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In a Fortnight

By Peter Mattis

CHINA’S RESPONSE TO PENTAGON REPORT “BASELESS, COUNTERPRODUCTIVE”

The congressionally-mandated *Annual Report on Military and Security Developments Involving the People’s Republic of China* has riled Beijing since its inception. Chinese leaders have resented being singled out, calling the report a product of “Cold War thinking” and contradictory to the spirit of U.S.-China relations. Xinhua immediately responded to the release of this year’s report and the response was picked up quickly by other news portals, presumably by direction (Xinhua, May 7; *Global Times*, May 7; People’s Daily Online, May 7). By now, the United States Government probably is accustomed to such accusations, and there is little new in the Chinese response. What is remarkable about Beijing’s statements about the annual report is that they reveal what might be a growing divorce between the propaganda and policy systems. At the very least, China’s counterproductive response—translated into English for foreign consumption—suggests an uncertain commitment to dialogue over the challenges in U.S.-China relations.

The first example of where the Propaganda Department seems out of kilter with Chinese policy is Xinhua’s problem with the Pentagon report’s statement that “China’s military modernization is designed to ‘improve the capacity of its armed forces to fight and win short-duration, high-intensity regional military conflict’” (Xinhua, May 7). This language, however, is borrowed almost directly from Chinese-

language publications. For example, China's most recent defense white paper stated "China's armed forces firmly base their military preparedness on winning local wars under the conditions of informatization" (Xinhua, April 16). At the 11th National People's Congress, Premier Wen Jiabao in a speech to PLA cadre noted the need for the Chinese military to "continuously improve their ability to fight and win local wars under informatized conditions" (People's Daily Online, March 5, 2012). Finally, former President Hu Jintao and the Central Military Commission issued an assessment of People's Liberation Army (PLA) capabilities in January 2006 that stated that the PLA's inability to fight and win local wars was part of the "principal contradiction" (*zhibuyao maodun*) that military modernization needed to resolve ("The Pentagon-PLA Disconnect: China's Self Assessments of Its Military Capabilities," *China Brief*, July 3, 2008; *PLA Daily*, January 1, 2006). These are not off-the-cuff statements or remarks of questionable authority; yet, they seem to reflect a Chinese policy of which the propagandists are ignorant or denying.

The second example where Chinese propaganda runs counter to China's self-defined interest is the area of military-to-military engagement. Xinhua stated "The essence of the report contradicted the U.S.-China common understanding on developing military ties" (Xinhua, May 7). Ironically, Xinhua quotes the same joint U.S.-China affirmation by presidents Barack Obama and Hu Jintao in January 2011 invoked in the Defense Department's report to support its statement that "the need for a robust U.S.-China military-to-military relationship that builds trust and helps manage friction continues to grow" (p. 61). The report also highlights dramatic transformation from "a poorly equipped, ground forces-centric military into a more capable force that is assuming diverse missions well beyond China's shores." This is explicit recognition that China is taking on a justified role in the world and that the latest defense white paper, *The Diversified Employment of China's Armed Forces*, provides a usable set of principles for understanding the evolution of the PLA (Xinhua, April 16).

Chinese press statements suggesting that a "groundless report" has failed to address China's transparency are nothing new, but Xinhua's repudiation of concerns about PLA budget transparency and cyber-espionage is akin to calling someone a liar before listening to a

single word. U.S. interlocutors have engaged China on the military budget issue at an official level and in Track II discussions. Moreover, knowledgeable analysts have explained in clear terms where such transparency on Beijing's part is desirable and have done so in ways that do not jeopardize China's security ("The 2013 Defense White Paper in Perspective," *China Brief*, April 25). If this problem is reflected elsewhere in the Chinese analytic community, the presumption that the U.S. Government willfully is going to distort its public analysis of China may be one of the greatest barriers to any sort of "New Type of Great Power Relationship."

Perhaps because of the Western media's focus on the cyber-espionage elements of the report, propaganda officials thought it necessary to issue separate articles dealing with just the cyber allegations. This response, however, misconstrued and distorted the nature of the evidence against at least some Chinese involvement in computer network exploitation internationally. None of the major reports on Chinese activities in cyberspace—ranging from the GhostNet report in 2008 to the Mandiant report released earlier this year—relies solely on IP address identification as analysts with the PLA's Academy of Military Science (AMS) suggest (*People's Daily*, May 8; Xinhua, May 7). In at least one case, the evidence includes the transfer of documents on a computer to which Chinese officials did not have physical access but, nevertheless, found their way into the hands of border officials. Dismissing these reports and foreign concerns as the so-called "China Hacker Theory" (*zhongguo heike lun*) eliminates the possibility for any meaningful discussion, even as cyber has become a topic for the highest-level bilateral discussions (*Shanghai Evening Post*, May 7; *Chongqing Morning Post*, February 21). Propagandists' adoption of "China Hacker Theory" marks a dangerous shift. In contrast to the "China Threat Theory" of years past, the "China Hacker Theory" dismisses the evidence available rather than inviting an objective assessment of China's behavior.

Using AMS professionals to shill on the cyber issue also is a little disingenuous and a misuse of their expertise due to the academy's work on assessing the requirements of military intelligence. In the *Science of Military Intelligence*—a textbook for PLA officers—published more than a decade ago, AMS researchers noted in their chapter on the future of military intelligence that information

relevant to military decision making was increasingly going on networks (*xinxi wangluohua*) [1]. Gaining access to them would be one of the biggest technical challenges for military intelligence to remain relevant going forward. Moreover, two of “basic characteristics” (*jiben texing*) of intelligence are, one, its continuous nature (*lianxuxing* or *bujiantuanxing*) and, two, its diversity (*duoyangxing*). In the explanation of these characteristics, the AMS authors are directing readers to recognize that intelligence collection methods and process must follow the movement of information relevant to decision makers and that constant adjustment is necessary [2]. By China’s own standard of what their intelligence agencies, especially those under the General Staff Department, should be doing, if they are not involved in getting access to networks, then they are negligent. Judging from the movement of intelligence personnel throughout the PLA, this probably is not the case (“PLA Personnel Shifts Highlight Intelligence’s Growing Military Role,” *China Brief*, November 5, 2012).

In sum, many of the Chinese criticisms of the Pentagon’s annual report on Chinese military developments either are contradicted by Beijing’s stated policy or do not invite further discussion, contravening the spirit of U.S.-China relations. Although the civilian control over the PLA may be a more interesting topic for speculation, it is the propaganda apparatus that may be the rogue elephant. Given Beijing’s commitment to engaging the United States on a “New Type of Great Power Relations” and to a mutually-beneficial U.S.-China relationship, the vitriolic response to one of the most objective Pentagon assessments seems out of place. Assuming the U.S. Government and other foreign analysts are unable to read Chinese policy statements gives the impression that Beijing is talking out of both sides of its mouth. In this respect, the Chinese commentary seems—to borrow Xinhua’s language—both baseless and counterproductive.

