

Northeast Asian Energy Cooperation: An Institutional Prelude to Regional Community Building

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The limited extent of energy cooperation is a surprising feature of the Northeast Asian international landscape in light of the extensive and rapidly growing economic interdependence among the countries in the region and the critical importance of energy in the foreign policies of Japan, China, South Korea and Russia. To be sure, there have been a few notable projects in this area (*e.g.* Russo-Japanese joint development of oil and gas on Sakhalin Island and a recent large, long-term deal for Russia to supply fossil fuels to China). There also has been continuing direct consultation among the energy consuming nations of the region on how to achieve their shared energy goals (*e.g.* secure supply, efficiency, environmental protection). These have been supplemented by similar efforts in various international organizations (*e.g.* Asia Pacific Economic Cooperation forum (APEC), ASEAN+3, the Energy Charter Treaty). Moreover, former President Putin and several Russian Ministers of Energy have said they expect to expand energy exports to Northeast Asia ten-fold over the next decade or so. Despite the consensus among energy specialists on the value of energy cooperation and the repeated statements by political leaders on the mutual benefits of an increase in energy trade, there have been relatively few concrete results. Moreover, these results have been dictated largely by market calculations - reflecting petro-nationalism - and not linked to cooperative long-term strategic initiatives. Underlying this record of low achievement are three critical factors: (1) the deep, historically-rooted political differences that cast a shadow over all regional efforts at any sort of cooperation; (2) the huge spike in the prices of oil and gas over the past decade that has benefited the supplier over the consumer nations thereby inhibiting cooperation; and (3) the lack of effective regional and global international institutions dealing with energy as a critical dimension of political/economic security in the contemporary world. These factors have been fundamentally changed by the current global economic crisis in ways (*e.g.* a halving of the price of oil) that open the door to cooperation on energy in Northeast Asia. The election of President Barack Obama and Japanese Prime Minister Yukio Hatoyama also further prospects for multilateral cooperation in Northeast Asia. The international context has changed.

"The world is on the cusp of the most profound shift in global power and influence in a century. Managing this quiet revolution calls for nothing short of a new international system, with a radical revision of existing

institutions and patterns of doing business."

Robert Hutchins, Diplomat in Residence at the Woodrow Wilson School, Princeton University, December 10, 2008.

This dramatic call for action by Robert Hutchins is today particularly relevant for Northeast Asia and the prospects for creating a new regional multilateral framework for cooperation in energy - and prospectively in security, trade and a range of international issues. It was propounded at the outset of the continuing "Made in America" global economic crisis that is rooted in the failure of public and private financial institutions operating in accordance with the free market "Washington Consensus." The still unfolding global economic predicament has exposed the need for a comprehensive reconsideration of the current array of multilateral institutions (not simply financial institutions). This is necessary both to bring them into accord with the new international distribution of political/economic power and to devise appropriate ways to manage the new challenges to peace and prosperity in the 21st century that go beyond the traditional military and economic concerns to include issues such as energy, global health, the digital revolution and global warming. Obviously, this process of global institutional reform is likely to extend over a number of years, since unlike the "Bretton Woods era," where the victors in a hegemonic war could impose their ideals and supporting international institutions, today this will involve complications inherent in a world that is increasingly interdependent, but still not convergent. Accordingly, this paper is much more narrowly focused on the issue of energy cooperation in Northeast Asia, which is here viewed as a first step toward building broad international cooperation among China, Japan, Korea and Russia. Indeed, it can be seen as a kind of manifesto, urging action at the 2012 APEC Summit in Vladivostok for this group of nations, that has already become a new center of global power on the international landscape, to encourage them to lay the foundation for an institution for energy cooperation.

"Nothing is possible without leadership, nothing is lasting without institutions . . . (Institutions) make men (and nations) work together, show them that beyond their differences and geographical boundaries there lies a common interest."

Jean Monnet, Statesman
Father of the European Community

"It is no longer the moment for vain works, but for a bold act, a constructive act."

French Minister of Foreign Affairs, Robert Schuman, announcing on May 9, 1950, an initiative that within a year led to the creation of the European Coal and Steel Community - that laid the foundation for the European Community.

Northeast Asia needs a Jean Monnet - an articulate, determined statesman with transnational credibility throughout the region in which he lived as well as in Washington, and who has the diplomatic and Machiavellian skills to convince national leaders to subordinate short-term interests to long-term international/national public goods. The contrasting legacies of twentieth century history in Europe and in Asia make it singularly improbable that a Northeast Asian Jean Monnet will emerge. However, his message that the creation of problem-solving international institutions are essential for regional peace and prosperity should be a departure point for all initiatives for cooperation in Northeast Asia. At the same time, Robert Schuman provides a model of leadership that is accessible to the political leaders of Japan, China, Korea and Russia.

Schuman's venturesome and successful push to create a multilateral, energy-focused, problem-solving framework to promote action on common interests among European nations beset by lingering nationalist rivalries in the wake of World War II provides a useful institutional analogy for contemporary Northeast Asia. Despite the obvious and profound differences in the specific circumstances confronting Western Europe almost six decades ago and Northeast Asia today, there are instructive parallels, especially for the leadership needed to successfully address the challenges of creating a framework for multilateral cooperation at a time of fundamental change in both the global and regional political economies. It should be stressed that any solution must essentially be made by Northeast Asia's regional leaders.

