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CHINA AND LONG-RANGE ASIA ENERGY SECURITY: AN ANALYSIS OF
THE POLITICAL, ECONOMIC AND TECHNOLOGICAL FACTORS SHAPING
ASIAN ENERGY MARKETS

SOCIAL, CULTURAL AND RELIGIOUS FACTORS INFLUENCING CHINA'S ENERGY SUPPLY

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Introduction

Culture is continually being created and recreated by rational, thinking actors: human beings in pursuit of strategic interests. The culture creation process is influenced by the pre-existing cultural symbols and norms as well as by the economic, political, religious and social milieus of the present.

Few countries in the world have seen the processes of culture-creation change more profoundly over the past twenty years than China. Since the rise of the Communist movement in China in the 1920s, the Party has sought to build up and sustain a modern, advanced, central state through control of public discourse and manipulation of the symbolic environment. During the years when Mao was firmly in charge of state-building efforts, traditional Chinese modalities in the areas of religion, social tradition, literature and art were replaced by Communist symbols, ideology and rhetoric. Confucianism, Taoism and Buddhism gave way to atheism and a secular state ideology; traditional social values to socialist discipline and an order built according to the goals of class struggle; classical poetry and literature to revolutionary slogans and parables; and refined artistry to the boldly-colored posters of Mao and the Chinese military. However, even in the "golden age" of Chinese Communism (the 1950s and 1960s), the Party was not entirely successful in totally replacing traditional culture with a new Communist culture, despite efforts to manipulate the media and control symbols that could be used in public discourse. The Communist Party could constrain what was said publicly and coerce people to undertake state-directed political behavior. However, it was less effective in permanently changing the way the Chinese people actually thought about many issues.

By the late 1960s, "leftist" or hard-core Communist ideologues -- the Gang of Four, including Mao's wife, Jiang Qing -- had become frustrated in their attempts to transform the Party, the State and Chinese society. They were relatively successful in controlling the intellectual environment, the media, and the training of young people: the Socialist Education Movement had changed China's students, workers and soldiers into acolytes in an emerging Cult of Mao. But these ideologically-focused efforts were firmly opposed by pragmatic, technocratic Communist leaders who were more interested in economic development through variations on

Stalinist central planning than in changing the nature of Chinese culture. The pragmatic group of leaders included Liu Shaoqi, Zhou Enlai, and of course, Deng Xiaoping. Taking advantage of Mao's ailing health and the rise of their allies in the propaganda organs, schools, and the military, the Gang of Four worked with student groups -- Red Guards -- to tear down the control and influence of the moderates. Both propaganda and violent means were used by the Red Guards. By 1967 the so-called "Cultural Revolution" was raging throughout urban China. The industrial economy suffered serious disruptions as Red Guards poured into urban areas to engage in class struggle and the destruction of China's repositories of traditional culture such as museums, temples, and libraries. Many technocrats in the central planning elite were imprisoned, killed or forced to flee to remote rural areas. Despite the facade presented to the world, the massive office blocks of the capital often covered only empty offices. Clearly, the Cultural Revolution had dealt China's socialist state a serious blow. Never again would it enjoy the legitimacy it had established in the 1950s and early 60s.

The mass violence and economic havoc wreaked by China's youth had gotten so out of hand by the summer of 1968, however, that Mao overrode the objectives of the ultra-leftists (including his wife) and ordered the military to restore order. Some 16 million youths were "sent down" to the countryside from the urban areas, not to return until after the death of Mao and the fall of the Gang of Four in the late 1970s. Meanwhile, schools, universities, libraries and museums were shuttered. Those temples, shrines and mosques that were not destroyed became day-care centers, warehouses, garages, tool sheds and squatters' homes. Intellectuals were "learning from the people" in "re-education" camps in the countryside. When Nixon traveled to China in February 1972, he was treated to a cultural performance, one of the eight "revolutionary operas" approved by the Gang of Four. Other than the Great Wall, most of China's other cultural attractions had been laid to waste.

During this anarchic period, in the countryside, ironically, the mass of Chinese peasants had taken advantage of the chaos in Beijing and urban areas to siphon off revenues they had normally submitted for the needs of heavy-industry development and central planning. Much of this money was invested in small-scale enterprises making consumer goods. As a result of this industriousness of localized groups and individuals, China's economy grew during the Cultural Revolution, but largely in the countryside and barely fast enough to keep up with population

growth. Even large state-owned enterprises far from Beijing passed into the administrative hands of local officials. In other words, to some extent, China's economy decentralized de facto during the Cultural Revolution.

This decentralization and local expansion of China's economy during the Cultural Revolution eventually proved to be of historically immense importance. By the time Deng Xiaoping, the reformers, and the central planners all returned to Beijing to oust the Gang of Four and try to find a new, yet still socialist, path to economic development, they found that they had lost the bureaucracy, the experts and the will of the people. It took until 1984 to finally purge the Party, the State and the military of those who had advanced during the Cultural Revolution, and by then China's economy was booming in agriculture and light industry, without the direction and control of central planning. China had metamorphosed from a centrally planned economy in the 1960s to a vast network of locally-based, market-oriented economies, all clamoring for more ties to the outside world and for greater autonomy from higher governmental authorities.

Following the negative experiences of the Cultural Revolution, China's youth (now not so young) began trickling back into the cities in the late 1970s. Starting in 1978, and continuing intermittently for the next decade, this lost generation of sent-down youth allied with urban intellectuals and students to lead a movement fundamentally critiquing all aspects of Chinese communist society, culture, and politics. Novels, poetry and all forms of art were either directed to reviving the traditional culture or to importing and using Western cultural concepts and means to attack not only the legacies of the Cultural Revolution, but also the ages-old, deeply-ingrained traditions of authoritarianism in all spheres of Chinese life. Thus, the movement, by attacking the value of authority, represented a radical attack on the essence of Chinese culture. Its challenge to the Party's legitimacy and continued government monopoly spawned a conservative backlash that would shock the world with its fierce outburst of repression in June of 1989.

Today, the Communist Party in China has lost much of its credibility and legitimacy, and lacks a concrete ideology and propaganda apparatus to control culture and influence popular thinking. The Party still struggles to promote the Socialist icons -- Mao, the model workers and selfless heroes of the revolution -- but it does so in the face of a vast cultural marketplace shaped by traditional and transnational cultural symbols and media. While it is hard to predict what course

these diverse trends will take, and what influences they will have on Chinese culture in the 21st century, certain trends and observations can be made with relative confidence:

1) Media outlets are playing a critical role in refashioning culture, societal goals, and material aspirations inside China. These outlets compete with the Chinese government for control of the symbolic environment and will be hard for the government to rein in. The social values promoted by many media outlets today in China clash directly with those advanced by the State. Chinese citizens now enjoy nearly universal access to television and increasing access to pirated videotapes; an estimated 2.5 million currently use the Internet. The messages conveyed in many of these outlets are ones that stress individual self-fulfillment, personal property, sentimentalism, open sexuality, materialism, commercialism and conspicuous consumption. The pressures on the Chinese government to keep the economy growing at a rapid rate will therefore persist. The inevitable result will be continually increasing demands for energy. Since--coal excepted--most forms of energy are currently in short supply in China, the country's dependence on outside sources of energy will certainly increase.

2) The visibility of a more pluralistic, ambiguous voice might emerge in China's relations with its neighbors and with the U.S. as special interest groups, business interests, Chinese entrepreneurs and intellectuals increasingly mix abroad without the filter of the central government. This process has opened the way for the introduction of new ideas, including economic reforms that are resulting in a liberalization of the oil sector and a slight diminution of central state-party control of oil marketing activities. A sharp change in policy choices at the center could quickly cut off these new avenues of discourse and trade, but such a U-turn would be costly and difficult for the central state to make.

