

## The 'Arab Spring' and South China Sea Tensions: Analyzing China's Drive to Energy Security

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**Abstract:** *The Arab Spring has brought significant changes to the political landscape in many Middle Eastern and North African (MENA) countries since early 2011. It has also affected the geo-strategic and economic interests of powerful emerging Asian states, especially China and other net-energy consuming countries. One immediate result of the Arab Spring is its highly disrupted impact (a 'Black Swan') on the production and supply of crude oil to the economies in Asia due to their high degree of reliance on hydrocarbon from the Middle East. Chinese reactions to Arab Spring have fed tensions between itself and the countries with which it shares the South China Sea, most importantly the Philippines and Vietnam. This paper demonstrates that the black swan effect of the Arab Spring is manifested in the renewal of a geo-strategic competition in the South China Sea as China is re-asserting its historical claims over the control of the area and of its possible hydrocarbon reserves.*

**Key words:** Arab Spring, South China Sea, energy security, Middle East and North African (MENA) region, disputed territories.

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### **The Arab Spring, China and Energy Security**

The events of the Arab Spring have focused Asia's policymakers' attention on the tenuous nature of their countries' energy security arrangements and the vulnerability to which their reliance on Middle East energy suppliers exposes them. This concern has been felt more keenly in countries that are net energy importers – China, Japan, South Korea, Singapore, Taiwan and the Philippines. The Arab Spring events created a rise in prices of basic services and commodities such as transportation fees and agricultural products as prices of gasoline in local markets were affected by the prices of gasoline being sold at international markets. As a result, these economies in Asia have increased efforts to claim and bring more secure sources of hydrocarbon energy supplies on-stream and have become more assertive in protecting their interests in the Middle East region. They also pressed their claims in the energy-rich countries, though contested, zones nearer to home- notably the South and East China Seas.

These contested seas are important not only to the Southeast Asian claimant states but most importantly to China which is a party to the territorial disputes. China's current assertive, even confrontational, policy in the South China Sea is both an indication of how influential the variable 'energy security' is on its overall policy settings, and conversely, the other significant interests it is prepared to sacrifice – good relations with important regional trading partners foremost among them – to assert control over potentially important offshore oil and gas fields. China sees these, in part, as a guarantor of its future ability to continue industrializing and experiencing sufficient levels of economic growth to ensure domestic stability and the continued rule of the Communist Party.

The paper argues that the Arab Spring phenomenon in many oil-producing countries in Middle East, and its probable future contagion to the rest, once again calling into question China's ability to guarantee energy supplies from this region. This has resulted in a more assertive policy in the South China Sea, as it seeks to secure closer and more reliable future sources of energy. This is not the only reason for China's apparently quixotic drive to alienate its Southeast Asian neighbors over the South China Sea.<sup>1</sup> China requires assurances about the safety of the vital sea lane of communication (VSLC) constituted by the sea, through which passes its entire energy supply from the Middle East and Africa.

### **Crude Oil, Middle East and Asia**

Since the early twentieth century, secure, reliable non-renewable energy sources, particularly crude oil and natural gas, have been essential factors in all countries' industrialization and economic development programs. Large, easily exploitable oil fields were discovered in Masjid Sulaiman in southern Iran in 1908, and from that time, Middle East crude oil has been a significant contributing factor in most countries' successful industrial development programs.<sup>2</sup>

This has made securing reliable energy sources a priority of many countries' national security policies. Oil demand growth today is, and will be for the foreseeable future, driven by emerging markets in Asia, particularly India and China. Oil producers' ability to meet this demand is more problematic today than ever. This is because large, readily exploitable oil field discoveries are declining year on year, as are reserves in active fields. This deficit is likely to be somewhat compensated for, at least in Europe and North America, by new methods of extracting fossil fuels from previously unexploitable or uneconomic oil sands and shales. However, it is unlikely these new technologies will be enough to significantly offset China and India's future increased demand for oil and gas. This means that Asian demand for imported oil and gas is likely to remain high, leaving these countries vulnerable to supply disruptions. Attempts to manage the risks associated with the prospect of unforeseen supply shortages may perversely lead to a greater willingness to employ military force to seize and hold disputed oil-rich maritime territories such as those presumed to lie

under the South China Sea. This prospect raises military tensions in Asia, and has been compounded by disruptive events in supplier countries, especially those caught up in the Arab Spring.

