China’s Worldwide Natural Resources Investments

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**ABSTRACT:** While most countries have suffered through a debilitating financial crisis in the last few years, China persevered and accumulated a significant amount of money. It has used this money on a spending spree to acquire vital natural resources for its booming economy. In the 2000s China spent over $100 billion to secure minerals, ores, fossil fuels, and other resources for many years to come. China has also entered into oil contracts with countries in all parts of the world, but a presence in some of those countries, notably Sudan and Iran, puts it at odds with U.S. foreign policy interests. There is also concern that China’s possession of such a large amount of resources will fuel a desire to expand its influence or control through military action.

This paper explores China’s growing involvement in different parts of the world as it seeks out natural resources, and how China’s quest for resources has impacted U.S. foreign policy. While China’s consumption of natural resources is something to be monitored, it should not be viewed as a precursor to military conquest. As China grows it will have to take more responsibility in the global community, which will limit its ability to take any aggressive actions. As some of China’s trade partners are viewed as threats by the U.S., it is recommended that the U.S. monitor Chinese relations, but levy sanctions or tariffs only in dire situations.

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While United States and most of the rest of the world have been mired in a critical financial crisis, China’s economy has maintained its rapid growth. In 2008 China’s GDP grew by 9% (though down from 13% growth in 2007). The country’s strict financial institutions also provided insulation from investments in the toxic assets that crippled markets elsewhere in the world (Winning, Oster and Wilson).

While traditionally viewed as savers rather than spenders, it seems China has been shelling out money on natural resources deals in all directions: it has made investments in minerals, ores, fossil fuels, and other natural resources in all parts of the world, spanning all six inhabited continents. In the 2000s its foreign acquisitions totaled $115 billion (Powell 88). As of 2008, it was estimated that China consumed about half the world’s cement, a third of its steel, and over a quarter of its aluminum (McBride 2).

This paper examines China’s notable efforts to secure resource imports from around the world. The focus is on major agreements between China and countries in Africa, South America, and Central Asia, as well as Russia, Australia, and Iran. Next the impact of China’s push for resources on U.S. foreign policy objectives is discussed, especially as concerns Iran. Finally I analyze recent U.S.-China foreign policy interactions related to resources, and present recommendations for how China’s increasing global involvement can be handled in the future when it comes in conflict with U.S. foreign policy goals.

**China’s Foreign Investments in Natural Resources**

In the 1980s China was East Asia’s largest oil exporter. By the mid 2000s, it was the world’s second largest importer. In 2004 China accounted for 31% of global growth in oil demand (Zweig 25). China uses about 7 million barrels of oil per day, over half of which it imports. By 2030, projections have it using 16.5 million barrels per day—more than the current total output of Saudi Arabia—and importing just under 80% of that amount. There appears to be no end in sight for the country’s resources boom (McBride 8).

China’s interest in these materials has been manifested for some time. David Zweig and Bi Jianhai wrote in *Foreign Affairs* in 2005 that

an unprecedented need for resources is now driving China’s foreign policy. A booming domestic economy, rapid urbanization, increased export processing, and the Chinese people’s voracious appetite for cars are increasing the country’s demand for oil and natural gas, industrial and construction materials, foreign capital and technology (Zweig 25)

The country’s appetite for natural resources has only increased since. In early 2008, *The Economist* entitled a special report on China’s quest for resources “A ravenous dragon” (McBride).

The following sections represent a world tour of China’s pursuit of scarce resources, with a focus on large activity. [[1]](#endnote-1)

*Africa*

In 2006, China made the largest single investment in Africa in its history: state-controlled China National Offshore Oil Corp (CNOOC) purchased a $2.3 billion stake in an oil field in the Niger Delta in Nigeria, an area thought to contain 34 billion barrels of crude oil (according to New Nation in 2009, this figure has increased to 36 billion). At the time China imported 28% of its oil and gas from sub-Saharan Africa, compared with the region providing 15% of imported oil for the United States.

