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Research on the Impact of the "Belt and Road" Initiative on Energy Prices

Xun Chi

Ferguson Coll of Agriculture, Oklahoma State University and China Agricultural University (joint program), Stillwater, 74078, United States

*xun.chi@okstate.edu

Abstract

The introduction of the "Belt and Road" initiative has played a significant driving role, propelling the economic and social development of countries along its route. Energy resources stand as pivotal elements for the economies, core industries, and crucial revenue sources of nations along the "Belt and Road," and fluctuations in their prices inevitably impact policy planning, infrastructure, institutional arrangements, and financial investments among these countries. Building upon this context, this paper first outlines the current energy situation of countries along the "Belt and Road," and, in conjunction with regional energy trade and energy industry characteristics, comprehensively and systematically evaluates the influencing factors of energy price fluctuations under the "Belt and Road" initiative. Based on the analysis above, this paper proposes measures to enhance price competitiveness and provides an outlook on China's future energy pricing situation. This study's holistic analysis of the impact of the COVID-19 pandemic on energy prices in countries along the "Belt and Road" initiative will, to a certain extent, contribute to the theoretical research on regional energy consumption, offering theoretical guidance for the sustainable development of energy in Chinese cities.

Keywords

Belt and Road; Energy Prices; COVID-19 Pandemic; Energy Trade.

1. Introduction

In 2013, Chinese President Xi Jinping proposed the concept of building the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road," collectively known as the "Belt and Road" initiative. Since the implementation of the "Belt and Road" initiative, it has played a significant driving role, propelling the economic and social development of countries along its route. The Silk Road Economic Belt arises from the deep-seated dynamics of economic, energy, cultural, and regional integration needs [1]. Energy resources represent one of the world's largest traded investment commodities and serve as essential elements for countries' comparative advantages, core industries, and fiscal revenues. The flow of energy resources among countries along the "Belt and Road" has gradually become a primary trend in the international energy resource market [2].

The COVID-19 pandemic has impacted the economic development of countries along the route. Faced with the challenges posed by the pandemic, the "Belt and Road" initiative has exhibited remarkable resilience and vitality, with ongoing projects and numerous highlights of cooperative achievements, providing a glimmer of positivity amid the pandemic's shadow. Additionally, changes in the global commodity markets, including energy resources, have brought new opportunities for advancing energy resource cooperation within the framework of the "Belt and Road" initiative [3].

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In light of the aforementioned context, this paper focuses on the impact of the "Belt and Road" initiative on energy prices. Employing a literature review approach, relevant literature is collected and organized. Based on this foundation, the paper systematically reviews existing high-quality research findings related to the impact of the "Belt and Road" initiative on energy prices. By combining these findings with specific contextual characteristics of the initiative's impact on energy prices, the paper engages in a thorough discussion of the existing literature. Building upon this discussion, the paper proposes strategies to stabilize and enhance the advantage of energy prices, thereby providing a theoretical basis for promoting the high-quality development of the "Belt and Road" initiative.

2. Research Background

2.1. Emergence of the "Belt and Road" Initiative

The ancient Silk Road originated from the thriving silk trade, which utilized silk as a medium to facilitate trade and cultural exchange between the East and the West. It stimulated economic development, commercial prosperity, and the dissemination of civilization among countries along its route, promoting mutual advancement in productivity and cultural diffusion. The "Belt and Road" initiative represents a public good contributed by China to the world, garnering broad international recognition. Currently, China has signed over 200 cooperation agreements for jointly building the "Belt and Road" with more than 130 countries and 31 international organizations [3].

2.2. Background of Energy Price Fluctuations under the "Belt and Road" Initiative

Presently, energy resources and other commodities are poised to become the "new silk" of the contemporary era's "Belt and Road" construction. Countries along the route share the highest degree of congruence in energy resource interests and possess the strongest foundation for conducting long-term and stable cooperation. These countries are significant trading partners in energy resources, wherein such resources constitute essential factors for their comparative advantages, core industries, and fiscal revenues. Furthermore, due to the elongated nature of energy resource supply chains, they exert evident radiating effects on upstream and downstream industries. This dynamic contributes to substantial spillover effects within the "Belt and Road" construction, fostering comprehensive cooperation among nations in areas such as macro policies and trade investments.

