

Sino-American Relations in Southeast Asia: The Oil Crisis in Global Affairs

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Abstract

The global shift in international order after the Cold War was largely expected to be one with American rules and supremacy. However, Chinese successful economic reforms and regionalization policies re-directed the global shift to the Asian region. The main purpose of the paper is to examine the main economic and strategic features of the Southeast Asian region, their influence on global politics, as well as region's energetic role in the Chinese and American international strategic plans.

To achieve the main goal of my study, I have done comparative analyses between the Western and Chinese theories, researched the existing complicated situation in South China Sea, as well as the recent political developments and the driving factors of US-China regional struggle. The examination of region's energy capacity, its importance from the oil transportation perspective and China's statistical dependence on oil reserves are also included in the study. I have also examined the possible solutions that the Chinese energy security sector can use and uses for economic purposes to bypass the conflicting areas.

The main finding of the paper is the growing strategic importance of South China Sea on Chinese economy and US foreign policy plans. This is not merely because of the concentration of huge energy reserves in the region, but also the existence of economic routes that connect the Eastern and Western markets. The results of the study can be used to identify the future economic and strategic tendencies of the Chinese and American foreign affairs.

Keywords: Southeast Asia, Oil Routes, US-China Relations, Pipelines

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Introduction

The unprecedented economic progress of China and its growing influence on the Southeast Asian region has already posed huge challenges for the American foreign policy. The United States, being directly or indirectly engaged in wars in Ukraine, Iraq, Gaza and Syria, cannot take its eyes away from the complicated South China Sea situation. This is not merely because of China's economic motion that has significantly reduced America's participation in local trade markets, but also the conflicting situation between China and American ally countries in the region.

The main purpose of the paper is to examine one of the main economic features of the Southeast Asian region that largely attracts the US foreign policy attention nowadays. It includes the recent US-China diplomatic struggle, which has oil in its background, as well as the review of region's energetic capacity. The paper also concentrates on China's alternative energy options and challenges which are posed by the American military presence in the waters of South China Sea.

Oil as a decisive factor in US-China strategic competition

The strategic struggle between the US and China is largely explained by the dependence on energy resources of the two largest economies. Oil is one of the main reasons that Beijing and Washington are getting concentrated on the political and military developments among the East-Asian countries, which have direct access and influence on the vital waters of South China Sea. In order to have a better understanding about the global significance of the regional oil routes, let us take a brief glance on the growing strategic competition between America and China in South-East Asia, which, in our opinion, is largely explained by the energetic importance of the region.

President Barack Obama's "pivot to Asia" is largely explained by China's exceptional economic and military growth and its posing challenges for the American national interests in the region. If we take into account the fact that the above mentioned interests of the US have a big emphasis on such parts of South China Sea as the Taiwan Strait (Ming-Te, Liu, 2011), we can suggest that America is largely concerned about the future of the economic sea lines on which China is mounting more pressure and influence now. Furthermore, the Strait of Malacca, Sunda Strait and the Straits of Lombok and Makassar, laid down in the middle of vital regional waters, are the three crucial checkpoints that connect Indian and Pacific with Middle East, Australia and New Zealand. These are the sea lines by which China, Japan and South Korea receive not only oil, but also other important goods and commodities from the rest of the world (Ming-Te, Liu, 2011). These so-called "maritime lifelines" are the basic connections for exports from Middle East to Pacific and reasons for the amounting geopolitical competition in the region. As a result, Southeast Asia has become not only a hotspot for energetic competition between the United States and China, but also the driving force for modern geopolitical tendencies and developments.

Although the United States is now deeply engaged in war against ISIS, the recent interview of the US deputy secretary of state William Burns (In China US diplomat talks maritime tensions, 2014) indicates that Southeast Asia continues to remain the highest strategic priority for the American foreign policy today. The recent post from

Huffington journal about the growing mutual mistrust between the US and China (in connection with the military actions of American and Chinese jets) is the vivid proof of China's aggressive military plans and America's constant attention on it. Those actions have even drawn the attention of China's Defense Minister, who made it clear that the American military presence in South China Sea directly affects China's air and territorial security. Moreover, the latest announcements of Chinese leaders on the military capability developments in South China Sea (China vows to respond to US surveillance flights, 2014) strengthens the hypothesis that the political and economic (especially energy and oil) factors, which are laid down in the surrounding waters of Southeast Asian countries, is the driving force of the Chinese foreign military plans. This is explained by not only the figures and percents showing Chinese dependence on seaborne oil resources, which we will discuss in the upcoming paragraphs of this paper, but also the American deep strategic and economic interest in the region, which already has a history of more than five years.

