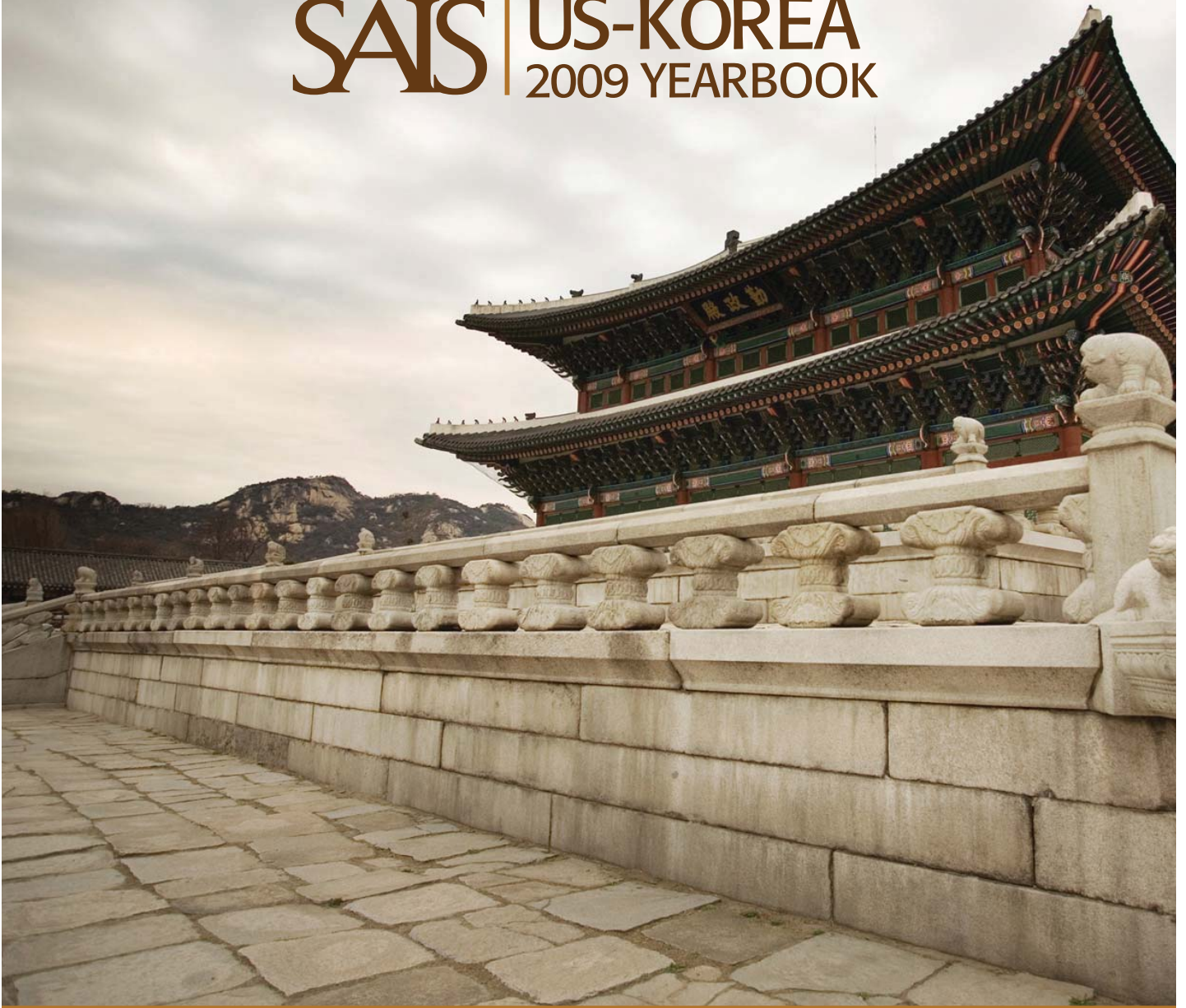


SAIS | US-KOREA 2009 YEARBOOK



JOHNS HOPKINS
UNIVERSITY

SOUTH KOREA'S ENERGY DIPLOMACY TOWARDS CENTRAL ASIA

By Sogaku Miyamoto

I. INTRODUCTION

South Korea imports 97 percent of its energy from abroad and is currently ranked tenth in the world in terms of energy consumption. Thus, securing a stable supply of energy is one of the top national priorities of the country. The South Korean government has been pursuing energy diplomacy with resource-rich countries and regions such as Russia, Central Asia, the Middle East, Africa, and Latin America. Among them, South Korea has actively engaged in Central Asia since the collapse of the Soviet Union in the early 1990s. Central Asia, including Kazakhstan, Azerbaijan, Uzbekistan, and Turkmenistan, is referred to as the “Second Middle East” for its abundance of natural resources such as oil and natural gas. Proven oil and gas reserves in Central Asia in 2006 were 48 billion barrels, or 3.9 percent of the global portion, and 9.1 trillion cubic meters, or 5 percent of the global portion, respectively. As for oil reserves, Central Asia is the second largest after the Middle East. Moreover, a large quantity of uranium, an ingredient for nuclear power generation, is also found in Central Asia.

This paper considers South Korea's overall energy diplomacy towards Central Asia. First, it explores various aspects of its energy diplomacy in Central Asia, with a focus on the case in Uzbekistan and Kazakhstan. It then considers geopolitical issues related to Central Asia that could affect its energy diplomacy. Finally, this paper assesses the achievements and failures of South Korea's energy diplomacy and discusses the prospect of its future.

II. SOUTH KOREA'S ENERGY DIPLOMACY IN CENTRAL ASIA

Energy Cooperation Diplomacy

South Korea has engaged in Central Asia at the highest political level. President Lee Myung-bak made state visits to Uzbekistan and Kazakhstan in May 2009. Lee and President Karimov signed 16 memoranda of understanding on the rights of Korean firms to develop oil and mineral resources and industrial infrastructure in Uzbekistan. South Korea and Kazakhstan also adopted a joint action plan that calls for closer bilateral cooperation in the development of energy, natural resources, and infrastructure, as well as in the fields of labor, culture, disease control, and health. The two countries agreed to begin projects to develop gas and oil and build a broadband Internet network in Kazakhstan. Overall, President Lee signed 20 memoranda on energy and resource cooperation with the presidents of Uzbekistan and Kazakhstan.

