China-U.S. Relations in Global Energy Governance*

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This paper analyzes the development of the U.S. and the global energy governance mechanism, and the development and characteristics of China’s participation in the global energy governance mechanism. China's participation in global energy governance has undergone a process from edge to the center. In this process, China has gradually shifted from a passive follower of global energy governance rules to an active participant in governance and shaping rules. The paper also analyzes the causes of friction and conflict in China-U.S. energy security relations from the aspects of differences in energy security concepts, conflicts between conservative and rising powers, and the struggle between regulation and anti-regulation. The promotion of China’s G20, the Brazil, Russia, India, China, and South Africa (BRICS), the Shanghai Cooperation Organization (SCO), the Asian Investment Bank, the Silk Road Fund, and the United States’ system conformity together constitute the basic situation of China-U.S. institutional competition in the field of energy finance. Finally, the paper point out that China and the United States explore institutional arrangements for energy and achieve mutual benefit and win-win results through benign interaction.

Keywords: international energy mechanism, global energy governance, China-U.S. energy game

Introduction

The International Energy Governance Mechanisms (IECM) is the overarching systems of mechanisms that are valid or active in International Energy Governance. They play important roles in the international energy system by coordinating actions through a series of codes of conduct. The International Energy Governance Mechanism provides a standardized mechanism platform for China-U.S. energy interaction. By actively participating in the global energy governance mechanism, China will enhance its voice in the international energy system and achieve a sound interaction between China and the United States. This paper analyzes the causes of friction and conflict in China-U.S. energy security relations, and tries to point out that China and the United States explore institutional arrangements for energy and achieve mutual benefit and win-win results through benign interaction.

The Development of the U.S. and Global Energy Governance Mechanisms

Since the oil crisis in the 1970s, the United States has begun to attach great importance to the issue of energy security and set about building a more systematic global energy governance mechanism. A series of international energy governance mechanisms have been established, such as international energy emergency, energy dialogue among big countries, energy finance, and the strengthening of clean energy development.

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Establish an Energy Emergency Mechanism

In February 1974, Kissinger presented an *Energy Cooperation Action Plan* at the Washington Conference, which included energy conservation and substitution, energy research and development, energy sharing in emergency situations, energy finance cooperation, energy problems in developing countries, relations between oil producers and consumers, etc. (Karlsson, 1986). After the meeting, the Energy Coordination Group drafted the *International Energy Plan Agreement* (Wang, 2008). The main contents of the agreement are: (1) to establish oil sharing system. If the shortage exceeds 7%, affecting any one or all member countries, the oil-sharing system will be launched and oil-deficient countries will receive oil supply from other member countries, so that the shortage of oil supply does not exceed 7% of their oil consumption; (2) to establish emergency oil reserves and conservation mechanisms. The agreement requires member states to have at least 90 days of net imported oil reserves. Once the oil-sharing program is implemented, member states must cut oil consumption and draw on existing reserves on the basis of consent of the International Energy Agency. If the total oil supply is in short of 12%, member countries must reduce oil demand by 10%; (3) the decision-makers of the International Energy Agency (IEA) is the Energy Council, which consists of ministers and senior officials of member countries. The United States has a voting power of 43% of the total vote. The agreement entered into force with the approval of all countries. On January 19, 1976, the IEA was formally established with its headquarters in Paris. The sharing mechanism, reserve mechanism, and oil information sharing mechanism of the IEA have played an important role in dealing with the threat of oil shortage (Wang, 2008).

Form a Dialogue Mechanism for Western Energy Giants

Group of Eight (G8) summit mechanism was established in 1977. On June 4, 2014, the Group of Eight (G8) met in Brussels. In retaliation for Crimea’s entry into Russia and Russia’s role in the turbulent situation in eastern Ukraine, the G8 summit excluded Russia and formed a G7 summit. The impact of the G7 summit of Western countries on international oil prices is mainly through the following means: (1) The finance ministers meet to judge the international oil prices and determine whether the oil prices are too high. (2) The member states of the summit form collective action through coordination to strengthen their position in the oil price negotiations, thus affecting the pricing. (3) By controlling their own oil consumption and import, the member states can maintain the price stability and sufficient supply in the international oil market (Zhao, 2009).

