Ensuring access to ever larger quantities of foreign oil has been a focus of debate in China since the late 1990s, when the country’s growing oil-import dependence became an inescapable reality. Research institutes and advisers to the Chinese leadership had been preoccupied with identifying the risks associated with China’s foreign-oil supplies and devising policies to mitigate them. Yet, as the debate unfolded, it became clear that securing oil supplies was only part of the problem. The overall balance of energy supply and demand, the impact of state-controlled pricing and administrative intervention on the domestic market, and the weakness of institutions governing the energy industry came to be seen as problems that were equally, if not more, pressing. Between 2000 and 2004, a series of events highlighted various aspects of China’s energy insecurity and, combined with a change of leadership in Beijing, ultimately led to a shift in energy-policy choices.

This essay analyses the change in domestic perceptions about the sources of China’s energy insecurity and resulting policy choices. Although oil security reached the top of the policy agenda in the early 2000s, and not in the mid-1990s when China became a net importer of crude oil, it was rapidly displaced by domestic concerns. It subsequently informed, but did not dominate, China’s strategic choices.

Michal Meidan is Director at China Matters, a consulting firm focused on the politics and geopolitics of the Chinese energy sector. She was a Senior Analyst at Eurasia Group’s Asia practice, prior to which she headed the energy and environment programme at Sciences Po’s Asia Centre.
Rising oil imports trigger a debate in China

Until the mid-1990s, China had no need for a policy on the security of its overseas energy supply. The state’s de facto autarky meant that its petroleum industry was relatively disconnected from international oil markets, and price fluctuations had little or no bearing on the Chinese industry. It was only after 1993, when China became a net importer of oil products, and even more so after 1997, when Chinese imports of crude increased significantly, and unexpectedly, that Beijing turned its attention to energy security. Yet contemporary Chinese analyses of the issue focused mainly on the need for market reform of the domestic energy industry.¹ In the 1990s, the term ‘energy security’ did not appear in China’s official policy documents.

As oil imports began gradually increasing, however, the issue of overseas dependence rose on the political agenda. By the end of 1999, China’s import dependence for oil had risen to 26%. At this level, the domestic energy industry became increasingly affected by changes in the international market.² Oil imports doubled from 36 million tonnes to 70m tonnes in 2000, and international oil prices soared from an average of $15 per barrel in 1999 to new highs of $25 and $30 in 2001 and 2003 respectively.³ With import-dependence figures climbing steeply to almost 40% during that same period, the toll on the Chinese economy was high.⁴ By 2003, for every one-dollar rise in the price per barrel, China had to pay around $540m more for its imports.⁵ This heightened domestic attention on the ways in which international events affected the Chinese oil market.⁶

A proliferation of policy advisers

With only limited exposure to the international politics of energy before that time, China faced a steep learning curve in dealing with the challenges that came with soaring imports, as well as with the trend of growing overseas investment by its energy companies. The country’s top leaders began increasingly to rely on leading intellectuals and industrial stakeholders when deliberating policy decisions. With numerous actors involved in the formulation of energy policy, opinions on China’s energy-security strategy proliferated. The most powerful stakeholders in policymaking were national oil companies, primarily China National Petroleum Corporation; govern-
ment bodies such as the State Planning Commission (later, the National Development and Reform Commission) and the State Economic and Trade Commission; and, to a lesser extent, China’s military and the Ministry of Foreign Affairs.

At the time of China’s unexpected import boom, the leadership initially turned to its trusted advisers for their analysis of, and recommendations on, energy security, specifically the challenges facing China’s energy sector. In 1997 the top leadership commissioned a study on energy security by China National Petroleum Corporation, as the country’s largest oil and gas company. The following year, the Development Research Center, an institution directly under the State Council, also studied the question.

In January 2000, China National Petroleum Corporation brought together prominent experts from national oil companies, as well as government, military and economic think tanks, to discuss the outlook for China’s oil demand in the twenty-first century.

