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MASTER THESIS

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**China's Changing Energy Diplomacy:  
A Source of Increased Economic Interdependence or a  
Continuation of Neo-Mercantilism?**

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## **Abstract**

Over the past two and half decades, extensive literature have analysed the economic consequences of China's energy diplomacy. However, recent geopolitical developments, such as the establishment of China's new international institutions in the Asian Infrastructure Investment Bank and the Belt and Road Initiative, have reinvigorated the field of China's energy diplomacy. It has strengthened the need for research that accounts for how these institutions might complement China's energy diplomacy as well as their economic implications for the countries that export fossil fuels to China. This Master's thesis researches whether China's energy diplomacy is changing towards facilitating increased economic interdependence or if it is a continuation of Neo-Mercantilism. It assesses the concepts of strategic importance and relative power to analyse the changes in China's energy diplomacy towards its four most important energy supplying regions as well as how China's new international institutions can complement its energy interests. The study finds that China's new international institutions are successful complements to China's energy diplomacy, hence they provide China with institutional legitimacy, which increases its energy trade and investment opportunities. The analysis concludes that China's energy diplomacy remains Neo-Mercantilist although China is increasingly facilitating economic interdependence in the regions that are of strategic importance to its national interests, while isolated resource-rich countries, with little strategic importance, are locked in a cycle of dependency towards China.

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## **Introduction:**

Many countries were positively surprised by the message of Xi Jinping's speech at the World Economic Forum in early 2017 where he encouraged the world to continue to support globalization and fight against protectionism (Xinhua, 2017). Xi Jinping's speech sparked discussions about whether China would assume a new role as a leader of economic interdependence and as a more responsible stakeholder in the global economy. However, historically, China has often been criticised for being protectionist and Western countries have questioned whether China can be a responsible stakeholder in the global economy, partly because of its controversial energy diplomacy. China's energy diplomacy has been accused of unfair economic and neo-colonial practices, in primarily Africa and Asia, because of poor working conditions for local labour, subcontracting to Chinese instead of local firms, unfair trade deals that heavily favour China, trading with isolated authoritarian regimes as well as showing overall neglect for the humanitarian and economic situation in the countries that they are exporting energy resources from (Tang, 2006, p. 13).

The emergence of China's energy diplomacy as a heavily discussed geopolitical topic largely follows China's unprecedented economic growth. Since Deng Xiaoping's opening up reform of the Chinese economy in the 1980s, China's economy has grown exponentially and, by 1993, China had become a net-importer of oil, which is seen as the beginning of China's energy diplomacy (Tang, 2006, p. 3). To continue to fuel its economy and maintain domestic energy security, China had to go overseas in search for oil and, in just 10 years, China rose from becoming a net-importer of oil in 1993 to surpassing Japan as the second largest oil user in the world in 2003 (Tang, 2006, p. 3). China managed to secure many of its energy needs through equity oil supply agreements with authoritarian resource-rich states such as Angola, Iran, Venezuela and Sudan in

exchange for infrastructure, low interest loans and arms deals (Gueldry & Liang, 2016, p. 227). These agreements allowed Chinese state-owned enterprises to enter, explore and export cheap energy resources by circumventing the open international market while, at the same time, empowering suppressive regimes (Tang, 2006, p. 6).

Many critics have, therefore, labelled China's energy diplomacy as Neo-Mercantilist, an economic theory that argues for a policy strategy of government interference in the global market to protect national economic interests. The academic area of researching China's energy diplomacy as Neo-Mercantilist is heavily explored, however, changing geopolitical developments such as the establishment of China's new international regimes in the Asian Infrastructure Investment Bank and the Belt and Road Initiative, is changing the landscape of China's energy diplomacy. The official Action Plan for Belt and Road Initiative from 2015 states that:

“The Belt and Road Initiative is a way for win-win cooperation that promotes common development and prosperity and a road toward peace and friendship by enhancing mutual understanding and trust, and strengthening all-around exchanges. [...] It promotes practical cooperation in all fields, and works to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness (State Council of the PRC, 2015)”.

However, there is a lot of uncertainty for the more than 60 countries along China's new Silk Road Economic Belt and the 21st Century Maritime Silk Road, who are unsure of if China's new international regimes will truly facilitate more economic interdependence and opportunities or if

they are meant to create more Neo-Mercantilist opportunities for China to serve its national interests (Miller, 2017, p. 36).

As a result, this thesis will analyse how China's energy diplomacy towards its four most important energy export regions is changing as well as how China's new international regimes can complement its energy diplomacy. The thesis will research whether China's energy diplomacy is changing towards facilitating increased economic interdependence or if it is a continuation of Neo-Mercantilism.

To research this, the following problem formulation is proposed:

- *Is China's energy diplomacy changing towards facilitating more economic interdependence or is it a continuation of Neo-Mercantilism?*

To help answer the problem formulation, the following two research questions are proposed:

- What characterizes China's energy diplomacy and how has it been changing?
- How does China's new international regimes complement China's changing energy diplomacy?

These questions will form the analysis and they should provide answers to both the history of China's energy diplomacy, how China's new international regimes are changing China's energy diplomacy as well as the implications of China's changing energy diplomacy.



## **Literature review:**

The purpose of the thesis is to research whether China's energy diplomacy is changing towards promoting more economic interdependence or if it is a continuation of Neo-Mercantilism. As an academic topic, China's energy diplomacy is extensively researched and this creates both an opportunity and challenge for the thesis. On one hand, there is extensive research to compare, evaluate and discuss, however, on the other hand, it makes it more difficult to create a unique research contribution for the thesis. This literature review will review some of the most relevant existing literature on China's energy diplomacy and discuss their potential limitations, which this thesis can expand on with its own perspective.

Guedry & Liang (2016) argue that China's energy diplomacy is neither concerned with necessarily increasing economic interdependence nor is China intent on reshaping the world order according to a grand plan to best supply and support its national interests. Rather the authors argue that China is simply trying to reach a level of pragmatic satisfaction where they can guarantee energy security from a diversified number of regions and sources for sustained economic growth.

Tom Røseth (2016) researches Russia's developing energy export dependency to China, hence Russia has emerged as an important oil and gas supplier since 2008. He argues that the bilateral relationship within energy trade between the two countries has been defined by a somewhat reluctant and pragmatic history of engagement. However, since 2014 and the Crimea sanctions, Russia has become more dependent on China as an oil and gas export destination and the relationship has grown and is facilitating increasingly positive economic interdependence and mutual interests.

James Tang (2006) explores the history of China's early energy diplomacy development during the Hu Jintao era. He argues how China's overall foreign policy has been shaped by China's

expanding energy insecurity and he focuses on the effect that China's outward expansion for resources has had on their relationship with the US. He argues that to avoid confrontation the US and China should emphasise cooperation and mutual interests rather than clash on the competition for energy resources.

Tom Miller (2017) researches China's economic diplomacy in Central and Southeast Asia. He analyses what role the Asian Infrastructure Investment Bank and the Belt and Road Initiative can play in facilitating China's regional hegemony. He studies the diplomatic setbacks China has experienced with its development projects in Central and Southeast Asia within the last decade, and argues that China's biggest hindrance for regional hegemony, and for realising the potential of the Belt and Road Initiative, is that the smaller Asian economies do not trust China's 'win-win' intentions and are afraid of being exploited by China.

Scobell & Nader (2016) have written an extensive report on China's energy and foreign policy in the Middle East, focusing on Iran's and Saudi Arabia's relationship with China. They analyse the history of China's bilateral relationship with the two countries as well as what those relationships have meant for China's energy diplomacy in the region overall. They argue that because of China's increasing energy and economic dependency on the region, China might assume a larger security role in the region.

Thomas Eder (2014) explores the Russia-China relationship with a specific focus on their energy competition in the Central Asian region. He argues that while Russia has historically dominated Central Asian energy, China managed to secure itself a grip on the region during the financial crisis in 2008. He analyses how China has limited Russia's role in the region and argues that despite obvious Russian dissatisfaction with the development, it has caused surprisingly little

damage to the bilateral relationship because of the increasing number of economic ties between Russia and China.

Thus, as the existing literature shows, China's energy diplomacy is an area that is constantly developing and the topics of tensions within China's energy diplomacy changes according to international geopolitical developments. Most literature on China's energy diplomacy focuses on the engagement with individual regions or countries, while this thesis seeks to look across all the regions of engagement for China's energy diplomacy. By analysing China's energy diplomacy on a global scale, it is easier to understand the full scale of how China's new international regimes, such as the Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB), will complement China's energy diplomacy. Thus, this thesis adds an international institutional element by analysing the BRI's and the AIIB's role in China's energy diplomacy, which would have been difficult earlier since both international regimes were still in their inception phase. Therefore, the research contribution of this thesis is to analyse if China's energy diplomacy is changing towards better facilitating economic interdependence or if China is continuing with Neo-Mercantilist strategies to serve its national interests, while also accounting for the implications that China's new international regimes might have for its energy diplomacy.

## **Methodology:**

This section will describe the research design of the thesis as well as the empirical approach used to answer the problem formulation. The thesis' research will be based on the theoretical framework of Neo-Mercantilism and Neo-Liberal Institutionalism. Neo-Mercantilism is a realist economic theory that will primarily be used to analyse the economic implications of China's energy diplomacy. Neo-Liberal Institutionalism is a sub-stream of Liberalism that will be used to analyse and discuss the implications that China's new international regimes in the BRI and the AIIB might have for its energy diplomacy, such as whether they will help facilitate more economic interdependence or if they are primarily institutional measures for China's to advance its national interests.

## **Research design:**

This section will outline how the thesis plans to answer its research questions as well as what type of sources there will be used. To provide context for China's current and future energy security needs, the thesis will lead with a background research of China's domestic energy sector. The purpose of the background section is to show if the development of China's domestic energy sector has had an impact on China's reliance on imported fossil fuels. The section defines China's current energy needs and consumption and looks at how they have changed recently. Finally, it will evaluate whether China's future energy developments, in e.g. renewable energy and increased energy efficiency, will have any impact on China's reliance on imported fossil fuels and if they, therefore, might change China's energy diplomacy. To answer this, the thesis will rely on data from official Chinese government reports on China's energy consumption, the 13<sup>th</sup> Five-Year Plan

as well as information from international organizations, such as EIA, IEA and World Nuclear Association.

Having provided context for China's current and future energy needs, the rest of the thesis will be structured according to the analysis of the two research questions, and the following sections will describe the how each question will be answered individually.

- What characterizes China's energy diplomacy and how has it been changing?

This section will be the primary analytical foundation for understanding China energy diplomacy. The question will be approached by outlining the current and the historical characteristics of China's energy diplomacy towards its four most important energy supplying regions. The regions chosen for analysis are Africa, the Middle East, Latin America as well as Russia and Central Asia. These regions produce more than 91% of China's imported oil, as a result, they are well suited to showcase the variety in China's global energy diplomacy (Statista, 2014). The analysis of the regions will be structured as four region-wide case studies, which will focus primarily on the resource trade between China and the most important countries within each region. The thesis makes a methodological choice in selecting the major oil exporters to China within each region as examples to draw conclusions for the entire region. The disadvantage of doing this is that the thesis might lose some of the potential variation in China's energy diplomacy in the smaller energy exporting states, however, such a limitation is necessary for the scope of the thesis, and the countries directly analysed in the thesis still account for 84% of China's total oil imports (Statista, 2014). Russia is given its own sub-category combined with Central Asia, hence, China's engagement with Central Asia is interlinked with its relationship with Russia, moreover, Russia itself is the third largest supplier of oil to China and, as a result, their relationship merits distinct attention.

Oil and natural gas are chosen as the focal resources since China is currently much less dependent on coal imports because of their extensive national reserves. Finally, it is an underlying hypothesis of the thesis that China's energy diplomacy has been Neo-Mercantilist for at least some of its history. As a result, this section will also test this hypothesis by using Neo-Mercantilist theory to define what policy approach China historically has used to secure its energy resources. By theoretically analysing the history of China's energy diplomacy in the four most relevant regions combined with current developments, it should be possible to form a comprehensive characteristic of China's energy diplomacy. This characteristic of China's energy diplomacy in each region will then be used to discuss to what extent it is changing. To answer this research question, the thesis relies on both the official White Paper for China's energy policies combined with second-hand sources, such as academic journals and books, to try to provide a comprehensive depiction of China's global energy diplomacy.

- How does China's new international regimes complement China's changing energy diplomacy?

This section will analyse and discuss how China's new international regimes, such as the BRI and the AIIB, will complement China's energy diplomacy. It will rely on Neo-Liberal Institutional theory to analyse how China's international regimes can complement and legitimize its energy diplomacy. These international regimes are chosen specifically because they are some of China's current major international institutional projects and it is important to understand how they might complement and change China's energy diplomacy moving forward. To answer this research question, the thesis uses the official objectives for the BRI and the AIIB as stated on their websites or in their official policy papers. However, the section will use various second-hand sources, such

as books, online sources and academic journals, to try to provide a more critical angle towards the significance of the international regimes for China's national interests.

### **Empirical design and limitations:**

The empirical approach of the thesis is to use qualitative methods for researching the developments in China's energy diplomacy. The qualitative approach is chosen in order to analyse the developments in China's global energy diplomacy and using already available empirical data on China's energy resource imports and investments to support the arguments. The thesis uses John Gerring's definitions of quantitative and qualitative methods. He defines the two terms as antonyms and contradictory concepts, where quantitative observations are comparable while qualitative observations always will be incomparable (Gerring, 2016, pp. 3-4). Quantitative analysis researches a statistical pattern in a matrix of observations according to a set theory, which leads to a descriptive or causal inferred conclusion. Qualitative analysis reaches its inferred conclusion based on select cases of essentially incomparable observations to try to address multiple aspects of an issue (Gerring, 2016, pp. 3-4). Thus, a qualitative method uses incomparable observations from purposefully chosen cases as "within-case evidence" (Gerring, 2016, p. 5), however, such evidence can rarely be found by using an algorithm nor can it be reduced to an algorithm. As a result, the thesis will follow an inductive reasoning approach, where the thesis will use the findings of its research questions as probable evidence from which a conclusion can be drawn.

The reasoning for using a qualitative approach to research China's global energy is because that a quantitative approach would be challenged to infer a statistically founded conclusion on whether China's global energy diplomacy can be said to moving towards facilitating more economic interdependence or if it is a continuation of Neo-Mercantilism, hence there is a

significant lack of transparency in how China attains its energy resources. Therefore, there simply might not be enough statistical evidence to do a valid assessment. Meanwhile, the qualitative approach is limited in the sense that its inferred conclusion is essentially just a collection of arguments based on the observations in the case studies. However, for researching China's global energy diplomacy, the case-based approach of qualitative methods lends itself well, hence it allows for in-depth case analysis of both individual countries or regions, which can be necessary to understand the variance and diversity within China's energy diplomacy. The empirical design and approach of the thesis is, therefore, to use the incomparable observations about the biggest energy exporting regions to China, as 'within-case evidence' to draw an overall inferred conclusion on the trajectory of China's changing energy diplomacy. Within the topic of China's energy diplomacy, there undoubtedly exists multiple quantitative correlations that could explain significant tendencies, however, because of the scope and prioritized research area of the thesis, it is necessary to accept such limitations to provide a more detailed picture of China's global energy diplomacy.

The methodological limitations relate primarily to not using just a small number of case studies of countries. A different approach to the topic of the thesis would have been to present a couple of case studies of countries where China is engaged to evaluate if and how China's energy diplomacy towards these countries has been changing. The reason for not using this approach is that this thesis' research contribution is to analyse the overall trajectory of China's global energy diplomacy and by doing a small of number of country case studies, rather than focusing on China's most vital regions as this thesis does, it would not be feasible to make inferred conclusions on China's global energy diplomacy.



**Sources:**

This thesis uses both second-hand sources researching China's energy diplomacy as well as official Chinese sources, such as the Chinese White Paper for China's energy policies from 2012. The thesis also uses official Chinese government reports in relation to China's domestic energy sector as well as the official objectives for the AIIB and the BRI as stated on their websites or in their official policy papers. By also using the official Chinese accounts for their energy diplomacy and international regimes, it provides a more nuanced understanding of how the Chinese government perceives the role of its energy diplomacy and its international regimes in the world. However, overall, the thesis relies more on second-hand sources, rather than official Chinese sources, to achieve a more critical view on China's energy diplomacy. The second-hand sources range from academic research journals, online sources as well as books on China's energy diplomacy and foreign affairs. The academic journals, online sources and books have been found primarily using online university library portals.

## **Theoretical framework:**

This section will outline the theories used in the thesis and describe why these theories were chosen over other possible theoretical approaches.

## **Theoretical considerations and alternative approaches:**

This section will describe the theoretical considerations for why the thesis chose specifically Neo-Mercantilism and Neo-Liberal Institutionalism rather than other possible theoretical approaches as well as how these alternative approaches could have answered the problem formulation differently. Moreover, it will explain the basic concepts and worldview constructed by the classical theories of realism and liberalism, which is necessary for properly understanding Neo-Mercantilism and Neo-Liberal Institutionalism.

