



Munich Personal RePEc Archive

China's hunt for oil in Africa in perspective

Zhang, ZhongXiang

East-West Center

September 2006

Online at <https://mpra.ub.uni-muenchen.de/12829/>

MPRA Paper No. 12829, posted 18 Jan 2009 06:51 UTC

September 2006

China's Hunt for Oil in Africa in Perspective

ZhongXiang Zhang, Ph.D in Economics

张中祥 美国东西方中心研究部资深研究员、经济学博士

Senior Fellow

East-West Center

1601 East-West Road

Honolulu, HI 96848-1601

USA

Tel: +1-808-944 7265

Fax: +1-808-944 7298

Email: ZhangZ@EastWestCenter.org

Abstract

China is concerned about the security of its sea-lanes for imports and desires to diversify its oil supplies from the Middle East in order to sustain economic growth. These concerns have sparked China's interest in trying to ensure oil supplies from as many sources as possible and in reducing its overwhelming reliance on seaborne imports of oil, which, in China's view, is considered less vulnerable to disruption than oil arriving by tankers. In this context, China has turned the eyes on the emerging oil and gas fields in Africa. Through its high-profile oil diplomacy, China has been successful in developing its access to African oil and gas resources. However, China's oil diplomacy in Africa has been roundly criticized in Western capitals. Washington increasingly perceives that Beijing's ties to the so-called rogue states undermine the U.S. goals of isolating or punishing these states that fail to prompt democracy, limit nuclear proliferation or respect human rights.

This paper argues that China's hunt for oil in Africa has been exaggerated by partly-informed commentators, sometimes based on erroneous information, not to mention those that deliberately paint the distorted picture. That said, the paper suggests that, in pursuing its oil diplomacy, Beijing should take into account many factors including Washington concerns, in particular when U.S. concerns also reflect those of a large section of the international community. The paper points out that devoting more resources to build a better future for all and help to eliminate the fear of another Rwanda or Darfur is a positive form that Beijing should take in its engagement with Africa. This way of engagement would be considered more positive by the broad community of states, and helps to enhance China's security of energy supply and at the same time would significantly reduce one source of tension with Washington. Overall, it will greatly benefit Africa as well as China.

Keywords: China; Oil hunt in Africa; Energy policy

In the last couple years, the Chinese government has been making serious overtures to African countries in order to obtain contracts for fuel supply. There have been numerous media reports on this issue. But in my view, China's hunt for oil in Africa has been exaggerated by partly-informed commentators, sometimes based on erroneous information, not to mention those that deliberately paint the distorted picture. To put this issue into perspective, let me first put China's overall energy demand and supply in context because these factors are often overlooked in discussing the issue.

China is indeed a large energy consumer. In the mean time, China has also become a large producer. Currently, domestic supply provides about 94% of the total energy consumption in China, meaning that the overall energy dependence (namely, the ratio of the energy that a country imports to the total it consumes) is about 6%. In the future, China will continue to rely mainly on domestic supply to meet its growing energy demand. With a variety of policies and investments that have been made and continue to be made to further expand domestic supply capacity, domestic, conventional energy is estimated to supply 2400 million tons of coal equivalent (tce) by 2020 (Zhang, 2005).

During the current five-year period running from 2006 to 2010, the Chinese government has set a goal of cutting energy use per unit of its gross domestic product by 20%. The government has also established medium to long term energy conservation plan to keep the country's total energy demand below 3000 million tce in 2020 (NDRC, 2004). This suggests that domestic supply will meet 80% of the total energy consumption. Even if energy demand goes up to 3600 million tce in the worst case scenario as some analysts suggest, China's domestic supply is still able to provide two-thirds of the total energy demand in 2020. This makes China different from other larger energy-using countries like Japan that imports over 80% of its total energy consumption.

That said, this by no means questions the increased importance of China's growing oil imports. China was traditionally self-sufficient in oil, but since 1993 has been a net oil importer. China's economic boom and stagnated supply of domestic oil have produced the growing hunger for foreign oil. As of 2003, China emerged second only behind the U.S. in terms of oil imports. At present, China imports over 40% of its oil consumption and this is expected to rise to 60% or more by 2020 (Zhang, 2005). Energy security has risen to the height of importance in its foreign policy, and is becoming what has been called a "transforming" factor in the relations between China and the Middle East, Russia, and energy-rich Central Asian, African and Latin American countries (Yi, 2005).

