China’s Gigantic Appetite for Natural Resources Spurs Multilateral Concerns

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China is the second largest economy in the world today. Its economic growth is unbridled and expansion is rampant. A rapidly growing communistic state with an attempt for capitalistic market is alarming in the international economic community. China’s insatiable oil appetite creates various concerns among major sovereign partners. Notwithstanding, China is fully committed to its economic development in the future regardless of widely expressed multilateral concerns.

In the past few months articles about China have appeared on the front pages of different news sources, whether web-based or printed, on a daily basis. China, commonly popularized as an export giant and currency manipulator, has recently gained a reputation as a wholesale buyer of the world’s private investments and large acquisitions of foreign natural resources. In addition, China’s continual joint-venturing in foreign development is intrinsically popular.

With a population over 1.3 billion\(^1\) and a hybrid communistic-dictatorship government, China has to scour every opportunity in the global economic market to assuage its citizenship. Having adopted the Soviet-style foundations in the mid-1950s, the People’s Republic of China radically developed its political system. After a burdensome experience of upheaval, including the Great Leap Forward, the Cultural Revolution, and the reforms after 1978, China’s political officialdom was able to endure throughout its toughest years\(^2\). Despite some significant post-1990s reforms, bureaucracy and communism still survive in China today. However, the “maximized economic growth”,\(^3\) then thriving in the USSR, and the 1950s ideology of revolutionary changed China, from imperialistic to communistic. China’s approach was to centralize the government and gain maximum control, and then cumulatively convert the population into a mass working class. People of the Republic of China became the stewards of China’s comparative advantage inherited from socialism. Hence, China’s blooming leadership position in the world economy did not result from the miraculous inception of the Soviet’s socialism and communism, but from the
hardship of the Chinese people and their “uncontested marriage” with the Communistic Party accompanied by the entire devotion and patriotic fondness to their *valde terra*.

Today China is the epicenter of everything. Since the economic reforms of 1979 China has been developing at breakneck speed, and today its economy is booming with the far-reaching roars that affect almost every corner in the world. “Made in China” is a label largely seen these days. And furthermore, if it is not “made” in China, then it is no longer a surprise if it is “sponsored” or, better, “owned” by China.

Statistics show that China surpassed Japan and other mature economies in the last few decades and is not planning to slow down. Despite its dense population and insufficient natural resources, China managed to push Japan out of the second largest economy ranking and is nipping at the heels of the world’s largest economy - the USA. Some experts forecast that if China continues to bolster its economic growth, by 2030 it will be in a position to bypass the invincible American economy⁴.

**China's alarming oil appetite**

While the rest of the world suffers the consequences of the global recession and depressed economy, China illustrates incredible financial exuberance. With the oversized pool of financial assets, acquired from its export-led economy, China’s new strategic plan is to own as many foreign acquisitions as possible in order to ensure its steady growth. Washington Post independent analyst M. El-Erian noted: “Confidence in ability to benefit from China drives success, self-confidence and economic growth elsewhere – especially in emerging economies such as Brazil and in industrial countries such as Germany⁵.” By accomplishing this, China guarantees for itself an even a stronger position and respect.
from other countries. Not only does China benefit financially in the first line, it also undertakes the long-standing cooperation from its joint partner states due to their direct economic dependence on China.

In 2010, China gained 40% of Brazil’s oil acquisition from Repsol SA, Spain’s largest private energy group. This transaction established a joint-venture energy group in Latin America to expand Brazil’s extraction of crude oil. Sinopec, China’s largest oil company will own 40% of the project’s shares. This transaction becomes the largest oil acquisition after China’s 2009 Sinopec Group’s $7.2 billion purchase of Addax Petroleum Corp. in Switzerland and Norway’s Awilco Offshore in 2008. At a news conference after a major transaction was concluded, China Oilfield's chief financial officer, Zhong Hua said: "Our aim is to become an international oil field services company with strong competence in global markets by 2010. That cannot be achieved just by organic growth."