Build Energy Finance Mechanism

President Nixon announced in 1971 that he would stop the exchange of dollars for gold. William E. Simon, then U.S. Treasury Secretary and President Nixon’s envoy, flew several times to the Arab region and reached a secret agreement with then Saudi Arabian monetary authority in 1974. The agreement allows the central bank to buy U.S. government bonds outside the auction mechanism (the U.S. guarantees the safety of these funds), but Saudi Arabia must ensure that the dollar is used as the currency of oil (Spiro, 1999). Saudi Arabia agreed to use the dollar as the only denominator currency for oil exports. Subsequently, the agreement was extended to other OPEC member countries, and US dollar became the medium of oil exchange. After the collapse of the Bretton Woods System, the United States maintained and consolidated the hegemony of the dollar through its monopoly of oil and other commodities as a trading medium (Guan & Zhang, 2006).

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2 Idem.
Strengthen the Development Mechanism of Clean Energy

The United States, with its strong funds and advanced technology in the field of clean energy, has actively promoted the international clean energy cooperation mechanism and initiated a series of clean energy international cooperation mechanisms. In July 2005, the United States proposed the Asia-Pacific Partnership (APP) on Clean Development and Climate, and in 2007, the United States launched the Major Economies Meeting on Energy Security and Climate Change. In April 2009, then U.S. President Barack Obama proposed the creation of the Energy and Climate Partnership of the Americans (ECPA), and the U.S. Department of Energy proposed the establishment of a Clean Energy Ministerial (CEM) in 2010. Through these mechanisms, the United States strengthens international dialogue and exchanges in the field of clean energy, and promotes its clean energy technology standards, technologies, products, and services, thus stimulating the growth of the United States economy (Zhao, 2017).

China Participates in the Global Energy Governance Mechanism

China’s participation in the development of the global energy governance mechanism has undergone a process from the edge to the center. In this process, China has gradually changed from a passive follower to an active participant in the governance and shaping of the rules. Since the beginning of the 21st century, China has begun to participate more actively and deeply in global energy governance, and the mode of participation has changed from active participation to active influence. Through various forms of cooperation with major international energy organizations, such as the Organization of Petroleum Exporting Countries (OPEC), the International Energy Agency (IEA), the Energy Charter, the International Renewable Energy Agency (IRENA), and the International Atomic Energy Agency (IAEA), China has begun to play a key role in major international energy governance mechanisms, such as actively carrying out activities within the framework of the Shanghai Cooperation Organization (SCO), the BRICS, and the Asia-Pacific Economic Cooperation (APEC) of the G20. China is also a founding member of the International Energy Forum (INF), the Joint Data Initiative (JODI), the International Energy Efficiency Partnership (IPEEC), and the Clean Energy Ministerial Meeting (CEM) (Zhu, 2016).

China’s understanding of global energy governance has gradually deepened. China is concerned about global energy governance with a serious and pragmatic attitude. Efforts should be made to transform from an outsider to an insider, from a follower to an influencer, and finally become active a participant, builder, and contributor to existing energy governance systems (Nuer, 2015). In recent years, China has actively participated in bilateral and multilateral global energy governance mechanisms, actively exerted its influence in an open and pragmatic manner, continuously enhanced its influence in the international energy governance mechanism, and realized the transformation of its role from a follower to an influencer. Generally speaking, China’s participation in the international energy governance mechanism has the following characteristics.

The Dual Drive of Marketization and Globalization

China is one of the beneficiaries of the process of globalization. In international energy cooperation, China proposes to combine “bring in” with “go out” and utilize “two kinds of resources and two markets”. The motivation of China’s participation in international energy governance has shifted from a single policy drive at the beginning of reform and opening up to a dual drive of marketization and globalization (Zhao, 2017).
**Attach Importance to Bilateral Cooperation**

China has established 42 bilateral energy cooperation mechanisms, which include the world’s major energy producers and consumers. In the early stages of participating in international energy cooperation, China and other countries jointly set up a large number of bilateral mechanisms. These mechanisms have also promoted bilateral trade and investment, and deepened bilateral economic and trade exchanges and mutually beneficial cooperation. China has established bilateral energy cooperation mechanisms with nearly 30 partners in the dialogue, including a dialogue mechanism covering all energy issues, a dialogue mechanism covering different sub-areas of energy, such as coal, oil and natural gas, renewable energy, and energy efficiency, and a mechanism covering higher-level political and economic issues (Zhu, 2016).

**Integrate Into Multilateral Cooperation**

As China’s position in the global energy sector continues to rise, the Chinese government has shifted from a bilateral orientation to a multilateral integration, realizing both bilateral and multilateral cooperation. The complementarity of bilateral and multilateral cooperation can create a more favorable external environment for energy security, economic growth, and sustainable development. China has cooperated with 26 international energy cooperation organizations and international mechanisms, and the contents of international cooperation have been deepening (National Energy Administration [NEA], 2016). China has also cooperated with more than 20 intergovernmental multilateral mechanisms, thus expanding the depth and breadth of China’s global energy governance.