2.3. Impact of the COVID-19 Pandemic on Energy Economics of Countries along the "Belt and Road"

In 2019, the unexpected outbreak of the COVID-19 pandemic swept across the globe, giving rise to supply chain crises, soaring energy prices, and labor shortages, which collectively drove global inflation to its highest level in the past decade. Since the pandemic's onset, factors such as supply shortages, decreased willingness to invest in oil and gas resource development, and elevated geopolitical risks have propelled Brent crude oil prices upward. Most energy resource-dependent nations have experienced economic downturns and fiscal deterioration, alongside substantial domestic political impacts. Amidst intense market fluctuations, both supply and demand sides gradually recognized the importance of cooperation and expressed a desire for a rational, stable, and foreseeable price trend, as well as a balanced supply-demand relationship to ensure mutual benefits. This rare window of time has consequently provided an opportunity for advancing energy resource cooperation under the "Belt and Road" initiative.

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3. Impact of the "Belt and Road" Initiative on Energy Prices

3.1. Weakening of the "Asian Premium"

When considering international energy trade, an important factor of concern is energy prices. The Middle East region serves as the largest energy supply source and consequently wields significant control over prices. However, some oil-exporting countries set different prices for the same oil products exported to different countries, resulting in lower costs for European and American countries importing oil compared to Asian nations. This phenomenon is known as the "Asian premium" [4]. Asia holds relatively less influence in international oil and gas price setting, and this has historically led to the existence of an "Asian premium," causing Asian countries to incur higher energy import costs compared to other regions. For instance, in the case of natural gas, the Asian natural gas price represented by Japan's LNG import price was $10.31 per million British thermal units in 2015, 1.6 times higher than Germany and the UK's natural gas import prices and four times higher than that of the United States. With the deepening of energy cooperation under the "Belt and Road" initiative, the transport volumes through the four major oil and gas import channels of China-Russia, China-Central Asia, China-Myanmar, and maritime routes will increase, leading to a situation of diversified energy supply channels and gradual weakening of the "Asian premium."

3.2. Enhanced Energy Bargaining Power

International organizations such as the International Energy Agency and OPEC play crucial roles on the international energy stage. Countries along the "Belt and Road" have cooperated to various extents with these organizations, but the level of cooperation has been relatively low. As countries along the route host the world's major energy importers and exporters, energy cooperation is expected to deepen further. These countries will become key participants on the global energy stage, thereby elevating their influence and discourse power within the international energy landscape.

3.3. Notable Advantages in New Energy Prices

For the research on the "Belt and Road Initiative," scholars believe that the Silk Road Economic Belt can bring new opportunities for the development of the new energy industry [5]. The "Belt and Road" initiative has not only expanded the space for energy cooperation between China and Middle Eastern countries beyond traditional oil and gas resources but also provided the possibility to create a deepening energy cooperation layout for both parties. China holds a leading global position in technology and industrial advantages in areas such as solar energy, wind energy, and nuclear power. Meanwhile, the geographical advantage of renewable energy resources in the Middle East provides the necessary conditions for relevant cooperation [6]. Under the impetus of the "Belt and Road" initiative, renewable energy cooperation between China and Middle Eastern countries such as Saudi Arabia, the UAE, and Egypt has steadily progressed.

3.4. Turmoil Leading to Energy "Price Wars"

The Middle East has long faced significant security challenges, including terrorism, religious conflicts, and ethnic tensions, which have resulted in frequent regional conflicts that threaten the region's oil industry chain and disrupt international oil market stability. The Russia-Ukraine conflict has exacerbated the tense global energy supply-demand situation.

