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# **Perspectives on China's Rise as a Maritime Power and its Quest for Energy Security**

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Event Summary

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## **Background**

China is often described as a continental power with a very long coastline. In recent years, it has increasingly turned its attention to the maritime domain. In the report to the 18<sup>th</sup> National Congress of the Communist Party of China in November 2012, the then Chinese leader, Hu Jintao called for more efforts to build China into a maritime power — one with the enhanced capacity to exploit marine resources, protect the marine environment, and safeguard China's maritime rights and interests.

The current Chinese leader, Xi Jinping has also continued to emphasise the importance of developing China as a maritime power. In a study session held in late July 2013 with members of the Political Bureau of the Communist Party of China's (CPC) Central Committee, he noted that oceans and seas have an increasingly important strategic status concerning global competition in the spheres of politics, economic development, military, and technology.

He said that in the 21<sup>st</sup> century, the ocean has an increasingly important role to play in a country's economic development and opening to the outside world. He also stated China's intention to turn the maritime industries into a pillar of China's national economy and stressed the importance of sustainable exploitation of marine resources. According to him, China will depend on the ocean to prosper and will steadily promote the building of its maritime power through peaceful and mutually beneficial cooperation. Several months later in Jakarta, in a speech to the Indonesian parliament during his maiden visit to Southeast Asia, Xi proposed that the Southeast Asian countries join efforts with China to build a new "maritime silk road".

These statements indicate that China's maritime strategy under Xi is entering a new phase of activity. Today, the peaceful development of the maritime domain is not only an important economic lifeline for China, it is also regarded as a necessary condition for China to resume its place as a Great Power. With the country's reliance on export-driven economic growth, increasing dependence on access to global natural resources, rising military capabilities, and the latest top-level statements about expanding China's maritime economy, China's rising profile as a maritime power is set to impact the International System significantly.

Presently, Chinese National Oil Companies have assets across the world: in the Middle East, Africa, North America, Latin America and Asia. China relies on seaborne deliveries for much of its oil and increasingly, natural gas. Beijing also has plans to undertake deep-sea and frontier oil

and gas explorations. These energy interests — as well as the Chinese leadership's pronouncements on developing China as a maritime power and the creation of a 21<sup>st</sup> Century Maritime Silk Road — will significantly affect how China behaves diplomatically, militarily, and commercially, all of these with regional and global implications.

This academic event in Singapore gathered the Chinese, international (from the US, India, UK, Australia, Southeast Asia) and Singapore-based experts from different backgrounds (academia, policy think tanks, and the private sector) to share their personal views and perspectives on China's rise as a maritime power and its quest for energy security. The event was held under the Chatham House Rule and took place over a one-and-a-half-day period (27-28 August 2015). It consisted of a one-day closed-door workshop involving some 25 participants. This was then followed by a by-invitation-only half-day conference that involved approximately 70 people. This event summary covers the key discussion points and do not reflect any consensus among the participants.

This event was jointly organised by the Energy Studies Institute, National University of Singapore in cooperation with the Beijing-based, China Strategic Culture Promotion Association. However, the views expressed in this document do not necessarily reflect the view of the organisers.

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## 背景

中国是一个拥有漫长海岸线的陆权大国。近年来，中国政府日益关注维护本国的海洋权益。在 2012 年 11 月十八大报告中，时任主席胡锦涛表明要投入更多的力量，把中国建为一个具备探测海洋资源、保护海洋环境、维护中国海洋权益的海洋大国。

现任中国领导人习近平也继续强调将中国建成海洋大国的重要性。在 2013 年 7 月举行的一次中央政治局学习中，他指出在政治、经济发展、军事和科技领域的全球竞争中，海洋的战略地位越来越重要。

他认为，在 21 世纪，海洋在国家的经济发展和对外开放中扮演着越来越重要的角色。他还指出，中国要将海洋工业发展为国家经济支柱产业，并强调了可持续发展海洋资源的重要性。他进一步指出，中国将依靠海洋而繁荣，并且将通过和平与互利合作以稳步建设海上力量。几个月之后在首访东南亚的雅加达之行中，他在印度尼西亚国会的演讲中提议中国与东南亚国家共同努力建设一条新的“海上丝绸之路”。

这些讲话表明习领导下的中国海洋战略正在进入一个新阶段。当今，和平开发海洋领域不仅仅是中国经济的重要生命线，而且也被视作中国重返大国位置的必要条件。在国家经济增长依赖出口、越来越依赖在全球范围内获取自然资源、军事实力提升、以及最近高层关于拓展中国海洋经济的讲话的大背景下，中国以海洋大国的姿态崛起势必对国际体系产生重大影响。

当前，中国国家石油公司在中东、非洲、北美、拉丁美洲和亚洲等世界范围内都有资产。中国依赖海洋运输为其输送大量石油及其日益增长需求的天然气。中国有勘探和开采深海石油和天然气的计划。中国的这些能源利益以及中国国家领导人关于将中国建设为海上强国、建设 21 世纪海上丝绸之路等方面的倡议都将深远地影响中国在外交、军事、商业以及地区和全球事务中的表现。

此次在新加坡的学术会议聚集了来自中国和其他的国际（美国、印度、英国、澳大利亚、南非等）和新加坡本地具有不同的背景的专家（来自学术、政策智库及私企领域）。这些专家分享了关于中国作为崛起中的海洋大国对于能源安全和需求方面的一些观点和看法。此次学术会议遵循英国皇家协会规则，会期为一天半（二零一五年八月二十七至二十八日）。其中，一天为由

