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Issue Article

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CHINESE AND GLOBAL MANAGEMENT OF RENEWABLE ENERGY: RISK AND RESOURCE SECURITY

***Abstract**: The article analyzed the geopolitical direction of China's development in the context of the establishment of the "new world order" and the country's risk. China's resource security policies related to the reshaping of the geopolitical map are analyzed. The study concluded that in the long term, a new bipolar balance will be established with the centers of power in the US and China.*

***Key words**: Country risk, the measurement of political risk, US and China, country-specific perspective, inappropriate economic policies, high political risk, key indicators of country risk.*
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Introduction

In the last few decades, Eurasia, Central Asia, Asia-Pacific (ATR), Africa and other regions have become an increasingly important part of the world economically and politically. The People's Republic of China (PRC) occupies a special place in world politics and in shaping the global political and economic climate.

Although China has close economic ties with the United States, it occupies an independent position on the international agenda.

In 1949, the PRC's declaration of independence was called "The Loss of China" in the West, and in 2016, the yuan received the status of a reserve currency. The rapid growth of the Chinese economy makes it necessary to analyze the prospects of China's international relations and the development of its competition with the United States in terms of global and regional hegemony[1].

In the context of developing globalization and the increasingly global nature of investment portfolios, the ability to consider country risk is important [2]. First of all, such consideration is necessary for investors of politically, economically and socially unstable developing markets (emerging markets), which are attractive to investors mainly from the point of view of obtaining high profits and achieving further diversification of the global investment portfolio.

The nature of the risk can be different and is determined by the underlying factors: political, economic, financial, social, etc. An investor may face political instability, foreign conflicts, corruption, civil unrest and wars, exchange rate controls, unexpected inflation, various defaults, expropriation of private capital, etc. The commonality of such phenomena must be taken into account in order to operate successfully in emerging markets.

For this purpose, the concept of "country risk" was introduced. At the moment, there is no clear definition of "country risk". Country risk includes separate elements of other types of external risks (political, sovereign, currency, etc.) and it is defined as an integral result of the interaction of international activity events and situations (political, economic, social, etc.) independently of the subject. The following definition of country risk can be given [3].

Country risk is the risk of financial loss in business transactions directly or indirectly related to international activities and cross-border movement of funds. It is determined by the current and prospective development conditions (political, economic, social, etc.) of a foreign country and the degree of influence of these conditions on the ability of customers or counterparties located in this country to fulfill their external obligations.

Risk management is a process and methodology necessary for the implementation of an investment strategy, and also implies the existence of certain organizational structures. The problem of risk management is the "risk-benefit" ratio and optimization of the organization according to the found optimal planning and business financing. Such management is the most important means of ensuring profitability, it is necessary to control the change of future expenses and income due to uncertainty factors, to influence the process of making management decisions. Without measuring risk, it is impossible to analyze the effectiveness of operations in the context of tools, customers, company divisions [4]. However, while demonstrating potential benefits, effective risk management simultaneously requires addressing a number of conceptual and practical challenges. First of all, it depends on the ability to quantify risks. In turn, measuring risk requires identifying both the uncertainty itself and its potential impact.

The measurement of political risk

I. Measurement of political risk

A. Country-specific perspective

B. Political stability

1. Measurement factors:

a. Frequency of change of government

b. Level of violence

c. Number of armed uprisings

d. Conflict with other countries and its level

Economic factors (Factors).

1. Indicators of political unrest

a. Strong inflation

b. Balance of payments deficit

c. Slow growth of GDP per capita.

2. Capital

a. Description:

b. Exporting the savings of the country's citizens due to the fear of capital security.

c. Measurement: Using the balance of payments account

d. S. Reasons for the withdrawal of capital

e. 1.) Inappropriate economic policies.

f. 2.) Devaluation (lat. de "decreasing" + lat. valeo "gains importance" devaluation of the national currency compared to free currencies in systems with a fixed exchange rate established by monetary authorities) Expectation of devaluation)

Country risk components

National currency devaluations, failure of economic plans, legislative changes, defaults and other financial shocks (shocks) are difficult to predict and adversely affect the portfolios of global investors and often determine the difference between investing in capital markets. developed and developing countries [5].

Indeed, for example, according to the opinion of managers of multinational companies, the relative importance of political risks (as a rule, the main component of country risk), according to the results of a survey conducted among managers for developing and developed countries. 80 Multinational Companies (1982) ranking political risk by category - from highest (1) to lowest (6). [6].

