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## ASIA'S RISING POWER *and America's Continued Purpose*

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### Energy

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#### The Rise of Energy and Resource Nationalism in Asia

*Mikkal E. Herberg*

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## EXECUTIVE SUMMARY

This chapter analyzes Asia's energy and resource security challenges, how they are contributing to the region's geopolitical tensions, and the implications for U.S. policies toward energy security and Asia.

### MAIN ARGUMENT:

Energy and resource security have become critical issues on the economic and strategic agenda in Asia as demand and dependence on imported supplies grow. Regional powers, most notably China, have responded with nationalistic strategies to secure control over energy and commodity supplies. China, India, and other countries in the region are also becoming major energy investors in Iran, Sudan, Myanmar, and other pariah states. The zero-sum energy and resource atmosphere in the region is feeding geopolitical rivalries among China, the U.S., India, Japan, and Korea, and this competition is now extending to rare earth minerals, which have increasingly important defense and energy applications.

### POLICY IMPLICATIONS:

- The U.S. has major stakes in the impact of Asia's energy security strategies on regional stability, security, and prosperity. The region needs to find collective ways to build trust, manage the impulse toward energy competition, work together on new supplies, and build new energy infrastructure.
- Regionally, the U.S. and China must lead the development of a strategic regional energy dialogue on common energy security concerns. This dialogue should be aimed at confidence-building and improving trust in each country's energy policies.
- The U.S., Japan, and Korea should try harder to involve China and India more directly in the global institutions for managing oil market disruptions, such as the International Energy Agency (IEA).

## The Rise of Energy and Resource Nationalism in Asia

*Mikkal E. Herberg*

Over the past decade, Asia has emerged at the center of global energy and commodity markets as demand for these commodities has accelerated due to the region's rapid economic growth. This trend is particularly salient in the case of energy. Rapid industrialization, a massive scale of urbanization, rising per capita income, and increased levels of transportation and motorization have all stimulated demand for oil, natural gas, coal, and electricity. Although the boom in energy has been centered in China, regional demand for other raw materials and commodities, including iron ore, copper, aluminum, and rare earth minerals essential for a range of high-tech products and defense applications, has also skyrocketed. Owing to Asia's relatively limited resource base in many of these raw materials, the region's import dependence for critical energy and industrial inputs is rising dramatically. Moreover, the geographic distribution of resources Asia needs to fuel economic growth is highly uneven, particularly in the case of energy. A rapidly rising share of Asia's petroleum will need to be imported long distances from the Persian Gulf and Africa, historically unstable regions of the world.

Consequently, there is a profound and growing sense of insecurity across the region over the reliability of future energy supplies and fears that shortages or disruptions could become severe bottlenecks to continued economic growth and political stability. For most Asian governments, particularly in China, economic performance and job creation are seen as ensuring the bedrock for political legitimacy and stability. Similar anxieties

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are beginning to affect markets for and investments in other key raw materials. For example, concerns over supplies of rare earth minerals have begun to intensify competition to lead the way in high-tech clean energy products while heightening the potential national security consequences of shortages of materials necessary for critical military applications. Consequently, energy security and security of supplies of other key raw materials have increasingly become a matter of the “high politics” of national security rather than just the “low politics” of domestic energy and economic policy.<sup>1</sup>

