

Energy, Trade and Finance in Asia

*Justin Dargin and
Tai Wei Lim*



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ENERGY, TRADE AND FINANCE IN ASIA:
A POLITICAL AND ECONOMIC ANALYSIS

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BY

Justin Dargin and Tai Wei Lim

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PREFACE

The impetus for this research was to instigate a thorough examination of the historiographical survey and history of inter-regional ties between the Middle East and North-East Asia. It remains a work in progress, given the complexity of the topic and evolving interrelationships between the two regions. The text may also be used to study how energy inter-regionalism is studied, imagined and discussed in addition to implementation and exchange. In surveying the inter-regional literature between North-East Asia and the Middle East, several entities appear to be commonly mentioned, studied or researched. They included Japan and China, but India and particularly the US were indispensable in such discussions given their important and significant influence. In the history between the two regions, contemporary literature, particularly the recent ones, also highlight the non-energy aspect of the trade between the two regions.

The discussions may allude to the presence of inter-regional ties between the two regions. Surveying the literature, it appears the dominant feature discussed may be a definitional feature of a region's ties with one important or large economy/entity/state (e.g. India, Japan, US and China in this case). Given the lack of a macro-regional framework or a North-East Asian regional organization in dealing with the Middle East as a region, the dominant format of inter-regional ties appears to be the Middle East's region's relations with each individual large economy or state.

In conjunction with the focus on inter-regional trade ties, the arguments appear to allude that inter-regional ties appears to increasingly embed bilateral energy trade within non-energy trade. The arguments presented do not put forward the replacement of energy ties with non-energy trade ties, instead both reinforce each other and given the still-growing industrial capabilities and output, the discourse argues that this aspect of the overall relationship may become increasingly important if not as important as the energy ties in the near future.

This also implies that a conventional strain of thought on inter-regional ties between the two regions and the US may be evolving. The Middle East's main export of energy to Asia (including North-East Asia) provides the region with the commodity for industrial production and the output to the developed

markets (including the US) may provide Asia (including North-East Asia) with surplus for oil purchase. Both the oil revenue surplus from the Gulf and trade surplus from North-East Asia may fund the sophisticated financial markets of the developed economies (including, and perhaps predominantly, the US).

The modifications to this system may include the fact that the Middle East has diversified its economic output away from sole reliance or dominant reliance on energy and moved into other varieties of economic output such as trade, manufacturing and financial investments. Moreover, Middle Eastern economies themselves are now increasingly reliant on energy for their growing population and manufacturing capabilities.

As part of diversification of economic portfolio, Middle Eastern investments are also moving into growth areas of Asia (including North-East Asia and India) in this diversification exercise. Diversification into non-energy investments may be made possible by the accumulation of oil revenue surplus and such funds' ability to provide the Middle East with overseas acquisitions that can augment, build up its technological capabilities overseas and even produce industrial goods overseas. Among other interests, Middle Eastern funds are also interested in the growth prospects of Asia (including North-East Asia and India).

Another modification to the conventional discourse is the interest of Asia (including North-East Asia and India) in trading with the Middle East in non-energy, non-oil sectors and move into non-energy sectors because of their interests in new markets in the Middle East (particularly consumer classes in economies enriched by oil revenues) and its potential to generate trade surplus to balance the deficit from energy trade, particularly for energy-scarce economies such as Japan's.

In both cases, these investments are made by the private sector and sovereign funds that are augmented by oil revenues due to favourable oil prices in the case of the Middle East and the trade surpluses made possible by the industrial output and export-orientation of Asian economies (including India and North-East Asia). In the case of sovereign funds and government-linked companies involved in such trade exchanges, they may be guided by long-term interests that may be associated with national priorities.

As these national priorities become increasingly competitive among Asian (particularly large emerging Asian economies like India and China in addition to mature large economies like Japan), they may become competitive and brush up against each other. Therefore, the argument made is that it may be possible for Asian economies and government-linked companies to collaborate and approach oil purchases and acquisition based on a coordinated and/or consultative mechanisms rather than outright competition.

