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Asian Energy Security: Anti-Geopolitics of International Energy Markets versus Asian Terrestrial Geopolitics

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ABSTRACT

This paper assumes that there are two geopolitical trends in the issue of energy security in Asia. First, the US has been imposing an anti-geopolitics of the international energy market through its domination of maritime geopolitics. Since principal energy commodities such as hydrocarbon resources are strategic assets and they are located at instable parts of the world, the international energy market's ability to ensure energy security through anti-geopolitical logic is limited. Second, Asian terrestrial geopolitics has begun to challenge the former. Due to their rising vulnerabilities to energy disruptions and price fluctuations, China and India have been unwilling to place their full trust in the market. Therefore, they have been searching for ways to ensure their energy security. Recently, they have begun to consider themselves as energy partners, rather than rivals. In that regard, they have begun to cooperate in acquiring market risk-free equity oil. In the context of the declining American energy security guarantees, the stage is set for China and India not only to intensify their ties on energy security issues but also to cooperate with Russia and Iran, which have found much space to manoeuvre out of American dictates in the age of high energy prices, for an alternative Asian energy market.

Keywords : Energy Security, China, India, the US, International Energy Market

Asya Enerji Güvenliği: Uluslararası Enerji Piyasasının Anti-Jeopolitiği Asya Kıtasal Jeopolitiğine Karşı

ÖZET

Bu çalışma, Asya enerji güvenliği konusunda iki jeopolitik akımın olduğunu varsaymaktadır. İlk olarak, ABD deniz yolları üzerindeki üstünlüğünü kullanarak uluslararası enerji piyasasının jeopolitiğini değişime zorlamaktadır. Başlıca enerji malları olan hidrokarbon kaynaklarının stratejik varlık olmalarının yanı sıra dünyanın istikrarsız bölgelerinde yer almaları, uluslararası enerji piyasalarının anti-jeopolitiği yoluyla enerji güvenliğini sağlama kabiliyeti sınırlıdır. İkinci olarak, Asya karasal jeopolitiği ilk unsurla mücadele içindedir. Enerji kesintilerine ve fiyat dalgalanmalarına olan artan zayıflıkları, Çin ve Hindistan'ın pazra olan güvenlerinin azalmasına sebep olmaktadır. Son zamanlarda, birbirlerini enerji ortağı olarak görmeye başlamışlardır. Bu bağlamda, piyasa riski olmayan güvenilir petrolü edinme yolunda işbirliğine gitmektedirler. Amerikanın enerji güvenlik garantilerinin zayıfladığı ve enerji fiyatlarının yüksek olduğu bu ortam, Çin ve Hindistan'ın enerji konusunda iş birliğini kuvvetlendirmesinin yanı sıra, Rusya ve İran'nın katılımı ile Asya alternatif pazarını oluşturmaları için gerekli ortamı sağlamaktadır.

Anahtar kelimeler : Enerji Güvenliği, Çin, Hindistan, Amerika, Uluslararası Enerji Piyasası

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Introduction

This paper assumes that there are two geopolitical trends in the issue of energy security in Asia. First, the US has been imposing an anti-geopolitics¹ of the international energy market through maritime geopolitics. From pure economics logic, one can argue that the US ensures commodity security through the market. However, this logic has several shortcomings regarding the issue of energy security². Since principal energy commodities, such as hydrocarbon resources are strategic assets and they are located in unstable parts of the world, the international energy market's ability to ensure energy security through anti-geopolitical logic is limited. Second, Asian terrestrial geopolitics has begun to challenge the anti-geopolitics of the international energy market. Their rising vulnerability to energy disruptions and price fluctuations has led China and India to be unwilling to place their full trust in international markets. Therefore, they have been considering options to ensure their energy security. Due to high prices sourced from harsh rivalry to get production contracts, China and India have begun to consider themselves as energy partners, rather than rivals. Lately, they have begun to cooperate in acquiring oil fields or so called equity oil³. It seems that the stage is set for these rising Asian powers to make more joint bids. In the context of declining American energy security guarantees, the stage is set for China and India not only to intensify their ties on ener-

¹ Through neo-liberal lenses, anti-geopolitics is an approach that supposes that as long as states look for absolute gains, rather than relative gains, in the international field, there is room for cooperation. According to anti-geopolitics, consideration of other actors' geopolitical assets such as natural resources would inevitably lead to conflict. On the other hand, from a neo-realist perspective, geopolitics underlines relative gains and argues that states always seek to compare their gains with the other actors in the international arena. For a theoretical debate see, David A. Baldwin (ed.), *Neorealism and Neoliberalism: The Contemporary Debate*, New York, Columbia University Press, 1993. For the application for absolute and relative gains in international theory, see Robert Powell, "Absolute and Relative Gains in International Relations Theory", *American Political Science Review*, Vol.85, No.4, December 1991. For the application of absolute versus relative gains debate on Caspian energy resources see Volkan Özdemir, *Limits to Cooperation: Energy Security and the Politics of Natural Gas Pipelines in the Caspian*, (Unpublished Master Thesis), Uppsala University, June 2007.

