ASEAN ENERGY MARKET CRISIS*

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Abstract

The ASEAN energy market is facing a crisis due to the increasing demand for energy and the high costs associated with it. The need to save energy and use clean sources of energy has become a major concern for industries worldwide. This paper aims to reveal the results and determine the diversification of risks associated with the structural crisis in the energy market of the ASEAN countries. The article also analyzes the priorities of the ASEAN and the EEC in each other's energy markets, evaluates the results achieved so far, identifies the main factors hindering the development of cooperation, and provides recommendations to improve its effectiveness. The paper highlights the importance of a well-diversified energy mix and sustainable energy policies to ensure the stability and security of the ASEAN energy market. The study emphasizes the need for increased regional cooperation, investment in clean energy technologies, and regulatory frameworks to address the energy crisis and promote sustainable energy development in the ASEAN region.

Keywords: ASEAN, crisis, EAEU, diversification, energy market, institutions, risks, Russia

1. Introduction

Risk diversification is the allocation of capital between several different, unrelated investment instruments: stocks, bonds, currency, real estate, cryptocurrency, options etc. If you invest all your funds in securities of one company, there is a possibility that at some point their...
exchange rate will fall under the influence of external or internal factors. As a result, the investor will suffer losses. If the funds are distributed among the assets of several issuers operating in different sectors of the economy, the profit received from some of them will cover the losses incurred from others (Abdukodyrova et al., 2021; Kanaev, 2020; Diversification of investment portfolio risks; Radkevich and Shipilova, 2019; Semenova and Al-Dirawi, 2022; Semenova, 2022; Yakovlev, 2020a, b; Yakovlev and Mikhaylov, 2020; Yakovlev, 2021a, b).

2. Method

Risk is one of the important concepts for an investor or speculator (trader) in the financial asset market. Without taking a risk, it is impossible to make a profit greater than that determined by the risk-free rate (the percentage of returns from placing money). The profitability of a financial instrument above the risk-free rate is already a risky value - it can not be obtained and in certain cases even have a loss from such a transaction. Therefore, even the very attempt to make a profit from the investment is a risk.

− The risks of buying a particular financial asset are of different nature, so they can be classified. Depending on the type of risk, an investor or trader builds a certain strategy and tactics to eliminate or reduce the negative consequences of this risk.

− Market risk is a generalized concept. This is a drop in the price of an asset in the event of its purchase. Market risk is more important for the speculator than for the investor. To eliminate it, tactics and strategies other than diversification are needed. Diversification is a way to eliminate financial risk primarily for the investor, the wand that helps to reduce the negative impact or even bring the degree of risk to zero.

− For diversification, it is important to classify risks. That is, to identify the causes of market risk (the risk of a decrease in the price of an asset) and ways to eliminate them through the distribution of investments into different asset classes and types of securities.

So, there are the following types of risks:

− country risk – the risk of problems in the state where there is a financial asset. Problems such as a political or economic crisis can cause a decrease in the value of the assets of a given country;
− credit risk (default risk) – the issuer of securities may begin to experience difficulties with the payment of a coupon on bonds or dividends on shares. Another option is to refuse to pay the nominal value of the bond when it is repaid;
− currency risk – possible depreciation of the investment currency;
− industry risk – in the industry in which the issuer operates, there may be a drop in the value of the final product, an increase in the cost of raw materials, labor, and other production costs, as well as a drop in profitability (profit margins). For example, in the banking services market, there may be a crisis of trust among bank customers and, as a result, a drop in the assets of these organizations, a decrease in profitability, and for some market participants, even ruin;
− infrastructure risk – an exchange, broker or management company, that is, the participant with whom the investor works, will not be able to fulfill its obligations under the contract;
− liquidity risk – the purchased financial instrument will not be able to sell quickly at a favorable price;
− the risk of the instrument itself – the same financial asset can be bought in different forms. For example, gold – in the form of bullion, coins, shares of ETFs (exchange-traded funds). Accordingly, the purchase of an asset in one form or another carries certain risks of investment loss.

The method of risk diversification consists in the distribution of funds between different asset classes and different types of instruments, depending on what tasks the investor sets for himself. Depending on the type of risk, diversification can occur by investing in different countries.
and jurisdictions, in several types of assets (bonds, stocks, commodities) of different issuers, different currencies, through different brokers in different jurisdictions (Kanaev, 2020).