If this occurs, then it may be a landscape of inter-regionalism through regionalism (within North-East Asia for example). Similar arguments are made for the

Gulf states, that their regionalism may create the economy of scale needed for their economic engagements with other regions or integrate better into globalization. One example may be the gas cooperation and collaboration among the Gulf states. If this argument is followed, in the ideal situation then, instead of inter-regionalism between a region and a large economy, it may be macro-regional ties between two regional bodies (a North-East Asian one and a Middle Eastern one). But is this possible?

Currently, this may be difficult, given the differing interests within North-East Asia or within Asia (between India and North-East Asia) or East Asia for energy needs and other priorities in their interactions with the Middle East. Internally, there are also many internal contradictions of development that prevent alignment of first level common interests. These internal contradictions include different capabilities and abilities in efficient energy consumption, domestic oil availability, financial strength, environmental considerations and a whole host of developmental considerations, particularly for large emerging economies like India and China. The needs of large emerging economies and those of mature developed economies like Japan may not always be complementary.

But this may not preclude the possibility of an open form of regionalism if external parties, particularly the US are involved. An open form of loose regionalism may help information exchange and confidence-building but reflect the realities of the region at the same time. Open North-East Asian regionalism may also involve India whose influence over the Indian Ocean and its domains through which overland pipelines and cross-regional energy infrastructure may need to traverse.

The US is particularly important for any regionalism, inter-regionalism or macro-regionalism because it is a hyperpower whose influence is crucial to the success of any schemes in regional and inter-regional relations. The US ability to encourage or obstruct any aspects of regional and/or inter-regional initiatives can mean the successes and failures of those initiatives. The US is also the only entity with deep and long-entrenched interests in North-East Asia, India and the Middle East and the nature of its relationship is comprehensive involving all facets, not solely or predominantly on economic aspects. The US may also be inter-regionally transcendental above the regionally specific mistrust that each component within the North-East Asian or Middle Eastern region may have vis-a-vis others in the region.

The US may be imagined as a hub where the inter-regional spokes of the Middle East and North-East Asia may pass through and connect with. Within this hub and spokes model, each dominant entity in the two regions may transact their needs accordingly. This does not diminish their roles in any way because without the important and significant role of India, China, Japan, along with the Middle East energy producers, the regional or inter-regional system cannot

reach an equilibrium that is satisfactory to meet the trade and energy needs of each party.

The previous assumption of Middle East energy for Asian industrial output and financial investments and consumer products for the developed markets may not be as strong but facets of this system will continue to exist with some modifications. Instead of more specialized roles within the system, the element of greater interdependence may be enhanced further, given the more diversified needs and capabilities of each player.

Yet, some semblance to the old system may continue, given that large internal contradictions of the large emerging economies. For the near future at least, despite the important and significant achievements by India and China in development, they will continue to meet with internal challenges that may consume their resources and may affect the outward emanation of their immediate needs and priorities. Important domestic priorities may prevent India and China from concentrating on inter-regional issues beyond meeting their immediate economic needs, unlike the US comfortable reach into the global and inter-regional space. But at the same time, the US is likely to find greater dependence on its Asian partners and other members within the inter-regional system.

Some aspects may be somewhat de-emphasized and/or deprived in some contemporary literature on the energy sector of North-East Asia and the Middle East. First in discussions about oil, which may probably be the most important energy commodity in bilateral trade between the two regions, coal which remains the main energy source in India and China and remains important to Japan may be neglected. Coal is also available to a large extent in China, India and nearby Russia, making it the most accessible and convenient energy source. Therefore this publication introduces coal literature into discussions about energy and trade issues between the two regions.

Secondly, despite the well-publicized and maybe even exceptionalized focus on the industrialization of large emerging economies of India and China, it may be easy to bypass the fact that this industrialization depended on Western and Japanese firms that are located in China producing for the rest of the world, without which industrialization in large emerging Asian and even Gulf economies would not be possible. Therefore the interdependence factor remains strong and influential in bilateral exchanges between the Middle East, North-East Asia and India.

