

A Risk Analysis of Energy Cooperation Under the Belt and Road Initiative

Yutong Zhao*

*School of International Studies, Communication University of China, Beijing, 100000, China
Corresponding Author's Email: 1176724324@qq.com*

ABSTRACT

Energy cooperation plays an important role in the BRI initiative. The BRI Initiative has faced many risks since its implementation. These risks are especially high in energy cooperation. Under the framework of BRI, China's foreign energy cooperation faces political, economic, legal, social and other risks. As an essential part of the BRI's energy cooperation, China's bilateral relations with Iran also face challenges. Based on the risk analysis of energy cooperation between China and Iran, this paper puts forward relevant policy suggestions.

Keywords: *BRI, Energy Cooperation, Risk Analysis, China, Iran*

1. INTRODUCTION

The cooperation initiatives of building the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" were put forward by Chinese President Xi Jinping in September and October 2013, respectively. In March 2015, the Chinese government issued the Vision and Actions on Joining the Silk Road Economic Belt and the 21st Century Maritime Silk Road. Since 2013, "One Belt, One Road" (OBOR), later renamed the "Belt and Road Initiative" (BRI), has been widely recognized and responded positively by the international community. Remarkable achievements have been made in energy cooperation. China has carried out extensive cooperation with more than 100 countries and regions in energy trade, investment, production capacity, equipment, technology and standards.[1] A large number of energy projects have been successfully launched, bringing significant benefits to the economy and people's lives of relevant regions. Nowadays, energy cooperation shows a good development trend, with oil and gas cooperation deepening, the development of clean energy and new energy on the rise, and the energy industry in the regions along the BRI being further developed.

At present, China's economic growth is highly related to the world's energy industry.[2] China's demand for energy imports is driving the development of BRI energy cooperation. Since the implementation of reform and opening up in 1978, China's economy has developed rapidly, with the demand for energy increasing. Since then, China's overall external energy

dependence has been on the rise. During the ten years from 2005 to 2015, China's external energy dependence increased from 6.0% to 16.3%, and since 2012, it has been maintained at a level above 15%. Specifically, the dependence on crude oil is the most serious, rising from 39.5% in 2005 to 60.69% in 2015, breaking the 60% mark for the first time. Furthermore, the dependence on natural gas has increased most significantly, with 31.89% in 2015, compared to -6.4% in 2005.[3] As a significant energy consumer, promoting BRI energy cooperation is conducive to solving the problem of energy shortage in China's economic development. Considering its energy shortage, China will have the necessity to promote energy cooperation with countries along BRI and will attach greater importance to energy cooperation. According to the white paper on China's Energy Development in The New Era, China will strengthen energy cooperation with other countries under the framework of joint development of the BRI. For example, in 2019, China and 30 other countries jointly established the BRI Energy Partnership.[4]

However, the risks and concerns of BRI energy cooperation are becoming more and more prominent. In recent years, the regions along the BRI have seen a significant increase in political uncertainties, growing potential concerns about legal risks, and poor public opinion environment for promoting the construction of BRI and so on. If these issues could not be solved, China would face a great challenge in promoting energy cooperation, posing a severe threat to economic development.

This article analyzes the risks Chinese companies face in the existing energy cooperation projects with countries alongside the BRI. This article proceeds in three subsequent parts. The first section provides an in-depth analysis of how the risks are formed and their impact on promoting the BRI energy cooperation. In light of energy cooperation, the second section illustrates the risks faced by the cooperation between China and Iran. The last section offers several practical suggestions to reduce such risks or resolve those challenges.

2. RISKS IN ENERGY COOPERATION

There are many risks that Chinese companies facing in the process of energy cooperation. They can be divided into four aspects, which are political risks, social risks, legal risks as well as economic risks. Notwithstanding the Chinese government has realized these risks, it does not mean that these issues have been solved.

