Middle East Oil and East Asian Energy Security

WU Lei

I. Contemporary Concept of Energy Security
II. Energy Geopolitics in East Asia and the Middle East
III. China's Strategy in the Middle East
IV. Direction in East Asia Energy Security Co-operation

I. Contemporary Concept of Energy Security

Although the term “energy security” has evolved in great measure since the 1970s, in that confrontation in energy markets has given way to dialogue and co-operation, the energy supply has become more diversified and transparent, and the energy supply outside the Middle East has steadily increased, nonetheless today's focus of energy security continues to include the effect of supply interruptions and oil price shocks on the economic performance of the major importing countries. It should not be forgotten that it was the events of the 1970s, including the Arab oil embargo and the Iranian revolution, that generated recessions, high rates of inflation, and reduced growth rates in oil-importing countries. The most common concern is still that new events will have a possibility of producing a reoccurrence of the 1970s price shocks, which were extremely large, unexpected and persistent. Perhaps an even more realistic risk, however, is the possibility of a sudden rise
in oil prices in response to a short-term disruption of supplies, or the threat of a disruption, due to political instability in a major oil-producing area, especially in the Middle East. Thus, even today, the fundamental questions of energy security are still by no means diminished.

Today's strategic importance of energy, particular oil and gas, is also by no means diminished. The world economy is as dependent on energy as, or even more than, it was in the 1970s; the fundamental link between economic growth and energy consumption remains in place. Even though the share of oil in the world energy mix has been reduced, oil remains, and will continue to remain, the strategic commodity, critical to national strategies and international politics. The reliance on imported oil and gas of the main consuming regions, including the industrialized countries and dynamic Asian economies, will increase substantially over the next twenty years, according to a report by the International Energy Agency (IEA). (1)

The strategic importance and role of Middle Eastern oil not only is by no means reduced, but will also increase greatly in the future. Today's energy security situations are still that oil reserves are highly concentrated. These various aspects of the security have their roots in the fundamental imbalance in the location of world oil reserves. Three-quarters of the world's oil reserves are located in the Persian Gulf region, and these reserves represent the lowest-cost supplies. The Middle East producers account for 31% of world oil supply in 2000 and the figure could grow to 63% in 2020. (2) So opportunities still exist for a cartel, such as OPEC was in the 1970s. Oil supply interruption and oil price shocks have been two of the most serious issues in the energy security chain. Interruption to the oil supply is just as likely to arise from a geopolitical accident, or from various uncertainties, as from deliberate cartel action. Geopolitical instabilities are as strong as they have always been—the endless Arab-Israeli peace process, the possible rise again of Iraq or Iran as a regional hegemony, political tensions across the Middle East, etc. All these geopolitical factors will again be likely to lead to oil supply interruption and increase oil prices greatly.

Finally, energy security is not only a simple issue of price, trade and market. In the new century, "energy security", like national security, is a matter that goes beyond the bounds of the market, and there is no doubt that governments still have a large role to play in ensuring it. Today's energy security is also a global matter, in which a consequence of increasing dependence on oil supplies from any region of contiguous producers, in this case the Persian Gulf, is that the severity, and possibly the frequency, of price shock will increase. There are indications from yesterday that events in the Middle East can easily affect the fortunes of others. No one oil-importing country can escape the oil shocks. In general, this interdependency means that events in the Middle East will appear to, or will
actually, threaten large quantities of oil and hence produce larger price reactions than one would expect from other non-Middle East areas.

This interdependency also means the strategic importance of energy security cooperation between all parties, including East Asia. East Asia, particularly China, is emerging as an important player in the oil markets. The globalization of oil markets has intensified the sense of interdependence among all parties, which has added significant new dimensions to the understanding and implementation of oil security. Since the 1970s, oil security for any individual country has been narrowly defined as achieving a high level of self-sufficiency or reaching a stage of “energy independence”. This approach today does not adequately match the growing changes in the new security situations, mainly the increasing dependence among all economies regardless of the political boundaries separating them. In other words, individual response to oil security would not work in the current global economy. Instead, a growing consensus is emerging towards adapting a collective stand by all the players. In a word, as Robert Priddle pointed out that, despite the current abundance of oil and weakness of oil prices, “there is no room for complacency”.

