

# China's growing energy industry at crucial juncture

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Illustration: Liu Rui

The essential contrast in today's global economy is not between China as the second biggest economy, as a holder of one third of US public debt and the US as the world's biggest debtor. It is between the guiding concepts of government in the US and elsewhere. It could be the US that sinks the rest of the world, if we allow them to.

The US Tea Party has turned this fight into a struggle against the very notion of the federal government. The rancor and division we see daily in US political life is extremely depressing for the rest of us, especially, with the global financial economy still so vulnerable due to a lack of sound regulation.

China, the emerging countries and the rest of the world will suffer from US folly a while longer, but the tide is turning. While it is impossible to predict actual outcomes either in the US or the EU, where the domino effect of the debt crisis is spreading to Spain and Italy, China will find itself playing an increasingly crucial role whether it wants to or not.

But from the energy perspective, China has some crucial decisions to make. It is the most energy independent of the major powers, save perhaps for Russia. However, its energy imports reveal a real vulnerability. These are mainly oil and gas, in which it is unlikely to ever achieve self-sufficiency.

Its transport system is making an increasing call on oil imports as car ownership and truck transport increases exponentially, and gas is needed for space heating primarily in the severe northern winter. This latter is especially important if pollution is to be reduced in China's huge cities.

Energy imports are priced in US dollars, and even if the dollar is depreciating, making it relatively cheaper, the demand is so huge that the import bill becomes an increasingly serious issue. Oil producing countries will

not back down on prices, for the moment at least.

China does have plentiful coal reserves. It is likely to increase its output to 4 billion tons a year quite soon. This is causing the government some concern.

The best resources are used up first, with mines then having to be built in outlying provinces or going deeper in the central core, at greater cost and more risk to miners.

It is not easy to get the energy from the periphery to the eastern centers either, by road, rail or by wire. Going beyond 4 billion tons is not sustainable by any measure, economic or environmental.

And this comes at a time when coal can be used to produce oil products. Coal is the hydrocarbon most easily convertible into oil and gas. Hence it is the most flexible fuel, and can take over as the chemical industry feedstock if necessary.

If the coal industry cannot just expand forever, this means that China must grab the new Five-Year-Plan's aspirational guidelines with both hands and promote energy efficiency, conservation and a lower carbon economy for all its worth.

China is already investing more than the US in clean and renewable technology, because of its severe environmental challenges. If it can test its technologies rigorously, in managed markets at home, it can sell them to the rest of the world.

What is going to be crucial in the next few years in the global economy is for China to keep its nerve and champion its own core values, whether it is over US debt or over its own development path.

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