

## **Energy, a Lens on World Politics**

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**An ambitious and encyclopedic book sheds new light on post-Cold War history. To Daniel Yergin, the rise of energy, economic and financial nationalisms throughout the world has been a grave threat to the globalized, liberal markets that guarantee the world's prosperity.**

<p><b>Reviewed:</b> Daniel Yergin. <i>The Quest: Energy, Security, and the Remaking of the Modern World</i>. London, UK: Allen Lane, 2011</p>
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In the United States, and much of Western Europe, the 1990s have often been remembered as a decade of triumphant stability, while the expected somnolence of the 2000s too often appeared marred by crises and upheaval. Consequentially, there has been a lot of handwringing amongst historians of the recent past and other political and social prognosticators searching for the moment of change. Questions about whether or not there was a tipping point, when it occurred, and what the transition from stability to instability consisted of, continue to plague writers looking at the last two decades. Yet a partial answer to questions about the location and nature of the point of inflection between stability and instability after the Cold War begins to emerge in Daniel Yergin's latest book, *The Quest*.

### **The Quest for All-encompassing Theories**

Enshrouded in the fog of the present, observers turned to competing theories about the nature of great politics within the labyrinth of international relations, to define the sources and to prognosticate the longevity of Western ascendancy at the end of the Cold War. Arguments about the durability of the *Pax Americana* and the triumph of

liberal democracies in general were initially framed as a contest of ideas between the triumphalism of Francis Fukayama, best articulated in his 1992 book *The End of History and the Last Man*, and his fierce debate with his critics from within the political science community, Samuel Huntington and John Mearsheimer.<sup>1</sup> On the one hand, Fukayama argued that the success of an alliance of liberal democracies, which emerged out of the wreckage of the Second World War, in their decade long struggle with Communism showed decisively that a fundamental truth of human nature was the quest for freedom and the realization of respect for the individual, and that these values could best, and perhaps only be actualized in capitalist, liberal democracies. One of the core implications of Fukayama's argument was that the very human quest for self-realization would inevitably compel individuals, and consequentially whole societies, to build liberal democratic states, which shared a universal set of core values out of which a new harmonious and cooperative international order could be constructed.<sup>2</sup>

Huntington and Mearsheimer both offered far less optimistic views about the nature of the international order. They argued that the experience of a tranquil peace that greeted Western statesman during the early 1990s, after the breakup of the Soviet Union, was simply the calm before the gathering of new storms. Rejecting the idea that there were essential elements of human nature that would compel individuals to converge on a similar set of political and economic institutions in order to best realize their universally held values, Huntington and Mearsheimer wrote about alternative sets of motivations that they believed would give rise to new international conflicts. For Huntington, the decline of the ideological struggle between the Capitalist and Communist worlds (a sort of European civil war played out on a global scale) would allow for the re-emergence of civilizational conflict. Huntington explicitly rejected the notion that what he described as the thin universalism of globalized elites would usher in a new age of international cooperation, and instead expected that newly self-confident and self-aware middle classes would intensely follow, for instance on satellite television, conflicts located along the

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<sup>1</sup> Richard K. Betts, "Conflict or Cooperation: Three Visions Revisited," *Foreign Affairs*, November/December 2010 <http://www.foreignaffairs.com/articles/66802/richard-k-betts/conflict-or-cooperation>.

<sup>2</sup> Francis Fukuyama, *The End of History and the Last Man*, New York, NY: Free Press, 1992.

fault lines of their civilizations, swinging their support behind their perceived allies, and transforming minor conflicts into clashes with a global impact.<sup>3</sup> The conflicts spawned by the aftermath of the 9/11 attacks appeared to confirm Huntington's assertions, giving credence to the idea that September 2001 was a historical turning point.

