中国简报 China Brief
a journal of analysis and information
The JAMESTOWN FOUNDATION

VOLUME VI • ISSUE 16 • AUGUST 2, 2006

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President Nguyen Minh Triet

China Brief is a bi-weekly journal of information and analysis covering Greater China in Eurasia.

China Brief is edited by Joseph E. Lin and is a publication of The Jamestown Foundation, a private non-profit organization based in Washington, D.C. Since its founding in 1983, Jamestown has worked to increase public understanding of Communist and post-Communist societies.

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China's Debate over Vietnam's Reforms

By Willy Lam

A DEBATE is raging within the Chinese Communist Party (CCP) over whether it should emulate the relatively bold structural reforms that the Vietnamese Communist Party (VCP) had introduced earlier this year. The VCP's reforms have included the "multiple-candidate" election of the party chief, meaning that more than one cadre is allowed to contest the post of general secretary during major party congresses. Nevertheless, CCP Chairman and People's Republic of China (PRC) President Hu Jintao, currently busy laying the groundwork for the 17th CCP Congress next year, has already indicated that Beijing will be sticking to its own path.

EMBRACED BY THE LIBERALS

Discussion among liberal scholars and CCP members first emerged in closely monitored Chinese websites and blogs after the VCP held its 10th Congress in April to pick its new party chief. Keeping with Leninist tradition, all such "elections" had in the past, involved only one candidate, with the ballot casting a mere formality. Yet for the first time in the April conclave, then party boss of Ho Chi Minh City Nguyen Minh Triet, well known for his stern anti-corruption campaigns, ran against the incumbent, veteran Politburo member Nong Duc Manh. Manh, thought by some to be a son of Founding Father Ho Chi Minh, fended off the challenge. Yet, at a plenary session of the 11th National Assembly held in June, the reformist Triet was elected state president by a large margin. In the same meeting, most government leaders above the age of 60 voluntarily retired. This made possible the early accession of Vice-Premier Nguyen Tan Dung, 56, to the post of prime minister (BBC News, June 27).

Among the well-known Chinese intellectuals who have applauded the reform experiments in Vietnam was liberal theorist Zhou Ruijin, a former editor of the *People's Daily* and Shanghai's *Liberation Daily*. Zhou wrote a piece for an electronic magazine entitled, "We Should Pay Attention to Reforms in

Vietnam." Zhou, who became famous for expounding on Deng Xiaoping's reforms in the early 1990s, asked in his article whether the VCP had already overtaken the CCP in "intra-party reform." Referring to the Chinese cadres' usually patronizing attitude toward Vietnam, Zhou wrote, "The student has surpassed the teacher." In addition to urging the CCP leadership to consider holding "multi-candidate elections" to select its general secretary at the upcoming 17th Congress, Zhou praised the high degree of transparency within VCP deliberations as well as the party's willingness to entertain the views of non-party members (*Yazhou Zhoukan*, Hong Kong, July 30). Since the mainstream Chinese media was instructed not to report on the VCP's liberalization moves, the debate on whether to "catch up with Vietnam" has been confined to relatively narrow circles of scholars and cadres in the big cities. Nevertheless, the Hu-led CCP leadership has gone to great lengths to douse the perceived flames of heresy.

The Conservatives Strike Back

Top party organs such as the CCP Publicity Department have mobilized hard-line ideologues and scholars to counter Zhou. For example, one former colleague of Zhou's at the *Liberation Daily*, editor Luan Baojun, openly called upon Zhou to "take a lower profile" and "to be more careful in handling himself." Most of the salvoes against "learning from Vietnam," however, have taken the form of affirmations of the Chinese experience in reforms. One of the most eloquent of these propaganda salvoes was an interview that the Vice-President of the Central CCP Party School (CCPS), Li Junru, gave to the *People's Daily's* popular Strong Country web-forum in late July.