In 2001 the Oil and Gas Strategy Research Center, under the Ministry of Land and Resources, conducted a study on the development of the Chinese oil industry, submitting it to the central leadership at the request of Vice-Premier Wen Jiabao. The following year, the debate was opened up to more organisations, including the Energy Research Institute of the State Planning
Commission. The institute’s researchers focused on ‘demand-side’ issues, such as energy efficiency, rather than on ‘supply-side’ policies, and argued for a radical shift away from China’s coal-based energy structure, towards a model for sustainable development dominated by oil and natural gas.11

The debate also extended to other parts of the bureaucracy. Several departments of the Chinese Academy of Social Sciences contributed to the discussion.12 Foreign-policy think tanks focused mainly on oil-supply security, and provided assessments and policy recommendations on how to deal with energy security more broadly. The China Institute of International Studies, the research arm of the Ministry of Foreign Affairs, became one of the most influential civilian foreign-policy-research organisations to advocate energy diplomacy, and began studying the various policy options.13

Russia and Central Asia: emphasising land routes

As the number of participants in the debate increased, so did the range of views aired. Some analysts and observers based their recommendations on what they perceived to be the American energy strategy, as well as post-1973 Japanese policy.14 Key elements of their proposed policy responses included enhancing dialogue with key oil producers to avoid becoming the target of an oil embargo; developing ties with Russia and Kazakhstan to build oil-import pipelines and reduce the risks associated with seaborne transportation; increasing the number of investments in overseas oilfields by China’s national oil companies; and raising the importance of energy in the country’s diplomatic strategies.15 Prominent Chinese analysts in think tanks affiliated with the State Economic and Trade Commission and the State Council advocated building a strategic petroleum reserve to hedge against rising oil prices, diversifying import sources, increasing the share of gas in the energy mixture, improving energy conservation, and ‘going out’ for oil and gas.16 All of these approaches became themes of the statements on energy security included in the ‘10th Five-Year Plan (2001–2005)’, the first such document to refer to the notion.17

In January 2001, the Development Research Center convened a seminar in which Chen Jinhua, vice-chairman of the Chinese People’s Political Consultative Conference, former head of the State Planning Commission
and Sinopec’s first chairman, formally endorsed the going-out strategy, whereby Chinese firms were encouraged to further invest in overseas oil assets. Chen outlined a seven-point plan to ‘venture abroad’, urging Chinese companies to set up joint ventures with foreign players in oil and gas exploration and refining. He acknowledged that China was a latecomer to the global oil stage, but stressed that the country could still ‘defy the dominance of the United States’. ‘The US’, he said, ‘will interfere, but we should insist resolutely that we will follow our own path.’ He went on to identify the Middle East, Central Asia, North Africa and Russia as China’s ‘primary targets’.

Investments to gain access to Russian resources that would supply the Chinese market were already on the agenda, as talks about a Russian pipeline to China were under way. Russian President Boris Yeltsin first proposed building such a pipeline, from Angarsk, in 1994, as a way to develop stronger bilateral economic and trade relations. In 1996, after lengthy negotiations, Beijing and Moscow signed energy-cooperation agreements that included an oil pipeline from eastern Siberia to Daqing. At the time, Beijing was in no hurry to finalise the negotiations for the pipeline. The Chinese considered Russia to be a particularly risky investment destination, and low world oil prices meant that they were not preoccupied with securing supplies. Moreover, few in Beijing imagined that Chinese demand would soar as it did. In light of the low oil prices, Chinese Premier Zhu Rongji was reluctant to invest in transnational pipelines because the economics of such projects were relatively unattractive, and it seemed that there was little need to acquire foreign oil-exploration and production assets. Chinese negotiators therefore stalled, partly in a bid to gain price concessions from Russia. In the late 1990s and early 2000s, as oil imports from the Middle East gradually displaced Asian imports, analysts from the China Institute of Contemporary International Relations, the Energy Research Institute and academia all highlighted the development of Central Asian and Russian energy resources as an important means of improving energy security, arguing that land supply routes would be safer than those at sea because China lacked a navy capable of protecting maritime imports. Moreover, oil imported overland by pipeline would be less vulnerable to disruption
by Washington because China had a land-power advantage over the United States and its allies.\textsuperscript{23}

