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China's Oil Diplomacy: is it a global security threat?

HONGYI HARRY LAI

ABSTRACT *China is now the world's second largest oil consuming nation. China's external quest for oil has thus generated much attention and is believed by many to destabilise the world order. This article attempts to provide an overview of China's external initiatives for satisfying domestic oil demands and to examine the implications of China's oil diplomacy on regional and global political stability. The article suggests that China has taken three steps to satisfy its growing domestic demand for oil—expanding overseas oil supplies from the Middle East, diversifying its importing sources by reaching out to Africa, Russia, Central Asia and the Americas, and securing oil transport routes. This article argues that China's oil diplomacy strengthens its ties with oil-producing nations and complicates those with oil-importing nations. Nevertheless, contrary to pessimistic predictions, China's oil diplomacy has neither upset the USA's fundamental policies towards Iraq and Iran, nor has it generated armed clashes in the South China Sea. China has largely accommodated the USA in these areas and has forged joint efforts in energy exploration with its Asian neighbours, except for Japan. China's benign oil diplomacy can be explained by the minor role of oil imports in its energy consumption and, more importantly, by China's peaceful-rise strategy.*

Oil has long been viewed as a strategic resource for nations. China is now the world's second largest oil-consuming nation. Its global efforts to secure oil imports have profound implications for international relations in the Asia–Pacific. China's rising oil demand and its external quest for oil have thus generated much attention. It is believed that, as China's overseas oil quest intensifies, the potential for it to clash with other Asian oil consumers and disrupt US foreign policy and the world order will also increase.

This article attempts to provide an overview of China's external initiatives for satisfying domestic oil demands and then to discuss the implications of China's oil diplomacy on regional and global political stability. The article examines measures that China has taken in order to satisfy its growing domestic demand for oil. It argues that China's oil diplomacy strengthens its ties with oil-producing nations and complicates those with oil-importing

Hongyi Harry Lai is at the East Asian Institute, National University of Singapore, Level 4, Arts Link, 117571 Singapore. Email: eailaihy@nus.edu.sg.

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nations. Nevertheless, contrary to many pessimistic predictions, China has largely accommodated the USA and has forged joint efforts in energy exploration with its Asian neighbours, except for Japan.

Arguments about the threat of China's oil quest

In recent years China's demands for imported oil have increased rapidly. Many observers, scholars and politicians take note of this development. Some of them have suggested that, in order to quench its oil thirst, China will resort to all means to extract all available oil and gas resources, thereby destabilising the regional and even global order.

One of the most sweeping arguments is that China may enter wars over strategic resources, including oil, gas and water, around the world. Klare boldly predicts that overlapping claims over oil and gas resources in the South China Sea could trigger armed conflict between China and other claimant states. This would also implicate the USA since it has committed to defending the Philippines and sea-lanes in that area. In addition, conflicting claims in the East China Sea by China and Japan may erupt into naval clashes.[1] Another analyst has declared that 'China's willingness to promote cooperative regional solutions to Asia's energy security concerns has been very limited'.[2] Some have even proclaimed that China's quest for oil may endanger international security.[3]

Moreover, several analysts argue that China's efforts to gain overseas oil supplies could undermine US national security. For example, China's efforts to increase oil imports from the Middle East could undercut US efforts to stabilise the region and reform regimes there and could even reduce US oil imports.[4] In July 2005 the US Congress blocked China's state oil giant China National Offshore Oil Corporation's (CNOOC) bid to take over US-based Unocal Corp on the grounds that this bid undermined national security.[5] It is thus necessary to sort out the facts from the allegations over China's quest for energy security.

Need for a thorough assessment and my argument

There is a small and growing literature on China's oil diplomacy and energy security. It focuses and sheds bright light on the following issues—China's current and projected energy demands and supplies; its energy structure; its efforts to explore domestic sources, expand production and increase energy efficiency; and the implications of China's energy demands and imports on global energy markets.[6] Several studies also discuss China's efforts, especially those by its state oil corporations to expand into overseas oil markets and acquire oil fields abroad.[7] Other studies discuss China's moves to secure sea-lanes and build oil stockpiles and refineries, as well as actors in its energy policies until the late 1990s.[8]

While these studies are informative, they also have their limits. First, analyses in most of these studies appeared to be dated. These studies are largely based on data up to the late 1990s. Into the 2000s many significant changes have taken place. The oil price has shot up drastically, from an average of $13 per barrel from 1950 – 2002 to over $50 in 2004 – 06. China has adopted many new initiatives in its oil quest, including securing its oil transport routes. Some of the conclusions in the studies were based on a low oil price and appear to be invalid. Second, we have yet to have a broad overview and a balanced assessment of China's oil diplomacy, which systematically reviews China's ongoing external endeavours and competition over oil, and evaluates predictions of the destabilising effects of China's oil endeavours. Two recent informative studies emphasise either the problematic aspects in China's oil diplomacy, especially its courting of rogue states such as Sudan and Myanmar, or the increasing tension in the South and East China Sea over oil resources.[9] These studies overlook other encouraging developments in recent years.

Addressing these issues, this article first charts China's growing demands for oil imports, then examines its oil diplomacy since the 1990s, and finally assesses its implications for global security. It makes the following argument: in the wake of its growing oil imports since the late 1990s China has intensified its efforts to secure supplies from major oil-producing countries and protect its main oil routes. Overall, China has not only avoided clashing with the USA, but has also initiated oil co-operation with its Asian neighbours. The only cautionary cases are China's ties with Japan and Sudan.