A colleague of President Hu when the latter was the president of the CCPS in the late 1990s, Li is an erudite custodian of party dogma. He argued that the "Chinese should not belittle themselves in the area of political democratization." The senior ideologue then recycled the familiar argument that each country must follow its own model of democratization, which, in the Chinese context, consisted of a mixture of "elections and consultations." By "elections," Li meant mostly indirect elections of deputies to various levels of people's congresses. "Consultations" referred to the CCP's practice of consulting and working together with members of China's eight so-called democratic parties (the eight entities, which are financed by the CCP, are comprised of mainly "patriotic" intellectuals who have agreed to observe Communist Party leadership). "I believe that when our unique democratic system has come into fruition, it will be better than existing Western models," Li said (*People's Daily*, July 24).

Given the still limited nature of Vietnam's reforms, it may be difficult for outsiders to understand why the CCP leadership was so nervous about being left behind by the VCP. After all, Vietnam continues to remain a one-party dictatorship that employs draconian measures to harass dissidents and outspoken journalists. Seasoned political observers in Beijing, however, said that Hu was disturbed by Hanoi's reforms because he had contemplated the implementation of similar measures when he had become party chief at the 16th CCP Congress in late 2002. Yet, for fear of "rocking the boat" and giving the "wrong signal" to liberal elements within the party, the ever-cautious Hu has been unable to deliver the changes that he was supposed to have swept in.

In 2003, for example, Hu introduced the practice of each plenary session of the CCP Central Committee (CCPCC) beginning with a work report delivered by the Politburo to the plenum; a gesture that was supposed to demonstrate the Politburo's accountability to the CCPCC, whose 200-odd members cast their ballots to pick a new Politburo every five years. In reality, however, power remains concentrated in the nine-member Politburo Standing Committee, whose operations continue to remain opaque. Perhaps Hu's only concrete achievement in the area of "intra-party democratic reform" is the reduction of the number of vice-party secretaries at the provincial, municipal and county levels in the interest of bureaucratic streamlining. Thus, in the recent spate of personnel reshuffles in the Jiangsu Province, governed by Hu protégé Li Yuanchao, the number of vice-party secretaries at the municipal and county level was cut by 181 (Xinhua, July 22).

Compounding Hu's problems is that while he has been faulted by the CCP's liberal or "right" wing for inaction on political reform, he has, at the same time, been assailed by quasi-Maoist "leftists" for pushing excessively capitalist policies in the economic field. In a widely read article entitled, "The Socialist Market Economy Also Requires Planning," noted conservative economist Liu Guoguang pointed out that state planning and government interference were needed "to rectify the mistakes and flaws of the marketplace." Noting that "it's a myth that the market can ensure equal competition," Liu called for an adequate dosage of state intervention to ensure that socialist values (e.g. fair deals for disadvantaged sectors) be upheld (*China Economic Times*, Beijing, March 24). Since Hu's administration has prided itself on its efforts to decrease the wealth gap between the rich and the poor and between prosperous coastal provinces and impoverished western regions, Liu's views amounted to an accusation that Hu's experiments in promoting a "harmonious society" had failed.

Hu Stays the Course

There is, however, little doubt that President Hu and close ally Premier Wen Jiabao—both of whom are likely to keep their posts after the 17th Congress—will continue with their somewhat contradictory goals of relatively bold market reforms coupled with a continued centralization of power. Regarding the calls by "leftists" (e.g. Liu) that the CCP's quasi-capitalist reforms have gone too far, Hu and Wen have reiterated that only through globalization and integration with the international marketplace can China maintain its fast-paced economic growth as well as the concomitant expansion of its diplomatic and military clout.

As for the challenge from Hanoi, political sources close to the Hu camp have noted that Hu has responded to the VCP's reforms by referring to how late patriarch Deng reacted to much more cataclysmic changes in the Communist Bloc—the demise of the Soviet Union and the collapse of Communist parties in the Eastern Bloc during the early 1990s. After much soul-searching, Deng and his disciples concluded at the time that only by redoubling its economic reforms and at the same time centralizing its political and military power could the CCP avoid the fate of the Soviet Communist Party. Moreover, while Hu was President of the CCPS in the late 1990s, he had formed a special study group to look at the "formula of success" of a dozen-odd long-standing ruling parties worldwide. The group's conclusion was that "democratization" was hardly a prerequisite for the maintenance of power by several successful political parties in different parts of the world. The sources said that forward-looking scholars and cadres had already given up hope of Hu announcing dramatic steps in "intra-party democracy" when he delivers his all-important political report to the 17th Congress next year.

