

China's Self-Extrication from the "Malacca Dilemma" and Implications*

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Abstract

A so-called "Malacca dilemma" has been identified to describe such a delicate situation where China has great stakes in the Strait of Malacca both economically and strategically, but little influence that it can exert has made it vulnerable. To extricate itself from this strategic weakness, Beijing has taken a series of measures. This paper aims to examine the new developments of China's measures, the motivations behind them and the implications for Southeast Asia. It is suggested that economically, notwithstanding the success that China has made in diverting from the Strait of Malacca, its reliance will continue, whereas its military modernization is likely to lead to arms race in Asia and Southeast Asian countries' hedging initiative.

Keywords: *Strait of Malacca, China, "Malacca dilemma", Southeast Asia*

1. Introduction

"Whosoever commands the sea commands the trade; whosoever commands the trade of the world commands the riches of the world, and consequently the world itself," asserted Great Britain's Sir Walter Raleigh. Command of the sea and maintenance of rights of free passage on Mahan's "great highway" or "wide common" are key to national survival and economic development. (Mahan, 1987: 25) Indeed from history to date, the oceans have been important sources of economic wealth, commercial growth and national security. This is in particular so for Asian countries like China who are dependent on the sea as the primary avenue of commercial life and economic health. (Cole, 2008: 10)

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Foreign trade has been a key driver for China's fast-growing economy, but most trade with Europe, Africa and the Middle East has to traverse the Strait of Malacca. In particular, China's surging demands for fossil fuels have made it more reliant on foreign oil imports. 80 per cent of China's oil imports, however, must pass through the strait too. In every respect can the Strait of Malacca be regarded as a life line of the rising dragon. However, as China lacks the capacity to project its naval power, the growing reliance on the Strait is rapidly turning into a strategic weakness.

To extricate itself from the "Malacca dilemma", the Chinese government has taken a series of measures, such as upgrading its naval power, diversifying energy import sources, constructing alternative ports that will allow shipping to avoid the Strait of Malacca, and so on. Some studies have examined why the Strait of Malacca is a dilemma for China and the measures that China has taken,¹ but the undergoing global economic recession has brought about new development and new changes. What are the new policy changes? What is Beijing's strategic thinking behind them? Does China's extrication mean a definite decrease of using the Strait of Malacca? And what are the implications for Southeast Asia? These are the questions that this study aims to examine.

This study will be conducted from both economic and security dimensions. Economically, notwithstanding the success that China has made in diverting from the Strait of Malacca, its reliance on the Strait will continue as long as China maintains an economic growth mode of low energy efficiency and foreign trade driven; from the perspective of security, China's military modernization is likely to lead to arms race in Asia and Southeast Asian countries' hedging initiative.

The next section will first examine why China tends to regard passage through the Strait of Malacca as a dilemma. In the third section, we will analyze the new developments of China's countermeasures amid the global economic recession. At last, the impact resulting from China's measures on Southeast Asia will be delved into.

2. "Malacca Dilemma"

The "Malacca dilemma" denotes such a delicate situation where China has a high dependence on the Strait of Malacca in terms of both economic security and geopolitical security, but little sway that Beijing can exert upon the waterway has made it susceptible to foreign risks. It was said that President Hu Jintao referred to such a strategic vulnerability as the "Malacca dilemma" and called for the adoption of new strategies to mitigate the perceived vulnerability. (Storey, 2006) This vulnerability has further been intensified in view of the territorial disputes surrounding China in the East and South China Sea and across the Taiwan Strait.

2.1. Strait of Malacca

The Strait of Malacca is one of the strategic points crucial to global maritime power that Mahan underscored. (Cole, 2008: 12) Located between the east coast of Sumatra Island in Indonesia and the west coast of Peninsular Malaysia and linked with the Strait of Singapore at its southeast end, the Strait of Malacca is 600 miles long and provide the main corridor between the Indian Ocean and the South China Sea (see map in Appendix). Considering that the strait is relatively shallow, only 23 metres deep at most points, the International Maritime Organization (IMO) requires an under-keel clearance of 3.5 metres for ships transiting the strait, which translates to ships of at most 200,000 deadweight tons.

At its narrowest point, the navigable channel is only 1.5 miles wide, but according to United Nations statistics, more than 60,000 vessels pass through the strait every year. Among them, more than 200 ships of 300 gross tons and above and of 50 metres or more in length pass through the Strait of Malacca daily. (Ho, 2006: 558-574) It is this narrow waterway that carries 80 per cent oil bound to Northeast Asia and more than 25 per cent of world trade, particularly trade between Northeast Asian countries like China, Japan and South Korea and their partners from European Union, Africa and the Middle East.

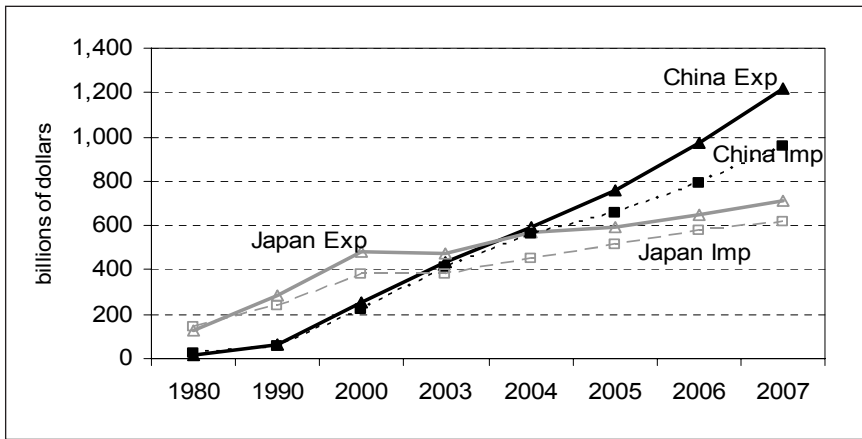
2.2. Significance of the Strait of Malacca for China's Trade and Oil Imports

