

East Asia Energy Strategy: Conflict or Cooperation?

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Abstract: Compared to other regions in the world such as Europe and North America, Energy cooperation among East Asian countries is still in the initial stage of consultation. This can mean that East Asian cooperation is faced with challenges; it can also project chances and possibilities. By focusing on the energy issue, this article analyzes the energy structure in East Asia and the reasons behind the delayed cooperation; it also explores the urgency, reality and possibility of energy cooperation in East Asia.

East Asia comprises two sub-regions: Northeast Asia and Southeast Asia. Northeast Asia includes the five countries of China, Japan, South Korea, North Korea and Mongolia, while Southeast Asia refers to the 10 member countries of ASEAN (Association of Southeast Asian Nations). East Asia is geographically connected through both land and the ocean. The economic relations within the region are also tight. East Asian countries share similar traditions and values and have common interests in maintaining peace in the region, promoting development of the region, and facing various challenges from other regions. However, a noticeable phenomenon or problem is, in the background of economic globalization and integration of regional economies, cooperation within East Asia, whether in economy, politics or security, is far behind other regions such as Europe and North America, and is still in the initial stage of consultation. This indicates that East Asian cooperation is faced with challenges as well as opportunities and possibilities. By focusing on the energy issue, this article explores the urgency, reality and possibility of energy cooperation in East Asia so as to show a big picture in a nutshell and to solicit valuable comments.

Energy Structure in East Asia

The energy structure in East Asia can be summarized as: 1. A shortage of self-supply, a large demand for imports, and unbalanced imports and consumption; 2. Low security and hidden perils; 3. An absence of cooperation and great potential.

1. A shortage of self-supply, a large demand for imports, and unbalanced imports and consumption

Except for Brunei, Vietnam and Indonesia, all other countries in East Asia are oil importers. China produces the largest amount of crude oil in the region, but since 1993, China has become an oil importer. With the rapid development of economy in East Asian countries, oil imports and consumptions have grown year on year. From 1993 to 2003, energy consumption in China, Japan and South Korea went up 3.5 percent each year, of which consumption of petroleum grew 2.98 percent annually and natural gas increased 5.99 percent. At present, energy consumption in Northeast Asia has surpassed

that of the 15 EU countries in combination and approached that of the U.S. In 2003, energy consumption in the world was equivalent to 9.74 billion tons of oil. While oil consumption in East Asia accounted for 27 percent of the total of the world, oil production in East Asia only takes up 9 percent of the world's total amount. The local oil output is far from meeting the local demand.

Meanwhile, oil imports do not satisfy oil consumptions in East Asia. This is a prominent problem for China, Japan and South Korea. Japan is traditionally a large oil importer, with its imports always ranking number two in the world. Japan imported nearly 263 million tons of oil in 2003. South Korea relies completely on oil imports. South Korea imported 106 million tons of oil in 2003. Although China had remained the fifth largest oil producer until 2002, the growth in production had been far from satisfying the increase in demand. In 2003, China's oil output fell behind that of Mexico and took the sixth position in the world, but its oil imports (incl. Taiwan and Hongkong, same thereafter) topped 152 million tons. The year of 2003 also saw a combined oil imports of 497 million tons in China, Japan and South Korea, accounting for 57.6 percent of the 863 million tons imported by East Asian countries and 22 percent of the 2.26 billion tons of traded oil in the world. In the past decade, energy demand in East Asia has increased continually in proportion to the total energy demand in the world and the ratio is approaching one fifth. More importantly, the demand for energy in Japan, Mainland China and South Korea takes up over 98 percent of the total demand in Northeast Asia. (Source: BP World Energy Statistics, 2004)

