



Promoting China-U.S. Energy Cooperation: Issues and Prospects

Dr. Richard W. Hu

Center for Northeast Asian Policy Studies (CNAPS),

Brookings Institution, 1775 Massachusetts Avenue, NW, Washington, DC 20036-2103

rhu@brookings.edu

1. Introduction

Although China and the United States do not rely on each other for energy supplies, as do the two largest oil-consuming countries, they are natural “energy bedfellows” in coping with similar challenges in energy security. The rising price of oil, surpassing \$120 per barrel for the first time in April 2008, is hurting both countries. For Americans, the oil price hikes came at a time when the subprime mortgage crisis has been dragging the economy into a serious economic slowdown or a possible recession, spreading the pain to American consumers beyond the gasoline pump—and all this in an election year.

Although the Bush administration still denies it, a situation of “stagflation,” similar to that in the 1970s when Organization of the Petroleum Exporting Countries (OPEC) tripled the price of oil, may well be around the corner and may further dampen the American economy. The high price of oil is doing even more harm to China by placing tremendous inflationary pressure on its economy. Last year, China’s inflation rate, measured by the consumer price index (CPI), climbed to 4.8% after almost a decade of low financial risk. An “overheated” economy, high investment, and a huge liquidity surge amid energy price spikes have dramatically raised the Chinese government’s concerns about inflation.

Entering 2008, the CPI continued to soar to an alarming 7.1% in January and more than 8.4% in February (partially the result of major snowstorms in southern China), which made it more difficult to implement measures to ensure a future “soft landing” for the economy. Although Chinese consumers do not have to pay for oil price hikes as much as American consumers do and because of huge government subsidies, the price spikes have certainly increased the Chinese government’s subsidy burden, drained its financial resources, and further worsened the price distortion in the Chinese economic system, which is a big potential danger that should not be underestimated.

If we look down the road and if oil prices continue to either climb or are manipulated by certain forces in the international market, further damage would certainly be done to the Chinese and American economies alike. Although people may have different views about what factors have driven the price up, including whether China’s oil purchases are responsible, the recent price hikes—once again—have highlighted the fact that China and the United States are equally affected by high oil prices, and they share common interests in the pursuit of secure and affordable energy supplies.

The United States and China are the largest and second largest energy consumers in the world, respectively. Last year, China was a net importer of 159.28 million tons of crude oil, about 46% of its total consumption. The size of U.S. petroleum imports was 3.2 times larger than those of China, and Americans depend on foreign sources for more than 60% of the energy they consume. With that in mind, Beijing and Washington have similar concerns in their energy policies, and they face the same set of challenges: high dependency on foreign sources of energy, rising energy-related environmental impacts, and energy conservation and efficiency, in addition to the effect on their economies of energy price spikes. The two countries should cooperate, through joint or parallel action, to keep global energy supplies open, secure, and at an affordable price level. Neither country can hope to achieve much without the support of the other. Both would win if they choose to cooperate rather than confront each other in their pursuit of energy security.

To make the energy issue a cause, not an obstacle, for cooperation between the two countries, Washington and Beijing must identify the sources and root causes of mutual anxiety, narrow their difference over energy security issues, and develop a common agenda for energy cooperation in the bilateral relationship. Both China and the United States want to achieve energy independence and security by reducing the dependence on oil import for their energy needs. But neither of them can be indifferent to the other’s energy demand and security needs, although they do not necessarily rely on one another for energy supplies. Their economic growth has a tremendous influence on the global marketplace. The two economies

have largely absorbed the effect of the global oil price spikes; by the same token, they could influence the oil market if they join together.

2. Are China and the United States on a Collision Course over Energy?

Sino-U.S. relations have become more robust and stable since 9/11. With the expansion of the bilateral agenda on regional and global economic governance to regional and global security management, Beijing and Washington have increased their common interests and mutual interdependence in bilateral relations. However, there is a good prospect for energy to become a more contentious issue area between Beijing and Washington. For the American side, between now and the 2008 presidential election, how to deal with its energy dependence on imported oil is likely to receive more political attention from both the executive and legislative branches.