Just as large emerging economies and regions depend on the West for investments and manufacturing foreign direct investments (FDIs), the global landscape for investments is also likely to see more outward-oriented cross-border investments from the Gulf economies, North-East Asian investors and their sovereign funds. The global landscape including the West may likely see more collaboration with the large emerging economies and Gulf economies through areas like

equity investments, joint ventures and loan dispensing. Overseas energy investments may likely be a priority for the large emerging economies in Asia and their sovereign funds. Energy-rich recipients are also likely to benefit from this.

In making such investments, the large emerging Asian economies are likely to set sustainability and environmentalism, as well as renewable and green energy investments, as important priorities for their acquisitions. It may be possible that carbon neutral, renewable energy sources may also be a simultaneous priority with fossil fuel. The procedure is part of the overall efforts to reduce dependence on fossil fuels.

In the near-medium term, attempts are made by North-East Asia and India to mitigate the use of oil and increase reliance on natural gas. Nuclear technologies are also another possible priority, although in the short and medium term, this aspect may be slowed down or mitigated by nuclear accident at the Fukushima nuclear plant in Japan as countries reassess their dependence on nuclear energy. The main challenge may be on to minimize the risk factor.

Interdependence is likely to rise and not decline with Asian industrialization as pollution gets into the cities and as population shift into urban areas increases, factors which induce Asian cities to be dependent on and partner with Western and Japanese firms for environmentally friendly and green technologies. At least in the area of urban planning, the scenario appears to have the potential for cooperation instead of a zero-sum game. Greater areas of interdependence may have the net effect of promoting conflict avoidance if it can overcome the potential for conflict.

Interdependence is needed as the large middle classes of large emerging economies aspire to have the same lifestyles as their advanced economies' counterparts. If the outcome of this aspiration is zero-sum competition between developed economies, large emerging and mature economies and/or between mature economies, then a conflictual landscape may be highly possible, and this may pertain not just to the fossil fuel market but also nuclear fuel market as well in the clamor for carbon-friendlier fuels in the near and medium term future.

Another issue that may be often neglected or downplayed in inter-regional energy exchange literature between North-East Asia and the Middle East is the fact that green energy may not just be renewable energy but also the capability to use, develop and implement energy-saving technologies, energy conservation techniques and managing and producing the next generations of energy-saving products.

On a more discourse and narrative level, literature on inter-regional energy ties between the Middle East and North-East Asia may also fail to ask questions concerning the relationship between energy and security. In exchanges over this subject area, some scholars posed the question why there is a tendency among realist scholars to emphasize the association of energy commodities with secu-

rity perspectives. The answer appears to be apparent given the scarcity of these commodities, their strategic nature and their importance to national security. To scholars who do not agree with the link between security and energy, they argue that overly associating the two may create a vicious cycle of insecurity on the part of its consumers.

Imagining them as the commons or a public good, such as air or water, the cross-boundary natural species that nature takes charge of, may help to remove some of those insecurities. But this remains at the discourse level and narrative idealism as long as aspirations continue to exist for material-based consumption. The next best thing therefore may be to cooperate, compromise and reduce consumption, something that will be a long-term venture.

Equilibrium may also need to be reached between market forces and state-guided energy management and acquisition. Suggestions of possibility to liberalize the energy market may be mitigated by the fact that uncontrolled economic competition without consultation and cooperation may not be ideal in securing reasonable pricing nor would zero-sum competition between state-owned companies. Given that competition between energy firms is a global one, interdependence and cooperation may also prevent disruptions to existing global regimes and organizations that regulate energy development. The international rules and regimes can help to accommodate the rise of large emerging economies and their burgeoning middle classes.

This volume acknowledges the contributions of Stephen Nagy (Assistant Professor, Chinese University of Hong Kong, CUHK) and Ms Chan Yim Ting, Helen (Research Assistant, CUHK).

