Foreign policy

The burden of "non-interference"

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"Non-interference" in the domestic affairs of other countries has long been one of the five sacred pillars of Chinese foreign policy. That doctrine was developed in the 1950s when China followed a policy of economic autarky. But it is proving to be a burden as China's fast-growing economy – and the consequent need for energy, resources, and markets – forces Beijing to engage more deeply with supplier and customer countries. In private, Chinese foreign policy specialists acknowledge that non-interference is no longer practical, tenable, or in line with Chinese national interests. Deciding how to replace the passive non-interference doctrine with a more activist – yet not overly aggressive – core principle is a major challenge for Chinese foreign policy makers today.*

The Farrow threat

The cost in credibility that China pays for its ties with governments in Africa, especially that of Sudan's President Omar al-Bahir, has been the focus of discussions in the Chinese foreign policy establishment in recent months. These debates have been spurred on, not just by continuous criticism from Western politicians and human-rights organizations, but also by several unforeseen events in the first half of 2007 – including the kidnapping of 16 Chinese oil workers in Nigeria, the slaying by rebels of nine Chinese oil workers in Ethiopia, and the threat by Hollywood actress and UN Goodwill Ambassador Mia Farrow and her son Ronan to launch a worldwide campaign against the Beijing Summer Olympics due to Chinese activities in Sudan.

Energy diplomacy? Not quite

The goal of any country's foreign policy is to enhance national interests. In China's case this includes ensuring support for the "One China Policy" regarding Taiwan, deterring the United States from constraining China's rise, and supporting China's economic growth by securing export markets and securing supplies of energy and natural resources. Formulating foreign policy to reflect all these objectives is often not possible. While the heightened activism of Chinese companies and diplomats in Africa is deemed economically necessary by Beijing's leaders, it also casts a cloud over their efforts to convince the world that China's rise will not disrupt the present international order. Moreover, Chinese actions in many developing countries, especially those with grave human rights abuses, undermine the Beijing leadership's pursuit of a "harmonious world," which encompasses the principle of mutual non-interference. To ensure its own strategic interests, China will increasingly find it necessary to influence domestic policies of the countries in which it has economic interests.

Not surprisingly, oil lies at the heart of any discussion about China's economic power and its consequences. Researchers both inside and outside China disagree on whether Chinese national oil companies' international activities have been driven mainly by

*Mutual non-interference is one of the Five Principles of Peaceful Coexistence enunciated in the 1950s. The others are mutual respect for sovereignty and territorial integrity, mutual non-aggression, equality and mutual benefit, and peaceful coexistence.

commercial motives, or if the companies have been acting as agents of government policy. There is evidence on both sides. The drivers of China's "energy diplomacy" are complex, and not necessarily all that different from those in developed countries. For example, business delegations the world over follow political leaders on state visits in the hope of benefiting from the congenial atmosphere created when governments pursue better ties. The flurry of diplomatic activities and top-level visits by Chinese leaders in recent years on the African, South American, and Asian continents is just one element of China's global outreach.

Chinese foreign economic policies are devised and implemented by a diverse group of actors including central government ministries and local governments, state-owned enterprises and "even to some extent the foreign-invested enterprises that account for 60 percent of Chinese exports."* Every actor tries to further his own personal or institutional interests, breeding rivalry and mistrust. State-run enterprises are increasingly concerned with profitability, but at the same time their directors must maintain good ties to high-ranking officials in order to operate effectively. Rather than following explicit government directives, they are more likely to use government policies to justify decisions they would like to make for commercial reasons. The wording of most government edicts is so evasive that it is usually possible to find a clause validating any sort of action. In sum, the notion of coordinated Chinese government energy diplomacy is a stretch.

The latecomer syndrome

Lack of choices

Chinese oil company and government representatives defend their actions in countries with despotic governments by pointing out that China is a latecomer on the global oil scene. Therefore, Chinese companies have no choice but to seek oil in places that Western firms have shunned because profits are too low or risks too high.

Yet the consternation over Chinese oil investments rests on a misunderstanding of national energy security. Both Chinese and Western politicians mistakenly regard Chinese companies' overseas oil equities as a way to enhance China's energy supply security. Ownership of oil at the well-head is lucrative for oil companies, but its contribution to national supply security is minimal – for reasons related to transportation and the suitability of different oil grades to a country's refining capabilities. For example, a large share of the oil pumped from the China National Petroleum Company (CNPC) sites in Sudan does not end up in China but is sold on the world market – in part because many of China's refineries cannot handle Sudan's highly acidic crude (see "Sudan oil: where does it go?"). China continues to rely mainly on world markets for oil: its national oil companies' total equity oil production overseas accounts for just 15 percent of China's oil imports.**

The relationship between China and Sudan – with its economic, political and military dimensions – illuminates many of the contradictions facing Chinese foreign policy makers as China's involvement in the developing world escalates. On the one hand,

*Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*. Washington, DC: Institute of Strategic Studies, National Defense University, Occasional Paper no. 4, October 2006, page 26. The paper provides a thorough overview of China's global challenges and their implications for the US.

