

## The Good China – and Four Dangers

Report to the Royal Norwegian Ministry of Foreign Affairs

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### Introduction

This is the result of a project undertaken at PRIO in the second half of 2004, with support from the Norwegian MFA,<sup>1</sup> on four issues of fundamental importance for Chinese security and China's relations with the USA and the rest of the world: 1) The non-democratic character of China's political system, 2) the Taiwan issue, 3) the North Korean nuclear crisis, and 4) China's sense of energy insecurity.

The main work on the project was undertaken by cand. polit. Øystein Tunsjø, who drafted four separate articles on the above subjects in co-operation with Stein Tønnesson. One joint article, which discussed China's need for democratic reforms, was completed and submitted first to *Foreign Affairs* and later to *Washington Quarterly*, but rejected by both journals. It has since remained unpublished. Another of the articles, 'The Constructive Mediator? China, the US and the Six Party Talks' [on Korea], was published by Øystein Tunsjø in *Aberystwyth Journal of World Affairs* 2004 (2).

Øystein Tunsjø presented a paper, based on his work under the project, at the NORASIA conference in Bergen 9-11 September 2004, where Stein Tønnesson was a speaker in a round table to discuss Professor Bernt Hagtvet's contention that China may be moving towards 'Fascism'. Stein Tønnesson had earlier engaged in a newspaper debate with Bernt Hagtvet, presenting some of his basic ideas about China's missing democracy.

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<sup>1</sup> Contract signed by Avdelingsdirektør Espen Larsen 30 September 2004, ref. 308.4.

Stein Tønnesson and Øystein Tunsjø reported the main findings of the project to an East Asia seminar in the Norwegian Ministry of Foreign Affairs on 6 December 2004.

As a follow-up to the 2004 study, Stein Tønnesson took part in a symposium on peace and security in Northeast Asia, organized by South Korea's URI Party in Seoul 12-15 January 2005, and gave a debriefing in the Norwegian MFA on 10 February 2005. And in February-March 2005, he visited Beijing, Shanghai and Xiamen over two weeks at the invitation of the Chinese Institute of World Development. This allowed him to conduct a number of interviews on the Taiwan issue, and on energy security.

The report below is written on the basis of the work done in 2004, the information obtained on the travels to South Korea and China, and the reading of a number of scholarly articles and political commentaries.

### **Executive Summary**

In the last decade, China has greatly improved its bilateral relations with most of its neighbours in Asia. This has enhanced China's regional influence considerably. Yet China has not developed into an active constructive partner for the other great powers on the global level. Its relationship to the other great power in East Asia, Japan, remains difficult. And China's policy in the UN remains reactive and dominated by its own direct state interests.

There are many dangers to China's stability as a 'good neighbour' for the rest of Asia. Four select dangers are discussed in this report:

1. The lack of a democratic system remains an impediment for China's standing in the world. Democratisation in China is unlikely to happen – or succeed – if it becomes a bottom-up process, since this will make local leaders more legitimate in the eyes of the population than the central ones, and since the middle class has little interest in allowing the peasant masses to dominate electoral politics. China's main chance for democratisation is through a top-down approach, with courageous leaders seeing the advantages China can derive from introducing a democratic system. Nothing, however, seems to indicate that this is about to happen. China will therefore most likely to maintain its current system, completely dominated by the Chinese Communist Party, for quite some time still. Perhaps the best one can now hope for is a

gradual democratisation of the CCP's own structures, with more open debates and permission to form groups within the party around certain interests and programmes.