3) Religion will play a greater role in complicating China's foreign relations and the center's relations with provincial leaders in outlying areas. China's increasing thirst for energy resources is likely to constrain its options in dealing with Muslim populations inside China and around its borders. Resurgence in interest in Christian practice inside China may also color future U.S.-China relations, depending on how the Party responds to such internal religious movements. Religious factors could influence Chinese energy supply by disrupting shipments of domestic

production from oil-rich Western regions or causing foreign countries to place trade restrictions or sanctions against China.

4) The high value placed on economic and cultural self-sufficiency over the past several decades is likely to give way to a more engaged, international focus, as it becomes more difficult for China to expand its own economy without deepening its integration into the global economy. This shift will greatly influence how China reforms key strategic sectors like the oil, technology and military industries, with an impact of the country's foreign policy choices. Particularly in the field of energy, China will increasingly have to consider entering into strategic economic alliances and long-term trading relationships that will promote a wider regional and international role.

5) China's historical imperial culture and sense of cultural superiority may continue to reinforce antagonism between China and its neighbors. Although there is ample room for cooperation in many regional energy projects in Asia, historical, cultural and political suspicions will have to be overcome to implement such programs.

Culture and the Role of Media in Chinese Society

Today, the process of culture creation in China is starting to escape the control of the central party state and has fallen into the hands of lower-level regional administrators and commercial businessmen. This new decentralized elite has forged semi-corrupt relationships with autonomous economic actors from Hong Kong, Taiwan, and the United States as well as other external providers of media products to provide the Chinese population with products more to their liking. Media in China today are providing the means for a fundamental change in consciousness, breaking up the "unitary" symbol of China itself and the prerogatives and goals of the Communist Party elite. In the television arena, Beijing's Central China Television Channel 1 (CCTV-1) is officially required to be carried in all locations throughout China. In reality, almost no provincial or local governments implement this directive from the center. Instead, local leaders choose the programming that suits their own interests, in effect replacing Channel 1 with diverse messages and images. Themes reinforcing regionalism and independence of choice predominate, punctuated by upscale, commercial advertisements directed at the material

aspirations of the country's up and coming middle class. Increasingly, money drives the provision of cultural symbols in China, not ideology or politics.

The Chinese people also increasingly use the rapidly-advancing telecommunications network to initiate and circulate messages of their own choosing. Communication between various regions of China without the interface of the center is now possible, and the demands on local governments are expanding. But even by the end of 2000, only 4 million people in China are expected to have access to the Internet, with an effective government blacklist of sites --such as the Voice of America and anti-PRC political groups based in the United States, Hong Kong, and Taiwan -- that cannot be accessed. As media outlets expand, awareness is likely to grow regarding disparities within Chinese society, and the material demands of the population are likely to intensify, increasing the pressure for expanded energy sources.

Ironically, the proliferation of media inputs emerged as a largely unintended consequence of the central government's reform and opening policies in the 1980s. The shift to a market-based economy required serious upgrading of the country's then limited telecommunications network. Under Mao's centrally planned and controlled system, there was less need for extensive horizontal communications. So long as orders -- be they political or economic-- could be sent down bureaucratic hierarchies and information sent back up, the system was able to function without extensive telecommunications connections. In fact, the isolation of cadres in different regions of the country from each other served to bolster the control of the center. For example, if people in Shandong province wished to discover what was happening in Guangxi, they were expected to rely on politicized central party-state vehicles such as The People's Daily to fill them in. They were not permitted to generate inquiries autonomously, because that could lead to the generation of public opinion networks outside of the central-state's control.

All of this changed with the movement toward a market economy. From the mid-1980s on, as private, collective, and even state-owned firms gradually became more concerned with "profits and losses," powerful economic incentives developed to locate the highest-quality, lowest-priced production inputs wherever they could be found in China. Additionally, manufacturers and farmers looked to sell products in markets that would command the highest prices -- whether inside China or abroad. Under this evolving market-oriented system, telephones became essential

tools of business first fixed-line telephones and then mobile cellular. Soon, fax machines similarly became instrumental. Email and the Internet are following suit, with expectations that at least 10 million Chinese will attain Internet access by 2005.

Like other industries, the majority of media companies in China today are at least nominally "responsible for profits and losses." Unlike other state-owned enterprises, these media firms are generally doing an excellent job making money--primarily by selling advertising. Increasingly, media unit personnel enjoy effective economic property rights to their firm's income, despite the fact that most important media outlets remain state-owned. Barzel, Kornai, and others define economic property rights as the de facto ability to control and profit from an asset whether one holds legal title to it or not. In reformed China, the zeal to get rich in the transformation to a market economy has increased the demand for advertising sharply. The mass media possess a strong incentive to sell this advertising because their managers and workers can profit from it directly either through advertising commissions. As in the U.S., shows with highest ratings can command the highest advertising revenues. Thus, to generate the audiences whose attention advertisers want to buy, the media must create content much more appealing to audience tastes than officially-sanctioned government television programs such as those broadcast by the loyal CCTV-1. This free-market structure has corroded the center's control over the flow of symbols -- the building blocks of culture -- through society.

To capture the attention of the mass audience in China has meant in practice a flooding of the Chinese "symbolic environment" with subjects officially denounced by the state. Popular Chinese television is notable in its bourgeois liberalism, and worship of things foreign. Regardless of the attitudes of the central party state--which publicly objects to sex, violence and foreign influence as delivered by television-- media managers know that this content is necessary to attract large audiences and thus entice advertisers to buy time, maintaining profits.

The proliferation of foreign media products is likely to have the greatest impact in diluting the messages and cultural symbols being promoted by China's central party-state apparatus. The satellite television service STAR-TV claimed as early as 1993 that 10 percent of Chinese households were watching its programs, and surely the proportion has increased since then, though STAR no longer trumpets its audience size openly. Numerous other satellite television

programs are available and easily downloaded, and despite restrictions put in place in the mid-1990s, satellite dishes are easy to buy and put to use servicing entire apartment complexes. Outside the major cities, in particular but even in the major cities of the interior--almost every second building seems to have a satellite dish perched on top. Chinese citizens can use these dishes to watch everything from silly old American sitcoms to serious Mandarin-language news broadcasts beamed from Taiwan.

A second source of foreign media products especially worrying to Chinese state leaders is pirated videotapes. Not only are first-run Hollywood movies available in Chinese video shops (sometimes even before they hit the shelves in the United States), but such videos are copied and re-sold on a massive scale and replayed on in-house, closed-circuit cable networks in apartment complexes throughout China. While many big-ticket American films may not be overtly political, they certainly contain subtle political and commercial messages likely to exert a long-term impact on the Chinese society's orientations and social values, and certainly help fuel the demand for strong economic growth.

The Chinese central government has fought back against this bombardment of foreign images by delivering where it can competing messages of the benefits of socialist spiritual civilization. Criticism of Western television doesn't appear to have the same resonance in China's countryside, to say nothing of the cities. Central government efforts to control the country's symbolic environment have not been totally ineffective, but they clash so directly with the powerful incentives unleashed by property rights reform, administrative fragmentation, and technological advance that it is difficult to see how a lid can be kept on the process. Ultimately, Beijing faces a near impossible challenge to monitor rigorously what symbols are being circulated below the provincial level in any sustainable fashion.