2.1. Political Risks

2.1.1. The Intervention of Great Powers

The intervention of great powers can cause a negative influence on energy cooperation. For example, India is the major power of South Asia. In terms of Gwadar Port, India has a strongly negative attitude toward this initiative. The Prime Minister of India, Narendra Damodardas Modi, has once pointed out that the construction of Gwadar Port is a threat to India. In addition, since America is the world's supreme naval power, and the US military controls the world's major oil and gas routes, they can easily cut off the maritime traffic of any country, which is a considerable threat to the security of energy transportation under the BRI.

At the beginning of the BRI initiative, Russia considered it as China's geopolitical strategy to expand its influence, which would strengthen China's control over Central Asia, the Middle East and Eastern Europe. In particular, Russia was afraid that China would expand its influence in regions belonging to the former Soviet Union. In this way, Russia would not be able to dominate in these areas, and its influence would be weakened. Russia also took BRI as China's economic expansion strategy. With the development of China's economy, China has been looking for a bigger market for its products. Russia believed BRI provided such an opportunity for China to dominate European and Asian markets by circulating its currency and commodities, leading Russia to be less competitive in the market. In terms of energy, Russia worried that Russia and Central Asia would ultimately fall into the trap of the "energy curse". They were concerned that China would use the opportunity of BRI to carry out energy investment and

trade with Russia and Central Asian countries. However, the manufacturing investment and technology transfer in these regions were not mature. The countries along BRI were not equipped with the necessity that could ensure the security of their economy in the energy cooperation. The Russian side also believed that China would export immigrants through BRI in the form of investment and trade. The Siberia and the Far East of Russia are sparsely populated. Therefore, the influx of Chinese people will become a significant national security hidden danger to Russia.[5] Since the establishment of the Asia-Pacific Economic Union, Russia has taken it as a major development strategy to seek to expand the unified market to Central Asia and the Baltic Sea. Russia was afraid that the BRI initiative would cause adverse effects on the Asia-Pacific Economic Union.

2.1.2. Internal Political problems of BRI countries

Some countries cooperating with China have political problems. In some resource-based countries, the industrial structure is unbalanced, likely to cause economic instability and social unrest, which is necessary to be considered when assessing the risks of energy cooperation. In some countries, the economy is controlled by some interest groups. That means these interest groups get involved in establishing these countries' policies. Therefore, only obtaining the agreement of their governments in policies is not enough to avoid some divergence and intervention by the interest group. Take Indonesia as an example. The Joko government's aggressive reforms have attracted foreign investment to some extent, but they have also affected a large number of vested interests. President Joko Widodo and his government, who came from the "grassroots", are being besieged by the conservative political and business groups, the Islamic groups and the military junta. Since 2016, Indonesia's domestic political situation has been surging. The Jakarta-Bandung high-speed railway project dispute in the 2019 election was actually aimed not at the incident itself, but at challenging Joko's authority and shaking his regime.[6] In addition, in some resource-rich countries, corruption is rampant, resulting in the low efficiency of policy's implement. Many Chinese companies find it hard to urge the local government to follow the policies or solve some problems when working in these areas.

2.2. Social Risks

Chinese enterprises prefer to employ Chinese employees because there is no communication cost. Owing to the language barrier, employing local workers will cause work decrement. Consequently, local residents become to forge feelings of hatred because the Chinese companies have not provided many job

opportunities. Moreover, energy exploitation is also detrimental to the local environment and ecology. Therefore, it is easy to understand why the local people believe that Chinese people are depriving their job opportunities and precious energy resources. Gradually, the local residents began to form a sense of resistance toward Chinese enterprises and the BRI initiative.

In terms of the problem of labor of BRI energy cooperation, this problem is very prominent in Indonesia. Pan Yue also mentions that there are numerous reports concerning that Chinese workers are robbing Indonesians of their jobs. For example, there is numerous negative news about Chinese laborers in Indonesia. Such kinds of feelings are driven by the China threat theory. Indonesian elites consider China's development as a threat and instill this attitude towards China to the working class. Another issue concerning the problem of labor is the working conditions. The tradition of Chinese companies is working overtime. Therefore, from local workers' perspective, being asked to do extra work violates their rights. In addition, since local workers are unwilling to work overtime, the relationship between employers and employees will deteriorate, and the governance cost of the enterprises will be increased.

