about China's long-term aims, including the eclipsing of the US in East Asia and the challenging of its global hegemony. State power is based on sustained economic growth and officials in Beijing are well aware that no major emerging economy can do this without securing energy supplies and integrating into the globalised capitalist system.<sup>40</sup>

A number of commentators theorise that Beijing may be "lying low" until it is ready to comprehensively challenge the US in Asia and elsewhere. However, China's push into Africa, Central and Southeast Asia, and Latin America in search of energy supplies, raw materials, and natural resources seems to suggest that the long-expected global contest for the world's remaining oil has already begun.<sup>41</sup> In recognition of its energy and market development needs, Beijing has influenced its southern neighbours to keep their eye on the ball of regional economic integration, and it has generally succeeded in overcoming ASEAN's recurrent historical suspicions because renewed regional vitality offers protection from the insalubrious effects of globalisation. Cambodia, for example, is pivotal to China's strategies to project greater influence in Southeast Asia, buffer longstanding rivals, and potentially tame US hegemony.<sup>42</sup>

In 2000, Beijing established the China-Africa Cooperation Forum (CACF) to incentivise commerce, promote trade, and foster investments with African nations. Unintentionally, however, China's energy and resource needs can have deleterious impacts on some African states. It is now well documented that increasing dependence upon natural resource exports greatly increases the risk of conflict.<sup>43</sup> This is particularly worrisome in places where the cost of a typical civil war is US\$50 billion.<sup>44</sup> Additionally, unrestricted access to resource rents has significantly worsened governance on the African continent.<sup>45</sup> China's rapprochement with Iran and Sudan (considered rogue states by Europe and the US), and its reinforced ties with Venezuela may be a sign of things to come. South of China, Australia has been a beneficiary of Beijing's appetite for coal, gas, iron-ore, and oil, and it has begun to explore the prospects of establishing a number of preferential trade agreements with China as well as ASEAN.

After the USSR collapsed and produced an independent Russia and five independent states around the Caspian basin—and after about a decade in making the transition to capitalism—Russia has become a key player in world gas and oil markets. With Moscow, Beijing is seek-

ing a relatively stable relationship impinged in strategic collaboration and pragmatic utilitarianism as both countries depend on gas and oil to sustain economic growth.<sup>46</sup>

Also, China and India maintain ongoing talks on energy cooperation, the success of which would greatly ease competitive frictions between the two as their economies grow and expand, and as the demand for gas and oil increases.<sup>47</sup> Additionally, both countries have initiated efforts to resolve tense border claims that led to war in 1962, as well as evolving dialogues on broad topics such as climate change, water scarcity, terrorism, globalisation, radicalism, WMD nonproliferation, and the reform of the UN.

Importantly, world leaders need to consider how the magnitude of China's energy and resource needs affects the international oil market. As India and Brazil start to establish themselves more solidly in foreign markets, along with China's ever-rising demands, this could affect global prices and supplies universally. China, Europe, and the US share interests in stable oil prices, safe and protected shipping routes, and a secure international environment that fosters investments and capital flows, all of which can help sustain their economic prosperity and that of the rest of the world. All large oil consumers, traditional powers (e.g. the EU and the US) or emerging (e.g. Brazil, China, and India) share an interest in an open energy market without artificial restrictions on supplies. If such a market were achieved, Brazil, China, and India would be less tempted to secure supply sources through costly bilateral deals.<sup>48</sup>

Finally, China remains heavily dependent on international sea lanes to bring oil from Africa and the Middle East, and worries about strategic vulnerabilities. The following section looks at the strategic dimension.

## Strategic Dimension

Throughout history countries have sought to gain control of energy supplies, raw materials, and natural resources, and to manage the use of these for their economic, military, political, and social benefits. Few would disagree that oil and geopolitics are tightly connected. It is no secret that the global politics of energy is shaping economic and diplomatic intercourses around the world. In relation to Asia, a Report for the US Congress notes that the thirst for gas and oil is sending China and India in an all-out search for energy sources to the point that these

states are appearing in parts of the world where they have not been seen before.<sup>49</sup> China's relatively unscathed position after the world financial crash of 2008-2010 have given them a clear and unambiguous opportunity to strengthen its strategic advantages as the US and EU struggle to recover from recession. In terms of natural resource acquisitions, Beijing is currently in a position to financially assist other states through key tactical investments or direct monetary transfers. These are primarily states suffering from balance-of-payment deficits at a time when the West cannot come through as it has done in the past.<sup>50</sup> For example, Beijing has undertaken numerous negotiations in Central Asia for a multibillion-dollar (USD) pipeline to transport Caspian Sea oil to China's mainland.

