



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on China's Growing Global Influence: Objectives and Strategies

Opening Statement of
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Hearing Co-Chair

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The Commission will now hear from a panel that will examine and assess the economic and geopolitical implications of the PRC's energy-driven global expansion policy and what implications that has for the U.S. and world energy markets.

This examination is required by the statute governing the Commission. The statute requires that we "evaluate and assess how China's large and growing economy will impact upon world energy supplies and the role the United States can play, including joint R&D efforts and technological assistance, in influencing China's energy policy."

In recent weeks, China's energy demands and approach to acquiring energy has catapulted to be one of the top issues on Washington's policy agenda in light of CNOOC's bid to acquire Unocal. That bid has raised questions about the importance of energy, whether it is a national security asset, and what are China's short and long-term energy acquisition strategies.

I should note the Commission's disappointment that the Bush Administration declined our invitation to testify on China's energy policies. They wanted to reserve their testimony for the hearing that will be held tomorrow on the proposed acquisition of Unocal.

China's energy needs and acquisition strategies are not new issues for this Commission. In October of 2003, the Commission held a hearing on this important topic. In its transmittal letter forwarding our hearing record to Congress, the Commission stated that "China's growing energy demands, particularly its increasing reliance on oil imports, pose economic, environmental, and geostrategic challenges to the United States." Indeed, the Commission has also warned that "(a) key driver in China's relations with terrorist-sponsoring governments is its dependence on foreign oil to fuel its economic development. This dependency is expected to increase over the coming decade."

Since our hearing, China's energy demands have accelerated – and with it, their impact on world energy markets. Some estimates indicate that China accounts for 40% of the increase in world oil demand. This has, of course, helped to contribute to the spike in oil prices to today's level that is hovering around \$60 a barrel.

China's dramatic economic growth rates, manufacturing expansion and modernization efforts are fueling their increased demand for energy. That issue, in and of itself, requires study: are adequate steps being taken to implement energy efficiency strategies. Is China pursuing adequate efforts to promote new technologies and diversify energy supplies? Those are, of course, issues that the U.S. Congress is also wrestling with as it seeks to update our own energy policies here at home.

But, there are other important implications of China's dramatic demand increases for energy – and those are how China seeks to meet its needs on the world energy markets. Those acquisition strategies are what we will discuss with our next panel this morning.

China is pursuing an entirely different strategy on energy acquisition than the U.S., or its major allies are pursuing. Our actions are market based – no one questions that our major oil companies intend to sell their products to the highest bidder. The major oil companies are engaging in a free market approach.

China, on the other hand, wants to own oil and other energy assets, at the wellhead. Their energy acquisition strategy is mirrored in their efforts to acquire other resources such as iron ore, nickel and other commodities. They are willing to pay a premium for these assets now to ensure captive supplies for the future.

China views this as a national security issue and has linked its military, diplomatic and political efforts in the world to their energy acquisition strategy. They have entered into energy acquisition deals with Iran, Sudan and other nations to ensure their access to energy. In return, they have transferred military equipment, technology, and cash and have agreed to support the political aims of those and other countries. Their efforts extend to blocking action at the United Nations for the call for action against the genocide in Sudan. They have transferred, and been sanctioned for, their shipments of advanced missile technology to Iran. They are reaching out to countries across the globe – many of which have serious implications for U.S. security interests.

Today's hearing is not intended to be a debate about the effort of CNOOC to acquire Unocal. That issue is being debated in Congress as it continues its four year effort to pass energy legislation. While the CNOOC bid is certainly an appropriate topic for our review, our hearing is intended to provide a much broader update on China's energy needs and strategies for meeting those needs. The CNOOC bid is an important transaction – but it is only emblematic of China's broader energy acquisition strategies.

Our first panelists are distinguished experts and analysts.

Dr. Gal Luft is executive director of the Washington, DC based Institute for Analysis of Global Security. He specializes in strategy, geopolitics, terrorism, the Middle East and energy security. He is also an associate fellow of the Washington Institute for Near East Policy.

Our other panelist is Fared Mohamedi of PFC Energy where he is the Senior Director of the Country Strategies Group. This group houses the firm's expertise in country risk and petroleum sector policy. He has broad experience in the area having served at Moody's Investors Service where he was the lead country analyst for a number of petroleum and gas producing countries. He has also worked as an economist at the Institute of International Finance in the Middle East and Asia departments, at the World Bank's Africa department, at Wharton Econometrics Forecasting Associates' Middle East Service and at the economics research section of the Ministry of Finance and National Economy in Bahrain.