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Amineh, M.P.; Guang, Y.

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CHAPTER 1

Energy and Geopolitical Economy in China: Theory and Concepts

Mehdi P. Amineh and Yang Guang

Introduction

China's transition to an urban-industrial society relies predominantly on its abundant domestic coal supplies and, secondly, on an increase in oil and gas imports. For this reason, China's strategic investments in the oil and gas industries of resource-rich, energy-exporting countries have vastly increased. Given the high levels of import-dependency, the domestic power-wealth structures in China rely on interrupted supplies from beyond state borders. In their serach for supply security, major import-dependent actors have two options. One is to reduce dependency by, for instance, higher energy efficiency. Another option is to increase the security of energy imports. This requires improving supply security from resource-rich oil- and gas-exporting countries and regions. The significant growth in the overseas assets and activities of China's state-led National Oil Companies (NOCs) are crucial to China's energy supply security. In this study we argue that the cross-border activities of Chinese NOCs are part of the country's so-called 'statist', state-led economic globalization, in the course of which some developing economies have become global political economies powers.

In this section we outline the approach and the conceptual foundations that ***underlie*** this volume including:

[a] Our unit of analysis in the Political Economy of Energy,
[b] Sequential industrialization and its global impacts,
[c] Fossil fuel security and scarcity,
[d] China's power structure, state leadership, and industrialization,
[e] Industrialization, lateral pressure, the geopolitical economy and China's external relations
[f] National oil companies: changing the game

[a] Our unit of analysis in the Political Economy of Energy

Schools of thought in International Relations (IR) and International Political Economy (IPE) differ about what they take to be the unit of analysis and

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the level at which that unit is to be studied. In this work, we study two basic units of analysis in International Relations (IR) and International Political Economy (IPE). The first is the state-connected society/market complexes of self-identifying, state-organized groups that are in continuous interaction with each other at the inter-state and inter-societal levels. The outcomes of the interactions between these entities are studied as system level change. System level change impacts on the units of analysis.

In the industrial age, at their core, state-society complexes are state-made institutions that connect and regulate markets at home and abroad. Domestic state-market relations are part of the growth-promoting or growth-restraining institutions in societies. Self-identifying, state-organized groups of humans subsist on and interact with each other in the natural and mineral resource systems in their reach of mobility. It is here that the variables "space" and "control over space" enter the picture. At the international level, state-made institutions reflect the order-building and rule-setting capacity of a hegemonic state. In the current "post-hegemonic" system, contending major powers are pushing for changes in the self-made rules of the hegemonic state, as far as these are seen to interfere with domestic arrangements and international and global objectives. In the current state of the global system, we find power transitions in the top of the world's wealth-power structure and ensuing conflict between these states about the rules of interaction in the global political economy.

Some (western) scholars tend to make a distinction between two modern *ideal types* of state-society-(market) complexes in IR and IPE. In this context, a 'liberal state-society-complex' and an authoritarian or centralized, contender 'state-society-complex' are commonly defined. The term 'contender' state is used to refer to the major states that challenge hegemonic, liberal states. Examples of these are Germany, Japan, and Italy, that challenged British hegemony in the nineteenth century. Another example is the USSR, that challenged American hegemony in the twentieth century. Currently, the People's Republic of China (and to a certain extent Russia) can be considered to be a state contending US-hegemony) or a contender state. Contender states try to introduce an alternative social order at the global level. During its catch-up trajectory, China's foreign policy role-concept has evolved from being a contender state, external to the Pax America, to an engine of its transformation through forces exerted from within the global economy (see Amineh & Houweling 2010: 215–272).

These ideal types of state-society-complexes should not be conceived as polar opposites. The centralized state-society complex is characterized by the *relative* differentiation between those governing and those ruling, who are in theory separated in the liberal state-society-complex. In centralized state-society

complexes, civil society, based on social classes and forces, especially a business class, is non-existent, underdeveloped, or too weak to act independently of state power. Therefore, these forces are incorporated into the centralized system of governance. In late-industrialized economies, political leaders tend to have greater control over the executive, legislative, and judicial branches of government. In China (and some other newly industrializing Asian economies such as the Tigers in 1970s and 1980, and India), in the absence of nation-wide social forces, the leadership proved to be capable of transforming economic backwardness by a catch-up development strategy. In some other centralized states such as such Turkey, Iran, Brazil, and South Africa, state leadership has only been capable of modifying development and capital accumulation at the national level. In other words, in theory and in practice such state types articulate: (a) a development strategy from above (e.g. a developmental state); (b) a revolutionary ideology to mobilize domestic human and material forces, directed toward catch-up industrialization, that has so far proven to be a condition of independence, even of survival; (c) a foreign policy that claimings or reclaims territorial sovereignty and ultimately legally based on their industrial and military capacity to defend against foreign intrusion. However, even the most centralized (authoritarian) states are characterized by infighting between rival factions and their interests in the political economy. In a nutshell, it can be said that, in liberal state-society complexes, business interests are dominant inputs in the policy-making process, reflected in the "revolving between state and class". In this type of system, the leadership tends to be able to overrule demands of civil society groups. Conversley, in the centralized state-society complex, the sovereign state, rather than the self-regulating market with its strong capitalist class and middle-income groups, determines the long-term, strategic orientation of society. In these systems, domestic social actors face stiff constraints on their capacity to articulate their interests in the transnational space that is still dominated today by advanced capitalist industrial actors. In state-led developmental states, of which China is currently the best-known example, state-indicative planning impacts on, among others, the following economic factors: savings rates, sectoral investment priorities, labor mobilization, the dominant mode of intra-company labor control, and the relationship between wage increases and growth in productivity[1]

1 Since the onset of the reform era in late 1978, China's centralized system has been able to lift hundreds of millions of people out dire poverty. The provision of basic human need for water, food, housing, and fuel for such a large number of people in a very a short period is without precedent in the history of industrialization. Centralized systems, as in China,

(see Elsenhans 1984; Senghaas 1985; Cox 1987; Van der Pijl 1998; Amineh 1999; Underhill 2003; Amineh & Houweling 2003; 2005).

In the relationship between state and corporations (e.g. oil corporations) in the liberal state-society complex, privately owned corporations are able, to a certain extent, to operate independently of the state.[2] In centralized states and societies, energy companies are often directed by the state, or some kind of state-owned-enterprises (SOE). However, as these companies move beyond borders, as is the case of Chinese SOEs, the state—to some extent—loses its monopoly to direct the behavior of SOEs.

Leaders of centralized contender states are having to deal with the existing global order that has been created without their being extensively involved in it. Consequently, contender states challenge the liberal global order in multiple ways. Firstly, by participating in global level transactions under domestic arrangements that are in some respects at odds with liberal prescriptions. Secondly, efforts are made to bring the global-level arrangements more in line with their domestic wealth-power structure. However, the more advanced states, by which they were overrun in the past, find it difficult to accept the newcomers. In the not too distant past, major powers created a state of dependency in these societies by trade, including that in opiates and investments in primary commodity sectors. Recently, strong, centralized regimes in Northeast Asia have demonstrated their ability to resist pressure pushing them toward marginalization by a centralization of power and have displayed a state-led development strategy whose goal is the domestic creation of a modern industrial economy and giant companies that have subsequently been expanded beyond state borders by Foreign Direct Investment (FDI). The success of this strategy was partly based on the creation of national champions in leading sectors of industry. These originated in the capability of the centralized powers to avoid perfect competition in the primary commodities sectors by their imposition of a world price notation and a low-income and low-price elasticity of demand. The capacity of government agencies to intervene in the market and to mobilize and govern human and material resources, to accumulate savings and allocate credit, and to expand modern industrial development directly and indirectly. Following Japan the East Asian Newly Industrializing economies manage to initiate sustained economic and income growth by their rapid moves through the product-cycle. Economies such as Japan, and since the

broaden people's choices through economic success, but liberal systems can narrow choices by raising unemployment and by concentrating income and wealth in fewer hands.

2 However, the privatization of energy companies in the Atlantic part of the global system is rather recent.

1960s South Korea, Taiwan, and Hong Kong, are able to manufacture branded consumer products for the world market under financial conditions that render innovation possible (see, Gerschenkron 1968; Senghaas 1985; Fieldhouse: 1999; Chang 2003).[3] The People's Republic of China (and to a certain extent India) is now treading the same path. However, with the exception of the military-industrial sector, successful efforts to cut dependency links and realize catch-up and/or reactive industrialization *from above* have been rare in the history of sequential industrialization (see also Moore 1966; Berg 1979; Chang 2002; Nolan 2001; Sen 1989).[4]

Actors who operate in state-society complexes engage in cross-border activities to gain access, by whatever means, to resources and markets beyond their state borders. Cross-border activity connects domestic society and its institutions to the external world. Power projectors operate on spatial representations of the external world and on their own position in it. We have conceived of the study of the spatio-temporal aspects of action beyond legally or otherwise recognized borders by actors who manage state-society complexes as "power projection" (see Amineh & Houweling, 2003; 2005; 2010; Amineh & Yang 2014). The dimensions of control sought by states and other actors engaging in cross-border activities are mediated by the timing of power projection, by the actors in target locations, and by the situations in the societies that the power projector is striving to bring under its control or influence. The objectives of power projectors are inferred from the timing and spacing of their activities, from the resources being allocated to these, and from the target actor or the external situation they are seeking to bring under their control (see for detail below Sections b, e, f, g, and h).

