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ENERGY DIMENSION OF THE CHINESE NEIGHBOURHOOD POLICY

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Declaration of independent work

I declare that this thesis has been composed solely by myself and that it has not been submitted, in whole or in part, in any previous application for a degree. Except where states otherwise by reference or acknowledgment, the work presented is entirely my own.

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Acronyms

CPC – the Communist Party of China

IEA – International Energy Agency

PLA – People’s Liberation Army

PRC – the People’s Republic of China

NOC – National Oil Company

OBOR – the One Belt, One Road

US EIA – U.S. Energy Information Agency

Abstract

This research looks at the conditions under which China's neighbourhood energy policy is being shaped, driven by the country's economic growth and ambitious political agenda, on the one hand, and by instability and unpredictability of the global energy market, on the other. The objective is to identify main pillars and drivers of China's energy policy in the context of regional and global geopolitical background. Besides, it is to show that despite China's need for a global unified approach to energy issues, its energy policy still remains dependent on the existing bilateral foreign relations and is highly fragmented, and this pattern only seems to get stronger. The latter statement is demonstrated at the example of various countries in China's neighbourhood such as Russia, Kazakhstan, Tadjikistan, Japan, India, Myanmar, the Philippines and Vietnam. The research also aims to show the growing awareness of the importance of China's well-thought energy strategy to ensure the country's energy security and diversification in the future.

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I. INTRODUCTION

(i) General Overview of China's Role in the Global Energy Market

Probably, no other country needs to secure its energy needs through foreign policy as much as China does. And, as the 21st century brings the new approach to energy issues to the table, one should admit that this is not only the traditional supply-demand discourse, but a multiple-vector subject, as the world energy portfolio continuously reveals new opportunities and challenges for the parties involved.

Today the PRC is the largest energy producer and consumer, the world's largest growing energy market and the largest clean energy investor – all of these labels speak for themselves, and apparently, China will inevitably face many challenges at the international level and will need to reshape and rethink some of its core partnerships at a time, the neighbourhood energy policy being the first priority.

This trend is proven by the rise of its interest in investing more in the energy sector. Since 2008, Chinese national oil companies (so-called NOCs) have purchased assets in the Middle East, North America, Latin America, Africa, and Asia and invested an estimated \$73 billion in overseas oil and gas assets between 2011 and 2013, according to the IEA (International Energy Agency, 2016a). After a self-initiated campaign further strongly backed-up by the PRC's government, they have rapidly expanded their purchases of international oil and natural gas assets since 2008 through direct acquisitions of equity and financial loans in exchange for oil supplies in order to secure more oil and gas supplies, make long-term commercial investments, and gain technical expertise in more challenging oil and natural gas plays.

On the one hand, China's recent economic rise and ambitions well substantiate its need for stable energy supplies and reliable partners that are able to satisfy such demand without bringing up costly geopolitical consequences. It is argued that China will be ever more willing to compromise its "peaceful rise" policy in order to meet its energy security needs (Luft, 2015). In that view, its relations with neighbours are of utmost concern and also the premise of China's internal and external political stability and security. Recently, a goal of 6.5 percent GDP growth has been set by the Chinese government in terms of the 13th Five-Year Plan (The State Council of the People's Republic of China, 2016; China Daily Newspaper, 2016): the said document, along with economic and military concerns, directly involves the energy dimension to help achieving the target set. Among others, the newly approved Five-Year Plan mentions the following targets that directly or indirectly affect the energy sector: accelerating infrastructure construction, attracting foreign investments, encouraging Chinese enterprises to go abroad, enhancing cooperation between China and Belt and Road countries, promoting green energy and low-carbon industry. This well demonstrates the China's need for stable energy background worldwide, and particularly in the neighbourhood, as will be argued below.

On the other hand, there are all new initiatives and challenges appearing in the field of energy that are not directly related to the traditional energy trade, but that greatly affect demand, supply and diversification issues. They include, first of all, cooperation with international energy institutions that help China asserting itself as a full-standing global partner – it is symptomatic, for example, that in March 2016 China launched the process of establishing an energy center in Beijing jointly with IEA (International Energy Agency, 2016b) which clearly demonstrates its intention to reach better international energy interconnectivity. Besides, the PRC now gets actively involved into the climate change action – in particular, the proclaimed "energy revolution" aiming at "clean, low-carbon and efficient energy system" opens another dimension of the Chinese energy policy which to certain extent limits its conventional energy approach.

From another perspective, apart from cooperation, the PRC also remains largely involved into regional conflicts with energy-related consequences at stake which, together with China's ever growing dependence on imports of energy resources, forces it to consider its global geopolitics in a much wider context. Besides, no matter how fruitful cooperation in the field of energy is, this is true that the growing demand for fuels will leave little surplus in the international market, and supply shocks will still remain a feature of the global energy market (Rogers, 2003), so competition and the need for diversification would also remain a central issue in developing the energy policy.

Therefore, as Wang rightly postulates, energy constitutes one of the core interests of Chinese international politics according to domestic scholars (Zeng, Xiao and Breslin, 2015), which is not surprising taking into account the level of importance attached to the benefits that accompany energy availability, whether it concerns imports of energy resources, investment activities, or diversification. For example, since 2005 ten major Chinese companies have set up operations in 42 countries (Luft, 2015), which clearly demonstrates the "expansionist" nature of Chinese energy strategy.

(ii) The Role of China's Neighbourhood in the Energy Context

All of the above said challenges can only be successfully dealt with if supported by a wise long-term energy strategy – according to an opinion expressed by fellows of the Chinese Institute of International Studies, China's neighbours represent a geostrategic importance, including the countries of the Middle East which is an important direction of Chinese diplomacy (China Institute of International Studies, 2016), as perfectly demonstrated by Xi Jinping's recent official visits to Saudi Arabia, Egypt and Iran. However, such statement is particularly true for China's immediate neighbourhood, as the latter serves both as the source of, and as a route for so much needed energy supplies. Therefore, it is crucial for China to secure energetically and politically sufficient relations with its neighbours.

So, generally, all of these points and challenges, on the one hand, pave the way for better relations with energy partners such as Russia, Kazakhstan, Myanmar, Middle East and Africa countries, as well as generally in the region. Developing a solid partnership base is a *sine qua non* requisite for the stable long-term energy relationship with traditional and evolving energy exporters, so to some extent the Chinese international politics can be qualified as energy-driven. On the other hand, the energy issue can also serve as the basis for new and continuing conflicts including, first of all, well-known disputes over territories in South China Sea and East China Sea, problems surrounding Xinjiang province etc.

In view of the above, China's neighbourhood policy becomes important as never before. As K. Dalton Lin puts it, "lesser neighbours' explicit or implicit relations with outside powers, therefore, become a driving force behind the local power's neighbourhood policies" (Dalton Lin, 2010), and China realises this perfectly well. Unless it is able to secure good relations with its lesser neighbours to the mutual benefit, it will experience even harder pressures from the West seeking more domination in the region, as will be discussed below.

(iii) Objectives and Scope of the Thesis

Given the above premise, the objective of this research is to analyse what drives China's existing energy policy in its immediate neighbourhood in the view of China's recent efforts to fit in the existing world energy architecture. This research will, therefore, look into the main issues concerning Chinese general energy policy in the neighbourhood and discuss various complications and opportunities that surround its energy relations with neighbouring countries. The research aims to show the extent to which China's foreign policy and energy needs are linked one to another, and overviews the country's concerns about the neighbourhood under the influence of circumstances prevailing at the global energy market. At the same time, its purpose is to look at the dynamics of bilateral energy relations that China has with its immediate neighbours, including countries in Central, East and South Asia.

At the same time, due to the limits, this research does not aim at providing a comprehensive overview of the historical events or current in-depth economic background, but will only suggest the author's view on the main trends and related milestones surrounding the energy dimension of the PRC's neighbourhood policy.

As regards the definition of China's neighbourhood, the present research is based on the assumption that such is represented by countries in the immediate geographical proximity of China. However, given the specific scope of the research, the second element is hereby introduced which is the ability of a neighbouring state to directly or indirectly define, affect, compete with, or otherwise make an integral part of China's global energy prospects and strategy¹. Therefore, two elements shall be combined: (i) geographical proximity, and (ii) involvement into PRC's global energy picture. Based on the above, for the purposes of this research, neighbourhood shall include: (i) Central, (ii) Eastern, (iii) South and (iv) South-West Asia.

By way of disclaimer and without prejudice to significance and scale of China's recent efforts in the field of green energy, renewables, and general transition from coal to cleaner energy, this research omits the discussion of this trend as a separate issue, for it could be subject to full-scale independent research. At the same time, following the Paris Climate Conference of 2015 and the relevant consequences for China, this trend will be referred to herein as an important trigger of many decisions and actions deriving from Chinese energy policy towards its neighbours.

(iv) Structure of the Thesis

The structure of this paper is drawn as follows.

The **second** chapter of this research covers the main prevailing trends and tendencies of the Chinese energy policy neighbourhood in order to formulate the overall picture of its strengths and weaknesses and to show to what extent China's foreign policy and energy strategy are intertwined and interdependent. It also demonstrates that the importance that is now attached to the neighbourhood in the view of China's increasing energy demand and ambitious political agenda, as well as internal and external factors that impact the country's energy policy.

The **third** chapter of this paper is dedicated to the Chinese energy relations with Russia and CIS countries which now gain speed and intensity, determined by EU and Russia's cooling relations, and the latter's intention to seek higher geopolitical involvement in the region. It also overviews strengthening bilateral relations with Kazakhstan and Tadzhikistan, which generally demonstrates China's interest in developing its energy ties in the region.

¹ As regards the definition of neighbourhood policies, it is suggested that such are to be understood as a multi-tier and multi-dimensional institutionalized political process aimed at a region defined by its proximity (Beneyto, Song and Ding, 2013).

The **fourth** chapter deals with the Chinese energy policy in the Asia-Pacific region which, in its turn, splits into two parallel vectors, i.e. seeking ways to cooperate with partners such as Myanmar and other global powers such as India, and partaking in regional conflicts that directly affect China's energy-related aspirations, including, first of all, conflicts in the South China Sea and the East China Sea. This chapter also demonstrates the extent to which China's energy policy remains fragmented and still reliant on its ability to pursue a "peaceful rise" path.

Finally, **the concluding part** sums up the essence of the PRC's neighbourhood energy policy and presents key conclusions, namely: Chinese energy policy becomes an important dimension of its general foreign policy, and the two are now closely linked given China's increasing energy demand, energy security and diversification considerations, as well as the legitimacy of the CPC. It is also concluded that even though China has not yet elaborated a unified approach to its energy strategy and thus still relies on bilateral or regional approaches in relations with its neighbours, its energy policy becomes more predictable. There are many external factors that shape China's energy strategy including the US presence in the region, instability in the Middle East where China's traditional suppliers are based, etc. Other conclusions include improvement of energy relations with Russia and Central Asia countries, as well as India and Myanmar; the relatively positive, though not stable, dynamics of the energy dialogue with Japan; quite complicated, but not without positive trends, situation around energy resources in the South China Sea.

II. MAIN TRENDS AND DRIVING FORCES OF CHINA'S NEIGHBOURHOOD ENERGY POLICY

2.1 Geopolitics and Energy in China's Foreign and Domestic Politics

The traditional global energy market is now being reshaped more than ever in history. China needs to secure its position in order to both keep the due international posture and strengthen its image internally. As mentioned above, the newly adopted 13th Five-Year Plan clearly demonstrates the PRC's ambition to keep its development and growth pace, which in its turn dictates the necessity to think through its international politics strategy energy-wise.