25 名专家参与的闭门会议；半天为由受邀请的大约 70 名与会者参与的会议。会议总结涵盖了主要讨论点，但并不当然反映与会者的共识。

本会议由新加坡国立大学能源研究所和中国战略文化促进会合作举办。不过，会议总结中的观点并不代表主办方的观点。

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## Key Points

### *China's Foreign and Security Policies under Xi Jinping*

1. China is in an important period of transition, moving from a 'big' to a 'strong' country status. The late Chinese leader Deng Xiaoping had prescribed the focus on economics and public policy; but this has shifted under Xi Jinping. In the past few years, Beijing has become more proactive in shaping its national interests in the region and beyond.
2. Under the Xi Administration, security affairs have risen in importance as it is seen as necessary for safeguarding China's developmental agenda. It is also worth noting that this concept incorporates both internal and external security. "The Governance of China" authored by Xi talks about security and development going hand in hand. The creation of the Central State Security Commission under Xi demonstrates the growing importance of security to the Chinese Party-State.
3. Under Xi's tenure, maritime security has been elevated to a level that is never seen before. The maritime domain is increasingly vital to China's territorial interests, overseas investments, supply routes, and national security. China's rise as a maritime power also raises important questions about its future role as a regional power, and the ability of its neighbours and external great powers to accommodate its growing regional strategic interests.
4. A wide range of perspectives and comments, at times opposing, were raised by the various event participants to explain the current regional situation, the change in the status quo, and how the respective regional stakeholders should position themselves individually and collectively in response to the changing regional dynamics.
5. While the South China Sea is a very important issue between China and Southeast Asia, it is not the most important one. The basic foundation of bilateral ties – diplomatic and trade cooperation – remains rather solid despite disagreements over the maritime disputes.
6. Southeast Asia's policy towards China also remains unchanged. For ASEAN member states, it is all about the balance-of-interests, which is complicated by the powers external to the region. However, there is a wide gap between economics and security in bilateral relations.
7. In the past, China was able to set aside the maritime disputes and this has led to unprecedented economic growth and improved diplomatic relations with ASEAN member states. The question at hand is whether the South China Sea disputes can continue to be set aside by China and Southeast Asia to reap the peace dividend.
8. In terms of China's priorities, it is Taiwan and not the South China Sea that is at the top of China's list as it is related to China's sovereignty and territorial integrity based on the legacy of China's civil war.

9. From a Chinese perspective, China is a shaper, not a breaker of international order. It participated in the 1982 drafting of the United Nations Convention on the Law of the Sea (UNCLOS) and took part in the 2002 drafting and signing of the Declaration on the Conduct of Parties in the South China Sea with ASEAN. As much as possible, China always works to achieve a win-win outcome that takes into account everybody's interests.
10. While China actively works within the International System, there is one proposition for observing international laws and norms; which is not to jeopardise one's national interest. Thus, when China accepted the 1982 UNCLOS, it agreed on the precondition to not accept any unilateral arbitration of disputes.
11. From a Chinese perspective, the Chinese government has over the years been exercising utmost restraint in the South China Sea despite the unilateral activities of the other claimants that are occupying and developing the areas claimed by China.
12. As China and the US further engage each other over the South China Sea, the prospects of dispute settlement, which are multi-layered, will be even more difficult. This is because both will take other policy priorities which are unrelated to the South China Sea into consideration. Also, China and the US have broad overlapping (and common) interests, and their interaction is not constrained or solely defined by the South China Sea issues.
13. While the US may serve as a counter-balance to China for the small and medium states of Southeast Asia, the question is whether the US presence may actually facilitate the eventual peaceful resolution of the disputes or raise the stakes of confrontation.
14. Issues concerning the freedom of navigation and the legality of foreign military activities including surveillance and information gathering operations in an Exclusive Economic Zone (EEZ) were also discussed. Several participants pointed out that there is in fact no dispute about the freedom of navigation and commercial shipping – which has never been impeded; the real question is about military activity, particularly surveillance and information collection operations.

#### *Marine Governance and Seabed Resource Development*

15. There is general agreement at the workshop that the hydrocarbon factor, while being one aspect, is not the decisive factor in the South China Sea disputes today. The hydrocarbon resource dimension, which includes resource competition, has been exaggerated by both the international and Chinese media.
16. Another key ambiguity with regards to the South China Sea hydrocarbon resources is the uncertain nature of China's claims since it has not fully clarified the extent and nature of its maritime claims in the South China Sea. This creates an environment of uncertainty for companies seeking to operate in blocks licensed by the various South China Sea claimants.

17. There are a number of challenges related to the issue of joint development in the South China Sea: (a) States do not have the obligation to agree to joint development; (b) there is a lack of mutual trust among the claimants of South China Sea; (c) oil companies are reluctant to undertake exploration in the disputed areas due to high cost and uncertainty; (d) claimants are concerned that temporary arrangements may influence the final delimitation decision; and (e) there is no consensus with regards to the joint development model to be undertaken in the South China Sea.
18. There is room for greater environmental cooperation in the South China Sea, particularly in the context of offshore oil and gas developments. Better institutional arrangements need to be established so that mechanisms can be put in place to manage potential accidents which may occur during offshore oil and gas operations. There also needs to be more sharing of information between the littorals so that better environmental impact studies on the marine environment can be carried out.
19. Multilateral cooperation over the management of fish stocks which are facing severe stress in the South China Sea is more urgent and important than the discussion of joint development of seabed resources. Competition at sea between fishermen from different countries is an even more volatile factor that could trigger confrontation and miscalculation, compared to oil and gas operations which are closely monitored and controlled.

#### *Securing China's Overseas Energy Interests*

20. The relationship between Chinese State-owned Enterprises (SOEs) and the state is profoundly misunderstood around the world. Chinese companies are going overseas because that is what they need to do to be successful International Oil Companies.
21. It was pointed out that owning the resource instead of buying it in the international market is not a very effective form of energy security. Once oil does not flow at its source, it will not matter if China owns the resource or not.
22. Chinese companies are in fact more concerned with the market factors, namely, price and reliability of the supplier, and much less with hard security issues such as the "Malacca Dilemma". More realistic sea-borne threats are those that originate from piracy, terrorism, and transportation accidents.
23. For the past 20 years, the Chinese government and SOEs have been trying to reduce the vulnerability of supply. Some of the enhancement mechanisms include resource diversification, development of substitutes, construction of overland pipelines, international cooperation, and increased protection of sea lines of communication (SLOCs).
24. In the context of diversification of maritime routes, China is said to be exploring three alternative options, namely through the Kra Canal (Thailand), Nicaragua Canal (Latin

America), and the Northern Sea Route (Arctic). However, these three routes face serious financial, infrastructure, and environmental limitations, as well as political risks in the host countries, making these alternatives unviable, at least in the foreseeable future.

