

Commodities, China, *and* American Foreign Policy

BY DAVID D. HALE

How all are linked.

Future historians will note that President Hu Jintao followed up his visit to Washington in April 2006 with trips to Saudi Arabia and Nigeria. He went to the Middle East and Africa in search of a commodity which he did not feel that he could obtain in the United States: oil.

President Bush should have discussed energy policy with Hu Jintao because China has an insatiable demand for oil and other commodities which could have profound implications for the American economy. China's demand for commodities is now so great that it is increasingly the price setter in global markets. If the United States does not collaborate with China in promoting more conservation and energy efficiency, her demand for oil could drive the price over \$100 per barrel during the next five years. The decision of the U.S. Congress to block the Chinese bid for Unocal last summer has also increased the risk that China will turn to rogue states such as Iran, the Sudan, and Venezuela in a search for energy supplies.

The debate about the Unocal bid last summer was so myopic Americans did not recognize that it was only a minor chapter in a

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THE INTERNATIONAL
ECONOMY

THE MAGAZINE OF
INTERNATIONAL ECONOMIC POLICY

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much larger story. We passed a great threshold in world economic history during 2003 and 2004. China displaced the United States to become the world's leading consumer of copper, nickel, iron ore, lead, and other base metals. It also displaced Japan to become the world's second largest oil consumer.

China now consumes 22 percent of global copper output compared to 16 percent for the United States. It consumes 22 percent of global aluminum output compared to 20 percent for the United States. China's steel production will soon approach 400 million tonnes or a level twice as large as that of the United States and Japan combined.

China's oil consumption is now approaching seven million barrels per day compared to 5.5 million for Japan and 21 million for the United States. China accounted for one-third of the growth in global oil consumption during 2004 and played a major role in driving prices over \$40 per barrel.

China's need for raw materials has already had a major impact on her foreign policy. She is now attempting to negotiate free trade agreements with important commodity-producing countries such as Australia, South Africa, Chile, and Saudi Arabia. China has deployed four thousand military police in the Sudan to protect an oil pipeline which it built there six years ago with Petronas of Malaysia. Beijing has recently offered to give Nigeria arms in order to contain an insurgency by rebels in its oil producing provinces.

In November 2004, President Hu Jintao traveled to Brazil and Argentina in order to announce \$30 billion worth of infrastructure investment to facilitate trade with China. A few months later Venezuelan President Hugo

Chávez traveled to Beijing to seek Chinese investment in his country's oil fields. Mr. Chávez is very hostile to the Bush Administration and wants to promote China as an alternative to the American market.

China's oil companies have become important investors in many oil producing countries. Between 1990 and 2005, that made for \$7 billion worth of foreign investments. After the collapse of the \$18 billion Unocal bid, they announced nearly \$12 billion worth of new investments and corporate takeovers in Kazakhstan, Ecuador, Syria, and Nigeria. As a result of Hu Jintao's visit to Nigeria, China will invest \$4 billion in that country's infrastructure and refineries in return for access to new oil deposits. In March, China's oil companies also announced plans for new investments in Iran after committing to a \$75 billion plan to purchase Iranian oil and gas two years ago.

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China's Rogue Friends

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countries access to weapons and military technology in return for access to oil and gas reserves. China has signed a treaty that prevents her from selling nuclear technology but she has supplied a great deal of military equipment to the Sudanese government and threatened to veto United Nations sanctions against Sudan. These concerns were not discussed during the Unocal bid but the political obstacles to the bid were a *de facto* encouragement of China to pursue alternative energy supplies from potential enemies of the United States.

The United States signed an energy cooperation agreement with China during the mid-1990s. The goal of the agreement was to share technology and promote energy efficiency in China. It was allowed to expire despite the fact that the United States has a clear interest in helping China to reduce her demand for oil. President Bush should also have discussed the security implications of China's rapidly growing dependence upon commodity imports from places as far away as Latin America and Africa. There is speculation that China could be compelled to develop a blue water navy to protect her commodity supplies. Bush should have promised that the United States would use its navy to guarantee the security of China's commodity imports. Bush should have also stressed that the United States would welcome Chinese investment in the oil industry despite the opposition to the Unocal bid.

Many in Washington are alarmed about the re-emergence of China as a great economic power. They fear China could be heading down the same path as Germany before 1914 or Japan during the 1930s. What they fail to appreciate is that China has become too integrated in the global economy to play the role of a rogue state or militant super power. China's export share of GDP is now 38 percent, or three times as large as that of the United States, Japan, or the European Union. China is also becoming increasingly dependent upon imported raw

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materials to sustain her economic boom. China's per capita endowment of energy makes her especially vulnerable—her per capita reserves of oil are less than 11 percent of the global average while natural gas reserves are only 5 percent. Despite an abundance of coal, China's per capita reserves of coal are half the global average. Nuclear power and hydro power play only a small role in China's economy.

China's new role in the global commodity markets is both a challenge and an opportunity for the United States. It is a challenge because China could be competing with the United States for oil, copper, iron ore, and other commodities in the future. Goldman Sachs, for example, is forecasting that China's car population could rise from 14 million today to 500 million in the year 2050. The United States currently has only 140 million autos and consumes a quarter of the world's oil. In 2010, automobiles could account for 43 percent of China's oil consumption compared to less than 10 percent during the early 1990s. If China has even 300 million autos, it will drive oil prices to levels which will compel the world to switch from petroleum to fuel cells.

The opportunity is for the United States to collaborate with China on projects to guarantee the security of global sea lanes, promote new forms of energy development, and create an energy consumer lobby to hold OPEC in check. China has such immense vulnerability to disruptions of oil supplies that Beijing would surely be willing to collaborate with the United States on improving her access to energy as well as other commodities. The Bush Administration abandoned many longstanding principles of U.S. foreign policy when it allowed Congress to veto the Unocal bid. But with Hu Jintao touring the Middle East and Africa in search of oil, there is clearly potential for new collaboration between the world's two largest oil consumers to lessen the risk of a price explosion as China's economic takeoff continues.