The China-Russia East Pipeline Could Redraw Northeast Asia’s Energy Supply

By Qingsi Li

Evolution of energy co-operation between Moscow and Beijing has the potential to spill over into broader issues involving relations with two of Northeast Asia’s other major economies, Japan and South Korea. That, in turn, could alter, and even complicate, the ambitions of the United States to gain a larger share of the region’s energy market, writes Qingsi Li.

AFTER 20 YEARS of negotiations and five years of construction, the China-Russia East Route Gas Pipeline has started transporting gas to China, a strategic step for energy co-operation between the two countries. The natural-gas pipeline, which runs across 3,000 kilometers of Russian land and 3,371 kilometers of Chinese land, aims to transport 38 billion cubic meters of gas to China every year, which will have an enormous impact on the Northeast Asian energy game.

Northeast Asia is the world’s economic powerhouse due to China, Japan and South Korea. All three nations, however, are energy importers, despite the fact that China has more energy reserves than the other two. Its consumption levels are too large not to require imports. So, all three will remain major energy importers before any revolutionary new energy sources are abundantly available in the future. The fight to secure energy supplies is just like the battle to secure other vital natural resources, since energy is the essential basis for economic development and social welfare. Decades ago, China exported energy and natural resources to Japan and South Korea, but as a result of its own rapid economic growth, it has instead become a competitor for energy and other natural resources, though all three have a common interest in lower prices.

China’s import of Russian natural gas can help lessen the energy competition among the three energy-hungry nations in Northeast Asia.
THE IMPACT OF THE EAST PIPELINE

The gas pipeline will certainly enhance the China-Russia comprehensive strategic partnership. Both Russia and China are paradoxically restrained by America’s new energy strategy. With regard to Russia, President Donald Trump has been trying to obstruct the Nord Stream No. 2 pipeline from transporting Russian natural gas to Europe via Germany. Getting those gas exports moving is an urgent priority for Russia after it was nearly stopped from using an older pipeline through Ukraine and Poland due to Ukraine’s “color revolution” and civil war. China needs as much natural gas as possible to feed its enormous demand for both industry and civilian heating in winter, as well as daily cooking consumption. But the external supply is neither sufficient nor stable, as was demonstrated in large parts of north China in the winter of 2017.

In reality, Russia and China could be a perfect match for a natural gas energy supply-demand chain, but such a match would certainly be a disappointment to the US, which, as a net energy exporter, wants to increase both natural gas and gasoline exports to China and Europe. To curb or eliminate Russian energy exports would not only expand America’s overseas market share, but also reduce Russian energy revenues. This would, among other things, put the Americans in an advantageous position versus Russia in the power struggle in Syria by lowering Russian energy revenues. The same is true for disturbing China’s energy supply, which the US could control either through strategic sea lanes like the Strait of Malacca, or by supplying China’s energy market with its own gas and shale oil. Either way, the US would be able to manipulate China’s energy supply and prices. In such a scenario, China’s energy security would be in serious danger, since no country should rely on only one or a few energy suppliers.

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Viewed in this context, the East Pipeline is a victory for both China and Russia. It is a significant step for energy and strategic co-operation between the two countries and will not only further economic development but also bring stability to Northeast Asia’s energy supply. It could also have an influence on Trump’s policy views on East Asia.

The East Pipeline should reduce energy competition among China, Japan and South Korea, since Tokyo and Seoul will have more freedom to choose energy exporters in the future. Energy suppliers such as Australia and some Middle Eastern countries will have less negotiating leverage after losing a large share of the Chinese energy market. If the East Pipeline can provide a model for Russia-Japan and Russia-South Korea energy co-operation in the future, those countries will be better positioned to negotiate with Trump’s demand to buy more American energy supplies.

SHARED INTERESTS

As an increasingly important net energy exporter, the US must also compete with future renewable green energy sources, which could hinder its ability to expand its energy exports to the region. Also, if America’s military allies Japan and South Korea import energy from Russia to increase their economic independence, the US will almost certainly try to prevent the transaction. But it would not be fair to force Japan and South Korea to accept 30 percent more expensive American gas, particularly at a time when the US is trying to get Tokyo and Seoul to increase their share of the cost of deploying American soldiers in their countries. Neither country can deal with Washington alone. Perhaps involving Beijing and Moscow in their future energy package could be a way of breaking this deadlock with Washington.

A more diversified overseas energy market is beneficial to Russia as well as to China, Japan and South Korea. Future energy co-operation with Japan and South Korea will help China negotiate with Russia, and also help Japan and South Korea negotiate with the US. It is interesting to observe that China, Japan and South Korea, as energy importers, are not classified by the nature of their energy supply or demand, but by co-operation on supply and prices. The US and Russia, on the other hand, see the competition as a zero-sum game. The three energy importers have shared interests.

The East Pipeline indicates a decisive shift in Russian strategy that will look more to the east and the south for economic co-operation and development in the future. Closer China-Russia economic ties should provide new momentum for Northeast Asian economic development, which in turn will provide China, Japan and South Korea a better chance to negotiate with outside competitors. This is yet another good reason for speeding up the negotiations over the China-Japan-South Korea Free Trade Agreement, especially after India suspended its role in the Regional Comprehensive Economic Partnership (RCEP) trade agreement.

The world is watching and relying on East Asia for economic opportunities. As the engine of world growth, China, Japan and South Korea cannot afford to wait any longer to forge closer co-operation given the current wave of trade protectionism and anti-globalization sentiment.

Qingsi Li is a researcher at China’s National Academy of Development and Strategy, and a professor at the School of International Studies, Renmin University, China.

Email: qli@ruc.edu.cn.