2. Low security and many hidden perils

Petroleum is not only a commodity, but also an important strategic material. It is thus necessary to take both economic and political viewpoints when analyzing oil. Historically, the supply and pricing of oil is not only controlled by economic rules, it is more associated with political factors, such as changes of situation in oil producing countries, regional war, oil policy change in one country, joint price hike or reduction of output and so on. Due to the asymmetry between producing countries and consuming countries, producing countries often use oil as a weapon or a political card in foreign relations, creating substantial impact on oil consuming countries and even the entire world. For example, on October 6, 1973, the Arab-Israeli War broke out. The Organization of the Petroleum Exporting Countries (OPEC) decided to use oil as a weapon to fight against Israel and its supporters. They raised oil price and reduced oil output, causing a crisis in oil supply. In the three-plus months, oil price quadrupled, jumping from 3.11 dollars per barrel in October 1973 to 11.65 dollars in January 1974. It triggered the first oil crisis, which in turn set off the most severe global economic crisis after the World War II. Oil is a strategic material that is associated with a country's national security, international status and social stability. In the international arena, oil is often used as a strategic weapon to threaten or control other countries so as to achieve political, economic or diplomatic objectives. Therefore, oil is not an ordinary commodity but a strategic material with political implications. Behind oil supply and oil price change, there is often an invisible political hand. With the increasing extent of economic

globalization, non-traditional and traditional security factors interweave, which makes it very hard to project abrupt incidents. This has created unpredictable impacts on oil production and consumption in the world.

There are hidden perils with regard to oil security in East Asia. Generally speaking, a country's oil security includes the security of oil supply base and the security of oil transport. These two aspects are closely related. Multiple sources for oil imports generate multiple means of oil transportation, while multiple means of transportation and the increase of transport capacity can become a momentum and one of the conditions for expanding oil supply bases. There are two primary means of oil transport: by land or by sea. By land, there are pipeline transport and rail transport, which are relatively safe compared to sea transport. However, sea transport is largely relied on for oil transport. The major oil consumption countries in East Asia, like China, Japan and South Korea, have severe oil security problem as these countries are affected much by external factors. First, due to the shortage of self-supply, these countries rely heavily on the Middle East. Consumption of oil in Asia claims nearly 60 percent of the total exports of the Middle East, and three-fourths of the oil consumed in China, Japan, and South Korea comes from the Middle East. According to estimates, imports from the Middle East by China, Japan, and South Korea accounted for 51 percent, 87 percent, and 79 percent, respectively, of their totals, much higher than the 23.4 percent of the U.S. and 14 percent of the Europe. Meanwhile, the Middle East is an area with ethnical and religious conflicts. Since the War in Iraq, the United States has tightened its control of the area. After occupying Iraq, the second largest oil producer in the world, the U.S. is glaring at Iran, another large oil producer, like a tiger eyeing its prey, making it more difficult to predict the Middle East countries' oil supply to East Asia. Second, as sea transport is the major means for oil transport, the reliance on imports from the Middle East leads to reliance on the Strait of Malacca. The estimated reliance on the Strait of Malacca by China, Japan, and South Korea is 85.7 percent, 90.6 percent and 87.3 percent, respectively. In recent years, terrorist and pirate activities are rampant, severely threatening the security of sea transport.

3. Low level of cooperation and high potentials

There is little Energy cooperation in East Asia, which is manifested in several aspects. First, there is no consensus within the region on energy cooperation and inter-competition is intensive. In light of the oil security problem, East Asian countries, especially large importing and consuming countries, are seeking multiple oil supply sources and multiple means of oil transport. However, it is yet to find a way to engage in energy cooperation among these countries, and cooperation, if any, is still in the stage of initial consultation and discussion among governments, enterprises, scholars and non-government organizations. A more damaging fact is that the large importers are not only standing alone, they are competing intensively with each other. For example, in order to fight for oil imports from Russia, Japan competes with the conception "the higher the cost incurred to China, the better" rather than "the higher the profit Japan earns, the better" and is ready to compete with China at all costs, which is completely a primitive

way of competition. There are other disputes in East Asia, like the Sino-Japan dispute on the natural gas field at East Sea, and the dispute on resources at South China Sea between China and some ASEAN countries. These conflicts, along with territorial problems, dispute on history, Japan's effort to join the United Nations Security Council, have become a significant barrier to cooperation in East Asia.