Coupled with consumption and investment, foreign trade has become one of the pillars underpinning China's phenomenal economic growth in the past decades. Most trade goes by sea, and particularly trade with EU, Middle East, and Africa has to traverse the Strait of Malacca. In 2005 the contribution rate of China's net exports to its economic growth reached 35 per cent.² Since 2005 EU has become the largest trade partner of China. So far it is also the largest source of China's introduction of foreign technology and a major source of foreign investments. Meanwhile, China has replaced the US to become the largest source of EU's imports and its second largest trade partner after 2007.³ As Figure 1 shows, both Japan and China, the second and third largest economies in the world, have witnessed a surge of foreign trade over the past three decades. The shares of trade with EU and Africa in China's total trade rose from 16.8 per cent and 1.7 per cent in 1997 to 19.7 per cent and 3.4 per cent in 2007 respectively (see Figure 2). Beijing thus has many stakes in ensuring the smooth passage of its cargo ships through the Strait of Malacca.

Together with China's rapid economic development is its growing reliance on the import of raw materials especially oil. China became a net oil importer after 1993 and since then, indigenous resources can hardly catch up with domestic soaring demand. As a result, China has to import more to satisfy its

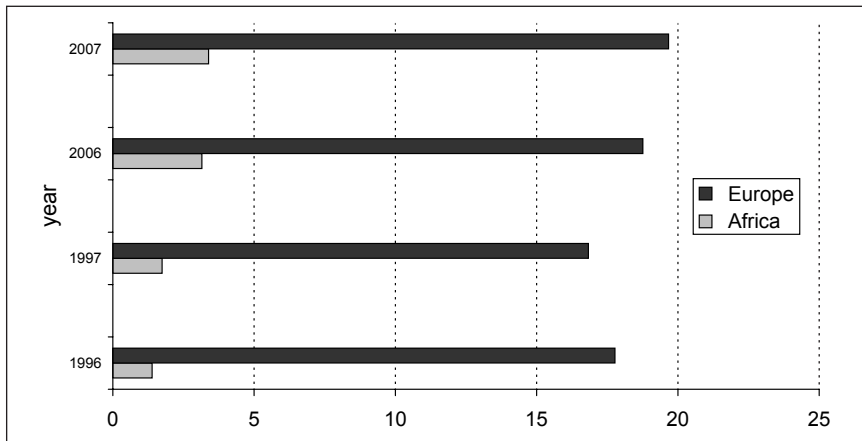
growing appetite (see Figure 3). China's indigenous oil production rose from 138 million tons (Mt) to 187 Mt between 1990 and 2007, gaining 35 per cent only, whereas domestic oil demand in 2007, capturing 368 Mt, was 2.3 times that of 1990. In fact, China's oil consumption increase was so stunning that its share in the world's annual growth even reached 60 per cent in 2006 (see Figure 4).

Figure 1 Imports and Exports of China and Japan



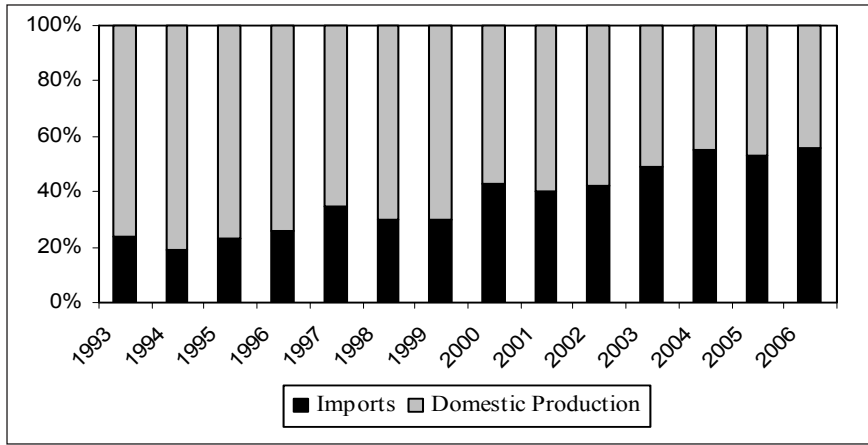
Source: UNCTAD (United Nations Conference on Trade and Development), *Handbook of Statistics 2008*, pp. 4-9.

Figure 2 Share in China's Total Trade (%)



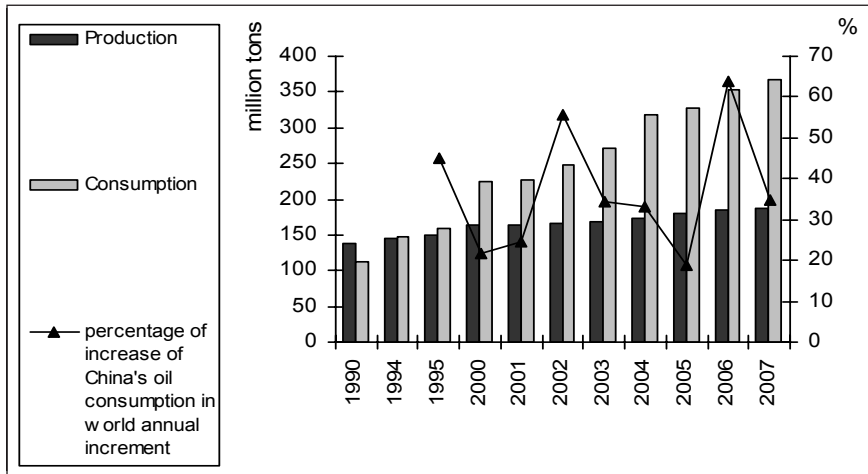
Source: *China Statistical Yearbook*, 1998 and 2008.