### Peak Oil and Black Swan events

M. King Hubbert in 1956 predicted that the world would quickly approach a point he termed the era of "peak oil."<sup>3</sup> This was premised on the recognition that only a finite supply of fossil hydrocarbon deposits exist on the planet, and that a point would come when demand started to eclipse new discoveries, and proven reserves began to become exhausted. Extracting the remaining oil from these reserves was likely to become more and more expensive and technologically challenging as the quality and quantity of those reserves declined. Hubbert argued that half of world's conventional oil of around 2.5 trillion barrels has already been depleted, and even in the United States, oil discovery peaked in the 1930s and after almost 40 decades, oil production started to wane.<sup>4</sup>

Hubbert's concept of 'Peak Oil' has been somewhat challenged in the past decade by the development of new technologies, such as fracking and bitumen extraction processes, that have opened up vast new reserves. But the main idea of 'Peak Oil' – the certainty that we will one day run out of fossil hydrocarbon energy sources – remains unchallenged. Unlike in the twentieth century, extracting these new reserves requires a high degree of technological know-how and huge amount of capital investment. Many new fields are located in the deep sea. In short, even if the world still holds considerable volumes of crude oil, the price of petroleum products will remain high, affected by the considerable difficulties of extracting it.

Nassim Nicholas Taleb in his work, *The Black Swans: the Impact of the Highly Improbable*, argues that Black Swan-like events<sup>5</sup> are highly unpredictable events that threaten the equilibrium of a system or state and may occur at anytime. For Taleb, Black Swans are hugely disruptive shocks that happen outside the 'realm of regular expectations' and which analysts had not been able to previously identify and design contingency plans to limit damage, reduce vulnerabilities, head off threats and manage associated risks. This invariably means that the institutional capacity to address and deal with the fallout from Black Swan events is lacking in a country, region or community.

Black Swan events overturn existing economic and political models, which are not equipped to deal with the challenges and uncertainties the events throw up. "Human nature makes us concoct explanations for its occurrence after the fact, making it explainable and predictable."<sup>6</sup> Nassim Taleb observes that, the complexity of the present world has offered more than our traditional economic structure could respond to, unlike it did many decades ago.<sup>7</sup> This increased rigidity reduces adaptive capacity, the characteristic of complex systems that enables them to: cope with altered and rapidly changing circumstances, swiftly find new equilibriums, and even become more resilient by taking advantage of new opportunities created by the transformational event.

For oil consuming countries, the Arab Spring was a radical system transformational event that few foresaw and even fewer had plans for mitigating associated disruptions. This makes it a candidate for a 'Black Swan' status. Moreover, many commentators now predict that the Arab Spring may spread sooner or later to other Arab countries that are even more important oil suppliers, such as Saudi Arabia and some of the smaller Persian Gulf monarchies. This is because many of the same underlying social and political conditions exist in these countries as existed in Libya, Tunisia and Syria.<sup>8</sup> The International Energy Agency forecasts that Asia will consume 90 percent of oil produced in the Middle East region by 2030.<sup>9</sup> This means that at the same time as the United States and a number of other post-industrial countries have become less vulnerable to energy supply disruptions, Asian consumer countries are now dangerously exposed to the same possible events.