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Economic factors (Factors)

1. Indicators of political unrest:

a. Strong inflation;

b. Balance of payments deficit;

c. Slow growth of GDP per capita.

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a. Description;

b. Exporting the savings of the country's citizens due to the fear of capital security;

c. Measurement: Using the balance of payments account;

d. S. Reasons for the withdrawal of capital;

e. Inappropriate economic policies.

f. Devaluation (lat. de "decreasing" + lat. valeo "gains importance" devaluation of the national currency compared to free currencies in systems with a fixed exchange rate established by monetary authorities) Expectation of devaluation)

g. High political risk (High political risk).

II. Economic and political factors

Focus: How well is the country doing economically?

A. Fiscal irresponsibility - high government deficit

B. Monetary instability

C. Controlled exchange rate system-currency is usually overvalued

D. Government wasteful spending-failure to service foreign debt

E. Economic and political factors

F. D. Resource Base (Resource Base)

G. - lack of a strong work ethic

H. Country risk and ability to adapt to external shocks

I. 1. How do external shocks affect:

J. How well a nation responds varies

Key Indicators of Country Risk

a. Relative size of public debt

b. Money expansion (Money expansion)

c. Existence of state-imposed barriers to market relations

d. Key indicators of country risk (continued)

e. The level of tax rates
f. Number of state-owned firms (enterprises).
g. Political and financial responsibility
h. Amount and level of corruption

China's resource security is reshaping the geopolitical map

China's economic prospects for the next 10-15 years China is rightfully considered to be the main "factory of the world" and the main contender for achieving undeniable dominance in the world economy. Formally, this idea is correct. Although in terms of nominal GDP, China ($14.72 trillion for 2020) is still inferior to the United States ($20.6 trillion), in terms of purchasing power parity, the Chinese economy ($24.142 trillion) has already undeniably surpassed the American one. Its share in the total world economy reached 18.33% while the United States' share is 15.9%. Next come: India – 6.76%, Japan – 4.03%, and Germany – 3.41%. Russia ranks sixth in this ranking (3.11%). Although, if we take into account the results of the European Union, as an economic union with a total GDP at PPP of $16.1 trillion, it must be recognized as third place. China also occupies a leading position in terms of foreign trade volume. At the end of 2020, it amounted to $4.65 trillion (an increase of 1.5% compared to the 2019 result). Including exports of 2.59 trillion dollars (an increase of 3.6%), imports of 2.06 trillion. dollars (decrease by 1.1%). The foreign trade balance is positive – $535 billion or 11.5% of the country's foreign trade turnover. Against the backdrop of a total US foreign trade turnover of 3.835 trillion ($1.43 trillion – exports, 2.405 trillion – imports, compared to 2019, a drop of 13.01% and 6.31%, respectively), China has already achieved clear leadership, which will only ramp up. Which is already causing rapidly expanding economic and geopolitical tensions in relations with the United States. However, the effect of large numbers remains behind the scenes, inattention to which leads to a distortion of the final conclusions. The Chinese share in the world economy is growing not because Beijing is trying with all its might to "buy up the whole world." This result is a consequence of the increase in the size of China's own economic weight, while the share of foreign trade in the country's final GDP, on the contrary, is declining. The stage of achieving the status of "factory of the world" in China began in 1970, when foreign trade formed only 2.52% of national GDP, and in 1987 it reached 12.1%, then 21.5 (1994), and at its peak at the end of 2006 amounted to 35.6%. Further growth continued only in absolute figures of foreign trade turnover, calculated in monetary or physical terms. While in the structure of GDP its contribution began to steadily decline. In 2010, it formed only 26.1%, in 2018 – 19.5%, and at the end of 2020 it dropped even more – to 18.1%. On the one hand, this confirms the statements of the Chinese leadership about increasing the level of material well-being of the country's population and its success in defeating poverty. The average statistical nominal monthly income per capita in China in 2018 was $4,161, real - $3,850, which is 1.38 times higher than the level in 2015 and 2 times higher than in 2011. But on the other hand, this means an accelerating transfer of the bulk of the Chinese economy from the external to the domestic market. In other words, China continues to be the largest "factory on the planet," but it is starting to work more and more for its own population, and not to meet the needs of residents of foreign countries. Exports in the average Chinese enterprise form only 20% of final sales, and this share continues to decline. However, the geographical structure of China's foreign trade has also undergone significant changes over the past decade. If in the middle of the first decade of the current century more than a quarter, and for some product groups more than 40%, of Chinese exports went to the United States, and another 15-18% to European countries, then in 2020 only 17.4% went to the United States Chinese goods and services. But the second largest export partner of China was Hong Kong (10.5%), the third was Japan (5.5%), the fourth was Vietnam (4.39%), the fifth was South Korea (4.34%). The rest of Asia formed 2.32%, which is slightly less than the share of "rich" Germany (3.35%), the Netherlands (3.04%) or Britain (2.8%). Thus, it is clear that, while continuing to remain the largest player in international markets, China is clearly demonstrating a tendency to increase its "coverage" of Asian countries, and a gradual cooling of interest in the until recently key world markets of Europe and America. Strategic program of the Belt and Road The conclusion of the previous section is confirmed by a noticeable decrease in the media activity of the PRC in the direction of supporting and "pushing" the program for the formation of a transcontinental logistics corridor to Europe. [7].