China is concerned about the security of its sea-lanes for imports and desires to diversify its oil supplies from the Middle East in order to sustain economic growth. These concerns have sparked China's interest in trying to ensure oil supplies from as many sources as possible and in reducing its overwhelming reliance on seaborne imports of oil, which, in China's view, is considered less vulnerable to disruption than oil arriving by tankers. Given their closeness and accessibility through pipelines, China has been keen to invest in Central Asian and Russian oil field development projects and in the construction of pipelines in order to bring oil from these regions. In the meantime, China has turned the eyes on the emerging oil and gas fields in Africa. Through its high-profile oil diplomacy,

China has been successful in developing its access to African oil and gas resources. In the meantime, China's oil diplomacy in Africa has been roundly criticized in Western capitals (Eisenman and Stewart, 2005). Critics accused China of fueling conflicts and human-rights violations in Africa by selling arms to some repressive regimes in exchange for oil and minerals (Bezlova, 2006).

Beijing has been building goodwill by strengthening bilateral trade agreements, awarding aid and forgiving national debt. For example, China voluntarily waived US\$ 1.2 billion in sovereign African debt in 2000 when the China-Africa Cooperation Forum was formed to promote trade and investment with 44 African countries (Kitissou, 2005). To date, Beijing has given more than US\$ 5.5 billion in assistance and canceled the debt of 31 African countries (Masaki, 2006). Beijing has helped to build the railroad network in Nigeria, main roads in Rwanda, as well as bridges, stadiums and harbours. In accompanying this, China has forged closer economic relations with Africa. Bilateral trade between China and Africa hit a record of US\$ 40 billion in 2005, up 35% from 2004. Given that African-Japanese trade totaled US\$ 18 billion in 2005, China is outdoing Japan, the world's second largest economy (Masaki, 2006).

In recent years, the top Chinese leaders frequently paid the visits to oil-producing countries. This goodwill-based energy diplomacy has helped China to make remarkable inroads in striking energy deals with oil-rich African countries in the Gulf of Guinea, Central African Republic, Chad, Congo, Libya, Niger, and Sudan. The Chinese oil companies' overseas investments not only mitigate China's own concern about oil security by obtaining equity oil overseas. For example, Sudan is China's largest overseas oil production base, and more than half of the country's oil exports go to China, which accounts for about 5% of China's total oil imports. Now, Angola has become China's second largest oil supplier behind Saudi Arabia, and Africa as a whole provides over a quarter of the Chinese oil imports (British Petroleum, 2006; Xinhua News Agency, 2006). The Chinese oil companies' investments also help these African developing countries to raise their standards of living. For example, China's assistance has helped to turn Sudan into an oil-exporting country. Moreover, Chinese investments in oil fields in African countries help to pump more oil out of the fields and enlarge the overall availability of oil on the world market. The new addition to the markets may help to prevent oil prices rising even higher.

Certainly, other Asian countries could follow suit. In my view, this will not affect the relationship between Chinese companies and their African counterparts, given China's long-established friendship with African countries and the championing of their interests, not to mention mutually, commercially benefits. But this will affect the price of China's oil acquisitions. China has already competed with Japan for oil and gas fields in Russia and Central Asia. At present, there is no direct competition between China and Japan for African oil resources, largely because Japan has almost ignored Africa as a source of its badly needed oil. This may change in the future, because Japan has stepped up its Africa diplomacy in recent years. While China aggressively pursuing oil and gas interests in Africa plays a part, this has been mainly promoted by a strong desire for Japan to gain support from the continent's 53 countries for its bid for a permanent United Nations

Security Council seat (Masaki, 2006). While cooperating with each other occasionally (In the first instance of Sino-Indian cooperation, China National Petroleum Corp (CNPC) and India's state-owned Oil and Natural Gas Corp (ONGC) won a joint bid in December 2004 to buy PetroCanada's 37% stake in Syrian oilfields for US\$ 573 million. India and China also work together in Sudan, where CNPC operates the Greater Nile oilfield, in which ONGC has a 25% stake (Aiyar, 2006).), China and India already compete for energy resources in Africa as well as in other regions.