In years leading up to the Niger Delta investment, Chinese energy companies snapped up oil contracts in countries including Equatorial Guinea, Algeria, and Angola. Chinese companies also began acquiring copper from Zambia, diamonds from Sierra Leone, cobalt and copper in the Democratic Republic of Congo (see below for discussion of copper deal), and timber in Mozambique, Gabon, and Equatorial Guinea. Chinese President Hu Jintao has made multiple trips to Africa, reflecting China’s commitment to acquiring natural resources wherever possible. Hu even visited the tiny West African of Gabon—the *country’s* population of just under 1.5 million amounts to about 12% of the population of the *city* of Beijing—to attempt to gain access to its 2 billion barrels of oil reserves. Chinese interest in Nigeria was so dramatic that Iheanyi Ohiaeri, head of business development for the country’s National Petroleum Corp., commented, “I get call and e-mails daily from Beijing, from people looking to buy oil” (Walt, “China’s African Safari”).

A notable aspect of China’s natural resource interests is that the government and state resource companies have been willing to overlook any negative aspects of political regimes, or human rights issues, of countries possessing resources. As long as materials are present and governments are willing to deal, China has been willing to look beyond any transgressions that might give U.S. actors pause. As a result China has appeared a more cooperative partner to many African governments than the U.S. or other Western countries. In addition, there is a sense among holders of resources that they can put more pressure on China than on the U.S.: according to Ohiaeri in Nigeria, “they [China] are desperate for our resources” (Walt, “China’s African Safari”).

In 2005 China used its veto power in the UN Security Council to prevent the leveling of genocide charges against Sudan for its war and human rights atrocities in Darfur. Not coincidentally, Sudan supplies about 7% of Chinese oil intake. *The Economist* estimated Sudan contributed 10% of China’s oil imports as of 2008, and notes that China has built arms factories there. Though it is also worth noting that in 2007 China pressured Sudan into allowing UN peacekeepers to enter the country, suggesting some moderation in China’s support of military actions in areas where it has interests (McBride 14-16).

Zimbabwe is the world’s second-largest exporter of platinum, a key component in car manufacturing, and also exports several other materials. It has also experienced relentless oppression under the rule of Robert Mugabe. Yet China is Zimbabwe’s biggest foreign investor, and supplied Mugabe with $240 million worth of fighter jets and troop carriers in exchange for gold and tobacco imports. Back in Nigeria, China supplied $251 million worth of fighter jets and satellite technology to the government. In the port city of Lagos, a Chinese company has even built a scale model replica of the Forbidden City amidst the city’s poor and struggling neighborhoods.

In return for resources, China has been “giving back” to African nations in less militaristic ways as well. For instance China financed construction of two power stations in Nigeria as part of an oil deal. As the International Monetary Fund chastised Angola in 2004 for corruption in dispersal of oil contracts, China provided the government $2 billion to repair railroads and construct new office buildings in the capital of Luanda (though it insisted on using Chinese contractors). Investments in Angola’s infrastructure soon paid off: when French oil company Total tried to renew its license for a large oil-production block, the Angolan government balked and gave the license to Chinese company Sinopec instead. (Except where noted, V. Walt’s article “China’s African Safari” is the source of information in this section to this point.) In July 2009 CNOOC and Sinopec purchased a 20% stake in an offshore oilfield near Angola from U.S. company Marathon for $1.3 billion (Waldmeir).

China made a deal with Congo in late 2007 to build or refurbish railways, roads, and mines, amounting to a $12 billion investment—more than three times Congo’s annual national budget—on infrastructure projects. In return it would gain rights to mine copper ore in the poor African nation (McBride 1). Since 2001 China has funded and completed 200 infrastructure projects throughout Africa ("China value oil more than others").

In 2009 China’s interest in Nigeria’s oil resources continued. CNOOC moved to acquire about one-sixth of Nigeria’s explored reserves, representing about 6 billion barrels. By contrast, all other agreements made by Chinese companies on the African continent account for 4.7 billion barrels. Also, while most earlier contracts in Africa were for unexplored areas, Nigeria’s oil fields are producing right now or will soon be up and running ("China value oil more than others").

While African investments are integral to China’s overall energy plan, challenges and potential roadblocks remain. For instance, Chinese-controlled oilfields in Sudan are located in the southern part of the country while refineries are in the north. If Southern Sudan declares independence in a referendum scheduled for 2011, or if significant fighting breaks out again in the region, it could disrupt the supply chain and close shipments routes (Hoyos).

