

Energy Security in Asia—How to cope with the Middle East and Russia

Minoru TAMBA

Asia's Increased Dependence on Middle Eastern Oil

The economy in Asia is on an upward trend, which, in turn, is significantly accelerating demand for oil in Asian countries, particularly in China. Forecasts predict that demand for oil in Asia will almost more than double during the period from 2000 to 2020. On the other hand, oil-producing countries in Asia have become net oil importers. China became a net importer in 1993, Indonesia is becoming a net importer this year, and Malaysia is expected to take the same course in the near future. Under such circumstances, Asia's dependence on Middle Eastern oil in recent years is increasing significantly, since the major source of oil imports is mostly concentrated in the countries of the Middle East for reasons of economic efficiency. For example, Japan, China, and Korea combined are dependent at present on the Middle East for 77% of their oil imports. In the future, the trend will further strengthen as China increases oil imports. However, the politics, economy, and social situation in the Middle East are not necessarily stable. Asia's dependence on Middle Eastern oil raises the issue of energy security. How then should we deal with the issue? I think it is appropriate to examine this issue by dividing it into two parts. First, what can Asian countries do to stabilize the politics, economy, and social situation in Middle Eastern countries? Second, are there any measures to diversify oil imports in order to decrease the dependence on Middle Eastern oil?

First, I would like to address four important issues from the perspective of energy security in Asia. They include the issue of peace in the Middle East between Israel and Palestine, and the countries of Iraq, Iran, and Saudi Arabia.

Issue of Peace in the Middle East

It is obvious that failure to accomplish peace in the Middle East will exacerbate the anti-Israeli attitudes of different groups in the Arab and Islamic countries of the Middle East and enhance anti-American feelings against the United States, which acts as a protector for Israel, thus constituting a factor for instability throughout the entire Middle East. The anti-American feelings of the Saudi Arabian people, for example, are not only simply directed toward the United States but also directed against Saudi Arabia's royal leadership, a de-facto ally of the US government, thus forming a factor for domestic instability in Saudi Arabia. Unfortunately, almost no progress has been made in the Middle East peace process during the past several years. We have yet to see progress in the road map presented last year. The major player in the Middle East peace process is the

United States, after all. Not many of the factors discussed can be addressed by Asian countries. Japan, for example, has been providing economic assistance to Palestine and initiating diplomatic efforts to promote dialogue between Israel and Palestine in an attempt to encourage a more consistent relationship between the two countries. However, Japan is not a major player. Asian countries are limited in what they can contribute. For the time being, we must wait until the presidential election in the United States is over, the Iraqi situation is stabilized, and the United States government begins seriously to address the issue.

Iraq

There is no doubt that Iraq, with the second largest oil reserves in the world, is a very important country in terms of energy security for Asia. I do not think I have to go into detail about the current situation in Iraq. Security situation in Iraq is extremely bad. The security situation must be improved as soon as possible. Mr. Kofi Annan, Secretary General of the UN, says that it is impossible to hold an election in January under current security situation, and I share his concern. I also would like to point out that terrorist attacks on oil facilities and oil pipelines in the north and the south in Iraq seriously damaged Iraq oil production and oil transportation. Some analysts have concluded that one of the reasons for the high oil prices in the current world market is attributed to the fact that Iraq is producing only about half of the oil predicted last year.

Asian countries can help to stabilize the situation in Iraq by working with the coalition forces authorized by UNSC Resolution 1546 and contributing to the humanitarian and reconstruction assistance for the Iraqi people. So far as Japan is concerned, the Japan Self-Defense Forces are involved in humanitarian and reconstruction efforts in Iraq. In addition, the Japanese government has committed 5 billion US dollars in financial assistance for the reconstruction of Iraq.

We cannot allow a failure in Iraq. Failure to build peace in Iraq means a failed Iraqi state, thus producing a staging ground for international terrorism. Furthermore, destabilization in Iraq will be spread throughout the Middle East with dire consequences for the whole world. The Middle East peace process will not make any progress unless Iraq is stabilized. Needless to say, stable oil supplies from Iraq cannot be expected without a stabilized Iraq.

Iran

Iran is obviously a very important country from the viewpoint of oil supply. Iran is now being isolated from international community over the nuclear development issue. In an agreement with England, Germany, and France in October of last year, Iran consented to discontinue the uranium-enrichment

program and to seal the centrifugal separators required for enriching uranium; however, Iran declared resumption of centrifugal separator production at the end of July this year. Iran's real intentions are uncertain. One fact behind the move might be that the conservatives are strengthening their political position in Iran.