South Korea and Kazakhstan also agreed on a reciprocity strategy that fuses the resources of Kazakhstan with the capital and the technology of South Korea. President Lee described South Korea as having a competitive edge in high technology and Kazakhstan in abundant resources. President Nazarbayev said that Kazakhstan welcomes the expansion of South Korean investment to other fields, such as the information-technology industry.

Foreign Minister Yu of South Korea also emphasized that the visit of President Lee to Uzbekistan and Kazakhstan deepened the trust between President Lee and the leaders of Uzbekistan and Kazakhstan, which would be a crucial factor to expand cooperation between these countries. For example, President Karimov of Uzbekistan accompanied President Lee almost all the time during his three-day visit. President Nazarbayev of Kazakhstan even treated President Lee in the same sauna as his before having dinner in the presidential residence.

On top of high-level energy diplomacy, South Korea has also adopted a softer lower-level approach, most visible in cross-cultural programs. For example, the Korean Culture and Information Service of the Ministry of Culture, Sports, and Tourism and the Korean Silk Road Foundation jointly held a Korean Culture Festival in Uzbekistan, Kazakhstan, and Turkmenistan in May 2009. The Korean Culture Festival was aimed at boosting cultural exchange and increasing friendly bilateral relations with the aforementioned countries. *Hallyu*—or the “Korean wave”—seems to be leading the way to Central Asia; Korean cars, cell phones, and electronic appliances can easily be found in Central Asian homes, as well

as fans of Korean TV dramas such as *Jewel in the Palace* and *Winter Sonata*. A traditional Korean band also often accompanies the economic cooperation caravan, which is discussed below, and gives performances. These initiatives aim to promote South Korean culture in Central Asia.

Reinforcing Support Activity for Energy Development Business in Central Asia

South Korean embassies worldwide have provided close support for South Korean companies' major energy development projects in 20 countries, including Central Asia, through direct dialogue with companies. The basic role of the South Korean government in supporting the energy companies is twofold: (1) provide assistance to overcome their disadvantages compared to foreign counterparts; and (2) minimize political risks associated with launching businesses in politically volatile environments. In this regard, the South Korean government provides the following support to the South Korean energy companies.

