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CHINA'S OIL BARGAIN IN THE US – CHINA COMPETITION?

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There is no denying that the competition for strategic superiority between Washington and Beijing is growing stronger day by day. The competition between these two giant nations is evident in various parts of the world including Asia Pacific, Indian Ocean, Europe and even Latin America. The important question that needs to be raised is - who among these two powers is gaining superiority or an edge over the other. An attempt in this regard has been made by analysing three important geopolitical theatres: firstly, the case of Russia-Ukrainian crisis, secondly, Iran's nuclear development and thirdly, the economic sanctions on Venezuela. These three events can aid in understanding the competition between the US and China in international affairs. Although the nature of the crises in these three geopolitical zones is very different when compared to one another, there are few common elements that can be traced. One is the sanctions imposed by the US on these countries and second is the role of China in bailing out these three countries through monetary assistance and using the current developments in international relations to its advantage.

To begin with, the Ukrainian crisis has brought the relations between Russia and the West to a new strategic low similar to the one seen during the Cold War. The US led Western alliance has imposed a series of sanctions on Russia for its intervention in the Ukrainian Crisis but the point of argument is to what extent the sanctions have actually been effective in curbing Russia's role in the imbroglio. Economically, it can be argued that the sanctions along with the fall in global crude price have seriously impacted the Russian economy, but from a strategic perspective, the sanctions have done little to control the Putin administration to carry out its objectives with regards to Ukraine. In fact, the US policy measures to contain Russia's resurgence and the sanction politics have pushed Russia more closely to China (something which the West would have not hoped for).



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Although it may be too unrealistic to think that China would happily accept Russia's hand especially when the country is facing economic turbulence, what it has in fact done is that it has exploited the situation to its advantage. China is very well aware that Europe is looking to reduce its dependence on Russian energy and Russia in turn is looking for newer energy markets. In this rising tensions, one of the areas for energy exports that the Russians are eyeing is the Asian region, more importantly China- which is the largest consumer of energy and also the most easily accessible due to the geographical proximity of sharing borders and having well established pipelines.

It can further be stated that China is gaining much more than simply buying energy from the deepening Western sanctions on Russia as it has prompted Moscow to make concessions in order to sign a landmark gas supply agreement – the “Power of Siberia” pipeline. Furthermore, if more sanctions are imposed on Russia targeting mainly its energy firms, Beijing will emerge as the biggest benefactor. Not only does it stand to become a key export destination of Russian oil and gas, Chinese companies are also well positioned to gain access to the Russian upstream, which has so far been off limits to them. To cite an example to further bolster the argument is the offering of the stakes in Rosneft's Vankor energy fields- one of the largest Siberian energy projects. Acquiring stakes in the Vankor energy fields is a huge win for China as a) the field is operational and so there is no additional cost of making any huge infrastructure and b) in the long term, the Chinese firms can bailout cash-strapped Rosneft and have a stake in the entire supply chain, from the upstream through the pipeline to the refining. On a hypothetical note, if the crisis in Ukraine continues and the value of Rubble further falls down, then Russia would have limited options and might throw such lucrative deals to China to sustain the mounting economic pressure.

Another example where the Chinese are following a similar strategy is in the case of Venezuela, where the United States has imposed strong economic sanctions citing the reason of human rights violations and public corruption in the socialist governed South American nation.¹ As much as the actual reason behind imposing economic sanctions remains confusing to understand, an interesting aspect that has come to light is the role China is playing. In just few days after the US



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announced a series of sanctions on Venezuela, China was quick enough to provide a loan of \$5 billion to Venezuela to fund its new development projects.

The current economic situation of Venezuela is quite poor as it is struggling due to the steep fall in the price of oil in the crude market after OPEC refused to stop production of oil despite the fall in oil prices since the Ukraine crisis. Adding concerns to the already strained economy are the economic sanctions imposed on the country by the United States. Under such a scenario, it becomes rather interesting to investigate the benefits that China will reap by providing loan to Venezuela. The answer to this can be found in the oil trade, according to which the Venezuela government announced that the loan money will be repaid through oil export. At present the current loan amount totals to around 640,000 barrels export of oil daily which is further expected to rise approximately one million per day.ⁱⁱ Another aspect that one can analyse is the growing influence of China in Latin America. The fact that, Venezuelan President Nicolai Maduro, went seeking Chinese assistance in the wake of American sanctions points towards a major geopolitical manoeuvring that the Chinese might have in mind.

In the case of Iran, the economic sanctions imposed by the United States has had an adverse effect on the economy of the state. China which is one of the largest importers of Iranian oil has again benefited from the US imposed sanctions. The economic sanctions made it highly difficult for Iran to get hard cash for its energy exports. This enabled countries like China to find other ways to compensate for the oil import, and one such method by which China did so was by flushing in huge volume of consumer goods. The situation that emerged out was very interesting, for one, the US threat to cut off companies that transfer money to Iran's central bank from the US banking system and second the sanctions trapped much of Iran's oil revenue in the Chinese bank accounts.ⁱⁱⁱ

As for China, it was a big win-win situation as this not only saved hard currency from energy imports but by providing cheap consumer goods, Beijing got access to the huge Iranian consumer market. Moreover, now that the US is planning to lift the sanctions on Iran, the Chinese energy firms can still benefit a great deal because, although Iran might have huge energy reserves, it still requires



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the infrastructure and investments to make it big in the energy market. This is where China comes in as the Iranians might be a bit hesitant to allow Western energy giants to get access to the Iranian energy field for joint exploration or investment projects. This would leave Iran with limited options but to go for either Russian or the Chinese companies. Hence, the Chinese companies have the opportunity to not only make huge investments in the Iranian energy fields, but also to buy upstream, same as they are doing it with the Russians.

In the case of the strategic competition, between the US and China, the Chinese are taking advantage of the miscalculations of the US foreign policy. The economic sanctions imposed by the United States have left countries like Iran, Russia and Venezuela with limited options and thus, has pushed them closer to China for economic assistance. It may however, be too early to say that China has definitely gained an edge over the US, but on analysing the events, the question raised here is, whether this is going to be the Chinese strategy to increase its extra regional presence and challenge the pre-eminence of the US in global politics?

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(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

ⁱ "US Accuses Venezuela of Human Rights Violations, Imposes Sanctions against 7 Officials", *Mint Press News*, 11 March 2015, see <http://www.mintpressnews.com/us-accuses-venezuela-of-human-rights-violations-imposes-sanctions-against-7-officials/203247/>, Accessed on 29 April 2015.

ⁱⁱ Lucas Koerner, "Venezuela Secures \$5 Billion Loan from China to Finance Development", *Venezuelanalysis*, 20 April 2015, see <http://venezuelanalysis.com/news/11345>, Accessed on 29 April 2015.

ⁱⁱⁱ "China floods Iran with cheap consumer goods in exchange for oil", *The Guardian*, 20 February 2013, see <http://www.theguardian.com/world/iran-blog/2013/feb/20/china-floods-iran-cheap-consumer-goods>, Accessed on 29 April 2015.