2. The fact that Taipei's policy concerning the Taiwan issue has become so strongly affected by domestic electoral politics may increase the risk that the Taiwan government could be tempted to over-play its hand in the quest for national independence, and thus provoke a violent Chinese reaction. This danger has increased with the introduction of democracy in Taiwan.
3. While the North Korean nuclear issue may provide China with a chance to play a leading role in resolving a serious and long-lasting conflict, it may also become a long-term headache for the Beijing leaders. They neither want to become dependent on a historical alliance with North Korea nor to see the regime in Pyongyang collapse. It is possible that the North Korean issue will just linger on as a serious problem for China.
4. The Chinese are deeply concerned by their growing dependence on imported oil. On the one hand this has led to attempts to diversify these imports by making bilateral agreements with a long range of oil-producing countries. On the other hand it is realised that this can only reduce the problem, not solve it. There therefore seems to be an increasing realisation in China that it depends on co-operation with other powers for the securing of a stable maritime regime. China's oil insecurity may already have contributing to moderation in China's foreign policy, both globally and within the region.

The two most likely scenarios for China's development in the next couple of decades are: 1) continued growth both economically and in China's influence in the region, leading also to a more active global role, but possibly in conflict with Japan. 2) Economic stagnation leading to some social and political tension, but no major challenge to the Communist Party's rule. Two more negative scenarios are considered less likely.

### **The Good China**

With the rapid economic rise of China, and the clampdown on the democracy movement in Beijing June 1989, the image emerged of a 'China threat' to the rest of the East Asian region. The 'China threat' idea reached its apex around 1995-96 when the PRC conducted missile tests aimed at frightening Taiwan during its first free presidential elections. By that time, however,



China had already significantly improved its relations with many of its neighbouring states, and this trend has since continued. Today we see a relatively benign China, with a rapidly growing influence in East Asia, Central Asia, even South Asia, if not the world at large. Although the PRC has had a permanent seat in the United Nations Security Council since 1971, and joined the World Trade Organization (WTO) in December 2001, it has not yet developed into an active, fully constructive partner in global politics. When engaging on global political arenas, it mostly pursues a reactive, or interest-based national, at best regional approach. But this may be gradually changing.

One of the most persuasive presentations of the emerging 'good China' is found in a recent article by the British-American China specialist David Shambaugh.<sup>2</sup> He claims that most Asian nations now see China as 'a good neighbor, a constructive partner, a careful listener, and a nonthreatening regional power' (p. 64). He finds it premature to say that the Asian regional system has become Sino centric, and quotes a Singaporean diplomat who has said that the United States may still dominate the regional balance of power, 'but not the balance of influence'. Then he relates how:

- Singapore and other Asian countries were quick to engage with China again after the massacre in Beijing 1989.
- China boosted its regional standing during the 'Asian crisis' 1997-98 by providing financial aid and refraining from devaluing its currency.
- China, during the 1990s, gave up insisting on having only bilateral relationships with its neighbours, and engaged actively in multilateral settings like the ASEAN Regional Forum, the ASEAN+3 talks, and the Shanghai Cooperation Organization.
- China reinforced Deng Xiaoping's 'peace and development' concept after it had been challenged by more security-oriented people in connection with the NATO bombing of the Chinese embassy in Belgrade.
- China improved its bilateral relations with its neighbours Mongolia, Russia, and Vietnam, through a number of border agreements (India may be next).

At the same time China has expanded its economic and cultural ties with its neighbours. Nearly 50% of its total foreign trade is now with Asian countries (notably with Japan, South

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<sup>2</sup> David Shambaugh, 'China Engages Asia: Reshaping the Regional Order', *International Security*, Vol. 29, No. 3 (Winter 2004/05), pp. 64-99.

Korea, Malaysia and Singapore). A rapidly growing number of Chinese tourists are now visiting the low cost countries Vietnam and Myanmar, and also Thailand and Singapore.

One bilateral relationship that Shambaugh more or less omits from his analysis, though, is the most important of all: with Japan. Sino-Japanese relations have not improved. China and Japan have rather become rivals in wooing other regional countries, with China now winning most of the time. As everyone could see on TV in the Spring of 2005 (after Shambaugh's article had been published), anti-Japanese sentiments in China are very strong, and there were also several diplomatic incidents between Asia's two leading economic and military powers, linked to quarrels over Japanese history books, the Japanese Prime Minister's annual visits to the Yasukuni shrine in Tokyo (not just a shrine for the dead, but the location of a cult to the kamikaze pilots, and a centre for right wing Japanese extremism), disputes to islands and maritime zones, and (perhaps mainly) the question of Japan's desire to get a permanent seat on the United Nations Security Council. The continued, indeed increasing, animosity between China and Japan is probably the most important counter-argument against Shambaugh's 'good neighbour' thesis.