² This paper assumes that what a state understands from energy security depends on its position at the international power balance, regime and whether it is an energy exporter or importer. Therefore, the US, China and Russia understand different things from energy security. For US-policy-making, elites, energy security is not only sustaining stability of the international energy market, but also keeping oil prices reasonable. For China, energy security refers to buying stakes in foreign oil fields. For Russia energy security means sustaining its monopoly over diversification of hydrocarbon resources and restricting foreign investments in Central Asia.

gy security issues but also cooperate with Russia and Iran, who have found much space to manoeuvre out of American dictates in the age of high energy prices, for an alternative Asian energy market.

In the first part of the paper, we analyse the US imposed international energy market and its 'anti-geopolitical' character. In the second part, we discuss the US dominated maritime geopolitical underpinnings of the international energy market. In the third part, we analyse the emerging Asian terrestrial geopolitical trend against the anti-geopolitics of the international energy market. Finally, we look at China and India's energy policies. Subsequently, the implications and prospects of their energy cooperation and its potential to evolve into an alternative energy market with Russia and Iran will be evaluated.

Anti-Geopolitics of International Energy Market and the US

Spreading the scope of international markets has long become the most viable strategy for US policy-making elites. "An 'open world', entails the overriding imperative of commercial integration, confidence that technology endows the United States with a privileged position in that order, and the expectation that American military might will preserve order and enforce rules."⁴ In other words, the principal interest of the US is to extend the "anti-geopolitics" of the market to the whole globe without attaching to geopolitical factors. As long as the openness of the markets is ensured, commodities are traded securely. For our purposes, we will rely the on anti-geopolitics of the international energy market, and in particular oil.

"The historical movement has been towards the 'anti-geopolitics' of the market, in which it is market presence and position, and the ability to secure contracts, rather than territorial access or state-to-state deals, that deliver energy security. Cartels [OPEC in particular] have lost their ability to manipulate prices after the 'reverse oil shocks' of the 1980s, a loss of market power due to a combination of conservation efforts, the development of alternative energy sources and the discovery of new oil fields. Prices are no longer determined by deals between producers and distributions, but rather by spot markets and futures contracts negotiated openly and competitively."⁵

³ Equity oil simply means a situation in which a company acquires an equity stake in an oil production field rather than purchasing oil from the international market. Since the company has an equity stake in the oil production field, it is considered as a market risk free option.

⁴ Andrew J. Bacevich, *American Empire : The Realities & Consequences of US Diplomacy*, Harvard University Press, 2002, p.6.

⁵ Michael Wesley, "The geopolitics of energy security in Asia" in Michael Wesley (Ed.), *Energy Security in Asia*, London , Routledge, 2007,p.3.

The free oil market that is backed by strategic petroleum reserves and several arrangements would provide energy security for importing countries.

One should note that when we talk about a free energy market, we are referring a kind of market arranged in a manner to serve the US's best interests. Indian journalist Varadarajan explains why the international energy market is not actually a free market:

"The international market for hydrocarbons is not a free market and has never been one. There is a suppliers' cartel — the Organisation of Petroleum Exporting Countries — and a well-organised market driven primarily by demand in the advanced industrial economies of the world, all members of the OECD. Trade is conducted in dollars, which effectively ensures that countries around the world hold their foreign reserves primarily as greenbacks. And prices are set on the basis of Western benchmark crudes like West Texas Intermediate and Brent, neither of which represent anything but a small fraction of the oil that is extracted and traded internationally. So strong is the monopsonist power of the U.S. and Europe that oil exported to Asia from the Persian Gulf costs as much as \$2 a barrel more."⁶

Simply put, the US has great interest in sustaining and extending an anti-geopolitics of the international energy market. Hence, the US aims not only to ensure energy security, but also to impose an asymmetrical influence over market prices.

Asian Energy Markets

It is possible to talk about two significant trends in Asian energy markets. First, Asia's portion of energy production, trading, and consuming in the international energy market is incrementally increasing. In terms of consumption, growing economies in East and South Asia, in particular China and India, will increase the demand for import energy substantially. According to the US Department of Energy (DOE) International Energy Outlook 2007 estimates, China's oil consumption will rise about 130 per cent in 2030, and India's oil consumption will increase about 100 per cent in the same period.⁷ In line with their growing economy, China and India's reliance on import energy resources will rise tremendously. Second, Asia is regionalising on the basis of energy commerce. Due to transport costs and logistical considerations, the West and Central Asia region is the natural energy supplier to East and South Asia. "Although lagging behind the level of trade and investment with West Asia, the East and South Asian presence in the Central Asian energy market is growing. The energy trade demonstrates, perhaps more clearly than any other commodity, the growing integration among Asia's sub-regions."⁸

⁶ Siddharth Varadarajan, "India, China and the Asian axis of oil", *The Hindu*, 24 January 2006, <http://www.thehindu.com/2006/01/24/stories/2006012403181000.htm>, (29 March 2007)

⁷ *International Energy Outlook 2007* , p.133, [www.eia.doe.gov/oiaf/ieo/pdf/0484\(2007\).pdf](http://www.eia.doe.gov/oiaf/ieo/pdf/0484(2007).pdf), (13.06.2007)

⁸ Wesley, "The geopolitics of energy security in Asia", p.2.