**Actively Undertake International Responsibilities and Obligations**

China actively participates in international energy governance, promotes the reform of global energy governance mechanism, jointly copes with global challenges, forges a community of destiny, and actively assumes international responsibilities and obligations. China adheres to the principles of common but differentiated responsibilities, fairness, and respective capabilities, actively participates in international negotiations on climate change, and promotes the formation of a fair, rational, and win-win Global Climate Governance system. China will conduct extensive pragmatic exchanges and cooperation to promote developed countries to effectively fulfill their obligations under the *United Nations Framework Convention on Climate Change*, such as taking the lead in reducing emissions by a large margin. China will support developing countries in developing clean energy and protecting the ecological environment, and establish a responsible big country image.4

**The Collaboration and Competition Between China and the U.S. in the Global Energy Mechanism**

Energy security occupies an important position in the national strategy of China and the United States. Due to the divergence of energy security concepts, competition in the international energy system and differences in energy interests lead to the friction and conflicts between China and the United States in energy security relations. The cause of the game between China and the United States in the field of global energy governance mainly includes the following aspects:

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(1) Differences in the concept of energy security. The United States believes in “self-security” of decisive security, that is, the essence of energy security strategy is the hegemonic strategy based on “hegemonic stability theory”. China’s energy security concept is a relative security concept of “collective security” and a win-win strategy based on the theory of “peaceful development” (Zeng & Shu, 2007). The United States believes that China’s energy security strategy has an obvious “mercantilism” mentality, as it adopts a “strategic” or “realistic” paradigm; whereas the United States regards itself as a “liberal” paradigm that relies mainly on global markets to ensure the security of its energy supply (Wu, 2009). The differences between China and the United States on energy security cause friction and conflict between China and the U.S. in the international energy system.

(2) Conflicts between conservatives and rising powers. After more than a century of development, the United States have promoted the Western countries to set up the International Energy Agency, establish a network of military bases throughout the world, build an energy financial system, and form the United States energy hegemony system. In recent years, with the rapid development of China’s comprehensive strength, China is becoming a rising power in the international system. Its influence will inevitably be projected into the field of energy, thus enhancing China’s presence and leadership in the international energy mechanism, causing changes and adjustments in the international energy pattern (Zhao, 2017). In order to safeguard its hegemony, the United States is bound to engage in competition with China in many fields for dominant status, which will trigger friction between China and the United States in the field of energy.

(3) The struggle between regulation and anti-regulation. The United States is trying to regulate China’s energy diplomacy by controlling the international energy system, asking China to avoid strategic cooperation with individual energy producers. During the Obama administration, the United States also introduced TPP and TTIP to strengthen free trade cooperation and form a soft balance for China. China’s long-term run-away position from the world’s important energy mechanism is not conducive to China’s energy security. Strengthening participation in the international energy mechanism has become a strategic choice for China in the new era. On the one hand, China actively talks with the U.S.-led energy mechanism to seek a cooperative path in line with China’s energy interests; on the other hand, China tries to construct a multilateral cooperation mechanism with new fields, forms, and performances, and seeks a game space to restrict U.S. energy hegemony, such as the SCO, which is created by China, Russia, and Central Asian countries as a regional international mechanism (Jiang, 2006).

The friction between China and the United States in the international energy mechanism first occurred in the field of energy finance. The United States was severely struck by the 2008 financial crisis; meanwhile, the international financial system dominated by the United States was questioned. On the one hand, China is committed to promoting the reform of the old system of global energy finance to make it more conducive to its own development. On the other hand, China has also actively carried out the construction of new regional energy finance systems and has become the core leader of these new systems. In contrast to China’s ambitions for change, the United States has made great efforts to adopt a “shape-keeping” policy (Li, 2017), that is, to maintain the existing international energy financial system unchanged and actively safeguard the international energy financial system centered on the oil dollar. China’s institutional ambition and the United States’ conservative institution constitute the basic situation of China-U.S. institutional competition in the field of energy finance.
Strengthen the Role of Group of 20 (G20) in Energy Governance

Despite the collapse of the Bretton Woods System in the 1970s, the series of international regimes established by the United States in 1944 to safeguard the hegemony of the dollar have been strengthened. The World Bank and the International Monetary Fund play a more important role. Together with the Group of Seven (G7), the three major organizations have become the supporting pillars of the dollar hegemony. For more than 30 years, the G7 monopolized the dominance of global economic and financial governance, leaving emerging countries, including China, marginalized in international financial affairs. For China, the replacement of G7 by G20 is of great significance. The G20 provides an important institutional platform for China to play a greater role in the field of energy finance in the future. With the outbreak of the international financial crisis in 2008, the core governance mechanism of the global economy has been transformed from G7 to G20. This transformation has solved the problem of China’s participation in global energy governance and provided institutional guarantee for China’s full participation in global energy governance (Zhao, Feng, & Xu, 2012).