The relationship between China and the USA is not a counter-argument. It has developed remarkably positively in view of the scare developing in Chinese military circles when US established, re-established or reinforced its military presence in countries surrounding China in the wake of 9/11: Uzbekistan, Kyrgyzstan, Tajikistan, Afghanistan, Pakistan, Singapore, the Philippines. The Chinese leaders apparently concluded that these deployments were made against a shared enemy, Islamist extremists, and not against itself. The George W. Bush administration has been far more measured in its approach to China, and helpful in keeping Taiwanese secessionism at bay, than one could have expected of an administration engaged in a crusade for freedom against evil dictatorships. Many China analysts in the United States appreciate the positive changes China has undergone in the last decade, and they see many shared interests between the United States and China. But this remains a contested view in the United States, where some policy-makers and many publicists are convinced that the USA must sooner or later confront China in order to prevent a rival from surpassing US in terms of economic and military capabilities. Sino-US relations have in the last few decades been vacillating between crisis periods and periods of relative détente. The tendency has been for newly elected US presidents to face crisis with China in the first months of their administration, and then make improvement. The tendency has also been for Spring seasons



to be characterised by crisis and the autumn season by accommodation. The overall trend, however, is gradual rapprochement and realisation of common interests. Today, China's economic prospects remain heavily dependent on free access to the huge US market. And the stability of the US economy has come to depend on China's willingness to keep up its heavy investments in US currency and bonds. Both powers have a strong interest in resolving issues related to the enormous surplus of Chinese exports to the USA in a way that preserves the basic stability of the world economy. There is much to Shambaugh's contention that the US and China find themselves on the same side of many of the key issues affecting the future of the Asian region, 'which may well enhance their opportunities for tangible cooperation' (p. 93). He hints at the possibility of a real strategic partnership.

- So perhaps the most likely scenario for China's further development is continued economic growth (although at some point the pace of growth must decline), with a concomitant tendency towards foreign policy moderation in pursuance of stability in regional and global affairs, economic and cultural integration in the wider world, and growing Chinese regional and global influence. This trend is a continuation of what has happened in the last 15 years.

But other scenarios are possible:

- A second scenario sees growing hostility between China and the USA, perhaps mediated by Japan and/or Taiwan. A kind of second cold war develops in Asia, with the ASEAN states, India and Europe being forced to choose sides.
- A third scenario is one where China runs into serious economic, social and political upheavals internally, with an interruption of the economic growth trend, declining power for the Chinese Communist State and the central state, and with provinces going in different directions. This would have highly negative consequences for the global economy, which now to a great extent depends on the Chinese motor.<sup>3</sup>
- A fourth, perhaps more likely, scenario is one where China's long, extremely rapid economic growth period is interrupted by a period of stagnation, perhaps in effect of

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<sup>3</sup> This scenario is spelt out in Gordon G. Chang, *The Coming Collapse of China*. London: Random House: 2002.

some of the very serious imbalances the growth period has created. This stagnation, however, does not lead to any social or political upheaval challenging the power of the CCP, which hangs on to power in a China that is unable to realise its potential.

Which factor could threaten the ‘good China’ in the first scenario, and lead to the second, third or fourth? There is an abundance of dangers out there: Environmental crises of many kinds, conflict between regions, strikes and protest movements among workers and peasants, human rights abuses (such as the wide-scale use of capital punishment) leading to international protests, political conflict between economic modernizers and the ‘national security segment’, anti-communist revolts from Chinese nationalist quarters, perhaps supported by religiously oriented groups, squabbles in China’s relations with Japan. The continued animosity between China and Japan, despite their substantial trade, the substantial Japanese investments in China, and the fact that Sino-Japanese partnership is a necessary precondition for East Asia to become a powerful world region on a par with North America and Europe, is an enigma. Today both Japan and China pay more positive attention to their relationship with the USA than with each other. This is the main reason why US influence in East Asia has not declined more than it has.