"Beneath the dynamics of increasing marketisation and regionalisation of energy in Asia, lies an uncomfortable fact: as Asian societies become more dependent on imported energy, they become more vulnerable to irregularities of supply and affordability."⁹ This is what economists mean by energy's 'hysteresis effect'. This clearly means that modern economies have become so dependent on hydrocarbon resources that their ability to reach those resources in affordable prices has become national security issues. And, Asian economies' dependence on those resources has been dramatically increasing, whereby, their vulnerability to energy supply disruptions and price fluctuations has been increasing in the same fashion.

Their rising vulnerability has led China and India to be unwilling to place full trust in the US imposed anti-geopolitics of the international energy market and look for alternative geopolitical options.

"Despite the historical trend towards the anti-geopolitics of the market as the provider of energy security, it is clear that major energy consumers and producers in Asia are developing alternative energy security policies. These alternative policies represent a statist quest for direct control over energy sources and supply routes, the opposite logic to a fuller integration into market. In other words, two competing, geopolitical logics are asserting themselves... China ... and India have all embarked on programs to invest directly in fossil fuel production regions through state-owned or semi-state-controlled energy companies."¹⁰

Among the Asian great powers, "equity oil" has been emerging as the most favoured option to avert the risk of the international energy market. "It reduces market risk by allowing an investor to predict accurately the amount of fuel received over the life of the field, and promises cheaper fuel through transfer pricing."¹¹ This method to acquire oil has been criticised because of distorting energy investment and decreasing the efficiency of the financing of exploration and production. In other words, due to its alternative energy market character, equity oil has been considered a hindrance to the spread of the international energy market and criticised among supporters of the "anti-geopolitical" logic of market.

In the light of these arguments, one can comfortably posit two competing logics in Asia: the 'anti-geopolitics' of the global market on the basis of the US dominated maritime geopolitics and the rising terrestrial geopolitics of Asian powers.

Asia's Maritime Geopolitics

Alfred Thayer Mahan, US Naval Officer in the late 20th century, identifies two distinct geopolitical logics in Asia: maritime and terrestrial. On the one hand, the maritime dynamic of Asia has been evolving for several decades on the basis

⁹ Ibid, p.2.

¹⁰ Ibid, p.4.

¹¹ Ibid, p.5.

of US naval dominance; on the other hand, the terrestrial geopolitics in Asia, based on century old logic, is a much more recent phenomenon that has been emerging with the rising powers and recent international conjuncture in which the energy security issue has become a vital concern.

"Both of these dynamics are strongly influenced by energy security concerns: access to energy supplies and markets, the integrity of delivery systems, and the minimisation of vulnerabilities to disruptions. In each, there is a tendency for strategists to discount current benign conditions and the efficiency of energy markets in the light of possible future vulnerabilities...geopolitics represents the state's geographic consciousness; in the current period it is intriguing to watch historic patterns, perceptions and liabilities shape current and future interactions."¹²

The majority of the world's energy trade occurs through sea routes. "The United States, like the United Kingdom before it, regards its role in providing security for global maritime routes, and in particular the Persian Gulf, as an intrinsic part of its stewardship of the global economy. *The United States' strategic purpose in West Asia is less capture the region's energy resources for itself, as the conspiracy theorists suggest, than to prevent the development of the destabilising competition in the region among other great powers.*"¹³ (emphasis added) In that regard, Walter Rusell Mead's description of US strategic goals should be noted:

"The United States is less interested in feeding its oil thirst and in gaining contracts for powerful energy- sector companies that it is in the impact of oil security – or insecurity – on world politics as a whole. Because the United States has both the power and the will to maintain the security of the world oil trade, other countries see no adequate reason to develop their own independent military capabilities to secure their oil supplies. A world with a half a dozen powers duelling for influence in the Middle East, with each power possessing the will and the ability to intervene with military force in this explosive region, would be a less safe and less happy world than the one we now live in, and not only for Americans."¹⁴

Thus, maintaining its dominant position in providing security to the maritime energy trade is a powerful determinant of the US strategic objective of 'ensuring peace' as laid down in the 2002 National Security Strategy (NSS) and promoting ' a balance of power that favours freedom' as indicated in the 2006 version of NSS. One should also note that playing the sole guarantor role of the security of the maritime energy trade enables the US to curtail the power of a

¹² Ibid, p.5.

¹³ Ibid, p.5.

¹⁴ Walter Rusell Mead, *Power, Peace, and War: America's Grand strategy in a World of Risk*, Alfred A. Knopf, 2004, p.43.

potential challenger to its sole superpower status in world politics. "In this respect, control of oil may be seen as the centre of gravity of US economic hegemony and thus the logical complement of its declared strategy of permanent, unilateral military supremacy."¹⁵

Therefore, the rationale behind the US policy toward international energy trade is to maintain its role of the sole guarantor of global energy trade, whereby, to make all energy supply routes under its security structures. Hence, as the main guarantor through its maritime dominance and supporter of free global energy market, the US's main objective is to bring all producers and consumers into that 'free' global energy market and ensure them to comply with the rules of that market. In that regard, the US aims to extend its maritime dominance to West Asia.