Neo-Mercantilism is an economic theory with realist worldview and, as a result, it is necessary to present the basic concepts of realism in order to understand Neo-Mercantilism. Among the different branches of realism, Hans Morgenthau's concept of realism in *Politics Among Nations* (1948) is among the most important for understanding Neo-Mercantilism. Realism according Morgenthau argues that states are driven as a function of human behaviour, such as self-interest, which leads states to maximize state power. Morgenthau saw power distributed among the world's states and placed them into three categories: status quo, revisionist or prestige-seeking states (Morgenthau, 1972, pp. 21-25). Status quo states want to maintain the current global power divisions while revisionist states want to change it. Meanwhile, the prestige-seeking states sought to showcase their power and gain more influence. Morgenthau's concept of a prestige-seeking state is used in the analysis of the thesis, hence it is a way to analyse whether China's new international institutions can facilitate prestige and influence for China.

For Morgenthau, power is not measured primarily in military capabilities, such as it is for the neoliberals Kenneth Waltz in *Theory of International Relations* (Waltz, 1979) and John Mearsheimer in *The Tragedy of Great Power Politics* (Mearsheimer, 2001). Rather Morgenthau's concept of power is a more intangible idea composed of both political, military, economic, industrial and resources capabilities. Moreover, a state's ability to effectively use diplomacy as a bargaining tool is paramount for accessing state power (Morgenthau, 1972, p. 14). Morgenthau's definition of power is used throughout the thesis because it downplays the importance of military capabilities, which it is also downplayed in Neo-Mercantilism. Therefore, when measuring and analysing China's power in the thesis, it focuses more on China's economic might and its diplomatic capabilities than its military capabilities.

However, Waltz's and Mearsheimer's neorealist concept of the world as an anarchic international system, which drives states towards self-help behaviour and Waltz's concepts of unipolar, bipolar and multipolar systems is also important for the thesis, hence the thesis seeks to explain how China's energy diplomacy is changing as its relative power increases compared to other states (Waltz, 1979, pp. 10-12). The concept of relative power is also used throughout to try to explain how China can negotiate and leverage preferential trade deals with weaker states.

As a result, many realist concepts are crucial to understand the arguments made in the thesis, however, Neo-Mercantilism is chosen ahead of realism as the primary theory because it is more focused on the economic dynamics and reasoning behind China's energy diplomacy. Realism as the primary theory is limited in this regard because it is more useful for analysing how states operate within traditional power struggles, while Neo-Mercantilism focuses on how powerful states intervene in the global market to protect their domestic economy, industries and security, which is what this thesis seeks to investigate in relation to China's energy diplomacy.

Robert Keohane's Neo-Liberal Institutionalism is a specific sub-stream of liberalism, which focuses on the role and the ability of international institutions to facilitate cooperation, economic interdependence and convergence of mutual interests between states. Using classical liberalism could have been an alternative theory to investigate the potential of the mutually beneficially cooperation between China and the countries it imports energy resources from. However, the theories of classic liberalists, such as John Locke, Adam Smith and Immanuel Kant, would be limited in their ability to account for all the dimensions of how China uses its new international regimes to complement its energy diplomacy. Keohane's Neo-Liberal Institutionalism is more specialized and appropriate for this thesis because it accounts for the more realist and selfish interests of states, and tries to explain how international regimes can try to mitigate the potential conflicts that arise when one state's pursuit of its interests interferes with another state's national interests. This dimension is important for the thesis because it wants to investigate whether China's new international regimes can be seen as extensions of China's energy diplomacy to primarily facilitate its own national interests or if the institutions are meant to facilitate more positive cooperation and economic interdependence.

However, the concept of economic interdependence is based on classic liberalist ideas and it is used throughout the paper and it is central to understanding Keohane's Neo-Liberal Institutionalism. Economic interdependence is a liberal capitalist economic concept that describes how a global economy with division of labour and free trade according to comparative advantage leads to preferable economic outcomes for all participant countries (Doyle & Recchia, 2011, p. 4). This creates economic incentives for states to cooperate, policy coordinate and avoid conflict. Global and bilateral trade can, therefore, facilitate economic interdependence between states, hence, trade can be mutually beneficial for all partners and, thus, conflict and disruption will hurt

all partners (Doyle & Recchia, 2011, p. 4). Economic interdependence, therefore, adds vulnerability between states, which means that states are less likely to seek policies that are harmful to their trade partners' interests.

Within the other major schools of international relations constructivism is perhaps the most relevant and interesting alternative approach. For constructivism, the thesis would require a different angle towards China's energy diplomacy such as looking at the thinking of China's government leadership through a holistic historical, cultural and political lens to try to reach a different explanation for how China justifies its energy diplomacy and its implications (Kurki, 2011, pp. 2-3). This would be an interesting approach to China's energy diplomacy, hence few western scholars have focused on China's energy diplomacy based on China's historical and cultural heritage and how this influences the thinking of its political leadership. However, including such a theoretical approach is beyond the scope of this thesis, which primarily tries to research China's energy diplomacy according to economic and institutional factors.

### **Neo-Mercantilism:**

This section will introduce Neo-Mercantilism, the first of the two central theories of the thesis. Neo-Mercantilism is an economic theory that shares a similar worldview to realism: individual states exist in an anarchic international order with constant competition, which drives each state to maximize their own profits and security to protect their sovereignty (Ziegler & Menon, 2014, p. 19). Ziegler and Menon define Neo-Mercantilism the following way: "state-directed efforts aimed at making asymmetric economic gains at the expense of competitors" (Ziegler & Menon, 2014, p. 1). Neo-Mercantilism is economic nationalism and protectionism because it focuses on protecting the state's political, economic and military interests by utilizing the international market to its advantage. Neo-Mercantilist states, therefore, try to gain an economic advantage over its

competitors and often do so by adopting policies that favour or protect their most important industries, which in some cases might even be state-owned enterprises (SOEs) (Ziegler & Menon, 2014, p. 19).

Neo-Mercantilism can help both domestic private companies and SOEs compete with foreign private competitors since the state-owned or pseudo state-owned enterprises can have unfair advantages in international market because of its direct government support (Ziegler & Menon, 2014, p. 19). Neo-Mercantilism allows governments to protect those firms' interests who are the most critical to the state and make them less susceptible to negative trends in the international market. As a result, the theory can explain why states adopt economic policies that maximize individual state profits which increases their relative power compared to their competitors. Therefore, Neo-Mercantilism is often positioned as a contrast to liberal political and market ideologies (Ziegler & Menon, 2014, p. 17). Ziegler and Menon describe that that in terms of resource Neo-Mercantilism, the result is often that major states often see the competition for resources as a zero-sum game, meaning that any resource your competitors gain, your state loses and vice versa (Ziegler & Menon, 2014, p. 18).

This zero-sum logic is an important characteristic of Neo-Mercantilism, which is why Adam Smith criticized it, because although not all states are able to take advantage of such strategies to pursue wealth and power, the ones that do use them do it at the expense of others, which hurts fair international competition (Coleman, 1980, pp. 774-775). Therefore, if there exists no international regulation or criticism for excessive use of Neo-Mercantilist strategies, the competing policies of states might begin to threaten other states' national interests, which could lead to financial crisis and conflict (Ziegler & Menon, 2014, p. 21). A basic assumption of Neo-Mercantilism is that states want to limit the volatility of international markets by protecting

domestic interests. In practice, this means that controlling foreign investment, limiting domestic financial flows and imports as well as capital manipulation are all measures which the state regularly exercise (Ziegler & Menon, 2014, p. 19).

When trying to maximize state power, wealth and security, one of the most important modern measures is to strive to become self-sufficient in natural energy resources. The US has recently achieved essential resource independency through its shale gas revolution and it has had dramatic results for the international oil and gas market with dropping prices and economic ails for many resource-rich states (IEA, 2017). Other great powers, such as China, however, face the issue of being so dependent on foreign resources that international disruptions to trade routes such as the Strait of Malacca, rising oil prices, shorting supply etc. could severely endanger national security and economic stability. As a result, “Neo-mercantilist states perceive the market as insufficiently reliable to provide for their energy needs, and readily extend high politics to energy trade, development, and purchase. As such, it is disruptive of structures of cooperation for open market, of transparent transactions, and of economic accountability—since state forces inject market distorting initiatives” (Gueldry & Liang, 2016, p. 221). As a result, the geographical conditions and resource supplies of a state can play a large part in explaining why some states pursue Neo-Mercantilist strategies (Ziegler & Menon, 2014, p. 20).

One oppositional point between liberalism and Neo-Mercantilism is the role of the individual state in the international market. Neo-Mercantilism is critical of Adam Smith’s ‘Invisible Hand’ assumption, where markets and consumers left to their own devices will lead to the best and most profitable outcome for all. Rather, Neo-Mercantilism favours that some level of government interference is essential for protecting state interests in a global market that would otherwise exploit their less powerful position: “If liberalism avers that global economic

competition and the flow of trade and finance should be as unfettered as possible, neomercantilism is wary of unregulated markets and interdependence which may diminish national prosperity and security of rising powers while working to the natural advantage of countries that are already wealthy and powerful” (Ziegler & Menon, 2014, p. 20). Therefore, one of the defining characteristics of Neo-Mercantilism is that governments should be as active in regulating and interfering as their relative economic and political position in the international world order permits (Ziegler & Menon, 2014, p. 21).

Neo-Mercantilism is chosen as one of the major theories of the project in order to analyse the historical and current economic characteristics of China’s energy diplomacy. Hence, Neo-Mercantilism is central for the analysis of the thesis as it provides a way to interpret if China might have adopted Neo-Mercantilist strategies to protect domestic industries, ensure national resource security, protect national economic interests against international volatility as well as how these strategies have affected their trade partners. Thus, it is a useful theory for understanding the broader aspects of China’s economic reasoning for its energy diplomacy and how it might have helped China gain an economic advantage. However, the theory also emphasizes the negative zero-sum aspects of Neo-Mercantilism, which are very interesting when discussing whether China can transition towards becoming a responsible global economic leader if it is practicing an energy diplomacy that is negatively impacting the economies of the countries they hope to build stronger ties to.



## **Neo-Liberal Institutionalism:**

This section will introduce Neo-Liberal Institutionalism, the second of the two theories used in the thesis. Neo-Liberal Institutionalism is a sub-stream of liberalism developed by Robert Keohane, which describes the role of international regimes in a post-hegemonic era. Keohane focuses on the ability of international institutions to facilitate cooperation and convergence of mutual interests among states. Keohane proposes a theory that challenges the realist idea that the international order is always in an anarchic state (Keohane, 2005, p. 7). Neo-Liberal Institutionalism seeks to show that international regimes can survive and remain relevant even if the hegemon, which originally created the regime, declines. Keohane's understanding of international regimes can be defined as: "sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given area of international relations" (Keohane, 2005, p. 57). As a result, Keohane's concept of international regimes covers both physical international institutions such as the AIIB as well as policy initiatives such as the BRI. International regimes can facilitate cooperation between countries, even if the hegemon is not able to enforce this cooperation, as maintaining international regimes is easier than creating them: "Although hegemony helps to explain the creation of contemporary international regimes, the decline of hegemony does not necessarily lead symmetrically to their decline" (Keohane, 2005, pp. 50-51). Keohane elaborates that mutual interests can even facilitate the creation of new international regimes despite the absence of a unanimous hegemon (Keohane, 2005, p. 50). Keohane's concept of a declining hegemon leading to new international regimes without a unanimous global hegemon is interesting when analysing at the establishment of the AIIB and the BRI, hence, it is happening at a time which some see as a declining US hegemony and a rising China.

Central to understanding Keohane's Neo-Liberal Institutionalism are three terms that describe distinct types of interaction between states: harmony, cooperation and discord (Keohane, 2005, p. 51). Harmony defines the ideal world and market of classical economists such as Adam Smith. It argues that all countries should pursue a free market strategy and in a way that it is best for themselves without regard for the wishes of others and then the invisible hand will balance and regulate the market so: "that the pursuit of self-interest by each contributes to the interest of all" (Keohane, 2005, p. 51). By definition, harmony is apolitical, as no communication and adjustments are necessary (Keohane, 2005, p. 53). Harmony is, therefore, an idealistic view of international politics and the international market, where the market is continuously able to mitigate attempts from various governments that try to regulate the market to their advantage through domestic policies.

Cooperation is defined by 'policy coordination', which is the political process of multiple states pursuing a mutual point of agreement. Therefore, cooperation is different from harmony as it believes policy cooperation is necessary in order to avoid the harmful results and disturbances that the uncoordinated pursuit of self-interests of harmony might cause. Keohane defines cooperation in the following way: "Cooperation occurs when actors adjust their behavior to the actual or anticipated preferences of others, through a process of policy coordination..." (Keohane, 2005, p. 51). By definition, cooperation is highly political as behaviour must be coordinated or altered. Cooperation is only prevalent in the presence of conflict, precisely because it is a political tool that governments use in order to prevent perceived or real conflicts: "Cooperation should not be viewed as the absence of conflict, but rather as a reaction to conflict or potential conflict. Without the specter of conflict, there is no need to cooperate" (Keohane, 2005, p. 54).

Keohane's third type of state interaction is discord. Discord appears when there is no harmony and no cooperation attempts are made or the efforts to mitigate conflict fail. Discord can be defined as when governments see each other's policies as preventing the fulfilment of their own goals and blame each other for the disruptions to their national interests (Keohane, 2005, p. 52). As a result, discord will often lead to one government trying to change other governments' policies so that they are no longer believed to interfere with theirs. When such policy adjustment attempts fail, the result is policy conflict and when they succeed, cooperation is the result. The policy coordination that brings about cooperation can be achieved through either 'adaptive' or 'manipulative' adjustments. Adaptive policy adjustment means that one country shifts its policies without consideration for the other's specific wishes, or partially shift its policy to prevent further discord, or completely deferring the policy to the other country's wishes. Manipulative adjustments lead to negotiation, bargaining as well as other activities to try to adjust other country's policies to their own. Each government will try to pursue its self-interests as well as an outcome that benefits all, however, greater powers can often negotiate deals that favours themselves more (Keohane, 2005, p. 53).

Therefore, international regimes should be understood as institutions, organizations, initiatives, norms and agreements that expect its member states to behave in certain way, however, because these expectations are not necessary rules, an international regime without a hegemon can rarely enforce its principles. All members must have an element of self-interest for joining an international regime as it often requires domestic policy adjustment, however, even then countries will try to bend the rules to their advantage. Keohane sees this is a systemic symptom in international regimes since they are 'quasi-agreements', meaning that member states will constantly challenge, change, negotiation or even break the present rules (Keohane, 2005, p. 89).

The appeal of international regimes stems from the fact that they often focus on specific ‘issue-areas’, which are highly interconnected between countries so that even highly selfish states can recognize that they can benefit from cooperation (Keohane, 2005, p. 61). As a result, regimes exist to converge the interests of all these states and assist policy coordination. The relevance of a certain regime is, therefore, often also dictated by the relevance of its issue-areas, as some issues, such as steel and textile agreements, decline because of changing markets, while other issues emerge, such as the law of the sea and environmental quotas (Keohane, 2005, p. 61). Regimes can, therefore, play a powerful role in coordinating economic interests, promote economic interdependence and limit international conflict.

Keohane argues, however, that governments will also often comply with the rules and principles of a regime even if it is not in their rational self-interest, because of the potential sanctions as well as costs to a country’s reputation for violating a rule (Keohane, 2005, p. 108). Finally, Keohane explains that interdependence in a modern global economy will naturally cause conflict and discord, since markets are interconnected and governments rely heavily on each other for certain imports, such as China with natural resources. In times where there is a hegemonic power, it can more reliably enforce the rules and principles of its regimes, while when there is no hegemon, power is diluted and shared among many actors, which increase the likelihood of disagreements and, therefore, weaken the regime’s ability to enforce. However, Keohane stresses that even if there is no hegemon, and power is diffused among many actors and discord is more likely since regimes have a less unified voice, cooperation is still possible. It might be a more complex process that now multiple major powers’ interests need to converge, however, international regimes’ ability to mitigate discord and policy coordinate are equally relevant, if not even more important, in times of no hegemon (Keohane, 2005, p. 244).

As a result, Keohane argues that international regimes can survive and remain relevant even if the hegemon that created it declines. When a hegemon declines, the other member-states gain relative power and, thus, the regime presents them with new opportunities within the regime that were not possible before. Therefore, member-states are more likely to modify existing regimes rather than abandoning them in order to create new ones (Keohane, 2005, p. 107). China's establishment of the AIIB and the BRI, during arguable US decline, is interesting example that goes against this argument by Keohane, which will be explored further in the analysis.

As a result, Neo-Liberal Institutionalism is useful for the thesis as it provides a theoretical interpretation of how China will operate either within the US-created regimes or if it will create new regimes, as its relative power grows and US hegemony declines. More importantly, the theory will be used for analysing how China's new international regime such as the BRI and the AIIB can be used to complement China's energy diplomacy. On one hand, the theory can be used to analyse and discuss how China as a rising power can use its own regimes to facilitate more economic interdependence or to leverage its position of power to negotiate agreements that are preferential for China. On the other hand, the theory can describe how the existing US-created regimes represent obstacles in the form of international regulations, standards, norms, expectations etc., something China has not historically abided by, and if China wants its new international regimes to have continued success, it might have to follow such expectations, which could be a difficult transition.

