Special report: Asia’s changing energy needs and how the region is rebalancing oil and gas trade

John Miller and
François Issard

N#2022-11
November 18th 2022

About Asia Centre:

Founded in 2005, Asia Centre is an independent research institute that holds debates and issues publications on matters relating to international, strategic, economic relations, as well as the political and social transformations underway in the Asia-Pacific region. At the crossroads of university research as well as public and private decision-making, Asia Centre researchers identify critical regional issues and analyse them in-depth, taking into consideration both local and global dimensions. Asia Centre's programs are developed with a vast network of partners, companies and major specialist centres in Europe, North America and Asia. The Centre carries out joint operations with these groups, for a better interpretation of ideas and issues. The conclusions of these meetings, such as the results of the work carried out using original sources by our researchers, are widely distributed through the Centre's publications as well as through international journals, books and media.

Asia Centre

experts & trends

About the author:

John W. Miller is Trade Data Monitor's Chief Economic Analyst. John is an award-winning journalist who's reported from 45 countries for the Wall Street Journal, Time Magazine, and NPR. As a staff reporter for the Wall Street Journal, he covered all aspects of global trade, including the World Trade Organization, the Doha Round, tariff negotiations, smuggling, customs, counterfeit goods, global commodities, steel and mining, USTR, the EU Commission, bilateral and multilateral negotiations, key disputes such as Airbus-Boeing, and regulatory issues across the spectrum. He is co-director of the acclaimed PBS documentary film "Moundsville." John is from Brussels, and is fluent in English and French.

François Issard has a Master in Geosciences and an Engineering degree from the French Petroleum Institute (ENSPM). 40 years of exposure to technical, operational and managerial positions in the Oil and Gas industry in Africa, Europe, the United States and Asia gave him the opportunity to develop in-depth knowledge of world energy balance and energy transition matters, a competency which he is now applying as an International Consultant and an Executive Member of Asia Centre.

Asia Centre

experts & trends

Special report: Asia's changing energy needs and how the region is rebalancing oil and gas trade

John Miller and François Issard

18th November 2022

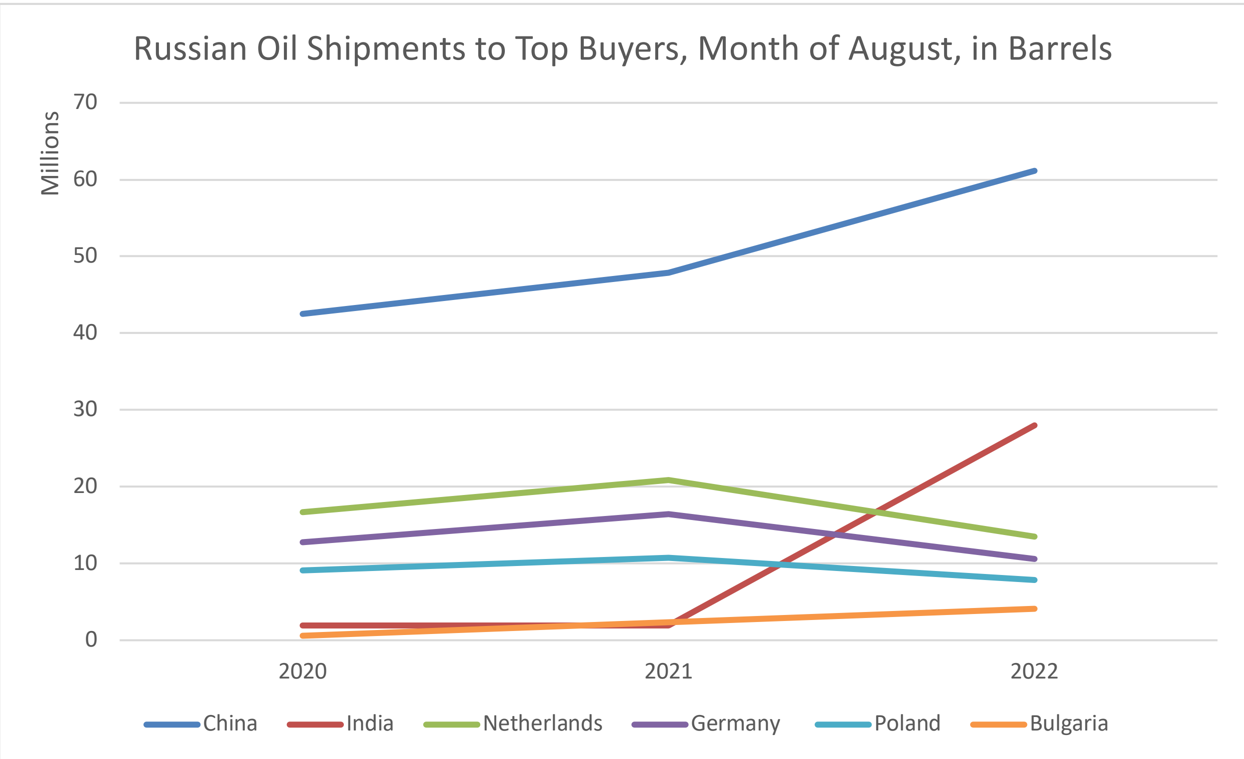
Analyses and discussions presented in this paper have been possible thanks to data from Trade Data Monitor, a premier source of global trade statistics.