II. Energy Geopolitics in East Asia and the Middle East

A fundamental reality of East Asia’s oil security is the substantial and increasing gap between production potential and consumption in the major nations of the region. This resource gap is most pronounced in Northeast Asia. Japan has no significant domestic oil or gas fields and has needed to import 99 percent of its oil demand; North Korea, South Korea and Chinese Taipei are in similarly vulnerable circumstances. In contrast to the Northeast Asia periphery, China has relatively massive domestic energy resources, including the largest coal reserves on earth. Since 1993 when it became an oil net-importer, however, China’s oil security situations have taken a turn for the worse. In 2000, China imported nearly 7,000 tons of crude oil, accounting for 36% of its oil consumption. Indonesia, Malaysia, and Vietnam have been significant oil and gas exporters to other parts of Asia. Yet surging domestic consumer demand is limiting their potential to alleviate broader Asian regional oil shortages. Indonesia and Malaysia, long the largest oil exporters of the region, after China, appear likely to become net-oil importers between 2005 and 2010. After 2010, few countries in the region will be able to export oil to others.

Oil demand in East Asia is growing much faster than the world average, and this is expected to continue in the long term. In 1998, however, East Asian oil demand growth, which averaged 5.6% annually between 1990 and 1996, has slowed sharply due to the
region’s overall economic crisis. After that, East Asian oil consumption gradually resumed. China, Japan, South Korea and Chinese Taipei are all major consumers of oil, accounting for 64% of Asia-Pacific’s oil consumption and 17.7% of the world total in 2000. In 1971, Asia, including the OECD Pacific region, accounted for only 14% of total world oil demand. Today, its share has doubled, to 28%. As a result, Asia has emerged as the largest oil-consuming region in the world. Asia’s oil demand will continue to increase. Oil demand in this region is expected to grow at an average annual rate of 4.0% from 1997 to 2020, from some 19 mbd in 1997 to over 28 mbd in 2010 and over 37 mbd in 2020. The region’s crude oil production is anticipated to decline to about 5 million barrels per day by 2020. Thus, the region’s crude oil production will be unable to satisfy increasing demand, and the shortfall will rapidly increase. Accordingly, the region’s oil import dependency will grow from 69% in 1997 to 80% in 2010 and 87% in 2020.\(^{(5)}\)

The structure of East Asian oil demand and supply situations is steadily shifting as Japan’s traditionally dominant share erodes under increasing competition for supply from China, Korea, and the member states of the Association of Southeast Asian Nations (ASEAN). For example, Greater China, including Hong Kong and Taiwan, has replaced Japan as the biggest oil consumption country in the region.

Crude oil imports from outside the region, 87-95% from the Middle East, will supply more than two-thirds of consumption in East Asia. To the extent that a growing share of Asia oil supplied will come from the Middle East, the severity or cost of short-run supply interruptions from that region will increase the huge risks Asia faces. This dependency will make the region’s economies especially vulnerable to sharp oil price increases, and instability in the Middle East or along the transport route through the South China Sea threaten their supply. Protecting South China Sea sea-lanes used to transport oil is thus likely to become an increasing concern and could result in Japan and South Korea adopting an even further and more costly forward “defensive” posture.\(^{(7)}\)

The rising absolute levels of East Asia oil import, coupled with rising dependence on the Middle East oil, will triple the flow of oil eastward across the Indian Ocean, through the Straits of Malacca, and across the South Sea, from the Persian Gulf to East Asia as a major oil consumer. This will no doubt gain enhanced geopolitical significance and be a major way in which Asia’s energy calculus will shape the region’s security. Nearly 15 percent of the world’s supertanker capacity already routinely transits Southeast Asian waters en route from the Persian Gulf, with 1100 fully-laden supertankers passing eastbound through the Straits of Malacca every year. More than 15 percent of the entire world’s cross-border trade, or more than US$ 600 billion annually, passes along that route. However, a crucial geostrategic consideration is the differing incentive structures of China
and Japan and Korea with respect to the Southeast Asian sea-lanes of communication between Northeast Asia and the Persian Gulf. In the past, Japan has had vastly greater stakes than China in unimpeded navigation through the Strait of Malacca and the South China Sea. China would thus suffer much less from a conflict or a closure of the sea-lanes. South Korea, equally dependent on secure sea-lanes, faces a similar threat. However, China is projected to import more than three-quarters of its oil needs, over 8 mbd, by 2020, most of which, some 90%, will have to come from the Middle East. For this reason, it is expected that in the near future China will have stakes as big as, even more than, Japan has in the critical transport corridor. Everything points to East Asian countries having more and more common interests, not only in the Middle East, but also in the South Sea.