- a) ***Collecting and Distributing Energy-Related Information.*** Even if Korean energy companies hope to expand their business opportunities in Central Asia, they are less experienced and less technologically equipped compared to major international energy companies such as BP and Shell. Thus, Korean companies would need to move to more politically and economically volatile regions in Central Asia to be more profitable by avoiding competition with the major global companies. In order to encourage this movement, the South Korean government has set up early warning and rapid response systems for hazards in volatile business environments.
- b) ***Caravan Diplomacy.*** In 2008, the South Korean government launched a special mission group formed by governmental officials and private companies, called the "Korea Caravan," to resource-rich areas such as Central Asia, the Middle East, Latin America, and Africa. The Korea Caravan plans to enhance both official and commercial ties with these regions to create a good atmosphere for signing relevant agreements to secure resources in the countries concerned. The Korea Caravan is based on similar mission tools that exist in Japan and China. Cooperation between the public and private sectors will be more and more important because in many cases private companies find it risky to invest and need public assistance to do so in resource-rich countries.

To encourage more private investment in such regions, it is important for the government to play a role in promoting the organic cooperation between official development assistance (ODA) and commercial activities. In this regard, the Korea Caravan has enormous potential in constructing ODA and technical support cooperation channels. Although no caravans have yet been sent to Central Asia, the South Korean government plans to send them in the foreseeable future.

Improving Infrastructure and Quality of Energy Cooperation Diplomacy towards Central Asia

The South Korean government has also engaged in expanding infrastructure in Central Asian countries for successful energy development there. The government has pursued energy diplomacy based on an “energy diplomacy strategy,” which aims at ensuring an energy supply to sustain Korea’s economy in a sophisticated and harmonious manner. Furthermore, the South Korean government designated 32 embassies as special missions for energy cooperation. The government also opened new embassies and consul generals in resource-rich countries in Africa, Central Asia, and South America. In Central Asia, a new consul general opened in Kyrgyzstan. In addition, the Ministry of Foreign Affairs and Trade was reported to have relocated a substantial number of its elite officials to embassies and consul generals in resource-rich countries, including Central Asia. Moreover, South Korean embassies and consular offices abroad are to hire local “special advisors” to help facilitate energy diplomacy. Indeed, the South Korean embassy in Kazakhstan hired local experts on oil and natural gas in 2008.

III. SOUTH KOREA’S ENERGY DIPLOMACY IN KAZAKHSTAN AND UZBEKISTAN

Kazakhstan

In May 2009, South Korea and Kazakhstan signed a \$5 billion contract for South Korean investments in Kazakhstan’s energy and technology sectors. Under this agreement, South Korean companies will invest \$2.5 billion in a new power plant in southern Kazakhstan. The plant will be completed by 2014, and Korea Electric Power Corporation and Samsung C&T will own 65 percent of the plant.

At the grass-roots level, there are approximately 320,000 ethnic Koreans living in Central Asia, of which approximately 100,000 live in Kazakhstan. The South Korean government hopes that they will play a key role in bridging South Korea and Kazakhstan and strengthening the relations at the grass-root level.

Uzbekistan

In May 2009, South Korea and Uzbekistan signed five oil-and-gas deals. In return for access to Uzbekistan's energy reserves, South Korea will undertake a series of development projects, including financing the construction of chemical plants and a \$17.6 million revamp of the sewage system in Navoi.

Furthermore, the number of ethnic Koreans living in Uzbekistan is approximately 200,000, which is the largest among Central Asian nations. When President Lee visited Uzbekistan in May, he hosted an informal social gathering with local Koreans, during which the president emphasized the importance of their presence for South Korea to develop a closer relationship with Central Asia, which could complement South Korea's energy diplomacy.

IV. GEOPOLITICAL ISSUES IN CENTRAL ASIA

China's Presence

China has been trying to expand its influence in Central Asia through the Shanghai Cooperation Organization (SCO). For China, Central Asia is a strategically important region in terms of securing energy supplies. China's economic presence in Central Asia has largely increased over the years. In the SCO summit in June 2004, the Chinese government offered the financial support of about \$900 million to the SCO signatories, which includes four Central Asian countries: Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. In June 2009, China further agreed to loan \$10 billion to the SCO countries to help them overcome the struggle that resulted from the current economic crisis. Meanwhile, Central Asian countries also seek to advance cooperation with China in various ways. In Kazakhstan, the construction of a crude-oil pipeline to China was completed, and the transportation of crude oil to China began at the end of May 2006. As Kazakhstan seeks to expand exports of its energy resources, China is an important destination as a huge consumption market. Moreover, the advancement of Chinese capital in the energy sector has become more significant. In August 2005, a Chinese oil and natural gas group (CNPC)

purchased a Kazakhstan enterprise and is estimated to have paid approximately \$4.1 billion. In 2009, China National Oil & Gas Exploration and Development Corporation (CNODC) and KazMunaiGaz, a Kazakhstan enterprise, formed a joint venture called Mangistau Investments B.V. They agreed in a \$3.3 billion deal to exploit oil and gas fields in Kalamkas and Zhetybai in Kazakhstan. In addition, Uzbekistan has also been strengthening economic ties with China. Chinese capital has mostly flowed into the fields of communication and energy development in Uzbekistan.