Based on the G20 framework, China establishes various levels of energy dialogue channels, constantly communicates and negotiates within and outside the summit, and ensures that China’s voice is heard in climate governance in global energy.

As a defending hegemonic power, the United States did meet the requirements of China’s reform through some compromises and concessions during the financial crisis, supporting the G20 upgrade in return for China’s support for the United States in dealing with the financial crisis. However, with the alleviation of the financial crisis, the United States has imposed more and more obstacles on China’s reform demands and actions (Li, 2013). On the one hand, it reinforced the role of the G7 while neglecting the G20, as a result, the recent G20 summits failed to make substantive decisions on global energy governance.

Strengthen the BRICS Cooperation in the Field of Energy

The BRICS launched a series of cooperation in the field of energy finance and achieved fruitful results. In July 2014, the Sixth BRICS Leaders Summit was held in Fortaleza, Brazil. During the meeting, the leaders of the five countries decided to establish the BRICS Development Bank with its headquarters in Shanghai, China, and establish BRIC contingency reserve arrangements. The leaders of the five countries also witnessed the signing of a number of cooperation agreements. The conference issued the Fortaleza Declaration (Lin, 2015). In July 2015, the New Development Bank of the BRICS was officially opened in Shanghai with Indian Kama as its governor, and it began operation in early 2016. The operation of the BRICS New Development Bank marks that the BRICS countries have entered a pragmatic stage in energy and financial cooperation (Lu, 2013).

On July 26, 2018, the 10th Summit of the BRICs Leaders was held in Johannesburg, South Africa. The Johannesburg Declaration of BRICS Leaders issued at the meeting pointed out that BRICS countries should strengthen energy cooperation, transform into an environmentally sustainable energy system, and strive to achieve universal access to energy, energy security, as well as affordable energy, reduce pollution, and protect the environment. BRICs energy ministers agreed to set up BRICS energy research platform and formulate relevant work codes (Li, Chen, & Luo, 2018).

Promote the Shanghai Cooperation Organization’s (SCO) Cooperation in the Field of Energy

The SCO is an important platform for China and Central Asian countries to jointly respond to threats and challenges, and maintain peace and stability in Central Asia. In October 2005, the Shanghai Cooperation Organization (SCO) established the Banking Union to expand ties and cooperation between enterprises and
financial institutions in member countries, making the Union an important financing platform for promoting regional cooperation. In addition, the Central Bank of the SCO member states also signed a financial cooperation agreement (Du, 2009). The China Banking Regulatory Commission (CBRC) signed a memorandum of understanding on bilateral regulatory cooperation with member states of the SCO from Central Asian region (Du, 2009). China has signed currency swap agreements with Russia, Uzbekistan, and Kazakhstan respectively.

In November 2010, when attending the Ninth Premier Conference of the SCO member states, the Chinese Premier proposed that the SCO should deepen financial cooperation, study on the establishment of the Development Bank of the Shanghai Cooperation Organization (SCO), expand local currency settlement cooperation and promote regional economic and trade exchanges (Portal Site of Central Government, 2010). In September 2016, the Third Meeting of Finance Ministers and Central Bank Governors of SCO Member States was held in Bishkek, Kyrgyz Republic. The participants introduced the country’s medium-term social-economic development and national initiatives to speed up economic growth. To implement resolution 84 of the Council of Heads of Government (Prime Ministers) of the SCO Member States, which was signed in Zhengzhou, China, on December 15th, 2015, the parties discussed the establishment of the SCO Development Bank and the SCO Development Fund (Special Account) (Official Website of the Shanghai Cooperation Organization, 2016).