It is worth mentioning that the BRI is a cross-regional and cross-cultural cooperative initiative. Owing to the barrier of culture and language, both sides of the laborer and the capital cannot fully understand each others' opinions and sentiments. As a result, disputes and conflicts between local workers and Chinese capital occur from time to time by virtue of a lack of experience in coordinating with local workers and being not familiar with the local labor regulations and standards. This will not only reduce the productivity of the enterprises but also harm China's international reputation.

2.3. Legal Risks

Legal risks are also important factors threatening the process of BRI energy cooperation. The countries along the BRI belong to different legal systems, leading to divergence when coping with some issues. We can basically divide the countries involving in BRI into three kinds according to legal systems. They are countries with civil law systems, countries with common law systems as well as countries with Islamic law systems. There are significant differences in legal classification, terms, forms of legal expression, trial mode and skills and rules of application of law in countries with different legal systems. The same dispute is dealt with differently in countries with different legal systems, and the applicability of law will be weakened. At the same time, the asymmetry of legal information caused by different legal systems may also bring many unpredictable risks to investors.[7]

We also cannot neglect the fact that due to the different levels of social development and the degree of legal perfection, law enforcement and regulation are different. In some less developed countries, owing to people's weak legal awareness, people may not comply with the law strictly, and the relevant authorities' work efficiency also needs to be improved. This causes intransparent law enforcement and brings trouble to foreign enterprises that are unfamiliar with the local situation. These matters directly produce potential investment and administrative risks for Chinese companies.

2.4. Economic Risks

Energy cooperation requires a safe and stable business environment because energy projects involve a huge amount of investment and consume a lot of human and material resources. Therefore, if one energy cooperation program is interrupted by an unsafe and unstable business environment, the cost will be very high that companies cannot afford. In addition, the disadvantageous business environment can also extend the investment recovery period, which is also detrimental for Chinese companies to make more profit.

Credit, interest rate, and exchange rate of different countries also cannot be ignored. According to Moody's evaluation report, 42 countries along the routes have credit ratings below investment grade or not within the Moody's rating range, which is potential investment risk. In addition to regular commercial risks, China's investment in countries along the routes also faces significant credit risks.[8] Since the amount of money involved in outbound investment is enormous in the energy area, the change of interest rate and the exchange rate is of great significance. These rates will change not only the cost of Chinese companies but also their profits. Moreover, China's currency, RMB, is still not widely accepted as an international currency. This means that China still needs to use US dollars when doing business with other states. As a result, the US economy and currency policy will cause further uncertainty for China's trade issues.

3. CHINA-IRAN ENERGY COOPERATION

China-Iran energy cooperation of BRI is of great significance and is very representative. Since on the one hand, Iran is an important cooperative partner of BRI. On the other hand, China is Iran's "Look East" Strategy's core target country. On the occasion of the 50th anniversary of the establishment of diplomatic ties between China and Iran, Chinese State Councilor and Foreign Minister Wang Yi visit Iran at an invitation from March 26 to 27, 2021. During this period, the two sides signed the China-Iran Comprehensive Cooperation Plan for 25 years.[9] Although the two countries have

many common interests and have long maintained good relations, there are still many risks in terms of energy cooperation worth discussing. That is why this essay chooses this case to investigate.

Strengthening energy cooperation is a win-win choice for China and Iran. In May 2018, US then-President Donald Trump announced his unilateral withdrawal from the Iran nuclear deal and imposed the largest-ever sanctions on Iran, due to which many countries have been restricted from buying Iranian oil. As China has a large demand for oil, closer cooperation with Iran can also increase China's energy security and help to break the US energy blockade. Vice Commerce Minister Qian Keming pointed out that bilateral trade between China and Iran stood at \$35.13 billion in 2018. Among them, China imported 29.27 million tons of crude oil from Iran, worth the US \$15 billion, up 21.8% year on year. Investment by Chinese companies in Iran has kept growing, and China has remained the largest trading partner and crude oil importer in Iran.[10] Iranian Foreign Ministry spokesman Mohammad Khatibzadeh announced that China and Iran have reached a 25-year strategic agreement to buy oil from Iran and that China will continue to import oil from Iran.[11]