China continues to display its elastic and insatiable appetite for oil acquisitions around the world. China’s giant national oil companies: China National Petroleum Corporation (“CNPC”), Sinopec and China National Offshore Oil Corporation (“CNOOC”) are desperate for oil to satisfy their country’s large demand. The Chinese government sends these corporations out to scour the world’s available reservoirs of oil and petroleum. China consumed nearly 9 million barrels of oil per day in 2009, but its domestic production was less than 4 million barrels a day. In order to cover the 5 million barrel shortfall, China has taken a sturdy “whole-buy” approach.

In addition to the 40% of Brazilian oil shares obtained from Repsol, China’s largest Development Bank loaned $10 Billion to Brazil in exchange for crude oil supply, exploration of deep-water blocks for oil and natural gas. As Brazil changes its legal scope of regulation with respect to the oil and gas sector, China is gradually taking over the country’s newly discovered comparatively advantageous industry of pre-salt layers in underground oil reserves. If implemented successfully, this project will benefit China in a significant way.
Also, while exploring new offerings in a volatile oil market, China continues to build around the ones that it already has in possession. Its alliance agreement recently signed with the state-owned Petroleos de Venezuela will increase crude oil production in Venezuela by 450,000 barrels a day and require China’s investment in the joint-venture project of some $16 billion through 2012\textsuperscript{12}.

Aside from China’s growing oil and gas acquisitions in Latin America, the country is also actively involved in petroleum procurement from other neighboring countries rich in scarce resources, i.e., inter alia, Kazakhstan and Russia. In September 2010, Mittal Investments Sarl, India’s largest steel corporation, sold 50% of its stock in Caspian Investment Resources to Sinopec\textsuperscript{13}. Caspian Investment Resources, Ltd. (CIR) is a company, based in Almaty, Kazakhstan and operates the country’s vast reserves of natural resources. CIR owns a 50 percent share in oil fields development projects in Kazakhstan. The four fields, one of which was already partially operated by China since 2004, yielded a total of 4.3 million tons of oil in 2009\textsuperscript{14}.

China’s CNPC has been operating in Kazakhstan since 1997 and today not only possesses many of the oil and gas assets, but also provides a number of field services in the country. Together, CNPC operates five oil field development projects, two exploration projects, the Kazakhstan-China Crude Oil Pipeline and the Northwest Crude Pipeline\textsuperscript{15}. These fields alone generate huge oil flows to China. Additionally, in 2006 China signed prolific joint-venture agreements with the Russian oil giants Transneft, Rosneft and Gazprom. These agreements allow the two countries to explore, invest and trade on sufficiently favorable and certainly profitable conditions for all participants of this oil “quartet\textsuperscript{16}.”

In 2008 China signed an agreement with the Russian Federation in which the China Development Bank granted a $25 billion loan to Russia in exchange for a guaranteed oil supply to China for the next 20 plus years. Specifically, China’s crucial benefit from this deal is Russia’s prolonged commitment to export 300 million tons of crude oil to China between 2011 and 2030 which alone will satisfy about 4 percent of
China’s current oil demand. A transaction, widely known as a “loan-for-oil” or “win-win” deal spurs Russia’s limping oil economy too. China’s news agency China.org reports: “For the Russian side, Rosneft and Transneft will use the loans to maintain their day-to-day business. Furthermore, with China as the main destination for its East Siberian oil, Russia would be taking a major step forward in diversifying its oil exports.” Thus, Russia, alarmed with sinking oil prices, and China, hunting for any available oil on the market, both benefit from this advantageous deal.

Another part of the world that China is eagerly smacking its lips for is Africa. China, with its full wallet, invests heavily in Africa’s exploration and development. According to Africascan, a Swedish-registered publishing company, China, although facing great competition from European developers, attracts a lot of interest from local African governments. Petroleum explorations in countries like Kenya, Tanzania, Sudan, and Angola have always been done on the merits of promises and expectations, without certain scientific substantiation. Notwithstanding, China’s interests in African oil never ameliorated, and in contrast, are augmented with the unstable oil prices.