[b] Sequential industrialization and its global impacts

Sequential industrialization refers to a series of interrelated and comprehensive social processes of change and upheavals in state, economy, and in the global system (see Shin 1996; Houweling 2000; Amineh and Houweling 2005;

3 Ha-Joon Chang (ed.), (2003). Rethinking development economics. London: Anthem Press; see for the role of the state in China, Nolan (2001). China and the Global Economy: national champions, industrial policy and the big business revolution. New York: Palgrave.; Berg, I. (1979), Industrial Sociology. Englewood Cliffs: Prentice Hall.

4 In the sequence of industrialization, the way a society moves from agriculture to industry affects how it can succeed in closing the productivity-power gap. First-comers have invariably changed the opportunities for late-industrializing countries. See Shin (1996) for differences in the industrialization strategies of early and late adopters: The economics of the latecomers. Catching-up, technology transfer and institutions in Germany, Japan and South Korea. London: Routledge 1996.

Amineh 2007; Moore 1966; Senghaas 1985; Chang 2002). It also refers to the sequence in time in which some strong-states succeeded transitioning to industrially-based politics, society, and economy.[5]

To resist marginalization and exclusion from the world economy, the leadership (see below) of a number of states has therefore succeeded in engineering an autonomous "catch-up" development process, through state-led industrial development from above. This is an aspect of what Antonio Gramsci (1971) calls a "passive revolution",[6] the development of mimetic political and economic structures in subordinated portions of the world. The consequence of a fragmented society is an amalgamation of social and political powers within the embrace of political elites. Although the leadership might have powerful forces on its side, it has to deal with the conflict between traditionalist and modernist forces in the society itself. Where dependence has prevailed, modern social forces are not strong enough to act independently of the state.

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5 Under capitalist industrialization, considered an 'ideal type' in Weber's sense (see Collins 1986), goods and services for daily human needs are produced and circulated by profit-seeking private entrepreneurs. They own the productive resources, land, buildings, and machinery, as private property and unite these assets with raw materials and hired labor, under the dominating perspective of profit-making through production and sale to anonymous customers. Consequently, people have lost access to the means of subsistence. Labor and the owners of capital are exposed to the economic compulsion of capital accumulation and market-share competition. The political institutions of industrial capitalism can be categorized into two groups: state organizations, including the hegemony of state-law, and the global system. In an ideal typically state-led industrialization, the state takes the lead in the transition to industry. However, ideal types and models of a social system do not reveal how real existing systems were put in place, acquired dominance, were kept in position, or lost. In both models of economic systems under which a transition to industry can be set up, peasant-household subsistence farmers are subjected to some regime of surplus extraction for investment in urban industry. The difference between these models is in the social mechanism of their implementation. In ideal-type, market-driven transitions, rational economic actors responding to market pressures do the work. In industrialization from above, one finds a combination of market pressures released by the state on to a peasant society and government planning. In each real existing system approximating one of these models, the transition did have hugely destabilizing consequences (see Henk Houweling 1996, 'Destabilizing consequences of sequential development', in De Goor, L. Rupesinghe, K. and Sciarone, P. (eds). *Between development and destruction. An Enquiry into causes of conflicts and post-colonial states*. London: Macmillan, 143–169).

6 According to Gramsci, passive revolution refers to sets of situations: a revolution without mass participations. This type of revolution often follows a "war of movement" or a rapid overthrow of a regime, leading to a conservative restoration instead revolution from below.

[c] Fossil fuel security and scarcity

Economists might consider fossil fuels a commodity traded on world markets. In this case, the pollution and climate change induced by it are market failures, in which governments have refused to intervene. However, we consider fossil energy a strategic commodity in the political economy. Getting access to resources abroad bridges states, corporations, markets, households, and, last but not least, nature. Because fossil fuels are still the dominant energy source, states are concerned about their continued availability, and therefore develop strategies for energy security. Consequently, fossil energy is not just a commodity traded in world markets. Its implications are far wider. Firstly, reserves are limited. Secondly, as a mineral, fossil resources in the ground cannot be duplicated at will. Thirdly, the flow can be disrupted, paralyzing states, urban households, and enterprises. Above all, under modern conditions, food production and transport rely on energy. The definition of the concept of 'energy security' therefore ranges from such narrow issues as preventing disruptions to the physical supply, to the economic, environmental, and political consequences caused by changes in the energy market. In this study, energy security is defined as the availability of energy in various forms, in sufficient quantities, and at reasonable and/or affordable prices at all times, without unacceptable or irreversible impacts on the environment (Yergin 1988; UNDP 2004). Energy security can be threatened by different types of scarcity that can be affected by different types of forces (Amineh and Houweling 2003; 2005a; 2007). These forces provide the context for the energy policy objectives of advanced and emerging economies such as the United States, the European Union, Japan, China, and India.

The pressure on policy makers to secure access to energy supplies increases when local stocks decline as population and incomes increase. Given the finite stocks, the combination of increasing oil and gas consumption therefore creates a global and regional setting for key energy consumer-countries and regions such as China, India, Japan, and the European Union. In any discussion about energy scarcity, we distinguish between demand-induced, supply-induced, and structural scarcity, that can exist alongside each other. These types of scarcity are indicated by geopolitical and geo-economic rivalry between major consumer countries, and tends to outpace their cooperation. We shall discuss these three types of scarcity below.

The concept of a fixed stock of minerals in the ground that is gradually being exhausted by extraction is too simple. The quantities of minerals in the ground are unknown. The size of known reserves at a particular time depends on the technology of extraction and the cost of extraction relative to the market price of the refined product. These factors refer to the supply-side of

energy. "Demand-induced scarcity" is caused by three main factors. The first is population growth in consumer countries. The second is the rising per capita income in advanced industrialized economies and regions in late industrializing economies, particularly in South and East Asia (mainly China and India), in which the bulk of the world population lives. Another factor that needs to be taken into account in any consideration of scarcity is the price of substitutes. Hence, demand-induced scarcity varies for different groups at different levels of per capita income. Those who cannot afford market prices find themselves excluded without any actor deciding to exclude them. Owing to the lopsided distribution of societies, determined by their level of industrial development and per capita income, demand-induced scarcity will enter the lives of high-income societies last. These are the countries that industrialized first when energy was cheap. The history of technological change, predominantly since the nineteenth century, has made access to fossil energy more, not less, important to the production of wealth and power. The abovementioned process of the sequential industrialization of human groups raises energy demand. Since their emergence, industrialized states and societies have specialized in becoming dependent on energy from fossil fuels in order to preserve their wealth and power structures. Without energy, other resources cannot be mobilized or used. Technological innovation, governance, and households depend on it.

In reality, demand- and supply-induced scarcity interact. Extraction costs, refining, and retail- plus-profit markups determine the price at which resources are offered, and the intersection of demand and supply determines consumer price. However, supply-induced scarcity should be studied in its own right. One reason for this is that the dwindling of reserves or the scarcity of stock are not steadily translated into gradual price increases by this price mechanism. Instead, as in other primary commodity markets, we see price swings. Supply-induced scarcity, or its anticipation, can be expected to provoke a process of competitive power projection by economically (as well as militarily) capable, import-dependent states and societies whose goal is to gain access to stocks or a territory in which stocks are located, either by strategic investment or force. As demonstrated by the Iraq War of 2003, domestic state strength and military capability determine the capacity of target countries either to ward off invasion or to suffer the humiliation of foreign troops hanging the head of state.

This brings us to the third type of scarcity, called "structural scarcity". Structural scarcity is supply-induced by the deliberate action of a major industrialized power, by producer-cartels such as the Organization of Petroleum Exporting Countries (OPEC), or by powerful, state-led National Oil Companies of resource-rich countries. A major power that manages to gain control of

conditions of stock-access for thirds has the option of inducing scarcity in them (Yergin, 1991; Bromley, 1991; Klare 2004).[7]

In the current global system, the US can opt to induce structural scarcity by interdicting the maritime transport of oil and gas. But this is an opiton available only after oil and gas have been brought to ports from the territory of extraction by ship. The US is effectively equipping itself to induce structural scarcity for the outsiders of its choosing by naval power.[8] Since the end of the Cold War, the US has extended its military border into the heart of resource-rich regions, most notably in Iraq, the Persian Gulf region, and to some extent the Caspian region through its Caspian Guards.[9] US fleet units patrol maritime choke points around the world (Amineh, 1999; Amineh & Houweling 2003; 2005; Klare 2004). In response, both India and China are expanding their maritime capabilities, and China is hedging its bets against the risk of being cut off by a naval blockade by creating overland routes to energy-rich Russia and the Caspian region.

