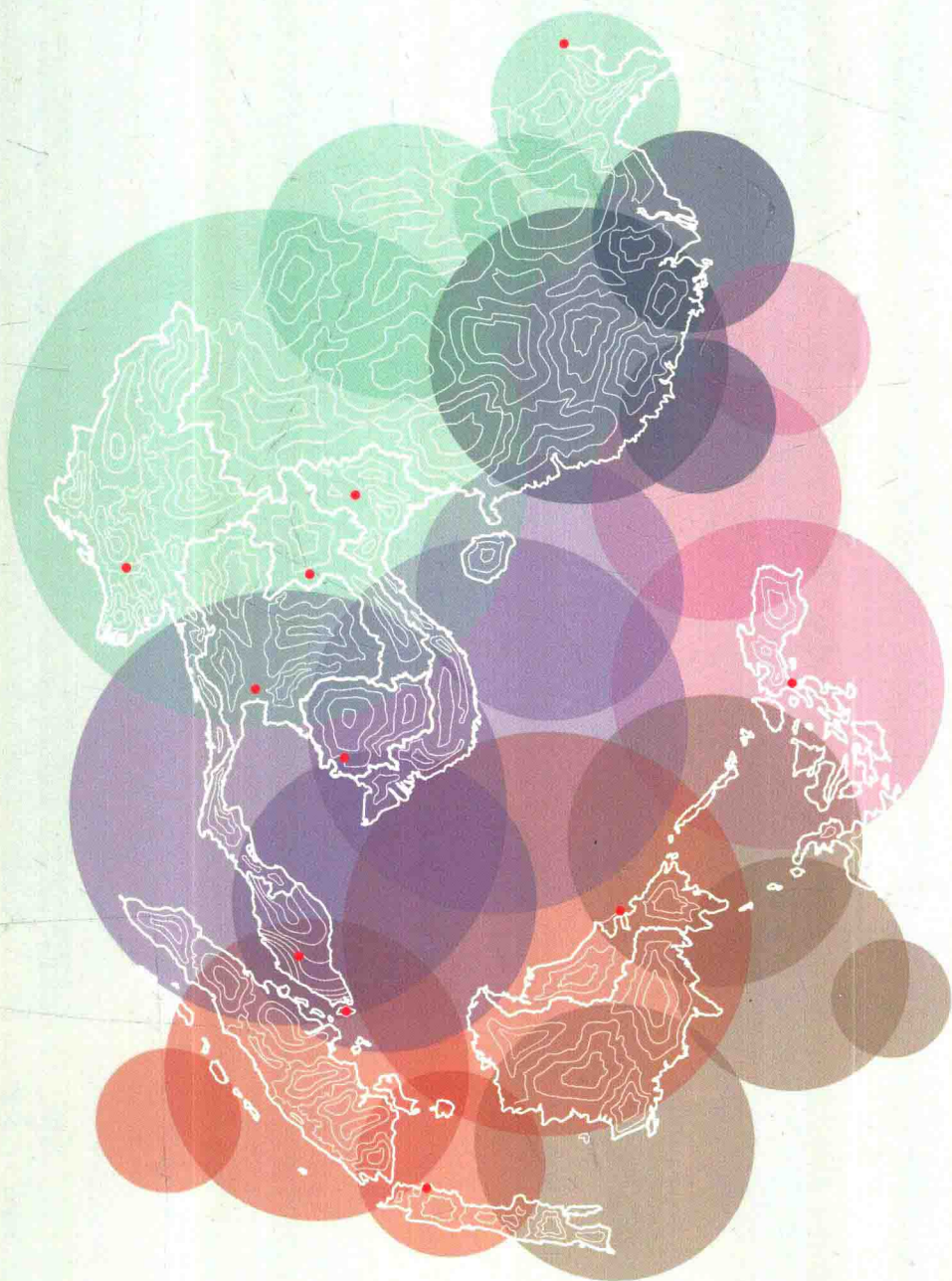


CHINA AND ASEAN

∞ Energy Security, Cooperation and Competition ∞



ZHAO HONG

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E-mail: publish@iseas.edu.sg • *Website:* bookshop.iseas.edu.sg

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ISEAS–Yusof Ishak Institute (formerly the Institute of Southeast Asian Studies) was established as an autonomous organization in 1968. It is a regional centre dedicated to the study of socio-political, security and economic trends and developments in Southeast Asia and its wider geostrategic and economic environment. The Institute's research programmes are the Regional Economic Studies (RES, including ASEAN and APEC), Regional Strategic and Political Studies (RSPS), and Regional Social and Cultural Studies (RSCS).