China's growing oil demands

China's rapidly growing economy has driven up its consumption of crude oil, from a low 88 million tons in 1980 to 252 million in 2003, and to 293 million tons in 2004.[10] It is now the world's second largest oil consumer, accounting for one-third of the increase in 2003. China's oil imports are also keeping pace with its rapid increase in oil demand. In 2004 China imported 123 million tons of crude oil, up by 35% from 2003.[11]

China was still self-sufficient in oil as late as 1997. But as China's domestic oil production stagnated and consumption soared, its dependence on net imports of oil (imports minus exports) reached 40% in 2004 (see Table 1).

TABLE 1. China's production, consumption and imports of crude oil (million tons)

Year	Production	Consumption	Imports	Exports	Self-sufficiency ratio (%)
1980	106.0	87.6	0.4	13.3	113.9
1985	124.9	91.7	0.7	31.2	132.3
1990	138.3	114.9	2.8	24.9	119.0
1995	149.0	160.7	17.1	18.8	101.2
2000	162.6	230.1	70.3	10.3	73.0
2001	164.8	232.2	60.3	7.6	75.8
2002	168.9	245.7	69.4	7.2	73.1
2003	169.3	252	91.0	8.1	67.1
2004	175.5	292.7	122.7	5.5	60.0

Sources: *China Statistical Yearbook*, 2003; 2005; *Yearbook of China's Economic Foreign Relations and Trade 2003; British Petroleum Statistical Review of World Energy,* June 2003; and 'China's crude imports exceeded the threshold of 100 million tons', at http://www.XINHUANET.com, 25 January 2005.

And as China's auto and aviation markets continue to expand, China's fuel demands and needs for imports will also soar. Currently one-third of its oil is consumed by cars in China. This share is projected to grow to 50% in 2020 as the government is promoting the car market as a pillar industry for economic growth. Most of the increase in China's oil demand will only be satisfied through imports.[12]

Hence China has been proactive in securing growing oil imports in recent years. In November 2003 Chinese President Hu Jintao declared that oil and finance constituted two components of China's national economic security. As oil is becoming an increasingly relevant factor in China's economic growth, it has assumed importance in China's diplomatic endeavours.

China's oil diplomacy: focusing on the Middle East

In response to growing oil demands, China's first initiative is to increase imports from the largest oil producing countries, starting from the Middle East. Back in 1995 Southeast Asia and the Middle East were the two dominant sources of oil imports for China. By 2000, however, the Middle East's share had increased to a whopping 54%, whereas the share of Southeast Asia that constituted most of the Asia–Pacific in Table 2 free-fell to 15% (see Table 2). Rising oil demand in Southeast Asia has also led to a decline in its oil exports.

Growing oil imports from the Middle East since the mid-1990s can be partly attributed to China's active oil diplomacy of targeting large oil producers. As late as 1995 China's oil imports from the Middle East primarily relied on smaller oil producers, such as Oman and Yemen. By 2003 the large producers Saudi Arabia and Iran had surpassed Oman and Yemen to become China's top two oil suppliers in 2003 (see Table 3 and Figure 1).

China and Saudi Arabia established formal diplomatic relations in July 1990. Since 1995 leadership exchanges regarding oil have become frequent. Saudi ministers overseeing the oil sector, finance, or trade visited China each year from 1995 to 1998 and in 2004. In 1999 China's then president, Jiang Zemin, visited the kingdom and oversaw the signing of a memorandum on

TABLE 2. China's regional sources of imported crude oil, 1995–2003 (%)

Regions	1995	2000	2003
Middle East	45.4	53.6	51.3
Africa	10.8	24.0	24.4
Asia–Pacific	42.3	15.0	15.3
CIS (Russia and Kazakhstan)	0.2	3.1	7.2
Europe	2.1	3.6	1.8
South America	0	0	0.4

Sources: *Yearbook of China's Economic Foreign Relations and Trade*, 2002, 2003; Feeidun Fesharaki, 'Energy security in Asia Pacific', public lecture at the Institute of Southeast Asian Studies, Singapore, 8 June 2004.

TABLE 3. Primary sources of crude oil imports for China, 1995–2003 (%)

Country	1995	2000	2003	Rank, 2003
Saudi Arabia	2	8.2	16.8	1
Iran	5.4	10.0	13.8	2
Oman	21.4	22.3	10.3	4
Angola	5.9	12.3	11.2	3
Yemen	14.5	5.1	7.8	5
Sudan	0	4.7	6.9	6
Congo	0.1	2.1	4.1	8
Russia	0.2	2.1	5.8	7
Kazakhstan	0	1.0	1.3	14
Vietnam	4.4	4.5	3.9	9
Indonesia	30.9	6.5	3.7	10
Malaysia	3.5	1.1	2.2	11
Australia	0.4	1.6	2.0	12
Brunei	0	0.4	1.7	13
Norway	0	2.1	1.1	15

Note: Countries in bold have seen a dramatic increase in their share of China's oil imports; countries which are underlined are countries which have experienced a significant drop in shares.
Sources: *Yearbook of China's Economic Foreign Relations and Trade*, 1996/97, 1998, 2002, 2003.

petroleum co-operation.[13] As a result of stronger political ties and economic exchange, Saudi Arabia's share in China's oil imports increased from 2% in 1995 to 17% in 2003, topping the list (see Table 3).