Over the past century, there have been many instances of structurally induced scarcity. In the run-up to World War I, the British blocked Germany's Berlin to Baghdad Rail Project. After the war, the allies ejected Germany from Romanian oilfields. Between the world wars, Britain's Royal Air Force learned the art of bombing human settlements in the newly created oil-rich state

7 "Maritime security analysts say that one of the greatest Chinese fears is that oil deliveries could be threatened at a time of international tension or conflict." International Herald Tribune Wednesday, May 16, 2007.

8 Blair, the former commander of US Pacific Command, reminded Chinese leaders that "Today the US navy has no rivals in its capacity to impose and sustain [...] blockades." [...] "The US has employed and will in the future [likely] continue to use naval blockades when [deemed] necessary. For example, in the event of a conflict between China and Taiwan that draws in the US, the [latter] might legally declare a war zone along the southern coast of China and intercept shipping several hundred miles [out to] sea, causing major interruptions in the flow of oil and vital materials that the Chinese navy could little do to stop" as quoted in Dennis Blair and Kenneth Lieberthal. *Foreign Affairs*, May/ June 2007, pp. 11–12.

9 A 100 million$ program launched in 2003. One objective is to protect the BTC pipeline by positioning troops on oil rigs and keeping a listening ear on Iran. Compare Congressional Records Vol 151, October 7, (2205): 22747. At the IV Caspian Summit held in Astrakhan on September 29, 2014, the Caspian 5 agreed no longer to allow any foreign military presence in the Caspian region, and that all issues would be solved between littoral states only. However, this did not prevent Azerbaijan hosting the heads of navies of the United States and Korea in November 2015.

of Iraq.[10] During World War II, Nazi Germany competed with the British and Soviet Union respectively for influence in Iraq. Japan went to war with America to gain access to oil in the Dutch East Indies. The US put 'the noose' around Japan's neck in August 1941; on his return from a meeting with Churchill in Newfoundland, President Roosevelt realized the scale of the export ban and predicted the Japanese move on the Indies (see Lefebre 1997: 200). The 'geo-economic logic' is once again visible in the overthrow of the secular, democratically elected, aristocratic Premier Muhammad Mosaddeq of Iran.[11] He was punished for terminating the monopoly of an Anglo-Iranian Oil Company on Iranian oil in 1951 (Yergin, 1991; 1993; Amineh, 1999; Klare, 2002; Abrahamian, 2013). More recently, the Russo-Ukrainian gas crisis of 2009 provides an illustration of how state-led Gazprom induced structural scarcity in 18 European countries simply by shutting down the gas pumps. Over the past few decades, there have been many instances of structurally induced scarcity or of threats to interrupt supplies. In times of tension, from its position as the dominant naval power, the US reminds China of its vulnerability to supply disruptions.

The following section provides a survey of China's domestic power structure, state leadership, and state-led industrialization efforts.

[d] China's power structure, state leadership, and industrialization

As said earlier, China's power structure can be seen as a variant of the centralized state-society form. In this section, we explore what this centralized state-society form implies in the PRC. The Chinese Communist Party (CCP) is the primary political and governing force of China's political system. In the Party State, the CCP exercises significant control over all aspects of power and social relations. The indisputable position of the CCP is stressed in the PRC Constitution. The CCP was founded in 1921 by two Chinese left-wing intellectuals—Chen Duxiu and Li Dazhao—, as a study-society based on

10 See William Engdahl. A century of war: Anglo-American oil politics and the new world order. London. Pluto Press 1992.

11 Washington, D.C., August 19, 2013—Marking the sixtieth anniversary of the overthrow of Iranian Prime Minister Mohammad Mosaddeq, the National Security Archive posted recently declassified CIA documents on the United States' role in the controversial operation. American and British involvement in Mosaddeq's overthrow has long been public knowledge, but the recent posting includes what is believed to be the CIA's first formal acknowledgement that the agency helped to plan and execute the coup. See interesting research based on the classified CIA documents by Mark J. Gasiorowski *Mohammad Mosaddeq and the 1953 Coup in Iran*, and Malcolm Byrne, Syracuse University Press, May 1, 2004.

Marxist-Leninist ideology. In accord with this ideology, the CCP's original set-up was heavily influenced by the Soviet Union's Communist Party.[12]

After the Chinese revolution of 1949, the CCP was led by two influential leaders: Mao Zedong (1949–1976) and Deng Xiaoping (1978–1992). However, since the death of Deng Xiaoping in 1997, China has not had any form of supreme leadership and hence leadership in China has become *Collective Leadership*, exercised through the *Politburo Standing Committee* (PSC).[13] Theoretically, the *National People's Congress* (NPC) is China's supreme organ of state power.[14] In reality, decision-making power in the CCP lies in the hands of the *Politburo*, the *Politburo Standing Committee* (PSC), and the *Party Secretariat.*[15]

The inner-circle of state leadership[16] is drawn from the leading cadres of the Party-State (that is the Central Committee of the CCP, the Political Bureau and

12 PRC does recognize 8 other legal political parties, however these are legally subordinate to the CCP's political position, and accept the governing role of the CCP as a condition. See, Wang Changjiang & Chang Li. L. Diamond, (2014). "Transition from a Revolutionary Party to a Governing Party". In K. Lieberthal, C. Li, & Y. Keping (Eds.), *China's Political Development: Chinese and American Perspectives*. Washington: Brookings Institution Press.

13 Ibid.

14 Constitutionally, the NPC can amend the Constitution, supervise its enforcement, enact and amend laws, ratify and abrogate treaties, approve the state budget and plans for national economic and social development, elect and impeach top officials in the state and judiciary, and supervise the work of the State Council, the State Central Military Commission, the Supreme People's Court, and the Supreme People's Procurator.

15 PSC members are also members of China's second most powerful decision-making entity, the *Politburo*, consisting of 25 members who oversee the CPC. The PSC and the *Politburo* are supported by the seven-man *Party Secretariat,* the third most powerful decision-making entity. It deals with the daily decision-making processes and serves as the administrative body of the PSC and *Politburo*. All members of the *Politburo*, the PSC, and *Party Secretariat* are elected by members of the *Central Committee*, that has 205 full—and 171 alternate members. The *Central Committee* is elected by the *National Party Congress*. When it is not in session, the *Central Committee* is tasked with representing the *National Party Congress*. The National Party Congress is also theoretically the highest decision-making entity but, in reality, most decisions are made by the PSC before the congress is held. This decision-making structure implies that the actual governing power is held by three interrelated decision-making entities. See, China Internet Information Center: http://www.china.org.cn/english/Political/25060.htm. Consulted: 4-4-16.

16 In the West, there has been some discussion about the use of the term class to describe Chinese society and leadership. For example, Goodman criticizes Rothenberg's position, arguing that in China the meaning of social class is more than usually complicated. Low social mobility and the high intergenerational transfer of inequalities in wealth, status,

its Standing Committee, and the PRC's State Council). It also includes members from key economic sectors, e.g. the managers of State-Owned Enterprises (SOEs), large-scale private and foreign-invested enterprises, and entrepreneurs (Goodman 2014; Rothenberg 2015). The precise number of the state leadership at all levels of the PRC is unknown. Goodman (2014: 68) writes that it is estimated to be 40 to 42 million, 500,000 of whom hold a leadership position.

The key elites in the state leadership are chosen from these 500,000, and include 900 from the Central Party. Until the mid-1990s, the elites in the state leadership coincided with the CCP members in power, even during the interbellum of the Cultural Revolution. In 1976, all these ruling elements, as far they had survived the ordeal, regained their position in the political elite.

Although the same people were back in power, this is not to say that the strategy of 1978 had not changed at all. New members were recruited for their greater specialization and more thorough knowledge. Throughout the last three decades, the political elite has rejuvenated as members are now forced to retire at sixty; oncomitantly the new elite has had to be more highly-educated. Although this focus on education has created opportunities for a more diverse set of Chinese citizens in the political elite, in many cases the division between government functions and leadership positions still has more to do with seniority than with accomplishments. Another change is the advantages enjoyed by the families of the ruling political elite. The higher degree of political institutionalization has created more political stability, but has also resulted in more corruption. For example, forced retirement at 60 has stimulated efforts to accumulate wealth, or find employment in the private sector (see Goldman 69–73; see also Walder 2006 and Burns 2006).

State leadership in China is governed not only by explicit rules on the basis of command, it also uses the tools normally intended for class-rule, that are exercised through civil structures, to some extent outside direct state-management. The CCP consists of a vast bureaucratic apparatus that provides its members with special privileges. Policy is formulated and transmitted downwards from the Politbureau Standing Committee, detailed and implemented by tens of thousands of intermediate bodies.[17]

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and power, privileges and disadvantages, are more important explanatory elements than class or social stratification, considered from the experiences of socio-economic development elsewhere. This reality has maintained a relatively static class system considering the dramatic changes during the last 40 years.

