

*Department of Political Science*

*Chair in Theories of Globalization*

## **CHINA'S ENERGETIC "OBSESSION"**

*POSSIBILITIES AND CHALLENGES OF THE  
PATHS TOWARDS RAW MATERIALS:  
THE MALACCA STRAIT CASE.*

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As in previous epochs, the world in which we live in has to face several types of threats, as for example political, economic, social, military, ecological and so forth. In its physiological process of continual change, the world power structure, dominated since the fall of the Soviet Union by the United States, has begun to change again. The slow decline of the American unipolar world and of its global stance, whose apex has been reached after the 2003 invasion of Iraq, has started to manifest itself, reviving the latent tensions in the international community. From the slow but steady decline, an increasingly multipolar world has begun to emerge, with old and new actors likely to perform a major role in the following decades. Countries such as China, India, Japan, Russia, with all its rivalries and prospects, with their pasts as conflicting great powers and their future as potential competitors, are just some among the actors keen to influence the new world order. In addition to these, there is a long line of emerging countries likely to exert even a small influence in the shaping of the new world order. The Middle East countries, from Saudi Arabia to Iran, from Iraq to Qatar, understanding their growing geopolitical relevance as "world's energy suppliers", are very likely to occupy a central position in the future power equilibrium, as they have already done in the decline of the American unipolar "dream". Here, old and new tensions, from the growing annoyance for the unwelcomed presence of the Western, and especially American, troops, to the old and never buried hatred between Sunni and Shiites, seem to mix and overlap in an increasingly explosive region. The latent conflicts, tapped for virtually two decades by the American global patrolling, have re-emerged after the defeat in both Iraq and Afghanistan, and the apparent failure of the "War on Terror" launched under the Bush Jr. presidencies.

If in the past the main conflicts used to emerge for geopolitical interests, economic reasons or old hatred never completely buried, the conflicts of the new century, dubbed as the "geo-energetic era", have already developed their particular features. The XXI century potential conflicts and international wars, in fact, will not depend, at least mainly, from any of the above-mentioned reasons. According to Michael T. Klare, Five Colleges Professor of Peace and World Security Studies, at Hampshire College, the main causes will be the search, control, seizure, and constant disposal of energy sources. In his last book, *The Race for What's Left: The Global Scramble for the World's Last Resources* (Metropolitan Books; First Edition), as well as in several of its prior publications, he stated that the struggle for energy resources will dominate the XXI century, as the geopolitical motivations dominated the power-struggle in the first half of the XX century. He started from the assumption that the 2003 invasion of Iraq had to be considered as the first step of this new geo-energetic era. The energy security issue came to dominate the scene already in 1973, when the first oil crisis erupted as retaliation to the Western powers support for Israel. The globalization phenomenon, at that time, had not yet started to influence the world's shaping, and thus the poor level of global interconnectedness prevented the world to fall. Nowadays, in a growingly interconnected world, and with the world most important economic regions linked to a degree never experienced before, a potential disruption could have much stronger consequences than in the past. As easy to understand, certain regions or specific areas, for their particular features, i.e. position, energies' abundance, alliances, global weight, result more relevant than other. In an energy security analysis, comparable importance has to be attributed to both energy

producing and exporting regions, i.e. Middle East, Africa, Central Asia, and transiting regions and maritime chokepoints, i.e. the Strait of Hormuz, in Middle East, the Bab el-Mandeb Strait, near the Gulf of Aden, and the Strait of Malacca, in South East Asia. A potential disruption, at any point, in the SLOCs connecting oil exporters and importers countries, due to an international conflict, a blockade or an embargo, could have disproportionate consequences for almost all the world's importing countries.

China's main energy interests, nowadays, cross the Indian Ocean and the main SLOCs transiting from it. Chinese main energy suppliers, i.e. those countries providing China with oil and gas, are located for the great majority in Middle East and Africa, thus potentially prays of several kinds of disruptions, from a potential closure of the Strait of Hormuz, performed by Iran, to a piracy attack near the Gulf of Aden, with consequent seizure of a Chinese supertanker. China has been working heavily in securing its energy supply routes, both by promoting cooperation on fighting the piracy threat and by pushing, through its diplomatic channels, to avoid a potential blockade or Straits' closures.