**See Kenneth Lieberthal and Mikkal Herberg, "China's Search for Energy Security: Implications for U.S. Policy." NBR Analysis, Volume 17, Number 1 (April 2006), http://www.nbr.org/publications/Issue.aspx?ID=93a9dcaa-b9d5-4601-ac32-93f702696db5.

China strives to adopt policies that improve its international image and are consistent with international norms. On the other hand, it pursues self-interested goals as a result of to its growing economic, political and military might.*

Commercially, CNPC's Sudan operation represents the greatest success of China's overseas oil activities. As a result of CNPC's explorations, said to have been carried out based on evaluations done by a single Chinese geologist, Sudan went from being a net importer to net exporter of oil in a few years. CNPC is not going to abandon this very lucrative operation unless its government forces it to (as Western governments have forced their oil companies to abandon drilling rights in Myanmar). At present Beijing's leadership has neither the motivation nor the political will to do so.**

From the beginning, CNPC and government officials recognized some of the political risks of the Sudan investment, despite many claims to the contrary. When PetroChina was established as CNPC's internationally listed subsidiary, in 1999, CNPC's overseas investments were excluded from its portfolio, precisely to avoid forcing international shareholders to confront politically sensitive operations. Even when PetroChina acquired a 50 percent stake in the parent company's overseas investments through the subsidiary NEWCO in 2005, the Sudan operations were excluded.***

Arms sales to Sudan

Internationally, China has lost considerable credibility because of the intertwining of its commercial interests with its political and military support for the al-Bahir regime. Western governments, which have pressed for UN Security Council sanctions against the Sudanese government because of its policies in Darfur, object to Beijing hiding behind its non-interference principle to obstruct those sanctions. In May 2007 China's image was tarnished further when Amnesty International published a report detailing China's (and Russia's) weapon sales to the Sudanese government for use in Darfur – sales which occurred despite Beijing's and Moscow's endorsement of a 2005 Security Council arms embargo on Darfur. China's April 2007 pledge to strengthen cooperation with the Sudanese armed forces contradicts Beijing's assertion that it strives for a more harmonious world.

Unexpected risks

Discussions in recent months with foreign policy specialists in Beijing suggest that those responsible for China's foreign policy strategy are scrambling to come to grips with the increased activities of a diverse group of Chinese actors in the international arena. In private, some foreign ministry officials opine that while their behind-the-scenes diplomatic efforts to resolve the Sudan crisis have started to receive public praise (by British Foreign Secretary Margaret Beckett and US Sudan envoy Andrew Natsios, among others), the attempts by Chinese diplomats to redeem China's reputation is impossible so long as Sino-Sudan military cooperation continues.

Beijing officials clearly underestimated the political risk posed by the Darfur atrocities. Mia and Roman Farrow's accusation in an opinion piece in the *Wall Street Journal* (28

*Bates Gill, *Rising Star: China's New Security Diplomacy*, Brookings, 2007, page 2.

**For more detail on China's oil explorations in Sudan, see Linda Jakobson and Daojiong Zha, "China and the Worldwide Search for Oil Security," *Asia Pacific Review*, vol.13, no. 2, 2006, pages 64-71.

***Interview with China oil industry analyst, 7 May 2007. For a news item on PetroChina's purchase of 50 percent of Newco, a subsidiary of CNPC, giving PetroChina access to some but not all of CNPC's overseas investments: http://english.people.com.cn/200506/10/eng20050610_189675.html.

March 2007) that China will host a "genocide Olympics" unless it changes its policies toward Sudan came as a shock, according to one official of the Beijing Olympic Committee. Despite predictable condemnation from Beijing, the article may have had some impact. The questions that the Farrows posed regarding film director Steven Spielberg's participation in the planning of Beijing Olympics' opening ceremonies allegedly resulted in Spielberg's decision to write a personal letter to President Hu Jintao, asking him to use his influence to bring an end to the human suffering in Darfur. Whether by coincidence or not, a week later Deputy Foreign Minister Zhai Jun became the first high-ranking Chinese official to tour refugee camps in Darfur.

New security risks

Similarly, officials were unprepared for the kidnapping and killing of Chinese oil workers by rebels in Nigeria and Ethiopia. China's economic and political rise has occurred with such speed that its foreign policy establishment is ill equipped, both in expertise and mind-set, to deal with new types of security threats. When an official working on African issues at the Ministry of Foreign Affairs wondered out loud why anyone would want to harm citizens of a peace-loving people like the Chinese, he was not just repeating official policy. He also echoed a view that is common among even informed Chinese, who still think of their country as the poor underdog among the ranks of non-aligned developing nations, trying to fend off more rich and powerful nations.