All of these dangers need to be seriously considered, but not here. The present report looks at four select dangers: The lack of democracy, the Korean problem, the Taiwan issue, and the lack of energy security. The choice of these four issues does not imply a claim that they are the four main threats against China’s continued ‘peaceful rise’, only that they belong among – let’s say – ‘the top ten’.

### **Danger 1: The Missing Democracy**

The lack of electoral democracy in China impedes the stability of the ‘good China’. Although the CCP has managed its latest leadership successions in a remarkably peaceful way, the closed political system of the CCP cannot ensure peaceful successions in the future. The safest succession mechanism is one grounded in an open, electoral system where those who are voted out of power keep their honour, and may even hope to return to power in the next election. In a system like the Chinese or Saudi Arabian one, there is always a danger that



succession struggles lead to the establishment of hostile factions who see the struggle as an 'all or nothing affair'. States dominated by one party will also always marginalize a substantial number of people in a way an electoral democracy normally does not do. This causes resentment. And in international affairs today it is clearly a handicap not to have a democratic system, since electoral democracy now tends to be global norm. Democratically elected leaders are more legitimate and command more respect both nationally and internationally than unelected ones. To gain basic respect for each other, and overcome historical suspicions, states need to be democratic.

Will China become democratic? I tried to ask some people during my recent trip to China. Most said no. Some said they expected to be able to elect their city mayor at some point in the not so distant future, on the assumption that the experiments with township democracy in rural areas could be emulated in the cities, or that other cities could be inspired by the system in Hong Kong. The general expectation seemed to be that if democratization came, it would happen from the bottom up. When I warned that this could lead to the dissolution of China, since local elected leaders would inevitably get more legitimacy than the central unelected ones, my respondents objected that there were no signs that Hu Jintao intended to carry out any democratization from above, and that this would at any rate be too risky. No one in their right mind had proposed to open up for direct presidential elections with more than one candidate, or for allowing political parties to openly contest the seats in the National People's Congress. They cited statements by the CCP General Secretary Hu Jintao, with clear signals that China would not seek to copy 'the Western model' (as if there existed one such model). What might be possible, they conceded, was a gradual democratization of the Communist Party as such, with more openness about internal party debates.

The reason why I think China is unlikely to democratise from the bottom up is not only that I'm aware of what Hu Jintao has said. It is because the central leaders will understand that democratically elected local leaders will have less reason to abide by directives from the Centre. Local democratic governments could develop into fiefdoms, and threaten the cohesion of the People's Republic. Another reason is the obvious one that the Communist leaders would fear to lose their power if they allowed a democratic opposition. A third, somewhat contradictory, reason is that the Chinese middle class is much too small to dominate an all-Chinese democratic constituency. It will not want to take the risk of introducing electoral democracy in a way that could allow all of China's peasants to vote. The city-based middle



class is probably safer with the CCP in power than with a regime established through majority vote in a population dominated by peasants.

In our draft article, Øystein Tunsjø and I argue that China needs top-down democratization, and that the force behind democratic reforms could be the perception among the Beijing leaders of China's national interest. If they were able to institute a viable democratic system, then this would enhance domestic order in the long run, sustain economic development, help maintain good relations with other major powers, enhance access to markets, resources, and investments, improve international and diplomatic status, and defend against external threats and preservation of sovereignty and territorial integrity. Democracy would also enhance the legitimacy of China's leaders abroad; could further improve Sino-American relations and would make it more attractive for the Taiwanese to seek an accommodation with Beijing. Political accountability, a professional (un-corrupt) police force and an independent judiciary would further aid economic growth. Inward foreign direct investment will likely increase as investors gained confidence in a system based on transparent governance and legal protection. By democratizing, China could even become a member of OECD and the IEA, which would ensure the energy security they so need.