Russia's Presence

Russia has engaged in Central Asia in order to regain its influence over the region, which had significantly declined following the collapse of the Soviet Union. Despite the expected Russian retreat from engagement in the area after the recent global financial crisis, which badly hit the Russian economy, it seems that Russia is taking advantage of the crisis to be more influential in the former Soviet Union and the allies. While the United States and Europe are occupied with dealing with the global economic crisis, Russia has taken measures to weaken Western influence in Central Asia. In February 2009, the heads of the members of the Collective Security Treaty Organization (CSTO), which includes Russia and Central Asian countries, agreed to create a readiness command with manpower of 10,000 soldiers. Although the purpose of creating the new command force is to fight against terrorism and drug trafficking, it also serves as a counterweight against the North Atlantic Treaty Organization (NATO), which has expanded to the former Soviet sphere in countries such as Ukraine and the Republic of Georgia. In retrospect, Russia also succeeded in closing the United States air base in Kyrgyzstan, which the United States had used as a military outpost for the Afghanistan War since 2001. These measures indicate a continuation of the "Strong Russia" policy adopted by President Putin in his second presidential term that began in 2004. An important implication of Russia's involvement in Central Asia is that in order for the South Korean government and companies to successfully conduct energy development in the region, it is crucial that they develop a good and close relationship with Russia as well, which now has more influence over the region.

Japan's Presence

Japan began to engage Central Asian nations soon after they achieved independence from the Soviet Union in 1991. Tokyo became a major aid donor to the region through policies such as ODA. In 2006, Japan provided

\$92.7 million in ODA to Central Asian countries, which was the third largest contribution after that of the United States (\$468.7 million) and Germany (\$157.5 million). In 2004, Foreign Minister Kawaguchi initiated the “Central Asia plus Japan Dialogue,” holding a round of talks on economic and security ties. Japan’s main interest in Central Asia has long been to build up stability and development in the region as they are indispensable for the peace and prosperity of the Eurasian Continent, as well as East Asia, and the international community as a whole. In this regard, Japan and the Central Asian countries have intensified their endeavors towards the democratization of the Central Asian societies, the promotion of the market economy, the improvement of people’s standard of living, the eradication of terrorism and poverty, and the protection of human rights.

At the same time, Japan sought to reduce its oil dependence on the Middle East. Moreover, Japan has wanted to increase its use of nuclear energy, which requires uranium. As a result, Japan started to actively engage in energy diplomacy in Central Asian countries. During his visit to Central Asia in 2006, Prime Minister Koizumi agreed with the president of Kazakhstan to cooperation on the peaceful use of nuclear power, which includes the development of uranium mines in the country.

V. CENTRAL ASIA’S POLITICAL, SOCIAL, AND ECONOMIC SITUATIONS

The Political and Social Situations in Central Asia

Many Central Asian countries are still under authoritarian rule. When they became independent after the collapse of the Soviet Union in 1991, they hoped to transform themselves into democratic states with free-market systems. However, the legacy of authoritarian rule has long persisted since their independence, which has resulted in enormous challenges to changing their political, economic, and social systems. Also, violent ethnic, religious, and social conflicts still exist, which causes civil society to be undeveloped and unstable. With weak democratic institutions, the power of central governments remains strong, with no effective checks and balances. In addition, abuses of human rights, corruption, and misuse of power continue to prevail. In Central Asia, Uzbekistan and Kazakhstan are the two main political actors. Uzbekistan has a close and strong tie with Russia, and Kazakhstan has a large economy, with the highest GDP per capita in the region: \$8,501 in 2007.

The Economic Situation in Central Asia

The recent global economic crisis severely hit the economies of Central Asia as well. Kazakhstan's economy received a particularly harsh blow from the crisis together with the decline of the price of crude oil. Because of this, Kazakhstan's economic system—supported by enormous loans from abroad—collapsed. Consequently, many large banks defaulted, and real estate prices stagnated. Through this crisis, Kazakhstan came to realize the weakness in its economic structure, which relied solely on resource development. Based on this experience, Kazakhstan now seeks to diversify the scope of its economic activity to include information technology and manufacturing to achieve a more diverse and stable economy. In this regard, South Korea could help Kazakhstan achieve its economic goals by providing high technology, in which South Korea has a competitive edge, as part of reciprocity cooperation with Kazakhstan, which would provide South Korea with its natural resources.