## Background:

This section will research the recent developments in China's domestic energy sector to provide a background for China's current domestic energy security situation. This section will research what China has gained from transitioning from an energy consumption based primarily on coal to one based on both coal, oil, natural gas, nuclear and renewables and what this meant for its reliance on imported fossil fuels. Moreover, it looks ahead at China's plans for developing its energy sector in future to assess how this might change China's energy security situation and, thus, its energy diplomacy moving forward.

Coal has historically dominated China's energy composition and consumption has grown markedly since the 1990s. It is only since 2013 that coal consumption has relatively declining, hence in 2015, consumption was 3732 million tons (GESY, 2016), 150 million less than in 2014 (CNREC, 2016, p. 19). In 2015, China's total energy composition was made up from 64% coal, 18% oil, 6% natural gas with the remaining 12% representing nuclear, hydro and other renewables as Figure 1 below indicates.

Total Energy Consumption in China 2015  
4.30 billion ton SCE

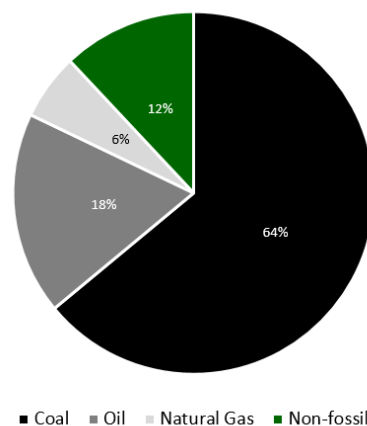


Figure 1 - (CNREC, 2016, p. 36)

However, in 2015, China's coal consumption was still equivalent to 48% of the global coal consumption, and China and India combined represented 55% of the oil consumption growth in 2015 (GESY, 2016). Coal spent for centralized consumption represents about half of China's energy consumption while the rest is used decentralized and largely unregulated, which contributes to widespread air pollution and energy inefficiency. China's use of oil has also grown, representing about 18% of the total energy consumption in 2015 (CNREC, 2016, p. 19). China's oil consumption is equivalent to 12,9% of the world's total, which makes China the second largest oil user in the world. Because of China's poor oil reserves, they have becoming increasingly dependent on oil imports, hence, in 2007, the country imported more than 50% of its oil, while in 2015 that number had risen to 60% (CNREC, 2016, p. 19). The rise of natural gas is a more recent development in China's energy consumption, representing just 2% of the total energy consumption before 2000. In 2008, however, natural gas had risen to 3,5% of the energy consumption, and in by 2015, it had increased to 6%. China imports about 32% of its natural gas (CNREC, 2016, p. 25), and represents 5,7% of the world's natural gas consumption (CNREC, 2016, p. 20). Renewable energy has seen an extensive growth since 2006 when the Renewable Energy Law was implemented (CNREC, 2016, p. 20).

As seen in Figure 2, China's oil consumption stood at 10,86 million barrels per day (bpd) in 2015 (Reuters, 2016) compared to the US' 2015 oil consumption at 19,40 million bpd, Japan's 4,12 million bpd and Germany's 2,37 million bpd (EIA, 2016). Meanwhile, as seen in Figure 3, China coal consumption was 3732 million tons in 2015, compared to the US' 730, India's 990, Germany's 232 and Japan's 190 (GESY, 2016).

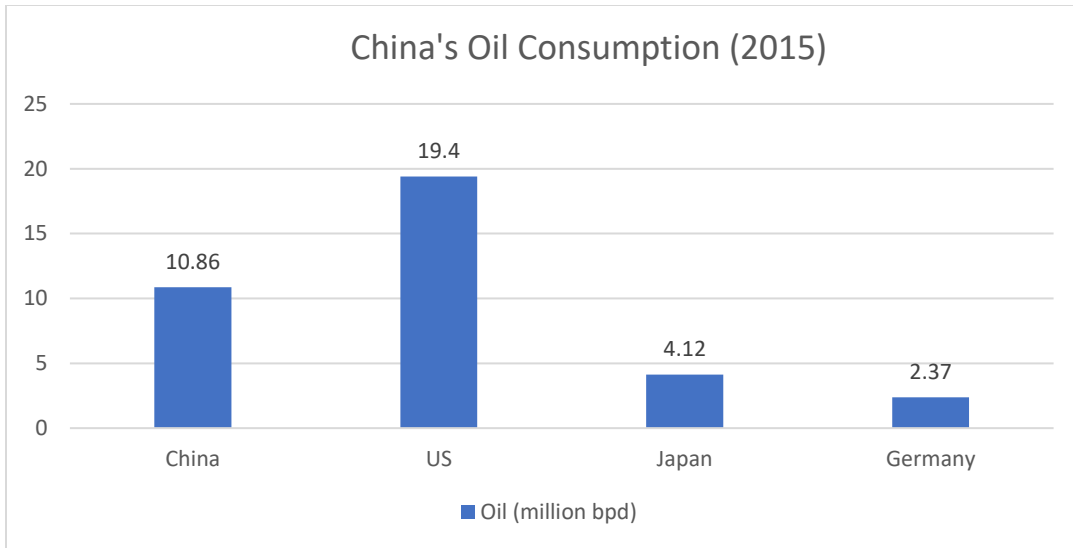


Figure 2 - (EIA, 2016)

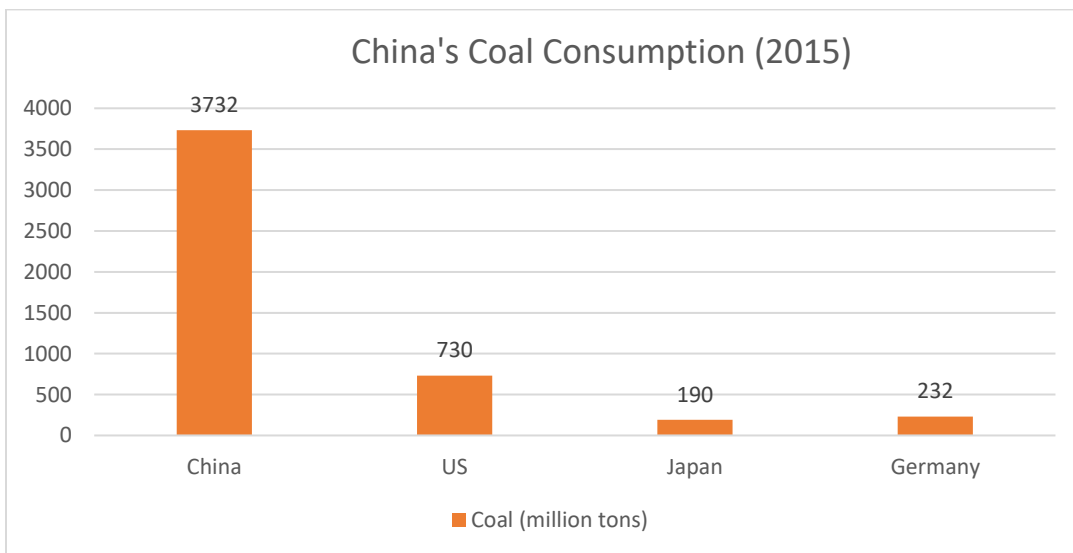


Figure 3 - (EIA, 2016)

China is also the world's biggest energy consumer and polluter in terms of CO<sub>2</sub> emissions with a total energy consumption at 3101 million tons of oil equivalent (Mtoe) compared to the US' 2196 Mtoe. India, another developing country with a large population, has just 882 Mtoe, thus, China's total energy consumption is 3,5 times bigger than India's (GESY, 2016). China is a massive energy consumer, however, the large emissions number is mostly because the majority of its energy still comes from coal.



Moreover, even though China became the biggest coal importer in the world in 2011, imports only represent about 5% of China’s total coal consumption (IEA, 2015). China’s domestic coal market is more than three times as big as the entire international market. China oil production, however, represents a very small part of China’s consumption because of China’s poor oil reserves.

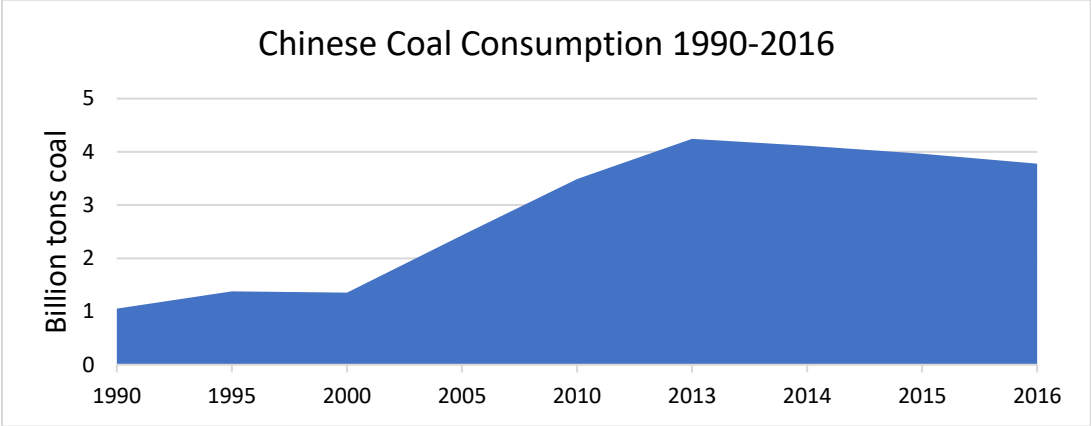


Figure 4 - (NBSC, 1996-2016)

Figure 4 shows China’s Coal Consumption from 1990-2016. The graph shows how the Chinese coal consumption has been declining since 2013. This correlates with China overcapacity cuts in 2015 and 2016 as coal consumption dropped with 4,7% from 2015 to 2016 (NBSC, 2016).

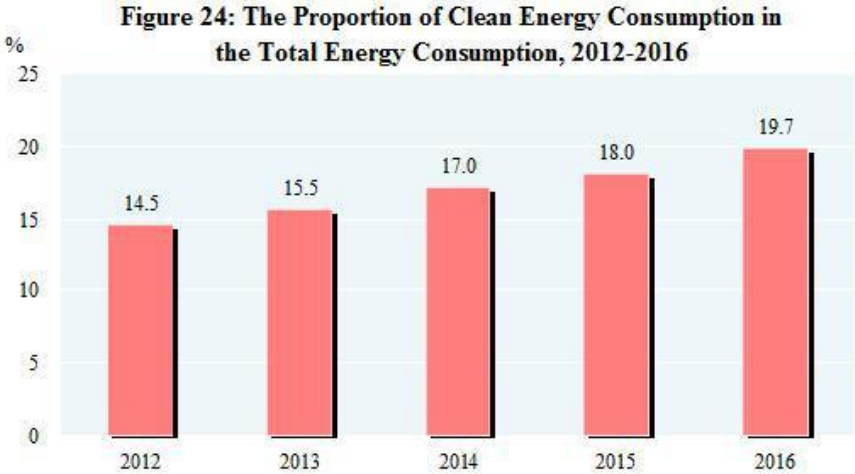


Figure 5 - (NBSC, 2016)

Figure 5 shows the development in clean energy consumption from 2012 to 2016. Through 2012-2016, China has had an annual average increase of 1,3% in clean energy consumption of total energy consumption (NBSC, 2016). It is important to note that natural gas is counted as a “clean energy” source. Natural gas accounted for 6% of China’s total energy consumption in 2015. A more realistic representation of China’s renewables including nuclear in total energy consumption would therefore be around 13,7%.

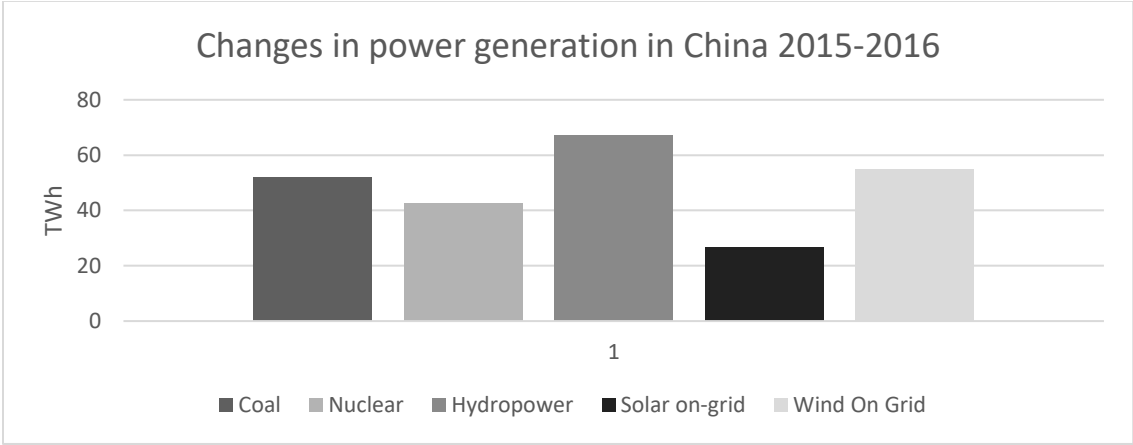


Figure 6 - (NBSC, 2016)

Figure 6 shows the changes in power generation, where one can see the improvements in the effectiveness of coal plants, as power generation went up in 2015 while total coal consumption went down. Similarly, there were marked improvements in terawatt hours (Twh) power generation in both nuclear, hydro, solar and wind power. China needs to continue to focus on improving and transitioning its energy plants away from being coal reliant since China already has some of the world’s most expansive networks of clean and renewable energy sources, however, there is serious waste, especially within wind power, because the low-tech energy grid developed for coal use cannot properly process these energy sources (CNREC, 2016, p. 26).

In 2010, China had 16 nuclear power reactors in operation (Eder, 2014, p. 54). In April 2017, China nuclear capacity had grown to 36 nuclear power reactors in operation, with 21 more under construction (World Nuclear Association, 2017).



Figure 7 - (CNREC, 2016, p. 28)

Figure 7 shows China's rapid renewable energy development since 2005. Since 2005, hydropower has increased with 288%, biomass with 743%, wind on grid with 8033% and solar power has grown by 6620% since 2010. Figure 1 through 4 shows the commitment of the Chinese government to reform its energy sector, however, renewables still only represent around 13,7% of China's total energy consumption. Moreover, China will be challenged to maintain this rate of growth in renewables moving forward, hence they will need to do it with slightly lower economic growth, a shrinking workforce, rising social welfare costs and difficult economic decisions in relation to overcapacity cuts in the indebted steel and coal industries.

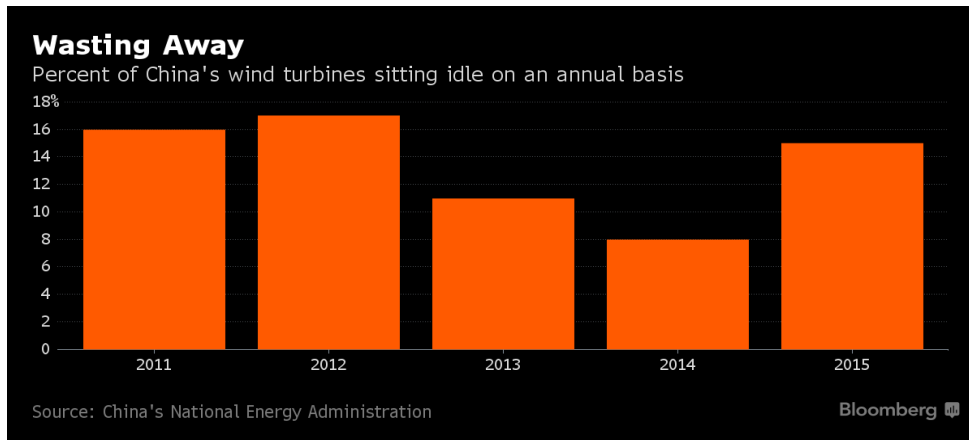


Figure 8 - (Bloomberg News, 2016)

Figure 8 gives an indication of China's energy grid limitations, hence just within wind power about 15% of China's windmills stood idle in 2015 (Bloomberg News, 2016). Moreover, the US had almost the same amount of power generation from windmills in 2016, despite China having twice the installed wind capacity of the US, China only generated 241 terawatt-hours of wind power compared to the US' 224 terawatt-hours (Bloomberg News, 2017). In 2016, China installed almost three times as much wind power capacity as the US with China installing 23,3 gigawatts compared the US' 8,2 gigawatts (Bloomberg News, 2017). Moreover, China's energy plant companies have poor options for storing excess energy and there are no quotas for wasting wind energy, which explains China's widespread curtailment of almost 18% for the windmills in operation on top of 15% of all windmills standing idle (Winglee, 2016).

A similar story is true for solar power in China, where it has rapidly become the global leader based on capacity. Just in the year of 2016, China almost doubled its solar energy capacity from 42,88 gigawatts at the end of 2015 to 77,42 gigawatts at the end of 2016. The plan is to install an additional 110 gigawatts capacity in the 2016-2020 period. However, despite being the global leader, solar power only comprised 1% of China's total power generation in 2016 (Reuters, 2017).