Indeed, as China continues to enjoy a US\$3.0 trillion portfolio of foreign exchange reserves, it is expected to continue making tactical overtures and strategic investments through its sovereign wealth funds and state-owned financial institutions. Considering China's hunger for gas, oil, coal, and other natural resources, these emerge as likely candidates of interest. Lanteigne notes that what separates China from other states, and indeed previous global powers, is that not only is it "growing up" within a milieu of international institutions far more developed than ever before, but more importantly, it is doing so while making active use of these institutions to promote the country's development of global power status.<sup>51</sup> Also, Beijing has been using its soft power in its Asian neighbourhood without raising hegemonic suspicions.<sup>52</sup>

China's economic diplomacy has successfully outflanked the US; China's Asian neighbours understand China as an engine of growth and while many of them may be concerned about China's military ambitions they have also pegged their own economic development to Beijing's.<sup>53</sup> Through economic diplomacy, China has markedly improved its relations with Australia, one of Washington's most faithful allies in the Asia Pacific region. To be sure, China's regional integration in Asia will make it easier for the CCP to leverage economic power in support of geostrategic ambitions that could pose a threat to US and European interests in the future. Beijing's participation in a number of regional bodies has paid handsomely in terms of acceptance, prestige, and image-building. It is now easier to perceive that prosperity-driven cosmopolitanism is superseding the biased attitude of one-party ideologues who distrust regional organisations as tools to constrain China's power and influence.<sup>54</sup> However, despite successful rapprochements, uncer-

tainties about available supplies and increased demand from emerging countries such as Brazil, China, and India have resuscitated fears about energy security.

Although a number of commentators welcome China's economic growth and international assertiveness, a good number of diplomats and government officials feel negatively about the prospect of Beijing significantly increasing its military (army and navy) power. Again, it is important to underscore that China's dependence on foreign oil—especially from Africa and the Middle East—will make it more concerned and engaged with the sea lanes used by its gas and oil tankers, such as routes in the Indian Ocean, the Strait of Malacca, and the Taiwan Strait. Chinese officials believe that China could face an energy and economic crisis if its gas and oil supply lines are blocked. For some time now it has been rumoured that China is building up its navy to protect its commercial ships and oil tankers, and oversees shipping lines. Its newly-devised naval strategy consists of defensive and offensive approaches. Furthermore, Beijing is forging a number of strategic relationships along the sea lanes from the Middle East to the South China Sea so that it can protect its commercial and energy interests. For instance, it has closely liaised with Pakistan on infrastructural projects; with Myanmar for establishing radar systems and building airstrips; and with Bangladesh for naval facilities. Clearly, Beijing wishes to build its own capacity to secure critically important sea lanes, but it also seeks to continue to cooperate with Europe, Indonesia, Japan, Malaysia, Singapore, and the US to keep the straits open. It seems that CCP officials will have to engage in a range of diplomatic, economic, and political measures to ensure a steady supply of energy sources, raw materials, and natural resources.<sup>55</sup>

Alternatively, the widespread usage of renewable energy sources would reduce both dependence on oil suppliers located in volatile regions (i.e. North Africa and the Middle East) and the potential terrorist threats that nuclear plants and liquefied gas terminals could attract. To avoid energy crises, China must reduce its needs for new energy-generation plants via aggressive investments in efficiency. To that end, the impact of standard setting, fiscal incentives, and generous subsidies should not be underestimated. For instance, in the 1980s countries like Denmark, Germany, Norway, and Spain imposed manageable standards, tax deductions, and offered subsidies for wind power on their utilities; creating a market for wind-turbine manufacturers in Europe and the US. Some insist that rich countries should invest heavily in