The Chinese oil companies have a history of overpaying for equity positions (Balfour, 2002). Because China has viewed paying a higher price than competitors to secure energy resources to be more of a national security issue than the absolute price itself (Bradsher, 2005), such bidding wars between Chinese companies and Indian rivalries have further intensified the tendency of Chinese oil companies paying far above what other competitors offer. To date, India has been losing out in every deal that both China and India have been shooting for. But China has grabbed these deals by overbidding at least 10% more than its competitor India has bid. In January 2006, the China National Offshore Oil Corp (CNOOC) bought a 45% stake in the Akpo offshore oil and gas field in Nigeria for US\$ 2.27 billion by outbidding the competitor, ONGC that submitted a bid of US\$ 2 billion but withdrew after India's cabinet raised concerns about the risks involved (Aiyar, 2006; Masaki, 2006). In August 2005, CNPC paid US\$4.18 billion to acquire Canadian oil company PetroKazakhstan, making it China's largest foreign acquisition ever (Bradsher, 2005). Originally, CNPC offered US\$ 3.6 billion. With the Indian consortium's (ONGC-Mittal) bid of US\$ 3.8 billion, CNPC hiked its offer to US\$4.18 billion to grab this deal (Basu, 2005). However, it is important to note that the higher bid does not always win in a politically charged industry like energy. CNOOC failed to acquire Unocal for US\$ 18.5 billion, although it topped Chevron's bid of US\$ 16.4 billion. But, in the end, Chevron grabbed the deal.

It should be pointed out that China's oil diplomacy has its own price. Critics have increasingly labeled China's relations with oil-producing countries as the oil ties. In their views, China's growing ties with Africa are purely for oil, and as long as it helps the country to secure oil deals, China is willing to exchange political, financial and military favors without regard to transparency, development and stability in Africa. To put it simply, critics accused China of mixing business with politics in pursuit of its economic gains in Africa. However, it is important to note that while China appears quite willing to get oil from wherever it can, this does not mean that China would not invest elsewhere, say, in less "roguish" nations, if it had the option. Under economic rationale, no country would prefer to invest in an unstable regime over investment in a more stable one. However, China's options are limited.

Partly because the Western powers have gained control over best oil fields available, as a late entrant to the international oil game, China has little choice but to strike deals with the so-called rogue states, which are identified by the U.S., to secure oil supplies. Washington increasingly perceives that Beijing's ties to these countries undermine the U.S. goals of isolating or punishing rogue states that fail to prompt democracy, limit nuclear proliferation or respect human rights (Zweig and Bi, 2005; Wu and Shen, 2006).

Although it is unlikely to bring the two countries in direct confrontation, China's practice of oil diplomacy is widely perceived in Washington as attempts to threaten U.S. security interests because Beijing strikes deals either with rogue states that Washington has tried to marginalize or in America's backyard which Washington perceives as its turf and within its traditional sphere of influence (The U.S. has long regarded Central and South America as part of its backyard, and Canada as an extension of its front porch. Washington perceives that recent forays by Beijing into the Western Hemisphere, which are part of Beijing's global search for large supplies of oil-based energy, are challenging its influence. Beijing's search has recently taken to Venezuela and Canada, which together provide about 25% of U.S. oil imports. The anti-American President of Venezuela has spoken of a desire to reduce its dependence on the U.S. market (Richardson, 2005). Beijing and Ottawa have concluded a series of energy and resources agreements, providing for greater Chinese involvement in developing Canada's natural gas sector, its vast oil sands deposits and its uranium sector. This could create tensions between Beijing and Washington as well as between Washington and Ottawa, because U.S. Vice President Dick Cheney's 2001 national energy policy report emphasizes the importance of Canada's tar sands to U.S. energy security (Zweig and Bi, 2005).). Thus, China should be very cautious in pursuing this type of oil diplomacy. Let me make this point clear. I am not suggesting that Beijing stance should be swayed by Washington. What I am suggesting is that Beijing should take into account many factors including Washington concerns, in particular when U.S. concerns also reflect those of a large section of the international community.