The Chinese government plans to spend 364 billion USD on renewable energies by 2020, however, the lacking energy grid structure will continue impact China's ability to take full advantage of all its renewable energy sources (Reuters, 2017).

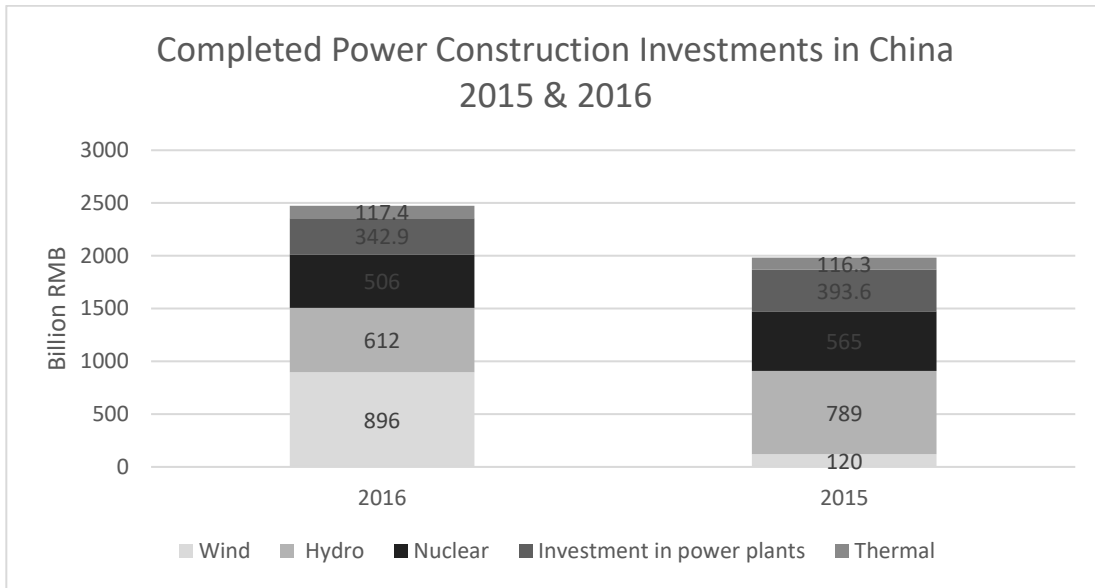


Figure 9 - (NBSC, 2016)

The slow improvements to the power plant infrastructure is reflected in Figure 9 where the investments in nuclear, hydro and wind power far outweigh the investments in power plants.

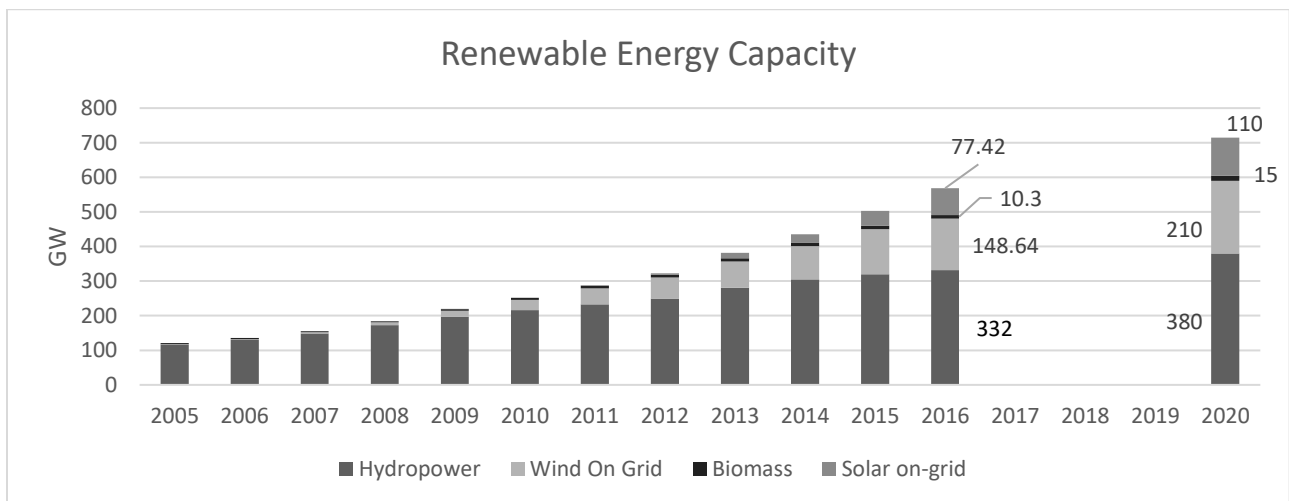


Figure 10 - (Katherine Koleski, 2017)

China’s 13<sup>th</sup> Five-Year Plan is pushing to further expand the capacity of renewables energies as shown in Figure 10 (Katherine Koleski, 2017). China’s 2020 target for wind power expansion is a 41% increase of the 2016 level, a very high target considering China’s current struggles with idle windmills and curtailment. Solar power will increase will 42% and biomass will increase with 45%. Hydropower sees the lowest increase with just 14% increase, which is still a proportionately big amount considering how many gigawatts hydropower annually produces in China. However, overall the growth in renewable energy capacity until 2020 will not change China’s reliance on fossils fuels imports significantly.

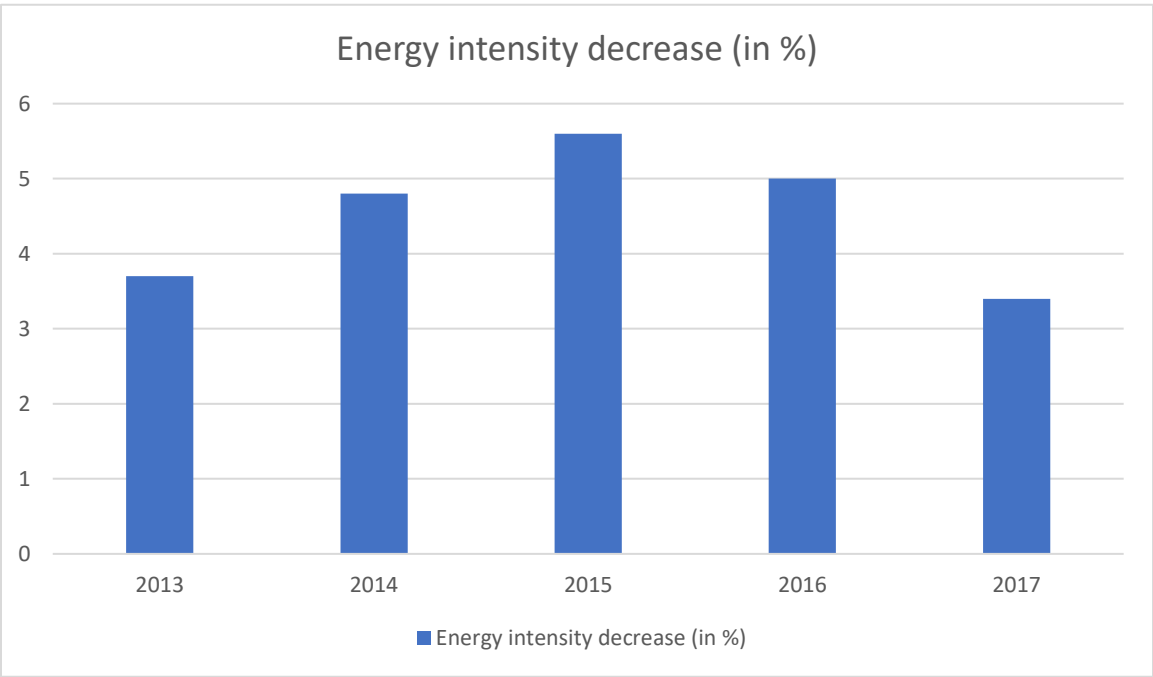


Figure 11 - (Xinhua, 2017), (Xinhua, 2016)

China’s energy intensity, a way to measure energy efficiency, the amount of energy consumed per unit of GDP, has been rapidly improving partly because the developments in clean energy and energy grid improvement as shown in Figure 11. China’s target for 2017 is 3,4% and they have committed to a cap of 5 billion tonnes of coal equivalent by 2020, according to the 13<sup>th</sup> Five-Year

Plan, which would mean a 15% reduction in total energy use per unit of GDP by 2020 (Xinhua, 2017). These are important numbers for the world's largest energy consumer and biggest polluter, however, the energy efficiency gains from the improving energy grid and coal reductions, cannot outpace the speed of China's economic growth and, as a result, China's reliance on fossil fuels imports is not likely to decrease.

Moreover, according to a CNREC scenario, China's current policies set China's 2030 target for coal consumption at 47%, down from 64% in 2015 (CNREC, 2016, p. 47). One might expect that this would guarantee China's long-term energy security in terms of coal resources, however, China's coal reliance is still too extensive, and they have too long relied on their own reserves. Set at the current rate of consumption of national coal reserves, China coal reserves will be gone before 2050 (CNREC, 2016, p. 25). This leads to two scenarios: either China will become more reliant on oil and natural gas imports or they will also become reliant on coal imports, as their domestic coal reserves deplete (CNREC, 2016, p. 25).

Therefore, even with the extensive level of investment and government commitment to green reform and political will to be less reliant on fossil fuels, the overall structure of China's energy consumption will not change from being heavily fossil fuel dependent and, as a result, China will continue to be reliant on energy resource imports. Hence, even if China manages to reach its Paris agreement target of non-fossil fuels accounting for 20% of China's total energy consumption before 2030 (Phillips, 2016), this would only be about a 6% decrease in China's total fossil fuel usage today. Moreover, since the domestic priority is to limit the usage of coal, it is almost certainly there most of the 6% decrease will come from, which means that China will continuously rely on oil and natural gas.

U.S. Energy Information Administration (EIA) forecasts that China's oil consumption will continue to rise by 2.6% annually until peaking in 2040 reaching 13.1 million bpd in 2020, 16.9 million bpd in 2030, and 20.0 million bpd in 2040 (EIA, 2015, p. 4). China National Petroleum Corporation (CNPC) disagrees with EIA's forecast and projects a rise of just 2% annually and a peak of 13.5 million bpd in 2027 (Reuters, 2016). China's gas consumption is expected to rise from 193 bcm in 2015 to more than 300 billion cubic meters (bcm) in 2020 (Røseth, 2017, p. 46), to 510 bcm in 2030 and 710 bcm in 2050 (Reuters, 2016). However, all the estimates predict that the total imported volume of oil and natural gas needed to guarantee energy security will continue to increase as long as China's economy grows. Therefore, even though China is going to continue to make considerable progress in developing both its renewable energy capacity and its energy efficiency by upgrading its energy grid, the continuous speed of China's economic growth and the reduction in coal usage will mean that China's domestic energy sector's reliance on imported oil and natural gas will not change. On the contrary, it will likely increase and, thus, China will have to continue to go outwards to fuel its economy and, as a result, China's energy security and energy diplomacy will remain an important geo-political topic moving forward.



## **Analysis:**

### **What characterizes China's energy diplomacy and how has it been changing?**

This section will analyse China's energy diplomacy across towards its four biggest energy supplying regions. It will describe how China has managed to secure its modern energy needs as well as the policies China has used to access these resources. Moreover, the section will seek to test the hypothesis that China's energy diplomacy can be characterized as Neo-Mercantilist. Finally, it will analyse the long-term strategic relevance of the regions for China's energy security and how this will impact the economic interdependence between them.

Since 1993 and onward, as China's oil imports steadily rose, China has had to look outward to fulfil their energy needs and, thus, sought to improve diplomatic relations with countries that they otherwise gave little attention to before, and thus, China and its oil companies suddenly looked towards Africa, Central Asia, Latin America and the Middle East. Moreover, longstanding Chinese diplomatic relations to countries such as Russia became increasingly focused on energy trade to accrue more gas and oil. In the late 1990s, Chinese oil companies started investing in some of the countries China is still heavily importing from today, such as Sudan, Iraq, Venezuela, Angola and Iran (Tang, 2006, p. 13).

According to the official White Paper on China's energy policies, China is an indispensable global energy partner and co-operator in expanding global access to energy resources, increasing global supply, diversifying supply channels as well as securing the stability and prices of the international energy market (State Council of PRC, 2012, pp. 22-23). China plays an active role in reducing the "conflicts and inequality brought about over access to energy resources, achieve a stable growth of the world economy and make the economic globalization lead to a balanced,

universally beneficial and win-win development” (State Council of PRC, 2012, p. 23). Moreover, the White Paper describes China’s foreign energy investments and SOE engagement as:

“Following the principle of equality, mutual benefits and reciprocity, Chinese energy enterprises are actively involved in international energy cooperation, participating in overseas energy infrastructure projects and expanding cooperation in energy engineering and services [...] thus increasing and diversifying supplies in the global energy market. When investing in foreign countries, Chinese energy enterprises abide by local laws and regulations, and respect the religious beliefs and customs of the local people. They actively make contributions to local economic and social development while achieving self-growth” (State Council of PRC, 2012, pp. 22-23).

Thus, the official White Paper regards China’s energy diplomacy as a positive force, where China’s goal of achieving “self-growth” also facilitates economic independence, global energy cooperation and global economic development. The White Paper does not comment on the international criticism that China’s energy diplomacy has faced for being neo-colonial or Neo-Mercantilist. As a result, this section will analyse China’s energy diplomacy towards different regions, such as Africa, South America, Central Asia and Russia, and the Middle East, to determine if China’s energy diplomatic interactions with each region can be characterised as Neo-Mercantilist or if they are facilitating increased economic interdependence.

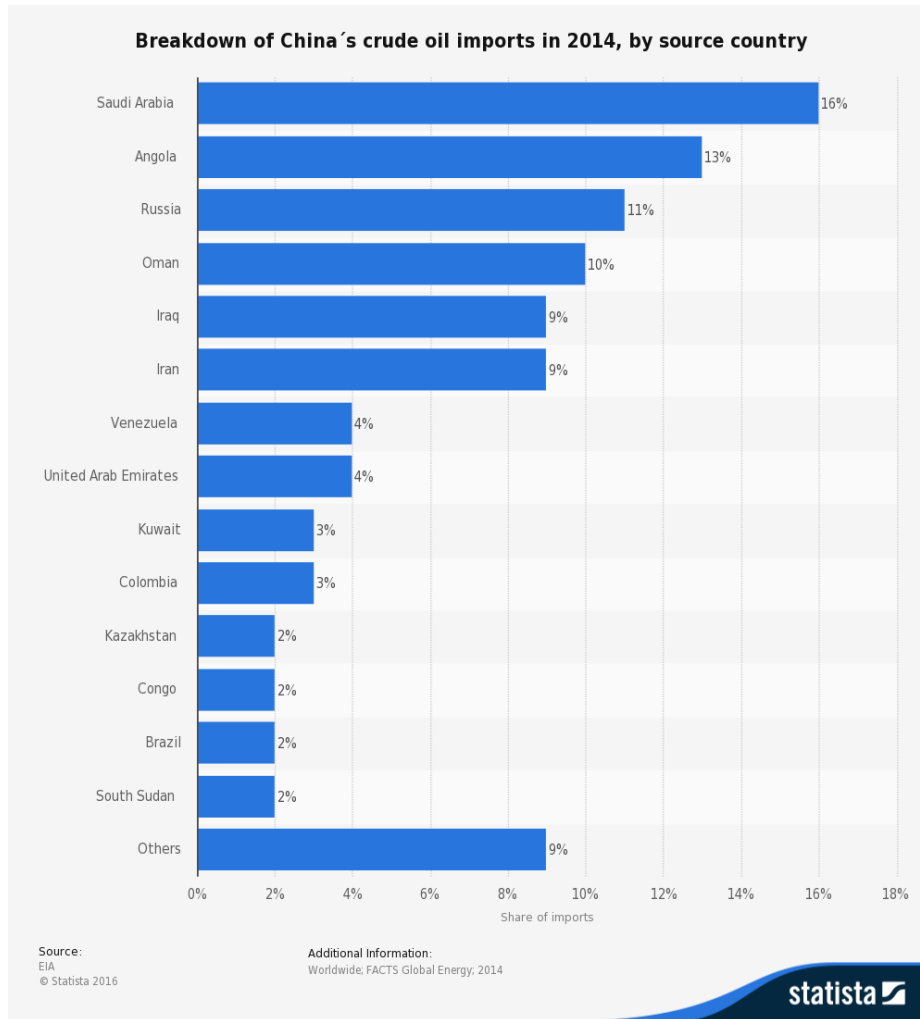


Figure 12 - (Statista, 2014)

**Africa:**

This section will analyse China's energy diplomacy in Africa. Africa has 9,5% of the world's proven oil reserves (Szikorová, 2013, p. 1). China's involvement with the resource-rich African continent has been highly controversial and has been a continuous topic for criticism since China's activities have been seen as neo-colonial and sometimes connected with severe human rights violations in relation to working conditions (Tang, 2006, p. 13). Moreover, China has engaged and invested in the authoritarian regimes in Angola and Sudan in ways that have led the West to condemn China's actions (Szikorová, 2013, pp. 3-4). However, despite some visible issues,

Beijing's involvement, loans and investments have often been welcomed by authoritarian African state leaders due to China's non-interference policy, which denies any interference in the African country's domestic affairs, who often struggle to live up to the expectations and conditionality attached with e.g. the World Bank's loans (Tang, 2006, p. 17). China has also continuously tried to position itself to African states as a fellow developing country that also has suffered under Western dominance that, therefore, understands Africa's needs. The response to this discourse has in some cases been met with resentment and nationalistic backlash from the African people since they do not trust China's intentions (Tang, 2006, p. 17). However, even though the African people do recognize the potential risks connected with China's engagement, China is also one of the few countries that have not neglected the African continent, hence China has continuously invested, lent capital and built infrastructure according to its development model, even if this development sometimes comes with strings attached. As a result, China has also contributed positively to the growth and development of Africa, despite the West's heavy criticism of China's presence overall (Dionne, 2016).