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Notes:

1. Zhang Xiaojun, chief ed., *Junshi qingbao xue* [Science of Military Intelligence], Beijing: Academy of Military Science, 2001, pp. 173–202.
2. *Ibid.*, pp. 11–12.

Binding the Baton: Expanding Police Power, Improving Accountability

By Willy Lam

Since Xi Jinping’s assumption of the posts of Chinese Communist Party (CCP) General Secretary and commander-in-chief last November, much attention has been paid to his instructions about raising the army’s ability to “get ready to fight and to win wars.” A recent spate of reshuffles in the political-legal (*zhengfa*) departments—which encompass the country’s police forces as well as the courts and prosecutor’s offices—however, has shown that the new supremo is equally determined to strengthen the nation’s “preserving [socio-political] stability” (*weihu wending*, or *weiwen*) apparatus. While *zhengfa* units including the Ministry of Public Security (MPS) have been given more authority, measures have been taken to boost internal checks and balances so as to curb corruption and abuse of power particularly among regional-level police officers. Moreover, the ironfisted implementation of the law has been coupled with more emphasis on defusing social contradictions on the spot.

The heart of the nation’s *zhengfa* establishment is the Central Political Legal Commission (CPLC), which is headed by Politburo member and former-Minister of Public Security Meng Jianzhu. Meng reports to Xi, who is the first General Secretary in recent memory to exercise direct control over the police apparatus (“All the General Secretary’s Men: Xi Jinping’s Inner Circle Revealed,” *China Brief*, February 15). That the powers of the CPLC have been enhanced was evidenced by the April appointment of Wang Yongqing as the commission’s Secretary General. Wang, aged 53, who is a former director of the General Office of the State Commission for Public Sector Reform, simultaneously was named a Deputy Secretary General of the State Council. This was the first time that a top CPLC cadre was given a senior slot in the central government (Xinhua, April 23; Chinapeace.org [Beijing] April 23). The concurrent appointment means that the CPLC, which is a party organ, can better supervise and coordinate the activities of *zhengfa*-related central government units, particularly the Ministry of Public Security and the Ministry of State Security. Until this development, the linkage between the

CPLS and government departments mainly manifested itself in the fact that the Minister of Public Security—or national police chief—doubles as the CPLC's Deputy Party Secretary.

More powers are being given the Ministry of Public Security. In the topmost echelon of most State Council departments, there is only one senior cadre—usually the minister—who is a member of the CCP Central Committee. In the MPS, Minister Guo Shengkun as well as two of his deputies, Yang Huanning and Li Dongsheng are Central Committee members (“Centralized Power Key to Realizing Xi's ‘China Dream’,” China Brief, March 28). Yet efforts are at the same time being made at least at the regional level to introduce checks and balances so as to combat abuse of power. This is partly as a result of high-level soul-searching in the wake of the scandal involving former Chongqing police chief Wang Lijun. In February last year, Wang, a much-decorated officer, sought asylum in the U.S. Consulate in Chengdu. Seven months later, the former ace policeman was sentenced to 15 years for crimes including taking bribes and perverting the course of justice. During the same period, a number of senior provincial police officers were detained on graft-related charges (People's Daily Online, September 25, 2012; Xinhua, September 24, 2012).

Xi and CPLC Secretary Meng have decided to speed up the process, which first began in the late 2000s by ex-president Hu Jintao, of phasing out the practice of appointing the same cadre as both regional head of police as well as secretary or deputy secretary of the provincial or municipal *zhengfa* committee. Up to 2008, police chiefs doubled as the *zhengfa* secretaries of more than half of China's 31 provinces and directly-administered cities. By the end of 2002, this personnel tradition only existed in eight provinces. After the National People's Congress held last March, only the five provinces of Anhui, Hebei, Gansu, Ningxia and Hunan have stuck to this convention of “double appointments” (*Ta Kung Pao* [Hong Kong] May 2; Sina.com, May 2; Govlaw.com.cn [Beijing], August 7, 2012) Under the new scenario, the heads of provincial or municipal police departments are under the supervision of both the *zhengfa* secretary of the same jurisdiction as well as Beijing-based MPS leaders.

That constraints have been put on the authority of regional police chiefs also is evidenced by the growing number of provincial and municipal police chiefs who have concurrently been appointed assistant governors and assistant mayors. Before the 18th Party Congress, the bulk of regional heads of police enjoyed the higher ranking of deputy governors or deputy mayors. After the NPC, the heads of the provincial public security departments in the provinces of Guizhou, Liaoning and Jiangsu— respectively, Sun Licheng, Wang Dawei and Wang Like—were named assistant governors of these provinces. Similarly, Bai Shaokang, the head of the Shanghai Public Security Bureau, was given the concurrent title of Assistant Mayor of Shanghai (Xinmin.cn [Shanghai], April 11; China News Service, April 3; China Daily Online, April 3).

At the same time, the professional qualifications of central- and provincial-level *zhengfa* personnel have been raised. Take, for example, the newly-appointed CPLC Secretary General Wang Yongqing. A native of Jiangxi Province, Wang is a graduate of the Law School at Jilin University, where he obtained the degree of Doctor of Laws. In 2006, Wang spent a semester at Harvard's Kennedy School of Government. Among the newly-appointed regional police chiefs, Guizhou's Sun Liping stood out as another cadre who had received training in a U.S. university. While Sun, aged 50, was not a law graduate, he spent more than 20 years at the Central Commission for Disciplinary Inspection, which is China's highest-level anti-graft organ. In 2004 and 2005, Wang attended public administration courses at Duke University (CCTV News, April 23; People's Daily Online, April 2).

Higher professional requirements also apply to several other senior appointments elsewhere in the labyrinthine *zhengfa* establishment. Take, for instance, the new President of the Supreme People's Court Zhou Qiang. A graduate of the Law School of Southwestern University of Politics and Law, Zhou, aged 53, spent a decade in the Justice Department in the 1980s and 1990s (Court.gov.cn [Beijing], April 2; China News Service, March 15). He is thus much more qualified than his predecessor, Wang Shengjun, a former provincial police chief who had never attended law school or held a professional legal position.

While the new *zhengfa* team has made significant personnel and organizational changes, it is basically cleaving to

established practices regarding operational doctrines and approaches. In line with the imperative that President Xi has put on upgrading the technological standards of both the army and police, more resources are being spent on developing and procuring state-of-the-art equipment. Under new chief Guo Shengkun, the MPS is speeding up the five-year-old national “informatization drive” that is geared toward using IT-enabled mechanisms to crack down on crime as well as to boost surveillance over destabilizing social elements (“Informatization Drives Expanded Scope of Public Security,” *China Brief*, April 12). By early this year, the informatization drive had reached the remote Tibet Autonomous Region. In a recent speech, Tibet *Zhengfa* Secretary Deng Xiaogang pointed out that “the construction of an informatization system is essential to raising [the region’s] ability to safeguard stability and manage society in the new era” (Chinapeace.org.cn, March 24; Tibet Daily, March 23).