Although an effective energy policy agenda must include a domestic portion, as a recent Council on Foreign Relations study recommends,¹ there is no question that the United States cannot tolerate obstruction, real or perceived, to its access to sufficient amounts of foreign oil, now or in the future. Also between now and the 2008 Olympics Games in Beijing, China will find it imperative not to suffer from a major reduction in or deliberate disruption to its foreign energy supply. As has been true in the past, American and Chinese oil companies will still have to compete against each other for the same oil assets in a third country. It is not difficult to see that the demand for imported oil and access to oil resources would lead to mutual anxiety and even confrontation down the road.

With its spectacular economic growth, China has quickly emerged as a global economic powerhouse. As its economy has become more oil intensive, its hunger for imported oil has increased rapidly, and energy policy has become a key component of China's foreign policy. Responsibility for Chinese energy policy is split among various government agencies and is further complicated by overlaps with social, industrial, local-central governmental relations, and geopolitical considerations.² Entering the 21st century amid volatility in the global oil markets, the Chinese government identified "going out" as a key strategy for meeting the country's energy challenges, while continuing to develop domestic oil resources. The phrase "going out" (zou chu qu) refers to reaching out (to international markets), and it is twin to another strategy for pursuing economic growth, "bringing in" (qing jin lai), which literally refers to "inviting [foreign economic forces] into China."³

In the 1990s, the Chinese government accelerated the pace of internationalizing the Chinese economy and the mega-sized state-owned enterprises (SOE), against the background of the slow pace in G7 member countries' lifting embargoes imposed on China after the 1989 Tiananmen Square incident. By pushing Chinese companies and SOEs to "go out" of China, the government hoped that countries receiving Chinese investments would establish more normal trade ties with China and would make Chinese companies more competitive in the international marketplace.

China's state-owned energy and natural resource companies began, in earnest, to explore overseas opportunities in the early 1990s. The China National Petroleum Corporation (CNPC) began its "going out" program by making its first foreign investment in Canada in 1992.⁴ For the rest of the 1990s, CNPC and other Chinese oil companies launched and announced dozens of oil exploration and development projects in more than a dozen countries.⁵ Until today, an accurate and authoritative accounting of China's "going out" for energy and resources has yet to be forthcoming, but that outreach has captured a growing amount of attention outside China, especially in Western countries.

To Western analysts, China's pursuit of foreign energy supply is an integral part of China's grand strategy of building up the country's power, albeit through avoiding conflict with established powers—primarily

the United States—in the short term. Between China and the United States, resource diplomacy “will become one aspect of an intensifying struggle for mastering in Asia and on the wider world stage.”⁶ Western concerns seem to have gone beyond the scale of Chinese investments in overseas oil assets. In some instances, Chinese oil companies are found to “have shown a willingness to pay high prices in order to secure exploration and production contracts, sometimes overbidding international oil companies.”⁷ Hence, questions arise: Why or what drives Chinese oil companies to be so aggressive, at least in a market sense? Does China’s “going out” strategy come at expense of American energy security?

The U.S. Congress has made numerous inquiries into China’s pursuit of foreign energy supplies and the implications for bilateral, regional, and international diplomacy.⁸ Hearings and debates organized by the U.S.-China Economic and Security Review Commission have not generated unanimous conclusions about how serious a challenge China poses to the United States in terms of energy supply, and sometimes the commission comes out with a long shopping list of recommendations for U.S. foreign policy in more general terms. But they do demonstrate a sustained concern about China’s effect on the U.S. pursuit of energy security for itself and on larger American foreign policy goals.

In the summer of 2005, the China National Offshore Oil Corporation (CNOOC) competed against Chevron to acquire the oil assets of the California-based Unocal Corporation. The view that prevailed in the intense debates in Washington was overwhelmingly negative about Chinese intent, justified largely from national security interests.⁹ The U.S. Congress and the Bush administration continue to differ on how best to affect China’s behavior, particularly in the geopolitical and economic field. Sino-U.S. relations contain elements of both cooperation and competition. It is important to identify which elements of the relationship dominate for the time being. If the overall relationship becomes primarily cooperative, then the competitive elements are secondary, their effect is limited, and the managed competition can even be healthy. If, in contrast, the overall relationship becomes primarily competitive, as in the early period of the first George W. Bush administration, then the cooperative elements are subordinated and can become increasingly marginalized if not eliminated altogether. As a result of this combination of convergent and divergent interests, Sino-U.S. relations remain highly contentious on some key issues involving national security.