17 Some western scholars, for example Rothenberg (2014), have provided an analysis of China's leadership based on class analysis. He distinguishes the class structure of China as follows: ss a first class he identifies an increasing group—now estimated at approximately

In China, state leadership maintains strong political control at home and is opening up the domestic economy at a pace and in places determined by government policy (Nolan 2001: 199–200), not by outsiders. The outcome is global system-level change that is impossible for the government in Beijing to oversee. The Chinese ambition is to gain a larger share of the world's economy and resources by its *Going Out Strategy*. To realize this ambition, China is facing a long uphill struggle. Nevertheless, because of its homemade industrialization, including military industrialization, China is climbing up in the global wealth-power hierarchy. The time that outsiders could dictate to it with impunity is over for good. However, the more successful China is, the more its economy will integrate into the world's political economy [at] the cost of domestic control (Vermeiren and Dierckx, 2012:1647).

[e] Industrialization, lateral pressure, the geopolitical economy and China's external relations

China's rapid industrial development created—as it has in other advanced and emerging economies—a number of results. It has generated increasing domestic wealth and power by shifting the peasant population to industrial work, including the manufacturing of agricultural machinery and fertilizers. This means China's rapid industrialization is also slowly increasing per capita income and military capabilities. At the global level, China is therefore changing the polarity of the US-dominated world order. At the domestic level, resource scarcity and the social pressure of unfulfilled demands is creating conditions for the gradual globalization of the Chinese economy by trade, investment, and finance.

In the near future, China is destined to become the largest economy in the world in terms of aggregate size. Measured in GDP (PPP), its size in 2014 was $13.21 trillion. China's foreign trade grew from less than USD$21 billion in 1978 to more than USD$2 trillion in 2015, making China the largest trading country

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2,5 million by the Wall Street Journal—millionaire households, constituting a growing capitalist class The approximately 300 million members of the middle class—20 percent of the population—are said to consist of educated professionals, mid-level bureaucrats, and managers. This group is characterized by its extreme consumerism and thirst for western amenities and devices, and by a drive for its children to climb up the social ladder. Goodman (2014) directs attention to the CCP's official policy, in which the middle class is depicted as the most important unit in future modernization and as the moral backbone of society. He claims the middle class is systematically overestimated in size and income.

in the world.[18] However, size alone is a flawed measure of success in closing the wealth-power gap. The productivity of capital and labor, that is reflected in per capita GDP should also be taken into account. In this respect, the western powers and emerging economies, including BRICS (Brazil, Russia, India, China, and South Africa) are still a world apart. The US has about 5 percent of the world's population, but over 20 percent of world GDP, a ratio of 1:4. If China were to achieve a ratio of 1:4 would mean that its economy would constitute 80 percent of world GDP. However, aggregate size is important to, among other economic factors as energy use, trading rules, and business practices around the world (see IEA, 2012: 3; World Bank, 17 December 2013; Jiang, 2009) and the mobilization of resources to support external action. Its military capacity is indicated by China's growing arms trade, as well as its military capacity. One important dimension of China's industrialization is its competitiveness and its export-oriented growth. Besides the fact that the state leadership has played a leading role in the process of the rapid development of an industrial-urban environment, China's competitiveness in the sphere of exports has been created by a number of important factors:

(i) The favorable exchange rate,
(ii) Low wages and the mass availability of a semi-skilled labor force,
(iii) The reduced cost of international transportation and communication,
(iv) The flow of FDI and foreign investment and its impacts on China's productive abilities,
(v) The large potential of the domestic market, and
(vi) The connection of the national economy to the outside world through trade, investment, [and] finance, as well as cross-border transport.

Furthermore, over time Chinese industrial products have improved their proficiency to meet global requirements for quality and product design in higher value product markets such as high-speed trains, computers, software, aerospace, and mobile phones. This transformation puts it into competition in foreign markets with other advanced industrialized countries, including the former East Asian Tigers. At the same time, the change has replicated the cooperative symbiotic relation between state and government found in South Korea, and Singapore, whose cost structure has replaced the simpler, high-technology goods that supported earlier phases of their industrialization (see, Adams, Gangnes and Shachmurove: 2006).

18 World Trade Organization—International Trade Statistics 2015: https://www.wto.org/english/res_e/statis_e/its2015_e/its2015_e.pdf. Consulted 06-04-16.

e.1 *China's Increasing Demand for Resources*

Global primary energy demand, according to the International Energy Agency—*World Energy Outlook 2012*—is projected to increase by a third over the period 2012 to 2035, although this is greatly dependent on, among other factors, the level of economic growth between now then. Sixty percent of this growth in expanded demand is expected to be underpinned by rising living standards in China, India, and the oil-rich countries in the Middle East. According to BP (2013), in 2035 more than 30 percent of world energy demand will come from developing countries, specifically from China that is now the largest global energy consumer. Since 2010, China has already overtaken the US as the world's biggest energy user; its total share of world energy consumption was 22 percent in 2012, compared with 18 percent in the US (BP, 2013).

China's primary energy mix is still dominated by fossil fuels, with coal making up 70 percent, oil occupying 18 percent, and natural gas accounting for 4 percent. The non-fossil fuels, including renewables such as wind, solar, hydro, biomass, and nuclear energy, represented a mere 8 percent of final energy consumption in 2009.[19] However, from a dynamic perspective, non-fossil fuels and natural gas are accelerating their development and will continue to expand their market share rapidly in the near future. While this may be so, one of the most important challenges to China's fossil energy security is its increasing dependence on imports of fuel and food from international markets. Import dependence exposes China's energy and food security to geopolitical risks in the world's major energy-exporting areas, as well as to the security risks of the international energy transportation routes, be they navigation routes or pipeline connections.[20]

The past few years have marked a turning-point in China's self-sufficiency in coal, that still remains its dominant primary energy source. Indeed, China has become a net importer of coal and the quantity of imports is increasing. In 2010, for example, China's net import of coal totaled 146 million tons. Although this weight of imported coal is not particularly meaningful compared to the domestic production of 3,240 million tons the same year, it represents an increase rate of 42.37 percent over the previous year. It is predicted that it is

19 Cui Minxuan (ed.) (2011). *Annual Report on China's Energy Development*, Social Sciences Academic Press (China). p. 42.

20 Chinese efforts to protect navigation routes induced the US to develop the Air Sea Battle Doctrine in maritime areas along its southern coastline and to install anti-ballistic missile systems laser-guided in its allies. China's ambition is to be dominant in its coastal waters. America's Global NATO program in which, among other countries, Japan participates, is considered to be an US-created threat.

only a matter of time before China will replace Japan and become the world's largest coal importer.[21] Most of China's imported coal comes from Indonesia, Australia, Vietnam, Mongolia, and Russia.

China's oil imports have remained dynamic since they began in the mid-1990s. However, the gap between domestic production and national consumption is widening. In 2010, although domestic production increased to 202 million tons, oil imports registered a new record of 239 million tons. The external dependency rate of oil reached a new high of 55 percent. It is forecast that, by 2015, the quantity of oil imports could increase to 300 million tons, and by 2020 the dependency rate might even rise to 60 percent.[22] Among the major sources of supply, the Middle East took the lion's share with over 40 percent, followed by Africa, Central Asia, and Russia.

The use of natural gas has also been energetically promoted in China, and its consumption is increasing rapidly. In 2010, consumption totaled 110 billion cm, representing an increase of 20.4 percent over the previous year. It is predicted that, by 2020–2030, the share of natural gas in China's primary energy mix will increase to 10–15 percent. However, the development of natural gas consumption in China cannot be sustained without massive imports. This is because of the shortfall in domestic production as well as the fact that the urban-industrial part of the country lies at a huge distance from its energy-bearing Far West. The misalignment between locations of supply and demand requires expensive investment in creating transportation routes. Therefore, China began to import LNG via sea routes in 2006. It also commenced importing piped gas in 2010, but on a much smaller scale. Of the total natural gas imports of 17.3 billion cm in 2010, 12.9 billion cm (9.34 million tons) was LNG and 4.4 billion cm was pipeline gas. Most of the imported LNG originated from the Asia-Pacific region. It is predicted that, by 2020, the national consumption of natural gas in China will rise to 300 billion cm and over 50 percent of supply will be derived from imports. By 2015, with the completion of the LNG facilitation projects currently under construction, the receiving capacity will increase to 30 million tons per year and imported LNG could satisfy a third of total natural gas consumption.[23] Given China's dependence on fossil sources of energy, its NOCs play a key role in the process of energy supply security (see below).