Geopolitics lies at the root of the energy-related processes, as today's highly interconnected nature of the global energy market makes it difficult for the countries, whether energy producers or importers, to stay isolated from the prevailing geopolitical trends. The question of whether it is geopolitics that affects the energy policy developments, or it is the energy dimension that triggers certain geopolitical strategies and decisions, is indeed hard to answer. As A. Voskresenskiy puts it, the energy factor could be seen as a dominant one, or as the base for resolving other matters such as innovations, demography, regional development, creating a unified energy market etc. At the same time, as will be shown below, some of the existing trends contradict this statement. The example of disputes in the South China Sea and the East China Sea clearly demonstrates that the energy-driven appetites can remain subdued and secondary to those of a larger scale. Therefore, it is argued that tackling the issue from both angles is correct, and though it does not lead to any straightforward answer, it allows seeing the whole picture from the right perspective, which reflects the indivisibility and continuous interdependence of geopolitical and energy factors (Kharitonova, 2016).

When it comes to energy and geopolitics mix in China's general line of conduct, one can single out their following main cross points between the two:

(i) Domestic demand & energy imports

China's demand cannot be met by domestic production only, and the obligations undertaken after COP21 in Paris imply further limitations as regards conventional energy resources such as coal. There is a lot of debate regarding the future demand in China which varies, according to different sources, from quite optimistic (i.e. low)² based on the shift to clean energy and the growing stake of renewables, to rather pessimistic (i.e. high)³ based on China's need to keep up with its economic growth pace and improvement of living standards. Without prejudice to the facts that underlie the optimistic picture of Chinese future demand, it is, however, evident that the overall energy mix would be still highly dependent on the energy imports, so the PRC will be inevitably bound to participate in the world energy market.

² For example, Xiaojue Xu argues that technology innovation presents huge potential in China, with clean coal, energy efficiency, and carbon capture utilization and storage to expand wider after 2020, which leads to the conclusion that "outcome of energy saving and emission will outstrip those envisioned by the IEA" (see (Institute of World Economics and Politics, Chinese Academy of Social Sciences, 2014). Or, for example, World Energy Outlook 2015 published by IEA is also projecting moderate expectations as to the rates of China's rise in energy demand due to "structural shifts in the economy, favouring expansion of the services sector rather than heavy industry" which requires 25% less energy to generate each unit of future economic growth (International Energy Agency, 2015).

³ For example, see projections by ExxonMobil (Exxon Mobil Corporation, 2016) which predict rise in demand due to strong growth in GDP, growing living standards and more people joining the middle class through 2040. According to BP's energy outlook, by 2035 China will become the world's largest energy importer, overtaking Europe, with its import dependence rising from 15% in 2014 to 23% in 2035 (BP, 2016).

(ii) Energy politics as an integral part of geopolitics

As argued before, these two elements are deeply intertwined, and their mutual exposure can be hardly overestimated. Yet, from the structural point of view, and not merely from the perspective of mutual exposure, energy politics are an integral part of geopolitics, and China's foreign policy. For example, recent sanctions against Russia combined with the development of the LNG market have marked the global tectonic shift in the traditional energy demand-supply paradigm. And unsurprisingly, those and other changes cannot pass around China unnoticed, and without affecting its energy prospects – sometimes for the benefit, sometimes for the worse.

(iii) Traditional energy resources & secure energy resources

Even though China, as well as other global market players, is to a certain extent free in determining its energy policies, including the choice of exporting countries, the latest global tendencies have shown its vulnerability and a serious level of exposure to external events often which are often not even directly related to China itself. For example, the Arab spring, the sanctions imposed on Iran and Russia, the escalating conflict between Sudan and South Sudan (Luft, 2015), development of the LNG market and other events all have affected the Chinese global energy portfolio to greater or lesser extent, forcing the country to revise its energy strategy and to show flexibility in adapting to the fast changing circumstances. The Middle East concerns and the US influence in the region (to be discussed separately below) have undoubtedly strengthened China's inclination to concentrate its efforts on immediate neighbours as a way to secure its energy needs, rather than rely on its traditional partners. This is also the geopolitical factor that drives China's energy strategy.

(iv) Globalisation and institutionalisation of the global energy market

As the global energy market become more globalised and institutionalised with the appearance of new institutes and alliances covering energy issues, geopolitics and energy continue to remain closely interdependent. Building new pipelines, exploring capabilities of the LNG market and shale gas production, participating in global campaigns such as climate change and CO₂ emission reduction, China not only discovers new ways of securing its energy demand and development of energy efficient technologies, but also contributes to the changes in global geopolitics. In the globalised world each move has a butterfly effect, and so globalisation dictates its own rules making energy and geopolitics indivisible. China's recent initiative – the One Belt, One Road consisting of the onshore Silk Road Economic Belt and offshore Maritime Silk Road – demonstrates that the PRC is now looking at developing a more or less unified strategy as concerns its energy-rich neighbours, and the new infrastructure would definitely contribute to globalisation of the energy regional, and then automatically, global market.

(v) Domestic issues are no more isolated from the geopolitics

Despite the fact the China's domestic policy (not necessarily energy-related) has been always characterised by a high level of isolation, today it becomes more exposed to geopolitical changes due to globalisation processes. By way of example one can name China's following domestic issues that have affected its energy strategy in the geopolitical context: high rates of domestic pollution leading to development of green and energy efficient technologies; domestic growth and fast urbanisation creating conditions for the rise in energy demand, as well as grounds for extended abroad investment activities; Xinjiang issue attracting attention world-wide and thus affecting energy.

2.2. The Role of Neighbours in China's Energy Policy and Geopolitics

The five dimensions formulated in the preceding paragraph clearly demonstrate the extent to which energy and geopolitics are inseparable when it comes to China's policies, whether at home or abroad. The role of neighbours is hard to underestimate, as their proximity brings the followings benefits and complications when applied to all of the above formulated points:

- (i) Geographical proximity allows better, faster and more secure satisfaction of energy demand, with less investments required;
- (ii) Regardless to what extent the energy dimension shifts in a wider geopolitical context, neighbours can never be disregarded, for they are at least connected with secure passage of energy imports through their territory;
- (iii) Traditional energy partners (mainly, the Middle East countries) still remain unstable and can no longer serve a secure exporting region, so neighbourhood becomes twice as important in closing this gap as a short-term goal and creating a secured energy channel in the proximity as a long-term goal;
- (iv) In terms of globalisation and institutionalisation neighbours are the best allies, as they more or less share the same basic cultural and political values, and aligning with them under the geographic principle is not only technically convenient and politically profitable, but also strengthens China's position and authority in the region;
- (v) Neighbours can be more vulnerable to domestic problems as China, such as pollution, which may serve as a point of contention; they may also see a threat in it which can make them less inclined to be a stable energy supplier (e.g. extremely fast growth rates may signify China's strengthening position, and its possible domination in the region as the consequence.

If, however, no due attention is paid to the neighbourhood, it may easily turn into a source of permanent implications and concerns (as is already the case with the Malacca Strait), given that almost each China's neighbour either (i) an energy supplier (Myanmar, Russia, Kazakhstan), (ii) an energy supplies direct or indirect route (countries adjacent to the Malacca Strait), or (iii) a state competing for energy resources (India, Japan). As a result of the above projections, one may come to the conclusion that if energy relations with neighbours are not secured, and if the right long-term geopolitical approach is not elaborated, the outcome may be disastrous, especially given that there is a continuous struggle for dominance in the region which also includes other major states such as the USA. As Li Yonghui observes, there is a critical need for rising powers to have a friendly periphery, or a "strategic periphery belt" (European Council on Foreign Relations, 2014).

With the view to the above and to better understand the driving forces of China's energy policy, those of (i) domestic and (ii) external nature should be distinguished, as each dimension has its own implications for the neighbourhood as a whole. Given the scope of this research, it is impossible to consider each circumstance in application to each separate neighbouring state, however, the broad picture would not be given if such implications are omitted. It is certainly understood that there is no single approach that China exercises towards its neighbours – on the contrary, it is fairly stated that the model associated with China's ASEAN policy includes risk containment and risk management, and is built on a Westphalian geopolitical model, while its policy path in Central Asia can be classified as classical intergovernmental institutionalized multilateralism, and in North-East Asia as ad hoc, reactive, and more widely embedded efforts (Beneyto, Song and Ding, 2013).

Even though this division to domestic and external events as the driving forces of China's neighbourhood energy policy is to certain extent conditional, it might help better understand the boundaries of China's capability to have a say in the course of, or otherwise influence the developing situation and changing energy market conditions. Given below is the overview of each category presenting main concerns for the PRC's geopolitical approach to energy issues in the region, with the focus on its neighbourhood.

2.3. Domestic Concerns of Chinese Energy Policy

When speaking of domestic concerns affecting China's energy policy, it should be again noted that such now influence its foreign policy more than ever before. Among them the most of significance are:

- (i) Energy security challenge;
- (ii) Extreme rates of growth in demand;
- (iii) Pollution and climate change;
- (iv) Xinjiang issue;
- (v) Legitimacy of the CPC.

Below is the discussion of these four major points of domestic concern.

(i) Energy security implications

In some sense, China is a unique example of a modern state balancing between the unseen rates of economic and social growth, and the highly criticised political regime, which, ironically, partly explains such ultimate need for further development, and availability of energy is a critical element of this selected course of the PRC's government. It is, therefore, not surprising that some scholars consider Chinese energy security to be inextricably linked to the continued stable development of the country's economy, strategic security and internal stability (Currier and Dorraj, 2011), and – not the least – to the legitimacy of the CPC (CSIS Energy and National Security Program, 2009). Given this assumption, one may conclude that stability of the domestic image of China is as important as the external one, just to mention that this is the domestic sense of energy insecurity caused by supply shortages and other similar circumstances that created an incentive for Chinese companies to start intensively investing overseas and that induced the government to guarantee them strong political support in that move (Rosen and Houser, 2007). Besides, since China's international energy policy is, amongst other, aimed at improving living conditions and industry growth, it is being highly dependent on domestic events of various sort.

At the same time, similarly to many other regions concerned about energy, including Europe, the exact notion of energy security is not precisely defined in Chinese legal or political theory, with some researchers pointing out the following elements:

- (i) ensuring access to sufficient energy supplies;
- (ii) ensuring buying energy supplies at reasonable prices;
- (iii) ensuring safe delivery of energy imports (Downs, 2006).

However, if one observes the existing tendencies in China's energy geopolitics, sufficiency, reasonable pricing and safe delivery cannot *per se* qualify for the comprehensive picture of practical energy security needs that China now faces. Taking into account the recent challenges and implications, additional elements, or rather precisions, could be formulated when defining the energy security, namely:

- (i) ensuring diversification of routes and suppliers, primarily in China's neighbourhood;
- (ii) making further efforts in resolving, or at least keeping down the escalation of, disputes in the adjacent maritime areas (South China Sea and East China Sea);
- (iii) keeping the sound level of international energy communication with other players in order to consolidate gains made in the course of implementing the above energy security measures.

(ii) Demand growth

Another crucial source of domestic trouble that affects the overseas energy policy is the country's constantly growing demand. According to data referred to herein above, projections of the demand growth vary, however, its very existence is out of doubt.

Apart from economic development plan, it is argued that now demand is mainly led by heavy industries, but this threatens to turn soon into a consumption-led demand, which means that the full-scale consumption era is only to come (Rosen and Houser, 2007). As Wall Street Journal projects, "as those economies [China, India and other fast-expanding countries] mature, hundreds of millions of people will enter the middle class and use more energy, driving cars or using air conditioning" (Spegele, 2016), and thus all existing projections are still more or less conditional. At the same time, no matter how promising are the prospects of domestic production and renewables, China would still remain dependent on energy imports, such dependence being based on security and diversification rather than quantities of supplies.