"Historically, the United States has tried to achieve this through a mixture of supporting key allies and containing or restraining states unwilling to comply with the projected US order in the region. For many years, US policy in West Asia was based on the 'twin pillars' policy of supporting Saudi Arabia and Iran as the guarantors of regional order. After the Iranian revolution and with Iraq becoming increasingly belligerent, the 'twin pillars' strategy was replaced by a policy of 'dual containment' of Iraq and Iran. Notably both strategies have been unstable and relatively short-lived. It remains to be seen how US strategy will evolve following the 2003 invasion of Iraq, but there is little reason to suggest that it will abandon its traditional objectives: *promoting a regional order most conducive to the operation of a free market in energy; retaining its role as the sole guarantor of the global energy trade; and seeking to isolate and change states opposed to the United States' role and preferred sub-regional order.*"¹⁶ (emphasis added)

Recently, Asian terrestrial geopolitics led by China and India has begun to challenge the anti-geopolitics of the international energy market.

Asia's Terrestrial Geopolitics

From the perspective of Washington, involvement in Asian terrestrial geopolitics is different from its maritime counterpart in several ways. First of all, 'stopping power of sea'¹⁷ restricts the US's power projection capabilities in the distinct continent of Asia, whereby, its capability to manipulate Asian terrestrial geopolitics is limited. Second, the US interests over energy resources in the region both com-

¹⁵ Simon Bromley, "The United States and the Control of World Oil", *Government and Opposition*, Vol.40, No.2, Spring, 2005, p.227.

¹⁶ Wesley, "The geopolitics of energy security in Asia", p.6.

¹⁷ According to John Mearsheimer, 'stopping power of water' leads the sea power US to become a hegemon in only its own region (the Western hemisphere), and acts as an 'offshore balancer' in other parts of the world, See John Mearsheimer, *Tragedy of Great Power Politics*, New York: WW Norton & Co Ltd, 2002, p.236-237

plement and contradict its other interests in the region such as deterring the drug trade, fighting terrorism, and preventing nuclear proliferation. For instance, the development of Iranian hydrocarbon resources complements its interests over regional energy resources, whereas, it contradicts its war on terror.

Therefore, the US's main objective in Asia is to draw the regional regimes into the Western orbit, particularly in relation to the energy trade and the war on terror, to support those regimes' economic links with the West, to isolate Iran and curb the influence of Russia and China. Hence, the US would like land-locked Central Asian energy supplies to become an integral part of the anti-geopolitics of the international energy market. Thus, one should note that the US's Afghan war¹⁸ with the rhetoric of war on terror and its support for the costly Baku-Tbilisi-Ceyhan (BTC)¹⁹ the same objective: integrating Asian hydrocarbon resources into the international energy market.

Clearly, these objectives of the US conflict with the interests of China, Russia and Iran. These countries have been sceptical about the American military presence in the region with the war on terror rhetoric and its promotion of an East-West energy corridor that bypasses Russia and Iran. "Even short of a formal new energy alliance, the main outlines of a China-Russia-Iran axis can be discerned in their mutual threat perception. China still has grave suspicions of America's continued military support of Taiwan and its studiously ambiguous support of the PRC's 'one China' policy. Iran is a well-known member of President Bush's 'Axis of Evil'. Russia remains uneasy over post-September 11, 2001, US incursions into its traditional Caucasus-Central Asian 'turf'."²⁰ Therefore, "they perceive US dominance in their respective regions as constraining and even delete-

¹⁸ The events of September 11, 2001, gave the US opportunity to impose its terms on Afghanistan to make oil business. The US acquired many things with its first strike of war on terror to Afghanistan. It opened the way for an environment to build a ring of permanent US military bases from Uzbekistan to Afghanistan and Kyrgyzstan, which are the deep inside the post-Soviet-space. Moreover, the talks between the US and Pakistan began on to build a north-south pipeline from Caspian region to Pakistan's Arabia Sea through Afghanistan. A deal was quietly signed in early January 2003, with no international press fanfare. See, William Engdahl, *A Century of War: Anglo-American Oil Politics and the New World Order*, Pluto Press : London, 2004, p.255.

¹⁹ According to US Ambassador Richard Morningstar, Special Advisor to the President and Secretary of State for Caspian Basin Energy Diplomacy, "building a Baku-Ceyhan oil pipeline and a trans-Caspian gas pipeline makes absolute sense for both national security and commercial reasons...Both pipelines will increase energy security by avoiding the concentration of a vast new source of oil and gas in the Persian Gulf region. Finally, both pipelines enjoy great potential to become lucrative investment opportunities for US companies." See, *Pulse of Turkey*, No: 57 October 2nd 1998, <http://www.turkpulse.com/green.htm>, (04 February 2007)

²⁰ Marschall Auerback, "Oil : The Diving Line of the New Cold War", 07 December 2004, <http://www.energybulletin.net/3550.html>, (13 January 2007)

rious to their own strategic ambitions.”²¹ In that regard, the Shanghai Cooperation Organisation (SCO) with the prospective membership of Iran and India, has the potential to become a serious challenge to US influence in Central Asia.

As a recent phenomenon, energy thirsty rising Asian regional powers, China and India, have been unwilling to place their full trust in the American imposed international energy market to ensure their future energy security. At that point it would be plausible to take a brief look at China and India's energy policies.