More emphasis than ever is being put on adopting a masses-oriented approach to *weimen*. Taking a leaf from Chairman Mao’s “people warfare,” the public security (police) and state security (intelligence and counterespionage) apparatus has since the 2008 Olympics been encouraging ordinary citizens to help improve law and order through means including reporting potential criminals and “suspicious characters” to the police. In a recent inspection trip to Hebei, CPLC Deputy Secretary General Chen Xunqiu asked local *zhengfa* cadres to do their utmost in encouraging grassroots-level and masses-based units to participate in regional *weimen* projects. Chen indicated “grassroots village organizations, self-government organizations of the masses as well as [rural] economic cooperatives” should play a bigger role in supplementing the police in enhancing social harmony and rooting out destabilizing elements (Chinapeace.org.cn, April 12; Jschina.com.cn [Nanjing], April 1).

While touring Zhejiang Province last month, CPLC Secretary Meng also laid stress on using the “mass line” approach to upholding law and order. “We should raise our ability in working with the masses,” he told local police and judicial cadres, adding “We should further consolidate the construction of a grassroots foundation for *zhengfa*-related [tasks] as well as the comprehensive rectification of law and order.” Meng in particular lauded the “Fengqiao Experience.” This is a reference to how cadres in the town of Fengqiao, Zhejiang Province,

managed to defuse “contradictions within the people” as well as disputes between cadres and the people by quickly resolving them on the spot. 50 years ago, Mao was so impressed with Fengqiao that he instructed security units nationwide to learn from the small town’s cadres and police officers. Following Mao’s spirit, Meng summed up the Fengqiao experience as “preventing small incidents from being heard outside the village and preventing big incidents from spreading beyond the town” (*Legal Daily*, April 28; *People’s Daily*, April 28). Given that China is hit annually with more than 150,000 instances of riots and civil disturbances, local officials who fail to prevent “mass incidents” from snowballing into headline-making national crises are liable to be demoted or fired.

Despite apparent measures taken by *zhengfa* authorities to minimize “contradictions among the people,” the past few months have witnessed a plethora of cases that seem to point to police brutality and the miscarriage of justice. For example, security personnel guarding Liu Xia, the wife of Nobel Prize-winning dissident Liu Xiaobo who has been illegally been put under house arrest, have routinely roughed up Hong Kong and foreign reporters who try to visit her. Last February, police tried to put pressure on Anhui-based dissident Zhang Lin by preventing his ten-year-old daughter Zhang Anni from going to school. Last month, judicial and prison officials in Shandong Province refused to give medical treatment to Chen Kegui, the nephew of blind lawyer Chen Guangcheng. The younger Chen, who was serving a three-year jail term that is widely interpreted as indirect punishment for his uncle, badly needed an appendicitis operation (*Ming Pao* [Hong Kong] April 30; VOA Chinese Service, April 29). In a teleconference with *zhengfa* cadres soon after the 18th Party Congress, Xi urged them to achieve goals including “a peaceful China, a China that is ruled by law, and building up a corps of officials that pass muster.” The party chief also made pledges about “rectifying the police force with severity and resolutely combating [the phenomenon of] unjust law enforcement” (Xinhua, January 7, China News Service, January 7). Given these abuses, the onus, however, is on both Xi and Meng to show that personnel and policy changes in the *zhengfa* system will serve to promote social justice rather than merely ensuring the CCP’s monopoly on power.

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The “Two Incompatibles” and PLA Self-Assessments of Military Capability

By Dennis J. Blasko

Recently, a Beijing-based defense attaché from a NATO country was reported saying, “Our assessment is they [the People’s Liberation Army] are nowhere near as effective as they think they are” (*Foreign Policy*, May/June 2013). Though the foreign officer did not provide further details, contrary to this attaché’s assertion, a large body of evidence in the official domestic Chinese military and Communist Party media suggests People’s Liberation Army (PLA) officers—ranging from the senior leadership to operational and tactical commanders as well as staff officers—do not judge the Chinese military to be anywhere near as effective as many foreigners do.

When speaking to foreigners, senior PLA leaders often say something like what Minister of Defense Liang Guanglie told U.S. Defense Secretary Robert Gates in January 2011, “The gap between us and that of advanced countries is at least two to three decades” [1]. The senior leadership understands the PLA has made progress in many areas over the last 15 years, especially in some important, well-publicized capabilities, but internally they emphasize the need to educate and train PLA personnel to execute a new doctrine that they have never tested in combat.

Acknowledging the force’s shortfalls and focusing how to overcome these deficiencies reflect a professional approach to the task of military modernization. It also is the basis for the multi-decade timeline extending out to 2049 that the PLA has set for itself to complete the modernization process. At its most basic level, the

recognition of shortcomings is consistent with Sun Tzu’s guidance to “Know the enemy and know yourself.”

The PLA Constantly Evaluates Its Capabilities and Shortfalls

Critical analysis of problems in PLA personnel quality, organization, training and logistics can be found in the writings and quotes from operational commanders and staff officers responsible for unit readiness published in Chinese military newspapers and journals. They are almost always in Chinese, directed at the PLA itself or Communist Party members. These evaluations are often buried in longer articles and usually follow the pattern of recognizing improvements that have been made, identifying shortcomings and recommending actions to overcome these problems. Many articles contain descriptions of units learning basic lessons that all militaries confront in training. Many articles, however, describe systemic problems that apply to more than just the individual unit involved and are published as lessons for others in the PLA. This type of analysis is not a new practice and can be traced back through decades of military reporting.

Significant problem areas are identified for all the services. The following sections provide a few examples across three categories from Chinese reports published since 2010. Often reports are couched in terms of “some units,” so it is difficult to assess exactly how widespread the problems are. The difficulties, however, must be common enough throughout the force to merit such public attention.

