

Energy Geopolitics and U.S.-China-Russia-Middle East Relations

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

Important viewpoints for analyzing the international energy situation include the global economy, supply and demand in individual energy markets, energy and environment policies, and technological innovations and their diffusion. They also include international relations and geopolitics. From the viewpoint of international relations and geopolitics, particularly important actors or players for observing the current or future energy situation may be the United States, China, Russia and the Middle East. Also important are Europe, India with great future growth potential and Japan that is a leading energy consumer, a major economy and a great technological power. In the following, however, I would like to focus on the particularly important 4 actors of the United States, China, Russia and the Middle East and pay attention to their mutual relations rather than their domestic conditions in analyzing the present situation from the viewpoint of energy geopolitics and anticipating the future situation.

Before considering energy geopolitics, I would like to provide regional keywords including “the Trump administration and the shale revolution” for the United States, “great power revival” for China, “economic sanctions and energy development” for Russia and “regional destabilization” for the Middle East. Then, the four actors’ relations are divided into six – (1) U.S.-China, (2) U.S.-Russia, (3) U.S.-Middle East, (4) China-Russia, (5) China-Middle East and (6) Russia-Middle East relations.

First, U.S.-China relations are attracting global attention with the escalation of a bilateral trade war and a relevant conflict of their interests regarding their competition for technological supremacy. The essential point in this regard is that China has risen as a power to challenge the supremacy of the United States as superpower in a full-blown manner. Their relations represent the most important bilateral relations that exert great influence over the directions of international politics, security, the global economy and global governance. As far as indicated at present, their conflict of interest is so essential and deep-rooted that it is difficult to predict the two countries to easily resolve their conflict or reach compromise. This is the most important substratum for analyzing global

geopolitics. Regarding energy, China is the world's largest energy consumer and importer, while the United States is the world's biggest oil and gas producer. Another important viewpoint is how the energy sector would be involved in China's Belt and Road Initiative and the United States' Indo-Pacific Strategy.

Second, U.S.-Russia relations are generally difficult. The United States has led Western sanctions on Russia over the Ukraine issue. The U.S. Congress is moving to further toughen sanctions on Russia. Bilateral relations over security have also grown more tense as the United States has notified Russia of its withdrawal from the Intermediate-Range Nuclear Forces Treaty, prompting Russia to decide to take a similar action. While Russia, plagued with the economic sanctions, is required to diversify its economy over a long time, the energy sector's importance and presence are and will remain very significant. While the energy sector has been affected by the economic sanctions, the United States pursuing energy dominance and Russia giving priority to Asian market exploration after dealing mainly with the European market are competing for third party markets.

Third, the United States has remained significant for stability and security in the Middle East. More importantly, however, the United States' presence and influence in the Middle East are seemingly destined to weaken. Under the Trump administration featuring a growing inward-looking attitude, particularly, the United States is expected to reduce its engagement with the Middle East's stability, threatening to produce a power vacuum. In the Middle East that has been destabilized due to its various own internal factors, U.S. engagement is feared to further destabilize the situation rather than stabilizing it. This is an important problem we should closely watch. On the other hand, the United States has increased its presence as a powerful rival of the Middle East in the international energy market by expanding energy production and exports rapidly. U.S. shale oil has grown as a presence that seriously affects national economies of Middle Eastern countries that heavily depend on oil revenues.

Fourth, China and Russia are strengthening their strategic ties as both countries face difficult relations with the United States. The severer the United States' relations with China and Russia grow, the easier the enhancement of the China-Russia strategic relationship grows. On the other hand, the two bordering countries have no choice but to potentially be sensitive to each other's presence from the viewpoint of security. This is the same case with energy. Energy-importing China and energy-exporting Russia can have complementary relations. In fact, their energy trade has been expanding. For Russia as an example, however, growing dependence on China in energy trade and investment is not necessarily favorable regarding a view point of balancing and diversification. It may be important for Russia to pursue diversification strategy among Asian countries as partners while Russia tries to

diversify its expansion into the Asian market to break away from its heavy dependence on Europe.

Fifth, energy-importing China with its giant economic size has recently deepened complementary relations with the oil-exporting Middle East that heavily depends on energy export revenues. As the United States' presence and influence weakens relatively, China naturally increases its presence in the Middle East while enhancing its global presence. The China-led Belt and Road Initiative has grown more significant for Middle Eastern countries that have faced economic management difficulties due to the oil price crash from the second half of 2014 and lowered oil prices. On the other hand, China heavily depends on the Middle East for oil supply while trying to diversify oil import sources. The Middle East accounts for nearly 50% of China's oil imports. China's high dependence on the Middle East directly leads to the problem of its dependence on sea lanes, which has become a key viewpoint for its security strategy.

Sixth, Russia as well as China is trying to strengthen its presence and influence in the Middle East in various areas such as security, economy and business as the United States' presence is declining relatively. In the international oil market, the Saudi Arabia-led Organization of the Petroleum Exporting Countries has enhanced cooperation with Russia. Coordinated oil production adjustment by OPEC and non-OPEC oil producing countries including Russia now holds the key to stabilizing the international oil market. In this way, Russia's presence has increased for the Middle East and OPEC. On the other hand, the Middle East and Russia are competing for the expanding Asian energy market including China. How to expand into the Asian market including China is a key challenge for Russia and the Middle East as major energy suppliers and even for the United States prepared to expand energy exports.

The complex relations between the major actors exert great influence on Japan's energy strategy. For Japan, (1) the United States as the most important ally, (2) China as a neighboring country having close and complicated relations with Japan, (3) Russia having peace treaty and territorial problems with Japan and (4) the Middle East as the largest energy supplier are important partners. Japan is required to consider responses and strategies amid the complex and complicated relations between the partners. From this viewpoint, Japan must accurately and timely analyze international relations.

Contact: report@tky.iecej.or.jp

The back issues are available at the following URL

http://eneken.iecej.or.jp/en/special_bulletin.html