

# BRICS, Energy and the New World Order

A study by NUPI for ONS Summit 2012:  
The geopolitics of energy

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Elana Wilson Rowe and Ole Jacob Sending



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31 May 2012

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**Norwegian Institute of International Affairs**

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# Introduction and Overview

Arne Melchior

When a Goldman Sachs executive introduced the 'BRIC' (Brazil, Russia, India, China) acronym in 2001, it was an innovative move, since continued success could not be taken for granted for all of the countries: only China and India had sustained high growth in the 1990s. Time has shown that the bet was a safe one: the BRIC constellation has been a rising star. In 2010, the category expanded to BRICS with the inclusion of South Africa, thereby covering all the major developing continents. BRICS is still in the making as an institution, but it may be here to stay, with annual summits held since 2009 and a stronger role in global governance through the G-20.

In the geopolitics of energy, the BRICS play several roles, with increasing weight and significance. As large nations with rapid growth, the BRICS are increasingly important as suppliers or consumers of energy (Chapter 1). As emerging economies, they are part of a broader process of reallocation in the world economy, with a 'New World Order' emerging and energy affected via GDP growth, new trade patterns and transport-related energy demand (Chapter 2). In this emerging new order, the BRICS are also challenging the old powers in the field of security, and Chapter 3 examines the related implications for energy. While the old world was – at least in the economic field – a 'hub-and-spoke' system with Western Europe and North America at the core, a new pattern is emerging with increasing interaction along the rim. As an illustration of these new patterns, Chapter 4 examines the role of China and India in Africa, with the focus on energy and governance.

With respect to timing, the focus on the giants rather than the dwarfs may have been a product of its era: Until 1980, there was broad development among poor nations, but the last two decades of the 20<sup>th</sup> century were a story of two tracks: a minority of important developing nations forging ahead and succeeding, and a large number of failures, especially in Africa. Perhaps that was why G-77 was no longer so much fun, and the rise of the giants seemed a more appealing concept.

BRICS are large middle-income countries on the way up. The group is perceived, and perceives itself, as a symbol of development and the emerging world, challenging the 'old world'. Is this perception true? has there really been a 'decline of the West'? and have the BRICS been leading this change? Chapter 2 (Melchior) confirms the decline: the share of Western Europe in the world economy has been falling for five decades now, while that of Asia has been continuously increasing. Using large datasets for GDP growth and trade across world regions, we find similar trends for GDP growth and trade growth. From about 2000, North America joined the declining trend, with export slowdown as a main cause. If the recent trend continues, the share of Western Europe and North America in world GDP may be cut from  $\frac{1}{2}$  to  $\frac{1}{4}$  of world GDP in the course of a few decades.

In addition to the slowdown of North America, the past decade has provided another surprise: The rest of the developing and middle-income world is back on stage. After weak performance in the 1980s and 1990s, there is faster growth in

GDP as well as trade for Africa, Latin America, the Former Soviet Union and Central Europe. Some of these regions contain several of the smaller developing countries. The number of low-income countries on the World Bank list is shrinking fast; and there is hope again that poverty may be eradicated in the countries that long lagged behind the emerging regional powers.

In one sense, the past decade both confirms and falsifies the BRICS concept. Yes, the BRICS are successful and important, and yes there was a 'decline of the West'. On the other hand, the small developing countries are back on stage – so why should we focus on the giants when there is finally hope for the broader masses? While all the BRICS are important, some are more important than others, and countries beyond the BRICS matter greatly. Russia, Brazil and China have large shares within their respective regions, but the economies of India and South Africa are relatively less dominant within their regions. For investment strategies, perceptions and proportions need to be accurate: the BRICS should be in focus, but not over-focused. With respect to governance, the emphasis on BRICS and large nations should not lead to an international 'oligarchy' at the expense of fairness and democracy.

While the BRICS share some characteristics, they differ in several respects. How far can cooperation between them go? Is their cooperation mainly symbolic, or can extensive coordination be achieved? The BRICS are large countries, but will they act individually or jointly? As an institution or organization, the BRICS grouping is at an early stage. As regards its success, the famous statement made by Zhou Enlai, allegedly about the success of the French revolution, comes to mind: 'it is too early to say'.<sup>1</sup> In this present report, we examine selected issues in order to find out whether the BRICS have the capacity to develop common policies and cooperation.

In the field of energy, Chapter 1 (Rich and Wilson Rowe) suggests that BRICS is a heterogeneous club, given that Russia and Brazil are energy exporters while the remaining three have a greater focus on demand and energy security for their continued development. They are also significant coal consumers, and whereas the EU had great success starting as the 'coal and steel community', today it has become more difficult to use coal-reliance as a positive driver of political cooperation, since coal features as a key culprit in global warming. Despite the lack of commonality, the BRICS seem set to be major energy players due to their size and growth.

Security is a field where BRICS cooperation seems quite promising. Chapter 3 (Lodgaard) emphasizes that by adhering to the principle of non-interference in internal affairs, BRICS can gain privileged access to energy resources. Many producers do not meet norms of good governance, which puts Western countries that pose such requirements at a disadvantage. Furthermore, by channelling their opposition to the use of force through the UN and stressing the Security Council's responsibility for international peace and security, BRICS countries can prevent the West from securing oil supplies by military means. For the time being, the focus of BRICS security cooperation is on the Middle East, where BRICS interests seem to converge, regarding energy security and in broader geopolitical terms as well.

As a consequence of the 'decline of the West' and the accelerated growth in new

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<sup>1</sup> Zhou's statement actually referred to the Paris student revolts in 1968, according to *Financial Times* 10 June 2012!

developing regions, a new network of trade and economic relations across continents is emerging. For example, trade not involving North America and Western Europe has rocketed after 1990 (Chapter 2). In Asia, intra-regional trade has expanded faster than Asia's trade with other regions. A point here is how the new economic patterns are reflected in new institutions or governance. In Asia, ambitious plans for regional integration have been presented, but implementation is slow and institutions lag behind actual economic developments. In multilateral institutions, rebalancing between the 'old and new' world will take time. In some areas, the BRICS also differ considerably. For example, China has a huge trade surplus and funds to invest abroad, whereas India has a growing deficit and needs net inward capital flows.

Replacing the former 'hub-and-spoke' world system with the USA and Western Europe at the core, a new and more complex network has already developed. To show an example of governance in this new pattern of economic interaction, Chapter 4 (Eriksen and Sending) examines the role of China and India in Africa, with a special focus on energy. The recent surge of investment and trade between the Asian giants and Africa has been applauded, but has also been met with critical questions. In the light of geopolitical power games about energy in the past, fears of a neo-colonial 'scramble for Africa' have been voiced. According to the analysis in Chapter 4, activity on the African ground is less dramatic with the commercial battle for markets, commodities and profits being more important, and local institutions being more significant than donor attitudes. In contrast to the 'scrambles' emanating from past geopolitics and weak governance in the energy sector, Eriksen and Sending argue that efforts to secure predictable and transparent markets may actually promote better governance in the future.

A common theme throughout the analysis is that the BRICS are important and mighty, but their interests are sometimes diverging, and their international role is still in the making. A second message is that the economic landscape is changing faster than the institutional response – be it WTO negotiations, IMF reform, Asian regional integration or the capacity of G-20. Third, the past decade has differed from the long-run trends; and whether the more recent trend will continue is crucial for future world development. In any case, Asia seems to be a safe bet, but the hope is that also other developing countries will succeed. For energy, the BRICS will play a major role as consumers or producers, although perhaps most likely as single countries rather than a bloc.





# Chapter 1 BRICS: The Intertwined Politics of Energy and Climate

Karl M. Rich and Elana Wilson Rowe

*BRICS are key players in international climate negotiations...*

## Introduction

The economic rise of the BRICS countries (Brazil, Russia, India, China and South Africa) is closely tied to the global politics of energy and their increased consumption of global energy. As these countries rapidly 'catch up' with the energy-intensive developed world, their combined role in international climate negotiations becomes critical, though each country individually faces multifaceted domestic energy issues and politics that shape the perceptions of the global climate debate.

In this brief report, we take a closer look at the political and economic drivers that shape how the BRICS approach the problem of energy usage at home and international negotiations around climate change. These two policy problems are closely linked, as the international climate change negotiations are fundamentally about energy use and the linkages between energy and economic development.

*... but face huge domestic challenges on energy.*

## BRICS and Energy: Strange bedfellows?

An important characteristic of the BRICS is the significant diversity in energy production and use patterns. We begin by presenting a comparison of energy use in the BRICS countries (less South Africa) vs developed OECD countries in 2008 (Table 1). We also show forecasts for 2030 under the IEA's 'current policy scenario' (discussed later). An important component of energy demand in the BRICS countries is coal, which represents nearly one-half of BRICS energy use and is dominated by China and India. By contrast, OECD energy demands are more balanced, with greater use of oil and natural gas.

*Half their energy use is coal.*

	BRIC		OECD	
	2008	2030	2008	2030
Coal	49.0	49.4	20.8	18.6
Oil	20.4	20.2	37.5	31.5
Gas	13.4	13.8	23.5	25.2
Nuclear	1.9	4.4	10.9	11.6
Hydro	2.9	2.9	2.1	2.2
Biomass and waste	12.3	8.0	4.2	7.2
Other renewables	0.2	1.2	1.0	3.6
Total	100	100	100	100

*Some BRICS are energy exporters and others importers.*

From the standpoint of the BRICS, we can distinguish various important trends as regards the energy-exporting and energy-importing countries. First, Russia is an established energy producer of global importance, although, unlike the case of Brazil, much of Russia's petroleum resources go to domestic needs. Russia holds the world's eighth largest crude oil reserves and the world's largest natural gas reserves (Petersen, 2011). Although Russian companies are increasingly investing in petroleum projects in Eastern

*Russia is a major exporter of oil and gas.*

Siberia as major fields in Western Siberia go into decline, a large share of its oil and gas exports goes to the European Union. Russia's international stance with respect to energy has coincided largely with international prices. When energy prices rose during 2006/2007, Russia took a more bellicose stance in international relations, presenting itself as an 'energy superpower' and throwing its weight around accordingly – especially with its close neighbours Ukraine and Belarus, with detrimental impacts on EU countries. The financial crisis of 2008, however, dampened Russia's self-image as an 'energy superpower' and turned its reliance on oil and gas revenues from a strength to what then-President Medvedev called 'humiliating'. The slowed growth in the European market is another post-financial crisis source of worry for the Russian elite, who are also concerned about the EU's commitment to reducing carbon emissions by 80–95% by 2050.

*Brazil produces oil and has expanded its biofuels production.*

Brazil has emerged as an oil and gas producer only during the last decade. It sells oil products primarily to its fellow BRICS member, China. Brazil has been touted in newspaper headlines around the globe as the world's next big oil power. Indeed, in November 2011, Brazil's oil output reached a new record at 2.2 million barrels per day (Dow Jones, 2012), primarily from its offshore fields – Lula, Marlim, Jubarte. On the other hand, Brazil has already established itself as a major producer and exporter of renewable energy, particularly ethanol derived from sugarcane. Statistics from BP (2011) show that Brazil accounts for over 26% of global biofuels production, fuelled largely by domestic distribution channels for ethanol that were established after the 1970s oil shocks. Today, some 40% of vehicles in Brazil are 'flex-fuel' vehicles that can run either on pure ethanol, petroleum products, or a combination (IEA 2010). Overall, about half of Brazil's domestic energy consumption comes from renewable sources. Brazil has recently gained market access to export ethanol to the United States, which had protected its own ethanol sector through high import tariffs. These tariffs expired on 31 December 2011, but supply problems in Brazil have limited its ability to export ethanol to the United States, and have in fact necessitated imports from the U.S. (Riveras 2011).

