



Asia Briefing



Great powers and oil: old game new players

As China reaches out to the wealthy oil reserves of Iraq, it is again taking serious risks to fulfil its energy needs. Low profits and the persistent risk of instability show how desperate emerging markets are to get access to oil. Despite the prospect of a green revolution, this new quest for oil will continue to have a large impact on the outlook of international politics.

While the American troops in Iraq are at pains to curb another lethal wave of roadside bombs and insurgent attacks, Chinese investors are making headway in getting their chunk of Iraq's energy reserves. China National Petrol Corporation (CNPC) hammered out the first important concession for exploiting of the vast Rumaila oil field in a joint venture with the British BP. Sinopec, another Chinese energy giant, obtained a contract for drilling oil in Ahdab in southeastern Iraq. Whether these multi-billion deals will be rewarding, remains to be seen. Oil facilities remain a dreamed target for rebels and thanks to the Iraqi government's negotiation skills profit margins will be low.

Ventures like these in Iraq demonstrate both the determinateness and desperateness of the Chinese government in meeting the nation's soaring energy demand. Beijing thinks that it is now the time to invest abroad. Oil prices are low and many Western competitors have turned away from risky trouble spots. Sure, local governments often force Chinese state-owned enterprises to work with companies from other countries or to sell their output to the international market instead of shipping it directly to China. But Beijing assumes that any additional concession will strengthen its international bargaining position. It also assumes that showing its benevolence to local elites could raise political goodwill and facilitate negotiations in the future.

Long-term strategic thinking is thus one of the key drivers of China's oil diplomacy, but Beijing also needs quick results. Each barrel matters for a country that expects its oil demand to grow by an annual average of 4.5 percent. The People's

Republic understands that it will have to boost clean energy alternatives and to make its economic growth more efficient. It is funnelling billions of dollars in green energy projects. This does not prevent China from becoming more dependent on imported oil. The Ministry of Land and Resources calculated that China's reliance on imported oil would increase from about 45 percent today to 60 percent in 2020.

Clean energy technologies can mitigate the new scramble for oil a bit, but they will not become a game changer. Also in this century, great power politics will to a large extent be pursued around the oil fields of the Middle East or the geological treasures of Africa. China is not the only pretender with aggressive oil diplomacy. India is entering the scene as its main competitor. This juggernaut still needs to start its industrialization and is already depending for 70 percent of its oil needs on imports.



Fuelling conflict

By combining its huge financial leverage with effective diplomacy, China will cause a tough time for its competitors. India in particular knows that it will be difficult to catch up with its neighbour and is therefore even more inclined to play the political card. Unable to outbid Chinese companies, it is cajoling with problem states across Asia and Africa. In Burma India has stepped up its support to the military junta in an effort to curb China's influence in the energy and mining sector. In oil-rich Sudan,

it has made use of Western pressure on Beijing to develop closer linkages with the thuggish government of Omar al Bashir. In Iran, it is trying to get hold of gas and oil, despite strong American concerns. Other powers are also likely to slip into such tit-for-tat games. Autocratic regimes across the world should thus not fear that they run out of cash soon. Declining commodity rates have caused some apprehension, but prices will increase again in the near future, as will the interest from their foreign customers.

The recent deteriorating situation in Iran, Burma, and Sudan shows what the consequences of mercantilist power plays can be. Beijing and Delhi do understand the dangers of backing dictatorships, but are not willing to adapt their policies, lest another will benefit. If one of these

regimes would collapse in the next decade or so, it remains to be seen whether China and India will then stick to their paradigm of non-interference. After all, would it not be the plight of a great nation to protect its citizens or economic assets abroad? Growing diplomatic assertiveness and modernizing military power might lower the threshold for intervening, and it's far from certain whether it will be under a U.N. banner.

There is still a great deal of suspicion in international energy politics, and none of the new major powers like India and China believe that an unpredictable international energy market serves its interests. A retake of the scramble for resources that took place between the Western powers in the past century looks more and more likely. It will be the same old game, with other protagonists.

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