If China has a weakness, it is its dependence on external natural resources. Filling this gap by diversifying its hydrocarbon and mineral supply chains has become a strategic priority as Beijing pursues self-sufficiency. As China moves the "geopolitical sands" to do so, the consequences are far-reaching, not only for its suppliers of strategic commodities, but also for the mining companies that have invested heavily in them [8].

Some data suggests that China is turning to more authoritarian regimes that represent more stability in its supply chains than democracies that are or may be hostile to Beijing. But it also uses its huge market as a source of diplomatic influence. By diversifying resources, China will be in a better position to leverage trade with geopolitical rivals, while increasing economic dependence on new and existing partners.

China takes a comprehensive approach to import diversification

China's primary resource import structure is highly concentrated in a small group of trading partners, and Australia is a major exception among them.

It is known that Australia is a close ally of the US, but remains a major supplier of strategic resources such as coal, iron ore and SPG (compressed natural gas).

According to the conclusions of US research centers, China is not as industrially and technologically developed as others think, so it does not have the ability to independently absorb new technologies. Proof of this can be observed in the example of the large amount of new weapons that China buys from Russia every year. The US, on the other hand, is rapidly developing new military technologies.

So, although China has expanded its economic and political influence in Asia, it cannot pose a direct threat to US interests in the region. However, the US still continues to use the lofty fiction of the "China threat" to increase its military power in the region. Professor Pao-yu Tsing said that China's rise as a force protecting the interests of the Third World, that is, developing countries and peoples, is far from the truth.

By insisting that trade relations are mutually beneficial, China is only building its image as a "positive power". The foreign policy pursued by the leaders in Beijing is not in reality. Currently, China wants to convince the world community that it is a country based on socialist principles. However, in the last two decades, it has become clear that the reforms of the capitalist form carried out in China are only in China's interests and are aimed at increasing the country's gross domestic product. China's capitalist economy, which is developing dynamically and rapidly, is mainly troubled by two problems: competition for natural resources and the issue of selling its products in consumer markets. While China is fueling the core of its economic growth strategy through increased exports, its demand for energy and raw materials is also automatically increasing. From 1990 to 2001, China's demand for oil consumption increased by 100%. In 2005, China's oil demand surpassed that of Japan, and China became the second largest oil consumer in the world after the United States. According to some data, China's domestic oil reserves will last another 14 years. It is this message that prompts official Beijing to be active in opening the way to new sources of oil. It is for this purpose that China has signed oil contracts with many countries. Including Indonesia, Kazakhstan and even geographically distant countries like Sudan, Ecuador, Colombia. As a result, China's economic system is forced to compete with other major countries - USA, Japan, South Korea and India - depending on oil imports. China has also launched geological exploration and drilling operations in countries rich in oil reserves. According to the agreement signed between China and the United States on October 4, 1994, China has committed itself to the non-proliferation of ballistic missiles. In return, the US will lift sanctions on the supply of high technology to China.