As East Asia’s energy markets become more competitive, the region is also becoming increasingly linked to the volatile Middle East. It is self-evident that the Middle East oil supply is especially critical, particularly in the future, to world economies. The Middle East has been dominating world energy exports for a long time. It has about 64% of the world’s proven oil reserves and 34% of its gas reserves. According to statistics by the U.S. Department of Energy (DOE), it exported an average of 18.94 million barrels of oil per day in 2000, which was 44.4% of the world total of 4,266 mbd. IEA projects that Middle Eastern oil supply will reach 44.1 mbd and 61.8 mbd in 2010 and 2020, accounting for 46% and 54% of world’s totals, respectively. There is little argument that the Middle East major producers—Saudi Arabia, Iran, Iraq, Kuwait, the UAE and Qatar—have also huge potential security implications for Asian politics and economics.

The result will be a level of interdependence between the Middle East and East Asia markedly great than that prevailing between the Middle East and the traditionally Western industrialized countries. Asia’s new energy calculus could also influence political and economic dynamics within the Middle East, as well as the character of that region’s relation with the broader world. East Asia will have an enormous stake in the Middle East, with the interests of China and Korea growing especially rapidly. Conversely, the political and economic dependence of many Middle Eastern states may shift from the West toward East Asia. East Asia’s energy security needs will significantly revitalize the importance of stability in the Middle East.

As the majority of East Asian oil import needs will come from the Middle East, the reliable, stable and persistent oil flows from the region will be the biggest challenge for East Asia. Cordesman pointed out that “the critical geopolitical issue affecting the region is whether the Middle East will act as a stable supplier of oil and gas exports at market-driven prices”. Nowadays, even though the peace process in the Middle East has progressed steadily and slowly since 1993, quite a few factors still affect the Middle Eastern
oil flows.

It is usually suggested that the Persian Gulf is still a turbulent and politically unstable part of the world. First, in spite of the peace process, Israel is still formally at war with Syria and Lebanon, and faces a serious rejection from most Arab states and even from Iran. The recent escalation of Israeli-Palestine conflicts has further intensified this tension. There are also serious tensions between Bahrain and Qatar, and Saudi Arabia and Yemen continue to clash along their common border. In Iran, there is still a serious risk of internal clashes between its "moderates" and "traditionalists". From the view of the United States, not only Iran, but also Iraq, remains a serious potential threat to stability in the Persian Gulf. Second, stability in the region also suffers from the poor performance of the economy and a rapid growth of population since the end of the "oil boom" in the late 1970s. Third, after "9/11" the West, led by United States, is more and more concerned with the proliferation of Weapons of Mass Destruction (WMD) and the spread of terrorism in the Middle East. The U.S. believed that Iran, Iraq, and terrorists could be combined with WMD against the Western powers as well as key energy export facilities in intro-regional conflicts, posing a major political and economic threat. Obviously, the coming war led by the U.S. against Iraq's Hussein regime could also be a major threat to oil security.

III. China's Strategy in the Middle East

Frankly speaking, for a long time China has had neither strong historical ties nor long-standing strategic interests in the Middle East. So far, in my view, there is no a systemic and comprehensive strategy in China's policy toward the Middle East. China has been supporting Arabian states against Israeli occupation and invasion while continuing closer economic, military and cultural relations with Israel. After the Cold War and the Soviet Union's collapse, China's foreign strategy has been set forth as a pragmatic effort to promote development at home by obtaining overseas investment, technology, and resources, including oil, rather than by any political or strategic design. China's strategy toward the Middle East will take this direction in the future, even under more and more pressure from energy security needs.