Historically, China's policy towards Africa has not always been driven by resources needs. Originally China looked to Africa for new international partners to support the One China Policy, which the West was overall reluctant to following the establishment of the People's Republic of China in 1949 (Tang, 2006, p. 16). Moreover, China's activities in Kenya, Ethiopia and South Africa are not driven by resources interests, rather they represent political and economic platforms in Africa, where China can foster the development for future growth markets for Chinese exports as well as loans for infrastructure destinations, which allows China to limit their overcapacity in steel and infrastructure in mainland China (Sanghi & Johnson, 2016).

Analysing China's involvement in Africa from a Neo-Mercantilist point of view does, however, reveal a controversial picture. China's energy diplomacy has succeeded in creating a model that gains them access to markets that are challenging for the West to access (Gueldry & Liang, 2016, p. 227). In Angola, China has faced extensive criticism for its practices. Angola is an extremely poor country ruled by a highly corrupt and suppressive regime. Taylor describes Angola as "an oppressive, dictatorial regime by any standards" (Taylor, 2006, p. 947)". In 2016, Angola ranked as the 164th most corrupt country out of 176 (Transparency International, 2016). Moreover, a 2015 report on the economic outlook of Angola concluded that "Growth and equitable development are constrained by the adverse business environment, inadequate governance and transparency in the management of public resources, weak quality and maintenance of physical infrastructure, limited quality of human resources [and] inefficient public service delivery to the poor" (Muzima & Mendy, 2015, p. 1). In 2015, Angola had the highest rate of child mortality before the age of 5 with 155,7 deaths in 1000 births, compared to a global average of 55 (United Nations, 2015).

This highlights the vast social, political and economic struggles of Angola, which is why IMF had tried to place social and democratic improvement conditionality in its potential loans for Angola. However, China has been criticized for undermining IMF's demands for more socially beneficial spending by the Angolan regime by lending without any concerns for the overall humanitarian situation in Angola (Taylor, 2006, p. 948). China has consistently used its oil-for-infrastructure loans model in Angola, as well as invested extensive in Angolan oil exploration, however, the construction and infrastructure projects are almost exclusively performed by Chinese companies and with Chinese labour, which facilitate little knowledge spill-over and sustainable economic development (Alves, p. 66). Specifically, for infrastructure projects China even secured

an agreement, which says that only 30% of construction contracts should be delegated to Angolan firms (Szikorová, 2013, p. 3).

Though despite western criticism of China's trade and investments in Angola, many Western firms are also present in the trading for Angolan oil (Rotberg, 2009, p. 132), and the US still imports oil from Angola albeit continuously dropping numbers since 2010 (EIA, 2017). However, because its suppressive regime, China's non-interference policy gives Chinese SOEs more ease of operation in Angola and more leverage over its Western competitors when negotiating deals (Rotberg, 2009, p. 132).

Angola's preference for trading with China, despite having other trade partners, is reflected in that China still imports 45% of Angola's oil with India as the next biggest buyer with 8,6% (OEC, 2015a). China does face criticism for catering to Angola's elite and it is damaging to their reputation though China is trying to counteract this criticism through the BRICS development, Forum on China-Africa Cooperation, the Belt and Road Initiative and the Asian Infrastructure Investment Bank – all projects that seek to promote more south-south cooperation (Gueldry & Liang, 2016, p. 227). By bringing more and more countries within this south-south institutional cooperation framework, China has a way to limit the impact of Western criticism and improve its prestige in Africa (Gueldry & Liang, 2016, p. 227).

An even more controversial case of China's involvement in Africa involves the suppressive regime in Sudan where they partake in both arms transfer and peace-keeping operations in the war-ridden South Sudan (Taylor, 2006, p. 950). This case is good example of the 'Beijing Consensus' in Africa, hence China provides trade, infrastructure projects and low interest loans without the western conditionality framework because China can use its non-interference policy to excuse itself from taking responsibility for the political, humanitarian and economic situation of the

recipient country. The typical Western criticism is, therefore, that China is benefitting unfairly from its economic activity in Africa and limiting democratic and humanitarian development in Africa by dealing with isolated suppressive regimes without conditions (Gueldry & Liang, 2016, p. 227). Moreover, China's SOEs have relatively exclusive access to the Sudanese oil market, because Western companies do not want to obey the wishes of the regime in Sudan (Rotberg, 2009, p. 123). In 2015, Sudan exported 94% of its oil to China (OEC, 2015b).

One way to explain this dependency of Angola and, especially, Sudan towards China is its equity oil contracts and loans for oil deals, which allows China to circumvent the open oil market. Equity oil contracts allows China to make long-term, exclusive supply deals with African suppliers that gives China almost sole access to those supplier's oil. Such concession deals are more common in Sudan than in Angola due to Angola having a bigger portfolio of alternative trade partner (Rotberg, 2009, p. 132). In Sudan, China has a 40% share in Sudan's largest oil firm, the Greater Nile Petroleum Operating Company, which allows China to export 150.000 barrels of oil per day for a low fixed price (Taylor, 2006, p. 949). China loans for oil deals often centre around oil for infrastructure, which allows China to export infrastructure construction in exchange for oil, which then never accesses the open market but rather goes directly to mainland China (Gueldry & Liang, 2016, p. 227).

Those defending the actions of China's SOEs in Africa often cite that China is no worse than Western companies, which have routinely caused environmental and social damage such as seen with Shell in the Niger Delta in Nigeria (Al Jazeera, 2016). The defenders also argue that the infrastructure for oil loans are prime examples of win-win cooperation, which are much more dignifying for the African people and better at circumventing corruption than traditional Western government-to-government financial aid (Gueldry & Liang, 2016, p. 228).

However, overall, China's involvement and policies towards Africa is heavily involved in Neo-Mercantilist practices. One of the defining characteristics of Neo-Mercantilism is that a country should use its relatively position of power to secure its economy favourable deals and conditions. In Africa, China's relative position of power might be bigger than in any other region, and few regimes are as isolated or as institutionally weak as the Angolan and the Sudanese. 91% of Angola exports revenues comes from resource exports and for Sudan the number is 54% (OEC, 2015b). As a result, the regimes are defined by their lack of alternative trade partners, their weak and one-dimensional economies, and their corrupt and weak political institutions, which makes them easy targets for Chinese exploitation and dependency.

China is relying extensively on Neo-Mercantilist measures in Africa as it exploits its relative position of strength to negotiate preferential conditions in its equity deals, construction projects, loans for oil deals etc. These conditions benefit China economically by both limiting overcapacity in steel production and infrastructure construction as well as by importing cheap energy resources by circumventing the open oil market with loans for oil deals with isolated regimes. China's energy diplomacy in Africa is defined by government interference, which disrupts a fair and open African oil market and, as a result, their policies can be characterized as Neo-Mercantilist.

Therefore, China's energy diplomacy towards the weak and isolated states Africa is not changing towards facilitating more economic interdependence, rather it is a continuation of the same Neo-Mercantilist policies China has long utilized in Africa. One of the primary reasons for this might be that there simply little incentive for China to changes its policies towards these countries. They are weak economies that offer very little as consumer markets for Chinese products, and few other major states have any stake in the countries, which means that China will



not face excessive Western criticism for its practices. Moreover, even within the African continent, Angola and Sudan are relatively and politically isolated and, as a result, reputation setbacks from their actions in these countries are not likely to have major implications for China's long-term political and economic interests on continent, where China's impact overall is much more positive.

Therefore, one can observe a split in China's foreign policy towards Africa, where China is focused on appearing like a responsible stakeholder that facilitates economic interdependence in the large consumer markets and the political centres of Africa such as South Africa, Ethiopia and Kenya, while continuing to exploit the resource-rich marginalized countries such as Sudan and Angola with little strategic importance for China beyond oil.

### **South America:**

This section will introduce China's energy diplomacy in South America. From the establishment of the People's Republic of China until the 1990s, China had very limited diplomatic or economic involvement with South America. One explanation for this could be that many of the countries have continued to recognize the leadership in Taiwan. However, as China's economy opened up in the 1980s, the economic relationship between China and South America grew and, in twenty years, the trade increased ten-fold from \$1,3 billion USD in 1980 to \$13 billion USD in 2000 (Tang, 2006, p. 18). Thirteen years later, in 2013, bilateral trade had reached \$260 billion USD, a twenty time increase since year 2000 (Tiezzi, 2014). Thus, Latin America represent both economic opportunities for Chinese exports, however, the region also has vast amounts of resources, which allows China to diversify and improve national energy security by spreading risk across regions rather than rely too heavily on the more politically volatile Africa and Middle East (Peters, 2015).

Diplomatically, China's involvement with South America intensified when then Vice President Zeng Qinghong visited Venezuela in 2005, where he signed multiple investment agreements for projects in Venezuelan oil and gas (Tang, 2006, p. 17). The US political leadership was particularly concerned with this development because it threatened stronger ties between China and Hugo Chavez's Venezuela. The US feared that China was trying to gain political alliances in South America, by taking advantage of the US' lack of interest in the region, to further support its ascend to becoming a global superpower (Tang, 2006, p. 17). Since the Hu Jintao era, China's interest in South America primarily has primarily developed towards facilitating Chinese prestige, infrastructure export and trade interests as evidenced by the overall low oil import numbers from South America shown earlier, with Venezuela being the largest exporter with 4%, Colombia with 3% and Brazil with 2% (Statista, 2014).

However, some of the same social, economic and environmental criticisms China has faced for their presence in Africa, are also relevant in South America (Gueldry & Liang, 2016, p. 229). For China's infrastructure and energy projects in the region, China is exporting labour and materials from China to South America, which the region could easily have supplied themselves, which allows China to further limit domestic overcapacity (Peters, 2015). There have also been several environmental scandals involving Chinese companies (Tang, 2006, p. 19). China also acts as lender with steep interest rates for countries such as Ecuador, which might not be able to secure such loans on the international market because of their relatively poor economic outlook. South America has also emerged as a heavy food exporter to China, which limits the stress on China's domestic water resources, which could be another factor for China's interest in the region (Gueldry & Liang, 2016, p. 229).

Overall China's energy diplomacy towards South America is quite limited and less exploitive than in Africa. South America is more institutionally and politically robust than e.g. Africa, which might explain why China is engaging with them through a more political prestige and trade approach such as in BRICS. Moreover, the region might still be too politically aligned towards the US for it to be a priority energy region for China (Tiezzi, 2014) and China can arguably secure its energy needs cheaper in other regions. As a result, one might look at China's investments in South America as more as strategic investments for diversification of energy suppliers should conflict erupt in e.g. Africa or the Middle East (Peters, 2015).

China is accessing the region's oil market primarily through the open market and less through direct equity concessions. However, in terms of relative political and economic power, none of the South American states can stand up to China alone, which might allow China to gain a stronger foothold in the region in the future.

However, for now, the South American region seems to be deprioritized because Africa, Central Asia and the Middle East are cheaper, closer and less politically aligned with the US. The development of the BRI with its focus on the Euro-Asian region further indicates that South America is not currently a high priority region for China's energy diplomacy and national interests.

### **The Middle East:**

This section will analyse China's energy diplomacy in the Middle East. In 2016, China imported 6.2 million barrels of oil per day and more than half it came from the Middle East or North African region (Dusek & Kairouz, 2017). Moreover, due to continued economic growth in China and the Middle East becoming an increasingly strategically important region for China, the International Energy Agency (IEA) predicts that China's resource imports from the region will have doubled by

2035. In terms of China’s long-term energy security, the region is, therefore, of high strategic importance, as it estimated to sit on 47.7% of the world’s oil reserves and 42.7% of the world’s gas reserves (Li & Yuwen, 2016). Moreover, the Middle East is an important part of China’s Belt and Road Initiative to connect China through Central Asia all the way to Europe. Maintaining strong political and economic relations in the region is, therefore, of paramount importance to China. In 2016, the Chinese government released its first Arab Policy Paper, which outlines China’s policies and plans for expanding the relationships with the various countries in the region (Li & Yuwen, 2016). Moreover, China’s bilateral trade in region has exceed the US’ with all countries except for Israel as seen in Figure 13 below. The total bilateral trade between China and the Middle East grew by 600% from 2004 to 2014 (Dusek & Kairouz, 2017).

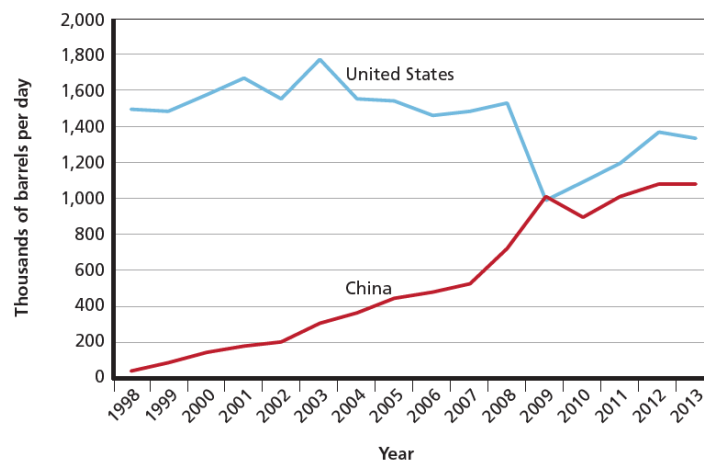


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Figure 13 - (Dusek & Kairouz, 2017)

However, currently the Middle East is one of the most unstable regions with conflict in Libya, Iraq and Syria. Sectarian conflict between Sunni Muslim states, such as Saudi Arabia, Egypt and UAE and Shiite Muslim states, such as Iran and Syria, have made maintaining political alliances in the region a challenging balancing act for China. Iran and Saudi Arabia are China's two most important political and economic partners in region with Iran especially seeing China as an important strategic ally. For Saudi Arabia, even though it still depends on the US for security, China is emerging as the more important trade partner. Hence, Saudi Arabia has become the biggest oil exporter to China and bilateral trade between the two countries is also expected to increase moving forward (Scobell & Nader, 2016, p. 5). The oil exports have grown from essentially non-existent in 1998 to 1,1 million barrels per day in 2013. As shown in Figure 14 below, because of increasing resources independency in the US, US imports decreased from 1,8 million barrels in 2003 to 1.3 million barrels in 2013. This trend can be expected to be maintained as the US shale gas revolution further improves the US' energy independency and China becomes even more oil import dependent.

Saudi Petroleum Exports to the United States and China, 1998–2013



SOURCE: Compiled by authors from Energy Information Administration and Lexis Nexis.  
 RAND RR1229-3.2

Figure 14 - (Scobell & Nader, 2016, p. 36)

However, there are limitations to the political relationship between China and Saudi Arabia because of China's relationship with Syria and Iran. Therefore, the relationship remains based primarily on economic interests: "The PRC desires stable, reliable, and long-term access to energy reserves, and Saudi Arabia is eager to secure an enduring and dependable energy partner [...] Beijing-Riyadh cooperation is founded on mutual insecurities and born of pragmatic necessity." (Scobell & Nader, 2016, p. 46). Although China's relative power is much superior to Saudi Arabia, Saudi Arabia is unlikely to be as easily exploited as the authoritarian African regimes. Saudi Arabia still has the US as a powerful ally and this naturally restrains China's ability to use Neo-Mercantilist policies towards Saudi Arabia, which is why all trading with Saudi Arabia and the other Gulf countries, such as Oman and Kuwait, happens through the open market.

China's attempt at not choosing sides in the sectarian conflicts in the region could be seen during its 2016 presidential visits with Xi Jinping visiting both Saudi Arabia, Egypt and Iran (Li & Yuwen, 2016). Should these sectarian conflicts intensify, it could destabilize the entire region, which would be highly detrimental to China's energy security. Hence, following the shale gas revolution in the US and their growing resource independency, excessive global oil supply has led to low oil prices, which would dramatically change if the Middle East with their extensive reserves descends into sectarian conflict. Therefore, with half of China's oil imports coming from the region, China's domestic energy security situation is one of the most susceptible to volatility in the Middle East. As a result, even though China's foreign policy historically has been defined by its non-interference policy, China has growing economic and domestic energy security incentives to help the region remain stable. The shale gas revolution in the US makes the region of less strategic importance to the US in terms of energy, which only increases the importance of China to act as a stabilizing force. Furthermore, if the US' role in the region diminishes, this opens the

opportunity for China to increase its energy resource exploration, investments and infrastructure capacity building in the region.