China's Energy Policy

As an emerging superpower with a rapidly expanding economy, China constitutes one of the potentially most important actors in regional energy affairs. Rapidly increasing energy demands, while domestic energy supplies are declining, reveals that China is increasingly becoming dependent on energy imports. “Since 1993, China's own domestic energy supplies have become insufficient for supporting modernization, increasing its reliance upon foreign trading partners to enhance its economic and energy security leading toward the need to build what Chinese officials have described as a ‘strategic oil-supply security system’ through increased bilateral trade agreements.”²² In this regard, China, as the second largest oil consumer after the US, has defined its energy security policy objectives in a manner “to maximise domestic output of oil and gas; to diversify the sources of oil purchased through the international markets; to invest in overseas oil and gas resources through Chinese national petroleum companies, focusing on Asia and the Middle East; and to construct the infrastructure to bring this oil and gas to the market.”²³ For our purposes, China's objective to diversify the sources of imported oil plays a viable role. “Since the mid-1990s official and academic documents in China have proclaimed the virtues of China's petroleum companies investing in overseas oil exploration and production in order to secure supplies of Chinese crude oil, which could then be redefined in China.”²⁴ Therefore, China has begun to make generous commitments; the largest of these are in Kazakhstan and Sudan

²¹ M.Ehsan Ahrari, “Iran, China, and Russia : The Emerging Anti-US Nexus ?”, *Security Dialogue*, 2001, Vol. 32 (4), p. 453.

²¹ M.Ehsan Ahrari, “Iran, China, and Russia : The Emerging Anti-US Nexus ?”, *Security Dialogue*, 2001, Vol. 32 (4), p. 453.

²² Dru C. Gladney, “China's Interests in Central Asia : energy and Ethnic Security” in Robert Ebel and Rajan Menon (ed.), *Energy and Conflict in Central Asia and the Caucasus*, Roman&Littlefield Publishers : Lanham, 2000, p. 209.

²³ Philip Andrews-Speed, Xuanli Liao and Roland Dannreuther, *The Strategic Implications of China's Energy Needs*, Adelphi Papers 346, The International Institute for Strategic Studies (IISS), 2002, p.24-25.

²⁴ Ibid, p.33-34.

The target of China's oil industry is to secure supplies of 50 million tonnes per year from overseas production by 2010. The fulfilment of this objective is directly related to the construction of an oil pipeline from Kazakhstan to China. "Sufficient and effective transportation infrastructure is essential for all forms of energy if that energy is to be used efficiently."²⁵ For China, energy supply pipelines are a vital element of its current energy strategy, which requires a regional strategy. In this regard, there are a number of oil import pipeline projects from Russia at various planning stages. The first one is a crude oil pipeline from the Angarsk region of Siberia. It is estimated that it would transport up to 20 million tonnes per year of Russian crude oil to north-east China. Meanwhile, new discoveries in the Krasnoyarsk region of Siberia are reinforcing the arguments in favor of exporting oil to China. Moreover, the China National Petroleum Corporation (CNPC) has been considering Russia as a buyer of crude oil to be produced from its fields in Kazakhstan. Through swap arrangements, Russian oil would be shipped to China from ports on the Pacific coast.

China has made generous commitments to actualise the west-east energy corridor. This is particularly the case for the commitments made in Kazakhstan to develop two oil fields in Aktunbinsk and an oilfield in Uzen. "In economic terms, the construction of a 6,000 km oil pipeline makes little commercial sense when the alternative is to buy from international markets and have the oil delivered by ship to the coast."²⁶ However, this pipeline has a significant political dimension that overweighs its commercial returns. As William Engdahl indicates: "The pipeline will undercut the geopolitical significance of the Washington-backed Baku-Tbilisi-Ceyhan oil pipeline which opened amid big fanfare and support from Washington."²⁷ Due to insufficient output from Kazakh fields, Russian oil has also been pumped through the pipeline. According to several strategists, this is interpreted as closer China-Kazakhstan-Russia energy cooperation, which is "the nightmare scenario"²⁸ of Washington.

In addition to Kazakhstan, through its state-owned CNPC, China has pledged more than \$8 billion for oil concessions in Sudan, Venezuela and Iran. For our purposes, we stress China's energy security interests and its dilemmas in the Middle East and the Persian Gulf. "The overall consequence of all these energy-related agreements in the Gulf is that China has a much higher geo-economic profile in the region. Its political presence and its strategic interest in the region have also inevitably increased in significance. But, given its continued political weakness, compared to the other external actors in the region, Chinese decision makers continue to face a number of strategic dilemmas."²⁹

²⁵ Ibid, p. 36.

²⁶ Ibid, p.59.

²⁷ F. William Engdahl, "China lays down gauntlet in energy war", *Asian Times Online*, 21 December 2005, <http://www.atimes.com/atimes/China/GL21Ad01.html> (24 April 2007).

²⁸ Ibid.

²⁹ Speed, Liao & Dannreuther, *The Strategic Implications of China's Energy Needs*, p.67.

China confronts a strategic dilemma, whether China should support US policies in the region or seek to counter-balance US dominance through coalitions with hydro-carbon rich countries such as Russia and Iran. Paradoxically, recently its energy rival India has emerged as another partner for China to ensure its energy security. After taking a brief look at India's energy strategy, we will analyse the China-India rapprochement on energy security.