Change, however, any change, can be dangerous. Transition periods are inherently unstable. There is risk of social conflict and even civil war. The Chinese are not encouraged by the dissolution of their once communist neighbour the Soviet Union, and are worried about the independence movements that political reform could spark off in Tibet and Xinjiang. The Communist Party may also only be tempted to start political reforms if it thinks it can maintain its leading position in an electoral democracy. For these reasons it does not seem likely that any Chinese leader will be courageous enough to open up the way to a democratic China. The missing democracy, however, will continue to hamper China in its attempt to become prosperous and influential. A non-democratic regime is more vulnerable to external criticism than a democratic one. External criticism of a democratic government is rarely seen as offensive since such governments are also exposed to so much internal criticism.

The best one could hope for in China is a gradual, managed transition to a more and more democratic system, probably starting with reforming the Communist Party itself. Then it could allowing genuine political processes and debates to be played out in public, get used to criticism, get used to independent NGOs and then, finally, get the courage to face the

population in a democratic election. Most would dismiss this as wishful thinking.<sup>4</sup> The missing democracy, however, will for a long time set strict limits for how good a neighbour China can be – with an exception, of course, for the relationship to those neighbours who share in the fear of democracy (Myanmar, Laos, Vietnam, North Korea).

## **Danger 2: Taiwan**

The Taiwan issue is in one sense a source of strength for the People's Republic of China, but in all other senses a source of weakness. It is a source of strength because the demand for Taiwan's inclusion in China as an integral part of the national patrimony has extremely strong support among the Chinese living in the mainland. They see Taiwan as a part of their homeland. This means that it is possible for the Chinese leaders to rally the nation behind it in any conflict over Taiwan. On the other hand these strongly irredentist national sentiments also could make it difficult for Beijing to reach a solution that could be seen as secession. The leaders in Beijing might not dare to face the popular rage that a big concession could generate. The Taiwan issue is also a source of weakness because it can so easily be used by either Japan or the USA to foster conflict with China if someone in the Japanese and/or US leadership should wish to have such a conflict in the future. And in a conflict over Taiwan, the Taiwanese democracy would no doubt get widespread support around the world. Thus it is imperative for Beijing to manage the Taiwan issue in a way that prevents both outright secession and conflict.

Øystein Tunsjø and I contend in our draft article on Taiwan that this has been more difficult since Taiwan became a democracy than it was in Chiang Kai-shek and Chiang Ching-kuo's time. This is not mainly because Taiwan can mobilize support from public opinion abroad, although this certainly counts. The main reason is that electoral politics in Taiwan have come to play a role in the dispute over the Taiwan issue. Chiang Kai-shek never gave up his ambition to win back the Chinese mainland, and sought several times in the 1950s to drag the US into a conflict with China. But since he was his own master internally in Taiwan, the Americans could always keep him in place. This changed under the democratically elected

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<sup>4</sup> This is also why our draft article was rejected by the journals we sent it too. They found it awkward to publish a recipe for democratisation from authors who acknowledged that there were no signs the recipe would be followed.



Lee Kuan-yew from 1996. The Democratic People's Party (DPP) became a legal political entity, and gained widespread support for its quest for Taiwanese independence. The open political process in Taiwan led an increasingly greater proportion of the youth to identify itself as Taiwanese rather than Chinese, precisely at a point of time when Taiwanese businesses invested heavily in the Chinese mainland and expanded the ties between Taiwan and the mainland. A political contest developed between leaders striving for independence and becoming extremely unpopular in China (former president Lee Kuan-yew and current president Chen Hsui-bian) and the opposition leaders (Lien Chan and James Soong) who seek accommodation with China, and who were both received as official guest in China in March-April 2005. In such a context, with the issue of Taiwan's relationship to mainland China having become a part of electoral politics in Taiwan itself, it will be more difficult than in the past for the USA to set limits to what Taipei is allowed to do in order to move forwards to independence. This heightens, in our view, the risk that the Taiwanese government may take initiatives, perhaps with partial support from Japan and some US quarters, that could provoke a violent reaction from China.