A RAND Corporation report concluded that “Energy security and economic stakes seem to be Beijing’s paramount interest, and Beijing’s objective here appears to be securing access to resources and markets in the region. Xi’s formal launching of the New Silk Road initiative underscores economics as China’s top priority” (Scobell & Nader, 2016, p. 20). However, apart for Iran and Syria, all other Middle Eastern countries are still more aligned towards the US, which could delay China’s ability to gain a stronger economic foothold in the region. Therefore, China needs to gain more trust in the Middle East through responsible measures, which might discourage China from using Neo-Mercantilist strategies.

The RAND Corporation report further concluded that “China’s second most important interest is its geostrategic posture in the region. Beijing seeks to balance against U.S. influence in the Middle East, but this does not mean that Beijing actively desires to oppose Washington or significantly expand its military footprint. Rather, China seeks to cooperate with the United States because Beijing considers Washington a critical force for stability in the region, although the two capitals disagree on their definitions of what conditions are conducive to stability” (Scobell & Nader, 2016, p. 20). Thus, China also needs to remain on relatively good terms with the US, as China will struggle to keep the region stable militarily without the help of the US. This could be another factor for why China might want to limit its Neo-Mercantilist policies in the region.

Iraq is another controversial country in the region, and China has used the turmoil from a war it was against to sign valuable oil deals. In 2010, China had signed five major oil deals, some with 20-year contract lengths, that would guarantee oil deliveries at a fixed price. However, one might argue that the US or any western actor involved in the country for oil after the war should

face similar criticism. The primary reason for why western firms became hesitant to bet on Iraq oil auctions was only because of the unstable security situation in the country (Salaheddin, 2010). Regardless of western hypocrisy, China's actions in Iraq can still be characterized as Neo-Mercantilist because of the equity deals with a country with weak political institutions and a questionable humanitarian situation.

Another controversial China's presence in the Middle East relates to Iran. China has long been one of Iran's few continuous political allies since its revolution in 1979. China relations with Iran grew in the 1990s where China saw Iran as a good business opportunity to get energy resources to fuel its rapidly growing economy (Scobell & Nader, 2016, p. 54). From 1984 to 1996, China helped Iran develop its nuclear program, however, China stopped in 1997 to improve their relationship with the US (Scobell & Nader, 2016, p. 57). Throughout the history of Iran-China relations, China has tried to balance their ties with Iran to an extent that would not anger the US excessively, hence they wanted to join the WTO and saw the US-China relationship as more economically important long-term (Scobell & Nader, 2016, p. 55). However, overall, China has largely continued to trade with Iran despite US pressure and UN sanctions, which led to most Western companies leaving the Iranian market. The Chinese companies, however, then used this opportunity to increase its energy and economic position in the now isolated country. By 2005, China had become Iran's primary destination for oil exports and by 2007 they had overtaken the European Union as Iran's main trade partner (Scobell & Nader, 2016, p. 59). Moreover, China continued to import oil from Iran despite the vast UN sanctions following the continued proliferation of its nuclear program.

Up until 2006, China continued to support Iran on the United Nations Security Council (UNSC) (Wu, 2015, p. 57). However, between 2006 and 2012, China doubled down on their own



foreign policy as it voted against Iran on the security council multiple times and, in 2012 and 2013, their energy diplomacy towards Iran was also changed following these new Western sanctions. This meant that their Iranian oil imports fell from 555,000 imported barrels per day (bpd) in 2011 to 439,000 bpd in 2012 and to 429,000 bpd in 2013, when China's global oil imports were otherwise at a record high (Wu, 2015, p. 57). At the time, this break with tradition could have been a result of US political pressure, rather than China changing its long-term foreign policy and energy diplomacy (Wu, 2015, p. 57). Scobell and Nader describe how "Beijing has masterfully used its relationship with Tehran as a bargaining chip in its relationship with the United States [...] extracting concessions from Washington in exchange for agreeing to United Nations sanctions" (Scobell & Nader, 2016, p. 62). Using Neo-Liberal Institutional theory to analyse the policy coordination between the US and China for the case of Iran, it appears that despite both being major powers with a lot of interdependence, China managed to effectively manipulate its policy adjustments to avoid policy conflict with the US, while even maintaining a high level of engagement with Iran. Hence, in 2014, Iran still supplied China with 10% of its oil imports (Scobell & Nader, 2016, p. 59). As US pressure lifted following Obama's resolution to Iran's nuclear program issue, China's Iranian oil imports has since risen again to record highs as they imported 620,000 bpd in the first 11 months of 2016, which are expected to further rise in 2017 (Aizhu, 2017). In 2015, China imported 52% of Iran's oil with India as the next biggest with 20% (OEC, 2015c)

China has also made massive Neo-Mercantilist deals in Iran such as Sinopec signing 100 billion USD deal in 2014 with the National Iranian Oil Company to build up oil infrastructure and field exploration. In 2006, China acquired a 90% share in Iran's Azadegan oil field and, in 2009 alone, China invested 30 billion to further develop Iran's energy sector. During the sanctions, Iran

also agreed to fixed low oil prices for China because the sanctions left them with a lack of alternative export destinations (Scobell & Nader, 2016, p. 72). The lifting and softening of UN sanctions towards Iranian might reshape China's relationship with Tehran as Iran might want to decrease their dependency on China and increase their ties to Europe again. However, low global oil prices are likely going to mean that Iran will have to continue to rely on China as its primary energy resource export destination for the near future.

Therefore, China's Neo-Mercantilist policies in the Middle East relates primarily to Iraq and Iran. In Iran, China has continued to import despite the UN sanctions and invested heavily in Iran's energy sector when most Western countries were leaving Iran. China has heavily hindered Western efforts to isolate Iran and China has cleverly managed to get cheap resources without it damaging their relationship with the West excessively. The trading with Saudi Arabia, Oman and Kuwait, all happen on the open market and includes little Neo-Mercantilist activity from China in terms of disrupting the open international market. More so than in the other regions China is engaged in, economic, political, cultural and security issues are all intertwined in the Middle East. This has caused China to be increasingly challenged in terms of its non-interference policy as its economic and energy security interests in the region are becoming too great to ignore potential volatility. This will cause increased vulnerability from China's side towards the Middle East, which is rare for its energy diplomacy, which otherwise strives to be as independent on any specific region as possible. Therefore, because of the Middle East's overall strategic importance for both China's energy security and long-term economic interests, China and the Middle East are becoming increasingly economically interdependent, hence China cannot afford for the region to dissolve into conflict while the Middle East is pressured from low oil prices and will have to continue to rely on China as a primary destination for oil exports.

### **Russia and Central Asia:**

This section will analyse China's energy diplomacy in Central Asia and its complex relationship with Russia.

### **Russia:**

Russia is the largest producer of crude oil and the second largest producer of dry natural gas in the world. Russia is highly dependent on its energy sector to fund its federal budget, as in 2014, its oil and gas accounted for 50% of the federal budget. The number fell to 40% in 2015, however, it still shows how dependent Russia is on having reliable energy export destinations (Røseth, 2017, p. 24). Following the Crimea sanctions, the limitations and the unreliability of the European market made Russia try to spread its oil and gas exports more towards Asia. In 2010, the Eastern Siberia and Pacific Ocean (ESPO) oil pipeline was connected to China and since then oil imports to China has increased. From 2010 to 2015, Russian oil exports to China more than doubled and it has continued to increase to the point that China is today Russia's largest oil purchaser. This extensive cooperation developed quickly, hence before 2005, China was largely unnoticeable in Russia's energy sector, and until 2008, there had only been few minor agreements made (Røseth, 2017, p. 24). Thomas Eder argues that there can be identified two phases of energy cooperation between China and Russia under the Putin administration. One was leading up to the ESPO, a time that was defined by mutual suspicion and with Russian reluctance and postponing. While the second phase was after the pipeline was connected to China, a time Eder defines as "cautious progress" (Eder, 2014, p. 43). Much of Russia's reluctance towards China stemmed from Russia wanting to regain in control of its domestic energy sector and, thus, they blocked China from bidding into the Russian upstream energy sector (Eder, 2014, p. 43).

However, since then China has engaged in major long-term contracts and loan-for-oil deals, and it has raised Russia to become China's third biggest oil supplier (Røseth, 2017, p. 25), representing 11% of China's total oil imports in 2014 (Statista, 2014). One of these loan-for-oil deals occurred in 2008 between the Russian state-controlled oil-firm Rosneft and CNPC, which gave loans in exchange for 15 million tons (mt) of annual oil deliveries for 20 years. In 2013, Rosneft and CNPC expanded the agreement and decided to more than its double oil exports to China and expand the total capacity of ESPO to 58 million tons in 2015 and 80 million tons by 2020 (Røseth, 2017, p. 38).

China has also invested extensively in Russian natural gas, culminating in a 35-year gas deal secured in 2014. The Russian gas enterprise Gazprom will begin exporting 38 billion cubic meters (bcm) each year to China after 2019 (Røseth, 2017, p. 25). Another agreement was sealed in 2014, the "Power of Siberia gas agreement", which will almost give China monopoly on the buying rights of Russian gas exports to Asia (Røseth, 2017, p. 42).

However, despite this economic reciprocity, Russia is a very complex actor in China's energy diplomacy. On one hand, Russia and China complement each other's needs very well, as China needs resources and have an abundance of capital while Russia have massive reserves of both oil and gas and need willing trade partners – especially following the Western Crimea sanctions. Moreover, the two sides share a common disregard for the traditional American dictated neo-liberal world order, which has emphasized democratization, open markets, freedom of speech and human rights (Gueldry & Liang, 2016, p. 229).

On the other hand, despite the mutual economic benefits and similar political ideologies, China and Russia also have a very complicated history of bilateral relations from the 1960s to 1990s where China repeatedly observed Russia trying to hinder China in both geopolitical aspects

with Soviet interference in Xinjiang and in economic aspects with the lack of support during Great Leap Forward (Gueldry & Liang, 2016, p. 229).

However, the new loan for oil agreements shown above indicate the improving relations between China and Russia, as China appears to be accepting their controversial history and Russia is becoming more willing to accept the Chinese into their energy market. Therefore, the joint energy agreements signed after 2008 have led to increased economic interdependence between China and Russia (Røseth, 2017, p. 25). The total volume energy exports to China will likely to continue to grow as China and Russia sign more agreements, however, with falling oil prices, it might not mean that the total value will increase dramatically for Russia (Røseth, 2017, p. 43).

Russia's shift from scepticism and reluctance towards China to active engagement has likely been helped by continuous NATO expansions and because of the Crimea conflict (Røseth, 2017, p. 44). Russia originally wanted to diversify its energy exports to Asia broader than relying on China, however, the relations with Europe have deteriorated to a point where Russia had to prioritize China. However, as mentioned, China and Russia complement each other's core strengths very well, and as a result, the economic reasons might have carried as much weight as the political, hence the Western sanctions towards Russia simply made exporting to China more economically viable. Moreover, China has benefitted from largely playing within the rules and the economic system created by the US and the West. As a result, China would not have engaged in such as agreements with Russia, if the US and EU would have punished China for undermining the economic impact of the Ukraine sanctions (Røseth, 2017, p. 44). For Russia however, although the sanctions occurred after China and Russia had strengthened their mutual energy engagement, they further empowered Russia's will to develop the relationship with China and decrease their dependency on the EU. Moreover, the sanctions have limited the possibilities for western energy

enterprises to gain access and work in Russia, which has allowed China to increase the opportunities for its SOEs in Russia's energy market (Røseth, 2017, p. 48).

The question is then if China's changing energy diplomacy towards Russia can be said to be facilitating more economic interdependence or if it is Neo-Mercantilist, hence, Russia is a powerful state that will not be exploited like Angola, Sudan etc. Moreover, the large-scale oil and gas deals made after 2008 shows how Russia perceives China to be a potential partner for mutual interests and it is now actively seeking Chinese investment. Many of the oil and gas deals are defined by their length as well as their volume, which show that both countries are committed to building more economic ties and interdependence. China's need for reliable energy imports from a diversified number of regions for this Russia is of high strategic importance. By sharing borders and being connected by land rather than sea, Russia's massive reserves of both oil and gas give China an opportunity to feel much more secure with its national energy security situation should turmoil in the South China Sea and in the Strait of Malacca arise, which could cut off the energy resources imports transported by sea from Africa and the Middle East.

Russia's national security, meanwhile, depends heavily on having reliable diversified energy exports since falling oil prices are severely challenging the Russian economy. China, India and the rest of Asia represent Russia's biggest opportunities as some of the world's biggest current growth markets with mounting energy needs. Therefore, although Russia is currently increasingly relying on China, this is in fact still helping them diversify from its historic dependency on Europe.

The dependency relationship between China and Russia is, therefore, interesting. In theory, China is much more diversified in its import sources, however, at the current rate of expansion, Russia is set to become China's single largest resource exporter in terms of both gas and oil, and China might, therefore, be wary of becoming too dependent on Russia. Russia, meanwhile, will

likely remain heavily dependent on China, hence they are not expanding nearly as fast with the rest of Asia. China could use this to leverage their position towards Moscow in the future, however, for now many long-term agreements are already in place. Therefore, China's energy diplomacy with Russia is changing towards facilitating more economic interdependence rather than being a continuation of Neo-Mercantilism.

### **Central Asia:**

China's complicated relationship with Russia naturally also impacts the Central Asian region because of Russia's historic institutional and cultural presence in the region (Eder, 2014, p. 45). Currently, China imports very little oil from Central Asia, with Kazakhstan being the most noteworthy country representing just 2% of China total oil imports in 2014 (Statista, 2014). However, the region has some of the world largest oil and gas reserves with 18,8 % of the world's total proven oil reserves and 45% of its gas reserves (Gueldry & Liang, 2016, p. 230).

The reserves has caused both Russia and China to take a special interest in the region, however, the Central Asian countries are becoming increasingly sceptical of Russia because of its control of the pipeline-network in the region, which Russia uses to attract concessions from the Central Asian countries. Therefore, Russia has fought against any other country getting a hold in the region, which would allow for new pipeline-networks that could circumvent its own (Eder, 2014, p. 45). Moreover, Russia is reliant on Central Asian oil and gas reserves for both its European exports and its domestic gas consumption because it is cheaper to extract than their own reserves, which suffers from poor infrastructure. Central Asia's cheap resources allow Russia to use heavily subsidized prices domestically, and rising energy prices in Central Asia could, therefore, endanger Russia's domestic energy security (Rumer, 2006, p. 4). Moreover, the more access Central Asian energy gets to the global market, the less competitive Russian gas and oil prices are and restricting

other major powers from accessing Central Asia is, therefore, an issue of national importance for Russia (Eder, 2014, p. 46).

Russia had been moderately successful in limiting China's hold in the region up until the financial crisis in 2008. Both Central Asia's and Russia's economies struggled following the crisis and dramatically needed capital fusion (Pirani, 2011, p. 173). Meanwhile, China's economy was one of the few who managed to make it through the financial crisis remarkably unscathed. China, therefore, had immense leverage and it used it to reshape the balance of power in its favour through classic Neo-Mercantilist policies. China made extensive investments through its SOEs, loan-for-oil and gas deals, and prestige-seeking development programs from the Chinese government also helped increase China's influence in the region (Pirani, 2011, p. 173). Several projects and pipelines that had been delayed for years were rapidly finished, and 13 billion in loans from China allowed it to secure its current hold in Kazakhstan (Eder, 2014, pp. 54-56). Despite Kazakhstan's effort to maintain domestic control its energy sector, China bought massive shares in its gas and oil companies in 2009. By 2010, China held 50-100% shares in 15 of Kazakh energy firms. China's sudden hold on Kazakh oil could be seen in 2010, where 26 million tons of crude oil, out of Kazakhstan's total production of 80 million tons, was exported to China (Pirani, 2011, p. 172). Such rapid expansion was helped by the CNPC part owned Kazakhstan-China oil pipeline, which had just finished the connection from the Caspian Sea to Xinjiang in 2010, which doubled its capacity at the time (Eder, 2014, p. 54).

In Turkmenistan in 2009, China succeeded in building the first gas pipeline to connect to a country outside of Central Asia for the first time in ten years. The pipeline had a daily capacity of 40 million cubic meters in 2009, which became the biggest export of Central Asian gas ever without using Russian pipelines at the time. Such progress was also secured through government



intervening Neo-Mercantilist policies with China lending Turkmenistan 4 billion USD for the construction of the pipeline, and 3 billion USD for the development of gas fields (Eder, 2014, p. 54).

Moreover, with nuclear power becoming an increasing domestic priority in China, securing a greater foothold in Central Asia was also a necessity. Kazakhstan has 12% of the world's uranium resources and is the world's biggest uranium producer. In 2011, 20% of Kazakhstan's uranium production was exported to China (Eder, 2014, p. 56). In 2014 that number had grown to 55% (World Nuclear Association, 2017).

