CHINESE ENERGY DIPLOMACY AND INVESTMENTS IN AUSTRALIA AND RUSSIA, 2000-2013

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DECLARATION

I declare that the thesis entitled "**Chinese Energy Diplomacy and Investments in Australia and Russia, 2000-2013**" submitted by me for the award of the degree of **DOCTOR OF PHILOSOPHY** of Jawaharlal Nehru University is an original work and has not be submitted so far in part or full of any other degree of this university or any other university.

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CERTIFICATE

I recommend that this thesis be placed before the examiners for evaluation.

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Contents

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List of Tables and Figures

Chapter 2: China's Energy Diplomacy and its Investments Abroad: Functions, Challenges, Achievements and Influence

Chapter 3: Sino-Russian Energy Relations: Opportunities and Challenges

Introduction

Energy Diplomacy by Chinese and Western standards

China's economic growth has reached an insurmountable rate and has raised new expectations of the twenty-first century being the dawn of the Asia rise, with China, clearly emerging as a natural leader. However what is actually feared is the extent to which this economic miracle can survive, with China's energy woes shadowing it, in all through its heydays. China has preferred to adopt an energy diplomacy which does not make confusion between chalk and cheese. Indeed China's bilateral equations with various resource producing nations like West Asia, Africa, Europe and Central Asia does exemplify the idea of treating each country as per its characteristics and ideological preferences. David Zweig (2006) defined resource diplomacy as diplomatic activity designed to enhance a nation's access to resources and its energy security." Resource security has three components: (1) insuring a stable supply of energy and resources; (2) keeping resource supplies at acceptable prices; and (3) being able to transfer those resources to fixed locations, not necessarily to the home country, where they are processed or consumed. The 'new security concept' given by China in 1996 was heralded as a precursor to establishing a new international energy regime in the world. It was highlighted that energy forms the core national interest of China (key parts of national security under globalisation) and acquiring of resources of the foreign nations is the prime measure adopted for the mentioned goal. Many western authors have believed that the main motive of overseas energy investments was beyond 'securing of energy supplies' as it also incorporated the hidden intention of making other countries resource dependent on China and hence expanding 'China's hegemony'. However, Chinese define energy diplomacy, as "when Chinese companies 'go outside', enter into other countries' energy market and invest" (Zhou, 2015). Energy diplomacy is of two kinds: one where energy is the main activity of diplomacy and the other where diplomacy's main aim is energy. In the first case, such strategy is usually adopted by the resource possessing nations who form cartels or create artificial scarcity to yield international opinion in their favour. The latter case is usually adopted by developed nations who usually hold enough international leverage to fulfill their energy demands. Energy diplomacy performs the following functions: guarantee of energy supply, strengthening of relations between the two trading nations beyond energy and an exposure to overseas energy resources through production and exploration rights. Energy

diplomacy is primarily conducted through trade and energy investments which are defined as 'purchase of financial assets or purchase of assets which yield financial assets' (*Modern Chinese Dictionary*, 1992).

Chinese analysts make a distinction between 'energy security' and 'energy sufficiency' claiming that 'though China lost self sufficiency in energy but it gained improvement in energy security' after the improvement of its relations with the other countries since the 1970's. China's growing interest in West Asia and Africa is a clear testimony to the fact that China's 'Go Out' policy has spread beyond oil as it seeks to intensify both economic and political relations with most of the resource rich but internationally alienated nations. Central Asia has always acted as the energy panacea for China since oil and gas trade is not only an issue of economic trade but also political solace between the two nations as a symbol of bonhomie against Russia. The current visits of newly elected president to travel to Central Asia and highlighting the importance of setting up a silk route to intensify economic and energy trade speaks volumes about where China's strategies and generosity would spill over under the new leadership. Perhaps after encashing on the spoils of West Asia and Africa China is planning to foray into Central Asia which has largely been in synch with Chinese ideologies and does not even attract the ire of the U.S.A.

Yet in the given scenario where renewables is seen as an answer to the future it would be an under estimation to believe that China's energy diplomacy would constitute policies only for the oil rich nations. China's closeness to Australia is a testimony to that fact where though mining constitutes eighty percent of its investments, investments in renewable energy and high technology has also got accelerated since the Twelfth Five Year Plan.

Literature Review

Despite a vast platitude of international relation theories it is a true fact that energy related dispositions, collaborations and conflicts have been kept away from it. While policy based opinions are available substantially it is a sad fact that theorisation of the discussed articles has not been given much thought. Nevertheless there are a few authors who have attempted to discuss international energy issues within the ambit of international relation theories. In the energy world, realism is akin to geo-politics theories harbouring on the issues of controlling the supply and production of energy fuels which are seen as symbols of power and national interest. (Dannreuther, 2010:3). This has stemmed from theories which proclaim that energy resources

especially oil are becoming scarcer and sustainability requires inevitable competition among nation states. Michael Klare (2001-2008) in his various works has highlighted this position of conflict citing the shift in balance of power in the post cold war era as a reason for scrambling of resources by the nation-states (Ibid:3). He hints to the theories of 'peak oil' and 'resource wars' highlighting the irony that most naturally rich states (in terms of energy) are also the most politically volatile states of the world adding to intensive lobbying and political turmoil by various factions of power. In the Chinese case issues like 'Malacca dilemma' or the close nexus between energy companies and the communist party in acquiring natural resources of the conflict ridden West Asia and Africa is actually an attempt to alleviate its panic of threat to its core interests due to international vagaries (Ibid).

There are then other authors like Blank (1995), Karasac (2002), Rasizade (2002) and Jafar (2004) who believe that political apprehensions allow room for military intervention causing the situation of 'zero-sum game' between various international power especially those of China and the USA (Ibid:4). These international powers seem to be in a situation of double whammy as they are in conflict not only with each other for controlling the natural resources but also with various political factions of these 'resource rich politically volatile' nations who bend towards certain international powers based on their own ideologies and interests. However there are another group of realists like Susan Strange and Joseph Nye who do not support the idea of excessive reliance on military actions and hard- core diplomacy but soft power competition like production, finance and ideas (Strange, 1991-1994) should also be given due consideration. This is seconded by Joseph Nye (2004) citing the case of 'Beijing consensus' versus 'Washington consensus' (Ibid). Also with the emphasis on technical innovation and the rise of renewable sector it would be an over-estimation to believe that scrambling of resources makes conflicts inevitable. The supporters of social constructivism too believe that realist principles of anarchy are too rigid and conflict is a matter of choice between the states in determining their interaction with each other. They argue that the Realists have overlooked the issue of 'security dilemma' between nation states who actually seek to avoid wars and entertain interactions through markets and international institutions to achieve common grounds of discussions.

Various Perspectives

Liberalists' perspectives have always incorporated the issues of comparative politics and economics in their ambit while giving a liberal theory bent to the energy issues. The liberalist perspective involves outlining the nexus between politics, economics and international relations in the energy dynamics. The liberal perspectives talk of the 'resource curse literature' where resource rich nations use energy trade to expedite their own political gains rather than utilising it to develop other sectors of the economy (Dannreuther, 2010:6). From a comparative political perspective they are also financing the undermining of development of civil society and furthering repression by furthering away from democratic states. Authoritarian states like China which has themselves developed based on 'rule of law' than 'rule by law' have been seen in support and promotion of the interests of these repressive regimes. This causal link of paradox of 'being poor in a rich country' are further highlighted by noted economists like Paul Collier (2007), Thomas Friedman (2004) etc (Dannreuther, 2010:7). In fact much investigative journalism has gone into discovering the connivance between international energy companies and domestic governments of the nations while trading energy products and resources. The liberalists have not only highlighted the issue of 'what's wrong' but also of 'how to redeem the wrong'. They are vehemently against the secretly guarded terms of energy trade between the nations which they feel is the first step towards many liberalist practices. In this regard the heavy pressure exists on the oil company payments who share a deep rapport with both the governments of the buyer and the seller (Ibid: 8). It is this reason that more focus is now being laid by various governments regarding corporate social responsibility (CSR) and more accountability is asked for by the companies in compromising on the environment quality due to their energy production and processing activities (Ibid: 8). They also argue in favour of establishing good governance practices to de-escalate the price rise issue related to energy issues which they believe is spiraling upwards not on mere grounds of supply bottlenecks and scarcity deficiencies. They also forward the idea of building up regional and international conglomerates of energy which cooperate rather than compete in procuring energy from other resources. They bring in the economic liberalist perspective which is in favour of comparative advantage and economic efficiency and avoids the rigmarole of geopolitical competitions, heightened tensions of conflicts or threats of wars. Wu (2009) tries to bring a Chinese perspective to the debate of whether Chinese energy diplomacy is mercantilist or liberalist in approach. He quotes various

western authors who belong to a particular school of thought and hence tend to view Chinese energy diplomacy in that prism of 'ism'. Wu analyses that like its economy, Chinese energy diplomacy too functions under the dictum of 'Chinese characteristics' and hence is a blend of both mercantilist and liberalist approach. For Feng Shaolei (as quoted in Jian (n.a)), energy diplomacy is an appendage to protect national interests. However, Pan (2008) opines that energy diplomacy is riskiest at its experimental stage, something which China is undergoing currently. Liu (2004) writes that China's 'go out policy did not just spurn from international events and energy scarcity but also policy changes, where the policy makers understood the importance of utilisation of energy resources and energy markets beyond the territorial boundaries of the country. Jin (2012) writes that China's energy diplomacy speaks of diversification of supplies not only owing to energy scarcity but also because of U.S influence on many energy rich nations. However, Tao et. al (2007) point out that China is diversifying not only in terms of nations but also resources, which is why it is approaching the developed nations for clean technology. Yan (2010) also acknowledges the need for China to diversify and points that the 2008 crisis should serve as a warning for China and she should begin to take precautionary steps and re-plan her energy strategy. Hence, Cai and Yang (2006) suggest that China should build her energy diplomacy on the principle of 'one centre and two basic points'.

IR theories like dependency theory, structuralism and critical IR theory are said to be inspired by Marxist approaches. These theories cannot be considered as an extension of realist or liberalist perspectives since according to radicals both seem to maintain the status quo of international power (Dannreuther, 2010:9). Ray Hinnesbuch (2003) gives a glimpse of radical perspective while highlighting the issue of West Asia and its oil economy (Ibid: 10). He believes that it is this over dependence on oil which has prevented West Asia from technical development, wedged a gap between elite families and local population as well as strengthened a US dependant and militarily repressive regime. Similar sounding are the provisions of critical theory of international relations which has been anti-western in spirit and has been the basis of resource nationalism in various parts of the country leading to formation of cartels. Many owing to this perspective have caused the failed bid of CNOOC in acquiring UNOCAL as a reiteration of the domination of North over South (Dannreuther, 2010:10). The resource dependency theory in energy terms gives 'bald statements' claims Ronald (2010). He believes that this theory lays excessive emphasis on oil and the states which are engaged in the oil trade citing authors like

Ross (2008) and others. Gavin Bridge (2008) on the other hand gives the concept of 'hydrocarbon commodity chain' where he lays emphasis on multiple actors (which essentially means firms) instead of states as major part of the network of global energy trade between nation-states (Dannreuther, 2010:12). Since majority of energy trade between countries takes place between nations in terms of oil he identifies four kinds of oil firms: vertically integrated oil companies, independent producers, independent transporters, refiners and distributors and oil-field service companies. He believes that it is the firms and not the states that play a decisive role in determining the provisions of negotiations at all steps both with the producer states and the buyer states (Ibid). In the hind sight the traditional dependency theories have had a proposition of 'conclave formation' in resource states which are ravaged by civil wars and political turmoil. This essentially means that particular territories are protected by private armies and security guards of international companies who conduct mining and extraction in that area while the rest of the country and its people especially suffer in strife (Ibid). Analysing the Niger delta Michael Watts (2009) had identified the following as some of the major factors and actors "as not only the IOCs and NOCs and the service companies but also the petro-states, the engineering companies and the financial groups, the shadow economies (theft, money laundering, drugs and organized crime), the raft of NGO's (human rights, CSR groups, monitoring agencies), the research institutes and lobby groups, the landscape of oil consumption, and not least the oil communities, the military and paramilitary groups, and the social movements which surround the operations of and the shape and functioning of the oil industry narrowly construed'(Ibid:12).

Currently the world is rallying under the 'resource curse' theory where most of the resource rich nations are not only poor and corrupt but also lack geographical proximity to their potential markets. Thus 'Mahan' stand of ' one who controls the sea controls the world' is fast descending into a reality for China as China struggles to cope with its 'water wars' over the South China sea and the Malacca straits. Yet Downs (n.a) make a difference between Chinese firms and Chinese government and believe that fortune of the firm in global energy deals is not necessarily in favour of the Chinese government. Also other newspaper reports have mentioned that growing autonomy of the national oil corporations has led them to establish deals with various internationally ostracized regimes unmindful of their domestic excesses leaving the government to act as a bowmen's capsule in clearing up their 'dirty work' as well as answering to the fury of the international groups and institutions.

Zhao Chao (2012) in his dissertation talks about the 'access system of energy investment market between China and other countries. An access system incorporates the ideas of 'investment fields, investment requirements, investment proportion and investment approval' etc. Since the launch of its '*zou chu qu*' (going global) policy China has been increasingly enticing nations with potential energy reserves, the closest being the ASEAN nations.

China's energy investments are a call for the future and are built on the rationale of 'economic sustainability'. Given the fact that China has always been plagued by 'domestic power woes' (despite abundance of coal) it cannot be denied that they do affect the direction of China's energy investments. Zhang and Wang (2011) in their conclusions have predicted that if energy investments are taken as a ratio to GDP then clearly it is on a decline which means that energy investments are fast taking over as the major expenditure over the GDP of China. China's energy investments have long been spelled as bailout packages for 'criminal nations' whose humanitarian conduct has been in question. This political lash out has not only made China lose face in its 'soft power' diplomacy but also questioned its integrity over its own domestic authoritarian government. In fact many Chinese scholars have argued that China should adopt a cautious approach when it goes for overseas energy investment and should take the measures of insurance, investment through multilateral channels and state acting as an arbitrator in investment between the two nations (Ma, 2012). Yet it can also not be denied that viewed economically, China stands to gain huge amounts from its political risk bearing international investments. A section of Chinese scholars (Zhang and Wei, 2010) support this view in their researches.

However there are yet others like Li (2008) who believe that China's energy investments sometimes end up as an economic burden because there are inconsistencies between its energy needs and investments. Yet it cannot be denied that energy investments are no longer limited to the concerns of economic benefits only and ecological deterioration have prompted the government to invest in 'clean energy'. In fact sovereign wealth funds (SWF) were created by many governments of that time due to oil import surge in the 1990's which had led to global payment imbalance. Hence since then sovereign wealth funds are invested in energy fields by China (Sun, 2012). Huang (2014) also points out that China's energy companies while making investments are more under the threat of non-commercial risks than commercial ones. These

non- commercial risks generally stem from lack of experience by international companies for investing overseas. However, now China is becoming more cautious and professional in its overseas energy investment writes Farhang (2008) quoting the example of Saudi Arabia and Iran in West Asia. For Gualberti et. al (2014), Chinese energy diplomacy is changing the paradigms of geopolitics as China is engaging with those countries which have otherwise been declared volatile or unapproachable. Hence, it was only after China that the rest of the world began to look up to Africa for trade rather than aid. Luo (2013) writes that this adventure has had a positive effect for China and her control over world's supplies has begun to rise steadily. Yet reports prepared by international NGO's lament the fact that though China is ready to expand overseas she is still conservative when it comes to liberalising her own markets (Azure International and Cleantech Scandinavia). Even some Chinese scholars like Deng (2007), support this view writing that Chinese energy diplomacy demands risk diversification, mobilization, coordination and most importantly an emphasis on 'welcome in'.

In fact in this context it is important to mention the energy charter treaty (*nengyuan xianzhang tiaoyue*) which aims to liberalise investments. Its various provisions like 'investment cannot be nationalised (*touzi bu neng bei guoyouhua*) or to guarantee that investment can be freely moved) has meant a strong voice and opinion for energy liberalisation. Advocates for this treaty in China have cited outcomes like supply security, price stability, guarantee of energy transport, enhancement of China's energy efficiency as well as resolution of energy disputes. However there are other's primarily belonging to the nationalists school of thought who believe that being a signing dignitary to this multilateral treaty would mean endangering the safety of China's domestic energy industry, which will have a negative influence on China's energy system, weaken the macro economic conditions of China's energy system, etc. (Bai and Pan, 2010). This legally binding multilateral convention which has been enforceable since 1998 has established basic rules which can be used to bring settlement to disputes between investors and states through Article 26 investment arbitration in ECT (Huang, 2010). Likewise Wei (2015) tries to capture the debate regarding 'serving of interests' and attempts to understand whether, the energy companies are serving the interests of the country or the country is serving the interests of these national companies. He writes that this 'connivance' is generally aimed at 'rent capture' by the companies which are supported by the state. Yet, he feels that whatever be the internal politics, China as an ODI energy investor is a necessity if she needs to cater to her energy needs

which cannot be sufficed by trade alone. Feng (2014) too supports Chinese ODI investment and feels that it requires domestic policy support at all stages. He argues that comparing Chinese investment with the rest of the world is not correct as China has her own system and priorities and being a late entrant does not have the advantage which are held by other nations. EY (2015) argues that China has graduated from 'Made in China' to 'Made for China'.

China's energy investments are increasingly capturing the attention of 'all and sundry' both inside and outside China. China is the biggest investor in energy rich Uzbekistan and there are no accolades to guess that the biggest dose of investment goes into the energy sphere. In fact China and Central Asia are trading with an 'energised' spirit which is unprecedented in history. However this is not to say that China trades only with traditional owners of energy resources or the ones it shares its borders with. But it has also traded with European nations since 1985, in fact this 'China European energy dialogue' has incorporated various ideas of sustainable development and hence investments have not only occurred in gas reserves but also incorporated green technologies and clean energies which have been the main sources of financial investment in to the concept of low carbon economy (Liu and Huang, 2012). However, Chen (2013) believes that road to 'clean energy' investment for China is not as smooth as it seems as it is pitted with financial difficulties, research insufficiencies and lack of proper planning and assessment. Zeng et al. (2012) have laid the option of a model of distributed energy resource (der) which not only involves the cost analysis of 'investment construction' and 'operation maintenance'.

Case Studies: Australia and Russia

China and Australia have come a long way since they first started their trade relations in the year 1972 and China is now Australia's largest trading partner. The impressive statistics eighty percent of Chinese investments in Australia's mining industry to further its cause of nuclear and renewable industry are a glimpse into future investments of China. A new debate has begun in the West lashing out against China for promoting 'green mercantilism'. While most intellectuals are in favour of China promoting investments in green technologies there is a large section of analysts who think otherwise and believes that China's 'innovation (*chuangxin)* in green technology is just a ploy to serve its economic capture of the western markets. The global hesitation to invest in clean energy technology or encourage its trade in the Third World is reasoned out as a move to prevent Chinese market from launching cheap alternatives to it. The

country has also been blamed for procuring energy technology from outside by unhealthy means like forced technology transfer schemes, forced joint partnerships, intellectual property thefts and other wayward means. Also China is blamed for encouraging even inferior technologies with subsidies to introduce a cost reduction and earn a 'good face' in the international arena. Mathews (2013) in one of his articles plays on Samuel Hutington's work on 'Clash of Civilisations' where he feels that the actual clash has come to stand between the 'waning civilisation of fossil fuels and the waxing civilization based on renewables and resource efficiency'. He says that China has smelt new export market in the field of solar pv cells and is rushing to promote its nascent industries as it did to its oil companies twenty years earlier. Liu and Hao (2014) also support this view that for China, foreign policy and energy trade are tools to maintain national interests. Tao (2014) discusses the position of Australia in Chinese psyche and how before energy trade, Australia was viewed with a 'Middle Power' spectrum. However, Gao (n.a) points out that the days of looking at countries with the spectrum of communism is over for China and now she is keen to establish bilateral relations with all those nations which can fulfill her energy needs, Australia being one of them. Hence, Klinck (2011) notes that Chinese energy companies are making huge inroads into Australian energy market by acquiring stakes in their companies. On the contrary, Wei (2015) argues that it is Australia which needs China's capital and despite the 'China scare' has opened up her energy market for her albeit with some reservations. However, for Gao (n.a) Australian opinion is divided between pessimists and optimists over China. Hence, Australian perspective is changing gradually after the 2008 financial crisis and China is also getting accommodative of Australia under its 'peripheral diplomacy' (Wei, 2015). Yuan (2014) also lends support to the same opinion. *KPMG* (2012, 2014) and *Trading Nations Consulting* (2015) have prepared reports about the increase in energy trade and establishment of Free Trade Area in the recent years. Wu (2006) delves into the history of Australian internal politics and writes that it was the public opinion which did not allow Australian Governments to 'act independently' with China. Ma (2011) writes that yet it cannot be doubted that Sino-Australian relations are fretted with 'trust issues' and despite increasing energy trade, military papers and opinions tend to swing public opinion and incur political animosity. He cites the 2009 Defence Paper by Australia which viewed China as a threat to Australian security. John (2012) compares the energy white papers released by both countries and points out that while Chinese have their clear priorities in mind, Australians seems to be 'unsure' whether they want to expand their fossil

fuels sector or expand the renewable energy and technologies. Kim (2016) writes that China is looking to develop its clean energy sector and Australia should 'encash' upon the opportunity. Polycarp et. al (2013) call it the tussle of 'push and pull' factors which work for energy trade in the renewable sector.

Similarly with Russia, China has come a long way from its days of mistrust to strategic partnership. Cui and Liu (2011) write that cooperation is the only option for both nations. Yu Bin (2006) attributes that the warming of relationship between the two nations has largely stemmed from adjustments and 'seeking of similarities'. Jin (2005) attributes it to the maturity of leadership of both countries who realized that economic survival is more important than political mileage. Sun (2012) too favours a multi-pluralistic approach and opines that regional development is only possible if big nations collaborate. Schwartz (2014) feels that collaboration with China is good also for Russia as she seeks to expand her exports beyond Western Europe, especially in the energy sector. There have been major debates on the recent Sino-Russian energy deals and the ensuing bonhomie and whether China and Russia have actually gained from the deal or was it just eyewash to 'tease' the West. Skalamera (2014) and Wilson (2015) call it a 'forced friendship' as Russia is running out of options to whom she could call her friends. Many analysts share different opinions on the question of Sino- Russian collaboration. Sidorenko (2013) looks at it purely from the perspective of currency value while Mao (2012) writes that this bonhomie has synthesised from sharing common platforms at various multilateral forums. For Downs (n.a) Sino-Russian energy relations is largely a by-product of response to international events. Henderson (2011) claims that this is a fallout of visionaries who headed China's national oil companies when she tuned into a net importer in 1993 and tried to steer her out of it. Even Liu (2006) opines that Sino-Russian energy relations should not be viewed as a reaction to Western sanctions as it was way back in 2004 and after that, that the terms of energy deals were hidden in the garb of friendship treaties. For Zhao (2010), current position of Sino- Russian relations marks a sobering down of Russian 'arrogance' and the realisation that China rise is here to stay. Weser and Murray (2014) too point out that Sino-Russian energy relations are not meant to serve energy needs only but are now being viewed as strategic steps to long term geopolitical repercussions. Hence, Larchmonter (2014) calls it as a system of double helix. However, analysts like Sussex (2015) and Jakobson et.al. (2011) are wary and believe that there is a high probability of this energy 'bubble' being busted. Yang writes that even in this neo-liberalist

world China and Russia have shown that cooperation at the 'transnational' level could be a possible solution in the system of anarchy. Also, the social justice perspective advocates 'mutual recognition' which is followed by the two parties here (Ibid). Paik (2016) writes that for China, transport diversification is an equally important component of energy diversification and given the land route between the two countries, China finds it feasible to import through pipelines rather than adopting the 'unsafe' maritime route.

Gaps in the Literature

It was found that China's growth miracle had such an enchanting effect on scholars that most of the literature available spoke about investments in China (FDI) rather than investments made by China (ODI). It was only recently especially after 2008 crisis that China's investments have begun to catch scholarly attention. Simultaneously China's close involvement with internationally pariah states and the ensuing energy crisis has also led to various academic debates. Yet all this process is 'in-situ' and has not been published much.

It was also found that despite being a sensational topic China's investment for its renewable energy industry has had little mention in the literature available. While China's own domestic industries are in limelight its investment in acquiring green technology as received less or only negative publicity.

Definition, Rationale and Scope of Study

China's economic growth can be sustained by generous amounts of energy supplies which cannot be fulfilled by domestic reserves. Hence China is venturing out into all left over and unexplored areas. While West Asia and Africa are the traditional choices, Australia has given China a complete package of not only uranium but also iron ore, metallurgical coal and most importantly technology to build up the clean energy. Foreign investment market is a system which works on the principles of international free trade and economic mobility between nations. However in an energy market the tussles of domestic economic (and perhaps political) security along with imposition of foreign compulsions have been nailing this predicament for quite some time now. Given the scarcity of the product, the energy investment market is now dotted with increasing protectionist policies by producer countries coupled with prejudices of political alliances and international affiliations determining the scale of energy investments and economic

deals between nations. Australia has credited China for saving them from the 2008 financial crisis and maintenance of China energy relations. Ninety percent of China's investments to Australia are in the mining sector amounting to 10.5 billion Australian dollars. China's overall energy investments in Australia are 24.4 billion dollars. Hence Australia China energy relations will form the case study of this thesis.

Sino- Russian relations shall be the another case study of this work as Russia was the first country which laid the foundations of China's energy industry and no other relations have seen such twists and turns with China as that of Russia. Today China is turning as one of the biggest consumer of energy and Russia with its fossil fuel supplies can be the only single largest trading partner to fund it. In energy Chinese investment in Russia is 9.8 billion dollars, although this seems a modest rate but it is more because of political baggage rather than economic understanding. Yet Xi Jinping's visit in March 2013 and his idea of joining Russia and China with oil and gas pipelines may help to break that political impasse and build up strong relations for the world.

The time period covered shall be from the year China announced its 'Go Out' policy in 2000 till the present times and shall look into various international relations dimensions as the consecutive year it also woke up from its economic hibernation and chose to join the World Trade Organisation.

Energy investments like all other economic investments have been a two way process i.e. foreign direct investment and outbound direct investment. The scope of the study has tried to focus itself to China's outbound direct investment as it has been relatively less broached by various economic and energy analysts. Also it constitutes the major chunk of China's energy diplomacy since it deals with the subject which reflects China's aspirations and for which China is the active initiator rather than a passive recipient.

Limitations to the Work

This work has been limited by many economic and technical models and theories which though helpful in explaining the what, why and how of Chinese investments are beyond the purview of this thesis. However, apart from the theories of international relations the thesis also draws inference from various energy economic theories and case studies to gain a wider perspective on

the subject. Also, this work lacks the experience which could have been gained from a field trip to China.

Research Questions

- What is China's energy diplomacy?
- What is the link between China's energy diplomacy and investments?
- Where and how does China invest in the energy sector?
- What are the motives behind China's investment in the energy sector?
- Are all Chinese energy investments Government approved?
- Does China only gain economically from its energy relations?
- Why is China interested in clean energy investments when it itself is the largest wind and solar energy producer?
- Does Australia fulfill all of China's energy demand?
- Do China's investments in Australia prove detrimental to its own domestic renewable energy industry?
- How does Russia assist in making China an energy superpower?
- Are there any hidden motives between Sino-Russian energy relations?
- What are the implications for Chinese energy investments for itself and the world?

Hypotheses

The following are the two identified hypothesis

- Transformation in China's energy diplomacy has determined China's energy investments abroad.

- Chinese investments in Australia and Russia are an outcome of its present requirements and future prospects.

Research Methodology

This study shall use the method of deductive reasoning and comparative studies. The work shall try to deduce from China's energy investments and energy diplomacy about China's major energy investment activities about what can be the course of China's energy diplomacy. It shall also try to make a comparative analysis about the various facets of energy investments and energy diplomacy by China. It shall also try to make a comparison of China's investments in Russia and Australia especially when one has been a historical 'friend' and the other a new found 'ally. Will China's past conduct dominate over its current discretion shall be analysed here.

The independent variable shall be China's energy diplomacy while the intervening variable shall be China's energy investments and the dependent variable shall be implications for China.

The study shall make use of primary sources like industry documents, government white papers as well as analysis of various energy analysts and economists on China's investment issue. Since it has taken up Australia and Russia as a case study it shall also analyse the government documents and white papers produced by the Australian, Russian and Chinese government as well as the various international agencies of energy. The secondary resources shall be the various books, magazines and journals written by both the Chinese and western authors. It shall also include the online databases and newspapers available for current update of the topic.

Tentative Chapterisations

Chapter1: Introduction- this chapter shall discuss about the basic concepts of investments and energy diplomacy, the literature review and the background for China's energy investment in other countries.

Chapter 2: China's Energy Diplomacy and its Investments Abroad: Functions, Challenges, Achievements and Influence – China adopted a 'Go Out' Policy since 2000 and has since then made has great strides in investing in diverse areas of the world. What are the provisions of China's energy diplomacy and how does it get implemented in the energy investments shall be discussed here. When China invests, the world lays at its disposal and it has left no country 'untouched' from its 'Go Out' policy. In the energy sector the traditional choices have been West Asia, Africa and Central Asia. However as China aims for development of its renewable energy sector it has also begun to look forward towards the developed U.S.A and European nations for technology and expertise. To what extent has it explored the world shall be discussed here.

China's energy investments adopt a multi pronged strategy as per the requisites of the country they trade with. China invests through merger and acquisitions, green field investments, transnational pipelines, venture capitalists and many a times loans and production contracts under the garb of 'aid through trade' strategy.

Chapter 3 Sino-Russian Energy Relations: Opportunities and Challenges– Sino- Russian relations has shared a relationship of time and ideology rather than economic necessity. It was the best case of friends turning into foes or a student rising above his master. Now when Russia is no longer the superpower and China poised to become one, will this relationship restore the earlier bonhomie between them or shall sustain the rivalry between a past and a future superpower shall be discussed here.

Chapter 4 Sino-Australian Relations: Present Trajectory and Future Growth– China and Australia share a relationship of equals whose international affiliations do not affect their bilateral ties. China gave Australia the much needed bail out in 2008 and Australia gives China what it needs the most i.e. green technology for its wind and solar industries. Moreover Australia is also a 'mining haven' providing coal, iron ore, uranium and gas. Will this balance shift in favour of one of the partners shall be analysed in this chapter.

Chapter 5 Conclusion This chapter will summarise the above chapters and test the hypothesis and variables and shall outline the main conclusions on China's energy diplomacy and investments.

This work is an attempt to understand how China tackles its energy security through its energy diplomacy. Since, China developed limitations in her domestic resources, China had to shed her self imposed isolationism and establish relations with other countries. In this work, the various dimensions of China's energy diplomacy and the facets of her energy investments shall be explored. China has come a long way from being the largest recipient of FDI to becoming one of the fastest ODI investor in energy. Can China sustain the momentum or will lack of experience and diplomatic antipathy will be a glitch in her attempt to secure energy security shall be discussed. Also, this work has taken up the case studies of Russia and Australia to understand how China diversifies from traditional supply sources of present to the source supplies of the future.

China's Energy Diplomacy and its Investments Abroad: Functions, Challenges, Achievements and Influence

Energy, for a country determines the sustainability of its economy and the stability of its society. Many Chinese scholars have different opinions on what exactly constitutes the strategy of China's energy diplomacy. Professor Feng Shaolei of East China Normal University opines that "energy diplomacy is the use of energy as an important leverage to defend the interests of the nation and its people and gives a reason to deal with international issues" (as cited in Jian， n.a).Working as a Research Assistant in Heilongjiang Academy of Social Sciences Diao Xiuhua opines that "energy diplomacy can be defined as a series of diplomatic activities which are conducted in the field of import, export and other related aspects of energy to pursue the maximisation of national interests" (Jian, n.a). Chinese define energy diplomacy as means and measures adopted for protecting and promoting national, local and international energy security through cooperation in energy field by promoting mutual energy interests and advocating sustainable use of energy. Although energy diplomacy is a part of economic diplomacy it also has deep connections with political, cultural and scientific diplomacy. World Energy Outlook had published that managing energy diplomacy in its experimental stage, is one of the riskiest task of diplomacy' (Pan, 2008). In fact risk management in case of energy diplomacy involves two major aspects: short term management which involves management of immediate price rise due to sudden eruption of a conflict or a war affecting the supplies or production of resources. Many a times such conflicts jeopardize not only the investment but also the safety of the company or the workers of the investor country in the conflict zone. The other is precautionary measures taken for a long term. The realists believe that 'nations are in a state of permanent war' and in such a situation market trends cannot be predicted. Hence the investor governments should prepare itself for both beneficial and non beneficial results of the market.

China's energy diplomacy has three major events, coincidentally spaced out in the span of every ten years which has determined the transformation of its energy diplomacy. The first major change occurred in the year 1993, when China as an oil exporting country transformed into a net importer of oil. The second major change occurred in the year 2003 when China beat Japan to become the second largest consumer of energy, remaining second only to the US (Jian, n.a) and the third major change occurred in the year 2013 when the news of rising pollution levels and

China turning into the largest consumer of energy came simultaneously, dispelling all doubts about what path should the energy diplomacy of China choose. China was one of the first nation which had indulged in energy diplomacy despite following a self reliant and independent exploration policy (*zi li geng sheng du li kaifa 自力更生独立开发*) by inviting Soviet experts in their domestic oil fields. Yet China lost the momentum as it turned into an ultra closed economy during the tumultuous years of the Cultural Revolution. After the transformation of various energy ministries into energy companies by the 1980's China began to pay close attention to its 'opening up' (*kaifang 开放*). This change of psyche was reflected in the decade of 1990's when China lost its export advantage. Chinese leaders now believed in the dictum of 'making full use of the two resources and the two markets' (*chong fen liyong liang zhong ziyuan, liang ge shichang* 充分利用两种资源两个市场) which was actually a precursor to China's 'go out' policy (Liu, 2004). It gave a green signal to the energy resources to make full utilisation of energy resources and the international energy markets. By 1996, China had realised the negative repercussions of its excessive reliance on Eastern Asian oil and had in principle decided to embark on the policy of diversification and multipluralism. By the Tenth Five Year Plan China had already reached the third stage of economic development and had begun to acknowledge the 'energy threat' theory. In March 2001, in the Fourth Plenum of the Ninth Party Congress China had embarked on the concrete policy of developing greater integration in the diplomatic circles. It also for the first time laid down the concept of building strategic domestic reserves of oil and gas (Ibid).

China's energy investments come under the Department of Outward Investment and Economic Cooperation which operates under the Ministry of Commerce of the People's Republic of China. The Ministry on its website clearly points out its adherence and support to China's 'go out' policy which says that (Ministry of Commerce of People's Republic of China, n.a)

> To organise and coordinate the implementation of "going global" strategy, guide and manage the affairs of outward investment and economic cooperation such as outward investment, overseas processing trade and R&D, overseas resources cooperation, foreign engineering contracting and labour services cooperation.

The Department sums up the task assigned to it as follows (Ibid):

- Adherence to the 'go out' strategy

- Making rules and regulations in favour of outbound investments
- To 'approve, monitor and manage' enterprises which are involved in outbound investments so that they work in tandem with the law
- The Department not only monitors but also analyses the operational functioning of these enterprises
- To understand and assist the development of 'key strategic projects'
- It mentions a provision of annual assessment of enterprises engaging in ODI activities based on 'hierarchical classification of enterprises undertaking foreign contracted projects'
- The Department is also a full party to negotiations involved in bilateral and/or multilateral deals
- It also takes the responsibility of safeguarding outbound investments and tackling emergencies
- It shall guide in the formation of overseas economic cooperation zones and training personnel for its functioning

This show that despite all 'autonomy' advocated by the Chinese companies, the government through its various monitoring agencies is still very much in control of all the investment activities happening even offshore by its citizens. Outbound Investment in China though approved and solicited by China's State Council requires authentication by three authorities in the government: Development and Reform Commission, Ministry of Commerce and State Administration of Foreign Exchange (*Azure International and Cleantech Scandinavia*, n.a:16).

Functions of Energy Diplomacy

China's energy diplomacy had started as developing China's socialist system through reliance on Soviet specially that of oil and gas. However, as the relations between the two nations soured especially after the 1960's Chinese energy diplomacy entered into a new era. It worked assiduously to transform itself from an importer to an exporter of oil. As China entered into the reform phase it realised that it could not avoid the impact of international events on policies of its domestic issues. In the preliminary phase of the reform era China was still following the policy of self reliance or *zi li geng sheng* 自力更生 in the domestic front. But by the 1980's owing to

the influence of Iran-Iraq war, the world supply of oil reduced drastically and China emerged as one of the major oil exporting nations reaching new highs by the year 1985. However, China's oil exports which had reached to the levels of 30,030,000 tonnes plummeted sharply as China was unable to eschew the rising domestic demand which had gained new found prosperity owing to economic reforms (Pan, 2008). No wonder China soon turned into net importer of oil by 1993 and since then oil imports has been eating into a major chunk of its foreign reserves. The Chinese economists believe that rising prices not only impacted China's budget directly but also indirectly by reducing its export of other product. The 'made in China' phenomenon could not be unleashed in full fury as many countries reduced their demand of Chinese products owing to rising oil prices. Along with it the rising pollution levels have made the leaders rethink about revamping the energy policy both on domestic and international levels to accommodate the environmental concerns. China's energy concerns now are more about availability of clean drinking water, clean air rather than less oil and gas. An estimate conducted by British Petroleum that energy consumption of per unit GDP in China is three times that of USA, five times that of Japan and 8 times to that of UK (Ibid). An American journal had estimated that the economic losses, which are brought by China's rate of energy consumption, is equal to the value of 120 billion dollars (Pan, 2008). Thus since the 1990's China has started making adjustments in its energy exploration pattern. China's energy policy consists of the following main provisions: stabilise the east and develop the west (*wenzhu dongbu, fazhan xibu* 稳住东部， 发展西部)，making adjustments in energy structure (*tiaozheng nengyuan jiegou*)（调整能源结构），building national energy reserves (*jianli guojia nengyuan chubei tixi*)（建立国家能源储备体系），energy conservation (*jieyue nengyuan* 节约能源) and actively explore the energy resources in the surrounding water bodies and other countries (*jiji kaifa zhoubian haiyu he guowai nenegyuan* 积极开发周边海域和国外能源)(Pan, 2008). While most of these provisions were made keeping the domestic conditions in mind, many of these were applied when China pursued energy diplomacy with other nations.

Many believe that China chose to 'stabilise the east and develop the west' because its western areas were underdeveloped and eastern areas were overly exploited. However the western areas were chosen not only because of their resource content but also because of the area's geographical proximity to Central Asia. Developing its western areas gives China an option of

participating in exploration of the resources of the smaller Central Asian countries and granting a new impetus to their energy equation in Shanghai Cooperation Organization (Pan, 2008). China wants to transform itself from a coal based energy structure to a clean energy based structure. While China is fast developing its capacity in the wind and solar field, what it lacks is the advanced technology to enhance its efficiency; hence it is rapidly developing its relations with technologically advanced nations to pursue that technology. Also it lacks the system of maintaining a reserve which requires the help of experienced nations so that it can tide the volatile prices of international energy resources. Another aspect which has brought China closer to the world apart from its economy, is its battle with the environment. Despite a strictly censored media, everyday new cases of rising pollution and depreciating quality of life are reported in Chinese media. It is estimated that owing to the pollution levels of the twentieth century, sixteen of China's cities will be in the most endangered zone. This clearly means that China cannot follow its domestic energy policy without active engagement with its energy diplomacy.

Influence of China's Energy Diplomacy

Energy diplomacy for any country involves two major objectives: quality of resource and supply of resource and China is no exception to it (Pan, 2008). By the last decade of the twentieth century China's energy companies like SINOPEC, CNOOC and CNPC began to foray into different resource rich nations and soon became *numero uno* investors of those countries. In fact China's energy investors have adopted a five pronged strategy as they enter into the energy investment market (Ibid).

- **Traditional Direction**-traditionally China's ancient 'journey to the west' (pun unintended) in energy terms has been towards the West Asian nations. Undoubtedly till date China's traditional oil supplier feeds its appetite with sixty per cent of its supplies.
- **African Safari**- China's new found interest lies in the African oilfields. With majority of its nations undergoing a political crisis, African nations are a classic example of resource curse theorem and a haven for energy investors from all over the world. China has garnered renewed interest in western Africa and has taken special interest in maritime opportunities available with the coastal nations.

- **Latin America**- China has shared a stable relation with oil rich nations of Latin America more because of their similar political ideologies and common hatred for US.
- **Southern direction**- China has been doing well by taking interest in Indonesia and establishing large cooperative agreements
- **Northern nations**- China has taken a keen interest in its northern neighbours especially Central Asia which it not only shares its boundaries but also has leveraged a feeling of common interests among them.

The globalisaton of energy issues, supply bottlenecks, skyrocketing prices, has integrated China's domestic energy concerns into its energy diplomacy like never before. Energy diplomacy is not merely about keeping your political relations intact, but also about sharing your profits, shares, environment, prices, labour and intellectual productivity with the nation state, says Pan (2008). This was exhibited in the Sino-Russian relations when 'issue of price fixation' lead to a deadlock amongst the energy companies of the two sides and the leaders of the two nations had to settle the matter through political and diplomatic means. Similarly energy diplomacy also encompasses the issue of political stability and security (Ibid, 2008). An energy investor whether as an individual enterprise or a government undertaking will not risk its assets in an insecure environment. It is extremely unfortunate that most of the resource rich nations are also the world's most politically volatile nations and hence most energy investors extract special security for their assets in those zones. This has two ramifications for the investor government: In this way the company (whether public or private) also relies on its home government for political security as well as gives the investor government a chance to have a say in the internal matters of the investing country. China has been involved in a number of territorial disputes with its neighbours both on sea and on land. In such a state many a times issue of exploration of resources of that area often becomes an issue of controversial political matter and requires the nuances of energy diplomacy. In the Chinese case it was exhibited in the case of South China Sea when a standoff with Japan and Vietnam required a political resort. An ideal energy diplomacy usually adopts the principle of shelving disputes and seeking common development '搁置争议, 共同开发'(*gezhi zhengyi gongtong kaifa*) (Pan, 2008). Energy diplomacy cannot be evaded anymore especially when the concept of global energy insecurity is not just a matter of economic or technological crisis but also a matter of political and diplomatic efforts. At present

there is no forum which does not discuss issues related to energy security, from international forums like United Nations General Assembly to regional forums like SCO, from developed nations like G8 +5 to organisations of developing countries like G20, China has an all pervading influence in almost all forums of the world since the initiation of the 21st century and where discussions have mutually influenced energy diplomacies of all nations including China. The impact of energy insecurity was seen when the five biggest consumers of energy in the world i.e. USA, China, India, South Korea and Japan held the first energy consumption summit in 2008 to discuss the pressing issue of energy. Whether in domestic terms or in international terms energy issue cannot be discussed without encompassing the issue of environment pollution, global climate change, declining fossil fuels, food insecurity, reducing pollutants etc. Since these issues are integrated with each other, global laws and principles are also related to each other, and no country's energy diplomacy can remain in a standalone position.

Confrontations to Chinese Energy Diplomacy

Chinese energy diplomacy has never been so susceptible to international events as it is now. Having a burgeoning economy to cater to China cannot go back on what it has already achieved. In this fight to maintain what it has attained, China not only has to keep its 'own house in order' but also ensure that volatilities of other states do not influence its own investments. A classic example in this case is the West Asian and the African nations which are not only one of the main suppliers of China but also one of the few areas which China was able to befriend. However the US influence in West Asia and human rights abuse in African nations coupled with their own political stand- offs has not allowed China to play as aggressive a role as it would have preferred in these states. Another problem faced by energy diplomacy is that China is a late entrant to the energy market. Compared to developed nations China's wave of industralisation has been delayed by a few centuries and the more it tries to catch up, the more rivalry it faces from the western nations who view it as an attempt by China to expand at their expense. It is because of this reason that China has decided to diversify its investments both in terms of the producer and the produce. China is keenly trying to invest in other areas for fossil fuels like Venezuela in Latin America, Indonesia, and Vietnam etc (Jin, 2012). It is also trying to revive its relations with Russia and procure the high quality produce of Australia which shall form the case studies of this work. Similarly China has also diversified itself into procuring clean energy

resources like the wind and solar energy and has had tie ups with some of the advanced nations for their technology. Today China seeks to procure technology which solves the twin purpose of environment protection and high rate of efficiency. It has been estimated that by 2025, the world's energy demands would rise by the following rate: average daily demand of oil would rise by forty-two percent; yearly demand of gas would rise by sixty percent, coupled with rise in temperature change, terrorism and ecological depreciation which would be the biggest challenges to energy security in the future (Tao et.al, 2007).

China's actual energy diplomacy started from 1979, when its first wave of industrialisation was over and Soviet assistance had been effectively dismantled from its shores. Contrary to popular opinion, by that time energy intensity of secondary and tertiary sector of China had declined and energy efficiency had increased. In fact it is estimated that it was a golden period when China had achieved the dual goal of high rate of economic development and low rate of energy consumption. China had managed to keep its rate of energy consumption to half of its GDP rate. However this situation did not last for long and by the turn of the twenty first century China lost its GDP advantage to its exponentially rising consumption pattern. From the period of 2001-2005 China's GDP rose at the rate of forty-five percent while its energy consumption rose at the rate of fifty seven percent (Tao et al, 2007). China has hence undertaken many joint exploration projects with many other consumer countries to enhance the bargaining power and change the competition into cooperation. China has undertaken twenty such projects with US where US has invested around 5 billion dollars. Similarly it has also taken such projects with India for joint exploration in the North American continent (Ibid, 2007). China has adopted a multi-pluralistic approach in its energy diplomacy where it is not only engaging in bilateral cooperative projects but also in regional forums like ASEAN etc. China's energy diplomacy has the following aspects: drawing experience from one's domestic situation (*xi qu zhong guo jingyan de jichu shang* 吸取中国经验的基础上), establish friendly political relations (*jiaqiang zhengzhi youhao wei xian* 加强政治有好为先), focusing on economic trade (*zhongshi jingji maoyi* 重视经济贸易), and hence establish friendly cooperative relations for joint production of energy resources (*nengyuan shengchan guo jianli quanmian hezuo huoban guanxi* 能源生产国建立全面合作伙伴关系) (Tao, et. al, 2007). Such cooperation is attained through energy investments. Energy investment is made through equity participation, merger and acquisitions and direct bidding by the

government or through cooperation agreements signed between energy companies of the two countries. China has adopted the policy of '*zou chu qu*' (走出去)(or go out policy) whether it has adopted the principal of 'shared oil'(fen e you'(份额油)in which it not only imports crude but also petroleum products(Ibid, 2007). Energy markets are not just affected by the disturbances in production and supply pattern but also by the volatilities of the energy market. Hence many countries are ready to form strategic crude reserves in cooperation with other countries to avoid the volatilities. Similarly in coal it has been seen that China's spot price *xianhuo jiage (*现货价格*)* is higher than contract price *hetong jiage* 合同价格 which gives China a comparative cost advantage to engage in energy diplomacy (Ibid, 2007).