By contrast, Mearsheimer rejected both ideology and culture as underlining interstate conflict, instead positing that states compete with one another because the anarchy of the international system makes them feel inherently insecure. The lesson being that if the United States appeared ascendant during the early years of the 1990s, then other states would attempt to undermine its position of strength, regardless of similarities of values and interests. After all, a dominant international power inevitably provokes other powers. The implication for the 21<sup>st</sup> century being that there would be inevitable conflict between rising powers such as China and India and the United States, as well as renewed conflict between the United States and some of its traditional allies such as Germany and France. The absence of great ideological contest would hardly ensure the peace. Ideology could easily be supplanted by fear and greed.<sup>4</sup>

The assumption that the end of the Cold War would result in a lasting peace was not only challenged by critics on the right, it was also criticized by those on the left. Two of the most influential of those critiques were articulated by Hyman Minsky and Giovanni Arrighi. Both writers questioned the stability of capitalist market societies. Minsky noted that after the 1970s the periodic crises that plagued capitalist societies became both more frequent and more severe. Minsky argued that instability was an inherent feature of the financial system, and could only be contained through strong governmental controls.<sup>5</sup> Arrighi, expanding on the insights of economist like Minsky as well as other writers in the World Systems School, connected arguments about the instability of the financial system to the inherent instability of the international political order. He argued that throughout history the rise of finance to a position of dominance

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<sup>3</sup> Samuel P. Huntington, "The Clash of Civilizations?" *Foreign Affairs*, Summer 1993.  
<http://www.foreignaffairs.com/articles/48950/samuel-p-huntington/the-clash-of-civilizations>.

<sup>4</sup> John Mearsheimer. *The Tragedy of Great Power Politics*. (New York, NY: W. W. Norton and Co., 2001).

<sup>5</sup> Hyman P. Minsky. *Stabilizing an Unstable Economy*. (New Haven, CT.: Yale University Press, 1986).

within the core countries preceded the transfer of authority from one economic center to another. Therefore just as the financialization of the British economy in the mid-19<sup>th</sup> century preceded the rise of the new economic powers of the United States, Germany and Japan, countries that would eventually come to dominate the world economy of the 20<sup>th</sup> century, so the rise of finance within the United States since the 1970s, surely would precede the rise of Asian countries, especially China, to positions of economic and political hegemony during the 21<sup>st</sup> century.<sup>6</sup>

All of these theories attempt to explain and forecast the emergent post-Cold War world. Yet while each theory has its strengths and weaknesses, the historical perspective necessary to judge one theory as decisively more explanatory than another has been lacking. Each theory suggests the supremacy of alternative historical forces and identifies different historical turning points. However assessment has remained particularly elusive.

Which brings us finally to the energy consultant and Pulitzer Prize winning historian Daniel Yergin's new book about the recent history of energy. Put quite bluntly, it is a big book with an elusive argument. Encyclopedic in scope, Yergin attempts to capture all the divergent trends taking place within the contemporary energy sector. *The Quest* keenly captures the ways in which technological change, greed and politics have combined to turn often obscure decisions into decisive historical turning points, such as the transition of the British navy from coal to oil, a cause tirelessly championed by Winston Churchill, which eventually proved to be a decisive advantage for the British fleet during the First World War, as well as a major factor in the conflicts plaguing the Persian Gulf until today.

At times overwhelming, the reader of *The Quest* is treated to a disparate, if comprehensive, set of anecdotes about the current nature of the energy business. The politics of the energy business are written about separately from the technical aspects of the business, and traditional sources of energy are described in different chapters from

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<sup>6</sup> Giovanni Arrighi. *The Long Twentieth Century: Money, Power and the Origins of Our Times*. (New York, NY: Verso Press, 1994).

non-traditional sources of energy. All of which makes it difficult to identify a unified narrative within this often-rambling text. However, the very factors which make this a difficult book to read, the lack of a unifying narrative or theory and its encyclopedic nature, render *The Quest* a great source through which to assess competing explanations about the years after the First Gulf War in 1991, “what was expected to be a more peaceful era—what, for a time, was called a new world order.” (p. 12)