*Sigfrido  
Burgos  
Cáceres*

research and development in all energy sectors, promote conservation, develop inexpensive, feasible, and viable forms of renewable energy, and test the possibilities of significantly reducing greenhouse gases through large-scale geologic carbon sequestration.<sup>56</sup>

Additionally, a geostrategic imperative for developed and emerging market economies is the recognition that intentionally conserving natural gas and crude oil puts less money in the hands of autocratic regimes and hostile forces. Conservation also mitigates climatic changes. Leaders around the world need to be reminded that the precipitous descent of some of the world's poorest countries into food insecurity, instability, and poverty raises the risks of potentially detrimental spill-over effects, ranging from a rise in illegal migration to organised crime.<sup>57</sup>

## Conclusions and Reflections

At the heart of a dramatic upsurge in the usage of energy and resources lies the industrial revolution of the 1800s. This is usually dated to the very early experiments with successful powering of industrial machinery and steam locomotives. At present, new waves of energy and resource usage revolve around China. As time passes, China will continue to rapidly build up a powerful mix of cheap skilled labour, flexible manufacturing and industrial capacity, investment-friendly central government, and massive domestic markets. But audiences need to be cognizant that China's importation of gas, oil, minerals, and timber from the developing world can cause a series of unintended problems. Armed conflicts are more likely in countries that depend heavily on energy sources, raw materials, and natural resources for their export-earnings partly because belligerent groups can extort the economic gains from this trade to finance their subversive operations. Also, energy and resources fuel wars because they make secession more likely.<sup>58</sup>

China must develop ties that do not flout international standards of good governance and human dignity, or threaten US or European security. Under its energy- and resources-based defence, energy, and foreign policies, Beijing has become assertive in seeking what it needs in international markets to keep its economic machinery running at full speed. The US and EU should contemplate the construction of a stable Asian balance of power that will certainly be in the collective interest of China, its neighbours, and its competitors. While keeping

China's actions in sight, what the world warrants are balanced, patient, and farsighted leaders to adapt to rapid changes in the global distribution of commercial, economic, political, and military powers, without allowing temptations for combativeness to override their peaceful rhetoric and common goals of peace and prosperity. To be sure, the ascendancy of China is not assured.

Beijing faces a host of challenges that could have significant destabilising effects on regional growth and the global economy if not handled correctly. For example, one of the most frequently hypothesised scenarios is China's growth slowing and its unemployment rising,; producing political unrest from those who lose their jobs and the hundreds of millions of rural peasants still living in the countryside.<sup>59</sup> Some accounts note that the authoritarian wall in China is starting to show fissures. This is partly explained by the upstream and downstream effects of the economic slowdown, which, inevitably, affected China given that much of its exports are sent to the US and EU. As these countries could not boost consumption by flooding the system with fresh money, China started to slow down its manufacturing and industrial engines which immediately translated to layoffs, unemployment, insecurity, uncertainty, and less confidence on the current governing system consisting of one-party rule. Beijing is adept at "handling" popular revolt in faraway locations, in capturing and imprisoning artists, at managing its economic dealings, and in attracting foreign capital, but it remains to be seen if they can stamp out waves of dissatisfaction that may rapidly arise if the Chinese were to encounter an insurmountable roadblock or faux pas.

Private sector strategists and investment bankers are not sure that China is the place where sustained growth will occur and stable business will flourish, especially because property right protections and rule of law are lacking. Some pundits believe that India's differentiating advantage comes in the form of an 'entrenched and vibrant democracy that will ultimately drive India to outperform China socially and economically.'<sup>60</sup> In fact, more pungent questions need to be posed such as: will global affairs continue to be heavily influenced by Washington's free-market democracy or will it start gathering some intense momentum from Beijing's authoritarian state capitalism? Beijing has gone to great lengths to keep any democratic waves from entering Chinese territories. For instance, it has shut down internet sites, stymied communications, banned political art, harangued against Nobel Prize nominations, and hit protests with an iron fist. At least in the near



term, by rolling out these measures, the Chinese government will be successful in stifling protests.