Approach to energy diplomacy by the Chinese: Mercantilism or Liberalism

The way China's energy diplomacy is conducted is often a matter of debate amongst the energy experts especially those belonging to western countries. While many believe that China's energy diplomacy exhibits signs of pure mercantilism, there are others who resign China's energy diplomacy as a fall out of the prevailing liberal influence in the international order. However there is a category that believes in 'shades of grey' and assumes that China's energy diplomacy is actually a mix of both（Wu, 2009）.

It is no hidden fact that China's traditional energy consumption pattern is based on coal, oil, gas, nuclear energy and renewable resources in that order. In a mercantilist approach a country engages in energy diplomacy because of it national economic interests, and uses the tools of its military might and stable political system to pursue it. The main question is whether China pursues energy diplomacy to 'lock in' energy resources for itself or increase international energy supply. Since the era of Deng Xiaoping, China has pursued economic sustainability and establishment of modernisation and energy is the single handed most important factor in this. The mercantilist believes that the outcome of Deng's ideology was the establishment of these energy companies whose economic profits were viewed as China's national interests. When China chose to pluralise its energy diplomacy it was not only done by making 'energy relations' through political and military means but also done by including economists, military analysts and academicians in the official entourage of a bilateral or a regional visit. Mercantilists believe that China's policy of engaging in joint exploration and joint supply of energy resources by signing

binding agreements through its national oil companies is basically done to ensure that resources are produced for utilisation of only one consumer. This process is called 'lock in' (*suo ding* 锁定) of resources (Ibid, 2009). This process is mainly does for scarce fossil fuels namely oil and gas. The produce of these particular oil fields and gas reserves shall be deliberately kept away from the international energy market and shall be available exclusively for China's domestic market only. This means that China is contributing in reduction of world's energy resources and is also responsible, albeit indirectly, for world price rise. However liberalists of the same western society have a different approach to it. They believe that it is a misnomer to think that commercial interests of the Chinese state-owned oil company and China's national interests are entirely consistent. Gaining commercial profit is a basic motivation for any company including China's public undertaking. Moreover, when a commodity as volatile as energy is involved, that to in a conflict ridden zone, then no company would like to risk its major assets until and unless its home government gives it some form of backing and guarantee for risk management. Similar is the case with China's national energy companies who choose to expand overseas not only to make big profits but also expand their market (Wu, 2009). However this does not mean that the companies allow their management to be run by a top down approach (*zi shang er xia* 自上而下) which is usually the case with Chinese political system, in fact many a times it is the other way around when the companies do not bother the government with their day to day functioning often referred in China as (*zi xia er shang* 自下而上). Thus in a state owned energy company in China, apart from the government there are many other actors like other oil companies who are often the largest shareholder of state owned companies, international banks and governments of other oil producing nations also bear an influence on the strategies of oil companies and henceforth China's energy diplomacy. International energy market and especially oil market already has a high degree of integration. Any energy company of any country taking exploration and production of energy resources in any part of the world is contributing to the world's energy resources by investing their economy and technology. In simple import export terms it also means that even if China ships back all the oil it produces overseas, its imports from that country will be reduced accordingly. This means that although it saves itself foreign exchange it does not reduce the world supply in any form. Visibly, it is also seen that since China is a late entrant in the energy market it is usually investing in those oilfields in which other established investors are

not willing or not able to invest. Hence China is not only reducing the number of consumers by producing its own energy but is also easing the pressure on world price of energy (Wu, 2009).

Another debate about China's energy diplomacy is whether it is pursued to advance their national interests only or also pursued with the subtle intention of sabotaging other countries energy interests. Mercantilists believe that whether it is politics, economy or security circles, China is always obsessed with the idea of toppling the hegemony of US led western countries. For example in the economy aspect, China and Saudi Arabia have signed such binding agreements which might influence the position of dollars in the international trade. In recent years there are plenty of signs that China and Saudi Arabia because of concerns about the dollar caused heavy losses to its economy, and therefore, both countries are trying to reduce their dollar-denominated assets. Cooperation between China and Saudi Arabia may decide to accept multiple currencies rather than in dollars to pay for oil and pave the way for OPEC countries. This development could have a serious negative impact on the dominance of the dollar and the dollar as leading the world's reserve currency for energy products. Similarly in the diplomacy circuit China is especially close to all those pariah states (*jianmin guojia* 贱民国家) that do not adhere to western concepts of democracy and human rights (Wu, 2009). The non proliferated regimes of such nations are seen as a serious challenge to western socio-political order which is supported by a rich communist state called China. China's relationship with various states like Sudan, Iran, Angola etc. have been under the international scanner for this particular reason. It has often been blamed for compromising on arms sales to procure energy resources and maintain its political domination over the resource rich nations. This has clearly had a negative impact on the stability and supply of that particular country or region. Energy expert at Rice University Amy Jaffe opines that China's energy diplomacy with other countries should not be viewed with negativity only (Ibid). It should also be seen that it also eases out international tension by ending the political speculation and enhance the efficiency of conflict resolution in perpetual conflict ridden zones. Another aspect is security of supplies during transportation, given the rising terrorism on offshore areas. This implies that in order to protect its energy transport corridors China has begun to actively develop its navy which has given it a dominant position in East Asia. This has had two ramifications: a threat to maritime security viewed by China's neighbours and also perceived as a challenge to their dominance by the US navy.

However the liberalists believe that it would be wrong to blame China for escalating international tensions. Every country functions in a particular way because it seeks to maximise its national interests: all economic, social and political and China is no exception. China like all countries seeks a peaceful international environment for sustaining its economic development, and for that the cost of non- military inventory shall be higher than military inventory (Wu, 2009). That is why China seeks to build up on its maritime security as it hitch hikes its energy cargo. The mercantilists also believe that China has taken full advantage of the 'resource curse syndrome, especially engaging into energy trade with corrupt regimes of the energy rich nations leading to insulation from being booked for some of the most horrendous crimes purported by those regimes on their people. China is often blamed for treating its trade partners especially the lesser developed ones as options for establishing 'new colonies'. Economically speaking, the new found economic boom of these countries which they have received thanks to generous partners like China has had a negative impact on their ruling class. They now believe in maintaining status quo and find no compulsion or incentive to take measures for promoting economic diversification and sustainable development. Also the rising demand by China of crude and other energy products from underdeveloped economies has trapped them into a vicious currency cycle. Rising demand has led to rising exports which in turn has led to rising investment and eventually overvaluation of their currency by these economies. The direct consequence for this is that while these countries have excelled in the energy sector they have lost their comparative cost advantage in all other manufacturing and agro based products, thus in turn being trapped into a debt trade by those very same energy exports which had brought economic boom in their country (Wu, 2009). Moreover since China prefers to undertake downstream processing industries through its domestic units and only imports raw materials from these underdeveloped economies the abovementioned danger garners a potential to be exacerbated in multiple units. Yet again the liberalists have countered this mercantilists perspective as a one sided biased approach as they agree that one should also focus on the much needed income earned by the underdeveloped economies and not just limit ourselves to the currency rate debate. Then there is a third perspective called the middle perspective which believes that China's energy diplomacy holds characteristics of both mercantilism and liberalism. Yet the only decisive conclusion that can be drawn from the debate of the three perspectives is that countries no matter developed or not, should seek to engage with China in energy terms

rather than try to contain China. This engagement with China should be not only in terms of cooperation but also in terms of deepened interdependence. This would not only reduce the cost of access to energy resources but also alleviate the security fears which often countries hold for each other. The table below sums up the debate between the mercantilists and liberalists over China's energy diplomacy

Table 2.1Debate between the Mercantilists and Liberalists over China's Energy Diplomacy

Mercantilists	**Liberalists**
China is in hot pursuit of its national economic interests	Commercial interests of Chinese energy companies should not be equated with national interests of China as a country
China's energy diplomacy aims to 'lock in' international resources for herself which is abetted and encouraged by her government	China's energy diplomacy is an outcome of an impact of various other actors apart from the Chinese government which involve energy companies both public and private, international banks and regimes of energy rich nations
China wants to reduce the availability of energy resources for the world	China wants to increase the availability of energy resources by investing in areas where no investor wants to go with their money and technology
China wants to topple US hegemony by building up its maritime security and purposely engaging and conniving with internationally declared 'pariah states'	Adding to world peace by engaging with 'pariah states' through non-military engagements while at the same time providing its PLA Navy to secure international energy corridors
Forces the oil rich nations to be riddled under 'resource curse' by engaging with them in energy trade only. This makes them appreciate their currency due to which they lose their comparative cost advantage in all other sectors	China has provided the much needed capital, technology and hence development to oil rich but underdeveloped nations.

and end up supplying oil only and also lose out on other trade partners. Thus China, is stealthily making these countries dependent on her.	

Source: Wu (2009)

However diplomacy is not always man- made and this is especially true when commodities like energy are discussed. A perfect example is the new challenges which emerged for China after the unexpected financial crisis of 2008. While the world praised China for its 'survivor economy' what most missed was the impact China's energy diplomacy bore because of it. Post 2008 China has to reorganise its energy planning, energy financial order, international energy cooperation (Yan, 2010). Moreover domestic pressure too has risen on climate change and rising choice of new energy are some of the new challenges which need to be overcome by China's traditional energy diplomacy. Cai and Yang (2006) believe that Chinese energy diplomacy should be built on the basis of 'one centre and two basic points', (*yi ge zhongxin liang ge jiben dian* 一个中心两个基本点). It adheres to the fact that Chinese energy diplomacy is both a cause and effect of energy geopolitics and hence the main focus should be on reshaping the image of Chinese energy diplomacy in the field of global geopolitics on energy. Also the interdependence of cognition and practice should serve as the two basic points in building up the strategy of Chinese energy diplomacy. China's cataclysmic rise has already reached the constraint of resource bottlenecks. Having replaced US as the largest energy consumer on the earth, it cannot be denied that China is now caught in the tussle of national interests versus geopolitical compulsions. This tussle is now heavily reflected in its energy diplomacy. China is doing all that it can to maintain both its strategic interests while at the same time complying with the changing geopolitical landscape of deteriorating climate, rising terrorism, declining fossil fuels, political wars and uneven terms of trade. However a single handed policy cannot be adopted as every geopolitical resource rich nation has its own unique terms and conditions for engaging in energy cooperation (Ibid, 2006). Hence energy diplomacy gets as much diversified as it tries to maintain its specialty of 'Chinese characteristic'. Hence we shall here analyse each geopolitical areas separately.

Chinese Investments

China since its emergence as a nation state has undergone various political and economic changes. If we draw a trajectory of China's political transition then we can assess that China graduated from a belief that communism can save China in 1949, to a belief that capitalism can save China during the era of reforms and opening up from the year 1979, to a belief that only China can save communism in the year 1989 and afterwards especially after the USSR disintegration to a very staunch belief that China can save capitalism in the year 2009 after the global 'meltdown' and the ensuing financial crisis. As the world proceeded towards adoption of a more globalised economy, China's policy makers advanced their steps from 'reforms and opening up' (*gaige kaifang* 改革开放) to 'go out' (*zou chuqu* 走出去) policy. This policy was actively pursued by China's enterprises which led to a massive onslaught of overseas investments by them. Amongst these overseas investments, energy played a major role both as a trigger for economic investment and political diplomacy. China pursued countries which not only possessed natural resources but also those which possessed technology to help utilise China's own natural resources. However in the perusal of energy investments, Chinese companies have faced both commercial and non commercial risks, amongst which Huang (2014: 1) points out that non commercial risks have been more prominent, which often gets clubbed with the current political situation of the invested country. At this juncture any action by the investing company is read as the response of the investor government. This is more prominent in the case of China which has 'one party rule' and most of the energy investments are done by state owned companies which as is widely known have a strong bearing in the domestic political circles of China. Due to this the negative consequences of non commercial risks are not only far reaching in political terms but also have a major impact on the resultant production of the produce. This more often not only reduces the commercial viability of the project but also defeats the purpose of investment. In fact the National Bureau of Statistics of China verified that in the year 2014 despite all the talks of 'overheating' and slow production as the 'new normal', China's economic growth accelerated in the second half of the year to 7.5 per cent (Deloitte China Services Group, 2014:2). This means that China would not be interested in limiting its outbound investments as technology and energy continue to be its favourite assets. The leaders of the Deloitte Group have pointed out that "it is apparent that Chinese firms with more years of experience in investing overseas are becoming more confident and assertive in outbound M&A,

with also a higher expectation for investment returns" (Ibid). They point out that Chinese investments have become less emotional as they involve more professional help in determining the nature and volume of investments. Hence they analyse that Chinese ODI deals might grow in size and not in volume as the investor becomes more judicious and professional in their approach (Ibid). China's energy investors have adopted a different approach in various different nations to achieve optimum utilisation of their investment. China's energy investments occur in three different strata of the world: developed economies, emerging economies and least developed economies. This chapter shall also attempt to analyse China's energy investment strategy in different areas of the world through the prism of China's energy requirements and the economic positioning of the invested country in the world.

West Asia

Being synonymous with oil not much needs to be talked about this area. West Asia is the single most important factor which can form, influence and destroy Chinese oil diplomacy. That is why since the establishment of diplomatic relations between People's Republic of China and the Arabic countries, most bilateral visits by Chinese leaders has been dubbed as 'energy tours'(*neng yuan zhi you* 能源之油) by the media. While West Asia resources have been responsible for most of the wars and political volatility in the world, China often finds itself in 'double jeopardy' while dealing with the West Asian oilfields. It not only suffers from being the late entrant to exploitation of 'brown gold', it also has to face problems because of its geographical proximity. Because of the West Asian oil, China suffers what it calls the 'Mallaccan dillema'. However, amongst the eight economic zones of conventional energy, West Asia ranks first in oil and second in gas reserves. West Asia has given China an energy base and has laid the foundation of establishment of diplomatic relations between the two nations. West Asian affairs have often been the most complex in the world, due to which China for quite some time only maintained a passive moral support for the Arabic countries or it pursued a matter of common interest along with Arabic nation at an international forum. However it was only because of the expansion of energy diplomacy between the two nations that China chose to make a say in the internal matters of the Arabic region. This led to a groundbreaking event when in November 2011, Chinese first peace envoy to West Asia Wang Shijie visited many Arabic countries like Israel, Egypt, Jordan, Lebanon, Syria, Palestine and his faithful friend Pakistan (Liu, 2004). China has often shared a

symbiotic relation with West Asia by attempting to view it through the lens of bilateral influence with international ramifications. West Asia has long been the experimental laboratory for maintenance of US doctored hegemony and China's break in into that area meant a clear tussle with the US. John Calabrese puts it that it was the 1980's when West Asia caught the Chinese attention and since then has adopted a strategy of 'norm compliance and subtle maneouvring' to determine its role both in West Asia and the international world (Farhang, 2008:15). Farhang (2008:16) points out that Chinese interest in West Asia grew in tandem with its energy demand as reflected in the Tenth Five year Plan (2001-2005) which outlined the policy of 'developing diplomatic contacts, trade and foreign direct investment, and arms sales while also using its influence in the United Nations and in terms of relation with France and Russia' (Ibid). Also China right from the establishment of its diplomatic relations has constantly maintained 'its non interference policy in the domestic affairs of West Asia', something which the US is heavily criticised for both internationally and locally (Ibid). Also China is aware that Washington has no more power or influence over Beijing that it can dictate the countries it chooses to establish democratic ties with and hence it is providing rampant protection to internationally isolated countries like Iran, Iraq and Syria who have suffered enough American excesses and want some respite through a strong nation (Ibid). Farhang writes that China is more welcomed than US even by neutral nations of West Asia because of its 'soft power diplomacy' rather than its 'military hegemony' (Ibid). He also argues that Chinese is willing to provide West Asia what it wants: investment, economic benefits, infrastructure, employment, cultural respect and political freedom while US offers 'western style democracy through over hauling of entire system'(Ibid). Hence it is but natural for even neutral states to look more liberally towards China rather than western forces of US and UK. Also China's international image of being an emerging economy with a Third World nation status and geographical adherence to being an Asiatic country has given it a psychological advantage in oblique terms. China's West Asian policy has been dubbed as 'energy first, no questions asked' policy which has motivated the West Asian nations to move beyond the battle with US and 'Look East' towards China (Farhang, 2008:17). Yet China is aware that it is no match to US influence in that region and hence is avoiding all possible reasons to engage in a direct confrontation, hence despite all high profile visits China has limited itself to maintaining trade relations with West Asia without bordering on political vendetta. However in the context of West Asia the securitisation worry is more about transport rather than trade. While

West Asian governments play a warm host to China, the 'sweet crude' is shipped back through 'salty straits' of Malacca, where US plays a heavy dominant role in controlling the sea lanes of communication (SLOCS) (Farhang, 2008:18). China has often expressed anguish over the fact that its supply routes are not monitored by her own navy which is sometimes even publically expressed in national newspapers. *China Youth Daily* which is often considered one of the government mouthpiece had published Chinese ex president's Hu Jintao's worry where he feared that 'those who control the straits, control China's flow of oil'(Farhang, 2008:18). In this section, two major oil producing countries shall be analysed: Saudi Arabia and Iran.

Saudi Arabia

Saudi Arabia holds almost 25 per cent of world's proven oil reserves becoming one of the prominent nations of the energy world. Saudi Arabia not only exports eighty percent of its oil reserves but also provides an investor friendly environment to foreign investors. Since the establishment of diplomatic relations between the two nations, China and Saudi Arabia have not just restricted themselves to signing MOU's and establishing working groups but also intensified their trade pact by providing technology to each other. Saudi Arabia established refineries in Fujian province as China provided it political, military and economic support in various bilateral and multilateral forums. This military support grew after the relations between US and Saudi Arabia had begun to change after the event of 9/11. Arms trade increased in exchange of oil giving a new dimension to the diplomatic relation between the two nations. China's contribution to the Saudi Arabian oil output has been in the form of labour contracts and transport of Arabian oil through its energy companies (Liu, 2004). While with Iran, China shares a natural proximity of US antipathy, situations turn a little different when Saudi Arabia is involved. Saudi Arabia has shared a relatively friendly rapport with US despite hostilities surfacing after the 9/11 attacks. Hence China has been cautious to not to trudge on sore points between the two countries while at the same time showcasing itself as another viable option in case relations with us do not soften up. Farhang (2008:21) writes for Saudi Arabia that 'China has tied politics to oil in a variety of ways'. He considers every Chinese move as an attempt to woo Saudi Arabia through concessions in petrochemical industry, Sinopec's development of 'non associated gas resources' etc (Ibid). Saudi Arabia too has begun to look favourably towards China and since US's 'war on terror' is eager to find an alternative for the superpower. Farhang (2008:21) writes that:

…. The use of alternative enticements to tie Saudi and Chinese interests more closely together, thereby creating a symbiotic relationship of energy and economics that is equal to or surpasses that of Saudi-US strategic partnership.

Sino-Saudi Arabian relations officially began in the year 1990, though arms sales between the two nations had been going on even before (Farhang, 2008:25). The breakthrough came nine years later when the two countries signed a 'Sino-Saudi' relationship and the Saudi energy markets became accessible to China for the first time, though direct oil exploration and production was still not allowed (Farhang, 2008:27). In fact the reverse was happening as China was interested more in FDI then than in ODI and hence welcomed Saudi investment in its refineries to build it up for Saudi crude. Farhang writes that since Saudi oil is not sold in the open market but though a secret contract process, it wins over its competitors in price flexibility, low extraction costs and large reserves (Ibid). He cites a report that rise of crude in the international market during that period was obliquely linked to rising Sino-Saudi bonhomie as Saudi Arabia began to reduce international available supply and transferred it to China (Ibid). In fact with the progress of the twenty-first century, the bonhomie between China and Saudi Arabia has been structured and developed by the representative energy companies of the two nations: Sinopec and Saudi Aramco respectively. Both the companies have been developing each other's refining capacities (for example in Fujian and Guangzhou) and oil fields (for example the Rubal-Khali basin, Ghawar fields or the Habshan oil field) (Farhang, 2008:28). The relations between the two countries have moistened since the bilateral visits of the heads of the two nations since 2006 (Farhang, 2008:30). They have signed major cooperation agreements primarily in energy and international analysts have speculated it as a 'strategic shift in Saudi foreign policy' while Hu Jintao had commented on it as a 'new chapter of cooperation' between China and Saudi Arabia (Ibid). Also the initiation of the New Silk Road between Gulf countries and China is not overlooked by energy analysts especially those belonging to US (Farhang, 2008:29). Stephen Glain views it as 'creation of interdependencies', 'future cooperation' and 'increase of Beijing's influence in Riyadh' (Farhang, 2008:29-30). Chinese companies have often been blamed for carrying subtle political orders of resource domination from their home governments yet Bubalo Anthony feels that the sensitivity and caution showed by the Chinese government in developing their relations with Saudi Arabia is reflected in the ease of environment given to the Chinese government unlike the US companies who are facing the wrath of certain initiatives taken by the

US government (Farhang, 2008:32-33) "Chinese companies are not constrained in their overseas activities by their political commitments of their home countries in areas such as human rights and nuclear non proliferation, as their American counterparts are" (Farhang, 2008:32-33).

Iran

China and Iran share a relationship of political cooperation which is nurtured by their disregard for western hegemony especially the US. Iran has long suffered the ire of US diktats through international estrangement and political blacklisting and hence it is natural that China's attempts of friendships are reciprocated with warm hospitality. Iran has copious oil reserves to feed China's voracious demands (Farhang 2008:20) puts it to 125.8 billion barrels which is the second largest reserve after Saudi Arabia) and in 2006 Iran had even managed to replace Saudi Arabia as China's number one exporter of oil, yet Farhang quotes Calabrese in terming the relationship between the two as 'non transparent and highly ambiguous' (Ibid). Iran provides all political, economic and geo- strategic cushioning to China. Politically it has the same views about the international system and especially the US which China expresses. Economically it gives China the market for investment and the oil for maintain its 'economic engine' in the present circumstances. And geo strategically it can be a key source of oil supplier even in the future as due to international embargoes and lack of adequate technology it is under-producing unlike Saudi Arabia which is producing at par of its capacity and is unlikely to exceed its production capacity in the near future (Ibid). Iranian experts have often been found quoted that 'the geopolitical boat is shaking, and no matter how upset US gets China has won its way into the West Asian and Caspian energy markets'. Iran requires international support because of its ostracisation held by US led countries. Thus Iran often uses its oil reserves to gain international support much to the advantage of China. Iran and China have also been engaging in arms trade, albeit for different motives. While China wants to reduce its oil trade deficit Iran wants to end its international isolation and counter US embargoes. Sino-Iranian oil and arms trade begun in the 1980's and since then has been gaining steady momentum. In fact China has often used its position as a permanent member in the UN to save Iran from US ire. Similar favours have been extended by China to Iraq which has the second largest oil reserves amongst all the Arabic nations. By the end of the year 1996, Iraq had signed an 'oil for food' programme with the United Nations which was actively supported by China. Under this programme China signed a

1.2 billion dollar deal with Iraq to explore the 'Alapu' oilfield in the span of 22 years. In fact China had even entered into joint exploration agreements with oil companies of Russia, France etc in this region (Ibid). However the instability of UN in Iraq and the volatility of the political environment there forced many companies to abandon their projects in Iraq (Liu, 2004). This was not only a loss for Iraq but also for other investor companies as Iraq has a lot of potential as an oil exporter. This is the major reason; Chinese experts have said that they did not support US in Gulf War 2 and want an international resolution to the problem.

Iran's relations with Saudi Arabia began in the 1960's and then were largely stemmed by mutual animosity towards Soviet for their expansionist aims in West Asia (Farhang, 2008:48). This bonhomie materialised in to establishment of diplomatic relations between the two countries in 1971 after Iran's recognition of 'One China' policy (Ibid). Yet Iran was never looked upon with antipathy or apathy by China and when Iran had raised its voice against the domination of western oil companies Mao Zedong had lavishly praised Iran and called the move as a representation of Third World solidarity (Farhang, 2008:48). Mao had said that "the increasing assertiveness of the oil producing countries as a major manifestation of the third world's anti hegemony struggle….by seizing control of the oil and taking it out of the hands of the imperialists, the governments of the third world oil producing countries were leading the way in creation of the New World (Ibid). China has been playing the 'agony aunt' card to Iran since its international suspension after receiving the pariah status since 1979. Farhang writes that from 1990 to 2001, bilateral trade between Iran and China grew by 55 per cent annually (Farhang, 2008:52). Consequently China's energy demand for trade has also been growing up since it became a net importer to the extent that it wanted a direct participation in upstream production in Iran (Ibid). According to Farhang (2008:53), given the international positioning of Iran, China feared that any international tussle would affect prices and supply in the spot market and hence it preferred a direct control of oil resources to improve on its oil security. Beijing has adopted a two pronged strategy for Tehran. While it seeks Iranian oil and is eager to take advantage of international isolationism of Iran, it still never preferred a direct confrontation with US or any meddling in Middle East matters. Hence China has been wooing through its upstream countries which they were finally successful in 1998, when CNPC, Shengli oil company (a Sinopec subsidiary) and an Iranian firm joint hands for technology transfer from Beijing's NOC's in energy exploration (Farhang, 2008:53). It was in the year 2000 that China saw a direct

involvement in the drilling natural gas wells in Iran after CNPC bagged an 85 million dollar contract (Ibid). Farhang quotes Calabrese when he writes about the enthusiasm shown by Chinese companies while investing in energy sector in Iran. "In pursuing energy deals in Iran, Chinese companies have shown the same propensity for accepting a high level of risk as they have shown in other markets' (Farhang, 2008:54). In this aspect, the Yadavaran oil field deal by Sinopec gave a major impetus to Sino-Iranian relations (Ibid). Considering it as a 100 billion dollar worth of deal, the deal gave Sinopec, a platform for long term investment in Iran and according to Farhang the opportunity to become the biggest oil company of the world (Farhang, 2008:55).

The energy relations have also encouraged trade in another sector between the two countries. Since energy availability comprises both supply and transport, China has also invested massively into ship building industry. While Iran seeks to expand its oil tanker capacity, China through direct involvement in transport is assured of its supply and investments (Ibid). China's NOC's face two challenges in Iran: constraint of technical capabilities of China's NOC and sagging infrastructure of Iran (Farhang, 2008:58). Fifield writes that upstream activities are easier and it is the downstream activities which require technical expertise in which China lacks experience (Farhang, 2008:58). Farhang (2008:59) quotes the finding of a report published by National Bureau of Asian Research which claims that

> …there is a large difference between negotiations, signed MOU's and actual investments. Exploration, production, shipping, receiving, re-gasification and distribution require a complicated and expensive supply chain that thus far, none of Asia's NOC's have been capable of effectively operating, financing and managing.

This technological gap is not filled by western companies in Iran unlike other countries and hence China feels the pinch of development from scratch which often leads to problems of finance (Farhang, 2008:60). Also China had faced direct flak from the international community after supporting Iran's nuclear programme and had to abandon their support for building Iran's nuclear facility in 1997 (Farhang, 2008:61). In fact Farhang quotes Garver who cites that Beijing had traded Iran for Pakistan and after intense negotiations between US and PRC decided to give up on supporting Iran's nuclear capacity to preserve its 'all weather partnership' with Pakistan (Farhang, 2008:62). Yet China has been showing 'limited loyalties' to Iran by supporting them in

international forums and issues like building up of nuclear energy for peaceful purposes (Ibid). Beijing that time had maintained a cautious approach and had accepted that decisions should be taken by IAEA (Ibid). Hence when IAEA took decision against Tehran, Beijing supported it whole heartedly, hence maintaining a precarious balance between its bilateral relations and international image. Dingli Shen had stated that "China will continue to support Iran's right to a peaceful nuclear programme, but the extent of support will be based on how far Tehran forces its hands in the international sphere" (Farhang, 2008:63). Iran has also been granted an observer status in Shanghai Cooperation Organization, which Putin termed as the personification of an 'energy club' as it comprises both producers and consumers as members. Hence the presence of Iran as an energy resource country would be valued and appreciated, despite all caution over its international acceptance (Farhang, 2008:65).

Central Asia

It is an area whose peace and stability is the concern for the entire world. The security of Central Asia is so important that it can single handedly start a global energy war if disturbed. China has often been accused of being the big power country to its western neighbours namely the countries in Central Asia, by interfering in their resource trade and political affairs, yet it cannot be denied that China has played its 'Caspian diplomacy' reasonably well**.** Many energy experts believe that Central Asia is to China to what Middle East is to US. This was reflected in Xi Jinping's visit to Central Asia. China has gained a strong foothold in Central Asian energy market and is fiercely protecting it. Rickleton (2014) points out that China has 'replaced' Russia in its energy investments in the region. China National Petroleum Company (CNPC) is building refinerines in Danga-Hara, Kara-Balta and Togmak who have a combined capacilty of 2.5 million tonnes (ibid). However, Rickelton believes that China's engagements with Russia should not be viewed merely in terms of volume as it is the non-energy factors like proximity to Xinjiang which determine the value of Central Asia for China (Ibid) Hence it is no mood to toe the Russian excesses and has learnt from its rival's mistakes and hence does not interfere in matters which does not contain China. Central Asia fits into the Chinese mould of diplomacy not only in energy terms but also in soft power terms. Central Asia provides the perfect turf for China to exhibit its 'good neighbourliness (*hao mulin* 好 睦邻), rich neighbourliness (*fu mulin* 福 睦邻) and peaceful neighbourliness (*an mulin* 安睦邻) policy' (as propagated by the previous

Premier Wen Jiabao in 2003) (Pan, 2008). The podium for this is not only staged in their bilateral visits but also on the dais of Shanghai Cooperation Organisation (SCO). For example China and Kazakhstan bilateral cooperation has given China one of the rare entries into the littoral states of Caspian Sea for continental shelf exploration and development (Ibid).

Latin America

Emerging economies represent the growth impulse of the globalised world. They have seen long periods of stagnation and penury and now seek to attract investment through both resources (like the least developed countries) and technology (like the developed countries). Amongst the emerging economies, Brazil is a prominent country amongst the emerging economies as it possesses a sound fossil fuel reserve while at the same time is developing high end technology in deep water exploration and production, as done by Brazilian National Oil Company Petrobras (International Energy Agency, 2013:6). Similarly Brazilian potential of wind energy is being developed by Chinese technology and Brazilian power grid is being developed by Chinese ultra high voltage (UHV) transmission technology (Ibid). IEA reports that between the period of 2005 and 2012 China has invested 18.2 billion USD in Brazilian energy sector (Ibid). The report also analyses the result of Chinese investment in every field of energy in Brazil. IEA report observes that despite all high level political bonhomie the companies who are developing the technology are reluctant to willingly share it with their counterpart on the other side. Hence while in the oil and gas sector Petrobras wants to limit Chinese NOC's (Sinopec) to just the development of refineries and does not want to share its pre-salt deep water technology which the Chinese companies lack (International Energy Agency, 2013:7). Similarly Sinopec retorted to Petrobras by acquiring stakes in Reposal and Petrogal and hence redirected its efforts to acquire knowledge of deep water technology, yet IEA observes that Sinopec is still not able to acquire 'strategic E&P technology' and is limited to 'investments in petrochemical areas'(Ibid). Similarly in power transmission State Grid Corporation of China acquired seven Brazilian power companies in 2010 where they bought and managed their assets and also passed tenders in cooperation with Brazilian state owned power company like Eletrobras and COPEL (Companhia Paranaense de Energia) (Ibid). Yet IEA observes that State Grid Corporation of China is still limited to mere management and operation of Brazilian assets in lieu of technology and is still not in a comfortable position in the Brazilian market (Ibid). The wind sector was expected to be the

smoothest investment by China in Brazil as the requirements of the buyer and the seller were not only specified but also mutual. Brazil had loads of wind energy but had no technology to utilise it, China imported wind turbines since 2012 since it had the comparative cost advantage, yet often the wind energy technology cooperation deals between Brazil and China have been besotted with intellectual property issues (Ibid). Yet despite all the shortcomings China and Brazil have established China-Brazil Center for Climate Change and Innovative Technology for Energy which seek to initiate a meeting between leading academic experts of the two countries and develop cooperation agreements in biofuels, wind energy, deep water oil and carbon capture and storage (ccs) technologies. Hence both the governments are increasingly interested in initiating cooperative frameworks for technology transfer and academic exchanges between the two nations (Ibid).

Africa

Chinese activities in Africa have often been under radar for human rights violations. An example was when in 2007 China prevented a UN peace keeping mission to be sent to Darfur to prevent any interference in the activities of oil (Houser, 2008:143). Houser (Ibid) aptly puts it that 'development agencies are fretting over the impact of the money on the political health of the countries'. He also puts that the decision of where and how to invest by the Chinese energy companies is decided by the three factors: technical capacity of the host country, prevailing competition given by international companies in the market of the host country and political and security risks (Houser, 2008:155). The Chinese preference for sweet, light crude is widely known which is why it has preferred investment in West Africa over West Asia yet as Houser points out that this preference has reduced over the years because China's refining capability has increased and China prefers now to opt for trade that maximises profit options rather than in bringing the product home. Houser puts it as 'Chinese oil companies having developed sophisticated trading operations to help maximise profit per barrel produced regardless of oil's final destination' (Ibid). Gualberti et al. (2014:31) points out that none of the Chinese leaders ever lost their focus on Africa which is why Xi Jinping made a visit to South Africa, Tanzania and Congo within a week of joining office as the president of China. They cite Buckley and Stoddard in claiming that while China proclaims investments in the sectors of infrastructure and farming yet it is a subtly understood statement that the finances are actually siphoned off for the energy sector (Ibid). In

fact this Chinese initiative led to a frenzy in the international market with US and European leaders too joining the bandwagon of luring African resources and market for themselves. This was reflected in the 'Power of Africa' initiative launched by Barrack Obama the then US president during his visit to sub Saharan Africa after the 'Chinese trader' left (Ibid). Africa provides a twin advantage of raw material availability in terms of fuel and a growing market. China utilises the African opportunity through a corpus fund called China Africa Development Fund and has launched the 'forum on China Africa cooperation to maneouver Africa politically. No wonder the authors quote that '….China has invested heavily, both financially and politically, in Africa in the latest decades, and its influence has risen accordingly' (Ibid). Many opine that China is facing the brunt of investment in Africa by their western counterparts through tactics of 'resistance, skepticism, and accusations of exploitations of natural resources, mining and fossil fuels (Ibid). However Gualberti et al. cites the works of Okeowo, Kolstad and Wiig etc. who opine that Chinese investors are no different from other international investors and their investment should not be viewed with mere suspicion but considered as an unbiased profit oriented investment like any other investor (Ibid). Most scholars affirm that Chinese investment in Africa is a 'part of their long term strategy'. Chinese investment in Africa had begun as early as the 1980's when the state owned companies began to transform from a ministry to a corporate. However, Gualberti et. al. (2014:32) point out that even during that time ideological moorings had remained and corporate interests have developed very recently. China is also often accused of providing loans rather than grants to Africa which makes the returns on its investment safe. China officially does not participate in the official recording of Official Development Assistance (ODA) and tends to utilise other forms of finance to pump in cash flow like export credits, natural resources backed lines of credit and mixed instruments (Ibid). Chinese investment in Africa is often done through the means of aid, direct investment and development finance. Gualberti et al. draws some differences between Chinese and western investment in Africa which is illustrated in the following table.

Table 2.2 Difference between Chinese and Western Investment in Africa

Characteristic	Chinese investment	Western investment
Area of investment	Sub Saharan Africa	Northern Africa
Major sector of investment	Hydroelectric projects (61 per cent)	Electricity transmission (47 per cent for US and 31 per cent for EU)

Source: Gualberti et al. (2014: 33)

Gualberti et al (2014:34) point out that Chinese investment in hydroelectricity has strong linkages with their aid pattern. The authors cite the data of Heritage Foundation which analyses that in Africa, China has been awarded contracts worth 18 billion US dollars in Africa between the period of 2005 to 2012. Like elsewhere Chinese pattern of investment in Africa, is similar. The SOE's having had the backing of the state are risk taking and ready to invest even in those projects which have a long gestation period and are situated in politically volatile region. However private owned enterprises (POE's) are less interested in adventure and are more interested in creating profits for their firms by establishing their investments in relatively stable regions with larger business scope and market opportunities (Ibid). In fact when it comes to Chinese investment in Africa the energy analysts across the globe are divided in analysing the intention behind it. Some scholars like Gill, Huang and Morrison still vouch for Chinese exploitation in Africa and their subtle intention of promoting the agenda of their home government (Luo, 2013:2). They are also blamed for supporting 'rogue' or internationally pariah states. However noted scholars like Erica Downs, etc. argue that Chinese even if exploitative in Africa have managed to improve the overall oil supply of the world and 'improved global energy security'. Others like Foster, Butterfield, Chen argue that even African economic conditions has improved after accepting Chinese investment in their core sectors (Luo, 2013:2). Luo Zhenxing (2013:4) points out the distribution of world's oil resources:

> National oil companies (NOCs) control most of the world's proven oil reserves and dominate the world oil production. Approximately 77 per cent of the world's proven oil reserves are under the control of NOCs with no equity participation by international oil companies (IOCs). Western IOCs now control less than 10 per cent of the world's oil and

gas resource base. What is more, of the top 20 oil producing companies in the world, 14 are NOCs or newly privatized NOCs

Nordic Countries

Nordic countries comprise Finland, Sweden, Denmark, Norway and Iceland. These countries are not only known for their high human development indicators but also for their clean technologies industry, an area where Chinese investors have a keen interest. However in a report prepared by Azure International and Cleantech Scandinavia (n.a, 5), the authors cite that Nordic countries being European nations are both 'curious and cautious' over their business relations with China. China established Centre for Environment Technology (CENTEC) with Sweden (which was later on joined by India and Russia) for clean technology promotion in 2008 (Ibid). Similarly China's MOST (Ministry of Science and Technology) has established collaboration with Finnish Funding Agency for Technology and Innovation for 'green nanotechnology, China-Finland ICT alliance, cleantech and arctic affairs' (Ibid). In 2005, Norwegian Energy and Environment Consortium (NEEC) established a centre in Beijing for promotion and promotion of renewable technologies in China. In Nordic countries, renewable technology industry exists in the SME (small and medium enterprises) sector (Ibid). Chinese have made investments in various Scandinavian energy companies like Fortum, Statkraft, Vattenfall etc (n.a, 6) through venture capitalism. The authors of Azure International cite that Chinese have both 'expansion and acquisition opportunities' because of 'green thinking' pervading in all kinds of industries. Even the conditions for local companies has changed in the past years who have become more direction oriented because of which less startup capital and even lesser market barriers are prevailing in the cleantech sector. Thus the Chinese venture capitalists have a plethora of opportunities as local market is favourable and policy regulations are liberal (*Azure International and Cleantech Scandinavia*, n.a:8). China has shared cooperation with Nordic countries in the field of wind energy (offshore and onshore towers and turbines, infrastructure and installation of wind power, software for prediction for prediction and management of wind parks), biomass based heat and power generation (improvement of burners and equipment, innovative methods of raw material preparation and process monitoring), energy storage and fuel cell technologies (energy storage for automotive and other applications), solar power suppliers (development of components and new types of solar cells, efficiency improvements, applications for utilising solar energy in buildings), industrial energy efficiency (changing existing industries into a more

material and energy efficient businesses), advanced materials (environmental friendly replacements for traditional material or treatment methods) (*Azure International and Cleantech Scandinavia*, n.a:10). The Chinese in their Twelfth Five Year Plan had launched SEI (Strategic Emerging Industries) as opposed to SOE (State Owned Enterprises). These SEI's would primarily be dealing with (*Azure International and Cleantech Scandinavia*, n.a:12)

- Next Generation IT
- Energy Saving and Environmental Protection
- New Materials
- New Energy
- Advanced Manufacturing
- New Energy Vehicles
- Bio-Technology

The authors of the report say that these companies shall be operating through outbound investments (venture capitalism in the Nordic case), bilateral or regional MoUs (Memorandum of Understanding) and M&A's (mergers and acquisitions). The work on the formation and funding of SEI's began in 2010 and venture capitalism was decided by the State Council as a source of funding of these SEI's. A fund for the operation of these SEI was then established in 2012 worth 7.5 billion Yuan (Ibid). In one of the many estimates by the Chinese government it has been evaluated that if these SEIs' grow by 15 per cent till 2020, then they would be worth 11.4 trillion Yuan during the same period (*Azure International and Cleantech Scandinavia*, n.a:13). SEIs by Chinese law are supposed to get preferential treatment in terms of financial benefits, support by both the central and provincial governments and preference of domestic investors as opposed to foreign partners (Ibid). The report cites that Chinese policies intended to promote outbound investment are 'selective' preferring to 'expand markets for Chinese companies' rather than 'liberalise market' (Ibid). Fortunately for energy, SEI's and outbound investment is a strong tool for development for Chinese energy needs both renewable and non renewable. That is why the Chinese regulations lax out in the case of energy deals with other countries as evident in 2012 where Chinese regulators have managed to increase the approval threshold up to 300

million US dollars resource deals which do not require state endorsement for completion (Azure International and Cleantech Scandinavia, n.a:15).

Achievements of Energy Diplomacy

Chinese energy diplomacy comprises two parts: one where energy trade is the tool to advocate diplomacy and the other where energy trade is the motive for diplomacy. China has transformed the traditional form of foreign trade through its energy diplomacy. Now a major part of economic aid is done through the process of combined development of the natural resources of that area. This strategy has been really beneficial for China helping it both financially, politically and bilaterally. For example Chinese oil companies were able to develop Sudan's oilfields at a faster and a much advanced level (within the period of three years from 1996-1999), something they were unable to do themselves. In fact China's energy diplomacy has single handedly catapulted itself as the leader of the US hated world (Pan, 2008). The world had become unipolar after the collapse of Soviet Union and nobody seemed to have a capacity to replace it. China owing to compulsions of its own energy needs and late entry into the international economic order had no choice but to maintain relations with countries which had caught the US ire. Politically it seemed that China was ready to defy US, economically China was already a miracle and strategically China gained brownie points in terms of easy access to natural resources and on easy terms and conditions. This was amply reflected in Sino-Iran relations where energy though formed the basis of establishment of diplomatic relations between the two nations, yet it was their hatred for US excesses which has strengthened and confirmed their relationship.

China's energy diplomacy popularly called 'go out policy' (*zou chu qu* 走出去) had faced challenges right from its inception. The geopolitical landscape at that time left it little room for implementation, leaving it in a dilemma of dislocation. The only consolation for the strategy was its impeccable timing. China's 'go out policy' not only coincided with the turn of the century but also the globalisation fever. Never before had such integration occurred, never before was so much information available. Due to this factor China was able to zero in on those countries that were not living in the shadow of US and were willing to date their resources with China's economic and political investment. This led to the implication that China was more cautious than other investor countries while dealing with these 'cornered 'and' high risk' resources rich nations. While trading with these countries China not only had to focus on terms of trade with these

nations but also on political risk in dealing with these countries, like: nationalisation movement, war and civil strife, money transfers, taxes and rents became unavoidable. Thus it did not just limit itself to energy trade only and also actively engaged in financial, political, social and strategic terms leaving no room for other investor countries to maneouver. However opposing to the Chinese version is the international civil society version, that China like all other rich and developed countries has been successful to manipulate these internal disturbances into its advantage by getting easier and favourable terms and conditions for its trade. Due to this it is not only, not assisting in removing the perils of these country but in fact even resisting the activities done by the international society to further its advantages. In fact it is not just the lack of willingness but also the lack of awareness on how to deal with such issues which does not allow an investor country to remove the 'resource curse syndrome'. Also the general sympathies and media reports go in discovering the pillaging and plundering purported by these multinational companies and not in understanding the problems faced by these companies in learning to 'go out' and to promote business in such risky areas. Hence the problem not only lies in building a consensus but also in creating a mutually beneficial international environment suitable for both the investor and the invested country.

Chinese energy diplomacy has given a major fillip to Chinese soft power diplomacy (*ruan quanli* 软权力) (Cai and Yang, 2006). The Chinese experts believe that this is something they have learnt from the western countries. They also counter that when the western developed countries invest they come with a complete ideological package while when China does it she is often accused of easy money motives and settling scores with the western countries. Chinese energy diplomacy also battles with the baggage of 'China threat theory'. Most resource rich nations have been former colonies of European nations still their political allegiance and economic alliance to them. Similarly US owing to its 'world power' status has been able to re-channelise the world financial in its favour. This leaves very less space for China to develop its investment environment.