In 1974, Organization for Economic Cooperation and Development (OECD) states founded the International Energy Agency (IEA). The event that triggered this was the infamous OPEC oil crisis of 1973. Arab states used their new inter-governmental organization, OPEC, to restrict oil supply to western industrial consumer states to force them to withdraw their support for Israel during the Yom Kippur war of that year. This use of oil as a political weapon to influence the behavior of

Israel and its allies had a disastrous effect on the economies of oil consuming states in Europe and America – a true energy Black Swan. The crisis proved the leverage oil-rich Arab states had over net oil energy consumers and the price of oil per barrel quadrupled. Despite the imposition of oil embargo, many Western countries had been able to immediately cope with this crisis through the discoveries of alternative oil sources such as in North Sea<sup>10</sup>, and in the Gulf of Mexico.<sup>11</sup> In addition to this, the purchasing power of Western countries at that time was stronger than any developing country in Asia. Asian consuming countries today are hugely dependent on crude oil supply from the Middle East. With an increasing rate of economic activities, developing countries in Asia are most exposed to political instability in Middle East than Western countries.<sup>12</sup> The degree of exposure depends much on the access of energy efficient technology and their “capacity to absorb, adopt, adapt, afford and mitigate the effects of oil prices increases” according to the United Nations Developing Program (UNDP) studies.<sup>13</sup>

The conditions for the occurrence of future Black Swan shocks that can inflict havoc on oil supply and prices may be coalescing. One is the continuing high tension between the Islamic Republic of Iran and the United States.<sup>14</sup> The recent international sanctions imposed on the Iranian banking sector over the Iranian nuclear program are one of a myriad number of acts that have the potential to trigger military clashes that cut off oil supplies from oil producing countries in the Persian Gulf for an indeterminate period. Much of Asia’s oil supply comes from the Persian Gulf; <sup>15</sup> this crude oil is delivered by tankers passing through the strategically located Strait of Hormuz in the Persian Gulf.<sup>16</sup> Iranian armed forces appear to have the ability to control and close the strait, should the United States and its allies attack Iran. That would possibly result severe economic damage to Asian consumer states.

### **Black Swan and China’s Energy Needs**

One of the most astonishing economic developments of the preceding two decades is the transformed economic power of China. In 2010, China replaced Japan as the second largest economy in the world. The latest OECD figures suggest it will overtake the United States as the largest economy in 2016 – fifteen years earlier than previous predictions suggested. It had the highest level of foreign reserves of any country in 2012, and it is the second largest energy consumer next to the United States. Its manufacturing industries not only consume huge energy resources, they also constitute a very inefficient energy consumption system. This means that economic output depends on technologies that are not energy efficient.<sup>17</sup> Dai Yande, an expert at the NDCRC’s Energy Research Institute observes that many of these factories and plants are supplying goods for international markets.<sup>18</sup> The domestic energy consumption of 1.3 billion Chinese is significant, and fully half the volume of imported oil is consumed by China’s transportation networks. Aside from the hugely beneficial environmental consequences, any cut in the oil supply would bring China’s whole economy to a shuddering halt.<sup>19</sup>

The expanding uncertainties of crude supplies have prompted the country to venture into many regions around the world with possible oil reserves. It has financed the development of major oil fields in the Persian Gulf and encouraged more energy investments of Chinese multinationals across the Middle East and North Africa – all in the name of Chinese energy security.<sup>20</sup> China’s critical need to make itself more energy secure has made Chinese policies vis-à-vis oil producing Middle East countries “prudent and risk averse.”<sup>21</sup> It has established good relations with many authoritarian regimes in the region and has avoided entanglement in the domestic affairs of these countries.<sup>22</sup> Energy cooperation has become the cornerstone of China’s bilateral policy with many of these countries. China imports about 55 percent of its crude oil, with around 47 percent of that sourced from the Middle East.<sup>23</sup>

For the past two decades, China has enhanced its position and interests in the Persian Gulf. It has broadened diplomatic, economic and security ties in many regional countries. In 2004, China-

Arab Cooperation Forum<sup>24</sup> was inaugurated, and the volume of trade between China and the Arab countries in 2011 increased to US\$190 billion.<sup>25</sup> Moreover, China was also successful in maintaining good relations with the Islamic Republic of Iran. Iran, as one of the largest suppliers of oil and gas in the region, has been an inveterate critic of US policies in the region, a condition that China see as to its advantage, locking in Iran as an uncontested supplier of its energy requirements. The Chinese strategic relationship with Iran has provoked the ire of US government, which has tried to neutralize it via comprehensive unilateral and multilateral economic, political and military sanctions against Iranian and foreign business entities that invest in the Iranian energy sector. Steve Yetiv and Chunlong Lu, in their 2007 article *China, Global Energy and the Middle East*, observe that "China's rising profile [in the region] has already contributed to tensions in Sino-American relations."<sup>26</sup>