Shortly after these recommendations were made, Beijing’s proposed focus on Central Asia came under threat. In the aftermath of 9/11 and the US invasion of Afghanistan, Washington reassessed its Central Asia policy, consolidating its strategic and economic presence there.\textsuperscript{24} Although America’s fight against terrorism provided an opportunity for Beijing to mend strained bilateral relations, and reduced Washington’s strategic focus on East Asia, it also led to an increased US presence along China’s western border.\textsuperscript{25} Chinese analysts worried that Washington was attempting to contain China by increasing the American presence near Xinjiang.\textsuperscript{26} Others posited that the US had long been interested in Central Asia purely for its energy resources, and the fight against terrorism provided Washington with a pretext to strengthen the American presence there.\textsuperscript{27}

China therefore turned with greater urgency to Russia’s pipeline from Angarsk, in eastern Siberia.\textsuperscript{28} Momentum for the project appeared to be building in both countries. Chinese and Russian oil companies conducted a feasibility study for such a pipeline, which would carry oil to Daqing and would have a capacity of 400,000 barrels per day by 2005, increasing to 600,000 b/d by 2010.\textsuperscript{29} In late 2002, the Chinese had begun to regard the project as a done deal, ready to be concluded by presidents Jiang Zemin and Vladimir Putin at a Beijing summit meeting in December 2002. But the meeting did not yield the anticipated agreement. It was Moscow’s turn to hesitate, in light of a 2002 Japanese proposal for a competing pipeline that would run from eastern Siberia to Russia’s Pacific coast, for which Tokyo was willing to provide financial support. At almost twice the length and more than double the capacity of the Angarsk–Daqing project, Japan’s proposed pipeline would transport as many as 1.6m b/d across the 4,000 kilometres between Taishet and Perevoznaya Bay.

Although it was the political battle between President Putin and Mikhail Khodorkovsky, head of Yukos – more than Sino-Japanese competition – that ended the deal with China, this turn of events came as a surprise to Beijing.\textsuperscript{30} China’s government and national oil companies were caught off guard by how quickly world oil and natural-gas markets changed from
favouring buyers to benefiting sellers. By 2003, Sino-Russian negotiations had slowed and Moscow was taking advantage of the competition between the proposals by Tokyo and Beijing.

The Second Gulf War and the geopolitics of oil
During 2002–03, the geopolitics of oil was widely discussed in China’s official circles and mainstream media. For many in Beijing, the run-up to the 2003 war in Iraq and Washington’s pursuit of military intervention there confirmed the notion that access to oil supplies was fundamentally geopolitical, adding urgency to Chinese decision-makers’ efforts to reduce dependence on Middle Eastern supplies. More fundamentally, some in Beijing saw the Second Gulf War as confirming that the US sought to extend its control over global oil resources.

Iraqi oil contributed less than 1% of China’s external supply, but the prospect of instability in the region from which the country derived half of its imports was daunting nonetheless. Many in China feared that a war in Iraq would endanger maritime oil-supply routes and cause global price hikes that raised import costs for Beijing, thereby taking a toll on Chinese economic growth. Furthermore, since the US-led invasion was, according to many Chinese analysts, all about controlling Iraqi oil, they feared that it would inevitably lead to the cancellation of China’s oil contracts in Iraq. Some estimated that Washington’s bid for control over energy resources was not limited to Iraq and extended to Iran and Saudi Arabia, suggesting that China’s oil security was beholden to the US.

A consistent line of argument within Chinese strategic and foreign-policy think tanks was that America was looking to encircle China and prevent ‘China’s influence from rising in the region’; after 9/11, they argued that Washington would achieve this by impeding Beijing’s access to oil through an increased US presence in Central and South Asia. Although China initially showed support for America’s ‘war on terror’, it became increasingly suspicious of the US presence in Central Asia as the colour revolutions began to unfold, and grew more concerned that its overland energy routes would be imperilled by political reforms that Washington supposedly orchestrated or encouraged.
The ‘Malacca dilemma’

Along with an overwhelming sense of insecurity stemming from reliance on the Middle East for oil imports, concerns with setbacks to overland pipeline routes led Chinese analysts to emphasise the vulnerability of sea lines of communication. The fact that over 80% of China’s oil imports passed through the Malacca Strait generated a round of discussions about the ‘Malacca dilemma’. President Hu Jintao reportedly advocated revising China’s oil-import strategy because ‘some big countries attempted to control the transportation channel at Malacca’. Some Chinese analysts were concerned that Washington strove for geopolitical pre-eminence in the Malacca Strait to check the rise of China and other powers, and to control the flow of world energy. Others worried that Washington could cut off seaborne oil flows into China if the country took military action against Taiwan. Moreover, many argued that the US would use its presence in the Malacca Strait to forestall the entry of the People’s Liberation Army Navy (PLAN) into blue waters, a precondition for China’s rise as a world power.

