

Executive Summary

Critical Choices: How Malaysia and Germany can Navigate Shifting Energy Geostrategy

Malaysia and Germany, as constructive and reliable participants in globally interdependent energy (as well as trade and financial) markets, face an increasingly hostile, volatile, and uncertain environment surrounding energy choices. Major disruptions to tanker traffic in the Strait of Hormuz make a strategic reassessment of energy futures more urgent, both in a Germany (and Europe) that is still feeling the energy consequences of Russia invading Ukraine and in a Malaysia paying a high fiscal price for its politically charged reinstatement of petrol subsidies in 2018. Malaysia and Germany are caught between the destabilising forces of the United States (US), whose military and economic coercion is reshaping commodity markets, and China's rising green manufacturing and critical minerals dominance, which risks ensnaring countries in a new form of energy technology and product dependency.

The complicating environment for energy geostrategy is the latest unexpected but highly consequential challenge confronting global policymakers, who risk being caught on a perpetual crisis footing. Policymakers are increasingly finding themselves confronted with a second or third shock before they can comprehend and effectively respond to the first. Intense political pressure to address the symptoms of the latest crisis can distract from efforts to understand the evolving risk environment, invest in measures to boost resilience, and develop the mechanisms and processes to better target responses to future shocks. As a result, each successive shock risks causing more economic, political, and social damage than necessary. In a world of recurring shocks, policymakers can no longer afford to wait for a return to normality before strengthening their capacity to respond.

To support a shift in focus, this paper contributes to understanding recent events and how policymakers should respond to them by pursuing three related aims. It takes stock of recent changes to US energy geostrategy and explores its significance in the wider context of global energy market and policy shifts, including China's emergence as a clean energy manufacturing superpower. It then uses the case studies of Malaysia and Germany to investigate the differing interpretation of and response to these shifts, highlighting where differences reflect understandable contextual and characteristic factors and where they instead reflect insufficient policy adaptation. The paper then concludes by highlighting key lessons and identifying areas where Malaysia and Germany — individually, bilaterally, and as leaders of Southeast Asia and Europe — could explore further cooperation to best navigate an increasingly complicated and hostile energy geostrategy environment.

The paper identifies several key areas in which to concentrate additional policy and relationship effort. The first is to develop clearer national strategies surrounding energy risk, resilience, and reward trade-offs, engaging both preparedness and response actions and developing deeper market intelligence and strategic foresight. The second is to broaden and deepen bilateral and plurilateral cooperation in pursuit of mutually beneficial and binding agreements that facilitate joint preparedness and collective shock response efforts. A third is to recognise that absorption-centric shock responses with untargeted subsidies are unsustainably expensive and blunt incentives that encourage more resilient choices. A fourth is to appreciate and guard against two distinct dependencies: traditional fossil fuel dependencies involving continuous cross-border energy flows and emerging renewable energy dependencies involving the growth or replacement of technology and products that support mostly domestic energy production. And a final fifth is that accelerating renewable energy installation is the most effective way to reduce the risk of disruptions like the prevailing West Asia crisis, with diversification a distant second and sovereign production less helpful.