17.906 The Geopolitics and Geoeconomics of Global Energy, Spring 2007 Prof. Flynt Leverett

Lecture 10: China and Resource Mercantilism

Today we'll talk more about Resource Mercantilism India's external energy strategy

- Same basic energy security challenges
- State-run energy industry
- Economic growth has proceeded such that they are more import dependent than China, and will continue to be in the future
 - o Could be a problem, and there is a cadre within India that think that importing is not the answer, but instead Indian oil companies should start to acquire ownership of upstream resources abroad
- India is trying to offer concessional aid to countries where they want to exploit upstream resources
 - o Very new idea
 - o Not on the same level of the Chinese
- State owned energy companies do not have a lot of autonomy
 - They are not "vertically integrated"
 - Chinese have 3 vertically integrated companies
 - o Companies do operate with their own agendas to an extent
- Not as sharply defined case of resource mercantilism as China

Structure of global energy markets and resource mercantilism

- Resource mercantilism will not play a large role in global energy markets
 - Under 1% of overall markets
 - Chinese and Indian production combined (resources outside of countries boarders) will still only be about 2% of the market in the coming years
- Chinese are wondering if this makes sense for their energy security
 - How much oil can Chinese companies hope to produce in foreign equity oil positions
 - Right now, only 15% of their overall oil usage comprised of foreign oil production
 - Not going to cut it for oil security
 - Mostly being said by heads or former heads of the oil companies, who are becoming more market driven
 - Ouite possibly going to be a shift from the "going out" energy security strategy to an "industrial" strategy based on the market
 - "They have arrived on the global scene" which would involve
 - Seen as globally active and capable players and good candidates for joint ventures
 - They want to be larger and more international players
 - Shift in rhetoric which will probably intensify in the coming years
 - Resource mercantilism has been a source of friction between China and US and China and Japan
 - For Japan, China represents a threat to resources
 - Chinese are not playing by the same rules as the Japanese
 - Dispute in the East China Sea over boundaries and resource rights
 - For US/the West there are points of contention with China

- China, when it offers investments in unrelated infrastructure projects or aid grants without transparency, undermines these treaties and things that have been developed to create an even playing field
- China's use of concessional financing to state owned energy companies to buy resources abroad is not playing by the rules that prevent western companies the same thing
- China used it's position on the UN Security Council to block the sanctioning of Sudan
 - Darfur might be different
 - China stiffed the rest of the world because of its energy interests in Sudan
- Iran
 - China is angering the US by putting more investments into Iran's oil development
 - Could put China and the US on a path to conflict
 - Kissinger said that the most likely cause for war and conflict in the next century will be over access to resources
- Debate over how to understand China's rise
 - Is this a good thing or bad thing for the US/Rest of the World?
 - Optimistic view
 - China is going to have a much larger stake in the status quo as it has more and more influence on the way the world operates
 - China's own political aims will remain relatively limited
 - Will want to increase ties with areas around the world, but they won't try to infringe upon the US in regions like the Middle East
 - China's rise is a manageable/positive thing here
 - On the flipside
 - Rising powers historically, don't just seek a finite level of security, but have sought to maximize their prosperity, power and influence
 - Why would China be different than the historical norm
 - As their capabilities grow over time they will use those resources to maximize their success and minimize the threat to their rise
 - They will want to challenge the United States for primary influence in sensitive regions in the world, like the Middle East
 - Actuality
 - Chinese are trying to figure out where they stand in the world and how they are going to grow
 - "The New Diplomacy"
 - China is a rising power, but not a great power

Cite as: Flynt Leverett, course materials for 17.906 Reading Seminar in Social Science: The Geopolitics and Geoeconomics of Global Energy, Spring 2007. MIT OpenCourseWare (http://ocw.mit.edu), Massachusetts Institute of Technology. Downloaded on [DD Month YYYY].

- The point of Chinese foreign policy is to help China's peaceful rise can continue without the drag of a bunch of international conflicts
- Avoid a confrontation with the United States
 - Cardinal rule
- Chinese are surprised by the way the US has handled itself in the Middle East, in that it has not increase stability in the region, making it a better place for China to do business
 - Puts China in a tough spot
 - They want to pursue their own energy interests, but they don't want to go against the policies of the United States
 - Taking a case by case basis of how to sort this thing out
- China is recovering from 200 years of economic decline
 - Affects how they are going to be pursuing their economic goal
 - The oil market is something of an American invention
 - China can't be confident that they will get equal treatment within that structure
 - Trend away from that thinking, and towards the notion that there is not a superior alternative to the market
- How does the US handle China
 - o Welcome the internationalization of the Chinese energy companies
 - Welcome China into the IEA
 - How you encourage elements of the Chinese leadership on relying on the market for Chinese on there energy needs
 - Chinese acknowledge that energy security is not something that they can do on their own
 - US should engage this and work with them
 - Always the temptation to China-bash in US policy
 - US should influence the Chinese debate to help China come further into the market system

East Asia regional security framework

- The need is acute
- East Asia is one of the lest economically institutionalized regions of the world
 - o Ironic considering the high degree of economic interdependence
- East Asia might need to bring in Russia
 - o Is this a good idea?
 - China might be open to the idea of Russia coming in

Cite as: Flynt Leverett, course materials for 17.906 Reading Seminar in Social Science: The Geopolitics and Geoeconomics of Global Energy, Spring 2007. MIT OpenCourseWare (http://ocw.mit.edu), Massachusetts Institute of Technology. Downloaded on [DD Month YYYY].