

China, India and the Global Scramble for Oil: A Neoclassical Comparison

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Submitted to

Central European University

Department of International Relations and European Studies

In partial fulfillment of the requirements for the degree of Master's of Arts

Supervisor: Professor Young Mi Kim

Word Count: 14,550

Budapest, Hungary

2011

ABSTRACT

China and India, the two fastest growing economies of the world, have experienced exponentially rising oil demands over the last two decades. This has caused fundamental shifts in their geostrategic interests. While both countries have taken a “non-market approach” to secure this “strategic commodity”, their style of pursuit of oil security varies considerably. The following paper conducts a comparative study of their oil diplomacy over the last decade and argues that two “multi-dimensional factors” (that reinforce each other) explain this variation: (a) geographic and geostrategic imperatives, (b) domestic political constraints. How these factors interact with each other and which factor takes precedence varies in time and space. However, the paper incorporates the neoclassical realist framework of “intervening variables” and identifies “ideology” as a crucial factor that makes “domestic political constraints” the main cause of variation between the two states’ pursuit of oil. The efficiency of acquiring oil deals is contingent upon the “style of diplomacy” conducted. The study finds that while India’s foreign venture opportunities are seriously constrained by its bureaucratic democracy, China’s central planning makes it a lucrative trading partner. Despite signs of cooperation in joint oil explorations at present, both China and India remain fierce competitors in the market, and the probability of a future zero-sum game of oil procurement between the two regional adversaries remain high.

ACKNOWLEDGEMENTS

I would like to express my deepest gratitude to my supervisor Prof. Youngmi Kim for her mentorship and forbearance throughout the academic year that has made this research possible. I am most grateful to my academic writing supervisor Robin Bellers for his diligent and incisive comments on several draft materials. A debt of affection goes to my best friend, Joe Poci, for his wonderful companionship and unfailing support through good times and bad. I dedicate this thesis to my father, Bipradas Bhattacharjee, who has taught me the art of English language, and my mother, Swati Bhattacharjee, whose strong ethics inspires me to be a better human being.

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Abbreviations

APEC	Asia Pacific Economic Cooperation
BJP	Bharatiya Janata Party
CADF	China Africa Development Fund
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CCP	Chinese Communist Party
EIA	Energy Information Administration (USA)
FDI	Foreign Direct Investment
IAEA	International Atomic Energy Agency
IEA	International Energy Agency
IPI	Iran Pakistan India Pipeline (oil)
ONGC	Oil and Natural Gas Corporation
OPEC	Organization of the Petroleum Exporting Countries
OVL	ONGC <i>Videsh</i> Limited
SCO	Shanghai Corporation Organization
SOOE	State owned oil enterprises
SPR	Strategic Petroleum Reserves
TAPI	Trans-Afghanistan Pipeline

Introduction

“Energy security” became a fashionable expression when the then First Lord of Admiralty, Sir Winston Churchill gave a speech on the eve of World War I announcing England’s decision to run its Royal Navy fleet on oil exported from the Gulf, ending its long reliance on coal. “Safety and certainty in oil”, he famously noted, “lie in variety and variety alone”.¹ Almost a century has gone by, and the world is a very different place now, yet his prophetic observation still holds true. Despite varying accounts of what exactly constitutes energy security, four core dimensions remain essential: affordability, accessibility, reliability and sustainability.²

Governments around the world take either of the two following fundamental approaches to energy security. The so-called *market approach* connotes faith in the international oil market and considers oil as a market commodity like any other economic good. They advocate market mechanisms to regulate the oil market and bracket the government’s scope of intervention only in cases of extreme shocks to the system.³ The non-market approach (also known as the “strategic approach”) in contrast, believes in the importance of government intervention to secure energy resources and establishing strategic stockpiles, energy diplomacy, etc.⁴

Oil forms a very important part of any state’s energy security. Many analysts believe energy resources like oil will inevitably lead to “great power war” in the 21st century.⁵ This establishes a linkage between energy security and state security, and by extension, the military

¹Churchill’s speech quoted in Daniel Yergin, “Ensuring Energy Security.” *Foreign Affairs Vol. 85 (2)*, (2006: 69-82), 69.

² Jose Goldemberg. *World Energy Assessment: Energy and the Challenge of Sustainability*. (New York: UNDP, 2000), 11.

³Christian Constantin, *China’s Conception of Energy Security, Sources and International Impacts*. (The Centre of International Relations, UBC, Working Paper, No. 43, March 2005), 4

⁴Philip Andrews-Speed, *The Strategic Implications of China’s Energy Needs*. (New York: Adelphi Paper, No.346 Oxford University Press, 2002), 18.

⁵ Michael Klare, “There will be blood: Political Violence, regional Warfare and the Risk of great Power Conflict over contested Energy Sources.” In *Energy Security Challenges in the 21st Century. A Reference Handbook*, by Gal Luft and Anne Korin (eds.), United States of America: ABC-CLIO (2009), 44.

domain. Energy security has been dealt with by most mainstream IR theories by restating two basic assumptions about the nature of states: (a) "states at minimum, seek their own preservation and, at a maximum, drive for universal domination (of resources)"⁶, and (b) "interstate politics is a perpetual interstate bargaining game over the distribution and redistribution of scarce resources".⁷ In the field of energy, this implies that "energy resources" become elements of "state power" which states try to maximize. It also means that energy security becomes a part of geopolitics, defined as "a state's calculation of geographic and strategic (security) policy considerations in a particular region, over which the state tries to maximize its own interests while minimizing costs."⁸

To secure resources, states choose from a wide range of policy options—from diplomacy to sanctions, and in extreme cases, to outright mercantilism, depending on the nature of the state importer, the state exporter, their relationship with each other, and their relative power in the international system. Economically, energy producers "seek security of demand—the assurance that their production will be purchased at a fair price over a long term", whereas energy importers try to ensure the "availability of sufficient suppliers at affordable prices."⁹ The current practice of treating oil as an economic good, traded normally in the international market, is misleading. Studies show that almost 85% of the world's known oil reserves come from state controlled industries. This does not make oil a common economic good. There is therefore little room for free market or private sector to penetrate this field.¹⁰ Moreover, the fact that most oil

⁶Kenneth Waltz quoted in Jeffrey Legro and Andrew Moravcsik. "Is anybody still a Realist?" *International Security*, (1999: 5-55), 10.

⁷Ibid, 13.

⁸Fu Jen-Kun "Reassessing a "New Great Game" between India and China in Central Asia." *China and Eurasia Forum Quarterly Vol 8, No. 1* (2010), 17.

⁹ Daniel Yergin, "Ensuring Energy Security", 70-72.

¹⁰ Note that even though there are private oil firms around the world, the source of actual oil is often under state control. See, for example, Antonio Marquina. "On the Deceit of Globalization, Energy Security and Challenges to European Foreign Policy." *Theory Talks* <http://www.theorytalks.org/search/label/Energy%20Security> (accessed May 7, 2011).

reserves are situated in politically unstable countries (Iran, Sudan, Venezuela, etc) makes things more complicated.¹¹

China and India, the two fastest growing economies in the world, have suddenly become huge consumers of oil. Oil market vulnerabilities are constant worries for both countries. In 2010, with a population of 1.32 billion people (one-fifth of the world's total population), China became the second largest economy in the world, overtaking Japan.¹² It also recently became the world's largest energy producer and energy consumer.¹³ It is also the second largest oil consumer in the world, closely behind the United States.¹⁴ China imported only 6% of its total oil consumption in 1993, in 2009, it imported more than 50%.¹⁵ By 2025, oil dependency may increase up to 65%.¹⁶

India faces similar growth trends. It is currently home to 15 percent of the world's total population (1.12 billion), and oil demands have skyrocketed over the past decade. In 2009, India became the fourth largest oil consumer in the world, and the sixth largest importer. Seventy percent of India's total oil consumption comes from imports, which accounts for 24 percent of its total energy consumption.¹⁷ Like China, India's energy demands have increasingly influenced its foreign policy. That India is lagging behind China was accepted by India's Prime Minister, who asked India's oil companies "to think big, think creatively and think boldly." He acknowledged, "I find China ahead of us in planning for the future in the field of energy

¹¹ Roberts, Paul. *The End of Oil: On the edge of a perilous new world*. (New York: Houghton Mifflin Company, 2005), 6.

¹² British Petroleum. *BP Statistical Review of World Energy, 2010*. Annual Report, London: British Petroleum, (2010)

¹³ National Energy Administration. "A Joint Statement by the National Energy Administration and the National Bureau of Statistics." *NEA*. August 11, 2010. http://www.gov.cn/gzdt/2010-08/13/content_1678719.htm (accessed May 3, 2011).

¹⁴ U.S. Energy Information Administration. "China." *EIA*. 2010. <http://www.eia.doe.gov/countries/cab.cfm?fips=CH> (accessed April 29, 2011).

¹⁵ Asia-Pacific Economic Cooperation. *APEC Energy Overview 2010*. Annual Report, Tokyo: APEC Energy Research Centre, 2010

¹⁶ U.S. EIA, China

¹⁷ U.S. Energy Information Administration. "India." *EIA*. 2010. <http://www.eia.doe.gov/countries/cab.cfm?fips=IN> (accessed May 29, 2011).

security".¹⁸ However, security constraints and domestic opposition have repeatedly hampered effective oil procurement and construction of oil pipelines.

Both China and India take the so-called non-market approach to oil security. Over the past decade, China and India have therefore increasingly engaged in oil diplomacy with states in every continent, some of them rogue international actors. This exemplifies that oil security lists at the top of policy priorities of both states, and oil diplomacy has increasingly become an integral part of their foreign policy. Nonetheless, energy security is but one among many foreign policy issue areas of a state at any given time. Long-term cost-benefit analysis and other balance of power calculations often hinder their respective pursuit of energy security.

Curiously enough, despite facing similar growth trends, energy demands, and potential shortages, China and India's oil security strategy in procuring oil deals has varied significantly. While China engages in aggressive mercantilist oil diplomacy, citing policies of "non-interference in domestic issues" and "right to trade" with "national sovereignties", India has followed a policy of strategic partnership, trying to establish broad-based bipartisan agreements.¹⁹ What exactly is the relation of energy security with other sectors? Faced with similar challenges, how can we make sense of India's aggressive behavior on one hand, and India's muted, balancing act on the other? What factors hinder the pursuit of energy security? How do systemic, regional and domestic factors weigh upon energy sectors in China and India?

Interest in energy security of China has been high since its exponentially growing oil demands and burgeoning imports have worried western analysts.²⁰ Comparatively, interest in

¹⁸ PM India. "PM's Inaugural Address at Petrotech." *PM India*. 2005.

www.pmindia.nic.in/speech/content4print.asp?id=69 (accessed May 12, 2011).

¹⁹ See for example, David Scott, "The Great Power Great Game between China and India: The Logic of Geography," *Geopolitics*, Vol. 13, No. 1 (January 2008), pp. 1–26.