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LIST OF ABBREVIATIONS

ACE	ASEAN Center for Energy
ACIA	ASEAN Comprehensive Investment Agreement
AEMI	ASEAN Energy Market Integration
AIA	ASEAN Investment Area
APAEC	ASEAN Plans of Action for Energy Cooperation
ARF	ASEAN Regional Forum
ASCOPE	ASEAN Council on Petroleum
bcm	cubic metres
BCF	billion cubic feet
b/d	barrel per day
boe	barrels of oil equivalent
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COC	Code of Conduct
DOC	Declaration on the Conduct
EEZ	Exclusive Economic Zone
GW	gigawatt
IEEJ	Institute of Energy Economics
IPCC	Intergovernmental Panel on Climate Change

Ktoe	thousand tons of oil equivalent
Kb/d	thousand barrels per day
LNG	Liquefied Natural Gas
MMBtu	million British thermal units
Mtce	million tons of coal equivalent
Mtoe	million tons of oil equivalent
Mt	million tones
NDRC	National Development and Reform Commission
NOCs	National Oil Companies
ODA	Official Development Aid
OPEC	Organization of the Petroleum Exporting Countries
PLAN	People's Liberation Army Navy
PSC	Production Sharing Contracts
RCEP	Regional Comprehensive Economic Partnership
Sinopec	China National Petrochemical Corporation
TAGP	Trans-ASEAN Gas Pipeline
Tcf	trillion cubic feet
TPP	Trans-Pacific Partnership
Twh	terawatt-hour
UNCLOS	United Nations Convention on the Law of the Sea
ZoPFFC	Zone of Peace, Freedom, Friendship and Cooperation

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1

INTRODUCTION

China, ASEAN, and the New Global Energy Order

CHINA'S RISE AND SOUTHEAST ASIA

This book has been motivated largely by the rapid rise of China and its consequent influence in the world, particularly in Southeast Asia. As an emerging power in East Asia, China is the main driver behind the geopolitical and economic reconfiguration that is taking place in Asia. Southeast Asia is one of the areas that is affected most directly by the rise of China. On the other hand, interactions between China and ASEAN (Association of Southeast Asian Nations) will, to a great extent, affect the future and prospect of the entire Asia, leading East Asia to become the world's new economic centre of gravity, and affect the world economic and energy map.

In East Asia, few relations have evolved as much as that between China and ASEAN.¹ The threat of China looms large in the history of the relations between China and Southeast Asian countries. In particular, Chinese support for local communist groups during the 1960s and its views of ASEAN as an anti-Chinese, anti-communist alliance created distrust and frictions in China-ASEAN relations.² China's siding with ASEAN during Vietnam's occupation of Cambodia contributed to re-establishing relations with Thailand, Malaysia, and the Philippines, but those between China and Brunei, Indonesia, and Singapore were not restored until 1990-91.³ Mutual suspicion lingered through much of the 1990s, due to memories of its support for communist insurgencies and the Chinese tendency to dismiss these smaller countries as puppets of U.S. imperialism.

The end of the Cold War was a pivotal turning point in China–ASEAN relations. ASEAN and China began to perceive complementary advantages in closer cooperation. Southeast Asia had energy resources which China did not have; China was modernizing rapidly and could contribute to modernization in Southeast Asia. China embarked on a new policy that was more geared toward the East, with Southeast Asia as a major focus. China's "good neighbour policy" was aimed at strengthening regional relations so as to surround itself with benevolent states, which would allow China to focus on its economic development.⁴ At the same time, post-Cold War uncertainties about the U.S. policies created new pressure on ASEAN to find other ways to stabilize and expand their relations with China. For the ASEAN states, the economic and political-security uncertainties surrounding the U.S. role in Southeast Asia made it especially important for ASEAN to engage China and improve relations as a kind of hedge against the possibility of further U.S. retrenchment.⁵ The turning point for ASEAN's perceptual change about China from "China as a threat" to "China as an opportunity", many Chinese analysts believe, is the Asian financial crisis in 1997–98.⁶ After that, the mutual interests and avenues of cooperation increased. The ASEAN states, which had developed certain values and norms to facilitate cooperation in a diverse religion-ethnic mix, began to conceive the possibility that China could be socialized into the "ASEAN Way". China was invited to participate as a dialogue partner in the ASEAN Regional Forum (ARF) and helped set up the ASEAN plus one and ASEAN plus three discussion forums.