As Saudi–US ties became strained in the wake of 9/11, Saudi oil shipments to the USA declined in 2004. In contrast, Saudi oil exports to China increased and China–Saudi energy co-operation has deepened. China's oil giant, Sinopec, has obtained the right to extract natural gas in Saudi Arabia's al-Khali Basin.[14] In January 2006 King Abdullah bin Abdul-Aziz visited China, signing an agreement on economic co-operation. The kingdom would help China to build a strategic oil stockpile of 100 million tons in Hainan Island and build a new refinery in Guangzhou, involving investment of up to $8 billion.[15]

Iran is the second largest oil producer in the Middle East. Since the ending of the Iran–Iraq war in 1988 mutual visits by senior leaders (vice president or vice premier and above) of China and Iran have been taking place at least once every other year. The most noticeable visits include the Iranian president's visit to China in 1992 and 2000 and a visit by the chairman of China's legislature, Qiao Shi, in 1996.

The leaders discussed energy and oil co-operation at some of these high-profile visits. During President Jiang's visit in 2002 both nations also signed a framework agreement on oil and gas co-operation.[16] In October 2004 Sinopec signed a memorandum of understanding with Iran. The company will buy 250 million tons of liquefied natural gas over 30 years from Iran and develop the Yadavaran field. Iran will export to China 150 000 barrels of crude oil per day for 25 years at market prices after commissioning of the field.[17]

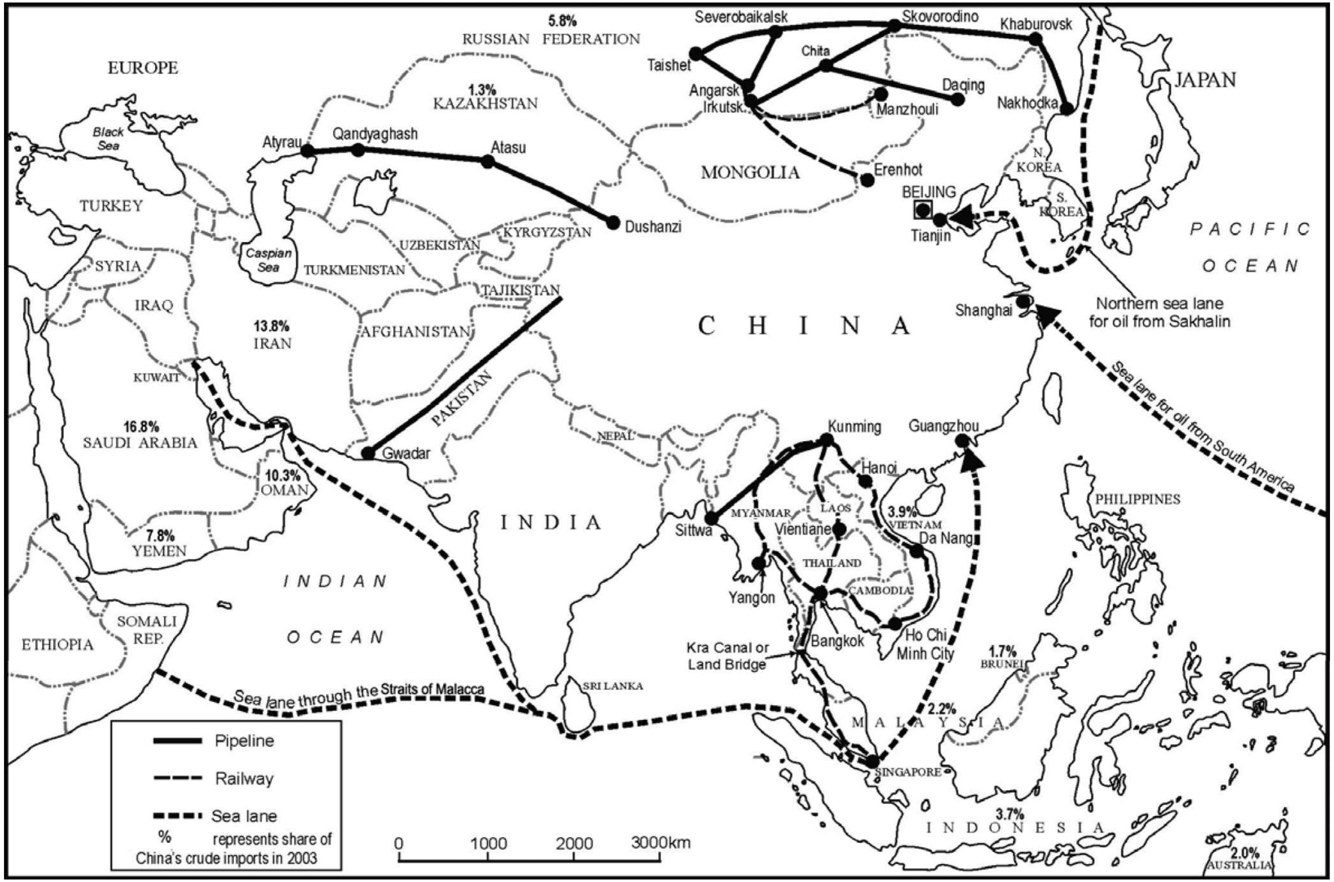

FIGURE 1. China's current and prospective oil routes. *Source*: 'An illustration of China's petroleum transport routes', *Zhongguo Guojia Dili* (China's National Geography), December 2004, pp 56–57 and author's research.

As a result of improved ties, China's oil imports from Iran soared after 1995. China's imports from Iran further grew from seven million tons in 2000 to 11 million tons in 2002. In 2003 Iran was the second largest oil exporter to China, after Saudi Arabia.