India's Energy Policy

With the end of the Cold-War and the dissolution of the USSR, India has been moving to become a great power and looking for ways to extend its influence beyond its neighbourhood. Its improved relations with China, Pakistan and the US has revealed the 'swinger state' potential of India. "Not only does this undeniably impact India's responsibility in world affairs and raise the consequences of its foreign policies, but it also gives it a unique role to play as a balancer able to influence, and be influenced, by all these states."³⁰ At the current stage, India has a growing economy and its relations with China have been intensifying. Moreover, its relations with traditional rival Pakistan have been giving positive signals.

According to the International Energy Agency³¹, primary energy demand in the world will increase by 66 percent from the year 2002 to 2030. During that period, Asia's share is estimated to rise from 28 percent to 35 percent. The share increase will be particularly significant in regard to oil demand. The Asian developing countries will take the largest share, 38 percent in 2030 of which China will account for 16 percent and India 8 percent. During that period, India's demand for oil will double and its share of total consumption of natural gas and coal will increase.

There are mainly two factors behind India's global search for oil. First, India's oil demand is projected to increase from 2.8 million barrels per day (bpd) to 5.6 million bpd from 2002-2030. Second, "no other source of energy is as suitable as oil for transport and there is a remarkable correlation between oil demand in transport and GDP growth."³² To make our point concrete, India's GDP has been growing by 6 to 8 percent annually during the last years and it is estimated that India's demand for oil will grow between 4 and 5 percent annually in the coming decades to sustain the pace of its economic growth.

By considering these growing demands for imported energy, the Indian President, A.P.J Abdul Kalam, has indicated that India's energy security should

³⁰ Ingolf Kiesow and Nicklas Norling, *The Rise of India : Problems and Opportunities* , Silk Road Paper, January 2007, p.13.

³¹ IEA-India Workshop on Emergency Oil Stock Issues, Opening Remarks by Ambassador William Ramsey, Deputy Executive Director of the IEA, 21.January.2004 <http://library.ica.org/textbase/speech/2004/ramsay/india.pdf> , (09.February.2007) .

³² Kiesow& Norling, *The Rise of India : Problems and Opportunities*, p.87.

be the "key to its foreign policy".³³ He also indicated "the convergence of our foreign policy and our domestic needs is striking in the context of our energy security. My government will give full importance to synchronizing our diplomatic activity with our need for energy to fuel our development needs".³⁴

Therefore, India, through its state-owned oil company ONGC and the private oil company Reliance, has invested in oil fields and gained exploitation rights and refineries in Myanmar, Sudan, Iraq, Russia, Vietnam, Venezuela, Libya and Iran. One should note that India's equity oil deals or guarantee of a reasonable amount of crude oil agreements with die-hard opponents of American influence, Iran and Venezuela, are contrary to the dictates of the US imposed international energy market.

The Indian aspiration to increase its share of oil from Indian-owned fields abroad has led Indian companies directly compete with their Chinese counterparts. Increased competition has forced the two governments to consider the advantages of cooperation on several oil projects. As it will be explained below, they have begun to cooperate rather than compete to ensure their energy security.

For its oil imports, India relies mainly on Gulf Arab States for its oil imports and is much more dependent on the Middle East than East Asia. This is directly related to the geographical proximity between the Middle East and the fastest growing centres of the Indian economy along India's Arabian Sea Coast.

Recently, both imported and domestically produced natural gas has attracted much attention to increase Indian energy supply.³⁵ There are mainly two reasons for this aspiration. First, India's oil reserves have been depleting faster than its gas reserves. Domestically new gas fields are being found while there are few new oil field discoveries. Nuclear and hydroelectric sources are also a quite limited source for energy in India. Second, the rapidly increasing pollution problem has led the Indian government to rely on the clean energy resource of natural gas. "In the field of foreign energy policy, the focus has largely been on imported natural gas and the question of whether place trust in supply via pipelines or in the import of LNG by ships."³⁶

Rather than relying on maritime security provided by the US, India considers importing Iranian natural gas through pipeline as one of the most feasible options. In that regard, India has been pressing for a natural gas pipeline through Pakistan from Iran in spite of Washington's objections. According to US-

³³ IEA-India Workshop on Emergency Oil Stock Issues, Opening Remarks by Ambassador William Ramsey, Deputy Executive Director of the IEA, 21 January 2004 <http://library.iaea.org/textbase/speech/2004/ramsay/india.pdf>, (09 February 2007).

³⁴ Ibid.

³⁵ Kiesow & Norling, *The Rise of India: Problems and Opportunities*, p.100.

³⁶ Ibid, p.100.

policy-making elites this pipeline move would be against the US bid to isolate Iran from its nuclear program and support terrorism. They are concerned that natural gas revenues could help Iran to finance its nuclear program. It seems that the US bill in Congress to allow cooperation with India in the area of civilian nuclear power to help emerging great power's growing energy needs is an act to block India's rapprochement with Iran. Indian political analyst Amit Baruah argues that India should not allow itself to be pushed around by the US concerning ties with Iran. If India let that happen, it would similarly be "asked to fall in line time and again on issue after issue."³⁷ One should note that this delayed pipeline project for decades has taken momentum only after recent progress in peace talks between India and its traditional rival Pakistan. In the current conjuncture, both sides have been objecting to US opposition to the pipeline project and arguing that energy supplies from Iran are vital to sustain their economies.