3.1. Economic risks

Since the society is not stable in Iran, its economic environment has many risks. According to the World Bank's Doing Business report released in October 2019, Iran ranks 127th out of 190 countries and regions in the world in terms of ease of doing business. Overall, according to the World Bank's assessment of the global environment for doing business, Iran is one of the countries with an unfavorable investment environment.[12] Usually, the process of energy cooperation is long. Therefore, many disputes may occur with the changes in Iran's economic situation. There is a failed case involving a trade dispute reported by the Economic and Commercial Office of the Chinese Embassy in Iran. When a Chinese enterprise exported goods to Iranian customers, the agreed payment terms were: 15% before arrival, 90 days after 30% bill of lading, 120 days after 25% bill of lading, and 150 days after 30% bill of lading. The customer could not complete the remaining payment after paying the 15% advance payment. After the enterprise went to Iran to negotiate, the customer issued a certificate of arrears but refused to cash it. The lesson Chinese enterprises could learn this case is that payment cycles should not be too long, and client finances and the Iranian economy should be adequately investigated.[13]

In addition, the Financial Tribune of Iran reported on April 23 that the average consumer price index for goods and services in Iran rose 38.9 percent year on year to the end of January (April 20), compared with 36.4 percent in the previous month.[14]

3.2. Political risks

Iran's regime is unstable. Iran suffers domestic turmoil and foreign aggression. Internally, Iran's contradictions are increasingly intensified. There are continuous conflicts between its Conservatives and Reformists. Iran is a theocratic state with an extremely strong religion. Actually, religion is not a problem, but it could invoke a severe problem affecting social stability. Because of Iran's unique conditions and regime, ethnic separatism within Iran is a potential risk to its internal security. In addition to the main officially sanctioned political parties, Iran has many outlawed religious groups that are suppressed. All these unstable political factors could lead to social unrest, making the environment unsuitable and unsafe for energy cooperation.

At the same time, Iran has been sanctioned by the United States and blockaded by other Western countries. Iran's relationship with the West is poor and inexorably declining, particularly with the United States. The Iranian nuclear controversy and its activities in turmoil-ridden Iraq have limited the evolution of Sino-Iranian relations. At present, China's oil import transportation is still mainly dependent on the Middle East route, Africa route, and Southeast Asia route. All three routes pass through the Strait of Malacca. China plans to build new land energy corridors under the Belt and Road Initiative, with Iran as a key link. If the comprehensive sanctions imposed by the United States cause instability in Iran, it is bound to affect the promotion of relevant projects. For example, if the construction of the liquefied gas pipeline from Iran to Gwadar, which is contracted by China, is affected, relevant Chinese enterprises will face huge losses.

3.3. Terrorism

Terrorism is rampant in the Middle East. Although terrorism in Iran is not as severe as that in other Middle East countries, the situation is still deteriorated in recent years, which will threaten the security of energy cooperation. Iran itself is a multi-religious country, with the Shiite Muslims being the majority. However, with the aggravation of the turbulence and chaos in the Middle East and the continuous involvement of the United States in the Middle East affairs in recent years, the contradictions between different religions in Iran have become increasingly severe, and internal terrorism has risen. The major religious terrorist organizations in Iran include Jundallah, Jundullah, and the Islamic State. In 2014, Iran suffered nine terrorist attacks by religious extremist groups, nine terrorist attacks in 2015 and ten terrorist attacks in 2016.[15] On February 13, 2016, a suicide bomber targeted the Islamic Revolutionary Guard Corps in Sistan-Baluchistan province in southeastern Iran, killing at least 27 soldiers and

wounding 13 others.[16] On November 27, 2020, senior Iranian nuclear physicist Fakrizadeh was killed in an attack near the capital Tehran. Iran called it an act of terrorism.[17] Even in 2021, there have been many terrorist attacks. According to Iranian media, one person was killed and three others wounded in an explosion in Sistan-Baluchistan province, which was stated by the Islamic Revolutionary Guard Corps On March 21, 2021.[18] On July 9, 2021, Iranian state television said Iran's railway network had been hit by a suspected hacker attack.[19] Terrorism has affected the social stability in Iran and caused irreparable losses to the investment and construction of Chinese enterprises.