Oil companies in Japan are trying to support development of the Azadegan oil field in Iran, but the United States is pressuring the oil companies to withdraw that support.

I strongly hope that Iran will establish more cooperative relations with international community.

Saudi Arabia

The recent terrorism in Saudi Arabia has distinctive characteristics. The attacks targeted foreign residents; facilities of the Interior Ministry, the symbol of the Saudi Arabian government; and oil facilities where foreign nationals from Europe and the United States work. In other words, the targets represent the core of the economic issues between Saudi Arabia and Western countries, and the attacks had a significant impact not only on the Saudi Arabian royal leadership, but also on the entire world. This is not the first time that stability in Saudi Arabia has been questioned. After the September 11 event, some people thought Saudi Arabia, home to Osama bin Laden and many perpetrators of terrorism, would become a center for anti-Western and anti-royal family ideology, and the regime would eventually collapse.

The Saudi royal family is facing problems of instability today. First, King Fahd is 83 years old and in poor health. Crown Prince Abdullah, who is the virtual leader of Saudi Arabia, is 81 years old; a generational shift is only a matter of time. However, there are no effective guidelines concerning royal succession. If the succession to the throne by aged royal family members and the consensus politics continue, the result will be an inability to effectively deal with the necessity for reforms. Second, Saudi Arabia is no longer as rich a country as it was in the past. The GDP per capita was twenty thousand dollars in the past, but less than half that amount today, and the growing population trends are heading in a direction opposite to prosperity. Sixty percent of the Saudi Arabian population is aged under 20. The government reports the unemployment rate as 8 to 9 percent but the actual figure is said closer to 30%. Third, frustrations regarding the economy have the potential to turn into political dissatisfactions and combine with frustrations over oppression or restrictions in politics, society, and culture, in addition to dissatisfaction over the lack of a political outlet and frustration regarding the lifestyle of royal family members. There is concern that such frustrations will form a breeding ground for unsavory elements and radical parties in the country. Of course, members of the royal family are aware of the anger welling up throughout Saudi Arabia, but experts are of the opinion that the Saudi leadership will not respond to the anger with major reforms. Progressive reforms are being considered, but for all that, opinions are divided. Good examples of

this include the Consultative Council under the appointment system introduced after the First Gulf War and the National Dialogue conducted by Crown Prince Abdullah last year. A system to allow elections for 50% of local assemblymen starting next February is also a commitment of the Crown Prince.

It is not known whether groups that can clearly be classified as reformists or conservatives exist or not. Simply stated, however, it is generally thought that, among the higher royal family members, Crown Prince Abdullah is a reformist, while Minister of the Interior Prince Naif is a conservative. The existence of religious conservatives cannot be ignored either.

Some people say that Saudi Arabia has taken a cautious approach to reforms in general since the war against Iraq. The accepted explanation is that Saudi Arabia was shocked at the disorder after a strong, powerful leader in the central government was removed. The recent terrorist attacks pose no immediate threat to the administration or the royal family. It can only be said that Saudi Arabia will move only gradually toward progressive reforms without its royal political system being overthrown.

Consequently, the question remains as to what can be done to stabilize the political, economic, and social conditions in Saudi Arabia. First, outside pressure to initiate regime change or imposing reforms on the politics and economy of Saudi Arabia will result in an adverse effect. It is too ambitious. Such pressure and intervention will be perceived by Saudi Arabia as arrogant. Rather, expansion of personal exchanges with Saudi Arabia is important and, therefore, has great significance in giving the people of Saudi Arabia direct experience with a free and open society, which is important for achieving economic development.

One of the reasons for the instability in Saudi Arabia is the high unemployment rate among young people. For this reason, the Saudi government is promoting a policy of "Saudization," which trains Saudi Arabians to replace foreign workers. Under such circumstances, providing Saudi Arabia with technical assistance for job-training programs has great significance. Actually, Japan has been implementing such projects in Saudi Arabia. Since the departure from an oil monoculture is a strong desire of Saudi Arabia, cooperation in the petrochemical industry, for example, constitutes an important aspect, as well.