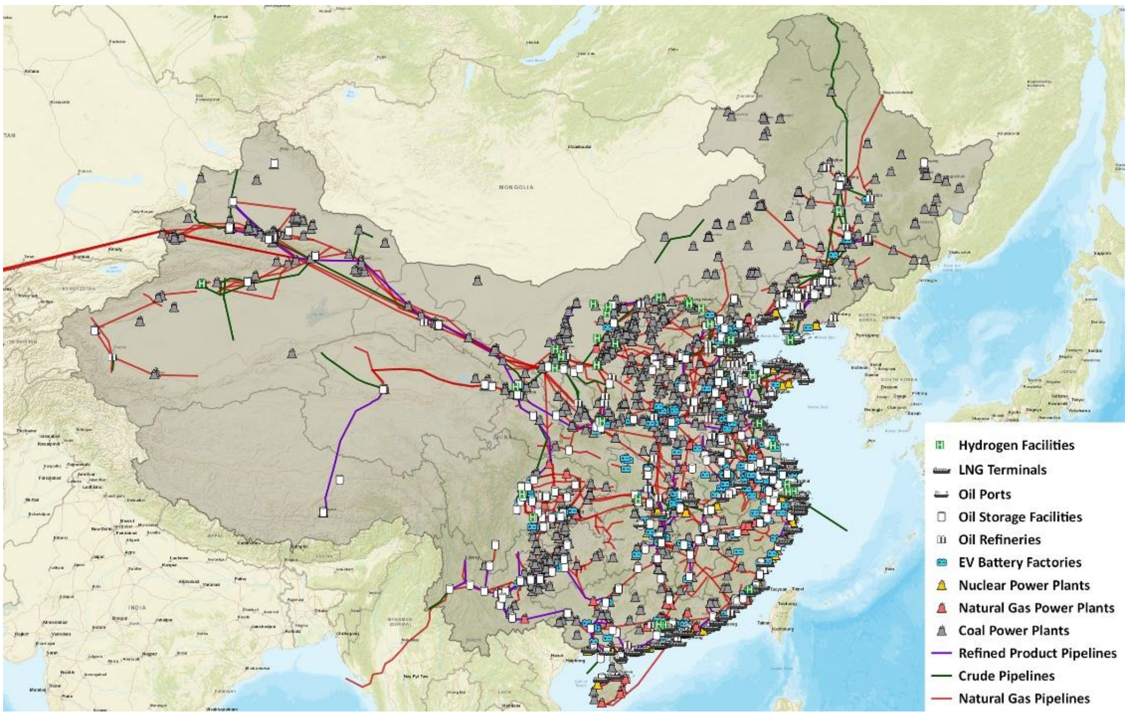

Figure 1. Baker Institute snapshot of China's energy map.
Map compiled by Elsie Hung, Center for Energy Research.

As of April 2023, China's energy map had the following overall coverage by infrastructure type:

- Oil pipelines: 101 pipelines with a total length of 25,943 km and a total throughput of 23 million barrels per day (MBD);
- Product pipelines: 89 oil pipelines with a total network length of 25,574 km and a total throughput capacity of 7.9 million barrels per day;
- Oil refineries: 212 facilities with a refining capacity of 23.1 million barrels per day;
- Oil storage facilities: 299 facilities with a total capacity of approximately 1.23 billion barrels (crude oil: 83 facilities with a capacity of 871.9 million barrels; petroleum products: 216 facilities with a capacity of 365.2 million barrels);
- Oil ports: 64 berths for oil tankers with a total capacity of 15.5 million barrels per day;
- Gas pipelines: 414 gas pipelines totaling 110,433 km and a total capacity of 145 billion cubic feet per day (BCFD);
- LNG terminals: 78 facilities with a capacity of 260 million tons per year. Currently, 26 facilities are operating;
- Coal-fired power plants: 3,703 power plants with a total installed capacity of 1,458 GW, of which 1,093 GW are in operation;
- Nuclear power plants: 151 reactors with a total installed capacity of 170 GW. 57 GW are in operation;
- Gas power plants: 243 power plants with a total installed capacity of 168 GW. 113 GW are in operation;
- Electric vehicle battery plants: 319 facilities, 243 in operation, 56 under construction (greenfield) and 20 announced. This means that the total production capacity is 2676 GWh, of which 1445 GWh is in operation; And Hydrogen facilities: 37 facilities, 23 of which are in operation.

Given the deterioration of bilateral relations and China's restrictions on coal imports from Australia in recent years, we believe that Beijing has identified its dependence on Australian resources as one area in need of diversification [9].

China falls into four strategies on how to diversify its imports and achieve other resource security priorities.

1. Diversification of suppliers:

Apart from cordial relations with China, political stability and regime type are the two main non-commercial factors that Beijing always considers when diversifying its supply.

Most of China's key resource providers show that they are politically stable, as reflected in their medium to low risk rating in the Government Stability Index for the first quarter of 2021[10].