²⁰ Over the last decade, there have been numerous western publications on this topic. See for example, Philip Andrews-Speed. *The Strategic Implications of China's Energy Needs*; Thomas G. Moore, *China in the World Market*. Cambridge: Cambridge University Press, (2002); Xuecheng Liu. *China's Energy Security and Its Grand Strategy*. Analysis Brief, The Stanley Foundation (2006); Pak K. Lee "China's Quest for Oil Security: Oil(Wars) in the pipeline?" *The Pacific Review*, (June 2005); Allen S. Whiting. "Forecasting Chinese Foreign Policy: IR Theory vs. The Fortune Cookie", *Chinese Foreign Policy*, (May 21, 2003), 506-23; Gurpreet S. Khurana, "China's 'String of Pearls' in the Indian Ocean and its Security Implications," *Strategic Analysis*,

India's energy security has been lesser in frequency, but still considerable.²¹ Some policy papers and media reports have even compared the two country's oil demand and supply trends. However, many of these studies are merely explanatory and lack analytical rigor. Historically, energy security has been treated as part of foreign policy literature. Therefore, "geostrategic moves" and "state power" dynamics is frequently analyzed, ignoring both domestic constraints and systemic compulsions that state actors face.²²

There has also been a lack of proper application of International Relations theory to this field.²³ Only a few studies apply mainstream realist theories to India and China's oil competition.²⁴ However, as Daniel Yergin points out, "the subject [energy security] now needs to be rethought, for what has been the paradigm of energy security for the past three decades is too limited and must be expanded to include new factors".²⁵ Despite Yergin's efficient analysis of oil trends in his 1991 book "The Prize, Epic Quest for Oil, Money and Power", he acknowledges that analysis of 21st century energy dynamics would require a new paradigm. Thus, it makes sense to treat oil security as a separate sphere from the national/military security nexus. The

Vol. 33, No. 1 (January 2008); Gal Luft "Fueling the Dragon: China's race into the oil market." *Institute for the Analysis of Global Security*. (March 15, 2007). <http://www.iags.org/china.htm> (accessed March 7, 2011).

²¹Muhammad Azhar. "The Emerging Trade Relations Between India and Central Asia." In *Nationalism in Russia and Central Asian Republics*, by Shams-ud-din. (New Delhi: Lancer Books, 1999); Jen-Kun Fu "Reassessing a "New Great Game" between India and China in Central Asia"; S. N. Malakar, ed., *India's Energy Security and the Gulf* (New Delhi: Academic Excellence, 2006); Ann Ninan, "India's 'See No Evil, Hear No Evil' Policy in Sudan," Indian Resource Center, September 12, 2002, available at www.indiaresource.org/issues/energycc/2003/indiaseenoevil.html (accessed April 30, 2008); David Scott, "The Great Power Game"; Mark P. Thirwell, *India: The Next Economic Giant*. PhD, Sydney: Lowly Institute for International Policy, (2004).

²² For an excellent discussion of the theoretical shortcomings, see Anders Wivel. "Explaining Why State X Made a Certain Move Last Tuesday: The Promise and Limitations of Realist Foreign Policy Analysis." *Journal of International Relations and Development*, (2005: 355-80).

²³ For the few existing studies, see for example, Gal Luft and Anne Korin. "Realism and Idealism in the Energy Security Debate." In *Energy Security Challenges in the 21st Century: A Reference Handbook*, by Gal Luft and Anne Korin, 335-350. (United States of America: ABC-CLIO, 2009); Jen-Kun Fu, "Reassessing a New Great Game"; Kathleen J. Hancock and Steven J. Lobell. "Realism and the Changing International System: Will China and Russia Challenge the Status Quo?" *China and Eurasia Forum Quarterly Vol 8, No. 4*, (2010): 143-165

²⁴For a brief discussion, see Christopher Len, and Alvin Chew. *Energy and Security Cooperation in Asia: Challenges and Prospects*. Policy Brief, Stockholm: Institute for Security and Development Policy, (2009).

²⁵Daniel Yergin. "Ensuring Energy Security", 69.

sphere of energy security works in fundamentally different ways than normal diplomatic protocols or military security dynamics.

Moreover, these elements of a state's foreign policy reinforce each other, and hence in order to capture their relationship, one has to separate these entities. One recent variant of the realist school, neoclassical realism, is a flexible theory of foreign policy that accounts for both international and national constraints that decision-makers face. However, much of this newly developed theory has been applied to the field of military security.²⁶ Although the author could not find any neoclassical analysis of the energy security sphere, this paper uses the neoclassical realist framework of analysis to assess India and China's respective oil diplomacy.²⁷

A comparative study of oil diplomacy of China and India over the last decade is therefore conducted. A "*small N*", "*qualitative*" and "*most-similar*" research structure is followed, since it is ideal for the scope of comparison.²⁸ The "most similar" method allows for an exclusive focus on the two cases, and helps assess the intricate relation of dependent and independent variables. For the purposes of the "macro-political phenomenon" that this paper aims to analyze, this particular methodology, where "the quality of control of the relationships between the variables is low" is deemed ideal.²⁹ The following research is *Weberian* in its structure and utilizes both *primary sources* (government reports, CIA and EIA databases, newspaper articles) and *secondary sources* (peer-reviewed journals, books, policy papers, monologues) during the course of research. Borrowing literature from both Foreign Policy and International Relations, the paper attempts to explain the nature of oil diplomacy in China and India.

²⁶ See for example, Steven Lobell, Norrin M. Ripsman, and Jeffrey Taliaferro. "Introduction: Neoclassical Realism, The State, And Foreign Policy." In *Neoclassical Realism, The State, And Foreign Policy*, by Steven E. Lobell, Norrin M. Ripsman and Jeffrey Taliaferro, 1-41. Cambridge: Cambridge University Press, (2009); Brian Rathbun, "A Rose By Any Other Name: Neoclassical Realism as the Logical and Necessary Extension of Structural Realism." *Security Studies*, (2008: 294-321).

²⁷ Only one paper merely suggests the advantages of using neoclassical analysis for the field of energy. See, Giedrius Cesnakas. "Energy Resources In Foreign Policy: A Theoretical Approach." *Baltic Journal of Law and Politics*, Vol 3, No 1, 2010: 30-52.

²⁸ David Collier, *The Comparative Method*, (1993), 106.

²⁹ De La Porta, 202

The paper identifies the “oil diplomacy” of the two countries to be the *dependent variable*, and two “multi-dimensional factors” (that reinforce each other) as *independent variables* (a) geographic and geostrategic imperatives (b) domestic political constraints. The paper incorporates the neoclassical realist framework of “*intervening variables*” and identifies “ideological divide” as the major cause of variation. It assesses that the efficiency of acquiring oil deals is contingent upon the “style of diplomacy” conducted. The study finds that while India’s foreign venture opportunities are seriously constrained by its bureaucratic democracy (contingent upon its ideology), China’s central planning and vast dollar reserves makes it a lucrative trading partner.

This research study has three main contributions. First, the paper applies (for the first time) a proper analytical framework of IR theory to China and India’s oil diplomacy in a comparative study. It argues that although geostrategic concerns are paramount to a state’s interests, oil security has been increasing in importance and should be treated as a separate entity. Secondly, it also contributes to the neoclassical realist framework of analysis, which, the author hopes, demonstrates the flexibility and the rigor of this new realist perspective. Finally, it suggests that liberal-minded arguments that suggest that signs of cooperation between China and India in the energy sector (along with Japan and U.S.) are mistaken. Despite short-term cooperation in joint oil explorations at present, both China and India remain fierce competitors in the market (cooperation only increases their strategic position and efficiency), and the probability of a future zero-sum game of oil procurement between the two regional adversaries remain high.

Chapter 1—International Relations and Energy Security

In the following section, I discuss the insights of international relations theory that is pertinent to the dynamics of interaction between two neighboring states, locked in an often perceived zero-sum game for regional leadership and securing energy resources. The study of security (be it military, national, environmental, or energy) has long been dominated by mainstream realist perspectives of international relations, with so-called idealist perspectives (liberalism and constructivist paradigms) offering systemic critiques. Since there is no accepted theory already deemed fit to deal with energy security issues, it is necessary to discuss the insights that each of the key theories have to offer to the field of state relations engaged in energy procurement. After a short discussion of each theory's analytical import to the field of energy, I conclude that none of the liberal or mainstream realist theories is very effective in capturing the complexities of oil diplomacy. I argue that a newer variant of realist tradition that has otherwise been ignored by most scholars is best suited to function as a powerful analytical lens: neo-classical realism.

1.1 The Liberal Dilemma: the crisis of Identity

Procuring oil fields and ensuring the supply of oil is vital for state power and stability of growth. Countries try to maximize the resource base in order to gain maximum power and advantage. However, the obvious constraints of a particular state's quest for oil are the international system of states and the individual state's ability (diplomatic, economic and military) to acquire, develop and transport those oil resources. Oil, in this sense, is no doubt a material source of power, which both idealists and realists deal with quite differently. As Gal Luft and Anne Korin point out in their study, realists acknowledge "certain commodities, and in particular energy commodities have had a strategic value beyond their market price and as such they have been repeatedly used as tools of foreign policy..."³⁰.

³⁰ Gal Luft and Anne Korin. "Realism and Idealism in the Energy Security Debate.", 340.

The idealist assessment of energy issues has been much less poignant and treats energy market players as “rational and motivated by profit maximization”, rejecting any significant role of “ideological, cultural or geopolitical drivers”.³¹ Noting the increasing trade relations of China with the U.S. at the turn of the century, Thomas Christensen pointed out, “What will determine whether China takes actions that will lead to Sino-American conflict will likely be politics, perceptions, and coercive diplomacy involving special military capabilities in specific geographic and political contexts, not the overall balance of military power across the Pacific or across the Taiwan Strait.”³² This statement increasingly holds true in Sino-Indian security analysis as well. In fact, one of the long standing puzzles that liberal theories have failed to account for is this: given the fact that both India and China are major trading partners (China is India’s biggest importer), how is it conceivable that both states still remain distrustful of security issues?

This apparent disjuncture in prediction and reality underscores the fact that “interdependence promotes peace” has been too optimistic an assumption. Although “few scholars today question the belief that trade brings universal benefits and peace *under conceivable conditions*” (emphasis added), these conditions have too often been ignored.³³ A few scholars have studied this discrepancy and noted that specific attention to “exactly how interdependence interacts with domestic institutions, leaders’ preferences, and interests of societal actors...” is crucial.³⁴ One of those crucial factors that affect interdependence, I argue, is *national identity* and the *perception differences of state’s identity* vis-a vis others. Curiously enough, despite “interdependence” camp’s close adherence to idealism, scholars of interdependence literature

³¹ Ibid, 341.

³² Thomas Christensen “Posing Problems Without Catching Up: China’s Rise and Challenges for US Security Policy.” *International Security*, (2001: 5-40), 13

³³ Katherine Barbieri and Gerald Schneider. “Globalization and Peace: Assessing New Directions in the Study of Trade and Conflict.” *Journal of Peace Research*, (1999: 387-404), 390

³⁴ Edward Mansfield and Brian M. Pollins. “The Study of Interdependence and Conflict: Recent Advances, Open Questions, and Directions for Future Research.” *Journal of Conflict Resolution*, (2001: 834-59) , 843

hold that foreign policy decisions are based on “rational” and “conscious” calculations of cost-benefit analysis, thereby rejecting the collective identity of a state as “irrational”.³⁵

That states do not naturally trade with other states (if the latter poses a threat to its national security) simply because there is profit incentive involved is recognized even by the pioneers of complex interdependence, Keohane and Nye.³⁶ States hesitate from engaging because of “historical grievances”, human “cognitive mindset of autonomy and territoriality” and other “historical residues” often pose as barriers.³⁷ However, these liberals hold that in a changing world of interdependence, economic incentives in private sector would lead to greater cooperation in state affairs, “realizing this, public officials who need such support have reason to resolve interstate dispute.”³⁸ The liberal logic is thus clear: economics would lead to friendly relationships with hitherto security threatening states.