25. China is said to be currently over-dependent on resources coming from the Middle East and North Africa (MENA). Thus, instability in the MENA region may result in implications for China's supply security. However, disruptions when they occur would not only affect China, but other import countries as well; which makes this an issue for potential cooperation.
26. While the PLA has not been actively engaged in securing energy supplies, it can be tasked in a variety of ways: by protecting China's Exclusive Economic Zones (EEZs); through peacekeeping missions and evacuation operations in MENA; participating in anti-piracy operations; building cooperative relationships with other militaries to better respond in times of crises and emergencies; and in making maritime rules to ensure the safety of the SLOCs.

#### *Conflicting Perceptions and the Need for More Constructive Engagement*

27. The discussions reveal the conflicting mental perceptions between the Chinese and non-Chinese participants. The core of such disagreements rests on the perceived intention behind China's policies and behaviour as it seeks to become a maritime power.
28. There is agreement that conflict with China is not in anyone's interest. However, there remains a gulf as to the steps necessary to maintain the region's peace and stability.
29. China is growing and its strategies and policies are evolving as a result. The challenge is for all countries, including China, to adapt to this new reality and work to ensure that its rise will remain peaceful, and that it continues to be beneficial to the region.
30. This calls for greater understanding and accommodation from all sides in order to build a regional security architecture that is inclusive, sustainable and comprehensive. All the stakeholders in Asia would have to work together to develop and strengthen dispute and crisis management mechanisms.

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## 重点

### *习近平下的中国外交与安全政策*

1. 中国正在经历从大国走向强国的重要转型时期。已故中国领导人邓小平将中国发展重心放在经济和公共政策，但习近平对此做出了改变。在过去的几年，北京更加主动地在区域内外塑造其国家利益。
2. 习近平执政后，国家安全问题因为悠关中国国家发展利益变得更加重要。值得注意的是，安全问题包含了国内和国外两个方面。在《习近平谈治国理政》一书中，习近平认为，安全和发展是并行不悖的。由习近平领导的国家安全委员会的设立表明了国家安全问题对于当前中国体制的重要性。
3. 习近平时期，国家海洋利益受到前所未有的重视。海洋对于中国的领土利益、对外投资、贸易通道和国家安全更加重要。作为新兴海洋力量，中国的崛起也带来了其他的问题，包括中国未来在区域内的角色、区域内邻国和区域外大国对中国区域战略利益的适应程度。
4. 关于区域形式、局势变化以及区域内成员如何共同或单独调整自身以适应新的区域动态，在场的专家有着一系列广泛的评论和研究，并时而针锋相对。
5. 尽管南海问题对于中国和东盟国家很重要，但它却不是双边关系中最重要议题。尽管在南海问题上双方有意见分歧，但作为双边关系的基础，外交和贸易合作仍然坚实。
6. 东南亚国家的中国政策依然保持不变。对于东盟国家来说，利益平衡仍然重要，尽管域外国家让这种平衡更加微妙。不过，在双边关系中，经济利益和安全利益仍然有着较大的落差。
7. 过去，中国可以搁置海上争议。这种处理方式为中国带来了空前的经济发展并改善了中国同东盟国家间的外交关系。现在的问题是中国和东盟国家是否可以继续搁置争议，并继续保持区域和平。
8. 从中国的角度来说，作为内战遗留问题，解决台湾问题才是保持主权和领土完整的首要任务。相比于台湾问题，南海问题并非首要任务。

9. 从中国的角度来说，中国并不是现今国际秩序的挑战者，而是塑造者。中国在 1982 年参与谈判制定《联合国海洋法公约》，也在 2002 年同东盟起草并签署了《南海各方行为宣言》。中国始终尽可能地朝着照顾多方利益和多赢的方向努力。

10. 尽管中国积极参与现有国际体系，但中国参与国际法和国际通行准则的条件是不损害中国的国家利益。所以，当中国在 1982 年签署《联合国海洋法公约》时，所附加的前提条件是不接受任何单方面关于争议的仲裁。

11. 从中国的角度来说，尽管近年来南海其他声索方不断单方面占领和开发中国声称占有主权的区域，挑战中国主权，中国政府一直保持最大程度的克制。

12. 随着中国和美国不断在南海交锋，彻底解决这一复杂的争议变得越来越困难。其原因是中美双方都将同南海无关的其他政策议题带到讨论中。另外，中美之间有广泛甚至相互重叠的共同利益，而这些议题并不局限于南海问题。

13. 对于东南亚的中小国家来说，美国可以作为抗衡中国的砝码。不过问题是美国的存在到底是能够促进争议的和平解决还是提升了对抗的危险。

14. 关于在专属经济区内的通航自由和外国军事活动（包括信息收集和监视）的合法性问题，也有过讨论。一些参会者提出，商业活动的通航自由实际上并不存在争议，也没有受到干扰。关键的问题是军事活动、特别是信息收集和监视活动。

#### *海上管理和海上资源开发*

15. 一个会议共识是，南海油气资源问题，尽管是南海问题的一个方面，但它并非是南海争议的决定性因素。南海的油气资源和竞争被中国和国际媒体夸大了。

16. 另一个关于南海油气资源模糊的焦点是中国的声索并非完全确定，体现于中国关于其在南海的声索程度和范围的模糊性。这令从其他声索方取得许可在南海开发油气资源的公司充满不安。

17. 共同开发南海资源仍然有很多挑战。(a) 不同国家并没有责任参与共同开发；(b) 南海不同声索方之间互信不足；(c) 因为高风险和高投入，油气公司不愿在有争议地区开发；(d) 声索方