Energy diplomacy cannot be discussed without the analysis of sustainable development and the ensuing geopolitical conflict. However the sustainability of energy products is slightly different from the general prevalent theory of sustainable development. The general theory of sustainable development is often defined as attaining social and economic development while maintaining

ecological environment. However all this is based on the principle of cooperation between usage of energy resources and environment as a continuous process. China has long realised that its energy diplomacy cannot be a mere balance sheet of procuring energy resources based on domestic supply and demand. The energy diplomacy in current times is widely about the effectiveness of energy utilisation rather than the demand supply gap. While China had begun to 'tame' its energy consumption much before it turned an importer yet the damage of the previous decades could not be undone. Moreover the 'leaping' GDP only exacerbated China's tense energy situation. Hence, Chinese scholars believe that because China is already a late entrant in the energy market, its' only outlet is to build up an energy strategy with Chinese characteristics (Deng, 2007). So its energy strategy should focus more on practice rather than theory (*zhong shijian qing lilun* 重实践轻理论), more on tactics rather that strategy (*zhong zhanshu qing zhanlue* 重战术轻战略), more of action and less of coordination (*zhong xingdong qing xietiao* 重行动轻协调), this implies that an energy diplomacy based on Chinese characteristics (*you zhongguo tese de* 有中国特色的) should definitely contain the following features (Deng, 2007):

- Internal mobilisation and coordination of energy diplomacy- energy diplomacy is reflected in its intensity, initiative, activity and innovation. Hence the top echelons from the central leadership, foreign ministry, commerce ministry who form the legislative of the energy diplomacy down to the energy enterprises and the energy experts who execute the energy diplomacy should take active interest in its formation, transition and implementation. Moreover Chinese diplomacy should seek such partners which not only provide it with more energy but also ensure the stability of China's economic development through their supply chain.
- Multi party sellers and risk diversification- China is suffering from the disadvantages of being the late comer in the energy market. Due to this it has chosen to horde the reserves of oil for short term. In the current scenario no bilateral or multilateral visit of a country's leader is complete without the signing of certain cooperative agreements on energy or its related technology. Basically energy diplomacy has turned into a 'by any possible means' diplomacy. Hence energy resources and resource areas are chosen as many as possible to minimise risk and increase diversification.

- Prioritise while considering geopolitical advantages -it is only in recent times that China has begun to focus on the worth of its neighbours through policies like 'good neighbourliness policy' (*hao mulin zhengce* 好睦邻政策) and peripheral diplomacy (*zhoubian zhengce* 周边政策). While China had long established diplomatic relations with them they were more for political reasons rather than for economic gains. Later on China's diplomacy was more focused on finding markets for its finished products as it bought raw materials in exchange including energy resources. However China today is looking for greener pastures' and is also keen on buying green technology. This apart it has still not given up into making a greater integration with its neighbours especially those of Russia and Central Asia. Both these regions are giving China what it is desperately seeking in Africa and West Asia: security, convenience, shorter supply routes, and higher resource potential and lower costs. Many Chinese scholars have been advocating about the establishment of an Asian energy cooperation forum which will lend greater purchasing power capacity to the Asian consumers while at the same time reduce the reliance of Asian energy sellers on the diktats of European and American markets. Moreover this can also enhance the lobby among the seller countries so that they can stand a better chance while procuring finance from international organisations.
- Giving ample space for considering other minor partners- however this does not mean that China can choose to neglect the rest of the world for its energy needs. China is lucky that it belongs to the Third World and coincidentally most of the resource rich nations also belong to the Third World. It can and has used this advantage to patch up with countries which are neutral or not in favour of the other two worlds like those in Latin America, Africa and Iran. Sadly, however, China has chosen to follow the paths like the former hegemons namely British empire and US and is still not playing a fair play when it comes to giving the other party economic benefits and social gains in terms of trade.
- Implementation of both 'go out' strategy (*zou chu qu* 走出去) and 'welcome in policy (*qing jin lai* 请进来) -the focal point of China's energy security has been its 'go out' policy. This means that Chinese energy diplomacy is transforming itself from the negativity of defensiveness to the positivity of offensiveness. It means the exploration of energy bases outside one's geographical boundaries and participating in the different levels of competition at different kinds of energy markets. It seeks to establish a

diversified strategic alliance with various resource rich nations to be able to circumvent international market risks. This policy has a special impetus on China's energy companies encouraging them to implement their independent business strategies by engaging in offshore oil and gas exploration and development, by establishing a certain scale of offshore oil exploration and base and by stimulating domestic technology and equipment. It also implies that the companies should engage in trade with resource rich nations beyond energy and thereby encourage the exports of the goods, services and labour of their own country. Chinese companies should develop the capacity to go beyond the safety valve of their own government and engage in competitive markets at global level. The Chinese government should take interest in their companies high risk investments so that they can serve the purpose of fulfilling China's national interests. This clearly means that Chinese energy companies posses the capital but not the means to advance their profit motives. Hence they look up to their government less for economic support and more for diplomatic enhancement to pave way for their economic gains. However this also means that if a national oil company of China seeks to maximise its profits in its offshore undertaking it has to be tactful in coinciding its motives with the government's aims to gain the government's support and effort in its business activities (Deng, 2007). However a '*zou chu qu*' (go out policy) shall stand incomplete if it is not corroborated with an opposite policy of equal emphasis and intensity called the '*qing jin lai'* (welcome in policy). If an analysis of China's own domestic resources is made then it cannot be doubted that China's days of 'learn from Daqing' have long been over. Most of its gas reserves and oil mines have been overexploited and are at a mature stage unable to refill their capacity in proportion with the drilling capacity. Moreover China has not been able to make much headway in developing its oil drilling technology due to which a large number of foreign petroleum and petrochemical companies have made a headway into the Chinese domestic energy market making surplus profits from its foreign capital and cheap labour in China. They had the requisite technological assistance and managerial experience and were able to monopolise the Chinese oil market for quite a number of decades. However the Chinese oil companies have themselves 'come of age' now and owing to the stiff competition given by the foreign companies in their formative years they have acquired a greater form of professionalism which has positively contributed to

the formation, development and implementation of Chinese energy diplomacy by making it more efficient and targeted in approach.

- Avoid competition and seek cooperation- China has already crossed US in becoming the largest consumer of energy of the world. With this position, China has acute competition with other large importing countries of the world. At this juncture if China tries to adopt a'stand alone' (*dan gan* 单干) energy diplomacy like it did in the pre reform era, then it would not only lead to massive reduction in its own efficiency but also bind it into a vicious competition with other energy importers. This not only affects its other diplomatic measures but also scales down its soft power image which it has so consciously built. Hence to avoid this double jeopardy, Deng (2007) says China should for once avoid its political differences and establish a seller's market with multi-national companies of other bigger consumers like India, Japan and Korea to gain energy on easier terms. However this is easier said than done as the principle of mutual benefit and understanding (*hu li hu hui* 互利互惠) does not work well when political vendetta scores over economic profits. China has tried to find a loophole for the application of this strategy by engaging with private players of these countries who are actually running large conglomerates and are not much under government scrutiny. However this has not gone down well with the governments of these companies who feel that China is trying to buy out these MNC's in their own favour. Hence China has also resorted to active participation and cooperation in multi-national forums like International Atomic Energy Agency (IAEA), Nuclear Supplier's Group (NSG), World Energy Forum (WEF) etc.
- Give utmost importance to "the stones of mountains of others" (*ta shan zhi shi* 他山之石)- when it is said that Chinese energy diplomacy should be based on 'Chinese characteristics' then it should be clearly understood that Chinese characteristics are not just maintained in adherence to national requirements and conditions but also involve application of international practice and experience of outbound investments. China calls itself the '*hou jin zhe*' 后进者 (late entrant) of the energy market and is still not comfortable in taking the lead of the energy trade. It still seeks to learn from the experiences of the companies of other democracies to avoid their mistakes and draw on their experiences. Deng is very impressed by the western notion of 'safe reliance' (*an*

quan de yilai 安全的依赖). The concept involves the dictum that reliance on other countries for strategic energy resources should not mean vulnerability on the part of investor nations. It means that energy and diplomacy should be juxtaposed in such a way that the destiny of the investor lies in his investment and not on the market.

Pragmatism of Chinese Energy Diplomacy: The Investment Angle

Energy diplomacy is a combination of economic motives and political skills and unlike other economic diplomacies it has the angle of environment quality as an inherent factor to it. The moot question is that energy diplomacy requires fuel from beyond its reserves. That fuel was once provided by economic profits but since pollution has begun to raise its nasty head beyond controllable level which has begun to enhance the cost of production beyond the GDP gain, China has had no alternative but to redirect its market towards renewable resource. Hence from economic gain to environmental motive China's energy diplomacy has had a massive transformation in its content and implication both inside and outside China.

China has developed innovative methods to make payments for buying the petroleum products. In October 2004, it signed a 2 billion dollar deal with Angola by engaging in buyer's credit agreement in exchange of repayment of its petroleum products, this was the first time that China had come out with a slew of packages in energy trade (Deng, 2007). China has promised an aid of 2 billion dollar in various aid projects which beats its various competitors in exchange of value of 2 billion dollar worth of crude (Deng, 2007). Since then the former president Hu Jintao and the current President Xi Jinping have made their energy motives clear at various bilateral and multilateral forums. Energy trade and political diplomacy go hand in hand and China had learnt it the hard way when Soviet unceremoniously pulled out of its energy development during the decade of the 1960's. Since then China has been cautious enough not to put all its eggs in one basket. This is amply reflected in Sino Russian energy relations in 2004, when the energy tour of Hu Jintao and the Commerce Minister of China to Russia also involved the declaration of an economic cooperation deal at the WTO forum as well as opening of a parallel Sino-Kazakh gas pipeline. China's policy of 'fast lane construction' (*kuai che dao* 快车道) (Deng, 2007: 16) was also purposely meant to increase political pressure on Russia. The Chinese believe that they

should learn from the American way of conducting energy diplomacy which they say is projected as a global strategy. Some Chinese scholars have reiterated that US energy diplomacy is a reflection of a comprehensive multilateral diplomatic offensive (*quan fangwei duo guanxi de waijiao xingshi* 全方位多关系的外交形势) which involves not just the commerce and financial ministries but also the militaries like army, navy and air force (Deng, 2007). Chinese energy diplomacies need to get more strategic, comprehensive and perspective based.

Chinese energy diplomacy is not without its problems and this is reflected more in practice than in its theory (Jian, n.a).

- First of all China's energy diplomacy still lacks the penetration which it desired to achieve in its spirit of coordination and cooperation with the energy exporting countries.
- China's energy diplomacy has adopted a diversified, multi-pluralistic approach which puts the government at the helm of affairs. The problem is that due to this China's energy diplomacy remains big, empty and unfocussed and the potential of energy companies remains unutilised. Chinese energy companies lack the skill of innovation and initiation and with the government presence they are not too keen to risk their assets until and unless the government wants them to.
- China's energy diplomacy has laid great emphasis on cooperation with both producer nations and other consumer nations and yet it has limited itself to mere signing of memorandums of understanding and agreements without bringing them into effective implementation. This is especially true in case of Russia (in reference to producer nations) where the political dealings supersede the economic pragmatism. Although Russia and China have been both matured enough to realise the disadvantages they bring upon themselves if they engage in bilateral discord, yet time and again the misgivings of the past and the distrust of the present has hindered the progress of concrete cooperation in future endevours.
- China's energy diplomacy has been responsive based, than initiative based. While it has made the world recognise its potential in economic aspects, in energy terms it has still been a passive player adjusting its strategies based on domestic situations

and international circumstances. Due to this it's energy diplomacy is still in its stage of infancy and has not been able to broaden its scope of cooperation, especially with its neighbouring countries. China is still involved in passive level border disputes with its neighbours and most of those disputed areas have a lot of oil or gas reserves in them. Moreover China has been relatively weak in various multilateral forums which have been established outside China's sphere of influence like the IAEA, NSG etc.

The Direction of 'Go Out' in Chinese Investments

Weiyi Shi (2015) in his dissertation attempts to decode China's ODI policy by overseas activities performed by China's state owned SOE's as in whether they are promoting the state's objectives or their firm's profits. He believes that the 'interaction of the two can lead to perverse outcomes unintended by the state'. He believes that while the 'political elite' have attempted to advocate state objectives by creating preferential policies of subsidies, bailouts, etc., these policies have been used by state SOE's to advocate their own profit motive (Ibid). This has led to reckless investment by these SOEs throwing the ultimate burden on the public (Ibid). It was calculated that China's FDI outflow has been the largest at least amongst all the BRIC Countries and is the third largest in the world (Shi, 2015:1). Shi postulates that China from being the largest FDI became the largest ODI within two decade (Ibid). Yet most people forget to see the difference when investment is being made by a private firm from a democratic country and a state owned company from an autocratic state, which is why many of the state owned companies from China are projected as conglomerates of neo- imperialism (Shi, 2015:3). China's 'Go Out' policy starting from the year 2000 and its 'One Belt One Road' initiative starting from the year 2014 have been interpreted as China's attempt to bolster its energy security under the brand of China Inc. which Shi opines 'suggests that Chinese government agencies are a monolithic body with a coherent strategy and that firms would stand in line with the government and follow its directives' (Shi, 2015: 5). While MC Nally has referred to it as Sino capitalism, ed. Zhang of *China Daily* is also quoted as referring to China's outward FDI to as 'economic activity blended with political significance' (Ibid). Yet many scholars opine differently believing that Chinese state aggression and dominance has been over emphasised and firms take their own decisions and are granted

enough autonomy (Shi, 2015: 6). Shi (2015:8) points out to a vicious circle of advantage and privilege prevailing between 'political elite' and state owned firms.

> Political elites give SOEs policy privileges knowing that SOEs would take advantage of the policies to capture rents. SOEs knowing that the elites would impart these privileges, do take advantage of them to capture rents.

Shi refers to this phenomenon as the formula of rent capture, where the political unit demands economic development for its political survival from the firms and the firms demand financial bail for their economic survival (Ibid). The end result is the increased burden on the tax payers who are 'disenfranchised' because of living in an autocratic state like China (Ibid). It is often found that amongst Chinese energy companies, state companies are more enthusiastic than private companies in investing overseas (Shi, 2015:9). Since most of the fossil fuels are concentrated in the politically volatile regions of the earth, the firm's investment in that particular region is tantamount to determining China's bilateral relations with that host country. Shi (2015:10) points out:

> SOE's are both more risk tolerant (i.e. taking the necessary risks to accomplish state objectives) and risk seeking (i.e. to earn interest when they invest overseas).

While on one hand it is true that the assurance of bail out has given the confidence to these firms that they can invest in riskier areas, it is also true that the bailout package is not always forthcoming or ready available. Depending on the priority of policy and their individual political clout with the government Chinese firms are bailed out by the government. Also, the operations and conduct of Chinese firms on foreign ground has been questionable, whether related to bribing the internationally deemed 'rogue governments', giving low wages to local labour or non pursuer of environmental ethics. Shi (2015:10) points out that most blame prevalent practices in China's domestic situation as the reason for such action on foreign soil. Yet their Western counterparts are also no less. He cites Hernandez Murillo and Martinek in claiming that high ethical practices of the Western MNC's are largely due to the race to 'achieve a more lucrative bottom line' (Shi, 2015:29). He also blames the host countries by providing the case studies of Chinese investment in Zambia and Vietnam where he notices that owing to the image of 'China rise' and prosperous economy, most host countries have the image of a 'wealthy Chinese' in mind and would not allow even rudimentary, routine tasks to happen until and unless the Chinese pay up an under hand price for it (Shi, 2015: 17-18). If they refuse to do so then those firms have

to undergo ‘opportunistic’ allegations for violations of some international norm, ethical practice or local law (Ibid).

One major argument in favour of generous bail -out packages doled out to Chinese SOE’s is that they are public sector firms. Being a public sector firm has an automatic implication that investments are generally done for ‘public welfare’ rather than ‘private profit’. It is also assumed that owing to the support of the government which represents the public it is expected to invest where private sector would not venture. Hence Chinese SOE’s investments are by default risky with long gestation periods in tumultuous areas. It is therefore automatically assumed that the company will obviously fall back on its parent government in case of a miscarriage and it is also the duty of the parent (read: government) to extricate its child (read: state owned firm) under dire situations (Shi, 2015:21). Yet not all is innocence with such firms. The losses of these firms are reported by the firms themselves and the government has no way of monitoring the accountability of such reports. Thus many a time losses are forged, sometimes with the connivance of government officials, sometimes without causing greater compensation to be given and creating an undue pressure on the tax payer (Shi, 2015:74). In the Chinese case it is often seen that although Chinese SOE’s are managed by a government agency, SASAC (State owned Asset Supervision and Administration Commission), yet its opaque functioning beyond public scrutiny is itself put under scanner (Shi, 2015:75). Shi (2015:80) cites three motivations for Chinese outbound direct investment:

- securing the particular areas domestic natural resources for own consumption
- expanding China’s foreign assets and its foreign currency reserve
- building national champions

Given below is the list of ‘national champions’ as identified by the Chinese government in the energy sector

Table 2.3 List of 'National Champions' of China's Energy Sector

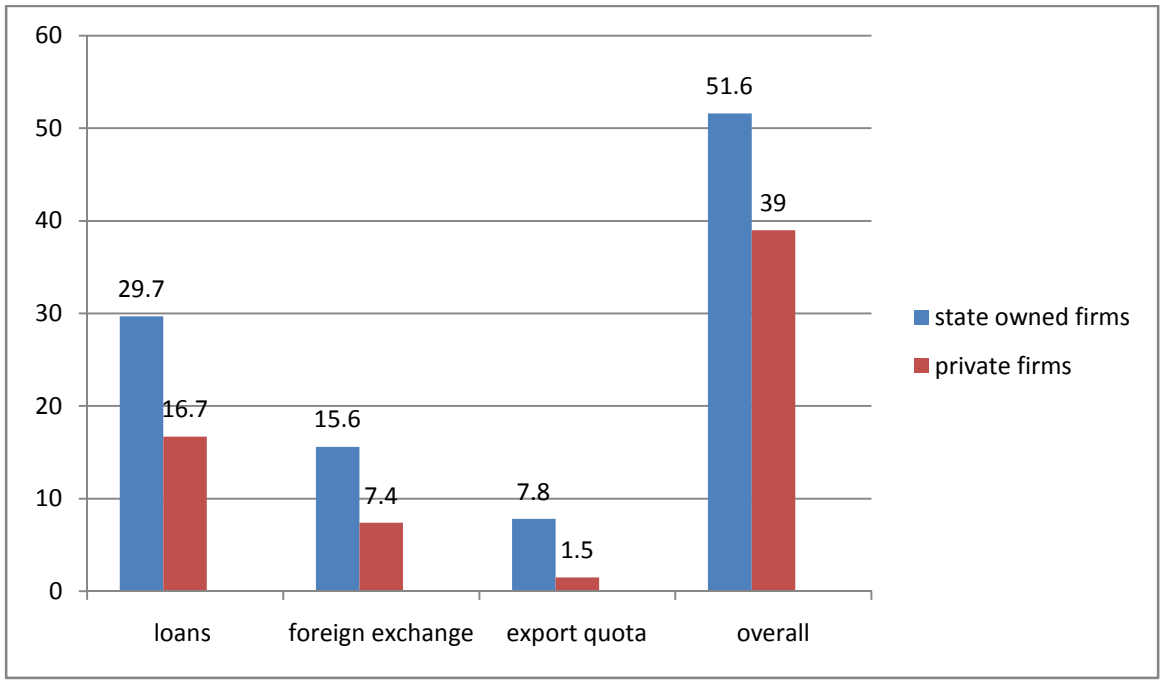
Company	Business	Share Owned By Government (In Per cent)
Sinopec	Oil production and distribution	84
PetroChina	Oil production and distribution	90
China Minmetals	Mining	100
Baoshan Iron and Steel	Steel	61
CNOOC	Oil Exploration	71
Sinochem	Petrochemicals	43

Source: Klinck (2011)

The third point is explained by the activities of China's companies abroad, especially when it comes down to energy and that to specifically oil involving China's national oil companies. Shi points out that many Chinese including the scholarship and the 'political elite' have stressed on the need to acquire the first two objectives through the third. They opine that 'overseas investment is better in meeting China's energy needs than reliance on trade alone' (Shi, 2015:81). In fact the inauguration of the 'go out' strategy at the Fifth Plenum of the Fifteenth Party Congress had very strongly reiterated the goal of 'natural resource development' as one of the core themes of the strategy. However the task of natural resource development is not just limited to oil, although emphasis was laid on it even before the initiation of the 'go out' (*zou chu qu*) strategy. This is evident from one of the statements made by Zhou Yongkang in 1997, the then president of CNPC (Shi, 2015:82). He has categorically said that 'overseas exploration and development is a better way for China to achieve a stable oil supply' (Ibid). Again in minerals too, upstream investments are preferred than initiating deals with local intermediaries or suppliers (Ibid). For example China launched its own futures contract in 2013 in the Dalian Commodity Stock Exchange to save itself from international price swings and avoid the excesses of foreign producers (Ibid). Shi (2015:121) notices that till as late as 2012, private sector was not encouraged to engage in ODI especially in strategic sectors like energy which is why the OECD data of 2009 shows that in the total global share of 13 per cent of oil and gas acquisitions by

China, 61 per cent was done by national oil companies (Ibid). Similarly in 2006, MOFCOM had issued a paper supporting the participation of private sector in China's Go Out policy called the 'Opinion on Encouraging and Supporting Private Enterprises 'Going Out'" (*guanyu guli he zhichi minying qiye de 'zou chu qu' de ruogan yijian*)【关于鼓励和支持民营企业的走出去的若干意见】(Ibid). Shi points out that that not only this policy was not implemented till 2012, it also had a rearrangement of words where the word 'supporting' *zhichi*（支持） was changed to 'guiding' *yindao*（引导）(Ibid). It now read 'implementation opinion on encouraging and guiding private enterprises to develop overseas investments' (*guanyu guli he yindao minying qiye kaizhan jing wai touzi de shishi yijian*) (关于鼓励和引导民营企业开展境外投资的实施意见) (Ibid). This was evident in the case of Suntech Company which could be a bigger brand for China in the field of solar industry. The company despite being a private firm had made huge profits and had got listed on New York Stock exchange by 2006, after having been founded in 2001. Yet by 2013 its shares were reduced to 59 cents per share and China chose to let this brilliance die despite issuing repeated papers on promoting renewable energy especially the solar industry (Aggarwal, 2016). Most scholarship argues that it was the inherent socialistic bias in China and its government which preferred to let its private company die despite the company offering all that the Chinese government proclaimed. It could be argued that Suntech could have had a better future had it been an SOE (Bradsher, 2013). In fact Shi's field study demonstrates similar results where he took the case of 'type of support' lent to the SOE's and private firms and an inherent biasness was found in favour of the state firms.

Figure 2.1 Chinese Firms Access to Financial Services through the Home Government



Unit Per cent

Source: Shi (2015:136)

In the above given chart, it is found that state firms are better positioned when it comes to getting financial access from their home governments which gives them an implicit understanding of being able to have a 'risk seeking' behaviour.

Although the 'Go Global' strategy was launched in general for oversea investments across all sectors, it has been found that policies initiated under this strategy were largely corroborating to encouraging overseas investments in the energy and mining field for example the Special Fund for Overseas Exploration of Mineral Resources (*guo wai kuang chan ziyuan fengxian kancha zhuan xiang zijin guanli xing banfa*) [国外矿产资源风险勘查 专项资金管理行办法] was promulgated in 2005 (Shi, 2015:138). Given on the next page is the list of investments made by mining companies of China.

Table 2.4 List of Investments Made by Mining Companies of China

Company	Focus	Type
Aluminium Corporation of China (Chinalco)	Mainly Bauxite and Aluminium	SOE
Baosteel group Corporation	Iron and Steel	SOE
China Machinery and Electrical Equipment Export and Import Company (CMEC)	Engineering, Construction, Power Station, energy , mining	SOE
China Metallurgical Group Corporation (MCC)	Engineering, Construction, mining	SOE
China Minmetals Corporation	Metals mining and trading	SOE
China National Geological and Mining Corp.	Metals production and trading	SOE
China Non Ferrous Metal Mining Group	Engineering, Construction, mining	SOE
Jinchuan	Nickel and Platinum	SOE
Luanhe Industrial Group	Steel and Mining	Private
Shenhua Group Corporation	Coal and Power Generation	SOE
Shougang Group	Iron and Steel	SOE
Sinosteel	Steel and Mining	SOE
Tonghua Iron and Steel	Iron and Steel	SOE
Wuhan Iron and Steel	Iron and Steel	SOE
Yankuang	Coal	SOE
Nanchuan/Bosai	Bauxite	Private

Source: Klinck (2011)

Shi writes that

> 2004 and 2005 also saw a series of notices and decisions by China's National Development and Reform Commission (NDRC), Sinosure, China EXIM, and Ministry of Finance to provide credit and support and insurance for "strategic overseas investments projects"(Ibid).

For example, NDRC and China Development Bank in 2005 issued a promulgation titled Notice on important points related to providing financial support to further strengthen the foreign investment projects (*guanyu jinyibu jiaqiang duiwai touzi zhongdian xiangmu rongzi zhichi you guan wenti de tongzhi*) [关于进一步加强对外投资重点项目融资支持有关问题的通知]. Earlier NDRC and China EXIM in 2004 had issued a notice titled Notification on credit support policy with regards to state encouraged foreign investment projects *guanyu duiwai guojia guli de jingwai touzi zhongdian xiangmu jiyu xindai zhichi zhengce de tongzhi* 关于对国家鼓励的的境外投资重点项目给予信贷支持政策的通知 (Shi, 2015:139). In the same year, State Administration of Foreign Exchange (SAFE) issued a notification on October 18 titled *guanyu kua guo gongsi waihui zijin neibu yunying guanli you guan wenti de tongzhi* 关于跨国外汇资金内部运营管理有关问题的通知 notification on internal operations of transnational exchange funds management issues (Ibid).

In fact the risk seeking behaviour is not merely because of the political cushioning provided by the government but also despite it. The story of the other side says that SOE's are not always profit driven when they are blamed for their risk seeking behaviour (Shi, 2015:152). The bilateral relations initiated by the Chinese government also motivate in fact force the companies to invest in volatile regions. This has been evident in massive dose of Chinese investments in areas of West Africa and Middle East. Shi (2015: 156) sarcastically comments that it is a question to ponder that 'whether the Chinese elites are 'benevolent' or 'accomplices' in SOE's rent seeking overseas'. Yet the Chinese SOE's can be credited for promoting 'global governance' by bringing those areas in to the mainstream political economy which exist at the fringes of international politics. Shi's investigation of case studies of Zambia and Vietnam that despite initiating investments in these areas for mining and energy purposes, China has gone beyond these sectors to encourage investment and provide employment (Shi, 2015: 171). The below table gives the area of operation of three major Chinese oil companies

Table 2.5 Area of Operation of Three Major Chinese Oil Companies

Company	Areas of Operation
CNPC	Algeria, Azerbaijan, Chad, Ecuador, Equatorial Guinea, Indonesia, Iraq, Kazakhstan, Mauritania, Niger, Nigeria, Peru, Sudan, Syria, Thailand, Turkmenistan, Venezuela
CNOOC	Equatorial Guinea, Indonesia, Kenya, Burma, Philippines
Sinopec	Australia, Saudi Arabia, Ecuador
Sinochem	United Arab Emirates

Source: Klinck (2011)

The 'go out' policy deserves a special mention which catapulted Chinese ODI in to 17 billion dollars between the period 2005 to 2011 (Feng, 2014: vi). Feng points out that this was dismal before the initiation of the policy limited to a few million dollars (Ibid). In fact he also assumes that domestic energy policies have not only had an impact on the kind of ODI investment but also on the amount of ODI investment made by China (Ibid). Chinese have an excessive reliance on overseas energy resources, as they import half of what they consume, especially in fossil fuels[1]. Since the launch of the 'go out' policy Chinese investments both equity and whole subsidiary have rapidly diversified ranging from previously bilaterally estranged countries like Australia and Canada to currently alleged 'rogue' regimes of Iran, Venezuela etc. China has often been blamed for abandoning its self sufficient self reliant economic model (*zi li zi sheng* 自力自生) to open door policy (*dui wai kai fang* 对外开放) yet Feng appreciates the move as a sane decision as he calculates that within the period from 1995 to 2010, Chinese oil supply deficit increased to 45 per cent (Feng, 2014:34). By this rate, if China had chosen to rely merely

[1] Chinese imported 5.5 million barrels of oil per day , out of a total of 9.8 mboe/day they consumed in 2011 (Feng, 2014: 1).

on domestic supplies then it would have had to increase in annual production capacity by 95 per cent which is impossible to happen given the present resources of the country (Ibid).

Foreign Direct Investment in China

Chinese laws over the decades have been in favour of attracting foreign investment even if it is meant to be in sensitive sectors like energy. Hence despite not being a resource rich nation, China has managed to attract enough overseas companies in its downstream projects especially in the refining sector. The policies passed in favour of FDI were (Feng, 2014:38):

- The State Council's guidance on furthering attracting foreign investment (2010) (*guowuyuan guanyu jinyibu zuo hao liyong waizi gongzuo de ruogan yijian*) 【国务院关于进一步做好利用外资工作的若干意见】
- Temporary regulations on exempting import tax for offshore oil and natural gas (2001) (*guanyu zai wo guo haiyang kaicai shiyou (tianranqi jinkou wuzi mianzheng jinkou shuishou de zanxing guiding*)【关于在我国海洋开采石油（天然气进口物资免征进口税收的暂行 规定）】
- Temporary regulation on exempting import tax for onshore oil and natural gas in certain regions (2001) (*guanyu zai wo guo lu shang teding diqu kaicai shiyou tianranqi jinkou wuzi mianzheng jinkou shuishou de zanxing guiding* 关于在我国陆上特定地区开采石油天然气进口物资免征)
- Regulations on tax reforms for Xinjiang crude oil and natural gas extraction (2001) (*xinjiang yuan you tianranqi ziyuan shui gaige ruogan wenti de guiding*)新疆源石油天然气资源税改革若干问题的规定
- Regulations on non residential corporate income taxes (2009) (*fei jumin qiye suode shui yuanquan koujiao guanli zanxing banfa* 非居民企业所得税源泉扣缴 管理暂行办法)
- Notification on exempting operational taxes for companies exporting labour forces (2010) (*caizhengbu guojia shuiwu zongju guanyu guoji yunshu laowu mianzheng yingye shui de tongzhi* 财政部国家税务总局 关于国际运输劳务免征 营业税的通知)

Feng analyses the above mentioned Chinese documents and policies which were meant to promote FDI and found a few basic provisions which were common to all reflecting the intent of the policy makers. These common points have been illustrated in the table below:

Table 2.6: Chinese Laws Regarding FDI in the Country

Law/Regulation	**Content**
Foreign Asset Management	For approved FDI projects in China, the government can provide up to 30 per cent discount for land use expenditures
	For FDI projects smaller than $300 million, the government has simplified the approval process, requiring approval from local governments only
Income tax exemption for international labour transport	Provide income tax exemption for those companies which satisfy any of the three conditions 1. transport commodities or personnel into China 2. transport commodities or personnel from China abroad 3. transportation within foreign countries
Oil/natural gas exploitation	Provide value added tax (17 per cent) and customs exemption on imported equipment, for all companies drilling offshore Chinese oil and gas wells
Crude Oil exploitation and tax reform	For all energy businesses in Xinjiang all oil and gas processing companies (both

	domestic and foreign ones) are exempt from resource taxes, heavy oil and high sulphur natural gas production qualifies for up to forty per cent resource tax deduction, advanced oil exploitation can receive up to a 30 per cent resource tax deduction
Non citizen enterprise income taxes	Non citizen business may qualify for tax break under certain tax exemptions or tax treaties (up to 10 per cent)

Source: Feng (2014: 38)

Chinese ODI cannot be evaluated under a set pattern yet they exhibit certain 'Chinese characteristics' (*zhongguo tese 中国特色*) which are incomparable with the ODI pattern of any other western democratic nation including the US. Those characteristics are postulated by Feng (2014: 43-44) in his dissertation:

- Chinese NOC's began their investment saga in the 1990's with the first investment happening in Canada of merely 6.6 million dollars. This shows that China was still skeptical of abandoning its policy of self reliance and had done only because of the pressure of turning into a net oil importer in 1993
- In fact China was a small player in the energy investment market up till the mid 1990's. In fact even during the turn of the twenty first century, China often lost to powerful players (like the failed UNOCAL bid) like the US. It could be argued that Chinese companies could announce their arrival only after they mixed business with political piety and since then have never looked back.
- While China has often been blamed for marginalising other companies by engaging in buy outs or massive engagement especially in production and refining projects, Chinese had started as minor equity investors/owners not taking more than fifty per cent share unlike their US brethren. It cannot be doubted that arrival of a back up by the home government unleashed a new level of confidence in the SOE's leading to shift of

investments from Central and South East Asia to volatile regions like Africa and Middle East. Feng argues that despite many attempts Chinese have not been able to launch themselves in to the Middle East as they could have expected. However recent foreign excursions by the current Chinese president Xi Jinping, whether in to Central Asia or West Asia could be interpreted as an attempt to not only revive the time tested 'friendly' areas of China but also lure the not so friendly areas through new proposals and policies. Also, Feng evaluates that China's preference for equity investments stems not from their lack of financial capital but lack of production technology and management experience.

- Any energy investor generally considers two main factors while investing overseas, says Feng (2014: 48). They are the ownership advantage and the location advantage. China's energy investment trajectory seems a blend of the two approaches. While investment in Africa and to some extent West Asia justifies the ownership advantage as the governments are more liberal towards Chinese investment than investment by western democracies. Similarly investment in Australia, Russia and even Central Asia justifies the location advantage as transportation risks are reduced due to geographical proximity and due to stable domestic politics of these regions which provide an environment of ease of business to the Chinese companies.
- While it is a tendency to believe that Chinese firms work solitarily due to ideological differences or business rivalry with western democracies, yet they have often joined hands to eliminate a greater evil. This was evident during the failed Russian attempt to acquire Central Asian gas in Uzbekistan and Tajikistan by the joint efforts of China and US by participating in a 'multinational consortium'. Feng argues that this should be considered as a partnership of the equals as many a times developing countries of Africa and Asia who have suffered US excesses are unwilling to allow investment from the Western hemisphere particularly the US. They are able to enter only because of the goodwill and the 'strong institutional network' established by China in these areas.

Feng (2014:57) gives credit to traditional political linkages which he calls 'institutional political and cultural' factors in determining the kind of reception received by the Chinese companies as overseas investors. He writes that:

> There are signs that Chinese investors are generally well received than US competitors in countries such as Singapore, Kazakhastan, Brazil and 'rogue regimes' including Iran and Cuba, than elsewhere whereas US investors generally meet with greater success in countries in Western Europe and Canada (Feng, 2014:57).

However it has been found that off late China has begun to storm the Western bastion due to its prolific search for green technology and renewable energy. China has begun to forage in to unchartered territories like the Nordic Countries as well as hardcore US allies like Australia and Canada. It has even managed to break ice with hostile neighbours like Russia to supplement its fossil fuel needs. Feng (2014: 60) describes China's NOCs as the government's geopolitical tool' yet he says that after introducing the policy reform of 'the separation of politics and enterprise' since 2001, Chinese government have given greater autonomy to its NOCs' and has refrained from providing them administrative titles. This has happened despite a strong oil lobby being present amongst the top echelons of the party cadres. Another noteworthy point is that China is targeting particularly US shunted areas like Iran which today supplies 15 per cent of China's energy imports. Also by providing infrastructure facilities to these areas China is not merely assisting the development of these economies but also assisting its own companies of other sectors whose costs escalate due to lack of basic facilities like the case in Venezuela Feng (2014: 62). Also Feng blames China for expanding its military weapons business by supporting ostracized nations. He also notices that while developing countries in Asia and Africa provide a investor friendly environment to China, the countries of European Union and North America are not very welcoming and Chinese investments are subject to greater scrutiny on grounds of 'national security' (Ibid).

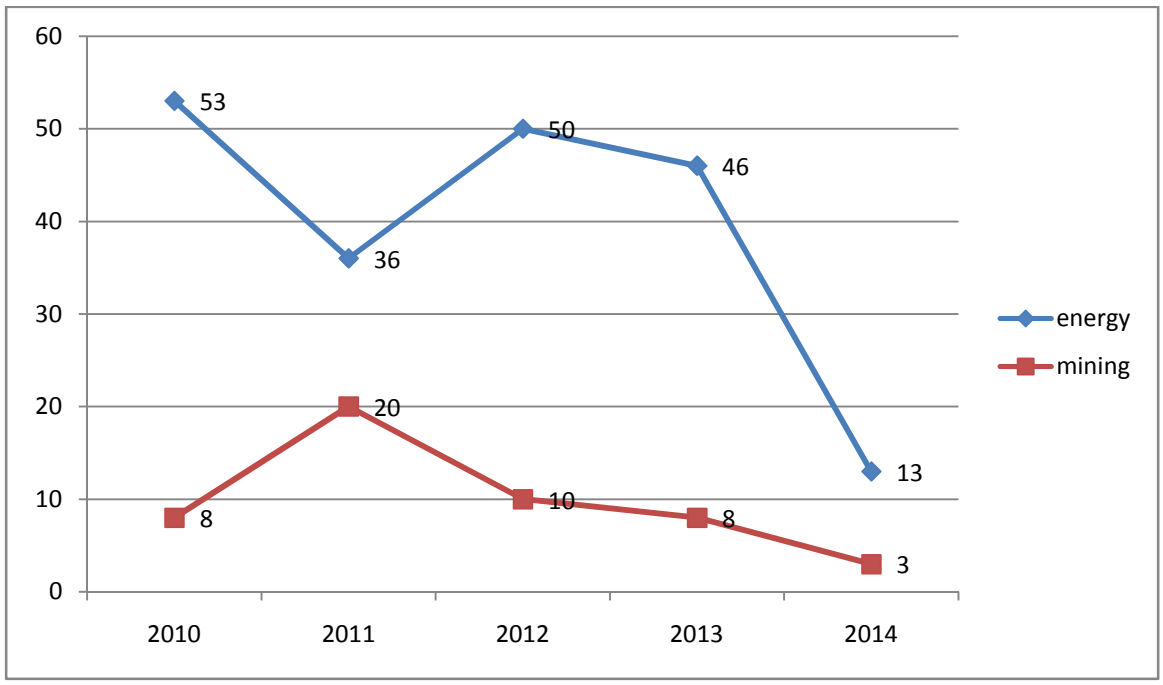
Feng has attempted to analyse Chinese energy outward direct investment (EODI) in the framework of models of partial equilibrium (proposed by George Stigler) and general equilibrium model Feng (2014: 70). He writes that these models are used extensively to analyse the policy related issues of energy. The general management principles associated with the PE model is the maximisation of profit motive by the company for the shareholders. Another major point is that companies should strive to maintain unanimity of decisions between the shareholders and the management Feng (2014: 74-75). Perhaps that is why Sinopec cites that it strives to maintain the interest of all its shareholders both large (meaning the State which holds 75. 84 per cent of total shares) and small (domestic and foreign shareholders holding 4.81 per cent and 19.35 per cent respectively) (Ibid). It is due to this reason that Chinese NOC's are not

merely driven by profit motive but also catering to 'resource domination'. This was evident in risky investments done by Sinopec in countries like Sudan, Turkmenistan etc (Ibid). However since 2001, after major SOE's of China went through the process of asset restructuring in the domestic front they have started giving equal if not greater weightage to profits to maintain the 'earning expectations' of their shareholders (Ibid).

It has been found that China's outbound investment in energy and natural resources has been dropping despite domestic policies claiming otherwise. China wants to acquire natural resources but not without doing her homework of infrastructure building and development of market. Hence, the 'trader mentality' is never departed so that even if the long term goal of energy acquiring is met with some pitfalls due to political volatilities the short term economic gains are still maintained adequately. Hence Deloitte (2014:4) found that China's outbound M&A deals in the energy and resources are reducing in number despite the amount of investment increasing continuously. Hence the number of energy and resources deals declined by 44 per cent in 2014 as compared to 2013, yet the amount of energy and resource deals was a significant number amounting to 8.5 billion US dollars and main companies involved were China Petroleum and Chemical Corporation and China Oil and Gas Group (this data is for the year 2014) (Ibid). Similarly in this field the Greenfield FDI undertaken were 10 billion US dollars (Ibid). Deloitte observations were different from the reports made by KPMG, which were that China's investors till 2013 were active in engaging in numerous but small deals. However, Deloitte observes that Chinese investors have become more matured and grounded now and are now pursuing quality (larger investments), where they would get larger gains as compared to quantity (number of deals). Another notable point is be that every diplomatic initiative of China has an energy security factor inbuilt in it whether it is 'go out' (*zou chu qu*) policy or it is 'one belt one road' (*yi dai yi lu)* initiative (*EY*, 2015:1). This implies that China's foreign policy initiatives are also redirected towards achieving domestic goals. Yet recent Chinese investments have shown a marked shift from a 'trader' mentality to an 'investor' mentality. EY puts it that 'Chinese companies have shifted their focus from seeking natural resources towards creating a global strategic presence' (*EY*, 2015:6). Hence it is found that Chinese investors are diversifying beyond energy and mining to engage in intensified joint exploration. The table given below shows a downward decline in energy and mining sector by Chinese investors worldwide. The analysts of EY argue that the reason for this shift is not because of the decline in the importance

of energy security but because of the shift in Chinese psyche. China is now not merely concentrating on 'Made in China' but also on 'Made for China', hence it has reduced the recklessness of its investments by focusing on building infrastructure so that it can take direct control of its investments through joint exploration without depending upon any foreign government for its political stability or home government for bailout packages (*EY*, 2015:6). Hence Chinese investors now seek 'islands of investment paradise' for Chinese investors. The analysts also note that China is now not merely interested in 'going out', but also 'bringing in. China is now seeking markets to bring in high end technology and high quality consumer products for its 'domestic bred, foreign read' consumer. Hence while Chinese investment in energy dropped from 53 per cent to 13 per cent from 2010 to 2014, investment in mining dropped from 8 to 3 per cent during the same period (Ibid).

Figure 2.2 China's Investment in Energy and Mining Sector from 2010 to 2014



Source: *EY* (2015: 6)

China's energy deals despite showing a slump in number have been profound in the sense of diversification. The table shows the list of energy deals undertaken as Chinese outbound direct investment from the year 2013 to 2014.

Table 2.7 China's Energy Investment During 2007-2014

Month/year	Foreign company (stake in per cent) country	Chinese company
April 2014	Xstrata Las Bambas (99.99) Peru	MMG South America Management Company Hong Kong
September 2013	Kashgan Oil Project (8.33) Kazakhstan	China National Petroleum Corporation, China
March 2013	Eni East Africa Spa (28.57) Mozambique	China National Petroleum Corporation, China
August 2013	Apache Corporation (Egypt oil and gas business) (33), Egypt	Sinopec International Petroleum Exploration and Production Corporation, China
November 2013	Petrobras Energia, Peru S.A	PetroChina Company Limited, China
March 2013	Caspian Investments Resources Ltd. (50), Mansarovar Energy Colombia Ltd. (50), Taihu limited (49), Kazakhstan	Sinopec International Petroleum Exploration and Production Hong Kong Overseas Limited
May 2013	Queensland Curtis LNG project (certain interest), Australia	China National Offshore Oil Corporation
January 2013	Pioneer Natural Resources (Wolfcamp Assets) (40 per cent)	Sinochem International Corporation
June 2013	Marathon Oil Corporation (Angolan Offshore Oil and gas field block 31) (10 per cent)	China Petrochemical Corporation
August 2013	Metorex (PTY) Limited South	Jinchuan Group International

	Africa	Resources Co. Ltd. Hong Kong
June 2013	AVR- Afvalverwerking B.V, Netherlands	Consortium led by Cheung Kong infrastructure holdings Limited, Hong Kong
September 2013	Novus Energy Inc., Canada	Yanchang Petroleum International Limited
2012	Nexen Energy	CNOOC
n.a	Chesapeake energy corp. , USA	Sinopec
December 2012	Petroecquador, ecquador	China Development Bank
n.a	Petroleos de Venezuela PdVSA, Venezuela	China National Petroleum Corp. (CNPC)
2012	Vestas Turbine Manufacturing plant, Denmark	Titan Wind Energy Company Limited
Early 2012	Hydro Tasmania, Tasmania	Guohua Investment Corp., (a subsidiary of Shenhua Group)
n.a	Thin Silicon Inc., usa	China Solar Power Holdings Company Ltd.
n.a	Terra Solar Global Inc., usa	China Solar Power Holdings Company Ltd.
2012	Sunways AG, Germany	LDK Solar
n.a	Zungeru Power Plant, Nigeria	China National Electrical Equipment Corporation, Sinohydro Consortium
n.a	n.a, Romania- Herzegovina	China's Hareon Solar Technology, China and Prince Charles und Taxis Management , Switzerland
March 2011	Saudi Aramco, Saudi Arabia	Sinopec Corporation

2009	National Iranian Oil Company, Iran	China National Oil and Gas Exploration and Development
2007	n.a, Saudi Arabia	Aluminium Corporation of China (Chinalco)

Source: Deloitte (2014: 17-18)

Investment in Clean Sector: Approaching the Developed World

China's outbound FDI has a targeted approach of acquiring fossil fuel supplies and renewable technology. While for the former it has devised strategies for the developing region, for the latter it has approached the developed world. For example Deloitte (2014:35) found that in US though China's Greenfield FDI was directed towards manufacturing sector yet in terms of value the deals maximised in energy and resources sectors specifically directed towards renewable energy and chemical production. They calculated that between the period January 2005 to May 2014 amongst total Chinese investment in US, 24 per cent has gone to energy sector amounting to 4.8 billion US dollars (Ibid). "The prime motives for Chinese acquisition in the United States market shifted from securing natural resources to acquiring technological best practices…" (Deloitte, 2014:37). It has also been found that China has been increasing its emphasis on POE' rather than SOE's. Even in the Third Plenary session in November 2013, Chinese president Xi Jinping has emphasized on POE's making overseas investment to acquire technology (Deloitte, 2014:38). Similarly another area of focus for China has been South East Asia where it has invested in many downstream projects to acquire oil and natural gas (Deloitte, 2014:44). Hence despite investment in various sectors China has not left its focus on energy sector. For South East Asia investment has been generally in metal processing, oil refining and coal making more than half of China's investments (54.6 per cent) in South east Asia in energy sector alone (Ibid). Amongst the North American zone, Canada has won deep favours with Chinese investors for its energy sector. China's CNOOC acquired a 15.1 billion dollar acquisition in Nexen energy. This deal alone was worth 60 per cent of total investment in that region by china (Xiong, 2013). Again in 2013 China acquired stake in Canada's Novus Energy Inc. worth 226 million dollars through Yanchang Petroleum International Limited in 2013 (Ibid).