But such a liberal assessment is ahistoric and counter-factual. The theoretical divide between profit-maximizing common people and security-maximizing statesmen is inconsistent with reality. Notions of “autonomy” and “independence” concerns both policymakers and the population. “Businesses want to expand due to economic profit, but politicians constrain them due to political constraints” is a naïve way to look at the world. National identity plays a central role in this matter, since it is the rhetoric of identity politics through which a state differentiates itself vis-a-vis another state. In fact, “national identities frame social debates about trade and monetary relations, especially fundamental choices about trade and monetary integration with other states” and *not* the other way round.³⁹

³⁵ See for example, Andrew Ross, “Coming in from the Cold: Constructivism and Emotions.” *European Journal of International Relations*, (2006: 197-222).

³⁶ Robert Keohane, and Joseph S. Nye. *Power and Interdependence: World Politics in Transition*. Glenview: Scott, Foresman and Company, (1989), vi.

³⁷ Jennifer Sterling-Folker, “Neoclassical Realism and Identity: Peril Despite Profit across the Taiwan Strait.” In *Neoclassical Realism, The State, And Foreign Policy*, by Steven E Lobell, Norrin M Ripsman and Jeffrey W. Taliaferro, 99-138. Cambridge: Cambridge University Press (2009), 106

³⁸ Mansfield and Pollins (2001), 841

³⁹ Rawi Abdela *National Purpose in the World Economy: Post-Soviet States in Comparative Perspective*. Ithaca: Cornell University Press, (2001), 42.

Thus, the lack of a theory on collective identity and its “conscious exclusion” makes liberal theories unfit for explaining apparent opposition in state behavior in economic and security fields. To date, the realist camp has provided much more convincing arguments in the energy field; hence, the focus of this paper revolves around realism. I believe that national identity formation and the explicit efforts of China and India to “sell” particular images of its own identity abroad can work both as a limiting and catalytic factor in its foreign policy exercises. One realist theory in particular stresses the importance of both identity and the perception of identity by states, people and state officials as crucial in the international system. But before narrowing down to one specific theory, it is necessary to understand the realist stance towards inter-state dynamics and its limitations.

1.2 The Realist and Neorealist Contentions

It becomes clear from the realist literature that the need to control material resources in world politics is central to the power dynamics of the states.⁴⁰ While classical realism holds military power as the most important material factor, realists like Hans Morgenthau do not overlook other elements of power that affect state leverage, two of which are crucial for our research purposes: natural resources, quality of diplomacy and government.⁴¹ To this, Moravcsik adds the practice of mercantilism, i.e. the use of economic and financial might in order to achieve material ends, as an element of core state power.⁴² This eventual expansion of the list of sources of state power partly comes as an attempt for the realist theory to stay relevant in face of powerful criticisms from the liberal camp on the importance of economic interdependence and non-governmental interactions.⁴³ In part, this move also rectifies the realist assumption that military preparedness and advantage in warfare translates to economic advantage (it does not);

⁴⁰ Legro and Moravcsik, 18

⁴¹ Peter Sutch and Juanita Elias. *International Relations: The Basics*. New York: Routledge, (2007), 48-50.

⁴² Legro and Moravcsik, 14.

⁴³ Robert Keohane and Joseph Nye, Introduction.

realists thereby acknowledge that some issue-areas like energy are as important tools as military or diplomatic matters in a country's policy arsenal.⁴⁴

However, it is nonetheless true that realism was never a single coherent theory, but rather "a family of theories" all of them sharing certain basic assumptions.⁴⁵ First, they hold that states are the basic units of an anarchic international system and they are unitary, self-interested, and rational. Secondly, they share the common belief that state interests are fixed and are bound to be confrontational since resources are finite, and thirdly, they believe in the primacy of material objects and capabilities.⁴⁶ Still, these theories differ widely in ideological outlook, which eventually makes them disparate in prescribing policies. It is necessary for the purpose of this paper to consider what each of the main theories of realism say about energy security, before narrowing down to the one most fit for this paper's analytical approach.

Classical realism forms one of the oldest and widely recognized paradigms of international relations thought. The proponents of classical realism accept the Hobbesian state of nature, focus their analysis on the anarchic state of world affairs, and are extremely state-centric in their approach. The very nature of human beings is self-interested and drives each other into conflicts and it is no different at the system level. The role of economic sectors is of secondary importance. Cooperation is only an exercise in power balancing. Since power is the only organizing and motivating principle, state actions become predictable.

Yet again, since "powerful states cannot resist using its power over a weak state", it is impossible to maintain a peaceful state of affairs over the long term.⁴⁷ In such a chaotic world, states try to maximize their resources (energy included), and the only way individual states can ensure their control over energy resources is through bargaining, sanctions, threats, mercantilist policies, or by the promise of physical security through the formation of bilateral agreements or security umbrellas. However, this explanation of state behavior is more of an assumption and

⁴⁴ Brenda Shaffer, *Energy Politics*. Philadelphia: University of Pennsylvania Press, (2009), 1-3.

⁴⁵ Legro and Moravcsik, 5-6.

⁴⁶ Ibid, 12-18.

⁴⁷ Anita Orban, *Power, Energy and the New Russian Imperialism*. Praeger: Security International (2008), 10

less of an analytical model of inquiry. The theory falls short of answering when and why states decide to expand in the first place. Fareed Zakaria points out this flaw: "Classical realists have written carelessly about 'power maximization' leaving unclear whether states expand for material resources or as a consequence of material resources."⁴⁸

This gap of credibility in classical realism led to the eventual shift to *neorealism*, developed mostly by Kenneth Waltz in his groundbreaking work *Theory of International Politics*. Although neorealists accept the anarchic nature of international system and treat states as self-interested and power-maximizers, the focus of analysis for neorealism is the structure of the international system itself and not states as such. According to Waltz, the flaw with classical realism is that it is reductionist, and particular states cannot explain the overall picture of structural system. In order to escape from this dilemma, Waltz treats all states as equal and focuses on the distribution of capabilities of relative power.⁴⁹ Nevertheless, while focusing on the interactions of states, the neorealists ignore the motivations and the formulations that went into such responses by states in the first place. In other words, neorealist ignores the aspects of actual foreign policy making.⁵⁰ The further focus on military capabilities in specific and the avoidance of domestic variables, makes it a weak theory to analyze energy resource procurement patterns, which is a big part of individual state's foreign policy.

Neorealism eventually led to the formation of two more refined theories. The first of these is *defensive realism*. This theory shares with neorealism the belief that states expand to securitize their power and position in the international system of states, but not because they are inherently expansive in nature, but rather because they are insecure. States thus "attempt to expand when their expansion increases their security".⁵¹ However, the whole theory is also based on relative calculations of security. Hence, if a state's neighbors are relatively more powerful,

⁴⁸Fareed Zakaria, *From Wealth to Power: The Unusual Origins of America's World Role*. Princeton: Princeton University Press, (1998), 19

⁴⁹ Sutch and Elias, 50-52

⁵⁰ Orban, 13

⁵¹Sean Lynn-Jones "Realism and America's Rise: A review Essay." *International Security*, 1998: 157-182), 170

then the state has an incentive to expand as well. Defensive realism also expands the scope of why states would have an incentive to expand: "states are seen as seeking to enhance their share of economic resources, and hence their power, because it provides the foundation for military capacity, and furthermore, because economic resources can themselves be used to influence other international actors".⁵²

While this acknowledges the importance of energy resources (as part of economic incentives) as an important tool of foreign policy, a central factor of this theory does not make it ideal for energy politics analysis. Domestic actors and foreign policy making processes are not accounted for in defensive realism due to its obsession with system level perceptions of security and insecurity.⁵³ Thus, defensive realism fails to explain why faced with similar constraints, some states act differently than others, (in our case, the variation for China and India's policy differences for oil procurement patterns). There is an explicit need to account for additional domestic variables like political opposition, public consensus, etc.

Developed by John Mearsheimer, *Offensive Realism* is also an offshoot of structural realism, but differs from defensive realism in its insistence on the nature of securitization that states seek. Because security is hard to achieve in the anarchy of international system, and no state can ever be sure on other state's intentions, each states tries to maximize state security in comparison to others. Hence, power is seen as an end to gain security.⁵⁴ States do however constraint their own behavior when the comparative advantage of gaining security is outweighed by the insecurities of engaging in such behavior. However, since military power leads to security, the gaining of economic resources, like oil, is only undertaken "as long as balance of power logic" is not contradicted by such a behavior.⁵⁵ Thus, the whole theory hinges on the extreme view that all states are insecure and try to maximize security through military means. The

⁵²Stephen Brooks "Duelling Realism: Realism in International Relations ." *International Organization Vol. 51, No. 3*, 1997.

⁵³ Zakaria, 28.

⁵⁴ Orban, 15.

⁵⁵ Orban, 15

acknowledgement of energy resources as important national interests cannot be dealt with in such a system-centric approach to international relations unless those energy resources directly translate to security gains.

1.3 Neoclassical Realism As a Theory of Foreign Policy

Neoclassical realism is a theory of foreign policy and not a theory of the system level analysis typical of neorealism. In this sense, it shares with classical realism the focus on both system level obligations and domestic constraints of a particular state.⁵⁶ Nonetheless, they share with neorealists the belief that system structures constraint goals of a states, that politics is conflict-prone because of nature of human beings, that conflict groups form the core of attention, and that relative power distributions do matter. However, they depart from neorealists in their focus on dependent variables. While neorealists focus on the recurrent patterns of conflict at the system level, "neoclassical realism seeks to explain variations in foreign policies of the same state over time and across different states facing similar external constraints".⁵⁷ Neoclassical realism is thus is a concoction of some elements of classical realism, some of neorealism, and certain tenets of liberalism and constructivism, thus factoring in "different state motivations".⁵⁸ Foreign policy thus becomes a dependent variable (in our case, oil diplomacy), since it considers not only relative powers of states, but also the perceptions of state leaders of that power.

In a way neoclassical realism's focus on domestic politics seems reductionist, given Waltz's clear proposition that "One cannot infer the conditions of international politics from the internal composition of states, nor can one arrive at an understanding of international politics by

⁵⁶ Lobell, Ripsman and Taliaferro, 19.

⁵⁷ Ibid, 21.

⁵⁸ Colin Elman, "Realism." In *International Relations Theory for the Twenty First Century*, 11-20. New York: Routledge, (2007).

summing the foreign policies and the external behaviors of states.”⁵⁹ But neoclassical realists claim that their theory is not vulnerable to committing such a mistake. Instead they insist that the theory uses “internal characteristics of states as a guide only to national responses to international constraints”.⁶⁰ After all, points out Zakaria, “statesmen, not nations, confront the international system”.⁶¹

This obviously raises criticism from constructivists like Jeffrey Legro and Andrew Moravcsik claim that neoclassical realism refutes core assumptions of realism that states act rationally because they interject the systemic level with notions of “elite perceptions of systemic variables”.⁶² Such an assault is rejected by neoclassical realists who claim that the assumption that rationality of states is a core assumption of realism is a misreading of the theories. In fact they point out that both Morgenthau and Waltz doubted that states can always act rationally, and who accounted for the effects of international socialization on state’s decisions.⁶³ Contrary to mistaken critics’ claims that neoclassical realism is “an ad hoc and theoretically degenerative effort to explain away anomalies for realism”, some see this new theory as “a logical extension and necessary part of advancing neorealism.”⁶⁴

Thus neoclassical realists offer a “top-down” view of state, where foreign policy is decided upon by executives with privileged information, but whose decisions are constrained by both systemic forces and domestic actors (legislatures, NGOs, political parties, etc). Foreign policy is conducted based on policymaker’s assessment of relative power vis-à-vis other states, after factoring in domestic constraints. It is thus clear, that foreign policy making is both a contentious and a multi-level exercise that decides the state’s behavior in the international arena.