对于共同开发的短期安排可能影响最终解决方案存有疑虑；(e)对于在南海共同开发的模式并没有达成共识。

18. 南海还存在环境保护方面的合作空间，尤其是在近海油气资源开发方面。需要建立更好的制度安排，从而能够有效管理在油气资源开发时有可能发生的环保事故。不同管理方之间也需要共享更多的信息，以便能展开海洋环境影响方面的更有效的研究。

19. 因为渔业资源受到挑战，在南海渔业资源上的多方合作其实比油气资源共同开发更为重要和迫切。同受到紧密控制的油气资源比起来，不同国家的渔民在南海围绕渔业资源的竞争成为了引发对抗和误判更激烈的导火索。

### *确保中国海外资源利益*

20. 世界对中国国企和政府之间的关系存在很深的误解。为了成为成功的国际石油企业，中国公司需要进军海外。

21. 参会者理解，用直接购买国际油气生产地取代在国家市场上直接购买油气产品并不是保障能源安全的有效方式。一旦石油生产源停产，那么这个油田是否属于中国已经不重要了。

22. 中国公司其实更加关心市场因素，尤其是价格和供给方的可靠性，而不是“马六甲困局”这样的安全问题。对于海上通道更为现实的威胁其实是海盗、恐怖主义和运输事故。

23. 在过去的20年里，中国政府和国企一直致力于降低能源供给的脆弱性。这些加强能源供给的机制包括资源多元化、开发替代能源、建设陆上输送管道、国际合作和保护海上通道。

24. 关于海上航路的多元化，中国据称一直在致力于开发三个方面：位于泰国的克拉地峡，位于拉美的尼加拉瓜运河和位于北冰洋的北部航路。然而，这三条线路都面临着严重的资金短缺、基础设施建设不足和自然环境方面的限制，加上相关国家的国内政治风险，所有这些限制都使得这三条线路在可预见的未来一段时间内变得不太可行。

25. 据称，中国当前过于依赖来自于中东和北非的油气资源。所以，任何在中东和北非地区的不稳定因素都会对中国能源供给安全造成影响。然而，该地区能源供给的任何中断不只会影响中国，也会影响到其他进口国家。所以，该地区的稳定可以成为潜在的合作机会。

26. 尽管还未积极参与到保护能源供给线，但中国军队可以在其他方面发挥作用。例如：保护中国专属经济区，参与在西亚和北非地区的撤侨和维和行动，反海盗作战，同外国军方建立合作关系从而更有效地应对紧张局势和危机，以及创立规则以确保海上通道的安全。

*冲突的看法以及更有建设性的沟通的需要*

27. 来自中国和非中国的参会者有着明显的互相冲突的思维角度。不同意见核心是源于对中国在成为海洋国家过程中的政策和行为的不同解读。

28. 参会者共同认为，同中国产生冲突并不符合任何一方的利益。然而，对于如何保持区域稳定与和平，大家有着不同的观点。

29. 随着中国的发展，其战略和政策也一直在调整。对于包括中国在内的所有国家的挑战是如何适应新形势以及如何确保中国和平崛起并对区域稳定做出贡献。

30. 这就需要各方一道增强理解和相互适应，以建立一个包容，持续和全面的区域安全架构。亚洲有关各方应共同努力，发展和强化争端以及危机管理机制。

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## Discussion Themes

The event covered the following themes:

### *China's Foreign and Security Policies under Xi Jinping*

Discussions under this theme focused primarily on the current Xi Jinping period, covering the strategic considerations surrounding the South China Sea, China-Southeast Asia relations, and the security and foreign policies of China. The aim was to identify the major trends in China's behaviour, and in the international and regional environments. The following questions were addressed: What are the major features of President Xi's foreign and security policies? What are China's key interests and concerns with respect to the Asian region? What are the current international and regional trends driving and affecting China, and how is Beijing responding? What are the implications of China's "One Belt, One Road" initiative?

### *Marine Governance and Seabed Resource Development*

The 1982 United Nations Convention on the Law of the Sea (UNCLOS) provided a framework for advancing the utilisation, exploitation, and conservation of maritime resources. Countries across Asia have a growing interest in maritime resource development. However, the ongoing power shift in Asia, the territorial disputes in the region, and the overlapping maritime boundary claims have raised maritime tensions in Asia. China also has a growing interest in the development of international seabed resources. Discussions focused mainly on the South China Sea, covering China's approach towards UNCLOS, maritime and marine governance issues, as well as prospects for joint development.

### *Securing China's Overseas Energy Interests*

Discussions under this theme centred on the motivations behind China's international energy engagements, the security of China's international energy supply, as well as the evolving role of the People's Liberation Army (PLA) in securing and protecting China's overseas rights and interests. The key questions asked were: How will China's overseas energy interests affect its maritime security strategies? What are the implications of China's "One Belt, One Road" initiative on the country's overseas energy interests? What are the challenges and opportunities facing China as its overseas energy interests expand? How will China's new "active defence" strategy — moving from "offshore waters defence" towards "open seas protection" — affect China's maritime security thinking and impact the securing of the maritime energy supply chain?

## Summary of Findings

The following summary sets out the key discussion points, and do not reflect any consensus among the attendees.

Overall, there was general agreement that China's rise as a maritime power raises important questions about its future role as a regional power, and the ability of its neighbours and external great powers to accommodate its growing regional strategic interests. A wide range of perspectives and comments, at times opposing, were raised to explain the current regional situation, the change in the status quo, and how the respective regional stakeholders should position themselves individually and collectively in response to the changing regional dynamics.

### *Domestic Factors Affecting China's Foreign and Security Policy*

China is in an important period of transition, moving from a 'big' to a 'strong' country status. The late Chinese leader Deng Xiaoping, had prescribed the focus on economics and public policy; but this has shifted under Xi. During two government conferences in 2013 and 2014, Xi called for a new security concept and a new regional security architecture for Asia, "a Community of Common Destiny in Asia", and the "One Belt, One Road" initiative. In the past few years, Beijing has become more proactive in shaping its national interests in the region and beyond. Under the Xi Administration, security affairs have risen in importance as it is seen as necessary for safeguarding China's developmental agenda. It is also worth noting that this concept incorporates both internal and external security. "The Governance of China" authored by Xi talks about security and development going hand in hand; and the creation of the Central State Security Commission under him demonstrates the growing importance of security to the Chinese Party-State.