Personnel Quality

The goal of improving the quality of officers, noncommissioned officers, and conscripts has been at the top of the PLA agenda for many years, going back to Jiang Zemin’s guidance in the 1990s: “Though we’re unable to develop all high-technology weapons and equipment within a short period of time, we must train qualified personnel first, for we would rather let our qualified personnel wait for equipment than the other way round” (“Chinese Military Logistics: The GAD System Part II,” *China Brief*, October 14, 2004). Despite this emphasis, the PLA leadership still sees major shortcomings in the performance of many commanders, staff officers and

troops in all services. A few examples of this type of evaluation include the following:

- Then-President Hu Jintao said “The military is facing prominent difficulties in recruiting soldiers, retaining professionals...Therefore, we must find the solution to these problems by adjusting and reforming related policies and institutions” (*Outlook*, March 28, 2011);
- A PLA Daily staff commentator article stated “We must be aware that the overall level of talented personnel in our army is not compatible with the requirements of fulfilling the historic mission in the new century, and the quality of information technology personnel is not compatible with the requirements for the development of combat effectiveness” (China Military Online, April 19, 2011) [2];
- Another PLA Daily article focused on the Navy noted “It must be understood that the incompatibility between the requirements to build naval personnel and to build an informatized navy and win informatized maritime wars remains a relatively obvious contradiction” (China Military Online, May 11, 2011);
- Writing about the state of the PLA’s joint operations capabilities, Major General Chen Pinghua, political commissar of the 14th Group Army, said, “currently there is still a gap between the Party committee’s [unit commander, political commissar, and their deputies] tactical command capability and the requirements to win an informatized warfare in some troop units” (China Military Online, December 22, 2011 in Chinese and December 23 in English).

Old-Style Thinking

Closely related to the quality of personnel is the need for more innovation in thought and action. Much of the problem traces back to a reluctance to change old practices. Some units must be encouraged to “change their thinking” to actually use the new weapons and equipment issued them. Even recently there have been reports of soldiers who are afraid of using new equipment

for fear of breaking or losing it, or because they have not been properly trained in its operation and maintenance (this situation is often referred to as “Lord Ye’s love of dragons,” *Yégōng hàolóng*).

- A PLA Daily staff commentator article observed: “Some units have long been mired in the conventional mentality...These units handle issues arbitrarily and in accordance with their personal preferences, and they replace laws and regulations with governance, power, order and personal feelings...a small number of units still exhibit the phenomena of disobeying laws, orders and regulations” (China Military Online, June 7 and 8, 2010);
- A year later another staff commentator article repeated, “The problem at present is that the phenomenon of failing to obey regulations and/or failing to enforce laws or rules rigidly still exists in some units in one form or another. Some people pay more attention to the rules of men than to the rule of law” (China Military Online, March 21, 2011);
- Nanjing Military Region commander and political commissar Cai Yingting and Zheng Weiping told party leaders, “At present, due to the long peaceful environment, a small number of military personnel relax readiness in their thinking and mentality...Our forces are short of experience in fighting actual operations under informatized conditions, and there still exists a gap between their military capability and the requirement of winning in war” (*Qinshi*, March 1).

Training

Currently, the PLA is experimenting with its training system to implement a new doctrine that incorporates the new and old equipment in the force. Commanders and staff officers recognize problems in both the content and form of training. They seek to conduct realistic training so that their units will “train as you fight and fight as you train” (China Military Online, May 4, 2012). Some personnel, however, take “shortcuts,” like using unauthorized civilian radios or cell phones, which undermine realism and could jeopardize actual operations.

Units are trying to find the best way to standardize, monitor and evaluate training and eliminate the problem of “fakery” in order to get good results.

- Major General Xu Jingnian, commander of the 20th Group Army (a corps-level organization) said “The basic campaign corps face many problems carrying out joint training under current conditions” (China Military Online, January 21, 2010);
- Major General Chen Zhaohai, director of the General Staff Department Military Training and Arms Department (now the Military Training Department) assessed: “Currently, the PLA’s military training under informatized conditions is still at the initial phase” (Xinhua, January 29, 2010);
- A *PLA Daily* staff commentator summarized, “...military training in our army is still generally mechanized. Traditional ideas and habitual practices have not been drastically changed... The level of training support is not sufficient for training under informatized conditions” (China Military Online, March 31, 2011);
- Major General Zhou Xiaozhou, commander of the 14th Group Army, stated “Some units do not pay attention to training quality and efficiency, waste valuable resources, which affect the scientific upgrading of unit combat effectiveness” (China Military Online, July 24, 2011);
- After acknowledging progress in military modernization, Lieutenant General Li Shaojun, deputy commander of the Beijing Military Region, reported to the National People’s Congress, “there is a gap between the overall combat effectiveness of the PLA and the requirements of fulfilling new historical missions” (China Military Online, March 13, 2012);
- Rear Admiral Qiu Yanpeng, deputy commander of the East Sea Fleet, said, “No matter whether it is in comparison to the navies of other world powers or looking at the needs of the construction and development of the Chinese Navy, there is

considerable room for improvement in terms of the strength and results of our distant sea training” (Xinhua, December 11, 2012).

The “Two Incompatibles”

Most of the examples above come from senior Army personnel in positions of operational authority and responsibility. Similar assessments are found in the Navy, Air Force, and Second Artillery newspapers. In addition to the areas mentioned above, organizational shortcomings have been a common theme over the past 15 years as the PLA has become smaller, but more technologically advanced. Operational and tactical headquarters have discovered they are not structured adequately to command and control joint and combined arms operations and have undergone significant structural and equipment changes. Likewise, the PLA leadership understands the requirement for its logistics system to keep pace with the changes in its combat systems. The problem of logistics support is complicated by the existence of multiple types of similar equipment in the force. For example, the Army has at least five types of main battle tanks (each with variants) and 12 types of helicopters in its inventory. Each different type of equipment brings with it different maintenance and supply requirements, increasing the complexity of the logistics effort.

The challenges the PLA faces in its modernization program have been clear to the senior leadership for many years. While they simplify their assessment for foreigners by speaking of a 20 to 30 year gap in capabilities, for their own internal consumption they speak of the “main contradiction” (*zhuoyao maodun*) or the “two incompatibles” (*liangge buxiang shiying*). This evaluation of PLA (and People’s Armed Police) capabilities has been attributed to Hu Jintao and was first published on January 1, 2006 in a *PLA Daily* editorial. Though it has been translated in many ways, the statement usually follows these lines:

“The main contradiction in our army building is that the level of our modernization is incompatible with the demands of winning a local war under informatized conditions, and our military capabilities are incompatible with the demands of carrying out the army’s historic missions in the new century and new stage.”

Nearly all senior PLA leaders have repeated the “two incompatibles” assessment in speeches or writing. It continues into the Xi Jinping era, found as recently as April 4 and 16, 2013 in *PLA Daily*. Like other assessments, it is usually buried deep in a Chinese-language article after acknowledging progress in some area has been made. Its purpose is to motivate the troops to continue the difficult task of military modernization. It also may be used within the government bureaucracy to justify continued increases to the defense budget. An accompanying explanation often bears these points out:

“After the CCP’s 16th Party Congress, China’s defense power has been substantially increased. Military Transformation with Chinese Characteristics has attained significant achievement, with revolutions in military affairs, modernization and regularization all working together in concept to strengthen the military on all fronts. At the same time, preparations for military conflict continue apace, with clear advancements in the ability of our nation’s military to carry out the New Historical Missions. But we must see, although the ‘two incompatibles’ are an important contradiction affecting our military’s construction, there remains a major disparity between not only our military’s level of modernization and the needs of our national security, but with between ourselves and cutting edge military forces around the world. Speeding up the modernization of National Defense and the military and redoubling efforts to resolve the major contradiction while increasing our across-the-board ability to carry out missions and implementing the party’s directive to strengthen the military has decisive significance” (*PLA Daily*, April 16).