In 2003, Zheng Bijian, Chair of the China Reform Forum, made a speech saying that the rise of a new great power oftentimes had led to great turbulence in the international system. One important reason was that the new great power usually tried to resort to wars to destroy the existing international system. Zheng explained that China shall adopt a different approach, which he later elaborated as: "transcending 'the traditional ways for great powers to emerge, as well as the Cold War mentality that defined international relations along ideological lines'."⁷ China's strategy, according to Zheng, should be a peaceful rise, i.e. working for a peaceful international environment for China's development, and in turn safeguarding world peace with China's development. It turns out that Zheng's ideas are actually China's strategy. Both President Hu Jintao and Premier Wen Jiabao espoused the road of peaceful rise. In 2005 and 2011, respectively, the Chinese government published two white papers on peaceful development. President Xi Jinping also called for building a "community of shared interests" and a "community of shared destiny"

which will provide the vision for realizing Asia's economic potential and achieving more durable security for Asia.⁸ China aims to bind its interests more closely with the countries at its doorstep.

China is using trade and investment, confidence-building measures, and development assistance to establish itself as an important regional leader. This was reflected in China's proposed establishment of the China–ASEAN FTA (CAFTA), which came into force on 1 January 2010, and the Asian Infrastructure Investment Bank (AIIB), which is to be fully established by the end of 2015. CAFTA serves important political goals, especially in terms of confidence-building, as well as solidifying and further increasing its influence in the region. CAFTA grants China access to the energy and raw materials of resource-endowed Southeast Asia, as well as providing an increased market for Chinese products and capital within Southeast Asia. For ASEAN countries, CAFTA offers access to China's market and an opportunity to cash in on China's increased wealth and consumer spending.

For both parties, CAFTA serves to diversify China's and Southeast Asia's trade away from the West. For example, the share of ASEAN's trade with the United States in its total trade decreased from 17.7 per cent in 2002 to 8.1 per cent in 2012, the share of its trade with EU-27 decreased from 13.6 per cent to 9.8 per cent; while the share of its trade with China in its total trade increased from 6 per cent to 13 per cent during the same period (see Table 1.1). CAFTA opens up new avenues and is expected to boost China–ASEAN trade alongside expanding intra-industry trade and increased investment flow between the two sides. China's trade with ASEAN as a whole grew about ninefold in just ten years from US\$32 billion in 2001 to US\$287.6 billion in 2011, and further to US\$443.6 billion in 2013, with most ASEAN countries recording trade surpluses with China.⁹ Chinese investment in Southeast Asia increased even more, from a meagre US\$144 million in 2001 to US\$6.1 billion in 2012,¹⁰ and that includes only officially reported investments.

However, although China has been actively promoting the idea that it is engaged in a peaceful rise, the message has not been wholeheartedly embraced by its neighbours. Beginning in 2010, the mutual economic and social integration and socialization process began to encounter problems that could not be readily resolved. ASEAN countries find the economic importance of China has increasingly grown, but they still remain uncertain about Beijing's long-term intentions and the consequences of China's economic activities in Southeast Asia. They are particularly concerned that as China rises economically and militarily, its request for natural resources in some Southeast Asian resource-rich countries and the South China Sea

TABLE 1.1
Top Five ASEAN Trade Partners
 (US\$ million; %)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
China	42,759 (6)	59,637 (7.6)	89,066 (8.3)	113,393 (9.3)	139,961 (10)	171,117 (10.6)	196,883 (10.4)	178,185 (11.6)	236,219 (11.8)	287,676 (12.1)	319,485 (12.9)
EU-27	97,056 (13.6)	101,364 (12.3)	131,543 (12.3)	140,237 (11.5)	160,332 (11.4)	186,719 (11.6)	208,291 (11)	171,785 (11.2)	214,091 (10.7)	240,248 (10.1)	242,599 (9.8)
Japan	97,587 (13.7)	113,400 (13.8)	143,263 (13.4)	153,834 (12.6)	161,780 (11.5)	173,062 (10.7)	214,400 (11.3)	160,863 (10.5)	218,963 (11)	255,048 (10.7)	262,884 (10.6)
South Korea	30,533 (4.3)	33,548 (4.1)	40,543 (3.8)	47,971 (3.9)	55,942 (4)	61,184 (3.8)	78,250 (4.1)	74,740 (4.9)	102,871 (5.1)	124,381 (5.2)	131,030 (5.3)
U.S.	104,954 (17.7)	117,885 (14.3)	135,864 (12.7)	153,918 (12.6)	161,195 (11.5)	179,068 (11.1)	186,242 (9.8)	149,572 (9.7)	192,295 (9.6)	196,502 (8.1)	200,027 (8.1)
Total	713,816 (100)	824,538 (100)	1,071,604 (100)	1,224,889 (100)	1,404,805 (100)	1,610,787 (100)	1,897,127 (100)	1,536,843 (100)	1,998,155 (100)	2,386,584 (100)	247,427 (100)