Second, East Asia has not made a concerted effort and occupies therefore only a weak position in the world in terms of energy. In order to prevent malicious competition, to coordinate oil policies and actions, to protect common interests, and more importantly, to wipe out control by western powers, oil producers including Iraq, Iran, Kuwait, Saudi Arabia and Venezuela announced the launch of the Organization of the Petroleum Exporting Countries (OPEC) in September 1960. The establishment and effective operation of OPEC have protected the interests of oil producers. It has become the best way to coordinate member countries' oil policies and protect their individual and integrative interests. On November 15, 1974, the member countries of the Organization of Economic Cooperation and Development (OECD) approved the decision in Paris about establishing the International Energy Agency (IEA). Cooperation among the IEA member countries includes: adjusting member countries' policies toward oil crisis, developing oil self-supply abilities, adopting measures to conserve oil, reinforcing long-term cooperation to reduce reliance on imports, establishing a system for oil-sharing during oil crisis and so on. The launch of the IEA has allowed industrialized countries, which are often large oil consumption countries, to negotiate and contend with OPEC and to avoid malicious competition among oil importing countries, which is conducive to protecting the common interests of oil importers and maintaining the stability of the international oil market. In East Asia, however, concerted energy strategies are absent due to the lack of energy cooperation mechanism in the region. As a result, East Asia has not garnered a position internationally that can match its amount of oil imports. This is proved by the fact that East Asian countries are less able to influence oil prices than European countries and the U.S. Since 1992, oil price in Asia has been between 1 and 1.5 dollar higher than in Europe and the U.S. The existence of this "marginal price" has made Asian oil importing countries to pay between 5 to 10 billion dollars each year to oil producers. This indicates that it is urgent for East Asian countries to cooperate; it also projects great potentials for cooperation.

Reasons behind the delayed cooperation

In analyzing energy cooperation in East Asia, it is necessary to consider the special characteristics of oil and to analyze it from both economic and international political points of views.

1. The unstable relations among East Asian countries, especially between Japan and other countries, is the fundamental reason for the delayed energy cooperation in East Asia.

Since the Second World War, Japan has never truly felt regretful over its war behaviors as Germany. The country has often caused anger and demonstrations in other

East Asian countries by hiding and even beautifying its war crimes in history textbooks, and its cabinet and Parliament members worshipping the war dead in the Yasukuni Shrine. In recent years, Sino-Japan relations are hot economically but cool politically, and this is to a large extent attributed to the historically piled-up grievances. In addition, East Asian countries also have territorial disputes, such as the dispute on Diaoyu Island between China and Japan, the dispute between South Korea and Japan over the islands known as Takeshima in Japanese and as Dokdo in Korean, and the dispute over Nansha Islands between China and some ASEAN countries. Moreover, there are territorial water demarcation problem between China and Japan at East Sea, between China and some ASEAN countries at South China Sea. In recent years, Japan constantly took aggressive actions to trigger territorial disputes with China, Russia and South Korea, causing its relations with these countries to cool down. In April 2005, Japan approved a textbook that specifies its sovereignty over the disputed islands. These historical problems and territorial disputes are interwoven with national sentiments, ideologies, and national interests of various countries in the region, and have become a large barrier to promoting energy cooperation in East Asia. Because of this lack of trust, East Asian countries can hardly sit down calmly to discuss energy cooperation.

2. Leadership has never been established, resulting in an absence of government support for cooperation

Let's take a look at Europe. France and Germany have dissolved a century's grievances and their cooperation has become an engine to promote European integration. In East Asia, however, there are old problems and new disputes as described above. Nevertheless, they do not constitute the main reason why there is no leadership for energy cooperation in East Asia. The main reason lies in that Japan has a different direction for growth and a different strategy in foreign affairs from other countries like China and South Korea. Japan has never been able to participate in cooperation in East Asia on equal footing with other countries but has attached more importance to Europe and the U.S. On issues related to East Asia, Japan tends to "fight alone." By the end of the 19th century, Japan adopted the policy of "severing from Asia and joining Europe." It accepted the western powers' idea of invasion and established a diplomatic strategy of lording it over Asia, causing catastrophes to other countries in the region. Since the Second World War, Japan went through defeat, being occupied and after-war reforms and it adopted the new conception of "severing from Asia and joining the U.S." It developed rapidly under the protection of the U.S. Recently, Japan is even more formidable toward its Asian neighbors. The fundamental reason is its diplomatic conception of "body in Asia but heart in the U.S." Japan wants to control Asia and become the lord of East Asia by holding the U.S. dear. In the eyes of the Japanese government, before the Second World War, other countries in East Asia needed Japan to "set them free"; after the Second World War, they need the "suppression" by Japan. This is why that in its attempt to enter the United Nations Security Council, Japan makes efforts in all other areas of the world but East Asia.