### **Great Power Politics**

In order to test the validity of the competing explanations about the recent past, it is necessary to examine both the history that Yergin describes and his silences. Yergin, the Chairman of IHS Cambridge Energy Research Associates, has on occasion been accused of being too close to the American and European private energy firms for whom he consults. Yet if one imagines that the different theories of conflict or stability within the international order correspond to competing pivotal moments, then Yergin’s near silence about September 2001 and even his brief treatment of the 2003 invasion of Iraq, demonstrates the relative lack of importance that Yergin attributes to both events, events that one instinctively would think would be over-weighted in a study of energy. This suggests that Huntington’s famous *Clash of Civilizations* does not fit well with Yergin’s interpretation of the recent past. In fact for Yergin, who if nothing else is master at drawing interconnections between disparate events, the 2003 war in Iraq’s greatest strategic consequence was not in the Middle East at all, rather he writes:

For Beijing, it was hard to believe that the promotion of democracy in the Middle East was what propelled the United States into Iraq in March 2003. If not that, it had to be something more concrete, more urgent, more critical, more threatening. In short, it had to be oil. (p. 209)

In short Yergin appeared to sidestep civilizational combat in favor of great power politics, bringing the reader directly to ask whether or not the assumptions underlining the realist theory that Great Powers must inevitably fall into conflict rings true.

Yergin directly tackles this question by asking whether or not it was inevitable that a conflict would emerge between private Western energy groups and the rising state-owned conglomerates rapidly growing in regions such as East Asia, particularly China.

Yergin begins to build his argument by reminding his readers that the recent alarmism surrounding the rise of state-owned petroleum companies ignores the fact that the international energy markets have dealt with increasingly powerful state-led conglomerates since the 1970s. And even as Yergin describes with admiration the growing skill and complexity of the Chinese energy companies in their going out strategy, which has seen them expand overseas to compete aggressively for international assets in the early years of the 21<sup>st</sup> century, Yergin remains sanguine. He writes with confidence that even as:

...the fast growth of Chinese energy consumption and surging oil imports brings uncertainty, both for China and for the other major importers... there are common interests between China and other oil consumers, particularly the United States... Both benefit from stable markets, open trade and investment, and improved energy security. (p. 223)

Yergin believes that markets and the ability of China to buy the energy it needs render the nightmare scenarios of zero-sum energy competition and resource autarky obsolete. Energy mercantilism is impractical and with it the geopolitical competition that such economic strategies entail. Summing up, Yergin quotes a Beijing energy strategist who writes, “There’s no other solution but to rely on the marketplace...What’s different about exporting to America and importing energy from elsewhere? China is part of world markets.” (p. 213)

Rejecting both of the conservative critiques of Fukayama’s thesis announcing the inevitable stability of the Post-Cold War world, it would be tempting to write Yergin off as just another liberal triumphalist, and certainly Yergin goes out of his way to project a positive attitude about the present. However the way he writes the history of the 1990s, selecting certain events as more important than others slowly reveals a different story. Even as the flashy dates of 2001 and 2003 receive short notice in Yergin’s work, less frequently mentioned dates during the 1990s receive prominent notice. The question remains why?

### **Another Reading of the 1990s**

The early 1990s appeared to be a period of tranquility within the global energy markets. The conclusion of the First Gulf War suggested the dawning of a new age of stability within the Middle East, new communication technologies and the fall of the Iron Curtain held out the possibility of realizing a “global village,” even as petroleum promised to be a “truly global business for the first time since the barricades went up with the Bolshevik Revolution.”<sup>7</sup>