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China's Energy Engagement with Latin America

By Wenran Jiang

The People's Republic of China (PRC) is thirsty for energy. From the late-1970s to the mid-1990s, it has managed to quadruple its economy and in the process of doing so, became a net petroleum importer in 1993. China's dependency on foreign energy has only continued to grow as it now imports approximately 40 percent of its consumed oil. Already ranked as the fourth-largest economy in the world, Beijing has now set the goal of quadrupling its economy again by 2020. To achieve the goal, however, the PRC must rely on even greater supplies of external energy. It is, therefore, natural that Beijing has made energy security a national priority. Its quest for additional sources of energy has brought China to Latin America in recent years, a region long considered the backyard of the United States.

An Overview of the Sino-Latin American Relationship

The Sino-Latin American economic relationship entered a honeymoon phase at the turn of the new century. In 2004, 49 percent of China's total foreign investment went to Latin America (Knight Ridder News Service, July 10, 2005). China's trade with Latin America increased 600 percent from 1993 to 2003, and reached about US$50 billion by early 2005; in the past few years, business deals between China and Latin America have numbered up to 400 [1].

Diplomatically, Beijing's attention to the region intensified at the start of the 21st century when then-President Jiang Zemin took a Latin American tour that included stops in Venezuela, Cuba, Chile, Argentina, Uruguay and Brazil in 2001. Chinese Premier Wen Jiabao traveled to Mexico in late 2003. This was followed by current President Hu Jintao's participation at the 12th Asia-Pacific Economic Cooperation (APEC) leaders' meeting in Chile and a 13-day Latin American visit to Brazil, Argentina, Chile and Cuba in the fall of 2004. Hu then visited Mexico as part of his North American tour in late 2005, which also brought him to Canada and the United Nations Headquarters in New York. Almost all of these visits led to reciprocal return visits by the heads of state of these countries as well as other leaders from the region.

Politically, Beijing has established four strategic partnerships with Latin American countries: Brazil, Venezuela, Mexico and Argentina. Canada was added to the list in the fall of 2005 when President Hu visited Ottawa. There is also Beijing's traditional ideological bond with Cuba. In the broader context, China has also strengthened multilateral engagements with the region. In addition to membership in the APEC forum and observer status in the Organization of American States (OAS), Beijing has also become involved in regional organizations such as the China-Latin America Forum, China-South American Common Market Dialogue and China-Andean Community consultations, among others.

While China's trade volume with Latin America has overtaken Japan's, it continues to pale in comparison to the $800 billion U.S.-Latin American trade each year (Voice of America, April 19). Latin America's share of China's foreign trade is insignificant: its share of China's imports grew from two percent in 1990 to four percent in 2004, while its share of China's exports rose from one percent to three percent in the same period [2]. From 2001-2005, China's volume of trade with both Africa and the Middle East grew at a faster rate than it did with Latin America during the same period.

Driven to Latin America for Energy

In recent years, energy and resource sectors have represented the most dynamic part of the economic relations forged by China in the region. As China's external energy dependency has deepened in the past decade, so has its sense of insecurity. In order to diversify its sources and to reduce its vulnerability to high oil prices, Beijing has identified Latin America as one of the three major regions (together with Russia/Central Asia and the Middle East/Africa) that may become China's energy suppliers. In fact, the earliest debut of a Chinese energy company in an overseas acquisition was the $250 million purchase of development rights to an oilfield in Peru by a subsidiary of China's largest energy company, China National Petroleum Corporation (CNPC) in 1993 [3]. Coincidentally, this was the same year that China became a net oil importer.