In short, for the senior Chinese leadership, the “Two Incompatibles” are the measure of PLA modernization and a framework for evaluating China’s military capabilities. They understand that although the PLA has made great progress and looks much different from 15 years ago, there remains much work to be done to achieve across-the-board advanced military status. This self-awareness on the part of the PLA leadership suggests that many senior military officials may not be as “hawkish” as they are frequently portrayed. It is possible

that their understanding of the many shortcomings in the PLA may embolden them to urge caution in the use of force when advising the senior Communist Party leadership in private. When ordered by the party, however, they will seek to accomplish the missions using all the forces and capabilities at their disposal. Moreover, the professionalism signaled in these self-assessments suggests the PLA may employ these capabilities in ways we do not expect. Discipline and necessity can be the parents of invention.

Some readers may be skeptical and assume this evaluation is part of a grand strategic deception plan (Sun Tzu said, “All warfare is based on deception”), but nearly all instances of the “Two Incompatibles” and most functional assessments are found in newspapers and journals directed at a Chinese audience. They have not been included in any of the externally-oriented defense white papers. More importantly, such evaluations reveal the practical problems a military will encounter as it moves from the book-learning phase to live training in the field. It is more likely that the “two incompatibles” assessment is related to Sun Tzu’s instruction to “Know the enemy and know yourself.” Successful execution of a deception plan or operations order is unlikely without accurate knowledge of both the enemy and your own capabilities...and weaknesses.

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Notes:

1. Department of Defense, “Joint Press Conference with Secretary Gates and General Liang from Beijing, China,” Press Release, January 10, 2011, available online <<http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4750>>.
2. Staff commentator articles in the *PLA Daily*, published by the General Political Department, “speak for the paper as an institution.” See, Paul H.B. Godwin and Alice L. Miller, *China’s Forbearance Has Limits: Chinese Threat and Retaliation Signaling and Its Implications for a Sino-American Military Confrontation*, Institute for National

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China's Iraq Oil Strategy Comes Into Sharper Focus

By Chris Zambelis

March 19 marked the ten-year anniversary of the United States invasion of Iraq that toppled the government of Saddam Hussein. Although the international community continues to focus on the violence plaguing post-war Iraq and the country's oil production capacity, changes in Iraqi foreign policy in the post-Saddam era have received far less attention. Endowed with the world's fifth largest proven reserves of crude oil and sizeable natural gas deposits, Iraq is a critical source of energy for the world (U.S. Energy Information Administration, Iraq Country Data, April 2013). It is no surprise that China, a major energy importer whose reliance on Middle East oil continues to grow, is watching developments in Iraq closely. Although years of economic sanctions, war and mismanagement have devastated Iraq's energy sector, an influx of foreign investment and efforts by the Iraqi government to improve the energy infrastructure have boosted Iraq's oil production to the highest levels in decades. A search for customers has inevitably led it to China, which imports an estimated 500,000 barrels of oil per day (bpd) from Iraq (Xinhua, April 5). Indeed, Iraqi Oil Minister Abdul Kareem al-Luaibi recently announced that Iraq is pursuing a major long-term agreement with Beijing to deliver oil to China: "The Chinese companies are considered as strategic partners to Iraq in aspects of extracting and marketing crude oil through their active participation to develop the Iraqi oilfields" (Xinhua, April 5; Bloomberg, April 3, Reuters, March 5).

A confluence of elements centered on Iraq's energy sector, especially its oil component, is aligning to shape a strategic partnership between Baghdad and Beijing. The rapid evolution of Sino-Iraqi ties will have far-reaching implications for both countries and the Middle East as

a whole. Chinese investments in the Iraqi energy sector have been instrumental in helping to restore the country's energy production. Iraq's return to energy prominence—it surpassed Iran in December 2012 as the second largest producer of oil in the Organization of Petroleum of Exporting Countries (OPEC) and is now the world's third largest oil exporter—has occurred as China continues its campaign to secure reliable oil and natural gas resources. Iraq achieved over 3 million barrels per day (bpd) of oil production in March and is now regarded as the world's largest source of new oil. The predicted structural decrease in U.S. demand for imported oil over the long term is also affecting the thinking in Baghdad and Beijing (*Financial Times*, March 4; Reuters, March 5; December 12, 2012). In this evolving market, major energy producers such as Iraq are determined to enlist new and stable customers as demand for oil from traditional markets such as the United States wanes. China, meanwhile, is positioning itself to absorb available market supply. The International Energy Agency (IEA) has projected that up to 80 percent of Iraqi oil will eventually be exported to Asia in general and China in particular. In the long term, Iraq also hopes to satisfy China's large demand for natural gas (International Energy Agency, Iraq Energy Outlook, October 9, 2012; McClatchy, March 27).

Measuring China's Oil Footprint

China's interest in Middle Eastern energy is well known. It depends increasingly on major oil producers such as Saudi Arabia and Iran to meet its oil needs, and is estimated to import around half of its oil from the Persian Gulf region alone (*National* [Abu Dhabi], April 4). Despite the inherent risks in dealing with complex and unstable markets such as Iraq, Chinese investors have been gaining a foothold in the country's energy sector and in doing so have begun to face a unique set of challenges. In addition to having to navigate a tumultuous political and security environment, China is engaging a country that for a long period of time remained effectively under U.S. military occupation even as the central Iraqi government operated under a framework of limited sovereignty.

Under these circumstances, China was able to secure the first major oil accord between the Iraqi government and a foreign entity since 2003 (al-Jazeera [Doha], August 28, 2008). In 2008, China's state-owned China National Petroleum Corporation (CNPC) concluded a \$3.5 billion

deal with Iraq's North Oil Company (NOC) to develop the al-Ahdab oil field—a relatively small oil field by Iraqi standards—in the province of al-Wasit. The agreement negotiated between CNPC and NOC allowed the Chinese energy giant, in concert with its partner Zhenhua Oil to develop and manage the field for a 22-year period (*Oil and Gas Journal*, September 8, 2008). The 2008 agreement revived an earlier accord signed between Baghdad and Beijing in 1997 that governed Chinese exploration rights in the area. The importance of the agreement to develop al-Ahdab extends beyond timing and provides a glimpse into China's approach toward investing in the Iraqi energy sector. A Chinese oil executive admitted that the economic fundamentals underlying CNPC's investment in al-Ahdab was outweighed by the prospect of being able to “get a foot in the door” in Iraq (*New York Times*, June 28, 2011). With its eye on the future, China appeared to prioritize gaining an early foothold in the Iraqi oil sector that would lay the groundwork for future dealings on larger and more lucrative projects.