The American anxiety about China’s pursuit of foreign oil supply has to do with the behavior of the Chinese national oil companies (NOCs) in the global market. Chinese oil companies are latecomers in the world market. Afraid of being kept out of a third-country market, most Chinese NOCs are willing to pay a premium for being a later comer. In 2003, for example, CNOOC signed a deal with BG Group, formerly British Gas, to buy half of BG’s one-sixth share of the development of the North Caspian Sea Project for \$615 million. The project includes the Kashagan oil field, believed to be the fifth largest in the world, with estimated recoverable reserves of 15 billion to 20 billion barrels.¹⁰ After that, there were several other cases in which Chinese NOCs, for a big price, tried to join international oil companies in the exploration and development of promising oil fields.

Yet, the issue is not only Chinese oil companies being latecomers that want to pay a premium to join international oil exploration, but also that China wants to be part of the global oil industry and a major player in the market. China has made equity oil investments overseas as a national strategy in the interest of developing national oil industry, as well as in keeping with the country’s energy security strategy. Chinese oil industry strategists are generally affirmative about the necessity of making equity oil investment overseas.¹¹ On the contrary, some U.S. analysts tend to have different views on that topic. Lieberthal and Herberg argue that although overseas equity investment may be conducive to an oil company’s growth strategy, holding equity oil assets abroad has little to do with securing a country’s oil supply.¹²

For its own national interest, Beijing has continued to pursue its energy diplomacy, and the Chinese government has become more active in supporting Chinese oil companies to seek cooperation overseas. One of the high points for Chinese diplomacy was the hosting of a China-Africa Forum summit in November 2006, which brought heads of states from 48 African countries to Beijing for the meeting. The presence of Chinese oil companies in Africa has become more visible in recent years. Major Chinese national oil companies such as PetroChina, Sinopec, and CNOOC have all entered Africa and other major world oil markets.

To Western observers, Chinese NOCs easily conjure the image of their senior managers behaving as passive subjects of government control rather than as independent business agents who actively seek autonomy from their government regulators. The Chinese NOCs have reached deals with NOCs of several countries on a diplomatic and political collision course with the United States: Iran, Sudan, and Venezuela, for example. Such a combination can easily lead to an uncomfortable if not ominous conclusion: China's "going out" strategy has put U.S. diplomatic and strategic interests at stake. Skeptics in each country question the motives of the other side. Alarmists in the United States would view the Chinese NOCs' act as being an agent of state and as posing a threat to American energy interest. They tend to call for tougher action against China. Those who are more optimistic about the Sino-U.S. relationship tend to be more relaxed about the Chinese NOCs' behavior. The logic of this argument is based on self-fulfilling prophecy; in other words, if you treat it as a threat, you could eventually make it into a real threat.

3. The Imperative to Manage Mutual Anxiety

No doubt, China and the United States have mutual anxiety about the other side's intension in pursuing energy security, and both sides could view each other as undermining their respective pursuits of energy security. Robert Zoellick, former U.S. deputy secretary of state, echoed such a popular view of Washington in a speech in September 2005 that Beijing is taking actions to "lock up" energy resources around the world and is pursuing a mercantilist strategy in energy security. Moreover, China's oil investment in Sudan, Venezuela, and other states with poor human rights records is frequently criticized as irresponsible behavior.¹³

Similarly, not a small number of people in China are concerned that the American intention is to "block" China's way to acquire oil assets and to possibly threaten China's oil transportation through maritime routes. These mutual suspicions and anxieties seem not to have disappeared despite the ongoing energy policy and strategic dialogues at various levels.

Washington and Beijing should find ways to manage strategic anxieties on both sides. Both countries feel very strongly about sustaining global economic growth and ensuring energy security. This feeling represents a great confluence for policy dialogues. But at the same time, the two governments should consider different factors in defining "energy security" and how to achieve it. China and the United States have similar oil interests and face common challenges. They should not view each other through a zero-sum lens. Political leaders in both countries should do more to reduce mutual suspicion and to raise strategic comfort with each other.