By saying American "deep" interests we mean, of course, Obama's decisive return to Asia, which opened a new page in modern Sino-American interactions and competition. It was not only the unprecedented economic growth of People's Republic and its successful integration with ASEAN that drew the American attention to Southeast Asia, but also China's military progress and its involvement in territorial issues with such US allies as Japan, Philippines, Vietnam, etc. The amounting fear from the Japanese side over the militarization of South China Sea and its call for assistance from the US, Australia and ASEAN member states (Shimbun, 2014) supports the idea that the existing conflict in this region is not only much about the islands and territories, but also waters and sea routes. That is why Japan puts emphasis on the rule of maritime law in the waters of South China Sea (Chinese warships cross high seas off Japan Island, 2011), arguing the necessity of China's readiness to liberate the sea lines of commercial importance.

Having the economic competition with China in background (which has already destroyed America's leading role as a first trade partner with ASEAN), the US is, of course, more concerned about the territorial conflicts in the region, which affect the American energy interests as well. Secretary Kerry's recent agenda in Myanmar, which included the question of deploying deep sea oil rig near the Paracel islands by China, can summarize the US-China recent strategic struggle over energy and oil. Although China removed the rig few months ago, which had caused serious maritime and diplomatic clashes with Vietnam, the case shows that China is determined to establish its overall influence in South China Sea. Furthermore, the Chinese authorities are seeking ways of implementation for their own "Monroe Doctrine" in this region, arguing that China is already strong enough to have such influence, as the US has in Caribbean (Neuman, 2014). Washington cannot, of course, easily deal with this situation, especially when its allies Japan, Philippines and Vietnam are engaged in it. For that reason the US Secretary of State voiced the danger for international shipping order caused by this conflict and qualified the situation in South China Sea as a US national security interest in this region (Lee, 2014). Moreover, during his continuing visits to East Asia, Secretary Kerry mentions the maritime territorial disputes as a second largest concern (after the climate change) for the US foreign policy in East Asia (Lee, 2014).

Summing up the strategic struggle between the US and China, we can say that South China Sea has become a field of territorial claims and diplomatic clashes between the two largest economies (with the active participation of Japan, Philippines, Taiwan, Vietnam and Brunei), the roots of which go back to the enormous economic importance of the so-called “Cow’s tongue” region. To be clearer, let us bring NPR’s recent wild estimates on the energetic resources of South China Sea. The analysis conclude that this area encompasses 213 billion barrels of oil reserves, which is the equivalent of 80% Saudi Arabia’s reserves, as well as gas reserves which is five times bigger than the America’s same reserves (Neuman, 2014). This research can be the best answer to China’s mounting interests and America’s high concentration on the political and military developments in Southeast Asia and the surrounding regions. In the next paragraph we will discuss China’s dependence on seaborne oil, bringing new insights to the US-China energetic competition.

China’s dependence on seaborne oil

In order to have a better understanding about China’s excessive economic reliance on the waters of South China Sea, let us discuss some numbers that indicate China’s current energetic situation. Although China is one of the significant oil producer in the world, its dependence on imported oil reserves continues to grow. Currently China’s oil demand has reached a level of about 8 million barrels per day (China’s foreign oil dependence to rise, but 2015 limit set at 61% off needs, 2013), which made her the second largest oil user in the world. Furthermore, China imports 40% of its oil by sea (Ericsson, Collins, 2010: 90). These figures and percents serve as major directions for the Chinese leaders to shape the military plans of the country, especially in Southeast Asia. Those plans are evoking a major debate among the Chinese policymakers on what direction will China go in connection with its oil demand. That debate is caused by not only China’s oil hunger, but also America’s foreign policy concentration in South China Sea. As a result, the Chinese authorities are discussing two possible solutions to access the needed energy sources. The first argument suggests that China needs to concentrate its economic potential on building and securing oil and gas pipelines with the neighboring countries, as the US has already pushed China to that option with its overall control on Malacca Strait (Ericsson, Collins, 2010: 90). The second suggestion, consequently, opts for China’s push on its military capabilities in South China Sea, so that China will be able to secure its maritime oil imports.