The Beijing government prefers suppliers from stable authoritarian regimes to democracies, which are subject to frequent change and possible policy changes.

Autocracy is a system of government that is convenient and can influence him.

Beijing can take advantage of this when it comes to oil and gas imports, as most major hydrocarbon producers such as Saudi Arabia and Russia are either autocracies or illiberal democracies.

2. Diversification of investments:

China is seeking to strengthen its control over global supply chains through foreign investment and partnerships with major international companies. Beijing has supported Chinese state-owned enterprises since the late 1990s as they seek to "go global" and control overseas resource bases. For example, it shows that the number of Chinese-owned base metals and gold mining companies in Oceania has risen from zero in 2000 to 59 in 2020. This approach aims to increase the share of Chinese-owned resources in China's total imports.

3. Diversification of transit routes:

Geopolitical instability in the Middle East and the South China Sea has prompted China to diversify its maritime imports into land-based imports over the past decade, as evidenced by its large investments in energy pipelines with Russia and Central Asia. The Myanmar-China oil and gas pipeline is another example of China's attempt to reduce its dependence on strategic links, particularly the sea route through the Straits of Malacca.

4. Diversification of resources:

For goods that do not have an alternative supplier, Beijing is actively seeking replacement strategies. One approach is to increase imports of steel ore for feedstock use to reduce dependence on imported Australian iron ore.

Increasing resource security has major geopolitical implications

By diversifying its suppliers of natural resources, China is increasingly reducing key vulnerabilities and increasing its geopolitical influence. Beijing sees three areas in particular that tip the balance in its favor.

Beijing uses trade as a tool of coercion

Through measures such as import restrictions, China will be able to use its huge market as diplomatic leverage in the great power rivalry. Resource companies located in countries with frosty diplomatic relations with Beijing may fall victim to economic pressure. This diplomatic tool is most effective when applied to goods where China has a diversified import profile and the target country is dependent on the Chinese market.

Closer Sino-Russian ties will balance the West.

A much closer Sino-Russian relationship will balance against the West

Despite a history of mutual mistrust, the economic and political interests of Russia and China have converged over the past decade. The deterioration of relations with the West has prompted the two countries to cooperate closely in many areas, especially in the field of energy. Increased energy imports from Russia support both Beijing's import diversification strategy and Moscow's "pivot to Asia."

Chinese-backed multilateral initiatives benefit Belt and Road partners:

Beijing's diversification strategy increases Chinese investment and trade with selected countries, mainly Belt and Road partners, which in turn increases their economic dependence on China. Financing terms such as lower interest rates and reduced ESG requirements are more attractive to countries prioritizing a quick economic recovery than a green post-Covid-19 recovery. These partnerships will reshape multilateral relations with a China-centric economic order [11].

Companies and investors await Beijing's diplomatic moves...

Companies and investors in the line of fire

Geopolitical tensions are not likely to subside anytime soon, so China is stepping up its efforts to reduce its reliance on adversary suppliers' resources. Australia's ban on coal imports has been a clear example of this, but others are likely to follow suit, with significant implications for global commodity trade and the geopolitical landscape. Companies and investors expect diplomatic moves from Beijing and should prepare accordingly.

Summary.

In recent years, Russia and China have been implementing two geopolitical strategies related to the Eurasian region through the trade and energy routes passing through Central Asia in order to develop economic cooperation between the East and the West.

As a result of the research, the following conclusions were drawn.

1. In the post-bipolar period, international relations are characterized by the emergence of new large entities with both economic potential and political ambitions. In turn, the internal problems of the hegemonic state - the United States of America - force them to reduce their foreign political activity in strategic regions of the world.

2. Based on the criteria of hegemony proposed by Z. Brzezinski, it can be said that China can become a regional hegemon in the short term because it has the necessary potential and has a strategically favorable location.

3. China's national interests are to achieve regional hegemony that can lead to a global scale through the implementation of "soft power" policy, ensuring the economic security of the state, as well as the development of strategic cooperation with EOII and ASEAN.

4. To implement China's foreign policy strategy, it should address the issues that threaten national security.

In the long run, a new bipolar balance can be established, taking into account the antagonistic geopolitical interests of the US and China.

Several scenarios were selected for the development of the geopolitical and geoeconomic situation in the region. It should be noted that both positive and negative scenarios can appear in each model.

In our opinion, the modern geopolitical position of Central Asia was formed under the influence of the West, Russia and China, and such a geopolitical structure based on these power centers will remain relevant in the future.

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