There are the following ways to diversify risks:
1. Currency. This method consists in investing in different types of currency: for example, in dollars, euros, Swiss francs, gold, etc.
2. Instrumental. It implies investments in various types of assets, for example, in PAMM accounts, startups, commercial real estate, etc.
3. Institutional. The essence of this method is to invest in the assets of several companies.
4. Transit. Assumes the presence of several alternative ways to withdraw profits. In this case, if one of the payment systems is blocked, the investor can use the other.
5. Species. When using this method, the investor distributes capital between assets of different types, for example, stocks, bonds, currency, precious metals, real estate, etc.

3. Results

Diversification of foreign relations is one of the most urgent tasks of Russia in the foreign policy arena. Serious changes in modern international relations and the geopolitical situation have led to the so-called "turn of the country to the East", where Southeast Asia is one of the most attractive investment sites. Today, ASEAN is the main integration center of Southeast Asia, one of the most important integration centers of the Asia-Pacific region, the initiator of various forms of regional development and the creator of a number of platforms for international diplomacy in the region (Asean as a Direction of Diversification of Russia's Foreign Policy).

The year 2015 was a bifurcation point in the development of Russia–ASEAN relations. It was this year that 5 years have passed since Russia joined the ARF, 10 years since Russia signed the "Comprehensive Action Program", and in 2016 20 years will pass since the conclusion of the Russia–ASEAN dialogue partnership. Today, Russia participates in a number of ASEAN-centric structures of multilateral diplomacy: the EAC, the ASEAN+8 CFR and the ARF. However, despite Russia's active participation in the integration processes of Southeast Asia through a dialogue partnership with ASEAN, its ties with the region remain fragile and shallow. This is due to the presence of a number of internal systemic obstacles that stand in the way of strengthening cooperation.

Integration processes between Russia and the countries of Southeast Asia are a fairly young phenomenon. First of all, this is due to the fact that for a long time there was a prejudice in our country about the backwardness of the Asia-Pacific region and the lack of prospects for cooperation with the countries of the East. For this reason, the advantage was given to "progressive Europe until the rapid growth of the economies of Southeast Asian countries became obvious to the entire world community.

A major role in the rapprochement between Russia and ASEAN was played by the global economic crisis, which had a significant negative impact on the state of the European economy and made serious amendments to the system of international relations. Due to the underdevelopment of the stock market, as well as serious work on mistakes after the internal crisis of 1997-1998, Southeast Asia suffered much smaller losses due to the 2008 crisis than European countries. According to Russian Foreign Minister Sergey Lavrov, "A considerable merit in the fact that the world economy has overcome the most unfavorable phase of the recession and has begun to "revive" again belongs to Asian countries, many of which have managed to maintain high dynamics of economic development" and become the main generators of global economic growth.

The rapid growth in demand for electricity against the backdrop of the global economic recovery provoked a jump in gas prices this fall. There were also smaller reasons, such as switching to more environmentally friendly electricity and depletion of gas reserves due to last year's cold
weather. Those who did not have enough gas had to buy less environmentally friendly fuels, such as coal and fuel oil.

For example, European energy companies typically use more coal in response to high gas prices. But let us recall that Europe is one of the initiators of the construction of a global green economy. She, like no one else, is struggling with the problem of greenhouse gas emissions into the atmosphere and is working to reduce their volume. Therefore, European energy companies need to obtain permits to increase emissions (coal combustion produces more emissions than natural gas combustion). The cost of these permits is already at record levels, and coal prices are close to historical highs.

Gas and coal reserves are frighteningly low even in large economies such as China and India. There is already a shortage of natural gas all over the world. Oil is also in short supply. Since the beginning of the year, daily demand has increased by 6.27 million barrels, while supply has increased by only 2.75 million barrels. As a result, the supply deficit in September amounted to 2.62 million barrels per day, the US Department of Energy (EIA) estimated.