1 INTRODUCTION

Energy may be one of the most contentious issues in the world and there are many discourses, narratives, explanations and arguments about the use of energy, including its role in inter-regional exchanges between the Middle East and North-East Asia. Increasingly, trade and energy exchanges are spoken together and this appears to be the case in recent works by Kemp, Simpfordorfer and Davidson.¹ Narratives and discourses that highlight the inter-connectedness of non-energy trade and energy exchanges as an interrelated item in the inter-regional exchange between the Middle East and North-East Asia appear to be favorable to maintaining this inter-regional exchange. The bundling of energy and goods in trade and exchanges between the two regions acts as a form of interdependence through a spaghetti effect whereby greater intermingling promotes greater interdependence, analogous to spaghetti criss-crossing each other.

There are a number of centrifugal forces to mitigate the sustainability of energy trade inter-regionally between North-East Asia and the Middle East. Centrifugal forces may include increasing energy needs of the Middle East diminishing the potentialities of future energy export trade, for example the fast-growing Gulf states, their natural gas needs and their growing interdependence in forming regional energy systems. Regionalism is complicated and mitigated by growing inter-regionalism.

But because the two regions themselves are not institutionally regionalized and integrated politically as blocs, the inter-regionalism between the two regions remain organic, ad hoc and loose. Because of the nature of Middle East/ North-East Asia inter-regionalism as a platform for open, export-driven, FDI-based interaction and exchange, it includes, requires and involves the active and extensive participation of two other influential entities, India and US which are indispensable to inter-regional trade. The US acts as a hub for many transactions that occur in the region, given its global orientation and deep economic and political engagements with both regions, India as well is an increasingly important conduit and node in this exchange. Between the two large democracies, both India and the US are co-sponsors of the United Nations Democracy Fund in 2005 and enjoy mutual solidarity.²

The US node remains important because other major energy consumers in North-East Asia (largest consumers due to their sizes) like Japan, US, India, China Energy (abbreviated as JUICE in this publication) consumers, though important, dominant and influential, may find it difficult to achieve regionalism without its support (direct or indirect). Gilbert Rozman probably represent the least positive interpretation of regionalism, arguing that differential emphasis and progress in development has resulted in domestic sectors (not including the US) within the JUICE grouping at times focusing on niche and more parochial interests rather than regional and globalized ones.³

The US on the other hand has clear, important, capacity-building and entrenched interests in both regions, the Middle East and North-East Asia. Intra-regionally, the US also has solid and essential alliances with important and major regional stakeholders such as South Korea and Japan. For example, Christopher Dent argues that, in North-East Asia, a meeting point of four dominant entities (US, Japan, China and Russia) exists, the US has maintained a clearly mapped out interest in the region and remains an important balancer between North-East Asian entities in times of geopolitical rivalry and is strategically positioned to tilt opinions on issues related to North-East Asian regionalism in one direction or the other.⁴

The US is also a highly adaptable entity which can accommodate different interests and priorities that shape the region. This adaptability may also follow different administration as their own different distinctive styles, whether Republicans or Democrats, shape the outcome of events in both the Middle East and North-East Asia. Very often, regional entities are influenced by the external environment for inter-regionalism crafted by the US in the interest of open, free and vibrant trade and exchanges for the interests of the stakeholders. Its balancing and tilting factor in final decision-making processes and its agreement or support lent to processes taking place in both regions can make an initiative a success or reality from the proposal stage.

This is not to argue that dominant regional entities like China and India or the Gulf states are unimportant, neither does it downplay smaller and medium-sized entities. The regional entities have their own space and leeway for exerting their influence and power, while limited regionally, are globally important. They exert their influence economically, demographically, diplomatically reflective of their capabilities and resources among various other means. Such influence may not even be defined by state boundaries. As Vali Nasr succinctly noted, the global Islamic populace (a transnational entity) is equal to India and China's demographics with more than 1 billion and in 2008, the GDP of Iran, Pakistan, Saudi Arabia and Turkey with 420 million people was US\$3.3 trillion, equivalent to India, but India has triple the number of people.⁵

There are other ways through which the middle power economics/states/entities are exerting their influence. For example, Saudi Aramco, according to David Rothkopf, is undergoing localization of manpower personnel.⁶ Such shifts may not be globally tectonic in nature but can have global implications which regional entities in the inter-regional energy trade as well as hyperpowers⁷ may have to accommodate. The interdependence factor between these groups of economic entities, states and economies within the complex inter-regional flora and fauna lubricate the system as it has done so in the past when empires collaborated with middle and small economies and powers to make trade and exchanges a reality.