Energy and national resource security are now vital concerns on the strategic and economic agendas of all the major Asia-Pacific powers. Although energy security has been a critical issue since the oil shocks of the 1970s, today’s anxieties have been further fed by the extraordinary run-up in prices for energy and industrial commodities beginning in 2003 and culminating in 2008. The global energy and raw materials sector was gripped by what many called a “super-cycle” of long-term secular commodity price increases.<sup>2</sup> The onset of a severe global recession led to a collapse in energy and raw material prices in 2009, but rising prices and supply insecurity have re-emerged as major economic concerns in 2010 as the global recovery, led by Asia (and, in particular, China), drives a resumption of the super-cycle.<sup>3</sup> While major regional powers seek to ensure access to key commodity supplies, energy and resource nationalism and a “zero-sum” atmosphere over controlling future oil, energy, and commodity supplies have become a source of regional rivalry, tensions, and potential conflict. Competition and national suspicion over control of energy and other resources is spilling over and affecting the tenor of the region’s most important strategic rivalries—most importantly, the rivalry between the United States and China. There have been some efforts to improve regional and multilateral cooperation in order to maintain open markets and access to energy and resource supplies, but for the most part cooperation has been in relatively short supply.

The United States, as the traditional hub and guarantor of stability in Asia and the key energy-exporting regions of the world, has major stakes in how Asia and China respond to energy and resource insecurities. Driven by needs for energy and raw materials, China is destined to become a significant

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<sup>1</sup> For an earlier look at the geopolitics of energy security in Asia, see Mikkal E. Herberg, “Asia’s Energy Insecurity: Cooperation or Conflict?” in *Strategic Asia 2004–05: Confronting Terrorism in the Pursuit of Power*, ed. Ashley J. Tellis and Michael Wills (Seattle: The National Bureau of Asian Research, 2004), 349–78.

<sup>2</sup> Alan Heap, “China: The Engine of a Commodity Super Cycle,” Citigroup/Smith Barney, Global Equity Report, March 31, 2005.

<sup>3</sup> John Morrissy, “China Will Drive Commodities Super-Cycle: Scotiabank,” *Financial Post*, June 29, 2009.

player in key energy- and resource-exporting regions, such as the Middle East, Central Asia, Africa, and Latin America. India is also rapidly becoming an important investor in these regions. China's and India's new involvement in these regions could have a powerful impact on U.S. diplomatic, nonproliferation, human rights, and strategic goals. Moreover, given that Asia lacks a regional architecture and the institutions to manage conflict, such competition has the potential to destabilize the region. Asian stability is central to U.S. prosperity and security; thus, the potential for conflict driven by energy competition and resource insecurity must become a conscious and carefully crafted dimension of Washington's regional strategy.

The goal of this chapter is to analyze Asia's energy and resource security challenges and their impacts on U.S. geopolitical and energy security interests. The discussion will be divided into four sections. The first section will focus on Asia's energy prospects and the energy security dilemmas that condition the behavior of the major Asian powers. The second section will discuss how the key Asian countries are addressing their energy security concerns, the roots of their energy strategies, and the impact of these strategies on regional relations. The third section will examine the implications of Asia's energy security challenges for the United States and will consider what must be done to try to shape Asia's competitive energy security dynamics into more cooperative channels that would contribute to, rather than undermine, regional stability and economic security. The fourth section will discuss another resource security issue emerging in Asia that could affect regional rivalries—namely, the growing controversy over control of rare earth minerals.

## Asia's Energy Fundamentals

Asia is now ground zero for growth in global energy demand as a result of the region's remarkable economic ascent over the past two decades. Energy consumption is closely tied to population growth, industrial production, urbanization, rising per capita income, and motorization, all of which are rising dramatically in the region, especially in China and India. From 1990 to 2008, total Asian energy demand grew by 123%, while total world energy demand outside of Asia grew by just 16% (see **Table 1**).<sup>4</sup> Excluding

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<sup>4</sup> All of the historical energy data in this section is drawn from "BP Statistical Review of World Energy 2009," BP plc, June 2009. There are other good sources of energy data and forecasts, including the annual *World Energy Outlook* by the International Energy Agency (IEA), the U.S. Department of Energy's annual *International Energy Outlook (IEO)*, and an annual forecast from ExxonMobil. These, however, are primarily forecasts with limited historical and country-by-country data. BP's annual publication is the only consistent and detailed annual country-by-country, fuel-by-fuel source of historical data, and it is also the most widely available.