⁵⁹ Kenneth Waltz *Theory of International Politics*. New York: McGraw-Hill, (1979), 64.

⁶⁰ Lobell, Ripsman and Taliaferro, 22

⁶¹ Zakaria, 35.

⁶² Legro and Moravcsik 1999, 13-16

⁶³ Waltz, 118

⁶⁴ Rathbun, 1

1.4 Neoclassical Realism and Domestic Variables

According to Jeffrey Taliaferro, Steven Lobell, and Norrin Ripsman, neoclassical realism provides us with two major insights: first, neoclassical realism increases the explanatory power of structural realism because of its consideration of domestic politics in policy making, and second, neoclassical realism fills the gap of weaknesses in liberal theories by insisting the major role of international constraints.⁶⁵ It is thus necessary to further develop the “domestic” element embedded in this contested theory.

Neoclassical realism is a significant break from the realist camp in its core belief that neither individuals nor states are the basic units of international relations, rather it is “human collectives” (groups/ministries/political organizations/NGOs, etc).⁶⁶ Neoclassical realists assume that human beings are social animals and interact by their very nature. However, since all human beings differ in their predispositions and preferences, collective identities eventually forms. Humans, in their opinion, are predisposed to form groups. Individual identity manifests only through social interaction. As Gilpin puts it, “the essence of social reality is the group. The building blocks and ultimate units of social and political life are not the individuals of liberal thought nor the classes of Marxism but conflict groups”.⁶⁷ Neoclassical realists thus “subscribe to an ontology of conflictual group fragmentation”.⁶⁸ It is only the fear of the enemy keeps groups from falling into disarray.

The “nation” is the ultimate manifestation of such a collective group. But a state is the “principle political unit in the international political system”, distinct from “nations”, but bound together by the belief of territorial self-determination among all nations.⁶⁹ A state has many

⁶⁵ Lobell, Ripsman and Taliaferro, 5- 31

⁶⁶ For an excellent discussion, see Randall Schweller, and David Priess. “A Tale of Two Realisms: Expanding the Institutions Debate.” *Mershon International Studies Review*, (1997), 1-32.

⁶⁷ Robert Gilpin “The Richness of the Tradition of Political Realism.” In *Neorealism and its Critics*, by Robert O Keohane, 304-8. New York: Columbia University Press, 1986, 5.

⁶⁸ Yosef Lapid, “Nationalism and Realist Discourses of International Relations.” In *Post-Realism: The Rhetorical Turn in International Relations*, by Francis A. Beer and Robert Hariman, East Lansing: Michigan University Press, (1996), 239-240.

⁶⁹ Lowell Barrington, “Nation and Nationalism: The Misuse of Key Concepts in Political Science.” *Political Science and Politics*, (1997: 712-716), 713.

definitions but neorealists accept the definition of Max Weber: "A state is a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory."⁷⁰ Thus according to these theorists, states and nations interact through "social institutions" to decide on "processes for determining intra-group resource decisions".⁷¹

Thus three contradictory forces are at play in the way neorealists describe the nature of societal dynamics. There is competition over finite sources both *between* and *within* groups. In order to survive against other groups, a unifying principle is needed to stem competition within a group. This necessitates the construction of "power disguising myths" that often is contradictory in nature, but nonetheless necessary for resource allocation and procurement.⁷² When this logic is transplanted at the state level, the key to national unity becomes the continuous reinforcement of such myths in order to sustain the state's autonomy. State leaders use "speech acts" to foster national identity through symbols, songs, flags, etc. Politics thus becomes "the never-ending negotiation of identity".⁷³

However, the theory is keen on maintaining the fundamental distinction between state and national power as a lens of analysis. National power is seen by how well the nation functions, i.e., the GDP, GDP per capita, S&P credit ratings, military readiness, and corruption index, etc. State power in contrast is simply described as a function of national power and the ability of the state apparatus to extract national power for its purposes.⁷⁴ States might expand "as a consequence of material resources", but in order to gain material resources in the first place, all factors of the national and international system has to be assessed.⁷⁵

The analytical import of neoclassical realism is this: "because *inter*-national competition has significant ramifications for *intra*-national competition and vice versa, these logics of

⁷⁰ Weber cited in Lobell, Ripsman and Taliaferro 2009, 25

⁷¹ Sterling-Folker, 112

⁷² Jeffrey Harrod "Global Realism: Unmasking Power in the International Political Economy." In *Critical Theory and World Politics*, by Richard Wyn Jones, (Boulder: Lynne Rienner, 2001), 120-121.

⁷³ Linda Bishai "Liberal Empire." *Journal of International Relations and Development*, (2004: 48-72), 60.

⁷⁴ Zakaria, 35-38

⁷⁵ Orban, 21.

competition should not be analytically isolated from one another"⁷⁶ (emphasis in original). This theory predicts that states (like India and China) would always interact at the same time as economic allies on the one hand and military contestants on the other because of the immutability of the characteristic of "tribalism" that marks human existence everywhere, and because the "centrality of conflict groups" will always co-exist.⁷⁷ Because states exist not just within the system (as neorealists suppose) but in space and time, in a way there is a "multi-tasking" phenomena at any given point of time within a state. On the one hand there is a competition over state control by domestic political entities, and on the other, there is obligation of the pursuit of national interest, and this concoction of both elements inform foreign policy, *not* economic incentives alone.⁷⁸

Hence, neoclassical realism seems appropriate since it "combine[s] structural factors with domestic politics in order to explain foreign policy" and thus allows the assessment of my variables (geostrategic and domestic factors) against the case studies (India and China) without separating them from each other.⁷⁹ The following chapter turns to the two separate case studies which are analyzed under the two criteria set up earlier in the paper: geostrategic compulsions, and domestic and ideological constraints.

⁷⁶ Sterling-Folker, 115

⁷⁷ Ibid, 103

⁷⁸ See for example, Jack Levy and Katherine Barbieri. "Sleeping with the Enemy: The Impact of War on Trade." *Journal of Peace Research*, (1999: 463-79).

⁷⁹ Wivel, 360.

Chapter 2— China and the world oil market

China's energy pursuit has increasingly concerned western analysts. Between 1978 and 2008, the annual growth rate of GDP of China has been a staggering 8%, which also makes it the fastest growing economy in the world for over a decade.⁸⁰ The IEA's latest report even declared that China surpassed United States in total energy consumption.⁸¹ However, since it is a developing country, the need to secure this energy consumption level is vital not only for its growth, but also because it is seen as crucial for the legitimacy of the Communist Party.⁸² Although oil accounts for only 20 percent of total Chinese energy consumption, it is a crucial energy source, and China is currently now the world's second largest consumer and importer of oil. More than half of its total oil consumption comes from imports and by 2020 that figure may even reach 65 percent. Chinese official statistics indicated that China imported about 204 million tons of oil in 2009 alone.⁸³

The Communist Party created the National Energy Committee in order to coordinate the state's oil policy in 2004, chaired by the Premier Wen Jiabao. Despite China's efforts to attract foreign investment in the country for technological knowhow in the oil sector, and despite joint calls for building joint strategic oil reserves along with India and Japan, few analysts doubt that the coming decades will see fierce competition from these growing economies. China is actively seeking oil resources in Kazakhstan, Venezuela, Sudan, Iraq, Iran, Peru and other countries. Table 2.1 shows China's oil imports by country.

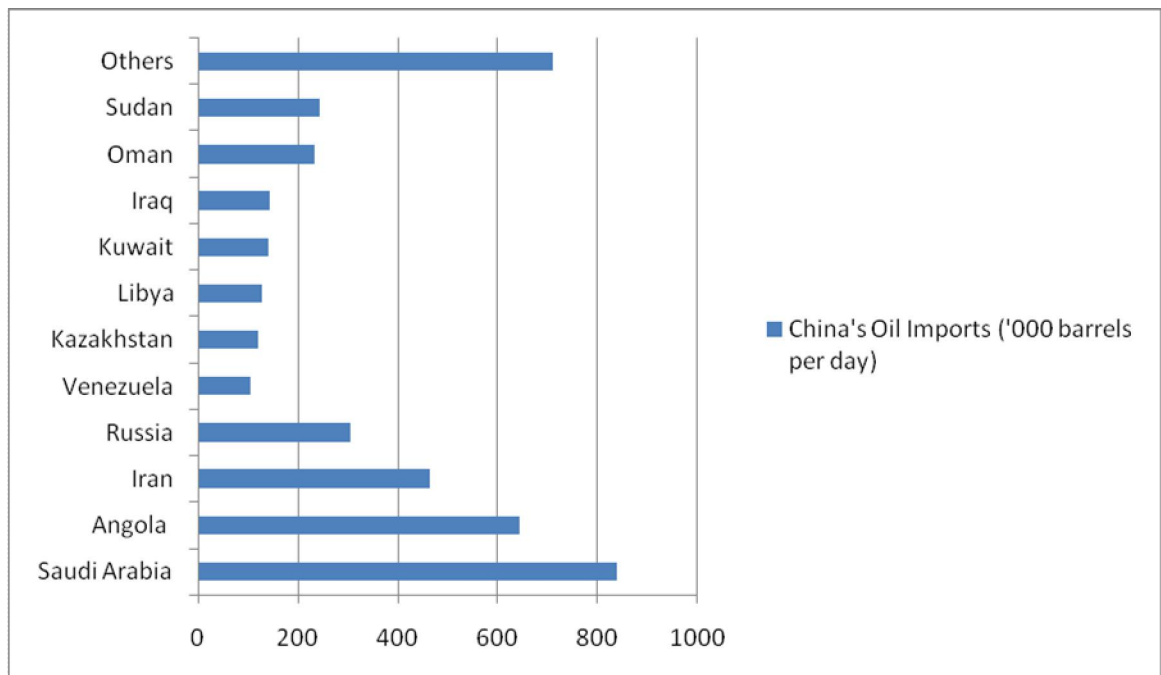
⁸⁰Cui Minxuan, *Annual Report on China's Energy Development*. Annual Briefing, Beijing: Social Science Academic Press, (2010).

⁸¹Shelly Zhao, "The Geopolitics of China-African Oil." *China Briefing*. April 13, 2011. <http://www.china-briefing.com/news/2011/04/13/the-geopolitics-of-china-african-oil.html> (accessed May 17, 2011)

⁸² Ibid

⁸³Gal Luft, "Fueling the Dragon: China's race into the oil market." *Institute for the Analysis of Global Security*. March 15, 2007. <http://www.iags.org/china.htm> (accessed March 7, 2011)

Table 2.1: China's Oil Consumption by country⁸⁴



Although China still produces much of its oil that it consumes, imports have become increasingly crucial for China's diversification strategy. The majority of Chinese imports come from the Middle East (Saudi Arabia, Iran and Iraq). However, China is also involved in oil deals with Africa (See Table 2), with Asia (Russia, Kazkastan), Latin America (Venezuela and Brazil) and Canada. However, since the crisis in Iraq, the isolation of Iran, (and more recently the Spring Revolution in Middle East), China has been extremely wary of the constant volatile conditions in the Middle East. Hence it has increasly looked towards Africa and Central Asia.

2.2 China and Africa

In a speech two years ago, Chinese Foreign Minister Yang Jiechi candidly laid out the goals of the country's foreign diplomats: "The focus of our diplomatic work should be more than creating a favorable international environment for the country's economic growth, but also to directly serve the economy."⁸⁵ In other words, it was made explicit that domestic economic

⁸⁴ U.S. Energy Information Administration. "China." *EIA*. 2010.
<http://www.eia.doe.gov/countries/cab.cfm?fips=CH> (accessed April 29, 2011).