Given the limits of the central government in this area of commerce, it is hard to imagine that the explosion of television and other media outlets inside China will not have wide-ranging consequences on the future orientations of Chinese society. Already, nearly 100% of homes throughout urban China own television sets, and two-thirds of homes in the countryside own sets. Surveys show that Chinese pre-school and primary school children are watching as much television as their American counterparts (for more detailed statistics, see tables below). The

television that Chinese children are viewing is punctuated with advertising made by Western style public relations agencies--many based in Hong Kong and Taipei--replete with images of upwardly mobile, conspicuous consumption. Ads are targeted at middle class Chinese who might desire lavish vacations, air-conditioned homes, and private cars. These images have also helped stimulate the massive migration of peasants from the countryside to urban areas of China, driven in large measure by the hopes--in most cases, unrealistic--of attaining the lifestyles portrayed on television.

The net result could easily be a society increasingly unwilling to do without consumer goods and which is unlikely to want to conserve energy resources. Even before this cultural shift, China's energy use has skyrocketed. The trend toward more commercial and consumerist content in China's symbolic environment is a sure-fire recipe for an acceleration in the pace of growth in Chinese national energy consumption.

Politically, these changes in the symbolic environment have probably had on balance a narcotizing effect inside China, since they have saturated the country with glitzy entertainment, but little of an overtly political nature. It is true that a few foreign-based organizations use the Internet to send subversive e-mail messages into China and that critical commentary about the Chinese political system seeps into the country via satellite television, faxes, and other media. As of this writing, however, no organized force alternative to the state has taken advantage of the state's weakening control over the flow of symbols and culture-creation processes to advance an unabashedly political agenda. Over the long run, however, the loss of state control is likely to facilitate politicized opposition movements in civil society, probably linked with groups abroad. The only questions are exactly what would trigger such a politicization, and what the outcome of new clashes between state and society would be.

Table 1: The Dissemination of Television in China, 1978-1996

| Year | Total TV Sets | Color TV Sets | Color TV Sets | B&W TV Sets | B&W TV Sets |
|------|-------------------|---------------|---------------|---------------|---------------|
| | Per Household | Per Household | Per Household | Per Household | Per Household |
| | (Urban and Rural) | (Urban) | (Rural) | (Urban) | (Rural) |
| 1978 | 0.011 | | | | |
| 1980 | 0.032 | | | | |
| 1985 | 0.250 | 0.172 | 0.008 | 0.669 | 0.109 |
| 1990 | 0.583 | 0.590 | 0.005 | 0.524 | 0.397 |
| 1993 | | 0.795 | 0.109 | 0.359 | 0.583 |
| 1994 | | 0.862 | 0.135 | 0.305 | 0.618 |
| 1995 | | 0.898 | 0.169 | 0.280 | 0.638 |
| 1996 | | 0.935 | 0.229 | 0.255 | 0.651 |

SOURCES: Guojia Tongjiju, ed., Zhongguo Tongji Nianjian, 1997 (Beijing: Zhongguo Tongji Chubanshe, 1997); Guojia Tongjiju, ed., Zhongguo Tongji Nianjian, 1996 (Beijing: Zhongguo Tongji Chubanshe, 1996); Guojia Tongjiju, ed., Zhongguo Tongji Nianjian, 1993 (Beijing: Zhongguo Tongji Chubanshe, 1993); Guojia Tongjiju, ed., Zhongguo Tongji Nianjian, 1990 (Beijing: Zhongguo Tongji Chubanshe, 1990).

Table 2: Telecommunications Development, 1970-1996

| Year | Telephones | Long Distance | Mobile Cellular | Paging Service | Fax | Faxes |
|------|------------|------------------|-----------------|----------------|----------|-----------|
| | per Capita | Calls per Capita | Subscribers | Subscribers | Machines | Sent |
| 1970 | 0.003 | 0.10 | | | 83 | |
| 1978 | 0.004 | 0.19 | | | 1,484 | |
| 1985 | 0.006 | 0.36 | | | 1,266 | 139,242 |
| 1986 | 0.007 | 0.39 | | | 1,341 | 145,119 |
| 1987 | 0.007 | 0.47 | | | 1,413 | 152,101 |
| 1988 | 0.009 | 0.58 | | | 1,876 | 176,177 |
| 1989 | 0.010 | 0.70 | | | 2,600 | 241,457 |
| 1990 | 0.011 | 1.02 | | | 3,826 | 555,481 |
| 1991 | 0.013 | 1.49 | | | 6,183 | 968,834 |
| 1992 | 0.016 | 2.45 | 176,943 | 2,220,000 | 9,410 | 1,712,182 |
| 1993 | 0.022 | 4.28 | 638,268 | 5,614,000 | 12,276 | 2,706,055 |
| 1994 | 0.033 | 6.32 | 1,567,780 | 10,330,000 | | 3,423,700 |
| 1995 | 0.048 | 8.37 | 3,629,416 | 17,392,000 | | 4,423,080 |
| 1996 | 0.058 | 10.41 | 6,852,752 | 25,362,000 | | 5,650,000 |

SOURCES: Guojia Tongjiju, ed., Zhongguo Tongji Nianjian, 1997 (Beijing: Zhongguo Tongji Chubanshe, 1997); Guojia Tongjiju, ed., Zhongguo Tongji Nianjian, 1990 (Beijing: Zhongguo Tongji Chubanshe, 1990); Guojia Tongjiju, ed., Zhongguo Tongji Nianjian, 1988 (Beijing: Zhongguo Tongji Chubanshe, 1988).

Table 3: Development of the Chinese Advertising Industry, 1981-1994

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| Year | Annual Advertising Revenue (in constant 10,000 <u>yuan</u> units) | Ad Revenue as a Percentage of GDP |
|------|--|--------------------------------------|
| 1981 | 11,800.00 | 0.024% |
| 1982 | 15,000.00 | 0.028% |
| 1983 | 23,407.40 | 0.040% |
| 1984 | 36,527.80 | 0.052% |
| 1985 | 60,522.50 | 0.070% |
| 1986 | 84,477.70 | 0.087% |
| 1987 | 111,200.30 | 0.098% |
| 1988 | 149,293.90 | 0.107% |
| 1989 | 199,899.80 | 0.127% |
| 1990 | 250,172.60 | 0.144% |
| 1991 | 350,892.60 | 0.177% |
| 1992 | 678,675.40 | 0.283% |
| 1993 | 1,342,493.30 | 0.499% |
| 1994 | 2,003,000.00 | 0.678% |

SOURCES: Lu Lin, "1992-nian de Zhongguo Guanggaoye," in *Zhongguo Guanggao*, 1993 (3), pp. 4-6; Interview No. 138.