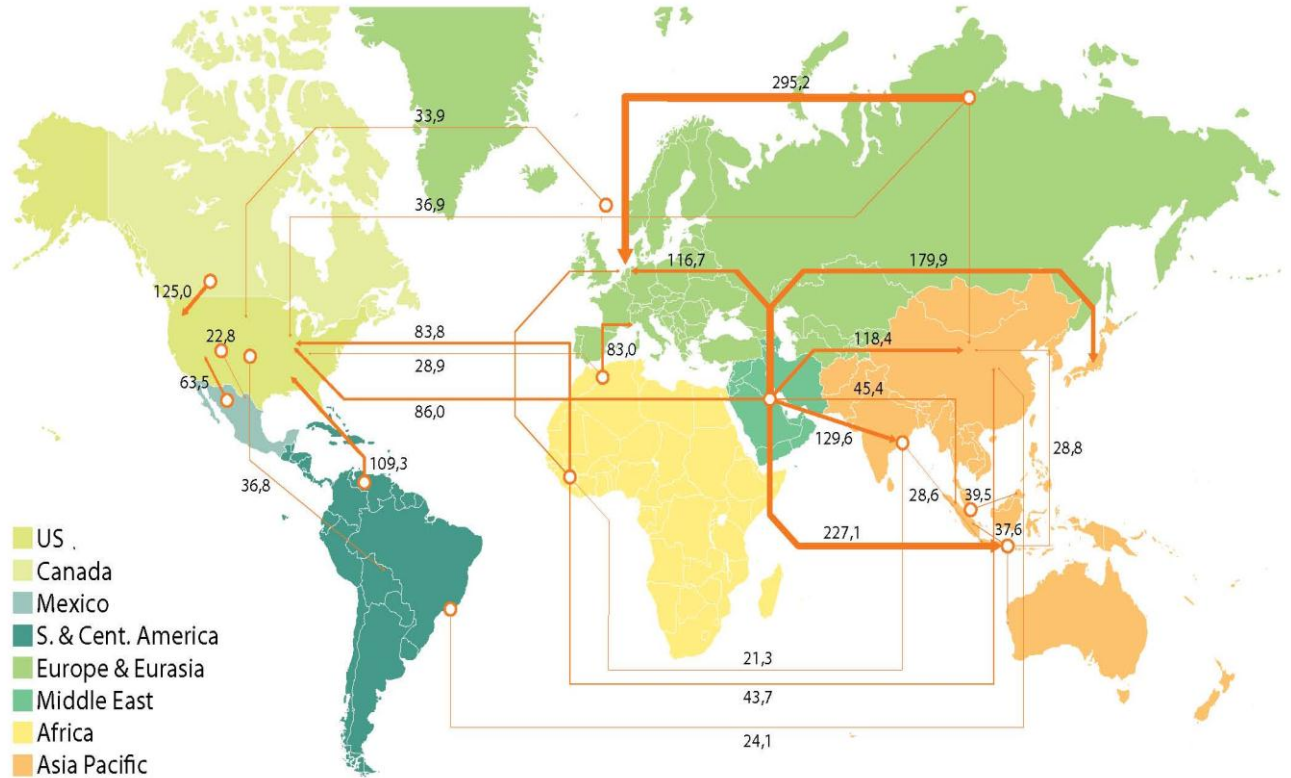
*But Brazil's growth may increase oil consumption and reduce exports.*

Brazil's rapidly growing economy may result in higher domestic demand for this oil and gas, potentially changing both the amount of energy available for export and increasing the country's greenhouse gas (GHG) emissions. Internationally, Brazil has profiled itself as a leader in environmental issues, but this image may be challenged, depending on how the country bears its new mantle as an energy great power and slakes the energy thirst of its growing economy.

*China, India and South Africa: energy with a development focus.*

The situation in China, India and South Africa is rather different from the standpoint of energy demands and sources, with economic development issues taking priority. In China and India in particular, economic growth has been rapid during the past two decades, with real GDP growth rates in excess of 8%. It could be argued that China's continued rise, economically and politically, depends on securing reliable access to natural resources. China's economic growth has been undergirded by an international quest for oil and gas resources as well as built up on the domestic coal industry. Despite their economic growth, both India and South Africa still suffer under various constraints (economic development, poverty constraints), with access to energy (from a financial and infrastructure standpoint) an major goal of public policy goals (Hallding et al. 2011; see also Korppoo et al. 2009). In India, for example, some 300 million people do not have access to electricity (Economist 2012).

**Figure 1.1**  
**International trade in oil, 2010**

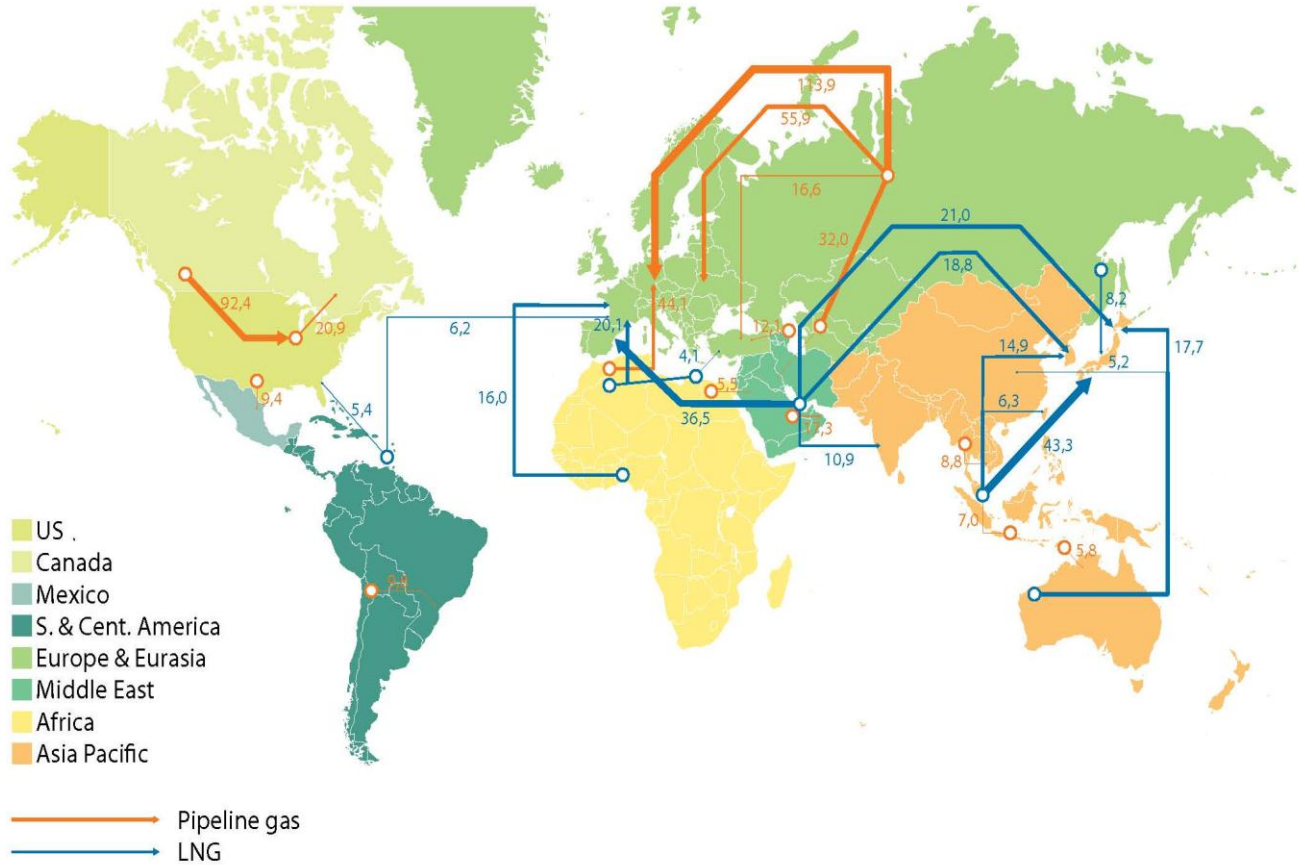


Source: BP (2011)

*China, India and South Africa: All three are coal consumers*

A major source of energy for all three countries is coal, which has important ramifications in the climate debate. In 2010, China used coal to meet nearly two thirds of its primary energy needs; South Africa and India, the figures were 77% and 42%, respectively (IEA 2010; GCIS 2011). Combined, China, India, and South Africa stand for over 58% of global coal consumption and production, which has increased rapidly among this group, especially in China (Figures 4 and 5). The sharp rise in coal demand in China has been spurred by rapid growth in the demand for electricity. Starting in 2000, the annual growth rate in electricity demand exceeded the growth in GDP (Shealy and Dorian 2007). In addition, Shealy and Dorian (2007) note that the share of domestic coal production used by electric utilities rose from 25% in 1990 to 50% by 2004.

**Figure 1.2**  
**International trade in natural gas, 2010**

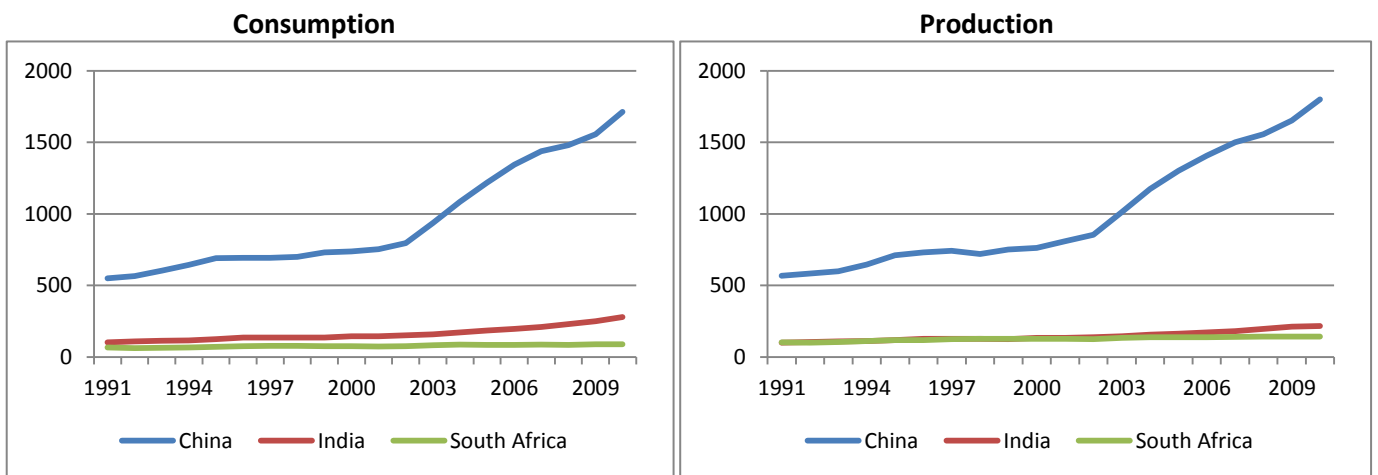


Source: BP (2011)

*India has large coal reserves.*

In India, with the world's fifth-largest reserves of coal, an important issue has been translating its resource base into meeting the energy needs of a growing economy. Although private-sector investment in the sector has been large (US\$60 billion in the last five years), administrative and political obstacles have made it difficult to increase production or provide power providers with the price incentives needed to expand distribution, plaguing the nascent Indian economy with regular electricity shortages (Economist 2012). The increasing reliance on coal puts these three countries at odds with developed countries on global climate issues and influences the paths taken in negotiating for reductions in GHG emissions.

