



THE HUNGRY DRAGON

HOW CHINA'S RESOURCE QUEST
IS RESHAPING THE WORLD

SIGFRIDO BURGOS CÁCERES
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ROUTLEDGE

The Hungry Dragon

How China's resource quest is reshaping
the world

Sigfrido Burgos Cáceres and Sophal Ear



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The Hungry Dragon

This book explores China's quest for energy sources, raw materials and natural resources around the world, with a specific emphasis on oil. China's presence in Africa, Asia and Latin America is reshaping the world with regards to economics, politics and national security. This volume offers a comprehensive examination of China's energy security strategy.

The first two chapters delve into Chinese relations with energy markets and the world, and the global geopolitics of China's resource quest. This introductory section is complemented by three in-depth country case studies: Angola, Brazil and Cambodia. The two concluding chapters cover opportunities and risks to China, and examine how strategies can be developed into tangible actions.

This book offers a comprehensive number of overlapping debates regarding the varieties of capitalisms (autocratic vs. democratic), the urgent need for rebalancing as the world undergoes global financial crises and contestations to traditional powers, and the issues surrounding natural resource extraction in the context of global governance, neoliberalism and poverty traps.

Key Features:

- Offers an in-depth analysis on the geopolitics of China's resource quest.
- Assists students and scholars in understanding the Chinese model of autocratic capitalism and China's novel ways of securing resources across three continents.
- Explains China's energy security strategy and its implications on US national security.
- Explores the links between international relations and the geopolitics of scarcity.

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For Amy-SBC

For Chamnan, Steven and Caitlyn-SE

Preface

The book you have in your hands examines the People's Republic of China's endeavours to secure energy sources, raw materials and natural resources around the world. This examination is accomplished by looking closely at Chinese involvement in three countries: Angola, Brazil and Cambodia. The focus is mainly on gas and oil, but also on commodities, minerals, rubber and timber, among other production inputs. The guiding assumption for the chapters that follow is that, in order to sustain its economic growth and political legitimacy, China is forced to 'go abroad' in search of energy sources, raw materials and natural resources. In doing so, China is quietly reshaping the world.

In essence, China and the USA remain pivotal to energy and natural resource demand growth in the near and long terms, yet China lacks sufficient indigenous energy supplies. Consequently, to secure long-term economic growth, it must be strategic about locating where the inputs are going to originate from and tactical in figuring out how to get them to the mainland. Also, current national demand for resources has outstripped domestic supply, resulting in increased import dependence. For example, oil product demand growth will remain concentrated on gasoline, diesel and jet fuel in virtually all regions of the world as long as the rate of development of end-use technologies (i.e. private and public air, land and water transportation) drives growth forward. We believe that the current tightness in global refining capacity will ease gradually as economic recovery and capital investments pick up, but it is clear that significant capacity will be needed over the long term in the Asia-Pacific region, given that region's dynamic growth potential. Effectively, led by China, the Asia-Pacific region will consume half of global demand growth in 2012–20. These factors are major drivers of Chinese economic, energy and foreign policies.

Over the last two decades, these policies have been relatively consistent and reasonably well co-ordinated with the country's domestic priorities. However, as the world enters a competitive era marked by heightened anxiety about security of gas and oil supply, government efforts have emerged to modulate demand growth while expanding available and potential supplies, regardless of the specific governance dynamics in the location where supplies originate.

As vibrant economic, demographic, political and social trends make their way through China's mainland and its citizenry, the Chinese Government has yet to disclose high-level documents that comprehensively expound upon the country's strategic and tactical goals and the specific ways it plans to achieve economic progress and political stability through energy and resource security. While many other factors come into play in states' decision-making processes, it is evident that oil products (i.e. diesel, gasoline, jet fuel, plastics and lubricants) and basic manufacturing materials (i.e. commodities, inputs and minerals) are the essential grease that makes the economic machinery run smoothly. In view of the knowledge gap resulting from what is tangible (known) and what is hypothetical (unknown), this book aims to fill some of this gap.