Senator Joseph Lieberman, in a major address to the Council on Foreign Relations in November 2005, put the issue of energy security between the United States and China as a stark choice between cooperation and collision. Like a 21-century version of what the arms control and arms race between the United States and the former Soviet Union were in the 20th century, the two sides could run into a dangerous global race for oil if they do not start discussing with each other their mutual energy security concerns.¹⁴ China's pursuit for energy resources worldwide has major repercussions for the rest of the world, in particular about China's relations with the United States. But a collision course between the United States and China

over energy is far from inevitable, as long as (a) Washington and Beijing can cooperate rather than rival each other and (b) the global oil market mechanism operates reasonably efficiently.

4. Energy and Economic Interdependence in the Sino-U.S. Relationship

Sino-U.S. energy relations should be evaluated not solely on the grounds of global competition for energy supply, but also in a broader context of bilateral economic relations. The Sino-U.S. relationship has become more interdependent in nature in recent years, and it should be the base on which to design more a cooperative energy relationship over both countries' pursuit of energy security.

The Sino-U.S. relationship has been transformed considerably over the past decade. The United States and China still differ on an array of international issues; among them, Taiwan and human rights are long-standing ones. The U.S. "One China" policy requires that any future resolution of the Taiwan problem must be peacefully arrived at and genuinely acceptable to both sides, and it opposes the attempt of either side to unilaterally impose its will on the other. China regards this policy an intervention in its internal affairs, and suspects that it may reflect an American desire to perpetuate the separation of Taiwan and the mainland. On human rights, Washington wants to see an evolution toward a more pluralistic political system in China and better protection of the civil, political, economic, and social rights of the Chinese people. Beijing believes that this concern again constitutes intervention in China's internal affairs, and China has made a lot of progress in promoting human rights and the rule of law.

With Taiwan and human rights remaining sticky issues, the bilateral relationship has increasingly been loaded with economically oriented issues that have created more opportunities for bilateral cooperation. The United States is concerned about the bilateral trade imbalance and the value of China's renminbi. But for trade and exchange rates matters, there are no zero-sum game solutions, and they must be solved in a win-win fashion. In the Sino-U.S. summit, the agenda today is crowded with issues, not only Taiwan and human rights, but also trade, direct investment, portfolio investment, energy, environment, terrorism and other transnational issues, military balance, Third World development, regional and global economic architecture, regional security architecture, and global governance.

It is necessary that the difference between the American and Chinese views on specific issues such as Burma, Iran, North Korea, and Sudan should also be made into bilateral discussions. Now virtually all of these issues have to be understood in their broader regional and global contexts. The expansion of the bilateral agenda helps explain why the relationship has evolved in the ways that it has. In addressing these matters, leaders of both countries find (a) they have both common and divergent interests; (b) their countries are both colleagues and competitors; and (c) on a large number of issues, including energy security, the level of mutual interdependence has substantively increased in recent years.¹⁵

Both China and the United States have benefited from globalization. The economic globalization has tremendously increased financial flows, demands for energy, emission of greenhouse gases, and proposals for new economic and security institutions. And, in turn, they have introduced a multitude of new topics on the bilateral agenda between China and the United States. The rise of China leads to a rapid growth of its comprehensive national power and an increasingly global scope of national interests and foreign policy. That change means China is more important and indispensable to the management of global economic and security issues than ever before. The fact that Washington is asking China to become a "responsible stakeholder" in international affairs reflects the American acknowledgment of China's increasingly important role in dealing with a wider range of international economic and governance matters.¹⁶ The complexity of this relationship, reflected in its multidimensionality and convergence and divergence of interests, requires leaders in both countries to handle bilateral issues with a great deal of caution and carefulness.

Chinese economic growth and the U.S. economy have become highly interdependent on each other, with a bilateral trade volume of \$386.7 billion in 2007. The U.S. economy has enjoyed an average 3.5% growth since 1992 with relatively low inflation. On the whole, the United States has benefited greatly from a steady inflow of low-priced “made in China” products, which have helped to keep the overall price of consumer goods low and consumer confidence high. On the other side of the relationship, Chinese economic growth has also benefited from its strong exports to the American market over the years.