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Table 4: STAR-TV Homes in China, Autumn 1993

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| | | Percentage of | | | | Percentage of | |
|--------------|---------------|---------------|----------|---------------|--------------|---------------|---------------|
| City | STAR-TV Homes | All TV Homes | City | STAR-TV Homes | All TV Homes | City | STAR-TV Homes |
| Chongqing | 3,172,000 | 85% | Qingdao | 209,000 | 12% | | |
| Chengdu | 1,662,000 | 72% | Hefei | 199,000 | 21% | | |
| Zhengzhou | 1,017,000 | 72% | Nanjing | 143,000 | 11% | | |
| Kunming | 831,000 | 95% | Tianjin | 131,000 | 6% | | |
| Guangzhou | 723,000 | 49% | Harbin | 123,000 | 9% | | |
| Changsha | 536,000 | 39% | Shanghai | 103,000 | 3% | | |
| Nanning | 510,000 | 80% | Nanchang | 80,000 | 9% | | |
| Xi'an | 405,000 | 26% | Shenyang | 57,000 | 4% | | |
| Changchun | 396,000 | 25% | Xiamen | 40,000 | 14% | | |
| Guiyang | 342,000 | 88% | Dalian | 35,000 | 3% | | |
| Shijiazhuang | 329,000 | 46% | Taiyuan | 30,000 | 5% | | |
| Jinan | 310,000 | 23% | Ningbo | 19,000 | 1% | | |
| Beijing | 283,483 | 9% | Hangzhou | 7,000 | 1% | | |

SOURCE: Frank Small and Associates, via STAR-TV

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The Role of International Social Groups and Civil Society

Just as the central party-state is losing its definitive grip on media outlets, so also has its monopoly on external relations been weakened. During the Cold War years, China conducted leader-to leader dialogues in its practice of foreign diplomacy. Both economic and political relationships with foreign entities were pursued only under the auspices of China's highest level of power. While it would be a mistake to underestimate the impact such state-to-state interactions can have on international dealings at other levels of society, increasingly subgroups are providing a richer texture to China's foreign relations. In the longer run, these underlying layers of social groups, special interests and civil society will have a deep influence on the development of China's relations with the outside world.

In analyzing future U.S.-China relations, and indeed of the relations between China and the rest of the Asia Pacific, it is necessary to study these multiple levels of relationship and attend to their interplay.

The level most talked about in the U.S. media and most noticed by academia is the official relationship between Washington and Beijing. But in recent years as China's economy has been reformed and modernized, new layers have been added to the official relationship; for example, the bonds between the heads of each society's major corporations. China's external relations are also molded by the relationships between networks of Chinese entrepreneurs, often connected through extended family ties. These business networks extend from the Chinese mainland throughout the Chinese Diaspora. The nodes of these networks are especially dense along the coastal areas of China, California, and throughout Southeast Asia. On still another level, China's relationships with the outside world will be colored by the relationships between representatives of and/or advocates for dissidents, political exiles, ethnic minorities, and other disaffected groups scattered throughout China but with external supporters in the U.S. and elsewhere.

Besides heads of state and heads of government agencies, a new set of agents adds a broader, more variegated dimension to the China's foreign relations. These players include the heads of each society's major corporations and, more broadly, each society's "political class"-- that is,

leaders of the media, think tanks, and academic institutes that constitute elite public opinion in each society.

For the U.S.-China relationship, there are important differences among these elites on each side of the Pacific. In China, where the Communist Party controls the state and the state owns the major enterprises and exercises significant control over universities and the media, such national elite are closely interconnected. By contrast, in America, government, business, media, and academic elites are formally free to develop separately and act independently. However, in practice, American elites are closely interdependent. While U.S. opinion makers may have more structural freedom to generate innovative and conflicting ideas about relations with China than their counterparts in the PRC, in reality, U.S. politics and close ties among elites tend to promote a considerable amount of consensus. At the same time, in China, although most elites are under the formal discipline of the Communist Party, in practice they are often at odds with one another and exercise considerable independence in judgment.

At present, the dialogue between Beijing and Washington is mainly about the combination of geopolitical and economic issues. The geopolitical issues these days primarily relate to nuclear proliferation (where issues have been difficult to resolve), North Korea (where the US and China have been cautiously cooperating), Taiwan (where there are conflicting interests, but a dormant conflict at the moment), and Japan (where there is mutual mistrust but mutual interdependence). The economic issues are primarily about openness of markets, technology transfer, and responses to the Asian economic crisis.

As China's market has become more open to the possibility of Western investment, the official relationship has come to consider the interests of major American corporations. The leading Fortune 500 companies rely on favorable cooperation with leading government and Party officials in China to sell airplanes, telecommunications systems - and to engage in oil exploration. And they rely on the U.S. government to help them advance their interests vis-à-vis the Chinese government.

American industry's attitudes towards China are quite divergent and this has created some of the most public controversies affecting U.S.-China relations. For example, U.S. government policy

on technology transfer has not been consistent precisely because American business elites have divided interests in the matter. Some companies want as much freedom as possible to sell high-technology equipment to China. Despite Pentagon concerns about weapons technology proliferation, they argue that the Chinese cannot copy the technology fast enough to pose a competitive threat. Others - especially in software manufacturing -are concerned about competition from pirated intellectual property, supporting the concept of export bans to China. In another example, major American corporations, including oil and gas companies, push for free trade and an opening Chinese markets, while some manufacturers and U.S. trade unions want some restriction on the import of cheap Chinese goods into the U.S.

Besides the breadth and complexity that have been added to Chinese foreign policy through the expansion of the number and types of elites involved in the process, more dynamism has been added to China's external relations by the many thousands of transactions linking Chinese entrepreneurs on the mainland with those in the Diaspora. These relationships often involve elaborate networks with important centers in Taiwan and Hong Kong. A loose community of investors, designers, managers, and brokers organizes a large portion of the capital flows between China's "special economic zones" and their major trading partners in Asia and the U.S. These networks of ethnic Chinese are often based on the "three same relationships" (san tong guanxi), between people from the same families, same native place, and/or same schools. The relations are cemented by exchanges of favors.

These socially-embedded economic relations bypass central government structures on both sides of the Pacific. They do not rely for their stability on government enforcement of contract law. Rather, they depend on the trust built up through mutual familiarity and histories of reciprocity. The success of projects carried out in Mainland China requires the protection and patronage of government officials, mainly local officials willing to block the implementation of government rules often for the purpose of sharing in the profits. Ironically, these same networks similarly block the implementation of U.S. regulations in a number of ways, including evading taxes or avoiding import quotas by utilizing ingenious methods to transport imported goods through third countries.

Interestingly, ethnic Chinese traders and businessmen have not been a major feature in the opening up China's oil industry to foreign oil imports and refinery investment. This is partly due to the technical nature and great expense involved in major oil industry investments. In fact, many overseas Chinese-owned oil companies have been less unsuccessful in closing oil trading or investment deals than Western counterparts. Some companies such as Hin Leong and Sunly of Singapore and Kangxi and Fortune Oil of Hong Kong have been able to capitalize on their guanxi but they constitute only a handful of firms compared to the many dozen that have set up operations in China over the years. Several refinery and petrochemical ventures sponsored by overseas Chinese firms have been shelved despite personal relationships.

By its very nature, the multinational trade among ethnic Chinese contributes to an undermining of the foundations of Chinese state control by demonstrating its administrative weakness. Moreover, many of the ethnic Chinese that participate in this low level trade with people in the southern provinces and therefore enjoy some economic influence there are from or have cultural links to Taiwan. These people certainly do not embrace the political views of the mainland government. In California, for example, Chinese language television is largely controlled by Taiwan interests and broadcasts what Beijing would consider negative reports about its policies on a regular basis. The pro-Taiwan independence movement also has roots in California. This contrasts with the apolitical positions found among Southeast Asian Chinese who are more cautious in their approaches.

While it is difficult to say what long-term impact the Taiwanese groups will have on the ideology and culture of the Mainland, Taiwanese-controlled media and trade have certainly played a marked role in influencing international attitudes about the People's Republic of China (PRC), particularly the perceptions and misperceptions held by many Americans. These groups can challenge the benign images that China tries to propagate worldwide, influencing its international image. To the extent that these external media sources increasingly penetrate the PRC's symbolic environment, they may also become effectively--if unwittingly--subversive internally.