Other political land mines may need to be overcome as well. As of late 2009, Nigeria’s new government was investigating the previous regime’s oil-for-infrastructure deals as several Chinese companies failed to deliver on their promises (Hoyos). Also, after CNOOC’s move in early 2009 to acquire 6 billion barrels of oil in the Niger Delta (referenced above), Nigerian militants vehemently opposed the deal and referred to the Chinese as “locusts who will ravage any farmland in minutes” (Burgis). In Angola, the government is seeking to lessen its reliance on foreign loans backed by oil—arrangements it had made with China in the past—and insist that investors use more local labor and equipment (Hoyos). Lastly, Chinese mining operations in Zambia have been sidetracked by labor unrest (McBride 17).

*South America*

In 2006 China reached an agreement with Venezuela to build 12 oil drilling platforms, supply 18 oil tankers, and work with state-owned Petroleos de Venezuela to explore new oil fields. In 2009, China Development Bank loaned Petroleos de Venezuela $6 billion in return for oil to be sent to China over the next 20 years. Shortly after this agreement China Development Bank doubled the amount of the loan to $12 million on provision of Venezuela increasing its oil shipments from 380,000 barrels per day to 1 million barrels per day.

Also in 2009 China Development Bank agreed to loan Brazil’s state-owned oil company Petrobras $10 million to secure shipment of 160,000 barrels per day and fund offshore exploration for reserves. China made a significant mark in the region in a different way by granting Argentina access to 10 billion yuan in an effort to diversify the existing international reserve currencies system and reduce chances of a future global credit crisis. China currently has about $2 trillion worth of foreign currency reserves ("China value oil more than others" is the source for information in this section; Powell 88 confirms the components of the oil deal and amount of China’s currency reserves).

*Russia and Central Asia*

China Development Bank has reached out to other parts of the world in exchange for oil. In February 2009 it loaned $25 billion to OAO Rosneft, Russia’s largest oil producer, and OAO Transneft, its oil pipeline operator. Funds were expected to help develop Rosneft’s East Siberian oil fields and refineries, and build a pipeline from Siberian oil fields to Chinese refineries. In exchange Rosneft will supply China with 15 million metric tons of crude oil per year for the next 20 years. That works out to 300,000 barrels per day, or nearly 10% of China’s oil imports when the deal was made. This amount is in addition to prior Chinese-Russian oil deals: in 2008 Russia sent China 11.6 million tons of oil, or 233,000 barrels per day (Winning, Oster and Wilson).

In September 2009 China Investment Corp., the country’s sovereign wealth fund, purchased an 11% stake in Kazakhstan’s JSC KazMunaiGas Exploration Production. Investment in the oil and gas company amounted to about $1 billion (Powell 88). On the whole, China has more energy projects underway in Kazakhstan than any other country. China exports about 300,000 barrels per day from Kazakhstan, and earlier in 2009 gave the Central Asian country a $10 billion loan in return for future supplies and equity in a local oil producer (Hoyos).

*Australia*

Australia is the world’s largest exporter of iron ore, coal, and alumina (a raw material in aluminum), and China is its largest trading partner. In 2007 the state of Western Australia alone exported about $8 billion of iron ore to China. In the same year Australian iron ore mining company Gindalbie and Chinese steelmaker Ansteel entered a $1.7 billion joint venture to develop a new mine in Western Australia (McBride 10, 11).

In February 2009 China Minmetals Corp. paid $1.7 billion to buy Australia’s OZ Minerals Ltd. The Chinese company also agreed to assume OZ’s $1 billion debt that had threatened to put the company into bankruptcy. Around the same time Aluminum Corp. of China offered $19.5 billion for a stake in Australia-based mining company Rio Tinto (Winning, Oster and Wilson), although the deal collapsed a few months later (Yao). China imports iron, copper, and gold from Australia (Abkowitz 95).