Numerous Chinese energy concerns have since concluded a series of major deals governing a range of activities in Iraq. In 2009, CNPC and British Petroleum (BP) signed a joint agreement with Iraq to increase production at the Rumaila oil field, Iraq's largest oil field. Also in 2009, a consortium led by China's largest oil producer and CNPC subsidiary PetroChina concluded an agreement with Baghdad to operate Iraq's Halfaya oil field (AFP, June 28, 2011). The China Petroleum and Chemical Corporation (Sinopec) entered the equation through its multibillion dollar purchase of Addax Petroleum, a Swedish energy concern with operations in Iraq. In 2010, the China National Offshore Oil Corporation (CNOOC) partnered with Turkish Petroleum Corporation (TPAO) to sign a 20-year agreement to develop upstream capacity at the Missan oil field (Caixin Online, May 18, 2010). China has concluded numerous upstream and downstream deals with Iraq valued in the billions. China's presence in the Iraqi oil sector goes beyond exploration and extraction as well. The China Petroleum Pipeline Engineering Corporation (CPPE), a CNPC subsidiary, is reported to have been awarded a contract by Iraq's Missan Oil Company (MOC) to build a 300-km pipeline to deliver oil extracted from the Missan oil field for export (*Azzaman* [Baghdad], January 30). According to some assessments, China's position in the Iraqi oil industry is such that at least one third of all future production of Iraqi oil will

be derived from oil fields owned outright or co-owned by Chinese concerns (McClatchy, March 27).

The perception surrounding China's activities in the Iraqi energy sector in the context of the decade-long U.S. presence in Iraq is also worthy of note. In light of the widely-touted opinion that the United States invaded Iraq, in large part, to dominate its energy reserves, it is important to highlight the tremendous inroads made by China in the Iraqi energy sector following the fall of Saddam Hussein. While U.S. and other Western oil majors have reaped substantial profits in Iraq, it would appear that China, for numerous reasons, was able to realize disproportionate gains in the Iraqi energy sector (al-Jazeera, January 7, 2012). Yet in contrast to similar activities around the globe, China's expanding profile in the Iraqi energy sector has appeared to receive far less attention. The ongoing violence and instability that typify the situation in Iraq has seemed to allow China to operate relatively below the radar.

Navigating the Geopolitics

China's growing profile in Iraq also has thrust it into a geopolitical morass of intra-Arab rivalries. Iraq's reemergence as an energy power has important geopolitical implications that transcend its impact on global supply and demand dynamics. Major oil producers within OPEC—particularly Saudi Arabia, currently the world's largest producer and exporter of oil as well as the host to the world's largest known oil reserves—are threatened by the prospect of a resurgent Iraq that is once again attempting to stake its claim as an energy superpower. Much like Iraq, Saudi Arabia also looks to China and Asia more broadly as prime destinations for its energy exports. China surpassed the United States as the top importer of Saudi oil toward the end of 2009 (“Shifting Sands in the Gulf: The Iran Calculus in China-Saudi Arabia Relations,” *China Brief*, May 13, 2010). In many respects, China's growing reliance on Iraqi oil threatens to upend a delicate regional balance of power among key energy producers. Specifically, China's prominent role in helping underwrite Iraq's resurgence in the energy sphere will be viewed through a prism of suspicion in Riyadh. Saudi Arabia does not relish the prospect of having its preeminent position as an oil power challenged by Iraq, a country it has long seen as a rival. In addition to feeding Saudi concerns, the notable scale and scope of Chinese involvement in Iraq also may elicit unease from China's

other partners in the region. For example, Saudi Arabia's allies in the energy-rich Gulf Cooperation Council (GCC), to varying degrees, are also wary of Iraq's rising influence. Even in a period of sustained global demand for oil, major energy producers in the GCC are fearful of seeing their influence as energy suppliers diminish as a result of the availability of Iraqi oil on the international market. Reliable access to Iraqi oil, in essence, provides consuming nations with more choices.

China's deepening involvement in Iraq is also raising trepidation among Iraq's neighbors because of its potential to impact the course of Iraqi foreign policy. Iraq's rehabilitation as a major energy producer is viewed as a precursor to the emergence of a more assertive foreign policy. In this context, Iraq's relationship with Iran is the cause of particular consternation. The conservative Sunni monarchies led by Saudi Arabia are alarmed about what they see as an emboldened Shi'a-led Iraq that has tilted toward Iran. The fact that China continues to view Iran as a strategic partner and vital source of oil and natural gas adds another layer of complexity to the regional climate. China also frequently sides with Iran on international actions concerning Iran's nuclear program. Yet even as it benefits greatly from its friendship with Baghdad, Iran also understands that the availability of additional oil supplies furnished by Iraq to world markets may leave it more susceptible to harsher economic sanctions over its nuclear program. One of the many criticisms of the U.S.-led economic sanctions on Iran highlights the impact of energy supply gaps due to the removal of Iranian energy supplies from the global market. In theory, Iraqi oil can fill supply gaps resulting from a decrease in exports of Iranian oil. Given this logic, the expansion of Sino-Iraqi relations over energy may cause unease in Tehran, as it must recalibrate its own position to account for the fact that it can be replaced in its role as a major world supplier of oil and, eventually, natural gas.

China's activities in Iraq also raise important issues relevant to U.S. influence in Iraq and the U.S. position in the wider region. The United States may have withdrawn its military forces from Iraq, but a formidable U.S. military presence remains in place throughout the Persian Gulf. Even as the United States has declared its pivot toward Asia and its desire to work toward energy independence, Washington is not prepared to abandon its presence in

the broader Middle East. The U.S. influence in the region provides Washington with a valuable lever of strategic influence over its competitors and rivals alike. These circumstances present important challenges for China down the line, especially as its reliance on the region's energy resources continues to grow.