Therefore, the region is of great interest for China, however, Russia is reluctant to let China take its place in the region and is concerned with China's economic expansion in Central Asia. Meanwhile, the Central Asian countries are also sceptical of China's intentions in Central Asia, hence China faced criticism for not prioritizing the development and building up of the Central Asian economies rather just extracting resources (Khodzhaev, 2009, p. 24). In Kazakhstan, China has been blamed of discrimination and unfair employment towards local workers (Ziegler C. , 2008, p. 149). China's expansion and interests in the region can also be observed politically recently with the establishment of both the AIIB and the BRI, which promises to provide new economic opportunities to Central Asia by linking it with Europe and Asia through enhanced infrastructure connectivity. These international regimes provide China with a political framework to rebrand itself as a more responsible stakeholder in the region, potentially giving China further access to the region's abundances of energy resources.

Access to the landlocked Central Asian energy resources is strategically important for China moving forward since conflict in the South China Sea and the Strait of Malacca could potentially threaten China's energy imports from Africa and Middle East and, thus, severely

endanger national security. As a result, even though Russia is still an important ally for China, it could also act as a potential spoiler for China efforts to achieve its energy diplomacy goals in Central Asia. Moreover, the Central Asian countries are also aware of the great powers vying for interests in their region and they would like to maintain some leverage by avoiding aligning themselves with a single power too much (Gueldry & Liang, 2016, p. 231).

Another way for China to increase its hold on the region is to try to align the traditional alliances within the region away from Russia towards itself. The AIIB and the BRI can complement China in this by providing China greater access, legitimacy, prestige and influence in the region, which could potentially gain China enough leverage to negotiate further equity deals and loans for energy resources, which would only marginalize Russia's hold on the region further. Analysed using Neo-Mercantilist theory, China's energy resource presence in Central Asia can be seen as a zero-sum game with Russia. The more ground China gains in the region, the more Russia essentially loses, which might lead to conflict in the future. Based on Neo-Liberal Institutional theory, Russia might see China's activities in Central Asia as being a spoiler for their national interests and China might need to cooperate and policy coordinate to avoid policy conflict with Russia in future. However, China arguably has the most leverage in the relationship as long as the Middle East remains stable and China might, therefore, be able resolve the conflict through negotiations that still favours themselves in the end.

Concluding, China's current energy diplomacy towards Central Asia can be characterized as Neo-Mercantilist. China used the economic turmoil in the region following the financial crisis to secure itself extensive access to the region through government loans to build pipelines as well as buy vast shareholdings in the region's energy companies. China is also one of the few countries to have access to Central Asian oil and gas without using Russian pipelines. This secures China

cheaper prices and it is especially damaging to Russia's national interests. Furthermore, perhaps except for Kazakhstan because of its uranium, China is much less dependent on any single Central Asian country than they are on China, meaning that China can leverage the countries against each other to secure lower prices.

There is, however, increasing economic interdependence present in the region, hence similarly with Russia, China and Central Asia interests align very well in terms of Central Asian lacking energy importers and China have massive needs. Moreover, good relations with Central Asia also secures China's against volatility in the Middle East. China's rising gas needs might also make China prioritise facilitating more economic interdependence in Central Asian moving forward, hence China's gas needs will rise from 193 bcm in 2015 to more than 510 billion cubic meters in 2030 (Reuters, 2016). Central Asia and Russia are some of China's best options for supplying their growing gas needs and China might prefer not to become too dependent on Russian gas to maintain leverage, which is why they are likely to look towards Central Asia. As a result, facilitating more economic interdependence in the region might build up China's prestige and reputation as a more responsible and trustworthy stakeholder, which provides China with long-term energy security.

**Sub-conclusion:**

Analysing China's energy diplomacy towards the different regions they import from reveal a very broad and nuanced strategy. Even within a single region, China balances the extent of Neo-Mercantilist policies they can implement with each country depending on their relationship with the Western powers that are present in the region, the institutional strength and relative power of the individual country and the strategic importance of the country to China. China uses a general strategy of trying to spread out their energy needs on multiple energy suppliers and try to never rely too heavily on one region or country. This provides China with a great deal of national security since volatility within one region will not cause too much disruption to China's total energy imports. However, currently China is heavily reliant on the Middle East, which is why they are also intensifying their cooperation with Russia and Central Asia.

Therefore, China's energy diplomacy utilizes Neo-Mercantilist strategies when there are obvious economic gains and when the state they are trading with is institutionally weak enough to be exploited or economically desperate enough, following e.g. Western sanctions, to accept deals that will favour China. This shows that China's energy diplomacy can be characterized as being driven by Neo-Mercantilist strategies when possible, which disrupts the open market in some regions and gives Chinese SOEs unfair advantages. However, in the Middle East and Central Asia and Russia, China is increasingly facilitating economic interdependence, because the regions also serve as strategic interests for China, which is why China wants to balance its exploitive policies towards these regions. Though despite the exceptions in these regions, Neo-Mercantilism defines China's global energy diplomacy overall as China routinely uses government intervention and market disrupting policies to manipulative the market so that it favours their own national interests

more. As a result, the hypothesis of whether China's energy diplomacy can be characterized as Neo-Mercantilist is confirmed.

### **How does China's new international regimes complement China's changing energy diplomacy?**

This section will describe the significance of how the ambitious Belt and Road Initiative (BRI), the Asian Infrastructure Investment Bank (AIIB) and other new Chinese developed international regimes will complement China's energy diplomacy. The BRI wants to create a land infrastructure and a 'Silk Road Economic Belt' trade route through Central Asia and the Middle East all the way to Europe as well as a '21st Century Maritime Silk Road', which will create ports and shipping lanes through the South China Sea and the Indian Ocean (NDRC, 2015). In March 2015, China published the first official policy document on the BRI where it claims that the goal of the project is "common development and mutual prosperity" (NDRC, 2015). Specifically, to energy infrastructure development the policy document cites the following: "We should promote cooperation in the connectivity of energy infrastructure, work in concert to ensure the security of oil and gas pipelines and other transport routes, build cross-border power supply networks and power-transmission routes, and cooperate in regional power grid upgrading and transformation." (NDRC, 2015). Critics often cite three dimensions to understand the significance of BRI for China's national interests:

First, it will strive to create new economic and trade opportunities for China and all countries included in the Initiative. Especially the Central Asian region is a priority because of its vast natural resources and increasing its connectivity to Western China should increase economic

development in a region of China, which is severely underdeveloped compared to Eastern China (Dusek & Kairouz, 2017).

Second, expanding energy infrastructure in the Central Asian and Middle Eastern region will decrease China's vulnerability to potential turmoil in the Strait of Mallaca, where currently 80% of China oil imports are exported through (Dusek & Kairouz, 2017).

Third, the BRI is an opportunity for China to export its vast energy and infrastructure construction industries, which are starting to suffer from weakening domestic demand after years of extensive growth. This weakening demand is causing a burdening overcapacity in steel and an increase in heavily indebted state-owned firms also called 'zombies firms'. The BRI is meant to create opportunities to export this overcapacity to China's neighbours and avoid a potential major economic slowdown for China (Miller, 2017, p. 32).

Meanwhile, the AIIB serves multiple purposes. The AIIB defines its work in the following way: "As an infrastructure investment bank, we offer sovereign and non-sovereign finance for sound and sustainable projects in energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics" (AIIB, 2017).

Critics often cite that one of the goals of the AIIB is to function as a lender to facilitate the BRI by lending capital to the countries along the 'Silk Road Economic Belt'. China alone has provided the AIIB with \$100 billion in capital as well as the New Silk Road Fund (NSRF) with \$40 billion to try to fulfil this potential (Dusek & Kairouz, 2017). Another aspect critics bring up about the AIIB is its importance for improving China's institutional reach as well as China's prestige following setbacks due to its controversial behaviour and exploitive practices in Africa, Central Asia and Asia (Miller, 2017, p. 36). Hence, for the BRI to be a success, China needs to be

able to convince countries that China is a responsible and trustworthy lender that is concerned with the sustainable economic development of the recipient countries. China's limited role and voter share in the US-created international institutions such as the World Bank with just 5% (Miller, 2017, p. 36) as well as the IMF with just 6.4% (IMF, 2017) meant that China had limited opportunities within these US-created regimes to change its perception towards being a more responsible and positive development facilitator. Thus, similarly to how the Asian Development Bank has long served to advance Japan's regional interests and soft power projection in Asia since its founding in 1966, China hopes that the AIIB can improve its standing in Asia as well (Miller, 2017, p. 37).

Hence, even though China has managed to secure a stronger foothold in Central Asia after the financial crisis, many Central Asian countries are still sceptical of fully engaging with China because they are afraid of being exploited. Therefore, the AIIB can serve as major prestige facilitator for China in the region, while the BRI can be used as the economic bargaining tool for China in negotiations for enhanced resources access and equity deals. A critical analysis of the BRI might argue that it can be seen as a long-term Neo-Mercantilist project that will allow China further access the regions energy resources while building strategically relevant infrastructure in countries, which can then become new consumer markets for Chinese exports. A more optimistic and liberal viewpoint would argue that BRI does hold immense potential for the one-dimensional economies of Central Asia, which only have to look to Russia to see the long-term economic issues of relying primarily on energy resources as the driver of the economy. If Central Asia can take advantage of the economic opportunities that BRI can facilitate, it can potentially reinvigorate the production capabilities of these countries by connecting them to new trading partners in Europe, which these one-dimensional economies have severely lacked. However, doing so will be very

challenging for the Central Asian countries, hence they will be competing with Chinese products, which the Central Asian countries are not close in matching in terms of both price and innovation.

Therefore, if the Central Asian countries cannot take advantage of the infrastructure to export goods, the BRI might at least bring enhanced connectivity for Central Asian energy exports to e.g. China and potentially Europe, which might let the Central Asian countries accelerate their economic development and diversify their economies more moving forward. China's new international regime in the BRI can, therefore, facilitate economic interdependence and mutual interests even if it is also a Neo-Mercantilist measure that China can manipulate to favour their key economic interests more.

There are indications that the AIIB and the BRI are already having success in facilitating cooperation on energy infrastructure. China invested 14,5 billion USD in 2016 alone along the Belt and Road and from May 14 to 15, 2017, China will host the first "The Belt and Road Forum for International Cooperation. The forum will be attended by 27 heads of state and government, 70 leaders of international organizations, 100 ministerial-level officials (Global Times, 2017).

The first energy projects or pipelines under the official banner of the BRI have also been opened recently. China and Kazakhstan opened a gas pipeline in April 2017 will provide China with 5 billion bcm natural gas annually (China Daily, 2017). China and Myanmar signed a deal in May 2017 to open an oil pipeline between their countries. The pipeline has a capacity of 22 million tons of crude oil each year (Siqi & Ma, 2017). China already has an extensive gas pipeline network in Myanmar, which has transported 3.4 bcm of gas of October 2016, and China has invested 18,53 billion USD in Myanmar since 1988 (Siqi & Ma, 2017). Moreover, 11 more countries and regions along the Belt and Road have recently signed free trade agreements (FTAs) with China, bringing China's total FTAs up to 22. China plans to sign 20 more FTAs with countries involved in th Belt



and Road Initiative (Hongpei & Daye, 2017). As a result, one might argue that China's new institutional regime in the BRI is successfully facilitating cooperation in both energy, trade and infrastructure. Furthermore, even though the participating countries might be sceptical of how the BRI might be preferential towards China's economic and geopolitical interests, they dare not, or maybe cannot afford to, not be a part of it.

The Middle East is the other high priority region for China's energy diplomacy as it connects all three continents involved in BRI and China's already substantial total volume of energy resource imports from the region are projected to grow extensively. In 2016, the AIIB started distributing its loans, the first to the Middle East being a 300 million USD loan to help build Oman's Duqm Port and building the first railway system in the country (Dusek & Kairouz, 2017). Heavy Chinese investments in the Middle East, further increases China's vulnerability towards the potential security risks in the region, however, it also reassures the region that China is committed to maintain stability and development in the region. Both Iran and Saudi Arabia have committed to the AIIB, which will help to increase the economic interdependence between the China and the Middle East. A fully realized BRI will help China increase its energy deliveries from the Middle East. Moreover, it might even allow China to export resources from the Middle East either through underwater pipelines or through Central Asia, which would allow China to be less vulnerable towards volatility in the Strait of Malacca. Moreover, China needs new export markets to continue to fuel its economy and the Middle East is a huge consumer market with a population with around 500 million (Li & Yuwen, 2016). Therefore, it is reasonable to expect that the AIIB will continue to be active in lending to the Middle East to develop the infrastructure in a region that is desperate for an expansion and diversification of its economic opportunities, while

at the same time serving China's economic interests by building up its reputation as a facilitator of economic interdependence while expanding its energy opportunities in the region.

China faces a challenge in terms of ensuring peace and stability in the Middle East, which currently exports half of its oil imports, hence, it might be impossible to China to broker the centuries old sectarian conflict between Sunnis and Shiites (Luft, 2016). However, the BRI can potentially serve as an indirect security measure towards protecting China's economic energy interests in the Middle East in terms of creating increased economic interdependence between the countries on both sides of the sectarian tension in the region. Long thought of as a peace creating measure in Europe, economic interdependence in the Middle East might create more lasting economic incentives for both Sunnis and Shiites to engage in more positive diplomatic negotiations. If China can continue its current position of maintaining positive relations with all countries in the region, China can also act as a negotiator in future conflicts (Luft, 2016). Thus, China's new international regimes in the BRI and the AIIB can serve multiple purposes in the Middle East alone. The BRI can further expand China's Neo-Mercantilist opportunities of energy resource exploration and energy infrastructure in the region, which allows China to further enhance global supply. Meanwhile, the AIIB and the BRI combined can potentially act as stabilizing factors through increased economic development and interdependence, while indirectly enhancing China's energy security by helping stabilize the Middle East.

However, if China wants to have continued success with these new international regimes, China needs to build a reputation of having a responsible development model. This is where one can see how the AIIB and the BRI complement China's energy diplomacy differently.

As a multilateral organization, the AIIB might follow a model like the World Bank of responsible lending and development. Hence, China wants the AIIB to be a success to show that

China's first multilateral development bank can be as responsible as the US' World Bank in order to facilitate Chinese prestige and international institutional legitimacy. Because of the international membership of the AIIB, it will face external as well as internal criticism if it fails to deliver tangible economic results and improvements in its projects. China might, therefore, be limited in its ability to use the AIIB to fund the BRI's strategic infrastructure and energy projects. Moreover, China cannot ignore subcontracting local labour with AIIB projects as they have done repeatedly in Africa. Ironically, therefore, because of the success the AIIB has had in recruiting international membership, the bank might not be able to advance projects and deals that are heavily favoured towards China: "Rather than maximizing the dollar value of contracts for its own firms, Beijing has chosen to maximize China's global prestige by turning the AIIB into a truly multilateral organization" (Miller, 2017, p. 40).

However, China does not need AIIB to finance BRI infrastructure and energy projects as China's own policy banks, the China Development Bank and the Export-Import Bank of China, already lend more to Asia than the World Bank and the Asian Development Bank combined (Miller, 2017, p. 12). China Development Bank, which was originally envisioned for domestic infrastructure domestic development, has lent 187 billion USD from 2007 to 2013 in overseas development loans and the Export-Import Bank of China lent 80 billion USD in 2014 alone, which is more than combined annual lending of all seven major multilateral development banks (Miller, 2017, p. 42). Moreover, China can also encourage its commercial banks to fund the BRI projects that they find strategically advantageous. Bank of China will lend up to 100 billion USD from 2016 to 2018 on BRI projects, and CITIC Bank will lend 113 billion USD over an indefinite time frame (Miller, 2017, p. 41). To further indicate the lack of importance of the AIIB as lender for BRI and its actual role as a prestige facilitator for China, the AIIB currently plans to lend just 2

billion USD annually for its first five years of operation and, in three of its four first projects, it is offering additional funds to projects that are already established by the World Bank, the ADB or the European Bank for Reconstruction and Development (Miller, 2017, pp. 39-40).

Meanwhile, critics argue that the BRI initiative is an initiative driven by China to, first and foremost, enable China's national interests, even though it will also build connectivity and facilitate increased trade opportunities in countries that need it (Miller, 2017, p. 25). The "initiative" part of BRI tries to evoke the idea that all the countries potentially involved in the BRI are in it together and Xi Jinping wants to build a 'community of shared destiny' with its Asian neighbours, which China aims to use as "economic incentives to build closer relationships with its neighbours, drawing them ever tighter into its embrace. In return for delivering road and power lines, it expects its partners to respect its 'core interests', including its territorial claims in the South China Sea. This is what Beijing means by 'win-win' diplomacy" (Miller, 2017, p. 25).

A common misconception of the BRI is to look at it as a comprehensive and unified infrastructure project, when it is essentially numerous ad hoc projects in various countries that might or might not be able to create a 21st Century Silk Road in the end. Therefore, although the BRI officially is a relatively new initiative, the various infrastructure and energy projects developed before the concept of the BRI was introduced in 2013 by Xi Jinping in a speech in Kazakhstan can still be seen as being a part of it (Shaohui, 2015).