The role of the US is equally valuable as working partners for middle or medium-sized powers/states/economies. In the inter-regional sphere of the Middle East and North-East Asia, the US also plays the role, but this volume argues that it is not an empire. It argues that the US is a benign entity that acts as a hub (de facto or in reality) for transmitting and intersecting priorities and needs for entities within the Middle East as well as within North-East Asia. It is the hub that many if not almost all spokes plug into within the two regions.

The US value system and worldview have also influenced the normative behavior of the international systems, including its partners in both regions of the Middle East and North-East Asia. These values are democratic, market-driven and carefully crafted to maximize free flow of goods and energy that respond differentially to most major and minor entities within the inter-regional trade between the Middle East and North-East Asia. The values are not absorbed and taken wholesale by the stakeholder entities in both regions. Instead, they are localized, adapted, adjusted and assimilated selectively to fit local and regional conditions according to their national interests and domestic priorities.

US developmentalism values were also disseminated to the developing economies in the post-war era. Though they were not absorbed lock, stock and barrel, these important ideas of development and economic growth were adapted first by various successful economies that embarked on market-driven systems and later also adapted, hybridized, localized by former command/socialist economies. The basic foundations were based on American ideas of market-driven capitalism and free trade. Some examples of local, regional, ideological and religious adaptations to these ideas and also resistance towards complete borrowing can be found in Howard J. Wiarda's *Non-Western Theories of Development* that is potentially thought-provoking.⁸

The current global system from a broad perspective is a combination of historical ideas and tradition of far-reaching and permeable global trade based on: stakeholders in the form of dominant economic entities along with their regional systemic components of small and medium sized economies/states (systemic); European contributions in the industrial age and their influence on

contemporary features (historical); and localized/indigenously adapted American values and ideas of trade, energy exchanges and technological development (knowledge-based adaptation).

The conceptualization of history comes into play as trade had once been a past element in inter-regional trade between the Middle East and North-East Asia but the historical Silk Road declined and the rise of maritime trade overtook it. Nevertheless, the increasing trade links, sometimes along the same traditional Silk Road routes, appear to conjure imageries of a historical trading relationship. Even if this is so, the inter-regional trading relationship takes place against a new backdrop with important and significant participants such as the US and its vast transnational global reach, transnational companies, state-owned companies, sovereign funds, alternative energy advocates, and many other new players.

Conceptually, both North-East Asia and the Middle East are individually and in and by themselves not coherent institutional blocs that resemble or represent advanced or even institutional stages of regionalism although some early preliminary initiatives/mechanisms are in place to form the foundation of a loose form of regionalism and issue-specific cooperation (particularly in the economic aspect).

Consequently, North-East Asia-Middle East inter-regional trade and exchanges have been based on the trade between individual regional economies, typically represented by regional suppliers dealing with single large economies or energy consumers in North-East Asia. Such arrangements give rise to some scholarly and practitioner arguments of 'Asian premium' or price differentials based on competing interests between large energy consumers in North-East Asia vying for the same oil or fossil fuel products which they are dependent on from the Middle East.

Discourses of the interrelatedness of trade and energy in Middle-East and North-East Asia trading relationship appear to be foregrounded more in the present compared to past literature on contemporary inter-regional exchange between the two regions. This may be due to perceptions (and also reality, backed up by economic quantitative figures) of the increased wealth of both regions in the Middle East and North-East Asia stimulating trade and consumption. Both regions, through export-orientation (North-East Asia) and accumulation of oil revenues (Middle East), have more resources to spend and consume.