Figure 3 China's Oil Imports



Source: *China Statistical Yearbook*, various issues.

Figure 4 China's Oil Production and Consumption



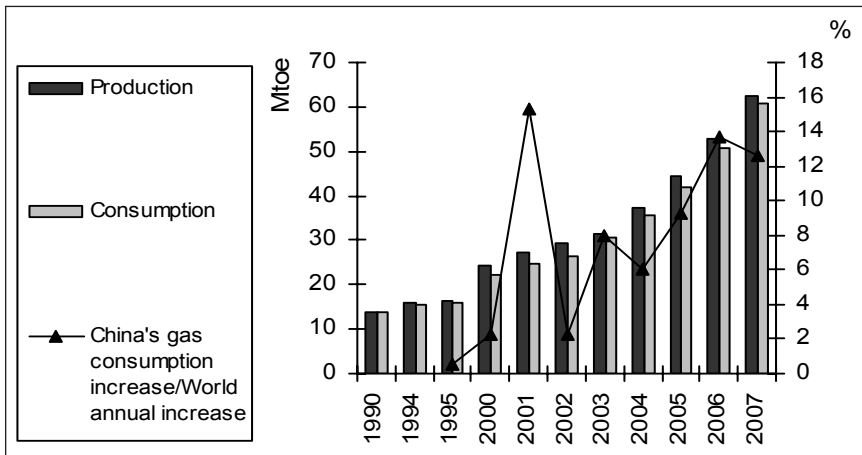
Source: Based on data from *BP Statistical Review of World Energy*, June 2008.

Likewise, natural gas consumption has grown rapidly over the past years. It rose 3.4 times from 13.7 million tonnes oil equivalent (Mtoe) in 1993 to 60.6 Mtoe in 2007. During that period, indigenous natural gas output was able to meet domestic consumption (see Figure 5), but according to International Energy Agency (IEA), imports will reach 37 Billion cubic metres (Bcm) by 2030, constituting 29 per cent of total natural gas consumption (162 Bcm). (IEA, 2007: 110 & 257)

China is set to rely more on foreign fossil fuels, particularly crude oil from the Middle East and Africa. As shown in Figure 6, the Middle East remains as the heavyweight in China's importing sources notwithstanding its diversification efforts. Crude oil imports from Africa have also risen sharply over the past decade. By 2005, the share reached 30 per cent, making it the second largest source of supply, just next to the Middle East. In a nutshell, with China's growing reliance on foreign oil, it will strive harder to diversify the import sources, but the Middle East and Africa remains significant in China's energy security.

Based on the percentage of the first four countries in total oil imports, Saudi Arabia, Angola, Iran, and Russia in that order have become the first four largest suppliers of China's crude oil. Crude imports from the above four countries have consistently accounted for more than one half of China's aggregate crude imports (See Table 1).

Figure 5 China's Gas Production and Consumption



Source: Based on data from *BP Statistical Review of World Energy*, June 2008.

Figure 6a Crude Imports, 1995 (Total: 17090 B.T.)

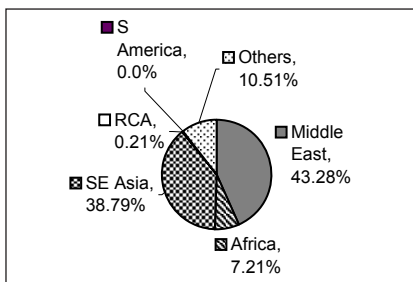


Figure 6b Crude Imports, 2005 (Total: 126818 B.T.)

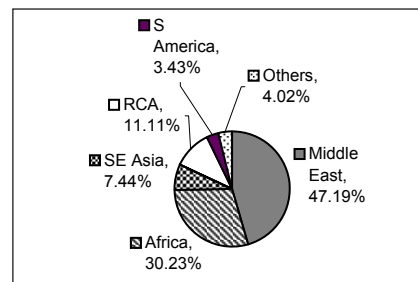


Table 1 Major Sources of China's Crude Oil Imports (million tons)

Year	Ranking	Country	Quantity	Total Yearly Imports	%
2005	1	Saudi Arabia	22.2	126.8	17.5
	2	Angola	17.5		13.8
	3	Iran	14.3		11.3
	4	Russia	12.8		10.1
	% of the first four countries in total crude imports				52.6
2006	1	Saudi Arabia	23.9	145.2	16.4
	2	Angola	23.5		16.2
	3	Iran	16.8		11.6
	4	Russia	16.0		11.0
	% of the first four countries in total crude imports				55.1
2007	1	Saudi Arabia	26.3	163.2	16.1
	2	Angola	25.0		15.3
	3	Iran	20.5		12.6
	4	Russia	14.5		8.9
	% of the first four countries in total crude imports				52.9

Source: *China Commerce Yearbook*, 2007-2008.