The inextricable challenges presented by land imports and seaborne routes led analysts to explore other avenues. They argued that China was becoming increasingly vulnerable as its oil-import dependence grew because it lacked the diplomatic and military influence of the US. As the Chinese navy could not secure sea lines of communication with the Middle East as its US counterpart could, and America’s presence in Central Asia was increasing, they suggested that China cooperate with its Asian neighbours, at least until Beijing could expand its naval capacity. Some Chinese strategists argued that Japan in particular should benefit from China’s east-west natural-gas pipeline, as this would support stability in the Asia-Pacific by building a common bond through energy cooperation. Others distrusted Tokyo and worried about the capabilities of the Japan Maritime Self-Defense Force, as well as the strategic alliance between Japan and the US. They cited Tokyo’s increasingly close cooperation with New Delhi as a source of concern. India was cited as a potential global competitor that, with its rapidly modernising navy, could use its superiority over the PLAN in the Indian Ocean to gain strategic leverage.
The debate over maritime energy security was endorsed by Hu on 29 November 2003 at the annual Central Economic Work Conference. The president discussed oil as an aspect of economic security and expressed his concern over China’s high dependence on the Malacca Strait, convening a closed-door government session to find ways around the Malacca dilemma. 

Chinese military officers chiming into the debate put the dilemma in Mahanian terms, stipulating that ‘[he] who controls the seas controls the world’, and that ‘it is extremely risky for a major power such as China to become overly dependent on foreign imports without adequate protection.’ The main points and suggestions made by analysts revolved around China beginning construction of a supertanker fleet, and expanding energy-supply routes in Southeast Asia using the Kunming–Bangkok Mekong waterway, the Kunming–Bangkok road, the pan-Asian rail line and the Nanning–Hanoi road. China’s dependence on chartered vessels, deemed a vulnerability because it gave other countries leverage over it, caused some in Beijing to advocate the development of the supertanker fleet. This would allow China’s oil imports to be carried by Chinese companies and transported by Chinese-flagged ships. Another goal, strongly supported by the PLAN, was the development of a powerful naval force to secure sea lines of communication. Some experts also suggested that China, Japan and South Korea jointly construct a waterway, dubbed the ‘Kola Canal’, through Thailand’s Kra Isthmus. This ‘Asian Panama Canal’ would be approximately 90–100km in length, depending on which route was chosen, and would reach the Andaman Sea.

Protecting sea lines of communication and ‘going out’ for energy

Unsurprisingly, the PLAN’s stance was that a military presence was needed to safeguard the flow of natural resources. Nonetheless, publications on the matter by military analysts were rare, perhaps due to restrictions on publicly discussing such sensitive issues. The limited writings on the subject that are available tend to focus on the weakness of the Chinese navy and its inability to protect sea lines of communication, despite the fact that a possible blockade by the US has often been seen as the biggest threat to
Chinese energy security. At the same time, the flow of natural resources has been flagged as a potential area for foreign cooperation. A three-point strategy put forward in one publication consisted of ‘making the US not willing to cut China’s oil supply lines, not daring to do so and not able to do so’. Although the PLAN’s views on energy security remain difficult to verify, those that have been aired consistently argue for an extension of China’s naval power in defence of the country’s growing global reach. But, as Chinese observers have pointed out, the navy may merely be lobbying for a greater share of the military budget.

Some argued that China’s most important prospective ties were those with producer countries. Former Chinese ambassadors to oil-producing states, and scholars at foreign-policy research institutes and universities, were the main proponents of this strategy, which oil companies also endorsed as a way to secure investment opportunities. They hoped that close ties to oil producers would ensure the continuity of supplies during an international crisis. China could offer oil-producing states political and economic benefits in exchange for access to energy, and could help such allies reduce the ‘Western monopoly’ on the oil sector by diversifying their foreign partnerships. Chinese scholars argued that good relations with China could help Middle Eastern regimes contain the US to a certain extent, increase their diplomatic room to manoeuvre and diversify their security guarantees. They also asserted that Beijing could use its rising power, involvement in international affairs and permanent seat on the United Nations Security Council to further the interests of oil-producing states.