**Figure 1.3: Coal in China, India, and South Africa (million tons of oil equivalent).** Source: BP (2011)



*China, India and SA are net importers of oil and gas.*

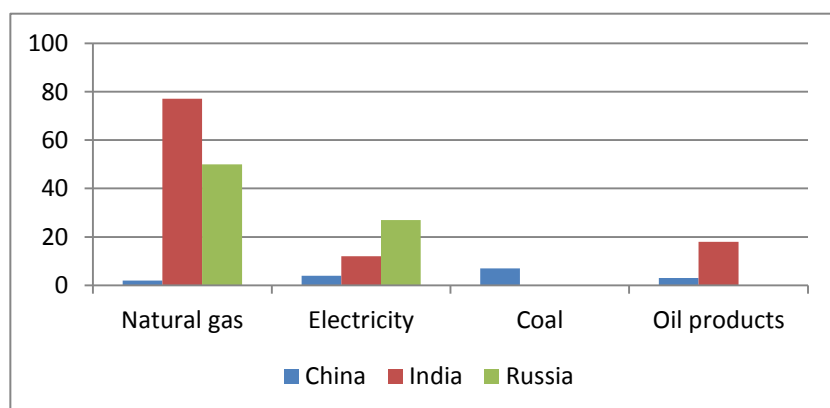
As shown in Figures 1 and 2 earlier, India, China, and South Africa are net importers of oil and gas. For logistical reasons, much of India's oil and gas comes from the Middle East, while China has increasingly diversified its sourcing from sub-Saharan Africa, albeit not without occasional controversy in its dealings with international pariahs like Sudan. According to IEA forecasts, China will need to import over 70% of its oil by 2030 (Petersen 2011). India has established mandates to increase the use of renewable sources of energy, such as from biofuels, with 20% of fuel to be blended with biofuels starting in 2017, despite severe domestic supply constraints that might limit this ambition (Raju, Shinoj, and Joshi 2009). All three countries aim to increase the role of nuclear power as well, though this has been tempered somewhat in the wake of the 2011 Fukushima accident in Japan. Nonetheless, South Africa has set as a policy goal to have 14% of primary energy derived from nuclear power by 2030 (GCIS 2011).

*All three aim to increase the nuclear power share.*

*BRICS except Brazil have energy consumption subsidies.*

While foreign policy goals in energy differ amongst the BRICS, one important area of commonality is the depth of consumption subsidies used in each of the countries other than Brazil. As a percentage of GDP, these subsidies at the BRICS level range from 1–3% (IEA 2010). Figure 4 shows the rate of subsidies provided to consumers of various energy products.

**Figure 1.4: Rate of subsidization for selected energy products in China, India, and Russia (% subsidy)**



Source: IEA (2010)

In India, various minimum support and purchase prices are mandated by the government; this reduces the price that consumers pay, but also reduces the profitability of refiners and other intermediaries for petrol, diesel, and biofuels alike (Raju, Shinoj and Joshi 2009). Changing the nature of these subsidies is a politically sensitive issue, as it relates to the social contract between citizen and state. At the same time, such subsidies distort the incentives such countries have for promoting energy efficiency. Motivations for these subsidies differ, but the leverage enjoyed by the BRICS in international climate negotiations is somewhat lessened by these factors, over and beyond imperatives to increase economic development and raise incomes.

### **Greening BRICS?**

In international climate politics, a key point of contention has been the extent to which emerging powers, like Brazil, India, China and South Africa, should make binding commitments to emissions reduction. As it stands now in the Kyoto Protocol, only Annex I (developed countries, primarily European and North American) make binding emissions reductions commitments. The USA will sign a legally binding agreement only if the agreement applies with equal legal force to all major GHG emitters, even if emissions commitments vary according to historical responsibility or GDP. China and India, at the other end of the spectrum, have been committed to ensuring that the Kyoto legal distinction between developed (Annex I) and developing (non-Annex I) countries remains (Bodansky 2011). Russia, an Annex I country with binding emissions reductions commitments, has reserved itself against an extension of the Kyoto Protocol to cover the post-2012 period, arguing that countries with similar-sized economies, like Mexico or South Korea, as well as its colleagues in the BRICS grouping, should be subject to similar legally binding commitments. A compromise of sorts was reached in Durban, which ended surprisingly with agreement to start a process for a new international climate agreement for 2020 but made little progress in addressing climate mitigation in the intervening years.

*China and India have resisted binding commitments to reduce emissions.*

The BASICS (the BRICS minus Russia) first emerged as an alliance in the Copenhagen negotiations in 2009, meeting hourly and negotiating the final political outcome with the USA in a closed-door meeting. In Copenhagen these four countries made pledges that would amount to a substantial change in business as usual, although their commitments will bring only a reduction in the increase of emissions, not a gross reduction of GHGs. A key issue that unites the BASICS is the question of equity – countries involved in the negotiations have committed to avoiding a greater than 2°C rise in global temperature. This leaves just a certain amount of ‘carbon space’, and the question is how this should be shared. India with its large population wants a per capita approach (each world citizen has a certain right to a certain amount of emissions), whereas Brazil and China prefer historical emissions calculated at the country level (which country’s turn is it to be GHG-intensive now?). Another key shared concern these countries have as leaders of the G77 is that environmental goals should result in gains for developmental goals. However, all the countries vary in their willingness to abandon or soften the ‘Kyoto firewall’ between developed and developing countries, with India being the most vocal against change and South Africa seeming more amenable. While these countries may struggle to find common solutions, they certainly share the aim of ensuring that their concerns are taken seriously by other actors, not least the USA (Bodansky 2011; Hallding et al. 2011). International environmental politics are also a field where emerging powers can demonstrate their ability to lead on non-military issues.

*BASICS = BRICS minus Russia: A new alliance in climate negotiations?*

*The BRICS are concerned about reducing their carbon intensity...*

Furthermore, the importance of reducing the carbon intensity of their economies is apparent to all of the BRICS countries. While the increasing use of coal militates against the perception of India and China as responsible powers in the climate debate, both

*... and China is leading on wind mills.*

countries have specific policies relating to decarbonization (China is the world leader in total installed wind capacity) and have made good use of the flexibility mechanisms for financial support and technology transfer under the Kyoto Protocol to achieve these aims (Hallding et al. 2011; Korppoo et al. 2009). Russia has committed itself to reducing the energy intensity of its economy and freeing up more petroleum for export via energy-efficiency policies, although these have yet to be implemented successfully.

*BRICS energy diversification is driven by concerns for energy security.*

The pursuit of energy efficiency and diversification in these countries, however, is driven less by concern for the climate and more because these measures have been successfully packaged as important aspects of energy security, particularly the focus on renewables. That the idea of 'green growth' (the decoupling of economic growth from energy use) has taken root under various guises is promising. No country can sell climate commitments to the public if that comes at the expense of domestic growth; subsidies on energy consumption, as noted above, can further complicate selling these commitments to the energy-consuming public. Brazil, with its long history of biofuels and hydropower, has probably come furthest, though China and India are catching up quickly in areas like wind power and solar energy. The idea of a green economy is an important tool for ensuring that these two things are seen as complementary, although the extent to which the two prove compatible in practice remains to be seen.

*Energy and climate concerns will be an important driver for the BRICS.*

#### **Conclusions**

Looking forward, energy and climate concerns will undoubtedly remain an important driver for the BRICS, shaping their domestic politics and international relations. The pursuit of oil and gas (China, India, South Africa) to support economic development and the search for stable petroleum markets (Brazil and Russia) have shaped BRICS relations to other countries and regions. Conversely, along with increasingly scarce petroleum resources, the incentives and rhetoric of the international climate negotiations and the climate impacts have been pushing the BRICS to consider alternative sources of energy. We may safely say that the balance between economic development and environmental stewardship is rooted in public policy dialogue in all the BRICS countries (and internationally) as the 'green economy'. However, we cannot say what will happen when push comes to shove, in domestic policy choices and in navigating international relations – particularly as to how the burden of dealing with climate change should be apportioned between the developed and the developing world.

*But the BRICS will hardly go green unless the USA follows suit.*

No BRICS country is likely to take major steps towards a green economy unless the USA chooses a similar path. The USA accounts for one quarter of global greenhouse emissions, but the world's sole remaining superpower has not been part of the solution in developing an internationally binding regime for climate change mitigation. Although President Obama seems more positively disposed to international progress on climate change politics than his predecessor, observers close to the international negotiations note that the US rhetoric has changed, but the bottom line seems much the same. This resistant bottom line is rooted primarily in electoral disincentives (weak party discipline means high levels of responsiveness to local economic concerns) and the emissions intensity of the US economy (Harrison 2010). On the other hand, perhaps this US intransigence may provide a golden opportunity for the BRICS to profile themselves as a responsible, alternative 'power' alliance, with their climate contributions all the more visible and essential to realizing reductions in global emissions.

Although the BRICS are in many ways so varied that it is difficult to say anything reasonable about them as a collective, they all face difficult choices as regards identity and their place in the world. While the BRICS relish being cast as an important group of

*In energy, BRICS face big challenges but form a rather heterogeneous group.*

emerging powers when it comes to security issues, in climate change politics they seem quite satisfied to be in the same negotiating group as the least developed countries in the world. Or, to take another identity conundrum, Russia dabbled with the notion of being an energy superpower in part to alleviate some of the pain and anxiety caused by being put in the shadow of others in a post-Cold War world. The unbeneficial results of this identity gamble and the financial crisis have removed the term 'energy superpower' from the vocabulary of Russia's elite, although some of the behaviour endures. China is seeking to be seen not only as a large nation and military power, but also a country that can exercise soft power – whether from improving its image in the African lands on which China relies for petroleum, or by playing an important role in global climate negotiations. Whereas there can be no doubt that the BRICS will remain important players in the international energy and climate debate, it is equally important to recognize the contextual differences that underpin the diversity of the BRICS as they seek to grapple with these emerging issues.

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# Chapter 2 Western Economic Decline, the New World Order and the BRICS

Arne Melchior

*BRICS symbolize world change and the old leading nations losing importance.*

*We analyse economic growth and trade across world regions over several decades...*

*... with data for 180 countries.*

*The reallocation of the world economy towards Asia is fast.*

*The share of Western Europe has been falling for decades...*

## Introduction

The BRICS countries symbolize world change: A new pattern is emerging, with the old leaders – the USA and the major European powers – losing their importance and their grip. This process started 50 years ago; it accelerated in the 1990s, and even more after the turn of the century. This chapter examines the process of reallocation between the old and the new world, and the role of the BRICS. We examine economic growth across world regions and the relative decline of the West, and the emergence of a new pattern of trade within and across world regions.