Beijing aggressively pursuing this type of oil diplomacy without proper consideration of the international community's concern may benefit China in the short-term, but may hurt it in the longer term, reducing its future benefits. China has achieved its own rise and close to being integrated into the global economy and norms. Given that China will not possess large scale oceangoing naval capabilities in the near future, it must depend on the global economy and norms. Thus, it is in China's own long-term interest to support the stability of the international regimes. For the time being, Beijing should think deeply about how to be more nuanced in responding to the concerns and perceptions of Washington and Brussels instead of just repeating nonintervention in the domestic affairs of other states as its guiding principle of foreign policy. Perhaps devoting more resources to build a better future for all and help to eliminate the fear of another Rwanda or Darfur is a positive form that Beijing should take in its engagement with Africa. In my view, this way of engagement would be considered more positive by the broad community of states, and would significantly reduce one source of tension with Washington. In the meantime, it will greatly benefit Africa as well as China.

ACKNOWLEDGMENTS

This viewpoint has been motivated by an interview with Harvard Project for Asian and International Relations, Harvard University. It has benefited from useful comments from Sonja Boehmer-Christiansen. That said, the views expressed here are those of the author. The author bears sole responsibility for any errors and omissions that may remain.

REFERENCES

- Aiyar, P. (2006), No 'Great Game' between India and China, *Asia Times*, January 13, Available at: http://www.atimes.com/atimes/China_Business/HA13Cb01.html.
- Balfour, F. (2002), A Global Shopping Spree for the Chinese: Mainland Companies Are Snapping Up More Overseas Assets, *Business Week*, 18 November, Available at: http://www.businessweek.com/magazine/content/02_46/b3808162.htm.
- Basu, I. (2005), India Discreet, China Bold in Oil Hunt, *Asia Times*, September 29, Available at: http://www.atimes.com/atimes/South_Asia/GI29Df01.html.
- Bezlova, A. (2006), China's Soft-Power Diplomacy in Africa, *Asia Times*, June 23, Available at: <http://www.atimes.com/atimes/China/HF23Ad01.html>.
- Bradsher, K. (2005), Chinese Company to Buy Kazakh Oil Interests for \$4 Billion, *The New York Times*, August 22.
- British Petroleum (2006), *Statistical Review of World Energy*, London.
- Eisenman, J. and D. Stewart (2005), China-Japan Oil Rivalry Spills into Africa, *Asia Times*, November 17, Available at: <http://www.atimes.com/atimes/China/GK17Ad01.html>.
- Kitissou, M. (2005), China and Africa: A Case in 'Petro Politics', *Center for Global Studies Bulletin*, George Mason University, Vol. 1, No. 1, pp. 9-10.
- Masaki, H. (2006), Japan Takes on China in Africa, *Asia Times*, August 15, Available at: <http://www.atimes.com/atimes/Japan/HH15Dh01.html>.
- NDRC (National Development and Reform Commission, 2004), China Medium and Long Term Energy Conservation Plan, Beijing, November.
- Pala, C. (2006), China Pays Dearly for Kazakhstan Oil, *The New York Times*, March 17.
- Richardson, M. (2005), Oil-Seeking China Steps on U.S. Toes, *New Zealand Herald*, February 14, Available at: http://www.nzherald.co.nz/section/story.cfm?c_id=2&ObjectID=10010884.
- Wu, L. and Q. Shen (2006), Will China Go to War over Oil?, *Far Eastern Economic Review*, Vol. 169, No. 3, pp. 38-40.
- Xinhua News Agency (2006), China OGP, Beijing.
- Yi, X. (2005), Chinese Foreign Policy in Transition: Understanding China's 'Peaceful Development', *Journal of East Asian Affairs*, Vol. 19, No. 1, pp. 74-112.

Zhang, Z.X. (2005), Sustainable Energy Development in China: Challenges Ahead to 2020, The Keynote Address at the International Conference on “Staying Ahead of the Energy Scenarios”, Bangkok, Thailand, November 11.

Zweig, D. and J. Bi (2005), China’s Global Hunt for Energy, *Foreign Affairs*, Vol. 84, No. 5, pp. 25-38.