Many Latin American countries are well positioned to attract Chinese proposals for energy and resource cooperation. Beijing's summit diplomacy in recent years has had a clear focus on increasing imports of energy and raw materials from Latin America. In Venezuela, the country with the largest proven oil reserves in the Western Hemisphere, China entered its energy sector through investments that include a $350-million infrastructure project in 15 oilfields, a $60-million gas field project and further upgrades to the country's railways and refineries. CNPC has acquired access to develop oil and gas fields in the country. Venezuela, in return, will provide China with 100,000 barrels of oil each day as well as other fuel oils (*China Brief*, June 21, 2005). The daily exports have reached upwards of 160,000 barrels per day (bpd) and may reach 300,000 bpd by the end of 2006 (People's Daily, May 17). In order to expand its capacity to ship more oil to Asia, Venezuela's national energy company, Petroleos de Venezuela, S.A. (PdVSA), announced in May 2006 that it had signed a $1.3 billion agreement with China State Shipbuilding Corporation and China Shipbuilding Industry Corporation to purchase 18 oil tankers from China. Currently, Venezuela claims that China receives 15 percent of its petroleum and related products and hopes that the percentage of the petroleum will increase to 45 percent by 2012 (BBC News Chinese, May 12). Moreover, President Chavez has repeatedly called for closer ties with China in the energy sector, often with generic provocative statements such as: "We have been producing and exporting oil for more than 100 years, but they have been years of dependence on the United States. Now we are free and we make our resources available to the great country of China" [4].

Brazil, China's largest trading partner in the region, has also been expanding its energy relations with China in the past few years. When President Hu visited Brazil in 2004, he brought with him nearly $1 billion worth of investment contracts for Brazil's ports, railways, mining and energy sectors. Large Chinese energy firms signed a series of deals with Petrobrás, Brazil's state oil company, to export crude oil to China and to establish joint ventures for the construction of gas pipelines and other energy infrastructure (*ISIS Chemical Business*, April 24). During Brazilian Minister for Mines and Energy Silas Rondeau's visit to Beijing in June, the two countries signed a memorandum of understanding (MOU) to establish a committee that would encourage cooperation in the energy and mining sectors. China's National Development and Reform Commission said that the two sides would "exchange information on policies and regulations, development strategies and important projects in the energy and mining sphere," and would encourage cooperation in oil, natural gas, renewable energy and electrical power (Reuters, June 7). Only days later, the Brazilian mines and energy ministry announced that China International Trust and Investment Corporation would invest $1.1 billion to work on new and existing energy projects in Brazil

(Dow Jones Chinese Financial Wire, June 14).

In Ecuador, the CNPC-backed Andes Petroleum spent $1.42 billion in late 2005 to purchase oilfields that had been developed by Canadian oil exploration company EnCana. The fields contain proven reserves of 143 million barrels of oil. With an annual bilateral trading volume of $5 billion, mostly in the energy sector, Ecuador's foreign minister Francisco Carrion expressed a strong desire to develop additional energy relations with China. His position has been to achieve greater diversification: "We don't just want to look north (i.e. to the United States), we want to look to all sides and, as the world is getting smaller, we want to be more pragmatic" (Reuters, June 1). In Argentina, China promised an $8 billion investment in its railways, $5 billion investment in energy exploration, $700 million in communications and an additional $6 billion in other infrastructural projects (*Diyi Caijing Bao*, November 19, 2004). China is already the second largest oil producer in Peru (after Argentina) following its earlier entry into the country (*Wall Street Journal Asia*, November 24, 2004). China also conducted negotiations with Mexico on energy cooperation [5]. Beijing has invested in Cuba, extended credits to Havana and received contracts to explore an offshore oilfield near the Cuban coast.

Unsubstantiated Concerns

China's extensive energy engagement in Latin America during recent years has become a source of growing concern. Those alarmed at its fast-ascending presence have labeled "China's encroachment on America's backyard" as "the beginning of the 'Sinicization of Latin America'" (*China Brief*, November 24, 2004). Yet, China's activities in the region are far less extensive than its investments in the two other energy supplying regions (Russia/Central Asia and Middle East/Africa). In spite of its confrontational rants and its statements praising China, Venezuela continues to export most of its oil to the United States. China now receives more than a third of its total oil imports from Africa, and Angola is second only to Saudi Arabia in supplying China with oil—about a half million barrels a day (Reuters, June 14). Latin America has a long way to go before it can catch up with Africa as an oil supplier to China [6]. When viewed in the overall perspective, China's oil imports from Latin America are relatively limited. In 2003, they amounted to just one percent of its total oil imports, and even accounting for recent growth, China's oil imports from Latin America remained just above three percent in 2005 (*Nanfengchuang*, May 8).