In the US, daily production generally decreased and in September was 0.5 million barrels lower than at the beginning of the year. One of the reasons is the devastating effects of tropical Storm Ida. In turn, the OPEC+ countries decided to increase production at an extremely moderate pace until December of this year. All this led to the fact that in October, the price of Brent crude oil for the first time since the fall of 2018 approached the $85 per barrel mark. Fuel shortage plays into the hands of oil and gas companies. The energy crisis not only brought them additional income, but also slowed down the green revolution. The increased demand was formed for the following reasons.

Abnormal weather. Winter in 2020 was colder than usual, and consequently, the demand for electricity was higher. But the summer of 2021 turned out to be abnormally hot, which is why air conditioners were bought up massively and the demand for electricity was growing rapidly.

Striving for more environmentally friendly consumption. The world's electricity production has begun to gradually abandon highly polluting fuels, such as oil and coal. The most popular alternative at the moment is natural gas, because there are still not enough renewable energy power plants.

Growth in sales and use of electric vehicles. This reason had the least impact, but it is still worth considering. The more electric cars, the more electricity is needed. And electric cars on the roads are really becoming more and more. Thus, according to the report of the European Commission, 350,000 new electric vehicles were registered in the first quarter of 2021 (14% of sales in the entire European car market). It is expected that this indicator will only grow, since manufacturers will soon be unable to sell new cars with internal combustion engines.

Enterprises producing liquefied natural gas in the United States, as well as in other major gas producing countries (Australia, Qatar) are operating at almost full capacity. Expansion of factories is possible. Thus, Qatar plans to increase its capacity by 50%. But it will take years.

In February-April 2021, the inflow of LNG from the United States and Russia slowed down the pace of price growth in Europe and Asia, and at the beginning of this year, an increase in LNG shipments from the United States to European countries allowed European gas quotes to drop to below $1,000/thousand cubic meters. Biden's increase in US LNG supplies to the EU to 50 billion cubic meters/year by 2030 (by 2 times by 2021) has cooled the European market. In January 2022, Asia imported about 15% of Russian LNG exports from Russia in 2021, which also allowed prices in the region to stabilize and even re-export some LNG to Europe.

The significant position of LNG in the European market was confirmed by the downward dynamics of prices before the risks of reducing pipeline supplies from Russia due to potential sanctions. But although the United States signed an agreement with the EU to supply at least 15 billion cubic meters of LNG in 2022 in order to reduce the EU's dependence on Russian natural gas, this volume is not comparable with the export of pipeline gas from Gazprom to Europe (in
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2021 it amounted to 174.3 billion cubic meters). Further significant changes in the gas market conditions are possible only with the introduction of new capacities for natural gas liquefaction in exporting countries and regasification in importing countries, and these changes are possible in the future for several years, but not months.

Changes in the foreign policy situation in 2022 fundamentally change the vision of the target structure of regional gas markets. At the same time, the understanding of these changes is generally common for the Russian and European sides. Participants will reduce their interdependence from each other by changing the product and geographical structure of energy supplies. The objective difficulties of switching do not allow this to be achieved in the future for several months and even until 2025, so both sides have to adhere to the existing relations and look for compromise forms of interaction with increasing risks of conflicts and threats of partial termination of relations (Kanaev, 2020; Yakovlev, 2020).

A more obvious target date for structural changes in supplies seems to be 2030. This period is indicated both in the official communication of the European Commission dated March 8, 2022 REPowerEU, revealing the plan to ensure the independence of the EU from Russian gas supplies, and in the report published in early March by the IEA on 10 ways to reduce the EU’s dependence on Russian gas. The Russian authorities have also set goals for the diversification of supplies. The list of instructions of the President of the Russian Federation following the meeting on the situation in the oil and gas sector on April 14 includes both the development of gasification, which implies an increase in domestic gas consumption in the country, and the construction of new gas pipelines, as well as the integration of existing gas pipelines in the east of the country into a Unified gas supply system.

