

Session 3:

COMMENTS

Zhang Jianping

*Director, Department of International Regional Cooperation,
Institute for International Economic Research, NDRC, China*

Many thanks to Dr. Ivanov and Dr. Pak for their brilliant papers and speeches! Their insights and viewpoints shed valuable light on the issues of energy cooperation in NEA and institutional arrangements. Next, I'd like to share and communicate with you my viewpoints on several issues concerning this topic.

Northeast Asia Energy Cooperation: A Complicated, Sensitive and Difficult Issue

For any region, even within a country, the economic cooperation and arrangement at the institutional level is usually difficult and complicated, not to mention Northeast Asia, a region with the long-term sensitive and complicated atmosphere for political and economical cooperation. Today, when the whole world is under the pressure of energy issue, it will be much more difficult for Northeast Asia to tackle the issue of institutional arrangement on top of the existing economic cooperation difficulty, overlapped with the issues of energy cooperation.

The difficulty of Northeast Asian energy cooperation lies in two aspects: one is the various problems confronting the six countries within this region in conducting energy cooperation, just as indicated by Dr. Pak; the other is, the Northeast Asian countries, in this open stage of economic globalization, have to consider not only their own energy supply and demand, but also a variety of complex political and economical relationships involved in the major energy suppliers and demanders outside the region. On this aspect, Dr. Ivanov gives us 10 appropriate assumptions and splendid analysis couple by couple.

Meanwhile, the limited supply and source of energy, combined with competition for energy between China, Japan and South Korea, results in the sensitive and subtle relationships among them. As such, the complicatedness and sensitivity of the energy security issue in Northeast Asia is amplified to a large degree. It might be safe to say that this issue is of exceptional difficulty to some extent, as compared with other areas of the world. That has arisen from the fact of Northeast Asia as an epitome of heterogeneity within the globe: diverse economic and social systems, different stages of economic development, and distinct paths of economic development.

The issue of energy security is vital to national security. In response to this, we need to have sufficient knowledge of the long, arduous process of energy cooperation in Northeast Asia, and need to input unremitting efforts. During this process, any concerns and priorities of any country pertaining to energy cooperation should receive respect from other countries. All of them should comply with the principle of "Seek common points while reserving difference" in dealing with this issue. I Vladimir's *Assumption # 1: Be Devoted to Your Neighbor* is very impressed me.

Can We Split Economy and Politics in Addressing Energy Issue?

We often heard of the “Separation Principle of Politics and Economy” or the so-called “Cool Politics and Hot Economy” in studies of the Northeast Asian economic cooperation. Most of the concepts probably point to the political and economic relationship between China and Japan. From the perspective of theoretical study, political factors can be separated from economic analysis as politics and economy can go apart from each other in theoretical study.

However, it is hard to imagine a national government in practical would set aside major political factors and simply push ahead with economic or energy cooperation in handling major issues concerning national security such as energy. As energy issue has been elevated to the level of national security and foreign relations, it inevitably has mutually conditional relations with politics.

In light of this, we should work to bring into reality the cooperative situation:

First of all, some of the countries are required to reach consensus in the aspect of politics, at least without political confrontations in principles or political standoff. Such consensus will help create the basic conditions and atmosphere for multi-level energy cooperation, in particular for the major energy cooperation issues and projects requiring a relatively harmonious political atmosphere with high-level consultation and coordination between countries.

Secondly, some countries need to adopt converging energy strategy to create mutually beneficial and interdependent ties. In the past peculiar development paths and stages relate directly to the failure of building strategic energy cooperation relations between China and Russia as close neighbors, as China had only small demand for external energy, and Russia had an uncertain future of economic development. In the years to come, those major economies should communicate and coordinate on economic and energy strategies with the view to build multilateral cooperation. Each country has its own space for growth while anyone should not hinder or restrict the development of others.

Multilateral Cooperation or Bilateral Collaboration?

Whether Northeast Asian energy cooperation takes the form of multilateral cooperation or bilateral cooperation reflects the conflicts of ideal and reality. Energy suppliers such as Russia are naturally willing to have most possible choices in selecting export destinations, so as to gain more initiative; whereas the energy importers also hope to have more different sources of energy import for the purpose of energy security.