China learnt a lesson in Iraq in 2003. Saddam Hussein's regime had promised to supply oil for China for 25 years, an agreement that meant nothing when the US invaded the country in 2003 and removed Saddam from power. China's expeditionary "going out strategy"<sup>27</sup> in Africa, particularly in Libya, had been damaged by the Arab Spring revolution and civil war that overthrew Muammar Qaddafi. Gokhan Bacik in *The Arab Spring Versus China*, argues that the Arab Spring may end up 'isolating China' in Libya because it was viewed by the people as a stalwart backer of the hated former leader. China had a lot to lose in Libya. It had signed US\$18.8 billion worth of contracts with the Qaddafi government. In 2009 and 2010 alone, Libya concluded contracts worth US\$5.84 billion with China. In 2010, China's trade with the entire Arab world amounted to some \$145 billion.<sup>28</sup> The Chinese government media reported that China was involved in 50 major civil construction projects, mostly road-building, civic structures and other infrastructure.<sup>29</sup> The Libyan energy sector, of course, also received major Chinese investment.<sup>30</sup> In 2012, Libya supplied 3 percent of China's imported oil.<sup>31</sup> At the height of political instability in Libya, the Chinese Ministry of Commerce (MOFCOM) announced that it would temporarily suspend investment in Libya until the situation became stable. In addition to this, China had worries about the safety of its 35,000 plus Chinese laborers employed in Libya, and took steps to evacuate many of them.<sup>32</sup>

Another source of regional uncertainty that has direct bearing on China's drive to energy security is that of Iran. The history of the two countries' relations can be traced back to antiquity when China was the terminus of the great international strategic 'Silk Road' trade route that connected East Asia to Europe. Today, relations between the two governing elites have been revived, mainly in the area of energy and military and defense cooperation. Scott Warren Harold and Alireza Nader in an article *China and Iran: Economic, Political and Military Relations* observe that this "broad and deep partnership" presents a geostrategic balancing against the United States, and that it presents a "unique challenge to US interests and objectives"<sup>33</sup> in the region. This may indeed be part of the deliberate calculus of both countries in forging deeper relations today, although perhaps a greater motivation remains the trade in hydrocarbons from Iran, and machinery and manufactured products from China. This friendship has given China great leverage in Iran – a degree of influence that the United States<sup>34</sup> can only dream about. Indeed, it may offer the U.S. a good opportunity to reach out to Iran through China.

For the United States, China's increasing involvement in the Middle East region is clearly a security concern. One worry is China's weapons sales to countries that are potential foes of the United States such as Iran, while the other has to do with energy security. Weapons sales to Iran is a 'mutually strategic process' in which China leverages its military technologies to secure favorable oil deals, while Iran acquires weapons from China that may add deterrent weight to standoff with the U.S. and Israel.<sup>35</sup> Moreover, Iran's geostrategic location in the Persian Gulf in addition to the country's bountiful energy resources, are things that the United States, its European allies, not China, nor Russia can ignore.

Ever-expanding US-led sanctions on the Iranian economy have increased the chances that a military clash will occur, closing the Strait of Hormuz for a period and raising world oil supply insecurity. Iran has explicitly threatened to blockade the Strait of Hormuz if the U.S. attacks it. Iran is the number three foreign oil supplier for China – next only to Saudi Arabia and Angola.<sup>36</sup> As with

Iranian crude, most Saudi oil also passes through the Strait of Hormuz, and any move to close the Strait by Iran would bring forth a major military expedition by the United States and other Arab states in the region. China's reliance on oil transiting the Hormuz strait has reached such a level that it too may be drawn into the Persian Gulf War to safeguard its crude oil imports. China could perhaps manage if it lost access to Iran's oil supply for a period – Saudi Arabia could guarantee to make up the supply loss from Iran (China imports roughly 500,000 barrels a day from Iran). However, if China were to lose both the Iranian *and* Saudi supply it would be faced with a supply shortage of a magnitude it has not previously experienced.<sup>37</sup>

