

A New Energy Order: China and the Post-American Middle East

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Sustainability, green energy and conservation are the 21st century energy watchwords. Yet, the world remains steeped in hydrocarbons, with demand continuing to grow. The earth consumes 90.5mn b/d of oil. With greater urbanization, industrialization, and the need for greater mobility in emerging markets, demand growth is accelerating: since 2000 global oil demand grew by more than 14%, or 12.5mn b/d – unprecedented growth.

Rising energy consumption comes with heightened supply security concerns. Conventional hydrocarbons have so far amply satisfied the world's energy demand. But increasingly, producers have started tapping unconventional energy sources, previously unprofitable to develop. In addition to the impetus of rising consumption, elevated oil prices, and technological breakthroughs have incentivized the development of unconventionals. The confluence of these two factors has resulted in the emergence of tight oil, oil sands, and pre-salts as viable components of the western hemisphere supply outlook. The past five years' rise in Canadian oil sands and American tight oil output is the most significant development in the US quest for energy security, helping reduce reliance on oil imports from geopolitically unstable regions. While the wave of supply on American shores is good news, it comes with significant vulnerabilities related to environmental endangerment, technological challenges, and cost competitiveness.

In their quest to access energy supplies, many countries have gone on a global shopping spree. China, which consumes nearly as much coal as the rest of the world combined, as well as 9.5mn b/d of oil, has been in the vanguard. It has purchased assets, obtained concessions, and even bought resource-rich lands in all five continents. Since 2000, China has spent hundreds of billion of dollars towards that effort: purchases range from firms heavily vested in the oil and gas industry in Canada, to the mineral rights of mountains in Latin America, Africa, and Afghanistan.

Greater energy cooperation between the US and China, the world's two largest economies, and arguably the most important ones, is paramount.

CHINA'S MIDEAST PUSH

China's ever increasing demand for

energy and its desire to secure access to supply has led Beijing in recent years to venture into historically US-dominated regions such as the Middle East. From an energy perspective, the chief foreign policy challenge for the US is managing its relationship with Beijing in a new era where China is gaining more preeminence in otherwise historically US-dominated regions. China is now the top destination for Saudi crude. Meanwhile, the surge in western hemispheric supply, and the declining US dependence on the Middle East could reset the balance of power in the region.

But common interest among China, the US, and Saudi Arabia remain: all three want to enable the oil market to withstand volatility and stresses. It is important to note these common interests vary to different extents. In contrast to many decades past, the US for instance, could stand to benefit from an elevated oil price, which would help incentivize its expensive unconventional oil production. Previously, the US was buying its imported crude oil barrels at international prices. Now that the US relies less on imports and more on its expensive-to-produce domestic supply, it has an inherent interest in relatively elevated oil prices: low enough not to adversely impact the world economy, but high enough to motivate industry players to continue investing in the production of unconventional oil in the western hemisphere. In contrast, China's dependence on Middle East oil is on the rise, and it is expected to continue to increase. The country already uses most of its domestic oil production and relies on imports to meet its call on oil, which renders it increasingly vulnerable to increases in the oil price.

Despite the reduced dependence on Saudi Arabia as a source of oil imports, the US continues to have common geopolitical interests with the kingdom. Both nations share a common animosity towards Iran, and the US still has a vested interest in the kingdom as a source of spare crude oil capacity - a cushion of available oil supply, which can readily be released into the market in the case of a market shock, or disruption. The kingdom holds the bulk of the world's spare oil output capacity.

Thanks to these dynamics, the balance of power in the Middle East is tipping towards more favorable terms of engagement for the US. Rising global energy demand will have a landscape-altering impact on the foreign policy relationships of the world's leading energy suppliers and consumers. It is henceforth important to understand how the relationships

between the three most important energy players—representing the top consumers (the US and China) and supplier (Saudi Arabia)—will evolve. In a new era of rising global energy demand, changes in the economic, business, geopolitical, and military relationships will alter the power balance between these nations.

Insofar as the present evidence indicates, the relationship between China, the US, and Saudi Arabia is moving into a new era in which China is becoming a competitor of the United States, both in terms of investment as a business opportunity and as a top consumer and destination for Saudi crude. As such, Saudi Arabia, the US, and China will have to assume new strategic roles that take into account the economic realities and new geopolitical context of the dynamics of global energy demand, and how to effectively meet it. Saudi Arabia, the US, and China will have to define new strategies, and draw up plans for strategic alliances on political and economic levels. For Saudi Arabia, the chief purpose is ensuring effective exploitation of its oil and gas resources, maintaining high levels of oil revenues, meeting rising domestic demand, ensuring its military security, and geopolitically shifting towards optimizing a relationship with a top consumer, and an auspicious investment partner in China. For China, the priority will be finding an investment and trade partner in Saudi Arabia, as well as a top supplier of much needed energy to fuel its continued impressive economic growth.

The US needs to consider a re-contextualization of its strategic political alliance with Saudi Arabia into one that would take into account a shift away from the "oil for security" dogma. The implications of these new realities will alter the Riyadh-Washington relationship to a more politically nuanced alliance that is largely based on shared military and geopolitical interests in the region (maintaining US military bases, arms provision, etc), but also more vulnerable to disagreements (as with regards to Israel, Bahrain, etc). In this new era, the United States' role as a political, economic and ideological powerhouse will become even more heightened, and so will its dilemma to reconcile its interests in the region against a weakening rationale for continued involvement, now that its energy interests lie increasingly in the west. ♦♦

*This is an abridged excerpt from Elly Rostoum's upcoming book, *A New Energy Order: China and the Post-American Middle East*.