Finally, China and Iran have had military co-operation, drawing ire from Washington. By 2005 the George W Bush administration had imposed 62 sanctions on Chinese firms for violating controls on the transfer of weapons technology to states, probably including missile technology to Iran.[18] However, unlike Russia, China is not reported to be engaging in sales of sensitive military technology to Iran. A more important issue is Iran's nuclear programme, which will be discussed below.

China also has smooth ties with other West Asian oil producers. It has maintained regular foreign, trade and petrochemical ministerial visits with Oman and ministerial visits with Yemen, its fourth and fifth largest oil suppliers, respectively. The president of Yemen visited China in 1998.[19] China has signed trade and investment agreements with both countries. In September 2004 China and the 15-member Arab League jointly promulgated an action plan and made a joint announcement. They have established a biennial forum on politics and economy and have pledged mutual market access and trade and investment co-operation, especially over oil and gas.[20]

Diversifying imports sources: getting oil from Africa

China's success in expanding oil imports from the Middle East is not without its problems. Imports from the region accounted for 54% of China's crude oil imports in 2000 (see Table 2). China is concerned about political instability as well as US dominance in the Middle East, especially after 9/11. In response, it has tried to put its eggs in more than one basket.

China therefore set its eyes on Africa, especially Angola, Sudan, the Democratic Republic of Congo (DRC) and Gabon. Unlike in the Middle East, the African oil industry is open to foreign investment. Furthermore, the USA and EU have distanced themselves from these African states because of concerns over human rights violations and violence there. In contrast, China's ties with the region are free of ideological or security obstacles, as well as of historical hostilities between the West and these countries.

China established diplomatic ties with Angola in 1983. Their ties have been steady. Since the mid 1990s high-level leadership visits have been frequent.[21] China assisted Angola in building inexpensive residential housing; it also exempted it from all debts due by 1999.[22] Angola's share in China's oil imports nearly doubled between 1995 and 2003, making it the third largest external source for China in 2003 (see Table 3). In October 2004 China won the purchase of an oil field from Shell in Angola.[23]

Sudan's relations with Saudi Arabia, its large donor, and Egypt soured between 1989 and 1991. Its ties with the USA and the EU are also strained by the killings of civilians by armed groups and rebels in the country. China thus became a much-needed diplomatic lifebuoy for Sudan. Sudanese President Bashir and the Minister of Energy and Minerals visited China in 1995.

Since then at least one very senior official from Sudan has been visiting China every year. In 2000 China's Vice Premier Wu Bangguo returned a visit and signed a pact for economic and technological co-operation.[24]

Close political ties have helped China's major oil companies, such as Sinopec and China National Petroleum Corporation (CNPC), the state-owned company, to invest heavily in Sudan's oil industry. Bilateral trade, especially in oil, also took off. In 2003 China was Sudan's indisputable top trading partner, accounting for 20% – 25% of Sudan's imports and exports. Sudan's share in China's crude imports grew from non-existent in 1997 to a sixth rank in 2003 (see Table 3).

China has maintained its ties with the DRC through top-level official visits. After the civil war there China resumed its aid by helping with construction projects and sending medical teams. This support is aimed at rebuilding the DRC. The DRC's share of China's oil imports increased from nearly zero in 1997 to 4.1% in 2003 (see Table 3).

Finally, China is also forging ties with other African oil-producing states. In 2004, on his return trip to France, President Hu Jintao stopped in Gabon, Algeria and Egypt to discuss deals involving petroleum and natural gas. In the same year a subsidiary of Sinopec signed an agreement with the French oil corporation Total Gabon to import Gabon's crude oil.[25]

Tapping a large new source: Russia

Even though China has succeeded in increasing imports from the Middle East and Africa, it has one concern. Over 75% of China's oil imports (from the Middle East and Africa) go through the Straits of Malacca (see Figure 1 and Table 2). As China lacks a blue-water navy, hostile moves by external powers, or a severe terrorist attack would acutely disrupt its oil routes.

Since the 2000s therefore China's oil diplomacy has turned to Russia and Central Asia. It has also explored oil transport routes to bypass the Straits of Malacca. Since 1999 China and Russia have also been edging toward a strategic partnership, holding annual bilateral energy co-operation talks as part of regular Chinese – Russian meetings. China's oil imports from Russia have increased sharply in recent years, as the latter's share in China's crude oil imports soared from 0.2% in 1995 to a noticeable 5.8% in 2003. Russia was China's seventh largest oil supplier in 2003 (see Table 3).

China has intensified its diplomatic efforts to increase oil imports by rail and through a prospective trans-Siberian oil pipeline. Premier Wen Jiabao visited Moscow in September 2004 and pledged to invest $12 billion in Russia's infrastructure and energy sector by 2020. He also declared support for Russia's World Trade Organization (WTO) bid. In return, Wen won clear pledges from Russia to expand oil exports to China to 10 million tons in 2005 and 15 million tons in 2006. China also warmly welcomed Russian President Vladimir Putin in Beijing in October 2004, creating a favourable atmosphere for progress in the trans-Siberian pipeline.[26] China's efforts to obtain the trans-Siberia pipeline, however, are complicated by Japan's competition for a preferred route for the pipeline. In January 2005 Russia announced the building of the Taisht-Nakhodka pipeline favoured by Japan, as well as the start of the design of a branch to Daqing in China (see Figure 1).[27] These lines may transport 50 and 30 million tons of oil each year, respectively. China would have to pledge to take in 30 million tons a year.[28] The CNPC has allegedly been offered a 20% stake in Yukos, the primary Russian oil supplier to China and has given a $6 billion loan to the Russian oil giant Rosneft for purchasing Yugansk, Yukos's key unit.[29]