Reports indicate that as a result of recent US-led sanctions against Iran, Chinese state oil company Sinopec cut oil purchased from Iran by 25 percent in the first five months of 2012.<sup>38</sup> China's purchase of Iranian crude oil accounted for 22 percent of Iranian oil exports in the first half of 2011.<sup>39</sup> Such a decline in the demand for its oil is likely to have had a major negative effect on Iran's economy and it may be expected to have suffered gravely. However, the disagreement between the Chinese Sinopec and the National Iranian Oil Company (NIOC) was ended when the price dispute was resolved with Iran agreeing to sell its oil to China at a discount to the international market price. Chinese Foreign Ministry spokesman Hong Lei stated that China's oil importation from Iran was based on its own economic development needs<sup>40</sup> and was completely legitimate and justified, and did not violate relevant UN Security Council (UNSC) resolutions.<sup>41</sup>

The Obama administration exempted seven economies from Iran oil sanctions under the National Defense Authorization Act of 2012. These economies include China, India, Malaysia, the Republic of Korea, South Africa, Sri Lanka, Turkey and Taiwan.<sup>42</sup> These countries are importing heavily from Iran and the National Defense Authorization Act encourages them to reduce their imports gradually until they reach zero.

China has always opposed sanctions on principle, against any country without the mandate of the United Nations Security Council (UNSC). Given its significant national interests in Iran, China supports only limited sanctions to curtail the worst excesses of Iranian behavior. China has invested much; not only in upstream development in Iran (crude oil exploration and production), but also in downstream industries (refining and distribution of oil products). It has taken a major stake in the development of Iran's North Pars gas field and construction of a liquefied natural gas plant in the area, as agreed upon in a 2009 contract between the Iranian National Oil Company (INOC) and the China National Offshore Corporation (CNOC). The North Gas project has a capital investment of about US\$16 billion and is expected to be completed in 2015. Under the terms of the contract, China will receive half of its output.<sup>43</sup>

China's defense company NORINCO has sold Iran serious defense and military equipment, including parts for cruise missiles. Since the Iraqi attack on Iran (1981), China has been a major supplier to Iran of tanks, missiles and other weapons systems.<sup>44</sup> Since 2005, Iran has emerged as one of the largest purchasers of Chinese manufactured weapons, buying about 14 percent of Chinese military exports by value.<sup>45</sup> According to a report by the Stockholm International Policy Research Institute (SIPRI), China has "sold \$312 million worth of arms to Iran during the last five years [2006-2011], second only to Russia which sold \$684 million worth of weapons to Iran."<sup>46</sup>

### **China's Energy Security and the South China Sea Dispute**

It is axiomatic that for China to sustain its future economic growth and development, it must give high priority to the security of its energy supply. China is not an energy-poor country - it is the second largest coal producer and largest consuming country in the world. However, its high consumption of coal has had highly negative environmental consequences,<sup>47</sup> despite the heavy investment in alternative renewable energy technologies. China also has its own oil fields, but ravenous economic growth made the country a net importer of oil by 1993. Its identity as an oil importer is unlikely to change. Its ability to grow economically is now dependent on external sources of hydro-carbons. This

dependency will only grow as the industry continues to expand, and its 1.3 billion buy more and more cars.

A report produced by the US Energy Information Administration in March 2008 estimated the South China Sea as partially having crude reserves of between 28 billion and 213 billion barrels. The later figure would meet more than 60 years of Chinese oil demand, a figure higher than the reserves held by any country except Saudi Arabia and Venezuela, and now possibly the United States. In addition, the South China Sea has estimated potential natural gas reserves of at least 3.79 trillion cubic meters, a figure that is equivalent to 30 years of Chinese natural gas consumption according to the US Geological Survey on June 2010. Aside from this, the world's busiest maritime trade route passes through the South China Sea. An estimated US\$5.3 trillion worth of trade transits the region annually.<sup>48</sup>

