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The Saudi Arabia of the Far East? China's rise and fall as an oil exporter



Per Högselius*

KTH Royal Institute of Technology, Sweden

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ABSTRACT

China's international activities in the oil industry have figured prominently in the public debate in recent years. Whereas the focus today is on China's oil imports and oil-related investments abroad, this article takes a step back to analyze a period in time during which China's most important international role was that of an oil exporter. In the course of a few years in the 1970s, China's domestic oil production grew much more rapidly than domestic demand, leading some analysts in the West to envision China as a major world oil power in the making – a “Saudi Arabia of the Far East.” The article traces the evolution of this debate, focusing not only on the twists and turns that made the vision possible in the first place, but also on the machinations that ultimately made actors and analysts conclude that China's future would not be in exports, after all, but in massive imports of oil.

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1. Introduction

The future of China's oil supply has figured prominently in the country's energy debate in recent years. Rapid modernization and industrial growth has meant that the People's Republic is in need of ever larger supplies of crude oil, refined oil products, and petrochemicals. Since the early 1990s China's domestic oil fields have not been able to fully meet this demand, and as a result refiners have had to import an ever larger share of their feedstock from foreign sources. The gap between domestic crude oil production and imports from abroad has widened continuously over the past two decades, and as of 2013 China imported 64 percent of its total needs for crude oil and refined products (BP, 2014).¹ This internationalization in terms of expanding trade relations has been paralleled by a much-debated expansion of China's state-owned oil companies abroad, particularly in Africa, one purpose being to lower Chinese vulnerability to crises and turmoil on international fuel markets (Taylor, 2006).

But there was a time when things looked very different. Throughout the 1960s and 1970s, China's domestic oil production grew at a spectacular pace and the People's Republic surprised foreign analysts by rising to become the world's fifth largest oil

producer. The People's Republic emerged as an oil exporter of regional importance in East and Southeast Asia, signing large contracts not only with two of its communist neighbors – North Korea and Vietnam – but also and above all with Japan, the Philippines, and Thailand, as well as smaller contracts with a whole range of other countries. Industry observers predicted that if the trend continued, China might emerge as a “new Saudi Arabia” – with far-reaching consequences not only for the country's export earnings and trade balance, but also for Beijing's ability to navigate the international political arena.

The article traces the evolution of this debate over time, focusing not only on the twists and turns that made the vision of China as an oil exporter possible in the first place, but also on the machinations that ultimately made actors and analysts conclude that the country's future would not be in exports, after all, but in massive imports of oil.

The article is certainly not the first one to address China's oil exports. A number of recent studies – in both English and Chinese language – have discussed the emergence of China as a petroleum nation from an historical point of view. Smil (2004), for example, revisits the “new Saudi Arabia” debate of the 1970s in the context of China's overall energy, food, and environmental history. Lim (2010a, 2010b) discusses at length the unique role of China's largest oil field – Daqing – during the Cultural Revolution, and more generally the transition “from self-reliance to internationalization.” Hu (2013) reconstructs the historical development of the Chinese oil industry through the eyes of one of the country's key petroleum geologists, Tian Zaiyi. Yet a succinct analysis of China's

* Tel.: +46 8 790 8515.

E-mail address: perho@kth.se¹ Total consumption amounted to 10.8 million b/d, of which 6.9 million b/d were imported.

career as an oil exporter – starting in earnest with first exports to Japan in 1973 and effectively ending with the shift from net exports to net imports in 1993 – is still lacking in the literature.

The present article aims to fill this gap. It does so partly by synthesizing earlier research on the subject, and partly by analyzing all China-related articles published in the leading international trade journal in the field, the *Oil & Gas Journal*, during the period of interest here. This journal relied on both Chinese and Western informants along with a variety of Chinese newspapers and trade journals to regularly inform its (Western) readers about the main trends in Chinese oil developments. The thoroughness with which it pursued this task makes it a highly useful source for the historian who seeks to reconstruct the Chinese oil debate over a long period of time.

A more ambitious research strategy would have been to go through, for example, all oil-related content in the local Chinese press and the relevant Chinese trade journals. Yet the *Oil & Gas Journal* offers indirect access to many of these sources and the impression is that it provides a fairly accurate and representative view of the Chinese oil debate during the period at focus. All China-related articles published in the *Oil & Gas Journal* (referred to in the following as OGJ) from 1949 to 1993 have been taken into account. Complementing earlier research results, this material allows us to understand and explain the most important twists and turns in the debate about China's rise and fall as an oil exporter.