As for Uzbekistan, although the economic situation is somewhat different from that of Kazakhstan, its economic goals are similar. Uzbekistan followed a closed economic policy since its independence in 1991, and, although its economy did not grow to the size of Kazakhstan's, it was hardly affected by the recent economic downturn due to the lack of openness in its monetary system and its backward economic structure. It is reported that, taking advantage of this opportunity, Uzbekistan seeks to gain economic power to be more influential in the region. To help Uzbekistan achieve this, South Korea could provide Uzbekistan with economic assistance in a similar manner to that for Kazakhstan, by transferring high technology such as information and manufacturing technologies to them.

South Korea could also increase its ODA to Kazakhstan and Uzbekistan to facilitate strengthening of its economic activity by improving its infrastructure and by subsidizing higher and vocational education.

VI. ANALYSIS OF SOUTH KOREA'S ENERGY DIPLOMACY AND ITS PROSPECTS AND RECOMMENDATIONS FOR ITS FUTURE

With all the aforementioned measures taken by South Korea, it is fair to say that South Korea has developed good relationships with Central Asian countries to serve its goal of energy diplomacy. However, South Korea should also be aware of the geopolitical factors that exist in the region, in order to conduct energy

diplomacy in an effective manner.

With regard to the pursuit of energy cooperation diplomacy, South Korea seems to be investing huge political capital under the leadership of President Lee. With his understanding of the importance of securing energy resources for South Korea, President Lee utilizes strong leadership to promote energy diplomacy. It was particularly important that, during his visit to Central Asia in May 2009, Lee successfully agreed to a number of memoranda of understanding on the rights of South Korea to develop natural resources. The president should also be credited for developing close and personal relationships with the leaders of Kazakhstan and Uzbekistan, which will help further accelerate energy cooperation between South Korea and Central Asian countries. President Lee also acknowledged the importance of the 320,000 ethnic Koreans living in Central Asia as key players in bridging South Korean and Central Asian cultures and in strengthening relations at the grass-roots level. This shows that President Lee recognizes that a holistic approach, spanning from high-level diplomacy to the grass-roots level, is an effective way of promoting South Korea's goal of building a strong energy cooperation network in Central Asia.

Meanwhile, South Korea should seek a "win-win" strategy that is mutually beneficial for both sides when conducting energy diplomacy. Bulat Sultanov, president of a strategy research center under the direct control of the Kazakh president, once said that it would be out-of-date diplomacy if South Korea seeks only to meet its own interests without considering the needs of Central Asia. Since the oil shocks in the 1970s, South Korea's foreign energy development had been geared towards gaining immediate results and seeking solely their interests, but not the interests of the suppliers. Resource-rich countries tend to seek to develop a domestic economy that will be sustainable even after their natural resources are used up. South Korea therefore should understand these needs when negotiating with Central Asia. In this regard, during the May 2009 visit President Lee rightly promised to provide funds and knowledge capital for economic growth and infrastructure development in Central Asian countries. It is also highly appropriate for South Korea, as one of the East Asian Tigers, to offer such assistance based on its own development experience.

As for the reinforcement of support activity for the energy development business in Central Asia, the South Korean government aims to collect and distribute energy-related information to Korean energy companies. The South Korean government is right to introduce this measure because it is essential for energy companies to successfully exploit energy resources in a volatile

business environment such as Central Asia. Central Asia is one region where the position of Korean energy companies is weak in the energy market, which makes them more vulnerable to state intervention and exploitation than their foreign competitors are. To make this measure more effective, the South Korean government should work to create an environment in Central Asia that is more favorable to South Korean investment in the region.

In this regard, the government's recent decision to open a consul general in Kyrgyzstan is the first step towards establishing the comprehensive political risk assessment and crisis response system in the region that would reinforce South Korea's energy development in Central Asia. Embassies and consul generals are expected to build a network to monitor political, economic, and social conditions in the region and to identify opportunities for energy development in those countries. In the future, South Korea should also increase the number of energy experts in the embassies and consul generals in Central Asia to further reinforce the infrastructure and quality of energy diplomacy.