In assessing this interdependent economic relationship, one should not forget that a sufficient and affordable energy supply and an abundant supply of cheap labor in China have been the key ingredients to this successful story. China’s economic miracle is based on labor-intensive, low-wage manufacturing and robust exports. Without a sufficient and affordable energy supply, this path of export-driven growth would encounter serious problems, and so would the Sino-U.S economic relationship, in its current form.

Energy security between China and the United States is a matter of both cooperation and competition, but now more of cooperation because both countries are facing the common challenge of energy price hikes. But the problem is the mutual distrust that has existed between the two countries over a long time. As a veteran American China expert observes, “[Just] as many Chinese are concerned that Washington uses a desire to establish democracy to disguise its desire for hegemony and many Americans believe that Beijing talks about a China that is peacefully rising while providing its military with unjustifiably large annual budget increases, each side worries that gestures of cooperation may disguise an intent to block oil supplies to the other. It behooves both China and the U.S. to match words with actions, on energy as well as other aspects of behavior.”¹⁷

The rationales for China-U.S. energy cooperation can be seen mainly in economic interdependence, mutually beneficial strategic interest, and cooperation in global governance. For the past 30-plus years, China has benefited from the hegemony the United States is accused of creating in volatile spots of the energy-producing world. It was the U.S.-sponsored regional order that has made the Chinese rapid economic growth possible. Meanwhile, the American economy, at the macro-level, has also benefited from the incessant flow of cheaply made exports from China, which has helped to keep American interest rates and inflation reasonably low. A sufficient energy supply to meet industry demands in China has been a necessary precondition.

Chinese concerns about overdependence on foreign sources of supply and American concerns about China’s growing appetite for energy consumption notwithstanding, and simply by virtue of being the first and second largest oil importers of the world, the two countries are now firmly locked into a world of economic interdependence. Energy concerns are deeply rooted in domestic consumption and socioeconomic development. If oil prices are manipulated by certain international forces, both China and the United States will suffer, if not equally, then at least at a dear cost to both economies. Any damage to the Chinese economy will also hurt the United States, despite mutual suspicions in both countries.

Because both China and the United States have a high level of dependence on imported oil, they are exposed to the same kinds of risks associated with international energy markets and global economic governance. Because both have been and will continue to be dependent on oil imported from the Persian Gulf, they share common interests in maintaining geopolitical stability and reliable access to sources of Middle Eastern oil. This dependence also dictates their shared interests in maintaining geological stability of other oil reserves around the world. Every country these days is talking about energy security, but it is one thing to talk about reducing the dependence on oil import and a completely different thing to make it happen.

Despite the fact that Africa, Latin America, and Russia have increased their share in the global oil supply, the Middle East remains the most important source of world oil outflow. Major international oil compa-

nies have a long history of investing in the region to get Persian Gulf oil out of the ground and then to ship it out to all corners of the world. These oil production companies and the oil processing industry they generate have established a business path on which they are technologically dependent on each other. Even the government of a major country such as China or the United States must take these realities into consideration if the governments choose to task their oil companies to behave in line with government geostrategic preferences.

Therefore, no matter how Beijing and Washington design and pursue their respective oil strategies for managing supply security, they have to continue giving priority to securing the physical flow of oil from the Gulf to their respective home markets. And it is on this ground that both Washington and Beijing have a common interest in ensuring stability in the Gulf region. China began to import Persian Gulf oil (from Oman) in 1983, and there has been no U.S. effort to hamper China's shipment of oil from the region. In that sense, China has enjoyed "free riding" on the maritime security provided by the American military presence in the region. Any deliberate mining of the Hormuz Strait by a Gulf state (as happened before) is certainly not in China's or in the United States' interest.