Others, particularly those indigenous to region, have viewed China's entrance into the region as a primarily positive development. Some are optimistic that China's investments will serve as a catalyst for economic revitalization and perhaps stabilize the up-and-down economy infamous to Latin American countries. In addition, many hope that the import demand from China will contribute to the growth of the region's economies. While competition from China has recently become a serious concern, particularly in Mexico, the threat is market-driven and not the result of a PRC mercantilist policy. Leftist-leaning leaders such as President Chavez of Venezuela and President Luiz Inácio Lula da Silva of Brazil have also advocated forging closer ties with China as a part of their efforts to diversify their economies and to wean themselves from their dependence on the U.S. market. Nonetheless, China's engagement with the Latin American countries does not indicate any particular ideological preference and China's energy related activities in Latin America, having increased significantly, do not constitute a particular pattern of planned expansion in the region. There is little evidence to suggest that the series of high-level Chinese visits to the region in recent years and its economic and strategic policies are targeted at undermining the interests of the United States.

Cooperation as the Answer

Given the overlap in interests, a major challenge for the United States, China and the Latin American countries will be to formulate policies that promote cooperation and enhance the long-term regional prosperity. Washington needs to assess China's energy interests in Latin America and ensure that China is properly integrated into a market-oriented pattern so that the energy needs of all the parties are met. Beijing needs to recognize the U.S. sphere of influence in the region and not pursue policies that are fundamentally opposed to Washington's interests; the latter would be detrimental to the economic interests of China. Finally, Latin American governments must consider how their long-term interests can be best served by forging closer ties with China while also keeping in mind the importance of maintaining their traditional ties with the United States.

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Notes

1. Xuan-Trang Ho, "China's Burgeoning Role in Latin America – a Threat to the US?" available online at http://www.politicalaffairs.net/article/articleview/712/1/78
2. Jorge I. Dominguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes, Inter-American Dialogue Working Paper, Harvard University, June 2006, p.9.
3. Noted in the analysis from: http://www.epumpnet.com/shownews.asp?id=450
4. Quoted from Luft, Gal, "In search of crude China goes to the Americas," Institute for the Analysis of Global Security: Energy Security, January 18, 2005, available online at http://www.iags.org/n0118041.htm.
5. The two sides are yet to make tangible progress in the energy sector, as Mexico has legislation limiting foreign investment in the country's energy sector. See Chunghui net: http://info.oil.hc360.com/HTML/001/001/012/001/178658.htm.
6. While analysts seem to agree on this, China's partners in Latin America may see Beijing as an alternative to the United States in both economic and political terms. See *Wall Street Journal*, September 3, 2004.

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Challenges and Opportunities in Sino-DPRK Energy Cooperation

By Keun-Wook Paik

For over five decades, Pyongyang has attempted—and failed—to develop domestic sources of petroleum. Its inability to do so has forced Pyongyang to rely almost entirely upon crude oil imported from other countries. In 1991, the DPRK imported 2.44 metric tons (worth US$307 million) of crude oil, of which 1.1 metric tons (mt) were from China, 1.0 mt were from Iran and 0.34 mt were from the Commonwealth of Independent States (CIS). Nevertheless, the volume of North Korea's imported oil dropped to a mere 0.32 mt in 1999 before rising to 0.6 mt in 2002 [1]. It is believed that China currently supplies the DPRK with an annual amount of 0.5-0.6 metric tons (mt/y) of crude oil. Therefore, suspension of China's crude oil supply—Pyongyang's energy lifeline—for even a short period would undoubtedly aggravate North Korea's fuel shortage situation and devastate its economy. Pyongyang's recognition that its enormous dependency on foreign energy could easily allow it to be coerced by foreign governments has been the impetus behind its search for an independent source of offshore petroleum.