That said, it is unclear how actively the South Korean energy enterprises seek to invest in a region with high political and economical volatility, which could seriously undermine their energy development business. Furthermore, while it is important for South Korea to sign energy deals with Central Asian countries, these energy deals often expect an involvement of private enterprises. For example, South Korea signed an agreement that includes a \$2.5 billion investment by South Korean companies in a new power plant in southern Kazakhstan. It is unclear whether private enterprises are willing to play a role in a region where civil society is underdeveloped and democratic institutions are weak, and corruption and misuse of power still exist.

With regard to geopolitical issues in Central Asia, many Central Asian countries still have authoritarian governments. In light of this, while increasing ties with Central Asia, the South Korean government should be careful about intervening in or criticizing the domestic politics of any Central Asian countries, especially on issues of human rights violations. Instead, its efforts would be better spent on expanding interchange and mutual cooperation in nonpolitical areas. In this regard, it is appropriate that South Korea focuses on promoting cultural exchanges with Central Asian countries through programs such as the Silk-Road Cultural Festival rather than pursuing political intervention such as spreading democracy. In addition, Central Asian countries seem to regard South Korea as a reliable and trustworthy partner. When the Korea-Central Asia Cooperation Forum was established under the Roh administration, representatives from

Central Asian countries expressed their approval of the forum on the grounds that “Koreans have neither imposed political propaganda, nor attempted to touch politically sensitive domestic agendas.” To this end, South Korea should continue to strengthen cooperation in nonpolitical areas.

Regarding Russia, its presence in Central Asia is certainly influential and important, so South Korea should develop a good relationship with the country. Turning our attention to the east of the country, Russia urgently wants to increase the production of energy in eastern Siberia and the Russian far east in the near future. Russia's economic growth is heavily dependent on its energy export, but Russia struggles to expand energy production at locations with major energy reserves such as eastern Siberia. Russia seeks a large amount of investment for building infrastructure for extracting and processing the reserves in the region. In this regard, South Korea could assist Russia by investing in the energy development initiatives in Siberia. In return for such assistance, South Korea could earn more leverage over Central Asia from Russia in terms of energy development in the region.

Moreover, China and Japan conduct active energy diplomacy in Central Asia as energy security has recently become a national priority for both countries, just as for South Korea. Thus it is important for South Korea to manage the competition with these countries strategically. However, it cannot be denied that the scale of Korean investment and economic assistance in the region is significantly smaller than that of China and Japan. This is a representation of the weaker ties South Korea has with Central Asia, compared with China and Japan. This could put South Korea in a more difficult position to compete against these economically influential countries over energy development. On the other hand, South Korea has been seeking to develop an international cooperation for energy matters. South Korea has proposed a three-party dialogue on energy issues among China, Japan, and South Korea. The purpose of such a dialogue is to manage and mediate competition between these energy-hungry countries. If the three countries were able to cooperate, it would create a new framework for more harmonious energy development in the region, which implies that energy security in South Korea and all of Northeast Asia could be improved. South Korea therefore should continue to play an active role in realizing a regional energy cooperation framework to achieve this.

VII. CONCLUSION

South Korea, which imports 97 percent of its total energy consumption, has actively conducted resource-seeking diplomacy in Central Asia. South Korea bases its policy on the belief that by the mid 21st century, Central Asian countries such as Kazakhstan, Uzbekistan, and Azerbaijan will become major energy suppliers, replacing the Middle East.

As analyzed above, the South Korean government seems to be taking the right approach to energy diplomacy in Central Asia. So far, the South Korean government has succeeded in creating a more politically and economically favorable environment to secure an energy supply from Central Asia and has also opened up opportunities for those who seek energy development in the region. It was especially effective that President Lee developed good personal relationships with the leaders of the region. This is important because these countries still tend to have authoritarian regimes, under which their leaders have more concentrated political power.

That said, there are several uncertainties that could undermine the effectiveness and efficacy of South Korea's energy diplomacy in the region, where political and economic volatility prevail. The scale of Korean investment and economic assistance in the region is also significantly smaller than that of China and Japan, which could put South Korea at a disadvantage when competing against these economically influential countries over energy development.

To this end, South Korea should take a holistic and strategic approach to meet its goals and overcome the difficulties associated with energy development in Central Asia by improving the comprehensive political risk assessment and crisis response system in the region and also by pursuing regional cooperation with Japan and China.



U.S.-Korea Institute at SAIS
1740 Massachusetts Avenue N.W.
Washington, DC 20036
www.uskoreainstitute.org



JOHNS HOPKINS
UNIVERSITY