Yet, however prominent the role of Chinese foreign networks in the economy and international orientation of the coastal regions of China, the ability of these groups to withstand a central

government crackdown should not be overestimated. These Chinese businesses and family networks still remain susceptible to interruption or even suspension, should the politics of open trade relations with the West--the U.S. in particular-- suddenly shift. Moreover, given the proclivity of this entrepreneurial class to bypass the system, it remains unclear over the long term whether the ties it creates will be a positive or negative factor in China's foreign relations.

An example of transnational association that is an unambiguous threat to social stability inside China is the network of secret societies that have reconstituted themselves in China. These groups, many of which are based on the old Triad sworn brotherhoods, cooperate with Russian, European, and American mafias and are deeply involved in narcotics trafficking, protection rackets, the sex trade, and illegal immigration. The secret societies also extend their influence among overseas Chinese communities throughout Southeast Asia.

Beyond government and business elites and family and business networks, other layers of social groups and civil society have begun to influence U.S.-China relations and China's relations with neighboring countries. Professional, religious, and ethnic groups inside China have linked with transnational cultural institutions to strengthen their voices in Chinese politics.

The community of Chinese scholars at home and abroad is a prime example of a civil society group that supercedes borders. Hundreds of thousands of Chinese scholars have now received advanced study in the United States and Europe. Many of them remain in the U.S. under permanent residency status. This "brain drain" has several implications. Firstly, to be accepted abroad, Chinese scholars must demonstrate an ability to meet Western theoretical and methodological standards. Those who gain permanent residency abroad are increasingly returning to China as consultants to help their Chinese colleagues understand Western theory and methods.

In the oil sector, a discourse with foreign oil economists about energy sector reorganization has prompted Chinese leaders to model the Chinese oil and gas industry after South Korea's Chaebol. A number of entities were placed into a larger, more diversified enterprise group that reduce transaction costs among divisions and could compete internationally and protect China's oil industry from foreign economic penetration after China joins the World Trade Organization.

More generally, the process of foreign study and emigration has inevitably led to Chinese scholars living abroad and publishing works critical of the Chinese government. While such works cannot be openly published in China, they can still have considerable influence there. However, the ever-present threat of nationalistic backlashes in China against influences from abroad, or simple disillusionment about foreign ideas, mean that development of a liberal civil discourse among scholars in the Western style is by no means guaranteed as the end result to the phenomenon of foreign study.

Finally, certain suppressed religious and ethnic groups have connected to transnational associations, and this remains a major thorn in China's side in its interactions with the international community and media. These transnational groups that support ethnic or religious groups inside China have pushed human rights to the top of the diplomatic agenda in China's bilateral relations with many countries, including the U.S. These human rights issues, in turn, hinder China's ability to fulfill its goal to be an economic leader and inspiration in Asia and around the world.

From the point of view of both the Chinese and American political establishments, such ethnic and religious tensions are problematic at best and possibly dangerous at worst. They throw a huge amount of unpredictability into China's future development and its relationship with the U.S. and other nations. And, while they do provide a vehicle for visible opposition to state coercion and for debate inside China on moral issues such as rule of law, individual freedoms, social responsibility, and justice, they also raise the risk of zealous violence and sectarian division.

The Role of Religion in China's External Relations

The lifting of the harsh suppression of religious belief during the Maoist era has ushered in an amazing resurgence of religious practice inside China. But this resurgence is viewed as a threat to the power and control of the party-state as well as to the unity of China. The central government fears that any kind of religious activity that is not under its careful control could form the nucleus of rebellion among farmers and laborers who are seething with discontent over unemployment and government corruption. From the Chinese government's point of view, the

resurgence in religious devotion, especially coupled with ethnic identities, also poses the threat of social chaos, particularly among peoples in places where separatism remains strong for example, the Muslims in Xinjiang and the Buddhists in Tibet. The government tries to exert control over this process by allowing only a limited number of religious communities to register with the relevant state agencies and subjecting these communities to difficult restrictions that in some cases violate main theological or ethical principles.

As a result, many religious believers form illegal underground associations that seek spiritual guidance, political support, and financial aid from coreligionists outside of China. These Western supporters try to influence foreign policy towards China as has been seen in the example of the U.S. Christian coalition that has worked to try to get the U.S. Congress to sanction China for religious persecution. Such sanctions, if carried out, could affect U.S. investment in China's energy sector or even China's ability to buy oil from foreign oilfields operated by American firms. Similarly complex patterns of international support and local conflict obtain for Tibetan Buddhists and Xinjiang Muslims. China's leadership is forced to consider the latter in analyzing future foreign policy and possible energy cooperation with neighboring Central Asian states and possibly some Islamic Middle Eastern states.

Catholic and Protestant groups in the United States and throughout the world are coming to the aid of their coreligionists inside China. In the U.S., some groups of evangelical Christians are raising money to assist with the smuggling of religious materials such as bibles into China, reminiscent of the historical tradition of American missionary activities there starting in the 19th century. When the Chinese government acts to repress Christian believers--for example, by imprisoning the leaders of "underground churches"--certain American Christian groups lobby the U.S. government to sanction China for violating religious freedom. Ironically, the political influence of these U.S. groups is underpinned by similar goals among American advocates for oppressed Buddhists. The supporters of the Buddhist movement tend to come from the cultural left, bringing the political momentum of a human rights-led agenda on U.S.-China relations to both sides of the political aisle.

China's public opposition to the imposition of oil sanctions against rogue states such as Iran and Iraq may foreshadow the risks of U.S. Congress-imposed sanctions against its own economy.

Such sanctions would be a substantial threat to China's economy that is heavily reliant on exports to the giant U.S. market. Even U.S. sanctions that targeted only China's energy sector could have serious ramifications for China's energy development. Much of the investment capital that has been invested in China's offshore oil production, for example, has come from American firms. Moreover, as China becomes a larger importer, it would have more difficulty finding low-sulfur crude oil supplies to feed its more unsophisticated refineries were Indonesian, African, and Malaysian fields operated or partially-owned by U.S. companies rendered off limits by U.S. sanctions laws.

For the Chinese government, the resurgence in religious devotion among the Buddhist and Muslim ethnic communities poses more serious dangers to the authority of the regime and China's territorial integrity than the practice of Christianity inside China. Territorial sovereignty is a major historical preoccupation of the ruling elite of China. Despite the intense promulgation of unification as an ideological message by the Communists since their rise to power, China remains an ethnically diverse and divided country at many of its border regions.

Wide disparities exist between the levels of economic development in coastal and central regions of China where a large proportion of Han Chinese live and the poorer interior border regions such as Xinjiang that are inhabited by other ethnic groups. Some analysts worry that a widening of such disparities could hasten a "disintegration" of China. Such deconstruction could come about either as richer Han areas desire to jettison poorer, ethnically dissimilar rural border regions as a means to move ahead economically or as those regions themselves fight for religious autonomy and economic spoils. Such fears are not totally ungrounded.

In Xinjiang, for example, Muslim Uighur separatists assert claim to vast energy resources in their province and oppose the shipment of those resources to Han areas of China. More radical members of this group, assisted with money and weapons from Middle East supporters, have occasionally blown up buildings and buses, and called for the establishment of an independent homeland. Uighur separatists have attacked Xinjiang oil installations and Han oil workers migrating to the region. As more Han workers move into the region, such attacks might intensify if widespread unemployment among the Uighurs is not remedied. This ethnic unrest, if it intensifies, could jeopardize the viability of plans to invest billions of dollars to enhance energy

security by building major West to East oil and gas pipelines that would bring Kazakh and Tarim Basin hydrocarbons to refineries in central and eastern China.

