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
  - 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
  - Very new idea
  - 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
  - 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
  - Quite 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
• The point of Chinese foreign policy is to help China’s peaceful rise continue without the drag of a bunch of international conflicts
• Avoid a confrontation with the United States
  o Cardinal rule
    ▪ Chinese are surprised by the way the US has handled itself in the Middle East, in that it has not increased stability in the region, making it a better place for China to do business
  o 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
  o Welcome China into the IEA
  o How you encourage elements of the Chinese leadership on relying on the market for Chinese 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
  o Always the temptation to China-bash in US policy
  o 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 least economically institutionalized regions of the world
  ▪ Ironic considering the high degree of economic interdependence
• East Asia might need to bring in Russia
  ▪ Is this a good idea?
    ▪ China might be open to the idea of Russia coming in