China owned 28 percent of all drilling rights in Kenya in 2006. China also obtained long-standing contracts for a total of 16 percent of Nigeria’s total reserves, as well as many other African countries. According to the Institute for the Analysis of Global Security in Washington (“IAGS”), Africa is China’s key oil exporter. In its report about Sino-African cooperation, IAGS asserts that China, in order to strengthen their presence in the African continent, has provided 53 countries in Africa with various economic grants and interest-free, preferential loans. As a result, in 2005 China imported nearly 30 percent of its oil from Africa and targeted a far higher objective in the future. Due to the lack of transparency both in Africa and China, it is nearly impossible to assess the Chinese investments that are so extensively rooted in the African continent.
According to the International Agency Energy, “overseas investments by China's national oil companies in 2010 looked as though they would outpace by far the $18.2 billion spent in 2009. From January 2009 to April 2010, the country’s three state-owned oil majors— [...] CNPC, Sinopec, and [CNOOC]—spent around $29 billion world-wide to acquire oil and gas assets.” Notwithstanding, China is not expected to alleviate its increasing appetite for energy resources in the foreseeable future.

Along these lines, China faces some challenges from developed countries and their state-owned oil companies. Countries like Russia, Saudi Arabia, and United Arab Emirates avoid allegiance to Chinese investors. And even if they pledge their oil reserves to China, they do so following a series of thorough negotiations and very astringent conditions favoring their own nations. Another example of a recent challenge in China’s dealings with a developed country is CNOOC’s interest in Unocal, the former Union Oil Company of California. The USA turned down China’s offer, selling it to Chevron for the price of 1 billion less than CNOOC was prepared to pay. Large developed countries like the USA and developing Russia refrain from permitting China to control a strategic asset of their economies, while states with less exuberant economies accept China’s prolific offers. In addition, developed states, striving for green low-cost energy alternatives come in conflict with the less environmentally concerned China. Frequently, Chinese officials are blind to the issues of environment and pollution in exploration and infrastructure projects.

Despite the refusals from the USA and Russia, in the face of the downturn economy many countries feel safer to “open their doors” for Chinese investors, most of which are state-owned-, controlled- or largely supported corporations. Large oil companies are endowed with strong support from the Chinese government. The China Development Bank willingly signs checks for Chinese expansion. As an example, PetroChina recently received a $30 billion loan from China Development Bank with the implicit goal that this money to be spent “on the globalization of [PetroChina].” In a nutshell, some states are stifled by
China’s rampant appetite for oil, while others see it as a temporary quick-fix remedy for its failing economy and continue to allow Chinese investors to feed their economies.

**Desperate Investments**

China is constantly faced with international accusations of currency manipulations, yet only a few countries directly oppose the Chinese expansion. Moreover, in the midst of economic turmoil, most developing economies deliberately seek foreign investments due to a lack of available funds in the global market and, thus, fiscally rich China is becoming more welcomed in these countries.

Mohamed El-Erian in his commentary about China-US economic growth and cooperation in Washington Post noted: “It is in virtually no country’s interest – including that of the United States – for China’s economic development to derail. China is the world’s strongest growing engine, its largest creditor and its biggest trade partner: [...] China’s continued willingness to exchange domestically produced goods for paper claims issued by other countries allows these countries to maintain economic activity well above what would otherwise be possible.\(^{23}\) China’s low cost production and colossal exports, fueled by the detrimental consequences of a global recession, help the PRC to blithely maneuver into the world’s fastest growing economy. While developing, and perhaps even developed, countries are struggling with fixing its debt regulations, launching bailouts and other financial reforms, China willingly provides a hand to its neighbors by amply funding the abundant projects.

**China’s Disappointing Noncooperation**

China became a member of the World Trade Organization (WTO) in 2001 after a lengthy and in-depth accession process with numerous bilateral negotiations. A myriad of treaties were entered into and many regulations have been enacted by the PRC in order to comply with the rules of international trade diligently established by the WTO members through promulgation of a number of agreements and
annexes. China enacted some of the regulations simultaneously with its accession to the WTO and was permitted to bring other laws into force subject to its readiness\textsuperscript{24}.