Under Xi's tenure, maritime security has been elevated to an unprecedented level. The maritime domain is increasingly vital to China's territorial interests, overseas investments, trade and supply routes, and national security. The 18<sup>th</sup> Party Congress Work Report published in November 2012 made a statement that China should become a maritime power. The May 2015 defence white paper argues for abandoning the mentality of land being more important than the sea. China now follows the new "Near Seas Defence, Far Seas Protection" naval strategy.

China's security outlook and strategy can be distilled into the following seven points. First, it is essential to maintain the Chinese Communist Party's leading role at home and ensure domestic stability (i.e., addressing social ills). Second, the capacity of the nation-state to execute foreign

policy should be enhanced by reorganising old organs and creating new ones. Third, the elements of national power have to be coordinated to defend Chinese sovereignty. Fourth, the strategic window of opportunity has to be sustained for China's continued development. Fifth, China has to create a positive peripheral security environment through engagement with its neighbours to prolong regional stability and economic growth. Sixth, the country has to accelerate defence modernisation in order to build up an effective military. Finally, maritime affairs, cyber affairs, and outer space should be on top of China's national security agenda.

At the same time, one of the participants stressed that it is also important to be mindful not to be too sensitive and over-interpret China's every decision and move. Many experts tend to focus on the differences between the present and previous Chinese leaderships, and elaborate on the causes of these differences. They usually ignore (or fail to notice) the continuity of the different administrations. They also tend to focus more on the "hard" part of current policies and overlook the "soft" part of these policies (referring to the Chinese intent). For example, Hu Jintao suggested the construction of a Harmonious World, while Xi Jinping put forward the concept of "a Community of Common Destiny" and the "One Belt, One Road" initiative. These are all aimed at promoting stability, not tension for China's external environment. From a Chinese point of view, Beijing's policies contain a lot of goodwill and constructive intent, but there are a number of non-Chinese analysts who would interpret China's every move with cynicism, and with a distrustful mindset.

### *China's Relations with Southeast Asia*

While the South China Sea is a very important issue between China and Southeast Asia, it is not the most important one. The basic foundation of bilateral ties – diplomatic and trade cooperation – remains rather solid despite disagreements over the maritime disputes. Both sides have similar objectives which remain unchanged. China is regarded as being committed to the region. This commitment has been expressed through multiple Free Trade Agreement (FTA) negotiations, the proposal to build "a Community of Common Destiny", the vision to develop the "One Belt, One Road", and China's signing of the Treaty of Amity and Cooperation in Southeast Asia in 2003.

Southeast Asia's policy towards China also remains unchanged. For ASEAN member states, it is all about the balance-of-interests, which is complicated by the powers external to the region. However, there is a wide gap between economic and security considerations in bilateral relations. While there is a lot of enthusiasm in trade and commercial ties, there are ASEAN countries that are concerned about China's strategic ambitions towards the Southeast Asian

region. Second, some aspects of bilateral relationship have been changing. One of them is China's growing economic clout; as reflected in the above mentioned initiatives and proposals (FTAs, "One Belt, One Road", etc.). In recent years, China has rearranged its priorities in the region. In the mid-1990s to late-2000s China's number one strategic priority in Southeast Asia was stability and this was done by cultivating good neighbourly relations.

While Xi has continued to emphasise the stability of China's periphery, he is increasingly emphasising, the protection of the nation's maritime interests and the growing importance of China's territorial integrity in both the East and South China Seas. There are inherent contradictions between the two objectives of maintaining good neighbourly relations and the proactive assertion of China's national interests. The negative consequences have been seen in the past few years with a slight worsening of bilateral relationships. Contrary to being passive, ASEAN countries in fact do not shy away from letting China know whenever they feel threatened.

Overall, negative perceptions between China and Southeast Asian counterparts are on the rise. China feels that some ASEAN countries have been ungrateful, while in reverse, some ASEAN countries are suspicious of China and sometimes view Beijing with the opinion that it says one thing while doing another, which makes China's engagement with the region, particularly in the security dimension, unpredictable. Despite serious obstacles, the relationship will continue to grow. The maritime disputes only involve several ASEAN countries; and most ASEAN countries are willing to engage with China, especially on the economic, social, and cultural fronts. However, the issue of maritime disputes will not go away and this will continue to complicate the China-ASEAN relationship.

In the past, China was able to set aside the maritime disputes and this has led to unprecedented economic growth and improved diplomatic relations with ASEAN countries. The question is whether the South China Sea disputes can continue to be set aside by China and Southeast Asia to reap the peace dividend. Also, if the South China Sea issue becomes redefined as a case of Sino-US strategic rivalry, greater regional instability will ensue.

#### *China's Attitude and Position towards the South China Sea Disputes*

Taiwan and not the South China Sea is on the top of China's priority list as it is related to China's sovereignty and territorial integrity based on the legacy of China's civil war. The territorial disputes in the East and South China Seas are meanwhile the legacy of World War II. Between the East and South China Seas, the Diaoyu Islands (referred to as "Senkaku Islands" by the Japanese) is said to be more important, since it is linked directly with the complicated history of

Sino-Japanese relations. Nonetheless, the Chinese regard the South China Sea to have great economic potential due to its resources, and of significant geostrategic value as it is a crucial route linking the Pacific and Indian Oceans.

From a Chinese perspective, China is a shaper, not a breaker of international order. It participated in the 1982 drafting of UNCLOS and took part in the 2002 drafting and signing of the Declaration on the Conduct of Parties in the South China Sea with ASEAN. In contrast, the US has not ratified UNCLOS. While China actively works within the International System, there is one proposition for observing international laws and norms; which is not to jeopardise one's national interest. When China accepted the 1982 UNCLOS, it agreed on the precondition to not accept any unilateral arbitration of disputes. That is why China is actively engaged in moving to finalise the South China Sea Code of Conduct.