The common interest shared by China and the United States in maintaining smooth maritime oil transportation can also be seen in the Strait of Malacca. Like the Hormuz Strait, the Strait of Malacca is a crucial international waterway for oil transportation from the Gulf and Africa to East Asia and the Pacific region. Geostrategically, Malacca is a vulnerable point for China's oil import, given the limited blue-water capability of Navy of the People's Liberation Army (PLA). Oil from the Persian Gulf and Africa is shipped through the Malacca or Lombok-Makassar Straits, which constitute a serious strategic vulnerability in time of war for China. Currently, about 60% of China's oil imports come from the Middle East; the figure is expected to reach 75% by 2010.¹⁸

Chinese strategists are concerned with the situation that the shipment of oil from the Persian Gulf and Africa to China is free from deliberate sabotage. With its PLA naval outreach to the Southeast Asian region, the United States could be either a guardian or a blocker of China's oil transportation. Nevertheless, since the early 1970s, Washington has never attempted or threatened to adversely affect China's use of the Malacca Straits or the South China Sea waters. Maritime pirate attacks in these waters do pose a challenge and have inspired a geostrategic competition of sorts among countries in East Asia. The United States is drawn into this geostrategic exercise too.¹⁹

5. Future Sino-U.S. Energy Cooperation: What Can Be Done?

Given the important strategic common interest between the two countries, the United States and China should engage each other on serious policy dialogues on energy security issues. These dialogues should help to create a policy environment for Chinese national oil companies and U.S.-based international oil companies to collaborate in third-country markets, to strengthen Sino-American cooperation in energy conservation in China, and to make energy dialogues a vehicle for geostrategic reassurance with each other.

The present Sino-American Energy Policy Dialogue (EPD) was established between China's National Development and Reform Commission (NDRC) and the U.S. Department of Energy (DoE) in May 2004 to facilitate policy-level bilateral exchanges of views on energy security, economic issues, and energy technology options. Before the EPD was in place, the two governments also launched an Oil and Gas Industry Forum in 1998 to facilitate opportunities for government and industry leaders from both countries to have frank discussions about their respective needs in the oil and gas sector. At the international level, both countries have also been involved in multilateral forums, such as Asia-Pacific Economic Cooperation, the

Asia-Pacific Partnership on Clean Development and Climate, and the International Energy Forum's Joint Oil Data Initiative.

In December 2006, the EPD became part of the newly launched China-U.S. Strategic Economic Dialogue (SED). In his inaugural speech to the SED, Treasury Secretary Henry Paulson stated that energy cooperation was one of the three pillars of the SED, together with “maintaining sustainable growth without large trade surpluses” and “continuing to open markets to trade, competition, and investment.” In his view, “[both countries] are committed to developing the use of cleaner, more abundant energy sources, and we will talk about the best ways to do that.”²⁰

Because they are the two largest energy consumers in the world, it is useful for both governments to increase mutual understanding of each other's energy policies, programs, and priorities; the annual EPD has served that purpose since 2004. In the previous rounds, EPD discussion topics have included energy policy making, supply security, power sector reform, regulatory issues, energy efficiency, and development of energy technology.

In the dialogue, the Chinese side got familiarized with (a) various U.S. policy initiatives under the Energy Policy Act of 2005 and (b) what the U.S. government does to encourage the commercialization of advanced technology in the energy sector. For Americans, it was a good opportunity to learn from the Chinese energy officials about the rationales behind China's policy of reducing energy intensity in the economy under China's five-year planning cycle. Another EPD achievement is that China was encouraged to establish a strategic oil reserve as a hedge against supply disruptions: strategic oil reserve projects are currently under way at four different locations in China.

Nevertheless, although both countries feel very strongly about sustaining the world's economic growth and about ensuring access to reliable and affordable energy, the EPD and other government dialogue vehicles so far have achieved little beyond understanding each other's policymaking and positions on various energy issues. The two governments really need to put in more effort toward producing concrete measures to advance Sino-U.S. energy cooperation and to ensure energy security for both countries in practical ways.

6. More Substantive Measures for Energy Cooperation

Future China-U.S. energy dialogues should proceed with more substantive measures in advancing energy cooperation. There are several issues to which both governments should turn their attention. Besides finding ways to manage strategic anxieties on both sides, they should address the following issues.

First, both sides need to take more substantial steps in facilitating cooperation in developing clean sources of energy and energy efficiency. Measures could include—but are not limited to—encouraging technological innovation; adopting highly efficient, clean energy technology; and promoting the sustainability of natural resources. Both governments have initiated and engaged in a number of projects in the area, and they should continue to advance their cooperation to bring about fruitful results. The key for ensuring that is to encourage companies from the both countries to develop, share, and commercialize technology and to make the cooperation sustainable.