The chapter is based on two technical papers with a more detailed analysis; available at [www.nupi.no](http://www.nupi.no). We refer to these with the shorthand notation M1 and M2, respectively.<sup>2</sup> In the analysis, the world is split into nine major regions: North America, Latin America, Western Europe, Central Europe, FSU (Former Soviet Union), Africa, Middle East, Asia, and Oceania + Pacific. Since parts of the analysis date back to 1970 and even earlier, we are using geographical regions that do not always correspond to the current political map: for instance, the current EU is split between Western and Central Europe, and the FSU was one country, the USSR, until 1990. The analysis is based on extensive datasets covering 172 to 180 countries. GDP data are mainly from the World Development Indicators, and trade data are from the COMTRADE/WITS database (see M1 and M2 for details). For GDP, we mainly show results using ‘PPP’ (Purchasing Power Parity) data that adjust for price-level differences across countries. With such data, developing countries obtain a higher share of world GDP since they have lower price levels. M1 also presents results using ordinary exchange rates.

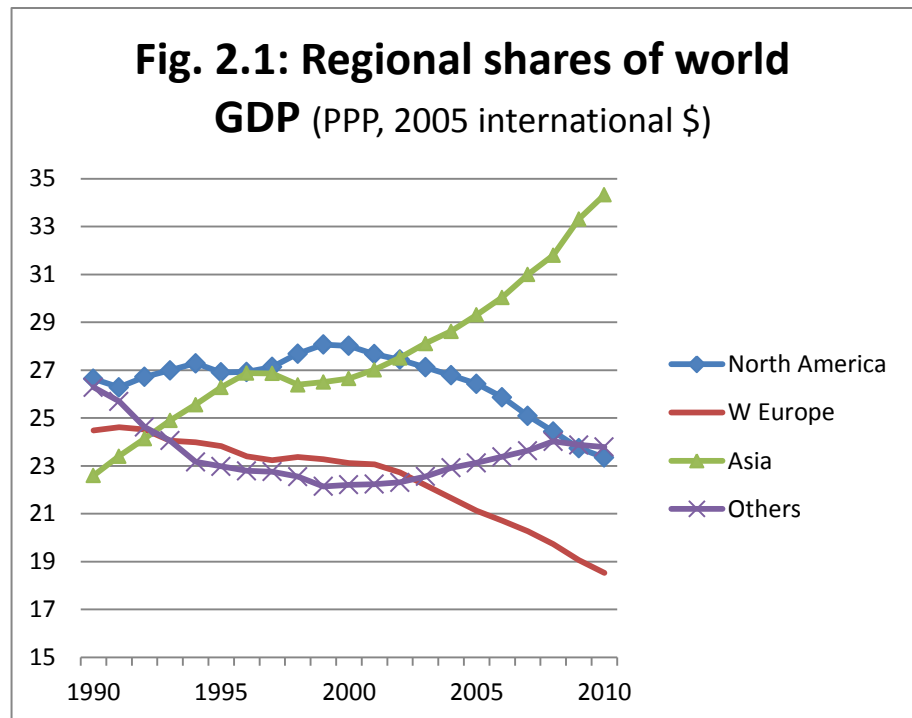
## Economic growth: The rise of Asia and the fall of the West

While the rise of Asia is well known, the pace and significance of this process is often underestimated. During the relatively short period 1990 to 2010, Asia’s share of world GDP increased from 23 to 34% (PPP), while the share for North America + Western Europe fell from 51 to 42%. Figure 2.1 shows shares of world GDP for major regions.

Asia’s growth, briefly interrupted by the ‘Asian crisis’ in the late 1990s, is evident throughout the whole period. Other regions experienced an important trend change at the turn of the century:

- Until about 2000, the relative growth of Asia was mainly at the expense of Western Europe and other developing countries. Using data further back in time, we find that this reallocation, especially between Asia and Europe, extends back to the 1960s (see M2). Hence for almost 50 years, the share of Western Europe in world GDP (PPP) has been falling and the share of Asia has been increasing.

<sup>2</sup> M1 is Melchior, A.: BRICS and the Economic Decline of the Old World, 1990-2030, Project Note, 2012; and M2 is Melchior, A.: World Trade 1970-2010: Globalization vs. Regionalization, NUPI Working Paper, No. 805, 2012.



*... and from 2000 North America joined the club.*

- From the turn of the century, the trends for North America and ‘Others’ (including Latin America, Central Europe, FSU and Africa) were reversed: From then onwards, growth in North America (dominated by the USA) stagnated whereas it accelerated in several other regions. The ‘new growth trend’ includes Eastern Europe and important developing-country groups.

*During the last decade, new regions also grew faster.*

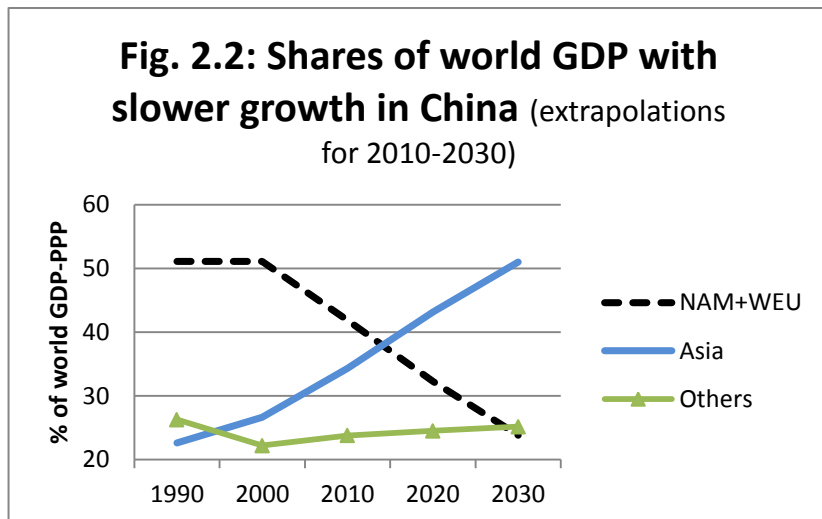
An important message from the analysis is that the rise for Asia and fall for Western Europe applies to the whole period, whereas the 21st-century trend (thus far!) indicates a sharper decline for North America and ‘new growth’ stories from other regions.

*If the trend from the last decade continues, world change will be dramatic.*

Because of the trend change around the turn of the century, future predictions depend to a considerable extent on whether growth rates from the 1990s or the 2000s are applied. If the world evolves as in the years 2000 to 2010, the share of North America and Western Europe in world GDP (PPP) would shrink further from 42% in 2010 to 21% by 2030. However, such simple extrapolations are uncertain:

- For China, it is expected that annual GDP growth will fall from about 10% in 1990–2010 to 5% by 2030, due to maturing (e.g. rising wages, age structure) and various other challenges for the Chinese economy (World Bank/DRC 2012).
- Some of the growth during the past decade was supported by commodity price increases that may taper off.

On the other hand, it is possible that many developing countries will eventually be able to reap the growth rewards from better education and less armed conflict, which will render high growth in poor countries more likely. While exact future developments are hard to foresee Figure 2.2 provides an illustration assuming that growth for each country will be as in 2000–2010, except for China, where growth is assumed to fall gradually to 5%, as predicted by the World Bank.



*Asia may soon get more than half of world GDP.*

Hence even with dampened growth in China, Asia’s share of the world economy may continue to rise, and the share for the ‘old world’ may continue to fall rapidly. According to Fig. 2.2, Asia may soon obtain more than half of world GDP (PPP).<sup>3</sup>

*Other countries matter, and we should not over-focus the BRICS.*

The BRICS countries are important, but also other countries play a significant role within their regions. Whereas Russia is the giant of FSU and Brazil is the giant of Latin America, South Africa is less dominant in Africa. China has taken over from Japan the position as the giant of Asia; India is about 20 years behind; but other Asian countries (including Korea, Bangladesh, Indonesia, Thailand and others) matter greatly and have added significantly to Asia’s growth. While BRICS are important and should be analysed, they differ in importance and should not be over-focused.

### International trade: A New World Order emerging?

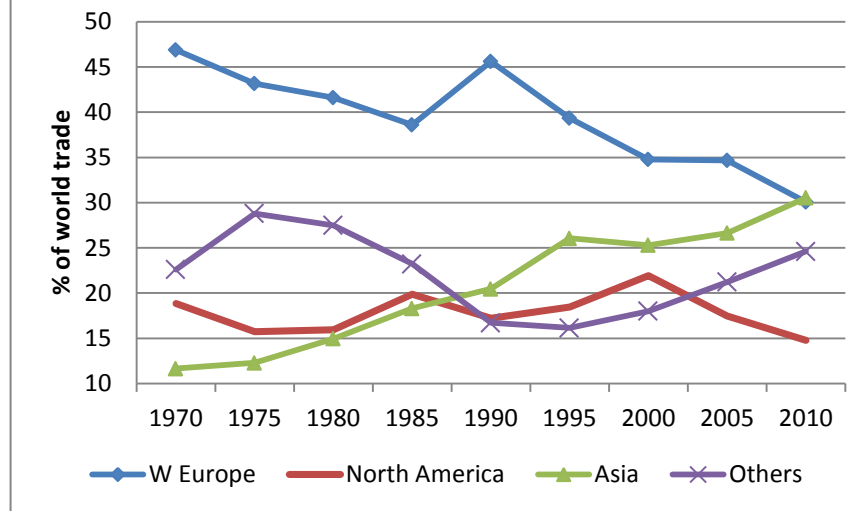
*Also for trade, the trend for Asia and Western Europe is long-term, but other regions turn around in 1995–2000.*

Corresponding to the redistribution of world economic mass, there is a changing pattern of economic interaction. The old world was mainly a ‘hub-and-spoke’ system with North America and Western Europe at the core. With the rising star of Asia, this pattern is gradually fading away: New economic links are developing between Asia and other regions – and the West is a falling star, as we have seen for GDP. Trade in goods is a useful illustration of this development. M2 examines trade between world regions during the forty years 1970–2010, using five-year intervals. Figure 2.3 shows the shares of world trade trends for the same regional groups as in Figure 2.1.<sup>4</sup> The changes over time are generally similar to those observed for GDP: the share of Western Europe fell whereas Asia’s share grew continuously. As in Figure 2.1, we can note a trend reversal for North America in 2000, and slightly earlier (in 1995) for ‘Others’.

<sup>3</sup> Trends measured in nominal dollars are qualitatively similar to those using PPP data, but the quantitative changes are smaller. For details, see M1.

<sup>4</sup> Due to trade imbalances between regions, shares of world exports and world imports may differ slightly. Fig. 2.3 presents an average of shares of exports and imports.