In upholding its national interest, China also tries to consider the interests of the parties involved in order to achieve a win-win situation that takes into other stakeholders' interests. China will also not participate in the arbitration case brought by the Philippines to the Permanent Court of Arbitration, seeing it as a wrong move by Manila from the Chinese point of view since both sides have already agreed to discuss this matter bilaterally; whereas the Philippines filed with the international court unilaterally without consulting China. With regards to the reclamation activities in the Spratlys, they are justified from a Chinese point of view since China claims sovereignty over the islands.

According to a participant, the Chinese government has over the years been exercising utmost restraint in the South China Sea. This is despite the unilateral activities of the other claimants who have occupied and developed the areas that are claimed by China. This participant, citing information from the Chinese Ministry of Foreign Affairs, stated that there are over 50 rigs within the area covered by the 9-dashed line, but none of them are Chinese. As a result, China has become the biggest loser in the South China Sea. Nonetheless, China continues to exercise utmost restraint and would like to seek common ground while shelving differences. Beijing would also like to make sure that China's relationship with Southeast Asia remains healthy and that both sides can work towards a win-win situation.

The Chinese position on the South China Sea issue can be summarised in three major points. First, stability and peace in the South China Sea should be upheld by the relevant countries, namely, the littoral states of the region. At the same time, countries outside the region should seek to promote a peaceful resolution instead of creating tension. Second, China is ready to sit

down with the countries involved to peacefully resolve the situation through negotiation and consultation. It has already concluded the Declaration on the Conduct of Parties in the South China Sea in 2002, and is continuously working with other parties. Finally, China will lay out measures for controlling and managing potential perils in the region even before any agreement is concluded.

### *The US Factor*

The growing involvement of the US is seen as a complicating factor, particularly among the Chinese participants. There is the Chinese view that the US is taking sides in the South China Sea disputes and have intervened on multiple occasions even though it has expressed that it will not do so. The US rebalancing is another recent factor that has altered the dynamics among China, the US, and the ASEAN region. This Sino-US dimension is adding another layer to the maritime disputes and has further complicated the regional dynamics of Southeast Asia. Specifically, when China and the US engage over the South China Sea, they will take other policy priorities which are unrelated to the South China Sea into consideration. Also, China and the US in fact have broad overlapping interests, and their interaction is not constrained or solely defined by the South China Sea issues.

As China and the US engage each other more over the South China Sea, the prospects of dispute settlement, which are multi-layered, will be even more difficult. While the US may serve as a counter-balance to China for the small and medium states of Southeast Asia, the question is whether the US presence may actually facilitate the eventual peaceful resolution of the disputes or raise the stakes of confrontation. On the other hand, some participants have pointed out that it is not possible for the US to be not involved in this issue since it has a keen interest in ensuring that the other states should not be able to restrict the rights and freedoms of navigation and overflight. Furthermore, the Southeast Asian states themselves should have the right to choose whether it wants to side with the US or not.

Issues concerning the freedom of navigation and the legality of foreign military activities in the Exclusive Economic Zone (EEZ) were also discussed. Several participants pointed out that there is in fact no dispute about the freedom of navigation and commercial shipping – which has never been impeded; the real question is about military activity, particularly surveillance and information collection operations. The discussion that followed centred on the disagreement with the interpretation of UNCLOS, as to whether what is not authorised in UNCLOS is not permitted, or whether what is not explicitly prohibited is permitted.

### *Land Borders and Maritime Boundaries*

It was pointed out that China has settled 12 out of 14 land borders with its continental neighbours but the settlement of maritime disputes is more complicated because they involve islands and the delimitation of maritime boundaries. From the perspective of UNCLOS, there is a difference between land and maritime disputes. When it comes to maritime disputes, there are three questions that need to be addressed: is there land, whose is it, and what is its size. The question of size is important because it determines whether it is capable of sustaining human habitation since this will affect the maritime zone generated. The South China Sea is a special case because there are islands, atolls, rocks, cays, banks, and reefs and these geological features have not been fully determined and categorised.

### *South China Sea Hydrocarbon Resources*

The South China Sea is speculated to contain abundant quantities of oil and gas following a survey conducted in 1969 by the UN-affiliated Committee for Coordination of Joint Prospecting for Mineral Resources (CCOP) and the US Naval Oceanographic Office. This prospect became the primary incentive for the Southeast Asian states to scramble to occupy the features in the South China Sea during the early 1970s. There is general agreement among the workshop participants that the hydrocarbon factor, while being one key dimension of the South China Sea disputes is not the decisive factor today.

Today, there remain questions regarding the amount of hydrocarbon resources in this area. In fact, little seismic work has been done to determine how much is there. In particular, literally no substantive seismic study has been done for the central part of the South China Sea. This has led to many speculative reports based on “guesstimates”. Some Chinese sources have described the South China Sea as another Persian Gulf, but western sources tend to provide more conservative estimates. While it is unclear how much hydrocarbon resources are in the South China Sea, there is general agreement that this issue, including the notion of resource competition, has been exaggerated in both the international and Chinese media.

It is unclear whether there are in fact significant amounts of hydrocarbon resources in South China Sea, to the extent that it can supply the Asian, or even the world energy market. Another related-factor is the price of oil and gas – since this will determine the potential value of these seabed resources. Another key ambiguity is the nature of China’s claims since Beijing has not fully clarified the extent and nature of its maritime claims in the South China Sea. This creates an environment of uncertainty for companies seeking to operate in blocks licensed by the Southeast Asian littorals.

### *Joint Development in the South China Sea*

The late Chinese leader Deng Xiaoping had proposed “shelving disputes in favour of joint development” as a means to temporarily defuse the maritime disputes between China and its neighbours. The joint development concept is said to have first appeared in the 1970s, and there were many international legal scholars who offered varying definitions, but each with some limitation. In the view of a Chinese participant, the Chinese government should have no objection to the 1988 British Institute of International and Comparative Law’s interpretation, defined as “an agreement between two States to develop so as to share jointly in agreed proportions by inter-State cooperation and national measures the offshore oil and gas in a designated zone of the sea-bed and subsoil of the continental shelf to which both or either of the participating States are entitled in international law”.