⁸⁵ China View. "China's diplomacy serves economy: FM." *Window of China*. March 7, 2009.
http://news.xinhuanet.com/english/2009-03/07/content_10961803.htm (accessed May 12, 2011).

concerns should take priority in every way possible. Thus foreign officials of China have been aggressively searching for energy resources, in order to fuel its economy, build-up a strategic reserve (in case of emergencies) and diversify its resource. Nowhere has this policy trend been more actively implemented than the scramble for resources in the continent of Africa. Geographically Africa is more distant and harder to access than the Middle East. Geostrategically it is less transparent and less developed than Middle East as well. Yet, the need of domestic energy demands has forced China to invest increasingly in the rogue African states.

China has been involved in Africa since the 1950s. The basis of the relationship has always been characterized by three major goals: ideological, economic and political. In the 1960s, during the heights of the Cold War, ideological overtures were prominent as Africa became a battlefield for prominence between the United States, the Soviet Union and China. China, though less active, nonetheless sought to gain international recognition from the 22 newly independent states between 1960 and 1968.⁸⁶ Yet, continuous contention with Russia and a strong ideology-led foreign policy stance (coupled with repeated denials of material assistance to African states) limited its diplomatic scope.

There was a clear break from the past when a drastic policy reversal in 1977 led by the International Liaison Department put China in direct contact with African political parties, and the previous ideological stance was shunned.⁸⁷ With its own policy reforms kicking off in the 1980s (which also coincided with the decade long diffusion of Sino-Soviet rivalry), China's Africa policy intensified has steadily ever since, as domestic energy compulsions and geostrategic concerns have led China deeper and deeper into the continent.

Economic incentives in lieu of lucrative oil, gas deals, and import of other raw materials has been at the forefront of Chinese bilateral trade agreements with Africa. Economic aid has

⁸⁶ George Yu, "China, Africa and Globalization: The "China Alternative"." *Asia Paper Series: Institute for Security and Development Policy*, (2009: 1-31), 9.

⁸⁷ Anshan, Li. "On Changes and Adjustments in China's policy Toward Africa." *China's Foreign Policy*, No. 1, (2007: 33-40), 34-6.

been transferred by official aid (sometimes this included the sale of arms and heavy weaponry), commercial aid or investments. In 2008, China invested more than US\$ 2 billion in Africa in FDI, most of which was paid directly to state governments.⁸⁸ In order to compete with Western oil companies and other organizations, China has always preferred to break international protocols of dealing with rogue states through its policy of “non-interference in domestic affairs” clause.⁸⁹ Thus, China offers non-transparent foreign aid with “no strings” or “conditions” of “aid” or humanitarian obligations. China has also consistently offered low interest loans to governments that are considered to be risky or unstable by western organizations. Most notoriously, despite repeated criticisms, China has sold arms to governments of Sudan, Nigeria, and Liberia in the past that have been reportedly used against civilian populations by the national governments.⁹⁰ But China did not pay heed to any such complaint, defending its stance as perfectly legitimate international trade.

Yet China’s approach to Africa goes well beyond official trade, elite contacts and mere diplomatic protocols. China has been making use of its own “soft power” to “win friends and influence people” in a positive light.⁹¹ China has invested in African education systems, water projects, housing and hospital constructions, and agricultural assistance. China has even created scholarships for African students to go to China for higher education. It also opened up cultural institutions like the Confucius Institute to showcase their peace-loving cultural inclinations.⁹²

The fact that all this was an explicit effort by China to create a favorable image in the continent was reflected in the Chinese President’s call to “expand people to people exchanges”

⁸⁸ Yu, 21

⁸⁹ Zhao, 2011

⁹⁰ Morton Abramowitz and Jonathan Kolie. “Why China won’t Save Darfur.” *Foreign Policy*, June 2007: http://www.foreignpolicy.com/storycms.php?story_id=3847 (accessed May 14, 2011).

⁹¹ Cheng Hong, “China culture to shine in Africa with theme park.” *China Daily*. May 19, 2009. http://www2.chinadaily.com.cn/china/2009-05/19/content_7790458.htm (accessed May 11, 2011).

⁹² Renmin Ribao. “China’s African Policy.” *People Daily*. January 12, 2006. http://english.peopledaily.com.cn/200601/12/eng20060112_234894.html (accessed May 9, 2011).

during his visit in 2009.⁹³ By 2009, China had 48 embassies in the continent, all led by state initiatives.⁹⁴ China's state visits to Africa (and vice versa) has consistently been the highest in the world. President Hu Jintao visited 5 African states in 2009 alone, compared to none from his equivalents of other major states, including India.⁹⁵

Trading deals with China has been the most lucrative for the African states, and has been described as "commercial diplomacy" or "coalition engagements".⁹⁶ From a meager total trade worth \$5 billion in 1995, it increased to \$100 billion in 2008.⁹⁷ (China View, Sino-African Trade, 2008) The government is actively encouraging Chinese entrepreneurs to open business in Africa. To show its sincerity, the government established the China-African Development Fund (CADF) worth \$5 billion in 2007, in order to improve Chinese businesses' access to the continent. However, the prime interest in Africa has always been China's strategic calculation of oil deals and mineral exports with resource rich countries. In the following two tables, the extent of Chinese involvement in African states is summarized.

2.3 Oil Export-Import Rankings: China and the World⁹⁸

World's Largest Oil-Producing Regions	China's Sources of Crude Oil—World	China's Sources of Crude Oil—Africa
1. Middle East 2. Latin America 3. Africa	1. Saudi Arabia 2. Angola 3. Iran	1. Angola 2. Sudan 3. Republic of Congo
World's Largest Oil-Producing Countries (2009)		World's Largest Oil Exporting Countries (2009)
1. Russia 2. Saudi Arabia 3. United States 4. Iran		1. Saudi Arabia 2. Russia 3. United Arab Emirate 4. Iran

⁹³ China View, "Chinese president delivers key-note speech on Chinese-African ties." *Window of China*. February 16, 2009. http://news.xinhuanet.com/english/2009-02/16/content_10828468.htm (accessed May 15, 2011).

⁹⁴ Yu, 10

⁹⁵ Huang Zhaoyu and Jinfu Zhao. "China's Relations with Africa." *Contemporary International Relations* vol. 19, No. 1, (2009: 65-81).

⁹⁶ See for example, Ian Taylor

⁹⁷ "Sino-African trade to hit \$100 billion in 2008, China predicts." *Window of China*. September 3, 2008. http://news.xinhuanet.com/english/2008-09/03/content_9764690.htm (accessed May 15, 2011)

⁹⁸ Data collected from Zhao, 2011

5. China	5. Kuwait
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2.4 China's African Safari⁹⁹

Country	OPEC member?	Oil Resources	Oil exported to China	Major Deals and Partnerships
Angola	Yes	Largest Source of Oil in Africa (about 50%)—largest crude oil exporter in Africa in 2009. <u>Largest Investors:</u> Chevron Texaco (U.S.), Exxon Mobil (U.S.), B.P (UK), Total (France)	Largest African Oil Provider to China	2002: US\$ 2bn in loans and aid 2005: Nine agreements signed, including long-term oil supply
Sudan	No	Oil exports account for 90% of country's total revenue <u>Largest investor:</u> CNPC(entered 1996)	Second-largest oil provider to China (60 percent of its oil goes to China) China is largest importer of Dar Blend (high-acid crude oil)	1997-2007: Interest-free loans for building construction 2008: US\$2.8 million humanitarian aid package
Republic of Congo	No	<u>Largest Investors:</u> Total (France) and Eni (Italy). Around 20 U.S. companies, including Chevron and Murphy Oil	Third-largest oil provider to China (around 50% of its oil goes to China)	2006: Cooperation to build airport and infrastructure 2010: Chinese Development Bank to help create SEZs
Equatorial Guinea	No	Oil accounts for over 80% of total revenue <u>Largest investors:</u> ExxonMobil (US), Hess (US), Marathon (US)	Around 12% of its oil exports go to China	2009: China gained exploration rights in areas
Nigeria	Yes	Second-largest oil reserves in Africa—oil accounts for over 90% of country's exports, 80% of total revenue	Small amount of oil to China (in 2009, 28,000barrels/day)	2006: US\$4 billion in oil and infrastructure projects in exchange for drilling licenses 2010:

⁹⁹ Table recreated from Zhao, 2011.

		<u>Largest Investors:</u> Royal Dutch Shell(UK).		US\$23billion to build oil refineries and infrastructure.
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2.5 China and Middle East

Although China is increasingly involved in Africa and Central Asia, the bulk of its imports still come from the Middle East, which remains its most important strategic region. For example, despite China's African involvements, at present the continent delivers only one-third of total Chinese oil imports.¹⁰⁰ Compared to this, in 2008, 58% of Chinese oil imports came from the Middle East and studies show that the share of imports from this region would increase to 70%.

The main partners have been Saudi Arabia and Iran. Though at present China cooperates with both India and United States on procuring oil, the Chinese officials worry that in the long-term, as resources get more scarce, the United States wants to encircle and dominate the Persian Gulf and cut off China. Speculations from analysts about a pending battle for resources in this region are common. A US-China Security Review Commission report in 2007 noted 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."¹⁰¹

China's special relationship with Iran has been criticized around the world. China is Iran's number one oil and gas exporter, which is worth around US\$120 billion. Back in 2004, ignoring American attempts to isolate Iran by preventing trade with the country, China signed the largest oil deal in the country's history.¹⁰² More notably, China sold anti-ship cruise missiles to Iran, which presents a direct threat to the American military in the Persian Gulf.¹⁰³

¹⁰⁰ Zhao, 2011.

¹⁰¹ Gal Luft, 2007.

¹⁰² Ibid

¹⁰³ Ibid

Although Saudi Arabia's relationship with the US is deep and goes back to the early 20th Century, Chinese officials have made headway in setting itself as an important partner of the Saudi's. Riyadh and Beijing set up relations as early as the 1980s, when China sold intermediate ballistic missiles to Saudi Arabia. In 1999, the visiting Chinese President Jian Zemin called for a "strategic oil partnership" to be set up between the two. Since then both arms and oil deals have increased in volume, and remains a constant worry of India and the United States.¹⁰⁴

The situation gets amplified in central Asia, where fierce competition is taking place for multi-dimensional reasons. The next section discusses the nature of involvement of China in Central Asia.