China has made it absolutely clear that it will not tolerate Taiwanese independence, i.e., that Taiwan declare itself independent or is recognized as an independent state by other countries or by the UN. If this happens, then China will intervene militarily. However, we have noted a subtle change of China's policy in the last year. While just a year ago, it seemed that status quo was unacceptable to Beijing, who wanted to initiate talks with the Taiwanese government about an autonomy arrangement built on the 'one China' principle, the Beijing leaders now seem to be content with status quo. They may be waiting for the next Taiwanese elections to bring an end to Chen Shui-bian's presidency. They may also be trying to tread the water until the Beijing Olympics have been successfully completed in 2008.

Still the Taiwan issue does remain dangerous. A mix of strong sentiments, electoral politics and reckless moves by leaders either in Taipei or Beijing could unravel the stability that China has been building around itself in the last decade. And China has deployed several hundred missiles along the Taiwan Strait that could cause real havoc in the island.

### **Danger 3: North Korea**

Since the establishment of diplomatic relations between China and South Korea in 1993 (?), China has steadily improved its diplomatic, political, economic and cultural ties with this US ally, whose relationship with Japan and the USA have become quite difficult. Meanwhile China has remained the main protector of Kim Jong Il's autocratic regime in North Korea. This means that China today has more influence in the Korean peninsula, thus also on the Korean issue, than any other foreign power. This does not mean that China can dictate its will to Pyongyang. If it tried to, this might unleash a protest leading to the fall of Kim Jong Il's regime.

The situation in North Korea is a danger to China in several respects. Firstly, the extremely dire economic and social conditions in North Korea have already provoked a stream of Korean refugees to China. China fears an exodus in case of a crisis. Secondly, North Korea draws on heavy Chinese economic support without giving much in return since it has not been able to successfully reform its economy and boost exports of any kind. China provides nearly 90% of North Korea's oil and 40% of its food and has consistently allocated approximately 30% of its foreign assistance budget to North Korea since 1996. One estimate holds that the North Korean economy would be paralyzed within six months should Chinese energy assistance be halted.<sup>5</sup> Thirdly, North Korea has most probably developed nuclear weapons that could reach goals not only in South Korea and Japan, but also in China. And fourthly, the existence of these nuclear weapons provide Japan and the USA with a good excuse for building up their offensive and defensive capabilities in the region (i.e., through missile defence systems), and these capabilities could also be used in a conflict with China.

This is the background for the role that China has played as host to the so far unsuccessful Six-Party talks on North Korea, which have been held in four rounds since August 2003. This role is quite unprecedented. China has played an active role at some international conferences, notably the Geneva conference on Indochina in 1954, but in the Six-Party talks, China is hosting delegations from the USA, Japan, Russia, South and North Korea to discuss a deadly serious international issue. This is new. If China succeeds in this process, gets North Korea to dismantle its nuclear bombs, and the USA and Japan to recognize the Democratic People's Republic of Korea, and provide it with economic aid, then this will be a huge triumph for

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<sup>5</sup> *US –China Economic and Security Review Commission*, Report to Congress, June 15 2004, p. 131.  
<http://www.uscc.gov>