The conclusion of the 1982 UNCLOS and its enforcement in 1994 provided a framework in regulating the ocean space. In exactly identical terms, Articles 74(3) and 83(3) of UNCLOS established a method for delimitating maritime boundary, “the States concerned, in a spirit of understanding and cooperation, shall make every effort to enter into provisional arrangements of a practical nature and, during this transitional period, not to jeopardise or hamper the reaching of the final agreement. Such arrangements shall be without prejudice to the final delimitation.” The last provision is crucial as it states that whatever is used as concessions in the contemporary arrangement, cannot be used as justification for permanent resolution. It was pointed out that unfortunately, despite such a caveat, there will inevitably be those who cannot understand nor accept the notion of provisional arrangements or joint development without prejudice as there is this fear that the temporary provision may influence the final delimitation decision.

There are many cases of joint development projects in disputed maritime areas across the world. Even in the South China Sea, some bilateral projects have turned out to be workable, such as the joint developments between Malaysia and Thailand, and between Malaysia and Vietnam. China, the Philippines and Vietnam also signed the tripartite Joint Seismic Marine Undertaking (JMSU) agreement in 2005. The three year JMSU agreement ended in 2008 but was not followed up on, due to domestic political reasons in the Philippines.

The challenges to joint development are numerous: (a) States do not have the obligation to agree to joint development; (b) there is a lack of mutual trust among the claimants of South China Sea; (c) oil companies are reluctant to undertake exploration in the disputed areas due to high cost and uncertainty; (d) claimants are concerned that temporary arrangements may

influence the final delimitation decision; and (e) there is no consensus with regards to the joint development model to be undertaken in the South China Sea.

#### *Environmental Risks in the South China Sea*

Article 123 of UNCLOS covered the cooperation of states bordering enclosed or semi-enclosed seas. According to UNCLOS, "States bordering an enclosed or semi-enclosed sea should cooperate with each other in the exercise of their rights and in the performance of their duties under this Convention." There are four parts to this "(a) to coordinate the management, conservation, exploration, and exploitation of the living resources of the sea; (b) to coordinate the implementation of their rights and duties with respect to the protection and preservation of the marine environment; (c) to coordinate their scientific research policies and undertake where appropriate joint programmes of scientific research in the area; (d) to invite, as appropriate, other interested States or international organisations to cooperate with them in furtherance of the provisions of this article."

It was pointed out that a number of offshore oil and gas developments, particular National Oil Companies of Southeast Asian countries, are operating unilaterally in areas with overlapping claims. Unfortunately, the unilateral nature in which hydrocarbon resources are currently being developed in South China Sea has paralysed any attempt for reaching an agreement.

There is room for greater environmental cooperation in the South China Sea, particularly in the context of offshore oil and gas developments. The environmental risks associated with such activities are detrimental to neighbouring countries because, first, there are transnational impacts; and secondly, some oil and gas exploration activities are very close to land which will thus impact the coastlines. At present, it is difficult to determine the full environmental impact of any incidents in this maritime area as there is no original data for researchers to compare with. Better institutional arrangements need to be established so that mechanisms can be put in place to manage potential accidents which may occur during these offshore operations. There also needs to be more sharing of information between the littorals so that better environmental impact studies on the marine environment can be carried out.

#### *Competition over Fishery Resources*

In addition to its seabed natural resource potential, the South China Sea is recognised as being rich in fisheries, and the fish stocks are critical to the region's food security. However, fishing rights is another source of friction between the disputing claimants. Competition at sea between fishermen from different countries are an even more volatile factor and will more likely trigger

confrontation and miscalculation compared to oil and gas operations which are closely monitored and controlled. This is especially the case in the South China Sea where the fish stocks are dwindling due to unsustainable and destructive fishing practices. The sustainable management of fish stocks is far more urgent and important since this will have direct impact on the livelihoods of coastal communities. As such, multilateral cooperation over the management of fish stocks should be prioritised over the discussion of joint development of seabed resources.

### *China's Overseas Energy Interests: Motivations and Concerns*

Chinese companies are investing all over the world today. There are three big Chinese State-owned Enterprises (SOEs) relevant to the energy sector and other smaller companies actively pursuing foreign assets. Companies outside the energy sector participate in the overseas investment as well. Since a lot of investment activities are undertaken by Chinese SOEs, there is widespread belief that China's overseas investment represents a national energy procurement strategy driven by the Central government.

However, China's energy security only partially explains China's energy policy and overseas activities. The relationship between Chinese SOEs and the state has been profoundly misunderstood around the world. Chinese companies are going overseas because that is what they need to do to be successful International Oil Companies. It was pointed out that despite it being a popular strategy among some energy importers, owning the resource instead of buying it in the international market is not a very effective form of energy security. Once oil does not flow at the source, it will not matter if China owns the resource or not. Chinese companies are in fact more concerned with the market factors, namely price and reliability of the supplier, and much less with hard security issues such as the "Malacca Dilemma"<sup>1</sup>.

Chinese companies are the actual ones driving the overseas investments, not the government. Overseas energy investment does not have much to do with China's energy security; it is mostly driven by the Chinese companies searching for more profits and capital. Japanese and South Korean companies are engaging in similar activities abroad in terms of investments, but China currently attracts the most attention from the foreign observers. As China's domestic economy changes, overseas investment will shift increasingly from the natural resource sector to manufacturing and services. Overall, China has been shifting from being a rule-taker to a more active participant in the world energy system, economic system, and international trade.

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<sup>1</sup> This refers to the Chinese anxiety over the Strait of Malacca becoming a strategic stranglehold due to China's heavy reliance on it for its seaborne energy imports.