Source: ASEAN Trade Statistics Database.

might spark conflicts there. In the process of China's rise, the shortage of resources poses a big problem. The scarcity of natural resources available to support China's huge population and high economic growth rate is a big challenge that China must confront. The fact that China's oil, natural gas, copper, and aluminum resources in per capita terms amount to 8.3 per cent, 4.1 per cent, 25.5 per cent, and 9.7 per cent of the respective world averages,¹¹ and that China's old model of industrialization characterized by high investment and high consumption of energy resources have impelled China to search for energy resources overseas, including in Southeast Asia. The prevailing views in Southeast Asia are that, "in the eagerness to deploy Chinese capital and expertise for rapid completion of resource extraction, transportation and power-generation projects, Chinese SOEs (state owned enterprises) have been given wide leeway in disregarding environmental standards and the interests of local people affected by these projects".¹² Many Southeast Asian observers are concerned that China will replicate the sort of "neo-mercantilist" strategies that Japan adopted during its high-growth phase in the 1970s, a possibility that is reinforced by the prominence of "state capitalism" in a number of rising powers.¹³

Moreover, according to Acharya, three factors have played a major role in shaping ASEAN's concerns over China's rise: (1) China's involvement in the Spratly Islands disputes; (2) China's military expansion; and (3) suspicion over an increased "overseas Chinese presence" and its implications for interethnic relations among some ASEAN countries.¹⁴ While most ASEAN leaders do not see China as an immediate threat and see recent developments as promising and reassuring, there is still concern about how deep recent changes might run.

Here, power differences and asymmetry, made significant by both their recent and not so-recent relations, pose an important obstacle to China's ability to convince ASEAN countries that its intentions are benign. Thus, "even given China's and ASEAN's common sense of vulnerability and common grievances against larger Western powers, China remains a major power in the eyes of ASEAN".¹⁵ This suggests that ASEAN governments continue to view China's foreign policy with some measure of mistrust and suspicion in regards to the stability of the region, especially in the South China Sea.¹⁶ This is especially so in light of Beijing's recent growing "assertiveness" in terms of its energy resource exploration, maritime claims, and frequent military activities in the South China Sea. In this process, it is natural to see that ASEAN subtly began to shift from its "ASEAN way" of quiet bilateral conflict settlement to the search for a multilateral solution, as China was too big and too powerful to face bilaterally.

Hence, the rise of China's power and its influence in the world has had dual impacts on Southeast Asia. On the one hand it does create business and economic opportunities for Southeast Asian countries as it has become nearly every East Asian country's largest trading partner and increasingly important investor. On the other hand, it also results in rising concerns of ASEAN countries in terms of resource exploitation, regional security, and possible conflicts in the South China Sea. So far, the main response of the Southeast Asian countries to China's rise has been to seek regional economic integration and accelerate the establishment of an ASEAN Community, and also encourage outside big powers including the United States, Japan, and India to remain involved in the region, especially in the South China Sea.

ASEAN'S RISE IN THE GLOBAL ECONOMY

ASEAN was established on 8 August 1967 with the signing of the ASEAN Declaration by Thailand, the Philippines, Indonesia, Singapore, and Malaysia.¹⁷ ASEAN is the most advanced institution of regional cooperation in Asia and one of its oldest. At first, its goals were mainly political in nature. In particular, it sought to promote peace in what was at that time a volatile region. While these diplomatic initiatives did not promote economic integration directly, the peace and security that followed paved the way for economic growth and development throughout Southeast Asia,¹⁸ making it another emerging economy in the world.

In the late 1980s and early 1990s, ASEAN took steps to develop a free trade area. This was in marked contrast to the lackadaisical attitude.¹⁹ That attitude, as an Australian professor, Stubbs points out, had to do with a concern for sovereignty as well as domestic economic conditions in the member states. Until the late 1980s, the most populous ASEAN countries — Indonesia, the Philippines, Thailand and Malaysia — had remained heavily reliant on raw material exports and import-substitution strategies. Indonesia's oil boom of the 1970s discouraged export promotion strategies. In Malaysia, the advent of the New Economic Policy (NEP) (aimed at giving indigenous Malays a greater share of the national wealth) resulted in massive government intervention, especially in creating import-substituting heavy industries. These conditions lessened the urgency of intra-regional trade liberalization, more commonly associated with economies geared towards export promotion.²⁰ Moreover, the level of intra-ASEAN trade had remained fairly low due to colonial linkages and the impact of the Vietnam War. As the 1990s approached, ASEAN members' trade with the United