Tibetans, in contrast to the Uighurs, mainly seek cultural autonomy. According to the prominent Buddhist leader, the Dalai Lama, they are willing to accept Chinese sovereignty as long as the Chinese government does not interfere with their religious practices. But the Chinese government fears that such cultural autonomy would set a dangerous precedent for unity throughout China and refuses to acknowledge any of Tibet's concerns.

Chinese foreign policy has been heavily influenced by these concerns about separatist groups. The Tibet issue has greatly affected India-China relations. Tibet is a highly important issue for China, ranking among its top territorial concerns. Since the 1950s, China has been sharply critical of India's role in Tibetan affairs--especially New Delhi's grant of sanctuary for the Dalai Lama in 1959, willingness to accept a Tibetan government in exile and permit anti-Chinese demonstrations by Tibetan refugees.

But the potential exists for Tibetan politics to be overshadowed to some extent by Chinese concerns about the spread of Islamic elements to areas in and around its borders, particularly affecting the Xinjiang province. India shares this concern of Islamic militancy with China. China has in recent years urged India and Pakistan to settle their conflict over Kashmir. While China has not stated this publicly, it has a clear interest in a settlement that confirms the status quo of the de jure India-Pakistan boundary and ends insurgency. An independent (and potentially fundamentalist Islamic) Kashmir is no more desirable to China than it is to India. An independent Kashmir or a radically Islamic Pakistan would threaten a possible spillover of the "fundamentalist contagion" into Xinjiang. China might also fear an independent Kashmir -- though a highly unlikely prospect-- could serve as a model for separatists in Tibet and Xinjiang. Finally, despite its historical diplomatic and military support for Pakistan, China is unlikely to favor the annexation of Kashmir by Pakistan due to concerns about the growing power of radical Islamic elements within Pakistan and the potential for Taliban-like forces to seize power there.

To counter Muslim separatist risks, the central government has increased its investment in outlying provinces and resettled state industries there to dilute ethnic populations. During the

ninth five-year plan (1996-2000), the central government will have invested over \$9 billion in Xinjiang's infrastructure and natural resources and relocated 2,000 Han Chinese to the region in the process. The Chinese government has also begun to make substantial investments in Kazakhstan where part of the population is ethnically related to the Uighurs.

China's difficult relationship with its own Muslim population could complicate its bridge building to oil and gas exporters in Central Asia and Iran. China has investigated land routes to bring oil and gas from Central Asia to China but such plans must involve border areas with large Muslim populations. Chinese efforts to forcefully repress the religious freedom of the Uighurs might be resented or even resisted by Muslim ethnic populations in neighboring Central Asian states or Iran, hindering the development of such energy trade ties. Sabotage by Islamic extremists remains a risk to major oil and gas facilities having to transverse major Muslim areas of China.

Internationalism versus Self-Sufficiency: Shifts in China's Military Culture

In Mao Zedong's China, following on the heels of decades of foreign invasions, solving national insecurity was one of the few political themes that remained pervasive across the entire three decades of Mao's rule (1949-1976). Insecurity drove not only China's military posture and force structure choices, but perverted a large portion of China's overall development strategy during the 1950s, 60s and 70s. The influence of security concerns on domestic choices was not confined to the level and type of spending on weapons systems. It encompassed the vast sweep of China's debate about economic development priorities, blocking comprehensive modernization in a trade-off to develop sectors that would promote Chinese industrial and resource self-sufficiency and reduce specific strategic threats. Debate about security, self-sufficiency and relative state power in the international arena has had a very direct influence on the pattern of China's most important technological and industrial choices.

Chinese aspirations and ideology never quite acknowledged the reality of dependence on foreign aid, such as Russian military technology, leaving a key tension in the stated goal of self-

sufficiency. Chinese "self-reliance" in many cases had to compromise itself and live with the second-best solution of indigenizing foreign technology. But the goal clearly was to learn to rely only on one's own society.

Presently in China, security concerns remain, but in an altered, less directly threat-derived manner. China still strives to maintain an environment of security but the country can best pursue this goal in a manner that integrates commercial and military modernization choices. Defense and commercial technology have become increasingly indistinguishable even in China. Thus, the satisfaction of force modernization goals cannot be divorced from national economic efforts.

This new orientation and organizational necessity means that not only is the distinction between military and non-military sectors in China now blurred but that Chinese military leaders will have a harder time achieving their real politik goals without greater integration into international commerce, especially in high technology sectors and precision industries.

This new commercialized strategic paradigm will confront China's ruling elite with complex challenges. If the market increasingly shapes Chinese technical choices, rather than central planners, how does the state maintain control over relevant sectors and investment strategies?

While perhaps this shift can be observed most prominently in analyzing China's strategic-political-military culture, the same patterns plague leaders in China's energy industry. Energy is also a key strategic sector, and China's energy industry will increasingly be faced with the need to choose between self-sufficiency and economic competitiveness and efficiency.

The question of Chinese energy self-sufficiency never arose during the height of economic expansion during Mao's days. The early 1970s were a period of rapid growth in Chinese oil and gas production, as well as steady gains in coal output. Demand was limited by a stagnant economy and economic autarky, rather than efficiency, and was the prime economic directive of a tightly controlled Centrally Planned Economy (CPE). China was self-sufficient in energy and as such, it was in a preferable situation to many more industrialized nations such as Japan, South Korea and the United States.

By the early 1990s, however, years of strong economic growth allowed Chinese energy demand to catch up with and in some case exceed the country's ability to produce enough energy, particularly of petroleum. China's domestic crude oil production has increased only 10% from 1990 levels to 3.27 million barrels a day (MM B/D) in 1998 while consumption has risen by 90% in the same period. Three major oilfields in the Northeast--Daqing, Shengli and Liaohe, account for more than 75% of total oil output and these mature fields--Daqing was discovered in 1959 - are expected to decline sharply by early in the next decade. Attempts to sustain output in mature oilfields through enhanced oil recovery (EOR) programs are unlikely to arrest an expected slide in output. At the same time, oil use in China's rapidly expanding economy is expected to rise significantly, leaving China's economy increasingly dependent on foreign crude oil imports and more susceptible to the negative consequences of major price swings in international energy markets.

Despite import bans for much of last year, crude oil imports rose to 554,000 barrels a day (b/d), down slightly from 1997. Net refined products imports stood at an estimated 417,000 b/d, not including an additional 70,000 to 100,000 b/d of illegally smuggled gas oil, fuel oil and other products. These imports could climb by up to 5 million b/d over the next 15 years if China's economy is to continue its rapid modernization (see Baker Institute working paper Soligo/Medlock/Jaffe for more details). China's leaders will increasingly be faced with ugly choices to limit its external energy requirements. It can use either coercion, import controls or taxes to curb its burgeoning private transportation sector but this would slow economic activity and spur popular dissatisfaction. In other sectors, it could rely more heavily on national coal resources but this would worsen a huge environmental crisis already plaguing China's major cities. To date, curbs on coal use in urban areas and approval for both liquefied natural gas and pipeline gas imports--in some cases driven by provincial governmental politics-- would imply that rising oil and gas imports will ultimately be the favored policy option.

China's central planners for energy have responded to this expected deficit in its energy portfolio by reforming its state oil sector and creating commercially-oriented, corporate state-run oil entities that can compete in the international energy arena.