Among the entities involved in the inter-regional trade between the Middle East and North-East Asia, the economies and entities of JUICE consumers are highlighted in the study between North-East Asia and the Middle East. The US and India are included due to their important impact and influence on the inter-regional trade between North-East Asia and the Middle East. Other than the US, almost all other economies and energy consumers in North-East

Asia are busy with economic growth (including the large emerging economy of India) and/or other pressing priorities. The US alone has the global reach, capacity, multifaceted engagement and interest in managing the system of energy exchange that straddles the two regions of North-East Asia and the Middle East. The discussion of its role is indispensable in inter-regional trade and exchanges between the Middle East and North-East Asia.

In this equation between energy importers and producers in the inter-regional trade, demography appears to be an important factor in determining usage and also influence on the energy trade. Demography may make a direct impact on consumption, when it is paired off with rising development and economic progress and prosperity. Demography may also provide large emerging economies with sizeable workforces to produce products that supply mature economies, generating trade surplus for these large emerging economies known as BRICS (Brazil, Russia, India, China and the recently joined South Africa into this league).

India's rising demand is often paired off with China to highlight the growing energy needs of emerging and developing economies. Competition and cooperation between them often have global impact. And their consumption adds on to existing consumption found in mature JUICE entities like the US and Japan, often without the same technological efficiency and sophistication like them to use the energy more efficiently. Increased consumption of course may be predicated upon the unproblematic portrayal of the sustained and continued rise of emerging large economies. It is also predicated upon the imageries of the desires of tens of millions to get out of energy-scarcity situations with no access to electricity and more individuals within the middle class to attain similar lifestyles akin to their counterparts in developed economies.

This assumption of linear development associated with energy scarcity and the aspirations of the middle-class emergence in large emerging economies like India and China however, may not be unproblematic, given the number of internal contradictions that both India and China face and it may affect both economies in terms of energy consumption. It may also be dependent on the fact that both large emerging economies are unable, in the short and medium term, to reinvent themselves and formulate new energy-saving technologies or alternative energy development that may either reduce the amount of energy used or pare down reliance on fossil fuels.

Even fossil fuels formerly (and contemporarily) perceived as polluting continue to appear in the discourse on energy alternatives in North-East Asia with coal, for example, as seen in energy narratives and discourses as plentiful and affordable. But it is also seen as an output of back-breaking work that is risky and dangerous.⁹ Focusing on the positives only, if the characterization for coal is affordability and abundance, then the discourse on gas energy is one of long-

term commitment and supply with the imagery of a cleaner form of fossil fuel for future utilization and development.

The discourse of scarcity is strong, entrenched and dominant in North-East Asia. First applied to Japan in the modern era when it embarked on modernization after the 1868 Meiji Restoration and emerged as an energy consumer whose dependence on fossil fuels became intertwined with its industrialization process. The discourse is then applied to post-market reform China where fast growth based on the pattern of accelerated state-led growth which eventually saw demand outstrip supply even though it has a significant and sizeable domestic output in oil and a globally significant share of coal. The discourse drives the urgency of North-East Asian energy consumers to search globally for more energy resources and also led to anxiety of consumers and stakeholders to compete for more energy resources. Energy scarcity both real and imagined drives oil prices and its speculation.

Lisa Margonelli argued that 2003 was the defining year when the rise of Indian and Chinese demand for energy made the jump in global demand for oil prominent after years of retrenchment (twenty years' worth) in refining jobs.¹⁰ 2003 was also memorable for other reasons. According to Margonelli, China overtook Japan to become globally the number two biggest importer of oil.¹¹ The discourses and narratives on the reasons behind the increased energy usage in North-East Asia vary, often greatly. For example, Margonelli pointed out the impact of rumors and speculation on energy prices, including Chinese production of ceramic toilets and kilns that are energy-intensive ventures directly related to energy price hikes.¹² Other explanations including that of John Hofmeister (former president of Shell) included attributing increased fuel usage for example in first half of 2008 to increased use of oil for the airline industry and the hosting of the Olympic games in China.¹³