Japan's arrogance is most evident in its reaction toward China's development. The Japanese think that since the Meiji Restoration, Japan has been the strongest country in Asia. In the Second World War, Japan claimed itself to be the "liberator" of Asian countries – "liberating" them from the control of Europe and the U.S. After the war, Japan rapidly grew to become the second largest economy in the world and the economic leader in Asia. Since the 1980s, Japan entered a period of economic stagnation while at the same time, China has maintained a high growth rate. Although China's GDP is only one fourth of that of Japan at present, Japan seems to feel that the 150 years of economic leadership may be replaced by China soon. In reaction, Japan has taken two measures. First, to further enhance its strength. While maintaining its position as an economic power, Japan is seeking to enter the UN Security Council and to become a political power so as to raise its international status and augment its international influence. Second, to adopt an arduous attitude and to strengthen its competition with South Korea and China, especially in such areas as energy. This explains why Japan, without any feasibility analysis and technological preparation, paid an extremely high price to persuade Russia to set aside its construction of oil pipeline to China but at the same time, the pipeline project between Russia and Japan is not launched, either. If Japan can prevent China from obtaining oil from Russia, while China's risk in the Middle East is not diminished, China will face a huge oil security problem. As a result, China's economic development would be restrained, as the country would have to invest more in energy supply.

3. The U.S. control of global energy resources – an external factor that must be considered

Lording it over the world is the U.S.' guide of action. Reinforcing its control of global energy resources is a way for the U.S. to contain other countries' challenges. To reinforce its control of oil production, the U.S. initiated the Iraqi War and fought with Russia for oil at the Caspian Sea. In its control of oil transport, the U.S. has the world's strongest navy. Recently there was news that the U.S. attempted to station its troops at the Malacca Strait by claiming its help with fighting terrorists and pirates, but was declined by Singapore and other countries. In East Asia, both Japan and South Korea are U.S. allies; they would have to consider the U.S. when energy cooperation mechanism is being established.

4. East Asian countries differ in their need for establishing energy cooperation mechanism

Energy cooperation is more urgent for China and South Korea but not so urgent for Japan. Although Japan relies on oil imports completely, the diligent and astute Japanese people have established a secure and almost perfect oil import system. Japan has maintained good relations with the Middle East countries. Relying on the U.S.-Japan military alliance and its own strong maritime self-defense force, Japan's sea transport of oil is more secure than that in China. Almost all oil tankers that transport oil to Japan are owned by Japan itself and each of them keeps contact with Japanese mainland so as to react to emergencies in time. Japan is also a member of the IEA, which adds an

additional insurance for its oil supply. Therefore, as the current oil market is relatively stable and the oil supply is relatively adequate, Japan has enough oil supply despite its shortage of oil resources. Thus Japan does not have an urgent need for seeking multi-lateral oil cooperation with other East Asian countries. The country, however, does not want to be excluded from any such cooperation, either.

Possibility and Reality of East Asia Energy Cooperation

Despite the disadvantages, establishing multi-lateral energy cooperation in East Asia is the general trend, and there are also favorable conditions.

1. Geographically, there are natural advantages for East Asia energy cooperation

In terms of oil supply, Russia can become one of the important oil supply bases in East Asia in addition to the Middle East. Estimates show that oil deposits in Russia makes up 6 percent of the world's total amount. At present, the annual oil output in Russia is over 300 million tons, following Saudi Arabia and ranking number two in the world. The rich oil and natural gas resources and the convenient geographic location have made Russia one of the best oil suppliers that can help guarantee energy security of East Asian countries. Oil and natural gas imports from Russia can decrease a country's reliance on the Middle East and avoid the difficulties and risks involved in oil transport, thereby allowing the cost of utilizing oil and natural gas to fall. The energy industry is a pillar industry in Russia and exports of energy resources provide a key support to Russia's economic growth. As Russia needs to expand energy exports so as to fuel its economic development, energy cooperation between East Asia and Russia is a win-win situation and has good prospect.