Therefore, the exact figure of demand is not as relevant as its existence itself – it is important for the Chinese government to guarantee meeting the energy demands in the future as a part of the development plan and its own legitimacy.

Besides, the question of "quality" should be raised when considering not the demand itself, but the complications that surround the issue. So far everyone agrees that China will remain dependent on energy imports, and therefore from geopolitical point of view the quantity of such imports is only one side of the coin, and the other one is the type of energy resources imported. For example, coal as an energy resource is already being driven out of the market by cleaner ones – natural gas, renewables etc. From that perspective, domestic need for one or another type of energy may also bear consequences for China's energy policy, especially in the gas-rich neighbourhood.

Therefore, from standpoint of growing demand, the following projections are important that affect China's neighbourhood energy policy:

- (i) despite the wide range of demand growth projections, it will still remain high enough to make China dependent on energy imports;
- (ii) the need to guarantee sufficient supplies meeting the growing demand will largely affect PRC's foreign policy in general, and neighbourhood policy in particular;
- (iii) the "quality" of future demand will also play role in determining China's energy policy.

(iii) Pollution and climate change

Another domestic concern is China's status of the biggest world polluter given high rates of the coal use, absence of wide-spread clean energy resources and carbon capture technologies. This is both the question of investments and implementation efficiency. Despite positive trends in this direction, this issue will undoubtedly remain one of major points in China's energy policy, and its relations and cooperation with neighbours is of utmost importance, as briefly discussed below.

In fact, pollution is the stumbling block of China's relations with adjacent countries that bear the direct risk of being a neighbour to the world's largest source of emissions that causes acid rain, reduced visibility, respiratory problems (Rosen and Houser, 2007). This may be seen as the grounds for cooperation, but rather for confrontation with neighbours. So, China is specifically interested in its faster transmission to the green energy and carbon emission reduction to the maximum possible extent in order to reduce tensions with neighbours which are concerned about environmental impact of their neighbour's economy growth.

From the standpoint of the energy mix, pollution gives rise to the following consequences that go in parallel – on the one hand, the PRC's government needs to take efforts in order to save and improve its image, and on the other hand, alternative sources of energy are being actively explored. Even though this may not reverse the China's dependence on imports, certain changes still take place with the wind and solar energy developing at their highest rates – according to IEA, China alone will account for nearly 40% of total renewable power capacity growth (International Energy Agency, 2015a), while Bloomberg mentions China's plans to increase wind and solar power capacity by more than 21% in 2016, and to derive 20% of the energy it uses from clean sources by 2030 (Bloomberg.com, 2016).

It can be argued that pollution and climate change should not be seen just as China's domestic concern, as it directly damages the neighbouring countries and, as a result, the entire world. While this is undoubtedly a two-folded issue, it is still important to see the roots of these trends in Chinese domestic policy aimed at economic growth, with geopolitical impact only arising as a consequence of its activities. However, it can be admitted that with China's recent efforts to become a responsible energy user, this problem turns out to consist of a mix of domestic and international aspects. The first of the major steps at the international level was taken in November 2014 when the USA and China signed a U.S.-China Joint Announcement on Climate Change (The White House, 2014), reiterated by the White House in March 2016 (The White House, 2016) right before signature of the Paris Agreement.

In their turn, climate talks at Paris Climate Conference (COP21) in December 2015 and signature of the Paris Agreement in April 2016 were marked by China undertaking to modernize its coal power plants by 2020 in order to cut its pollutant emissions by 60%, which would help save around 100 million tonnes of raw coal and prevent the discharge of about 180 million tonnes of CO₂ each year (Cop21.gouv.fr, 2016). From the geopolitical perspective, this move demonstrates China's ultimate readiness to bring this issue up to international level and solidify its geopolitical image.

Given the above, the following conclusions regarding impact of pollution and climate change on China's neighbourhood energy policy can be made:

- (i) Pollution is a stumbling block in relations between China and its neighbours, as at the moment it is mostly the source of their confrontation regarding the adverse effect on environment and health;
- (ii) At the same time, subject to favourable circumstances in the future, pollution may become a good point for regional cooperation and strengthening China's positive image as a clean energy investor;
- (iii) Climate change has already proven to be a good point for cooperation at the international level, however, this would require some structural changes in China's economy given the obligations undertaken in terms of Paris Agreement;
- (iv) In general, pollution and climate change are a challenge in a short-term perspective, however, given proper circumstances, China may turn them to its geopolitical profit as a part of its long-term strategy, especially in the neighbourhood, so bringing it to from domestic to international level can be used with benefit.

(iv) Xinjiang

The notable one is the issue of Xinjiang that may be seen by many as a purely political point, however at a closer look it reveals a deep connection with the country's energy security and stability. Xinjiang's importance to China as an energy policy unit can be presented as follows:

- (i) Xinjiang area is an energy-rich area with excellent prospects for development of gas, oil and coal reserves. According to the IEA data, total oil 2014 production from the Junggar, Tarim, and other key basins in this region was estimated at about 400,000 bbl/d (U.S. Energy Information Administration, 2016). Gas reserves are estimated at the level of 1.4 trillion cubic meters, and coal reserves accounted for more than a fifth of China's total output in 2008 (Radio Free Asia, 2016).
- (ii) The territory of Xinjiang is a transit channel for energy imports to China from the neighbouring Central Asia countries. Therefore, it is rightfully noted that military security of the area is of utmost concern for the PRC, as the latter seeks to improve the integration of the country's domestic oil pipeline network, as well as to establish international oil pipeline connections with neighbouring countries to diversify oil import routes (U.S. Energy Information Administration, 2016).
- (iii) Energy dimension can also be regarded as a way to bring the OBOR initiative into life, which also envisages energy links with Europe, Russia and Asia, program is believed to be a good contribution to pacifying the ethnic conflicts in the Xinjiang and prevent the province from breaking away to become a renegade state (Wang, 2016).

In that sense Xinjiang becomes an important strategic hub both for production and transit purposes, as well a serious domestic concern. Therefore, China needs to ensure its security and counter-fight terrorism in the region not only for the purposes of safe development of domestic reserves, but also in order to pursue successful neighbourhood policy and pacify the region itself.

(v) Legitimacy of the Communist Party of China

As mentioned before, the CPC is now trapped between success and failure comprising all the preceding points of domestic concern: on the one hand, the country has shown the unprecedented rates of economic growth and rise in living standards. However, it is now necessary to consolidate gains and not lose the track. Therefore, CPC's political legitimacy as a ruler largely depends on its capacity to meet nation's economic and nationalistic expectations, as well as preserve its territorial integrity (Jakobson L., 2014; Leung, 2016). The following energy-related issues constitute main CPC's concerns in its struggle for legitimacy and power: (i) meeting domestic energy demand; (ii) ensuring country's territorial sovereignty and integrity (e.g. every dispute over resources in the South China Sea triggers a nationalistic wave); (iii) ensuring secure and stable supplies at affordable prices. Systematic or large-scale failure to deal with the above challenges in a sound economic and political manner would inevitably put its legitimacy into question. Besides, it is argued that interrupted supplies of such vital energy resources as oil may degrade the military power of the PLA (Leal Filho and Voudouris, 2013), which comes as another point of the CPC's concern.

Therefore, given the new reality in which China has to find appropriate energy solutions, including further globalization of the world energy market and global shifts in energy geopolitics, the CPC faces the necessity to deal with those in a more structured and comprehensive manner not only as a separate issue, but as a part of a global plan that also covers its own legitimacy at the domestic level and right to claim power at the international level.

2.4. External Events Affecting China's Energy Approach

Chinese analysts have identified a number of risks for Chinese energy interests abroad. For example, Li Zhongmin (Li, 2012) identifies six categories of risks faced by Chinese companies operating abroad. In December 2012 CASS Institute of World Economics and Politics hosted a forum on overseas risk management for Chinese companies, where four major threats to Chinese economic interests abroad, including energy interests, were identified: (a) 'creeping' expropriation; (b) terrorism and politically motivated kidnappings and extortion; (c) social disturbances, unrest and civil war; and (d) 'negative changes' in host governments' policies (Politics.gmw.cn, 2016).

(i) US Influence in the Region

An important issue to discuss is the US influence in the neighbourhood that inevitably touches upon China's energy interests, and intervenes with China neighbourhood policy. Assessment of the scope and impact of such influence varies from describing such as aggressive to finding it positive and contributing to stability of the region. Unsurprisingly, the first approach is developed by Chinese experts, while the second – by the USA and China's rivalries in the region, including Japan, parties involved in the South China Sea dispute, etc.

Arguments start far from China's immediate neighbourhood – for example, that the USA's policies in the Middle East are said to be a potential threat to Chinese interests (Dong, 2013), or there is another speculation that the West seeks to contain the PRC's activity and growing influence in Africa (Li, 2011). Whether or not such projections reflect the true picture, the mere idea or fear of the USA exercising such influence and putting obstacles to China's sustainable growth naturally forces China to seek strengthening its position in the region and brings it closer with its immediate neighbours.

Opinions regarding the role of the US directly in China's neighbourhood go to the extremity. While Western experts underline the importance of the USA in ensuring stability, peace and cooperation in the region, Chinese scholars are quite skeptical in this respect. From their perspective, the USA seeks to strengthen its presence in the East and Central Asia, as well as in the Middle East, in order to limit China's authority, which adversely affects energy cooperation at the political level (Ciis.org.cn, 2016). According to the latest announcements covered by the media, recently Chinese authorities have recognized that a successful peripheral policy is needed because the US will almost certainly try and block China's rise, so the latter needs to rally support to counterbalance the pressure (Chinadaily.com.cn, 2016).

Another point of concern for China is the USA's continuous and comprehensive partnership in the field of security, which only seems to get stronger. In March 2016 the Bureau of East Asian and Pacific Affairs of the US Department of State announced that "the U.S.-Japan Alliance is the cornerstone of U.S. security interests in Asia and is fundamental to regional stability and prosperity" (U.S. Department of State, 2016). Obviously, this gives rise to new waves of distrust towards the USA and Japan, and affects the prospects of cooperation.

Another Chinese energy concern in the neighbourhood related to the USA is that in case of conflict with Taiwan, the US would intervene which might affect safe delivery of oil to China through long sea lines of communication (Minoura, 2011). U.S. attempt to contain China, as well as to support the US in the event of a clash with China over Taiwan (Valencia, 2007). At the same time, despite the seemingly unimportant issue, the East China dispute also is of interest to the USA, for the two of three parties involved represent the US strategic partners, i.e. Japan and Taiwan.

In general, Chinese territorial claims indeed imply a direct collision with some of the closest allies of the US in the region, such as Japan, the Philippines and South Korea (Bendini, 2016), so such US involvement has far more reaching consequences than just a clash of two global powers.

Chinese experts are also debating the question of the USA's so-called "rebalancing to Asia" and US energy independence and its impact on the security of Chinese energy interests (Duchâtel, Bräuner and Hang, 2016). Dong Xiucheng, a Professor at China Petroleum University, warns that the USA's long-term decreased reliance on oil and gas from the Middle East may leave it with insufficient motivation to safeguard local oil and gas production sites and maritime transportation routes that also lead to East Asia (Dong, 2013). This might affect Chinese energy interests by leading to long-term chaos in the Middle East and by prolonging the currently high oil and gas prices in East Asia.

