

What does America's shale gas revolution mean for China?

Written by Gal Luft
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Recent development in the U.S. of technologies for extracting oil and natural gas from shale formations are changing the global energy landscape. Thanks to hydraulic fracturing or fracking U.S. oil imports have dropped to the lowest level in 20 years and the U.S. is well on its way to become a major player in the global market for liquefied natural gas (LNG). But this so called energy revolution has been received in China with perplexity and trepidation. Many Chinese officials believe that U.S. self-sufficiency in energy, should it come to pass, would weaken U.S. interest in the Persian Gulf, leading to a military withdrawal from the region. This could in turn compromise China's energy security. Others see a U.S. energy transition as an American plot to de-industrialize China by luring industrial production from the mainland to the U.S., where natural gas prices are cheap.

None of these concerns are grounded in reality. Chinese need not fear the new energy architecture. In fact, they are only likely to benefit from it.

It is time to put to rest the myth that U.S. presence in the Persian Gulf is tied to its dependence on imports of the region's oil. It isn't. In fact, this has never been the case. Today only nine percent of U.S. oil consumption originates from the Middle East. The highest it has ever been was fifteen percent. While the U.S. is not dependent on the Gulf for the physical supply of oil, it is dependent on the region for price stability. Oil is a global commodity with global price so when the region becomes unstable and oil prices spike, the U.S. is impacted by the hike just like any other nation regardless of how much of its crude comes from the Persian Gulf.

Because the U.S. economy is highly sensitive to oil shocks – Almost every recession since the Second World War was preceded by a spike in oil prices – it would not withdraw from the Persian Gulf even if its imports from the region dropped to zero. U.S. interests in the tumultuous Middle East are complex and transcend oil. Just like China Washington desires Middle East

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stability, and it will therefore continue to be the guarantor of the region's security for many years to come.

Cheap natural gas will surely revive America's industrial sector, creating new jobs and investment opportunities. In fact, some global manufacturers have already announced their plans to set up plants in the U.S. to take advantage of its cheap energy. But this should not be viewed as a threat to China. A more prosperous America means more buying power and a bigger market for Chinese goods. Furthermore, since the U.S. is unable to utilize all of its domestic energy it can now export more of it to Asia. As the U.S. electricity sector is shifting from coal to natural gas more coal is available for export. In the past ten years U.S. coal exports more than tripled, and much more of this surplus of high grade coal could be used in China. The U.S. is in the process of building LNG export terminals with the goal of exporting some of its gas to Asia, bringing down the price of natural gas for Asian countries, China included. Similarly, increased U.S. oil production means fewer barrels will have to migrate to the U.S. increasing the availability of African and Middle Eastern oil to the Chinese market and reducing the risk of tension over access to energy.

The American oil and gas boom will benefit China in other ways. Energy exports are likely to boost the U.S. dollar and hence put downward pressure on oil prices while making China's exports of manufactured goods more competitive. China should also recognize that it could benefit from the fracking technology more than any other country. China has the world's largest reserves of gas shale. The U.S. Energy Information Administration estimates that China has total reserves of 1,275 trillion cubic feet of shale gas, almost 50 percent more than the 862 trillion cubic feet in the U.S. And while there are many question marks about the economics and environmental attributes of shale gas this resource has the potential to transform China's energy landscape.

The U.S. would welcome that. China and the U.S. already launched in 2009 the U.S.-China Shale Gas Resource Initiative - a joint effort to enhance investment and technical cooperation aimed at accelerating shale gas development in China - and major U.S. energy companies like Chevron and Conoco Phillips have signed joint ventures with Chinese energy companies.

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The 21st century is dubbed by many as the natural gas century. But China's natural gas sector has a lot of catching up to do. The world's average for natural gas' share of a country's total energy portfolio is 24 percent. In China it is only 5 percent. Along with nuclear power and renewables, natural gas is critical to strengthening China's energy security and reducing its dangerous air pollution. Natural gas can also alleviate China's growing dependence on imported oil. It can be used directly as automotive fuel in the form of compressed natural gas; it can be used to generate electricity, which can power electric vehicles and it can be converted to methanol, a liquid fuel that is already widely used in some provinces in China. All of these opportunities are now possible thanks to shale gas.

American innovation has unlocked the gate for China's energy future. It is now up to China to embrace this development, take full advantage of it and view shale gas for what it really is: an opportunity, not a threat.

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