The concerns from the American side in South China Sea and Malacca Strait are serving as not only ways to look for pipeline opportunities, but also justifications to build them up and develop. Many Chinese influential scholars, political analysts and members of military believe that the US can and will threaten China’s oil security guarantees in Malacca Strait in case of any conflict. For that reason China has concentrated most of its resources on the 2011-15 pipeline construction plans, which will increase its overall oil and gas pipeline length from fifty thousand to ninety thousand kilometers (Ericsson, Collins, 2010: 91). Those pipeline plans and concerns of Chinese decision makers once again indicate the significance of oil factor in US-China strategic competition, as well as its role in China’s foreign policy plans.

The pipelines, however, do not and cannot satisfy China’s growing demand for oil and gas resources. One of the earliest researches on China’s energy demand concludes that China’s 2.5% annual oil demand growth will not be satisfied by the existing

pipelines from Russia and Kazakhstan (Ericsson, Collins, 2010: 94). The energetic plans of Russian and Kazakhstani authorities more complicate China's pipeline plans. The question is that these two countries (which are China's main oil suppliers) are not that much interested in supplying China by oil and gas the way China expects. Kazakhstan, for example, plans to supply its oil not only China, but also to the ports of Black and Caspian Seas. Russia, meanwhile, tries to reach its exported oil not only to China alone, but also to Japan, South Korea and other states of the Pacific basin (Ericsson, Collins, 2010: 96). This means, that China cannot simply rely on the combined resources of Russia and Kazakhstan, because they are not only insufficient, but also not prioritized for China's demands.

The question of insufficiency is not the only disadvantage of China's pipeline plans. The other two pipelines, which China considers to build with Burma and Pakistan, can be very vulnerable to not only sabotage and military interactions, but also natural disasters. In any case, it is easier to block the pipelines than sea tankers and carriers, as the last ones are more flexible and full of alternative options. For that reason, the supporters of seaborne oil imports are getting more advantage in the above-discussed debate. They contend that although the US is controlling the Malacca Strait, the oil tankers can bypass that strait through Sunda and Lombok. It will be, of course, more expensive to do so, however, is the best alternative for the pipeline opportunities now. Additionally, the construction on new pipelines will also require more finances to build corresponding refineries in the far-reaching territories of China and settle new employees in those areas. For that reason it would be more reasonable for China to spend some part of those finances on additional costs of seaborne imports.

To sum up this part of our research, let us also bring some US based analysis on the topic. The US agencies remain deeply concentrated on China's energy security situation. The recent article from the American "USCHINA Daily" journal contends that China's oil demand has already reached the amount of 11.1 million bpd (Barris, 2014) despite its decreasing GDP growth. The research also identifies Middle East (especially Saudi Arabia, Iran and Iraq) as China's largest oil supplier at the moment. Particularly, China gets 52% of its imported oil from Middle East companies (Barris, 2014). This can bring two major conclusions for China's energy security aspect:

First, China will continue to largely depend on the seaborne oil imports in the upcoming future, as it is the only reasonable geographic way to bring oil from Middle East countries.

Second, China will have to face the challenges of American military presence and influence in the waters of South China Sea, because the US itself considers Southeast Asia and Middle East as major geopolitical hotspots for its national economic and security interests.

Possible solutions for China's oil crisis

We have already mentioned that pipelines are the second major options for China's oil imports. This option has become very modern for China nowadays due to the conflicting situation in South China Sea. Let us separately discuss the existing and planned Chinese pipelines to have a better understanding about their real functioning and role in China's energy platform.

China-Kazakhstan is the first overland project that allows China to receive oil not only from Kazakhstan but also from other Central Asian countries (Gordeyeva, 2013). The project was launched in 1997 and was aimed to reduce the railway and shipping costs for China and Kazakhstan. It was finalized in 2007 with the capacity of 200.000 bpd (Ericsson, Collins, 2010: 94). However, in 2008 China could import only 102.600 bpd by this pipeline (Ericsson, Collins, 2010: 94). This was because of some price disputes with the Kazakh authorities, as well as supply gap from the Russian side. Consequently, the pipeline from Kazakhstan could not fulfill the demand that China expected to supply from Central Asia. However, China opened a new pipeline from Shanshan to Xingjian, so the oil from Central Asia could reach the deep central refineries of China (Ericsson, Collins, 2010: 94).

The Kazakhstan-China pipeline, of course, has its disadvantages, one of which is the fear that the oil can freeze and block the pipeline in wintertime. However, the Chinese authorities are expecting to reach the capacity of this pipeline into the 400.000 bpd level (Ericsson, Collins, 2010: 94), which will serve as a major supplier for the Chinese inland companies. The other part of Kazakhstan-China pipeline project, which was opened in 2011, was the keystone in the Chinese oil expectations from Kazakhstan. This projected helped China to receive the demanded oil from Central Asia and supply it to its far-reaching eastern regions.