One of the main areas of the US involvement remains the South China Sea region, where, along with India, Japan, Australia and the European Union, it is said to see its role as a mediator in determining the role of international law and institutions in order to tilt the balance of behavior (Rogers, 2003). However, the Chinese's view of the US role is quite different – in April 2016, following Russia's support of direct talks between the countries directly involved in the dispute, Wu Shicun, president of the National Institute for South China Sea Studies said that the Philippines and Western supporters, including the USA, are attempting to force China into a corner (People's Daily Online, 2016).

On the other hand, the new trends in the globalized world give rise to new potential areas of cooperation. During a meeting with Minister Wang Yi, Secretary Kerry stated there was "an important progress on a range of global issues [between China and the USA], including a landmark agreement on climate change in Paris" (U.S. Department of State, 2016).

As already discussed above, the year of 2016 has been marked by an unprecedented cooperation between China and the USA in the field of climate change, since the two countries “have started realising the long-term economic benefits and strategic advantages of addressing the environmental crisis” (Bendini, 2016), and adopted a Joint Statement on Climate Change in November 2014 (The White House, 2014). However, the positive effect of cooperation between the countries should also be questioned from the realist point of view as such would result in developing unwanted levers of pressure from each side. In other words, should one of the parties be deemed not to comply with its obligations or otherwise to behave in a deviating or ambiguous way, another one would use this tool to make pressure and gain more influence.

Summing up the above, the following patterns of the US influence in the region should be formulated:

- (i) The US influence in other regions of energy importance, including the Middle East and Africa, not only forces China to be on the guard, but also naturally brings it closer to its neighbours;
- (ii) China is much concerned about the in-depth level of cooperation between the USA and China’s old rivalries in the region (first of all, Japan) which makes it seek allies elsewhere;
- (iii) Despite joint attempts to cooperate in the field of climate change, the two countries would rather use this as a political tool, either for their own benefit, or to the worse of the opponent.

(ii) Instability in the Middle East Instability and the Rise of Iran

In the recent history China has been dependent on Middle East energy supplies considering the region to be relatively safe in the absence of direct political clashes and interests overlaps. However, the Arab spring and uprisings in the area have largely affected the China’s approach to securing its energy supplies.

These numbers will increase as a result of Chinese state energy companies’ investments in Iraq and Iran, and as the burgeoning relationship with Saudi Arabia develops. Should that supply be disrupted due to regional insecurity, China’s vital interests would be severely affected (Saab, 2016).

On the other hand, some suggest that the importance of hydrocarbon resources in the East China Sea should not be underestimated for the both countries, as they want to reduce their high dependence for energy on the Middle East (Drifte, 2008).

Sudan and South Sudan became significant oil exporters to China until production was shut in at the beginning of 2012, following political conflicts between the two African nations over their oil resources. As the production returned, China resumed a reduced level of imports. The ensuing shut-in of some of Libya's oil production since political uprisings in 2011 has also affected oil exports to China. Historically, Iran was China’s third largest source of crude oil importers until 2012, when Russia surpassed it. Following US and EU sanctions on Iranian crude oil sales resulting from disagreements on Iran's nuclear program, China reduced its average annual oil import levels from Iran to maintain diplomatic ties with the US and Europe.

2.5. Conclusions for Chapter 2

To sum up, one can highlight the following main trends and driving forces of the current Chinese energy policy:

- the energy trade and investments are an integral part and the key element of the China's "peaceful rise" and further economic development;
- China's energy needs are driven not only by conventional trade but also by security of supply considerations which includes regional conflicts (e.g. territorial disputes in the the South China Sea and the East China Sea), global powers involvement, and defence considerations;
- some of issues, though viewed by China as completely internal, still bring international consequences to the table, and directly affect the energy sphere (including the Xinjiang province issue);
- traditional partners in the energy field are going through various political and economical crises which pushes China to seek to diversify the sources of energy imports in order to create a safety net for the future;
- the US influence and the Middle East instability in the region bring China closer to its neighbours, particularly in the field of energy.

III. CHINA'S ENERGY RELATIONS WITH RUSSIA, CENTRAL AND EAST ASIA

Russia and Central Asia countries gain more weight as part of China's energy policy in the view of geopolitical and economic factors. While Russia sees China as a major purchaser of energy resources and an important investor in its energy projects, Central Asia countries seek to diversify their energy sales and become less dependent economically, as well as attract Chinese investments to develop their energy projects which still lack finance and technologies. At the same time, China's eastern neighbor Japan shows more reluctance in cooperating due to historical controversies between the two, and the East China Sea issue seems only to heat up their debates, even though the general picture is not that hopeless.

3.1. Sino-Russian Relations in the Field on Energy

Now, politico-energy cooperation between China and Russia is booming. Recent developments in the energy field have also significantly contributed to the general optimism in further strategic alliance. Interestingly, just few years before the prospects of their cooperation were quite pessimistic (Itoh, 2007) – in 2011 the two countries were said to be doomed to remain pragmatic "partners of convenience", the foundation of their military and energy relationship to erode, and Russia's significance to China to continue to diminish (Jakobson et al., 2011). However, the last decade's events proved this assumption wrong, or at least, underestimating the power of global trends that may bring Russia and China close, no matter how strong their real controversies are.

To start with, sanctions against Russia and its following economic recession caused by the conflict in Ukraine have even more stimulated both parties to enhance their cooperation at the most comprehensive level. Despite the fact that Western experts are nevertheless critical about the future of Sino-Russian political and commercial venture, Russian and Chinese politicians and scholars seem very confident in this regard, and the level of academic and political contributions from each side is at its (Ciis.org.cn, 2016). X. Yishan, director for the center of energy studies at the Chinese Foreign Ministry, said at the Russia-Asia Energy Summit 2015 that energy cooperation between the two reached strategic level, and is now not limited to the simple export/import formula but has shifted to a higher level which includes supplies of technologies, research, issuance of loans etc. Such favourable background is perfectly fitting the environment of mutual (though some would say forced) trust between two governments, and consequently, contributes greatly to investment attractiveness. During their meeting in March 2016, Foreign Minister Wang Yi and Foreign Minister Sergey Lavrov confirmed that both countries are working together to promote “bilateral development strategies as well as the OBOR initiative and the Eurasian Economic Union, and to actively push large-scale strategic cooperation projects such as natural gas pipeline” (Fmprc.gov.cn, 2016).

Seemingly, both Russia and China are interested in strengthening their ties even by price of certain interdependence – since their interests overlap only in relatively safe areas (e.g. influence in Central Asia), they might want to create a “counter-Western” alliance with a commerce-energy-technologies pivot generating the base for greater geopolitical developments. According a fellow of the China Institute of International Studies, energy cooperation, including infrastructure projects, between Russia and China tie up their mutual interests and deeply change the energy dimension of Eurasia, as well as the global geopolitical image. He also develops an idea that Russian and Chinese interests do not overlap, since China does not seek to dominate in the Central Asia and it also benefits from the security and stability in the region, however, this assumption should be treated as an optimistic exaggeration. Indeed, Russia and China will benefit more from cooperation than confrontation in Central Asia, but at the same time their proactivity in the Central Asia (e.g., in Kazakhstan) clearly demonstrates that competition exists and will continue, with the energy axis at its top. At the same time, as will be shown in the next section of this paper, domination in Central Asia is crucial for both countries, however, their opposite borders (i.e. Russian border with European countries and Chinese borders at East and South) give more grounds for their governments to be worried. Therefore, even recognising the existence of overlapping, and to certain extent conflicting, interests of Russia and China one should still admit that this reminds more of healthy competition than struggle, at least as compared to the aforementioned situation at their opposite borders.

Another point of energy cooperation with Russia is the joint development of natural resources and infrastructural projects in the Arctic. Great importance to this issue is now attached in China, which sees its potential not as an importer of oil and gas from this region, but as a full-standing partner directly involved into the related development projects that are designed to improve its energy security (Siis.org.cn, 2015). However, there is no room for a more fundamental research in this issue given its specific historical background and the pending legal status of the Arctic fields, so it seems to deserve becoming subject to a separate research, and thus is not discussed in this paper.

In general, Russia and China have more to share than to divide for the following reasons:

- (i) both countries seem to be pariahs for the rest of the world, each heavily criticised at its own level (Russia for its alleged aggression towards Ukraine and Eastern borders policy, and China for alleged violations of human rights, environment pollutions etc.);
- (ii) each country, to greater or lesser extent, confronts the US guiding principle of a unipolar world, which itself is a serious trigger of their cooperation (it is enough to mention China's historical support of Russia's position in the UN General Assembly that shows the two countries' general mutual tolerance at a global level);
- (iii) both seem "perfectly matched in the energy sphere considering their geographic proximity and near perfect supply and demand complementarity" (Jakobson et al., 2011);

Several oil and gas deals have been signed with Russia in the past few years, including two loan-for-oil deals amounting to \$50 billion, signaling China's move to diversify its energy supply. SNPC and Russia's Rosneft formed a joint venture with 49% owned by CNPC to develop Russia's East Siberian oil fields. These agreements signal the growing energy ties between the neighbouring countries and China's interest in gaining more access to Russian oil.

The famous deal of 2014 on constructing "the Power of Siberia" connecting Russian natural-gas fields and China speak for itself: the energy cooperation between two countries - one locked up with sanctions and going through tensions with the EU as its traditional customer, another stuck in the energy dilemma - brings them close more than ever before. Despite quite pessimistic prognoses as regards the deadlines and feasibility of the project which has often been presented as non-profitable for Russia, the latest updates prove the opposite, and the project is on its way – feasibility report pertaining to the eastern route gas pipeline has been completed and key parts of the solution have been identified (Xinhua Finance Agency, 2016).

Recently Russia's lower house of parliament, the state Duma, ratified the agreement pertaining to China's Silk Road Fund's purchase of 9.9 percent of shares of Yamal LNG from Novatek (Naturalgasasia.com, 2016).

These deals are said to be just a part of the wider energy cooperation. As Shi Ze rightfully observes, "China-Russia energy cooperation covers different areas such as oil and gas, electric power, coal, nuclear energy and new energy". Needless to say, such close ties both bring their benefits and complications to both countries. Russia, on its side, benefits from the opportunity to gain its share on a lucrative Chinese market making up for the uncertainties at its Western border, while China seeks to ally with a reliable energy producer which proximity allows to construct direct infrastructure along with developing alternative sources of energy. At the same time, both countries might experience a growing level of interdependence, as for geopolitical reasons they somehow find themselves in certain isolation. Another concern is potential struggle for domination in Central Asia, though this now seems to be the least one for both given the general global background.

3.2. China's energy relations with Kazakhstan and Turkmenistan

(i) General Background and Remarks

In the last two decades the China-Central Asia cooperation in the energy field has been emerging at a quick pace, such initiative first led by commercial players (spearheaded by CNPC) and then endorsed at a governmental level. Since then, the construction of the China-Central Asia pipeline connecting the Caspian Turkmen and Kazakh coast up to Hong Kong and Shanghai and transporting up to 40 billion cubic meters of natural gas was completed (Alvarez, 2015).

It is rightfully argued that the interests of the two sides (China and the Central Asian states) were very clear: to Beijing, the development of mid-stream infrastructure represented an alternative to mitigate the dependence of the country on the Malacca Strait, and supplies from Middle Eastern and African countries⁴. Additionally, it would increase the security of natural gas supplies to the wealthy coastal provinces, which are increasingly dependent on this particular hydrocarbon⁵. To the Central Asian governments, the gas pipeline to China came as the cornerstone of a strategy to reduce Russian influence on their energy sectors and improve their economy benefiting from generous investments.

Chinese direct investments to the Central Asia countries are now among the largest with its interest to Central Asia states growing, the figures speaking for themselves – at the end of 2014 China invested only \$3,4 billion to Russia, which was almost 7 times less as compared to Kazakhstan (Lisovolik and Vinokurov, 2016). Therefore, this cooperation allows China killing two birds with a stone, namely, to ensure low-cost and stable supplies from a neighbouring country along with reserving some room for a manoeuvre in case of rising tensions at its Eastern and Southern borders. In other words, such policy reduces the dependence on the political situation.