A number of Chinese foreign-policy analysts maintained that oil producers needed the larger revenues provided by expanding export markets for their product, and China provided just that. They argued that deeper economic interdependence between China and oil-rich states would help ensure access to energy, mutually strengthen trade and investment, and make it more difficult for exporters to deny oil to Beijing.

Others endorsed the already common practice of investing in equity oil. The going-out strategy received both a theoretical underpinning and strate-
gic endorsement: the basic premise was that acquiring oil through foreign investment and creating overseas ‘oil bases’ would provide consumers with a more secure and less expensive supply of oil than was available on the international market. Buying equity barrels can eliminate market-price risk because it enables investors to predict exactly how much oil they will receive, and at what cost during the life of the field. Over time, equity oil can provide a price generally much lower than that on the international market because buyers produce and transport the product below the market-clearing price. Equity ownership can enhance energy security by eliminating the need for middlemen, such as foreign oil companies, who could otherwise cut off supply.

The debate over going out for oil extended gradually to the Chinese press, which advocated diplomatic support for overseas investments. A special feature on China’s energy needs appeared on the popular website of the People’s Daily, a Chinese Communist Party mouthpiece, under the headline ‘Looking for New Blood: China’s Energy Security Striking at Four Fronts’. The piece contended that China had to ‘go all out’ for energy resources because it had no other choice. For some Chinese analysts, the state’s reliance on foreign oil made energy security central to its survival, and therefore an important national-strategy issue.

The promotion of equity oil resonated with leaders’ perceptions that reliance on the international market was a source of vulnerability, and aligned with the long-held Maoist principle of energy self-sufficiency. Chinese strategists expected that, in times of crisis, China’s national oil companies would prioritise state, rather than corporate, interests. Should Beijing find itself with money yet unable to buy oil, as was earlier feared by State Planning Commission officials, such firms could send their foreign-equity production to China.

In the early 2000s, many experts held that China should develop its overseas assets and capabilities, due to the commercial logic of doing so and to offset a strategic vulnerability. Analysts at the State Planning Commission, the State Economic and Trade Commission, and the Development Research Center recommended increasing the amount of equity oil produced by Chinese companies overseas and shipping it back to China, despite the significant costs of long-haul transportation.
Are China’s energy woes a domestic problem?

China’s worst energy crisis was not triggered by geopolitics or an oil-supply disruption that occurred beyond the country’s borders. Rather, it was entirely domestic in origin. Electricity shortages began in 2002 and persisted into 2005, reaching their peak in 2004, when a shortfall in the country’s power-generation capacity hit 24 of 31 provinces. The root of the shortages was a decision to impose a three-year moratorium on new investments in the power sector, taken in the aftermath of the 1997–98 Asian financial crisis. At the time, China faced a power glut, with 40% of the country suffering from overcapacity. This surplus, combined with projections of a moderation in both economic growth and rises in electricity demand after the crisis, led Beijing to prohibit the construction of coal-fired power plants for three years. As a result, investment in the power sector declined, leading to huge decreases in capacity. But, after China joined the WTO in 2001 and the economy regained momentum more rapidly than expected, a sudden surge in electricity demand sharply increased Chinese oil imports, as consumers purchased diesel to run off-grid generators and coal producers were forced to ship supplies by road due to a lack of rail capacity. Energy shortages and bottlenecks, and the role that international oil and coal markets played in easing them, challenged the conventional wisdom that domestic energy was more secure than foreign supplies.

These widespread energy shortages coincided with the replacement of the third generation of leaders, headed by Jiang and Zhu, with the fourth generation, overseen by Hu and Wen, and placed energy security at the top of Beijing’s agenda. Within a few years, attention shifted from oil security to energy security more broadly. China’s energy crisis exposed the limits of the ‘growth at any cost’ model of development associated with Jiang and Zhu, and undoubtedly helped forge a consensus among the new leadership that demand moderation, essentially a domestic policy issue, was key to a sustainable economy.