It is a notable point that while almost all of western reports both independent and sponsored argue that China's outbound investments have diversified into sectors beyond energy, yet Chinese Ministry of Commerce (MoFCom) announces that China's outbound investments will be led by the energy sector (Ibid). This statement is supported by 2012 data which shows that out of 87.8 billion dollar of investment, 13.54 billion dollar went to the mining industry and 1 billion dollar went to the energy industry. Chinese investments despite having spread worldwide are also known for their failures because of unforeseen circumstances (ibid). South China Morning Post (2015) investigates that 250 billion dollars of Chinese investment is under threat across the world due to 'cancellations, cost overruns and political conflict'. The same article quotes the example of Australia, where China's 46.8 billion dollars is in danger (Ibid). The reason cited by Robertson in SCMP is 'delayed mining ventures, project mismanagement after commodity prices collapsed'. Similarly problems arrived in Libya where 13.4 billion dollars were lost in political strife (Ibid). The potent question of why China has shifted its focus from FDI to ODI has roots not only at the political level but also at internal business level. The companies of China have matured both politically and economically and are now ready to invest rather than attract investment. In fact both the mode and medium of investment has changed, the companies have started making mature deals which are limited in number and large in value rather than making reckless small deals. Similarly the energy investment is taking into account investment in renewable technology rather than limiting them just to the finished raw product. Hence now China wants to own the process rather than the mere produce of investment. Also, another development has been the state's shift of emphasis from state owned enterprises to privately owned enterprises, which shows that the state now wants companies to be responsible for their own investment and not treat public exchequer as a 'bailout package' mechanism.

Conclusion

This work began with a hypothesis that transformation in China's energy diplomacy has determined China's energy investments abroad. The findings of this work have found that this statement can be justified but subject to certain conditions. Those conditions are determined by the determinants of its energy policy which is both domestic condition and international circumstances. China's energy diplomacy started with borrowing technology to develop its fossil fuel reserves and today is buying technology to augment its renewable reserves. China's

economy rose and it changed from a borrower to a buyer and so did its energy diplomacy from seeking aid to demanding trade. Having gained a stronghold foothold in its domestic situation (*li zu guo nei* 立足国内) Chinese energy diplomacy is now susceptible to international circumstances only. Perhaps, the only domestic issue that China faces is its own domestic scarcity and its infrequent border bickering which forces China to tighter its economic control over them.

There is a clear established link between China's energy diplomacy and investments, the State Council through its Ministry of Commerce monitors and guides its investors. Yet as recent trend shows that investments by private enterprises is on the rise and even the state owned enterprises are more concerned about their profits rather than advocating the State agenda. Hence Chinese ODI is still a judicious mix of government propagation and corporate profit motive. It is also seen that China's energy priorities have shifted from not only acquiring the raw material but has also gone in acquiring the process behind its accumulation. Hence while on the fossil fuel front it continues to expand its supplier base, it is also not neglecting China's need for renewable technology. Having said this, from an investor point of view, China has still adopted a cautious approach and is investing only to that extent till it does not get a political backlash. Yet at many times Chinese companies (especially the SOE's) choose to invest even in risky zones relying on the 'safety valve' of the government. Hence it would be a misnomer to believe that all energy investments are government approved. Yet sometimes an inherent favouritsm for the public companies crop up in the Chinese government, even when the government is encouraging private owned enterprises to invest in a big way. Sometimes government chooses to bail out the public enterprises rather than the private, even if the private investor was not entirely at fault.

China has changed from a passive observer to an active investor but is facing constraints one as a late entrant and the other as a developing country. Hence Chinese energy diplomacy and subsequently its energy investments have been developing to the tunes of area they invest in. China's energy investments have not only been restricted to economic trade but also packaged in the form of social development, political support and international privacy. What kind of investment is suited for which region is subjected to the provisions of bilateral energy diplomacy both as a responsive and a reactionary measure. Therefore when China invests in energy, it reveals a pattern that the independent variable (China's energy diplomacy) has vehemently

utilised the intervening variable (China's energy investments) to conduct itself. However how much has it impacted the Chinese conditions (dependent variable) beyond its soft power image shall be discussed in the subsequent chapters.

Sino-Russian Energy Relations: Opportunities and Challenges

China since its inception as a 'liberated' country has gone through various stages of ideological partnership to economic isolationist which finally culminated into a political 'cooperative' relations with other nations. China and Russia declared themselves as 'strategic partners' in 1996 by the then leaders Jiang Zemin and Boris Yeltsin) (Wang et. al 2012:7). Cui and Liu (2011: 155) point out that Sino-Russian relations are built on the historical dictum of 'cooperation benefits both, and struggle is a loss for both' (*he ze liang li, dou ze liang shang*)(合则 两利 、斗则 两伤). The then Foreign Minister of China Qian Qichen has observed that transformations in Sino-Russian relations have had a 'divide of a decade' from friendship (*you hao 友好*) in 1949-59 to being jingoistic (*lun zhan* 论战) in the period of 1960-1968, reducing to antagonistic (*dui kang* 对抗) in the period 1969-78 and finally soothing out to being conciliatory (*dui hua 对话*) by the year 1978-89 (Ibid). However Yu Bin (2006:116) points out that the evolution of Sino Russian relations was dated even earlier, springing from the period of shame and humiliation they experienced in the nineteenth century to the political fluctuations both at the national and international front in the twentieth century which ultimately led to the normalisation of relations in the twenty first century. He also observes that the two primary reasons for this normalisation has been the break of the linkage by the two nations from the traditional standards of communism and secondly the adjustments made in the post Cold War era especially after incidents like collapse of the USSR and erstwhile shift to unipolar world as well as China's economic rise as an alternative to US model. It is advocated that China and Russia should try to 'preserve the differences' (*cun yi 存异*) and seek the similarities (*qiu tong 求同*) (Ibid). Even the Russians do not opine differently, noted scholar Alexander Sergey had pointed during the decade of the 1990's "with new Russia consolidating its position in the world it can contribute to further enhance China's status in the world, on the contrary, China can also give Russia to support the regional level. Thus, the two countries can advance economic reform and structural adjustment along the road" (Feng 2007:41).

Development of Sino-Russian Relations

Russia and China share a long border connected mostly by land and consequently have never been able to live in peace with each other. It was only after the settlement of border dispute between the two countries that 'calm' was achieved at the political level. Lin Zexu explicitly points out that in comparing the imperialism of the English and Russians, the Russians were the worse, the English just attacked the economy, bringing in opium and carrying away the currency, but the Russians came with a package threatening political stability, striking deals with the Yunan people, affecting not only the present but also the future of China (Feng : 2007:42). The first decade of China's liberation has been dubbed as the 'honeymoon' phase of Sino-Russian relations. Khruschev even pointed out that in the international struggle of communism Russia and China are its two pillars, 'Russia holds the west and China holds the east'. Even Mao had reciprocated that the 'socialist camp is headed by the Soviet Union' (Cui and Liu 2011: 155). However this did not last long as the period between1960-68 was filled with conflicts ad contradictions between the two 'comrades'. Yet the two nations shared a common thought process which was unfortunately not visible till the 1990's (Ibid). The year 1969 was effected by Sino-Soviet war which eroded any germination of friendly relations between the two countries which were once so fundamental for both the nations. The entry of China into the reform era and the decade after that, the Chinese and the Soviets had laid the foundation for the normalisation of relations between the two countries (Ibid). By the end of the 1970's or the start of the 1980's decade US- Soviet hegemonic war had taken its toll on the Soviet economy. Thus even prior to disintegration, Sino-Soviet relations began to normalise. On 24 March 1982, Soviet leader Brezhnev at Tashkent pointed out that although Chinese communism is not in collaboration with socialistic principles, it recognises Chinese sovereignty over Taiwan and also agrees on engaging in border talks without being prejudiced for a third party (Jin Changjie 2005:4). Although Brezhnev blamed China for deterioration of Sino- Soviet relations, yet adopted a conciliatory tone when talking of improvement of their relations. This was welcomed by the then Chinese President Deng Xiaoping who pointed out 'to accomplish a big task, one should pass information to the Soviet Union' *(yao caiqu yi ge da de xingdong, xiang sulian zhuanti xinxi 要采取一个大的行动, 向苏联传递 信息*) (Jin Changjie 2005:5). Both nations had agreed to hold negotiations at the vice ministerial level. Also the restoration of diplomatic ties between the US and China

had hit Soviet and brought it at a disadvantage in the US-Soviet hegemonic war. Reagan, the then U.S President after taking office in the US had led to deployment of medium range missiles in Western Europe in the name of maintaining peace, making Soviet wary of US intentions. On the other hand US had also begun arms sales to Taiwan causing a consternation in newly established Sino-US relations leading to Chinese inclination towards Soviet (Jin Changjie 2005:5). This was also a time when Soviet had invaded Afghanistan and garnered world criticism for its actions. It was referred to as arrogance of the First world over the Third world. At such a time Soviet needed the support of a well respected Third World country and China seemed a good option (Ibid). Clearly, diplomatic ties with China were also an incentive for development of Siberia. From the Chinese perspective 'reform and opening up policy of China had promoted it to maintain a 'one line' strategy-i.e. an independent foreign policy based on five principles of mutual coexistence rather than allegiance to one of the superpowers.

In the post Cold War the agreement based on 'good neighbourliness' policy of China has become their ideological tablet in the development of Sino-Russian relations, with the East Asia factor and multi pluralistic organisations taking a major role. In the stability of East Asia, both Russia and China should choose to play a constructive role (Sun Cuiping 2012:88). At the press conference of Ministry of Foreign Affairs of China Wang Yi had proclaimed that 2014 was a year of harvest and all round progress in China (Ministry of Foreign Affairs, 2015).

> The China-Russia relationship is not dictated by international vicissitudes and does not target any third party. Thanks to the strong strategic trust the two sides have established, our relationship has become more mature and stable. As comprehensive strategic partners of coordination, China and Russia have a good tradition of supporting each other.

Sun (2012: 88) divided the post cold war phase of Sino- Russian relations into the following aspects:

- 1992-1999- this phase was a revivalist phase meant to binge on the newfound friendship and the lost love between the two countries. It was not a meet between two ideological comrades but between two nations whose economies had begun to influence their political decisions. In April 1996, they both issued a joint statement which spoke of building a relationship of trust and equality, concepts which had been taken for granted during the honeymoon phase of their development. This was the first step towards

building up of a comprehensive partnership, by the two nations which by next year April culminated into signing of an agreement between the two nations to establish a multi polar world and a new world order. Also the most significant happening of that year was that of the settlement of the border issues (the eastern section of China) between the two nations and established a Sino-Russian friendship, peace and development committee. By 1998, joint statements had been issued on the border question and international relations assuring a new vitality in their lives.

- The period from 2000 to 2002 displayed the full bloom of China's good neighourliness policy (*mulin youhao zhengce* 睦邻友好政策) with Russia. In July 2001, the two nations had signed cooperation treaties and joint agreements regarding the same. The treaties speak of other countries declaring 'lasting friendship would never turn into enmity' (*shidai you hao yong bu wei di* 世代友好 、 永不为敌). This friendship would not only encompass them as good neighbours (*hao linju* 好 邻居), good friends (*hao pengyou* 好朋友) and good partners (*hao huoban* 好伙伴). The nature of this friendship would focus on being non aligned, non- confrontational and not directed against the third party.

Sino-Russian Energy Relations: An Overview

Politics has always has had a bearing on the economic relations of the country and Sino-Russian relations are no exception in this regard. Since then bilateral trade has been consistently rising.[2] In September 2009, the two countries approved the cooperation between Russian Far East and Eastern Siberia with Northeast China. This was a great gesture towards building up the border areas by the two countries (Sun 2012:50). The 'State Energy Strategy' which is the basic document of Russian energy policy has earmarked its most important strategic initiative. "Creation of oil and gas industrial complexes in the east of the country which should allow the regions not only to become independent of outside energy and hasten their development but diversify export flows to Asia –Pacific countries" (Schwartz 2014:1). Tatiana Mitrova the head of the Oil and Gas Department of Energy Research Institute in Russian Academy of Sciences has called the 400 billion dollar gas deal between Russia and China pipeline as the 'take or pay' contract. While this deal makes the Russian energy policy seem more China-oriented, it is also

[2] The Chinese customs statistics of 2002 reveals that Sino Russian bilateral trade increased to 11.93 billion dollars which led to an increase of 11.8 percent over the previous year (Sun 2012).

true that this pipeline which is called 'power of Siberia' in Russia will also supply energy to other neighboring countries like South Korea which is not a 'proclaimed friend of China'(Schwartz 2014:2). It cannot be denied that the present conditions of Russia present a bleak picture: a record fall in rouble, a zero growth economy, falling oil prices and western sanctions all mean that Russia cannot dwell much on its past and future alliances when present situations are so desperate. Asian investors are known to adopt a conservative prudent approach for investment which means that Asian investment cannot be expected in as rapidity as Russia requires. Many western analysts have claimed it as Russia's wooing of Chinese capital as it has not imposed any of those sanctions or prices which were agreed by US and Europe and this deal might not be as beneficial as it seems (Skalamera, 2014:1). China had risen to the demand of Russia not only as a business partner but also by helping Russia to issue bonds in Yuan and then convert proceeds into rouble through a currency swap of 150 billion Yuan, assisting Russia in escaping the heat of the sanctions of foreign banks (Skalamera, 2014:2). The West is already apprehensive of what China would exact from Russia after turning into its only friend in the international arena. Clearly China would not limit its gains only to economic or political but also those which have always been preciously guarded by Russia. Morena Skalamera (2014) opines that the same Vladimir Putin who targeted the rise of oligarchs in Russia during the Yeltsin period has been selling Russia's national resources cheaply in the name of maintaining Russian image and pride. Putin has been blamed for selling the state and its oil for maintaining the state oil companies. It is blamed that more than Russia it is the Putin loyalists who have benefited from the influx of Chinese capital. The opening of BRICS Development Bank (or the New Development Bank) in June 2014 and Russian Presidency of Shanghai Cooperation Organisation in September 2014 have been viewed by many western experts as a Sino-Russian collaboration to deter the domination of dollar (Ibid). Wilson (2015) compares Putin's position similar to that of Mikhail Gorbachev in 1987 when a failed Afghanistan adventure (like today's Ukraine crisis) and Gorbachev's insistence on futile military spending which eventually led to the breakdown of Soviet Union.

The rift in the energy market is not just limited to Asian versus European markets or displacement of US position by China through Russian energy, it also involves the rift within Russian domestic market of Kremlin controlled Gazprom with other Russian energy companies like Rosneft, Yukos etc. Reuters (2014) reported about Rosneft claims that if Gazprom's

monopoly to gas exports were broken Russia would boost its sale exports to Asia to the level of 60 bcm per year by the year 2025. Rosneft head Igor Sechin was also quoted as saying that western sanctions have had little impact on Rosneft's activities with US partners. In the past it has been seen that Russia has always had a divided opinion on doing business with China and since other than Gazprom many other Russian energy companies do not have the backing of the government they prefer to side with their time tested partners rather than venture into new uncharted shores. However in the present scenario it is not the lack of willingness but lack of opportunity which has restricted Russian companies from spreading into Asia. Sechin also gave no clear statement on the report that Rosneft could privatise 19.5 percent of its stake claiming that 'they are ready to fulfill any directive by the government'. Rosneft head Sechin has taken extensive lobbying to promote its gas exports to China. It along with Novatek (Russia's largest non stake gas producer) had had reversed a law made in 2006 which gave Gazprom the monopoly over gas exports, allowing the export of sea borne LNG by these companies (The Moscow Times, 2014). Yet Gazprom holds the exclusive rights to export via pipelines and now with the Chinese insisting on a pipeline deal it is clearly seen that Gazprom is in for some windfall profits after eliminating all competitions at home. Rosneft has two advantages over Gazprom in doing business with China. One it has already clinched successful oil supplying deals with China, something which Gazprom has been unable to do so, clearly establishing the fact that Rosneft has more success than Gazprom in doing business with China. On the other hand Rosneft has steadily increased its gas output in the recent years reaching up to 42 billion cubic meters and claims of possessing 1 trillion cubic meters of gas in east Siberia. With its abundant produce ready to be delivered and a burgeoning market waiting to be tapped just across the fence, Rosneft finds no logic in its domestic laws which are restricting its growth (The Moscow Times 2014). Rosneft's lobbying was confirmed by an unnamed government source for 'sending different letters and appealing to the government' (The Moscow Times 2014). Rosneft claims cannot be termed as mere drive for business enhancements as they suffer in the same boat of applied western sanctions along with Gazprom but are not given an equal opportunity of bail out from Kremlin unlike Gazprom. However other sources have cited Sechin as a close ally of Putin and on one occasion during a meeting with Chinese vice premier Zhang Gaoli at an economic forum in St. Petersburg Putin had specifically made a remark about the Rosneft CEO

"I think Sechin spends more time in China than in Russia", indicating the close bonhomie between the two (Anishchuk, 2013).

Sidorenko (2013) points out that Sino-Russian trade relation have always been affected by changes in valuation of the respective currencies. In 1998, the main Russian export to China was machinery contributing total 29.6 percent of total exports. By 2012, the export of machinery dropped down to merely 3 percent of the total by Russia on export volume to China. On the other hand the sale of oil and petrochemical products increased which rose from a mere 4.2 percent to 30 percent (of total GBP) in the period of 1998 to 2012. This was the repercussion of two main reasons: one is the decline in the manufacturing industry of China and the other is the overvalued rouble with the simultaneous undervalued yuan which led to decline in overpriced high value Russian exports to China while at the same time giving market for low valued Chinese products to the Russian markets. Mao Yan (2012) believes that the transformation of Sino-Russian relations from 'constructive partnership' (*jianshe xing huoban guanxi* 建设性伙伴关系) to 'strategic cooperative partnership' (*zhanlue xiezuo huoban guanxi* 战略协作伙伴关系) has led to the institutionalisation of this relationship at various multilateral forums. From the peripheral diplomacy perspective Russia bears the largest actual and potential impact on China. Most traditional Chinese scholars followed the notion of 'if you are not our friend then you are the enermy' (*fei di ji you* 非敌既有) Jin Changjie (2005:1) claims that this approach is too simplistic. One should strive for enhancing energy relations between the two nations which would otherwise be capitalized by traditional rival nations like Japan. In fact he stands strongly against the idea of opening up the Angarsk route which would add to building up of mistrust between the two nations which has already been existed historically. Sino- Russian relations are usually referred to at three parameters: strategic relations, military interests and energy equations (Wang et al. 2012:8). A SIPRI paper in analysing the various dimensions of energy relations between the two countries gave prominence to the ensuing mistrust between the two nations and called them 'practical partners' (*shiyong dadang* 实用搭档) at best rather than sharing a common view of the world and their strategic interests (Wang et al. 2012:8). Sino- Russian relations are often given the analogy of a 'match made in heaven' but divorced on earth. Downs (n.a.) points out:

> China-Russia energy relations are stuck in a protracted and uncertain courtship because the forces driving China and Russia outweigh, but do not fully mitigate the forces propelling them together.

Sino- Russian relations is primarily about oil and gas in the energy sphere. China is at a position where it not only needs to satiate its burgeoning demand of oil and gas but also expand both the quality and quantity of its sellers and their produce. Russia is at a position where it needs to attract buyers beyond Europe, to prevent US and EU diktats from interfering in its political affairs. In this balance sheet of achieving 'security of demands' and 'diversification of supplies', it is not their lack of commitment but improper timing of their commitment that has not led to intensified materialisation of relations between the two nations. In the 1990's when a slump in oil prices led to a vacuum in the Russian market, it advocated for expanding energy relations with its 'communist comrade', which was rejected on grounds of inability to invest in expensive infrastructure. It was however deduced that China like all other nations preferred 'coffer gains' over 'ideological preferences' and chose to side with the buyer's market. This was a gesture which was fully reciprocated by Russia when the prices upswing at the turn of the century. Russia knew it held 'gold' and already wary of 'China rise', it was in no mood to settle down with its 'southern neighbour' (Downs, n.a). However a decade later, both countries have moved out of reactionary diplomacy to responsive bilateral relations, augmented by the turn of international events. The 2008 financial crisis and Russian estrangement after the Ukranian incident have led China lending to Russian companies in exchange of pipeline and supply contract (Downs, n.a).

Institutionalisation of Sino-Russian Energy Relations

Energy has been one of the fulcrums of Sino-Russian relations since its initiation. In fact China did not waste time after the disintegration of Soviet Union and quickly offered the newly formed Russia a proposal of oil export from East Siberia to Japan via China. This was an offer made by the then vice president of CNPC Zhang Yongyi (Henderson, 2011:6). Since the ministries had recently transformed themselves into energy conglomerates, they were eager to declare their presence in the international market and Russian Energy Ministry seemed to be a fairly good choice (*Mintopenegro*). Hence in 1994, CNPC signed a deal with Russian Energy Ministry for supply of oil and gas pipelines (Henderson, 2011:6). It seems that CNPC had played its cards

well and knew the potential of Russian fields much before anyone else through its investments made even before China was asking for it. It is to be notified that CNPC had initiated investments and MoU's with Russia before 1993 (when China turned a net importer of oil). Henderson writes that 'CNPC demonstrated at an early stage its desire to be an active upstream player in Russia as well as a major customer for exported hydrocarbons' (Ibid). Another major hallmark was received in the year 1997, when high level talks (regarding energy) involving the heads of the two states were initiated between nations and Russian Prime Minister Viktor Chernomyrdin not only confirmed the 1994 MoU but also led to signing of a gas agreement between Gazprom and CNPC (Ibid). However problems arose when Gazprom despite being a state company did not hold any major gas asset at its China borders (in east Siberia) due to which supply bottlenecks became an imperative issue (Ibid). Hence Gazprom offered an alternative in the form of Altai project which ran from western Siberia to Xinjiang to Shanghai (Henderson, 2011:7). In fact, this alternative route led to the involvement of other nations like South Korea, in further agreements signed between Russia and China. The 1999 and the 2002 agreement both created awkward positions for the bonhomie of bilateral relations between the two nations as China wanted to do business with a state owned company and Gazprom officially being the largest seemed an obvious choice [3], yet Gazprom's lack of resources meant that inter governmental negotiations suffered various intermittent falls for the deal to take a final shape (Ibid). Mao (2012: i) in his thesis points out that institutionalisation of Sino-Russian energy relations is an imperative need and the leaders of both countries at various levels have initiated such institutionalisation. In July 2008, both nations held deputy premier level talks for such purpose. After that a series of initiatives took place in the coming years to seal the attempt of institutionalisation of energy relations. It has been summarised in the table below:

[3] Henderson points out that since 2006 it became a statute in Russia that Gazprom would have a monopoly of over all of exports of Russian gas. This became especially true in the case of supply to eastern areas under the eastern gas programme in 2007. This programme was launched by the Ministry of Energy, Russia (Henderson, 2011:7).

Table 3.1 Bilateral Energy Cooperation between China and Russia from the year 1999 to 2011

Year	Event
1999	Chinese premier Zhu Rongji and Russian Prime Minister Yevgeny Primakov signed an agreement providing oil from Irkutsk region to Daqing and gas from Irkutsk to western Siberia and then into China.
2002	Gazprom signed an MoU with PetroChina for the west-east pipeline project to provide gas from Xinjiang to Shanghai augumenting the western Altai project.
2004 2005	the two sides are working on planned large projects of east Siberian oil pipeline linking China's northeast and China Trade Centre in Moscow, eighth regular meeting of heads of government held where Russia was ready to step up cooperation with China in the fields of petroleum, natural gas, electricity, aerospace and civil aviation energy, nuclear energy and hi tech were identified as priorities for cooperation by the government, president Putin on his visit reaffirmed Russia's unchanging determination on cooperation with China in the field of energy
2006	Mikhail Fradkov met Wen Jiabao to exchange views on follow up of *implementation guidelines for the treaty of good nneighbourliness, friendship and cooperation between China and Russia (pg 283)* vice premier Zeng Peiyan visited Russia and attended second China Russia investment promotion conference (ibid) Hu Jintao visits Russia signs agreement on long term cooperation between the State Grid Corporation of China and the Electricity Grid System of Russia (pg 285), Hu points out expansion of electricity cooperation (pg 286)
2007	the two sides launched an investment feasibility study on a branch pipeline of the east Siberian pacific pipeline leading to China and set up a joint venture for upstream development in Russia (pg 329-330)
2008	important documents signed namely principled agreement on second phase cooperation of Tianwan nuclear power plant, framework agreement and fourth phase of uranium enrichment project, cooperation protocol on the intermediate phase of peaceful use of nuclear energy, Fourth China-Russia Investment Promotion

	Conference was held in Sochi in September resulting in worth 1.15 billion US dollar of contracts (pg 241) "smooth progress was made in cooperation on energy between the two countries with expanding scales, good progress in construction of crude oil pipelines ad steady growth in natural gas cooperation (pg 242)
February 2009	The third round of meeting was held between the two parties and the negotiators signed the energy contract worth 25 billion US dollars
April 2009	The fourth round of meeting was held and the two countries signed an agreement on 'Sino-Russian oil agreement between the governments'（中俄石油领域合作政府间协议 *zhong-e shiyou lingyu hezuo zhengfu jian xieyi*） which argued for establishment of a comprehensive (*quanmian* 全面), stable (*wending* 稳定) and long term (*changqi* 长期) cooperation to achieve a 'major breakthrough' in the energy sector
October 2009 to October 2010	The fifth and sixth round of bilateral negotiations were held and under the leadership and guidance of the energy cooperation committee the two parties signed various agreements on energy cooperation, Wen Jiabao visits Russia to hold 13th regular meeting with Vladimir Putin and held 'new breakthroughs' in energy bilateral cooperation, Vice Premier Wang Qishan and state councilor Liu Yandong visit for 2nd energy negotiations representative meeting, Russian Deputy PM Igor Sechin visits China and launches China-Russia energy negotiation mechanism with Vice Premier Wang Qishan(269-270) ,MoU on oil cooperation and cooperation projects on crude oil pipeline, second phase of Tianwan nuclear power plant, and fourth phase of uranium enrichment signed after Medvedev's visit to China, it called for agreement on technical assistance for the construction of phase four of the gaseous uranium enrichment plant in China and supplies of Russian uranium enrichment services or products in China, the China Nuclear Energy Industry Cooperation and Techsnabexport of Russia signed(272), efforts bolstered to sign Outline for Medium and Long term energy cooperation between China and Russia at an early stage (273)
2010	China becomes Russia's third largest trading partner and Russia the 11th , inter

	government agreement on petroleum cooperation signed, China-Russia crude oil pipeline construction and operation contract issued, crude oil credit sales contract and package agreement on loans entered into force, cooperation agreement on integrated upstream and downstream petroleum cooperation, nuclear energy, demonstration fast reactor signed, presidents of both nations approve outline of regional cooperation between north-east China and Russia's Far East and East Siberian Region, (255-256)
May 2011	Vice premier Wang Qishan and Russian Deputy Prime Minister Igor Sechin conducted the seventh round of talks between them and signed the protocol on the MoU which was signed between the two countries on 24 June 2009 related to natural gas negotiations, thereby reaching a consensus of sorts

Source: *China Foreign Affairs* and Mao (2012:35)

In October 2004, China and Russia had mutually signed a treaty called the (Sino-Russian Good Neighbourly Friendship and Cooperation Treaty *zhong-e mulin youhao hezuo tiaoyue* 中俄睦邻友好合作条约) and laid out the guidelines for implementation of cooperation in the ensuing years (Liu, 2006:67). This cooperation involved both lying down of pipelines and joint exploration of oil and gas fields. In fact owing to this treaty Sino-Russian relations at the energy dimension became more friendly despite all other political and border issues still pending as before. Within a span of two years i.e. from 2004 to 2006 Chinese and Russian energy companies had plunges into various energy deals and pipelines with each other. For example, December 31, 2004 both sides formally approved the establishment of East Siberia- Pacific oil pipeline which shall extend from Taishet to Nakhodka (Ibid). Similarly on March 22, 2006, Chinese and Russian state energy companies' China National Petroleum Corporation and Gazprom had agreed to sign an agreement for joint construction and designing of Skovorodino oil pipeline at the Sino-Russian border. Similarly Gazprom and CNPC had signed a Memorandum of Understanding where they agreed to build a gas pipeline of capacity 30 to 40 billion cubic meters (Ibid). On similar lines, China Development Bank and Rosneft had agreed to sign a strategic cooperation agreement where they were supposed to jointly invest in East Siberian and Vankar and Sakhalin oil and gas fields (Ibid). Not only in oil and gas, China and

Russia also agreed to cooperate in the power sector after the 2005 visit of the then President Hu Jintao, after which State Grid Corporation of China and Russian Unified Energy Company Limited agreed to sign a long term cooperation agreement. Under the terms of the agreement a DC transmission line will be set up from Russian Far East Grid (Siberian power grid) to northeast and northern China with a power supply of 38 billion kilowatt hour (Kwh) (Ibid). The two sides had also decided to establish cooperation in the field of nuclear energy (Liu, 2006:67).

Zhao (2010:62) points out that to expect Russia to become a raw material appendage is alarmist for both countries. Yet Russia has to do business and sell its ware and hence it would require a thriving market and a functioning economy which could withstand financial shocks like the 2008 crisis and China comes in handy for it. This is precisely why Russia has speeded up negotiations of cooperation with China in the past recent years. Zhao (2010:62) also writes that the Russian arrogance which prevented it from viewing China as a nation of equal ranking has somehow sobered down and now has come to terms with the reality that China has advanced technology and is an economically viable option since its reform period. Also, President Medvedev was quoted in a speech dated 12th October, 2009 at the Russian Strategic Cultural Foundation website that since the disintegration of Soviet Union, Russia has stagnated in terms of machinery, lack of high value added products and low international competitiveness (Zhao, 2010:62). Medvedev feared that given the circumstances, Russia could merely a supplier of crude oil and natural gas for decades to come (Ibid).

Paperwork behind the Bilateral Relations

There has been a plethora of agreements signed up by both the parties regarding the energy cooperation. Most of them speak of joint exploration and construction of pipelines or oilfields and supply of resources. A few of them were: Memorandum of Understanding on Cooperation in the Field of Natural Gas *guanyu tianranqi lingyu hezuo de liangjie beiwanglu* 关于天然气领域合作的谅解备忘录, Basic Conditions of the framework agreement on the Russian gas supply to China *guanyu eluosi xiang zhongguo gongying tianranqi jiben tiaojian de kuangjia xieyi* 关于俄罗斯向中国供应天然气基本条件的框架协议 and Agreement on Russia Supplying Power to China *eluosi huifu xiang zhongguo gong dian deng xieyi* 俄罗斯恢复向中国供电等协议) (Zhao, 2010:64). Zhao points out that Russia and China have had a slew of cooperation documents

signed between them which are linked to crude oil pipeline construction, operation contract, sale contract, crude oil and natural gas purchase and loan agreements. This policy of 'loan for oil' was evident when in order to honour 25 billion dollar of loan deal to Russia, China's Exim Bank (*zhong guo jin chu kou yinhang* 中国进出口银行) directed funds worth 300 million dollar and 700 million dollar to Gazprom Bank of Russia (*e tianranqi gongye yinhang* 俄天然气工业银行) and Russian Foreign Economic Bank (*e luosi duiwai jingji yinhang* 俄罗斯对外经济银行) respectively for purchase of equipment for the Chinese pipeline (Ibid). Russia in return promises to actively develop new oilfields to ensure the full capacity of the Chinese pipeline. Hence China with cash in hand now is not only wooing as a supplier but also as a benefactor by making them dig deeper in to their own soil to reap in better benefits of development for their home country (read: Russia) and larger supply for the host country (read: China) (Ibid). Similarly in the natural gas sector, Russia had promised that before the year 2015, she will provide the supply for lying down of 'east-west' pipeline from Russia to China (Ibid). In fact in future Russia will be expected to give an annual supply of 700 billion cubic meters of gas. Both countries opened a joint company called the 'Eastern Energy Company *dongfang nengyuan gongsi* 东方能源公司' in which Russia has a stake of 51 per cent and China has a stake of 49 per cent (Ibid). The company has bagged mining license of two blocks at Irkutsk and had even completed the preliminary operations of drilling (Ibid). For operations on a similar line, Rosneft (Ibid) has approached CNPC refinery for agreement on joint construction of a large oil base in Tianjin. While both countries have begun to make unprecedented moves in oil and natural gas, these cooperation agreements have also incorporated the coal sector, where memorandum of understanding (MoU) was signed for Russian export of coal to China. This MoU which was signed in 2009, reached a contract worth 1 billion dollars. For this purpose they would build power plants in the Russian Far East which would be funded by the Chinese banks (Ibid). The companies of the two sides i.e. China National Nuclear Corporation and Russian Atomic Energy Corporation also signed a Memorandum of Understanding on problems regarding Tianwan power plant. At this plant, negotiations were undertaken to build two nuclear reactors with Russia. Sino-Russian investment is often done in the form of loan agreements especially related to energy and mining sector (Ibid). Zhao (2010:64) points out that it is the cooperation in the energy sector which shall determine that bilateral relations between the two countries do not fizzle out and lay down the groundwork for further unprecedented cooperation between the two

countries. Both countries share a common concern of 'US containment' policy and even if they deal separately with the US through diplomatic measures, their strategic strength is no match to that of US. Zhao (2010:66) also notifies that both countries have an advantage of being the permanent members of United Nations Security Council and hence both nations should combine their comprehensive power to reap actual benefits of their bilateral relations. Similar opinion is held by various western analysts too and the recent turn of geopolitical relations is an actual reflection of that. For Weser and Murray (2014:4) it all began with the Ukrainian crisis of 2012 and then proceeded to joint voting in favour of Syria and Crimea. It is said that China and Russia signed thirty commercial deals during the visit of President Putin which Weser and Murray put 'are of long term strategic nature' (Ibid). The 400 billion dollar gas deal between the two countries had some significant features. The thirty year agreement gives an assured supply of 38 billion cubic meters (bcm) of gas to China and 80 billion dollars of investment to Russia for infrastructure development (Weser and Murray, 2014:3). However for Weser and Murray (2014:4), though this deal garnered a lot of media attention, yet it is not all that exists between the two countries, in the energy sphere. Energy deals for them are often incurred not just in commercial interests but also for long term strategic interests who are completely unrelated to energy.

> The $400 billion gas deal was only one of several bilateral energy agreements, which taken together constitute an elevation from crude oil trade to petrochemical processing and gas shipments. Closer economic cooperation with Russia also benefits a range of non-energy interest groups in China, spanning manufacturing, logistics, and finance.

China's National Bureau of Statistics had itself predicted that gas consumption would rise from 5 per cent to 12 per cent by 2030, in China's energy mix (Weser and Murray, 2014:5). And the activities of Chinese government seem to be committed in that direction. While the actions seem to be generated by a noble intention of reducing industrial pollution, it has more subtle issues associated.

In fact if the history of China's gas deals is analysed, it has been seen that China has often emerged as a winner, by buying gas at a very low price, whether the deal was signed with Qatar in 2000 or whether it was signed with Central Asia (Weser and Murray, 2014:6). However, bilateral dictatorship does not work at all times, and soon when the world began to take interest in gas, China started to find it at a tough spot unable to mitigate the rising prices with their

tactical pressure. This led to global rise in prices because of which suppliers were reluctant to supply bilaterally and China had to shift to spot market to buy the product and this escalated its costs (Ibid). However there is another problem, global gas market is not an integrated market which is affecting both the suppliers and buyers as a rationale price is unable to be fixed. The authors point out that for China bilateral negotiations in gas is a better option as a buyer than a spot market price (Weser and Murray, 2014:7).

> Increasing China's gas imports thus becomes a pragmatic choice. If imported in sufficient volumes, pipelined gas can increase China's bargaining leverage vis-à-vis the LNG market, both directly in negotiations with the suppliers and indirectly by lowering the LNG spot price.

Also for Russia, it is not just the stagnating economy, but also for the 'peaking oil' phenomenon where Russian oil and gas fields have maximised their potential. For example, Nadym-Pur-Taz, the Russian gas field which exists in the Far East has been providing 90 per cent of Russian supply, but its supply is already peaking (Weser and Murray, 2014:8). In fact Russia is in a 'Catch 22' solution, on one hand, its own supplies are receding at a rapid rate, on the other hand it is facing tough competition from the shale gas discovery in US, due to which global prices have plummeted instantly (Weser and Murray, 2014:8). Hence currently even for Russia, a bilateral cooperation agreement with a country which is ready to finance its energy infrastructure is a necessity. Also, Russia is fast losing market in Europe, owing to US and hence is maintaining a key focus on its 'Asian pivot' strategy. Weser and Murray (2014:9) point out:

> Several European clients have also begun revising their long-term contracts with the Russian company. Gazprom has converted 15 percent of contractual volumes in Europe to lower spot prices; reduced its take-or-pay provision – the amount customers are forced to pay, regardless of actual consumption – from 85 per cent to 60 per cent; and paid an estimated $4 billion in refunds to European customers in 2012-2013

Also Russian companies, like Gazprom is facing non – economic hassles like litigations and diplomatic pressure for doing business in Europe by various nations of Europe. In fact the gas deal was due for quite some time and background had been laid not by the current president Xi Jinping but by the former president Hu Jintao who in 1996 had signed a deal with President Putin of Russia to build two pipelines for supply of 80 bcm of gas. In principle, 30 bcm of gas supply was agreed by China and Russia way back in 1997 (Ibid). Again in 2009, the 2006 deal was tapered down to 70 bcm and by 2011 the agreement reached to 30 bcm. Yet no deal got finalised

till 2014. There were many reasons for the delay in the deal. The authors sum it up in three key features (Weser and Murray, 2014:10):

- **Price issue**- both the parties were unable to reconcile on a price factor. China had a 'win deal' with several Central Asian countries and Russia had a 'happy experience' from European prices. Both were reluctant to part with their mirth and wanted the 'other' party to settle with their price. Due to this no certain price formula could be fixed. There were various propositions made by the parties at the same time. Russia wanted the price of gas to be fixed according to the prevailing prices in the oil spot market, due to faltering gas prices. While other parties wanted to maintain deals with the gas prices of the spot market, china reduced the price even further by linking gas prices to the coal market.
- **Route of supply**- Russia wanted to supply gas to China through the 'Altai route' i.e. west Siberia through the 'west-east' gas pipeline in the Xinjiang province via western Siberia. But China wanted new fields to be opened for its use which lay unexploited in eastern Siberia. They were the 'trump card' of Russia which she wanted to keep for future use but had to bow down in front of China.
- **Mode of payment**- gas is riskier than oil for the consumer and China was unable to settle down for a risky investment without assured returns. The author sum up the basic reasons for Chinese hesitation for Russian investment. The questions raised were:

> How much China would agree to prepay to support Gazprom's initial investments. Whether and what type of 'take-or-pay' provisions China would accept and perhaps most important whether China should be given an equity stake in Gazprom's project to mitigate supply risk and share in the profits.

The major question yet remains are that what this deal brings to the major interest groups of China i.e. the three main Chinese energy companies: Sinopec, CNPC, and CNOOC. For PetroChina, the deal is a welcome respite i.e. an 'olive branch extension', as preferably called by the authors owing to its series of corruption charged which have been under scanner since 2013 (Weser and Murray, 2014:12-13). Another advantage is the expansion of Eurasian portfolio for CNPC, which is adept at following the 'go out' policy in its spirit. However glitches exist even for this seasoned business company because of its own domestic engagements and shortage of funds which would lead to an eventual reliance on China's banks for funding. CNOOC on the other hand gains from building the LNG infrastructure (Weser and Murray, 2014:12-13).

Table 3.2 List of Energy Deals between Russia and China over the Recent Past

Year	Deal
2009	Rosneft-CNPC oil deal where Russia complied with Chinese demand of supply through eastern route[4] and China reciprocated by removing their original position of holding an equity stake in Russian oil field
June 2013 to May 2014	Yamal LNG project where Novatek would provide 3 million tonnes of gas to China during a 20 year period through a 27 billion dollar project in Yamal. Here CNPC acquires a 20 per cent stake and this project shall be funded by China Development Bank.
October 2013	Rosneft CNPC deal where both companies would jointly develop Rosneft's East Siberian hydrocarbon deals
May 2014	Tianjin oil refinery where Rosneft and CNPC will jointly develop an oil refinery. There will also be development of petrol stations in China under the name of Rosneft and CNPC and will also involve production of hydrocarbons for China's chemical industry
May 2014	Power of Siberia pipeline is the thirty year old deal signed between CNPC and Gazprom delivering gas from Vladivostok to China and Amur river
May 2014	Altai pipeline will provide gas from western Siberia to northwest china and the players are Gazprom and CNPC
Early 2015	China and Russia engage in joint exploration of Arctic oilfields and off shore Crimean oil fields
2015	Rostech and Shenhua group explore coal fields in Siberia and far east, develop plants and sell electricity to each other and other Asian countries. A marine coal terminal to be built at Port Verra
n.a	Rosatom to build Tianwan nuclear power plant and two power units in Harbin. Russia provides technology to China to build inland fast breeder nuclear reactors to reduce dependence on US technology.
n.a	Sibur and Sinopec jointly provide construction for a rubber plant

[4] These route was originally meant for Japanese customers at a later date, but Japanese indifference and Europe equity in pressure for financial payments forces Russia to acquiesce to Chinese demands

September 2013	China acquires a 12.5 per cent stake in Russian potash producer Uralkali. Here China would invest 575 billion dollar fund through China Investment Corporation

Source: Weser and Murray (2014:16-17)

Russia and China had jointly launched a fund called Russia-China Investment Fund in 2012 and China's Vice Premier Zhang Gaoli had quoted that China would be interested in making investments in Russia through this fund in Greenfield, mergers and acquisitions and equity investments. Larchmonter (2014) calls the relationship between the 'bear and the dragon' as that of double helix where energy amongst other factors is the 'base-pair molecule'. The author also opines that these 'energy molecules' should not be mistaken to be merely 'vendor-customer' deals as they pave way for other base-pair molecules like geo-politics and economics. Sussex (2015:1) points out about increased Russian interest in Asia (read: China) which he refers to as the 'pivot to Asia' from the Russian side. Sussex writes:

> This recent boldness stems from Russia's fear of its future weakness. Moscow has no wish to become China's raw materials supplier, but nor does it want to be a subordinate partner of the West.

Russia realises that it is 'walking on a double edged sword' and seeks to view both parts of world with equanimity so that it can maintain its advantage of being a resource rich country without facing the 'scourges of market prices shift'. According to Sussex (2015:2), the world is shifting towards a 'Sino-centric' system and Russia is no mood to be left behind in the system. Hence it is advocating itself both as an energy supplier and a military ally to provide China with a 'golden but 'firm' handshake'.