**Fig. 2.3: Regional shares of world trade 1970-2010 (%)**



Intra-European trade grew strongly as a result of post-war European integration. However, this component of world trade has now stagnated, while intra-Asian trade has accelerated. Decomposing the trade flows of each region into intra- and extra-regional components, the analysis in M2 reveals some interesting trends:

- Intra-regional trade of Western Europe represented 29% of world trade in 1970 and was the main reason why Western Europe became the world trade giant with almost half of world trade in 1970 (and even in 1990). After 1990, this share dropped to 17% of world trade, and is the major reason why Western Europe’s share of world trade fell so much during the period. Possible explanations may be that intra-European investment replaced trade from the 1990s, or that this trade was so large and ‘saturated’ by then that slower growth had become only natural.
- For Asia, export and imports to other regions grew rapidly. Asia started with a considerable trade deficit with the rest of the world, but then exports began to grow faster. By 2010, Asia had a considerable trade surplus. Perhaps surprisingly, the fastest-growing component of Asia’s trade was intra-regional Asian trade. From 1970 to 2010, this trade grew from 4 to 16% of world trade and was in 2010 of about the same magnitude as trade within Western Europe.
- For North America, the dramatic fact is the relative weakening of exports to the rest of the world: the share of North American exports in world trade fell throughout the period. This led to a sizeable trade deficit, not only with Asia but with other regions as well. North American imports from the rest of the world, and intra-regional trade, grew faster than world trade until 2000 but then decelerated. As a result, North America’s share of world trade dropped considerably after 2000 (Figure 2.4).
- Similar to developments for GDP, the trade of ‘other regions’ including Africa, Latin America and others has accelerated during the past decade. As seen from Figure 2.4, the share of all other regions in world trade fell significantly during 1975–1995, followed by a reversal. For these other regions, trade growth is especially strong for the extra-regional component, and for some of them (like Africa), intra-regional trade is conspicuously small. For Africa, the major challenges are intra-African integration and infrastructure.

*Slow growth for trade within Western Europe ..*

*... and fast growth for intra-regional trade in Asia.*

*North America: Export slowdown and deficits with many regions.*

*The trade of all other regions accelerated from 2000.*

For a long time, ‘regionalization’ in Asia compensated for the relative decline in intra-

*Intra-regional trade grew faster until 1995..*

*... but then 'globalization' and long-distance trade took over.*

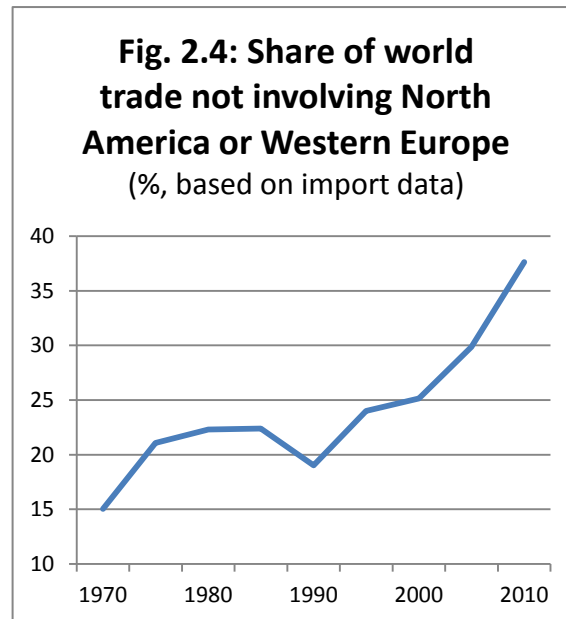
*The share of world trade not involving the 'old world' has rocketed from 1990.*

*New cooperation 'beyond the West' is emerging.*

*Two trends: One long-term and one more recent.*

regional trade in Western Europe, so the extent of 'regionalization' of world trade even increased. After 1995, however, this trend was reversed, and there was 'globalization' with a rising share for extra-regional trade. In M2, we also estimate the average travelling distance of world trade, showing a similar pattern with an increase in long-haul trade towards the end of the period.

Another way of summing up this renewal of world trade patterns and the relative decline of the 'old world' is to measure the proportion of world trade that does *not* involve Western Europe or North America. In 1970, this was a modest 15%. From 1990 onwards, the share rocketed, as shown in Figure 2.4.



Implicitly, this curve adds the two trends (Asia, Others), and it is evident that their joint impact after 1990 is very large. Until 1990, Western Europe and North America were still dominant, involved in more than 80% of world trade in 1990. Since then, the 'new world' has been doing more and more business that does not involve the old leaders at all. Due to increased extra-regional trade flows not involving the old world, it is likely that new networks of trade agreements and other forms of cooperation across continents will evolve over time. Whereas many bilateral agreements of the past involved the 'old world', we might expect to see more agreements between 'new world' countries in the future.

### **Some implications**

The analysis of GDP growth and trade yields an identical picture of phases in global economic development – with a long-term trend of reallocation from Western Europe to Asia, and a more recent trend of North American decline and growth in new regions. The trade analysis also shows how these changes create another pattern of global economic interaction, with more and more global trade beyond the 'old world' and eventually more globalization and long-distance trade.

The observed changes could have strong implications for the architecture of global economic institutions. An immediate issue is how global institutions should adapt to a new situation where the hegemony of the old leaders has vanished. This can be seen in several areas: take, for instance, the deadlock of the WTO (World Trade Organization);

*How should global institutions adapt to the new world landscape?*

the process of adjusting voting power in the IMF; or the emerging but still unsettled role of the G-20. In these multilateral settings, the BRICS are not always a unified group, as they differ in economic power and political attitudes. China, for example, has a huge trade surplus and cash to be invested abroad, whereas India has a growing trade deficit.

*It may take time to adapt and we need patience.*

Some of the major changes of the world economy are recent, and it may take time to adapt institutionally to the new situation. The BRICS are working to develop their new identities; China is an economic giant but needs time to grow into the role as a world leader. Moreover, economic forces themselves can be expected to contribute to shaping the attitudes of the participants. In the USA or the EU, slower growth may trigger domestic lobbies fighting for protection. On the other hand, if the recent growth of Africa and the 'Others' is sustained, attitudes may become more positive towards international trade and integration. Attitudes may change over time, and considerable patience should be exercised since it may take time to respond properly and reshape institutions. There is no point in panicking in the face of disagreement.

*Integration in Asia is lagging behind real economic developments.*

In post-war Western Europe, regional economic integration was a main driver. To what extent will a similar process will evolve in Asia? Given that intra-Asian trade is already about as large as trade within Western Europe, the extent of regional integration in Asia is perhaps lagging behind real economic developments – even if various plans are on the table and several free trade agreements have existed for years. An important challenge is that Asian countries differ considerably in terms of income levels and development. In addition, Asia includes countries that are giants in terms of population and geography; integrating with India and China is something else than the BeNeLux countries.

*GDP growth patterns are reflected in oil consumption...*

The rebalancing of the world economy will affect oil consumption through GDP. We expect that most of the increase in world energy demand will come from new regions and the developing world (see e.g. Wolfram et al. 2012). Second; growing world trade may drive oil consumption via increased transport (a major source of oil demand). While long-haul trade has increased recently, a mitigating factor is that a considerable share of this trade goes by sea, which is far more energy-efficient than road transport. For Africa, Asia and Latin America, a significant share of intra-regional trade is also carried by sea. Hence the new trade is certain to increase energy consumption, but the energy impact will be limited due to the high share of sea transport (see M2). What is certain is that the geographical distribution of energy and oil demand will adjust to changing patterns in global growth and trade.

*... and trade affects oil consumption via transportation.*

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# Chapter 3 BRICS, Security Policy and Energy

Sverre Lodgaard

## Global governance and the use of force

*Security: BRICS challenge the OECD countries.*

The BRICS countries challenge the privileged position of the OECD world in the management of global interdependence. Their immediate goal is gaining a greater say in the UN, the Bretton Woods institutions, the WTO and other significant organizations. New institutions to supplement and eventually supplant existing ones are also being discussed – openly at the BRICS Academic Forum (Samir 2012) and the subsequent summit meeting in Delhi on 29 March 2012 (the Delhi Declaration).

*They demand fair representation...*

In 2011, when all BRICS countries were members of the UN Security Council, the summit in Sanya (China) paid special attention to reform of the Council. Russia and China supported the others in their general quest for higher status in international affairs and for a greater role at the UN, although not quite on a par with themselves. China, in particular, has an interest in constraining India. It does not support India's demand for permanent membership of the Security Council, and, like the other veto powers, it is not ready to grant India *de jure* recognition as a nuclear weapon state.

*... and a greater role at the UN.*

*BRICS have regular meetings on security issues.*

In addition to the annual summits there are regular meetings of foreign ministers and meetings of high representatives on security issues. The BRICS countries are firmly committed to multilateral diplomacy, with the United Nations playing a pivotal role in dealing with global threats, and they agree on the principle that the use of force should be avoided. Since the Western military powers usually depend on the Security Council to underwrite the legality and legitimacy of their military actions, it is in the best interests of BRICS to insist on the centrality of a body where Russia and China can thwart USA and European use of force by exercising the right of veto.

*They are more averse to the use of force...*

Are the BRICS countries generally more averse to the use of force in international affairs than the Western powers? That seems to be the case, corroborated by summit statements on conflicts like Iran (2010), Libya (2011) and Syria (2012), which emphasize the primacy of peaceful means and the role of the UN and regional organizations. However, the record is far from unambiguous. The BRICS countries are regional powers, and China, India and Russia have not shied away from using military means in their own regions. India's interventions in Bangladesh, Sri Lanka and the Maldives, for example, indicate pragmatism when it comes to the use of force, as is the BRICS support for the Security Council resolution on Cote d'Ivoire which authorized the use of all necessary means to protect civilians (SC/10215).

*... with some qualifications.*

The point is that as long as the USA, the UK and France continue to act on long traditions of power projection – from colonial times, from the Cold War and from US unilateralism after the Cold War – the BRICS countries will naturally want to stop them from intruding into regions that are closer to themselves and where they seek to garner support for their own priorities. Since the BRICS countries cannot compete with US military power anyhow, it makes more sense to channel rivalries into economic and political arenas where contemporary power shifts play rapidly into their hands and where much can be achieved in a gradual fashion. For all of them, extraordinary economic growth has been translating into rapidly growing self-confidence, in turn nurturing political clout.

*What do BRICS have in common?*

### **Opposing the West, and routing around it**

The BRICS countries belong to different regions and represent different political cultures and ideologies, so what brought them together? This is not any inter-state group, but a cross-civilizational one. At the first BRIC Summit, held in Yekaterinburg (2009), Brazil reportedly asked, 'Why are we here? The three of you are in the same part of the world, but why us, from far away?' (Samir 2012). Similar questions were asked when South Africa, a small country relative to the others, joined in 2011.

*They joining ranks in opposition to common adversaries*

One simple answer is that the rationale behind BRICS is to challenge the privileged position of the Western world (Desai 2012), and for that it needs as broad a support as possible. After all, if states cannot agree on anything else, they may join ranks in opposition to a common adversary. Russia, which introduced the BRIC idea, clearly saw this as an opportunity to counter the Atlantic alliance and Western economic and political weight.

*...but also build relations that do not involve the west.*

This is only part of the answer, however. In a declaratory policy that softens the adversarial image of the group, the BRICS countries underline that they are not ranged against anyone.<sup>5</sup> The emerging powers of Asia, Africa and Latin America are no longer confined to integrating into the existing liberal order or challenging the West for international leadership. By building relations with each other, they are making the West less relevant. More and more, they take what they need from the West while routing around the US-led order. The 'World without the West' is becoming preferentially interconnected in terms of trade, direct investments, telecommunications and their own media and narratives of world affairs (Barma, Ratner and Weber 2007). To protect themselves from the vagaries of the international financial system, BRICS are now taking steps to facilitate South–South trade by using local currencies instead of US dollars.

