Restructuring the Northeast Asian Electricity Industry in a Globalizing World

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During the electricity consultative group meeting, six papers were presented: one summarizing the restructuring of the electricity industry in major countries throughout the world, followed by case studies of five economies. I would like to express my deep appreciation to the six speakers for their excellent presentations.

As the overview paper has highlighted, in the age of globalization, the concepts of electric utility industry liberalization and restructuring have gained considerable worldwide attention and popularity. Today, technology changes and global competition are exerting pressures to deregulate and restructure the generation and retailing functions of the power utility industry. In the future, with further technological advances and shifting public values, certain regions may even deregulate and restructure the transmission and distribution sectors.

Thanks to the information and telecommunications revolution and to computerization, and in particular, with the commercialization of electronic metering, “power” has become an easily tradable commodity, like ordinary physical goods, and financial assets are traded freely in the markets. Since power suppliers can figure out which customers are willing to purchase power at the highest prices, and since customers can identify who is supplying power at the lowest price, transactions between suppliers of power and customers can be made possible on a nationwide scale. A two-way bidding market can then be established for the power business.

The introduction of market competition and consumer choice into the power sector presents significant opportunities as well as challenges. The strong expectation is that it will yield important short- and long-term benefits in terms of improving economic efficiency—that is, lowering costs and consumer prices, and stimulating economic growth in a country that has already liberalized its electric power industry. Nevertheless, utility regulation is inherently a process that involves not only economic considerations but also technological, socio-political, and institutional factors. These factors vary with both time and space. An appropriate utility regulation process and the associated industry structure results from an optimal balance between the impacts of these economic and non-economic factors in a given time and space.

The Northeast Asian electric utility is positioned at the cutting edge of a momentous historical juncture: how should it restructure its power system to
meet new challenges in the age of globalization? If the paradigm of market competition and consumer choice is the global trend, what is the most desirable regulatory framework and market liberalization for the power sector that the nations of Northeast Asia should adopt? The key issue would be: how could and should the Northeast Asian electricity industry adapt most effectively to the drastic transformation and globalization of the electric power industry?

As the speakers demonstrate, structural reforms of the Northeast Asian electric power industry not only differ from those of the United States and the European Union but also differ from one country to another within the region, because the Northeast Asian nations face different issues and have different agendas. Jiang Shaojun addresses the time phasing of transitional reforms in four steps in China’s electric power industry. According to Hisatake Narita’s presentation, Japan’s electric power industry has adopted the “partial liberalization” of the power market for three years, to be followed by a review of total liberalization, and will implement the revised system on 21 March 2000.

According to Young Chang Kim’s presentation, the South Korean government is committed to the total liberalization of the power market and to the introduction of a generation-pool system. Unlike the case of the United Kingdom, however, South Korea will embark on restructuring first and on the privatization later. According to the time phasing for restructuring, competition in generation will be introduced first. It will begin in January 2000 and will continue until 2002, followed by wholesale competition and then by the introduction of retail competition after the year 2009. By contrast, according to Oliver Yu’s presentation, the restructuring of the electric power industry in Taiwan has been delayed until the year 2008 and will involve the liberalization of the generation sector only.

Looking into the twenty-first century, information, technology, capital, firms, and people will be even more freely circulating in a global village, like the circulation of blood in the human body. If any nation does not adapt its market economy to the logic of the global economy that governs the movement of these five factors, the economic system will collapse, because the factors will recede from the nation. This is like a part of the human body, where the blood is not circulating and which will die. All nations must engage in massive restructuring of their national market economies—not just of their power sectors—to make them adaptable to the logic of the global economy. In the coming worldwide economic battle between different cultures and forms of market economy, each nation’s economic survival is directly linked to the adoption of the most efficient market-oriented and internationalized economic system. Major future changes expected in the Northeast Asian economies will profoundly affect electricity industries in these economies.
Finally, Victor Kalashnikov has stressed the role of broader regional cooperation in the power sector. Drawing upon this theme, I would like to conclude my remarks, by emphasizing that the restructuring process is complex and the consequences are grave. There is a strong need for regional cooperation to share experiences and exchange ideas. Some examples include cost-shared collaborative research, summit meetings among electric power companies, common ground for cooperation among power utilities, where they can exchange experiences and ideas from which mutual benefits will accrue, and so forth.