From the viewpoint of oil transport, the security of the Malacca Strait is key to the oil security in East Asia because the countries rely heavily on the Middle East for oil supply. At present, the Malacca Strait is jointly managed by Singapore, Malaysia, and Indonesia. If the multilateral energy cooperation in East Asia were formed, other countries in the region could strengthen cooperation with the three countries. They can jointly crack down on terrorists and pirates, lower onshore transport danger, and protect the common interests of a safe oil transport on the ocean and the region's security and stability.

2. The rapid economic development within the region provides solid foundation and positive conditions for East Asia energy cooperation

With the rapid economic development in recent years, East Asian countries rely more on each other for trade and investment and have increasingly close economic relations. The expanded economic relations result in expanded common interests regardless of political disagreements. At present, the combined GDP of China, Japan, South Korea, and the ASEAN countries account for 23 percent of the total in the world, and the combined foreign trade claims 20 percent of the world's total amount.

Meanwhile, the East Asian economies vary in terms of their economic advantages and are complementary to each other. In 2003, trade within the region made up 54.5 percent of the countries' total exports, up from 23 percent in 1980. In 2004, China's foreign trade with Japan, South Korea and ASEAN went up 25.7 percent, 42.4 percent and 35.3 percent, respectively, to 167.886 billion dollars, 90.068 billion dollars and 105.88 billion dollars; China's trade with Japan, South Korea, and ASEAN claimed 31.51 percent of the country's total foreign trade. This indicates that the East Asian countries have formed very tight economic relations, which, along with the common interests, will become the foundation and momentum for economic integration and energy cooperation.

3. Energy cooperation at the government level has taken the first step

Since the 1990s, Japan and South Korea have proposed to establish East Asia energy cooperation mechanism, and energy ministers of ASEAN members have met to coordinate energy policies and actions. In 2003, China, Japan, South Korea and ASEAN took the first step in energy cooperation at the government level. In the *China, Japan, and South Korea Joint Manifesto on Promoting Cooperation* signed in September 2003, the three countries announced to expand energy cooperation for mutual benefits and to strengthen regional and global energy security. In June 2004, energy ministers of ASEAN, China, Japan and South Korea met for the first time. In their joint declaration at the closure of the meeting, the ministers emphasized energy cooperation among the countries. On June 22, 2004, at the Third ACD Foreign Ministers' Meeting, foreign ministers announced the Qingdao Initiative, in which the parties concerned expressed their willingness to conduct energy cooperation. The Qingdao Initiative noted that sustainable and stable energy production and supply comply with the fundamental interests of each country, and that it is the common goal of each country's energy policy. The Initiative emphasized that energy security is a common problem faced by the international society, and that it can only be attained through candid dialogue and mutually beneficial co-operation. The Initiative made eleven proposals including enhancing exchanges of information on energy among ACD countries, increasing the publicity and transparency of energy policies, encouraging countries to exchange and share views on the international energy market so as to facilitate a fair energy pricing for both consumers and producers in Asia, strengthening coordination and cooperation, within their capacities and national interests, in the construction of oil and gas pipelines and other means of energy transportation, storage facilities/stockpiling, as well as hydropower stations, and promoting the possibility of establishing a regional network to facilitate the efficient transport/transmission of energy.

By combining the advantages and disadvantages, it is suggested that energy cooperation in East Asia should begin with:

1. Establishing a leadership for the cooperation

Sino-Japan relations and the two countries' attitude toward each other are the key to establishing an East Asia energy consultation mechanism. The reasons are: In terms of