Yet, the 1990s were not the uneventful decade of peaceful expansion that was originally predicted by energy analysts. Instead, “in a little more than half a decade, Russian production plummeted by almost 50 percent—an astonishing loss of more than 5 million barrels a day.” (p. 27) However, out of the wreckage of the collapse of the Soviet Union emerged a “system of large vertically integrated companies” operating largely independently of the state (p. 32). Yet even as the Russian energy sector was privatized, Western energy groups were reluctant to invest directly within the former Soviet economies during the early 1990s. But by the time they were ready to reconsider their decision in the late 1990s, they encountered a renewed sense of energy nationalism. One of the proponents of Russian energy nationalism was an obscure official named Vladimir Putin, who developed his ideas in a little known article written in 1999. The doctrine of energy nationalism set the scene for a frosty confrontation between Putin and Mikhail Khodorkosky in 2003, as Khodorkovsky, then Russia’s richest man, was negotiating the sale of many of his company Yukos’ energy assets to foreign buyers. Khodorkovsky reportedly began by stating, “Corruption in the country is spreading.” Putin supposedly responded by stating that Khodorkosky had obtained many assets at a very low price, and asked, “And the question is, how did you obtain them?” Later that year Khodorkovsky found himself jailed in Siberia (p. 39).

### **The Venezuelan Case**

Similarly rising and competing nationalisms would frustrate American efforts to integrate the Caucasus and Central Asia into American led energy markets. However, one

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<sup>7</sup> Joseph Stanislaw and Daniel Yergin, “Oil: Reopening the Door,” *Foreign Affairs*. 72, no. 4 (1993), p. 81-93.

of the most striking cases of the rise of energy nationalism, and perhaps one of the most telling in terms of the failures of American policy which made it possible relates to the turn in Venezuela's position from a believer in open markets into a country determined to exercise ever greater state control of its assets.

In 1997 Venezuela produced more petroleum than either Kuwait or the United Arab Emirates, and almost as much petroleum as Iran. Since the discovery of the major Barroso oil well in 1922, Venezuela had struggled to balance the benefits of great mineral wealth with the "resource curse." (p. 108) Oil wealth can lead to social, political and economic weakness, because the income earned from petroleum revenues often drowns out other sectors of the economy and it can also lead to the locking in of high levels of government spending on social welfare. In the mid-1970s there was a vision of *Le Gran Venezuela*, "an increasingly industrialized, self-sufficient nation that would march double-time, fueled by oil, to catch up with the developed countries." (p. 111) In order to realize its ambitions, Venezuela nationalized the oil industry in 1976, creating PDVSA, which emerged by the early 1990s as one of the best-run state energy companies in the world. Yet the rising living standards and new economic wealth did not last long. By 1989 due to falling prices, Venezuelans had returned to the per capita income levels that they were at in 1973, the year before the oil boom, only state spending was locked in at a much higher level. This led to rising political instability, a coup attempt in 1992, and a resolve that Venezuela would combat low prices by producing all out. In order to expand production capacity Venezuela agreed to invite international firms to invest directly in the country's energy resources and to take an ownership stake in its energy reserves for the first time since the 1970s.

However, tensions in international oil markets were only going to get worse, further exacerbated by the onset of the Asian financial crisis in 1998. By March of that year prices had collapsed to a new low of \$ 10 dollars a barrel. By the end of the year, the economy reeling, Venezuela elected Hugo Chavez to power and began to reverse the opening to international investors that occurred in the oil sector during the mid-1990s, and even to undermine the famed independence of the state energy company PDVSA in



favor of autarkic, nationalist and Anti-American policies. Instead of providing investment to Venezuela during the early 1990s, and working to ease the price shocks that were undermining the country's political stability, Western oil companies acted timidly, reentering Venezuela's economy, but hardly on the scale necessary to return it to a secure footing.