As its reach extends further into Iraq, China's rising profile also threatens to entangle it in a multitude of domestic political disagreements that have widespread ramifications for the future of Iraq and regional stability. The sensitive internal disputes festering between the central authorities in Baghdad and the autonomous Kurdish Regional Government (KRG) promise to pose a number of challenges to Chinese interests in Iraq down the line. These disputes raise existential questions over the parameters of Iraqi territorial sovereignty and national identity. The Iraqi constitution guarantees the KRG's autonomy under a federal structure. A series of rows over the status of the disputed oil-rich city of Kirkuk, foreign policy, security, revenue sharing and natural resource extraction, however, threaten to unravel Iraq's fragile unity (*al-Monitor*, April 4). The KRG has leveraged the relative peace and stability of the northern Iraqi territories under its control to lure foreign investment and engage with its neighbors independent of the central government. Baghdad interprets the KRG's behavior as an attempt to circumvent its authority in an ultimate bid for independence. Consequently, Baghdad has punished foreign energy majors for their direct dealings with the KRG by excluding them from lucrative contracts in central and southern Iraq. For example, in 2012 Baghdad banned Chevron and other energy majors in retaliation for their direct dealings with the KRG (*Financial Times*, July 24, 2012). Exxon Mobil, which is operating in Iraq's massive West Qurna 1 oil field, angered Baghdad when it signed an oil exploration accord with the KRG. Exxon Mobil reportedly has considered selling its stake in West Qurna 1 in favor of focusing on its prospects in Iraqi Kurdistan. Meanwhile, PetroChina has been mentioned as a candidate to buy Exxon Mobil's assets at West Qurna 1 if it decides to abandon southern Iraq for the KRG or to develop the field jointly with Exxon Mobil if it were to renegotiate its position in Iraq (*Reuters*, March 25; *Reuters*, March 5). Moreover, a number of Chinese companies operate in Iraqi Kurdistan. China also has committed itself to establishing a consulate in Erbil in a

bid to foster closer ties with the KRG (eKurd.net, January 8). That said, Beijing has been careful not to overstep its bounds in Iraqi Kurdistan by flouting Baghdad's authority when engaging the KRG. At the same time, it is unclear whether China can remain relatively unscathed by Iraq's domestic political turbulence for too much longer.

Conclusion

The convergence of mutual interests between China and Iraq over the buying and selling of oil will serve to underpin a long-term strategic partnership. At the same time, the geopolitical realities of a resurgent Iraqi energy sector will present China with an array of difficulties. China has steered these circumstances successfully until now with relative ease. The future may not be as forgiving. The overlapping and divergent interests that are at play in Iraq are likely to compel China to make difficult choices down the line. China has strived to build multifaceted relationships with Iraq and its neighbors through pragmatic diplomacy and lucrative trade while deftly avoiding alienating any of them in the process. But it is also reasonable to expect that China's partners will someday seek to leverage their respective relationships with Beijing to further their own interests at the expense of their competitors and rivals. As China's influence and presence in Iraq and the wider Middle East grow commensurate with the scale of its energy interests, regional players may seek to play China off against the United States or other key actors in an effort to strengthen their own positions. To what extent that China is capable of maintaining its delicate balancing act in Iraq and beyond in such an environment remains to be seen.

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New Sino-Mongolian Oil Deal Undercuts Russia's Old Role

By Alicia Campi

Mongolian Petroleum Authority Chairman G. Ulziiburen announced in mid-March that Mongolia had made an agreement with PetroChina—a subsidiary of China National Offshore Oil Corporation—to exchange crude oil drilled in Mongolia with end-products processed in Inner Mongolia Autonomous Region. Delivery was to reach 10,000 tons of fuel this April, lessening the present import cost for Mongolia by \$100–170 per ton. Chairman Ulziiburen promised the government would continue to seek cheaper sources of fuel in hopes such policies soon would reduce prices. After expansion upgrades are made in May to the Zamyun-Uud railroad switch-loading yard on the Sino-Mongolian border, it is planned that monthly imports will increase to 20,000 tons by September (Montsame, March 19). The imported Inner Mongolian oil will be of a higher quality—equivalent to Euro-3 standard. Mongolia's current consumption of fuel imported from Russia is equivalent to the more polluting Euro-2 standard and sold under the brand name AI-92. This Inner Mongolian refined fuel is sold under the new Mongolian brand name MONGOL-93 and was released at gas stations in April.

Twenty percent of Mongolia's imports today are petroleum products. Mining Minister Davaajav Gankhuyag, a well known supporter of resource nationalism, has commented "In order to get rid of petroleum supply from one route (Russia), we are negotiating with third parties that brings some positive results" (InfoMongolia, March 21). This is not, however, a new Mongolian oil strategy. Back in 2009, Dashzeveg Amarsaikhan, then-Chairman of the Petroleum Authority, stated "We shall have more leverage once we manage to diversify our sources and reduce captive dependence on one supply source. The Government is clear about this and has been working to achieve that objective. Things will get better once we extract enough oil at home and also have a refinery here" (en.mongolianminingjournal.com, October 8, 2009). Mongols have claimed for years that the Russian supply has been interrupted for political reasons, such as in May 2011, and that these products are increasingly expensive and fail to meet soaring consumer and industrial demand. Although Mongolia is sensitive to Chinese activity in

the mineral sector, it is willing to let China become a significantly larger supplier of oil products, at least in the short term, to break the back of its dependency on more expensive Russian petroleum products. This temporary strategy may work in China's favor to ease the bilateral tension generated by Mongolia's increasing concern over the large volume of Chinese investment in its minerals. While certainly a more positive development from China's point of view, Mongols are clear that they see the future of their petroleum supply in creating their own refinery infrastructure.

For decades, Mongolia was over 90 percent dependent on Russian imported petroleum products, mainly acquired from Rosneft Company. In 2012, it imported a total of 1.2 million tons of oil, of which petroleum products comprised 1.1 million tons—64 percent of which was imported from Rosneft. As of the first three months of 2013, imports from Rosneft have been decreased by another 30 percent, so, in the first quarter of 2013, Mongolia has imported 50 percent of its monthly supply from Switzerland's Gunvor Group (the fourth largest crude oil trader in the world which obtains much of its crude oil from the Russian Federation), South Korea's SK Energy and Hyundai Oilbank, in addition to the China, at prices that average \$100-200 per ton cheaper than Rosneft. So far, however, these lower prices have not been reflected at the gas pump. In fact, Speaker of the Mongolian Parliament Zandaakhuu Enkhbold, back from a March U.S. trip, complained that Mongolian consumers pay more for gasoline than Americans (mongoliaeconomy.blogspot.com, March 18).

Mongolian Oil Sites Move from the Soviets to the Americans to the Chinese

Historically, petroleum production and drilling with a small refining operation were initiated by the Soviet Union in the 1960s, although the first find was in 1947. Petroleum operations ceased in 1969 because of well pressure decline, the refinery destruction by fire, and the discovery of giant oil fields in western Siberia. With the collapse of communism, the Petroleum Authority in 1991 began granting foreign exploratory licenses in order to obtain technical and financial assistance from Western companies and purposefully barred China from such licenses in its oil sector. The trend over the years,

however, has been for the private western companies to sell out to Chinese state-owned enterprises (SOEs) with the Mongols powerless to stop it. Exploration studies first were carried out by British Petroleum and Philips Petroleum between 1990 and 1993. Through Mongol Gazryn Tos (MGT), the state-owned petroleum company, the Mongolian government signed a Production Sharing Contract (PSC) in 1993 with SOCO International of Fort Worth, Texas and its first exploration well was drilled in Dornod province near the Chinese Manchurian border in 1994. Later, PSC agreements were concluded with two other Texas-based U.S. oil companies—Nescor Energy Company of Austin and Medallion Petroleum of Houston to work with existing production capacity in the southeast Gobi desert and the Tamsag Basin in the northeast [1]. SOCO partnered with Huabei Oilfield Services of China, which provided drilling services, and trucked its crude to China before finally selling out completely in 2005 to SOE PetroChina Daqing Tamsag (PCDT)—much to Mongolia's shock.