size and influence, China and Japan are the strongest and most influential countries in East Asia. The GDP of Japan and China ranks number 2 and number 7, respectively, in the world. Japan is the world's second largest economy, while China is a member of the UN Security Council. In terms of oil consumption, China and Japan are right behind the U.S. and rank number 2 and 3, respectively, while oil imports rank number 3 and number 2, respectively. Meanwhile, the two countries rely largely on the same sources for oil imports: the unstable and risky Middle East; and they share similar route for oil transport: the Malacca Strait and the Indian Ocean. Due to the rampant terrorist and pirate activities, the two countries have low oil security and high concerns over oil security. Therefore, the two countries have a solid foundation for energy cooperation, and should assume leadership roles in promoting the establishment of the East Asia multilateral energy cooperation mechanism. In reality, however, competition between the two countries for oil imports is the most intensive, which can be exemplified by their fights over Russia's pipeline and over the oil field at East Sea. In recent years, Sino-Japan relations are hot economically but cool politically, and the leaders have even stopped visits to each other. Under this abnormal circumstance, the two sides can consider improving and promoting bilateral relations by taking initiatives in energy cooperation. On January 12, 2005, the Chinese ambassador to Japan Mr. Wang Yi pointed out during his speech at Waseda University that as the largest energy consumption and import countries in the region, China and Japan shall strengthen policy coordination, and that the two can also consider taking initiatives in establishing Northeast Asia energy cooperation framework, even promoting energy cooperation in East Asia by assisting ASEAN countries with security effort at the Malacca Strait. Or, China can take the first step with other East Asian countries and then trigger the participation of Japan. On January 8, 2005, China and South Korea held the first meeting on energy cooperation. The meeting discussed Northeast Asia energy cooperation, Sino-South Korea cooperation proposal, and such issues as saving the cost of Chinese and South Korean companies on crude oil imports. After learning this, Japan, which has been ambiguous on cooperation, strongly requested to participate in the second Sino-South Korea energy cooperation meeting held in Seoul this September.

2. Establishing cooperation is an effective way to resolve the regional energy security problem

It is undeniable that East Asian countries are competing fiercely for oil imports, but such competition shall not be deadly or damaging. The regional countries shall convert the competition to momentum for cooperation, thereby helping them realize their common interests. To take the fight between China and Japan over the Russian pipeline as an example, the fight lead to malicious competition, and the incident has not only failed to alleviate difficulties in the relationship, but added a new scar to the relationship. In fact, using their respective advantages in financing, exploration and exploitation technologies, and labor, China and Japan could complement each other and share the energy resources from Russia.

In the course of setting up the energy cooperation mechanism in East Asia, the countries shall consider a variety of factors: to allow various parties to participate, like coordination by the government, participation by enterprises, and contribution by scholars; to seek multiple oil sources, which means actively explore international oil market; and to strive to find multiple means of oil transport, which requires each country to bring its advantages into full play, to share energy information and jointly protect transport security. At present, the countries can consider “group procuring” crude oil in the Middle East so as to resolve the “marginal price” problem. Later on, the countries shall consider establishing a common oil reserve and a common oil market. The setup of a new Asian oil trading system shall be put on the agenda. The East Asian countries shall also comply with the general trend and launch a crisis management system or mechanism to jointly respond to the crisis in the international oil market.

3. With regard to the territorial disputes and fights over oil fields, East Asian countries shall resolve them through negotiation and cooperation for mutual benefits. Generally speaking, there are three ways to resolve disputes. The first is through military action, the second is peaceful negotiation, and the third is arbitration of international organization. The Chinese government has proposed to “set aside the disputes and exploit together” and to negotiate on equal footing and for mutual cooperation. Based on international law, China and Vietnam officially signed the Sino-Vietnamese Agreement on Demarcation of Territorial Waters and the Agreement on Fisheries Cooperation in the Beibu Gulf in Beijing on December 25, 2000. This is the first demarcation of territorial waters between China and its neighboring country through negotiations; it is also a successful practice of resolving such issue through fair negotiations. The signing of the agreements fully showed that the Chinese government is willing to resolve territorial disputes through peaceful negotiations and that China is sincere in complying with international law. The experience allows China to be prepared for resolving similar issues in the future. On March 14, 2005, the Philippine National Oil Company (PNOC), China National Offshore Oil Corporation (CNOOC) and Vietnam Oil and Gas Corporation (Petro-Vietnam) signed an agreement on a joint seismic research in the South China Sea for three years. The agreement covers 143 thousand square kilometers. The main objective of the agreement is to engage in a joint research of petroleum resource potential in the agreed area as a pre-exploration activity and to decide whether there is value for commercial exploitation. The tri-nation agreement not only expressed each country’s willingness to participate in the exploration, but also at a more practical level provided a model for resolving the territorial disputes in East Asia, which would be conducive to peace and stability in the region.