### **Placing the Asian Financial Crisis in Perspective**

The largest shock of the 1990s occurred in Thailand in July 1997. This disruption proved to be a massive hiccup in the process of globalization and the Asian Economic Miracle enjoyed by South Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia, Thailand, the Philippines and China's Guangdong Province. "World trade was growing faster than the world economy itself. Asia was at the forefront." (p. 83)

Yergin puts the Asian miracle in perspective noting that:

Singapore was a beleaguered city-state when it gained independence in 1965. By 1989 its per capita GDP, on a purchasing power parity basis, was higher than that of Britain, which, as the birthplace of the Industrial Revolution, had a two hundred-year head start. (p. 84)

The rising power of East Asia was fueling an ever-increasing demand for petroleum, and there was a belief that in 1998 the rise in demand would continue. The real estate crisis in Thailand quickly morphed into a currency crisis in South Korea, panic spread as far afield as Russia, Brazil and Wall Street. However by 1999 it was over. The price of petroleum had completely collapsed. By 1999, it had sunk to a new low of \$6. The finances of the oil industry followed suit. One consequence was that between 1998 and 2002 there "was the largest and most significant remaking of the structure of the international oil industry since 1911." The year Rockefeller's Standard Oil broke up (p. 105). 1997 remade the energy industry as well as created fear within the petroleum-based economies, which in many cases led to the rise of economic nationalisms that were hostile to the United States and Western European interests. According to Yergin, energy nationalism was a grave threat to the globalized, liberal markets that guarantee our prosperity.

The *Financial Times* columnist Martin Wolf highlights another important shift that resulted from the Asian financial crisis. According to Wolf, even though the United States' Federal Reserve and the International Monetary Fund stepped in to halt the spread of global financial panic, the East Asian countries which experienced the crisis found the terms to be far too onerous to ever allow themselves to become vulnerable to currency crises again. Wolf agreeing with both Arrighi and Minsky argues that the late 1990s were the culmination of an attempt by the leaders of the world's largest economies to recreate an open global financial system, a system last seen in the late 19<sup>th</sup> century, but this time one based on floating exchange rates instead of the gold standard. As both authors predicted the increased freedom, size and complexity of the financial system also made crises more frequent and severe.

The Asian financial crisis was a particularly severe panic in the emerging markets, one in a series that date back to the Latin American debt crisis of the early 1980s. Each of these financial crises was followed by dramatic losses of output in the countries affected. Consequentially, just as Yergin notes that the response to drop in petroleum prices was a renewed spirit of resources nationalism by petroleum exporting states, Wolf describes how the East Asian countries responded to the Asian crisis by turning to new forms of financial nationalism. In the East Asian cases, and today in many other fast growing emerging markets, this took the form of the establishment of huge foreign currency reserves, held not by international financial institutions, but by each country's central banks. During the early years of the 21<sup>st</sup> century the amount of reserves held in the developed world would top \$ 5.5 trillion. Wolf strongly hints that it was this transfer that created the conditions that ultimately led to the 2008 Financial Crisis.<sup>8</sup> After providing his diagnosis of the problem, Wolf asks if the Clinton Administration or the IMF could have done more, and tellingly responds by noting their limited capacity to handle decisively a financial crisis of that magnitude.

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<sup>8</sup> Interview with Martin Wolf by Harry Kreisler, "Causes and Consequences of the Global Economic Collapse," Institute for International Studies, University of California, Berkeley. February 19, 2009. <http://www.youtube.com/watch?v=-pjFvKb5ot8> (accessed June 28, 2012).

Reading a bit into the Yergin's recounting of the recent past, it is possible to interpret that he considers the development of an open globalized energy market – a by product of a globalized economy – to be the greatest accomplishment of the last few decades, and at the same time that he considers challenges to the stability of that market to be the greatest threat. However, interestingly enough the challenges described by Yergin have come not from cultural clashes or the inevitable quest for supremacy of the Great Powers. Instead they have emerged out of instabilities inherent within the capitalist markets themselves, imbalances in the flows of capital, and the seemingly inevitable cycle of booms and bust that the growth of finance has promised. The result is a world of wary states, prone to financial and resource nationalism, and rather than the end of history, an ongoing struggle to build an international economic order that can promote mutual peace and prosperity, rather than zero-sum competition and unrestrained conflict.

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