Second, both countries should continue and expand dialogues about how to address the challenge of climate change. Washington and Beijing should work together in a pragmatic manner within the World Trade Organization (WTO) and should engage in other multilateral negotiations on trade and climate change because China and the United States are two largest stakeholders in fighting against the problems of climate change. High-level bilateral dialogues should be initiated on the countries' respective positions

in negotiating the post-Kyoto climate change regime. They should also discuss their positions on reducing or, as appropriate, eliminating tariff and nontariff barriers to environmental goods and services in international trade.

Third, they should act in concert to stabilize petroleum prices in the international market. As OPEC flexes its muscles, oil-consuming nations should act together rather than compete among themselves for energy supplies. Samuel Berger, former national security adviser in the Clinton administration, proposed that the United States should coordinate with fellow oil-consuming nations, including India, Japan, and particularly China, to establish a multilateral green energy fund. With this kind of fund in place, backed by some of the wealth that China has accumulated from its trade surpluses as well as investments from the other partners, it would not be inappropriate for the fund to play a role in stabilizing oil prices, among its other goals, during times of oil market upheaval.

Another way to stabilize oil prices is to coordinate the use of the Chinese and American strategic oil reserves at the time of market malfunction and political instability. Although they should be extremely cautious in taking any coordinated action to influence the world oil markets, both countries have a common interest in maximizing the efficiency of global energy markets. Yet the current problem is that both governments still lack a clear understanding of each other's intentions for how and under what circumstances they would use strategic reserves. They need more dialogues on the issue, as well as an increase in transparency of their strategic reserves.

Fourth, both governments should encourage their energy companies to collaborate in jointly enlarging the global oil supply, and they should support the transfer of energy technologies. It would be good for both countries to avoid negative global competition for oil, politically. Commercially, energy companies from both countries could form joint ventures in extracting oil and other forms of energy, so that they could enlarge energy supply for global markets as well as for domestic markets. Both governments should avoid providing cover for their energy companies to compete in third countries. Actually, they have a common enemy in dissuading resource nationalism and market monopoly in the world energy market. U.S. companies also have a big role to play in helping China develop energy efficiency and green-energy technology. Given the growing size of its economy, China's energy efficiency and environmentally sustainable use of energy means a big reduction of pollutants into air and a considerable contribution to the common course of global environmental protection.

7. Conclusions

Energy policy, if complicated by its overlap with geopolitical considerations, is bound to be competitive in nature. But a conflict between China and the United States over energy resources is far from inevitable and should not be made into conflict. Washington and Beijing can make their inherently tempestuous relationship one of deepening partnership rather than strategic rivalry in energy security.

Both China and the United States must learn to handle energy as a cause for ameliorating differences in bilateral ties in the age of global interdependence. One desired option of interaction is to move from dialogues aimed at becoming informed about the other side's energy security conceptualizations and policy preferences to entering a partnership that can positively contribute to each other's energy security. An energy partnership between China and the United States can, in turn, provide an important and necessary source of assurance against instincts of geopolitical rivalry and against making energy competition between the two countries a self-fulfilling prophecy.