As oil is intimately related to China's economic catch-up and socio-political stability, and most crude oil imports from the Middle East and Africa have to pass the Strait of Malacca, it is not overemphasized that the economic and strategic importance of the Strait of Malacca, which as a chokepoint, directly affects China's sea lane of communications (SLOCs). It is estimated that among the ships transit through the Strait of Malacca each day, 60 per cent belong to China. (Shi, 2004)

Hence, Beijing feels susceptible to this strategic weakness considering that any unexpected event could disrupt its trade flows and particularly oil imports, which could further deal a blow to China's economic development, social stability and military operations.

2.3. China's Concerns about the Strait of Malacca

Due to the strategic importance of the Strait of Malacca, the Chinese government has every reason to be concerned about the safe and smooth passage of its vessels. Other than natural disasters, oil spill incidents, and

ship collisions which can affect the SLOCs, currently China has three major concerns. One is the threat of piracy and transnational crime. In the 1980s and 1990s, the yearly reported piracy incidents in Southeast Asian waters were below 60, but this number rose dramatically. There were 1220 actual and attempted attacks over 1999-2005 (see Table 2). Moreover, it was said that pirate attacks might be underestimated.⁴ As a result, Southeast Asia was regarded as one of the world's two most frequent scenes of pirate attacks against seaborne vessels. (Davis, 2004) As shown in Table 2, the Strait of Malacca is frequently troubled by piracy attacks, just next to Indonesia. To stamp out rampant piracy in the Strait of Malacca, Indonesia, Malaysia and Singapore launched coordinated patrols in July 2004. According to Chew Men Leong, Singapore's Chief of Navy, their joint patrol and coordinated efforts with other countries have successfully brought the piracy attacks down to 4 cases in 2008 from 38 in 2004.⁵ Despite such a decline, possibilities of pirate attacks can hardly be ruled out.

Maritime terrorism is another concern with China's growing reliance on seaborne shipments. There is no consensus regarding the seriousness of this problem in the waterways of the Strait of Malacca. On one end are countries like the US and Singapore which tend to highlight the vulnerability of the Strait of Malacca to terrorist attack; they claimed that the threat of attacks has increased since the 11 September 2001. On the other end are Indonesia and Malaysia, the other two littoral countries, believing that some countries

Table 2 Piracy in Southeast Asia – Actual and Attempted Attacks

Location	1999	2000	2001	2002	2003	2004	2005	Total
SE ASIA								
Cambodia/Vietnam	2	6	8	12	15	4	10	57
Indonesia	115	119	91	103	121	94	79	722
Malacca Strait	2	75	17	18	28	38	12	190
Malaysia	18	21	19	14	5	9	3	89
Philippines	6	9	8	10	12	4	0	49
Singapore Strait	14	5	7	5	2	8	7	48
Thailand	5	8	8	5	2	4	1	33
South China Sea	3	9	4	0	2	8	6	32
TOTAL	165	252	162	167	187	169	118	1220

Source: John C. Fawcett-Ellis, "Maritime Security in the Straits of Malacca and Singapore – Industry's Views", MILOPS 2006, 17th-19th July, Bangkok.

used greater risks of piracy and terrorist attack as an excuse to control the important waterway. As Indonesia's navy chief, Admiral Bernard Kent Sondakh said in an interview that foreign governments – including the US – were primarily interested in the waterway because it was economically strategic, rather than because of terrorism fears. (BBC, 2004) While China has fears that international terrorists might target ships passing through the Strait of Malacca, it also holds misgivings that the US might control the waterway, as to be illustrated below.

The third concern, probably the deepest one, rests with the US's active presence in the Asian Pacific waters. Within China perceptions about the influence of the US and its intention of interdicting China's maritime shipment are divided. In the eyes of some Chinese strategic analysts, the Strait of Malacca is one of the strategic locations that the US endeavours to command in that they are crucial for Washington to gain geopolitical preeminence, check the rise of China and other powers, and control the flow of world energy. (Shi, 2004) China particularly worries that the US might interdict seaborne oil flows into China in the event of its military action against Taiwan. (Lee, 2005: 269) It also holds misgivings that Washington would make use of its presence in the critically strategic Strait of Malacca to forestall the People's Liberation Army Navy (PLAN) to go to blue waters, a precondition for its rise as a world power.

Meanwhile, such a contention was dismissed by You (2007), "In a way, SLOC risks are often overstated, by seeking to portray SLOC insecurity as a matter of life and death for nations, in view of its adverse impact on economy." On the one hand, there are three straits available that can bypass the Strait of Malacca, including Sunda, Lombok and Makassar, and making that detour would not cost that much as is generally imagined. On the other hand, blocking all the four straits is too costly for the US.⁶ Currently, as illustrated below, Beijing's strategy in dealing with the US factor seems to vacillate between the above two possible scenarios: free riding and preparing for a rainy day.

3. Reducing Reliance on the Strait of Malacca

Given the strategic importance of the Strait of Malacca and China's little sway on the waterway, what steps has China taken to cope with the perceived "Malacca dilemma"? And what are the new developments of Beijing's measures against the backdrop of the global economic recession? We classify Beijing's measures into four categories: energy supply-sided measures, energy consumption-led measures, cooperation with littoral states, and military strategy. China's willingness to cooperate with other states is to be discussed in the next section.

3.1. Energy Consumption-led Measures

Energy consumption-led measures that China has taken are not directly linked to the “Malacca Dilemma”, but as efforts to enhance China’s energy security, these measures objectively can slow down or even reduce its energy consumption, thus alleviating its reliance on foreign energy imports and the use of the Strait of Malacca. These include measures aiming to improve energy use efficiency, “getting price right”, strengthening environmental protection, developing public transportation, tightening regulations over the auto industry, and so on. They largely comply with the “conservation-minded society” (*jiyue shehui*) and “scientific development concept” (*kexue fazhanguan*) initiated by the current Hu Jintao and Wen Jiabao Administration.