21 Cui Minxuan (ed.) (2011), p. 6.

22 Ibid. pp. 10–12.

23 Ibid. pp. 123, 134 and 165.

e.2 *Lateral Pressure*

Lateral pressure refers to the build-up of socio-economic pressures on the government by forces released by market actors in order to expand economic transactions beyond state boundaries. In other words, lateral pressures refers to any societal demand that cannot be met by available domestic resources. This creates a propensity to obtain them from beyond national boundaries and the disposition of local actors to create access to these resources by the means, or action capacities, available to them. Accordingly, industry, corporations, and domestic consumers converge in their demands on political leaders to project state-power beyond state borders and create access to deposits of minerals, metals, or markets abroad. As a concept, lateral pressure was introduced into the study of International Relations by Choucri and North (1975).[24] These authors designed a simultaneous equation model connecting domestic growth during the second Industrial Revolution [1870–1914] in the major powers of Western Europe to alliance formation, competition in the military domain, competitive colonization, and conflict, culminating in the escalation into World War I. We use the concept of lateral pressure to apply to both industrialized and industrializing state-societies, whose uninterrupted functioning and survival of the domestic wealth-power-structure depends on access to resources and markets beyond their borders. Lateral pressure in industrialized and industrializing countries increases when governments see themselves confronted with population growth, rising incomes, technological change, domestic resource-scarcity, and the social pressure of unfulfilled demands. These forces induce governments to expand beyond borders under stress as their capability to do so improves in absolute and relative terms.

The political leadership and the governing elites have an interest of their own in meeting these demands both to keep order at home and to protect the state against competitors in the international system. Those with a mandate to act on behalf of the state therefore process these demands into a workable strategy. Leaders of countries at the bottom of the per capita income league without domestic energy resources have to deal with large numbers of people unable to pay market prices. Leaders of better-off, more powerful countries might seek to change the international system by removing obstacles in order to meet demands at home. Great powers follow the latter strategy, investing state resources in actions abroad. In terms of energy security, power projection implies creating routes abroad to access stocks of minerals and protecting them, either by force or by peaceful cooperation. In comparison with

24 Nazli Choucri and Robert C. North (1975), Nations in Conflict. National growth and international violence. San Francisco: Freeman, Chapter I, 'Conceptual framework.'

the internationalized/transnationalized enterprises that originated in early-industrialized countries (mostly IOCs), China's SOEs (NOCs) have to satisfy energy needs in locations deemed less valuable, and therefore left unaccessed by western IOCs.

It should be noted that, in the long-run, shale-oil and gas development in America will not be able to satisfy US oil demand. We therefore continue to acquiesce in the assertion made by Leverett seven years ago (2007: 8) that, 'simply put, there is no economically plausible scenario for a strategically meaningful reduction in the dependence of the United States and its allies on imported oil during the next quarter century'. This statement applies to high-income countries even more than to less-industrialized or emerging economies. In high-income countries, energy diffusion into everyday life is without precedent.[25] The power-wealth structure in these societies would unravel in a very short time if the flow of resources from abroad were to stop abruptly. Therefore, those in command of supply routes are able to bring poorly equipped competitors to their knees by imposing a blockade. For China, it is therefore important to create overland access, as well as to protect maritime trade routes. In the last 35 years, the process of sequential industrialization has spread into East and South Asia. As others catch up, scarcity increases and mineral stocks become more expensive to transform into proven reserves. It takes a lot of time to push the technological barriers to create clean resources. On the other hand, the costs of a blockade by competitors increases when late-industrializing countries see the possibility to retaliate with air- and space-based weaponry from their home-bases.

e.3 *Geopolitical Economy and China's External Relations*

Capitalism has a global geographical dimension and impact, but this is in a state of constant flux. The capitalist logic of acquiring power through wealth is creating and changing territorial configurations of power. The waves of industrialization since the British Industrial Revolution—in Europe, a part of Asia, and in Latin America—have impacted the geography of power. The United Kingdom created a world empire and subsequently lost it when the US transformed itself into a power with global reach, and defeated the contender states of Germany and Japan. Consequently, the geography of the territorial configurations of power impacts on the capitalist logic of wealth-power

25 See for the distinction between 'sensitivity' to external change and 'vulnerability', Joseph Nye, "*Interdependence and Power*", in *Conflict and Cooperation: Evolving Theories of International Relations*, ed. Marc A. Genest (California: Wadsworth/Thomson Learning, 2004), 154.

accumulation, and is subsequently reflected in the global political economy. Cross-border economic expansions of advanced-capitalist state and market complexes can be understood as specific spatial and geographical strategies to solve the underlying fundamental contradictions of capitalism and capitalist industrial development.

China's successful industrialization has not only generated increased wealth, it has also created massive capital surpluses in some basic industrial sectors. Hence the 'going-out strategy' therefore assumes a new dimension: relocating surplus capital to developing countries, for example, in Asia, Latin America, and Africa. To facilitate the geographical expansion of capital, the state is often required to clear the way and secure the terrain (peacefully or militarily) in areas in which this expansion can occur without too much trouble. In this respect, China's strategy has been very different to that of the US and Europe.

To connect Chinese energy companies to this transnational process of sequential industrialization, we have tried to create a synthesis between the traditional understanding of geopolitics and the geo-economics of the global political economy.[26] Both the IPE and critical geopolitics venture beyond IR

26 The term "geopolitics" has various meanings. As a system-level concept it refers to the spatial dimension of resource endowments in various parts of the world. For the Realist School of international relations it means the rivalry between resource-rich great-power states to gain control of resource-rich areas and also markets. From this point of view, the nation-state is paramount and international relations are best understood in terms of a competition for the balance-of-power approach between states and a struggle for influence and dominance in world politics. This geopolitical vision emerged in the 19th century (Kjellen 1897; Ratzel 1897; Mahan 1890) and developed in the first half of the 20th (Mackinder 1904, 1919; Haushofer 1932; Spykman 1942). However, both the end of the Cold War and the intensification [phase] of economic globalization (internationalization of trade, transnationalization of production and finance, and the internationalization of functions of the state) have forced some scholars in the social sciences and geography to rethink the meaning of geopolitics (Amineh 2003: Ch. 17–24). A new version of geopolitical studies, called critical geopolitics, developed in the 1970s when some scholars began to reject the narrow concern with "national security" as the defining feature of geopolitics, and sought a wider context of socio-economic and human development, encompassing such concerns as poverty, violence, and environmental degradation. Some scholars—despite divergences—began to incorporate not only the geographical and/or territorial states but also the geo-economic dimensions of global political economy (among them David Harvey 1985; Agnew and Corbridge 1995; Amineh 2004; Mercille & Jones 2009). Since the 1970s, Critical Geopolitics has gradually developed through three main streams of thinking. The first generation of scholars of geopolitics emphasized culture—for example religion, ethnicity—as a structural determinant of the borders of a community. Examples of this sort include the Black Sea Rim region and/or Central Asia

theoretical frameworks to comprehend systemic change at the global level. In IPE, inter-state theorizing cannot build solely on such dynamics. The global economy must be considered in a geo-historical context. However, the geographical assumptions of contemporary international relations theory are increasingly problematic. While the critical geopolitical approach does address the major research questions already raised by the IPE, its novelty is to return to a geographical dimension in the analysis of complex systemic realities. Critical Geopolitics deals not only with the material spatial practices through which the international political economy is constituted, but also handles the ways in which it is represented and contested (Amineh 2003: 21).

In this study, we have been inspired by David Harvey's concepts of "the territorial logic of power" and "the capitalist logic of power". The interaction between both dimensions of capitalist expansion has been labeled geopolitical economy and it sets the context of the current stage of the global (capitalist) system. Major state-actors engaging in cross-border activities follow two logics: a territorial logic of power (*geo-political*) and the capitalistic logic of power

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as typical New Border regions. Another example is given by Samuel Huntington (1993) in his work *Clash of Civilizations*, in which he considers geo-culture and geo-religion as unchangeable behavioral norms and values and as a unit of analysis in the study of International Relations. The study of Geographical Imagination or the subjective spatial mapping by policy makers and related advisors is another dimension of the geo-cultural tradition. Not only the United States and the European Union, but also East Asian countries, including China, Muslim countries, and post-Cold War Russia are striving to popularize their own spatial perception and historical consciousness. Examples include Euro-Athleticism, Islamism, Asian democracy, Arabism, and Pan-Turkism. The second generation has applied the study of discourse analysis to geopolitical studies. Scholars of critical geopolitics in this stream have argued that a discursive analysis of geopolitics must take into account the particular political and social contexts in which geopolitical power is embedded (e.g. Ó Tuathail and Agnew 1992). For example, Ó Tuathail, Dodds & Sidaway (1994), and Edward Said (1978) have been identified as popular or discourse-related scholars of critical geopolitics. They have taken the decision-making level as their unit of analysis to expose power-plays within representational practices by studying narratives, concepts, and signifying practices that are present in geopolitical discourses, in order to de-construct them (see, Dodds, 1994: 516). Some scholars of critical geopolitics (e.g. Dalby (2006, 2007), Sharp (1996), Ó Tuathail (1992, 1993, 1996, 2005) include the political economy, but when they do, they mostly: i) discuss the institutional affiliation of elite groups—but stop short of examining the workings of the political economic system that shapes policy making—, and ii) do not place enough emphasis on the geo-economic factors behind policy (see Mercille 2009: 327).