Sino-Indian Energy Cooperation

China and India are rapidly growing oil consumers and their dependence on imported oil is incrementally increasing, whereby, their vulnerability to price fluctuations and supply distributions is raising. According to Simon Bromley, recent US policy in West Asia is "based on series of contradictory commitments that increasingly undermined its ability to play a directive role in the politics and geopolitics of the region."³⁸ Hence, China and India have been concerned about political order in their natural energy supplier region, West Asia. In the context of rising anti-Americanism, they are hesitant to align their policies with the US. Their close relations with the US could put them at risk from potential energy disruptions from West Asia. Moreover, China and India are aware of the fact that while the US promotes a free energy market now, this position could be used in future to pressure or contain potential rivals. In line with Sun Tzu's advice to 'subdue the enemy without fighting', someday the US can use its dominance over energy security as a political tool to impose its will. History shows that US-policy-making elites are more than willing to use energy embargoes for this purpose. In 1941, the petroleum blockade of Japan was a product of the policy of containing Japanese expansion in Asia without commitment to war in the region. During the Suez Crisis in 1956, the US refusal to fill the gap of Saudi Arabia's oil embargo on Britain and France³⁹ revealed that US-policy-making elites would not refrain from imposing this mechanism even to American allies. Hence, recent history has revealed that occasionally the US has used its dominance over maritime energy trade in order to fulfil several policy goals.

³⁷ Deepak Mahajan, "India to Proceed with Iran Gas Pipeline Despite US Objections", 28 March 2007, <http://www.cnsnews.com/ViewForeignBureaus.asp?Page=/ForeignBureaus/archive/200703/FOR20070328a.html>, (29 April 2007)

³⁸ Bromley, "The United States and the Control of World Oil", p. 248.

³⁹ Kennett Love, *Suez: The Twice-Fought War*, New York, McGraw Hill, 1969, p.651.

Therefore, China and India are hesitant to rely on the US guaranteed international energy market to ensure their energy security. However, their rivalry over energy production contracts had been raising prices and did not leave them much choice except to rely on the international energy market. Recently, they have acknowledged that their harsh rivalry in getting production contracts is mutually harmful. Thus, India took the initiative to develop energy cooperation with China in 2005. This process was concluded with a bilateral hydrocarbon cooperation deal that created a framework for joint bids for the acquisition of oil fields in third countries. The agreement opened the way for five state-owned oil companies in two countries to "begin the process of operational cooperation."⁴⁰

The main consequence of this rapprochement is that Indian and Chinese state-owned oil companies have begun to cooperate in purchasing shares in oil explorations and acquiring oil fields in third countries such as Syria and Sudan.

" In February 2006 a 50:50 joint venture company (Himalaya Energy, Syria) covering 36 production fields in Syria was set up by subsidiaries of OVL and China's CNPC International, purchasing the entire production shares of Canadian oil company Petro-Canada. OVL and CNPC have also previously worked together on the Greater Nile Oil Project in Sudan, but the Syrian purchase was the first time that the two companies joined forces to acquire an oil asset. The remaining recoverable reserve potential of the asset is estimated to be more than 300 million barrels of oil."⁴¹

Moreover, they proposed a pipeline from India via Myanmar to Southwest China in 2006.

Despite the US initiatives to block India's rapprochement with Iran and in particular with China such as the March 2006 US-Indian agreement on nuclear power cooperation, both China and India have realised that they should work closely to avert their dependence on US imposed anti-geopolitics of the international energy market to ensure their energy security. Clearly, their cooperation to acquire risk free equity oil deals is the best energy strategy to decrease their reliance on the US dominated international energy market.

Conclusion

This paper's main objective was to analyse two geopolitical trends on the issue of Asian energy security: the anti-geopolitics of the international energy market on the basis of US maritime geopolitics and Asian terrestrial geopolitics led by China and India. The main argument is that the rising Asian powers, China and India, with their thirst for import energy resources have been unwilling to put their trust in the international energy market to ensure their energy security. Thus, they have begun to cooperate, rather than compete, in their quest for

⁴⁰ *United Press International*, "India, China move to energy cooperation", 13 January 2006.

⁴¹ Stein Tonnesson and Ashild Kolas, *Energy Security in Asia : China, India, Oil and Peace* , International Peace Research Institute, Oslo, April 2006, p.52.

imported energy, whereby, they have been emerging as an Asian terrestrial geopolitics complex in coordination with Russia and Iran to counter the US imposed international energy market.

We have elaborated our main argument in four parts. In the first part, we have analysed US interests in perpetuating the anti-geopolitics of the international energy markets. In the second part, we have underlined the US dominated maritime geopolitical dimension of the international energy market. In the third part, we have discussed the emerging Asian terrestrial geopolitical challenge led by the rising Asian powers, China and India, to the anti-geopolitics of the international energy market. We have noted their energy policies and indicated their rapprochement to ensure energy security by joint bids to acquire oil fields as an out of market option. We have also analysed their energy cooperation potential to counter the anti-geopolitics of the international energy market.