Early Attempts

During the 1990s, Pyongyang invited Western oil companies to bid for offshore oil exploration projects and managed to sign separate contracts with Meridian Oil NL of Australia, Taurus Petroleum Development AB of Sweden and London-based SOCO International. Yet, no breakthroughs were made through the cooperation with these Western firms. Instead, in 1998, the DPRK's Oil Bureau (now the Ministry of Oil Industry) managed to independently discover an offshore oilfield in the Sook-Cheong County/West Korea Bay, fulfilling Pyongyang's dream of becoming a domestic oil producer (*Chosun Ilbo*, May 26, 2001). While the annual crude oil production from the Sook-Cheong County's offshore oilfield remains very limited (only 0.3 mt/y), it was nevertheless a significant volume and a blessing to Pyongyang. In addition to the exploration of the Sook-Cheong County offshore oilfield, DPRK authorities initiated the exploration of the adjacent Anju Basin. To assist with the exploration, Pyongyang imported Russian equipment and invited Russian experts with experience in developing West Siberian oil.
This limited success in the West Korea Bay prompted North Korea to pursue additional oilfield exploration projects. Due to the country's notorious nuclear weapons program, however, Pyongyang was unable to secure joint ventures with prominent Western companies. According to an industry source, Malaysia's state oil firm, Petronas, had planned to begin the exploration of North Korea's offshore oilfields at the beginning of 2004. Concerned with the potential encroachment of its sovereignty, however, Beijing staunchly protested the deal, causing Petronas to suspend the project. Despite the enormous setback, Pyongyang quickly turned to two additional options before finally clinching a deal with Beijing.

Pyongyang's first deal was struck with South Korea's KNOC (Korea National Oil Corp.). According to the *Dong-A Ilbo*, "In April 2004, the DPRK's Ministry of Oil Industry asked KNOC to take part in the exploration and development of the DPRK's West Korea Bay and proposed a working level meeting at Kumgang mountain." The revelation of the deal by the *Dong-A Ilbo*, however, forced Pyongyang to give up its joint venture with KNOC. Pyongyang then turned to the UK-based Aminex plc. In September 2004, British newspapers reported that Aminex had secured a deal with Pyongyang "to explore and develop all the country's potentially oil-bearing territory, with a decisive say in production." One newspaper added, "The deal—signed secretly in Pyongyang during the summer in the presence of the British ambassador—gave Aminex 20-year rights over the industry, via a joint venture with the government. It has also negotiated the right to receive royalties, revenues and the pick of the best acreage should it prove productive" (*The Observer*, September 19, 2004; *Financial Times*, October 6, 2004). Nevertheless, over a year later, the joint venture yielded only publicity for Aminex and nothing else.

Turning to Beijing

Frustrated with the lack of progress, Pyongyang finally decided to make a strategic alliance with Beijing in order to jointly explore the DPRK's offshore oilfields. On December 24, 2005, a DPRK delegation led by Deputy Premier Ro Tu-Chol arrived in Beijing and signed an agreement to jointly develop offshore oilfields with Chinese Deputy Premier Zeng Peiyan (*China Energy Report Weekly*, December 24-30, 2005). After several months of silence, the Chinese Foreign Ministry Spokesman Liu Jianchao announced on June 7 that China and North Korea had reached a preliminary agreement to jointly develop oil resources in cross border areas; both sides would sign a more detailed arrangement in the future (*Dow Jones China Energy Report*, June 9). These two reports confirm that while the Sino-DPRK cooperation is still in its early stages, a very significant step was taken.

Major Obstacles Remain

Nevertheless, several major obstacles lay ahead for the comprehensive exploration of the Yellow Sea and the East China Sea. In late 2003, it was reported that in addition to its widely known survey program in the South China Sea, China was also actively surveying and prospecting for marine energy deposits, including for the highly efficient "combustible ice," in the northern Yellow Sea as well as in parts of the East China Sea (*China Energy Report Weekly*, October 18-24, 2003). The Qingdao Institute of Marine Geology (QIMG), under the auspices of China's Ministry of Land and Resources (MLR), confirmed that geophysical analysis under the sea had already indicated the presence of hydrocarbon deposits. Yet, additional exploration of the Yellow Sea has been on hold as the offshore boundary issue between North Korea and China remains unsettled. China has not yet indicated if it would base its sovereignty boundaries on the slit-line principle or on the claims of an Exclusive Economic Zone (EEZ) extending from Haiyang Island, less than 43 miles off the Liaodong Peninsula. A slit-line boundary would give almost the entire West Korea Bay to North Korea, whereas if the equidistant-line boundary based on the EEZ were applied, only a small portion of the possible oil-bearing sediment would lie on North Korea's side of the line.