The 2022 Shake-Up

Russia's spring 2022 invasion of Ukraine has shaken up global energy markets and spotlighted how Asia's demand has rebalanced global oil and gas trade.

The shift has highlighted the surging demand of India, the persistent prosperity of Japan, the crucial role of China as a swing trader, as well as the looming transformation of energy companies seeking to maintain profits while embracing a future of renewables.

The war in Ukraine and subsequent decisions to block certain categories of crude and oil imports from Russia on Dec. 5 and Feb. 5, 2023, have highlighted China's ability to set prices through monopsonic pricing power. Indeed one can observe that China is paying less for gas imports from Russia than competing countries such as India and has also ramped up exports of energy and energy-related products, according to an analysis by Trade Data Monitor. In an example of their skills, Chinese buyers slowed their purchases of Russian oil and gas in November, prior to the first implementation of the embargo from Europe, to put downward pressure on prices, while hedging with purchases from West Africa and Brazil.



To be sure, there are other factors than the Russian invasion of Ukraine to consider. The rising geopolitical rivalry between the U.S. and China, is one of the defining stories at this moment of the 21st century. On top of this, China's Covid-19 strict measures have roiled supply chains. In 2022, as earlier stimulus payments doled out by governments in the U.S. and Europe have run out, demand has sunk in the West. A stubborn inflation is haunting business confidence, increasing the risk into any investment.

As a result, the world can be seen as dividing itself into three poles: Asia, where intra-ASEAN trade is booming and gross domestic product (GDP) is still growing fast; Europe-U.S., where most of the world's multinational corporations still reside and GDP growth is lagging; and the rest, Latin America and Africa, still rich in resources but struggling against poverty and with low energy demand.

On this energy front, the main drivers impacting global markets are booming shale gas production in the U.S., the expansion of LNG infrastructure throughout the world, China's continuing appetite for oil and gas, and Russian supply being blocked in Europe by Brussels' embargo. Overall, oil prices have been rising. As oil and gas companies look to steadily but slowly move out of oil and gas, they are also interested in extending presence, and profits, in China, the world's most important energy market.

Russia is the world's top energy exporter, followed by the U.S., Saudi Arabia, UAE, Canada, Australia, the Netherlands, Iraq, Norway and Qatar, according to TDM data. The top buyers, however, are now clustered in Asia. China leads the way, followed by the U.S., India, Japan, and South Korea. Four of the top five importers of fossil fuels are Asian. Hence the trifecta of the U.S., China and India as the world's top energy buyers will determine the future of energy demand economics.

The Power and Trading Skills of the Chinese Buyer

The development of the Manchuria oil field Daqing ("Great Celebration"), discovered in 1959, rapidly made China self-sufficient in oil, and even an exporter to Japan, for several decades. In 1993, however, with its manufacturing and heavy industry developing, China became eventually a net importer of oil.

In 2009, China passed the U.S. as the world's top consumer of energy. It currently consumes around a quarter of the world's supply.

The massive jump in consumer demand underlies much of its increase in needs. In 2019, 25 million cars were sold in China (a peak?), up from 1.9 million in 2000. In both those years, around 17 million were sold in the mature U.S. market.

The Chinese state is also consuming more. Its military has "transformed itself from a large but antiquated force into a capable modern military," according to a RAND Corporate report.

As China continues to increase production and sales of automobiles, energy demand is expected to keep going up, while the increase in the service economy will diminish it as a percentage of China's GDP.