Consumption pattern was also another possible reason for increased oil use in China. Margonelli argued that diesel generators by Chinese consumers to manage blackouts resulted in nearly an additional million barrels of oil consumed on a daily basis in 2004 compared with 2003.¹⁴ Consumption is in fact something desired and banked on by oil producers eager for more economic revenues and so some oil producers have strategically offered oil supplies under market rates and better quality supplies (e.g. with lower sulphur), for example in the case of Saudi supplies to China.¹⁵

The Saudis enjoy the status of having the largest oil reserves, as the second largest producer of oil after Russia and the largest exporter. In the popular discourse and narrative in energy literature, Saudi Arabia is both statistically and comparatively the largest supplier in the market with the Ghawar oil facility the biggest ever discovered oilfield in energy history.¹⁶ According to Geoffrey

Heal, Saudi Arabia has proven oil reserves of 262.7 billion barrels and outputs approximately 8 million barrels per day for yearly revenue of US\$175 billion.¹⁷

While the narratives on oil suppliers are those of harnessing the future perceived potential needs and imports of rising emerging economies, others are producing discourses on mitigating increased oil and energy consumption. In the discourse on mitigating consumption, there appears to be a potential debate between incrementalism and radical energy innovation and/or supply. Incrementalism suggests the long-drawn effects of a paced but step-by-step conservation of energy leading to an accumulative effect. It is a gradual process that requires patience to negotiate a challenging road to eventual energy saving.

Incrementalism may also suggest the possibility of looking at alternative sources of energy such that their slow development and technological introduction into daily lives through market needs may make an eventual difference as consumers transition from fossil-fuel lifestyles to comparatively carbon-cleaner lifestyles. Strong advocates of incremental conservation even argue that it can displace fossil fuels and signal the so-called obsolescence of oil energy, for example Paul Roberts has suggested that the manner in which governments of developed economies like the US and Japan have invested substantially in energy-saving technologies and automobiles may in turn signal lower demand for OPEC (Organization of Petroleum Exporting Countries) oil.¹⁸

Radical innovation advocates may not be able to have the same patience as incrementalists. They posit that radical changes may be possible through the myriad of existing technological developments that can be further developed to move away from polluting (or what they perceived as) polluting sources of energy including, primarily, fossil fuel-based options to cleaner and more carbon-free energy utilization. Regardless of incremental or radical innovation adherents, precedents in the late modern era appear to have a track record of less than positive success in completely replacing the need for oil energy and there continues to be reliance on fossil fuels.

Paradigm shift and radical change as opposed to slow transition away from fossil fuels may be underlined by the urgency of fast-emerging energy consumers who may join an already overcrowded group of developed economies that are major energy users. They may also be motivated by oil-peak theories or less positive projections of the impact of energy on limiting growth and economic development. It may also be motivated by narratives and discourses that link energy shortages and its negative effects on contemporary civilizations and lifestyles. The discourse and narrative in this aspect is underlined by the real-life example of one and a half billion individuals or 25 per cent of the global populace without reach to electricity or fossil fuels.¹⁹

Within the rubric of the narrative of the alternatives, scholarly arguments have turned to alternative fuel and also alternative energy sources as a means

for lessening reliance on the Middle East in terms of North-East Asian energy consumers.

The narrative of alternative sources of energy (either in terms of geographical locations or energy-conserving technologies) in North-East Asia may historically be traced back to Japan in the 1970s with the outbreak of the oil crisis that necessitated Japan's global outreach for energy, something emulated and/or evolved independently by later developers in North-East Asia, including China and South Korea, both of whom have embarked on accelerated processes of global energy searches. Before the oil crisis, the only time Japan experienced energy and oil scarcity was during the immediate post-war period when Sony founder Akio Morita observed that due to petroleum shortage, vehicles and public transport had to rely on waste oil, charcoal and usable solid fuels.²⁰