(*geo-economic*).[27] In other words, theoretically, David Harvey (1985) makes a link between "the territoriality of political power" and "the spatiality of capital accumulation" or capitalistic logic: [a] The territorial logic of power is political (as well as military power) within a state and between states (state-systems).[28] [b] The capitalistic logic of power is about wealth creation and/or capital accumulation without boundaries as well as capital flows. The territorial logic[29] of power as Mercille (2009) calls the geo-economic logic of power is derived from the tendency of capital to expand geographically, whereby domestic capital must search across-borders for access to markets and resources (Amineh & Yang 2014; Yeung 1998; see also Mercille & Jones 2009).[30]

Realism, despite its differs conceptualizes the world as divided up into territorial states and blocks with distinct power structures, borders, and administrations. In contrast to the realist assumption of a "fixed territorial logic" of political power, (neo-)liberal scholars see a capitalist logic that has no territorially at all, or is space-less. Contrary to both realism and neoliberalism, the territorial logic of power and the capitalist logic of power are dialectically interrelated and *relatively* inseparable. At the same time there is a *constant* tension and conflict between these two different conceptions, the logics of spatiality: the one involved in capital accumulation; the other in the management of populations through territorial configurations known as state power and the state apparatus.

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27 Julien Mercille (2008: 570–586) has reformulated David Harvey's logics of power into a "geo-economic logic" and a "geopolitical logic" through which Post-War American foreign policy can be interpreted.

28 Only major and some rising medium-size states play a crucial role in the international state-system and the world economy and politics.

29 Capital is not 'placeless' as alleged in the 'borderless world' thesis, because the production and reproduction of capital is location-bound. Capital not only needs relatively immobile and fixed infrastructures for its reproduction, it also depends on its home bases for strategic advantages. In addition, production locations for capital cannot be perfectly substituted because 'global capitalism is being constructed through interactions between flow economies and territorial economies' (Storper 1997, 31 cited in Yeung: 1988: 299). Yuang, H.W.C., 'Capital, state, and space: contesting the borderless world', *Royal Geographical Society* (with the Institute of British Geographers), TraNs. Inst. Br. Geogr. NS 23 291–309, 1988.

30 The geo-economic logic refers to the ways in which the expansion of (e.g.) US business worldwide and American interest in managing the global economy shape policy. The geopolitical logic refers to the need of the US government to resist challenges to its hegemony worldwide through political decisions or, occasionally, through military intervention.

The powerful geo-economic constituents of a state shape its geopolitical horizon and geostrategical interests. In liberal state-society complexes, the underlying forces of capitalism (the powerful geo-economic constituents) are to some extent able to shape the politics that determine the form of overseas territorial activities in order to gain access to resources and markets to protect domestic power-wealth structures.[31] Therefore, geo-economic logic is closely related to the political economic aspects of the capitalist drive to expand geographically and to increase its growth through new markets (Amineh & Yang 2014). Geo-economics can be regarded as the cross-border flows of trade, investment, and finance, taking into consideration the political aspects behind such movements. The power projection (see above) of major states is limited by their ability to control capital flows. This creates visible tensions between the territorial logic of power and the capitalist logic of power. While state-crafters are often motivated by more long-term incentives and market forces and, conversely, liberal states-societies often have short-term incentives, they are ultimately interdependent. The state requires taxation from capital to survive, and capital requires state protection and regulation to survive. However, the modern state is a capitalist construct and a strong, growing economy is its *raison d'être*. Energy as a main source of wealth and power (-structure) is different since it is not simply part of the economy, but a prerequisite for the economy as a whole, and is therefore afforded special attention by the capitalist class and/or state-class. This special attention causes energy-security dilemmas, since this prerequisite of all economic activity becomes increasingly scarce.

In the current era, global oil and gas reserves are concentrated in a few geopolitically unstable regions and countries, mainly the Middle East and the Caspian Sea Region. Just five countries located in the Persian Gulf region (Saudi Arabia, Iraq, UAE, Kuwait, Iran) hold almost one-half of world oil reserves. Over 70 percent of proven natural gas reserves are located in Persian Gulf and the Caspian Region. The proven gas reserves of Azerbaijan, Turkmenistan, Kazakhstan, and Iran are estimated to be 3100 EJ, that is almost as much as the combined proven gas reserves in Europe, the US, and the Middle East. Three Caspian littoral states and one member of the Persian Gulf—Russia, Iran, Turkmenistan, and Qatar—control approximately over 50 percent of global proven gas reserves (BP 2013).

To get access to these resources, China has so far followed the road of peaceful cooperation. This has been facilitated by the fact that, during the 1970s,

31 Mercille, J. & A. Jones (2009) 'Practicing Radical Geopolitics: Logics of Power and the Iranian Nuclear "Crisis"', *Annals of the Association of American Geographers*, 99 (5) 2009, pp. 856–862.

most oil-exporting countries, including America's allies Saudi-Arabia and Iran, nationalized their stocks. In the early years after the Soviet collapse, it seemed possible to gain access to privately held Russian energy resources. However, that hope faded when Putin also renationalized the oil sector. Western oil companies therefore lost control of reserves in the Middle East. Losing control of stocks of reserves implies losing control of supply and also of price as demand increases. State-owned oil reserves open the door for interstate cooperation between energy-supplying countries and energy-demanding China. China is now the largest oil importer. In 2011, 20 percent of Saudi Arabia's oil exports were destined for China, followed by Angola (12 percent) and Iran (11 percent) (IEA, 2012).

The cooperative Chinese strategy to gain access to energy resources stands in stark contrast to the oil wars waged in Iraq by Great Britain in 1920s and by Britain and the US between the end of the Cold War and the beginning of the US-led invasion of Iraq (Lindqvist. 2000; Omissi 2010).[32] Consequently, high-income Britain continued its pre-World War I mode of operation in the Middle East. However, because of America's rise to hegemonic status, post-war British leadership has no longer been able to operate abroad with its own resources convincingly. The Blair government therefore saw fit to serve America's geopolitical interests by joining the US-led invasion of sovereign Iraq. In the reality of Gulf politics, the UK has been reduced to the status of a subcontractor of America, the real architect of the invasion of Iraq. The US passed its energy production peak from domestic sources in the early 1970s, rendering it increasingly dependent on imports. Because of its proclamation of military supremacy in the Persian Gulf directly after World War II, the threat of hegemonic invasion still hangs over the region. In the words of Flynt Leverett (2007: 1) "[T]he most profound challenges to US pre-eminence during the next 25 years flow from the strategic and political consequences of ongoing structural shifts in global energy markets, especially the global oil market."

Above we have considered China and Russia as contender-states whose integration into the global system has created a more plural, or multipolar, world order. American military pressure on both has induced Sino-Russian cooperation on strategic issues, effectively creating a Sino-Russian "axis of oil" as the principal counterweight to America's global domination. The bilateral *Treaty on Good-Neighborly Relations, Friendship and Cooperation* of July 2001

32 Seven Lindqvist. (2000) A History of Bombing. New York: The New York Press; David Omissi. (2010) Air Power and Colonial Control. The Royal Air Forces, 1919–1939. Manchester University Press. Joy Gordon. Invisible war: the US and the Iraq sanctions. Harvard UP.

was the first cooperation treaty between the two countries in half a century. It includes provisions for up to 2,000 Chinese officers to be trained annually in Russian military academies, and for Russian arms sales to China to increase. The latter includes high-technology exports to assist the development of indigenous Chinese weapons.[33] The creation of the Shanghai Cooperation Organization (SCO) in 1996 marked the beginning of Chinese attempts to cooperate with Russia in efforts to limit US influence in Central Eurasia and the Middle East. During their 1996 meeting in Shanghai, the presidents of Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan established the 'Shanghai Five' in order to resolve border disputes and to reduce the armed forces along their borders. After the inclusion of Uzbekistan on June 15, 2001, these countries founded the Shanghai Cooperation Organization (SCO). They issued a declaration that established the SCO and the Shanghai Convention to Combat Terrorism, Separatism, and Extremism. It is clear China is the driving force in SCO. This comes as no surprise. The organization covers a vast territory, accounting for a quarter of the world's population, 23 percent of its oil reserves, 55 percent of its natural gas, and 35 percent of its coal reserves (Nizamov 2007; see also Merketos 2009). China has become the largest trader with the energy-rich Central Asian states, replacing Russia in this respect. Their competition for influence in Central Asia (CA) has been visible in, among other factors, the SCO, in which Russia rejected a Chinese proposal to create a free trade zone among its members.[34] The efforts of Russia's leadership to create a Eurasian Political Union is a signal of Russian opposition to China's activities in this part of the world.