Mainstream Chinese analysts view Kazakhstan and Turkmenistan – the two countries hosting China's largest energy interests in the region – as politically stable (Duchâtel, Bräuner and Hang, 2016). The analysis of their relations with China is given below, which is without prejudice to other Central Asian countries that are relevant, including Uzbekistan, Tajikistan and Kyrgyzstan⁶. However, due to the limits of this paper only Kazakhstan and Turkmenistan examples, being the major ones, are described.

(ii) Relations with Kazakhstan

Kazakhstan now gains weight in the eyes of Chinese politicians as a stable, reliable and relatively politically impartial party (at least it does not compete with China and does not pose a real threat to it from political point of view). This makes Kazakhstan a much desired energy partner, and China has been using its potential to its great benefit.

⁴ Ibid.

⁵ Ibid.

⁶ For example, in 2013 China and Uzbekistan agreed on deepening energy cooperation, including operation of the China-Uzbekistan gas pipeline and cooperation in the field of natural gas processing, oil shale development and renewable energy (News.xinhuanet.com, 2016). Also in 2013 China and Turkmenistan launched the Galkynysh gas field, and the PRC financed high-voltage power lines (European Council on Foreign Relations, 2014).

Following a series of commercial transactions that took place from 1997 to 2009, Chinese companies acquired a significant share in Kazakh upstream oil and gas enterprises, in parallel with developing infrastructure projects (e.g. the Kazakhstan-China oil pipeline project led by CNPC and Kazakh KazMunaiGaz). There were also major deals in the field of nuclear energy including the uranium production agreement and joint nuclear fuel production agreement reached between two countries in 2004, followed by endorsement of a strategic cooperation agreement in 2011. In 2010 the share of Chinese companies in the Kazakh oil market was equal to 21.5%, 90% of those owned by CNPC. Jointly these developments successfully triggered further bilateral cooperation in the energy field, now also motivated by geopolitical considerations as well.

As rightfully noted, the Central Asian territory can be considered a keystone in Beijing's energy security strategy, where specifically the geological similarities between the western Chinese basins and Kazakh oil fields and related direct investment opportunities represent a crucial economic interest for China (Álvarez, 2015).

As shown above, China-Kazakhstan energy partnership history is quite solid. Historically though, the Chinese interest in Kazakhstan as a natural resources supplier "was driven mainly by the corporate activities of CNPC rather than by a conscious and formal diplomatic strategy" (Ibid¹), as there were other crucial points on its international agenda such as counter-terrorism and border security. However, this relationship gradually developed into a full-standing international politics issue, as confirmed by numerous official visits by the PRC government to Kazakhstan. As discussed previously, the underlying reason is not purely the lack of natural resources and hydrocarbons itself – this is also the question of China's dependence on the instability related to Malacca Strait imports, as well as to supplies from Middle Eastern and African countries (Suleimen, 2014).

This interest is mutual: Kazakhstan also needs China as a consequence of the decrease in oil prices and the echo of the sanctions regime affecting Russia. Therefore, Chinese investments are more than welcome to drive Kazakhstan out of crisis. Regionally, from Chinese perspective the turn to Kazakhstan was clearly intended to show that the PRC has alternatives besides Russia in Asia (Currier and Dorraj, 2011).

A majority of Chinese analysts are optimistic that the potential political risks to Chinese energy interests in Kazakhstan are minimal. They point to the absence of ethnic conflict in the country and to the "wise policies" of the current Kazakh President, Nursultan Nazarbayev (Duchâtel, Bräuner and Hang, 2016). Much of the anger is directed at the perceived Chinese "takeover" of Kazakh resources.

At the same time, one should admit that Chinese geopolitical efforts in the region are to certain extent hampered by the fact that the PRC is competing with Russia in the region, while the latter's cooperation in the energy field is also important. Kazakhstan, in its turn, welcomes the Chinese capital and involvement in order to counterbalance the dominant influence of Russia in Kazakh energy sector (Yenikeyeff, 2008).

According to Usen Suleimen, ambassador-at-large of the Kazakh Ministry of Foreign Affairs, there are the following rationales that drive China-Kazakhstan energy relations:

- (i) energy rationale based on the simple fact that China needs to import energy for development and Kazakhstan needs to export energy to maintain its economic growth;
- (ii) geopolitical rationale, as the energy rationale itself is not enough to justify certain forms of energy cooperation;
- (iii) broader bilateral cooperation, with the Kazakhstan-China trade turnover increase from \$1,557 million in 2000 to \$25,113 million in 2012 (Suleimen, 2014).

The above said can be fully agreed with, however, we argue that more emphasis should be made on

increasing concerns regarding China's energy security which is something that stands beyond the above described traditional trade formula. More precisely, the two countries cooperation directly fits China's need to pacify and develop Xinjiang province, as well as to reduce its dependence on the Malacca Strait.

In the view of the above, the following features of Sino-Kazakh cooperation can be pointed out:

- (i) Kazakhstan is one of cornerstones in building China's energy security, as it is a reliable direct exporter from a politically secure direction, and both countries are not in direct competition in the region.
- (ii) The both sides mutually benefit from energy cooperation – (i) China is a huge market with high demand, and it is ready to invest into Kazakhstan, while (ii) Kazakhstan is an energy-rich country and a politically reliable partner.

(iii) Relations with Turkmenistan

Turkmenistan is an important country for Beijing within the energy context. After peaceful transition of power in the country to President Gurbanguly Berdimuhamedov Turkmenistan has continued showing interest in energy cooperation with China. However, there are two parallel, and to some extent opposite, vectors in which Turkmenistan's energy policy develops.

On the one hand, China is lucrative market for Turkmenistan which is especially significant for the PRC for its possession of huge natural gas resources – the country's need to diversify its exports and Beijing's search for alternative gas supplies in order to meet its growing gas demand has brought these two countries together (Hazar Strateji Enstitüsü, 2016). Recently, this cooperation seems to have strengthened –Turkmenistan delivered 10.6 billion cubic meters of natural gas to China in the first quarter of 2016 which increased the volumes of supplies by one third, as compare to the same period of 2015, which is said to reflect the decrease in Russian imports from Turkmenistan which have been stopped completely (Naturalgaseurope.com, 2016).

On the other hand, however, worsening relations with Russia gives an incentive to Turkmenistan to diversify its supplies and rethink its foreign policy in general, and energy strategy in particular. The top direction is the EU which, in the view of sanctions against Russia, has turned its eye on Turkmenistan as an energy partner⁷. Most probably, after the EU has revised its energy strategy and recognized the strategic importance of the Southern Gas Corridor (EurActiv.com, 2015) it would remain Turkmen's priority for future energy cooperation. Besides, recent deals between Russia and China demonstrate their strategic interest in each other, not limited to energy issues, and therefore, under otherwise equal conditions Turkmenistan would always prefer the EU to China.

For China, in its turn, Turkmenistan is also not the top-priority in the neighbourhood, as there are other sufficient sources of energy supplies. However, from the standpoint of diversification and energy security this country is definitely on the Chinese energy agenda, as (i) Turkmen gas still serves as an alternative route of supplies, and (ii) there is always room for deeper cooperation to back-up relations with other Central Asian countries and Russia in case there are any political shifts in the region.

⁷ Gas talks between the EU and Turkmenistan have a long history though – it is enough to mention Memorandum of Understanding and Cooperation in the field of energy between Turkmenistan and the European Union of 2008, and Declaration on the development of cooperation in the field of energy between Turkmenistan, the Republic of Azerbaijan, the Republic of Turkey and the European Union.

3.3. Energy Relations with Japan

From the standpoint of energy geopolitics Japan, probably, is the unique example of a neighbour whose general geopolitical relations vis-a-vis China, and vice versa, adversely affect their energy cooperation. This is both due to historical reasons and to the circumstances under which the balance of power in the region is ensured. Another important factor not to be excluded for the background of Sino-Japanese relations is the U.S. active presence in the region and their strong alignment with Japan.

One may fully agree with the assumption that it is rather political and strategic concerns that drive Sino-Japanese energy competition than pure economic interests (Liao, 2006). As J. Xuanli Liao notes, in contrast to a popular belief that “the essence of energy security is to ensure sufficient energy supply at a stable energy price, the Sino-Japanese energy relationship has presented a more complicated case, fraught with a great deal of politics” (Liao, 2008).

At the same time, the paradox is that the low level of China and Japan energy interdependence is, on the other hand, unlikely to lead to escalation of their relations for energy reasons alone, which might explain the relative success in Sino-Japanese energy cooperation, or at least manageability of their mutual energy agenda. Another side of the coin is that apart from occasional clashes that happen between the two neighbours in the maritime and military fields, the roots of their mutual hostility are grounded at a much deeper historical and cultural levels. Therefore, governments of China and Japan sometimes may find it difficult to compromise at risk of being blamed of making unnecessary concessions to another, and since they are not dependent on each other’s energy resources, the energy politics is often sacrificed to broader political goals.

There are two points where China and Japan’s energy interests overlap: (i) the minor one is contesting over Russian oil in Siberia and (ii) the major one is the dispute over gas exploration in the East China Sea.

As regards the Russia-China-Japan triangle, both China and Japan seek cooperating with Russia in the energy field, and they are bound to compete, as from point of view of financing it is unreasonable to create double infrastructure to each country. Here, China has better chances than Japan, since in the last decade its relations with Russia reached the level of strategic cooperation, while Russia and Japan still have many points of difference from geopolitical perspective. For China and Japan, though, this still generates another concern, given that general relations between the two are not always smooth. Besides, it is rightfully observed that from the neorealist viewpoint, states seek to maximize relative gains rather than absolute gains, states view energy security as a zero-sum game, and thus whenever Japan or China concludes an energy deal with a supplier, it would be seen as a gain for that country at a loss of the other country (Waltz, 1979; Minoura, 2011), and this in particular is applicable to the said triangle.

It is also noted that when it concerns China-Japan relations, “realists tend to only focus on the competitive dynamics, whereas liberals tend to only emphasize the cooperative dynamics” (Minoura, 2011). However, it should be admitted that the cooperative dynamics is rather forced than desired, while the competition is almost everywhere, as in each area the two countries need to define their role both as players at a regional and international level. It is therefore an intriguing question whether peaceful and cooperative approach on behalf of China, coupled with its strengthened economy and security, will go in line with Japan’s security concerns. On the contrary, it would be logical that Japan would only be interested in any cooperation that also allows constraining China’s economic growth to a reasonable extent, so that China’s energy security success would not give rise to Japan’s energy security concerns.

In its turn, China would not want to see another rapprochement between Japan and the USA, so the both countries should fully realise that their mutual interest in cooperation does not equals to their interest in mutual benefit. Interestingly, it is argued that “despite the wide range of possible energy relations between China and Japan, in reality, the two sides are unlikely to reach the two extreme ends of the spectrum, total conflict or full cooperation” but would rather stay in the middle range of competition and compromise⁸ – an assumption that can be fully agreed with.

However, it cannot be ignored that there is something that China and Japan unequivocally share, that is maintaining stable and reliable global energy market, low-priced resources, diversification and energy security, for both are highly dependent on third parties in satisfying their energy needs. Together with the fact that China is Japan’s biggest trade partner, both act on the same side when trying to avoid conflict and developing a joint global energy strategy that would bring them benefits in their shared capacity as importing countries. It is even argued, for example, that Japan should not be much concerned about China’s international investment activities in the energy field, as it also indirectly benefits from such (Atsumi, 2007). In its turn, Japan is also important to China both from the economic and political perspective as improving ties between the two significantly contributes to China’s image of a “peaceful rise” country and to balancing its relations with the USA (Currier and Dorraj, 2011).