2. The long road to Daqing

There was no industrial-scale production of oil in China before the collapse of the Qing Empire. During the 1910s and 1920s, however, foreign and Chinese geologists increasingly set out to explore China's petroleum resources – with varying results. A much-cited American expedition, for example, arrived at the conclusion that China had virtually no petroleum potential at all – much to the amusement of later generations of Chinese petroleum geologists (Hu, 2013: 2; Feng et al., 2013: 4). The Sino-Swedish expedition (1927–1935), which took an interest in Chinese oil sources in the context of a much larger scientific effort, yielded more positive evaluations, concluding that several areas in Xinjiang and Gansu bore strong potential for petroleum discoveries (Hu, 2013: 37; Millward, 2007: 300). Through the 1930s the British, Japanese, Americans, and Germans all sent teams to survey Xinjiang's oil possibilities (Millward, 2007: 300).

Yet before 1937 the oil potential of the northwestern Chinese regions was largely considered irrelevant, because the extreme distances and lack of transport infrastructure made distribution to major consumption centers tedious or simply impossible. As a result, industrializing hotspots such as Shanghai were forced to turn to imports from abroad. Western oil companies, such as Royal Dutch Shell and the (Swedish-Russian) Branobel Oil Production Company, regarded Imperial China as one of their most important markets early on. With the onset of the Sino-Japanese War, however, the country was abruptly cut off from the global oil market. This gave rise to severe problems not only for the military, but also for industries and households. "A drop of oil is a drop of blood," a saying went at the time (Hu, 2013: 37). In this new situation, interest in northwestern China's oil prospects increased, particularly with regard to the area around Yumen, a remote location in Gansu Province. By 1938, oil flowed from the first wells. Imported American equipment helped China's oil geologists to scale up production. By 1949, 7000 people were working at Yumen, which for some time produced about 90 percent of China's total (Hu, 2013: 37).

In the meantime Xinjiang's oil production increased as well. This oil, however, was more or less out of reach for the Chinese. This was because from 1933 to 1944, Xinjiang was ruled by Sheng

Shicai, a warlord whose regime was at times virtually autonomous and at times plagued by Turkic-led separatist movements and Soviet influence. Russian technicians worked the oil fields at Dushanzi on and off through the 1940s (Millward, 2007: 300).

The founding of the People's Republic of China in October 1949 initially did not generate any radical break with the past in terms of China's oil supply efforts. Developments that were already under way in Xinjiang and neighboring Gansu continued to be at the focus, and earlier cooperation with the Soviet Union in Xinjiang was expanded to cover China as a whole. The most important change was organizational, as the central government in Beijing was eventually able to seize control over all oil production in the country, including Xinjiang's oil fields. By 1955 the government had launched a major oil search initiative and set up the new Ministry of Petroleum Industry.

In October 1955, Chinese geologists and Soviet experts struck oil at Karamay in Xinjiang's Junggar Basin (Hu, 2013: 56–57). The find, which turned out to be very large, stimulated further Sino-Soviet cooperation. This involved not only Soviet technical assistance and technology transfer to China, but in the course of the 1950s China also became a major importer of Soviet crude oil and refined oil products, brought in by the Trans-Siberian Railway (OGJ, December 11, 1961). The emerging Sino-Soviet ideological split in the early 1960s, however, made cooperation between the oil industries of the two countries impossible to sustain. Moscow opted to withdraw its geologists and technical experts who had been stationed in the country, and oil exports to China plummeted (OGJ, October 14, 1963). In the period that followed, China managed to acquire some technology and equipment from Western Europe instead, but the extent of these supplies was nowhere near enough to compensate for the loss of the Soviet Union's earlier support. Moreover, with the onset of the Cultural Revolution in 1966, cooperation with Western Europe declined to virtually nothing. Throughout the 1960s, China thus found itself dependent on domestic knowledge and technology to an overwhelming extent – or, as the government preferred to formulate it, the country retained independence from foreign supplies (e.g. OGJ, December 13, 1971).

For China's petroleum geologists, the new times were both a curse and a blessing. On the one hand, they regretted the loss of competence that their fellow Soviet geologists had brought with them. On the other, they were now freer to try out their own ideas and solutions. It was an exciting period of experimentation, of intense learning by doing, and of enthusiasm for building a science-based industry (Hu, 2013). Although sporadic Western visitors during this period were typically shocked by what they regarded as primitive equipment, outdated technologies, and a lack of concern for environmental protection, a new generation of university-trained Chinese petroleum geologists gradually gained experience, looking with great self-confidence to the future.

The single most important source of enthusiasm in the Chinese oil industry during these turbulent years was the spectacular discovery of a previously unknown giant oil field. Situated in the Songliao Plain in Heilongjiang province, it had been found in September 1959, on the eve of the Sino-Soviet split.² Daqing, as it was baptized, was far larger than any other oil field known in the country at the time. But it was not only large; it also enjoyed a logistically favorable location. The terrain was flat, making it easy to move drilling rigs from one part of the field to another. A dense

² The extent to which Daqing's discovery was the result of Chinese or Soviet efforts has been subject to lively debate among Chinese historians. Some have argued that the field was actually discovered only after the departure of the Soviet experts, and that the latter thus did not play any decisive role. Official Chinese sources, however, date the field's discovery to 1959, i.e. just before the Sino-Soviet split.

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