The US aims to relocate energy routes between Central Asian countries away from Russia to the EU and India [TAPI]. China currently relies on Turkmenistan for about 50 percent of its gas imports. CA is China's gateway to

33 However, Soviet arms sales to China have dwindled in the last three years as China is developing its own arms industry. See for the contribution of military industrialization to the industrialization process since 1815, Sen, G. (1984), *The Military Origins of Industrialization and International Trade Rivalry*. New York: St Martin's Press. See recent Chinese efforts to follow on in relating military industry to general industrialization, Cheung, T. (2009). *Fortifying China. The struggle to build a modern defense economy*. Ithaca: Cornell University Press.

34 In 2009, responding to Taliban attacks on US convoys to Afghanistan, Russia provided the latter with overland access, the so-called Northern Distribution Network (NDN) of rail and road links across Russia and the Post-Soviet space in CA. The NDN was under the control of US Transportation Command but, on May 15, 2015, Russian Prime Minister Dmitry Medvedev announced the NDN would be closed. The NDN had evolved into America's New Silk Road Strategy of the Obama administration.

the European Union. The recent Russian re-appropriation of the Crimea has endangered Chinese investments in harbor facilities in that peninsula. The Chinese are therefore not happy with Putin's Eurasian Customs Union and the re-appropriation of the Crimea. However, as US troops are preparing for withdrawal from Afghanistan without having defeated the Taliban, the pressure on both to cooperate in Central Asia increases. For Central Asian countries, their shared interest in the SCO organization is defeating militant Islamist activists, balancing Russian power by cooperating with China, and linking up with the EU without becoming the client of any one of these major powers. However, the rulers of energy-rich Central Eurasia and the Caspian Region have been put under pressure by the Russian invasion of the Crimea and by the liberalization of the energy market.

The importance of cooperation between Moscow and Beijing in the context of the SCO has been subjected to varied interpretations by scholars and western policy makers (Person 2006; Blank 2007). According to SIPRI, "[the SCO] has remained one of the world's least-known and least-analyzed multilateral groups" (Bailes & Dunay 2007: 1, in Wilkins 2010: 163). Officials at the US State Department admit, "We don't fully understand what the SCO does" (Feigenbaum 2007, in Wilkins 2010: 163). The simple fact is that the SCO is represented by two of the world's greatest contender state powers with permanent UN Security Council membership. Some Asian scholars postulate that the SCO has formidable economic, political, and military potential and it could play a greater role in Post-Cold War international relations, although enduring Sino-Russian cooperation would be a precondition for the realization of this potential (see Mahbubani 2008; Khans 2008).[35]

Geopolitically, the SCO also emerged as a response to the Russian-Chinese fear of the Post-Cold-War enlargement of NATO, in conjunction with the expansion of the European Union.[36] Its member states have shared America's ambition to create a Global NATO, calling on NATO partners to assist the US in

35 See Mahbubani, K. (2008), The New Asian Hemisphere. New York: Public Affairs, 2008 and Khana, P. (2008), The Second World: Empires and Influence in the New Global Order. New York: Random House.

36 Remarkably little has been learned by western powers about how to cope with Russia. The EU policy of Eastern Partnership includes an association treaty with the Ukraine, covered under Title II, 'Political dialogue reform, political association, corporation and convergence in the convergence foreign and security policy's provides for European ever-deeper involvement in the European security area'. Under the Yushenko leadership, the US landed about 200 troops in Feodosiya, a harbor in the Crimea, in 2006. NATO opened information booths throughout the Ukraine. These efforts, as predicted by realist scholars, helped to tear divided Ukraine farther apart, driving Russia towards East Asia.

coping with contender states (mainly Russia in Europe and the Eastern part of the Mediterranean, and China in East Asia).

[f] National oil companies: Changing the game

China's increasing role in the foreign policy sphere[37] is happening alongside and is part and parcel of Chinese attempts to gain access to resources and reserves abroad, in key-resource-rich countries and regions. In the oil and gas sector, China's leadership has designed a 'Going-Out' strategy to facilitate the cross-border activities of its largest companies. This and the following sections will expand on the cross-border activities of National Oil Companies (NOCs), in particular, Chinese NOCs.

Generally speaking, NOCs are state-owned enterprises (SOEs) that operate primarily within national borders and act according to national interests. NOCs are arguably more complex than their privatized, multinational counterparts or International Oil Companies (IOCs). While IOCs concentrate on the maximization of profit and shareholder value within the constraints of long-term enterprise survival, CNOCs have to serve a comprehensive set of objectives, and are therefore a *hybrid* of corporate governance, public administration, and societal regulation (Tordo et al., 2011: Hults, 2012: 64). This dispels the illusion of some western observers that these SOEs are fully governmental institutions operating under the explicit control of a political strategy designed by the state leadership in Beijing. To operate across-borders CNOCs have to compete with IOCs, and to pursue commercial interests. The actual distance of some CNOCs from the government can be astonishing.[38]

Although NOCs have been around for decades, they have developed new transnational characteristics and are engaging with IOCs that are transnational veterans. To some extent, NOC-IOC relationships can be understood by applying the concepts *complementarity* and *competitiveness* (Doran 2003, see also Houser 2008; Jiang & Sinton 2011; Tordo, Tracy & Arfaa 2011; Victor, Hults &Thurber 2012; De Graaff 2012).

The significant growth in overseas assets and activities of China's state-led corporations has been partly financed by large budgetary surpluses and capital accumulated by foreign investment and trade. This growth has been described

37 In 2010, China's foreign policy role changed from Den Xiaoping's 'Keeping a Low Profile', to the more 'Ambitious Surviving for Achievement'.

38 For a discussion on the relationship between NOCs and their governments see (Victor et al., 2012); (Chen and Jaffe, 2007: 13) and (Thurber and Istad, 2012).

as a new global, or at least transnational, state capitalism.[39] In this study, we argue that the transnational activities of Chinese NOCs are part of a 'statist' globalization, through which some developing economies have become global economic powers (Harris: 2009; 2009; Jiang & Sinton 2011; De Graaff, 2012).

In the last few decades, a gradual shift has occurred in the oil market that has led to the *emergence* of a number of *emerging* economies in resource-rich countries. In the 1970s, multinational oil companies had full access to an incredible 85 percent of the world's oil reserves; in contrast NOCs had control over less than 10 percent. For decades—from the early-twentieth century to about 1960—control over large oil reserves, notably in the Middle East, allowed a small group of international oil companies to reap extraordinary profits, creating fairly stable prices by limiting production. In the 1970s, the nationalization of oil companies occurred in the Middle East and North Africa and this was followed by the re-nationalization of oil companies, mainly in Latin America (for example, in Venezuela, Bolivia, and Argentina). This brought domestic reserves and mineral stocks under the control of national oil companies. The upshot was a radical change in the global oil market, and a subsequent impact on energy security (see Yergin 1991; Amineh 1999; Diwan, 2007; Fernandez Jilberto and Hoogenboom 2010). By 2012, NOCs controlled over 90 percent of global oil reserves (Leis, et al. 2012:1). The proven oil reserves of the three main NOCs, namely: Venezuela's PDVSA; Saudi's Araba's Aramco, and Iran's INOC, are respectively 196.5, 258, and 137 billion barrels, in comparison to ExxonMobil's 24 billion barrels (EIA; 2012). Hereby IOCs lost much of their direct access to "easy" oil. Responding to this shift, the IOCs shifted their investments in advanced technologies, such as deep-sea drilling and unconventional oil and gas reserves, to high risk countries and the consolidation of their refining operations. Moreover, state-led NOCs gained larger shares in the total supply chain from oil exploration and production to transport, refining, and sales. Saudi Aramco, for example, the largest NOC, earns more than USD$1 billion in daily revenue according to Forbes, with an estimated annual profit of USD$182 billion. Moreover, Saudi Aramco had an average production of 11.6 million barrels of oil a day in 2012 (IEA 2012). By comparison, ExxonMobil—the largest private oil company—brought in USD$41.1 billion in profits and produced an average of 2.3 million barrels a day. The overall dominance of NOCs in the

39 William I. Robinson, *A Theory of Global Capitalism*. Baltimore: John Hopkins UP, 2004, and "Beyond the Theory of Imperialism: Global Capitalism and the Transnational State", *Societies Without Borders*, 2 (2007) 5–26; and David Harvey, *The New Imperialism*. 2nd ed. Oxford University Press, 2005.

coming years will conclusively determine the prices and production of oil (Chen and Jaffe, 2007).