*Interconnectivity in the 'World without the West' is growing fast*

### **Westphalian norms vs liberal internationalism**

The rules guiding BRICS, and the 'World without the West' in general, are Westphalian: state sovereignty, territorial integrity and non-interference in internal affairs. In Asia in particular, states tend to behave the way the authors of the UN Charter said they should back in 1945 – less so in India, more so in China and Russia. Inviolable sovereignty – the right to determine one's own social, economic and political order – rejects key tenets of liberal internationalism like global civil society, development aid tied to good governance, and international responsibility to protect people who are ill-treated or left in misery by their governments. Sovereign states determine their own domestic order while dealing with each other on a market basis.

*BRICS follow Westphalian norms: state sovereignty, territorial integrity, non-interference in internal affairs*

To defend and promote these rules as effectively as possible, it is important to liaise with leading states in all three continents: Asia, Africa and Latin America. South Africa was not such an odd choice, given its economic presence and potential in a grand African free-trade area in the making, with a market potential of up to 700 million people (COMESA-SADC-EAC) (Kornegay 2012). It is a unique gateway into Africa's economic hinterland. Similar arguments can be made for Turkey becoming the sixth member of the group, especially if it can develop good relations with the other major actors of the Middle East: to incorporate a state that is deeply involved in factional politics would not serve the BRICS group well. As yet, BRICS is not represented in this region, where so much is at stake in terms of geopolitics, energy supply and ensersecurity.

*With South Africa on board, they cover the important continents*

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<sup>5</sup> See e.g. Suhir Vyas of the Indian Ministry of External affairs, as quoted by *The Economic Times*, India 5 March 2012: 'We are not a bloc, not an ideological group ranged against anyone... It is in the area of global governance that BRICS can make its presence felt.'



*Democratic inclusion or a new global oligarchy?*

Common interests in this set of rules tie BRICS together. Democracy in international relations is another part of the picture, BRICS purporting to act in the best interest of a great many nations outside the West. However, while this may seem a respectable ambition, realists are quick to point out that what BRICS really want is a widening of the global oligarchy of power and their inclusion in it, together with the leading powers of the West. Seen this way, the justification for BRICS is not the principle of democratic inclusion, but the need to recognize the changing realities of global power. And that is why their project may well succeed: 'An old oligarchy will always find it easier to accommodate new oligarchs than to cope with demands for democracy in decision-making' (Desai 2012).

*NATO overstepped UN resolutions in Libya*

At its sharpest, BRICS's commitment to the letter of the UN Charter is pitted against the liberal internationalism of the West over the principle of the Responsibility to Protect (R2P). The West argues that state sovereignty is qualified by the way states treat their own citizens, and that international intervention may be justified to protect civilians in dire need. In 2011, Libya saw the first application of this principle. However, the NATO countries clearly overstepped SC/1973, which was used to justify the bombing (Lodgaard 2012). And one repercussion of this has been the Russian and Chinese opposition to SC resolutions on Syria.

*Sincere dialogue is needed to overcome the clash of norms*

It is an open question in which direction this clash of norms will tilt. R2P strikes a fine balance between unilateral humanitarian intervention, which has been discredited, and institutionalized indifference, which is embedded in the norm of non-intervention. In principle, R2P has been endorsed by the UN, but if the first applications are not successful, the BRICS countries will be vindicated. On the other hand, if BRICS remain as little more than naysayers, history may pass them by. Progress for the protection of civilians requires sincere dialogue across the current divide (Thakur 2012).

*BRICS and energy security: Consensual objectives, but where are the measures?*

### **BRICS and energy security: Potentials and limitations**

BRICS summit statements are bland when it comes to energy cooperation. The statement from the first summit in Yekaterinburg says that BRICS supports diversification of energy resources and supply, including renewable energy; the security of energy transit routes; the creation of new energy investments and of new energy infrastructure; and international cooperation in the field of energy efficiency.<sup>6</sup> All of these are consensual objectives without reference to concrete cooperative measures. Later statements have been limited to calls for cooperation in developing renewable energy sources. All BRICS countries have high stakes in this field, but they have obviously not been able to agree on any joint strategy of significance. However, the Delhi Action Plan from the 2012 summit lists 'multilateral energy cooperation within BRICS framework' among the new areas of cooperation to be explored (Delhi Declaration 2012).

On the face of it, BRICS provides a perfect setting for a far-reaching division of labour in the field of energy. As Hulbert and Brutsch (2012) argue, Brazil's reserves could go to Asia, over and beyond lubricating the Western hemisphere; Russia is the geographical hydrocarbon supplier of choice for China, freeing up excess Caspian and Gulf supplies for India and the European Union; and South Africa can help ensure that the African continent remains open for business with the Asians. The potential for BRICS cooperation is enormous.

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<sup>6</sup> Joint Statement of the BRIC Countries' leaders, Yekaterinburg, 16 June 2009. President of Russia, Official Web Portal.

*BRICS energy interests differ*

But so are the obstacles. The ideal world of logic is so different from the real world of politics that no lengthy elaboration is needed to explain why the summit statements are so non-committal. First of all, Russia, the only major exporter among the five, fears becoming a raw materials appendix to the Chinese colossus. It therefore bargains hard to make the Chinese pay top prices for its oil and gas deliveries, while insisting that they also buy Russian industrial goods and that they better protect Russian property rights and trademarks. China, by contrast, buys into the Russian backyard in Central Asia, expanding its energy supplies from there. While pursuing similar policies on many other issues, Russia and China largely do so in parallel, both of them valuing sovereignty, independence and freedom of action above all else. Brazil has been courting Western investments and does not want BRICS to become a threat to global energy markets. South Africa has continued to underwrite Africa's openness to European and American interests. In some ways, Brazil and South Africa are both buffers between the Asian giants and the Western world.

While BRICS seem stuck in differences and rivalries today, will they be able to pursue the cooperation potential tomorrow? First of all, this will depend on how far China believes that the BRICS narrative can be carried. China is the heavyweight at the centre of the network. China's GDP is bigger than that of the other four together, and the rapidly growing inter-BRICS trade is primarily between China and each of the four, much less among the four. It also depends on Indian and Russian acceptance of China doing the heavy lifting, and on the willingness of Brazil and South Africa willingness to play the buffer roles that may ease the world into a BRICS-sustained future (Hulbert and Brutsch).

*BRICS are still in an early formative phase*

These are wide-open questions that will hardly be clarified any time soon. The obstacles seem formidable. Many of them are rooted in geopolitics as well as in diverging energy interests. However, BRICS is still in an early, formative phase. Only four years have passed since the first summit, and in that period the network has grown considerably. The difference between the short, feeble statement from the Yekaterinburg Summit of 2009 and the comprehensive, well-articulated declaration from Delhi of 2012 testifies to that. In 2009, it was not obvious that BRIC had much of a future; by 2012, the BRICS countries were making a difference in all global governance institutions and spearheading a rising trajectory of South-South cooperation. It would therefore be rash to exclude determined efforts to exploit the potential of energy cooperation.

*Future energy cooperation may become stronger*

### **Non-interference to get in, non-use of force to keep others out**

While the BRICS countries are far from having a joint vision of energy security today, the normative commonalities are already helpful in protecting and promoting their energy interests. The commitment to the principle of non-interference in internal affairs is quite convenient for gaining access to petroleum resources. Many producers do not meet norms of good governance, which complicates cooperation with Western states that condition their involvement on improvements in this respect. Consequently, states that refrain from imposing such requirements emerge with a significant advantage. China, in particular, has benefitted greatly from its policy of non-interference, both in Africa and in the Middle East.

*Access on the basis of non-interference*

The West has a long record of interventions in oil-rich countries, from the 1953 coup in Iran to the bombing of Libya in 2011. However, it is difficult to ascertain the exact role of energy behind the instigation of such interventions. In post-colonial times, securing energy supplies by military means has become illegitimate, so the intervening governments have revealed little or nothing about their considerations in this respect. In

*...as different from Western use of force,*

the case of Iraq (2003), US leaders settled for weapons of mass destruction as the public rationale – according to Paul Wolfowitz, that was what ‘everyone could agree on’.<sup>7</sup> In the case of Libya (2011), the public rationale was protection of civilians – yet in the aftermath, it has been speculated that Western countries would be first in line for Libyan oil. One important US military doctrine has secure oil supplies as its sole focus: according to the Carter Doctrine of 1980, if anyone should try to undermine US control of the Gulf, this would be deemed a *casus belli*.<sup>8</sup>

*...which BRICS try to thwart in the UNSC, invoking the principle of non-use of force*

The principle of non-use of force can be used to deny the West privileged access to oil. Playing it through the UN and stressing the Security Council’s responsibility for international peace and security, BRICS may prevent the West from securing oil supplies by military means. This is part of the Syrian story of 2011–2012: Russia and China blocked Western attempts to topple the Assad regime, because, *inter alia*, that would put additional pressure on Iran, an important source of energy for China and India. For reasons of geopolitics as well as energy supplies, neither Russia nor China wants Iran to fall back into the Western sphere of interest.

#### *Russia*

A study of 31 energy conflicts with 20 countries during the period 2000–2010 sheds light on Russia’s capacity to use its oil and gas exports to enhance its influence abroad (Orttung and Øverland). Central in this picture are pipelines and subsidies.

*Russia tries to convert energy exports into political gains, but the toolbox is modest*

The study found increased use of pipelines to make Russia less dependent on transit countries (Ukraine, Belarus) and to enhance its control of main Eurasian transport systems; decreased use of subsidies; and persistent attempts to purchase assets in foreign countries, cut off pipeline supplies, and use energy to achieve specific political goals. The latter have been levelled at Ukraine and Georgia in particular: Russia typically does not use energy instruments to achieve political goals in the EU. While the toolbox is changing over time, its modest size constrains Russia’s ability to convert its energy exports into political gains.

*Russia appears to be a stable energy provider for Europe*

Russia’s energy empire touches other BRICS countries only on the margin. The first oil pipeline from Siberia to China started operating in 2011. For BRICS, the interesting aspect comes in terms of opportunity costs, i.e. the value of the alternatives that have been foregone (cf. the discussion of potentials and limitations of a common BRICS energy strategy). The Western European experience with Russian deliveries – Russia appearing to be a stable energy provider, not playing the energy card for political objectives – is reassuring also for China and others. Like the EU, China is more important for Russia than *vice versa*, so there is little to suggest that the Russian toolkit can be used to exert undue political pressure against it. With some few exceptions, Russia has used energy deliveries for political ends only in relation to former members of the Soviet Union.

*India and China: In spite of skyrocketing trade...*

#### **India and China**

Even though trade between India and China is skyrocketing and China has become India’s

<sup>7</sup> ‘...for reasons that have a lot to do with the US government bureaucracy, we settled on the one issue that everyone could agree on: weapons of mass destruction.’ Paul Wolfowitz, as quoted by George Wright, ‘Wolfowitz: Iraq was about oil’, *The Guardian*, 4 June 2003. Wolfowitz nevertheless conceded that oil was an important factor in the decision to go to war.

<sup>8</sup> ‘Let our position be absolutely clear: An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force.’ Jimmy Carter in his State of the Union Address, 23 January 1980.

*... security concerns are running deep...*

most important trading partner, the two giants are far from coming to terms in the field of security policy. Suspicions run deep on both sides. India is concerned that China is enacting a 'string of pearls' strategy, constraining it by accessing port facilities in Myanmar, Sri Lanka and Pakistan, building a highway from China into central Nepal, and extending the railway to Tibet to the border with Nepal (Thakur, 2010). China fears that the 2008 nuclear agreement between India and the US, which lifted the sanctions imposed on India because of its nuclear tests, will open the gates for comprehensive US–Indian cooperation in the military as well as in civilian fields. Unquestionably, the agreement had a geopolitical edge towards China, but this may be ameliorated over time by India's strong sense of independence. The United States has better relations with both of the Asian giants than they have with each other.