Another misconception of the BRI is that its potential for infrastructure projects can replace the previous domestic construction demand in China. According to Tom Miller, a positive scenario for the BRI's demand for Chinese construction projects will be around 50 to 100 billion USD per year, however, when compared to previous the domestic demand of 150 billion USD per month in 2015, the annual potential of BRI infrastructure projects does not even add up to a single month

of domestic spending (Miller, 2017, p. 49). As a result, one should also look elsewhere than just limiting domestic overcapacity when trying to explain the significance of BRI for China's national interests. One might argue that the BRI's most important feature is its potential for facilitating China's trade ambitions in increasing connectivity to new markets, meanwhile the second-most important goal for the BRI is to increase its energy resource connectivity, diversification, security and supply.

However, the primary challenge for the BRI to complement China's energy diplomacy might be to gain trust of the countries along the Belt and Road. China might struggle to convince the countries' that the projects are mutually beneficial and not too heavily favoured towards China. Another challenging aspect for the BRI to succeed is that because the end goal is to create a complete infrastructure route from China to Europe, there cannot be any holes in the infrastructure and connectivity. Moreover, since the BRI infrastructure will primarily be funded through loans, the undeveloped economies of Central Asia need to see the infrastructure projects as economically viable for them to loan. For the BRI to fulfil its full trade capacity it, therefore, needs to convince most countries along the New Silk Road that the BRI can benefit their interests as well. Moreover, security concerns along the BRI, in e.g. Pakistan, Afghanistan and Iraq, will also prove challenging for infrastructure development (Brown, 2015). However, even if China's fails to successfully connect the BRI from China to Europe, it can still serve as a platform for China to create new energy, infrastructure and trade deals under the BRI banner, which might still appear more like 'win-win cooperation' than traditional bilateral deals.

Neo-Liberal Institutionalism argues that when a hegemon's relative power declines, the member-states of an existing international regime are more inclined to modify it rather than a create new one (Keohane, 2005, p. 107). However, as US' power arguably has declined in

international regimes, China has gone against this assumption and created its own parallel to the World Bank with the AIIB rather than try to modify it, and there has never been an international regime with the ambitions of the BRI. One might argue that reason for this is that existing international regimes could not fulfil China's national interests sufficiently, because even if US hegemony has relatively declined, US Neo-Liberal ideology still defines its regimes and global order. This explains why China established the AIIB and the BRI contrary to the Neo-Liberal Institutional assumption, hence, as China wants to support and expand its energy diplomacy and national interests moving forward, China needed new international regimes that could underpin and facilitate its national interests, because it could not rely on the US-created international regimes as its relatively strength with these regimes was misrepresented, too dispersed among the other members and too entrenched in US Neo-Liberal ideology.

Another interesting Chinese led international regime, which is potentially even more ambitious and long-term than the BRI, is called the Global Energy Interconnection Development and Cooperation Organization (GEIDCO). GEIDCO revolves around China enhancing its energy network and total capacity to such an extent that China could become a global energy grid (Fialka, 2016). It would be able to export 80% renewable energy by 2050 and would fulfil some of current issues with China's energy grid where excess energy is wasted, and China is now spearheading the organization (GEIDCO, 2017). The chairman, Liu Zhenya spoke of three phases for the project: First, "completing a network of long-distance, high-voltage direct-current power lines to move renewable power from the north to the south and from the east to the west, China could finish its new grid by 2025" (Fialka, 2016).

Second, “an international effort to build regional grids that would be able to transmit substantially more power across national borders in Northeast and Southeast Asia, between Africa and Eurasia, and between nations in both North and South America” (Fialka, 2016).

Third, “build power lines and undersea cables that would connect the regional grids” (Fialka, 2016). China’s vision for the project is for China to help developing countries cope with their growing energy demands in a clean and renewable way while promoting win-win cooperation and global economic opportunities for all countries involved – not just China (GEIDCO, 2017).

GEIDCO combined with the AIIB and the BRI creates a network of opportunities for China to export energy directly. From a Neo-Liberal Institutionalist perspective, one can argue that China is laying the foundation for numerous potential regimes to cement itself as a responsible actor in global governance that can export energy to the regions with energy inefficiencies. Currently, China mainly uses its broad diversity of energy resources suppliers for national energy security purposes so that instability in one export region will not cause a domestic lack of resources. GEIDCO, however, would allow China to use the full capacity of its energy diplomacy to export excess energy production and create extensive economic opportunities for Chinese energy infrastructure industry overseas. A fully realised GEIDCO would, therefore, be a complement to both China’s energy diplomacy as well as the BRI initiative. China would be able to supply not just infrastructure and trade, they would also be able to cover the domestic energy inefficiencies of their partner countries. However, from a Neo-Mercantilist perspective, GEIDCO holds immense economic potential as China can export its cheaply acquired excess energy production at a profit. GEIDCO’s ability to complement China’s energy diplomacy is not relevant for the near-future, hence, China first needs to reach a point of energy saturation domestically before it can export any energy overseas. However, long-term, with the pace of development in China’s domestic energy

sector as well as the potential for the BRI to increase China's energy supply, the scenario presented above might not be unrealistic.

**Sub-Conclusion:**

This section found that the AIIB can complement China's energy diplomacy by improving China's international reputation and prestige, which might make countries less sceptical about accepting energy and infrastructure deals connected to the BRI. Meanwhile the BRI can complement China's energy diplomacy by facilitating expanded energy resource exploration, infrastructure, diversification and overall supply. In the long-term, as China's domestic energy grid and renewables sector continue to improve, and if China's cheap resource deliveries increase and China reaches a point of energy saturation, GEIDCO can potentially complement China's energy diplomacy by selling cheaply produced excess energy at a profit to countries that lack energy resources. However, China's long-term ability of becoming a global energy exporter is highly contingent on the success of the BRI as well as continued domestic economic growth and stability.



## **Discussion:**

This section will discuss the overall direction of China's energy diplomacy based on the results of the previous sections to evaluate whether China's energy diplomacy is changing towards facilitating increased economic interdependence or if China is continuing to use Neo-Mercantilist strategies to secure favourable deals that serve its national interests. This section will use Neo-Liberal Institutional and Neo-Mercantilist theory to discuss the implications of China's changing energy diplomacy based on the findings in the previous sections.

If one analyses China's energy diplomacy based on its suggested goals in the Chinese government's White Paper on China's energy policies (State Council of PRC, 2012, p. 22), one might argue that China is achieving its goal of expanding international energy resource supply, diversifying resource sources and increasing global energy resource access for developing economies. China is the leading country in expanding global energy supply and its new international regimes in the AIIB, the BRI and GEIDCO can further help facilitate China's ability to strengthen energy exploration in developing countries, help these countries' economies grow and diversify, improve energy infrastructure as well as increase global access to energy resources. Moreover, China is playing an active role in global energy cooperation organizations such as Asia-Pacific Economic Cooperation Organization, World Energy Council and International Energy Forum, G20 and Shanghai Cooperation Organization (State Council of PRC, 2012, p. 22). One can, therefore, argue that China's energy diplomacy is facilitating increased economic interdependence, especially in Central Asia and Russia as well as in the Middle East, hence these regions and China are becoming increasingly dependent on each other.

However, if one looks at China's energy diplomacy through a more critical lens, although China's energy diplomacy might be changing towards facilitating more economic

interdependence, it can still be characterised as Neo-Mercantilist. Hence, China's energy diplomacy is defined by government interference, whether it is through government-to-government secured equity deals for Chinese SOEs, which circumvents the open market, or if it is Chinese built pipelines and infrastructure under the banner of its international regimes such as the BRI. Moreover, China's outwards energy exploration has succeeded, primarily through Neo-Mercantilist means, in greatly expanding global supply, which has made energy resources cheaper and more widely available. As the world's biggest energy consumer, this allows China to keep prices low, fulfil their own growing needs and secure diversification, while at the same time presenting themselves as global development enabler.

A defining characteristic of Neo-Mercantilist theory is that a country should be as active in regulating and interfering in the international market as their relative economic and military position to the international world order allows them, which is exactly what China is doing with its energy diplomacy (Ziegler & Menon, 2014, p. 21). Interestingly, Neo-Liberal Institutionalism makes the same conclusion, hence it argues that states will pursue self-interest as well as an outcome that might benefit all when negotiating, however, the greater powers will often negotiate deals that favour themselves more (Keohane, 2005, p. 53).

Therefore, as China grows further into a regional hegemon in the Central Asian and Asian region through the BRI and the AIIB, China will gain even more leverage when negotiating bilaterally, which allows China to continue to secure favourable energy resource for loan or infrastructure deals. China's changing energy diplomacy towards the Central Asian region and Russia is facilitating increased economic interdependence, however, China's measures of negotiation and trade with the region is still highly defined by Neo-Mercantilism such as seen following the financial crisis. In Central Asian more so than other regions, the negative zero-sum

aspects of Neo-Mercantilism seem relevant, hence China is almost in sole competition with Russia for Central Asia's energy resources and, as a result, anything Russia gains, China loses and vice versa. From a Neo-Liberal Institutionalist point of view, China's expanding interest for Central Asia is bound to cause discord and clash with Russia's national interests unless the two countries can policy coordinate. However, because of China's success in diversification of energy sources and Russia's own increasing economic dependency on China, Russia might not have enough leverage to truly threaten China.

On the contrary, in the Middle East, where the US is much more present, China's relative power is much weaker, which means China cannot use Neo-Mercantilist strategies to the same extent with e.g. the Gulf states and Saudi Arabia. China is still able to secure favourable deals with Iran as the country is still isolated and lacks trade partners, however, the Middle East as a region overall might be the most positive case of China's energy diplomacy changing towards facilitating more economic interdependence. The region is of paramount strategic importance for China because it exports half of China's energy imports meanwhile the Middle Eastern economies are still highly one-dimensional and needs large economies like China to keep exports, global energy resource demand and prices up. Meanwhile China needs the tumultuous Middle East to remain stable to secure its national energy interests long-term, and this vulnerability from China towards the Middle East facilitates interdependence and reciprocity.

China's energy diplomacy towards Africa and South America is not changing significantly with both regions serving primarily as sources of diversification rather than key players in China's near-future energy plans. Both regions are largely ignored by the BRI except for Africa as a trade and shipping destination, and in the countries where China's energy diplomacy is active, such as Sudan, Angola, Iran and Venezuela, the relationship has not changed towards facilitating more

economic interdependence, rather these countries are locked in a highly dependent relationship with China with weak domestic political institutions and little support from Western countries to put pressure on China for its exploitive Neo-Mercantilism strategies.

China's new international regimes in the BRI and the AIIB have different implications for China's energy diplomacy, however, they can serve a similar strategy. The BRI can be seen as a direct extension of China's national interests securing trade, energy resources, and minor exports of infrastructure and overcapacity of steel and labour while the AIIB can be seen as a multilateral prestige tool for China to rebrand itself as a responsible stakeholder. The AIIB was often envisioned as a direct funder to facilitate the BRI, however, this thesis argues that this will not be the case because of the institution's multilateral structure and oversight. Rather the AIIB will play a more indirect role to facilitate the BRI by improving China's reputation and prestige and, thus, making the countries along the BRI trust China more. GEIDCO is more of an idealistic last step for China's energy diplomacy that can only be realised if the BRI succeeds, maintains economic stability, and if China reaches a point of energy saturation, which it is still far from doing. Moreover, there is no guarantee that even if GEIDCO was realised that there would be a market for it, hence, China's own energy diplomacy is helping increase energy access in developing countries.

Therefore, although the implications of China's changing energy diplomacy vary from region to region, a pattern also emerges in China's energy diplomacy. China employs Neo-Mercantilist measures and strategies towards regions and individual countries when either: the political institutions of the respective country are too weak, the relative power between the two countries favours China, or when no other major power can effectively challenge China for regional control. China's energy diplomacy heavily favours China's national interests, however,

in the regions of highest strategic importance to China, such as Central Asia and Russia, and the Middle East, China does appear concerned about ensuring economic interdependence. China needs to avoid conflict with Russia as well as foster tangible development in Central Asia and the Middle East so that they feel that they can trust and gain from allowing China to increase its presence in the regions. Meanwhile, mutual trust allows benefits China by providing new opportunities for expanding resource exploration, securing equity deals, improving domestic energy security and progressing the development of the BRI initiative. As a result, in the regions that are of strategic importance to China, China is facilitating increased economic interdependence. On the contrary, isolated countries, such as Sudan, Iran and Angola, are locked in a continuation of Chinese Neo-Mercantilism and exploitation because they lack alternative trade partners and have no strategic importance for China because their natural resources are easily replaced and, therefore, have little leverage in negotiations.

Therefore, the implications of China's energy diplomacy can be said to be two-fold. On one hand, it will likely continue to fail to provide any meaningful change or development for some of the world's poorest, most corrupt and most authoritarian energy exporting states. Hence, China has little reason to sacrifice economic gains when there is minimal risk to their global reputation or when the authoritarian elites gladly will accept deals that are favourable towards China in order to maintain power. On the other hand, the regions of strategic importance to China will likely experience increased economic opportunities due to the BRI's major infrastructure and energy projects. However, there is still uncertainty concerning the extent of the BRI's ability to facilitate trade beyond energy exports for Central Asia and the Middle East due to their one-dimensional economies with limited know-how and production capabilities, which could limit their ability to create sustainable economic growth, even with the additional connectivity from the BRI.

## **Conclusion:**

This thesis sought to research whether China's energy diplomacy is changing towards facilitating increased economic interdependence or if it is a continuation of Neo-Mercantilism. The thesis used Neo-Mercantilist and Neo-Liberal Institutionalism as its theories for analysis. Neo-Mercantilism was useful for analysing the nuances of China's government interference in the global economy of energy resources, how it shapes China's energy diplomacy as well as how such strategies can serve China's national interests. Meanwhile, Neo-Liberal Institutionalism was used to analyse how China's new international regimes in the AIIB and the BRI could complement China's energy diplomacy as well as to what extent China's changing energy diplomacy is facilitating increased economic interdependence. The methodological approach of using qualitative methods to analyse the four major energy exporting regions to China succeeded in revealing the complex variances within China's energy diplomacy as well as how China's new international regimes can complement its energy diplomacy.

The thesis proposed two research questions, the first of which questioned whether China's energy diplomacy can be characterized as Neo-Mercantilist across its various regions of engagement. It found that China is continuing to use Neo-Mercantilist strategies in all regions, however, to varying degrees. China's limited exports from Africa are defined by Neo-Mercantilism, hence the isolated regimes of Sudan and Angola lack alternative trade partners and have little leverage because of their lack of greater strategic importance to China. Meanwhile, the Middle East is becoming a strategically important region and China's increased dependence and vulnerability towards the region has created much more economic interdependence between them. Towards Central Asia and Russia, China has more leverage and is more Neo-Mercantilist than in the Middle East, however, China's rapidly growing gas needs, its vulnerability to turmoil in the

Strait of Malacca, and Central Asia's importance for the BRI makes the region of significant strategic importance to China. Because of this rising strategic importance, China might be interested in making its energy diplomacy facilitate more mutual trust and economic independence in the region moving forward.

The second question researched how China's new international regimes in the AIIB and the BRI can complement China's changing energy diplomacy. It found that both the BRI and the AIIB can be said to complement China's energy diplomacy through institutional legitimization. Hence, the BRI creates an institutional framework for China to create new opportunities in energy infrastructure and equity deals which will directly complement China's energy diplomacy while facilitating economic interdependence for the participating countries. Meanwhile, the AIIB is a multilateral institutional regime that can indirectly complement the BRI and China's energy diplomacy, through prestige and influence, by making China appear like a trustworthy and responsible stakeholder that is facilitating sustainable development, which is especially important for China's energy interests in Central Asia.

Finally, the thesis discussed the implications of China's changing energy diplomacy and found that China's energy diplomacy is becoming increasingly contingent on the strategic relevance of the country or region. The consequences of this is that China's energy diplomacy is not changing towards some of the world's poorest and most authoritarian countries, meanwhile it is potentially going to lead to increasing economic interdependence and opportunities in the Middle East and Central Asia. There is scepticism among the countries along the BRI as to what extent it can truly facilitate sustainable economic growth and diversify the production and trade capabilities in their countries. However, despite this scepticism, 27 state leaders will attend the

Belt and Road Forum in May 2017, arguably because they recognize that even if the BRI is favoured towards Chinese national interests, they cannot afford to not be a part of it.

As a result, the thesis' answer to the problem formulation is that China's energy diplomacy is increasingly facilitating economic interdependence in the regions of strategic importance to China, however, at the same time, China's energy diplomacy is continuing to use Neo-Mercantilist strategies, complemented by its new international regimes, to negotiate deals that are preferential towards China national economic interests in the long term.

This conclusion leaves new potential avenues for future studies within China's energy diplomacy. There is potential for more comprehensive studies to try to substantiate these findings with a quantitative approach, which could attempt to find a statistical correlation between China's global energy diplomacy and its institutional regimes. Hence, within the next five to ten years, as the AIIB and the BRI develops, there might be enough cases and history to do a more dedicated study for how these institutions in practical terms have complemented China's energy diplomacy. This thesis' ability to do so is limited in this regard since, because of the lack of maturity for these institutions, their real-world impact is still largely unknown. Moreover, as China attains more regional hegemony, and perhaps challenges the US for global hegemony, new studies can research whether China's energy diplomacy is changing towards further facilitating economic interdependence or if it will be a continuation of Neo-Mercantilism.



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