



SHALE GAS: THE KEY IN THE US' ASIA PIVOT?

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The “shale gas revolution” in the US could provide significant leverage in the US “pivot” to Asia. As China looks to absorb the technological know-how of shale gas extraction from North America, greater partnerships and US company involvement in China’s extraction of the resource could act as a confidence-building mechanism between the two countries. Indeed, the new shale gas boom could provide an important instrument for US foreign policy in its pivot to Asia.

Energy has long been both the bane and the favored instrument in the foreign policy of governments. Yet, for the US, fortunes are changing and the goal of former President Nixon’s *Project Independence* looks soon to be realized. On the back of the shale gas boom and technological improvements in energy production, the US is predicted to take a giant leap toward this independence as it becomes the world’s biggest gas producer by 2015. Naturally, countries like China, which is estimated to hold more shale gas than the US and Canada combined, are hungry to learn the secret to their success. This may be just the carrot of diplomacy the US seeks to hold greater interaction with Beijing. Indeed, the juggernaut in Washington’s “pivot” to Asia may not be the US Navy, but instead Chevron, Halliburton and ExxonMobil.

In a US Secretary of State memo in 2009, released by Wikileaks, embassies in Beijing, New Dehli, and Canberra, amongst others, were asked, “that posts assess the state of shale gas development and/or potential for development in their host country and report their findings to Washington.” The stage was set for shale gas to take pride and place in US foreign policy.

In the US, improvements in extraction techniques of shale gas and other “unconventional” resources have allowed the new energies over the past ten years to become a credible and profitable source of energy. Unlike China, the US has the know-how to negotiate the difficulties of shale gas extraction. In fact, it was US companies Mitchell Energy and Devon Energy that began the practice of hydraulic fracking for shale gas. After Devon Energy wit-

nessed the pioneering success of Mitchell Energy in shale gas, it acquired the company in 2002. Last year, after more than a decade of progress, China’s Sinopec also bought into Devon Energy with a joint venture in a shale gas play in Mississippi.

Such a move helps speed up China’s acquisition of expertise. Devon Energy hasn’t been the only company China has picked up a stake in. Chinese National Oil Companies (NOCs) have invested in foreign companies and their knowledge, particularly in the US and Canada. A 2011 International Energy Agency (IEA) report highlights partnerships that took place in 2010 between Chinese NOCs and Canadian companies with specific shale gas expertise. China National Petroleum Company/PetroChina purchased a 60 percent stake of an oil sand project in Alberta, and also formed a joint venture with Canadian Encana to develop shale gas plays in British Columbia. Meanwhile, more recent buy-ins by China National Offshore Oil Corporation (CNOOC) have included a Chesapeake subsidiary and the take-over of Canadian firm Nexen, which is currently exploiting shale gas in British Columbia and expanding operations to Poland.

The hunt for such expertise through joint ventures and partnerships is on the rise across Asia. According to an Ernst and Young report, “Asian NOCs spent \$37 billion acquiring assets outside their home markets” in the first nine months of 2012. And the game isn’t over yet. NOCs continue to explore further partnerships in North America and anywhere they can glean the expertise they need. In the brave new world of unconventional energy extraction,



knowledge is power – the US has it and China wants it.

As well as this foreign absorption of expertise, Beijing is also pouring money into domestic research and development under the “National Key Technologies Research and Development Program” (1983) and other recent initiatives. But it can’t move quickly enough. R&D, just like technological know-how, takes time.

The geopolitical changes such a shale revolution could bring may also shift the epicenter of global manufacturing. The US shale boom is seeing plans drafted for new chemical production plants that will use ethane to make ethylene, which can then be converted into a host of products including plastics, detergents and clothing. Current prices of ethane in the US make it cheaper to produce there than in Asia where production depends primarily on more expensive, often imported, oil. According to a Price Waterhouse Coopers (PWC) report, shale gas could lead to a manufacturing boom as raw material and energy prices drop. This coupled with technological revolutions that decrease labor costs, could see a dramatic shift of some manufacturing away from Asia, and China, and back to the US.

Foreign company expertise, particularly that of US companies, may provide significant improvements to the security, and environmental safety, of the growing Chinese economy – a good thing for the world economy and the US. It could more importantly, slow the pace, and need, for potentially devastating energy from hydro-dams along key watercourses in Southeast and South Asia that originate in southern China, such as the Brahmaputra, Salween and Mekong river systems. In turn it may also, in the short-term, decrease regional resource conflicts, acting, in effect, as a conflict prevention mechanism. The shale gas revolution could provide the energy that China’s growing middle class is so hungry for.

But this is a two way street. For the US the shale gas boom provides jobs and lower energy prices. According to an IHS study, lower gas prices could mean more dis-

posable income, on annual average \$926 per household between 2013–2015, which could stimulate growth in the US. The US is also using the shale boom as leverage for greater Sino-American interaction. It has opened dialogues on frameworks in the sector, during the US-China Strategic and Economic Dialogue in May 2012. Other initiatives and workshops have also been organized by the US Department of Energy and the US Department of State, such as the US-China Shale Gas Resource Initiative, 2010.

“Chimerica,” as Niall Ferguson termed the growing interdependency of the US-China relationship, could still be the answer to greater stability and growth. As unpalatable as it will be to both populations on paper, it is, regardless of public opinion, likely to be propelled by multi-national companies and business on both sides of the Pacific. Indeed, for the US government, this may be a far cheaper alternative than the expensive naval pivot to Asia. Shale gas could be the ace-up-the-sleeve, the juggernaut in the US pivot to Asia.

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