The wave of democratisation that has recently swept through North Africa has sent shockwaves around the world where authoritarian regimes are still ruling. China has not been immune to these incendiary popular moves. However, it is important to highlight that authoritarianism in China is of a far higher quality and of a deeper breadth than in the Middle East. This does not mean that Beijing is protected from violent revolutions—Not at all. Revolutions are still very much a possibility. But, if this indeed becomes a reality, it will not come from the disenchanted poor but from an upwardly mobile middle class fed up with anachronistic government that does little but keep the productive social classes from achieving their true potential. This is where the revolution can start and ignite other groups to join forces to bring democracy to a land ripe with opportunity. Once the one-party rule becomes stagnant or very much unable to keep the masses pacified, then change is going to come, one way or another. For China, the problem will be that political unrest will surely produce economic stagnation.<sup>61</sup>

Many are optimistic in terms of fierce resource competitions—much of which is derived from Beijing's discourse of peaceful development and neighbourliness. However, there is much money to be made out of conflict and war, and the race to secure those remaining sources of energy sources, raw materials, and natural resources is the ideal trigger for US and EU military-industrial complexes to lobby their respective governments to find excuses to leverage friction, sore spots, and tension that could precipitate yet another war of giants. Military deployments to the Middle East and Central Asia can be partly explained by this internecine geopolitical contest of setting strongholds in existing and potential gas-and-oil fields.

SIGFRIDO BURGOS CÁCERES is a US-based policy consultant and may be reached at: [sbc\\_london@yahoo.com](mailto:sbc_london@yahoo.com)

## Notes

- 1 Sigfrido Burgos Cáceres and Sopal Ear, "The Geopolitics of China's Global Resources Quest," *Geopolitics* 17:1 (2012), pp. 47–79.
- 2 Joan E. Spero and Jeffrey A. Hart, *The Politics of International Economic Relations* (Boston: Wadsworth, 2010).
- 3 Bob Davis, "In Fast-Growing China, Dangers Threaten to Hamper its Suc-

- cess,” *The World Street Journal*, April 11, 2011.
- 4 S. Julio Friedmann and Thomas Homer-Dixon, “Out of the Energy Box,” *Foreign Affairs* 83:6 (November/December 2004), pp. 72–83.
  - 5 “Oil Markets Explained,” *BBC News*, October 18, 2007.
  - 6 Thomas L. Friedman, *Hot, Flat, and Crowded: Why We Need a Green Revolution—And How It Can Renew America* (New York, N.Y.: Farrar, Straus and Giroux, 2008).
  - 7 Ugo Bardi, “Peak Oil: The Four Stages of a New Idea,” *Energy* 34:3 (March 2009), pp. 323–326.
  - 8 Judith A. Chernia and Joanna Kentishb, “Renewable Energy Policy and Electricity Market Reforms in China,” *Energy Policy* 35:7 (June 2007), pp. 3616–3629.
  - 9 Sigfrido Burgos Cáceres and Sophal Ear, “China’s Natural Resource Appetite in Brazil,” *Asian Journal of Latin American Studies* 24:2 (2011), pp. 71–92.
  - 10 David Zweig and Bi Jianhai, “China’s Global Hunt for Energy,” *Foreign Affairs* 84:5 (September/October 2005), pp. 25–38.
  - 11 Sigfrido Burgos Cáceres and Sophal Ear, “China’s Oil Hunger in Angola: History and Perspective,” *Journal of Contemporary China* 21:74 (2012), pp. 351–367.
  - 12 Burgos and Ear, “The Geopolitics of China’s Global Resources Quest”; Burgos and Ear “China’s Natural Resource Appetite in Brazil”.
  - 13 Samuel S. Kim, *China and the World: Chinese Foreign Relations in the Post-Cold War Era* (New York: Perseus Books, 1998).
  - 14 McKinsey Global Institute, “Curbing Global Energy Demand Growth: The Energy Productivity Opportunity,” McKinsey Global Institute Publication, (May 2007), pp. 1–290.
  - 15 Christine Hauser, “Rising Gas and Food Prices Push U.S. Inflation Higher,” *New York Times*, May 13, 2011.
  - 16 Nathan Jensen and Leonard Wantchekon, “Resource Wealth and Political Regimes in Africa,” *Comparative Political Studies* 37:7 (September 2004), pp. 816–841; Burgos and Ear, “China’s Oil Hunger in Angola: History and Perspective.”
  - 17 Gurcharan Das, “The India Model,” *Foreign Affairs* 85:4 (2006), pp. 2–16.
  - 18 Copper prices have experienced volatility recently on mounting fears of deteriorating economic outlooks in top metals consumer China, the euro zone, and the United States. Chile, the world’s top copper producer, lowered its 2012 average copper price outlook to \$3.52 per pound from a previous estimate of \$3.85, and sees prices slipping to \$3.48 in 2013.
  - 19 Carolyn Cui and Tatyana Shumsky, “China’s warning signs for ‘Dr. Copper,’” *The Wall Street Journal*, April 11, 2011.
  - 20 Ivan Szpakowski, a Credit Suisse analyst, estimated Chinese copper usage in 2010 at 9.5 million tons.
  - 21 In particular, demand for copper remains strong owing to solid growth in industrial production, electricity usage, and fixed-asset investments. The same could be said of other minerals critical to manufacturing industries.
  - 22 “Special Report: Beyond Doha,” *The Economist* 389:8601 (2008), pp. 30–33.
  - 23 Francis E. Warnock, “Doubts About Capital Controls,” (New York: Council