Energy and Loans

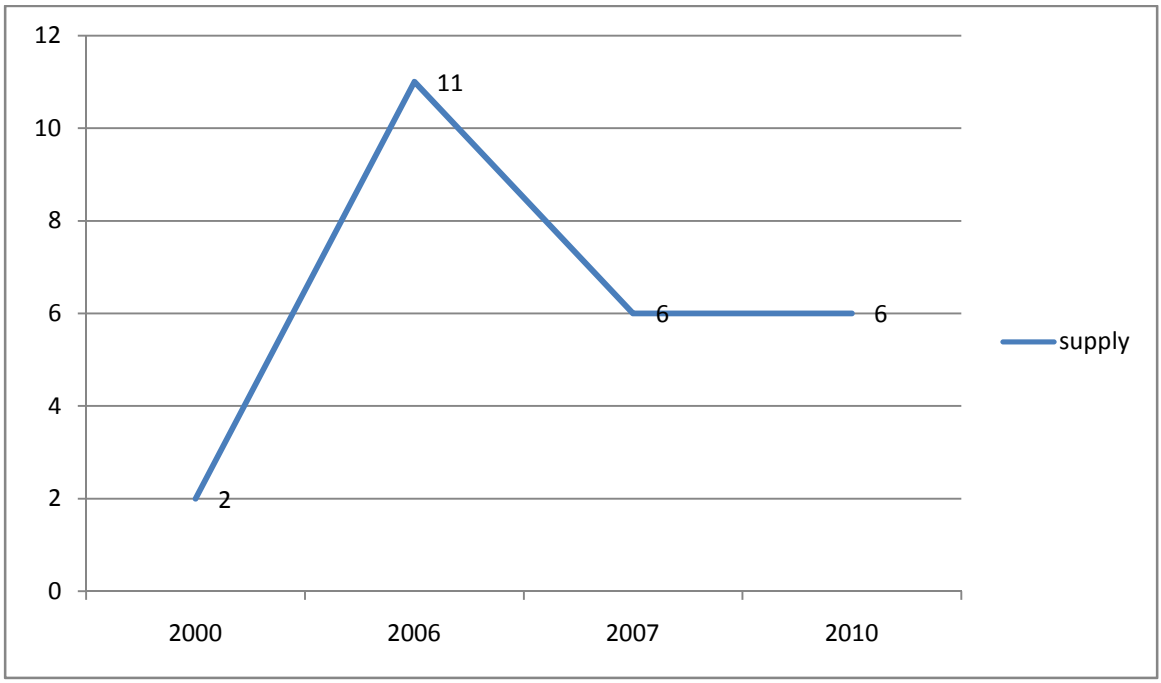
Sino-Russian relations have come a long way from looking up to Soviet Union to 'normal state to state relations…….. between friendly neighbours' (Jakobson et. al., 2011:1). If we read between lines this epithet then some blanks still need to filled. SIPRI (Jakobson et. al., 2011:vi) points out that terming Sino- Russian relation as the 'best in history' is a misnomer, because grave challenges lie ahead for the two countries and any one challenge could serve as a spark to turn bonhomie between the two countries' into hostility. That is why Sino-Russian relations are

going to be called ‘strategic cooperative partnership (中俄联合声明 *zhong-e lian he shengming*) (Jakobson et. al., 2011:1). SIPRI quoted an unnamed academician from China who was still wary about Russian intention and did not completely approve the growing bonhomie between the two “We have had 400 years of contact, and Russia deceived us many times. We cannot completely trust them” writes (Jakobson et. al., 2011:2). SIPRI paper points out that while for Russia, China has become a ‘Hobson Choice’, China has still adopted a very chequered approach to Russia and has the following aims in mind (Ibid):

- Establishing peace and stability at its border with Russia
- Developing China as both a regional and a great power
- To be a supplier to China’s energy needs
- Be a main contributor in China’s military modernisation drive
- Catalyse the development of China’s border areas through smooth trade transactions mostly related to energy

In a 2011 paper, SIPRI had dubbed Sino Russian relations as that of ‘partners of convenience’ and had predicted that ‘Russia’s significance to China will continue to diminish’ (Jakobson et. al., 2011:43). However, on the contrary it has been seen that Russian efforts have paid off and the Chinese have magnanimously accepted their friendship as long as it is supplemented with an interrupted supply of energy resources. This was evident in the recent billion dollar deals signed between Russia and China, where China despite getting a larger piece in the share (as compared to its European counterparts) seemed to consider Russian sensitivities about foreign investment before signing the deals. Before the deals were signed, China and Russia have had a modest turnover of energy trade between them, which is shown in the figure below:

Figure 3.1 Oil Trade between China and Russia from 2000 to 2010



Unit Per cent

Source: (Jakobson et. al., 2011:26)

The figure above shows that Russia could not win Chinese trust as a supplier of oil and gas despite China having turned in to a net importer as early as 1993. Russia managed to grab only two per cent of Chinese energy imports even after seven years in 2007, which though increased to 11 per cent in 2006 but stagnated to a mere six per cent even after ten years (Jakobson et. al., 2011:26). Feng Yujun of the China Institutes of Contemporary International Relations gives a very average rating to Sino- Russian relations referring to the "existence of a tremendous gap between existing and potential cooperation" (Jakobson et. al., 2011:27). Even the SIPRI analysts opine that it is a sorry state of affairs that the 'strategic partnership' between the two nations is verified by the state of 'still in talking terms' between the two nations (Ibid). Both countries had signed 'oil for loan' agreement in February 2009 where China Development Bank agreed to give 25 billion dollar as 'soft loan' to Russian energy companies Rosneft and Transneft (Jakobson et. al., 2011:29). China was promised an uninterrupted supply of 'Russian oil of 15 million tonnes

for twenty years since 2011' (Ibid). It is a known fact that China provides grant in the form of loans and hence applies rate of interest based on the rate of return in investment in kind. Russia has to pay back Chinese loan at the rate of a modest six per cent in lieu of being a supplier of oil and gas to China (Ibid). These loans carry a '*shuang ying*' (mutual win) (双赢) connection with them, as they not only bailed out cash strapped Russia from financial crunch but also gave them required finances for investment in strategic projects. In turn, China got an advantage of converting its US foreign exchange dollar into energy assets during the time of recession. It should be noted that both countries had chosen to keep their differences and mistrust aside while assuaging each other's economic problems (Ibid). SIPRI then in its 2011 paper had predicted that it does not believe that Russia had enough supply to fulfill China's demands. Moreover, if it does not agree to explore new oilfields in its East Siberian area then it would have to diversify its supplies from its West Siberian oil fields. SIPRI paper had predicted then 'this would decrease exports to Europe- an unlikely event as European clients pay more than China' (Jakobson et. al., 2011:31). However, none of the analysts could then predict that Russia would seen be facing wrath of European sanctions due to political events and would have no option but to shift towards China and agree to cater to their demands even in terms of source of supply of oil. Also, pricing was considered as a major cause of turbulence between the two nations. SIPRI had clearly pointed out the tiff in no subtle terms (Ibid):

> In the 'oil for loans' agreement, it was stipulated that China purchase pipeline oil at the ESPO Blend price[5] set at Kozmino. Yet in March 2011, two months after the spur started operations Rosneft accused China of unilaterally cutting prices and threatened to file a lawsuit. Furthermore, if ESPO Blend prices increase substantially faster than those of other sources, China may perceive the 'oil for loans' agreement as disadvantageous and try to back out of the commitment

Hence when China agreed to sign a 400 billion dollar deal with Russia it came as major surprise to various analysts of the world who could not understand why China did not bargain better especially when Russia was caught at a 'tight spot'. SIPRI quotes Chinese analysts who opine that it is not oil or pipeline but investment in upstream activities which matter to China (Jakobson et. al., 2011:32). Perhaps, that is why when Russia allowed foreign (read: Chinese) investment on its soil, China also yielded up a little on the pricing issue and did not adopt a tough

[5] It represents a Russian crude oil blend sold eastwards into the East Asian and US west coast markets. This reflects market prices for crude sold by Russian producers to Asia- Pacific refiners and international traders' basis for Kozimo. The ESPO Blend price is published daily in Argus Crude Report (n.a).

bargaining stand in the recent deals signed. SIPRI in its 2011 paper had analysed that "Prospects for China's state owned oil companies in Russia's upstream market remains uncertain…" (Ibid). Hence the 2014 deals seemed to be a major breakthrough at various dimensions and clearly China managed to defy all analyses and opinions when she signed the deals. Yet this deal should not be considered as a sudden occurrence as China had begun to lay its groundwork way back in 2006 which accelerated since 2009 after the 'oil for loan' agreements. Noteworthy, cases were when Vostok happened since 2010 which was a joint venture (JV) project between CNPC and Rosneft. Similarly Udmertneft has been producing 45 million barrels but has the Russian market as its sole customer. This company has a special Chinese connection as Sinopec holds a minority stake in it (Ibid).

China seems to have the same set of complaints from Russia which generally the world in general has with China. Many Chinese scholars are cited who are not upbeat about the Sino-Russian energy relations citing Russian antipathy as the major cause. Many scholars and academics of China wrote about it. SIPRI quotes a few of them like Yang Cheng who had written in his paper that "Russia is always more inclined to cooperate with Western companies" or Qi Wenhai who believes that Russia has always been suspicious of China and would never let China gain control even if she allows China's participation in her upstream activities (Ibid). He also laments about lack of transparency in Russian laws which prevents Chinese investors from gaining a clearer picture of the assets and liabilities they would be investing in. Even Han Lihua complains about "Russian legal nihilism" where "contracts are terminated and laws are changed unexpectedly" (Ibid). Hu Renxia goes a further step in claiming about discrepancy between local and national laws and points out that some laws are in the nature of "perpetual change" (Ibid). Also unlike China, the interests of business conglomerates and the governments seem to clash while SIPRI analysts point out that this is in stark contrast to Western analysts who believe that the 'interests are intertwined" (Ibid).

Yet today China seems to have cornered Russia on almost all fronts. Not only has Russia lost its trade advantage with European nations but has also lost its monopoly with its traditional partners in Central Asia. There was a time when foreign policy in Central Asia could be maneuvered according to Russian whims. Though Russia still has leverage over those countries, yet the Chinese have been able to attract them towards themselves as evident in the first foreign visit of

Xi Jinping as soon as he took office. This newfound bonhomie with Central Asia has been utilised by China to its advantage not only by diversifying its imports but also by breaking Russia's bargaining power, by establishing gas pipelines between Central Asia and China, which supplies it gas through Xinjiang (Jakobson et. al., 2011:35). Even in gas, SIPRI had predicted a bleak future for the development of Sino-Russian energy relation (Ibid):

> China is holding firm in price negotiations with Russia because of concern that Russia will be unable to fulfill its gas commitments of gas supplies because Gazprom's gas production in West Siberia is declining and Chinese experts doubt that Gazprom will make the enormous infrastructure investments necessary to develop huge gas reserves in the Russian Far East and East Siberia for East Asian customers.

Thus the 2014 deal broke Russia from its rigid stance of not developing East Siberia after the Chinese insisted that they would give in to most Russian demands and even provide capital only if gas was supplied to them through the east Siberian pipelines. Yet, Chinese energy companies are not satisfied, a Sinopec senior engineer called Yuan Zhengzhi was quoted that investment in Russia's upstream area is not a guarantee as the government can dishonour the deal whenever it perceives that any activity by the foreign investor is a threat to its strategic state asset (Jakobson et. al, 2011:36).

Energy Trade without Oil

It is not to say that Russian and Chinese bilateral energy engagements have bolstered only in the oil and gas sector. China has long been a coal driven country and still looks for coal import options China had long wanted a relaxation in the Russian 'resource nationalism' strategy and Russia wanted an outlet in the Asia. Thus, they had signed various deals between them in the recent previous years. China had offered a 6 billion dollar deal in exchange of 25 years of guaranteed coal imports from Russia (Rosner, 2010). China and Russia had collaborated for coal, through the 'coal for loan' agreement which was signed for six billion US dollars in September 2010, where China would fund for Russian infrastructure in lieu of Russian coal of 15 million supply till 2015 and 20 million till 2035. Since both nations are coal rich nations hence China and Russia are signing a joint venture in case of coal collaboration (Jakobson et. al, 2011:38). For example both joined hands to explore resources at Amur river in Heilongjiang region. Similarly, China through its Shenhua Corporation is planning on working on a 'coal to oil conversion project', with Russia's Beringovsky coal mine (Ibid). Sino-Russian 'coal relations'

have been termed as relatively successful as compared to its oil and gas equations. SIPRI quotes Chinese experts who argue that this is because Russia and the world in general have less demand for coal and Russia has no perceivable customer who would give it more than China would pay (Ibid). Also, Russian price was so less that China had no qualms in converging its coal imports from Russia. However, Russia has insignificant infrastructure available even for coal export and needs to rely on Chinese capital for development of Eastern Siberia (Ibid). Also, many experts point out that no matter the extent of bonhomie garnered between the two countries with respect to coal, the volume of coal trade between the two countries is so less that it would not have a major impact on blossoming 'energy trust' for greater cooperation in the future. Also, not many are upbeat about Shenhua's venture in the Russian coal domain, outlining that Shenhua may meet the same fate that its Chinese oil and gas brethren met in Russia (Ibid).

Like the consumption of energy resource, China and Russia's nuclear cooperation is also in its nascent stage, based primarily on Tianwan nuclear plant in Jiangsu. The deal for this plant was signed in 1997 between China's Jiangsu Nuclear Power Corporation which is a subsidiary of China National Nuclear Corporation and Russia's Atomstroyexport (Jakobson et. al, 2011:39). While the first and second reactor was built in 2007, China was reluctant to continue negotiations with Russia over the third and fourth reactors, to which China finally relented in November 2010 (Ibid). Meanwhile China continued its 'two pronged strategy' and made plans to build the fifth and sixth reactor while 'continuing negotiations with Russia about the third and fourth reactor' (Jakobson et. al, 2011:40). In fact according to few Chinese experts, Sino-Russian nuclear cooperation is a trailer to various other 'expected' energy cooperation between the two countries. Chen Kexu of East China Normal University says (Ibid):

> Tianwan Phase 2 is moving forward based on political considerations and the hope that it will encourage construction of the gas pipelines. If no apparent progress is seen in [other forms of] energy cooperation, China's nuclear power cooperation with Russia might be affected.

China basically seeks from Russia, its nuclear power technology which has raised eyebrows amongst Russian analysts who are well aware of Chinese adeptness in reverse engineering. Also, SIPRI analysts point out that "China will accelerate efforts to reduce its reliance on any one country for any commodity or technology" (Ibid).

Yang Chaoyue (n.a, 88) writes that for Sino-Russian to develop in a correct direction we first need to identify both the positive and the negative factors which have an influence over the long term strategic Sino-Russian energy relations. Chinese analysts had realised that they cannot meet their demands by blindly following the diktats of the international system of oil trade. Hence, a better and a more effective system were required to supplement the domestic supply (Ibid). Yang points out that this was one of the reasons which prompted China to turn into an outbound investor not just of the energy resources but also of the technology (Ibid). He also notices that Russia has been using its own energy resources, to adopt a 'carrot- stick' policy to challenge the 'colour revolution' of the Western world. This was a Russian response to Western world's unification over the Ukraine issue (Ibid). For Yang (n.a, 89), Sino-Russian collaboration after the Ukraine issue is a reflection of the maturity of the relations between of the two nations and their understanding of international geo-politics. Russia has been weakened by European sanctions and hence has no option but to shift its attention towards Asia, for buyers. At this juncture, China is an inevitable option, with its large demand base and huge availability of capital. Yang calls it the way of 'shortcut' (*jiejing* 捷径) (Yang, n.a:90). In fact, materialisation of any energy trade does not merely mean an indication of national benefits, but also an indication of a pluralisation of multiple factors indicating a convergence of both national benefits and international geo-politics. Also, if China and Russia do not cooperate on the basis of mutual benefits and mutual sustainability and think only of individual benefits, then it would lead to great danger for the survival of the bilateral relations between the two countries. Neo-liberalism like neo- realism stresses on 'anarchy' as the prevailing world order yet does not deny the existence of trans-national cooperation even in that system of anarchy (Yang, n.a:90). Perhaps, that is why Russia way back in 2003 had stressed the importance of international cooperation when it published a document called the (Russia's Energy Strategy Before 2020) (2020 *nian qian eluosi nengyuan zhanlue* 2020 年 前 俄罗斯能源战略) (Yang, n.a:91) "Russia's national energy policy must transform itself from merely being an exporter of raw materials to establishing itself as an important component of the world energy market, to ensure that it gets and becomes a trustworthy and reliable partner for the world. The country wants to become a stable component/factor in world's energy market before the year 2020 (Ibid). Yang believes that it was that it was this policy which prompted Russia to open up its resources for Asia-Pacific and South Asian market and encouraged it to diversify its buyers beyond Europe (Ibid). As it is known, that

China has long realised that she would need to play a proactive role in the world energy market if she wants her economy to sustain in the changing world. The 2012, China's Energy White Paper had made a clear mention that apart from increasing their own domestic reserves, China should focus on establishing energy relations with Russia, European Union, USA, Japan, Kazakhstan, Venezuela etc (Yang, n.a:92).

From the social justice perspective (*shehui jiangou zhuyi* 社会建构主义), Sino-Russian energy relations is a result of mutual recognition of products. According to the social justice perspective, mutual recognition, historical contingency and social norms are the root causes of international relations rather than the system of anarchy and other concepts mooted by various other international theorists (Yang, n.a:92-93). They propound that all the participants of international relations are driven by the understanding of cognition of their own and the other country's activities. This perspective adheres to the concept that economic prosperity and people's rising standards of living is directly linked to the energy issue.

A Case Study of Chinese Outbound Energy Investor in Russia-CNPC

Here one of the noteworthy activities is that of CNPC who has been the harbinger of Sino Russian energy relations since 2003. Given below is a timeline of the interactions of Chinese company CNPC with Russia

Table 3.3 China National Petroleum Company in Russia

Year	Event
2003	CNPC gets to explore Sakhlain oilfield as its first venture in Russia by signing an agreement with Sakhlain energy
2005	CNPC and Rosneft sign a cooperation agreement
2006	CNPC signs various MoU's with Russian energy companies They were Supplying Natural Gas from Russia to China, Agreement on the Basic Principles for the Establishment of Joint Ventures in China and Russia for Strengthening Oil Cooperation and Minute on CNPC Transneft Meeting with Gazprom, Rosneft and Transneft respectively, signing of 'strategic agreement by CNPC with Lukoil oil company, establishment of Vostok Energy Ltd. where CNPC held 49 per cent stake

2008	CNPC and Transneft agree to construct a crude pipeline between Skovorodino and Mohe which stretches the pipeline right upto the Sino-Russian border. The construction and operation of this pipeline came under the Phase I project of Russia's Far East pipeline
2009	The agreement agreed upon in 2008 began to take concrete shape which eventually led to two more agreements being signed with Rosneft and Transneft respectively. Thus the Russia- China Crude Pipeline project began actual journey from paper to ground. This pipeline is 1.030 km long and was expected to deliver 15 million tonnes of crude to Daqing within the next year. Also, gas soon followed suit as Gazprom agreed to export gas to CNPC while a memorandum of understanding was also signed with Rosneft regarding foreign investment in upstream and downstream activities
2010	Chinese and Russian leaders Hu Jintao and Dmitry Medvedev marked the completion of Russia China crude pipeline. CNPC signed MoU's with various Russian energy companies: Rosneft, Transneft, Gazprom and Lukoil regarding operations and supply from Russia-China Crude Pipeline
2011	Russia-China Crude Pipeline becomes operational
2013	A framework agreement and a stocks purchase agreement was signed for Yamal LNG project with Novatek for a 20 per cent stake, contract with Rosneft was signed for long term supply of oil, agreement with Gazprom was signed for gas supply from the eastern route, Rosneft agrees to allow CNPC in its upstream activities in eastern Siberia, terms and agreements was signed on Tianjin refinery where CNPC held a 51 per cent stake and Rosneft a 49 per cent stake
2014	Gazprom signs a contract to supply gas to CNPC through the eastern route of Russia China Gas pipeline, this pipeline is expected to be 2,680 km as the construction on the Russian section begins, strategic cooperation agreement with Rosneft was signed, on Vankor Oil Project and another agreement for gas supply through western Route was signed with Gazprom

Source: CNPC website (2016)

Figure 3.2: Map of the Eastern Route of the Sino-Russian Natural Gas Pipeline

Source: **CNPC website (2016)**

The above figure shows the map of the eastern route of the Sino-Russian natural gas pipeline. It shows the China-Russia Eastern gas pipeline segment in China starting from Heihe City in Heilongjiang Province, to the Sino-Russian border, and ends in Shanghai, passing through nine provinces of Heilongjiang, Jilin, Inner Mongolia, Liaoning, Hebei, Tianjin, Shandong, Jiangsu, Shanghai, etc. (CNPC, 2016) It is expected to be a 3170 km long pipeline, 1800 km of pipeline has already been built, and this pipeline will support the construction of underground gas storage (Ibid).

The below figure is a schematic diagram of China-Central Asia gas pipeline and West- East gas pipeline. (Ibid) This pipeline has four points: A, B, C, D. On 14 December, 2009, the heads of the Central Asian countries, Kazakhstan, Uzbekistan and Kyrgyzstan and China collectively opened the first gas processing plant at Turkmenistan's Amu Darya (Ibid). This marked the

official opening of A section. In October of the following year, the B point became functional to produce gas which was two months in advance (Ibid). In 2013, May, C line went into operation. The three lines A, B, C went into full operation with a transmission capacity of 55 billion cubic meters which would meet China's domestic demand up to 25 per cent (Ibid). Again in the same year, on September 13, Chinese president Xi Jinping and Tajikistan president formally met to begin operations on D line, expanding the gas transmission to 85 billion cubic meters (Ibid). This shows that China through its energy companies is giving equal impetus to both Russia and Central Asia to avoid any 'upper hand' to any country (Ibid).

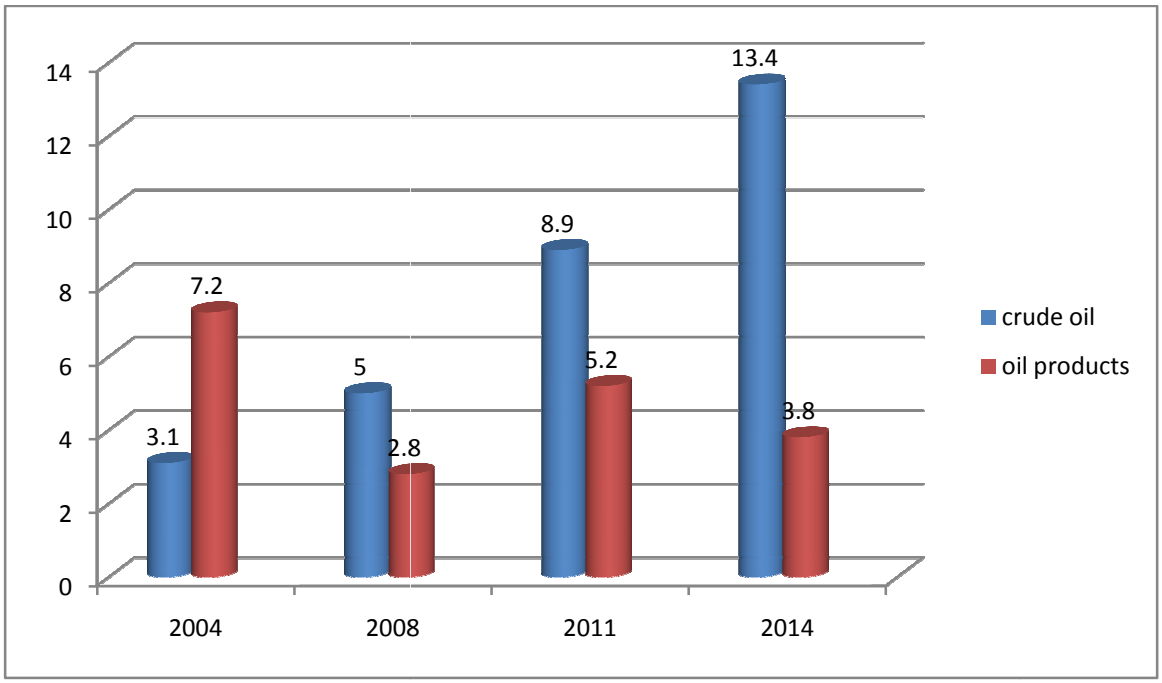
Figure 3.3 Schematic Diagram of China-Central Asia Gas Pipeline and West- East Gas Pipeline

Source: **CNPC website (2016)**

Apart from CNPC, Russian energy companies have also established cooperation with various other Chinese energy companies, hence in June 2015, China National Chemical Corporation (ChemChina), and Rosneft agreed for an oil supply agreement of 2.4 mt per annum (Paik, 2016:4). This deal went on further in September 2015 to involve Rosneft purchasing a 30 per cent stake in ChemChina PetroChemical Company Ltd., a ChemChina subsidiary. During the same time, Rosneft agreed to sign a cooperation agreement for joint development of Russokye and Yurubcheno-Tokhomskoye fields with Sinopec (Ibid). Sinopec Group has the right of a 49 per cent stake in ESOGC and Tyumenneftegaz who have the license for exploration in Russokye and Yurubcheno-Tokhomskoye fields (Ibid). At the same time, another deal was being signed between Novatek and China's Silk Road Fund for a 9.9 per cent equity stake in Yamal LNG Project. Paik writes that the shareholder structure became the following: NOVATEK (50.1 per cent), Total S.A (20 per cent), CNPC (20 per cent) and SRF (9.9 per cent) (Paik, 2016:6). Paik (2016:11) points out that since the escalation of South China Sea dispute, China has decided to increase its gas imports more through pipelines rather than through LNG Terminal, to avoid sea bottlenecks. Paik (2016:11) writes that "Russia could be a full but indirect beneficiary of the South China Sea dispute".

The figure given below shows the four gateways in China through which gas imports enter into China from across the globe. It shows that both its north east and north-west gateway are connected to Russia. Even the north- west gateway though connected to Central Asia is somewhat connected to Russia as a few gas imports which come to Russia follow the same route (Paik, 2016:12). An analysis by Gusev and Westphal (2015:38) found that Russian crude oil import to China is increasing whereas import of its oil products is decreasing which is happening because production of crude oil from its Western Siberia oilfields is decreasing and that from Eastern Siberia is increasing. However, Russia's oil products or the Ural blend is supplied primarily from Western Siberia which has been traditionally supplied to Europe and is still continuing despite the sanctions. The figure given below reveals Russian imports of crude oil and oil products to China. The figure shows that in a decade's time (i.e. from the year 2004 to the year 2014) Russian import of crude oil to China increased from 3.1 per cent to 13.4 per cent whereas the import of oil products decreased from 7.2 per cent to 3.8 per cent (Gusev and Westphal, 2015:39).

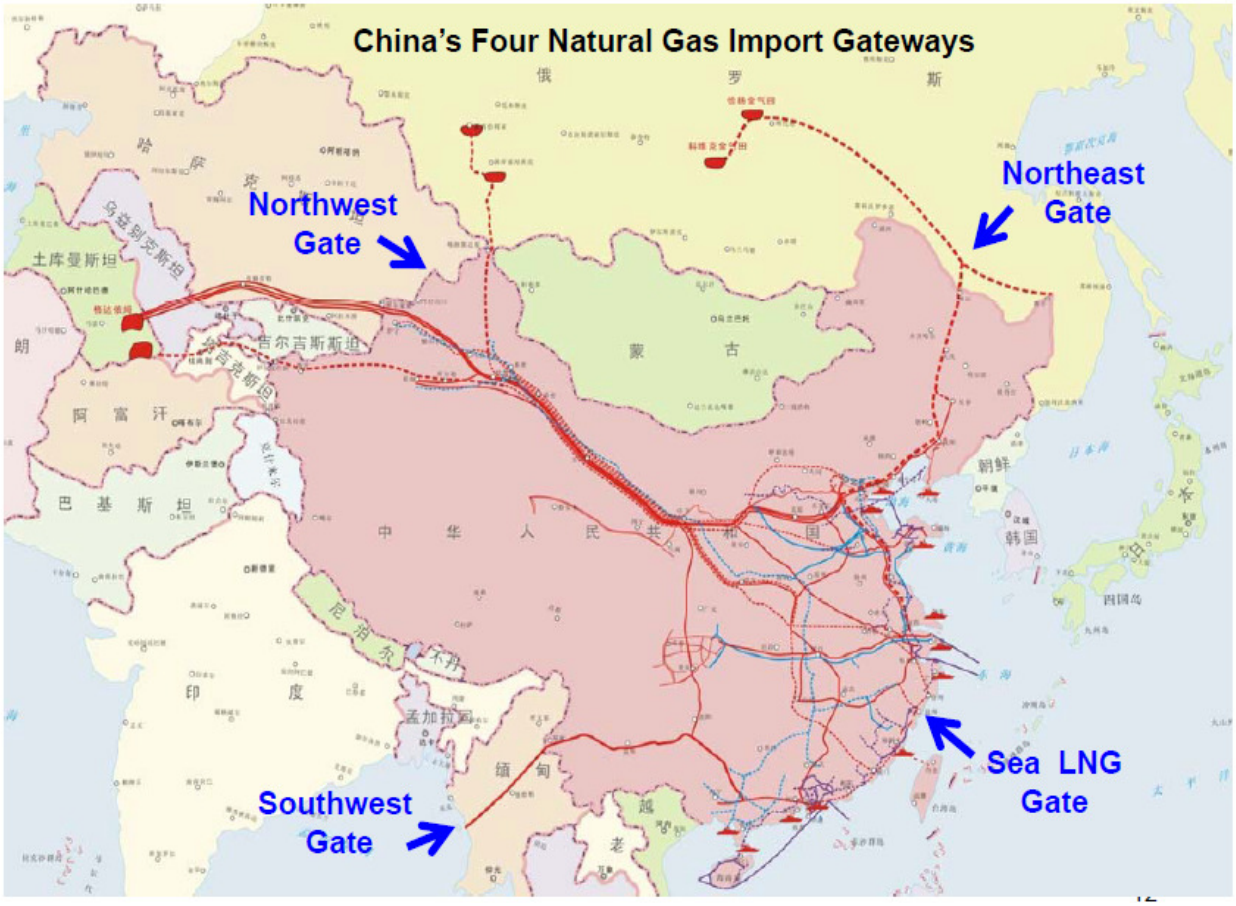
Figure 3.4 Russian Imports of Crude Oil and Oil Products to China



Unit Per cent

Source: Gusev and Westphal (2015:39)

Figure 3.5 Four Gateways in China through which Gas Imports enter into China[6]



.**Source: Paik (2016:12)**

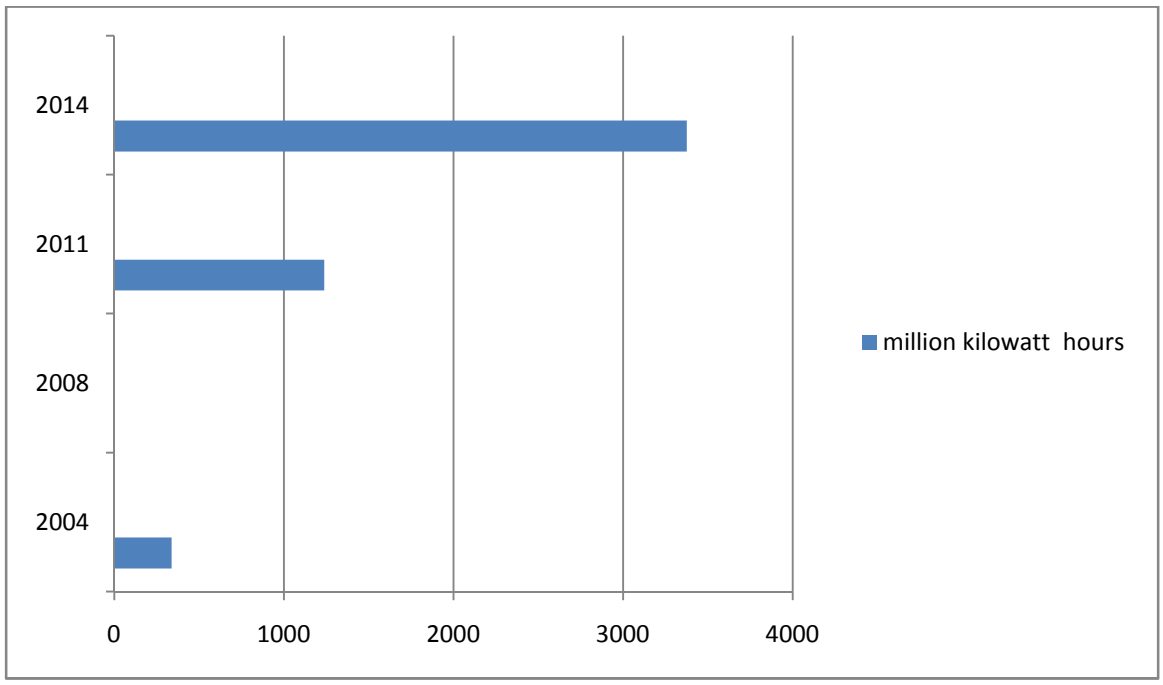
Electricity between China and Russia

Though oil and gas have received greater attention, electricity also has been another reason for maintaining bilateral relations between the two nations. Russian electricity imports have had a interesting turn when Russia exported 338 million kilowatt hours (1.9 per cent) in 2004 which dropped down to a complete zero in 2008 and then rapidly escalated to export 3, 376 million kilowatt hours (23 per cent) by 2014 (Gusev and Westphal, 2015:48). Russian electricity companies have also jumped the bandwagon of this 'newfound' bonhomie and are signing 'framework agreements' with Chinese electric companies. Hence, in November 2014, RusHydro signed a deal with Sanxia to collaborate in building hydropower plant in Amur and Khabarovsk

[6] These maps are neither authentic nor real

regions (Gusev and Westphal, 2015:48). This would ensure that Chinese electricity companies would be the staple customers of Russian electricity in these regions. More such joint ventures have been initiated between various other Russian and Chinese power companies like, PowerChina, Rushydro, Dongfang Electric International etc. (Ibid).

Figure 3.6 Volumes and Percentage of Russian Electricity Exports to China



Unit: Million Kilowatt Hours

Source: Gusev and Westphal (2015:48)

From Fear Psychosis to Friendly Calm

China and Russia share a history of mistrust which culminated in lack of development at the 4,200 km long border areas. Now when China wants to diversify its seller options and escape sea lanes of communication for its energy supplies, Russia seems a feasible solution to all its problems. Due to geographical proximity China would get all its supplies via the land route and that too without any transit countries in between (Downs, n.a). Pipelines are always preferred over other modes of transportation because they are a one-time investment and are also extremely cost effective. One example of such an establishment is the Angarsk-Daqing pipeline. This pipeline was supposed to be laid down from East Siberia to northeast China. Yet, it did not

finalise even during Jiang Zemin and Vladimir Putin meet in 2002. Angarsk-Daqing pipeline was caught in the conflicts of economic limitations and transferred diplomatic interests. Russia refused a follow up on the pipeline despite its officials showing interest in the mid 1990's. It had lost its economic viability for Russians as the pipeline catered only to one buyer, China. It had lost its' political viability as a private company Yukos was involved in the project. It had also lost its diplomatic viability as there was a strong lobbying from Japan for transfer of pipeline from Angarsk to Russian Pacific Coast as it was being developed by Russian state energy company Transneft (Downs, n.a). Thus, this Angarsk-Daqing pipeline was abandoned in the favour of East Siberia Pacific Ocean pipeline (ESPO). This timing of this ESPO pipeline, also called 'Angarsk- Nakhodka' (*An-na*) pipeline corroborated with 'Angarsk- Daqing' pipeline, leading to heavy criticism by the Chinese for Japanese government was blamed for indulging in intensive financial wooing of the Russians. The Japanese foreign minister was then quoted in Chinese media pointing out that Russian preference to 'An-na' line would lead to a reward of billion dollar investment by the Japanese. Japan also offered 7.5 billion US dollars for development of new oilfields in Eastern Siberia. This generous Japanese financial dole out and Russia's own domestic opposition of Angarsk-Daqing line led to Russian Government openly favouring 'An-Na' line over 'An-Da' line (Jin Changjie, 2005). Most pipelines between Russia and China have not been able to leave the maze of political discussion largely due to speculations in oil markets and disagreements on oil and gas pricing formulas (Downs, n.a). It has been noted that Vladimir Putin in his doctoral dissertation in 1997 had himself pointed out that Russian revival is directly proportional to the possession of its energy resources (Ibid). The biggest shroud on energy pipelines has been involvement of private companies because of which the governments refuse to take active interest as it does not bring in any economic incentive other than taxes nor can be used for diplomatic purposes without earning the confidence of the private company. This was one of the main reason behind the abandonment of Angarsk-Daqing pipeline as Yukos which has single handedly destroyed Russian state energy companies monopoly over the energy market was also planning on establishing a joint venture with an American oil company ExxonMobil. This was deeply resented by Kremlin who could not tolerate any American influence on their soil. Also, Chinese energy companies like CNPC had preferred direct correspondence with Yukos marginalising both the Russian government and the state energy companies, causing a major rift in the minds of Kremlin

(Downs, n.a). After this 'Angarsk storm' both sides have realised that Sino-Russian relations cannot be based purely on economic complementariness without concerns for diplomatic gains (Jin Changjie 2005). Also, it lead to Chinese undergoing a re-analysis of their Far East Policy. This led to the establishment of Shanghai Cooperation Organisation (SCO) meant basically to counter the 'three evil forces' (*san fu shili* 三服势力) by Russia and China i.e. opposing American system of hegemony, eastward expansion of NATO (North Atlantic Treaty Organization), and West sponsored Colour Revolutions. (Wang et al. 2012) These principles are in tandem with Nobel Peace Prize under which both US and Russia had signed the 1972 Anti Ballistic Missile (ABM) Treaty. SCO was thus established to protect the strategic interests of the two countries, (Ibid) but what common strategic interests can Russia and China share is the moot question. It has been seen that despite decades of reiteration of cooperation by the leaders of both the countries, Russia has not been able to become the biggest energy seller of China. As of 2010, China's energy trade with Russia stood merely 6 per cent of total energy import by China (Ibid). This has clearly proved that there are some inherent problems which had prevented concrete energy cooperation between the two countries. Apart from pricing and pipeline issues, Sino-Russia also faces issues of market access, diversification of energy imports, declining production in Siberia, diversification of China's energy supplies and China's attempt of developing its own natural gas reserves. By 2009, on the basis of cooperation capacity, Russia had become the largest oil producer, second largest producer of gas and also the second largest possessor of coal reserves (Ibid). At the same time China has been expanding its foreign exchange reserves which by the mid of 2011 had reached a 3 trillion dollar indicating the rise of *renminbi* to pay in the international market. Russia in 2003 revealed its 2020 energy plan which pointed out targets of Russia to capture the Asia-Pacific market. By 2030 the oil import is to be increased from 6 per cent to 22-25 per cent and gas from 0 to19-20 per cent (Ibid). Clearly China's market would be the target point of this large scale project. However, experience tells that Sino-Russian relation are though impacted by the international circumstances, yet are unable to unleash their potential due to revival of their age old mutual mistrust. Similarly as far as the problem of limiting output in western Siberia is concerned, it is believed by many Chinese scholars that Russia as an economy is highly dependent on its oil exports, and would make attempts to link its production with eastern Siberia to avoid any glitches in its foreign trade whether it involves China or any other nation (Wang et al. 2012: 11). Many Chinese scholars have condemned the western world

for considering pricing issues as a major thorn in the development of Sino-Russian energy relations. They opine that prices have been based on an economic cycles and such issues arise between all producer nations ad consumer nations, hence Russia and China too are no exception (Ibid). In October 2011, Russian President Putin pointed out at an interview to CCTV that 'differential pricing is a business issue, the governments should stick to working on government matters' (*jiage xieshang de wenti shi qiye de shi, zhengfu zuo zhengfu gai zuo de shi* 价格协商的问题是企业的事，政府做政府该做的事". In fact this emotion was clearly reflected in the year 2014 when isolation of Russia over the Ukraine issue has brought it closer to Beijing. Russia had two main issues with China, differential pricing and upstream acquisitions. Both these stands have been toned down by Russia following western sanctions. (Cunningham, 2015). This was reflected in the events which unfolded between China and Russia in the year 2013 and 2014. In 2013, CNPC took a 20 percent acquisition in the Yamal LNG project and also agreed to develop East Siberia's energy fields in collaboration with Russian state oil company Rosneft. This gesture was repeated a year later in 2014 when CNPC again took a 10 percent stake in a subsidiary of Rosneft (Vankorneft). Putin preferred to call these deals as a culmination of 'ideological and common sense transactions' (Chilcoat, 2014) subtly hinting at revival of socialist bloc this time by using 'energy' almost literally. The fact that most of these upstream acquisitions are now happening based on an undisclosed sum clearly points out that 'diversification of buyers' and 'avoidance of energy sanctions' is not the only agenda behind these deals. It is speculated that Chinese companies having established their image as strong international players and are being used by many international governments to end the monopoly of their own state companies over them (which in this case would be Gazprom). Chinese have also 'experimented and lost', when they jumped to the mirth of reducing gas prices by the process of developing their own shale gas reserves. China has huge amounts of shale deposits in Sichuan province amounting to almost 60 billion centimeter per year. Yet China has reduced its expected gas production primarily because of increasing cases of production explosion as well as rising costs of maintenance of Sichuan wells. Sichuan wells today cost much more than North Dakota wells and it has been forecasted that shale gas would fulfill merely 3 per cent of China's total gas consumption (Alexeev 2015). This means that China has to still rely on gas imports and Russia seems to offer a ready solution. Also, China which has long been a coal driven country is determined to clean its image as well as its cities. The greener alternatives currently are an 'in-

situ' proposition ready to take off yet not sturdy enough to fly in the sky and gas is then a time tested alternative, especially when it is coupled with economic gains and diplomatic advantages. Perhaps this is why both Russian and Chinese leaders have been vehemently denying their 400 billion dollar gas deal as a retaliatory measure to European antipathy (Alexeev 2015). Reuters has reported of another pipeline which is due to start in 2018 and would be providing 27 million tonnes of LNG per year from east Siberia directly to China's industrial area. NDRC has itself agreed that its gas supply would increase from 174 bcm in 2013 to 330 bcm by 2017 and its LNG imports would increase from 28 bcm to 47 bcm. (Russell 2014). There has been much speculation in the Western media about the undisclosed terms of deal between the two nations but it is clear that the Chinese have gained from the European loss and have managed to grab the Russian gas at a much lower price than what was bought by the European governments[7]. Yet mere 'comradeship' or retaliation against Europe should not be blamed for this Russian generosity as Russell (2014) points out that this deal has also highlighted the advantage of pipeline transportation over Russian imports. Yet this does not mean that Russia is not signing LNG transportation deals with China, especially when China is the largest chunk of the Asian market. Jiang (2015) in *China Brief* points out that Russia is not merely playing on the revenge card with the west but is also looking south because its prices with its old buyers have stagnated and new buyers in Asia might agree to a higher price to woo Russia in their favour. This was reflected in the new gas deal where China agreed to pay a price of 10-11 dollar per mcf at a prevailing Asian price 14-16 dollar per mcf. However Europe and US at that time were paying merely 3-4 dollar per mcf (Jiang, 2015). Another reason for China's growing proximity to Russian energy is its own investment in Central Asian countries especially those rich in gas like Kazakhastan, Turkmenistan etc. Russia still has an oblique influence over these countries and China would prefer Russia on its side so that it does not have to expose itself to the larger menace of volatile sea routés. Yet it should not be discounted that despite two major gas deals signed within a period of six months between the two countries, Russia still provides merely 1.7 percent of China's gas supply (Jiang 2015). Both China and Russia have very judiciously chosen the areas of their pipeline deals, one extending from East Siberia, the other extending from West Siberia. This not only gives China an open access to the entire resource rich Siberian nation but

[7] Europeans paid 10.6 dollar per million British Thermal Units (mmBtu) while Chinese have been offered a lower price of 9-10 dollar mmBtu (Russell 2014).

also help Russia connect its eastern and western supplies. Robert Berke (2015) points out that Russian alienation by the West has been 'Obama's biggest blunder' and China has gained the maximum advantage of this 'cold war mentality'. By one stroke of this action of 'western hegemony', Russia is ready to help China against its vulnerability to the US. Chinese energy companies have replaced Western energy conglomerates like ExxonMobil as Russia's chief creditor in development of Russia's energy sources. In September 2014 ExxonMobil had stalled a 700 million dollar project which was drilled in Kara Sea (Russian Arctic region) due to sanctions placed by the American government. The result: Russians readily offered the unfinished work of Exxonmobil to the Chinese state owned companies (Berke, 2015). He also points out that Exxon has a history of an image where American politicians (read President Bush younger) had openly declared that 'nobody tells these guys what to do'. It is also suspected that Exxon CEO Tillerson had declared his allegiance to Republicans if the Democrats interfere in their business. It is a speculation that domestic conflicts might have superseded geo-political gains in the minds of US government leading to Russian sanctions. Is it possible that Russia and China have interchanged their international images and it is not Russia but China now the declared rival and Russia can topple the balance of power equation through her choice of international partners. As Berke puts it, will the future be asking the question 'Who lost Russia?' Western sanctions have implied that Russian companies would not be able to access western technology or financial markets but does not prevent western companies from buying Russian assets. This loophole was readily exploited by BP who did not withstand US and EU sanctions and engaged with Rosneft to buy a stake in Taas-Yuriakh field in eastern Siberia. Kommersant, a Russian based journal had pointed BP stakes to be worth 700-800 million dollars. This has also brought relief to a debt ridden Rosneft which had a net debt worth 45 billion dollars by the end of third quarter of 2015 (Tully 2014). Sino-Russian energy relations have been developed like never before, not only in bilateral terms but also in terms of partner preference in the international arena. This was reflected in a statement made by Gazprom when it made a statement that it would not mind shelving the Vladivostock LNG project with Japan if it invested in the work of supplying gas to China through pipelines (Jiang 2015). This is a marked transformation from the days of 'An-Na' versus 'An-Da' pipeline negotiations when Japan gained an upper hand over China. But even then Russia had made its intentions clear about financial gains, which do not seem to have changed even after a decade. But the Chinese have

learnt from their past mistakes and are not ready to bide by the stem of international tide but seek domestic gains and future security. However Jiang pointed out that Sino-Russia energy deal is just 'testing waters' and if international circumstances can bring the two former rivals closer, it cannot be denied that different international circumstances will no time assist in drifting them apart, one of them being sustained discounted price of oil and gas which might affect the second round of negotiation in the deal between the two nations. China seems to be taking advantage of the west being pitted up against Russia, however once upon a time (i.e. from 2003 to 2008) Russia too had played the same card by pitting up China against Japan for building pipelines on their preferred routes. However Japan soon withdrew from the race after developing its own altercations with Russia over other issues like failed negotiations on Kuril islands, Russian expropriation of Japanese firms in Sakhlain 2 and Tokyo's increasing closeness with Washington that led Moscow to increasingly favour Beijing's presence in its Siberian territory (Deng, 2007).

Figure 3.7 Various pipelines and oilfields which exist in Eastern Siberia and are towards China

Source: Ersan (2015)

The above figure gives the details of various pipelines and oilfields which exist in eastern Siberia and are directed towards the route of China. Gazprom's two mega gas deals with CNPC signed in 2014 are expected to fulfill 17 per cent of China's gas deals by 2020. While the pipeline from eastern Siberia (also called the 'Power of Siberia' pipeline) will provide 38 bcm of gas to China for 30 years starting from 2018, the second gas deal whose agreement was signed in November 2014 will provide 30 bcm of additional gas to China via the Altai pipeline from western Siberia. Though both the agreements seemed to be signed in quick succession indicating an aggressively intensified bonhomie between the two countries, the reality is that the Altai pipeline project was halted in favour of power of Siberia pipeline from the period of 2006 to 2013 and it is only the turn of international events that has led Russia to loosen up its previously held positions in the government. The Altai pipeline is fraught with frictions which are tougher to resolve as compared to the 'power of Siberia' pipeline. Ersan (2015) gives a brief analysis of it as the following

- It is merely an MOU signed between the two nations rather than a legally binding agreement.
- With declining oil prices, more suppliers like US and Canada arising on Asian market and pipeline deals which will steady gas supplies to China, Russia finds no space for bringing price negotiations into their favour
- China does not favour the route of the Altai pipeline as it brings gas directly to the Xinjiang region which has been known for its separatist movements and vulnerable political environment.
- Local governments in and around the border areas still prefer the usage of coal over gas because of its low costs and available infrastructure for processing.
- The economic cost of eastern Siberia pipeline is 70 billion dollars of which CNPC funds 22 billion dollars and the rest by Russia. This is already a huge expense on the cash strapped Russia and it would not be in favour of building another pipeline simultaneously. Also it would not be possible for Russia to fulfill the entire funding of the project. It is accounted that Russia could only supply 68 bcm of gas even if it tries to fund the project.

Sino-Russian energy trade deals have produced many of the 'firsts' , now of them being CNPC's 10 percent stake in Rosneft subsidiary Vankorneft which is an operational oilfield in China

unlike the previous when foreign companies could acquire stake only in undeveloped fields (Ersan, 2015).

Challenges in Sino-Russian relations

In 2005, Russia proposed the concept of 'sovereign democracy' (*zhuquan minzhu* 主权民主) which had been a culmination of the terms of 'economic democracy'*(zhuquan jingji* 主权经济), 'energy sovereignty' (*zhuquan nengyuan* 主权能源) etc (Li Jingjie 2007). In this reference, energy sovereignty clearly meant that non-allowance of foreign control of strategic resources and its origin etc. Li Jingjie (2007) points out that Russia since its disintegration had followed the principle of 'choose Europe' as the model of economic development for Russia to pursue. But within a decade especially after the advent of Putin government Russia realised its folly and regretted its decision. The then Russian foreign minister Sergei Lavrov had pointed out that 'Russia's pursuit of economic development is not limited to Europe'. Maybe in this conflict of assimilating with the western or the eastern civilisation Russia only wants to preserve its Russianness. (Li Jingjie 2007).