As you read through the seven chapters, it will become readily evident that China behaves using mannerisms of ever-increasing assertiveness, boldness and confidence in the international arena. Beijing no longer fears belittlement by traditional hegemonic powers. Its actions in resource-rich foreign lands as well as in international forums provide irrefutable evidence that China is a country to be accounted for in international relations and respected for the size of its economy and population. The world has yet to witness the true economic power of China as it develops its domestic market. As this book is written, a great number of multinational corporations report that their most promising and biggest markets are in Chinese cities. Is this surprising? Not really. With 30% of 1,500 million people experiencing stable employment, higher incomes, social mobility and a thirst for Western lifestyles, these Chinese subpopulations are driving growth internationally just as the USA and Europe once did from the 1950s to the 1990s. Consequently, it is ever more indispensable that the global population grasp the thought process behind China's strategy and how it plans to operationalize state strategies into actions. As such, there should be continued attempts to try to envisage how Chinese energy policy could develop with respect to the goals and visions of China and its leaders, including the adaptations it makes to be perceived as a peaceful state, a good neighbour and collaborator in regional and foreign affairs.

The projected trend for China's oil consumption is upward. While some believe that China's dependence on foreign oil from 'rogue states' and unstable regions will decrease its energy security, others believe that the economic incentives will be far too strong for states and regions to play Russian roulette with China's gas and oil needs. However, as geostrategic competitions for energy sources become more bitter and frequent, there is a perceived risk that traditional hegemonic powers could block key transit points such as the Straits of Hormuz and Malacca to limit China's access to gas and oil. In response, China is rapidly building up naval forces to project power all the way into the Indian Ocean in an effort to secure gas, oil and mineral interests. With this and other issues in view, this book examines a number of overlapping debates regarding the varieties of capitalisms (autocratic v.

democratic), the urgent need for rebalancing as the global financial crisis continues to reverberate, and resource rents vacillate between riches and traps.

Without doubt, China's return towards the share of global gross domestic product (GDP) the country had prior to the Industrial Revolution in the West has raised questions about the USA's global and regional dominance. While it is possible to imagine a win-win outcome in which both China and the USA enlarge the pie, the reality is less rosy, as even US officials have conceded that much ground has been lost and will not be recovered. Beijing is now present throughout the entire Asian continent, in Africa, in Europe, and in North and South America. As the world hits peak oil and is slowly reaching a water crisis, China is gearing up its diplomatic and military stock to address these imminent threats on a more or less equal footing to the capacities held by other great powers. This build-up of capacities raises alarm within classical hegemonic states as it calls into question how far the instruments of hard and soft power will be used to accomplish other strategic goals and objectives. There are questions as to how this competition for resources will result in relation to success as states scramble for what is left up for grabs and, if this occurs, whom the actors vying for the lion's share of energy, materials and resources will be. While this book is about China's global search for energy and resources, it also looks at soft and hard power in light of China's new-found assertiveness, boldness and affluence.

We hope readers find the chapters engaging and informative. The narratives are easy to follow and carry the reader directly to the essence of the most pressing issues at hand. Part I, the introduction, sets the stage of China, energy and the rest of the world, as well as examining some geopolitical dynamics. In Part II, the country case studies, the actions and initiatives between China and Angola, China and Brazil, and China and Cambodia are examined in depth. In Part III, the conclusion links a number of dimensions together and examines how strategies become actions.

Sigfrido Burgos and Sophal Ear
Alabama and California, USA
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Abbreviations

AIT	Asian Institute of Technology
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AU	African Union
BPD	barrels per day
BRIC	Brazil, Russia, India and China
CACF	China-Africa Cooperation Forum
CAS	Chinese Academy of Sciences
CCP	Chinese Communist Party
CEO	Chief Executive Officer
CFR	Council on Foreign Relations
ChinalCo	China Aluminium Corporation's
CIC	China Investment Corporation
CIFL	China International Fund Limited
CNOOC	China National Offshore Oil Corporation
ECLAC	Economic Commission for Latin America and the Caribbean
EIA	Energy and Information Administration
EITI	Extractive Industries Transparency Initiative
EU	European Union
FDI	foreign direct investment
GDC	Guinea Development Company
GDP	gross domestic product
GNP	gross national product
IEA	International Energy Agency
IMF	International Monetary Fund
IOCs	international oil companies
IPCC	Intergovernmental Panel on Climate Change
MERCOSUR	Mercado Común del Sur (Common Market of the South)
MPLA	Popular Movement for the Liberation of Angola
MRC	Mekong River Commission
NDRC	National Development and Reform Commission
NEA	National Energy Administration
NEB	National Energy Bureau