Like Beijing, Pyongyang understood the potential of the offshore oilfields in the disputed waters. Dr. Bu-Seop Park, a specialist on the issue of North Korea's oilfields exploration, gave a rare interview in late 1998 with the *Shin Dong-A* during which he claimed that the oilfield reserves in West Korea Bay could hold as much as 155 mt (*Shin Dong-A*, December 1998) [2]. This optimistic estimate indirectly reveals why both China and North Korea are so keen to explore West Korea Bay. If China and North Korea could jointly identify just one-tenth of Dr. Park's figure, it would be more than enough for North Korea to ease its fuel supply shortage and would allow China to further diversify its sources of petroleum.

The second obstacle lies in the burden of the Aminex deal. The key question is whether the Sino-DPRK agreement signed in December 2005 will override the exclusive exploration and development rights that were given to Aminex in 2004. This could be a legally challenging issue, and given the lack of details from both the Sino-DPRK and the Aminex agreements, it is difficult to determine how the DPRK will attempt to reconcile the two. What is certain is that Beijing will insist that Pyongyang clarify the discrepancy before any further exploration will be undertaken by the Chinese.

The third obstacle comes from North Korea's attempt to balance its relationship with both China and Russia. It is safe to say that during the 1990s, the DPRK was a forgotten partner of Russia. Under Putin's leadership, however, Russia has begun to restore its relationship with North Korea, and during the last five years, Moscow has offered three proposals to Pyongyang for energy cooperation. In 2001, Russia offered to provide electricity that would travel from Vladivostok to Chongjin. Yet, no breakthroughs were made due to a disagreement over the method of payment. Russia's willingness to consider payment in the form of mineral resources and mining rights provisions could produce a breakthrough, though that is yet to be seen. Moscow also offered to provide natural gas from the Sakhalin Islands and East Siberia to the Korean Peninsula by way of a transnational pipeline and sent Gazprom CEO Alexei Miller to discuss the issue in Pyongyang. Nonetheless, given the North

Korean leadership's aversion to dependence on external sources of energy supply sources (the same attitude that Pyongyang has shown toward South Korean Unification Minister Dong-Young Chung's proposal to supply electricity from the South to the North), the offer was not favorably received. The last proposal for energy cooperation was to provide crude oil to the Sheungli Petrochemical Plant built by the Former Soviet Union and located in the Hamkyung North Province. While most of the refined products would be delivered back to Russia, a certain amount of oil would be allocated to North Korea as the processing payment. The proposal was reportedly made by President Putin's Far East Plenipotentiary Representative, Konstantin Fulikovsky, during his meeting in Pyongyang with DPRK Cabinet Premier Bong-Ju Park on August 16 (Yonhap News, September 3, 2005). While no significant breakthroughs for Russian-DPRK energy cooperation have yet been made, given Russia's willingness to provide North Korea with very favorable terms, it is only a matter of time before energy cooperation between the two countries resumes.

The successful discovery and development of the offshore oilfields will have significant implications for the entire region. A sizable oilfield would allow Pyongyang to achieve its much-desired energy independence while simultaneously weakening Beijing's influence over Pyongyang. China would no longer be able to use its energy lifeline to pressure North Korea into complying with its requests (as it had done in March 2003 when Beijing had suspended oil supplies to the DPRK for three days to force Pyongyang to attend the Six Party Talks). The recognition of these realities, combined with Beijing's frustrations over Pyongyang's unannounced missile tests in July, serve as a hindrance toward any significant breakthroughs in energy cooperation. Still, Sino-DPRK offshore oilfield exploration should not be ruled out. China could potentially use the successful discovery of offshore oil reserves to pressure Pyongyang into dismantling its nuclear weapons program. While these remain purely speculatory assumptions, what is certain is that a breakthrough in the joint exploration of the offshore oilfields cannot be entirely ruled out.

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Notes

1. These figures did not include the 0.5 mt/y of heavy oil supplied by the U.S. government to the DPRK as part of the 1994 Agreement.
2. A Korean weekly reported that CNOOC has identified a major structure that may contain as much as 5-6 billion barrels of oil in DPRK's West Korea Bay. See, *Sisa Journal*, January 10, 2006, pp. 60-63.

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