*2006: Sino–Indian energy MoU...*

Can economic cooperation in the field of trade extend into cooperation in the politically charged field of energy supplies and energy security? In January 2006, India and China signed a memorandum of understanding on energy cooperation (Varadarayan, 2006). Both countries have multiple state oil companies; both consider overseas investments to be a vital part of their energy strategy; and two years earlier they had learnt a costly lesson from competitive bidding in Angola. The 2006 memorandum was intended to pool their investments and technologies into win–win ventures, apparently with some success: Energy assets have been acquired on a cooperative basis in Syria, Sudan, Columbia, Iran and Peru (Singh 2010). The memorandum also called for joint efforts to diversify the energy mix, enhance the share of renewable energy, and to promote nuclear energy research.

*... but the ground for energy cooperation is shaky.*

The cooperation rests on shaky ground, however. Energy security is a top priority for both countries: in a sense, this is an issue-area at the interface between security policy and economic affairs, with one foot in both. Recently, cooperative efforts have suffered a setback in both sectors. The initiative that Atal Bihari Vajpayee and Jiang Zemin took in 2003 to promote a framework for the resolution of the border dispute proved counterproductive: when there was no breakthrough, the strong focus on these highly sensitive issues turned into irritation and renewed tension (Varadarayan 2011). Cooperation on energy supplies and energy security also stagnated. These developments may be interrelated.

*2012: Delhi Declaration on the Middle East.*

### **Security and energy in the Middle East**

The BRICS statements on topical security issues have focused on the Middle East. The latest – the Delhi Declaration of 2012 – is the most comprehensive in this respect. It argues that the Arab Spring should serve as an incentive to settle long-standing conflicts in the Middle East and North Africa, the Arab–Israeli conflict first of all. It goes on to encourage broad national dialogues in Syria; warns of the disastrous consequences of a military attack on Iran; and underscores the need for more effective regional and international cooperation for the stabilization of Afghanistan, including by combating terrorism and illicit traffic in opiates (see Delhi Declaration 2012).

*Growing stakes*

All BRICS countries have stakes in this region, where energy and security interests are intertwined. Russia inherited a heavy Soviet involvement that has been much reduced, but remains significant. China and India depend on oil from Iran, Saudi Arabia and others, and have become increasingly involved in Middle Eastern affairs in general. Brazil has conducted high-level diplomacy on the Iranian nuclear issue together with Turkey. South Africa has a high profile at the IAEA and the UN on nuclear and other security issues in the Middle East.

*BRICS interests on Iran are converging..*

Iran stands poised on the threshold between the Western world and the World without the West. China, Russia and Iran support each other on issues of major concern: Russia and Iran support China on the Taiwan issue; China and Iran always supported Moscow in the Chechen conflict; and Russia and China have a common interest in keeping Iran out of the Western sphere of interest. Indian spokesmen emphasize that Asia can serve as a comfort zone for Iran, compensating for some of the pressure that the West has been levelling at it. Summit statements show that when it comes to Iran, the BRICS countries have converging geopolitical interests.

*.. and this applies to the Middle East more generally*

In the Middle East, BRICS concerns and interests are therefore coming together, both geopolitically and in terms of energy security. Furthermore, the current political upheavals in the region place it at the centre of the normative dispute between BRICS and the West over which rules should govern international relations in general – the UN Charter of 1945, or the Western-led update of it. Politically, the BRICS countries are still at a distance from the Middle East, but the declining US influence in the area is opening more action space, both for the regional states themselves and for the BRICS countries.

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# Chapter 4 China and India in Africa: a sign of things to come?

Stein Sundstøl Eriksen and Ole Jacob Sending

## Introduction

*Does search for energy lead to a 'scramble for Africa'?*

Is China's thirst for energy undermining efforts to curb corruption and promote good governance? Is the search for energy security producing a new 'Scramble for Africa', with unbridled competition between great powers, and a weakening of global governance mechanisms? Judging from analyses and comments from politicians, pundits and academics, this is indeed the case. On a trip to Nigeria as UK Foreign Minister in 2006, Jack Straw allegedly remarked to reporters, 'Most of what China has been doing in Africa today is what we did in Africa 150 years ago.'<sup>9</sup> As Klare and Volman (2006: 297) have argued, 'The African continent has now become a vital arena of strategic and geopolitical competition for not only the United States, but also for China, India, and other new emerging powers. The main reason for this is quite simple: Africa is the final frontier as far as the world's supplies of energy are concerned.'

*China and India in Africa: an example of governance 'beyond the West'?*

In this chapter, we analyse China and India's engagement on the African continent. We do this for two main reasons. First, China and India are major economic actors, playing increasingly important roles in world politics. Second, given the scale of both economic interaction and efforts to broaden political cooperation, Chinese and Indian strategies in Africa offer a vantage point for speculating about how the rise of these two countries will affect world politics more generally, and energy politics specifically.

We make three overall arguments. First, we review China and India's engagement on the African continent, foregrounding economic fundamentals as a driver of *inter-regional* interaction that outpaces global and regional governance efforts. Second, we argue that discussions of energy in world politics in general, and of the emerging economies' thirst for energy in Africa in particular, are too often analysed and understood in terms of a geopolitical paradigm, where oil and gas are treated as geopolitical assets rather than as *commodities* on a market. Third, we hold that the perils of the 'resource curse' and the attendant claim that Chinese and Indian engagement in Africa exacerbates the problems of establishing good governance in Africa is off the mark. Western companies are not qualitatively different from Chinese companies, and Western-style aid is not without flaws in its efforts to promote good governance. New modalities for engagement should be encouraged here.

*Energy: A sector with weak global governance*

While the last two decades have seen a steady proliferation of institutional mechanisms for global governance (see Neumann and Sending 2010) the energy sector is characterized by much less global regulatory efforts, and more unbridled

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<sup>9</sup> Stevenson 2006, quoted in <http://voices.yahoo.com/the-chinese-african-relationship-sub-saharan-africans-3170603.html?cat=9>

competition for energy sources, than most other sectors. Energy is treated both as a commodity and a strategically important asset, but often the latter prevails over the former, which helps explain why we find higher tolerance for resource nationalism and laxer standards regarding efforts to curb corruption and advance good governance. In short, we observe that energy governance is laxer than in other areas, and that this is due to the framing of energy as a strategic asset. We argue that if energy were defined as a commodity, thicker and more robust regulatory frameworks and less rivalry would result.

*Energy: Geopolitics  
versus markets*

In sum, we argue that discussions of energy would benefit from shifting from a zero-sum logic of geopolitics to one focused on governance of markets and institutions for ensuring predictability and transparency. There is no inherent reason why energy cannot, and should not, be understood and approached as a commodity. The future trajectory of energy politics in Africa and beyond – including its effects on developments within African countries – will depend on how governments and business define and approach the issue. If energy is defined and regulated as a commodity, then there is less of a chance that it will generate rivalries and pose a threat to good governance in developing countries. Of course, the development of the energy sector globally as well as regionally must seek to include and assess the effects of a set of broader development – including the long-term effects of the Arab Spring; the likelihood that an African middle class may grow somewhat more independent of the state; and the prospect that in their search for energy in Africa, China and India may supplement rather than undermine Western efforts aimed at good governance.

*China: the world's  
largest energy consumer*

#### **China's energy policy and Africa**

In 2010, China surpassed the United States as the world's largest energy consumer. China has remained dependent on fossil fuels such as coal, oil, and natural gas. For oil, China has turned from exporter until 1993, into the second-largest net oil importer in the world in 2009 (IEA). This massive change is clearly a reflection of its high economic growth of 8–9% per year over the past 20 years, which has greatly increased its demand for energy.

*Trade with Africa can  
reduce dependence on  
the Middle East*

For China, the Middle East remains the most important source for oil. At the same time, China is also seeking to reduce its dependence on Middle Eastern oil. China's push to secure energy resources and raw materials in Africa is part of its energy security diversification strategy. While African countries are neither the top oil-producing nor the top oil-exporting countries in the world at the moment, there are opportunities for future expansion and production. China's presence in Africa to secure oil resources has been increasing: China now receives an estimated one third of its oil imports from Africa, which holds just 9–10% of the world's oil reserves. Its largest African suppliers of oil are Angola, Sudan, the Republic of Congo, Equatorial Guinea and Nigeria. Other African countries that export oil to China include Gabon, Algeria, Libya, Liberia, Chad and Kenya.

But despite its growing importance in Africa's energy sector, China is unlikely that Chinese oil companies will supplant the Western presence in the near term. Although the presence of Chinese National Oil Companies (NOCs) is expanding in Africa on the whole, we should not overestimate their influence.

*Africa is also a source for*

China's engagement in Africa involves more than oil and other forms of energy, as indicated in Table 1. While most of Africa's exports to China are in oil, it also exports



*other commodities.*

iron ore, metals, and other commodities, as well as a small amount of food and agricultural products. Together with manufacturing, natural resources make up the bulk of China's engagement, and China exports a range of machinery and transportation equipment, communications equipment, and electronics to African countries. In 2009, China surpassed the USA as Africa's largest trade partner. According to the Chinese Ministry of Commerce, Sino–African trade reached \$126.9 billion for 2010, while the trade volume rose 30% year-on-year during the first three quarters of 2011. China's top five African trading partners are Angola, South Africa, Sudan, Nigeria and Egypt.

*A substantial Chinese aid contribution...*

China has also provided substantial aid to African countries. Chinese aid to developing countries can be attractive because of the no-strings-attached policy, in contrast to aid from Western countries or institutions like the World Bank. Linked with aid, China's infrastructure projects in Africa often involve concessional or low-interest loans as well as direct financing. In addition, China can promote economic projects in areas in Africa deemed too risky or unfeasible by other governments or multinational corporations.

*... but critical questions have been raised.*

China's oil policy, as part of its aim to acquire more natural resources, has brought criticism of China's 'neo-colonialist' presence in Africa, and questions have been raised about whether the Chinese presence benefits the African people. China's ties with many authoritarian regimes in Africa have continued to receive criticism for the lack of consideration for governance and human rights issues. China maintains a foreign policy position of 'non-interference in domestic affairs', and arms sales to certain regimes in Africa have received international criticism, notably in the cases of arms to Sudan, Zimbabwe, Liberia and Nigeria.

*With a growing energy shortfall, India has strong worries about the energy future*

### **India's energy policy and Africa**

With projections indicating that India will depend on oil for almost 90% of its energy needs by the end of this decade, it is little wonder that energy security is a key priority and tops the political agenda (Patey 2011, Obi 2010, Vines and Campos 2010, Sharma and Mahajan 2007). India is expected to become the world's third largest consumer of energy by 2030, overtaking Japan and Russia. Moreover, India is projected to run out of coal, the primary source of its current energy needs, over the next 40 years. Since that India possesses few proven oil reserves, access to new and reliable sources of energy is critical to the economic development of the country. Along with India's growing energy shortfall there is the fact that some 400 million people remain without access to electricity, with many depending on traditional, inefficient and unhealthy sources of energy.