Nescor Energy, between 1994 and 1997, conducted exploration and appraisal operations in the southeast Gobi with a U.S. Trade Development Agency grant, and, in February 1997, the Mongolian government gave up to Nescor its 50 percent stake in these fields, which covered 13 million acres, (*New Straits Times*, February 27, 1997). The next year a Joint Venture of Gulf Canada and ROC Oil (Sidney, Australia) acquired all Mongolian rights and assets of Nescor Energy. Crude then was exported by truck, pipeline and train into China. In January 1999, Gulf Canada withdrew from the JV due to the oil price downturn. Later in June 2001, ROC Oil sold out its interests to Dongsheng, a subsidiary of SINOPEC. This action and the PCDT buyout enabled China to take control of Mongolia's oil sector, a result that has made Mongolian policymakers uncomfortable ever since. With so much Chinese investment in the oil sector and with China being the major customer for Mongolia's exported crude, the Mongolian public also has raised concerns about the ramifications of massive Chinese investment. Publicly, Mongolian officials have claimed that they “do not choose an investor on the basis of its country, but look for the most competitive offer and one that offers the maximum benefit and profit to Mongolia. These are our criteria, nothing else. We work for our national interests and considerations like a company's base country

are immaterial. Geopolitical factors do not affect our decisions” (en.mongolianminingjournal.com, October 8, 2009). The government of Mongolian President Tsakhia Elbegdorj, however, has implemented plans to diversify petroleum sources in the near-term while developing domestic production through new oil refineries. For example, in accordance with the Government’s Action Plan for 2012–2016, construction will start on a Mongolian-Japanese joint venture “Darkhan-Petroleum” refinery with annual capacity of at least 2 million tons in Darkhan-Uul province, about 150 miles north of Ulaanbaatar. The Feasibility Study has been finished, so work will commence this year with a completion date by the end of 2015.

The Petroleum Authority of Mongolia has estimated that there are four to six billion barrels of recoverable oil in Mongolia: “Despite the scarcity of exploration data on Mongolia’s petroleum potential, caused by interruption of exploration activities for the last 25 years, positive geological and geophysical data, reported oil seeps throughout the sedimentary basins and recent discoveries of oil and the geologic similarity...of hydrocarbon basins of Mongolia to adjacent Chinese producing basins indicate the high probability to find substantial petroleum reserves in Mongolia” (www.pam.mn, 2013). Now, there are 30 petroleum fields, 21 of which were established through product share agreements. Of these 21, only 3 sites actually are productive, while the rest are in the exploratory stage under the direction of 14 different companies of which only 4 are Western. These companies include Swiss company Manas Petroleum through its subsidiary Gobi Energy Partners LLC in the east Gobi Basin, Australian Central Asia Petroleum LLC, Canadian Shaman LLC and Canadian Sunwing Energy (Mongolian Mining Journal, September 20, 2012).

Mongolia’s only three oil producing fields are managed by Chinese majors PetroChina and Sinopec. These are Zuunbayan, Tamsag-19, and Tamsag-21, which in 2012 produced a total of 482,000 tons of crude oil (3.6 million barrels), an 11 times increase in production over the last five years (wolfpetroleum.net/Mongolia). Chairman Ulziiuren also announced that in 2013 the Mongolian government intends to increase volume from these three sites up to 660,000 tons or about 5 million barrels for export to China. Zuunbayan is in the south of

the country not far from Mongolia’s giant coal-uranium deposit of Tavan Tolgoi and its Rio Tinto-controlled large copper-gold deposit of Oyu Tolgoi. The other two sites are in the northeast near the Chinese Manchurian border. Recently the Mongolian Ministry of Mineral Resources and Energy determined that the reserve at the Toson Uul deposits at Tamsag Basin amount to 119.02 million tons and estimated economically recoverable reserves will amount to 13.67 million tons (Montsame, March 19, 2013). Among the important Chinese companies now actively exploring in Mongolia is Mongolia Energy Corporation Limited (MEC) (*menggu nengyuan youxian gongsi*), a mining and energy development holding company operating in Mongolia and Xinjiang in northwestern China. MEC’s exploratory concessions are in western and southern Mongolia in cooperation with CNPC Daqing Petroleum. Yet another Chinese company, Gold BC LL, has been working in Mongolia for three years.

Conclusion

This new agreement to exchange crude oil for processed end-products does not mean that Sino-Mongolian relations are dramatically deepening. This new purchase plan, however, does indicate that the two nations can find new ways to cooperate despite the potential for serious problems in the existing Sino-Mongolian petroleum relationship. Mongolia has been a minor exporter of crude oil to China since the late 1990s. When Petro China acquired received the right to conduct mining operations for the next 20 to 30 years from the SOCO sale, it claimed that 40 million of the 177 million barrels of crude oil reserves in its sites were economically recoverable reserves. PCDT projected it would excavate 93.3 million barrels of crude oil between 2010 and 2019. The original deal included the promise by the Chinese side to build roads between the Tamsag fields and the Bichigt border crossing point by 2011, but, despite increasing exports, no road has been built. In 2012, 500 of its 521 drilled wells were operating and produced 410,000 tons of oil. This is carried in 80 to 100 trucks per day along 31 eroded dirt tracks. PCDT—the largest of four oil exploration companies in the province—has announced that it plans to produce 650,000 tons more this year, because it will constructed new transmission pipelines. The company also is extracting oil in a neighboring province, but transports that crude via a pipeline to the Chinese cross-

border refinery instead of by tanker trucks. In a move reminiscent of Mongolian threats to use non-compliance/performance in certain clauses by Rio Tinto in its Oyu Tolgoi contract as the reason to reopen negotiations over the entire contract, this March Speaker of Parliament Enkhbold visited the oil fields of Dornod province and threatened that “If the company [Petro China] fails to build road transportation, their permit is not allowed [to continue]” (english.news.mn, April 8, 2013). This would indicate Mongolian authorities are seeking to reopen the existing contract with PetroChina to seek more favorable terms.

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Notes:

1. John C. Wu, “The Mineral Industry of Mongolia, 1999” in *U.S. Geological Survey Minerals Yearbook—1999*, Washington, DC: U.S. Geological Survey, 1999, pp. 15.1–15.4, available online <<http://minerals.usgs.gov/minerals/pubs/country/asia.html>>.