In the late 1980s, China's oil industry was organized around four state oil companies. Each firm was designated to handle an exclusive energy business activity. China National Petroleum Corp. oversaw onshore oil and gas exploration and development. China National Offshore Oil Co. led offshore exploration and production programs, working together with foreign exploration companies. Sinopec operated refining and products distribution/retailing activities. Sinochem was to serve as the sole 'conduit' company for Chinese imports of crude oil as well as crude oil and refined product exports. This activity-oriented breakdown of responsibility never quite coalesced under the leadership of the four companies. Each of these large Chinese companies attempted to move into diversified oil and gas activities, stepping into the domain of its sister entities and creating political tensions.

Besides the vying for assets among the state-sanctioned national oil companies, a host of smaller entities also sprung up. A loosening of centralized planning policy, a sharp rise in foreign investment interest in China's petroleum downstream sector, and rising demand for oil fostered the emergence of an enormous number of smaller, provincial and municipal controlled oil/gas companies. Many of these local companies were designed solely to gain a share of capital investment poised to enter China's downstream, centering around big ticket items such as refineries, which on average had cost estimates of \$800 million to \$1.5 billion. They typically defied directives of both the four major national oil companies as well as the central government, adding a new layer of competition to China's oil industry.

The large state sector firms suffered serious losses throughout the 1990s. In 1998, Beijing ordered a new restructuring, based on the creation of two vertically integrated firms by ordering refiner Sinopec and oilfield production company CNPC to swap some assets. Sinopec was told to give up some refining capacity, mainly in the northeast and west of China, to CNPC in return for oil and gas production in the south in transactions that have still not been implemented completely. (For more details see Baker Institute working paper, Steven Lewis) Both companies have been directed expressly to maximize profits--or funds would not be available from government-controlled banks for capital investment. Two offshore oil exploration companies, CNOOC and a new organization China Star Exploration, remain focused mainly on oil and gas exploration activity. The Ministry of Chemical Industry (MOCI) was ordered to surrender its control over a dozen small refineries.

Through the reorganization process, provincial/municipal oil/gas companies have had their activities restricted and in some cases have been expelled from projects. But local players are unlikely to relinquish the right to participate in oil activities all that easily given provincial governments high earnings from this sector as much as 30% of total revenues. Still, the central government still holds pivotal cards in regulating the industry through the exercise of import controls and to a lesser extent through its spotty implementation of price reforms that loosely tie internal prices to international levels.

As China reorganizes its energy sector, a conscious choice appears to have been made to look for additional oil and gas supply from abroad rather than undertake the thorough structural reform that is needed to revitalize the ailing domestic oil and gas industry.

Rather than announce a new round of major investment in oil and gas exploration inside China, state oil conglomerate China National Petroleum Corp. (CNPC) in 1997 initiated a multi-billion dollar campaign to acquire stakes in foreign oil fields. In 1997, CNPC signed several expensive oil exploration and production deals in Kazakhstan, Venezuela, and Iraq. Smaller deals were also completed in Sudan, Peru, Papua New Guinea and Indonesia.

It remains to be seen whether China's increasing dependence on foreign energy sources will bring out its more aggressive geopolitical tendencies or cooperative ones. Some observers point to Chinese claims on the disputed South China Seas Spratley Island group are part of a long-term strategic plan to increase access, direct or indirect, to future energy supplies. While the South China Seas territorial dispute has simmered for much of the decade, Beijing has conceded little, even at risk of damage to its relations with the neighboring ASEAN group. But others note that China and Vietnam continue to negotiate at the highest levels to find a mutually-acceptable plan for joint exploitation of oil and gas resources in the Beibu Gulf section of that region. Moreover, the volume of oil that might some day be involved in the Spratley concession areas is quite small, perhaps as little as 100,000 b/d upon development. Given the only small additions such resources would make to China's much larger energy needs, a more reasonable explanation for China's strong actions in the South China Seas are its preoccupation with territorial integrity and concerns about the passage of shipping.

Beijing's encouragement of oil and gas pipeline development to link the newly independent Central Asian Republics, as well as the Russian Far East, to China and possibly connecting to Japan or South Korea reinforces the argument that China's greater dependence on outside energy sources could prompt it to consider more engaged, internationally integrated and cooperative foreign policy initiatives. China's increasing dependence on the same energy sources as the U.S., Japan, and other industrialized economies brings its strategic interests closer in line with Western interests in the Persian Gulf. A rising reliance on Persian Gulf oil and gas imports imply that China will suffer the same negative consequences as the U.S., Japan and Europe if the military equipment it or others pass to regimes in Iraq or Iran is used to interdict the free flow of oil from the Middle East. A breakdown in order in Afghanistan or Central Asia will have similarly dire consequences for China's chances of tapping Caspian energy supplies.

China's move away from self-reliance in its petroleum and natural gas sectors will also render it more dependent on the dominant U.S. navy to defend free navigation in Asian sea lanes. Ironically, this change for China will coincide with a greater U.S. reliance on energy supplies from its own Western hemisphere, potentially raising burden-sharing issues with Asian nations about the expense of the U.S. military role in the Persian Gulf. It remains to be seen whether China's leadership can publicly acknowledge and accept the reality of the benefits it might incur from the U.S. naval presence in Asia and the Middle East. For now, the regime still criticizes Japan for its reliance on "third parties" and calls for the U.S. to remove its military from Asia on the grounds that the Cold War threat has been resolved. To some extent, China's economy could be shielded from the negative consequences of a temporary cut-off in oil supplies as a result of a major disruption by its heavy use of coal in vital industries. But it would still have to implement uncomfortable, major consumer sacrifices.

China as the Imperial Dynasty: Implications for Regional Cooperation on Energy Matters

Chinese leaders continue to investigate strategic energy linkages with important regional neighbors and describe China's future role in the region as a "land bridge" for large oil and natural gas shipments from the resource-rich Middle East, Central Asia and Russia to the energy thirsty Asian market. (See Baker Institute working paper, Xiaojie Xu)

Energy cooperation and trade in the Asia-Pacific could be a constructive approach to the region's energy security problems since many of the major economies of the region are resource-poor. In September 1996, China signed an agreement in principle on regional pipeline development with Russia, Mongolia, South and North Korea, Japan, Kazakhstan and Russia's Irkutsk oblast. China has also discussed a proposed plan to build a natural gas pipeline from Turkmenistan via Uzbekistan and Kazakhstan to Lianyungang in China's Jiangsu province and on to Kitakyushu, Japan. The Asian Gas Grid project would link existing and proposed natural gas networks in Indonesia, Malaysia, and Thailand with Chinese cities and industrial areas with a possible expansion to Taiwan, Japan and South Korea. However, China will have to convince its neighbors to put aside historical, cultural and political suspicions of its geopolitical and military intentions before it can implement proposed joint energy projects. China often projects its image with the imperious superiority of the Middle Kingdom. The outward expression of this sense of cultural greatness stands in the way of its integrative aspirations in Asian energy transport and trade.

As China has shifted to a non-revolutionary stance in international relations, seeking to establish a "socialist market economy" and assertedly pursuing peaceful regional cooperation, new, more positive public attitudes toward China have emerged in some quarters though dark suspicions remain in others. Objective evidence of the former trend can be seen in changing patterns of diplomatic recognition, shifts in public rhetoric and rising trade and investment figures. Privately, however, the intellectual elites of Southeast Asia continue to voice suspicions of long-term Chinese intentions as suggested by aggressive actions in the Spratly Islands and strategic flirtation with Burma. Such attitudes find their roots not in anti-Communist sentiment but in long-standing historic suspicions of Chinese imperial intentions. The perceived economic power of Chinese minorities living abroad in Asia has also led to general anti-Chinese sentiment.