Sigfrido  
Burgos  
Cáceres

- on Foreign Relations Press, 2011).
- 24 Glenn R. Hubbard and Peter Navarro, *Seeds of Destruction: Why the Path to Economic Ruin Runs through Washington and How to Reclaim American Prosperity* (New Jersey: Pearson Education Ltd., 2011).
  - 25 Sebastian Mallaby, "NGOs: Fighting Poverty, Hurting the Poor," *Foreign Policy* (September/October 2004), pp. 50–58.
  - 26 Michael Klare, "We're On the Brink of Disaster," *Salon.com*, February 26, 2009.
  - 27 Lester R. Brown, *Eco-Economy: Building an Economy for the Earth* (Washington, DC: Earth Policy Institute, 2001).
  - 28 William Nobrega, "Why India Will Beat China," *Business Week*, July 22, 2008.
  - 29 D. Sandalow, *Freedom from Oil: How the President can End the United States' Oil Addiction* (New York: McGraw-Hill, 2008).
  - 30 World Bank, "Clear Skies, Blue Water: China's Environment in the New Century," (Washington, D.C.: The World Bank, 1997).
  - 31 National Bureau of Statistics of China, <<http://www.stats.gov.cn/english/>>, accessed April 11, 2011.
  - 32 Friedman, *Hot, Flat, and Crowded*.
  - 33 Richard Manning, "The Oil We Eat: Following the Food Chain Back to Iraq," *Harper's* 308:1845 (February 2004), pp. 39–45.
  - 34 Thomas L. Friedman, "The Power of Green," *The New York Times Magazine*, April 15, 2007.
  - 35 Michael Klare, "End of the Petroleum Age?" *Foreign Policy in Focus*, June 26, 2008.
  - 36 Gerald B. Greenwald, *Liquefied Natural Gas: Developing and Financing International Energy Projects* (Alphen aan den Rijn, The Netherlands: Kluwer Law International, October 1998), 386 pp.
  - 37 Joel Makower and Cara Pike, *Strategies for the Green Economy: Opportunities and Challenges in the New World of Business* (New York: McGraw-Hill, 2009).
  - 38 William Finnegan, "Leasing the Rain: The World is Running out of Fresh Water, and The Fight to Control it Has Begun," *The New Yorker* 78:7 (April 2002), pp. 43–52.
  - 39 Doaa Abdel Motaal, "Negotiating With Only One China on Climate Change: On Counting Ourselves Lucky," *Yale Journal of International Affairs* 6:1 (Winter 2011), pp. 74–84.
  - 40 G. John Ikenberry, "The Rise of China and the Future of the West," *Foreign Affairs* 87:1 (2008), pp. 23–37.
  - 41 Paul Godwin, *China's Defense Modernization: Aspirations and Capabilities* (Alexandria, VA: CNA Corporation, April 2001); Bernard D. Cole, *The Great Wall at Sea: China's Navy Enters the 21<sup>st</sup> Century* (Annapolis, MD: Naval Institute Press, 2001); Larry Rohter, "China Widens Economic Role in Latin America," *Washington Post*, November 20, 2004; Korby Leggett, "China Flexes Economic Muscle Throughout Burgeoning Africa," *Wall Street Journal*, March 29, 2005.
  - 42 Sigfrido Burgos Cáceres and Sophal Ear, "China's Strategic Interests in