Chinese diplomacy, and seriously enhance the realisation of the 'Good China' scenario described above. A variety of geographic, historical, cultural, economic and demographic dynamics might even push a reunified Korea towards Beijing, and force the United States to withdraw its troops.<sup>6</sup> But if the 6 Party Talks fail (as they seem to have done at present, as neither the USA nor China has been able to persuade the North Koreans to return to the negotiation table) and North Korea is allowed to keep and develop its nuclear arsenal, then this will perpetuate crisis in the peninsula and cause a durable strain on China's relations with Japan, the USA, and South Korea. It is also fully conceivable that North Korea will decide to act recklessly, and for instance conduct a nuclear test, in the hope of forcing the USA to negotiate bilaterally. North Korea's main aim is a US security guarantee. China's problem, as Chinese spokesmen often say, is that China cannot of course provide a US security guarantee. The US wants China to act as broker, using its leverage in Pyongyang, but Kim Jong Il would prefer to do without the broker and deal directly with President Bush. The North Korean imbroglio could become a vehicle for strengthening Sino-American ties, but it could also endanger the Sino-American relationship if Washington does not see Beijing as being sufficiently helpful.

#### **Danger 4: Energy Insecurity**

The economic growth in China has brought with it even faster growth in China's energy consumption, since its energy efficiency is much lower than in other countries with more developed economies. Most of China's energy comes from coal (64%), of which the country has abundant resources of its own. But the sharpest rise has been in the consumption of oil. Until 1993, China produced more oil than it consumed. Since then, the oil production has only marginally increased, whereas the consumption has skyrocketed. By 2003, therefore, China consumed as much as the second largest oil consumer in the world, Japan, and produced only half the amount of the oil it consumed. On a research trip to China in 1998, I tried to ask questions about the geopolitical consequences of China's growing dependence on imported oil. At that time, only analysts working in the energy and military sectors seemed to be truly concerned by this question, which did not have a high political priority. In 2005, when I visited again, everyone had views on how to mitigate this growing dependency, and the interest in Middle Eastern developments among journalists, political analysts and policy

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<sup>6</sup> Victor D. Cha and David C. Kang, *Nuclear North Korea, A Debate on Engagement Strategies*, New York: Columbia University Press, pp. 172-73.

makers had increased enormously. The stability of the Middle East and the safety of sea lines of communication from the Middle East to China had become a shared interest of China, Japan, and the USA, and the Chinese were acutely aware of it. This may be one of the factors behind the moderation shown in China's policy towards the USA, and also the recent improvement of Sino-Indian relations. The security of China's provisions of imported oil depends on a benevolent India.



**Table 1. China, Japan and the USA's oil production, consumption and reserves, 2003**

	Consumption (mn barrels/day)	Production (mn barrels/day)	Net import (mn barrels/day)	Proven Reserves (bn barrels)	GDP (tril. USD)
China	5.56	3.54	2.02	18.3	1.4
Japan	5.57	0.12	5.45	0.06	4.3
USA	20.0	7.80	11.2	21.9	11.0

*Source:* Us Energy Information Administration (EIA) Country Analysis Briefs.

<http://www.eia.doe.gov/emeu/cabs/>

What we can see from the above table is:

- a) that although Japan's GDP is three times higher than China's, China consumes as much oil as Japan. Japan is much more energy efficient.
- b) China and the USA are almost equally dependent on imported oil. Both cover about half their consumption from domestic source, and both have approximately the same amount of proven reserves.

Since the oil consumption is increasing both in China and the USA, and their reserves are quite limited, both China and the USA are going to depend increasingly on imported oil. This means their situation will come to resemble more and more to that of Japan. Since not much oil has been found in the last decade outside of the Middle East, Middle Eastern oil will no doubt increase its share of world oil exports in the years ahead. This means that Japan, China, the USA, and the EU countries will all to an increasing degree depend on Middle Eastern oil, and hence on political stability there. The realisation of this state of affairs could bring either rivalry over access to oil from the main oil producing countries, such as Saudi Arabia, Iran and Iraq, or co-operation in seeking the necessary political stability to allow more investments in oil production, notably in Iraq and Iran, where there has been serious under-investment for a long period of time.

I quickly discovered, when visiting China in February-March 2005, that there was now a widespread awareness of the above facts, and that people had been actively discussing the strategic consequences.