*Hence Africa may contribute...*

Along with China, the government of India is seeking to diversify the country's sources of oil supply, in order to reduce dependency on supplies from the unstable and unpredictable Middle East. West Asia accounts for almost 70% of India's total oil imports and more than 80% of its natural gas imports (mainly from Qatar, Saudi Arabia and the United Arab Emirates). As long as India's energy basket remains centred on fossil fuels, West Asia's predominance as an import destination will not wane. Given Africa's position as the last oil frontier, it is logical that India has been engaging the continent to secure the raw materials and energy resources it needs. India now imports about a quarter of its oil from Africa, but this figure is expected to grow in the coming years (Obi 2009: 35). Some 70% of its oil production is concentrated in West Africa's Gulf of Guinea, which is also the area where Indian

energy investment has grown the most.

*... trading with Nigeria and South Africa...*

Until recently, India's energy trade in Africa focused mainly on two countries: Nigeria for oil, and South Africa for thermal coal. India's coal imports from South Africa almost tripled in 2009. South Africa is by far India's biggest trading partner for coal in Africa: in 2009–10, India imported coal worth \$1,314.38 million (almost 21% of India's total coal imports), while Egypt came in second place with \$33.75 million. However, over the past decade India's energy ties have expanded to other parts of Africa, as well as to other sources of energy such as uranium. India's crude oil imports from Africa have been rising steadily and have not only deepened but also widened. India imported crude oil from seven African countries in 2006–07, but by 2009–10 the number had risen to 15.

*... later extended to other countries..*

*... and investments.*

India's interest in Africa's oil sector has three elements: contracts for crude purchase, participation in the upstream sector, and refineries. Along with trade, investment has expanded. For example, in 2003 OVL, the overseas arm of India's state-owned energy company, Oil and Natural Gas Corporation (ONGC), bought a 25% stake in the Greater Nile Petroleum Operating Corporation in Sudan for \$250 million from the Canadian Talisman company, which had been forced to relinquish its stake by US sanctions applied against the regime there (Arnold 2009). OVL also has major investments in Nigeria, Côte d'Ivoire, Egypt (the North Ramadan area) and other countries, and OVL participates in the upstream sectors of both South Africa and Nigeria. India has also sent petroleum experts to oil-rich African countries to provide African engineers with new technology, and has pledged concessional credit to resource-rich West African countries like Burkina Faso, Chad, Equatorial Guinea, Ghana, Guinea-Bissau, Ivory Coast, Mali and Senegal. In 2005 India offered US \$1 billion in lines of credit to West African 'petro-states' in exchange for oil exploration rights (Frynas and Paulo 2007), and new lines have been negotiated since.

*State companies have played a role for China as well as India.*

### **Comparing China and India in the African energy sector**

Both China and India have stepped up their engagement in Africa, especially in the energy sector. Both countries have looked to Africa to diversify their sources, through trade as well as through investment by their national oil companies. In both cases, the state has played a key role to promote national energy interests – first and foremost through state-owned oil companies, but also through extending credits and linking oil contracts with infrastructural projects. But, as Gupta and Wang (2011) note, there are many misconceptions about both countries' involvement in Africa, such as: China and India are Africa's main economic partners, that China's aid to Africa is of recent origin, and that both countries' engagement on the continent is primarily about energy (Wang and Bio-Tchane 2008). In contrast to China, India does not have a stated 'go global' policy for its corporations to encourage them to enter international markets. The absence of such a formal stated policy may explain why Indian oil investments in Africa have attracted less attention than those of China.

*But China has a declared 'go global' policy (and more cash).*

*Their relationship is competitive.*

India and China act independently of each other, each promoting its own interests in the same way that Western states do. The same goes for their private companies. Their relationship is competitive, both with each other and with Western companies. However, despite this competition, where Indian oil and gas companies have sometimes been outbid by their cash-rich Chinese rivals for oil and mineral concessions in Africa, the governments of the two countries managed to reach an agreement *not* to bid against each other for energy resources in an effort to contain

spiralling energy prices (Obi 2010). Oil is arguably of even greater strategic importance for India than it is for China, as India only has 0.4% of the world's proven reserves (Naidu 2008), and imports 75% of its oil needs, compared to only 50% for China. To maintain an 8% average economic growth rate, India will need to increase its primary energy supply by three to four times the 2003/2004 levels (Naidu 2010). As noted above, it has been estimated that India will run out of coal in the next forty years.

**China, India, and Aid to Africa**

Rentier politics is a term used to describe the political logic of states where the government has easy access to revenue from natural resources, thus not needing to invest in its population to generate public funds. The well-established notion of a 'resource curse' suggests that existence of profitable natural resources – oil in particular – is associated with authoritarian rule. Analysing 113 states between 1971 and 1997, Ross (2001: 1) found that 'oil export is ... strongly associated with authoritarian rule.' The central issue here is whether energy-related investment – by Chinese, Indian and other companies – exacerbates rentier politics in Africa. The response to this challenge from Western countries is to promote good governance.

*The 'resource curse': Oil exporters are authoritarian.*

OECD countries' approach to development assistance – loosely coordinated through OECD's Development Assistance Committee (DAC) – has grown progressively more ambitious over the course of the last two decades. More and more standards for what constitutes good governance have been demanded from recipients of aid, whether through the UN, the World Bank, or bilateral donors, as illustrated in Table 4.1.

*OECD aid has focused on good governance...*

Year	Number
1997	45
1998	75
1999/2000	66
2000/2001	106
2001/2002	100
2002/2003	116
Source: Grindle 2006.	

While a new paradigm for aid is emerging after the meeting in Busan, South Korea, in late 2011, it is too early to tell what the contents of that new paradigm will be. The final document of the conference received the support of non-DAC members – so-called 'emerging donors' – such as China, India, and Brazil, which was the central objective of the conference. In some development circles, there is concern that China and India are undermining the efforts of Western development policy to promote good governance. It has also been suggested, however with little evidence to date, that particularly China may be re-indebting African countries after these have received debt relief organized through the World Bank and the IMF. While there are genuine concerns as regards the good governance agenda, Western donors' effectiveness in promoting it has been found to be significantly improved if done in cooperation with other actors, public and private. Indeed, one review (Woods 2008: 2) concludes that 'emerging donors are not overtly attempting either to overturn the rules of multilateral development assistance or to replace them. Rather, the revolution taking place is a silent one. By quietly offering alternatives to aid-receiving countries, emerging donors are introducing competitive pressures into the existing system.'

*... but some have questioned whether China and India will follow the same track.*

The liberal tenets of the Western-driven good governance agenda seek to specify how sovereign power is to be exercised. This push towards a liberal political and economic system nonetheless unfolds within a system of sovereign states that accords significant power and leeway for organizing political rule differently.

*The new rules also have slack...*

*... and conditions in the receiving country are often more decisive than donor attitudes.*

However powerful external actors may be – whether Western, Asian or other – their ability to shape outcomes is significantly undermined by the existence of political institutions that work in different ways. Although apparently dispossessed and having to consent to heavy international conditions, local actors have a range of strategies and resources at their disposal with which to mimic, evade, and ultimately undercut the ability of external actors to shape outcomes (Swidler 2009: 197). At heart, the effects of investments, joint ventures, loans and reform efforts may be determined more by the pre-existing political and economic conditions in a country than by the contents of external actors' type of engagement. Indeed, the highly influential study on aid effectiveness by Burnside and Dollar (2000) found this to be the case: aid is effective when good governance – broadly defined – is already in place, but aid itself is generally ineffective in achieving such good governance. In other words, we should not overestimate the effects of new donors on the African continent, nor be overly concerned with the introduction of different modalities for engagement in Africa.

*A thinner layer of governance in the energy sector...*

### **Geopolitics or Markets?**

Energy has historically been defined as a strategic asset, subject to the logic of geopolitical competition. There was the Great Game in Asia in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, and the Scramble for Africa in the late 19<sup>th</sup> century, with force projected to secure access to natural resources. In 1980, President Jimmy Carter proclaimed that the US would use military force to ensure the 'free movement of Middle East Oil' (Carter Doctrine). Other examples of energy as a security issue abound. This history probably explains why the energy actors themselves, and outsiders, often perceive international energy politics as a distinct issue-area, with its own logic and practices. Whereas other sectors have seen progressively thicker governance mechanisms at the transnational and regional levels, such mechanisms are few and far apart in the energy sector. This is not to deny the importance of WTO, IEA, OPEC or other, less formalized cooperation mechanisms. But there are lower density of regulations and less strong enforcement mechanisms than in other issue-areas.

*... partly due to the geopolitical focus.*

This has in part to do with the fact that energy has historically been defined within a geopolitical framework, seen as a strategic asset rather than a commodity. In such a conception, energy becomes a zero-sum game, where one actor's gain is another's loss. The term 'energy security' speaks volumes about the 'securitization' of energy. And yet, energy is available for purchase in the marketplace. The oil market is global, and the gas market is less so. But, as Goldhau and Witte (2010) argue, we should distinguish clearly between public and private actors:

it is not states drilling for, buying, or selling oil and gas, but companies—even if not all of them are fully privately owned; and it is not governments that decide on allocation of capital, technology and manpower, but primarily markets.

*But the national origin of companies may be less important.*

In this context, the difference between a company's country of origin is less importance, since companies are in the business of seeking profit, regardless of where they are based. The more relevant distinction may very well be between actors that dominate the energy sector and actors that dominate the aid or other sectors. It is primarily in the latter sector that significant differences can be found between Western actors and those from China and India.

When defined as an issue of governance rather than geopolitics, energy emerges as a commodity for which governance mechanisms can be established to correct

*Hence energy can and should be perceived as commodities and markets, rather than geopolitics.*

market failures and ensure predictability and transparency. In this context, seemingly technical measures aimed at increasing transparency by producing more reliable statistics by IEA, OPEC and the Joint Oil Data Initiative (JODI), appear significant. They may help reduce transaction costs and information asymmetries (ibid).

The conception of energy as either a geopolitical asset or a commodity has direct bearing on the discussion on China and India's operations in Africa, and beyond. To the extent that it is defined and sought managed as a commodity, energy is more likely to be subject to market-based competition rather than geopolitical rivalry.

### **Conclusions**

While India and China's engagement on the African continent have parallels with those of European powers, their behaviour should not be taken as an indication that there is an emerging turn towards realpolitik, where emerging powers compete with Western states – as some have suggested – in ways reminiscent of the 'Scramble for Africa' in the late 19<sup>th</sup> century. Rather, 21<sup>st</sup>-century world politics is more integrated and structured by rules and norms that bar certain forms of behaviour: States do consider how their behaviour in one issue-area may impact on its interests in other areas. Thus, while it is important to grasp the political dynamics within specific issue areas, such as energy, it is equally important to treat *energy politics in the context of a state's broader foreign policy*.

There is every reason to expect continued competition for and even tensions over access to resources, but also significant are the checks and balances on emerging powers to behave in keeping with established norms in order to be considered by others as responsible global players. China's support to the regime in Sudan over Darfur, for example, has meant significant political costs in its relations with the West. Indeed, China sought to minimize these costs by playing a significant yet largely unrecognized diplomatic role in seeking to change Khartoum's stance on Darfur. Thus, while energy politics is competitive and less structured by global rules and oversight mechanisms, there are reputational concerns, and especially so with China (and to a lesser extent India) due to how Chinese companies' investments abroad form part of Chinese foreign policy.

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