Forging co-operation with Central Asia

Central Asia, or the region around the Caspian Sea which is now part of the Confederation of Independent States (CIS), is another new source of oil supply for China. Here Kazakhstan has the greatest potential for supplying oil to China. Energy co-operation between the two countries was officially launched in 1997, when Vice Premier Li Lanqing signed an agreement on energy co-operation on his re-visit to Kazakhstan.[30]

There have been three important deals between the two countries. One is an agreement by the two governments in 1997 to invest $2.5–3 billion in building a 3088-km pipeline from Atyrau in western Kazakhstan to Dushangzhi in Xinjiang (see Figure 1). The section from Qandyaghash to Atasu was completed in March 2003.[31] Construction of the section of the pipeline from Atasu in Kazakhstan to Alashankou in China started in September 2004. When completed, the pipeline will double Kazakhstan's oil exporting capacity to 20 million tons a year.[32] The other is the CNPC's acquisition of a 60% stake in the Kazakh oil company Aktobemunaigaz in 1997 and its pledge to invest a large sum in the latter over 20 years.[33] The third is the take-over of PetroKazakhstan by the CNPC in August 2005 at a price of $4.18 billion. PetroKazakhstan is a Canadian oil company with substantial reserves in Kazakhstan and an annual production capacity of seven million tons.[34]

In September 2004 China also signed a compendium with Kyrgyzstan. It covered co-operation priorities and programmes for the next decade, including co-operation in communications and energy.[35]

Extracting Latin and North American oil

In recent years China has stepped up its oil co-operation with Latin America. China signed five energy agreements with Venezuela, South America's largest oil producer and the world's fifth-largest oil exporter. The CNPC will set up a joint venture with its Venezuelan counterpart, Petroleos de Venezuela, to develop 14 oil fields in the Zumano area, which holds reserves of 400 million barrels of oil and three billion cubic feet of natural gas. The Chinese investment may amount to $4 billion.[36] China may import oil from Venezuela through ports on the Pacific in Colombia. China's oil enterprises are also investing and taking up projects in oil exploration in Ecuador and the country was expected in 2004 to become the third-leading destination of Brazilian crude oil exports, with shipments of about 50 000 barrels per day.[37]

In 2003 Chinese state-owned enterprises (SOEs) invested \$1.04 billion in Latin America, accounting for 36.5% of foreign direct investment (FDI) in the region. Much of the investment was made in mines, energy exploration, and infrastructure. In November 2004, on his visit to Chile, Brazil, Argentina and Cuba, President Hu pledged to pump \$100 billion in the region in the coming decade.[38]

In January 2005 China and Canada signed a joint statement on energy co-operation during Canadian Prime Minister Paul Martin's visit to China. The statement announced that China would extract Canada's oil sands and uranium resources.[39]

Sustaining imports of oil products

In addition to crude oil, China also imports oil products, including gasoline, diesel oil, kerosene, and fuel. Its total imports, however, go through cyclical change, declining from 23.8 million tons in 1997, to 18.1 million tons in 2000, and recovering to 20.3 million tons in 2002. South Korea, Singapore and Russia are the primary exporters, each accounting for at least 14% of China's imports from 1997–2002. They are followed by Japan, Malaysia, and the Philippines.[40] As these imports are not transported via the Straits of Malacca, China may feel slightly relieved. China is also investing in refineries overseas. In September 2004 Sinochem completed China's first take-over of a foreign oil company, Inchon Oil, a South Korean small refiner, for about \$549 million.[41]

Considering alternative routes in South and Southeast Asia

Currently over 75% of China's crude oil imports have to go through the 1100-km-long Straits of Malacca. Naturally, therefore, China's second major initiative in oil diplomacy is to avoid possible disruption to the route by the USA, Japan or India, as well as from terrorist attacks. China is allegedly following the so-called 'string of pearls' strategy—building close ties along the sea-lanes from the Middle East to the South China Sea in order to protect China's energy interests and sea-lanes. These 'pearls' include Pakistan, Bangladesh, Burma, Thailand, Cambodia and the South China Sea.[42] More importantly, China is considering an alternative oil transport route in South and Southeast Asia in case of emergencies. Four alternatives have emerged, as detailed in Figure 1.

The first and the safest for China is the transport line from the Port of Gwadar in Pakistan, located near the mouth of the Strait of Hormuz, through a pipeline into Xinjiang. In 2001 China agreed to build a deep-sea port there, with total estimated costs of \$1.16 billion. Backed by strong ties with Pakistan, China can exercise considerable influence over the port. China can then transport oil from the Middle East (eg Oman) to Xinjiang, bypassing the Persian Gulf, the Indian Ocean, the Straits of Malacca and the South China Sea. The main obstacle is the bitterly cold winter weather in Xinjiang, which may pose hazards for the pipeline; there is also the possibility of sabotage by Baloch nationalists in Pakistan.[43]

The second alternative to the Straits of Malacca is a 1700-km pipeline connecting Kunming in China to the deep-water port of Sittwa in western Myanmar, at an estimated cost of $2 billion. Along this route is the critical 900-km segment connecting Ruili in China with Mandalay.[44] In a likely effort to buttress the pipeline plan, CNOOC, China's largest offshore oil producer, as well as Sinopec, obtained permission in 2004 to explore two blocks, respectively in Rakhine and Rangoon.[45]

