How to Improve U.S.-China Relations in the Wake of CNOOC

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Abstract

The increasingly confrontational approach the U.S. Congress is taking toward China, as witnessed by the surge of anti-China legislation and by the excessive politicization of the proposed merger between CNOOC Ltd., a subsidiary of state-owned China National Offshore Oil Company, and Unocal is leading to “creeping protectionism,” often in the guise of protecting U.S. national security. Although it is proper to criticize China for its human rights violations and its lack of a transparent legal system, we should not ignore the substantial progress China has made since it embarked on economic liberalization in 1978.

A policy of engagement—or what Hu Jintao, president of the People’s Republic of China, calls “peaceful development”—is a necessary condition for constructive U.S.-China relations. Although China’s competitiveness does pose a threat to certain U.S. economic interests, it also benefits American consumers and exporters. Protectionism would harm both the United States and China and would increase the likelihood of conflict. Hardliners would gain at the expense of more reasonable voices.

To avert the risk of conflict, the United States needs to treat China as a normal great power, not as an adversary, and ensure that only those commercial transactions that genuinely threaten national security are blocked.
Introduction

In its 2005 Annual Report to Congress on the Military Power of the People’s Republic of China, the Pentagon described U.S.-China relations as “cooperative, candid, and constructive.” The report stated, “The United States welcomes the rise of a peaceful and prosperous China,” but warned that with growing wealth the PRC will be able to modernize its military and could pose a “credible threat” in East Asia and beyond.1

One growing concern voiced both by the Pentagon report and by Congress is that China’s demand for direct ownership of oil and gas and other “strategic assets” will pose security risks, particularly if China acquires U.S. energy companies. In a congressional hearing on July 13, Frank Gaffney Jr., president of the Center for Security Policy, told the House Armed Services Committee that the sale of Unocal Corp. to CNOOC Ltd. (hereafter CNOOC), a subsidiary of China National Offshore Oil Company, “would have adverse effects on the economic and national security interests of the United States.” He pointed to “the folly of abetting Communist China’s effort to acquire more of the world’s relatively finite energy resources” and warned of “the larger and ominous Chinese strategic plan of which this purchase is emblematic.”2

Such fears are evident in the flurry of anti-China resolutions and bills introduced by members of Congress around the time of the CNOOC-Unocal bid. On June 30 a nonbinding House resolution (H.R. 344) recommending presidential review of the CNOOC deal passed by a vote of 398 to 15. In a letter to President Bush, House Energy and Commerce Committee chairman Joe Barton (R-TX) declared, “We urge you to protect American national security by ensuring that vital U.S. energy assets are never sold to the Chinese government.”3

When the China hawks in Congress joined forces with the protectionists, a strong (and dangerous) coalition was formed to effectively end any chance that CNOOC would be successful in its bid to acquire Unocal. After Congress amended the Energy Policy Act of 2005 (H.R. 6) in late July—to require a lengthy review of the proposed takeover—CNOOC abandoned its US $18.5 billion bid for Unocal on August 2.

Although Congress used national security arguments to justify the close scrutiny of the proposed CNOOC-Unocal deal, the relatively small size of Unocal convinced most experts that the security card was really just a ploy to tilt the deal in favor of the other suitor—California-based Chevron. Indeed, Chevron is located in the congressional district represented by the chairman of the House Committee on Resources, Richard W. Pombo, the very person responsible for amending H.R. 6 to require that the Department of Energy, along with the Departments of Defense and Homeland Security, conduct a 120-day study on the economic and security implications of China’s growing demand for energy. An important provision of that amendment was that the White House could not approve the CNOOC offer until 21 days after the DOE study was completed. By adding up to 141 days to the takeover process, Congress undermined CNOOC’s incentive to continue the bidding war with Chevron and convinced Unocal’s board to accept Chevron’s cash-and-stock offer valued at $17.7 billion.4

In scrapping its bid, CNOOC management said that “unprecedented...