Buoyed with economic success, China has begun to adopt economic policies and military measures tuned to ensuring the gains of its economic growth are sustainable. Many of these are in the field of securing the country's energy supply. In its 12<sup>th</sup> five-year Plan for National Economic and Social Development (FYP) for the period 2011 to 2015, China focuses on inclusive growth<sup>49</sup> to make sure that the benefits of economic growth will be more equitably distributed among the wider Chinese population.<sup>50</sup> The 12<sup>th</sup> five-year plan emphasizes energy and technology, and calls on China to gain control of external sources of crude oil while at the same time adopting and improving energy efficient technologies to safeguard China's environment. In short, the country aims to become more efficient in its use of its expensive, limited and vulnerable imported energy supplies. It also looks to secure energy sources that are closer to home and therefore less vulnerable. China uses the Peoples Revolutionary Army Navy, to police the smooth and free flow of Chinese goods that pass through the South China Sea. It appears willing to exert all efforts to guarantee Chinese control over the disputed islands<sup>51</sup> which it believes sit atop significant deposits of oil and gas.

For China, the critical importance of its oil supply from the Middle East means that it seeks to extract commitments from new, transitional and future governments in many Arab oil producing countries to honor contracts that Chinese companies signed with the deposed regimes of those supplier countries. Second, China exerts all efforts both at the regional and international levels to safeguard its access to oil and gas fields in the Middle East, even at the cost of not cooperating with the United States and vetoing UNSC resolutions which it believed too deleterious to its interests. Third, China has increased investment both in downstream and upstream crude oil projects in other MENA countries. Fourth, China appears ready to employ its navy to make sure that vital sea lanes of communication connecting the Persian Gulf, Indian Ocean and the South China Sea are protected and secured. According to Zhang Yuncheng of the Chinese Institute of Contemporary International Relations, China would face an energy crisis if the oil supply lines in the Strait of Malacca and Taiwan strait are disrupted.<sup>52</sup> Thus, since 2004 when President Hu Jintao become chairman of the Central Military Committee, the PLA has undertaken operations that would protect (some say extend) the country's sovereignty. This was advanced by the 2008 Chinese defense white paper, which said, the PLA is tasked to provide "protection of national sovereignty, security, territorial integrity, safeguarding of the interests of national development and the interests of the Chinese people."<sup>53</sup> Finally, because of its concerns about energy security, China is determined not to relinquish its historical claims over disputed islands in the South China Sea and the East China Sea. Recognizing that the economic future of the country depends to a great degree on foreign importation and stability of the sea corridor, China's leadership has claimed the 1.2 million square mile body of water of the South China Sea as a sovereign Chinese body of water, which much be secured and protected.

Bernard D. Cole argues that China is pursuing several alternatives to reduce dependence on foreign crude oil. These include maximization of Chinese on and offshore resources, acquisition production, facilities and finished product, creation of a 'strategic' stockpile and enhancing the physical security of stock and sources.<sup>54</sup> Ian Storey argues that the enabler of the country's military modernization is the high rate of economic development in China for the last three decades. He observes that from 1990 to 2009, China's defense spending increased at very high rates.<sup>55</sup> In 1990,

China had an official defense expenditure of up to US\$11.85 billion, a figure slightly higher than the combined defense spending of the ten South East Asian countries.<sup>56</sup> By 2008, China's Official Defense Budget was US\$61.1 billion, but Ian Storey estimated actual defense spending to be in the region of US\$114.1 billion.<sup>57</sup>

Chinese increasing military spending and its assertive movements in the South China Sea have brought not only fear, but also the incentive for the smaller Southeast Asian countries that share the Sea's littoral to modernize their defense forces. Vietnam has, for the last ten years, been acquiring weapons systems calculated to give China pause for thought in its actions in the region. Recently, Vietnam ordered 6 six diesel-powered submarines from Russia valued at US\$1.8 billion. In 1991 it entered high-level military talks with India for maritime cooperation, a relationship that has since endured and matured.<sup>58</sup> Vietnam has also begun engaging meaningfully with former enemy the United States in the military sphere. The Philippines has also started to modernize its armed forces. Speaking at the 65<sup>th</sup> anniversary of the Air Force, Defense Secretary Voltaire Gazmin vowed to upgrade the country's Armed Forces to meet the Chinese threat in the West Philippine Sea.<sup>59</sup>