The third is the railway route across mainland Southeast Asia, running from southwest China to Singapore or Myanmar. Three routes for the railway have been proposed—eastern, central and western. The eastern route seems the most promising at present as it involves minimum construction. The fourth alternative to the Straits of Malacca is a route across the Kra Isthmus. The original proposals involve a canal.[46] In June 2004 the Thai state energy company PTT and Sinopec announced a joint project to explore a pipeline north to Phuket with a capacity of 1.5 million barrels a day.[47]

Implications for the USA, Asia and other countries

Understandably China's oil diplomacy and its quest for overseas crude are affecting its relations with various nations in three different ways. First, China is strengthening its relations with oil-producing and -exporting nations. Second, China may both compete and co-operate with nations that have a moderate reliance on imported crude, including the USA, India and a number of Southeast Asian nations. Third, China may compete fiercely with nations that rely heavily on imported oil, especially Japan. Nevertheless, these effects also depend largely on the state of China's relations with these nations, the extent of its reliance on imported oil, as well as the efforts by China and the nations concerned to contain conflict. In this section the effects of China's oil diplomacy will be discussed and predictions that China will compromise US vital interests will be compared with actual developments. Many of these predictions turn out to be fictions.

China's closer bonds with oil-producing states

As detailed in the above analyses, China has striven to expand its overseas oil supplies. Naturally, it will strengthen its ties with oil producing nations that are willing to co-operate with it, or whose oil supplies are still available for tapping. These nations include Saudi Arabia, Iran, Omen and Yemen in the Middle East; Angola, Sudan and Gabon in Africa; Russia and Kazakhstan among the former Soviet republics; Venezuela and Brazil in Latin America; and Canada. Understandably China may sympathise with these nations over issues that they deem vital, as long as this requires only limited efforts on its part and implies little or limited harm to China's own interests. Several examples are illustrative. First, the Middle East and the Palestine–Israeli conflict. Partly out of its need to sustain oil supplies from the Middle East, China sympathises with the Arab's world stance on Palestine. At the request of Saudi Arabia, China called on all parties in 2003 to stop the vicious cycle of violence against violence and to tackle outstanding issues in Israeli relations with Palestine, Lebanon and Syria on the principle of land for peace; it also supported a nuclear-free Middle East. China has also forged multilateral ties with the Arab world. In September 2004 the China – Arab League biennial forum on politics and economy affirmed China's 2003 stance on the Middle East.[48]

Second, Sudan. China provides valuable diplomatic support for Sudan, its second largest African oil supplier over sensitive issues. China moderates Western pressure to impose sanctions against Sudan as a result of the growing atrocities in Darfur. Chinese subtle support has brought the Sudanese much relief.[49]

China's accommodation to and minor frictions with the USA

It is tempting, given the above analysis, to assume that China, out of its own need to get oil from these nations, will undermine US oil security or contravene US policies towards these oil-producing nations. The most noticeable areas that critics and pessimists have suggested include Iraq, Iran, Sudan, sea-lanes, and US oil security. However, China's stances in these cases have so far indicated that these fears have been greatly exaggerated.

First, Iraq. Before the US invasion of Iraq, many believed that, in order to secure oil from the region and show solidarity with Saddam Hussein, China might block the US-backed initiatives over Iraq at the UN. However, China actually voted in favour of UN Security Council Resolution 1441 in 2002 that held Iraq in 'material breach' of disarmament obligations, which opened the way for the US-led war against Saddam Hussein.

Second, Iran. In 2004 and 2005, when Iranian – US tension was escalating over Iran's nuclear programme, many observers predicted that China would fully back Iran in the crisis and oppose the US efforts to refer the issue to the UN. One comment sums up popular sentiment about a China – Iran oil deal in 2004: 'For a United States increasingly pointing at China as the next biggest challenge to Pax Americana, the Iran – China energy cooperation cannot but be interpreted as an ominous sign of emerging new trends in an area considered vital to US national interests'.[50] However, in early 2006 China backed a proposal initiated by the USA and Europe to refer Iran's nuclear programme to the UN Security Council should Iran fail to co-operate. China also agreed with the principle that Iran should not develop nuclear weapons.[51]

Third, Sudan. In September 2004 the UN Security Council was deliberating a resolution which threatened to halt Sudan's oil exports if it did not stop the atrocities by pro-government militias in the Darfur region that have led to the deaths of tens of thousands through starvation or illness. In this case China distanced itself from the stance led by the EU, which used sanctions to force Sudan to take action. However, China was not alone. Russia, Pakistan and Algeria abstained from voting on the resolution. China did try to find a compromise by talking the USA into watering down the UN resolution before allowing it to pass, instead of vetoing it. Many observers attributed the Chinese action to the fact that China obtained 6.9% of its oil imports from the

African country. A stronger reason, however, might be China's $3 billion investment in the country, the largest it had made in any single country at that time.[52] China's position on Darfur raises concerns among advocates of human rights. But the Darfur issue is extremely complex. Darfur is a battlefield where rebels fight Sudanese troops, aiming to topple the government. Fighting, lawlessness, and poorly paid and equipped and corrupt police permit crimes to proliferate. A practical solution, which the USA and the UN are promoting, is to send in peacekeeping troops to enforce a ceasefire as well as maintain law and order. China seems open to this solution.[53]