The Russia-China pipeline was also designed to reduce the railway prices, as well as overcome the US Navy patrolled sea territories. The first phase of East Siberia-Pacific Ocean pipeline construction was finished in 2004, and the remaining part, which will bring the Russian crude oil to China and the Sea of Japan, is scheduled to be finished by 2025 (Ericsson, Collins, 2010: 97). There were some pricing disagreements between the Chinese and Russian authorities as well, and those disputes led to the delay in the pipeline construction. However, the economic crisis in 2009 and Russia's need for further financial resources pushed Russia's Transneft to remain concentrated on the future of Russia-China pipeline. China from its side expects to increase the imported 300.000 bpd oil level from Russia to 600.000 bpd (Ericsson, Collins, 2010: 97). This will, of course, be a major boost for the Chinese overland oil supplies. Additionally, Russia and China have recently signed a gas agreement, which launched world's largest fuel project with the overall investment price of more than 70\$ billion (Putin breaks ground on Russia-China gas pipeline, world's biggest, 2014). This new project of Russia's Gazprom called the "Power of Siberia" is intended to bring 4 trillion cubic meters of gas to China over 30 years (Putin breaks ground on Russia-China gas pipeline, world's biggest, 2014). This is, of course, not an urgent solution to the Chinese energy demands, as its launch is expected only in 2019.

The Burma-China oil pipeline is also one of the energy projects that aim to reduce China's dependence on South China Sea oil routes. The Chinese National Development and Reform Commission were in charge of the initiative and financing of the project, which is aimed to have the capacity of 400.000 bpd (Ericsson, Collins, 2010: 98). Furthermore, the Burma-China pipeline was qualified as the fourth largest supply that will provide sufficient oil reserves to the inland communities of China (Ericsson, Collins, 2010: 98). The pipeline itself will have the 200.000 bpd capacity, which will promote the construction of new refineries and reach the planned capacity of 400.000 bpd. The project, of course, will be a big contribution to the energy security sphere of the country, although there are some major concerns about its

further implementation. First of all, the final plan of this pipeline is not yet clear, as there is a major struggle between the Chinese oil companies over such projects. Second of all, the memories of the major earthquake near the China-Burma border have not been forgotten. The inner political and social situation in Burma is also not that secure, if take into consideration the existence of many different juntas and terrorist groups. The above-mentioned disadvantages of the project bring major doubts for the pipeline construction processes. However, the economic and strategic benefits of the pipeline push the respective companies and authorities to go harder for the program realization. The recent opening of the Burma China gas pipeline can serve as a real example for the oil proposed oil pipeline project.

China also considers the construction of an oil pipeline from Pakistan, which would supply it with sufficient energy resources from the regions surrounding the Indian Ocean, as well as give again the opportunity to bypass the Malacca Strait (Ericsson, Collins, 2010: 101). However, the construction of this pipeline brings the biggest concerns for security and stability to the Chinese energy security sector. The existence of different terrorist and militant groups in Pakistan, as well as the existing armed conflict between Pakistan and India on Kashmir makes the pipeline construction less possible. Alternatively, China considers the possibility of bringing the Indian and Pakistani oil through the Burma pipeline, which would reduce the security concerns.

However, the Burma and Pakistani projects are under discussions and it is not clear yet whether these projects will become a reality or not. The only clear thing in this situation is the fact, that the above-mentioned projects will not fully supply China's dependence on oil reserves, even if they reach their highest levels of functioning.

Conclusion

Three main conclusions can be drawn from the topic. First of all, the high concentration of the American foreign policy in the Southeast Asia is largely explained by the energetic capacity of the region. The location of Malacca, Sunda and Lombok Straits in the surrounding South China Sea waters and China's growing military influence on them cannot allow the US to step away from these territories.

Second of all, China will continue to largely depend on the seaborne oil reserves, which are coming from the South China Sea. Consequently, China will not drop off its attention from its military plans, which will continue to pose major challenges for the American foreign policy plans in the region.

Finally, the alternative pipelines that China contemplates to build and function for overcoming the conflicting South China Sea territories, will not allow to full supply its oil demands. This means, that the three major energy sea lines mentioned above will remain the highest priority for the Chinese oil security sector. As a result, the seaborne oil and the maritime transportation routes will remain in the basis of US-China regional and global economic and political struggle.

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