Energy diversification policies and diplomacy in North-East Asia was also pioneered by Japan after the oil crisis as it sought to reduce overreliance on a single source, namely the Middle Eastern suppliers. This is a pattern that other North-East Asian economies and India have followed after their own phases of economic development. Japan for example, does not have any reliance on single sources, no matter how large (e.g. Russian prolific gas reserves) but relies on a variety of Middle Eastern and Asian suppliers.²¹

The nearest alternative energy-rich region to North-East Asia is Russia and this awareness is well understood by the Russians who visualized its role as a 'fuel tank' for North-East Asia as early as the late 1990s by scholars such as Vladimir I. Ivanov.²² According to Stephen King, Russia has globally the largest output of oil and natural gas combined, accounting for 12.4 per cent of world oil output (ranking after Saudi Arabia) and 19.6 per cent for gas.²³ The earliest example of North-East Asian interest in importing Russian oil may have been in the autumn of 1973 when Prime Minister Tanaka visited the Soviet Union and talked about the Tyumen oil facilities in Siberia with their Russian counterparts.²⁴ After Japan, later developers in Asia also followed suit with their own interest in Russian resources. The discourse and narrative on Russia conceptualizes the resource-rich energy producer as the greatest hope for fossil fuel energy-scarce North-East Asia based on the argument of complementarity derived from Russia's increasing economic yield from energy revenues. According to Paul Roberts, Russia relies on petroleum trade for 33 per cent of its total revenues and sees the incoming revenue as an economic resource for developing north Russia.²⁵

Offer of developmental aid and capacity-building help in exchange for energy appears to be a pattern found among Asia's large economies during their fast-growth phases. Japan energy diplomacy that was initiated in the 1970s based energy diplomacy on friendship, goodwill, infrastructure development and financial aid and help. This template appears to be replicated in other North-East Asian energy consumers, with adaptation to local conditions and capabilities.

For example, China promised infrastructure construction in exchange for fuel, one example according to Margonelli, China provided US\$3 billion and a refinery facility for Nigeria.²⁶

The main thesis or theme of this volume is based on the idea of inter-regional exchange between North-East Asia and the Middle East (including the Gulf region). Two items, trade and energy, are specially highlighted as case studies. Energy (particularly oil and natural gas) is chosen given that it is an established commodity in the exchanges between the two regions while trade is more historical but nevertheless important due to increasing economic contacts between the two regions. Trade and energy may be bundled into one single package as the economies found within the two regions may be interacting through comprehensive economic deals as part of a conscious effort to deemphasize energy due to efforts (in both North-East Asia and the Middle East) to diversify away from it and to utilize trade as a leverage to move into a post-energy interactive platform. For the foreseeable future, however, energy remains an important component and may not be eliminated from the exchange totally.

Rising energy use and increased trade between the Middle East and North-East Asia may be considered as part of the perceived concept of 'rising' Asia. Given that the discourse and narrative of 'rising Asia' has built up to a certain extent both in popular perceptions and perceptions among specialists and is now an industry by itself, the narrative appears to assume that there is an unproblematic continuity in the growth of Asian economies, particularly among the large emerging economies, such as India and China. Based on this unproblematic projection of growth, there are projections of increased energy use.

The chapter on 'Progress and Development' discusses the popularly cited ingredients for Asian economic growth, including that of science and technological development, education, demographic growth and rapid industrialization. But the same ingredients that have brought about fast growth have also stimulated the contradictions of development. Industrialization, and its consequents, increased urbanization and the spread of personal vehicles, are several popularly cited causes of challenges to the emerging economies' environments. This is the counterbalance to the perceptions of the so-called shift of gravity of the world economy to the Asia-Pacific economies.

Demographic growth which has also created a large market for some emerging economies may also be responsible for competitive use of resources, diseases in overcrowded cities, etc. These contradictions of development centres upon the ability to feed populations of developing areas, keeping them employed, locating enough resources for them to utilize. These priorities appear to lead to several major challenges, including depleting resources, diseases from overcrowding and socio-economic gap from fast development.