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4. Strategies to Enhance Energy Price Competitiveness of Countries along the "Belt and Road"

4.1. Enhancing Development and Value-Addition of Energy Resource Industries

Leveraging existing resource foundations, deep processing of energy resource products should be pursued. The Middle East's oil, Central Asia's natural gas and uranium, South Asia's iron and copper, and Southeast Asia's natural rubber all represent local distinctive industries. Given the relatively low prices of primary energy resource products, industries are inevitably shifting toward deeper processing. Countries in East Asia and Western Europe have already completed or are near completion of industrialization, possessing advanced technologies and commercial experience in industries such as petrochemicals and metallurgy, which can support the upgrading of energy resource industries for countries along the "Belt and Road." Expanding the reach of industries and developing energy-related sectors will be beneficial [7]. Additionally, enhancing interconnectivity of energy infrastructure is important. Strengthening investment in oil and gas infrastructure, expanding oil and gas cooperation and pipeline construction among countries including China, Russia, Central Asia, and Gulf states, and establishing an interconnected oil and gas network will provide energy security for regional development.

4.2. Energy Resource Trade Cooperation Driving Comprehensive Collaboration

The "Belt and Road" construction relies on participation from countries along the route. Energy resources can serve as testbeds for cooperation, and progress in specific projects can prompt governments to engage in communication and coordination for macro policies and development planning. With energy resource commodities as the foundation, the overall economic and trade levels among countries along the route can be elevated. By exploring the trading potential of traditional primary products and expanding transactions related to energy resource products, recovery of bulk commodity trade can be stimulated. Moreover, energy resource project construction can drive international capacity cooperation. The "Belt and Road" energy resource development constitutes a new demand growth point, providing a fresh market for capacity cooperation and a key field for international manufacturing collaboration.

4.3. Strengthening Bargaining Power

The Middle East holds a pivotal geographic position, bridging two oceans, situated at the western endpoint and convergence of the "Belt and Road," and possessing abundant oil resources. With the United States reducing its reliance on Middle Eastern energy, China has become a significant consumer market for Middle Eastern energy resources. This is favorable for China. However, due to the previous practice of some oil-exporting countries in the Middle East imposing an "Asian premium" on exports to different regions [8], there is an urgent need for collaborative efforts among Asian countries to strengthen bargaining power. It is advisable to establish energy resource partnerships among countries along the "Belt and Road," initiate ministerial-level dialogues within this scope, engage in policy exchanges and coordination, and create necessary consensus agreements and policy environments for energy resource cooperation. Establishing an Asian bulk commodity trading market system will enhance the pricing discourse power of Asian countries over energy resource products. Efforts should be made to ensure the connectivity of the "Belt and Road" Economic Belt, enable interconnectivity among major nations, and build the strongest economic development and most promising energy diplomacy cooperation.

4.4. Political Dialogue for Resolving Middle East Complexity

Dialogue and consultation are the primary principles of China's engagement in Middle Eastern security affairs. Political dialogue is both a prerequisite for unraveling the complexities of the

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Middle East and a key factor in mitigating conflicts in the region [9]. China has played a constructive role in significant issues affecting the Middle East's fate and development, such as the Iran nuclear issue, Libya, and the Israel-Palestine conflict. Furthermore, China emphasizes enhancing its "proactiveness" in Middle Eastern security affairs and has charted an operational roadmap for peace in the Middle East based on concepts like the "new security perspective."

5. Conclusion

This paper initiated by delineating the energy status of China and major world countries, summarizing the energy resource characteristics of various nations. Combined with the present state of energy cooperation among countries along the "Belt and Road," the paper scientifically evaluated the factors influencing energy price fluctuations under the "Belt and Road" initiative. It established China's foreign energy cooperation system, effectively safeguarding stable energy prices. Synthesizing the analyses, the paper proposed measures to enhance price competitiveness. This study comprehensively analyzed the impact of the "Belt and Road" construction on energy prices in countries along the route amid the COVID-19 pandemic, holding significant guiding implications for the economic development of these nations. Building on this foundation, future research should further innovate and expand the study of energy price fluctuations' impact on developing countries. This approach will provide valuable insights and guidance for advancing the high-quality development of the "Belt and Road" initiative.

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