China and Russia seem to undergo the 'friends with benefits' syndrome. China and Russia is in the present times a relationship of two equals who have never surrendered at the diktats of the western world. Hence both nations seek to draw from each other a repulsion of security dilemma, political advantage and economic gains. Sino-Russian military ties or arms sale have always been a subject of scrutiny amongst diplomats and experts. The demarcation of borders between the two nations was a landmark move in forging better military ties between the two nations. However it is the non-traditional security threats (read energy and environment) which possess the capacity to make and break the relations between the two nations. The Songhua river pollution, abandoned nuclear capacities, as well as sale of oil and gas between the two nations can bring in new dimensions in the field of Sino-Russian relations. Including Russia and Central Asia in the ambit of Shanghai Cooperation Organisation was China's master stroke in declaring the need of establishing regional security. Feng (2007) opines that Northeast Asia is still an area which believes in the cold war principles and hence a multilateral forum is the demand of the day. The possibility of a renewed relationship with China was never undermined by Russia. Russian sinologist Titarenko (the then director of Russian academy of Far East), long before the energy

deals had highlighted in 'Russia 2050: joint development strategy' that China and Russia's revitalisation and revival lies in their exploitation of their economic complementariness. It is estimated that by 2020 the share of Asian countries in Russia's oil exports will rise from 3 percent to 30 percent and gas will rise from 5 percent to 25 percent. At a conference titled 'Transition Economies in the Post Industralised World' Russian deputy Prime Minister Alexander Zhukov highlighted his energy export partners, where the first five export partners mentioned were from Asia-Pacific countries (Ibid). Europe found a mention only later along with African and US energy cooperation projects. The only glitch is that while energy projects meant for Europe and US are soon in action, most projects with the Asian countries are suffering from the rigmarole administrative systems of those countries. Zuo Fengrong (2013) talks about developing the 'Asia-Pacific' brand in Russia which not only bring economic advantages but also create a space for Russia to leverage balance of power in Asia. He also points out that China and Vietnam are those to Russia what Japan and South Korea are to US. On 11 April 2012 Putin in his government work report highlighted the need for development of Far East and Siberia as the most important geo-political task for Russia. He stressed that the development of these regions should be greater than the average national development and that this trend should be maintained for at least 10-15 years.

Putin during his election campaign had announced that "conflicts and competition are a norm in inter-state relations (Ibid). Doing business with the Third World does not always happen in mutual benefit. Many a time trade structures or investment patterns are not conducive to conducting bilateral trade. Also with the rising development, competition has escalated between the two countries not only in Asia Pacific but also in Central Asia and also the entire world" (Ibid). Putin's statements had resonated not only the historical mistrust between the two nations but had also highlighted the current prevailing challenges which restricted the development of Sino-Russian relations. A few of those identified challenges are (taken from Zuo Fengrong 2013:125-127):

- **Irrational trade structure**- Russia exports a lot of raw materials both for energy and economic purposes to China. This relationship of trade cannot be changed in short term. Russia also plans to export machinery and industralised equipment to China such as mining equipment, power equipment and nuclear devices which would bring in more

competitive goods to the trade structure between the two nations. However this has merely remained wishful thinking for Russia. Russians fear that Russia is turning into a mere raw materials supplier for China. In fact in the trade structure between the two nations Russia has always dominated through its export of raw materials.

- **Trading with China negatively affects Russia's other trading patterns**- Russia shares an intensive military strength with Vietnam. Vietnam has a maritime dispute with China in the South China Sea and it is owing to this dispute that Vietnam has made Russia as its largest arms supplier. While Russia supports China's armed policy it clearly does not want to lose its potential buyer in Vietnam by taking sides in their regional disputes.
- **Demographic changes**- Russians are worried about the rising number of immigrants from China. This fear of shortage of labour amongst the Russians while there is an influx of cheap labour from Chinese border has made the Russians fearful of the development of their border regions in Far East and Siberia. However some liberal Russian scholars like Ostrovsky points out those border areas like Siberia and Far East cannot remain uninfluenced by foreign labour. Also China is itself facing the problems of ageing hence their own domestic labour shortages might restrict their activities of crossing the border. Also the harsh Russian climate is not suitable for the Chinese people to live continuously across the border. Ostrovsky suggests that the best way is to adopt management and regulation practices rather than prohibition of labour from crossing borders.
- **Arctic problem**- like the South China Sea issue Russia is wary of China's intentions in the Arctic Ocean region. Most nations want to establish their control in the region and have developed xenophobic tendencies. In November 2011 Medvedev had pointed out that "if we do invest in North Pole powers outside the region will invest there", clearly pointing fingers at China. China as a signing party to the 'Spitsbergen Archipelago Treaty' has the right to conduct research in the Arctic region. The United Nations Conventions on Law of Sea (UNCLOS) also guarantees such freedom to China. Russia has already declared that 'we will study Arctic' and China would not be able to conduct a smooth research in this field until and unless it takes Russia into confidence.
- **Geographical discrepancies**- China shares borders with Russia over those areas where economies of scale are few. The most gas consuming province of China is Guangdong, China's southeast which is very far from Russian borders. Thus while China gains an

upper hand by getting reduced prices from overland transportation from Russia, the intra country transportation will be costly for China. Also, both sides have not developed their border areas conducive for industrial development leading to slow development of gas fields at the Russian borders (Rosner, 2010).

- **Excessive reliance on energy exports**- Russia is not only energy but also a military supplier to China and despite intensifies military alliance its volume of arms sale has been declining. Russian analysts like all other nations fear the Chinese mentality of reverse engineering which they feel China would use once they are supplied advanced technology and arms by Russia. This would not only reduce Chinese demand for Russian arms but also create an alternative seller in the market causing Russia to reduce its sales to other regions and lead to more dependence on energy exports as their only man source of foreign revenue (Rosner, 2010).
- **Beijing's closeness to Washington** – while China and Russia have declared themselves as 'strategic partnership', China and US have not shield themselves from signing bilateral energy programmes or sharing energy efficiency technologies to reduce energy intensity. Reduction of energy intensity by the Chinese would mean that it could loosen its energy import dependence on Russia and weaken Russia's position in the bilateral negotiations (Ibid).

In 2009, China and Russia had signed an agreement where Chinese capital was provided today in exchange for Russian oil tomorrow (Rosner 2010). China provided loans worth 25 billion dollar to Russian state oil companies (15 billion dollar to Rosneft and 10 billion dollar to Transneft) in exchange of 300 million tonnes of oil spread over a period of 2011 to 2030 through the ESPO pipeline (Ibid). While a lot of financial terms have remained unclear about this deal, one thing that is sure that China is giving liquidity to Russia when other countries either don't want to help or are themselves not in a position to help Russia. Another noted gas deal has been the purchase of a 51 percent stake in 'Suntarneftegaz' by the Sino- Russian joint energy company (Ibid). In 2010 at a Baikal conference, Chinese National People's Congress announced cooperation between Northwest China and Russian Far East where most of Russia's energy resources lie be it oil, coal or gas (Ibid). In 2013, China Development Bank had agreed to give Rosneft capital worth 270 billion dollars in exchange of twenty-five years of guaranteed oil supply (Weitz, 2014). Similarly Rosneft has announced increased sales of oil to China reaching to about fifty

million tonnes by 2018 and has also agreed to develop a refinery in Tianjin in collaboration with CNPC (Ibid). China has a 12.5 percent stake at Russia's joint stock company Uralkali which is Russia's largest potash fertilizer producer (Devitt and Bousso, 2013). Similarly in the previous year's China National Petroleum Company (CNPC) had acquired a 20 percent stake in Novatek's Yamal LNG for a sum which has not been made public (Bierman and Arkhipov, 2013). These different deals signed during a span of recent years have pointed to one major thing that like China Russian energy companies have a strong influence over the Russian government and both the government and the business conglomerates work hand in hand to exact diplomatic and economic gains. Weitz (2014) points out that in all the euphoria over the signed 400 billion dollar Russia and China gas deal, one major aspect that has been missed out is the term 'dollar'. Despite initial suggestions of establishing an alternative financial order Beijing has agreed to pay in dollars despite appreciation of yuan in the international market and not get into the controversy of challenging the established norm of payment in petrodollars. Does this mean that this new claimed bonhomie between Russia and China reflected after the Ukraine crisis is merely eyewash or a matter of taking short term advantages while subtly maintaining long term mistrust? He opines that the two major outcomes of this new found 'energy' friendship between Russia and China for rest of the nations will be two pronged. One Russia's supply to China means that other energy rich nations cannot charge exorbitant prices for their products when they know that their market can be driven towards Russia. This would help other countries to buy energy products at a lower price. Also with China's focus on the Russian supply, smaller players in the energy market both from the buyer's and the seller's side can adopt a level playing business transaction without the influence of bigger players dictating the terms of the market. Yet on the flip side it could also mean that assurance of Russian supplies could give China more confidence in pursuing its 'Chinese dream' over other weaker Asian nations, especially with those that it shares border disputes. This could also mean that owing to allegiance towards Chinese capital of cash strapped Russian energy companies, the Russian government would not interfere in Asian matters which bring it at the opposite side of China, nor would it adopt a conciliatory approach towards solving its own disputes with Asian countries. Hence this would subtly force other Asian countries to join the ambit of USA and Europe in order to escape from the pivot of Sino-Russian 'strategic partnership'. In delving into the question of future course of Sino-Russian energy relations Weitz (2014) believes that Russia has explored its 'brown field' explorations and for

developing and producing 'greenfield' options in Russia, the Chinese energy companies are not only inexperienced but also too ambitious to gain Russian trust and support for allowance of Chinese activities in Russian territories. Maybe it is then that the western companies can win over their lost grandeur.

Gusev and Westphal (2015:6) point out that Russia's 'pivot to east (*povorot na vostok*) though has been celebrated with much fanfare, yet has been contained only till China. This 'pivot to east' is taken as an opportunity for Russia to 'enhance export options, replace Western technical equipment and generate financial resources' (Ibid). They argue that since Chinese companies have become visibly dominant in Russia, since mid 2015, this collaboration between Russian and Chinese energy companies will encourage 'state approved mercantilism' in energy trade (Ibid). The EU sanctions placed on Russian energy (which are due to remain till 31st January, 2016) and the promulgations of the Minsk II process has built a 'condition of divorce' between the two entities, due to which China has gained a lot of leverage over Russia creating a visible shift in the geo-economic pattern of the world. Also, in the latest happenings, energy trade in the world is going to through some changes (Ibid). Russia apart from its own personal problems (read: EU sanctions) is also trying to sell its traditional fossil to a world which is under the awe of shale gas revolution and light tight oil revolution. Moreover, her 'friend in need' (read: China) has also expressed concerns about the overheating of its economy and is trying to limit the speed of its economic growth due to which it is demanding less than usual. Also, Iran has been brought back from 'international isolationism' and might become a rival to Russian trade (Ibid). To top it all, is the world's growing enchantment towards nuclear and renewable resources, due to which Russia has to deal with the problem of 'over supply' and attract investors by offering more than the usual terms of trade. Like China, Russian energy is also mired into its domestic politics. The authors point out that the 'oil oligarchs' of Boris Yeltstein who were dominant in the 1990's are now being overpowered by Putin 'loyalists' (Gusev and Westphal, 2015:10). They write:

> President Vladimir Putin has also used the energy sector as an instrument for his preservation of power. The "present network state capitalism" is controlled closely by the Kremlin and builds upon the personal ties of President Putin. The big companies are managed by Putin "loyalists" and have served as a funding source to subsidise other economic activities of this circle that is close to the leadership.

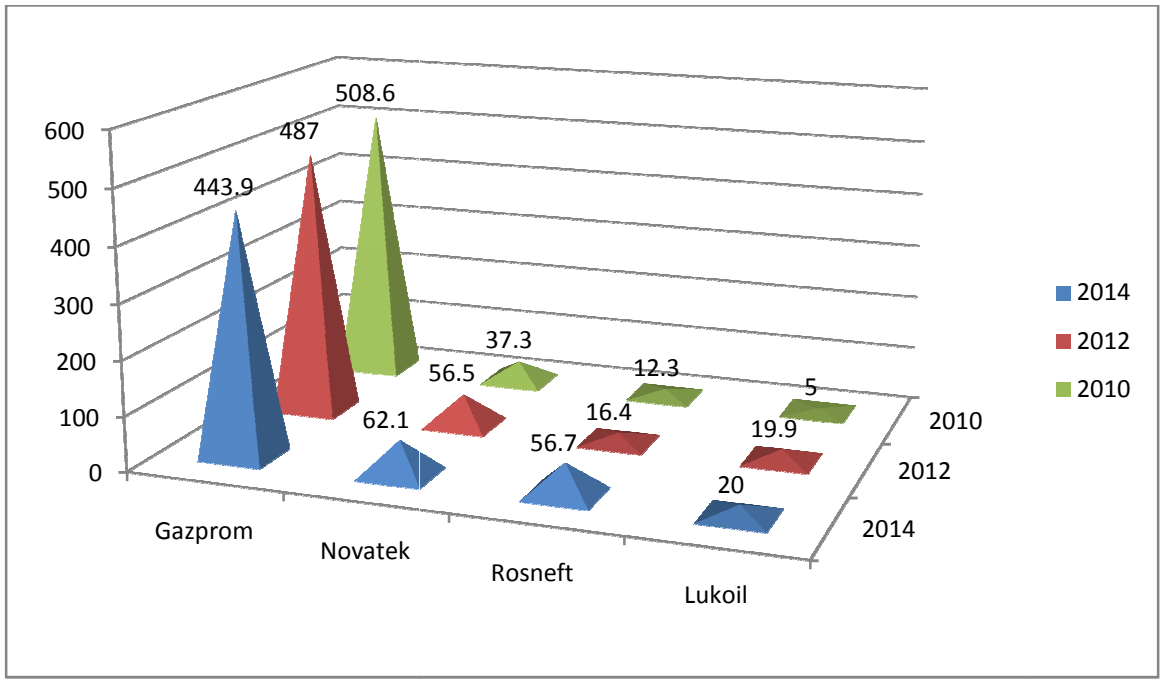
Similarly like in China, top management of state energy companies have been in corroboration with the government in Russia. Russian equivalents of CNPC, Sinopec and CNOOC are Gazprom, Rosneft and Transneft. Gusev and Westphal (2015:10) give an analysis of the impact of these energy companies by specifying that "Gazprom has long been seen as a state within a state. Its management board has been closely inter-twined with the Kremiln." Currently, about a half of Gazprom's assets have been owned by the Russian state and Gazprom's current CEO Alexei Miller was an ex staff member of Vladimir Putin who had reached the position of Vice-Mayor of St. Petersburg during his political heydays (Gusev and Westphal, 2015:11). It is said that Gazprom has consolidated his position in the gas sector of Russia since he took over as the CEO of Gazprom. However, one of the major difference between Chinese and Russian energy companies is that while Chinese energy companies share like mindedness with each other and have divided their area of operation amongst themselves, Russia has a different story to tell. Russian energy companies are often reported to be in fierce competition amongst them. Rosneft and Gazprom often vie for State attention. It is said that Rosneft has a stronger foothold Russian oil and gas industry and also has better presence in Asia (Ibid). Rosneft holds assets in strategic places i.e. at border areas in East Siberia and the Far East due to which Rosneft is better positioned to lay pipelines with its Asian neighbours. The authors (Gusev and Westphal, 2015:11) write that

> Rosneft has received an (in) direct support from the state. Rosneft is much more an "Asian" company with a strong production base in eastern Siberia and the Far East as well as close ties to Chinese and Indian companies, whereas Gazprom is traditionally linked to Europe.

In fact Rosneft has a very interesting share of shareholders, where 69.5 per cent is held by the Russian state though Rosneftgas and the rest 19.75 per cent is owned by a foreign company Gusev and Westphal, 2015:11). Its CEO Igor Sechin had plans to sell 19.75 per cent of share to a Chinese company to dispel some financial strain (Ibid). Like Miller, Igor Sechin the CEO of Rosneft also has strong background in the administration of Vladimir Putin. Sechin has been the CEO of Rosneft since 2012, and chairman of board of directors from 2004 to 2011 and has been working under both Putin and Medvedev (Ibid). His credentials lie not only in being the head of the Presidential Commission for Strategic Development of the Fuel and Energy Sector but also the fact that his hometown is also the same as that of Vladimir Putin- St. Petersburg (Ibid).

The given chart below shows the gas production by leading Russian energy companies: The figure given below reveals that Gazprom dwarfs all other companies in production of gas. Gazprom since the last five years (and even before that) has been producing maximum amount of gas ranging from 508.6 (bcm/y) in 2010 to 443.9 bcm/y by 2014 (Gusev and Westphal, 2015:18). The slight drop in production does not question Gazprom's production but it does indicate the stagnation of Gazprom owned gas fields. Novatek, Rosneft and Lukoil on the other hand do not produce much if compared with Gazprom, yet have better contacts with overseas buyers than Gazprom.

Figure 3.8 Gas Production of various Russian companies



Unit: bcm/y

Source: Gusev and Westphal, (2015:18)

Also it is to be noted that all non Gazprom companies are fast catching up in their production especially after the increased initiation of production and exploration in Far East and Siberian fields. An assessment can be made from Novatek's Yamal LNG Project in which Novatek chose to prefer signing of contracts with Asian companies i.e. China National Offshore Oil Corporation (CNOOC) and Phillipines AG&P over America's Air Product and Chemicals for LNG

technology (Gusev and Westphal, 2015:24). Gusev and Westphal (2015:24) point out that Novatek did this at a major risk since Asian companies are relatively new to energy technology and the establishment of Novatek lies in the extremely environmentally volatile region of the Arctic zone and any accident could have major repercussions. This project is mostly financed by China Investment Fund (a stake buyout of 9.9 per cent) with some contributions from the Russian National Wealth Fund (Ibid).

Chinese Analysis of Russian perspectives to Sino-Russian relations

Secretary of the Russian president office Prikhodko pointed out in an article that "Russians have yet not been able to form a consensus regarding the nature and future of Sino-Russian relations". Three kinds of analysis emerge among Russian scholars regarding Sino-Russian relations (the following is translated from An Zhaozhen 2004).

- Some particular kinds of analysts are those who prefer closer relations with China. Many of such scholars work in Far East department of Russian academy of sciences advocating learning from the Chinese experience of 'reform and opening up'. One such renowned scholar is Alexander Yokolev who stresses on the fact that People's Republic of China and Soviet Union were natural allies in the establishment of socialism and on similar grounds China Russia and India can form a new opposition front against western hegemony. Russia's influential critic Vsevolod Ovchinikov has also defended the deepening of Sino-Russian relations. He stressed that the Moscow declaration was directed against US hegemony and NATO. Russian foreign policy expert Aleksey Mitrofanov had once predicted that the east-west confrontation will be replaced by Eurasian and North American as the two extremes where a Berlin-Moscow-Tokyo axis of the former times can be replaced by Russia-India-China axis. This group of Russian analysts believes that economic cooperation forms the basis of Sino-Russian relations.
- Another kind of Russian analysts advocate adoption of a balanced policy in maintaining relations with China. These scholars are critical towards both the concepts whether it is establishment of Sino-Russian political and military alliance or the China threat theory. Associate professor of Russian foreign diplomacy institute Yevgeniy Bazhanov argued that a new Moscow-Beijing axis is not conducive to Russian interests and in fact is a threat to protection of Russian interests. Moreover this axis, does not abide by, China's

official stand of following the non-alignment principle, as well as attract the ire of NATO who would view this collaboration as a natural enemy to its establishment. It cannot be doubted that Asian economies would be at the forefront of world economic progress and Russia through recovery of its hostile attitude would find itself isolated from all the financial, political and technological resources resulting in a reverse gear to its modernisation path. Bazhanov has also criticised the theory of China's aggressive acquiring of land after becoming an economic powerhouse while at the same time dissuading Russia from joining the bandwagon of China criticism spearheaded by western countries and Japan. He does not believe in expansionist policy of China. He counts that China after the reforms has established diplomatic ties with many nations of this world and this increased integration with the world will discourage China to follow a suicidal policy of mindless colonialism. Also not all western alliance happen to counter China rise nor are they promoting an anti China brand through diplomatic means. Also Russia can benefit more from an alliance with China than by joining in an axis directed against China. Noted sinologist in Moscow University Vlya Gelbras opines that China rise is both an opportunity and challenge for Russia. The development of China's economy means that all the border countries of China especially those in Far East and South East Asia will get a new impetus. He also points out that the intention of strategic partnership between the two countries should not be interpreted as China supporting Russia's all present and future political endeavours as China has established relations of partnership with majority of western nations without entering into political or military alliances with any of these countries. In Sino-Russian alliance China seeks to maximise its self interests like in any other alliance and would not hesitate to side at the opposite end of Russia in international space. However China rise should not be viewed as a threat it augments world peace y ushering in establishment of a multipolar world.

- The third kind of Russian analysts are those who arduously believe in China threat theory. Noted scholars advocating this viewpoint are Yegor Gadayar. He opines that the world consists of a bipolar order one is the democratised west and the other is poor undemocratic countries. In contrast Russia is a successful, open and predictable country which is the complete opposite of China. He predicts that China would not remain a stable prosperous market economy for a long time. He advocates Russia should promote

its alliance with western democratic countries and with Japan in Asia with the intention to encircle and contain China while at the same time Russia should develop its Far East and eastern Siberia to strengthen its border areas. Georgiy Kunadze too has similar thoughts over Sino-Russian relations that this diplomatic ties are neither worth harvesting nor will it be long standing (*bu hui you suo shou huo ye bu hui changjiu* 不会有所收获, 也不会长久). He neither supports the concept of 'strategic partnership' between the two. Andrey Kozyrev the former foreign minister of Russia had criticized Putin's foreign policy. He advocates that Russia should focus on maintaining good relations with the western countries. This opinion has been supported by many leaders from the Far East and Russian experts who view China as a threat to Russia. They feel that China's businessmen have established criminal networks in Russia. Many Russians have expressed doubt over cooperation at border areas with China.

Russian media often airs those experts who opine that "even if you open doors for the Chinese, they would for coming in through the windows' (Ibid: 14), yet most of the politicians in Russia have opted for a balanced approach where they do not buy the China threat theory for Russia yet agree that closeness between Russia and China will negatively affect Russia's relations with the western countries. In March 2013, Russia was chosen by the Chinese President Xi Jinping for his foreign visit in the capacity of a President (Anishchuk and Heritage, 2013). Clearly this was not well received by the western analysts who feared that this Chinese move was directed against western countries directed particularly against the US (Wang and Wan 2013:5). This ignited the revival of Cold War fears amongst many media analysts, foreign experts and general population. The strategic implication of choosing Russia as the first country of visit by the Chinese president was confirmed by the former Chinese ambassador to Russia Liu Guchang commenting that 'China and Russia share a special strategic relationship' (Ibid). Many Chinese analysts have opined that China should abandon its policy of non-alignment, form an alliance with Russia to counter US. Chen Jian has argued that this event was a watershed moment worthy of attention and debate 'forty years after president Nixon and Zhou Enlai had shook hands' (Ibid). Wang and Wan (2013) advocate the 'alliance theory' (*jiemeng lilun* 结盟理论) in explaining the Sino-Russian relationship consisting of three components: balance of power,

balance of threat and balance of interest. The pioneer proponent of 'balance of power' theory was Kenneth waltz. The balance of power theory believes that in the anarchic world order, safety is the highest goal of the countries. The international power structure is the most important factor affecting the behavior of the country towards maintaining foreign alliances. Nations seek to maintain balance of power while forming alliances. If the nations are given freedom to choose alliances they would prefer to side with weaker countries to become the strongest nations in that alliance and achieve a security factor. Thus in this aspect it can be analysed that China is initiating an alliance with Russia to achieve a 'safety feeling' from more powerful countries. Another theory related to 'balance of threat' was advocated by Professor Stephen Walt of Harvard University. He defines alliance as the 'formal or informal arrangement between sovereign states for the purpose of security. An alliance is stimulated by threat to security rather than the aim of achieving power'. The third kind was that of balance of interest propounded by Randall Schweller. He argues that nations not only seek to maintain their status quo of their security but form alliances to maximise their interests (Ibid).

Sino-Russian energy cooperation has been the subject of media attention primarily because it was an expected outcome which took too long to converge. Russia as a powerhouse of energy supplies and China as the benevolent investor was a 'match among equals', yet they diverted attention to other 'friends' for their needs. Both Russia and China are powerful 'neighbours' who are capable of understanding and fulfilling each other's needs, yet remained aloof from each other till energy 'maturity' took over political 'ego clashes'. Xia Yishan (2000:5-6) writes that the disintegration of Soviet Union and the establishment of state to state relations between Russia and China was the first step towards acknowledgement of each other's sovereignty and suzerainty. He points out that since then Sino-Russian relations have transformed from being 'good neighbourly and mutually beneficial' to 'constructive partnership' to 'strategic partnership of coordination' within a span of five years (i.e. December 1991 to April 1996) (Ibid). Siberia alone holds 92 per cent of Russia's gas reserves and 67 per cent of its petroleum reserves and is adjacent to China. Hence development of Sino- Russian border in Siberia would be beneficial for both nations (Xia, 2000:6-7). Given below is the list of Sino-Russian energy cooperation in the recent years:

Table 3.4 Sino-Russian Energy Cooperation in the Recent Years

Project	**Companies involved**
Natural Gas project at Kovyktin in Irkutsk, Eastern Siberia	China Petroleum and Natural Gas Corporation and Russian Petroleum Company
Gas project at Urengoy in Western Siberia	China Petroleum and Natural Gas Corporation and Russia Natural Gas Industrial Company Limited
Chayankin and other gas fields in Sakha Autonomous Republic	China Petroleum and Natural Gas Corporation and Sakha Oil and Gas Company
Construction of an oil pipeline from Eastern Siberia to China	China Petroleum and Natural Gas Corporation, Russia Pipelining Company and Yukos Petroleum Company
Exporting Sakhlain off-shore gas to China and exporting liquid natural gas to China	The prefectural government, the Russia Petroleum Company and some other Russian oil companies
Crude production by China in Kazakhstan (Akchubinsk oil field) will be exchanged for Russian production and export of crude to China	Russia's Yukos company
Joint construction of a nuclear power project at Lianyungang in Jiangsu province with an installed capacity of 2 million kwh	n.a
Power transmission from Irkutsk prefecture to China	n.a

Source: Xia (2000: 2-4)

Conclusion

China and Russia have shared a symbiotic relationship with each other. They have seen the travails of all emotions in their half a century old relationship ranging from extreme hospitality to extreme hostility. The current Sino-Russian relations bear 'mixed' emotions for each other where neither the inhibitions are shed completely nor are the animosities declared openly. Energy seems to have cemented the gap at least for the time being, but it cannot be doubted that this cemented gap could serve as a bridge for future 'strategic partnerships' between the two nations. After the military solution of the border dispute since the decade of the 1990's both countries have engaged with each other in non-military terms and largely through the energy sector. The establishment of pipelines, 'oil for loan' schemes and opening up of Eastern Siberia for Chinese investment all mark the beginning of new geopolitical significances which shall be reverberated both in the present and in the future. Hence, the hypothesis that China's energy investments in Russia are an outcome of its present requirements and future prospects has been confirmed by the recent deals signed between the two countries as well as the preferential treatment that they have started to give each other.

China's present and future energy needs cannot continue surviving on coal as its pollution levels are bordering on dangerous proportion and neither can its huge economic structure make a massive and quick shift to nuclear power given the perils associated with it. Hence gas brings a safer and cleaner solution and when it is provided on Chinese terms then it is a 'win-win' situation at least for China on all fronts. The other hypothesis that transformations in China's energy diplomacy has determined China's energy investments abroad have also been confirmed in the way that Sino-Russian relations have been conducted. China once looked up to Russia as its ideological saviour and then transformed its attitude to that of mistrust after the 1969 skirmish. Since then despite a reiteration from both sides of maintaining comprehensive partnerships, both sides preferred to seek other options mainly the western countries. Today China needs an overland transportation for its resources which is both safe and inexpensive and Russia too having gone through an era of Gorbachev to Medvedev has realised the value of alliances which it has to maintain not only as a leader but also as a partner. Perhaps that is why; both countries have maintained the privacy of bilateral forums and have not been public about the concessions given to each other and the intentions behind it.

Today's China is viewed as the only country which can stand tall against the US and in order to make new friends in the Asia Pacific, Russia has to be in the 'good books' of China to make further inroads. China knows it cannot do without Russia's energy and investing in Siberia without squeezing Russia shall be a matured pragmatic move for the future.

Sino- Australian Relations: Present Trajectory and Future Growth

Introduction

Australia and China are two 'large neighbours' who despite geographical proximity have shown little proclivity or antipathy to each other. Both countries had vast difference of opinions be it political, culture or geopolitical. Hence, the apathetic attitude continued for long and Sino-Australian relations remained a mere ceremonial affair. However, since the era of globalisation has dawned, countries have started to think themselves as economic entities more than political ones which have changed the due course of geo-political process. Economic relations began to supersede all political immaturity as nations began to integrate with each other. However, insecurities seeped up when the trade began to involve strategic scarce resources such as 'energy' and China decided to cross borders to procure fuel to feed its economy. Hence, new geopolitical equations were set and those countries which had no terms whatsoever began to take interest in each other's 'energy'. Similar was the case of Sino-Australian bilateral relations. Both countries had maintained a 'distant relationship' with each other till China became a net importer of oil since 1993 and Australia began to disenchant herself from US prosperity. However, this bonhomie was not generated only from external circumstances.

China has always maintained its focus on national interests and 'energy trade' being one of the core national interests made China take interest in all energy rich nations, with Australia being one of them. Liu and Hao (2014: 369) too argue that every move initiated under China's foreign policy should be viewed as an extension to maintain national interests. According to them one of the primary tasks of Beijing's foreign policy is 'extract enough external resources and energies to meet its surging need for domestic economic growth' (Ibid).

Australia as a 'Middle Power'

It began in the backdrop of a *Guomindan*g establishment in China with Australia establishing its first diplomatic relations in the year 1941 (National Archives of Australia, 2015). Yet with the rise of Communism in China and U.S hegemony in the world, Australia began to re-establish its diplomatic commitments by expressing solidarity with Taiwan and identifying itself with the Anglo-Saxon powers especially the US. It was only by the year 1972 that Australia toed the US line into 'shifting' its diplomatic interests from Taiwan to China under the Whitlam Government.

It is perhaps owing to this image of Australia being the US ally that China never considered it more than a 'traditional middle power' (Jiang Tao, 2014: 46). The definition of Middle Power incorporates three schools of thoughts: Traditional School, Revisionist School, New Revisionist School (Jiang Tao, 2014: 47). The Traditional School of Thought decides a country's strength in the international system through the parameters of land, population, economic and nuclear capacity etc. Karsten Hob Ryder assumes that a Middle Power should lie in the middle of the power structure using these parameters (Ibid). The Revisionist school of thought which is the product of the Cold War era refuses to analyse the definition of a Middle Power based on the given parameters but by the behaviour exhibited in the international system which would define the role of a Middle Power (Jiang Tao, 2014: 48). Andrew Cooper believes that Middle Powers are those which support multilateralism and seek to solve global issues through internationally established norms. Cooper refers to them as 'catalysts', 'facilitators' and 'managers' of the global order who can neither detach themselves from the world issues nor are powerful enough to take the whole sole responsibility of the global issues (Ibid). Hence they need to follow the 'niche diplomacy 利基外交 *liji waijiao* (Ibid). In fact in China the interest towards traditionally recognised Middle Power grew after the demise of the bipolar world which also coincided with the end of China's self imposed isolationism (Jiang Tao, 2014:48).

Lately, however Australia as a Middle Power has gained tremendous importance in Chinese foreign policy. This was evident in the government report of the 18th Party Congress which stated that "The contemporary world is undergoing deep and complex changes. While peace and development is still the main focus, multi level global cooperation is required for all round development". Hu while delivering the speech had stressed on the exacerbation of global imbalances and rising problems of food security, energy and resource security, cyber security etc. which have become global problems and require global governance (Jiang Tao, 2014:46). Jiang Tao evaluates that Middle Powers can play an important role in the field of global governance and Australia as a traditional middle power has played an impressive 'positive middle power diplomacy' in the post financial crisis.

Australian Role in China's '*Zou Chuqu*'

In the energy security policy, Australia is becoming an important part of China's energy diversification policy, something which was pursued by both the US and the EU whenever they felt threatened by international circumstances. Shuqin Gao specifies that the US followed an energy diversification policy as a response to the oil shocks of 1973-74 and cartel formation and economic embargoes imposed by the OPEC countries. Similarly the EU began it after the end of Cold War and has intensified it after 9/11 and Russian Ukraine crisis. On the same lines, China is laying increased stress on its energy diversification policy because of various reasons. Gao identifies a few: internal market demand, risky energy transit routes, discrepancy with the US, shortage of Strategic Petroleum Reserve (SPR), gaps between China and international energy organisations (Ibid). Hence China is trying to establish bilateral relations at multi lateral forums to gain the 'partner' advantage and expand its supplier group to ensure a safety valve against any future calamity. So as a part of that strategy China has been offering easy loans to energy producing countries phased out in long term contracts to assure its suppliers faithfulness. Perhaps that is why energy deals are not just limited to mere business contracts but also employ soft power skills, international political mileage and military might to ensure not just the supply of the energy produce but also the transport of the energy product. Gao analyses that China's trade deals with energy rich countries is done in avoidance of liberal trade and international energy market where rules are laid by the Western developed nations and are not Sinified enough to be in consonance with 'Chinese characteristics'. Gao evaluates that China's energy diversification policy is an attempt to control the future market where it is not forced to play by the rules of the current Big Powers. Klinck (2011) too points fingers at Australia where Chinese business in resource sector is booming, by keeping in mind present and future needs. He cites the example of Chinese firms acquiring stakes in Australia as mentioned in the table below

Table 4.1 Chinese Firms Acquiring Stakes in Australia

Chinese firm	Australian firm
Aluminium Corporation of China (Chinalco)	Rio Tinto
China Minmetals	Oz Metals
Hunan Valin Iron and Steel Group of China	Fortescu Metals group
Yanzhou Coal Mining Company	Felix resources Lts.

Source: Klinck (2011)

It is perhaps this revulsion towards the other Great Powers that China despite belonging to the same category does not want to give up on its identification with the other Middle Powers. However the same author in the same text also vehemently denies any evidence of China engaging in activities for which it is internationally blamed, be it utilisation of Chinese energy investments for international leverage, Chinese state owned enterprises engaging in downstream manufacturing activities or exploitation by them of the local resources, market and people. Gao denies China's energy diversification policy as a heady mix of politics and economics but a well defined hedging approach strategy where risks can be modified, managed and re applied as strategies in the context of a Middle Power. However unlike Shuqin Gao, Wei Zongyou (2015) argues that it is Australia which is using China as a 'hedge' against the US. According to him Australia is suffering from a double negation policy where politically it wants to retain its advantage with the US yet wants to take a big slice in the economic might of 'China rise'. He considers that it is this 'China scare' which has led to the Australian Treasury Department establishing 'Six National Safety Standards' to 'specifically manage and control the investment from China'. (Wei Zongyou, 2015) reveals "Australian Treasury officials even privately revealed to the US that the new standards aim to adopt the toughest policy against China's growing impact on the resource industry in Australia".

He argues that Australia is adopting a 'chequered approach' where it wants a multilateral collaboration with China, involving specifically the US, yet it does not intend to intensify its military alliance with the US for the fear of Chinese displeasure (Wei Zongyou, 2015). Shuqin

Gao has divided Australian opinion on Chinese energy investment in to two schools of thought: pessimists and optimists. Pessimists view China's state owned enterprises as business conglomerates of Chinese government who would not work according to international market rules and would accentuate their own domestic interests (Ibid). Hence this heavy dose of Chinese investment which is provided by the Chinese government would not be possible without a state mandated agenda which would be in all proximities an indirect attempt to control Chinese resources and mining industry. The optimists in turn argue that Australia should not be so rigid about China and try to look at Sino-Australian relations from a post 2008 perspective i.e. the shift in economic paradigm after the 'global meltdown', rather than a pre 1973 perspective i.e. before the 'Oil Shocks' which bore a rigid Cold War mentality (Gao, n.a). China is increasingly acquiring a massive influence over all those institutions and regions which are beyond the traditional US influence. Moreover today's demand market for resources is run by Chinese economic activities and Australia should not shy away from this 'fuel bonanza' because of its political biasness (Ibid). Undoubtedly while the former school of thought belongs to the government officials of Australia, the latter perspective is peopled by China's business community.

Sino-Australian Relations: The Present Trajectory

Since the initiation of the diplomatic relations between China and Australia from the year 1972, Sino-Australian relations have largely been influenced by the bilateral relations of both the parties with US. China has been a staunch member of the 'communist faction' while Australia has been the 'poster boy' of the Western faction. Added to that is the problem of lack of communication between the two nations before the influence of US (Ibid). Shuqin Gao points out that China's semi-colonial history lacks the presence of any 'Australian shadow'. It is perhaps the culmination of 2008 financial crisis, the China rise factor and the stabilisation of Australian financial system due to Chinese investment in Australian energy resource fields which not only helped Australia escape the financial crisis but also led to appreciation of Australian dollar exchange rate especially at a time when U.S dollar was depreciating at a rapid pace (Ibid). In fact this stimulus package of China not only benefited Australian employment and financial situation but also assisted China in gaining energy deals at advantageous terms and discounted prices (Ibid). The result of this new found bonhomie between the two nations has led to

establishment of 'strategic partnership' between the two nations in 2013 and then the elevation of this status to 'comprehensive strategic partnership' between President Xi Jinping and Prime Minister Tony Abbot during the visit of the Chinese president to Australia in 2014 (Wei Zongyou, 2015). In fact China's interest in Australia has also perfectly gelled with the latest Chinese policy of '*zhoubian zhengce* (peripheral diplomacy)'. This policy highlights the Chinese intention of establishing cordial relationship not only with the Big Powers but also with the Middle powers which it has chosen to ignore for long. Chinese scholars like Jin Canrong and Ding Gong also repeatedly stress on the importance of various big and small countries surrounding China which collectively have a great potential to assist Chinese interest in its policy of 'peripheral diplomacy'(Jiang Tao, 2014:49). Li Shaojun identifies China in the midst of an identity crisis where it chooses to identify itself as a 'middle developed country (*fazhan zhong guojia* 发展中国家) whereas others view it as 'great power'. Perhaps an active initiation of partnership and cordial relationship with developed Middle Powers could help China reassert its identity with the Middle Powers gaining strategic advantage with them (Jiang Tao, 2014:62).

In terms of energy, China and Australia have established a very recent partnership of trade and investments. *Trading Nations Consulting* (2015) prepared a paper where they analysed the Australian desire for establishing a Free Trade Area (ChAFTA) with China since 2002, despite being a strong US supporter. The paper points out that before the turn of the century, China was never considered a serious option despite expansion of bilateral trade and despite being a large economy *(Trading Nations Consulting*, 2015:5). With Australia as a firmly established 'market economy' and China with its firmly established 'national interests' could not be natural allies until some extraneous factors and conscious efforts by both the governments would have materialised. *Trading Nations Consulting* (2015:5) identifies three major reasons for this: sheer size of China's economy, the possibilities of the domestic market and China's rising demand for energy products. Prior to the FTA agreement China and Australia had initiated an energy dialogue between them called the Australia China Bilateral Dialogue Mechanism for Resources Cooperation in the year 2000 (Statement by Australian Department of Industry, Resources and Tourism, 2005). The main function of this dialogue was to facilitate exchange of information between the two nations regarding respective energy policies, market conditions and promotion of bilateral relations between the two countries. Chinese energy investment in Australia has been in the sectors of coal, oil, gas, wind, uranium and energy technologies. Sino- Australian trade

volume is a small number as compared to China's energy trade with other nations of the world as dealt in Chapter 2. Yet the uniqueness of the trade deals lies not in the volume of trade but in the sheer number of deals which have been signed with increasing rapidity. KPMG (2012:2) points out that in the period from September 2006 to August 2012, fourteen Chinese companies signed 24 deals with a total trade volume of 12.8 billion USD. Coincidentally Chinese investments have jumped up in Australia since 2009 after the post financial crisis. Beginning from a mere 0.1 billion USD in 2007 China's Outbound Direct Investment reached to 3.5 billion USD by 2012 (Ibid). The Chinese have always preferred Australian coal over their own domestically produced coal because of the superior quality which is more suitable for the Chinese refineries (Ibid). In fact a little less than half of the total numbers of energy investments are directed towards coal, despite China herself being one of the largest coal producing nations of the world. The next sector of major Chinese investment is gas which comes to a close 43 per cent (Ibid). As usual China's SOE's are the major players in the Australian fossil fuel market. While the oil and gas sector is dominated by the three big giants namely; Sinopec, PetroChina and CNOOC, the major player in Australian coal market is Yancoal (Ibid: 3). These four major energy companies provide the bulk of Chinese investments in energy field in Australia with a total share of 94 per cent (Ibid). Another field in which Chinese companies have taken a major interest in Australia is the energy technologies which is both technology deploying and technology seeking. China is often blamed for acquiring foreign technology and then utilising the 'process' through reverse engineering. However KPMG (2012) points out that this is not true especially when technology deployment strategy is used which is often applied in the coal market. They cite the example of Yancoal's activities where lack of availability of technology suitable for Chinese refineries in Australia meant that China was providing investment not only in the form of capital but also in the form of technology (Ibid). Not only this the workers meant for operations of the technology were not Chinese but local Australian staff, unlike other nations where Chinese companies are often blamed for non-utilisation of local labour for their industrial activities. This acknowledgement of Chinese provision of technology and utilisation of local labour by an Australian think tank can be interpreted in various ways. It could mean that Australia wants to view China as a big economic partner without carrying the baggage of political ideologies and international biases. It could also mean that with 'China rise' as an evident phenomenon and its synchronisation with the financial crisis, Australia does not want to miss the friendship of the

'new kid on the block'. Also, it may now want to establish itself with an image of an independent nation with freedom of alliances and regional integration rather than a protégé of the Western hemisphere. This is evident with a strong Australian presence in various regional organisations which not only fall within the US influence but also beyond it like the G20 etc. (Wei Zongyou, 2015). Technology seeking strategy is utilised in oil and gas sector where the Chinese energy companies have made a mission to become world class companies and hence are leaving no stone unturned to learn from their international especially developed partners. KPMG (2012:3) cites the example of Queensland coal seam gas sector where Chinese investment has led to shift of value chain from upstream exploration to downstream development. They argue that this has not only benefited the Chinese from acquiring international technologies but also assisted the Australians in acquiring 'entry points' into the Chinese domestic market (Ibid). They also cite that Chinese energy investments have not only benefitted the Australian energy industry but also has a spillover effect on the other industries of Australia like finance industry, infrastructure and professional services. Australian sources have been reporting the lack of funds for various infrastructures, electricity generation and 'advanced' mining projects (Ibid). KPMG (2012:4) analysts point out that from the Australian point of view China's generous funding is imperative to satisfy both domestic and foreign demand of Australia. They write:

> Direct investment in these resources by growth nations such as China is critical. Strategic partnerships that involve both investment and participation in Australia's energy supply chain could help satisfy the overall financing need and ease supply bottlenecks for exports.

This means that Australia wants a more enhanced participation and greater integration of China and its companies into the Australian energy fold. For that to happen, the Chinese need more than just coal and gas to establish a deeper investment system in Australia. The Chinese have often stressed on 'innovation' in their own domestic records and are often on the lookout for clean technologies and infrastructure assets while investing in foreign fields. They also prefer a share in downstream activities like refineries and petrol stations which not only helps to procure high quality resources but also helps to add value to its foreign investments. Moreover it also supplies Chinese technologies especially in the coal sector which from the Chinese point of view is good for the domestic market as it helps to establish indigenous technology markets at all the entry points of China's energy investments. Moreover owing to the 'safety valve' provided by the Chinese government, Chinese companies are not afraid to 'experiment' in their overseas

investments- 'be it 'new' or 'established'. KPMG suggests that Australia would get benefitted by a greater investment by China especially in the energy field because it helps it to vicariously get benefitted during the market downturns. Rise in this kind of understanding perhaps reflects not only a deep acceptance of Chinese investments but also Chinese actions when they prefer to trade with 'Chinese characteristics'. KPMG believes that China's own domestic track record in infrastructure and electricity generation and their willingness to adapt to Australian investment environment, addressing not only strategies of investment but also concerns of investment, should be reciprocated by Australia by addressing Chinese concerns of 'high operating costs, declining productivity, inconsistent and voluminous regulatory processes and changing tax environment'.

Australia as a 'middle power' holds vital importance for China. Australia has not only risen in its stature of resource prowess to China but has also become a relatively neutral state for China in its geopolitical ramifications. Also Australia is a 'strong' middle power and has the capability to establish regional forums and involve China as its active member. Hence, China gets a chance to project itself as a regional power at various regional forums like East Asia Summit (EAS), Asia Pacific Economic Summit (APEC), G-20 etc (Yuan, 2014:16). Australia holds an important position in China's 'peripheral diplomacy' because of its geographical proximity (Yuan, 2014:19). Also, China understands that Australian projection of its 'middle power' status is in fact diabolical as Australia is trying to maintain a balance between its traditional ally as well as its new found friend. Yuan (2014:17) notes:

> Australia now plays what the Chinese analysts characterise as an 'offshore balancer' role: supporting US rebalancing efforts but also reassuring China that it has no interest in containment. This is a balancing act to hedge against China's rise without openly declaring hostility towards it, and to neither blindly follow US anti- China strategy nor tie Australia to it- thereby creating some freedom of space and action and emphasising interests and pragmatism rather than ideologies and lean to one side approaches.