These measures, if strictly implemented, could greatly contribute to moderating Beijing’s growing appetite for oil and gas, thus reducing energy imports from abroad. Indeed the Chinese central government has spared no efforts to implement a series of measures centring on the “scientific development concept.” However, it was reported that “scientific development” is giving way to the old way of developing local economy at any cost in their endeavour to expand employment under the percussion of the global financial crisis. A large number of polluting firms, which should have been prohibited, were allowed to be started or resumed to work by the Ministry of Environmental Protection and local Environmental Protection Bureaus. And Guangdong’s ambition of taking advantage of the financial crisis to push forward industrial upgrading was out of steam as it faces tremendous pressure of preventing further unemployment from both the centre and other provinces.⁷

3.2. Energy Supply-side Measures

Energy supply-side measures are the major ones that China resorts to handle the “Malacca dilemma.” These measures include seeking other transportation routes bypassing the Strait of Malacca, diversifying oil import sources, and the less directly linked building oil stockpiles. The global financial crisis contributes to Beijing’s efforts. With a deep pocket, Beijing tried to make use of the opportunities resulted from the crisis, which caused liquidity bottleneck in many energy companies and oil rich countries and forced many of them to tone down energy nationalism by turning to foreign investments.

Crucial is China’s effort to find alternative pathways bypassing the Strait of Malacca. Initially there were four schemes under consideration, which include: (a) a channel through the Kur Strait in Thailand; (b) a pipeline from Myanmar to Kunming; (c) a pipeline from Gwadar in Pakistan to Shanghai via Xinjiang; and (d) a pipeline started from Iran right across Pakistan and India to China. Each of these projects, if implemented, would encounter tremendous technological obstacles, and hence calling for exorbitant costs.

Relatively cheaper among these schemes is the second one. Currently the first and fourth schemes have already been scrapped either because of cost ineffectiveness or political concerns. The second one was just signed between China and Myanmar. In terms of the third scheme, China has completed the port construction work in Gwadar, but there is no plan to build a pipeline to China thus far.

After years of consideration, a pipeline linking China and Myanmar has emerged on the horizon. On 27 March 2009 both sides signed an agreement for building an oil pipeline and a gas pipeline, with a planned expenditure of US\$1.5 billion and US\$1 billion respectively. The oil pipeline will transport Middle East and African crude oil from Myanmar's Arakan coast to China's southwestern Yunnan province, while the gas pipeline will tap into Myanmar's reserves at the Shwe gas fields. To some extent the financial crisis has expedited their implementation. Construction of the two pipelines will begin soon and is expected to be completed by 2013. China National Petroleum Corporation (CNPC), the largest oil and gas company in China, holds 50.9 per cent stake in the project, with the rest owned by the Myanmar Oil and Gas Enterprise (MOGE). (Sudha, 2009)

In August 2001 the Chinese and Pakistan governments clinched a financing agreement on the first-phase project of building the Gwadar Port. According to this agreement, China had financed this project with US\$198 million in the forms of unpaid aid, preferential loan and low-interest loan while Pakistan self-raised US\$50 million. The port was constructed by a Chinese company. The first phase of this project has been completed in April 2005. It was reported that Beijing plans to invest in the second phase of this project, which would add nine berths, tank stations and other facilities.⁸ However, China did not participate in the bid for running the Gwadar Port and hence has not secured the operation rights; instead, Singapore's PSA International won the bid and is responsible for its operation.

The China-Pakistan oil pipeline, however, has not been in place despite years of heated debate. Compared with the Sino-Myanmar pipeline, the China-Pakistan pipeline is much less competitive. First, construction of this pipeline costs much higher as it travels much longer distance and across more complex geographic terrains. Second, there is no much petroleum in Pakistan. Third, the oil through this pipeline goes into Xinjiang, which itself does not lack oil; the imported oil still needs to be moved thousands of miles away before arriving in the coastal regions where China's economic powerhouse locates, which will add more costs. Saying that the China-Pakistan is less competitive does not amount to denying its strategic importance, but it remains a suboptimal option for China compared with the China-Myanmar pipelines. The latter, once ready, will be the first pathway alternative to the one through the Strait of Malacca.

Other than seeking alternative maritime pathway, China is also making efforts to secure land-based pipelines so as to reduce its dependence on the Middle Eastern and African oil resources and the risky seaborne shipment via the Strait of Malacca. Two successful deals are the oil pipelines with Russia and Kazakhstan. As a matter of fact, in the *Comprehensive Statement on the Development of China's Refining Industry in 2005*, released by the National Development and Reform Commission in 2005, the government has put forward the goal of building four major transportation pathways for imported crude oil in response to its fast-growing reliance on foreign oil imports, namely, China-Kazakhstan and China-Russia land-based crude oil pipelines, and the Strait of Malacca and China-Myanmar maritime pathways for crude oil. (China Center for International and Strategic Studies, 2007)

The Sino-Kazakhstan pipeline is the first project being in place other than the present Strait of Malacca pathway. According to the agreement signed between CNPC and the Kazakhstan state oil company KazMunaiGaz, the 3,000 km-long pipeline (625 mile) from Atasu, in northwestern Kazakhstan, to China's northwestern Xinjiang region, would be completed by three phases. The first section, with a length of 450 km from Atyrau to Kenkiyak in northwest Kazakhstan, was put into operation in December 2002. In September 2004, the second section, from Atasu to Allah Mountain Pass, was put in use from December 2005. The third phase, connecting Kenkiyak and Kumkol, is under construction from December 2007 and is expected to be due in October 2009. Nonetheless, Kazakhstan has started to export oil to China through the available pipeline since May 2006.