NEC	National Energy Commission
NGO	non-governmental organization
NOCs	national oil companies
OECD	Organisation for Economic Co-operation and Development
ONGC	Oil and Natural Gas Corporation
OPEC	Organization of the Petroleum Exporting Countries
PLA	People's Liberation Army
PPSEZ	Phnom Penh Special Economic Zone
R&D	research and development
SAARC	South Asian Association for Regional Cooperation
SAFE	State Administration of Foreign Exchange Investment Company (also SIC)
SARS	Severe Acute Respiratory Syndrome
SEZs	special economic zones
Sinopec	China Petroleum and Chemical Corporation
Sonangol	National State Oil Company of Angola
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNITA	National Union for the Total Independence of Angola
US(A)	United States (of America)
WHO	World Health Organization
WTO	World Trade Organization

Note to readers

Unless otherwise stated, or in quotations, all dollar (\$) figures are in US dollars (US\$).

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I

Introduction

1 China, energy and the world

China's hunger for massive amounts of energy is driving policy in Beijing. The dynamic economic growth rates experienced in the last 20 years coupled with increased manufacturing levels, rising exports of low-cost goods, rapid urbanization, and higher demands for air travel and land transport increases China's appetite for crude oil, natural gas, timber and critical minerals.¹ In recognition of much-heralded resource depletion and talk about climate change, China has embarked upon replacing a portion of the coal, gas and oil it consumes with alternative forms of energy while addressing some drawbacks and their interference with extra growth in the renewable energy sector (i.e. solar photovoltaic, wind, solar thermal, wave movement, geothermal and biofuels from non-food plants).² In the meantime, Beijing continues to buy oil from traditional oil-producing countries (in the Middle East), and it also seeks its own sources abroad (in Africa, Central Asia and Latin America). These sources are sometimes located in far-flung locations, which are often, by common standards, not pleasant environments. China is also interested in minerals, such as copper, iron ore, gold, silver and tungsten, as well as natural resources like rubber, timber and potable water.³

David Zweig and Bi Jianhai note that China has been courting resource-rich states, "building goodwill by strengthening bilateral trade relations, awarding aids, forgiving national debt, and helping build roads, bridges, stadiums, and harbors". In exchange, China gets "access to key resources".⁴ As China enters the African continent and solidifies its position as a major player in the oil industry, it gains leverage to block, either completely or partially, other international oil companies from becoming involved with upstream operations, such as crude oil exploration and production, by locking in generous accords, agreements, concession, contracts and deals with resource-rich states and getting a head start on the long lead times required to fund and develop oil in territories where extraction is logistically complicated or excessively expensive.⁵

Tellingly, China's global hunt for energy and resources is devoid of normative concerns such as human rights and democracy. Given that sought-after energy sources and natural resources are often found in nation-states with weak governance and oppressive leaders, Beijing has struck accords,

agreements, deals and pacts with governments that have little to no respect for, or interest in, international norms of conduct. This way of conducting business places China at odds with American and European foreign affairs officials, because it undermines long-stipulated objectives in sensitive regions, such as isolating obstreperous and undisciplined governments or punishing them for violating civil and human rights, seeking nuclear proliferation, hosting religious radicals and terrorists, failing to comply with international law, and refusing to promote freedoms and liberal democratic practices.⁶

This first chapter asks: how and why is China searching for energy and resources globally? What are competitors saying and doing about it? These questions guide the discussion throughout, as well as inviting selected linkages to economic, environmental, geopolitical and strategic dimensions. We begin this discussion by placing the multiple aspects of China's global hunt for energy and resources into four selected dimensions: economic, environmental, geopolitical and geostrategic. Chapter conclusions and reflections offer a summary and analysis.