The most important maritime chokepoint in Chinese perspective, however, has to be considered the Strait of Malacca, in Southeast Asia. It has acquired mainstream importance since almost 35% of crude oil international trade transits to this gateway, directed to the "thirsty" energy markets of China, Japan and South Korea. China is heavily reliant on the Strait for its oil needs, given that almost the 80% of its oil imports crosses the Strait. Notwithstanding the high dependence China has developed from the Strait, it has not been able to acquire a dominant

role in the managing of the Strait's traffic and security. Chinese President Hu Jintao, together with several security and foreign policy's experts, renamed the situation as the "Malacca Dilemma", referring to the fact of having vital interests at stake in the chokepoint without, in exchange, being able to perform a considerable influence on its development. This situation, in light of the soaring domestic demand for energy, has acquired an even higher relevance, whose solution making has been listed among the national priorities.

This dissertation will focus mainly on the geopolitical power-struggle that currently affects the Strait of Malacca, followed by an analysis on the politicization of the concept of energy security in Chinese perspective, and some potential solutions to resize the "Malacca Dilemma", or at least trying to curb its most disruptive effects.

The first chapter will deal mainly with the explanation of the geopolitical significance of the Strait of Malacca, in light of the fact that it is encircled by emerging power with global ambitions, i.e. China, India and Japan, but is currently managed and patrolled by the littoral countries' navies, i.e. Indonesia, Malaysia and Singapore. The United States, main international naval power, assigned to the Strait a particular geopolitical significance, in consideration of the fact that the control over this chokepoint could be the main key to curb Chinese global aspirations. In this chapter, thus, I will treat the position of each of the actors dependent from the Strait of Malacca. A special emphasis will be given to the Chinese position, through an analysis of its total consumption's structure and its "String of Pearls" strategy, directed at increasing its worldwide influence.

The second chapter will summarize the issue concerning the politicization of the energy security concept in Chinese perspective. The first section of the chapter will start from the historical evolution of the concept of energy security, when it appeared for the first time, and how it assumed the relevance currently attributed. The analysis will continue with the identification of the Chinese energy decision-makers, i.e. those bodies, organisms and companies in charge of drawing the Chinese energy policy. The second section of the chapter will analyze the Chinese position and interests in the main maritime chokepoints, i.e. the Strait of Hormuz and the Bab el-Mandeb Strait, highlighting the potential threats that Chinese energy imports have to face. I will also identify which are the main Chinese energy suppliers, both in Middle East and Africa, trying to show on which China could count more to secure its supplies. The third section of the chapter will evaluate the so-called strategy of the "Troublemakers", one of the consequences of the politicization of the Chinese energy security concept. China oil imports are not only linked to the energy security issue, but can be observed also in the optic of giving strength to those countries able to hamper the United States position worldwide.

The third chapter will deal with some of the potential solutions to resize the Chinese "Malacca Dilemma". In the first section of the chapter I will argue that the growing political, economic and energetic ties between China and the Central Asia energy suppliers have to be considered as the main improvement in the Chinese strategy of supply's diversification. In fact, not only Central Asia suppliers can provide consistent quantities of oil-and-gas through pipelines, this supplying can be performed bypassing the Strait of Malacca. The second section will deal with the analysis of



the Chinese Energy Diplomacy and the implementation of its foreign aid strategy to increase the confidence-building with the recipient countries of its aid. These aid, mainly conceded through the provision of loans, serve both the Chinese interests, inasmuch as they are employed to build-up infrastructure able to reduce the distances between China and its suppliers, and of the recipient countries, that see its infrastructures enhanced through the loans' utilization. The third section of this chapter will focus on the development of a Chinese Strategic Petroleum Reserve (SPR), able to act as a counterbalance for potential disruptions or price volatility. The fourth and last section will summarize the pros and cons of a Chinese cooperative approach towards the international energy markets and, more broadly, to the international energy environment and its main institutions.