The History of Sino Australian Relations

After the end of Second World War and the demise of the Great Britain Empire, Australian preference for international alliance shifted naturally from Great Britain to U.S. With the liberation of China on 1st October 1949, the debate of granting recognition to Communist China began to wage in all nations including Australia. Ben Chiefly of the government of Australia was

sympathetic to the Chinese cause and within a month had granted recognition to People's Republic of China; however Australia did not support China at the United Nations for fear of a US-UK backlash and defiance of UN principles (Wu, 2006:32). Wu (2006:32) writes that despite expressing antipathy at the international front, Australia had realised that excessive interference of US-UK on their foreign policy could be dangerous and hence decided to formulate an independent policy towards China. However during the Australian federal elections, Australian internal politics went into turmoil where the Liberal party leader raised the 'communist threat to Australia' against the then Labour government and gathered support of Australian bourgeoisie and the financers of the Labour Government who were against its nationalisation policy and raised an anti-communist furore. This led to a retraction of support to the Chinese communist government by the Chiefly government who succumbed to the opposition pressure and agreed that "with this level of opposition it might be inadvisable to establish relations with China. 当其政敌正在大力强调反共产主义之时, 承认共产主义中国可能是失策的(*dang qi zheng di zhengzai da li qiangdao fan gongchan zhuyi zhi shi, chengren gongchan zhuyi zhong guo keneng shi shice de*)" (Wu, 2006:32-33). In fact before the elections he publicly stated that China has given more ammunition to the opposition for public attacks which could single handedly destroy the unity of the Labour party. 中华人民共和国"不光会给反对党提供更多的攻击口实。工党内部的团结也会受到威胁 (*zhong hua renmin gong he guo bu guang hui gei fandui dang ti gong geng duo de gong ji kou shi. Gong dang neibu de tuanjie ye hui shou dao weixie*) (Ibid).The result of the Australian elections went in the favour of the Liberal government of the Menzies who launched the anti communist agenda in full leash. Wu (2006:33) writes that this fear of communism was the major step directed towards Australia's foreign policy towards China. He also specifies that whether Australia was against or hesitant to favour China is a different matter, but clearly it could not dare to go against UK or the US. The influence of the Cold War in the Far East got Australia to be sucked into the US ambit of 'containment of communist expansion in Asia' (Ibid). From the time period of 1949-1966, under the government of Australian Liberal leader Robert Menzies, Australia not only chose to preserve its traditional ties with Britain but also reinvented its foreign policy in tandem with US strategy of containment of communism (Ibid). With the result that Australia, New Zealand and US signed a collective security agreement called the 'Treaty of Security of Australia, America and New Zealand' among them in 1951 and three years later this Treaty became a part of Southeast Asia Treaty Organisation (SEATO)

(Ibid). Wu (2006:33) cites that in the period between late 1940's to early 1970's Sino-Australian relations got victimised by Australian-American alliance. Moreover, the hatred and fear for communism even amongst Australian inner circles prevented Australia from looking at China beyond the lens of communism. They always considered Chinese communist revolution as the prime reason for Asian instability. Wu (2006:33) writes that from the time period from the 1950's to 1970's, Australia had developed a foreign policy which operated in the framework of Cold War mentality and believed that in the geographical arc from Korea to India, China was the mastermind of conflicts. Lin Biao's article published in August 1966 at the Eleventh session of the Eighth Party Congress called 'Long Live People's Victory' (*ren min zhanzheng shengli wan sui*) （人民战争胜利万岁）was another document which evoked China threat' theory from Australia and like many other western countries blamed China for 'exporting revolution'(*shu chu geming* 输出革命) (Ibid). In fact the 1960's which was dominated by the Vietnamese war had a direct impact on Sino-Australian relations as Australia blamed China for the Vietnamese war and creation of communist regime in North Vietnam (Wu, 2006:34). Consecutively Harold Holt succeeded Robert Menzies as the successor of the Liberal Party and the leader of Australia (Ibid). Relations during his tenure reached their nadir as he recognized the *Guomindang* regime in Taiwan. In fact even the internal political circles of China which till were ambivalent towards the Australian approach froze their choices in to considering Australia as a friendly or a neutral partner (Ibid). Wu (2006:34) writes that Australia had no interest in changing its anti China policy despite the Nixon doctrine issued during 1971. However after receiving almost a diplomatic warning from President Nixon where he almost directly asked Australia to rethink over its policies about China 政策正在变化, 澳大利亚应当评价自己的政策 *zhengce zheng zai bianhua, oudalia ying dang pingjia ziji de zhengce* (Ibid). This led to a 'thaw' in Sino Australian relations for the first time in the year 1971 as Canberra began to consider re-evaluating its policies towards Beijing, with the result that by April 1971, Australia agreed to accommodate China in its sphere of diplomatic relations by liberalizing its trade structure and establishing trade relations with China (Ibid). Yet the inertia of hostility towards China had not changed from the mindset of Australia and when the many nations wanted an expulsion of Taiwan from the United Nations including Nixon and Macmohan, Australia still chose to stand by Taiwan and reduce the importance of China as a member state in the United Nations (Ibid). By late 1960's and early

1970's Australia inner circles including the intelligentsia and the general public had begun to change their perception about China. When the Whitlam government came to power it began to advocate the establishment of an independent foreign policy where he for the first time advocated the restrain of influence of countries with which it had traditional connections like United States, United Kingdom or Commonwealth Nations. The same country which had just a few years ago feared the encirclement by communist regimes if it supported the entry of China in United Nations, now began to actively pursue the policy of establishing proactive relations with China and other Pacific nations in its vicinity (Ibid). However this argument by the Whitlam government that Australia should resist the influence of 'traditional powers' seems to draw a flak as it was only after the establishment of US China relations and the strong insistence of Nixon doctrine that Australia chose to move an 'inch closer' towards China in its diplomatic efforts (Ibid). On December 21, 1972 after the Whitlam government came to power it along with the Chinese government officially issued a joint communiqué Treaty of and by 1977 Australia had repealed the Southeast Asia Collective Defense Treaty 《东南亚集体防务约》*dong nan ya jiti fang tiaoyue* (Ibid). Wu (2006:35) writes that Australia during the period of Cold War had not considered its economic well being, as it was dependent on either the UK or the US till the entire period. Its military, economic and diplomatic needs were fulfilled by its alignment with the western nations and the Anglo-Saxon powers. However it was only their desire of expanding their exports, development of economic trade and establishing markets in nearer areas that prompted Australia chose to shed their inhibitions about the Asian countries and expand its sphere of diplomatic relations to include Asian markets especially the bigger ones like China (Ibid). In fact by the 1970's Australia was caught in a dichotomy as its political interests clashed with its economic interests. While politically its interests lie with the anti communist group, it feared that it would lose buyers for its wool and cotton if it eschewed a big market like China (Ibid). Yet Wu (2006:35) writes that establishment of diplomatic or economic relations with China was actually a smokescreen by Australia as it was not yet ready to deflect the Taiwan issue and still did not consider it as part of China.

Sino-Australian energy relations have shared a trajectory of time tested initiatives at the political level which reflects their trust levels with each other for energy cooperation. Given below is a timeline of such initiatives:

Table 4.2 Sino-Australian Initiatives in the field of Energy

Year	Event
2002	Australian company chosen as the liquefied natural gas supplier for Guangdong LNG project (pg 106). China tries to attract Australian companies to invest in its western regions. World Energy council meeting held in Shanghai on 16 April 2002. Over 20 representatives from 11 countries attended the meeting, discussed preparations for 19th World Energy Congress to be held in Australia in 2004 (pg 191) Australia had realised that it would require foreign investment for exploration of domestic gas fields and coal reserves especially in the remote corners of its north western regions, hence an agreement was signed under which China would be supplied LNG in exchange of developing Australia's North West Shelf Project at the cost of 2.4 billion dollars
2004	MoU on management and execution of the Australia-China Natural Gas Technology Partnership Fund signed during the then Chinese President Hu Jintao's visit to Australia (pg 89)
2005	First session of China Australia Commission on Investment and Trade held in Australia witnessed official initiation. In September, second session held in Beijing (pg 87)
2006	Australia Trade minister Mark Vaile visited China, since 2005 China and Australia has maintained comprehensive cooperative relationship, China is Australia's third largest trading partner and second largest export market (pg 86). In April of the same year Australia recognised China as a market economy (pg 87)
2007	Australian leader John Howard and Chinese leader Wen Jiabao held talks in Shenzhen and attended the ceremony of Guangdong LNG Project Phase 1 startup
2008	A joint statement issued on climate change and energy and other inter governmental cooperation documents as well as number of business cooperation agreements involving liquefied natural gas and iron ore (pg 80). China becomes second largest trading partner, and Australia becomes China's ninth largest trading partner, China-

	Australia Joint Coordination Group on Clean Coal Technology was set up and the first meeting of the working group was held (pg 81)
2009	Zhou Yongkang visits Australia in November as the member of standing committee of CPCCC Political Bureau and Secretary of CPCCC Political and Legislative Affairs Committee , Hu Jintao and Kevin Rudd sign a *Joint Statement on Closer Cooperation on Climate Change,* both countries formed *Ministerial Internal Coordination Mechanism on Energy and Resources* and held consultations in June and October for it (102-103)
2010	former Australian PM Paul Keating visits as the advisor for CDB, in August Minister for Resources, Energy and Tourism Martin Perguson visits China, in October, Minister for Climate Change and Water Penny Wong visits China, Foreign Minister Yang Jiechi and Commerce Minister Chen Deming meet their Australian counterparts ahead of the 21st APEC ministerial meeting, China becomes Australia's largest trading partner and source of import and the second largest export market in the fiscal year 2008-2009. Australia becomes China's eighth largest trading partner, seventh largest source of import and tenth largest export market in 2008, 13th round of FTA negotiations were held (103-104).

Source: *China Foreign Affairs* and Australian Government Energy White Paper (2004:51)

The 25 million dollars Australia-China Natural Gas Technology Partnership Fund mentioned above was signed before the 10 million dollars Guangdong LNG project (Australian Government Energy White Paper, 2004:62). Also, China was mentioned as a 'key trading partner in the energy sector' way back in the White Paper released by the Australian Government in 2004 (Australian Government Energy White Paper, 2004:171). More cooperative agreements were signed for clean technology exchange and development in the initiative called Carbon Sequestration Leadership Forum and the International Participation on the Hydrogen Economy (Australian Government Energy White Paper, 2004:171). This trend continued further and was explicitly stated in the Energy White Paper released by the Australian government in (2012:102)

> Bilaterally Australia and China have established a close and productive relationship, addressing the challenges of reducing greenhouse gas emissions from the combustion of fossil fuels. The Australian government has allocated 20 million dollars to support a range of activities and projects under the Australia-China Joint Coordination Group that are specifically focused on the development, applications and transfer of low emissions coal technology .

Two years later, Australia launched its Energy Green Paper which specified that Australia had launched the first Australia Week in China in April 2014 to showcase Australian prowess in the field of mining equipment and technology. This programme is anticipated to be held biennially and 2 million dollars is already allocated for the event. Moreover the two countries have also launched the Australia-China Science Research Fund under which they would collaborate to research on 'oil, gas, mining and mining services'. The above mentioned programme along with Australia China Joint Coordination Group on Clean Coal Technology has been focusing on developing technology for both fossil and non fossil fuels to strengthen bilateral energy cooperation between the two nations. Australia has been an active member of collaboration of energy technology at the international front and China is keen on taking advantage of that. China realises that it would require active support of a country from the Western world and Australia with its geographical proximity and political neutrality makes for the 'perfect partner'. For Australia too this is a golden opportunity to attract investors and has explicated stated that it should redirect its international energy policy to accommodate the objectives of its 'trade and investment policy'. These trade objectives clearly involve not just the trade of the product (read: energy products) but also of the process (read: energy technology). This Australian 'reverence' has been reciprocated by China with equal alacrity as Ma Kai on the occasion of BoAo forum in Australia had reiterated

> Sino-Australian energy cooperation has been progressing smoothly in recent years and generated good results. The two sides have regarded each other as important energy partners, strengthened trade and investment cooperation in the energy field and established a bilateral dialogue mechanism on resource cooperation.

He also stressed that Australia has been complementing China's growth spiral by not only acting as a supplier to Chinese LNG project but also by allowing Chinese companies to invest in 'Australia's natural gas development at the upstream stage'. A noted fact here remains that China has always been too keen in participating in upstream activities of energy exploration rather than downstream. Also, Australia is 'rich in energy resources and advanced technologies' and is even

ready to exchange that with China. Ma Kai identifies four fields which should direct the development of Sino-Australian energy relations. They are:

- "Vigorously develop and deepen inter-governmental information exchanges and policy dialogues- As two large countries with complementary requirements China and Australia should refrain from limiting their energy cooperation on the basis of political and geo-political obligations. Both countries have suited their energy policy according to their energy and investment needs and hence there should be "regular exchanges and dialogues, communicate to each other, enhance mutual trusts, expand their consensus and improve institution-building so as to promote the deepening of Sino-Australian energy cooperation".
- Further cooperation on the LNG project.- For LNG the buyers are fewer than suppliers and everybody vies for the largest market (which in variably in this case is China). Ma says that "Many countries have approached China in the hope of export their LNG to China, however China is working on an energy diversification strategy and hence will not adopt a biased approach towards any one of its supplier.
- Promote mutual investment by enterprises in the energy field- Ma believes that both China and Australia should contribute in building a favourable investment climate to build in long time cooperation between the two nations
- Strengthening of cooperation in renewable energies, new energies and the improvement of energy efficiency- China is keen on developing its renewable energy sector and is looking for international partners who would help in developing the same. Australia has a long experience in R&D of renewable energy and its technology. Hence, in this field China looks up to Australia to help it develop its renewable technology. Also, China wants Australian cooperation in developing its nuclear energy for 'peaceful purposes'."

China has often complained about lack of Australian 'trust' in investment by Chinese companies in Australia especially if they are state owned (Yuan, 2014:6). However, it is also an accepted fact that China and Australia have never been as close as now and to put in Yuan's words "Australia for the first time has in its history has a major trading partner that isn't at the same time an ally that also offers an important security guarantee" (Yuan, 2014:7).

The New Paradigms of Sino-Australian relations

However by the turn of the century both nations had adopted a matured approach towards their diplomatic relations and initiated "21 世纪互利共赢全面合作关系" under John Howard and Hu Jintao (Ma, 2011:90). In fact the visit of the Chinese president Hu Jintao in September 2007 led to the initiation of strategic talks between the two countries. In fact just two months later, Kevin Rudd took over as the President of Australia and being a China expert, the two countries went through a honey moon phase in their relationship till the Beijing Olympics of 2008 (Ibid). However the sweet and short 'romance of the two kingdoms' ended soon with the release of military white paper by Australia titled "Defending Australia in the Asia- Pacific Century: Force 2030" (2030 *nian de jun li- zai yatai shiji baowei aodaliya* 2030 年 的军力- 在 亚太世纪保卫 澳大利 亚) (Ibid)。The White Paper categorically specified the disturbance of the balance in the international system due to rising force of Chinese military and the tension and fear psychosis building in their immediate neighbourhood. The White Paper asked Australia to strengthen and prepare its air force and navy to counter the rising strength of Chinese PLA. Such statements by Australia seemed as a reminiscent of the Cold War era and triggered the 'China threat theory" (Ibid). The release of this White Paper created a furor in Sino-Australian relations as China expressed 'deep regret' and demanded an explanation which Australia did not reciprocate (Ma, 2011:91). The White Paper had outlined a few worries which seemed to be obliquely hinted at a country which had manage to evade all of these worries, this was interpreted by the Chinese analysts as that of their own. Canberra feared decline in US hegemony after the 2008 financial crisis, and the consequent 'China rise' both in economic and military terms. Also Taiwan issue is a continuous 'irritant' in the maturing of relationship between the two nations. Yuan points out that Chinese have wrongly analysed that Australia wants to develop itself as a regional hegemon and hence is planning on major defence procurements, yet the damage had been done for developing friendly relations between the two nations (Yuan, 2014:19). In fact the year 2009 was a complete contrast from the bonhomie which had developed over the previous years between the two countries. Even when the White Paper fiasco had not subsided that another incident occured which further pulverized the already fragile relations. On February 12, 2009, Chinalco and Rio Tinto acquired a 19.5 billion dollars stake in Rio Tinto. However even after Chinalco had made a 21 billion dollar investment and obtained clearances from the Australian

Competition and Protection Commission, Rio Tinto unceremoniously revoked the deal on June the 5th of the same year and paid reparations only worth 19.5 billion dollars (Ma, 2009:91).

It was not just the military and business which had started reflecting the frozen 'courtship' of the two nations but also the culture department which in July 2009, allowed the screening of a Xinjiang splittists Kadeer's documentary at the Melbourne Film festival. When China raised objections, Kevin Rudd officially made a statement that "Australian people have a right to decide which film to make an entry" (Ibid). This support by the Australian government was seen as a direct attack on China's core interests and further deteriorated Sino- Australian relations (Ibid). These two incidents sparked an outrage especially on Stern Hu the Head of Rio Tinto's Shanghai office where he was blamed for not only deviating business ethics and normal market order but also jeopardizing the national interests of China (Ibid). All these events had major political repercussions, as Chinese Vice Foreign Minister He Yafei cancelled his visit to Australia and Australia too recalled their ambassador from China (Ibid). In fact things eased out a bit only after the joint statement issued by both governments in October 2009 which was one of the first official statement issued by both the parties since the establishment of their diplomatic relations in the 1970's (Ibid). This beacon became a reason of development of comprehensive relationship between the two. A further impetus came with the visit of Xi Jinping's then as the Chinese vice president visit to Australia in June 2010 (Ibid). Concrete agreements related to mining, energy, education etc. were signed which went beyond mere lip service and idealistic talks about 'comprehensive relationship'. Ma writes that Xi's visit had paved the way for the gradual development of a free trade zone between the two (Ibid). Similarly in October 2010 when both the Vice President and Vice Premier of China had laid done the road to bonhomie between the two nations the then Chinese premier Wen Jiabao met Australian Prime Minister Julia Gillard at East Asian Summit where both reiterated their commitment to continue the ongoing friendship between the two (Ibid). In fact in April 2011, the then chairperson of National Committee of Chinese People's Political Consultative Conference (CPPCC), *zhong guo renmin zhengzhi xieshang huiyi* 中国人民政治协商会议 Jia Qinglin visited Australia to exclusively meet the experts of Australia in various fields like energy, science and technology, communications, business, politics etc. and establish contacts with them to promote bilateral relations in this aspect. Gillard visited soon after Jia's visit to China (almost in the same month) and her entourage included the heads of Australia and New Zealand Banking Group, BHP Billiton, Rio

Tinto amongst other business tycoons (Ibid). Both Gillard and Hu Jintao signed various agreements related to various areas like finance, customs, innovation in science and technology, services, tourism etc (Ibid). Gillard on her four day visit had signed a 600 million dollar US deal where China would finance an iron ore project in Western Australia in Karara Mining Ltd. (Xinhua, 2011). When in China, Gillard not only attended the China-Australia Economic Trade Forum but also the second session of the CEO Round Table of business representatives, academicians and think tanks (Ibid). Gillard's visit to Australia was touted as a pragmatic, multidisciplinary, and comprehensive visit by an Australian leader and gave a new impetus to the bilateral relations between the two countries. This 'lost and found' bonhomie between the two countries that too at the highest level led to resurgence of mutual trust politically, mutual cooperation economically, mutual communication culturally and at the people's level. In fact the nadir of the relationship between the two countries which had reached in 2008 got back to its normal track by 2010 (Ibid). Gillard's visit had a special impact especially on the 'energy' (pun: intended) of the bilateral relations between the two countries. It was not just about signing contracts and agreements of energy supply but genuine acceptance by a leader of the Western Hemisphere that China is welcomed as an outbound investor even in strategic resources which is why Gillard pointed out that Australia was welcoming of Chinese investment and followed a protocol similar to China to examine it on a 'case-by-case' basis (Xinhua, 2011). Ma (2011:92) cites various reasons for the undulated equation of the bilateral relationship between the two countries. Primary among them is the 'China threat theory' and skepticism about 'China rise', which is prevalent not only amongst high level political, economic and intellectual circles but also amongst the local populace. Ma (2011:92) writes that the 2009 Defence Paper of Australia had actually stemmed from the same feeling which got reflected in official positions. Similar sentiment was echoed in the financial aspects where despite a proclaimed pursuance of non discriminatory trade and investment policies Australia had not relaxed the review process or its rules and regulations for entrance of foreign capital till very recently. In fact this was aptly reflected in the failed Rio Tinto deal which China rued because it felt that it was the rising sentiment of 'China threat' theory amongst Australian citizens that it aroused their nationalistic sentiments and they considered the Chinese acquisition of Australian aluminium in the deal as a threat to their natural resources and environment and it was this unfavourable political opinion and public pressure which led to failure of the deal. Ma (Ibid) analyses, that it is not just political

and economic but also cultural and ideological differences between the two countries that have caused turbulence in their relationship. Human rights issue has brought a structural difference in the field of contradictions between the two countries. Ma (Ibid) writes that Australia considers itself as a good democracy which has maintained good level of human rights according to Western standards. He further adds that Australian human rights values have been in accordance with the Western mission in Asia Pacific region and hence have developed contradictions with the Chinese understanding of human rights (Ibid). In fact Kevin Rudd who has often been a 'long time friend of China' has often used the term critical friend. The issues of issuing visa to Rabiya Kadeer or showcasing of her film at the Melbourne Film Festival or the imprisonment of Stern Hu has not only had political and economic overtones but also cultural repercussions in terms of human rights (Ibid). Ma (Ibid) also blames Australia's democratic set up for a fractured diplomacy with China. He cites that Kevin Rudd despite being a 'friend' of China could not take a decision beyond the popular opinion formed by the opposition and the public (Ibid). Due to this Ma (Ibid) writes that it was the Australian democratic setup which victimised Chinese diplomatic relationship with Australia. Ma further analyses that opposition had begun to use the China factor to arm twist the ruling government in Australia (Ibid). Ma (Ibid) writes that it was Rudd's 'China feelings' which went against him and gave the opposition an effective tool to both challenge and affect his China policies. Ma (Ibid) gives another reason for the dichotomy between Australian preachings and practice. He postulates that though Australian media dubbed Rudd as an 'China expert' (*zhong guo tong*), Rudd actually does not have a proper understanding of the so called Chinese fall and rise and still views China through the Western prism. He claims that Rudd understands China but not the 'new China' (Ibid). Rudd had once claimed himself to be a 'brutal realist', and even recommended the use of force against China to America in case the need arises (Ibid). Hence despite all 'feelings', Rudd could not become a lubricant in smoothening Sino-Australian relations and in fact sometimes inadvertently created negativity between the two nations (Ibid). However amongst all political animosity between the two, relations have continued to warm up between the two despite periods of 'thaw'.

Given below is a timeline of Sino Australian political 'thaw'.

Table 4.3 Timeline of Sino Australian Political 'Thaw'

Year	Event
1972	Establishment of diplomatic relations between China and Australia
1999	Annual meeting of foreign ministers held
2003	Chinese president Hu Jintao addresses Australian parliament in October, China-Australia Trade and Economic Framework signed leading to establishment of new free trade agreement,
2005	Bilateral negotiations initiated for free trade agreement in May
2006	Wen Jiabao visits Australia leading to signing of Nuclear Material Transfer Agreement and Nuclear Cooperation Agreement, regular high level dialogue to be initiated
2007	Chinese president Hu Jintao visits Australia again
2008	Australia-China Strategic Dialogue begins in February, uranium supply begins from Australia to China, Australia becomes one of the two countries with which China establishes 'strategic dialogue', Australian President Kevin Rudd visits China twice
2009	The then Vice-Premier Li Keqiang visited Australia
2010	The then Vice-President Xi Jinping visited Australia
2011	Australian President Julia Gillard visits China
2012	Australian President Julia Gillard visits China gain and commits to establishing "Strategic Partnership of Mutual trust and Mutual Friendship" and agrees to hold annual meetings of prime ministers
2013	Sino-Australian relations begin to be referred to as 'strategic partnership'
2014	Australian President Tony Abbot visits China, his government maintains the policy decision of 'less Geneva, more Jakarta' (i.e. continued focus on Asia), Australia-China free trade negotiations to reach a final conclusion
2015	China and Australia sign a free trade agreement

Source: Yuan (2014), Liu and Hao (2014:376), Xinhua (2015)

The year 2013 saw a reversal in the 'souring' of relations between the two nations and Chinese did not express much aversion towards the 2013 defence paper of Australia as it did to the 2009 defence paper. Both the Chinese and Australian analysts seemed to become accommodative of each other's 'preferences' and are ready to maintain the neutral approach rather than following

the 'with me or against me' policy. Xinhua (2016) quotes Helen Zhi Dent, KPMG Australia's partner in charge of the China Business Group that this transition in outlook could have also happened because of change in Australian government from Federal Coalition Government to Federal Labour Government in 2013. Again, it should be noted that China too just a year ago in 2012 had made a transition from the *tuanpai* group (Hu Jintao) to the Shanghai faction (Xi Jinping). Xinhua (2016) quote Dent who points out that while Australia became liberal and an investor friendly country, China too during the same timeline began to encourage its investor to 'go global' in the renewable energy sector. Yuan pinpoints the position of Chinese government on the 2013 defence paper which called it as a 'new opportunity to elevate bilateral relations to a new level, now that the two countries have established a strategic partnership' (Yuan, 2014:21). Perhaps one of the primary reason for this change of heart is the complementarities between the two economies. Australia's financial prosperity, developed science and technology, and resource rich capability still falls short as it lacks small scale manufacturing something which China takes pride in (Ibid). China despite its manufacturing prowess, labour resources and large scale investment capacity lacks both technology and resources to further enhance its development. Hence China and Australia have a lot of potential for promoting cooperation between the two countries. Yuan (2014:15) too points out that in his meeting of 2014 with the Australian Governor General Quentin Bryce, Chinese President Xi Jinping had stressed on a better bonding between the two nations by adopting the following strategy:

- Concluding free trade agreement negotiations with a flexible give and take approach
- Expanding bilateral cooperation to new areas such as clean energy, environment, financial services and infrastructure
- Furthering mutual understanding between the two peoples through tourism, education, culture, science and technology exchanges
- Engaging in consultation and coordination at the UN, the G-20, APEC and other multilateral institutions to contribute to peace and prosperity at the global and regional levels

Ma (2011) writes that China's Twelfth Five Year Plan has a potential for releasing enormous investment and trade opportunities which would be mutually beneficial for developing Sino-Australian relationship if implemented in full spirit. The Twelfth Five Year Plan apart from its continued focus on economic development has laid very strong emphasis on low carbon

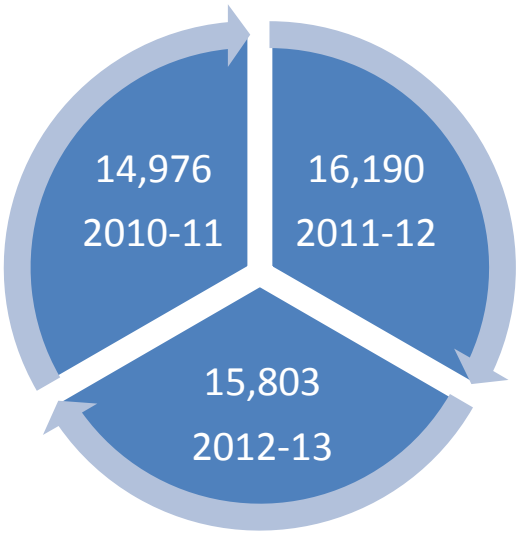
economy and Australia with its clean energy technology possesses a great potential to turn into a seller for China. Also the policy of 'carbon tax' since July 2012 has encouraged greater interdependence between the two countries (Ibid). Ma (2011:93) writes that despite all the political bickering between the two nations, they do not have instances of historical grievances, and have a common agenda of establishing regional prosperity and stability. This commonality of agenda could augment the new found bonhomie between the two nations if they continue to work in this direction. Ma (Ibid) also observes that even when the relations between the two countries were not very friendly the two nations had maintained high level visits of leaders to maintain the momentum of relationship. Bob Hawke, Australian ex Prime Minister had once quoted that "No other country has benefited more than Australia from China's rapid development since the last thirty years" ："除中国自身外，没有一个国家比澳大利亚更受益于中国30 年的空前增长*chu zhongguo zishen wai, mei you yi ge guojia bi oudaliya geng shanyu zhongguo 30 nian de kongqian cengzhang* Even Gillard had hinted closer cooperation with China especially at international and regional forums like G20 summit, East Asia Forum etc (Ibid). Also despite all development and Western support it is a geo political reality for Australia that geographically it is closer to Asia and politically is still considered a Middle Power in the international arena. China despite all ideological differences with the West is a permanent member of Security Council of United Nations and has considerable regional and international influence over other countries and Australia despite all Western support cannot do without China both economically and politically (Ibid). Also the business communities, scientists, technocrats, students and tourists have all facilitated in generating both trade, and exchange of ideas, people and friendship between the two nations which has forced the politics of the two nations to look at the relationship between the two nations with a new perspective. This was evident by the visit of Australian Governor General to Beijing in March 2015, where Xi Jinping on the occasion of signing the free trade agreement specified that China and Australia should heighten cooperation in the field of energy and resources, infrastructure and agriculture. Australian Governor General Cosgrove too reciprocated by saying that since Australia has applied for membership of Asian Infrastructure Investment Fund, she is also planning to establish a clearing bank for Chinese currency (Xinhua, 2015). Jiang, points out that interaction with market economies like Australia has matured China's dealings with the rest of the world. He cites the example of Free Trade

Agreement signed on between the two countries on agriculture. He points out that although the agreement was intended for agriculture the Chinese side had yet insisted on inserting a clause related to assurance of stable supply and stable prices of energy from Australia. It was only when they realised that such 'traditional bartering' was unacceptable in international protocols that they proceeded towards 'aggressive investment and energy diplomacy' to 'lock their supplies' (Jiang, 2010:114). Yet there is an opinion among Chinese analysts that "China should fully utilise the greater flexibility of FTAs so that they can deal with specific problems more easily" (Jiang, 2010:123). Australia had released another white paper on energy in April 2015 which had 'specified the productive use of energy resources'. The paper seeks to address challenges which had cropped up because of linkages of domestic market to the international market and called for 'encouraging more flexible trading arrangements through trading hubs' (*Global Times*, 2015). Interestingly, *Xinhua* reported the downside of this energy white paper which was criticised by many climate groups of Australia who outlined that the Australian government had gone back on its promise of 'switch to modern, smart and clean energy' (Ibid). This is important for China as it too wants to draw from Australian experience of renewable energy and with the government getting slack in its development might push China to consider Australia as any other of its fossil trade partner.

Chinese Investments in Australia: The Future Growth

Chinese investments in Australia have been at par with that of investment in US. However in the year 2013 figures Australia slided to a second position losing out with US, only because of some major agricultural deals. Hence while in 2012 Chinese investments in Australia were equivalent to that of US equating to 12 per cent (KPMG, 2014:3). In 2013 despite Australia receiving a one per cent increase in Chinese investment, it slided to the second position in the overall rankings because of increase in Chinese investment in the US by 17 per cent owing to the Smithfield 7,100 million USD agribusiness deal and 3,310 USD worth of real estate deals (KPMG, 2014:3). Australia in comparison of the year 2012 and 2013 found that despite China's global increase in outbound direct investment, Australia has seen a decline in mining and gas sectors from 10,105 USD in 2012 to 9,115 million USD in 2013 (KPMG, 2014:4). The below figure shows the list of 'approved' Chinese investment in Australia, analysed by *Foreign Investment Review Board*.

Figure 4.1 Chinese Investments in Australia during the Time Period 2010-2013



Unit: Australian Dollar (AUD) million

Source: KPMG (2014:5)

KPMG cites that the in the period from 2006 to 2013 a total of 182 deals have been signed between Australia and China out of which 40 deals have been signed in 2013 alone (KPMG, 2014:5). They analyse that often annual data and rankings get skewed because of the amount of investment in just one large deal which occupies the major bulk of investment like it happened in the case of US for the data of the year 2013 (Ibid).

Table 4.4 Amount of Chinese Investment in Australia from 2007-2013

Year	Amount of Chinese investment
2007	Less than 5,000
2008	More than 15,000
2009	Less than 10,000 but more than 5,000
2010	Less than 5,000 but more than 2,500
2011	Almost 10,000
2012	10,105
2013	9,115

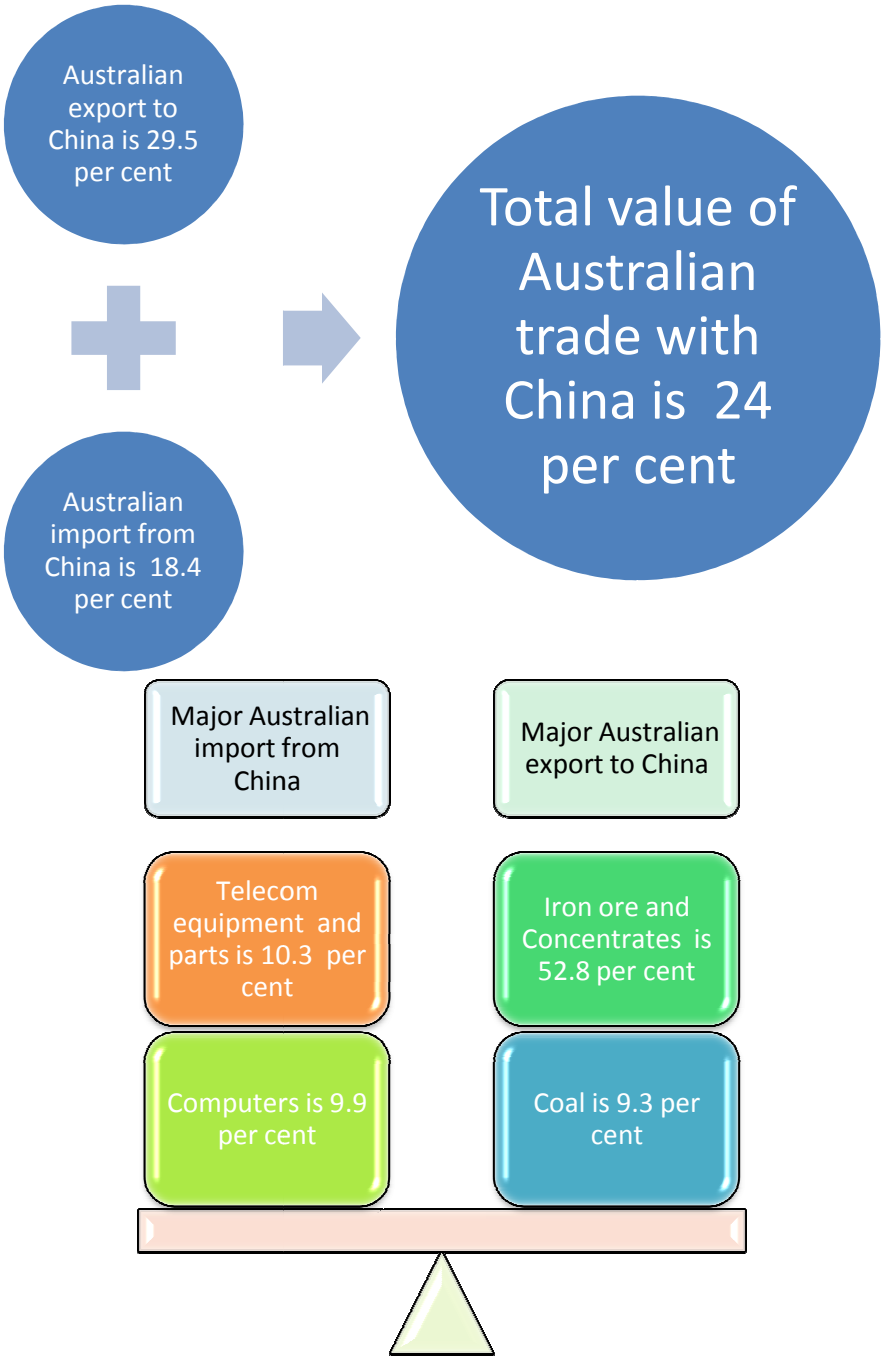
Unit USD million

Source: KPMG (2014:5)

The above figure shows that the amount of Chinese investments in Australia during various years. It can be seen that maximum investment came in the year of financial crisis i.e. 2008. Yuan too notes that it was Australia who maintained its 'role of supplier of resources' and continued to assuage China during the financial crisis. Hence, it was a two way process when China and Australia both became 'friends in need' to each other (Yuan, 2014:30). KPMG specifies that a total of 58,825 million USD was invested by Chinese enterprises in Australia during this period. Some of the major deals signed during 2013 were 'China State Grid acquisition of 19.9 percent of the publicly listed SP Aus Net and 60 per cent of the privately held Jemena business from Singapore Power'. Another major deal which happened in the same year was CNOOC's investment in Queensland LNG deal for 1,930 million USD (KPMG, 2013:5). In fact these two deals cornered 63 per cent of Chinese investment in that year with the rest of the percentage being built by 38 other smaller deals. The following is the list of Sino Australian deals in the energy field for the year 2013 (KPMG, 2014:5).

The diagrams given below illustrate the growing complementarities. They show that in the year 2012, China had a 24 per cent share in Australia's total trade with the international world, out of which 29.5 per cent was total exports and 18.4 per cent was total imports of Australia. It should be noted that Sino-Australian trade surged at a rate faster than the rate at which China's trade increased with the rest of the world i.e. 1,196 per cent as compared to 460 per cent. Major Australian exports to China have been largely in terms of 'raw energy' i.e. iron ore and concentrates (52.8 per cent) and coal (9.3 per cent) and imports have been in terms of manufacturing products i.e. telecom equipment and parts (10.3 per cent) and computers (9.9 per cent) (Ibid).

Figure 4.2 Sino-Australian Trades in 2012



Source: (KPMG, 2014:5)

Table 4.5 List of Sino-Australian Deals in the field of Energy in 2013

Sector	Target investment	Investor	Agreed Consideration
Grid	SPI (Australia)Pty Ltd.	State Grid Corporation	2,856
Grid	SP AusNet (SPN)	State Grid Corporation	810
LNG	BG Group-Queensland Curtis Island	China National Offshore Oil Corporation Ltd.	1,930
Mining	Rio Tinto North Parks Project	China Molybdenum Company Limited	820
Mining	Alumina Limited	CITIC Resources Holding Ltd	467
Mining	Perilya Ltd. Buy-out	Zhongjin Lingnan Mining (HK)	136

Source: (KPMG, 2014:8)

The above figure reflects the pattern of Chinese investment in the year 2013 which was different from that of the other years in various aspects. First of all, Chinese investment in the year 2013 was carried out more by the private enterprises unlike the previous years where the bulk of the investment was carried out by Chinese State Owned Enterprises (SOE's). Perhaps this is why Australia had more number of deals with smaller amount of investment in the year 2013 as compared to the previous years. Similarly China diversified its investment interests in Australia from mining alone to power generation and other sectors. Also, Chinese investors complain that investment by them receives undue media attention due to which the public gets an outlook that Chinese are disproportionally interested in Australian strategic areas and want to 'control their resources' (Yuan, 2014:27). The breakup of Chinese investment for the year 2013 is as follows:

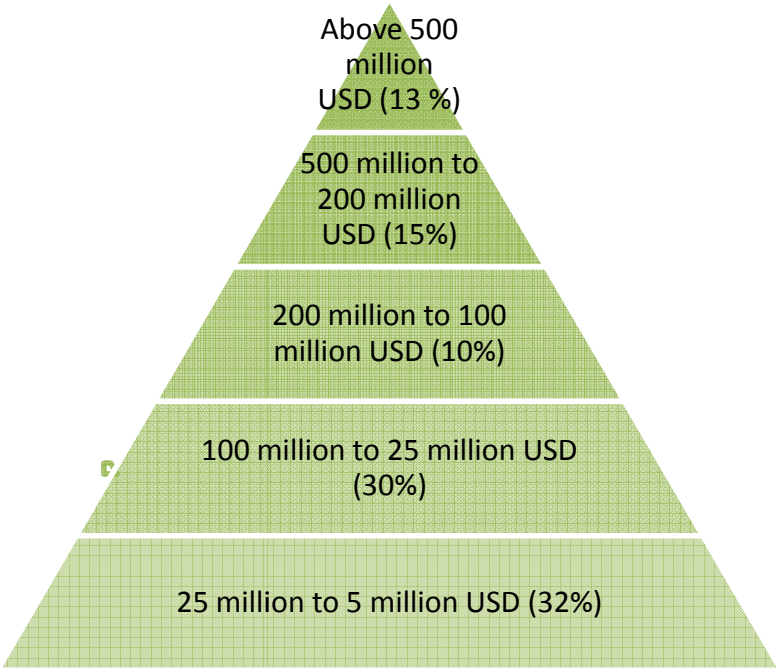
Table 4.6 Sector Wise Analysis of Chinese Investment in Australia

Sector	Amount (USD million)	Percentage
Power Transmission	3,666	40
Mining	2,133	24
Gas	1,930	21
Commercial real estate	1,290	14
Agribusiness	95	1

Source: (KPMG, 2014:6)

As can be seen from the above table, Australian energy be it natural resources or generated like power are the major attraction for Chinese investment, with investment alternating between mining and power transmission. Up till now Chinese have shown major interest in time tested USP's of Australia like power generation, gas, coal and uranium. It now wants to expand its interest area into clean technology, infrastructure and financing which it has not been very active till recent times. Yet Liu and Hao (2014:385) notice that in the year 2011-12, out of the total ratio of 9.5 per cent of investments which was approved by Foreign Investment Review Board Chinese investors had made the maximum investment in mineral sector which was 64.9 per cent of the total investment made by China in the same year. They also analyse that Chinese outbound investment in Australia has increased by 495.4 per cent much faster than the rate at which Chinese have invested in the rest of the world which has increased by 181.6 per cent between the period 2007 to 2011. Similarly, China's cumulative FDI stocks grew by 229.1 per cent in Australia much higher than how it fared in the world which increased by 130.9 per cent. This shows that despite all diplomatic rhetoric of US pressure and perceived public opinion and media coverage of discrimination, Chinese and Australian investors are at relative ease with each other and despite all 'control' issues Australia is thoroughly professional about Chinese investments without falling to any xenophobic tendencies. Liu and Hao cite BBC polls to validate their points that even Australian public is fast moving away from jingoism or excessive adherence towards US. Both the polls of 2011 and 2013 point out that Australian public opine that Australia is better suited to having greater ties with China (84 per cent in 2011 and 76 per cent in 2013).

Figure 4.3 Total Amount of Chinese Investment from 2006-2013 in Australia

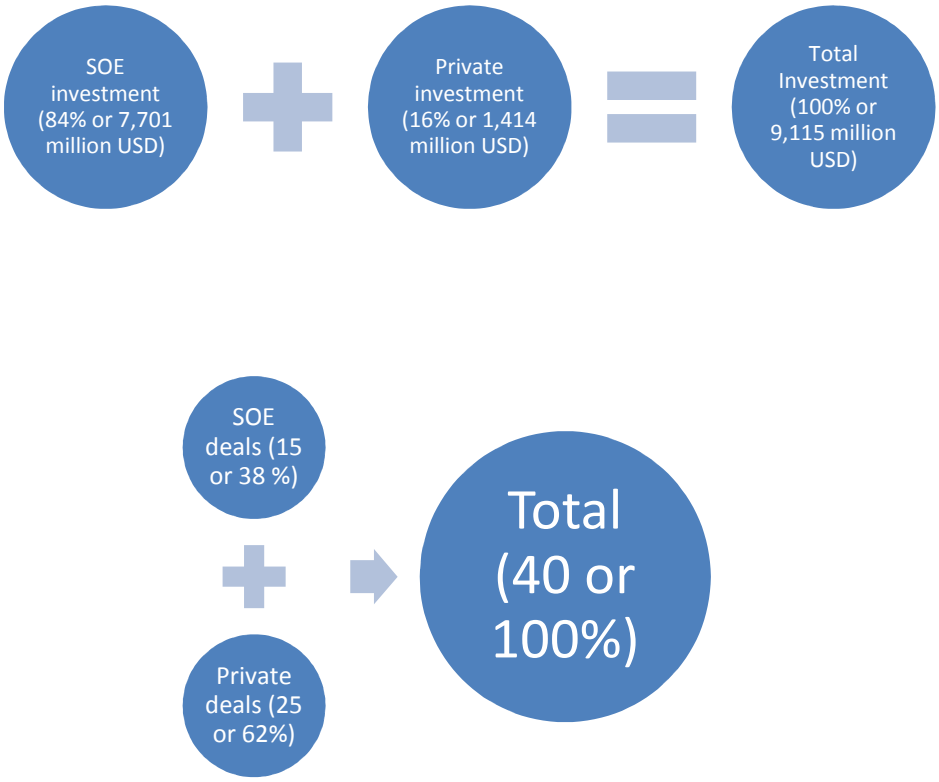


Source: KPMG, 2014:10

In fact if we begin to analyse the general trend of Chinese investment from the year 2006 to 2013 then from the above table it can be seen that the bulk of Chinese investment has happened from the range of 25 million to 100 million and very few deals have bigger investments as seen in the below figure. Clearly when investment in Australia is discussed, any major deals directly or indirectly involves an energy resource component and few deals which happen in sectors beyond energy have negligible investment to supersede the sheen of energy investment in Australia. Yet sectors like real estate cannot be ignored as major traffic of investment by the Chinese private sector is getting redirected towards Australian real estate in smaller number of deals as seen in the below figure with data for the year 2013 (KPMG, 2014:11). Another point to be noted is that while Chinese investors have claimed discrimination in Australia, Chinese energy investors have had a relatively more liberated environment to do business. Hence, when Chinese faced problems in agriculture and various other sectors, yet State Grid Corporation of China and Yanzhou Coal were allowed to do business in Australia (Yuan, 2014:32). Perhaps, Australia is relenting, albeit a bit slowly or perhaps she wants to establish herself as a sovereign nation where she is neither viewed in the shadow of US not gets too adventurous to venture out far from US protection. Also, Chinese investment in Australian sources seems to be a necessary input for China to keep up the momentum of its own domestic production. Liu and Hao

(2014:387) point out that China has become one of the major producers of crude steel (which Liu and Hao point out has been one of the major contributor in fuelling China's economic growth) and production of crude steel requires iron ore which is invariably imported from its largest producer i.e. Australia. Also, Australian iron ore like its coal has lesser impurities and is considered of a better quality than the iron ore produced of other countries. However, both China and Australia have had their share of grudges like the Rio Tinto event where Chinalco lost to acquiring stakes because of public pressure in Australia. The office of Rio Tinto Group in Shanghai was reciprocated with arrests of its high profile employees, and the authors rightly lament that "the fact that a commercial event could develop into a political incident reflects the weak degree of bilateral trust" (Liu and Hao, 2014:389). However, barring a few stray incidents Chinese companies have maintained a steady momentum in their energy investment into Australia. For example CNOOC Gas and Power Group Ltd. launched its first 'world class' LNG production base in Curtis in Australia and imported 13.16 million tonnes of LNG. CNOOC categorically states that 'while sticking to 'going out', CNOOC exerts more efforts in the foreign cooperation through 'introducing-into'. It was perhaps this 'introducing into' policy which led CNOOC to venture into Australia (CNOOC Annual Report, 2015:42).