Unlike the United States, which has troops deployed in many regions in the world's vital to its interests, China has only begun to flex its military might abroad. The South and East China Seas appear to be the places China has selected to exercise its newly acquired hard power. This has made South China Sea region a flashpoint of future maritime competition between the China, smaller regional states, and the United States. Elliot Brennan in his article *Rising Tide of Conflict in South China Sea* observes that many scholars have indicated more assertive US engagement in the region, enshrined in the 'pivot to Asia' policy, which started in 2010 after Beijing declared South China Sea as one of the "core national interests" of China.<sup>60</sup> This Chinese policy category had previously covered only Taiwan and Tibet. For the United States, the inclusion of the entire South China Sea region is unacceptable. It insists on freedom of navigation in international waters.<sup>61</sup> Moreover, the United States cannot afford to ignore threats to its South East Asian allies from China, nor does it have much to gain by seeing its influence in the region decline, or conversely, China would become the dominant influence. The United States is thus likely to continue to serve as a balancer in the South East Asia and the Pacific for the foreseeable future.

The region does not yet have an effective crisis management mechanism that can mitigate the threat of military conflict. The 2002 *Declaration on the Conduct of Parties in the South China Sea*, signed between China and ASEAN members called on signatory states to "build trust and confidence", "respect and commitment themselves to the freedom of navigation," "resolve territorial and jurisdictional disputes by peaceful means", and "exercise self-restraint in the conduct of activities that would complicate or escalate disputes and affect peace and stability."<sup>62</sup> In July 2011, the Guidelines for Implementation were approved. Many analysts however, argue that DoC and its implementing guidelines are weak and have not prevented incidents on the Sea. Chinese-Vietnam military encounters, year after year, and the current China-Philippines diplomatic row on Scarborough Shoal, reveal the weakness of existing diplomatic mechanisms, such as the Declaration of Conduct. The situation also exposes the lack of capacity of the Philippine navy to defend the country's maritime interests from big neighbors like China. Aileen S.P. Baviera of the Asian Center, University of the Philippines Diliman says that the Philippines do not have "much leverage" and that the country should "be active on all fronts."<sup>63</sup>

China is insisting that the South China Sea issue be resolved bilaterally, while other smaller claimant states, such as the Philippines, would prefer to bring the issue to ASEAN or, ideally, to resolve the issue comprehensively in a multilateral forum. This position is based on the grounds that China is a powerful country with a powerful military and economy, and is in a position to bully or blackmail individual ASEAN claimant countries such as the Philippines in any bilateral negotiations. These smaller countries felt reassured when US Secretary of the State Hillary Clinton, during her visit to ASEAN in 2012, stated that the stability of the South China Sea is also on the list of U.S. core interests, and that the United States will continue to engage with regional countries to ensure that peace and stability in the region is maintained.

An ominous event occurred at the 2012 ASEAN forum chaired by Cambodia, when ASEAN member countries failed to agree on a joint communiqué on how to resolve competing claims in the South China Sea. Cambodia's decision to block the joint communiqué has undermined unity among ASEAN member countries for the first time and as Baviera observes, "what happened with ASEAN hurt Philippine interests."<sup>64</sup> The Philippines has disputes with China over the Reed Bank, the Spratly islands, the Scarborough Shoal in addition to Chinese claims to jurisdiction over large fisheries-rich areas of the West Philippine Sea that are considered under orthodox interpretations of international law (United Nations Convention on the Law of the Sea (UNCLOS)) to be with the exclusive economic zone (EEZ) of the Republic of the Philippines.