Acquiring the so-called loan-for-oil deal with Russia has moved China closer to its aforementioned goal of building four major pathways. Until recently did China and Russia make the deal of building a branch oil pipeline notwithstanding their over one decade bargains. For long China has striven to secure an oil pipeline from Siberia to Daqing, China's oil bonanza in the Northeast, but Japan's involvement and Moscow's energy diplomacy had complicated this process. Moscow finally decided in April 2005 to build a pipeline to the Pacific Ocean from Eastern Siberia, a decision regarded more favourable to Japan.

However, in February 2009 the loan-for-oil agreements were clinched between China and Russia. The China Development Bank agreed to provide US\$25 billion loan to Russian state oil exporter Rosneft and pipeline company Transneft. As an exchange, Russia permits to build an oil pipeline to Daqing, and will export 300 Mt of crude oil (around 241 thousand barrels per day, or 15 Mt per annum) over a 20-year period through the pipeline.⁹ To a large extent this deal was attributed to the global financial turmoil, which has badly hit Russian economy and its oil giants.

3.3. Military Strategy

Within China there are different voices concerning the presence of the US military in the Asian Pacific waters. In the past China primarily perceived it as a threat, but in recent years Beijing has eventually accepted the constructive role that the US has played in ensuring regional peace and security as well as free passage in the international waters, which has created conditions for carrying out bulky trade between China and outside world. In the foreseeable future, China will continue acting a free rider in that regard. Hence, Beijing primarily relies on the non-military means to alleviate its concern of the "Malacca dilemma".

Nonetheless, Beijing also has three major concerns. First, it worries that the US would interdict oil shipment bound to China. Such a concern seems reasonable. As John Walsh claimed, "American forces hang around the Straits regularly and make it clear that they could, if they had a strong enough motive to do so, to close the Straits and starve China of its oil and other imports." (Walsh, 2007) Second, China holds such a misgiving that the US would try to block its rise by establishing a "North Atlantic Treaty Organization (NATO)" along with Japan, India and Australia in Asia. And third, in the eyes of Beijing, the US has constructed an encircling chain along Japanese Okinawa, the Philippines and Taiwan. To avoid the worst scenario, Beijing also resorts to a military strategy. As early as 1987 Beijing did work out a long term blue water strategy. This strategy aimed to "acquire power for efficient sea-control within China's adjacent waters (from the Bohai Sea to Yellow Sea and some areas of the East China Sea) by 2000, a sea denial capability within the first island chain in the West Pacific in 2010-2020, and a status of powerful regional navy with global reach in 2050." (Liu, 2004 and You, 1991: 137-149)

Beijing stepped up its naval buildup, driven by the need to ensure smooth passage of its shipments, its grand strategy of rising up as a world power and the Taiwan contingency which might incur the US intervention. China's 2006 Defense White Paper proclaimed that its navy would take on a more expansive role, reaching out beyond its traditional focus on the coastline.¹⁰ As of 2008, it was conjured that the PLAN for the first time possesses the military power to "break the first-island chain of land-based air and missile protections". (Huang, 2009) As its 2008 Defense White Paper asserts, the PLAN will continue its efforts to build new types of submarines, destroyers, frigates and aircraft so as to form "a preliminary weaponry and equipment system with second-generation equipment as the core and the third generation as the backbone."¹¹

Notable is the fact that China's concern about the SLOCs issue, particularly the Strait of Malacca, only comes about when the country has become more reliant on foreign oil resources and foreign trade. China thus

has more stakes in the outside world and forces the government to ponder over how to prevent risks of trade disruption and how to protect the country's cargo shipments. It is against this backdrop that the PLAN for the first time deployed two destroyers to Somali water to protect Chinese cargo ships from pirate attacks in the Gulf of Aden.

China has become more confident after the eruption of the global financial crisis, as shown by the fleet parade at the 60th anniversary of the PLAN. The financial tsunami has not stopped China's ambition for a blue-water navy – one capable of operating in the open seas far off its own shores, nor has the warming up of cross-Strait relations after Ma Ying-jeou came to power in May 2008. Peng Guangqian, a military expert in Beijing, said one reason China needed a blue-water navy was to safeguard sea lanes for its exports and energy imports.¹² Conspicuous is Beijing's intention of building an aircraft carrier. "China will not remain the world's only major country without an aircraft carrier,"¹³ declared China's Defense Minister Liang Guanglie in a talk with his Japanese counterpart on 20 March 2009.

Hence, from the above analysis, the global economic recession has brought about new changes of Beijing's policies. These changes mainly include the following two aspects: on the one hand, badly hit by the global financial crisis, Beijing tends to regard it as a rare opportunity for its rise. Commercially, this is a good opportunity for Chinese enterprises to "go out", conducting some acquisitions and merges by taking advantage of the liquidity problems that many foreign firms are troubled. Strategically, possessing the largest foreign reserves and a fast economic growth rate, China's role in the world appears more prominent in "saving the world". Moreover, as developed countries are overwhelmed by economic crisis, this has left Beijing more leverage and maneuvering space. On the other hand, China is confronting two dilemmas arising from the global financial crisis: one is between its adherence to "scientific development", advocating economic development should be based on high value add, high energy efficiency and low environmental pollution, and its endeavour to ensure fast economic growth so as to create more job opportunities. The other dilemma relates with China's philosophy of peaceful rise and non-interference *vis-à-vis* a more confident China in international affairs and more assertive in naval buildup.