The Strait of Malacca poses serious potential threats to the Chinese energy security for several reasons. China is heavily dependent on the Strait for its energy supplying, and all the solutions currently being implemented by China seem to be effective only in compensating the new hundreds-thousands barrels per day required by a continuously soaring imports' demand. The presence of so many competitors able to disrupt the fluxes over the Strait virtually in any moment leaves China with the existential need of enhancing its supply diversification. India, apart from the United States, seems to be the most important Chinese competitor for what concerns the control and managing of the SLOCs crossing the Indian Ocean. The competition is fierce, and it is not only centered over the energy issue; it acquired a global geopolitical perspective due to the fact that both countries have, more or less

covertly, affirmed its stance to become global naval power able to patrol all the Oceans. China, in order to make it harder for India to create troubles, heavily invested in countries such as Pakistan, Sri Lanka, Bangladesh and Myanmar. The facilities China contributed to build up in these countries can be considered as a sort of encirclement strategy at India's damages. The same geopolitical competition can be noticed for what concerns the region adjacent to the Chinese territory, i.e. South and East China Seas, with Japan. Researches affirming the presence of huge reserves of oil-and-gas near the coasts of Paracels and Spratly islands only exacerbated a situation already tense due to the historical development that had characterized Sino-Japanese relations. Here, the situation is potentially more destabilizing given the several islands' disputers to which China has to respond for its behavior. The American expansion towards the Asian region, with the overall aircraft carriers' disposition changed for the first time since the end of the Second World War, with the 60% deployment through the Asian region, clarifies what will be the majesty of the American presence. Since the United States would be able to influence the development through the Strait of Malacca, both through its military presence or through its soft power, China would never be quiet and safe. The littoral countries, i.e. Indonesia, Malaysia and Singapore, seem more prone to argue on trivial reasons that try to cooperate on making the Strait safer. Moreover, if on the one hand China could utilize, with Indonesia and Malaysia, the fact of being an emerging country delinked from the old Western powers, on the other hand China faces the competence of the United States for what concerns Singapore, deeply involved in trying to grant free passage through the Strait to the American navy. This potential development

could bring China on the verge of collapse. The poor and mostly inefficient patrolling provided by the littoral countries adds to the potential risks of a blockade those of piracy and terrorist attacks, further increasing the danger on the gateway.

As easily understandable in observing Chinese evolution and growth, the energy security issue assumes a very peculiar feature in the overall national priority structure, often enmeshed to geopolitical and national survival issues. Several are the energy decision-makers, with an overlapping between governmental organism, as for example the NDRC, the NEA and the NEC, and private and semi-private companies, such as the National Oil Companies (NOCs). This double-level sometimes flows in inefficiency and potential corruption, making the central power accountable for faults not necessarily perpetrated. It seems noteworthy to highlight that the NOCs, even with the higher degree of independence conceivable, have to be considered mainly as a geopolitical instrument in the hands of the Chinese Communist Party. This latent control derives mainly from the need to secure a consistent amount of supplies, both of oil and gas, in case of potential disruptions. Chinese government's strategy thus takes for granted that the international acquisitions of shares in international oil-and-gas companies, together with the purchase of oil fields all over the world, could possibly be diverted to China in case of a potential blockade, embargo or major international disruptions. The evolution of the energy security concept thus passes through the improvement of the bilateral relations (for China seems a "taboo" to talk about international cooperation) with oil-and-gas producers and suppliers. China is strictly dependent on the Middle East oil, and

especially from countries such as Saudi Arabia and Iran, together accounting for more than the 30% of Chinese oil imports. The enhancement of the relation with the former is mainly pursued through loan-for-oil deals and joint infrastructural projects, as for example the construction of refining oil fields or new spurs for the pipelines running through the Saudi territory. For what concerns the latter, Iran, China is pursuing a multi-vector aid policy. China is constantly supplying Iran with Chinese manufactured goods, primary necessities and dollars. In fact, China continues purchasing immense amount of barrels of crude oil from Iran, approximately 500,000 bpd, with projections to increase its import as the overall situation for Iran gets worse in light of the international sanctions. Thus, China is slowly increasing its weight on Iran by helping it both domestically, granting loans and stuff's provision to avoid potential demonstrations and continue buying crude oil, and internationally, by granting through its veto at the UN Security Council a minimum level of international protection. China's dependence over the African oil is steadily increasing too, especially from countries such as Angola and Sudan, accounting together for approximately the 20% of Chinese oil imports. Sudan owes much to China, one of the few international investors likely to invest in a "basket" country like Sudan in the midst of a civil war. China has steadily acquired influence over Sudan through the infrastructural projects financed and developed, and by a consistent campaign of purchasing of Sudanese oil fields; it seems noteworthy to highlight that Sudan is listed among those countries central for the success of the Chinese "String of Pearls" strategy. China, however, does not maintain relations with oil and gas producers only to enhance its energy supplying. In fact, China views some potential