Over the course of 2003, it became clear that China’s oil strategy required adjustment; in the summer of that year, Wen commissioned a report on long-term energy strategy by the Development Research Center and the Energy Research Institute. A series of emergency meetings and industry
workshops were held at the same time, as officials tried to learn from power outages abroad. On the sidelines of one such workshop, Zhang Guobao, vice-chairman of the State Planning Commission, revealed that ‘the question raised by many now is whether the reform of the power industry is a factor influencing the security of national power.’

Demand-side advocates gain prominence

By late 2003, Chinese planners were contemplating responses to what was seen as a looming energy crisis. Ma Kai of the National Development and Reform Commission stressed energy conservation, which had been officially promoted for 24 years but neglected in favour of greater supply-source investment. In the 11th five-year energy-conservation plan, such conservation was described as an energy-security issue that required better state planning.

In November 2003, the Development Research Center provided senior leaders with an initial draft of the national energy plan; the document proposed that efficiency be made a priority in China’s energy strategy. The officials endorsed the draft, which underwent revisions for several months. The final document was the culmination of the debate between advocates of different approaches to energy security in China.

Some of the most influential voices in the debate were ultimately echoed in a joint study by the Energy Research Institute and the Development Research Center that outlined an energy strategy for China until 2020, suggesting that the state’s economic-development pattern be transformed and domestic demand better managed, and that Beijing join international cooperation frameworks to purchase oil from the international market. The initial draft of the study’s findings came out in November 2003, and the final document was issued in June 2004. The report summed up the lessons of the past two decades, most of which focused on shortfalls in governance: a lack of comprehensive national energy strategies with legal authority, scientific decision-making, enforcement capacity for energy laws, and policy coordination between oil, coal, electric and nuclear.

The report identified the priorities of China’s energy policy: placing greater emphasis on energy conservation and efficiency, especially in
industry; integrating environmental targets into energy policy; maintaining primary domestic energy resources as the main means of energy supply, while improving their management; enhancing the role of the market within the domestic energy sector; increasing the use of renewable energy (particularly hydroelectric), nuclear and natural gas, in order to reduce reliance on coal; developing alternative transport fuels; and building and filling oil-storage facilities to cope with emergencies.81

The second report was the National Development and Reform Commission’s ‘Medium and Long-term Energy Conservation Plan’, which not only demonstrated that energy efficiency and conservation were at the heart of China’s new policy, but also laid out specific targets and objectives, and identified the key steps to be taken.82 The goal was to reduce energy intensity (the amount of energy consumed per unit of wealth created) by 20% between 2005 and 2010. The energy-conservation plan and subsequent documents set individual targets for energy-intensive industries, such as electrical-power generation, steel, non-ferrous metals, oil refining, petrochemicals, chemicals and cement; it also provided proposals for the standards, technological innovation and additional improvements needed to achieve these goals. The priorities were further elaborated in the 11th five-year plan, covering 2006–10.83

Institutional insecurity and the need for energy-governance reforms
An increasing number of participants in the energy-security debate argued that a preoccupation with external threats to China’s oil supply masked the most significant domestic source of insecurity: the institutions governing the energy sector.84 They argued that one of the biggest threats to Chinese energy security was posed by the very institutions responsible for safeguarding it.

The idea to revamp the management of the energy sector resurfaced after the 16th Party Congress, in November 2002.85 Prior to the March 2003 meeting of the National People’s Congress, energy experts urged the State Council to set up a ministerial or supra-ministerial body to oversee the energy sector.86

The electricity shortages that began in late 2002, and China’s growing dependence on imported oil, strengthened the arguments of those who
viewed the country’s fractured energy bureaucracy as ill-equipped to manage the challenges of a rapidly growing, increasingly market-oriented and internationalised energy sector. Of particular concern was the inability of government energy agencies to coordinate and implement a comprehensive, long-term national strategy that met China’s needs and was consistent with its national-security and environmental objectives.87

During the early years of the Hu–Wen administration, the debate culminated in a recognition that management of the energy industry needed strengthening to appropriately address China’s mainly domestic energy challenges. Oil security and the geopolitical implications of China’s growing import dependency were but one, relatively limited, component of the debate.

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