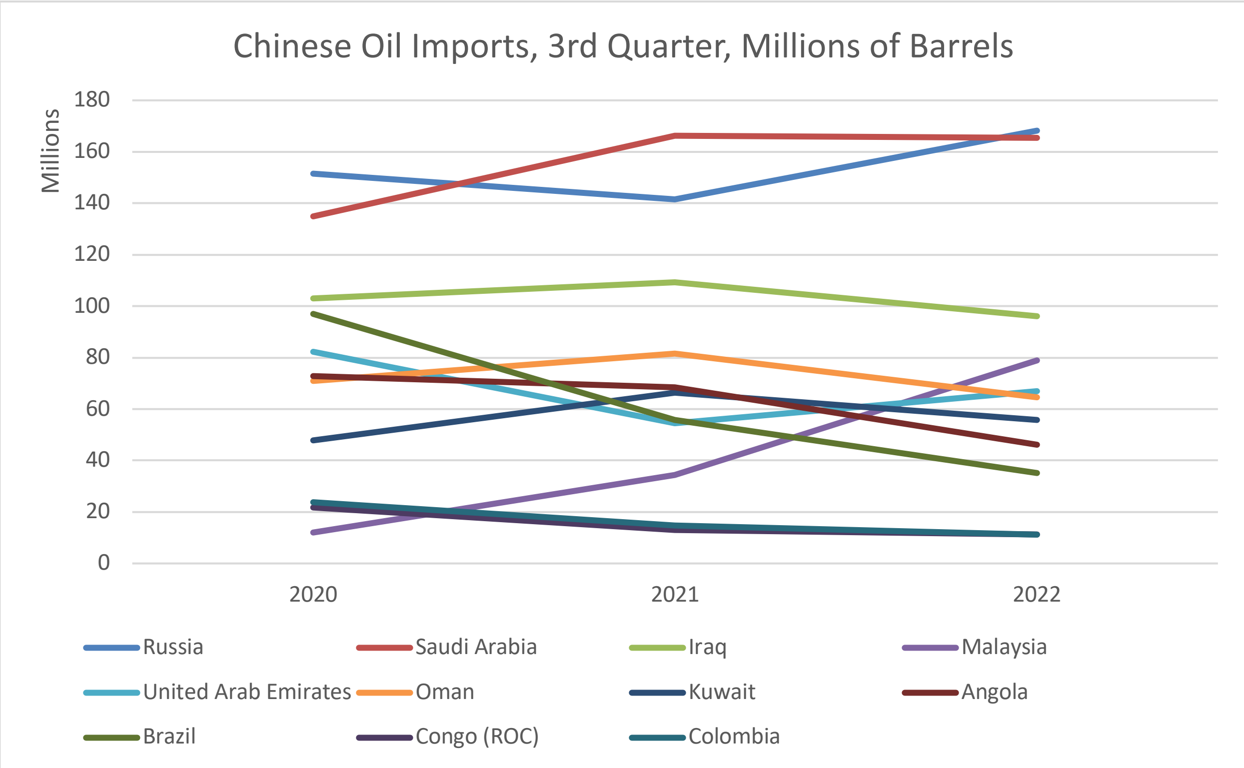
China, the largest gas consumer in Asia, has domestic natural gas production, including some production of shale gas (increasing regularly but slowly at 4-5% annually only), but it has become highly dependent on imports (45% dependency in 2021) . It brings in natural gas from Central Asia via pipelines (the CAGP system), and from Russia via the Power of Siberia pipeline. Roughly half its gas imports are in the form of LNG.

China is now the world's top importer of gas, followed by Germany, Japan, the UK, and Italy. In 2021 China became the largest LNG importer in the world.

China has been by far the biggest importer of Russian oil in 2022. With such an influx of oil, it's also becoming a bigger processor and exporter of fossil fuel products.

In the third quarter of 2022, exports of oil and gas and related petroleum products increased 94.9% to $9.5 billion (Oil trade is typically counted in barrels but using US dollars allows TDM to combine all sorts of petroleum-related products).

The closer energy dependence is linking up China and Russia in deeper and various ways. Asa matter of fact, over the first eight months of 2022, China hiked its exports to Russia 8.5% to $3.5 billion.



Rivalry With India

India, whose gross domestic product has been growing over 7% per year, also has rising energy demands and, like China, has been ramping up imports of energy from Russia. India has drastically increased imports of Russian oil and gas.

In the first eight months of 2022, India boosted imports of oil and gas from Russia by a whopping 530.3% to 121.2 million barrels, according to TDM.

However, there is an important difference in how China and India are managing their purchase of Russian fuels. According to TDM data, China is paying substantially less for Russian oil and gas than India. In the first eight months of 2022, China paid $96.26 a barrel for oil from Russia, compared to $109.68 for oil from Saudi Arabia, and $105.68 for oil from Iraq. By comparison, over the same time, India paid $102.92 per barrel.

Other Factors at Play

It would be easy to forget established players in the global economy who nevertheless are important buyers. Japan is still the world's third biggest economy and fourth largest oil importer. Its top suppliers are Australia, Saudi Arabia, the UAE, the U.S. and Qatar.

The U.S., which continues to reap the benefits of its shale revolution, exported 311.1 billion barrels of gas equivalent in the first eight months of 2022, up 44% from 216.3 billion barrels over the same period in 2017. top clients are Mexico, Japan, South Korea, France and Spain.

As the winter of 2022-2023 looms, it's for Europe that the picture is the most complicated. Indeed, importing LNG is constrained by the capacity of existing LNG Regas terminals to accept more cargo. As of early November, gas storage in the EU is almost at full capacity.

Conclusion

At end 2022, as the Ukraine crisis continues in Europe and harsh Covid pandemic restrictions still severely impact China's economy, Asia is cementing its role as a world's essential energy consumer and rebalancing its energy demand by replacing Europe as Russia's top client before tougher sanctions are implemented on the latter's oil and gas exports.

This article is a cooperation between Trade Data Monitor and the Asia Centre.