4. Implication for Southeast Asia

The measures that China has taken can produce different impact on different countries. Standing from the perspective of Southeast Asia, this study will analyze the implications in the economic and security spheres. Before that, it is necessary to look at China's overall strategy towards ASEAN and its role in preserving the safety of the Strait of Malacca.

4.1. China's Overall Strategy towards ASEAN

While it is undeniable that there exist some thorny issues between China and Southeast Asian countries with the South China Sea in particular, it should not be taken as a bone of contention that could hijack the agenda of China, or for that matter, ASEAN, to work closely with each other. In fact, overall Sino-ASEAN relations have improved over the years since the 1990s. As part and parcel of its strategy to focus on its own development, China has been emphasizing the importance of having friendly neighbours in its foreign policy. As such, Southeast Asia and ASEAN, the regional organization encompassing all the Southeast Asian states, would naturally be an important area not only for economic purposes but also for security reasons.

China was seen to be helpful to ASEAN in the area of finance and economics. Notably, it did not devalue the Yuan after the Asian financial crisis so as to lessen the economic and financial challenges of some of its East Asian neighbours. More importantly, China made a deliberate effort to enhance closer trade and investment relations with ASEAN which was not really a major economic partner of China especially when compared with the US, Japan and the European Union. Most importantly of all, China was the first state to sign the Framework Agreement for Comprehensive Economic Cooperation in November 2001 with ASEAN to establish a free trade area, namely, the ASEAN-China Free Trade Area (ACFTA) in 10 years.

In the area of security, more was done by China with the turn of the century. This was demonstrated by, among other things, the signing of the Joint Declaration of China and ASEAN on Cooperation in the Field of Non-Traditional Security Issues. Moreover, China was the first extra-regional power to accede to the Treaty of Amity and Cooperation in Southeast Asia in 2003 and became ASEAN's strategic partner by signing the Joint Declaration of the Heads of State/Government of the ASEAN and the PRC on Strategic Partnership for Peace and Prosperity in the same year. Last but not least, consultations are being conducted to see if China could accede to the Protocol to the Treaty on Southeast Asia Nuclear Weapons Free Zone.

Although the above agreements on security may take time to bear fruits, they do demonstrate that China is prepared to work with ASEAN and vice versa by putting aside past differences and trying to work together for cooperative security. It can also be seen that in spite of the fact that ASEAN is not a major power and the competition for foreign investments and markets between China and ASEAN, Beijing is making a deliberate political and strategic move to emphasize and elevate the importance of ASEAN. China is using its newly gained economic strength to bring ASEAN into its power ambit, and if possible, to wean off ASEAN's heavy reliance on the West, particularly, the US.¹⁴

4.2. International Cooperation

Thus far China's prior strategy with regard to its SLOCs including the chokepoint of the Strait of Malacca has been placed in joining the international community and cooperating with other states to safeguard the international waters. This is not only because it is in China's best interest as a developing country, but also because Beijing lacks the naval capability to engage the US Navy in the high seas far from home.

Given that some littoral states like Indonesia and Malaysia remain sensitive to the sovereignty issue, this translates China's role mainly as a free rider in preserving the safety in the Strait of Malacca. But with its growing powerhouse, China is more willing to undertake some international obligation and cooperate with littoral states to ensure the smooth passage in the Strait of Malacca waterways. For instance, China signed the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP), which is the first regional government-to-government agreement to promote cooperation against piracy and armed robbery in Asia and has entered into force since September 2006.¹⁵ As non-conventional security problems such as piracy, terrorism and marine environmental pollution are looming larger, in the foreseeable future China may play a more active and more cooperative role. In December 2008, Beijing for the first time dispatched two fleets of escort ships to the Gulf of Aden on escort missions to protect commercial vessels.

Nevertheless, as aforementioned, with growing concerns about its SLOCs due to its reliance on trade and oil imports, China is brewing some contingency strategy. It is considering preparing for a rainy day by seeking other routes and strengthening its military power, but the use of military means to protect its SLOCs "is always a last resort in Beijing's hierarchy of choices." (You, 2007: 478)

4.3. Economic Implication

China's surging energy appetite and its efforts to diversify oil and gas import sources have both pros and cons. On the one hand, Beijing may stiffen its sovereignty claims over the South China Sea, which is described by some Chinese as the second "Persian Gulf" as it is believed that the area has substantial oil, gas and combustible ice resources. It may also run cut-throat competition with other Asian energy consuming countries like Japan and India, two Asian giants with the second and sixth largest oil imports in the world.