The plans of the European Union to achieve carbon neutrality by 2050 were generally based on the refusal of gas supplies, but plans in the future until 2030 are seriously violated. Gas as a transitional fuel should have remained an important pillar of European energy at that time, and possibly even further, as evidenced by the draft of a new taxonomy of energy sources published in early February 2022. He assumed that a new gas generation could be put into operation by 2030, provided that in 2035 it would be converted to low—carbon gases - in particular, hydrogen or biogas. The forecasts of the IEA also proceeded from the preservation of the role of gas in the European energy sector. The annual energy forecast of the IEA at the end of 2021 indicated that under the current energy regulation, gas consumption in the EU will decrease slightly — from 401 to 392 billion cubic meters. m per year by 2030, while net imports will remain at the level of about 350 billion cubic meters. m per year, taking into account the reduction in domestic production. More radical "green" scenarios in two versions assumed almost identical and also not too ambitious prospects for reducing gas consumption: in them, EU gas demand could be reduced to about 315 billion cubic meters by 2030. m per year with net imports of about 280 billion cubic meters. m per year.

Thus, even active efforts to displace fossil fuels could ensure a reduction in gas imports within 70 billion cubic meters per year. At the same time, gas imports from Russia to the EU, according to the IEA, in 2021 amounted to about 155 billion cubic meters of gas (including 140 billion cubic meters through pipelines and 15 billion cubic meters. m in the form of LNG). The planned EU measures (referring, among other things, to the positions of the IEA) are aimed at both diversifying gas supplies and reducing demand, primarily from the electric power industry. Additional REPowerEU measures to diversify supply sources, which can be considered as aimed specifically at displacing Russian supplies, involve the rejection of about 60 billion cubic meters. m per year of Russian gas imports is due to diversification – new LNG supplies (about 50 billion cubic meters. m per year) and pipeline gas (about 10 billion cubic meters. m per year).

In view of the high importance of personification of business decision-making in the practice of ASEAN, it seems a timely measure to conduct a large-scale campaign aimed at expanding personal contacts between representatives of the business communities of the Union and the
Association. In this direction, it makes sense to organize a series of meetings with owners and managers of companies from ASEAN countries with a presentation of promising projects in the EAEU states. Such meetings can be integrated into the format of existing platforms, where a joint discussion of this issue is already underway: The St. Petersburg International Economic Forum (SPIEF), the Eastern Economic Forum (WEF), the Krasnoyarsk Economic Forum (KEF), as well as new venues in which ASEAN representatives are not involved: the Far Eastern Investment Congress in Vladivostok, the Astana Economic Forum, the international business forum “Eurasian Week”. These events, undoubtedly important and timely, should be accompanied by the development of cooperation between the EAEU and ASEAN “from below”, that is, between enterprises, retail chains, online platforms, entrepreneurs, etc. Although currently the dialogue is mainly between large companies, the need to connect small and medium-sized businesses to it is objectively overdue.

The launch of joint B2B platforms can facilitate the first step. There is already a successful experience in the development of platforms designed to promote high-tech exports in the EAEU space and are already integrated with similar platforms in Singapore, Indonesia and Malaysia. The most striking example is the Russian export-import B2B platform RStrade4, focused on the promotion of non-raw materials products to the markets of South and Southeast Asia. The continuation of this practice is all the more important, since the transformation of the distribution chain from manufacturer to retail is becoming a modern global trend, bypassing distributors, and many retail chains invest in their own logistics facilities. By strengthening ties with ASEAN, the EAEU will have to act in a spirit not only contradictory, but also contrary to the modality of cooperation that is familiar to the Association and has been repeatedly tested. This involves first compacting the fabric of “grassroots” contacts to a level that allows later to form working institutions. To do this, the Union has neither the time, nor the skills, nor the previously accumulated resources. Therefore, in any scenario, progress will be made without dramatic breakthroughs, slowly and in stages (Man et al., 2019; Mensi et al., 2021).

4. Conclusion

The energy crisis of the present time is expected to have negative impacts on the recovery of economies from the pandemic and could lead to an increase in inflation. However, we anticipate that the current high prices of most commodities, which are a result of the energy crisis, will not be sustained in the long term.

In 2022, we predict that the situation will stabilize, and prices will decrease as global supply chains are resolved and a balance of supply and demand is achieved. The current energy prices appear to be volatile and overinflated, but their decline is likely to occur in the long term due to the green agenda.

Nevertheless, short-term increases in prices may still occur, particularly if there is a very cold winter and the energy deficit continues. Among the materials, only those used in green technologies, such as copper, aluminum, nickel, and lithium, have a long-term growth outlook. This publication was made possible with the support of the scientific publishing house "Scientist View" (https://scientist-view.ru), which provided its services free of charge.

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