## Conclusion

The ongoing political and social instability in a number of oil-producing Arab countries in the Middle East and North African region, and possible contagion to others, has forced many oil importing countries to re-evaluate their policies towards the region and their energy security arrangements. Since December 2010, the Arab Spring has revealed to many oil importing countries, especially China, just how vulnerable their interests are, and may remain in the region. Such situations - Black Swan shocks - provide the incentive for adaptive countries to develop strategic contingency plans to ensure their energy interests are taken care of. In cases where crude oil and natural gas supplies are endangered, alternative more secure sources must be found to fill the gap.

China has been very keen to increase its energy security resilience to forestall the negative economic and ultimately potentially socio-political impacts of these MENA shocks. After years of heavy economic investment in the MENA region, it has been badly hurt. Moreover, given Western economic sanctions on Iran, China is not certain whether the Iranian oil supply can be relied on over the next several years. Due to its strategic and commercial interests in Iran, China has emerged to be the sole major power that maintain active engagement in Iranian oil sector and remained as the linchpin of the series of sanctions against the Islamic Republic of Iran.<sup>65</sup> Although China may veto any resolutions at the UNSC against Iran, the long term impact of Western-led sanctions on oil export from that country are still unknown.

Given that the future of the Middle East remains unclear, China has to decide whether now will be the perfect time for it to enter into a contest of supremacy in the region. As the United States is rebalancing its military and diplomatic resources to the Asia and Pacific,<sup>66</sup> China may see this opportunity to replace its passive and reactive stance towards unexpected events in the region by adopting a more comprehensive strategy to secure its energy security interests, which for long time has been heavily controlled by other foreign powers such as the United States.<sup>67</sup>

Energy security involves not only the actual supply of oil from producer states, but must also takes into consideration the security of the vital sea lanes of communications along which oil and gas supplies are transported. "Energy security [considerations] have become increasingly vital to China and central in its foreign policy,"<sup>68</sup> particularly in its MENA region policies, and the imperative to diversify supply sources means that China looks to its southern and eastern backyards for potential new fields and suppliers. Regions where it believes it can exercise most control include the Gulf of Thailand, the South China Sea and the East China Sea. If it can assume control of the potentially vast hydrocarbon reserves in these areas, China believes its energy and economic resilience will have been significantly improved. The security and cost advantage of these resources is large simply because they are "close to home."<sup>69</sup> It is unlikely China will be easily deterred from pressing its claims in, for instance, the South China Sea. It currently has too little to lose and very much to gain.

China also aims to enter or renew strategic partnerships with energy-rich countries such as Russia, Angola, Venezuela, and Sudan either through "massive arms transfer, new or revived military alliances, and troop deployments to unstable energy-producing regions."<sup>70</sup> The vital sea lanes of communication to a number of these new important partners traverse the South China Sea. The South China Sea security complex will become more fragile as claimant countries move to either arm

themselves and protect their claimed territories from irredentist China in the South China Sea, or invite the United States to counterbalance Chinese naval power - a move that brings forth Chinese accusations that the United States is interfering in the regional affairs. These tensions are likely to escalate as China's military assertiveness in the region increases for fear that the US and its allies have the power to close the strategic water ways of Malacca and Taiwan Straits to Chinese imported goods and crude oil coming from the Middle East. Such a scenario would throttle the Chinese economy. One direct consequence would be another energy Black Swan not only for China but also energy importing countries in the region, and perhaps the wider world.

## Notes

<sup>1</sup> China's internal nationalist discourse, now an important pillar of legitimacy for the ruling Communist Party, has also constructed China's territorial integrity as dependent on its possession and control of the Sea, a narrative that will be hard to overcome if all parties to the dispute can ever aspire to a negotiated settlement acceptable to all.

<sup>2</sup> Alex Planes, "The Down of the Dow and the Rise of the Middle East," *Daily Finance*, May 26, 2013, accessed July 16, 2013, <http://www.dailyfinance.com/2013/05/26/the-dawn-of-the-dow-and-the-rise-of-the-middle-east/>.

<sup>3</sup> Tom Whipple, "The Peak Oil Crisis: Supply Shock," The Post Carbon Institute, May 17, 2013, accessed July 17, 2013, <http://www.postcarbon.org/article/1654903-the-peak-oil-crisis-supply-shock>.

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