

The new oil game

Imperial Britain, over whose empire the sun never set, gerrymandered the politics of tribal Middle East in the early part of the 20th century to secure its requirements of oil. America, the dominant power in the second half of the century, sidestepped its liberal principles and cosied up to monarchs and unabashed despots, also to ensure it never ran out of oil. History is an imperfect guide but often it is the only one we have. So the question should now be asked. What will China, the “mighty power” of the 21st century, do to mitigate its dependence on oil supplies from the Middle East? And what might be the consequences for India of such actions?

In 1911, the First Lord of the Admiralty (the cabinet member responsible for the navy), [Winston Churchill](#), persuaded his cabinet colleagues to support the recommendation to substitute oil for coal as the fuel for the British Navy. The cabinet was, at first, reluctant because Britain had an abundance of coal and no domestic oil. The switch would expose the navy to the vagaries of international oil supplies. Churchill allayed these concerns with a combination of economic and geopolitical logic. He argued the switch would increase ship speed; it would allow for refuelling at sea and as coal was bulkier than oil, it would release storage space that could then be configured to increase the ships' firepower. He added, Britain would secure oil supplies from the Middle East through a combination of hard power and political guile. This, he managed through the vehicle of an Anglo-Persian company which in 1935 was renamed Anglo-Iranian Oil company and in 1954 British Petroleum Company. Churchill's decision marked the beginning of the “oil era” and the start of the Great Game of oil politics that over the years has convulsed the region.

Post World War II, America emerged as the dominant global political, economic and military power. Security of oil supplies were a crucial ingredient of this development. To safeguard this security and in contradistinction to its avowed commitment to democracy and freedom, America offered the region's autocrats an “implicit” guarantee of protection. And at times, towards fulfillment of this guarantee, they intervened “explicitly”. Former US President [George W. Bush](#) may one day tell us why, despite lack of any substantive evidence to confirm that Iraq was developing “weapons of mass destruction” he approved the bombing of the country but until then, the predominant view will be, it was to secure control over Iraq's oil resources. Today, the Middle East is riven by sectarian tension, civil conflict and fundamentalism, in no small part due to the fiasco of this “explicit” intervention.

So, how will China the emergent power of the 21st century protect its energy interests? How will it use its political and economic muscle to secure its oil supplies? These questions have heightened relevance in light of the signals conveyed at the recently concluded 19th People's Party Congress of the Communist Party. The Chinese leadership declared at the Congress that China will no longer hide its “light under a bushel” and “bide its time” — this was with reference to former president Deng Xiaoping's advice that the country not display its strength prematurely — that the country was at a “historic juncture” a “mighty force” and ready to occupy “centre stage” in the world.

The chink in the global aspirations of China, just as it was a chink in imperial Britain and superpower America's ambitions, is dependency on oil imports. China consumes approximately 13 million barrels of oil a day (mbd). Of that, 60 per cent is imported of which 50 per cent (approximately 4 mbd) is sourced from the Middle East — mainly Iraq, Iran and Saudi Arabia — through the Straits of Hormuz, the Straits of Malacca and the conflictual South China seas. The Chinese leadership are fully aware of this chink and have for years sought to mitigate the risk by investing in non-oil sources of energy. They have, for instance, committed \$340 billion over the next four years to solar and wind. This is more than any other country in the world. They are operating 34 nuclear reactors and another 20 are under construction. And they have invested in

long-term gas supply deals with Russia, Central Asia and Australia. Notwithstanding all this, they have not managed to close the import gap. The reason is the surging demand for diesel/gasoline-fueled vehicles. Twenty-one million of them hit the road in 2016 alone. China is the largest importer of crude oil in the world today and will remain so for the foreseeable future.

China has, for years, adopted a low profile in the Middle East. It has proffered economic support but it has not been an active participant in traditional great power politics. Recently, however, it upped the ante with a slew of ideologically agnostic initiatives. It cast its lot with Iran in support of President Bashar-al-Assad of Syria and carried out a small-scale naval exercise with the Iranian Navy in the Straits of Hormuz. Separately, it welcomed Iran's arch enemy, King Salman of Saudi Arabia, to Beijing in March 2016 and signed an agreement in April 2017 to manufacture Chinese drones in the kingdom. There has also been speculation that China is interested in picking up a stake in the Saudi national oil company, Aramco, at a valuation that will obviate the need for it to face the regulatory and disclosure hassles of a public listing on the London or New York Stock Exchange. Why this heightened interest? Perhaps to fill the space left behind by America. More likely, to secure its oil supplies.

India has major strategic interests in the Middle East. Aside from its dependence on the region for oil, it has eight million citizens who remit approximately \$70 billion annually. A convulsion in the region would give India a massive logistic and financial headache. This could, however, sharpen into a severe migraine if China were in pole strategic position at that time. China plays a long game. We must track its moves assiduously.

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