Energy issues have clearly taken a higher priority in Chinese foreign policy. Jaffe believed that concerns about oil security "are increasingly influencing China's diplomatic and strategic calculus." (11) It is self-evident that China's diplomatic goals with respect to oil security must aim toward participation in the global energy system in a way that maximizes domestic energy security. China's increased dependence on Middle Eastern oil is
bound to affect its attitude and behavior in the region, as in East Asia. In addition, if the United States still dominates the Middle East, there may be little room there for any Chinese political and military foothold. Because China's political ambitions are more limited than those of the United States, Russia, and even Iraq, Iran, and Turkey, one potential advantage is China's lack of political baggage, which helped to broaden China's involvement with a few oil producers in the Middle East. China has successfully participated in the activities of oil development and production in Sudan, Iraq, and Iran, and is considering overtures to Libya. Moreover, China has pursued "cross investment" arrangements with Saudi Arabia, under which China would allow Saudi Arabian companies to make downstream refinery investments in China and Chinese oil companies would pursue upstream oil-field activities in the kingdom.

Although concerns about oil security have brought China's interests closer to those of the oil-dependent West, including Japan and Korea, there are many reasons to believe that China still has to take a different tack. First, China is a new actor in the Middle Eastern and international oil markets. Second, in the Middle East the Western power led by the United States is so great and deep-rooted that there is rarely room for China entry. Naturally, the best opportunities tend to be the anti-America nations, that is, Iraq, Iran, and possible Libya. Finally, rather than seeking a sphere of influence or strategic advantage, China prefers to focus on trade and economic development, which will benefit its oil security greatly.

On one hand, China wants a peaceful, stable Middle East and avoidance of entanglement in regional conflicts or crises. On the other hand, it also has to keep its good relationships with Iran and Iraq, as well as other economic advantages produced by those relationships, including arms sales. It should be noted that the arms sales, an issue that worried the West for many years, have been declining in recent years. Instead, the trade in goods, labor, and technology between China and Iran and other nations increased its proportion. Everything points to China having adopted more pragmatic policies toward the Middle East, favorable to stability in the Persian Gulf. IEA believed that China recently has tended to stress energy security more and diplomatic adventure less.\(^{(12)}\)

**IV. Direction in East Asia Energy Security Co-operation**

In my view, the most serious question today is that East Asia has been short of a common energy security policy in face of more and more close relations between East Asia and the Middle East. In consideration of this, there is a possibility and even necessity
of establishing the East Asian Energy Organization (EAEQ), rather than the APEC Energy Working Group. EAEQ will consist of China, Japan, South Korea, and ASEAN. The primary functional routine tasks should be as follows:

1) EAEQ as a whole can effectively cooperate in the fields of energy investment and trade, so as to promote energy production and supply within intro-organization and to enhance the base of energy security in the region. China and some ASEAN members have rich oil and gas resources, but they need capital, advanced technology, and equipment for their exploration and development. Japan, South Korea and Singapore, having the necessary capital, technology and equipment and needing to lessen their dependence on Middle East oil, can effectively cooperate with China and some ASEAN members.

2) Cooperative efforts by East Asia to stabilize the situations in the Middle East. East Asian countries, sharing more and more common interests in stabilizing oil markets and politics in the Middle East, should have a common strategy toward the region, including the Israeli-Palestine conflict, Iraq issues, religion extremists, and terrorism in the region. In addition, the oil producers in the Middle East also need investment and security of demand; oil security is meaningful for both sides of the East Asia and the Middle East. Thus, mutual investment and trade between sides should be a way of safeguarding the security of oil demand and supply.

3) Tanker transport security. Like all its Asian neighbors, China worries about the security of transport corridors, chiefly the Malacca Strait, through which most Middle Eastern oil reaches its homeland. Gradual confidence-building efforts should be relatively easier when made within an organization. Apart from the sovereign rights, all parties have a common interest in sea-lane transport security.

4) Asian joint stocks. Emergency or strategic oil stocks are the most effective forms of protection against possible short-term oil supply interruptions. EAEQ's primary goal should also be establishing an emergency sharing system during future supply interruptions. In this system, participating countries should build and maintain stocks equaling at least 60 days of net oil imports; plus, oil production in China, Indonesia, Malaysia, and Vietnam, will certainly strengthen East Asia's energy security. In Asia, only Japan and Korea, as a member or quasi-member of IEA, meet or surpass this standard and have numerous lessons and experiences in oil stocks. China realized the strategic importance of oil stocks and intends to build up a certain level of stocks.

In a word, meeting the challenges of improving East Asia's energy security can only be achieved through joint undertakings, and these challenges should be regarded as an opportunity for cooperation, not an excuse for conflict.
(9) Ibid., p. 61.

* Associate Professor, School of International Relations, Yunnan University, China