As regards energy aspects of the East China Sea dispute, despite assessment of the natural reserves of the East China Sea varies greatly⁹, their volume is said not to be very significant to either country as compared to their consumption – for China there exist other viable routes from its Western borders, while for Japan delivering resources from this area is said not to be a viable option, whether economically or technically (Manicom, 2011). According to one of the researchers, “if Japan and China were to only focus on economic calculations, these energy competitions should be fast resolved”, however, “political and strategic calculations as well as domestic politics get in the way of both sides realizing that the energy resources in question are not worth fighting about” (Minoura, 2011). At the same time, it is also admitted that the two countries would still compete in the energy field, as both rely on the same producers¹⁰.

Several rounds of talks on joint exploration in the East China Sea have not resulted in an agreement, and the disputed territorial water amounted to 300,000 square kilometres. In June 2008, China and Japan made public an agreement for joint exploration of gas reserves in the Japan-claimed Chunxiao/Shirakaba field, according to which Japanese companies would invest in the two Chinese oil firms, and the profit would be shared between the participants. However, another accident involving the arrest of the Chinese captain in the disputed waters led to halt of any further development in this direction. Since the agreement was signed in 2009, the countries attempted to develop the gas fields in the area unilaterally. Tensions escalated continuously following the claim over the Senkaku/Diaoyu islands by Japan in 2002, China's installation of a production platform, China's claim to the air space above the islands in 2013 etc. Talks in the end of 2014 were aimed at reducing tensions and improving relations over the territorial claims¹¹.

⁸ Ibid.

⁹ For example, the US IEA estimated such reserves at 60 to 100 million barrels of oil, the Chinese sources named the figure as high as 70 to 160 billion barrel (US Energy Information Agency, 2012)

¹⁰ Ibid.

¹¹ Ibid.

Interestingly, the agreement between China and Japan to jointly develop hydrocarbons in their portion of the East China Sea is seen as a positive factor in finding a long-term solution of the problem (Valencia, 2007) – therefore, it could be another energy geopolitics paradox in Sino-Japanese relations, where energy, of course together with other positive moves such as adopting the UNCLOS etc., serves as the basis for peaceful negotiation, rather than creates unnecessary tensions.

The PRC's recurring frictions with states such as Vietnam and the Philippines over maritime territory in the South China Sea have also strengthened the arguments of those in Japan calling for a vigilant and unrelenting position vis-à-vis the East China Sea (Fox, 2011).

3.4. Conclusions for Chapter 3

Based on the above, the following conclusions can be formulated as regards China's energy policy vis-à-vis Russia, Central Asia and Japan:

- (i) Even though China and Russia are said to be “partners of convenience”, their enhanced cooperation in the energy field logically derives from other geopolitical events including Russia's worsening relations with the EU, and China's need to meet its growing demand and to diversify its energy supplies;
- (ii) Central Asia countries, first of all Kazakhstan and Turkmenistan, are one of the top-priorities on China's energy agenda, as their energy wealth, relative political stability, geographic proximity and urge for foreign investment perfectly correspond China's objective to ensure reliable and diversified energy supplies, as well as to strengthen energy security given the existing threats on its other borders;
- (iii) Sino-Japanese energy relations are of unique nature, as they do present the major driver of the countries' mutual relations, as is the case with Central Asia countries, and are rather influenced by the general Sino-Japanese relations, which are not at their best;
- (iv) The paradox of Sino-Japanese energy relations is that there exist competitive and cooperative trends at the same time, and generally unstable political relations do not adversely affect, but on the contrary, provide room for isolated energy cooperation, including in the East China Sea;
- (v) Despite certain confrontation with Japan, in the discussed region China is pursuing quite successful energy policy and develops relations with the respective countries on a bilateral and mutual beneficial basis; at the same time, China also looks into not getting too much dependent on either energy producer in the region due to its need to diversify its energy supplies.

IV. CHINA'S NEIGHBOURHOOD ENERGY POLICY IN SOUTH AND SOUTH-EAST ASIA

Unlike Central Asia, South and South-East Asia is a problematic region for China's foreign policy, and general complications apply to energy issues as well. There are only few exceptions in the region that favour China including Myanmar. Otherwise, China is literally surrounded by states that have historical collisions with the PRC and confront its dominance in the region.

Another complication is that almost none of the states in the region are producers and exporters of energy to China, and on the contrary, they compete for available resources, whether as purchasers from other countries (such as India), or as developers of regional energy reserves (such as Vietnam, the Philippines).

Below is the analysis of the following countries in the region being in the focus of China's energy policy: India, Myanmar, countries involved in the South China Sea dispute.

4.1. Energy relations with India

(i) Background to Sino-Indian Energy Relations

India and China have been historically united and divided by the commonality of their problems such as dense population, border clashes and territorial disputes with neighbours, lack of natural resources and energy, security of energy supplies routes, energy dependence on the Middle East etc. Even though neither country produces or exports energy to another, China and India are still competitors in the field of energy, for their struggle is also boosted by geopolitical considerations and influence in the region. For example, India's "Look East Policy" which, amongst others, seeks to promote the country's interests in the South China Sea energy wealth, overlaps with Chinese aspirations in that region which serves a continuous source of mutual suspicions, exacerbates tensions and might even lead to a conflict between the two.

Whereas relations with countries like Russia are based on a principle of "better jointly than separately", this is barely applicable to India, and one would rather speak of a better-jointly-unless-separately principle. Therefore, it is half-desired, half-forced partnership, which still has already some landmarks in the field of energy cooperation and demonstrates that both parties are inclined to give another chance to improve their relations.

Following Wen Jiabao's visit to India in April 2005, the Memorandum on Cooperation in the field of Oil and Natural Gas was signed in January 2006 providing for cooperation in the field of "upstream exploration and production, refining and marketing of petroleum products and petrochemicals, conservation, and promotion of environment-friendly fuels" (Bajpai, Huang and Mahbubani, 2016). On 21 November 2006 the China-India Joint Declaration (Embassy of the People's Republic of China in India, 2016) was signed in New Delhi that contains strategic provisions concerning the energy field including the following statements: (i) China and India are not rivals or competitors but are partners for mutual benefit, (ii) they realise their potential for cooperation in the energy field, (iii) energy security constitutes a vital and strategic issue, and the both sides seek a fair, equitable, secure and stable international energy order, diversifying the global energy mix and to increasing the share in it of renewable energy sources.

National companies in their turn have been also quite proactive in attempting to strengthen the two countries' cooperation in the energy field. For example, in 2012 India's ONGC and China's CNPC signed a Memorandum of Understanding for joint exploration and production operations in Sudan and Syria, as well as for making joint bids on foreign oil and gas fields in the future (Reischer, 2016).

However, as positive as these trends are, in practice both countries still remain competitors to a large extent. For example, China beat out India in taking over PetroKazakhstan in Kazakhstan in 2005, and purchasing a share in Nigerian oil field in 2006 (Lai, 2011). Another example is the conflict that took place in 2012 in the South China Sea, when the Indian government was about to send ships to the region after a Chinese boat cut off cable to prevent Vietnamese vessels from exploration activities organised jointly by the Vietnam's state-owned Petro Vietnam and Indian Oil and Natural Gas Corporation ONGC. Therefore, despite the enthusiastic spirit of the above mentioned Joint Declaration, China and India still see each other as rivals, while they continue prompting each other to behave in a cooperative manner.

(ii) Main Trends in Contemporary Sino-Indian Energy Relations

Chinese scholars develop an idea of mutual benefits that Sino-Indian cooperation in the energy field might bring fruitful results, even mentioning Russia as a participant¹², however, this seems way too optimistic. As rightfully noted, Indian oil and gas resources are also scarce (Lijun and Maoxia, 2010), and both countries continue competing for the same sources of supplies, and both see the same countries as their prime suppliers (Kumaraswamy, 2007). Besides, apart from purely populist reasoning, and despite steps taken in the direction of strengthening bilateral energy ties between China and India, more political restraints and capital are needed (Reischer, 2016).

According to Shi Ze and Yang Chenxi from the International Energy Strategic Research Center of the China Institute of International Studies, there is enough room for energy cooperation promoted by China among its neighbours through SOC and other diplomatic resources; China does not look to compete with India in Central Asia in the energy sector, and therefore, the latter should set aside its fears towards China and rather seek to establish a bilateral energy cooperation mechanism and avoid "vicious competition" (Globaltimes.cn, 2016).

Another trend in Sino-Indian relations is their strategic cooperation in terms of BRICS, which touches upon the climate governance and energy cooperation. The common interests have promoted China and India to concern about global warming and energy security, pushing development of the renewable energy technology in BRICS system (Xu and Wang, 2014).

Therefore, the following are the drivers of Sino-Indian energy cooperation:

- (i) the two countries' foreign policy vis-à-vis each other, which has a plenty of historical and cultural complications and is driven by constraining each other's domination in the region, directly impacts their energy cooperation as well;
- (ii) competitive dynamics in Sino-Indian relations is based on their dependence on energy supplies from the same sources and investment destinations;
- (iii) cooperative dynamics is based on both countries' goal to improve energy security in the region and establish themselves as reliable global partners, which is also reflected in the BRICS action plan;

¹² For example, the China-India Joint Declaration of 2006 contains a special provision mentioning cooperation with Russia as one of the pillars of their own cooperation. The Declaration itself is discussed below herein.

- (iv) despite there are factors that keep China and India from comprehensive cooperation, there are many areas in which they can successfully cooperate without questioning each other's authority in the region.

4.2. Energy Relations with Myanmar

Despite Myanmar's being rich in natural resources, from a global perspective, it is not a major energy supplier for China, however, from a regional perspective its gas reserves and strategic position are significant in terms of energy security and regional cooperation, and Chinese companies showed an increased interest in conducting exploration projects in its territory (Zhao, 2011).

Relations with Myanmar are largely driven by the need for natural resources and energy security considerations, which makes Beijing willing to cooperate, even though it is often blamed for the lack of mutuality in these relations due to Myanmar's far more dependent position. Besides, there are other geopolitical factors that make cooperation with Myanmar multi-vectoral.

First of all, Myanmar is definitely wanted as a partner for its energy wealth. China is said to become increasingly reliant on Myanmar to fuel its southwestern provinces of Yunnan, Guizhou, and Sichuan, which are home to 160 million Chinese. Oil and gas pipelines connecting the port of Kyaukphyu in Myanmar to Kunming in China are viewed not only as the way to gain access to supplies from the Middle East and Africa, but also as the way to diversify energy supply routes (International Crisis Group, 2010). In 2015 an oil import pipeline from Myanmar with capacity of 440,00 bbl/d was launched.

However, China is also guided by its concerns regarding energy security and diversification – Myanmar is not a significant oil producer, so the infrastructure is envisioned to transport crude oil from the Middle East to bypass the choke point of Melakka Strait. In the meantime, China plans to store any oil imports in excess of local demand (US Energy Information Agency, 2012)¹³. Therefore, apart from the clear economic benefit and satisfying the demand, such infrastructure is aimed at reducing the military and infrastructural risks connected with the Straits of Malacca including the possibility of a conflict with Taiwan which might result in the US involvement, as well as piracy and terrorism, not unusual for the region. So, even though in 2015 the demand was in slowdown which directly affected this "ambitious infrastructure" (Interfax Global Energy, 2016), the latter may still pay off sooner or later in terms of security.