Since then a number of cases were brought against China for non-compliance with the “fair” rules of international trade. In the past nine years of China’s membership in the WTO, 20 complaints were filed against it and China filed 7 against other members, five of which identified the USA as a respondent. In contrast, the United States filed 96 complaints, 10 of which were against China\textsuperscript{25}. It is about 1.1 cases against China per year. The most recent cases were filed by the USA in September 2010 and dispute China’s unfair export restrictions of American steel and discrimination against equal credit and debit card market access\textsuperscript{26}. The contention between two governments continues to rise over excessive trade, limitation of trade, countervailing duties, unreasonable anti-dumping regulations and other situations arising from unfair competition. While the USA is acting as a sovereign country, ultimately the country’s large businesses get frustrated over China’s unjust treatment. America finds it difficult to lawfully afford protection for its business community without going through the exasperating process of dispute settlement.

Even though the two largest economies, China and the USA, continue to bring arguments against each other, both largely depend on mutual cooperation. The United States depends on China for forty percent of its imported consumer goods\textsuperscript{27}. China, on the other hand, is desperate to supply massive consumer products to the United States and, ultimately, gain from continuous manipulations with the US Dollar. Undervaluing of the US currency helps China to further advance its domestic businesses, maintain employment, and eventually emerge as the world’s leading economy.

Today, China is the second largest economy and second in oil consumption after the United States. When Richard Nixon opened the door to China, only a few could have imagined how robustly China’s economy would develop. In the 21st century we are observing China’s unyielding economic eagerness as
a competitor with the USA. China’s capital, which is obtained through an unregulated currency exchange rate and “dumped” prices of exported goods, creates a currency surplus. China’s vaults are filled with US Dollars and other foreign currencies and it does not foresee changing its policies despite the US’s constant reprimand. Instead, China prefers to enhance its economy, ensure long-term oil supply and invest in any foreign economy available. China’s addiction to risks from the economic forays of foreign states is frightening. A country with “democratic dictatorship” and a “socialist economy”, so candidly proclaimed in the Constitution, may in the near future foster worldwide insecurity if it continues to acquire control of oil and other scarce resources.

Paradoxically, as the world’s advanced technology and industries rapidly progress, China, with its vague constitutional structure, extraordinary political model, disregard for the rule of law and lack of capitalistic experience, is betting on its leadership in the world and their desire to be a number one economy. As the result of the financial crunch of 2008, the world merged into an oversized casino with the central dealer – China, who has over time collected an endless bank of chips and is in control of the play. Yet, it is a game with unknown ramifications. In this peculiar adventure a few may win and other “gamblers” will walk away with a loss. With the remembrance of Japan’s short-lived foray into the United States real estate market, China should not bet on its guaranteed triumph. The “economic miracle” that Japan enjoyed when it bought up the bulks of American landmarks ended sooner than started and caused a major financial loss to Japanese investors28.

China may have gone too far with the avant-garde economic practices that its opaque government manically induces upon the world’s nation and economic leaders. Additionally, China’s wretched human rights record and social unrest is not only alarming at first glance, but is also perilously threatening if China plans to continue its enrichment with dwindling resources, ignoring the history of the past
mistakes, unrecognizing the rule of law and disregarding the genuine forewarning of its major sovereign partners.

3 See Id. at 172 §1.
11 See generally: Veirano Advogados, Selected Legal Aspects of Doing Business in Brazil: Oil and Gas, at 50.
12 See Oil Fever: China Turns to Latin America to Meet its Energy Demand, Knowledge@Wharton, Univ. of Penn (Oct. 07, 2009), available at http://www.wharton.universia.net/index.cfm?fa=viewArticle&id=1785&language=english.
14 See Id.
18 See Id. at §4.
20 See Id. Oil Fever at §17.
21 Id. Repsol Sells Brazil Oil Stake at §11.
22 See Id. Oil Fever at §7.
23 Id. Mohamed A. El-Erian at A19.

