Shale Gas Is America's Geopolitical Trump Card

Russia's $400 billion natural-gas deal with China pales beside the significance of U.S. drilling innovations.

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June 8, 2014 6:26 p.m. ET

When Russia and China announced a $400 billion deal last month for Russia to supply China with 38 billion cubic meters of natural gas annually for three decades, some analysts heralded it as a tectonic geopolitical shift.

Instead, Vladimir's Putin's haste to sign a deal that had been in the making for more than a decade confirmed his country's political weakness. Despite being buoyed by high energy prices in the first decade of this century, Russia is in decline. Demographically it is shrinking; it has severe health problems (the average Russian male dies in his early 60s); and it is a "one-crop economy" heavily dependent on energy exports. Russia needs reforms to build a diversified, entrepreneurial economy, but its actions in Ukraine have brought on sanctions that weaken its access to Western ideas and technology. Becoming China's gas station does nothing to reverse this trend.

The real geopolitical shift is the shale-energy revolution that took off in the past decade. While the technologies of horizontal drilling and hydraulic fracturing are not new, their pioneering application to shale rock is largely a product of American entrepreneurship in the past decade.

Ten years ago, many experts were speaking of "peak oil"—the idea that even reserves in Saudi Arabia had topped off. The U.S. was regarded as increasingly dependent on energy imports and was building terminals to import high-priced liquefied natural gas. Instead, North America is now building terminals to export its low-cost LNG, and the continent is expected to be self-sufficient in energy in the 2020s, according to a broad consensus of energy experts. The Energy Department estimates that the country has 25 trillion cubic meters of technically recoverable resources of shale gas, which when combined with other oil-and-gas resources could last for two centuries.

The shale revolution has a number of implications for American foreign policy. Shale-energy production boosts the economy and produces more jobs. Reducing imports helps the balance of payments. New tax revenues ease government budgets. Cheaper energy makes industry more competitive internationally, particularly energy-intensive industries like petrochemicals, aluminum, steel and others.
There are also domestic political effects. One is psychological. For some time, many people at home and abroad have bought into the myth of American decline. Increasing dependence on energy imports was often cited as evidence. The shale revolution changes that dependence and demonstrates the combination of entrepreneurship, property rights and capital markets that are this country's underlying strength.

Skeptics have argued that lowered dependence on energy imports will cause the U.S. to disengage from the Middle East. This misreads the economics of energy. A major disruption such as a war or terrorist attack that stopped the flow of oil and gas through the Strait of Hormuz would drive prices to very high levels in America and among our allies in Europe and Japan. Moreover, the U.S. has many interests other than oil in the region, including nonproliferation of nuclear weapons, protection of Israel, human rights and counterterrorism.

As for the costs of maintaining our Fifth Fleet in the region, many bases are paid for by host countries, and the marginal costs of keeping naval resources there instead of elsewhere do not add greatly to the budget. The U.S. may be cautious about overextension in the Middle East, but that is more the product of experience with the costly invasion of Iraq and the general turmoil of the Arab revolutions rather than illusions that shale produces political "energy independence." The ability of the U.S. to use oil sanctions to bring Iran to the bargaining table on nuclear issues depended not only on Saudi willingness to make up the million barrels of oil per day that Iran lost, but also on the general expectations that were created by the shale revolution.

Other benefits of the shale revolution for American foreign policy include the diminishing ability of countries like Venezuela to purchase votes in the U.N. and regional organizations of small Caribbean states by shipments of oil, and, if the government will approve more exports of liquefied natural gas, the eventual reduction of Russia's ability to coerce its neighbors by threats to cut off gas supplies. In short, there has been a tectonic shift in the geopolitics of energy, but it was not the Russia-China gas pipeline deal.

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