3.4. Legal Risks

Iran is a Muslim country with a different legal system than China. Iran belongs to the Arab legal system, with a strong religious characteristic. The legal system is not very complete, and there is much room for legal interpretation. China has a civil law system with Chinese characteristics. The international trade relations are regulated by the central government. Energy cooperation with Iran is bound to involve import, export and customs issues. In Iran, the legal provisions in the fields of import, export and customs are complex, making the import, export and transportation of energy risky.

In addition, in specific business practices, foreign enterprises do not have the habit of affixed seals on the contract, and they usually sign their names on behalf of the enterprise by individuals. In case of disputes, foreign businessmen will defend the enterprise on the grounds that the representative is not authorized, thus making the Chinese enterprise bear the risk of failing to perform the contract.[20] Moreover, Iran is not a member of WTO, which means that its laws and regulations are not constrained by WTO, leading Chinese enterprises risky in trading.

4. POLICY SUGGESTIONS

The two governments should enhance their communication and exchanges. More communication and exchanges of two sides' high levels are beneficial to learn more about the international situation, domestic economic conditions and policies related to Iran immediately. The Chinese government should also strengthen counter-terrorism cooperation with Iran. China and Iran have a lot in common in terms of counter-terrorism. China also has domestic threats such as ethnic separatism and religious extremism. Therefore, China should continue to act as the leading role of the United Nations in counter-terrorism and actively carry out relevant cooperation with Iran.

Both sides should strengthen the awareness of legal risk prevention. The transnational enterprises should

investigate the credit standing of the transaction party before signing the contract. Before forming cooperative relationships, investigating the credit standing is of great necessity since it shows whether the transaction party has the ability to follow the contract to make sure the cooperation could go on smoothly. In addition, when signing contracts with Iran's companies, Chinese representatives could consult with them to seal the contract so that both sides' responsibilities could be clarified when disputes occur. What is more, make sure that there are legal counsels throughout the whole process. If there were not sufficient law talents, hiring legal consultants would also be a rational choice.

Both governments and enterprises should strengthen personnel training and cultivate specific talents who are familiar with Iran's domestic and foreign affairs. China is in lack of scholars who know the situation of Iran from all aspects, especially from the legal level. China could encourage specific talents to study or conduct field research by offering various projects and provide financial help. Besides, colleges and universities can encourage students in relevant majors to strengthen their research on Iran.

5. CONCLUSION

This article analyzes the risks Chinese enterprises may encounter in energy cooperation. Particularly, this essay focuses on the energy cooperation between China and Iran. Based on the domestic situation of Iran, this essay analyzes the risks of Sino-Iranian energy cooperation from economic, political and legal aspects. The safety of energy cooperation is of great importance for both China and Iran, which is also a vital part of their bilateral relationship. Therefore, this article offers some specific suggestions. The BRI will remain an essential part of China's foreign cooperation for some time to come, and it covers many aspects other than energy cooperation. This paper analyzes the risks of BRI only from the aspect of energy cooperation. Furthermore, we need to realize that in addition to these aspects, BRI Initiative itself faces many problems such as transparency, efficiency and international doubts. Therefore, China and countries that recognize the BRI initiative need to make more efforts to expand their national interests and promote international cooperation.

