

China's Global Energy Quest

China's Global Quest for Energy Reaches Russia and Creates New Oil Bloc

Cindy Hurst

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Cutting Edge Senior Contributor



Vladimir Putin and Hu Jintao

There is a growing alliance between China and neighboring country Russia. This alliance generates vast undercurrents of both economic and political intention.

Russia, a major non-OPEC oil-producing country, holds the world's largest natural gas reserves and is the world's largest exporter. The country also holds the eighth largest oil reserves, of which it is the second largest oil exporter. However, Russian oil fields, located mostly in Western Siberia were established in the 1970s and desperately need capital and technology to stabilize their production. Russia needs at least a \$25 billion overall investment to accomplish this and approximately \$6-7 billion annually.

The vast majority of Russia's oil and natural gas is piped west to countries in the former Soviet Union and Europe. Due to fears of Russia's capability to use its energy as a political tool and weapon, Europe has been striving to reduce its own dependence on Russian supplies. This is prompting Russia to look east, toward Asia to secure its security of demand. With its booming economic growth, China is an ideal partner to Russia.

In the 1950s, China and Russia maintained a close alliance. Between 1960 and 1985, China's relationship with Russia was defined as deeply hostile. After 1985 there was a gradual normalization during the Gorbachev years. Then, after 1991, which marked the end of the Cold War, Russia maintained a political distance from China because China remained communist and had publicly endorsed a 1991 coup attempt by Soviet communist hardliners.

However, Boris Yeltsin changed his policy in April 1996 when China urged Russia to agree to a "strategic partnership." In July 2001, then Presidents Vladimir Putin and Jiang Zemin signed a treaty of alliance, which formalized and expanded Chinese-Russian cooperation and strategic coordination.

The rapprochement created the conditions for China to turn to Russia for some of its oil needs. While Russia has the oil to provide China, China has the capital to help improve some of Russia's poor infrastructure. However, the exchange is not without difficulties. Russian internal affairs have been fraught with politics that make construction processes slow and complex, and, therefore, solutions to quench China's growing thirst for energy are slow to materialize.

Since 2001, China has been involved in talks with Russia to try to negotiate building a major pipeline that would take oil from western Siberia to Daqing. Japan, which was interested in having the pipeline terminate at Nakhodka instead, began bidding for the project. For awhile Russia teetered between China and Japan, which were locked in a fierce struggle over access to the Russian oil. In late 2004, Japan appeared to have won the deal by offering to finance a substantial amount of the project. Then, in September 2005, President Putin announced that the pipeline would first go to China's Daqing and then continue to the Pacific Coast. This appeared to be an ideal solution for various reasons. First, since China had resolved its border issues for the first time in 40 years with Russia, the relationship between the two countries has improved dramatically. Second, sending oil to both locations would allow Russia to diversify its export routes.

A pipeline is finally under construction and will travel from Siberia to Khabarovsk. The first phase of the pipeline will allow for a junction that will feed a pipeline to China.

Russia has been supplying oil to China via railway since 2004 under an agreement setup by Yukos, once Russia's second largest oil company, which was ultimately forced into bankruptcy. Meanwhile, China and Russia are negotiating two natural gas pipelines: the eastern pipeline would enter China at Manzhouli, and the western pipeline would enter Xinjiang at Altay. According to Wang Haiyun, Director of Energy Diplomacy Research Center of China Foundation for International Studies, a memorandum of understanding on these two pipelines has already been signed.

In May 2008, newly elected Russia President Dmitry Medvedev visited Beijing. According to RBC Daily, a Russian newspaper that focuses on business and economics, Medvedev's goal was to confirm "Russia's view of China as a serious geopolitical ally in challenging the West. His agenda also "consists of very difficult issues, above all energy ties."

There is a strong political undercurrent in China's pursuit of oil. China and Russia have been striving for a strong alliance. But the dominant purpose behind the China-Russia relationship can be seen as a way to control the power of the U.S. As both countries feel they are threatened by the U.S., they aim to use a strategic alliance as a means to overcome their strategic isolation through cooperation. Russia sells advanced weaponry and oil to China while China returns hard currency.

Part of China's geo-economic strategy goes beyond its alliance with just Russia. China has joined forces with Brazil, Russia and India in a new coalition of emerging superpowers proposed by President Putin, called the BRIC alliance—this for Brazil, Russia, India and China. There has also been talk of other countries, such as Iran, South Africa and Venezuela joining the pack as well. The current coalition encompasses over 40 percent of the total world population. The idea of BRIC came about due to growing concerns of U.S. and European domination over the world economy and political scene. There is a sense of uneasiness and a fear that the U.S. has too much control over, among other things, the world's oil. One of the shared goals of the BRIC alliance could very well be to lessen Western influence over many of the world's sources of oil by joining together in a coalition of countries growing in economic strength and capability, one that will one day outgrow the economic strength of the western powers.

Cindy Hurst is a political-military research analyst with the Foreign Military Studies Office. She is also a Lieutenant Commander in the United States Navy Reserve. This article was adapted from a report for the Institute for the Analysis of Global Security www.iags.org. The views expressed in this report are those of the author and do not necessarily represent the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.