When the Schuman plan to create the European Coal and Steel Community was launched, Western Europe was struggling with the political and economic devastation left by the Second World War, as well as the deep uncertainties associated with the early years of the Cold War. Not surprisingly, the conditions of extreme indeterminacy and flux led to the creation of a number of Euro-centered international institutions and strategic initiatives, both global, (*e.g.* NATO, the Bretton Woods Institutions, the Marshall Plan), and regional (*e.g.* The Council of Europe, Northern European Union). Virtually all of them either directly or indirectly were linked to the global and regional political economies in the shadow of American hegemonic leadership in the Western world. The Schuman Plan became the catalyst for the efforts at regional cooperation in four ways that are pertinent to the situation in Northeast Asia: (1) it was predicated on the assumption that cooperation on

energy was both feasible and critical to broader community building and improved well-being; (2) it was political as well as economic/technical, essentially driven by a concern for security (denying unilateral German access to coal and steel that was seen at that time as basic to military power); (3) it took a problem-solving approach that provided concrete benchmarks to measure progress on cooperation; and (4) it worked, and its tangible incremental results served as the critical institutional influence in laying the foundation for the European Community.

APEC notwithstanding, Northeast Asia today, like Europe in the 1950's, stands at an historical threshold - in this case, at the crest of a decades-long economic tsunami that presages the dawn of the Asian century - without a multidimensional multilateral framework for either effectively fostering political/economic cooperation at the regional level or for integrating the region into the global political economy. To be sure, the efforts at enhancing "regionalism" have led to the creation of various types of regional agreements and meetings in almost epidemic proportions (*e.g.* APEC, ASEAN+3, the Shanghai Cooperation Organization, bilateral free trade agreements, summits galore, etc.). However, these arrangements are rightly seen as transitional institutions, providing forums to develop personal and political/economic networks that constructively deepen and broaden economic interaction and political dialogues and to set broad agendas. Moreover, their structures are soft and they have been minimally effective, especially regarding decisions on specific issues in which a short-term national interest is sacrificed for a long-term public good. A regional Northeast Asian energy cooperation organization that would yield tangible (project centered) results is one way to move beyond this current situation - that, in baseball terms, would be described as touching every base but not scoring.

What are the essentials for fashioning a framework to facilitate cooperation on energy in Northeast Asia? The first step in answering this question is to delineate some of the salient features of the current global energy situation, and the place of this region in that context, acknowledging that the economic crisis has made this risky. (1) The continued rise of Northeast Asia to the center of the global political economy (and its status as the region leading the way out of the economic crisis) is one of the critical new features of the global energy market in the first half of the 21st century. The increased demand for fossil fuels will come primarily from developing nations that are not members of the Organization for Economic Cooperation and Development and the International Energy Agency (OECD/IEA), leaving one of the major problems of stable energy supply for consuming nations largely outside of the current institutional arrangements. (2) Russia, with the capacity to become the first multidimensional energy state with an energy-focused foreign policy having exportable supplies of oil, natural gas, hydropower and nuclear power as well as control of pipelines and energy transit corridors, has become a major player in the global marketplace, but remains outside of both OPEC and the IEA. (3) Although fossil fuels are "fungible" commodities in a truly competitive global market, because 90% of energy supplies are now controlled by governments not multinational oil

companies and because the development-rooted increase in demand has stimulated petro-nationalism, the political distortion of energy markets is likely to grow if no effort is made to shape the market in terms of long-term interests. (4) Except for Northeast Asia, which is by far the region most heavily dependent on the politically volatile Middle East, major oil and gas consuming regions have developed strategic partnerships with their geographically close oil-producing neighbors (*e.g.* United States-Canada-Mexico, Western Europe-Russia). (5) Producers, consumers, and international companies increasingly have been forced to address the task of containing and reducing global pollution and to address the long-term challenge of global warming.

These conditions, particularly as they relate to Northeast Asia, require that energy be addressed as a critical geopolitical and geoeconomic component of the foreign policy of every nation. Four primary challenges must be addressed in any institution facilitating regional cooperation: (1) how to secure stable access to energy to assure continued economic growth in a world in which long-term demand will exceed supply of fossil fuels; (2) how to deal with the issues of both pollution and global warming - especially high priority concerns for the densely populated consumer nations; (3) how to address energy as a national security issue linked to but transcending "energy security;" (4) how to cultivate the recognition of energy as an issue so crucial to the countries of Northeast Asia - both supplier and consumer nations - so that it can serve as the decisive ingredient (shared interest) to overcome the historical and nationalist animosities in the region. The establishment of a regional energy cooperation organization should not only encourage cooperation among Asian nations in areas such as security, but should also facilitate linking the region into a new worldwide energy framework

to replace the current patchwork of global institutions.

Any new regional energy cooperation organization should move quickly to establish its credibility, but most multilateral projects on energy cooperation involve large start-up capital investment (*e.g.* pipelines, hydro-electric power grids and mobilization of the technological expertise of major oil corporations), endeavors that require lengthy start-up times. Perhaps cooperation in energy efficiency, a project that could be initiated rapidly with more modest capital outlay, would provide the kind of speedy and tangible results to benefit a new multilateral organization. Japan, already a world leader in this area could play a central role.

The ultimate structure of a regional energy cooperation institution must be decided by the governments involved. However, it would benefit from input from the governmental and non-governmental forums that have become a central medium for discourse among all the nations involved. These forums could, like Jean Monnet, provide the new ideas essential to creating a new multilateral framework for cooperation that are often difficult for government bureaucracies and political leaders concerned with short-term results. It would also be beneficial to include input from multinational energy companies that have the technology and experience essential for energy development. Finally, it could prove useful to take advantage of the 2012 APEC Vladivostok Summit to launch this initiative. It is a venue that provides an occasion for Russia, the host nation, to redefine and expand its relationship with Asia and it allows time to prepare a framework for beginning cooperation in the region. The world stands at the threshold of the Asian century and a first major step over that threshold can be energy cooperation in Northeast Asia.