How can China tackle its dependence on imported oil? All of the following measures have been discussed and tried out, but still the imports of oil on the open market have continued to grow exponentially:

- Improve energy efficiency (produce more with less oil). This already has a high priority, and it is difficult to conceive of any reform programme more worthy of international support.
- Diversify the energy consumption by continuing to develop (cleaner) coal, boost the use and domestic production of natural gas, develop nuclear power, and hydropower. Much is done in these domains, but the coal use remains highly polluting, and although the four clean sources of energy are becoming increasingly important, their importance is rising from a low level, and still represent just a fraction of the general energy consumption, which is dominated by coal and oil. And most means of transportation require oil. It may be assumed that natural gas and nuclear power are going to take over much of coal's share in heating and electricity production in the next couple of decades, but in the transportation sector, there is not so far any viable alternative to oil.
- Develop research on alternative fuels for transportation. This is a strongly shared interest of China and the USA, if they look ahead, but runs contrary to the interests of the oil companies (in both countries). The idea of launching a massive joint Sino-American technological initiative in this domain has been discussed.
- Institute a stable maritime security regime in the world oceans, secure sea lines of communication, fight piracy, and respect the regulations in the United Nations Convention on the Law of the Sea to safeguard the free passage of ships through all straits and sea areas. Singapore has taken a lead in seeking to establish such a regime in East Asia, with active Chinese co-operation. The Chinese Navy realises that it is utterly unrealistic for it to be able to secure the provision of oil to China on its own.
- Contribute, as mentioned above, to stabilizing the Middle East sufficiently to guarantee the free flow of oil from that region to the world market. Preferable achieve



sufficient stability in Iraq, and improvement of Iran's relations with the outside world, to allow for oil production investments by Chinese oil companies (either through privileged contact or through competition with international oil companies).

- Intensify the exploration for oil domestically, both onshore and offshore. (Attempts are certainly made, but with no major discoveries in the last few years.)
- Spread imports to make sure oil is bought from many different countries. The semi-official Chinese oil companies have been very active in this domain, making long-term deals with oil-producing states in Central Asia, with Russia, Indonesia, Iran and also with African and Latin American countries such as Sudan and Venezuela. A very expensive pipeline is built from Central Asia to China's northern region, and there are big plans for pipelines from oil and gas sources in Siberia to China (although the largest of these projects has suffered from a Sino-Japanese rivalry). These measures will somewhat reduce the Chinese dependence on importing oil at world market prices. Perhaps such measures could reduce China's dependence on world market imports to about 1/3 of its consumption, but not probably more.
- Build strategic reserves. It has not been possible to find out to what extent this has been done, but it is confirmed that it is being done. This may have contributed to the fact that China's import of oil has increased at a substantially higher pace than the overall economic growth, even at a time when the oil prices have been very high.

In comparison with what could be heard and read 6-7 years ago, it is quite notable to what extent Chinese analysts have realised the futility of trying to build a 'blue-water navy' that can ensure China's provision of raw material. Such security can only be obtained through co-operation with other nations. Thus it is my impression that China's need for energy security also contributes to China's posture as a 'good neighbour' for other Asian countries, and as a constructive would-be partner for the United States.

The problem of course is that this could change dramatically were something really dangerous to happen in Taiwan, in Korea, or in the Sino-Japanese relationship. It is also conceivable that trade wars over textiles and other Chinese export goods could deteriorate the international climate so much that this would also spill over into the energy sector, and eliminate the sense of shared interests. If the world should again see a serious deterioration of international relations, with a growing risk of armed confrontations, then the oil weapon would most likely be used. There would then be a general scramble for oil, and in a period of acute crisis, the US

and other naval powers might start thinking of the blockade weapon, just as it did in the run up to the Pacific War 1941-45.

To prevent such a negative scenario, it would be wise for the international community to assist China in realizing some of the counter-strategies mentioned above, and instil confidence in China that other countries will continue to promote and protect the free flow of oil.

The 'Good China' will remain an oil-importing China for the foreseeable future. This means that, as long as it remains able to export goods to the world's main markets, it will seek to promote a global world order, and also a stable Middle East.