REFERENCES

- [1] The Central People's Government of the People's Republic of China. The White Paper on China's Energy Development in The New Era [EB/OL] (2021.7.18) [2020.12.21] http://www.gov.cn/zhengce/2020-12/21/content_5571916.htm.
- [2] The National Development and Reform Commission energy bureau of the People's Republic of

- China.Promote The "One Belt And One Road" Energy Cooperation Vision and Actions [EB/OL] (2021.7.18) [2017.05.16].
<http://www.scio.gov.cn/31773/35507/htws35512/Document/1552329/1552329.htm>.
- [3] Gao Shixian,speech at the 5th China International Oil Trade Conference held in Shanghai on November17,2016 [EB/OL](2021.7.18)[2016.11.17].http://caijing.chinadaily.com.cn/finance/2016-11/17/content_27410319.htm.
- [4] The Central People's Government of the People's Republic of China.The White Paper on China's Energy Development in The New Era [EB/OL] (2021.7.18) [2021.12.21].
http://www.gov.cn/zhengce/2020-12/21/content_5571916.htm.
- [5] Mei Guanqun.Russia's attitude and reasons for the Belt and Road Initiative and synergy between China and Russia [J].Siberian Studie,2018,(45):02.
- [6] Pan Yue.Safety and transnational Labor issues: A Case study of Chinese labor in Indonesia [J].Southeast Asian Affairs,2020,(04).
- [7] Li Yubi, Wang Lan.Identification of legal risks in the Construction of the Belt and Road and corresponding policies[J].Journal of Chinese Academy of Governance,2017,(02).
- [8] Zhang Suoxu.Research on China's Energy Cooperation with Countries along the Belt and Road[J].Land and Resources Information,2021(02):22-29.
- [9] China and Iran signed a 25-year comprehensive cooperation agreement [EB/OL](2021.7.18) [2019.09.16].
http://henan.china.com.cn/news/2021-03/28/content_41511390.htm.
- [10] Iran offers "Red Carpet" for Chinese companies in Iran[EB/OL](2021.7.18)[2019.05.20].
<http://ir.mofcom.gov.cn/article/zxhz/201905/20190502864586.shtml>.
- [11] China and Iran have signed a 25-year oil purchase agreement[EB/OL](2021.7.18)[2021.03.30].<http://www.cwestc.com/newshtml/2021-3-30/665553.shtml>.
- [12] The World Investment Report 2019 was released[EB/OL](2021.7.18)[2019.09.16].
<https://chamber.huanqiu.com/article/9CaKrnKmQCF>.
- [13] Trade dispute risk warning[EB/OL](2021.7.18)[2019.07.22].
<http://ir.mofcom.gov.cn/article/u/201907/20190702883769.shtml>.
- [14] Iran's current annual inflation rate is 38.9%[EB/OL](2021.7.18)[2021.04.28].
<http://ir.mofcom.gov.cn/article/jmxw/202104/20210403055982.shtml>.
- [15] Wang Chang.Research on china-Iran security risk prevention under the Belt and Road Initiative [J].The World Religious Cultures,2018(01)
- [16] The Security Council strongly condemns the terrorist attacks in Sistan-Baluchistan province of Iran[EB/OL](2021.7.18)[2019.02.15].<http://news.sina.com.cn/w/2019-02-15/doc-ihrfqzka6018872.shtml>
- [17] Li Jiannan.A funeral ceremony was held for slain Iranian nuclear scientist Khalid Fakhlizadeh, who will be buried on June 30[EB/OL](2021.7.18)[2020.11.29].https://www.thepaper.cn/newsDetail_forward_10191639
- [18] Blast in southeastern Iran kills 1, wounds 3 [EB/OL] (2021.7.18)[2021.03.21].
https://www.360kuai.com/pc/96ee7b7d7d9667d9e?cota=3&kuai_so=1&tj_url=so_vip&sign=360_57c3bbd1&refer_scene=so_1
- [19] Iranian state television says the country's railway network is suspected to have been hacked [EB/OL] (2021.7.18) [2021.07.09].
<https://kuaixun.cngold.org/c/2021-07-09/c1389518.html>
- [20] Yin Ziyuan, Zhang Xiaochen, Wang Haiyu, Zhang Bohan."One Belt one Road" legal issues in Sino-Iranian trade legal risks and prevention[J].Reform & Openning,2017,24,029