**Set up the Asian Infrastructure Investment Bank**

On October 2, 2013, Chairman Xi Jinping put forward the initiative to prepare for the construction of AIIB (Xinhua Net, 2015). On October 24, 2014, finance ministers and authorized representatives of the 21 founding member states, including China, India, and Singapore sighed a contract in Beijing and jointly decided to set up an investment bank for infrastructure in Asia. On June 29, 2015, the signing ceremony of the agreement on Asian Infrastructure Investment Bank was held in Beijing. The signing ceremony was attended by finance ministers or authorized representatives of the 57 intended founding members of the Asian Infrastructure Investment Bank, of which 50 countries that have passed domestic approval procedures formally signed the agreement (Information Office of the Ministry of Finance, 2015). According to the *Asian Infrastructure Investment Bank Agreement*, the statutory capital stock of the Asian Infrastructure Investment Bank is $100 billion, divided into 1 million shares, with a par value of $100,000 per share. The initial statutory share capital is divided into paid up capital and unpaid capital stock. The total face value of the paid up capital is $20 billion and the total value of the unpaid capital stock is US $80 billion. The contribution ratio of members in and outside the region is 75:25. The paid up capital of the initial subscribed capital is paid five times, with a payment of 20% per time. Since individual countries have failed to fully subscribe to the statutory share capital allocated in accordance with their GDP share, the total amount of equity subscribed is currently $98.1514 billion. The amount of China’s authorized contribution is 29.7804 billion US dollars (30.34%), of which 5.9561 billion US dollars has been paid (Information Office of the Ministry of Finance, 2015).

The establishment of the Asian Infrastructure Investment Bank marked the beginning of China’s attempt to build an international financial system, demonstrating China’s ability to mobilize international politics in the field of international energy and finance. At the beginning of the Asia Investment Bank initiative, the United States believed that this would weaken the role of the World Bank and the Asian Development Bank. It argues that the Asian Infrastructure Investment Bank is a political tool China uses to woo Southeast Asian countries
and a soft power attempt to enhance its image among neighboring countries that worried about its territorial claims through economic interest commitments (Perlez, 2014). The United States is also lobbying its allies not to join the Asian Infrastructure Investment Bank. Japan, South Korea, and Australia are the targets of American lobbying. In 2014, the United States, Japan, and Europe even agreed to abandon their bid to become the founder of Asian Infrastructure Investment Bank (Chen, 2015). In March 2015, South Korea and Australia made a public decision to join the Asian Infrastructure Investment Bank after the UK announced its membership.

Create a Silk Road Fund

On November 8, 2014, Xi Jinping announced that China would invest 40 billion US dollars to set up the Silk Road Fund. The Silk Road Fund is open and welcomes the active participation of investors in and outside Asia (Qian, 2014). December 29, 2014, the Silk Road Fund Co., Ltd. completed business registration; Jin Qi served as chairman of the company. In May 2017, on the occasion of the International Cooperation Summit of the “One Belt One Road”, the President of the PRC announced on behalf of the Chinese government that it would increase its investment to the Silk Road Fund by 100 billion yuan (He, 2017).

The Silk Road Fund will provide investment and financing support for infrastructure projects, resource development, industrial cooperation, and other related projects along the “One Belt One Road”. The relationship between the Asian Infrastructure Investment Bank, the Silk Road Fund, and other global and regional multilateral development banks is complementary rather than substitutive, and they all operate under the current international economic and financial order. As of December 2017, the Silk Road Fund had signed 17 projects and committed to invest about $7 billion, supporting projects involving a total investment of more than $80 billion (He, 2017).

The BRICS mechanism, the Shanghai Cooperation Organization, the Asian Infrastructure Investment Bank, and the Silk Road Fund have become the four major platforms for China to carry out institutional construction in addition to the U.S.-led international energy and financial mechanism, which has exerted tremendous pressure on the U.S.-led oil dollar. In the face of China’s “restructuring” efforts in the field of energy finance, as a hegemonic power, the United States has shown a conservative attitude towards the oil dollar and its international energy financial system, and has resisted China’s reform either explicitly or implicitly.

Facing China’s efforts, the U.S. financial diplomacy ended in failure. The failure of the U.S. boycott of the Asian Infrastructure Investment Bank reflects the triple predicament of the United States: the declining financial status of the United States, the inadequate supply of financial public goods, and that the legitimacy of the U.S. control of the international energy and financial system has been questioned (He, 2017).

Conclusion

The interaction between China and the United States in the global energy system determines the scope, depth, and breadth of energy interaction between the two sides as a result of their different energy strategic concepts, national strength, and relationship structure. China and the United States are the world’s largest economies. The two countries need to strengthen coordination and cooperation in energy resources, energy corridors, energy finance, clean energy, and other aspects to jointly maintain energy security. Through multilateral energy cooperation, China and the United States explore institutional arrangements for energy and achieve mutual benefit and win-win results in the field of energy through benign interaction.
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