In 2008 *The Economist* noted that Australians were comfortable with China’s increasing presence in their country. China’s resources deals have significantly contributed to Australia’s recent growth, and Australian Prime Minister Kevin Rudd even speaks fluent Chinese (McBride 11). But concern and animosity in the Australian Parliament arose in 2009. Leader of the Australian Greens party—which holds the balance of power in the country’s upper house of Parliament—Bob Brown stated, “It is hazardous for our open and democratic nation to have the Beijing dictatorship, which forcefully suppresses democracies, take control of these companies and our resources” (Winning, Oster and Wilson).

*Iran*

Perhaps China’s most controversial natural resources trading partner is Iran. In 2004 China’s state-controlled Sinopec signed an extensive deal with Tehran that could ultimately be worth as much as $70 billion (China’s largest deal to that point with any major OPEC country). China agreed to develop the Yadavaran oil field and buy 250 million tons of liquefied natural gas over a 30 year period. In exchange Iran would export 150,000 barrels of oil per day to China for a 25 year period (Zweig 28-29).

Amidst the controversy surrounding Mahmoud Ahmadinejad’s reelection in summer 2009, Iranian oil officials quietly travelled to Beijing. They returned with a brand new $4.7 billion deal with China National Petroleum Corp., which agreed to develop part of the expansive South Pars gas field in Iran. In the past 18 months, Iran and China closed five major energy deals worth a collective $120 billion. China also supplies Iran with refined gasoline and weapons. China is Iran’s biggest trading partner, and Iran supplies about 14% of China’s oil imports (Walt, “China bets on Iran”).

**U.S. Foreign Policy Relating to China’s Worldwide Resources Endeavors**

China’s aggressive pursuit of natural resources has far-reaching consequences for U.S. foreign policy. While the U.S. has shunned relations with many of the countries China has courted for natural resources, Chinese influence in these countries “does undermine other U.S. goals, such as isolating rogue governments or punishing them for failing to promote democracy, comply with international law, limit nuclear proliferation, or respect human rights” (Zweig 32)

One such rogue government is in Myanmar, which supplies China with timber, gems, and food. Myanmar also has plans to transport oil into southern China, thereby avoiding travel through the crowded Singapore Strait. It is further believed China has a military intelligence post in Myanmar to focus on India. In 2007 a call for sanctions by the U.S. against Myanmar in the UN Security Council was opposed by China. However it should be noted that China is not the sole supporter of Myanmar’s military regime: Russia also voted against sanctions, and Thailand purchases natural gas from the country. Despite its reluctance to levy sanction, China has recently advocated for democracy in Myanmar (McBride 16).

Outside of its support of deplorable governments through military, structural, and economic means, there is concern that China’s increasing need for resources will drive a need for increased military presence along key Asian shipping routes. Specifically, China’s dependence on oil from the Middle East gives it a greater interest in controlling sea lanes. Two shipping routes of primary importance are the Taiwan Strait (long a contentious area given the U.S.’s historical support of Taiwan independence) and the Strait of Malacca (a narrow passage running between the Malaysian peninsula and the Indonesian island of Sumatra). About four-fifths of Chinese oil imports travel through the Strait of Malacca: “whoever controls the Strait of Malacca and the Indian Ocean could block China’s oil transport route” (Zweig 33-34).

China has made statements alluding to U.S. presence and influence in the Malacca area. But despite some posturing toward building up a naval presence in the area, Chinese officials have demonstrated a willingness to cooperate with other regional parties to ensure that traffic through the strait continues unimpeded (Zweig 34-35).

China’s ties to Iranian oil impacts U.S. foreign policy towards Iran. While the Obama administration has been looking to tighten trade sanctions against Iran, it has not sought to assess sanctions in an economic sector that would have significant repercussions: the energy industry. This has been the policy despite the fact that Iran has the third largest oil reserves of any country and is the world’s fourth largest oil exporter; oil supplies about half of the government’s revenues (Hargreaves, Steve).

Why isn’t the U.S. targeting Iran’s energy sector with sanctions? Such actions “are thought to be off the table because China and other nations are too reliant on Iran’s oil.” And the U.S. isn’t the only country being hesitant: Russia has recently shown willingness to increase sanctions against Iran, but not in the energy sector. What’s more, China’s veto power in the UN Security Council saps any sanctions or embargoes against Iran—such as Barack Obama’s recent proposal to block gasoline shipments (Walt, "China Bets on Iran")—of force and validity (Hargreaves, Steve).