Dealing with Russia

So far, we have examined what Asian countries can do to achieve stability in the Middle East. Next, I would like to address the second issue of whether we can reduce the dependency on crude oil imports from the Middle East. Here, let's focus on Russia. Today, Russia is a superpower in oil, along with Saudi Arabia, and pumps more than 9 million barrels a day of crude oil. Crude oil

production in Russia will increase in the future. The Russian Ministry of Energy forecasts crude oil production of 10 million barrels a day by 2010. In the past, Russia exported 80 to 90 percent of crude oil production to Europe. However, the European markets have matured and dramatic growth in demand is not expected in the future. Therefore, Russia requires diversification of energy resource exports. In this context Russia is now looking toward Asia. With this in mind, now is the time for Asia to look toward Russia in order to reduce the dependency on crude oil imports from the Middle East. This means that Asia and Russia have mutually beneficial interests regarding this point.

In general terms, Russia succeeded in stabilizing the country's political, social, and economic conditions under the leadership of President Putin. President Yeltsin will be remembered in Russian history as the person who brought freedom, democracy, and a market-oriented economy to Russia after a fashion. On the other hand, during the eight-year Yeltsin administration, the country faced the difficult circumstances of an inconsistent and destabilized domestic situation as GDP dropped as much as 50%. Looking at the first four years of the Putin administration, the government achieved stability in general, though the problem of the Chechen issue has yet to be settled. During this period, GDP increased by 30% or more, and on the domestic political scene, the Kremlin brought the State Duma (lower chamber) under control, established centralization of power by controlling local administrations, demonstrated their authority over the newly-risen *zaibatsu* (business oligarchy), and influenced the media. Under such circumstances, Asian countries are entering a time when they can study the issue of oil imports from Russia.

The project currently under study is one for laying an oil pipeline from Angarsk near Lake Baikal. The project includes two plans: the Angarsk-Daqing pipeline ending in Daqing, China, and the Angarsk-Nakhodka pipeline ending in Nakhodka in the Far East. Considering the oil supply, it is deemed necessary to choose one plan or the other for the project. The Angarsk-Daqing pipeline has a total distance of 2,200 km and a transport capacity of six hundred thousand barrels a day, while the Angarsk-Nakhodka pipeline is 4,000 km long and a transport capacity of one million barrels a day. The construction cost for the Angarsk-Nakhodka pipeline is twice that of the Angarsk-Daqing pipeline. With the Angarsk-Daqing pipeline, the supply destination is limited to China. On the other hand, the Angarsk-Nakhodka pipeline can supply to Japan, Korea, and Taiwan and has the potential for oil exports to the United States, as well. In addition, resource development can contribute to the economic development of East Siberia and the Far East. The plans for the two pipelines are in competition but measures for successfully operating both of them should be sought. Besides the Siberian pipelines, we should pay attention to the Sakhalin I and Sakhalin II projects that are currently being implemented. When full-scale production starts at the Sakhalin I and Sakhalin II projects, combined crude oil production will be 400,000 barrels a day, and the production of natural gas will total about 15 million tons a year, making it a huge project. It is estimated that, when the Siberia pipeline and the Sakhalin projects start full operations, dependency on crude oil imports by Asian countries from the Middle East will be reduced by 10 to 15 percent. It is reported that last

week South Korean President Roh Moon Hyun and China's Prime Minister Wen Jiabao respectively visited Russia and discussed energy cooperation with their counterparts. This indicates that they are promoting energy cooperation with Russia.

In promoting these projects with Russia, bear in mind that Japan has a problem. The problem is that there is a territorial issue between Japan and Russia, and a peace treaty has not been concluded between the two countries because the issue has not been solved yet. It is necessary for Japan to keep clear its basic position on the territorial issue.

Finally, although Russia is moving in the direction of freedom, democracy, and a market-oriented economy in general, they are still in a transitional period. Referring to the recent Yukos affair, European and American media point out that it is doubtful whether the rule of law has been established in Russia. The investment environment also needs improvement. Despite the fact that Russia is stable under the Putin administration, Russia obviously still has homework to do. For the time being, we may need to do business with Russia with three "don'ts", namely "don't panic, don't be impatient, and don't give up," as someone stated. The outlook can be cautiously optimistic.

So far, I commented on some of the aspects of the energy security issue in Asia with the sessions to be held this afternoon in mind. I presented arguments with the oil issue in mind, and I think similar arguments are possible regarding natural gas. In August, the *New York Times* reported that in ten or twenty years the next crisis might be in natural gas, which I think is correct. Russia plays also an important role in the natural gas field. Russia has about 33% of the total global gas reserves and is ranked number one in the world. Their production represents about 24% of the total output in the world, which also puts Russia in first place.

I would like to close my speech by emphasizing my hope that the two sessions this afternoon will help develop arguments on these issues in a productive and successful manner.

Thank you.