Endnotes

- ¹ National Security Consequences of U.S. Oil Dependency (Washington, DC: Council on Foreign Relations, October 2006).
- ² Peter Cornelius and Jonathan Story, “China and Global Energy Markets,” *Orbis* 51, (Winter 2007): 5–20.
- ³ See a short but succinct presentation in “China Will Do Better Job in ‘Bringing In’ and ‘Going Out,’” *People’s Daily*, November 8, 2002, http://english.people.com.cn/200211/08/eng20021108_106486.shtml (accessed March 30, 2008).
- ⁴ Zha Daojiong, “China’s Oil Diplomacy in Africa,” *International Politics Quarterly (Guoji Zhengzhi Yanjiu)* (December 2006): 59–61 (text in Chinese).
- ⁵ For a listing of these activities, see Erica Downs, *China’s Quest for Energy Security*, (Santa Monica, CA: RAND, 2000), pp. 21–23.
- ⁶ Aaron L. Friedberg, “Going Out”: China’s Pursuit of Natural Resources and Implications for the PRC’s Grand Strategy, *NBR Analysis* 17, no. 3 (Seattle: National Bureau of Asian Research, September 2006), p. 34.
- ⁷ Flynt Leverett and Pierre Noël, “The New Axis of Oil,” *The National Interest* 84 (Summer 2006): 66.
- ⁸ The U.S. Congress established the U.S.-China Economic and Security Review Commission in 2000 to make an annual report about China’s foreign relations and their implications for American economic and security interests.
- ⁹ Editorial, “America’s Summer of Discontent,” *New York Times*, August 11, 2005, p. A22.
- ¹⁰ “China Oil Giant Dealt a Setback,” *New York Times*, May 13, 2003, available at <http://query.nytimes.com/gst/fullpage.html?res=9E03E6DB103FF930A25756C0A9659C8B63> (accessed June 10, 2008).
- ¹¹ For a summary of such views, see Linda Jakobson and Zha Daojiong, “China and the Worldwide Search for Energy Security,” *Asia Pacific Review* 13, no. 2 (2006): 64–65.
- ¹² Kenneth Lieberthal and Mikal Herberg, *China’s Search for Energy Security and Implications for U.S. Policy*, *NBR Analysis* 17, no. 1 (Seattle: National Bureau of Asian Research, April 2006).
- ¹³ Robert B. Zoellick, “Whither China: From Membership to Responsibility?” Remarks to the National Committee on U.S.-China Relations, New York, September 21, 2005, <http://www.state.gov/s/d/rem/53682.htm> (accessed April 4, 2008).
- ¹⁴ Joseph I. Lieberman, “China-U.S. Energy Policies: A Choice of Cooperation or Collision,” (November 30, 2005), http://www.cfr.org/publication/9335/chinaus_energy-policies.html (accessed April 4, 2008).
- ¹⁵ C. Fred Bergsten, Bates Gill, Nicholas R. Lardy, and Derek Mitchell; *China: The Balance Sheet—What the World Need to Know Now About the Emerging Superpower* (New York: Public Affairs, 2006).
- ¹⁶ See Zoellick speech titled “Whither China: From Membership to Responsibility?” available at <http://www.state.gov/s/d/former/zoellick/rem/53682.htm> (accessed June 10, 2008).
- ¹⁷ June Teufel Dreyer, “Sino-American Energy Cooperation,” *Journal of Contemporary China* 16, no. 52 (August 2007): 476.
- ¹⁸ *Ibid.*, p. 470.
- ¹⁹ Zha Daojiong and Hu Weixing, *Building a Neighborly Community: Post-Cold War China, Japan, and Southeast Asia* (Manchester, UK: Manchester University Press, 2006), chapter 6.
- ²⁰ U.S. Department of the Treasury, “Introductory Remarks by Secretary Henry M. Paulson at the U.S.-China Strategic Economic Dialogue,” December 13, 2006, <http://www.ustreas.gov/press/releases/hp196.htm> (accessed April 4, 2008).

Korea Economic Institute

1201 F Street NW Suite 910
Washington, DC 20004
202-464-1982; Fax: 202-464-1987
www.keia.org

As of August 9, 2008, our address will be:

1800 K Street NW Suite 1010
Washington, DC 20006

KEI Editorial Board

Editor-in-Chief: James M. Lister
Contract Editor: Barbara Hart
Assistant Editors: James H. Alvis
Greg Scarlatoiu
Arthur N. Taylor

The Korea Economic Institute is registered under the Foreign Agents Registration Act as an agent of the Korea Institute for International Economic Policy, a public corporation established by the Government of the Republic of Korea. This material is filed with the Department of Justice, where the required registration statement is available for public inspection. Registration does not indicate U.S. Government approval of the contents of this document.

KEI is not engaged in the practice of law, does not render legal services, and is not a lobbying organization.

The views expressed in this publication are those of the author. While this publication is part of the overall program of the Korea Economic Institute, as endorsed by its Board of Directors and Advisory Council, its contents do not necessarily reflect the views of individual members of the Board or the Advisory Council.

Copyright © 2008 by the Korea Economic Institute of America.
Printed in the United States of America.
All Rights Reserved.