China’s reliance on Iranian resources also impacts U.S. foreign policy on Iran’s potential development of nuclear weapons. Zweig and Jianhai point out that “China is undermining U.S. efforts to contain Iran’s nuclear ambitions by resisting the imposition of sanctions against the Islamic Republic in the event it resumes its effort to enrich uranium (33).” In general, “China’s diplomatic support and investment has made it easier for nasty regimes to defy international pressure,” (McBride 14) pressure oftentimes led by the U.S.

One way the U.S. could try to induce China to support sanctions against Iran is to impose tariffs on Chinese goods (Walt, "China Bets on Iran"). In October 2009 Obama took such action, putting a 35% tax on Chinese tire imports. George W. Bush, faced with a similar scenario during his presidency, did not impose tariffs (Easton). Obama pressed on further in November 2009 by slapping tariffs on Chinese imports of steel pipes; taxes range from 37 % to 99%. The U.S. steel industry supported the measure (O'Connor).

However, the complex nature of U.S.-China trade relations can make imposing tariffs a difficult proposition. For instance, U.S. tire manufacturers—several of which operate factories in China—along with distributors, which have to charge customers higher prices due to the tire import tariff, loudly voiced opposition to the measure. In addition, China is threatening to retaliate by taxing U.S. imports of auto parts and chickens (Easton).

**Policy Analysis and Recommendations**

While concerns have justifiably been raised about China’s large investments in natural resources around the world, it is unlikely to result in a dramatic change in the political situation in the region, or in relation to the U.S.

China’s demand for resources has certainly created delicate situations concerning nations whose governments the U.S. opposes. But as China becomes more involved in world affairs and the world market it will have to take a more outspoken stance on the practices of countries it takes resources from. China has already taken a few steps in this direction with its admonitions of Sudan and Myanmar.

While China certainly has been aggressive in its pursuit of resources, I believe fears expressed over its growing influence are overstated (as mentioned on (McBride 4). For one thing China’s rapid growth cannot be maintained forever. Plus the Chinese government is taking some steps to prevent a runaway economy, such as raising interest rates and reserve requirements (McBride 22).

A military confrontation between the U.S. and China is also unlikely, regardless of any future military buildup by China to safeguard transportation of resources. However the U.S. would still be wise to keep an eye on China’s involvement along shipping routes and other high traffic areas.

The U.S. certainly has a stake in the race for resources, but China has just as much right to secure resources as any other country. In several cases discussed in this report (primarily Nigeria and Iran), China has been willing to go where the U.S. has not. In terms of the countries they deal with, Chinese companies may not “always uphold the highest standards,” but it should be remembered that, as *The Economist* puts it, “many Western firms are no angels either” (McBride 4). After all it was Western financial institutions that largely caused the economic crisis in the first place. Maybe China can even teach the West a thing or two about reducing reliance on Middle East oil.

Sanctions can be implemented to bring attention to certain issues—such as the danger of Iran developing a nuclear program—but their impact would be more symbolic than anything else. When discussing levying sanctions against Iran and China’s continuing hesitancy to support such actions in September 2009, Russian President Dmitry Medvedev told President Obama that while “in some cases sanctions are inevitable…sanctions rarely lead to productive results” (Dyer, Dombey and Clover).

Obama has recently experimented with putting tariffs on Chinese imports in an attempt to influence its opinion on sanctions against Iran, but the interconnectedness of the Chinese and U.S. economies makes this a tricky (and usually controversial) proposition. U.S. interests may be harmed in the process. Nevertheless, as there does not seem to be a better alternative, I would recommend continuing to seek Chinese support for sanctions against Iran, and to institute tariffs on Chinese imports only in specific and especially dire situations. Where China has ties to countries or regions considered volatile, the U.S. should press China to limit its support of, or speak out against, corrupt or violent regimes. Future worldwide economic and political stability will be greatly aided if the U.S. and China can see eye to eye on the critical issue of natural resources.

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1. Notes:

   A helpful world map summarizing China’s investments by region can be found in *Fortune* magazine’s October 26, 2009 issue . [↑](#endnote-ref-1)