A variety of historical experiences have shaped attitudes toward China among the region's populations and elite. Certainly, the perspective of Vietnam has been formed by the long, often contentious, association with China, which included a thousand years of Chinese occupation. In Indonesia, more recent history reinforced antagonism against China. The close relationship between the People's Republic of China and the now defunct Indonesian Communist Party and the alleged role of China in the failed Communist/Sukarno putsch of September 1965 have

colored Indonesian-Chinese relations for decades. Sino-Japanese relations are also influenced by a long, bitter history of war, war-related atrocities and more recently, regional and international economic competition. Japanese elites remain deeply suspicious of China's long term intentions and worry about Chinese initiatives to disrupt free navigation in Asian sea lanes.

China has sought Japanese and South Korean financial support in constructing transportation infrastructure for natural gas shipments from Russia and Central Asia to China, Japan and South Korea. Cooperation on the latter would, however, require a resolution of tensions in the Korean peninsula. Past actions of the North Korean government, the presence of large military units on the North-South border, the potential development of a nuclear threat from North Korea, and the dire economic situation in the North are all reasons for worry with regard to the Korean peninsula. China's policies towards the Korea peninsula conflict remain a testing point for its role in the wider Asian region.

But it is the final status of Taiwan that looms largest as a dangerously volatile issue between China, neighboring Asian nations and the U.S. The importance of this issue to China, which maintains that Taiwan is an integral part of its country, cannot be underestimated as Beijing has threatened to respond to any declaration of independence on the part of Taiwan with military action. While the U.S. has explicitly acknowledged Taiwan's territorial relationship as a part of the People's Republic of China, the implementation of that status remains a delicate matter between the U.S. and China--one if mishandled could lead to military conflict.

In order for joint energy linkages and large scale, cross border energy projects to succeed, distrust surrounding China's long term geopolitical goals will have to be overcome.

Conclusion: Cultural Factors Influencing Chinese and Asian Energy Markets

Chinese society is undergoing rapid social and cultural change. The wide distribution of media throughout China, including the rise of the internet and expansion of access to foreign-sourced programming for television is challenging the hegemony of the symbols and messages of the Chinese communist party, providing alternative images of consumerism, conspicuous consumption and self-fulfillment. As media outlets expand, awareness is likely to grow regarding

disparities within Chinese society and between PRC citizens and people living in Hong Kong, Taiwan, the United States, and other rich societies. The material demands of the Chinese population are likely to intensify.

With a broad sampling of Chinese now watching television, advertising can be targeted at middle class Chinese who might desire lavish vacations, air-conditioned homes, and private cars--all of which drive up the demand for energy almost exponentially. New media images have also prompted a migration of peasants from the countryside to urban areas, provoked in some measure by hopes--in most cases, unrealistic--to attain the lavish lifestyles portrayed on television.

The Chinese central government has fought back against this bombardment of foreign images by delivering competing messages of socialist values, but ultimately, Beijing faces a near impossible challenge to monitor and control the symbols being circulated at the local level throughout China. The image of self-sacrificing soldier Lei Feng has been replaced by scenes of attractive people enjoying themselves in a karaoke bar in Hong Kong, dismantling the message of duty that was expected to hold China on the communist course.

The net result could easily be a society increasingly unwilling to forego consumer goods and unlikely to conserve in its energy use. Even before this cultural shift, China's energy consumption was skyrocketing. The trend toward more commercial and consumerist content in China's symbolic environment will fuel the trend toward acceleration in China's energy consumption.

A rise in China's energy requirements will almost certainly render the country increasingly dependent on imports of foreign oil and natural gas. Anticipating this greater need to participate in international oil and gas markets, China has already begun to reform its state oil sector. For now, China has opted to search for additional oil supplies abroad rather than undertake the thorough, potentially painful structural reform that is needed to revitalize the ailing domestic oil and gas industry. It has implemented partial price reforms and created commercially-oriented, corporate entities that can compete in the international energy arena. One of China's state oil companies, CNPC, has already begun to invest millions of dollars in overseas oil fields.

It remains to be seen whether China's increasing dependence on foreign energy sources will bring out its more aggressive geopolitical tendencies or cooperative ones. China's military actions in the Spratley Island group of the South China Sea are viewed as a sign that the country may be tempted to use force to pursue its vital energy interests. But China has also at the highest levels pursued dialogue with Vietnam on negotiating a joint exploitation agreement for oil and gas resources in that border area.

Beijing's encouragement of oil and gas pipeline development to link the newly independent Central Asian Republics, as well as the Russian Far East, to China and possibly connecting to Japan or South Korea is notable. It reinforces the argument that China's greater dependence on outside energy sources will force China's leadership to take a hard look at the possible outcomes from competition and conflict over energy resources and compare them to the potential benefits of cooperation and regional alliances on energy matters.

The aspiration to implement a regional energy program such as a joint natural gas pipeline and even a regional oil stockpiling system will, nonetheless, not be easy to realize. China will have to convince its neighbors to put aside historical, cultural and political suspicions of its geopolitical and military intentions to foster such cooperation.

China's increasing dependence on the same energy sources as the U.S., Japan, and other industrialized economies could mean that its strategic interests will blend more closely together with Western interests in the Middle East. A rising reliance on Persian Gulf oil and gas imports imply that China will suffer the same negative consequences as the U.S., Japan and Europe if the military equipment it or others pass to regimes in Iraq or Iran is used to interdict the free flow of oil from the Middle East. A breakdown in order in Afghanistan or Central Asia will have similarly dire consequences for China's chances of tapping Caspian energy supplies.

As China internationalizes its energy industry, its national energy security will become more susceptible to non-economic threats. China will have to concern itself with political, social and cultural factors that can affect the reliability and security of its energy supply.

Transnational groups that support ethnic or religious groups inside China have pushed human rights to the top of the diplomatic agenda in China's bilateral relations with the U.S. These

tensions throw a huge amount of unpredictability into China's future development and relations with the U.S. U.S. Christian groups and supporters of Tibet's religious establishment continue to attempt to push the U.S. Congress to sanction China for religious persecution of Christians, Buddhists and other minorities. Such sanctions, if carried out, could affect U.S. private investment in China's energy sector or even China's ability to buy oil from foreign oilfields operated by American firms.

The resurgence in religious devotion in China's Muslim ethnic communities, particular in the resource-rich Xinjiang province poses other serious dangers to the authority of the regime and its energy security. In Xinjiang, for example, Muslim Uighur separatists assert claim to vast energy resources in their province and oppose the shipment of those resources to Han areas of China. More radical members of this group, assisted with money and weapons from Middle East supporters, have been blowing up buildings and buses, and calling for the establishment of an independent homeland. Uighur separatists have attacked Xinjiang oil installations and Han oil workers migrating to the region. As more Han workers move into the region, such attacks might intensify if widespread unemployment among the Uighur is not remedied. This ethnic unrest, if it intensifies, could jeopardize the viability of plans to invest billions of dollars to enhance energy security by building major West to East oil and gas pipelines that would bring Kazakh and Tarim Basin hydrocarbons to refineries in central and eastern China.

From the 1970s through the early 1990s, China has had the luxury to be self-sufficient in its oil industry and to maintain industrial and price structures that were cut off from international practices and events. Over the next ten years, China's leaders will have to cope with a dramatically different set of circumstances in the energy sector. The expected changes--higher imports from the Middle East, price liberalization at home, greater autonomy among the parties consumers and industry-- demanding higher crude oil, natural gas and petroleum product supplies, and rising vulnerability to oil supply disruptions--will bring new challenges that will be difficult for Beijing to master using methods from the past. These changes could also usher in a new era of foreign policy choices that could alter the country's alliances and orientations.