CHANGES IN THE GLOBAL ENERGY SYSTEM AND THEIR IMPLICATIONS FOR CHINA

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Executive Summary

1. In 2014/2015, international oil prices plunged, leading to unprecedented changes to the global energy strategic landscape.

2. Factors leading to such changes include the eastward shift of the world energy consumption centre, the emergence of the United States as a major oil producer and the dramatic waning of the Organisation of Petroleum Exporting Countries' (OPEC) influence. These developments are shaping a new order of the global energy system and exerting profound influences on global geopolitics.

3. Various factors contributed to the steep fall in international oil prices, the most important of which is the supply-demand fundamental, i.e. the combination of weak global oil demand and robust world supply growth.

4. Other factors include price wars among major oil producing countries, the bearish market, the decreased concerns about geo-political risks and the appreciation of the US dollar.

5. Currently, the centre of global energy consumption is shifting from developed economies such as West Europe and North America to emerging economies such as China and India.

6. The United States has become a leading producer of oil and gas, while OPEC is losing its influence over the world economy and politics for the lack of cohesion among its member states. The global energy system is undergoing changes that are favourable to the United States.

7. As a result, energy competition among the United States, Russia and Saudi Arabia has intensified.

8. For China, the decline of international oil prices and the changed global energy strategic landscape might become a double-edged sword. It brings important implications for China at three levels.

9. First, it is generally beneficial to the Chinese economy as it would greatly reduce the costs of China's oil import, increase enterprises' profit margins, stimulate domestic consumption and ease inflationary pressure.

10. Second, it is a mixed blessing for China's energy security, allowing China to build up its strategic oil reserves at a lower cost while hindering its investment in and development of its oil, new energy and renewable energy industries and posing potential risks for China's future oil import from the Middle East.

11. Third, while it would increase China's clout in the world economy and in world politics, giving Beijing more opportunities to promote its global influence, the changed international energy strategic landscape is more favourable to the United States and may add to the international strategic pressure on Beijing.