Apart from the Taiwan issue, the US's potential inclination to improve relations with Myanmar is also dangerous for the PRC, and the latter is now interested in building stronger ties with the country in the field of migration, culture etc. China is shows much concern as regards US-Myanmar improving relations, even though this is definitely not the top priority of the US foreign policy.

At the same time, despite its efforts to build a strong presence in the country, China seems seriously failing when it comes to its public image, as it is already strongly criticized by the West for its irresponsible and unequal policy towards Myanmar. Taking into account the uneasy political situation in Myanmar, such image may gradually start to prevail and this card can then be successfully played in order to discredit the government maintaining close ties with the PRC while there is clearly no level-playing field between the two (Rogers, 2003).

¹³ US EIA

Another country that has strategic concern regarding Sino-Myanmar relations is India which is afraid that China will attempt to form a “strategic encirclement” against India, using Myanmar as a point to contain India (Ma, 2009). Therefore, India has been much worried about China-Myanmar energy cooperation and the building of China-Myanmar oil and gas pipelines, especially when Myanmar turned to cooperation with China after its negotiations on several projects with India failed (Sinha, 2009a).

For both China and India, Myanmar’s geostrategic location at the tri-junction of East Asia, Southeast Asia and South Asia is of critical significance. Myanmar is not only a potential supply route bypassing the Malacca Strait, but also a strategic staging point for controlling access to Malacca Strait’s western approaches. New massive finds in three fields in the Gulf of Bengal – Mya, Shwe, and Shwe Phyu (jointly known as the Shwe project which is estimated to hold 5.7-10 tcf of gas) – have sparked an intense bidding war between Bangkok, Beijing and New Delhi, all of which are seeking exclusive rights to the gas. Natural gas from the Shwe field has become a contentious issue in China-India relations, and an obstacle to Sino-Indian energy cooperation. It was PetroChina which eventually signed a gas export Memorandum of Understanding with Myanmar in early 2006 and completed the survey for a 2,389-km pipeline from Kyakphu in Myanmar to China’s Yunnan province. India was caught unaware when Myanmar had agreed to sell 6.5 tcf of gas from Block A1 to PetroChina over 30 years. In early 2009, China announced the construction of oil and gas pipelines through Myanmar into its South-western Yunnan Province (Sinha, 2009b). On the other hand, Myanmar has been diversifying its foreign relations and expanding its diplomatic space, allowing itself to be courted by India, Russia and other big countries, so as to reduce its reliance on China. India will undoubtedly make more overt efforts to establish a stronger presence in Myanmar.

Finally, it is to mention that although China needs Myanmar for a variety of reasons, such mutual dependence is hardly symmetrical. China has much to lose if the bilateral relationship turns out to wosen, but Myanmar has even more at stake considering its earnings from the pipelines and China’s overwhelming economic importance to the country (Zhao, 2011).

In the view of the above, the following can be concluded:

- (i) Myanmar is China’s strategic partner both as an energy supplier and as a route helping to ensure security of, and diversify routes of energy supplies to China;
- (ii) At the same time, China is often blamed for creating unequal conditions of its partnership with Myanmar, which also induces the latter to consider cooperation with other big countries as an option;
- (iii) Despite extensive cooperation, China still needs to invest to Myanmar in a geopolitical sense, as there are other global players seeking to explore benefits of cooperation with Myanmar, among which are the USA and India;
- (iv) Cooperating with Myanmar in the field of energy may only promise immediate economic result; however losing Myanmar as a partner will not only deprive China of secure energy supplies, but will likely involve other far going geopolitical consequences.

4.3. Energy Implications of the South China Sea Dispute

(i) Energy Implications Encompassing the South China Sea Dispute

The well-known disputes over territories in the South China Sea and the East China Sea directly involve energy resources available in the region. The standoff with Asian neighbours over the contested waters around the Paracel Islands is much about offshore oil and gas reserves (Luft, 2015)¹⁴. And as China seeks to reduce its reliance on coal due to the negative environmental impact, its dependency on oil reserves is rising (Wu and Hong, 2014), which is another reason for continuing claiming the rights to the South China Sea disputed territories. According to the US EIA, increasing appetites for oil and natural gas have exacerbated tensions, particularly between China and Vietnam and between China and the Philippines, as hydrocarbon development has attracted interest in deep-water areas (US Energy Information Agency, 2012). Therefore, such disputes should be unavoidably considered from the perspective of energy aspirations of the involved parties.

The South China Sea has proven oil reserves estimated in average at about 9 billion barrels¹⁵. Oil production in the region is around 2.5 million barrels per day and has increased gradually over the past few years. The continuous disputes around Paracel Island, Spratley Islands, the Reed Bank and other energy-rich areas have kept China, Vietnam, Malaysia, the Philippines, and other countries involved into the process of claiming the right to own the said territories in generally, and the right to carry out exploration and production activities there in particular.

Obviously, other parties involved in the dispute also have serious considerations underlying their claims to these territories, among which are energy and security concerns. For example, the Philippines, despite the rise in oil and natural gas production in the recent years, still needs to secure an adequate energy supply given the goal to ensure continued economic growth and energy security (Wu and Hong, 2014). Or, even though China has sacrificed certain interests in order to give priority to its image as Vietnam's good neighbour¹⁶, there are still many clashes with Vietnam that happen. For example, China has increased its naval activity in the contested areas; in 2002 its national companies' activities on construction of nine offshore blocks in the disputed area overlapped several fields located within Vietnam's 200-nautical mile exclusive economic zone; in 2014 China placed an oil rig in disputed waters near the Paracel islands and claimed the purpose was to explore for oil and gas in the area, all of which caused serious clashes with Vietnamese vessels and increased tensions within the region.

Again, there is omnipresent influence of the USA in the region, and the Philippines see them as a historical partner able to confront China's dominance and claims in the region. Vietnam's recent inclination to cooperate with the USA also clouds its relations with China. Following successful passage of the Trans-Pacific Partnership between the the Philippines and the USA in February 2016 during the Secretary Kerry's meeting with Deputy Prime Minister of Vietnam Pham Binh Minh, the former reiterated the USA's readiness to work together on a vast agenda including the South China Sea.

¹⁴ <http://www.the-american-interest.com/2015/02/03/strategic-implications-of-chinese-energy-policy/>

¹⁵ This figure varies from source to source. According to U.S. Energy Information Administration data, there are about 11 bln barrels of proven oil; other sources indicate a figure of 7 bln barrels (Gu, 2012).

¹⁶ For example, the Crisis Group Asia Report of 2016 mentions the case of 1994 where CNOOC abandoned its joint exploration project with the US firm near the Spratlys in order to bring Sino-Vietnamese relations to normal. The same report indicates the similar case occurred in 2009 when Sinopec backed away from a drilling project in order to calm down protests from Hanoi (International Crisis Group, 2016).

Sadly for China, anti-China sentiment are said to be much deeper in Vietnam due to the unresolved South China Sea dispute and China's unprecedented growth, so there is even more desire to cooperate with the USA (Dien Luong, 2016).

Some of conflicts have proven to be more or less manageable, while others represent a delayed-action bomb, risking to explode at any moment.

(ii) China's Energy Approach to the Dispute and Activities in the Area

China's interests in the region are being represented by the so-called "three buckets of oil" - China National Off-Shore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC), and China Petroleum & Chemical Corporation (Sinopec), all of which are overseen by the State-Owned Assets Supervision and Administration Commission of the State Council (Crisis Group Asia Report, 2016). Unsurprisingly, even though unseen at the first glance at the seemingly commercial background, the political element is omnipresent on behalf of the Chinese government which (i) provides loans to national energy companies for investments overseas, (ii) provides loans, infrastructure investment, and aid to oil producing states, and (iii) plays an active role in developing diplomatic and economic relationships with the major oil and gas producing countries (Downs, 2006). Therefore, the activities of the three mentioned companies clearly reflects Beijing's will and strategy, which embrace the immediate goal (i) to promote the unhampered research, exploration and production activities in the region and (ii) to manage eventual conflicts in the spirit of a "peaceful rise" state; and the ultimate goal which is to assert legal rights to the disputed territories, preferably in compliance with the declared "nine-dash line" claimed by the Kuomintang as early as 1947, as opposed by other claimants' reference to the United Nations Convention on the Law of the Sea of 1982 (UNCLOS) (Convention on the Law of the Sea, 1982) which provides for different rules of delineation.

Interestingly, despite the fact that China is quite determined to "win back" the disputed territories and satisfy its demand for the energy security and supplies, it has been elective as regards its neighbourhood policy. For example, according to the Crisis Group Report of January 2016, China tolerated Malaysia by allowing it to exploit natural gas fields within Chinese-claimed waters, and Brunei by not objecting to jointly develop energy resources in the claimed area, which is explained by these two countries' readiness to compromise with Beijing on other points of agenda (Crisis Group Asia Report, 2016).

To develop this idea, one may easily assume that geopolitical and commercial elements of Chinese respective claims are inseparable, and it is difficult to say whether this is the neighbourhood policy that explains Beijing's inclination to confront ones and tolerate others in energy-related issues, or whether this is the need for energy and diversification that conditions the neighbourhood policy. Most probably, one could identify China's compromises as eventual, and its claims as eternal. Besides, the Chinese government may want to constrain tensions in the region and reward loyal neighbours on a quid pro quo basis, but it would do everything possible to restrain from actions or declarations that might legally or politically affect its right to the South China Sea's disputed territories as a whole.

Below Beijing's relations with Vietnam and the Philippines are considered, which are of the most concern at the moment, given all claimants' aspirations for enrichment and development at cost of the region's energy wealth.

(iv) Positive Trends in Claimants' Cooperation and the Future of Their Claims

Overall, joint development arrangements potentially offer a highly attractive option to circumvent disputes and proceed with development activities in broad maritime areas subject to competing claims (Bernard, 2013), and China's current policy is to forge joint-venture partnerships with the other countries involved in the dispute to explore and develop untapped hydrocarbon resources in the sea (Energy Information Agency, 2012).

In November 2002, China and ten ASEAN members signed a Joint Declaration on the Conduct of the Parties, pledging to “resolve their territorial and jurisdictional disputes by peaceful means”. In March 2005, three oil companies from China, Vietnam, and the Philippines signed a landmark tripartite agreement on joint exploration of oil and gas resources in the disputed South China Sea (Lai, 2011). At the same time, Beijing is in clear need of the well-thought neighbourhood policy in this region, for conflicts arise on a permanent basis, while the solution acceptable to all claimants is still not found.

There is an opinion that joint development is the best available solution given the marine geological and geographical configuration of the South China Sea that make cooperation between the claimants the only route for exploration and exploitation of resources (Wu and Hong, 2014). However, for all claimants this would only be a solution for their commercial sector in order to affect the so much needed energy sector as little as possible by political decisions. At the same time, neither country involved would consider that a real solution given the already existing tensions around the South China Sea territories which is also an important element of their domestic policies.

4.4. Conclusions for Chapter 4

As analysis in this section suggests, South Asia and South East Asia is a complicated direction of China's foreign and energy policy. Probably, the main concern is that there is no clear policy that China pursues vis-à-vis its neighbours in this region, as geopolitical background is constantly changing, bringing up new rivalries and alliances, including rapprochement of many regional players with the USA.

Regarding Sino-Indian relations the following conclusions can be made:

- (i) There is a subtle balance between the cooperative and competitive dynamics of Sino-Indian energy relations – on the one hand, the two countries are confronting each other historically in the region and rely on the same energy sources; on the other hand, both need each other in order to ensure energy security and stability;
- (ii) There would still remain areas of competition in the future, as no matter how energy interests overlap, China and India are still seeking to limit each other's dominance growth in the region;
- (iii) Despite certain controversies, there is more and more room for Sino-Indian cooperation in the energy field, including joint actions in terms of BRICS in the area of climate change and renewables;
- (iv) Generally, it should not be expected that there would be a breakthrough in Sino-Indian relations, as their cooperation helps slowing down their competition, while the competition, if kept at a reasonable pace, allows slowing down each other's appetites for dominance in the region.