To conclude, it seems that the stage is set for China and India to cooperate in energy issues in the age of the declining US guarantees to secure future energy supplies at reasonable prices. The US unilateral aggressive policies and contradictory commitments have failed to bring stability, whereas, they have been destabilizing to the region. In that context, the US has been losing its capability to ensure energy security through the anti-geopolitics of the international energy market. Moreover, one should note that high oil prices, which are mainly sourced from rising Asian demand and instabilities in principal hydro-carbon producing countries, have several geo-political implications. On the one hand, the main Asian hydrocarbon exporters, Russia and Iran, have found more space to manoeuvre out of American dictates. On the other hand, their rising vulnerabilities to energy disruptions and price fluctuations have led China and India to cooperate rather than compete, but also, to intensify their ties with Russia and Iran. In sum, as long as energy prices are above reasonable levels and the US does not ensure Asian energy security through the anti-geopolitics of the international energy market, the prospects for an Asian terrestrial geopolitics-led alternative energy market will be reinforced.

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Summary

This paper assumes that there are two geopolitical trends on the issue of energy security in Asia. First, the US has been imposing anti-geopolitics of international energy market through its dominance over maritime geopolitics. From pure economics logic, one can argue that the US ensures commodity security through the market. As long as openness of the markets is ensured, commodities are traded securely. For our purposes, the author will rely on anti-geopolitics of international energy market, in particular oil. The free oil market that is backed by strategic petroleum reserves and several arrangements would provide energy security for importing countries. However, this logic has several shortcomings on the issue of energy security. Since principal energy commodities, hydro-carbon resources are strategic assets and they are located at instable parts of the world, international energy market's ability to ensure energy security through anti-geopolitics is limited. Nevertheless, the US has significant interest to spread anti-geopolitics of market not only to ensure energy security, but also to impose asymmetrical influence over market prices. Its dominant position in providing security to the maritime energy trade is a powerful determinant of US strategic objective of 'ensuring peace' in its own terms. Therefore, the rationale behind US policy toward international energy trade is to maintain its role of the sole guarantor of global energy trade, whereby, make all energy supply routes under its security structures. Hence, as the main guarantor through its maritime dominance and supporter of free global energy market, the US's main objective is to bring all producers and consumers into that 'free' global energy market and ensure them to comply with the rules of that market. In that regard, the US aims to extend the conditions of its maritime dominance to inland of West Asia. Second, Asian terrestrial geopolitics has begun to challenge anti-geopolitics of international energy market. China and India are rapidly growing oil consumers and their dependence on imported oil is incrementally increasing, whereby, their vulnerability to price fluctuations and supply distributions is raising.

The target for China's oil industry is to secure supplies of 50 million tonnes per year from overseas production by 2010. China made generous commitments to actualise west-east energy corridor. In addition to Kazakhstan, through its state-owned the CNPC, China has pledged more than \$8 billion for oil amounts of oil concessions in Sudan, Venezuela, Iraq (no more valid), and Iran. China confronts two strategic dilemmas. First, whether China should intensify its relations with oil producing states such as Iran, which have antagonistic relations with the US. Second, how China should respond to its dependence on US imposed international energy market for the energy security and whether China should support US policies in the region or seek to counter-balance US dominance through coalitions with hydro-carbon rich countries such as Russia and Iran. Paradoxically, recently its energy rival India has emerged as another partner for China to ensure its energy security.

Until 2030, India's demand for oil will be double and its share of total consumption of natural gas and coal will increase. India's GDP has been growing by 6 to 8 percent annually during the last years and it is estimated that India's demand for oil grow between 4 and 5 percent annually in the coming decades to sustain the pace of its eco-

conomic growth. The Indian aspiration to increase its share of oil from Indian-owned fields abroad has led Indian companies to be in direct competitions with their Chinese counter-parts. Increased competition has forced two governments to consider the advantages of cooperation on several oil projects.

China and India are rapidly growing oil consumers and their dependence on imported oil is incrementally increasing, whereby, their vulnerability to price fluctuations and supply distributions is raising. They have been concerning about political order in their natural energy supplier region, West Asia. In the context of rising anti-Americanism, they are hesitant to align their policies with the US. Their close relations with the US could put them into the risk of potential energy disruptions from West Asia. Moreover, China and India are aware of the fact that while the US promotes a free energy market now, this position could be used in future to pressure or contain potential rivals. Thus, they are unwilling to place their full trust in US imposed international energy market. Hence, they have been considering alternative options to ensure their energy security. Due to high prices sourced from harsh rivalry to get production contracts, China and India have begun to consider themselves as energy partners, rather than rivals. The main consequence of this rapprochement is that Indian and Chinese state-owned oil companies have begun to cooperate in purchasing shares in oil explorations and acquiring oil fields in third countries such as Syria and Sudan. Moreover, they proposed a pipeline from India via Myanmar to Southwest China in 2006. In the context of declining American energy security guarantees, the stage is set for China and India not only to intensify their ties on energy security issues but also cooperate with Russia and Iran, who have found much space to manoeuvre out of American dictates at the age of high energy prices, for an alternative Asian energy market.

In the first part of the paper, the author will analyse US imposed international energy market and its `anti-geopolitical` character. In the second part, the author will talk about US dominated maritime geopolitical underpinnings of international energy market. In the third part, we will analyse emerging Asian terrestrial geopolitical trend against anti-geopolitics of international energy market. Thereafter, the author will take a brief look at China and India's energy policies. Eventually, implications and prospects of their energy cooperation and its potential to turn into alternative energy market with Russia and Iran will be evaluated.