2.6 China in Central Asia

Since the fall of the Soviet Union and its disintegration, a "new great game" arose in Central Asia between Russia, the US, China and of late India. This competition increased its momentum after 9/11, with the presence of American troops in Central Asian airfields. China hastened its efforts to penetrate deeper into the political scenario of the states in the region, Russia looked for maintaining its predominance over its "backyard", and India started to make inroads in hopes for better oil and gas deals. India's recent "Look North" policy conflicts with Chinese interests in the region, and has clearly destabilized the balance of power dynamics in the region. While both countries are actively trying to expand, four elements have gained crucial importance: politics, economics, geography and ideology. The close US-India partnership and its cooperation in Central Asia worry China (and Russia) about the increasing effects it may have on East Turkistan and Chechen irredentist movements.¹⁰⁵

As a security measure, China has intensified the actions of the Shanghai Cooperation Organization (SCO) in Central Asia, and during a Summit meeting in 2005 asked the US to

¹⁰⁴ Ibid

¹⁰⁵ Jen-kun Fu, 18.

submit a withdrawal date for troops.¹⁰⁶ This is crucial for China, since this region has the potential to disrupt the fragile stability of China. First, the borders with Russia have always been volatile. Secondly, and more importantly, the separatist movements in the Xinjiang province have been a constant source of worry to the Chinese officials. Thus, the discovery of oil and gas fields in this region has become a blessing in disguise. It gives China a reason to invest in the region, set up diplomatic contacts for energy deals, while at the same time ensuring that internal factionalism cannot take root with the help of outside support from the neighboring Central Asian states and their extremist organizations. Last, but not least, such cooperation also puts China in a much better position geostrategically than was ever possible during the Cold War. The last major oil deal of China was with MangistauMunayGas in Kazhakistan in 2009.¹⁰⁷ Most significant, however, was the completion of the 16-month ambitious project of the Russia-China oil pipeline, which would transport more than 150 million tons of crude oil per year till 2030.¹⁰⁸

Summing up, it must be noted that while during the Cold War, China's overseas oil diplomacy was limited to the "energy belt" region (Central Asia, Middle East, and to a lesser extent Russia), the economic reforms undertaken in the 1980s led to huge growth of the Chinese economy. This in turn forced the country to expand its horizon globally to Africa and Latin America. The aim of diversification has had limited success as China reduced its reliability on Middle Eastern oil and increased its share of African oil.¹⁰⁹ Being wary of future scenarios, China decided to build strategic petroleum reserves (SPR) in 2004. Yet, China's aggressive involvements have raised concerns and criticism around the world. The concurrent rise of its neighbor, India, also complicates power relationships. By 2020, it plans to have an SPR of 90

¹⁰⁶ Ibid

¹⁰⁷ CNPC 2009

¹⁰⁸ Asia-Pacific Economic Cooperation. *APEC Energy Overview 2010*. Annual Report, Tokyo: APEC Energy Research Centre, (2010), 54.

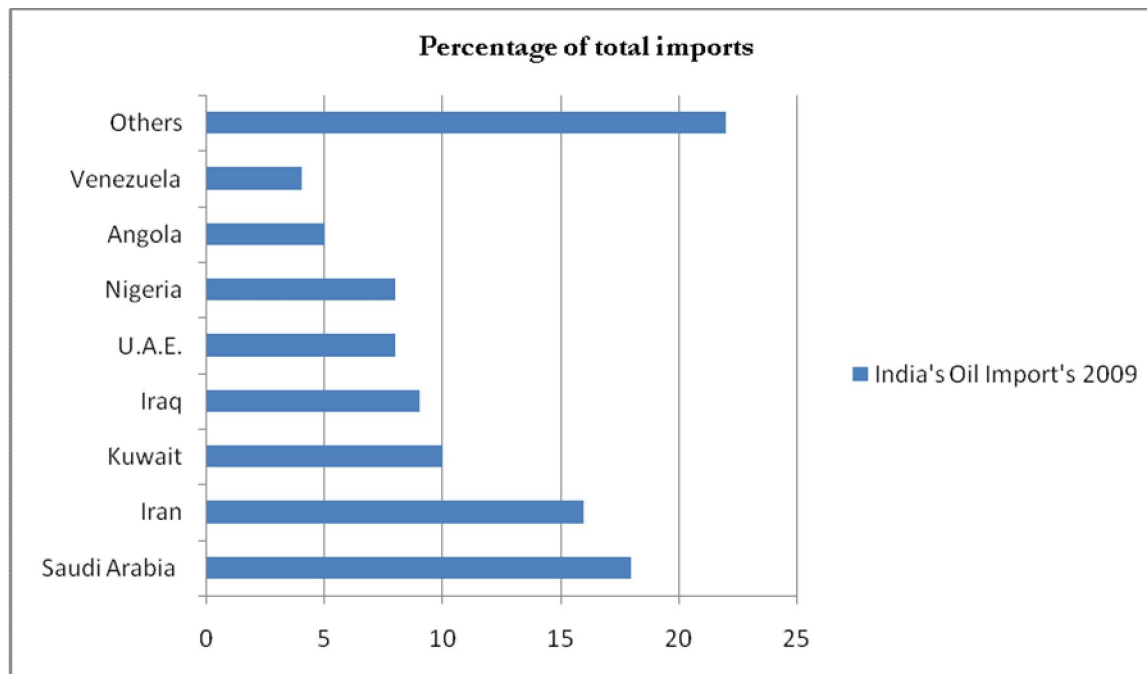
¹⁰⁹ Kerry Laird, "China looks to increase oil imports from Africa to 40%." *Rigzone*, March 2008: <http://www.rigzone.com/news/article.asp?aid=58422> (accessed April 19, 2011)

days of net oil imports. In Chapter 3, the paper focuses on India's attempts at oil diversification, before conducting a comparative analysis of the two countries.

Chapter 3— India's Quest for World Oil Resources

India's energy worries became acute for the first time in the 1990s, before which it relied on a policy of self-sufficiency.¹¹⁰ For the last decade however, India has been frantically searching for oil deals in Africa, Central Asia, Latin America and Siberia.¹¹¹ However, like China, the largest share of India's imports come from the Middle East. India has increasingly looked for equity stakes in E&P projects overseas through its national company ONGC Videsh Ltd. Currently the company is active in 13 countries like Russia, Iran, Sudan, Brazil, Myanmar and Columbia. One of the biggest engagements have been the GNPOC in Sudan since 1997, where India and China share a 25-40% share. OVL also acquired 20% stakes at Sakhalin-I project of the ExxonMobil consortium in Russia.¹¹² Despite its impressive diversification, India worries about the shortfall total volume of oil trade, given the voracious energy needs of the buzzing economy. The following table shows the share of India's total oil imports.

3.1 India's Oil Import Diversity¹¹³



¹¹⁰ Yergin, *Foreign Policy*, 78.

¹¹¹ Dadwal, Sebonti Ray, and Uttam Kumar Sinha. "Equity Oil and India's Energy Security." *Strategic Analysis Vol. 29, No.3*, 2005: 521-28.

¹¹² EIA, 2009, India.

¹¹³ Ibid

3.2 India's attempts at oil diversification: systemic constraints

India's energy demands have increasingly formed its foreign policy. However, concerns of national security constraints and domestic opposition to risky trading partners have repeatedly hampered effective oil procurement and construction of oil pipelines. Central to this problem has been the issue of importing oil from Iran through Pakistan. Due to its historical animosity with Pakistan since 1947, three eventual wars, and terrorism infiltration, India's relation with its neighbor has always remained tense. This tension affects India's energy policy, which often finds expression in official assessments. A recent study concluded:

There is a sense that in an oil crisis, relationships will count for more than just ownership of assets. For the time being, oil diplomacy is intended to help on a number of fronts: aiding Indian companies to win deals, ensuring secure supply, laying the groundwork for cooperation, attracting investment and technology, and encouraging investment from producer countries in India's downstream sector to ensure that they have a vested interest.¹¹⁴

However, faced with acute energy demands, Indian foreign officials confront the dilemma of negotiating with unpopular regimes on the one hand and risking national security on the other.¹¹⁵ India, like China, was willing to negotiate oil deals with rogue states like Sudan, Nigeria, Iran and Burma. However, all of these efforts have been met with severe criticism from both domestic opposition parties and the international community. Many western analysts have rebuked the country's entanglements with autocratic regimes and have raised questions about India's legitimacy as a democratic country.¹¹⁶ This, in turn has made it increasingly difficult for India to sell aid packages abroad. Unlike China's CCP, the Indian Parliamentary approval of two-thirds of the MP remains a considerable challenge.¹¹⁷

¹¹⁴ Tanvi Madan, *The Brookings Foreign Policy Studies: India*. Energy Security Series: Energy Security Series, Washington, D.C.: The Brookings Institution, (November 2006).

¹¹⁵ Christopher Len and Alvin Chew. *Energy and Security Cooperation in Asia: Challenges and Prospects*. Policy Brief, Stockholm: Institute for Security and Development Policy, (2009), Executive Summary.

¹¹⁶ Xenia Dormandy, "Is India, or Will it Be, a responsible International Stakeholder?" *The Washington Quarterly* vol 30, No.3, (Summer 2007: 117-130).

¹¹⁷ S.N. Malakar, *India's Energy Security and the Gulf*. (New Delhi: Academic Excellence, 2006).

Especially in the case of Sudan, India was severely criticized by the United States when Darfur's genocide was the prime focus of international humanitarian agencies.¹¹⁸ India also finds itself in a political logjam with Burma, where the military junta's brutality against its own people has raised international concern. However, Burma remains a tricky issue for India, first, due to its natural resources, and secondly, India worries that its retreat with the eastern neighbors might lead to a power void that would be filled up quickly by the Chinese.¹¹⁹ Some analysts claim that a great power rivalry between China and India over Burma is inevitable over the next decade. (Tonneson)

Three major pipeline deals negotiated in the last decade exemplifies the strategic constraints India faces. The TAPI pipeline was planned to bring oil from Turkmenistan through Afghanistan and Pakistan to India. The IPI was planned to join Iran, Pakistan and India. The third one was planned to carry oil from Burma via Bangladesh to India. Yet none of these pipelines has been realized, despite several high level meetings. The U.S. efforts to isolate Iran's nuclear ambitions prevented the IPI pipeline so far, but promising prospects remain.¹²⁰ The TAPI project ran into problems because of the volatility of Afghanistan-Pakistan border and because of possible Turkmenistan promises to Russia.¹²¹ The Burma pipeline also failed due to Bangladesh's unacceptable demands of concession in other areas.¹²² When compared to an aggressive Chinese style of diplomacy, such systemic setbacks hamper India's future course of development.

¹¹⁸ Ann Ninan, "India's 'See No Evil, Hear No Evil' Policy in Sudan." *Indian Resource Center*. September 12, 2002. www.indiaresource.org/issues/energycc/2003/indiaseenoevil.html (accessed May 3, 2011)

¹¹⁹ Renaud Egreteau, *Wooing the Generals: India's New Burma Policy*. (New Delhi: Authors Press, 2003).

¹²⁰ Verma, Shiv Kumar. "Energy, Geopolitics and the Iran-Pakistan-India Gas Pipeline." *Energy Policy* Vol.35, No. 6, June 2007: 3280-301.

¹²¹ John Foster, "A Pipeline Through a Troubled land: Afghanistan and the New Energy Game." *Canadian Centre for Policy Alternatives Foreign Policy Series Vol. 3, No 1.* . June 19, 2008. www.policyalternatives.ca/documents/National_Office_Pubs/2008/A_Pipeline_Through_a_Troubled_Land.pdf (accessed May 2, 2011).

¹²² Sreeratha Datta, "Bangladesh Factor in Indo-Myanmar Gas deal." *Strategic analysis* Vol 32, No. 1, January 2008: 103-22.