Vacuum waiting to be filled

In private conversations, some Chinese foreign policy officials concede that massive investments by Chinese companies in developing countries' basic industries, and government pledges of foreign aid without political strings attached, do amount to interference – or at least substantial involvement – in another country's internal affairs. But they cannot express themselves publicly as long as leaders repeat the mantra of the Five Principles of Peaceful Co-existence, as Premier Wen Jiabao did at the National People's Congress this year. Despite maintaining this diplomatic fiction, Beijing's foreign policy makers have modified their stance toward mutual non-interference over the past decade. China's active participation in UN peace-keeping operations reflects one evolving approach to non-interference. Another example is its acceptance of partial sanctions against North Korea after Pyongyang conducted a nuclear test in October 2006. Several Chinese foreign policy analysts in Beijing acknowledge in private conversations that in the long run the principle of non-interference is untenable.

China has a prime opportunity to chart out its own roadmap for assuming global responsibility. The US's poor global reputation due to its policies on Iraq and the war on terrorism has left a vacuum. There is no doubt that authoritarian governments in Asia, Africa, Latin America and the Middle East would rather deal with China that promises aid with no political strings attached than with international aid organizations and Western governments that demand proof of uncorrupt practices and accountability as well as respect for human rights. At the same time, Beijing's leaders have to recognize that the citizens of developing nations will not look favorably upon a country that is becoming just one more exploitative outside power pursuing its selfish national interests. Some of these developing nations have political systems that are more open than China's, which could inspire local opposition to China's activities. In the long-term, China can hardly want to be thought of as champion of the despots.

Beijing must also acknowledge that what it does *not* do matters as much as what it *does* do. China interferes in the affairs of the countries it trades with and invests in, quite dramatically in some cases, due to the sheer size and growth rate of its economy. A policy of non-interference is not a credible policy for a nation that wants to be respected as a responsible global power.

Sudan oil: where does it go?

By Arthur Kroeber and G.A. Donovan

China catches a lot of flak for its role in the Sudanese petroleum industry. There is much to criticize in Beijing's behavior in Sudan, and of course China differs from other beneficiaries of Sudanese oil in having a permanent seat on the UN Security Council – and thus the ability to veto UN action in Darfur. But both Malaysia and India own equity in Sudan oil projects, and the biggest single consumer of Sudanese oil in 2006 was Japan.

Another key question is whether the investment by the China National Petroleum Corp. (CNPC) in Sudan is governed more by political or by commercial considerations. If it were the case that all of the oil pumped by CNPC went straight to China, that would suggest that the investment was mainly political/strategic in nature. Yet evidence indicates CNPC's commercial interests play a large role.

Oil makes up nearly all of Sudan's exports. Statistics vary, but the US Department of Energy reports that Sudan pumped 20.7m tons in 2006, or 414,000 barrels a day (bpd). Of this figure only 94,000 bpd was domestically consumed – mostly by the Khartoum refinery. There are two main production areas: the north, which produces the light sweet Nile Blend for which there are many customers; and the southern Dar region, whose highly acidic Dar blend is difficult for many refineries to handle and sells at a steep discount (as much as US$35) to Brent crude prices.

CNPC has a 40 percent equity stake in the established Nile field in the north; the other partners are Malaysia's Petronas (30 percent), India's ONGC (25 percent) and Sudapet, the Sudanese national petroleum company (5 percent). In the Dar field, which started pumping in fall 2006, CNPC has a 41 percent stake; other partners are Petronas (40 percent), Sudapet (8 percent), Sinopec (6 percent), and the UAE's Al-Thani (5 percent). CNPC also has a 95 percent share of a separate block that directly supplies the Khartoum refinery. All told, CNPC's equity share of Sudanese oil production in 2006 was around 45 percent.

Japan takes up the slack

Table 1 estimates CNPC's total production in Sudan, and shows China's imports of Sudanese oil as a percentage of total Sudanese production and as a share of CNPC's production in Sudan. It shows a steady decline in the proportion of Sudanese oil going to China. In 2006, total Chinese imports from Sudan were just over half of CNPC's production, so nearly half of CNPC's Sudanese oil must go elsewhere.

The biggest somewhere else is probably Japan, whose imports from Sudan rose 36 percent in 2006 to 6.3m tons, making it the nation's single biggest customer. The rise in its purchases (1.7m tons) almost exactly offset the decline in Chinese purchases (1.8m tons).

Table 1
Sudan oil production and exports to China

	2002	2003	2004	2005	2006
Sudan oil production, m tons	11.5	12.6	16.1	18.7	20.7
CNPC's share (estimated), m tons	4.6	5.0	6.8	8.2	9.3
China's imports from Sudan, m tons	6.4	6.3	5.8	6.6	4.8
China's imports, share of Sudan's production, %	39	50	36	35	23
China's imports, share of CNPC production, %	139	124	85	80	52

Source: *BP Statistical Review of World Energy*, China Customs 1m tons a year = 20,000 barrels a day