Economic dimension

Oil and its derivatives make the world move. Oil is used to fly planes, to run boats and ships, motorcycles and other motor vehicles, and to propel factory machines.⁷ In the absence of alternative energy sources, oil and its derivatives will remain the substrate of choice in global production. Moreover, world-wide societal aspirations to attain Western lifestyles fuel an unprecedented competition for gas, forest products, minerals, oil and water, as rising—and rapidly growing—nations like Argentina, Brazil, Chile, India, Indonesia, Russia, Turkey and Vietnam pursue comfort, prosperity and economic security for more and more of their people.⁸ Energy is the essence of modern civilization. Energy is the fundamental substrate that makes the world move about.

The first 11 years of the 21st century witnessed rapid economic growth and massive consumption of energy and resources by large, vibrant countries like China, but this qualifier also applies to Brazil, India, Indonesia, Russia and South Africa. This resulted in major increases in the global demand for gas, minerals and oil. In terms of fossil fuels, between 2004 and 2010, global supply could not keep pace with global demand, thus leading to a major increase in the price of oil.⁹ As states recognized that shortages in supply were far into the future, they started drafting emergency strategies and subsequent measures (i.e. contingency and response plans) to deal with a world with less and less oil. One of these measures was securing a couple of months of gas and oil in strategic reserves, which is also argued to have played its part in keeping prices up. This measure was most likely borrowed from what the USA and Europe do in their territories to bring a temporal sense of energy and national security.

The rapidly rising cost of energy and resources may be squeezing oil-importing countries, but it is aiding oil-exporting states to fill their national

coffers (this is especially true in Africa, where oil-rich countries have had a bonanza in state revenues that have slowly trickled down to populaces). Furthermore, China's yearly imports of energy and resources from developing countries are assisting these states in offsetting the rising costs of non-oil goods that rely heavily on gas and oil for their production, transformation and transport. Additionally, fiscal revenues in the oil-producing states, especially large producers such as Angola and Nigeria, increase as oil prices rise. Over the years, these countries have accumulated significant foreign exchange reserves—most of which have been used, regrettably, to the rulers' personal advantage.¹⁰

In terms of economic benchmarking, copper—a mineral heavily sought after by China—is closely watched by analysts and traders. It is called “Dr Copper” because it is a proven bellwether of the comprehensive soundness of world economy. Many industries use copper, so a strong demand for the metal often indicates that the overall economy is in the process of expansion. By mid-April 2011, copper prices had almost tripled after a two-year upswing, from \$1.55 per pound in January 2009 to \$4.49. This was largely driven by the belief that China, by far the world's largest copper user, has an insatiable hunger for this useful metal.¹¹ China's annual copper consumption hovers at 7–8 million tons.¹² Recent rising commodity prices can be partly explained by companies' and individuals' hoarding commodities of all types—from cooking oil and cotton to copper—betting that prices will increase. Experts agree, however, that successive rounds of interest-rate increases and moves to mitigate voracious speculation will have a negative impact on commodities and other critical markets in the short run. As a whole, China's long-term demand for commodities (agricultural and non-agricultural) remains robust because of the economy's size, sustained consumption levels and rapid growth.¹³

If copper is a catalyst to drive the Chinese economy, then oil usage is the economic “lubricant” that keeps the manufacturing and industrial sectors going at full speed. Beijing is becoming increasingly dependent on domestic and foreign oil, especially from Africa, Central Asia and the Middle East. This creates interstate competition and with it, “the threat of investment protectionism is growing”. The tighter control of raw materials and natural resources by sovereign wealth funds and state-owned investors is a primary concern. Many “resource-rich countries are becoming increasingly anxious about China's unending thirst for direct and unimpeded control of natural resources”, particularly gas, minerals, timber and oil. As developed and developing countries face an increase in the deployment of foreign direct investment from China, a growing tendency to examine deals more closely is taking place. Transactions that involve government-controlled entities, oil-for-infrastructure deals, and natural resources are being subjected to intense scrutiny by regulatory bodies.¹⁴ A study by the Council on Foreign Relations (CFR) in New York, USA, notes that in the recent past at least 11 powerful economies—which together constituted 40% of all foreign direct investment in