Figure 4.4 Bifurcation of Chinese Investment Based on Ownership



Source: KPMG, 2014:11

The above figures reveal that despite major investment (84%) coming from Chinese State owned enterprises, maximum number of deals have been initiated by Chinese private enterprises. KPMG (2014: 12) analyses that both China and Australia have had a change in government at the political level with Australia having three successive governments within a year and China having a smooth transition from the *tuanpai* group (Hu Jintao) to the Shanghai faction (Xi Jinping). It was anticipated by various analysts that Australian domestic political convulsions and China's government change might affect the amount or pattern of Chinese investment in Australia. Yet the political turmoil could not affect the economic bonhomie between the two countries. This implies that almost all parties of Australia and all factions of Chinese Communist Party (CPC) have a subtle acceptance of the ongoing Sino-Australian relations and the trade

deals between them. However no relationship is successful without its rough patches and similarly Sino Australian energy deals have their problems in terms of bulk of investments into very few deals and that too restricted majorly to mining and gas sectors. Also the bulk of Chinese investment has been concentrated in to Western Australia and Queensland till 2012-13 (KPMG, 2014:12). It is only from the year 2013-14 that China has diversified its investment patterns not only in terms of the sector of interest (power generation versus mining and gas), but also in terms of geographical area of interest (Victoria versus Western Australia) and the ownership of the Chinese companies investing (China's private enterprises versus state owned enterprises) (KPMG, 2014:12). In fact it seems that perhaps Australia is not only not bothered but in fact welcoming those aspects of Chinese investments which have been criticised internationally. KPMG (2014:12) writes:

> Chinese are long term investors and are now starting to export large quantities of raw materials from these investment projects to satisfy domestic demand. It remains to be seen that whether Chinese companies will continue to invest at 2006-2013 levels into new mining and gas projects.

This implies that Australia does not abide by the 'resource curse' theory and is shedding the fear of a Chinese overtake of Australian resources and refineries by Chinese enterprises in the garb of investment. The White Paper on Energy 2012 by Australian government underpins the need to integrate with the world market despite being a resource rich and energy secured nation.

> Australia has a generally positive energy security outlook. This will increasingly be shaped by the strength of future investment, the cost of energy and our ongoing response to climate change. Australia's abundant reserves of energy resources underpin our energy security, but maintaining a high level of security also depends on our integration into diversified supply chains, access to well functioning global energy markets and continued effective responses to market and non-market risks

In the same paper it has highlighted 'further expansion of energy exports to Asia' as the target of Australia's future energy strategy (*White Paper on Energy*, 2012). The White Paper highlights its positive aspects being the world's ninth largest energy producer (world's largest coal producer and third largest uranium producer) and geographical proximity towards Asia (Ibid). Clearly this new found 'Asian attachment' of Australia has not stemmed just from its realisation of 'nearness to Asia' but its general interest in rising economies of Asia and more specifically China. The white paper has claimed that one of the utmost challenges to Australia's energy security is bringing in 'timely and efficient investment in China's energy sector' (Ibid). Australia has

specified that it requires finance and capital to grow and develop its energy field. The white paper accepts that Australia has little experience in Greenfield investments even on its domestic turf and requires overseas 'help' (Ibid). In this situation China and its investments fit in like a 'hand in glove'. It not only brings in the requisite capital but also the required 'safety valve' to invest in risky projects in Australia where even the Australians would not invest. However, the benefit for China lies in access to clean technologies which Australia seeks to build and assimilate into their domestic grids like storage scale or solar and carbon capture. Australia intends to do it to reduce their domestic emissions, especially in the power generation sector as specified in the Australian White Paper on Energy 2012. The repercussion of this announcement was that Chinese investments the very next year began to get diversified into power generation which was till the previous year heavily concentrated in mining and gas sector (KPMG, 2014). Also, Australia intends to utilise the generation of its clean technologies as 'business opportunities' to attract overseas investment and get integrated in 'global supply chains' (Australian White Paper on Energy 2012). China who is suffering from its own problem of 'hazy skies and polluted rivers' and is an avid seeker of clean technologies considers this as a golden opportunity which it does not seek to miss. Australia realises that its clean technologies are still in an 'in-situ' stage and cannot be a guarantee of commercial success either technically, socially or economically. In such a situation it requires a buyer who is not only ready to take risk of buying it but also continue to be a long term investor for it. China seems to readily accept both the propositions. Mathews John (2012) tried to compare the white papers on energy for the two countries, for the year 2012. He claims that 'the two documents could not be more different' (Ibid). He is all praises for Chinese energy white paper which has clear cut targets and goals and extensive stress and emphasis on development of renewable industry. The Chinese targets of '100 GW for wind (more than doubling the capacity), 21 GW for solar PV (a seven fold increase) and massive expenditure on electric power grid' speaks volumes about their commitment towards concrete action and plan, something for which the Chinese are appreciated worldwide (Ibid).

> The State Grid Corporation of China has announced a roll out of its strong and smart grid. It is investing 4 trillion yuan up to 2020 involving state- of –the – art high-voltage direct current (HVDC) transmission lines bringing power from the west, where it will be generated by huge wind and solar farms, to the east as well as digital switching stations. Among other goals there will be diffusion of over 300 million smart meters, made and

> designed in China to Chinese standards. This is how to build an industry (Mathews John 2012).

He points out that the Chinese have developed their White Papers with a futuristic vision meant to achieve clear cut concrete goals in contrast to Australia which is more focused in becoming the 'alternative Saudi Arabia of gas' for the world (Ibid). He feels that at a time when the world has moved to making renewable industry the 'next big sensation' Australia despite having the capacity to develop clean technology is still struggling with burgeoning oil imports and gas exports (Ibid). He clearly outlines that China intends that the contribution of GDP should rise by 15 per cent by 2020, which means that the core industries need to grow by 20 percent for which China is ready to invest 10 trillion yuan whereas Australia has limited itself to making a 'fossil fool' of its people (Ibid). In fact owing to the Chinese interest in clean technology and the Australian interest in having a long term association with China, some deals got initiated between the two countries related to renewable industry. China is providing a platform for the development of Australian technology by investing in manufacturing units which would build up technology sold exclusively to Chinese customers. This assures Australia of a market and China of a product and ownership of a company in an overseas geographical boundary. An example of such an agreement would be the deal between Victorian solar company RayGen Sources Pty Ltd. and China's Juye Solar where concentrated solar photovoltaic systems (CSVP) would be manufactured in Victoria using Chinese funding and for Chinese customers (*Australian Trade Commission,* 2015). The Chinese customers in this deal would be Juye Solar and China Three Gorges New Energy Company who would get receivers worth 500 megawatt of concentrated solar power in China. The reason China chose to invest with Raygen, which is a fairly new company established just five years ago in 2010 is because it has recorded a 'system efficiency' of 40.4 percent which was the highest ever for conversion of sunlight into electricity (Ibid). Thus China is ready to take that extra risk with newbie companies if they have the 'innovative capacity' to deliver what the Chinese want. Even the 13th Five Year Plan released by China in 2016 continues to lay stress on renewable energy by pointing out the promotion of 'green finance' by establishing a 'green development fund' (Kim, 2016). Also, an oblique reference can be drawn to Australia where she is encouraging its consumers to use electric vehicles and China is encouraging the industralisation of such vehicles (Kim, 2016).

In fact Sino- Australian relations have often adopted a 'sitting on the fence' approach till 2009, where Chinese involvement has been met with acute skepticism often bordering at xenophobic tendencies. However since the last two years especially since 2013 and 2014 China and Australia especially under the regime of Xi Jinping and Tony Abbott have shed their decades of inhibition. There have been bilateral visits by the two leaders elevating the meetings to prime ministerial level dialogues which as Lowy Institute points out is a privilege given to very few countries by China and Australia is one of them. As Australia and China move towards the establishment of a Free Trade agreement between them, especially in the agricultural and infrastructure zones, it also points out that Sino- Australian relations have moved beyond the buyer seller relationship of resources as 'Australian exports are now expanding well beyond the resource sector'. China has been so interested in investment in renewable technology that some surveys have begun to list China as the 'leading global investor in renewable energy infrastructure and is increasing its overseas investments in renewable energy, particularly solar and wind'. China had some major investments in electricity generation especially in the wind and solar sector for both the manufacturing purposes and sales many of which were redirected towards Australia. The paper points out that there are three major factors which make Chinese companies invest in the wind and solar industry (Polycarp et al, 2013):

> Policies that push Chinese companies to invest overseas, policy incentives in host countries that pull Chinese investors and financial support from the Chinese banks that enable these investments.

In fact one can see that China's investments are doing the major work from being the 'push' factor to providing the 'enablers' (Ibid). Host countries are merely expected to rise and 'pull' the Chinese companies with provision of an environment which is in synch with the Chinese investor. Also they have been able to attract the Chinese state owned companies through policies like 'tax breaks, feed in tariffs, bilateral cooperation agreement and policies which discourage imports' but encourage foreign investments in developing their own industry. In order to promote the development of energy technologies and reduce carbon emissions China and Australia have established a Joint Research Centre for Energy which will promote collaboration for research in the development of technology in the field of both renewable energy and fossil fuels (*Australian Government website*, n.a). The point to note here is that China despite its persistent focus on renewable technology is not ready to abandon any chance of developing any

breakthrough research on fossil fuels. Through this centre China and Australia are ready to exchange samples of information, research facilities, energy scientists and engineers and even research outputs (Ibid). The centre also advocates the issuing of joint patents and publications which is a major step from the Australian perspective who have often sided with the US in accusing China of engaging in 'reverse engineering' and stealing Western ideas and innovations. In this Centre the collaborators are Curtin University of Technology (from Australia), Taiyuan University of Technology (from China) as the lead partners and also involve other partners like Monash University, China Huadian Electric Research Institute and National Institute of Clean and Low Carbon Technology (Ibid). Shuqin Gao points out that it is the energy cooperation between China and Australia which has prompted the two countries to develop a greater bonhomie in political and military relations. China has both the advantages and disadvantages of its 'razor edged' relationship with the Western nations. While it is not bounded by the diktats of any international organization like IAEA, OECD etc to pursue its energy diversification policy, China sometimes loses out on a lot of bilateral advantage with the Western Nations writes Shuqin Gao. He cites the example of the failed UNOCAL bid in 2005 and its limited energy cooperation with core NATO countries like UK, Norway and US. However a lot of things have changed since the world went through the financial crisis of 2008. Not only China's monetised strength bailed out the world it also made many countries realise that they need to diversify their diplomatic alliances in terms of stronger, richer nations in case of global emergency. Hence when China chose to diversify its imports and energy supply routes, Australia at the same time chose to diversify its political and economic partners. In fact with China now actively seeking to diversify its energy dimensions both in terms of product and process, Gao feels that this will have a massive impact on the international energy markets both in terms of cost and prices. In his words it 'reflects a new global geopolitical- economic divergence'. Yuan on the other hand feels that like Australia even China believes that it has a lesser advantage in the bargaining power between the two nations. While Australia feels 'bowed down' because of China's financial might as an investor and buyer, China too feels 'threatened' by Australian hold over 'strategic resources'.

> …..China's dependence on Australia for some critical commodities those are either difficult or very expensive to replace. …..Chinese demand for minerals allows Australia to take stronger positions in negotiations on prices. In addition, because Chinese exports

> to Australia are typically low value added consumer goods that face fierce competition from other developing low cost countries that can easily be replaced (Yuan: 2014:26).

Hence, Chinese worries are multi-pronged ranging from discrimination for Chinese investments due to xenophobic tendencies, to low value addition of exports vis-à-vis Australian imports to strategic position held by Australia in Sino-Australian investment climate (Ibid). Sino-Australian relations despite having three decades of political diplomatic relations gathered momentum only after the twenty- first century when for the first time in June 2006, Australia sent a shipment to the Guangdong LNG terminal (Ibid). Since Sino- Australian relations are a reflection of Asia- Pacific coordination it has ramifications in many multilateral and regional forums especially those which involve the two countries like East Asia summit, ASEAN group, Shanghai Cooperation Organisation (SCO) (Ibid). With China now having a greater role and position to have a say in its immediate vicinity and with Australia now looking to concentrate on its Asian neighbourhood, Australia has realised that it cannot continue to ignore China if it wants to seek advantage of the changing geopolitical paradigms. In fact China and Australia despite a good start have gone through a plethora of controversies in terms of public backlash and protests against Chinese companies for having a subtle imperialist mentality to own Australian resources in the garb of investment and development. This backlash had strong resonance in 2009 when some major projects were abandoned due to public pressure. For example the 20 billion dollar Rio Tinto project or the 41 billion dollar Gorgon project were aborted within a span of six months (the former in February and the latter in August) because the Chinese were not comfortable with the 'terms of the deal'. This spread major negativity in the new germinating bonhomie of the two nations as the companies involved were state owned companies of China who have a major lobby in the political domestic circles of China. In fact PetroChina gave a statement on record that "everybody else has resources, both real and potential, and Chinese companies tend to cancel agreements when they do not see terms as comfortable" (Ibid). The Energy White Paper of Australia 2015 has claimed that their energy shall be built on 'capitalising new technologies' and 'maximising the returns on our natural advantages'. They have even given an estimated figure of 114 billion dollar to be earned from energy exports yearly. It has also launched the Industry Growth Centers Initiative of 188.5 million dollars and Industry Skills Fund of 476 million dollars to boost the development of energy resources (*Energy White Paper of Australia* 2015). Australia Energy Market Commission (AEMC) expects electricity

prices to be either stable or fall below the prevailing structure because of the removal of carbon tax, reductions in wholesale price of energy and reduced network prices. Australia in its White Paper has stressed on reducing the conflict between state and territorial governments and between governments and market to free capital and encourage innovation (Ibid). In fact under the Asset Recycling Initiative Australian government is ready to privatise government assets, both state and territory to build on economic infrastructure to attract energy investment. However, there seems to be a reversal of sorts in China's Thirteenth Five Year Plan which was released in 2016. Drop in China's growth rate has also led to drop in China's investment rate in fossil fuels especially in mining which has directly hurt Australia. Kim (2016) pints out that in the mining sector Australia and China traded approximately about 152, 468 million Australian dollars in 2014 which dropped down drastically in 2015. *Xinhua* (2014) in one of its reports had also noted various analysts across globe that China is keen on building its renewable energy sector and if Australia does not comply she could be hit hard soon. Many had gone to the extent of calling it 'short sightedness' and 'loss of opportunity' from Australia.

China has taken keen interest in development of its renewable energy and like the trade of fossil fuels, she is also taking keen interest in trading renewable energy, especially the solar. In 2015, the White Paper published by China Energy Storage Alliance pointed out that China's renewable energy market has been in an extremely precarious position: lack of subsidies has led to changes in prices of renewable energy especially the wind 'adjustable' to market rate, lack of policy encouragement and financial incentives has led to pitiable condition of Chinese renewable energy market. However they are still upbeat about the future of this industry in China as the year 2014 was the pioneering year when China set up its energy storage industry. Australia too has developed its energy storage industry in solar models. However, Australia's solar storage industry is in its infancy stage and like China is also struggling for subsidies and lack of business experience. The Energy White Paper of Australia 2015 too draws corroboration between energy technologies and market and adds that both 'change quickly'. Hence technologies should be not only environment friendly but also cost effective. The Emissions Reduction Fund (ERF) and Direct Action Plan of Australia on climate change has targeted reduction of 20 per cent of greenhouse emissions by 2020 of 2000 standards (Energy White Paper of Australia 2015:4). China had released its five year energy plan in January 2013, indicating its direction of investments (Lee Edwin, 2013). The new energy plan has also pressurised the local governments

to develop economy without expanding the requirement of energy, as energy costs have begun to offset economic growth. In fact the plan has also encouraged private and foreign investments which seem to challenge the monopoly of state owned energy companies. The plan had envisaged a total investment of 13.5 trillion RMB to be executed till 2015. Yet the plan does not forget to explain the do's and don'ts of investment to the investors, developers and financial institutions while playing in the energy sector of China (Ibid). China's energy plan has also focused on developing the distributed energy to avoid wastage of generated resources because of lack of connectivity with the pipeline. This trend is fast developing in the distribution of both fossil fuels and renewable energy. For example Wanxiang company acquired US battery maker A123 and similarly Fisker Automotive which manufactures green cars in US has acquired selling bids from five Chinese companies, Geely, Dongfeng Motors, Wanxiang, China Grand Auto and BAIC Group (Ibid). This shows that Chinese companies are taking all efforts to 'go out' and make any investment that shall assist them in developing renewable industry.

Conclusion

It was hypothesized that Chinese investments in Australia have stemmed from their present requirements and future prospects and the trajectory of Chinese investments validate the hypothesis. It is seen that despite diversification, Chinese investments like before have continued to be in the resource sector i.e. gas and mining, which is one of the major requirement of energy starved developing nation. Also given that China believes in supply diversification, Australia owing to its stable political structure and developed economy is a relatively better bet than other resource rich nations. Again, with the gnawing problem of smog and haze China is assiduously aiming to promote renewable industry without tampering its growth speed. This requires research and technology of high quality which China lacks in its domestic domain. Hence given the fact that Australia provides both fossil fuel for present consumption and clean technology for future purpose makes Australia both a viable option for investing Chinese yuan in Australia. Will or can Australia continue to suffice Chinese interest and attract Chinese investment and for how long will Australian energy be the trump card for attracting overseas investment in Australia will be a question which the present will ask from the future.

Sino- Australian relationship has stretched from the bandwidth of apathy to antipathy and then back to resource empathy for each other. Both nations realise that 'energy trade' is a long lasting

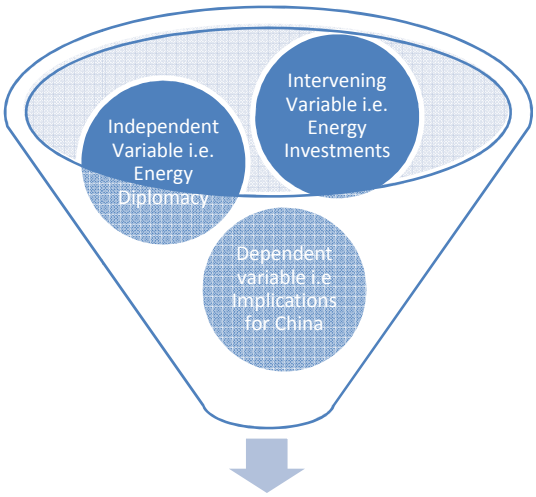
initiative which can maintain the momentum of bilateral relations between the two nations. Also, both nations have progressed from granting each other political duress to economic empathy by bailing out each other during the times of crisis. China as an overseas outbound investor had to play its cards differently in Australia, not only because she was treading on an 'enemy friendly' zone but also because Australia is a developed country with better resources, better technology and better chances of survival in this energy starved world. Hence, it would be in the best interest of China to follow a policy of proactive 'congagement' especially if it wants to maintain its cover of 'strategic partnership' while she acquires Australian energy resources and technology for her present and future growth.

Conclusion

China has been a nation who has often maintained the balance between its national interests and international engagements. Since China's energy security forms as a part of one of its 'core' national interests, she has tried to redirect her foreign policy based on her energy interests. China's energy diplomacy and her geopolitical interests largely began to coincide after her 'energy needs' and domestic lobby began to be at the frontline during the course of policy formation and action. This work was largely aimed to identify the facets of China's energy diplomacy and its role in making China choose her place and course of action as an energy investor. Having no independent energy ministry, China's energy motives and initiatives are largely guided by her strategic interests, political motivations and economic ramifications. China has emerged as one of the biggest financiers of the world especially after the 2008 meltdown. Her banks provide credit support to her SOE's not only for enhancing domestic production but also for acquiring investment overseas. Some of the major banks providing credit support to China's energy companies are China Development Bank (CDB), Export –Import Bank of China (Chexim) and Export and Credit Insurance Corporation (Sinosure). These banks provide credit often in the form of energy backed loans also referred to as 'oil for loans' (Denjean et al, 2015:6). While on papers these loans are given for non energy initiatives like agriculture, infrastructure etc., the banks earn back their credit either in the form of 'direct shipments of oil and gas from the recipient country' or 'withdrawals by Chinese SOE's from cash accounts set up to receive the proceeds of fossil fuel sales by the recipient country' (Ibid). This implies that Chinese SOE's are pressurised by the government not just through within the political circles[8] but also by the government backed financial institutions. Again China has significant funds parked in various regional institutions like Asian Development Bank, BRICS bank etc. and Chinese companies are expected to bring in fossil fuel flow in lieu of loan they take (Denjean et al, 2015:7). This brings us to the connecting dots between energy diplomacy and energy investments where Chinese energy companies' essentially get loans only if their area of operation had withheld the test of debate in the inner political circles of the foreign ministry and the politburo. However, since it is widely known that most of the top executives of the energy companies also hold a distinguished post in the political circles, China's energy diplomacy is often impacted by the investor point of

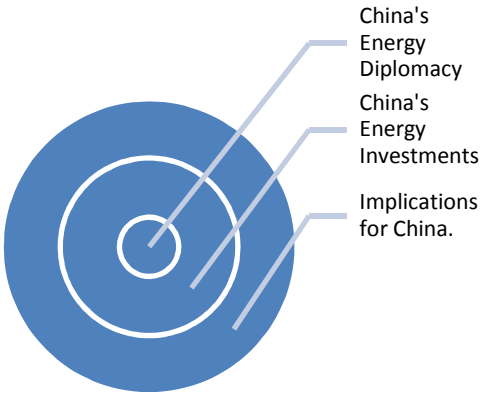
[8] Generally it is the nine members Politburo Leading Group which is said to control the helm of affairs in China.

view during policy formation. Hence it can be analysed that both the independent (China's energy diplomacy) and the intervening variable (China's energy investments) wield considerable leverage over the dependent variable i.e. implications for China. These implications vary in terms of geopolitical status, economic benefits and political sustainability. Also, they determine the future course of action which in this case is reflected by China heavily advocating towards acquiring renewable technology. The implications are reflected with the country, China seeks to engage with bilaterally, for improving its energy security in all dimensions. Hence, it can be analysed that the international dimension of China's energy security is composed of three major factors: China's energy diplomacy, China's energy investments and the implications for China. It is these three factors which constitute the overall position of China's energy security at the foreign policy level as shown in the figure below



International Dimension of Energy Security of China

These factors have been considered as the three major variables of this work: Energy Diplomacy (Independent variable), energy Investments (Intervening variable) and implications for China (dependent variable). It was also found that while energy diplomacy forms the core of China's energy security, it has a direct impact on China's energy investments which in turn spills out the effects on the implications aspect.



SIPRI analysts have touted state owned enterprises and government controlled banks as the key actors in China's foreign policy. They write that "It is in the state's interest to support the overseas expansion of Chinese companies" (Jakobson and Knox, 2010:24). They also point out that often from the profit perspective; they are instrumental in 'narrowing' down China's strategic interests rather than expanding on macro foreign policy goals (Ibid). It is a known fact that the top executives of China's SOE's are appointed by CPC and many of them themselves hold ministerial rank or at least wield considerable influence on CPC to sway energy policy in their favour. Yet, this is not to discard energy diplomacy as subservient to whims and fancies of individual companies; in fact generally it is the other way around where the companies are expected to provide the basic tenets of China's energy security. SIPRI points out that many times under the behest of NDRC, oil companies seek the support of PLA Navy to 'secure their overseas natural resources' (Jakobson and Knox, 2010:26). Yu (n.a, 35) too argues about the energy companies being subservient to energy diplomacy through the following points:

- To begin within all outbound direct investments are subject to the scrutiny of Ministry of Commerce (MofCom) at the central level for amounts more than 100 billion dollars and at the provincial level for amounts less than 100 billion dollars
- Many Chinese investments have to undergo rigmarole process of taking into account interjections and interventions by various government policies and agencies like National Development and Reform Commission (NDRC), China's Banking Regulation Commission, SASAC etc.
- Many overseas projects are delayed or suffer losses due to short sightedness on the part of policy makers, yet it is the companies who have to take the blame for their misplaced adventure in the public sphere.

Hence, we can see that the independent variable, still holds a strong position at the centre of China's energy security and has a great influence on the intervening variable. For Yu, the heady mix of domestic politics and overseas business has done more harm than good to the Chinese companies as the state support stays with them only till the entry level (Ibid). He writes that it is the 'post merger' acquisition when Chinese companies are left to fend for themselves and their inexperience comes into play (Yu, n.a:37). Perhaps Chinese companies still have a long way to go before they transcend from investment recipient to being investment provider country.

The second chapter dealt with various nuances of energy diplomacy and China's energy investments across globe. It seeked to answer a few research questions envisaged during the commencement of this work like what is energy diplomacy, what are the 'Chinese characteristics' of energy diplomacy, what is the influence of China's energy diplomacy and the challenges it faces. It also tried to delve into the motives behind China's energy diplomacy and whether her energy relations were solely 'financially conditioned' or whether they were intended for other subtle purposes. The chapter described China's 'go out' policy and the conditions which led to the formation of this policy. Since the work impinges on a timeline which begins from the initiation of 'go out' policy, it describes the background which led to it. China's transformation from a 'self reliant- self sustaining' economy to a net importer of oil 1993 furthered her understanding into breaking international isolationism and engaging in diplomacy especially for her energy requirements. Hence, China's energy diplomacy involved the following facets:

- It wants to create an environment where disputes could be reduced and common consensus could be drawn so that a mutually beneficial situation could be achieved. This mutual benefit could be between the supplier and the buyer or between two buyer parties who are vying for the investor position
- China itself was an energy rich nation specially coal, until her demand began to increase her supply. Hence China wants to learn from the experiences drawn on the domestic turf to bargain the best outcome from her overseas investment
- The timing of China's return from international isolationism and the launch of her 'go out' policy have nearly coincided and since then China has been reneging on establishing

peaceful political nations with various countries of the world while at the same time maintaining her focus on economic trade

- China has transformed herself from being a buyer of the end product to development of resources at the field itself. Hence, she prefers to take control of downstream activities so that she can jointly produce energy resources
- China is comparatively a capital rich country which is keen on transforming her energy mix from a coal based to a clean energy based module. Hence, China is also investing in those nations which can not only provide her fossil fuels but also clean technology for her shift to renewable energy.
- China's energy diplomacy is saddled between the synthesis of cognition and practice which serve as two basic points for the framework of energy diplomacy

The chapter also dealt with the composition of energy diplomacy pursued by China and whether it showed a tendency toward mercantilist approach or the liberalist approach. It discussed the debate between these two schools of thoughts and whether China's energy diplomacy seeked to reduce the world's tensions or escalate it. It was clearly seen that while the mercantilists were dead against China's energy diplomacy and her principles, the liberalists approach chose to stand in favour of the energy diplomacy pursued by China. Many analysts have chosen to side with the school of thought based on their allegiance to the country they support. Yet there is a fair share of analysts who opine that diplomacy is a floating zone generally conditioned on the prevailing circumstances and the ability to transform those circumstances as conducive for one's own country. Hence, it would be a folly to frame the diplomacy of any country based on any certain ideology and so is the case with China. Energy diplomacy practiced in China has had her fair share of experiences and it is the learning from these experiences, while keeping the principles in mind that brings about further development in her diplomacy.

The second part of this chapter dealt with the how and when of Chinese energy investments. It described the transformation of Chinese energy investments which became more professional and quality oriented. It explored China's energy investments across globe and the challenges it faced while dealing with them. While West Asia, Africa and Central Asia were the preferred choices for oil and gas, China also invested in Nordic countries and Latin

American countries for technological backup. For Africa and Central Asia, the major debate about China's energy investment has been that whether she has been exploitative or evenhanded in her dealings with these nations. Similarly for West Asia, the chapter outlined the ongoing tussle of power between US and China and how West Asian oil is tipping the balance in favour of China. This chapter had also tried to draw linkages between energy diplomacy and energy investments and whether all energy investments made by China were Government approved. It was found that while energy diplomacy determines the modus operandi of energy investments, yet not all of them are done with Government sanctions. Many a time's companies choose to be reckless for 'rent capturing' as argued by Weiyi Shi (2015). However, there seems to be a shift of trend in the pattern of energy investments made by China. Earlier adventure and volume of deals mattered. However with experience the companies have realised that it is not what happens on papers but what happens on ground that matters in investments. Hence, the number of deals has reduced and China has become more professional in her approach during energy investment. Another factor which has taken into account was the renewable energy investment despite China itself being one of the largest wind and solar energy producers of the world. It was found that China invests in these sectors for two main reasons: a) to buyout clean technology and upgrade her own and b) to encourage the investment in renewable energy sector through collaboration between her companies and foreign companies. Thus it was found that private Chinese companies had a larger role to play in overseas investment of renewable technology than state owned enterprises. This chapter had primarily dealt with the first hypothesis that stated that "transformations in China's energy diplomacy have determined Chinese investment abroad". It was found that China's energy diplomacy makers have a powerful hold over Chinese outbound direct investments, yet they have not shied away from granting sufficient autonomy to their energy investors. The only question lies of accountability and the government bails out her companies only when she deems fit and not at all times. Hence, this hypothesis stands largely verified but with peripheral restrictions.

The next two chapters are the case studies of this work dealing with Russia and Australia respectively.

Chapter three had dealt with Sino-Russian energy relations and the associated opportunities and challenges. The chapter spoke about the trajectory of Sino-Russian relationship and its decadal transformation from friendship in the 1950's to conflict in the 1960's which normalised a decade later in the 1970's. The decade of the 1980's was rough weather for Russia as she began to crumble as the Soviet Union both economically and politically. Hence in the 1990's Soviet Union as Russia began to undergo a revivalist phase where she began to foray into making alliances. While, it is true that in the 1990's Russia too began to look up to Europe for trade opportunities, yet she had also begun to put her 'domestic house in order' and solved the longed standing border dispute with China along with earning the sobriquet of 'strategic partnership' with China. Thus, by the turn of the century, Sino-Russian energy relations had begun to adopt a conciliatory approach towards each other. It was this phase which saw the germination of MoU's in various energy deals. Both Chinese and the Russians had begun to approach each other for energy trade albeit in a cautious way. Yet initiatives had begun to be taken and while not all deals materialised (the abandoned Angarsk-Daqing pipeline is to be taken as an example here), many others like the Altai Project, The East Siberia Pacific oil pipeline began to lay fruit. It was found that both countries chose to maintain their energy trade within the ambit of bilateral relations rather than exposing it at multilateral forums. Perhaps, the reason for this was that while undisclosed terms of treaty could be maintained, China and Russia also would not have to take into account international occurrences plaguing any one country at any point of time (e.g. Russian isolation for Ukraine crisis). Thus, it was found that in the recent deals signed between them, China has shifted from her plank of lower price to a higher offer in exchange of Russia allowing her to act as an investor in the upstream activities of her oilfields while at the same time opening up the exploration of Eastern Siberia, something Russia had refrained from doing for a long time.

China and Russia have had peaceful trade relations in coal for a long time, but China realises that it needs to shift to cleaner energy resources like gas, nuclear power, electricity etc. and has begun to trade with Russia in these sectors, through loans. Russia is cash strapped and any form of money is a welcome respite. Yet, China realises that Russia is no Third World country on whom any will can be imposed and has hence offered reasonable terms while granting loans as long as her 'national interests' are not jeopardised. This chapter had also taken the activities of CNPC in Russia as a mini case study of China acting as an outbound

energy investor and it was found that the hypothesis which was postulated at the beginning of this work that Chinese investments in Russia are an outcome of its present requirements and future prospects has been confirmed. This work had also made an attempt to analyse whether Sino-Russian energy relations had any hidden motives and if Russia is assisting China in becoming a superpower. It was concluded that while there are no subtle hints of hidden motives being hidden in the bilateral relations, yet Russia is trading with China for her own survival especially in the circumstances of international isolationism, declining rouble and falling gas prices and hence backing up by a strong nation like China is her requirement and if she has to provide 'fuel' to maintain the 'fire', she simply does not mind.

The last chapter had dealt with Australia and the trajectory of Sino-Australian relations. The relations were established in 1972, at the behest of Nixon Government and came to be firmly established as a 'Middle Power' democracy in the eyes of Chinese politics. China's 'go out' policy primarily seeked to diversify its energy supplies and Australia seemed to fit in like a 'glove' with her coal, iron and uranium supplies along with clean technology. Moreover Australia has a stable political system and China does not have to bother much to safeguard her supplies in Australia. Hence, to woo Australia, China has applied a conciliatory policy of easy soft loans with long term contracts to win her favours in the energy arena. Moreover, it was also opined that China is using this soft power diplomacy with Australia so that she can wriggle out of international terms of trade which are generally set by the West and adopt a more opaque, and suitable terms and conditions during the course of bilateral relations. This is why, it was pointed out that while China is playing a hedging strategy in this relations, Australia too is trying to be a 'balancer' in maintaining her relations with both China and US. The basic debate that was discussed in this chapter were the Chinese intentions in this relationship and whether they would remain honest to maintain the status quo of 'strategic comprehensive partnership' or they have subtle mindset of an imperialist nations and are just following the policy of '*dao guang yang hui* 道光杨慧 waiting for opportunity and biding the time' till international circumstances turn in their favour. Both nations have shared a 'chequred' history growing from apathy to mild antipathy to extreme animosity up till the current kindness. It was noticed that both countries had begun to inch closer especially after China launched its 'go out' policy which got soured after Australia release its Defence Paper in 2009. This and the ensuing Chinalco incident, Melbourne Film Festival resulted in rise of

jingoistic sentiments in both nations which seemed to have sealed the doom of this relationship. However, it was the visionary policy of Xi Jinping who in 2010, in his capacity of Vice President of China had managed to break the ice, this gesture was fully reciprocated by Australian Prime Minister Gillard in the ensuing year and both nations agreed upon to act more as energy allies rather than natural allies. Australian importance for China is multi pronged as she suits her status in China's 'peripheral diplomacy', provides her not only with fossil fuels but also clean technology. Moreover many Australian analysts too have begun to side in favour of Chinese investment which has swinged public opinion in favour of China and given them a more liberal environment for investment. Perhaps that is why private sector has been more active in this region. For Australia, Chinese investment is welcoming, as her capital not only helps her to build upon her Greenfield projects but also ensures a buyer who would stay for long term and would diversify into multiple energy sectors. Thus the hypothesis that Chinese investments in Australia are an outcome of its present requirements and future prospects has been confirmed. This work also testifies that Australia fulfills almost all of China's energy demands at least in terms of quality if not quantity. Moreover, by providing clean technology Australia is providing fuel for China to develop its own renewable energy industry at a faster and a better pace.

It is found that despite the concept of ODI being relatively new in China, she has aggressively pursued it in all sectors, worldwide. Col. Klinck (n.a) pointed out that when the 2008 meltdown, led to reduction of global ODI by 20 per cent, China that time took the advantage and doubled its ODI. This was also the time when China began to shift its emphasis from 'volatile' underdeveloped states to 'bankrupt' developed states, which is when Australia and Russia had begun to figure in majorly in China's energy investments. The 15th Congress Party had given a go ahead to China's investors in 1997 when it proclaimed that China shall be launching '*zou chu qu*' to encourage Chinese investors to invest abroad in areas that can bring China's competitive advantage into play so as to make better use of both Chinese and foreign markets and resources"(Ibid). Klinck too opines that since the official proclamation of China's go out policy in 2000 by Premier Zhu Rongji, China has seen a mass exodus of ODI which has led to 'China's ODI adds to its political capital and influence, both directly and indirectly, across the globe" (Ibid). Chinese ODI investors follow a rulebook called 'Guidance Catalog on Countries and Industries for Overseas Investment' which has been authored by NDRC, Ministry of Foreign

Affairs and Ministry of Commerce and has been revised various times since its launch in 1979 (Ibid). Since, these ministries handle the helm of affairs at the political circles and are the creators of China's energy diplomacy, it cannot be doubted that by the launch of such guidelines they seek to 'maintain the monopoly of CCP's power over an overseas adventure'(Ibid). Klinck (n.a) noted that the catalogue make a specific mention of 'preferential treatment' for all those who abide by the rule book which is why 75 per cent of ODI investment by China is done by state owned enterprises, although the number of private enterprises especially in the energy sector has begun to rise. An example of state protection, which sum might consider as dictation can be traced to another document released by the Chinese government in 2004 which was called 'Systems of Reporting Country Investment and Operations Obstacles' under which any Chinese company facing problems in investment in any country could seek the help of Ministry of Commerce which would then handle the situation diplomatically (Ibid). Clearly, energy diplomacy of China not only makes the Chinese companies invests but also ensures the survival of these investments made by them. Yet as mentioned earlier, it is still not a fool proof method, as Chinese governments might be able to 'spoon feed' their companies at the entry level but it is at the later stages where they face major barriers owing to lack of experience and understanding of how the host country operates. Klinck (n.a) verifies that "Chinese companies are often tools to used to implement Beijing's foreign policy". Yet it cannot be denied that Chinese SOE's have an extremely strong lobby influencing China's foreign diplomacy. This becomes more explicit in the case of energy. Klinck (n.a) in energy deals calls it 'interplay' between the Chinese government and companies. Since most of the heads of energy companies are a part of inner circle of the government, they automatically take into account the political implications of their investments despite the company's motive being solely economic.

China's energy diplomacy and investments have become with synonymous with the 'peaceful rise' of China. A representative of Chinese power and prestige, Chinese energy companies have single handedly catapulted their country into stardom in the international arena. Yet, China has maintained a cautious position and through the judicious mix of political and commercial interests she has managed to maintain her hold without provoking any major international ramifications. However, her actions still leaves a room of doubt for her dubious intentions. Can China maintain this non military approach and win over nations though her soft power diplomacy or are there subtle coercive techniques hidden behind it. Will she use the strings of

her purse to tighten the noose around energy rich nations or will she be the benevolent nation doling out cash to the bankrupted nations. In short, can the rest of the world ‘survive’ while China ‘thrives’ or will it not is for the future to tell.

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Annexure 1

China's Energy Trade with Russia

Year	Total trade volume	Exports	Imports
2002	1,192,745.5	352,063	840,682.5
2003	1,576,062.2	603,455.4	972,606.8
2004	2,123,196	910,250	1,212,946
2005	2,910,314	1,321,225	1,589,090
2006	3,338,655	1,583,243	1,755,412
2007	4,816,537	2,848,848	1,967,690
2008	56831020	33003445	2,382,757.5
2009	3,880,344.7	1,751,402.1	2,128,942.6

Unit 10,000 US Dollars

Source: China Foreign Affairs from 2003 to 2010

Annexure 2

Australia's Energy Trade with China

Year	Total trade volume	Exports	Imports
2002	1,043,583.5	458,559.4	585,024.2
2003	1,356,331.7	626,277	730,054.7
2004	2,039,084	883,832	1,155,252
2005	2,724,822	1,106,174	1,618,648
2006	3,294,580	1,362,515	1,932,065
2007	4,384,575	1,799,346	2,585,228
2008	5,967,043.2	2,223,508	3,743,535.2
2009	6,008,605.4	2,064,376.2	3,944,229.2

Unit 10,000 US Dollars

Source: China Foreign Affairs from the year 2003 to 2010

China Global Investment Tracker

Datase Troubled Transactions

Year	Month	Investor	Quantity in millions	Share Size	Partner	Sector	Subsector	Country
2005	July	CNOOC	$18,000		Unocal	Energy		USA
2006	July	CNPC	$1,390	33%	KazMunaiGaz	Energy	Gas	Kazakhstan
2006	July	CNPC	$2,500		Rosneft	Energy	Gas	Russian Federation
2006	September	CNOOC	$16,000			Energy	Gas	Iran
2006	October	Southern Power Grid	$190			Energy	Hydro	Cambodia
2006	November	Chinalco	$790	49%	Vietnam National (	Metals	Aluminum	Vietnam
2006	December	Jinchuan	$1,000		Philnico	Metals	Steel	Philippines
2007	January	Minmetals	$500			Metals		Cuba
2007	March	Sinopec	$3,400		Sonagol	Energy	Oil	Angola
2007	April	Gezhouba	$1,440			Energy	Hydro	Nigeria
2007	April	Sinopec	$110		Uzbekneftegas	Energy	Oil	Uzbekistan
2007	June	CNOOC	$370		Talisman Energy	Energy	Gas	Indonesia
2007	November	Perfect Field	$1,750	92%	Rowsley	Energy	Alternative	Singapore
2008	April	Shougang	$360	10%	Mt. Gibson	Metals	Steel	Australia
2008	September	Xinwen Mining	$1,210		Linc Energy	Energy	Coal	Australia
2008	September	Minmetals	$2,000	25%	Codelco	Metals	Copper	Chile
2008	December	Chinalco	$5,330		Rio Tinto	Metals	Aluminum	Australia
2009	January	Baosteel	$2,880		CVRD	Metals	Steel	Brazil
2009	January	Zijin Mining	$1,400		Rio Blanco	Metals	Copper	Peru
2009	February	Minmetals	$350		Oz Minerals	Metals		Australia
2009	March	Donfang	$330			Energy		Pakistan
2009	April	Sinosteel	$1,500			Metals	Steel	India
2009	June	Chinalco	$19,500	18%	Rio Tinto	Metals	Aluminum	Australia
2009	August	Ex-Im Bank	$3,000			Metals		DRC
2009	September	Sinopec and CNPC	$1,300	20%	Marathon	Energy	Oil	Angola
2009	September	China Nonferrous	$220		Lynas	Metals		Australia
2009	September	CNPC	$460		Verenex Energy	Energy	Oil	Libya
2009	November	A-Power	$900	60%	Renewable Energy	Energy	Alternative	USA
2009	December	CITIC	$140		ThyssenKrupp	Metals	Steel	Brazil
2010	March	Tonghua Iron	$870			Metals	Steel	North Korea
2010	June	State Grid	$1,200	10%	Quadra Mining	Metals	Copper	Chile
2010	July	Chinalco	$2,200			Metals	Aluminum	Australia
2010	July	Zijin Mining	$500		Indophil Resoures	Metals		Philippines

2010	July	Chinalco	$1,350		Rio Tinto	Metals	Steel	Guinea
2010	September	MCC	$370		Cape Lambert	Metals	Steel	Australia
2010	September	Zijin Mining	$280	40%	Copperbelt Minera	Metals		Congo
2010	September	CIC	$360		Bumi Resources	Metals		Indonesia
2010	October	Wuhan Iron and Steel	$800	40%	Riversdale Mining	Energy	Coal	Mozambique
2010	December	China National Nuclear	$350			Energy		East Timor
2011	February	CNPC	$5,390	50%	EnCana	Energy	Gas	Canada
2011	June	China Railway Engineering and MCC	$400		Resourcehouse	Metals		Australia
2011	June	Sinosteel	$1,990			Metals	Steel	Australia
2011	July	Ansteel	$170		Gindalbie	Metals	Steel	Australia
2011	September	Sinohydro	$560			Energy	Hydro	Ethiopia
2011	September	China Power Investment Corporation	$3,600		Asia World Compa	Energy	Hydro	Myanmar
2011	October	Sichuan Hanlong	$150		Bannerman	Metals		Australia
2011	October	Ansteel	$170	14%	Steel Developmen	Metals	Steel	USA
2011	November	CNOOC	$7,100		Pan American	Energy		Argentina
2012	January	Sichuan Hanlong	$130			Metals		Australia
2012	February	Sinomach	$3,000			Metals	Steel	Gabon
2012	April	Sinohydro	$2,000			Energy	Hydro	Iran
2012	May	CNPC	$470		Arrow	Energy	Gas	Australia
2012	June	Ming Yang	$190			Energy	Alternative	Bulgaria
2012	July	Power Construction Corp	$100			Energy	Hydro	Botswana
2012	July	CNPC	$4,700			Energy	Gas	Iran
2012	August	Zhonghui	$680			Metals		Zambia
2012	September	Chinalco	$930	51%	South Gobi	Energy	Coal	Mongolia
2012	September	Chinalco	$310	30%	Winsway	Energy	Coal	Mongolia
2012	December	Minmetals	$680			Metals		Australia
2013	January	Sichuan Hanlong	$1,180		Sundance	Metals	Steel	Australia
2013	January	Sany	$490			Energy	Alternative	USA
2013	May	Ex-Im Bank	$1,000			Metals		DRC
2013	June	CNPC	$650		Recope	Energy	Oil	Costa Rica
2013	July	Norinco	$310	30		Metals	Copper	Myanmar
2013	July	MCC and Jiangxi Copper	$2,870			Metals	Copper	Afghanistan
2013	August	CNPC	$1,770			Energy		Syria
2013	August	Sinopec	$2,000			Energy	Oil	Syria
2013	September	Cathay Fortune	$130		Discovery Metals	Metals	Copper	Australia
2013	November	CNPC	$220			Energy	Oil	Niger
2013	December	CITIC	$5,500			Metals	Steel	Australia
2014	January	Sinopec	$400			Energy	Oil	Gabon
2014	March	Wison	$830			Energy	Oil	Venezuela
2014	March	Yanzhou Coal	$740			Energy	Coal	Australia

2014	April	CNPC	$2,500	Energy	Oil	Iran
2014	May	MCC	$890	Metals	Steel	Vietnam
2014	May	CNPC	$200	Energy	Oil	Chad
2014	June	Sinomach	$1,260	Energy	Coal	Zimbabwe
		Total:	$1,52,260			