favorable implications from a geopolitical point of view. Among the main energy provider, and especially for what concerns oil, it is possible to identify countries such as Russia, Iran, Syria and Venezuela. All these countries share mainly two features: the first is the consistent weight they can exert over the world energy supplies' routes, being them among the main producers and exporters; the second is the deep enmity and aversion towards the United States. Thus, China takes advantages of both these features by forging an alliance with potential repercussions on its energy supply, and that could go against the United States if oil price remains over 100 dollars per barrel. It is possible to infer, thus, that China, through its huge amount of dollars' reserves, acts on the market to influence its prices, so as to give strength to its "team of troublemakers". All the stated above, however, helps certifying the features and consistency of the "Malacca Dilemma", being the vast majority of crude oil and gas bought from the regions shipped through Malacca.

China, in its paths to diversify its energy supplies, is pursuing a multi-regional policy of loans-for-oil-and-gas deals and of infrastructural engineering. It is steadily securing supplies of both oil and gas from the Central Asia countries, according to the IEA the second largest region for reserves of both oil and gas. Kazakhstan and Turkmenistan, apart from Russia, are the main Chinese energetic partners, the former accounting for the highest share in oil supplying and the latter accounting for the highest share in natural gas supplying. The oil-and-gas pipelines through which the supply is effectively performed are the Kazakh-China Oil Pipeline (KCOP) and the Central-Asia-China Pipeline.

Both of them have been co-funded by the Chinese NOCs, which retains a share in the companies running the pipelines. In this way China acquires managing power over the pipelines, to be redirected to the Chinese territory in case of international disruptions. These two pipelines are not the only one directly funded by China. In fact, the Chinese government, always through its NOCs, funded pipelines' projects in both Myanmar and Pakistan. The former pipelines, one for oil and one for gas, have been completed and became operational in 2013. Even if several concerns had been raised about the security of the project, Chinese government decided to pursue the project seeing a potential different supply route, able to bypass the Strait of Malacca, as a potentially good solution. China has also initiated talks with the Pakistani government for the construction of a pipeline running from the Chinese directly-managed port of Gwadar through Karachi to the Chinese territory. Also for this project several concerns had been raised about the security and feasibility, coupled with the huge costs the project would imply. However, as for the Sino-Burmese pipelines, the potential diversification, in Chinese perspective, worth the money spent. The talks seem already arrived to the final stage. In its intent to increase its control over the international energy markets, and to be able to influence the market prices, China since 2001 started the construction of a Strategic Petroleum Reserve (SPR), to accumulate the products of its diversification's policy. Until now the picture presented is that of a Chinese government exclusively interested in securing a constant energy supply. Even if the situation is not that different from what stated above, it seems noteworthy to highlight the presence of some Chinese commentators, experts in energy issues, arguing for a more cooperative

approach towards the market and its main actors. Not only they highlight that the highest share of imported crude oil comes from the market, they also affirm that a more cooperative approach could imply for China more supplies at lesser prices, thus in line with the above-mentioned Chinese version of the energy security concept.

The situation is in continuous evolution, especially now that the geopolitics seems to overcome the objective best choices. China does not trust the international energy markets, and more in general all the institutions related to them. The international energy community trusts China from time to time, thus increasing Chinese mistrust and dislike. Geopolitical calculation and the recent forging of the "Axis of Evil" let us consider that the situation will not change, in the short term, towards a more cooperative approach. Instead, all the features point to a further departure of the Chinese position from the international energy community. China has been composing, through the empowerment of the "Axis of Evil", a coalition able to grant energy supply and markets for its products in exchange for loans. Often the best relations are not the ones moved by sincere feelings but those animated by pure mutual convenience.