Fourth, the security of sea-lanes. It has been feared that China might rapidly develop its capability to safeguard its sea-lanes from the Persian Gulf through the Straits of Malacca and the South China Sea to China and that it could disrupt US and Japanese sea-lanes in the case of war. However, so far China's naval capability mainly covers the Taiwan Strait and copes with a possible Taiwanese provocative declaration of independence. Its blue-water navy is still more of a concept than a reality. Its ability to safeguard and/or disrupt sea-lanes from the Persian Gulf to the South China Sea have been rather limited. Any disruption of sea-lanes by China would invite strong counter-moves by the other parties and could be highly counterproductive. Therefore most of China's efforts at securing its oil routes have been to find alternative land pipelines or railway links. China also apparently falls back on US protection to ensure the safety of its sea-lanes for oil.[54]

Fifth, US oil security. Intensified concern in the media with China's oil diplomacy leaves an impression that China's quest for oil in the Middle East could reduce the oil available to the USA and undermine US oil security.[55] This worry is not based on fact. USA imports from Arab OPEC nations (presumably the Middle East) only accounted for 14.8% of its oil consumption in 2005. The top two importing sources for the USA are Canada and Mexico. US annual oil consumption in 2004 amounted to 1011.6 million tons and its imports to 590.3 million tons.[56] China's oil imports from the Middle East totalled 51.7 million tons, taking up 51.3% of its oil imports in 2003. However, this accounted for 20.5% of its oil consumption and only 4.7% of its total energy consumption.[57] It was equivalent to 8.8% of the US total imports and 5.1% of its oil consumption. China's imports are thus not large enough to upset US oil imports.

China's competition for oil in Asia

Asia is the fastest-growing oil market in the world. China's rising demands for oil inevitably places it in competition with other major Asian oil consumers. Chief of these is India, whose demands for oil are also growing thanks to its surging economy. In October 2004 China beat India's biggest oil company, the state-owned Oil & Natural Gas Corp (ONGC) to win the purchase of an oil field from Shell in Angola.[58] In 2005 China again got an edge over India in an effort to take over PetroKazakhstan, a Canadian oil-producer in Kazakhstan.[59] In January 2006 CNOOC outbid India's ONGC to win a 45% stake in a Nigerian oil field at a price of $2.3 billion.[60]

China is also competing for oil with other countries, chiefly Japan. China and Japan have competed against each other to win their favourite route for Russia's trans-Siberia pipeline. They are also entering a heated dispute over China's extraction of gas in the sea between them. Even though they have held rounds of talks over joint exploration in the East China Sea, no agreement has been reached.

Chinese co-operation with India and Southeast Asia

Nevertheless, into the 2000s China has also made noticeable progress in oil and gas co-operation with Southeast Asian and South Asian nations. Therefore, the worst-case scenario about clashes over oil between China and other claimant states in the South China Sea, or between China and India, or even between China and Japan have not happened.

The South China Sea contains deposits of oil and gas. The US Geological Survey and others estimate that about 60%–70% of the region's hydrocarbon resources are gas. South China Sea has proven oil reserves estimated at about 7 billion barrels. Oil production in the region is around 2.5 million barrels per day and has increased gradually over the past few years, as China, Malaysia and Vietnam step up production. China and Southeast Asian nations have overlapping claims over the Spratly and Paracel Islands in the South China Sea. Nevertheless, these nations have worked out a temporary solution. In November 2002 China and 10 Association of South East Asian Nations (ASEAN) members signed a Joint Declaration on the Conduct of the Parties, pledging to 'resolve their territorial and jurisdictional disputes by peaceful means'.[61] In March 2005 three oil companies from China, Vietnam and the Philippines signed a landmark tripartite agreement in Manila on joint exploration of oil and gas resources in the disputed South China Sea. The three parties stated their willingness to prospect the reserve of petroleum resources within the area agreed by them, without undermining the basic positions held by their own governments.[62]

China has also furthered its co-operation with Indonesia in gas exploration and trade. In September 2002 China awarded a $8.5 billion liquefied natural gas (LNG) purchase contract to Indonesia.[63] In 2002, with a purchase of a field from the Spanish firm Repsol YPF SA, CNOOC became the largest offshore oil producer in Indonesia.[64]

Despite competing at times for control of oil fields overseas, China and India have also expressed a strong desire to co-operate and have taken steps towards this. The two countries have already been working together in extracting oil in Iran. At the beginning of 2005 India sealed a $40 billion deal with Iran to import 7.5 million tons of liquefied natural gas annually over the coming 25 years. India also acquired stakes in the development of Iran's largest onshore oilfield, Yadavaran and the Jufeir oilfield. The Yadavaran oilfield has become a Sino–Indian–Iranian joint project, with India holding a 20% stake, China 50% and Iran 30%.[65]

In December 2005 CNPC and India's ONGC jointly bid for Petro-Canada's interest in Al Furat Petroleum, a joint venture with Syrian Petroleum and

Syria Shell Petroleum Development.[66] In January 2006 India and China signed a 'Memorandum for Enhancing Cooperation in the Field of Oil and Natural Gas', pledging to bid jointly for energy projects. The memorandum also encouraged co-operation in energy exploration, production, storage and stockpiling, research and development and conservation. China and India hope that co-operation will help bring down prices in Asia. India is also open to a pipeline project connecting it and China.[67]

Since January 2004 China has successfully been persuading its ally Pakistan to improve its ties with India, its long-time arch rival. This development, coupled with higher oil prices, has raised the interest of the two countries in the Iran – Pakistan – India 'peace pipeline'. Pakistan has pledged that it will not switch off the gas flow, even during Indo-Pakistani tensions or hostilities.[68]