Based on the thumb rule of “not to put all the eggs in one basket”, multilateral cooperation is a safer option, which is more readily to help create the balance of energy exploitation and trade in NEA. To build multilateral cooperation mechanism is consequently a reasonable requirement. Multilateral cooperation is an ideal situation and the desired goal of Northeast Asian energy cooperation, but it cannot satisfy the demand of the current circumstances, as it is possible low efficient, with higher transaction cost and slow progress. Just like comparative with the thorny progress of WTO negotiations and the rapid development of FTA, bilateral negotiations or multilateral negotiations with fewer parties are more likely to reach agreement, while the multilateral talks with more parties are subject to more failures. It is always harder to reach

plenary consensus at any time than to reach agreement among small groups. That is the reason why multilateral negotiations often stumble during the process of Northeast Asian energy cooperation.

As Dr. Pak pointed out, Northeast Asia at present heavily depend on bilateral collaboration in energy cooperation. How to break through from bilateral cooperation and enter into multilateral cooperation and what kind of process is required for the above conversion is a problem to be explored by us. In theory, the countries involved in bilateral collaboration will turn to multilateral cooperation only when they find their total transaction cost is higher than that in multilateral cooperation.

In reality, firstly, the existing bilateral collaboration, other than multilateral cooperation, is largely the result of the lack of mutual trust between Northeast Asian countries. Both Dr. Pak and Kensuke have indicated this point. Therefore, it is paramount for the related countries to treat each other with sincerity and enhance mutual trust. Secondly, the competition between China, Japan and South Korea is of no benefit to the establishment of multilateral cooperation. The three countries are all oil importers and major petrochemical operators with high capacity of oil processing. It is expected that China, South Korea and Russia will have a relatively bright future of power cooperation due to geographical reasons but there is still a lot to be done in oil and gas pipeline construction and transportation.

Institutional Arrangement or Project Implement in the First Place?

Thanks for Dr. Pak's detailed review of the historical path of Northeast Asia in pursuing multilateral cooperation. Such a process shows many new progresses in the establishment of multilateral cooperation mechanism, and the high degree of difficulties as well.

Some scholars and officials therefore propose to initiate major projects (e.g. oil and gas pipeline construction) at first and to facilitate the creation of collaboration mechanism through projects operation. It is a practical idea but one point is: whether mechanism building and project operation contradict, conflict with or go opposite to each other? Does it mean that to push on one thing we have to give up on the other thing?

As we can see from the current development of Northeast Asian energy cooperation, the Russian oil and gas pipeline construction project remains in the process of continuing negotiation, consultation and compromise despite so many "stories"; multilateral cooperation is being driven forward, as Pak has mentioned. Accordingly, the two options should be complementary. The Northeast Asian countries have lost a great deal of precious time in the past, when we did not have sufficient demand and conditions for energy cooperation. Nowadays we have the very demand but no adequate conditions. However, we cannot start to act only when all the conditions become mature.

To have all the people of the Northeast Asian countries benefit from energy cooperation as early as possible, we should approach to energy cooperation by two paths simultaneously. We may apply the "from-easy-to-tough" principle to investigate the appropriate mechanisms for energy cooperation, for example we can make an attempt at multilateral financing mechanism in the first instance etc. and finally pursue building Northeast Asian Energy Community.

Key To Push Forward the Institutional Arrangement of Northeast Asian Energy Cooperation: Identify Directions and Focuses

With the various existing barriers and problems, the establishment of Northeast Asian energy cooperation will be a long way to go. As Dr. Ivanov said, the central question that any institutional framework should address is the desirable destination, which could become more realistic and achievable through cooperation. We should notice one practical issue, i.e. China and Japan have not participated in building multilateral mechanism. That is quite normal because the two economic powers are confronted with many issues and lack in due conditions for cooperation.

We need to identify directions and focuses and work out details though studies and discussions to promote the institutional arrangement establishment for Northeast Asian energy cooperation. For instances, what issues need to be highlighted in defining the major goals and contents of institutional arrangement? What is the major form of resolutions — energy community or high-level officers meeting? What conditions are required for setting up energy community? How to fulfill those conditions, with all of the stakeholders participated in the arrangement? And how to remove the existing barriers?

We should also propose bold hypotheses for the future and timetable for institutional arrangement, forecasting the scenarios of five or ten years later based on our studies. For instance, European energy import countries have had a smoother process of energy collaboration by contrast as they are at quite similar level of development. Does Northeast Asia need such precondition for energy cooperation? Last year, in Niigata I suggested in term of the principle of “from easy to difficult” the first step is to establish the simple NEA oil or gas alliance, and then the NEA energy alliance. All this kind of questions calls for in-depth analysis. With the key issues resolved, the institutional arrangement of Northeast Asian energy cooperation will go along steadily.