Having said that, the financial and diplomatic powers of the Chinese government are mobilised to advance such investment activities. This is a so-called “China Energy Inc.” vision. Furthermore, placing oil drilling rigs in disputed waters (with reference to the CNOOC981 Incident in 2014) does not help the notion that these are independent Chinese companies focused on commercial activities. Therefore, a participant felt that China needs to rethink its actions. China’s overseas energy investments brings along a diplomatic baggage as Chinese interests will become deeply embedded in the country and region of investment. That is part of the reason why China wants to expand its naval capacity to be able to safeguard its overseas rights and interests. A key challenge for the Chinese government is to take on the diplomacy that comes along with the big investments, at places where the US is regarded as the strategic power.

Maritime security is a concern when it comes to discussions on China’s energy security. Some Chinese analysts have since the 1990s, discussed the possibility of an American oil blockade against China. The “Malacca Dilemma” is still perceived as threatening the security of China’s energy imports, because the country is perceived to be over-dependent on the Strait of Malacca. Nevertheless, as the world is getting more globalised, the likelihood of an oil blockade by the US is decreasing. Much more realistic are sea-borne threats that originate from piracy, terrorism, and transportation accidents.

For the past 20 years, the Chinese government and SOEs have been trying to reduce the vulnerability of supply. Some of the enhancement mechanisms include resource diversification, development of substitutes, construction of overland pipelines, international cooperation, and increased protection of sea lines of communication (SLOCs). Thus, alternative routes including land pipelines are considered and built (e.g., pipelines through Myanmar and Central Asian countries) in an effort to diversify China’s energy import routes. In the context of diversification of maritime routes, China is said to be exploring three alternative options, namely through the Kra Canal (Thailand), Nicaragua Canal (Latin America), and the Northern Sea Route (Arctic). However, these three routes face serious financial, infrastructure and environmental limitations, as well as political risks in host countries, making these alternatives unviable, at least in the foreseeable future.

In order to eliminate misconceptions about the Chinese energy sector and associated foreign investment, China has to become more market-oriented and achieve greater transparency in domestic policy-making and overseas investment planning. One interesting example of international cooperation is the Pacific North West LNG project. The project is located in

Western Canada, but the project owners are all foreign companies, the majority owners being PETRONAS, Sinopec, JAPEX, Indian Oil Corporation and PetroleumBRUNEI.

### *The Protection of China's Maritime and Overseas Energy Interests*

The security of energy supplies is important to China. This fact cannot be overstated and China is heavily dependent on the sea routes as a means to import these resources. The major sea routes include the Strait of Hormuz, the Strait of Malacca, and the Strait of Taiwan. In addition to these vitally important straits, the Persian Gulf, the Gulf of Aden, and the South China Sea are also regarded as essential sea routes. The reliability of sea lanes in many of these areas is threatened by problems like piracy, terrorism, and accidents. Currently, China is said to be over-dependent on resources coming from the Middle East and North Africa (MENA). Thus, any kind of turbulence in the MENA region is dangerous for China's supply security. However, disruptions when they occur would not only affect China, but other import countries as well; which makes this an issue for potential cooperation.

In general, the ways and means to protect energy security should follow three principles: peaceful solution, cooperation, and multilateralism. Peaceful solutions comprised of negotiated settlement. If this is not possible, the parties in dispute should instead shelf the dispute and focus on other constructive areas of cooperation. The key is to maintain status quo in order to win some time for the overlapping (and common) interests to grow between the parties. Cooperation is essential because no country, not even the US, can resolve its security issues single-handedly. China does seek cooperative means, which are not only pragmatic, but also desirable for the purposes of achieving a win-win situation. Finally, multilateralism is China's preferred approach as it continues to pursue a policy of non-intervention. China also supports active engagement in multilateral frameworks authorised by the United Nations and other international organisations.

The PLA has not been actively engaged in securing maritime and overseas energy supplies, but it can be tasked with five duties. First, the PLA could help better safeguard China's territory including the safety of Chinese resources within the Chinese EEZ. Currently, the PLA is playing a supporting role to the Chinese coast guards in their patrols over the Chinese EEZ. In this respect, they believe that enhanced military capabilities would deter provocations. Second, it could help promote peace and stability in the MENA. Specifically, PLA could aid in supporting peace in the MENA through peacekeeping missions and when the need arises, with evacuation operations. Third, the PLA-Navy has been taking part in the Gulf of Aden missions since 2008 to protect international SLOCs and is ready to take on more responsibilities.

Fourth, the PLA should build cooperative relationships with other militaries, especially navies. The PLA has to build a cooperative military, and strong navy-to-navy relationships. Where possible and viable, some standing arrangements can be made to prepare for emergencies in a timely and effective manner. This would include the conduct of humanitarian disaster relief operations, search and rescue operations, counter-terrorism operations, etc. Fifth, the PLA should play a larger role in making maritime rules. For example, in November 2014, China and the US agreed on a “Memorandum of Understanding (MOU) regarding Rules of Behavior for Safety of Air and Maritime Encounters”, and it is expected to be expanded further to include air-to-air encounters.

From a Chinese point of view, it makes sense for China to have influence over SLOCs, which are important for its energy security and broader economic security. Nonetheless, it is not surprising that the possibility of China’s expanded activities into the Indian Ocean is perceived with suspicion by some of the littorals of the South Asian region, particularly by India which is the de facto regional power. Due to growing mistrust between China and other countries in the region and beyond, there is a need for more confidence-building measures.

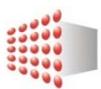
#### *Conflicting Perceptions and Need for More Constructive Engagement*

The discussions reveal the conflicting mental perceptions between the Chinese and non-Chinese participants. The core of such disagreements rests on the perceived intention behind China’s policies and behaviour as it seeks to become a maritime power. On a more positive note, there is agreement that conflict with China is not in anyone’s interest. However, there remains a gulf as to the steps necessary to maintain the region’s peace and stability.

There is also agreement that more needs to be done in terms of confidence-building measures between China and the various stakeholders of Asia. China is growing; the challenge is for all countries, including China, to adapt to this new reality and work to ensure that its rise will remain peaceful and continue to be beneficial to the region. This calls for greater understanding and accommodation from all sides in order to build a regional security architecture that is inclusive, sustainable and comprehensive. In addition, all the stakeholders in Asia would have to work together to develop and strengthen dispute and crisis management mechanisms.

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