Even though China has a fierce rivalry with Japan over Russian oil in Siberia and over gas exploration in the East China Sea, both countries have also embarked upon co-operation over oil. It is not uncommon for large oil companies in the two countries to work together to reach trade deals. The Ministry of Economy, Trade and Industry has reportedly formed an energy group on China, devoting to supplying the country with technology for oil stockpiling. The Japanese government is also expressing a willingness to assist Asian nations, China presumably included, with utilising non-oil energy appropriate for their own geography, such as wind and solar power.[69]

China's limited imports dependence and 'peaceful rise'

Two reasons help to account for China's peaceful oil diplomacy. First, China's dependence on imported oil for meeting its consumption need is still limited. In 2004 over two-thirds (67.7% to be exact) of China's energy consumption came from coal, 22.7% from oil, 7% from hydro-power and 2.6% from natural gas. In that year 40% of China's oil had to be imported, accounting for only 9.1% of China's energy consumption.[70] Therefore, imported oil plays only a minor role in China's energy consumption. Domestically produced coal plays a crucial role and domestically produced oil and hydro-power a secondary role. Large oil-producing nations merely provided a small fraction of China's energy consumption. Iran, for example, supplied only 1% of China's energy consumption in 2003. Much of the fear and suspicion of China's potentially aggressive and destabilising oil diplomacy has thus not been based on a realistic appreciation of the country's domestically based energy source.

Even though China's oil dependence is slated to increase, China has taken measures to curb this trend. In late 2005 China's top economic officials stated that the country would develop renewable energy to minimise dependence on oil and oil imports.[71] For this purpose China will also make alternative energy sources a guideline in its energy policy in the Eleventh Five Year Plan covering 2006 – 10.[72] This policy has apparently started to reduce China's reliance on oil and oil imports. According to the National Development and Reform Commission (NDRC), China's dependence on oil imports in 2005 was

42.9%, 2.2 percentage points lower than in 2004; China consumed 318 million tons of oil in 2005, 1.08 million tons less than in 2004.[73]

Second, China's leadership has been taking great care to ease external fears about its economic and political rise. Under President Jiang Zemin China has striven to portray itself as 'a responsible great power' which has enhanced peace, prosperity and stability in the world. Under the current president, Hu Jintao, China has proclaimed that it is pursuing a peaceful rise. China later rephrased this as 'peaceful development' in order to allay sensitive concerns with a rising China around the world. Thus the Chinese leadership is aware of and sensitive to the international reaction to China's oil diplomacy and is trying to minimise negative repercussions. China's eventual acquiescence to the US stance over Iraq and Iran and its compromise with the USA over Sudan's human dislocation illustrate its pragmatic and low-key approach in securing imported oil and managing issues of vital concern to the USA. In addition, China has also displayed considerable interest and enthusiasm for peaceful resolution of conflict and for constructive co-operation over oil with its Asian neighbours. China's co-operation with India in joint oil development and with claimant states in the South China Sea offers the best, albeit very surprising, examples.

Conclusion

This article set out to review and assess China's oil diplomacy in recent years. Since the 1990s China's demand for imported oil has increased. In response, China has launched a number of external initiatives to secure overseas oil supplies. First, it has strengthened its ties with oil producing nations in the Middle East, Africa, Central Asia, and Latin and North America. China's state oil companies are also actively seeking to invest in overseas energy ventures. Second, China is developing alternate oil land routes to reduce its reliance on the Straits of Malacca. Apparently, China does not have the capacity to prevent the USA from disrupting its sea-lanes. Developing land routes for oil transport appears to be China's best option.

Many pessimistic arguments about China's conflict-prone oil diplomacy are invalidated by actual developments. In particular, where Iraq, Iran, the South China Sea, and US oil security are concerned, China has not proved to be a difficult player. China did not scuttle the US diplomatic efforts over its war in Iraq and to apply pressure to Iran over its nuclear programme at the UN. China's oil imports are not large enough to disrupt US oil supplies and, even though China objected to the imposition of sanctions on Sudan, it reached a compromise with the USA in passing the UN resolution pressuring Sudan to stop ethnic killings as well as starvation and illness.[74]

While China's quest for overseas oil intensifies its competition with other Asian oil consuming nations, China has joined hands with India and Indonesia over oil exploration. Rather than fighting a war over the disputed South China Sea, China has reached an agreement on joint energy exploration with Vietnam and the Philippines. The predicted oil war in Asia, especially in the South China Sea, has been a fiction rather than a reality.

While China's oil diplomacy has not been a threat to the world, there are also trouble spots. The main flashpoint has been Chinese–Japanese disputes over the East China Sea. China and Japan have overlapping claims over territorial water, islets (Diaoyutai or the Senkaku Islands being the most prominent) and reefs in that area. Several rounds of talks on joint exploration have not resulted in an agreement, and the disputed territorial water amounts to 300 000 square kilometres. Obviously these disputes do not stand alone. They have been greatly fuelled by the two countries' historical animosity, as illustrated especially the Japanese Prime Minister Koizumi's controversial visit to the Yasukuni Shrine. There are also encouraging signs, however. In October 2006 the new Japanese Prime Minister Abe visited Beijing. The leaders of Japan and China met in one of their capital cities for the first time since 2001. Both nations agreed to joint exploration in principle and have been negotiating. Both also feel that armed clashes in the area would be destructive. The gateway for peaceful resolution has not been closed.

Notes

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