This gradual but substantial shift in the oil market raises the question of why so many state-led corporations have emerged so rapidly in the last forty years. Governments must be able to see various benefits that stimulate them to regulate these companies that had previously been dominated by foreign countries or corporations. *Oil and Governance: State-owned enterprises and the world energy supply* identifies three main reasons these enterprises are formed. The first entails the possibility for governments to strengthen their control over economic development and income redistribution, while promoting national pride; it is opposed to private ownership and the redistribution of income through taxes (Toninelli, 2000; Victor, et al., 2011:9). This line of reasoning can be observed in NOCs operating in Russia and China. Another possibility is that state-owned companies could be used to generate revenues and jobs as tools for politicians to drum up support for government by job creation and using resource wealth to increase the popularity of a government (Smith and Trebilcock 2011). An example of this is found in Venezuela, in which the government has been criticized for using finances to improve its national image. A third and final possibility, in our view the most important one, is that the option of state control over NOCs internalizes the value-added chain of the energy industry into the domestic economy (Victor, et al., 2011:9). This happened in Mexico after the state nationalized American oil company assets in the early-twentieth century.

China's Nationalized Oil Companies

Chinese NOCs have recently emerged as strong competitors in the global energy market. Over the past decade "the Three Barrels", the CNPC, Sinopec and the CNOOC, have acquired the dual character of being both state-owned domestic monopolies and commercially operating international companies.[40] This run was initialed by the creation of HK- and NYSE-listed daughter companies around 2007.

In comparison with western-based IOCs, they might lag behind in technological expertise, but they can draw on easier funding and greater political support from the Chinese state, that often pursues an integrated total develop-

40 An IEA study concluded that, "despite some instances of coordination, there seems to be a high degree of independence of the Chinese NOCs from government, and sometimes of subsidiaries of the NOCs from their headquarters." We argue that, the CNPC can still be regarded as a conventional NOC that prioritizes the interests of the country. E.g. Binbin Jiangs' emphasis on the dependence of both on the government for investments and on their board members on the CCP for their careers.

ment approach, including infrastructure development and flanking commercial activities. This policy has provided opportunities for Chinese companies and, in turn, has increased their influence on the world market (Jiang & Sinton 2011; Dannreuther 2011; Downs 2008; Leung 2011; Dittmer & Yu 2010). Chinese commitment has consequently created political and economic capital in resource-rich countries. This process has been supported by concessional funding, bilateral trade agreements, and investment activity. This means that at the company level, attracting foreign investment for some activities and going abroad to invest in others are being linked.

In recent years, the CNPC, Sinopec, and the CNOOC have gained considerable experience in transnational economic activities, particularly in the field of global mergers and acquisitions in upstream oil and natural gas. They have also tried to build political, economic, and social relations with local communities in Africa, Asia, and Latin America.[41] By 2013, China's oil enterprises had acquired 1,900 billion yuan in overseas assets, 2,800 billion yuan of overseas annual output, and 100,000 overseas production personnel.[42] CNPC now produces about 40 percent of its total oil and gas output overseas, and it strives for a 60 percent share by 2020, thereby becoming "a world class comprehensive international energy company".[43] In various chapters, our authors point out the political drive to acquire overseas oil assets for perceived energy security.[44]

Chinese NOCs are also heavily engaged in foreign investment. Over the period 2008–2012, Chinese oil companies announced USD$108 billion of overseas purchases, about one-fifth of the world total, according to Bloomberg. The CNPC spent USD$16 billion, the Sinopec Group USD$41 billion, and the CNOOC USD$26 billion. Hence the three companies held 52, 29, and 10–13 million tons respectively of the annual equity in oil and gas production.[45] China's oil companies now operate in 31 countries and have equity production in 20 (OECD/IEA: 2011:7).

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41 Trevor Houser, "The Roots of Chinese Oil Investment Abroad," *Asia Policy* 5 (2008) 141–166.

42 Zhang Guobao's speech in Yinchuan on Sept. 16, *Zhongguo jingjiwang* (China Economy web), Sept. 23, 2013.

43 In 2012, 39 percent of the CNPC's turnover and 31 percent of its profits came from overseas, according to CEO Jiang Jiemin, *Xinhua*, Jan 24, 2013.

44 Such a drive can only be sustained if the "Three Barrels" is lightly taxed. If one excludes VAT, Petro China and Sinopec pay about 10–15 percent of their turnover and are allowed to retain most of their profits. Furthermore, they are provided with cheap capital by state-owned banks or government agencies.

45 In 2008 Trevor House signaled that most overseas equity oil was sold internationally, and speculated this would reduce the government's willingness to approve overseas oil investments. However, acquisitions increased.

With the benefit of hindsight, one could say that the Chinese have been either lucky or very perceptive to have made most acquisitions at a time when oil prices and/or company valuations were rather low, partly because of the international economic slow-down after 2008, the BP disaster, and insecurity in the Middle East. In 2012, mergers and acquisitions (M&A) in the global oil and gas sector totaled USD$232 billion, 52 percent more than 2011. The implied long-term oil price (assuming a discount cash-flow rate of 10 percent) in those M&A was USD$85 per barrel, a new record high (but lower than the actual Brent price).[46] Observes of the oil market assume that high oil prices will return, therefore Chinese IOCs might not have over-paid in their past M&A after all. However, share price is not the only variable relevant to China. Assuming that Chinese companies did overpay, e.g., in CNOOC's USD$15.5 billion purchase of Nexen for 61 percent above the share price, a number of different explanations for the higher-than-average premium (other than a higher prediction of future oil prices) is feasible. Some motives, such as the acquisition of much-needed technological expertise and diversification of assets, were put forward by the companies themselves. Other motives can be sought in the *political* readiness to pay a premium for what is *perceived to* contribute to national energy security, or in easy capital, capital flight etc.

One could suppose that, as relative newcomers in countries long-dominated by a European and/or an American presence, Chinese companies needed time to adjust and to learn to cope with foreign and local challenges. The three majors have gained that experience. The CNOC is now cooperating with foreign oil companies, usually as majority partners, in China's coastal waters, in refining, or in the development of tight and unconventional gas on Chinese soil.[47] However, Chinese NOCs are shielded from competition on the Chinese market, and this benefit still stands in the way of increasing efficiency and profitability and consolidation.[48] Consequently, it is important to analyze their learning curve in various countries. To some extent, their international profile has required them to conform to the OECD's International Corporate Social Responsibility standards and standards upheld by the UN, ILO, and NGO communities. Hence a learning curve in dealing with these issues and with the local media might be anticipated.

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46 Hou Mingyang, "M&A in 2013," *Guoji shiyou jingji* (International Oil Economy), 2013 (4) 25.

47 By 2013, 77 foreign companies had concluded contracts for off-shore activities in China, with a rather modest total investment of RMB 33.7 billion, *Zhongguo shiyou qiye* (China's Oil Enterprises), 2013 (4) 14.

48 With a similar business turnover, individually the CNPC and Sinopec have almost ten times as many employees as Royal Dutch Shell. The CNOOC is leaner and more efficient.

China's NOCs are often portrayed by western observers as instruments of the state, whose aim is to hoard energy resources abroad; even though the Chinese government has been persistent in characterizing the corporations as exactly the opposite—transparent and internationalized oil companies perfectly suited to doing business with. Although it might appear CNOC investments are driven by the government's need for energy security, the picture is far more complex and can best be described as a balance between assurance of financial efficacy, the government's efforts to ensure social stability, and supply of cheap energy necessary for ob ei China's economic growth (Andrews-Speed, 2012). The question of independent or shared company decision making in overseas investments will be observed in the studies offered in this volume. Government intervention is not restricted only to investments, but is also evident in the conclusion of long-term oil and gas trade contracts.

Over the years, although the Chinese government has become increasingly hesitant about investments overseas, Chinese NOCs have become even more motivated to expand their overseas business. Commercial considerations are what primarily draw CNOCs overseas, where the companies are able to earn higher profits and enjoy greater autonomy in comparison to their operations within national borders. Consequently, the tension between the Chinese government and its NOCs is particularly visible in the topic of overseas investment. Moreover, although the need for energy security might initially have been the driving force behind the transnationalization of China's NOCs, in some resource-rich countries, such as Iran in which the presence of China is traditionally strong, this is not the main reason that explains why this trend has continued (see also Victor et al., 2011: 379–405). Consequently, the investment behavior of Chinese NOCs is the result of a complex interplay between the individuals active inside the NOCs themselves and government officials (such as the National Development and Reform Commission, the People's Liberation Army, and other institutions with autonomously determined interests) that are associated with the national oil companies.

Apart from questions concerning independent or shared company decision making in overseas investments, this volume will also pose questions asking why NOCs have varied so much in overall performance. In their studies, Victors, Hults, and Thurber have looked for an explanation in the interactions with their principal, the national government. In this volume we pose similar questions raised by variance in performance, but focus mainly on the investments and operations of the three Chinese NOCs in different foreign countries. In short, our main variable is the recipient country and the institutional framework for—to some extent created by—Chinese oil companies operating on its soil.