3.3 India and U.S. Cooperation: United by a common enemy?

The acute failure in the field of oil security forced India to look for other sources of domestic energy. This culminated in the India-U.S. civilian nuclear deal signed into pact during the administration of George W. Bush.¹²³ This however has given the U.S. an advantage over India into pressurizing the later to sever its terms with Iran. The Indian government was thus forced to vote for sanctions against Iran brought by the U.S, in the IAEA. However, India still maintains a "balancing act" with Iran as it is the second largest exporter of oil.¹²⁴ India also gets around the U.S. efforts of trade sanctions and still maintains a strategic partnership with Iran.¹²⁵

For India, the most disturbing trend of the last decade has been the belligerent military buildup of China and its naval exercises in the Indian Ocean. India fears that China is encircling the major ports in the Gulf and Africa and hence building up its own navy.¹²⁶ The list of soon-to-be operational ports is truly worrisome: Hambantota (Sri Lanka), Sittwe (Burma), Chittagong (Bangladesh), and Gwadar (Pakistan).¹²⁷ As a response, India has decided to both increase naval presence in the Indian Ocean, and concurrently, it has heightened its diplomacy with Gulf States. For example, in April of 2007, India participated in a joint naval exercise with Japan and the United States in the South China Sea. Later that year, Singapore, and Australia joined the former three in the Bay of Bengal for more military exercises.¹²⁸

Interestingly, this has brought both U.S. and India closer for the first time on military issues. Since the Cold War's inception, India and U.S. were on opposing camps, and although

¹²³Raja Mohan, "The Role of Energy in South Asian Security." In *Energy Security Cooperation in Asia: Challenges and Prospects*, by Christopher Len and Alvin Chew, 83-125. (Stockholm: Institute for Security and Development Policy, 2009), 84

¹²⁴Christine Fair, "India and Iran: New Delhi's Balancing Act." *Washington Quarterly* Vol 30, No. 3, (Summer 2007: 145-59), 156.

¹²⁵ India Briefing. "Despite Blockage, Oil Continues to Flow Freely Between Iran and India ." *India Briefing*. January 5, 2011. <http://www.india-briefing.com/news/blockage-oil-continue-flow-freely-iran-india-4589.html/> (accessed May 21, 2011).

¹²⁶ Scott, David. "The Great Power Game Between China and India: the Logic of Geography." *Geopolitics* Vol 13, No. 1, (January 2008: 1-26.), 13.

¹²⁷ Gurpreet Khurana, "China's 'String of Pearls' in the Indian Ocean and its Security Implications." *Strategic Analysis*, Vol.33, No. 1,(January 2008).

¹²⁸Praful Bidwai, "Five Nation Asian Drill Presages Asian Nato?" September 7, 2007. antiwar.com/bidwai/?articled=11574 (accessed April 25, 2011)

they were never directly involved in confrontations, deep mistrust ran on both sides. With China's rapid empowerment, the two countries finally share a common interest in protecting the Gulf ports from Chinese influence.¹²⁹ India has also deepened its relations with the oil-rich countries of Saudi Arabia and Oman.¹³⁰

3.4 India's new entry to Central Asia

India's central Asian stakes are much similar to China, except they are seen as zero-sum game vis-à-vis each other. Three other influential players active in the region make it a complicated geostrategic "chessboard": the U.S., Russia and Pakistan. Most central Asian states are Islamic, and so is Pakistan. Hence, they have a cultural and religious bond that India, being a predominantly Hindu state, cannot maintain. India has tried to strike a policy strategy similar to China by attracting partners with the promise of lucrative deals of aid and other development projects. For instance, India exports tea, pharmaceuticals, and other important chemicals to the central Asian states.¹³¹ Nevertheless, being a democracy, India's Parliament has consistently been slower than China's swift, central, and authoritarian decision-making process in approving deals.

India has constantly lost out to China over the last decade. For example, both countries were involved in a stake for Kazakh oil, and after a fierce bidding with ONGC, CNPC won out and acquired rights of PetroKazakhstan from a Canadian oil firm.¹³² Compared to this, after years of negotiations, India finally struck a deal in 2009 when ONGC-Mittal Energy (OMEL) won rights to exploitations in Caspian Sea near the Satpayev block. Yet the final details of the deal remain unfinished. Turkmenistan has also become interested in Indian oil explorations, but India alone cannot convince the former of its technical abilities to carry out operations in a grand scale. Hence, Turkmenistan wants the involvement with Russia and Iran in the same project,

¹²⁹Stephen Blank, "India and the Gulf After Saddam." *Strategic Insights Vol II, No.4*, April 2004: www.ccc.nps.navy.mil/si/2004/apr/blankApr04.asp (accessed April 27, 2011).

¹³⁰ Joshua Richards and Teresita Schaffer. "India and the Gulf: Convergence of Interests." *South Asia Monitor No. 113* (Washington D.C.: Center for Strategic and International Studies, December 2007: www.csis.org/media/cisi/pubs/sam113.pdf (accessed May 12, 2011)

¹³¹Muhammad Azhar, "The Emerging Trade Relations Between India and Central Asia." In *Nationalism in Russia and Central Asian Republics*, by Shams-ud-din. (New Delhi: Lancer Books, 1999), 329.

¹³² Jen-kun Fu, 19

thus slowing the whole dealing process.¹³³ Despite a decade-long effort to make headway into the region, India is still not one of the top exporters of oil from the central Asian states. The difficulty can only increase as both China and Russia plan to be more active in the decades ahead.

3.5 India in Africa

Similar to China, India's relationship with Africa dates back to as early as the country's Independence from the British Empire in 1947. India supported all the dependent states of Africa in its struggle against colonialism, and later also formed alliances with them during the Cold War. They were all on the same camp during the Non-Aligned Movement, whose founders were Nehru of India and Nasser of Egypt. However, since India followed a closed-door economic policy, it never set up trading partnership with the African states. By the time India underwent thorough reform in 1991, China had started engaging in Africa. Its sheer pace of trade left India baffled and it has been trying to play catch up ever since.

Compared to China's \$126 billion bilateral trade with Africa in 2010, India's was just over \$40 billion. Yet India is stepping up its game in the continent. Discovery of new oil and gas reserves in the eastern coast of the continent has made it a new hotspot for international investment. On May 2011, the Indian Prime Minister Manmohan Singh announced that it would invest \$5 billion in Africa's development over the next three years, in innovative projects ranging from agriculture to medicine, technology, and even an online university. Additionally it also pledged \$700 million for building new institutions in four countries.¹³⁴

India is also trying to use its democratic record of accomplishment to sell its image as a reliable trading partner, genuinely interested in Africa's future wellbeing. This effort is paying off as a prominent high-level African diplomat noted, "China invests in our today, India in our

¹³³ Ibid, 20.

¹³⁴ Bagchi, Indrani. "Counter the Dragon: With \$5 billion pledge, India takes big step into Africa." *Times of India*. May 25, 2011. <http://timesofindia.indiatimes.com/india/Counter-the-Dragon-With-5-billion-pledge-India-takes-big-step-into-Africa/articleshow/8561741.cms> (accessed May 13, 2011)

tomorrow".¹³⁵ Irrespective of the intentions, there is certainly a fundamental difference of Chinese and Indian investments: China is more deeply involved with the so-called rogue states in Africa, India with the states with clean records like Tanzania (where India invested more than \$1billion), Kenya Mozambique, etc. Moreover, all Chinese investments have been state-led efforts, whereas India's private sector is the most active in the continent.¹³⁶ India is also trying to cooperate closely with the states in order to form a security grid in the Indian Ocean, to counter the "string of pearl" ports being currently built by China.

Given these systemic and domestic political constraints, what exactly is the future of oil security in the two regions? The following section compares India and China's oil procurement patterns through the lens of neoclassical realism and tries to analyse the relationship of the independent, dependent and intervening variables in order to pinpoint the exact cause of the variation in the two country's style of diplomacy. Only after one understands the forces of interaction animating the oil policy of the respective countries, can future trends be reliably predicted.

¹³⁵ Ibid

¹³⁶ Ibid

Chapter 4—India, China and Oil: A Neoclassical Analysis

The world prices of oil have skyrocketed since 2003. A combination of rapid increase in world demand, unstable political scenarios of several oil producing countries, and speculations of “peak production” has led to this outcome. Developing countries like India and China registered record growths in oil demand in the last decade. Given the limited supply of oil reserves, such demands created a race to ensure oil supply between the two neighboring adversaries. This competition was apparent in Africa, Central Asia, and Siberia, where state-owned oil companies vied for acquiring rights to explore newly discovered oil fields. In respect to Siberia, both China and Japan were engaged in extensive efforts to influence Russia to secure deals.¹³⁷ China and India were also involved in competitive bidding in the Sahara and Central Asia. China had to ultimately sell aid packages and arms to African states to ensure trade agreements.¹³⁸

The realist school of international relations predicts that states are “self-interested” “power-maximizers”, who would be involved in perpetual competition over resources that increase their power. Since oil is considered a “strategic commodity” by both China and India, this basic commodity therefore becomes an element to acquire power. However, as noted in chapter 2, the mainstream realist school is too obsessed with the structure of the international system of states, and ignores the multidimensional nature of threats that confronts a decision maker.

Neoclassical realism, by contrast, was used in this paper because it “enable[s] us to make predictions about specific states and explain why they acted in a particular way.”¹³⁹ The theory accounts for both the structural and domestic constraints and suggests that foreign policy executives face the real world, not inanimate states. It focuses exclusively on foreign policy and tries to explain why some strategy is chosen over all others. The richness and flexibility of this

¹³⁷ Gaye Christoffersen, “The Dilemmas of China’s Energy Governance.” *China and Eurasia Forum Quarterly* Vol. 3, No. 2, (November 2005: 55-79), 64.

¹³⁸ Ian Taylor *Unpacking China’s Resource Diplomacy in Africa*. 2007. http://www.cctr.ust.hk/china-africa/papers/Ian_Taylor.pdf (accessed May 8, 2011).

¹³⁹ Wivel, 363.

new approach has been predicted to be "the only game in town for the current and next generation of realists."¹⁴⁰ Foreign policy executives are thus treated as normal human beings, who can misperceive threats and opportunities, and might be forced into a lose-lose situation. As Wohlforth puts it, "The mechanics of power are surrounded by uncertainty...states adopt asymmetrical strategies to maximize their positions and undercut their rivals; signals get confused among allies, rivals and domestic audiences."¹⁴¹

For example, realizing that it is being consistently defeated in the sector of oil diplomacy to China, India was forced to open up new avenues to fuel its economy. Part of that strategy led to cooperation with the United States in a civilian nuclear plant construction in 2008. Thus India tried to form an ally both in security and energy diplomacy terms (external balancing) in the face of a lack of resources to build up oil reserves (internal balancing). However, the leftist parties of India and the Hindu nationalists saw this as a threat to Indian sovereignty and invasion of a foreign force (United States). They thus repeatedly blocked the bill in Parliament (intervening variable).¹⁴² On the face of domestic constraints, the Congress Party in power had to negotiate with "the trade unions and communist parties, whose support is necessary for the Congress Party-led government in Parliament."¹⁴³

Thus, while faced with threats, neoclassical thought agrees that states might either balance against a powerful state by increasing their own capabilities, i.e., internal balancing, or by enhancing their chance of survival by coalition building (external balancing). The theory identifies elite calculations, relative power perceptions, and domestic constraints as intervening variables.¹⁴⁴

¹⁴⁰ Schweller, 347.

¹⁴¹ William C Wohlforth, *The Elusive Balance: Power and Perception during the Cold War* (Ithaca, NY: Cornell University Press, 1993), 306-7.

¹⁴² "BJP asks govt to reject US-nuke deal," *Kashmir Times*, December 12, 2006, <http://www.kashmirtimes.com/front.htm>

¹⁴³ Kiesow, 310.

¹⁴⁴ Stephen G Brooks "Duelling Realism: Realism in International Relations ." (*International Organization* Vol. 51, No. 3, 1997) 76-77.