Energy relations with Myanmar are of strategic importance to China, as it needs Myanmar both as an energy supplier and as a diversification option which allows reducing risks of the unstable Malacca Strait route. At the same time, China will have to review its neighbourhood energy policy vis-à-vis Myanmar on a regular basis in order not to give it away under control of other major players, such as the USA and India, while Myanmar's self-awareness of its energy as a political tool is growing.

As regards the South China Sea dispute, more likely, the existing disputes will not find an immediate solution, especially given that this area "has both regional and global strategic, security and economic significance because it is one of the busiest international sea routes and repository of energy and fishery resources in East Asia" (Wu and Hong, 2014). Therefore, any attempt to redraw a map in a revolutionary way would be too big a game changer for other global powers to ignore it.

At the same time, thereby a time-linked paradox is created – the longer the dispute exists, the less legal arguments seem justified, and the more interested are the parties in maintaining the status quo. This is especially true in the view of the issue discussed in the section I herein, namely the US influence and role in the region, which is as well applicable to many other global market players – every shift in balance of power in the South China Sea may awake not only China's immediate neighbours but other powers as well. Therefore, China will continue using its "traditional" trial methods – i.e. continue claiming the disputed territories based on the following main principles as concerns its neighbourhood policy:

- (i) the ultimate priority is to remain (or, as some would raise a point, to become) a genuine "peaceful rise" state asserting its right to be a responsible global power;
- (ii) none of the claims may be conceded, no matter how significant the reward would be, since (i) a single case would serve as a precedent and give rise to the consequent series of counter-claims, (ii) any concessions would adversely affect Chinese government's and CCP's domestic image and undermine their authority, and (iii) the unified and legally-backed concept existing from as early as 1947 would be damaged;
- (iii) any concessions that take place should be the last resort and only admitted where the output clearly outweighs the substance of such concessions;
- (iv) ultimately, maintaining sound neighbourhood relations shall in no case prevail over the claims that China sees as solid and justified.

V. CONCLUSIONS

Based on the above discussed analysis and assumptions, the following conclusions can be made as regards China's neighbourhood energy policy.

First of all, China's energy policy driven by the country's growth and increasing demand now becomes a crucial element of its general foreign policy due to new global challenges and latest geopolitical shifts, among them instability and uprisings in exporting countries, climate change and environment protection objectives, rivalry of global powers for dominance or influence in the region, existing disputes giving rise to energy security concerns etc. In China's new world approach energy and geopolitics are closely interrelated and interdependent, and decisions made in one direction most inevitably impact the other one.

Second, neighbourhood is gaining weight and importance in China's energy policy, as its proximity allows cheaper, faster and safer energy supplies avoiding multiple transit countries on the way to China's territory. Therefore, energy rich neighbours are not only preferred and reliable suppliers, but also a key element to ensuring energy security in energy hungry China. It is also easier for China to build up direct bilateral relations in the neighbourhood than in other regions where the influence of other global powers is even more noticeable. At the same time, China's success in neighbourhood energy policy would also be subject to its ability to make the cooperation mutually beneficial, as the global energy market becomes more open and flexible not only for buyers, but for exporting countries as well.

The following challenges that are driving Chinese pursuit for comprehensive and well-thought energy policy in general and in neighbourhood in particular can be formulated: (i) growing demand which cannot be met by domestic energy reserves; (ii) environmental issues and climate change; (iii) energy security and safety of energy routes concerns; (iv) new opportunities in improving relations with neighbours in Central Asia caused by Russia's worsening relations with the EU and Kazakhstan's need to diversify its suppliers; (v) globalization of the world energy market.

Third, Beijing's neighbourhood energy policy tends to become more or less unified and predictable, though not fully shaped, while China seeks to (i) assert itself as a "peaceful rise" country able to act as a self-standing and reliable global partner, including in the field of green energy, and (ii) achieve a high level of energy security and diversification relying on stability of relations with its neighbours. The OBOR example illustrates China's determination to overcome its generally fragmented energy policy and develop an energy dimension that is not based on bilateral relations but embraces a group of countries. The opposite trend is that China's energy policy is extremely elective, and will likely remain so, as it is largely dependent on its historical "friends and enemies" in the region.

Fourth, Chinese neighbourhood energy policy is becoming rather politicised that commercialized, and is largely based on its geopolitical views vis-à-vis other countries in the region. Therefore, China favours closer relations and encourages investments to the economy of regional energy producers and countries which geographic location creates supply routes meeting the criterion of energy security. This trend only seems to become stronger in the future, as the Chinese government realises that this sector is inherently linked to the country's political and economic agenda, as well as the need to ensure its long-term unified energy policy.

Fifth, when developing the energy policy in the neighbourhood Chinese policymakers must take into account other geopolitical non-regional factors among which are: (i) the current political and economic situation in traditional regions of supplies (Middle Eastern and African countries), (ii) other global players (such as the USA) having interests in the neighbourhood and exerting influence in the region. will undoubtedly remain an important factor in defining the Chinese international and energy policy. The USA would primarily be interested in keeping the general balance of forces in the region by restraining China's too fast growth and its political and economic influence, however, this would inevitably affect Chinese energy appetites and aspirations, as well as push it to diversify its routes and suppliers of energy.

Sixth, energy cooperation with Russia and Central Asian countries is likely to continue improving and reaching even deeper level, also cemented by cooperation in other, non-energy areas. One may predict that the aftershocks of the global energy market (including further possible implications at the Middle East) would only strengthen dialogues with the said countries.

The core of Sino-Russian political relations lies in understanding by the both sides that the costs of isolated drifting in the global market outweighs even the highest costs of low-profit cooperation. Besides, despite certain level of competition in Central Asia, Russia is a safe partner from the standpoint of little or no involvement in China's other spheres of influence in Asia. Recent developments in bilateral cooperation were marked by major energy deals including the commencement of a pipeline construction that would connect gas fields in Russia with Chinese territory. EU sanctions against Russia and China's energy security concerns have only deepened the dialogue between the two. According to Russian and Chinese policy-makers and scholars, the future of the two states' energy cooperation is even more promising.

Relations with Central Asian countries, including Kazakhstan and Turkmenistan, are also at their peak and comprise a number of positive factors that incentivize further energy cooperation. Among such factors are: (i) regional powers being interested in Chinese investments and diversifying their exports; (ii) contribution to China's energy security and diversification of supplies; (iii) lessening China's political dependence on other energy suppliers. Chinese national companies have been recently very proactive in the region strongly backed-up by the PRC's government, which resulted in a number of significant energy deals and infrastructure projects. Even though Central Asian countries are also looking into diversifying their export portfolio, e.g. Turkmenistan showing strong interest in energy cooperation with the EU, they would likely remain an important item on China's long-term energy agenda, as there countries are strong enough to take independent decisions in cooperating with China without being politically oppressed by other market players, and weak enough to become reliant on foreign investments.

Seventh, energy relations with Japan develop in two opposite directions. On the one hand, historical and geopolitical controversies between the two countries still have a negative impact on their relations, heated up by occasional military and political conflicts. Also, China and Japan compete to certain extent for the same sources of energy supplies, e.g. Russian oil. On the other hand, since both countries are dependent on energy imports and share common concerns such as stability and predictability of the global energy market, they manage to cooperate. A separate issue on Sino-Japanese agenda is the East China Sea dispute involving energy aspects as well – even though neither country is prepared to give up its claims to the disputed territories, they still find common ground to explore energy resources and develop the available reserves. A unique feature of relations between China and Japan is their ability, notwithstanding their frequent political confrontation, to deal with energy issues separately in a relatively constructive manner.

Eighth, South and South East Asia is a less successful story due to complicated geopolitical relations with many states of the region and unsettled disputes in the South China Sea.

Energy relations with India can be characterized by continuous ups and downs, from time to time clouded by unfavourable general geopolitical situation. Among factors that unite China and India are the following: (i) both are dependent on energy imports and seek to promote stable and low-priced energy market; (ii) they use more or less different sources of energy imports, so there is almost no fierce competition for the same sources; (iii) both face environmental problems and climate change challenges while sharing the need to ensure further economy growth, which brings them closer and willing to cooperate. However, at the same time China and India are still competing for energy as their national companies are seeking to invest into the energy sector of other countries, and it is difficult for them, not to say impossible, to abandon fears of their opponent dominating the region. Therefore, relations with India are likely to improve in particular areas of cooperation which shall remain fragmented though, while in general shadow confrontation will still be the case. In the end of the day, China is more interested in keeping India at a safe political distance rather than their energy cooperation.

Relations with Myanmar in the field of energy seem flawless at a first glance, since the two sides managed to reach an impressive level of cooperation by completing a number of infrastructure projects. Again, each country has its clear benefits – China is seeking to improve its energy security and stability of supplies, while Myanmar welcomes Chinese investments. However, at a closer look these relations appear clouded by the following circumstances: (i) the US influence in Myanmar constantly grows¹⁷ along with China's image worsening as it is blamed of creating unequal conditions of partnership; (ii) Myanmar also seeks to diversify its energy exports and considers other countries as its future partners as well. Therefore, even though the both sides are interested in each other, China would still have to rebalance its energy and general strategy vis-à-vis Myanmar in order to create strong incentives for this country to keep the same cooperative pace.

As regards energy relations with South East Asia countries involved in the South China Sea dispute, given the general political background all the parties would quite probably seek to preserve status quo. On the one hand, each respective state has its own aspirations connected with the energy potential of the South China Sea including such incentives as ensuring energy security and safety of supplying routes, increasing production for their domestic markets or for exports. On the other hand, there is a number of shadow players in the region such as the USA and India which are looking into balancing China's role in the region and preventing any solutions of the dispute to be taken unilaterally. It is paradoxical that the latter fact contributes positively to the involved countries' willingness to cooperate – recently there have been joint research and development works in the area, even though from time to time the dispute is escalated by parties' military and naval actions. Generally, neither country is willing to give up its respective claims in the South China Sea until the next possibility to redraw the map and rebalance the power in the region. Meanwhile they would likely be interested in gaining the maximum benefit from the energy potential of the South China Sea which may serve two purposes: (i) pursuing their short-term energy goals, and (ii) continuing energy research and development in order to solidify their claims to the territories by way of their implicative conduct.

¹⁷ In May 2016 President Obama announced that the US sanctions against Myanmar are lifted (see (Davis, 2016))

Summing up the above, the following general conclusions regarding Chinese energy policy neighbourhood can be made. First, China's energy policy is still being shaped, and there is no unified approach to policy towards neighbours – energy relations with them are rather built on a bilateral basis and are strongly impacted by other geopolitical factors, both of regional and global nature. Second, in the coming years China will face challenges of the growing demand, and thus of its increasing reliance on energy imports which gives rise to energy security and diversification concerns that now become integral elements and the driving force of the country's energy policy, especially in the neighbourhood. Third, energy relations with Central Asian countries are mostly driven by mutual interests, i.e. investments versus energy supplies, while in South and South East Asia such are still largely impacted by the involved countries' overlapping interests and claims, both of energy and geopolitical nature. Fourth, energy policy is now becoming a political rather than commercial issue, and the PRC's government has been very proactive in the last decade trying to improve bilateral ties with neighbours, which is a sign that China realizes that success of its energy policy lies in long-term objectives and carefully chosen investment destinations.

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