- Cambodia: Influence and Resources,” *Asian Survey* 50:3 (2010), pp. 615–639.
- 43 Paul Collier and Anke Hoefler, “Greed and Grievance in Civil War,” *Oxford Economic Papers* 56:4 (2004), pp. 563–595.
- 44 Paul Collier and Anke Hoefler, “Violent Conflict,” in *Global Problems: Global Solutions*, Edited by B. Lomberg, (Cambridge, UK: Cambridge University Press, 2004).
- 45 The new Extractive Industries Transparency Initiative (EITI) is designed to improve governance in countries with large natural resource rents by establishing a set of codes, norms, and standards as to how natural resource export revenues should be accounted for, both by companies making the payments and by governments receiving them.
- 46 B. Lo, *Axis of Convenience: Moscow, Beijing, and the New Geopolitics* (Washington, DC: Brookings Institution Press, 2008).
- 47 Fang Zhou, “China, India Forming Strategic Ties,” *China Daily*, February 18, 2005; Manjeet Kripalani, Dexter Roberts, and Jason Bush, “India and China: Oil Patch Partners?” *Business Week*, February 7, 2005.
- 48 Aaditya Mattoo and Arvind Subramanian, “From Doha to the Next Bretton Woods: A New Multilateral Trade Agenda,” *Foreign Affairs* 88:1 (2009), pp. 15–26.
- 49 Kerry Dumbaugh, “China-U.S. Relations: Current Issues and Implications for U.S. Policy,” CRS Report for Congress No. RL33877 (Washington, DC: Congressional Research Service, March 2008).
- 50 Roger C. Altman, “The Great Crash, 2008: A Geopolitical Setback for the West,” *Foreign Affairs* 88:1 (January/February 2009), pp. 2–14.
- 51 Marc Lanteigne, *Chinese Foreign Policy: An Introduction* (New York: Routledge, 2009).
- 52 Joshua Kurlantzick, *Charm Offensive: How China's Soft Power Is Transforming the World* (New Haven, CT: Yale University Press, 2007).
- 53 Jeffrey D. Sachs, “Welcome to the Asian Century,” *Fortune* 149:1 (2004), pp. 53–54.
- 54 Hugh De Santis, “The Dragon and the Tigers: China and Asian Regionalism,” *World Policy Journal* (Summer 2005), pp. 23–36; Sigfrido Burgos Cáceres and Sophal Ear, *The Hungry Dragon: How China's Resource Quest is Reshaping the World* (New York: Routledge, 2013).
- 55 “China Military Build-Up Seems U.S.-Focused: Mullen,” *Reuters*, May 4, 2009; Joshua Norman, “WikiLeaks: China Hiding Military Buildup, Intentions,” *CBS News*, January 6, 2011; De Santis, “The Dragon and the Tigers.”
- 56 See Friedmann and Homer-Dixon, “Out of the Energy Box.”
- 57 Sigfrido Burgos and Joachim Otte, “Linking Animal Health and International Affairs: Trade, Food, Security, and Global Health,” *Yale Journal of International Affairs* 6:1 (2011), pp. 108–109.
- 58 Paul Collier, “The Market for Civil War,” *Foreign Policy* (May/June 2003), pp. 38–45.
- 59 “What America Must Do To Compete with China and India,” *Business Week*, August 22, 2005.
- 60 Nobrega, “Why India Will Beat China.”
- 61 Andrew Bast, “The Beginning of History,” *Newsweek*, April 18, 2011, p. 46.