Socialization effects and competitive pressures are accounted for in neoclassical literature. The theory predicts that cooperation and adaptive behaviors are not necessarily signs of permanent policy shifts towards peaceful co-existence. There is no underlying normative appeal that leads to joint exercises. Rather, it is the desire to often balance against other threats, or to enhance competitive advantage, and thereby the likelihood of survival.¹⁴⁵

Cooperation between the two states in oil exploration has to be seen in this light of comparative advantage argument. The potential cooperation has raised talks of a joint SPR infrastructure.¹⁴⁶ Stochastic models analyzing the cost-benefit analysis of China and India's SPR efforts are also being conducted.¹⁴⁷ They point to these joint efforts as signs of permanent policy shifts. The "Strategic and Cooperative Partnership for Peace and Prosperity" signed in 2005 raised hopes among some circles. Instead of a containment policy, both countries have engaged in extensive trading partnerships with each other and with others across East Asia.¹⁴⁸ The fact that China has become India's largest exporter underlies this relationship. However, not all these cooperation are signs of goodwill. In reality, this cooperation merely point towards the rising need for oil in the respective countries, and increases their chances of competition. As Sterling-Folker puts it concisely, "The nation-state is by no means the teleological end-point of group identification, but its development as the primary constitutive unit of the present global system is explicable as a result of anarchy's imitative dynamics."¹⁴⁹

Neoclassical realism also rightly identifies that state's extractive capacity depends on institutions, ideational factors, nationalism, etc, which eventually affect the security policy pursued. For example, Taliaferro's "resource extraction" model shows that "states with higher extraction and mobilization capacity, but that face high external vulnerability, are more likely to

¹⁴⁵ Taliaferro et al., 30

¹⁴⁶ Ying Fan and Xiao-Bing Zhang, "Modeling the strategic petroleum reserves of China and India by a stochastic dynamic game", *Journal of Policy Making*, Vol. 32 (2010), 506.

¹⁴⁷ Asia Energy Book. "China/India: Energy cooperation will not come easily," *Oxford Analytica*, January 16, 2006, <http://www.oxan.com/Display.aspx?S=EES&SD=20060116&PC=OADB&SN=3&S> (accessed May 7, 2011)

¹⁴⁸ *Ibid*

¹⁴⁹ Sterling-Folker, *Theories of International Cooperation*, 73.

emulate the military, governing, and technological practices of the system's most successful states". His model also accounts for the alternative scenario: "states with low extraction and mobilization capacity but high external vulnerability will have greater difficulty in pursuing emulation, at least in the short run."¹⁵⁰ India readily fits into the second category, while China the former. India's internal energy dilemmas are imposing a new political and diplomatic context for the government. Reform in the oil industry calls for privatization of certain sectors or at least considerable intervention and power sharing with companies. But this reformation can be seen as an aggressive intrusion by the profitable companies into the public sector, which angers the rural constituency. This makes India's transformation of oil the oil sector much slower than China.

China, on the other hand, faces high external threat (oil security, geostrategic imperatives) and it has huge extraction capability (being a non-democracy). Hence, it is emulating the behavior of that of a hegemon, like the United States. China has defied the world market system and tried to own the oil when loaded, which has attracted criticism from the U.S. and other countries, because it destabilizes prices. However, in order to socialize and maintain its ideological favorable image, China joined the WTO in the year 2000 and has tried to act in accordance with international law.¹⁵¹ Moreover, China is building up its navy and military capabilities to create a string of pearls in order to protect its sea routes; especially its fear of encirclement by the US in the Strait of Malacca has driven it to cautious geopolitical calculations.¹⁵²

The difference lies in the idealism of democracy, which at times hinders swift government action because in democratic India those aspects of economic and foreign policy, which determine the production, import and distribution of energy, are set by a periodically changing Parliament. Their decisions always consider the crucial regional and political lobby

¹⁵⁰ Taliaferro et al, 39.

¹⁵¹ Kiseow, Strategic China, 40.

¹⁵² Philip Andrews-Speed, 78.

pressures, scrutiny by the free media, a critical parliament and intrusive judiciary.¹⁵³ Therefore, to meet the growing oil demands, India is maximizing both domestic and imported sources. An extra emphasis is always laid on self-sufficiency because the ideal of "*swadeshi*" (self-sufficiency) is rooted in Indian political culture and strategic thinking. But this hampers effective policymaking in acquiring foreign resources.

Neoclassical theory rightly notes that because most international relations scholars agree that since the Cold War the world has enjoyed a unipolar moment with the United States as the only superpower, regional competitions have often been ignored or underappreciated in their importance. The Asian power dynamics being played between China and Japan on one hand, and China and India on the other is an example of such subsystemic competition for regional leadership. In fact, neoclassical realism predicts that in a regional setting, the most prominent threats come from close neighbors and not the distant ones.¹⁵⁴ This is true for India and China, who have fought two wars due to border disputes. As early as mid the 1990s, the rapid rise of China upset Indian officials and the fierce competition that was to follow in the next two decades could be foreseen in reports at that time.¹⁵⁵ In fact, India's renewal of nuclear programs and testing of nuclear bomb in Pokhran, Rajasthan in the desert was seen as counter-leverage to US-Chinese intimacy.¹⁵⁶ Now an argument can be made that the dynamics have changed and India and the United States are collaborating more closely, which has made China increasingly wary of its place in Asia.

Neoclassical realism also notes that although democratic and authoritarian forms of government will pursue different strategies, the *non-democratic countries also have to consider* for their

¹⁵³ Jasjit Singh, "Developing Countries and Western Intervention", *Strategic Analysis*, 20 (4) July 1997, 509-519.

¹⁵⁴ Lobell, Threat Assessment, the State, and Foreign Policy: A Neoclassical Realist Model 2009, 49

¹⁵⁵ See for example, Aaron Friedberg, "Ripe for Rivalry: Prospects for Peace in a Multipolar Asia." *International Security*, (1993: 5-33).

¹⁵⁶ Prem Shankar Jha "Why India Went Nuclear." *World Affairs*, (1998: 80-96).

domestic factors, such as economic elites or minority, secessionist groups.¹⁵⁷ For example, China's institutional fragmentation, strategic thinking and vested interests lead its domestic structure to determine its foreign oil policy. Prior to 1978, China had a centrally planned economy that was self-reliant since the 1950s. However sensing future troubles, the "reform and opening up" policy was integrated in 1978. By 1993, China was a major importer of oil.¹⁵⁸ Liberalization of the economy has led to state control of most energy companies.

Nevertheless, with the liberalization, the responsibility to implement policy goals was distributed among two commissions and eleven ministries. The functions of these bureaucratic institutions often overlap, preventing effective energy planning.¹⁵⁹ Additionally, China historically has a very fragmented regulatory structure with vested interests.¹⁶⁰ The Central Government plays too much role in directing the flow of investment into the energy market which is bound to be inefficient in a free-market world trade system.¹⁶¹ The SOOEs (state owned oil enterprises) gain from maintaining the status quo that protects their monopoly in the oil market.¹⁶² Secondly, the institutional constraints pose serious obstacles to energy commercialization and thus it is always safe to pursue a strategic rather than a market approach to energy security.¹⁶³

These constraints, Christensen rightly points out, plays a role in creating demarcations and fault-lines during international socialization. Commenting on security dynamics of East Asia in the 1990s, Christensen noted that "historical legacies and ethnic hatreds" are so strong in the region that they cannot be ignored, since what affects their relationship is not often the actual relative capabilities, but rather a "perceptual bias".¹⁶⁴ A repeated pattern of Chinese and Indian oil diplomatic entanglements have been the fact that energy procurement mechanisms often

¹⁵⁷ Ripsman, 171.

¹⁵⁸ Pak K. Lee, "China's Quest for Oil Security: Oil (Wars) in the pipeline?" *The Pacific Review* 18, no. 2 (June 2005): 267-268.

¹⁵⁹ Kong Bo, "Institutional Insecurity", *China Security*, Summer 2006, 69-70.

¹⁶⁰ Julie Walton, "Power Politics," *China Business Review* 32, no. 5 (September/October 2005): 9-11.

¹⁶¹ Roland Danneruther, "Asian security and China's Energy Needs," *International Relations of the Asia-Pacific* 3, no.2 (2003), 201.

¹⁶² Philip Andrews Speed, *The Strategic Implications of China's Energy Needs*, 43.

¹⁶³ Roland Danneruther, 204.

¹⁶⁴ Christensen, 51.

assume a new bigger force of geostrategic dynamics and systemic constraints come into play. This was apparent in the last decade in Central Asia and Africa. India's Oil Minister, Mani Shankar Aiyer was forced to accuse China of unfair methods of competition in Kazakhstan, Angola, Nigeria, and Sudan.¹⁶⁵ India's deep mistrust of both Pakistan and China, makes any energy deal (through pipeline diplomacy) almost impossible. Neoclassical realism manages to predict the responses of a state in two different eventualities. First, when the threats are clear and states pursue a particular policy, neoclassical literature can explain why states chose one over other policy options, and secondly, when threats from the systemic level are apparent, it explains why state responses are constrained.

The key insight of neoclassical theory is thus its break away from the balance of power, and balance of threat theories that hold that the weakness of states to deter states that are more powerful is the main problem. Rather, this theory rightly predicts that it is the inability to mobilize the necessary domestic resources. As Rose rightly points out,

the scope and ambition of a country's foreign policy is driven first and foremost by its place in the international system and specifically by its relative material power capabilities...however...the impact of such power capabilities on foreign policy is indirect and complex, because systemic pressures must be translated through intervening variables at the unit level.¹⁶⁶

¹⁶⁵ "India's energy security," *Alexander's Gas & Oil Connections*, January 12, 2006, <http://www.gasandoil.com/goc/news/nts60225.htm> (accessed 11 May, 2011)

¹⁶⁶ Wivel, 363.

Conclusion

Oil demands have grown exponentially in the past decades and forecasts predict it would quadruple by 2030. The lion's share of the growth would be registered by the two fastest growing economies of the world, India and China. These two countries have expanded at above 8% average growth for the last decade and would maintain this trend for years to come. Yet the lack of considerable oil reserves within their territory makes both countries reliable on imported oil. The supply and price vulnerability of oil makes the procurement of this "strategic commodity" a priority for both states. India and China take the "non-market approach" to securing oil supply, which has led them to embark on a journey to diversify their resources. This has led to a global scramble for oil resources from Central Asia to Latin America. Africa has emerged as a continent of special interest for both countries, as they try to reduce their reliance on Middle Eastern oil.

However, the procurement pattern is complex and links energy security with other geostrategic and domestic factors. Most studies thus far have treated oil security either as part of a state's economic wellbeing or national security. This paper calls for the separation of oil security as a unique sector, which interacts with other sectors in time and space. Using neoclassical realist theory of international relations as a lens of analysis, this paper argues that domestic factors (political parties, media, ideology, historical experience) is the major cause of variation in both country's quest for oil security. Ideology as the intervening variable also plays a significant role.

China has so far been more successful in securing oil deals because of its authoritarian central planning, which provides the foreign policy executives with high state extractive power defined as a function of national power and the ability of the state apparatus to extract national power for its purposes. India, being a Parliamentary, bureaucratic government faces both a low extraction power and a geostrategic disadvantage of being surrounded by hostile neighbors (Pakistan and China) which renders its oil diplomacy immensely complex. Despite signs of

cooperation in joint oil explorations at present, this paper predicts that both China and India remain fierce competitors in the market, and the probability of a future zero-sum game of oil procurement between the two regional adversaries remain high.

Finally, the paper also analyses the energy sector of China and India with the theoretical formulas of neoclassical literature and finds the basic tenets of the theory to fit the case. This enriches the neoclassical realist framework of analysis, which, the author hopes, demonstrates the flexibility and yet the rigor of this new realist perspective. Future research in this field should focus on two broad criteria: how does the state respond to clarity of systemic threats if it lacks internal balancing mechanisms, and second, how can information from both the systemic and domestic level be put to best use by foreign policy executives in order to influence each other. Whether we can really separate the the domestic and international sectors' effects on foreign policy remains contested.

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