On the other hand, Southeast Asia can gain tremendous economic and diplomatic benefits from China's quest for raw materials and its concurrent "charm offensive". As China has placed emphasis on Southeast Asia in

its diplomacy, both Beijing and its neighbours have a strong interest in strengthening bilateral ties and promoting bilateral trade and investments. As part of its "charm offensive" strategy, Beijing recently announced to create a US\$10 billion investment cooperation fund and offer US\$15 billion in credit to ASEAN in order to help its neighbours to weather the global financial crisis. The investment fund is used for infrastructure development connecting China with ASEAN members.¹⁶ In the energy area, Southeast Asia used to be China's second largest oil importer in the 1990s (see Figure 6). Although its share has shrunk a lot in China's oil import equation due to a surge of indigenous oil consumption, the region remains important in supplying China with oil, gas, renewable energy and other raw materials in its onerous efforts of reducing oil imports from the Middle East. Energy is one of the key areas that China is keen on investing in ASEAN, particularly in Myanmar and Indonesia. The news that huge oil and gas fields with recoverable reserves of 700 million barrels of crude oil were discovered in Cambodia also allured Chinese companies.¹⁷

The Sino-Myanmar oil and gas pipelines can not only deliver Myanmar oil and gas to China, but also transport oil coming from the Middle East and Africa to mainland China. Moreover, this route can short-circuit the long sea voyage past Singapore to Guangzhou by 1820 nautical miles, thus greatly saving transportation costs. However, since the pipelines reach Kunming, which is not a major energy consuming centre and has no refinery and other facilities, refineries and large-scale infrastructure for transporting oil to other provinces and cities from Kunming are required to be built. Construction and refining activities again arouse people's concern about the environmental impact on Yunnan, a province famous for its beautiful natural sceneries.

As illustrated above, China plans to use Sino-Russia oil pipeline, Sino-Kazakhstan oil pipeline and Sino-Myanmar oil and gas pipelines as the other pathways alternative to the route via the Strait of Malacca and its adjacent waterways. Currently 60 per cent of ships plying the Strait of Malacca every day are bound to China. With growing trade and oil imports in Northeast and Southeast Asian countries, the Strait of Malacca will be more congested. It is evident that China's measures help reduce its use of the Strait of Malacca and greatly alleviate the traffic jam in the narrow chokepoints.

But does that mean that China will not use or try not to use the Strait of Malacca? We can compare China's oil imports with the designed capacities of those pipelines in use or to be constructed. As shown in Table 3, the aggregate designed capacities of the Sino-Kazakhstan, Sino-Russia, and Sino-Myanmar oil pipelines reach 55 Mt each year. Suppose they could be operated in full capacity, the aggregate capacity accounts for 26 per cent of China's oil imports of 211.4 Mt in 2007. (National Bureau of Statistics of China, 2008) Hence, China still needs to heavily depend on the Strait of Malacca. There

Table 3 Major Pipelines from Abroad

Project	Length (km)	Destination in China	Designed Capacity (Mt/y)	Due Date	Expected Costs (billion US\$)
China-Kazakhstan Oil Pipeline	3088	Allah Mountain Pass in Xinjiang	20	2005-12	3
China-Russia Oil Pipeline	2764	Major pipeline – Taishet in Siberia to Skovorodino, then to Daqing	15, for 20 years	2011	25, loan to Russia
China-Myanmar Oil Pipeline	2000	Kunming	20, for 30 years	2013	1.5
China-Myanmar Gas Pipeline	2000	Kunming	10 billion cubic metres, for 30 years		1
China-Pakistan Oil Pipeline	7000	Shanghai via Xinjiang			over 6

Source: Table made by the author according to various sources.

are several points worth noting too. First, not all the pipelines are ready for use; the promised capacity can last for certain years, and much is depended upon oil resources available in China's counterparts. Second, China's oil imports in the coming years are set to rise as long as it maintains an economic growth mode of low energy efficiency and foreign trade driven, implying that more imported oil needs to traverse the Strait of Malacca. Third, the above discussion does not take China's oil exports and trade of other commodities into account.

4.4. Security Implication

Assessing the security implications of China's measures in handling the "Malacca dilemma" is not an easy task as it involves various factors such as the judgment of its foreign and military strategies, its military intentions and capabilities, other countries' perceptions and responses.

Beijing used to keep a low profile with regard to its naval buildup, worrying that flexing its naval clout could arouse suspicion from neighbouring countries. But as China's interests spread globally, Beijing has gradually realized that it needed a strong naval force to protect its blue water interests. Unlike the previous powers like Great Britain, Germany or Japan which

already possessed a globally capable military force before their rises, China still has a long way to go before it can develop such a global military capability. This has placed it in a dilemma. On the one hand, with more stakes overseas, the rising power deems it necessary to develop such a military power in order to protect its interests. In history no power can last long without the buttress of a powerful military. Also, unlike the previous powers which wielded their strong military to help their expansion, China is still troubled by several territorial disputes with its neighbours. Developing a strong army does not mean that China would resort to forces to resolve these disputes, but Beijing is afraid of losing the upper wind in negotiating with its disputants or lose the last resort in any emergent circumstance.

On the other hand, China's military buildup is very liable to lead to arms race, which might bring about an environment unfriendly for its development. Other countries in the Asia Pacific are not willing to see the power balance being broken, and lack of transparency can often lead to misunderstandings and suspicions about China being a "threat" to world security. (Wu, 2009)

In particular, the US would not allow its hegemonic status being challenged by other powers. Irritated by China's naval expansion, Japan has embarked on operational deployment of its quasi-aircraft carriers which are next below aircraft carriers banned by Japanese Constitution.¹⁸ India also came up with its blue water drive to counter against China. (Toshi and Holmes, 2007; and Toshi, 2006: 23-51)

China's hasty naval development would also force other countries particularly ASEAN states to take a hedging. They would try to get other big powers involved in regional affairs, constructing closer alliance with the US, or push their territorial disputes with China, say the South China Sea dispute, to the international community, thus making regional security more complicated.

No doubt is that there is distrust between China and other countries in the Asia Pacific, which makes countries concerned liable to slip into the "security dilemma." For example, the US, regarding China as a peer competitor which might defy its maritime preeminence, highlighted a maritime strategy of deterrence with the threat of *denial*, that is, "denying China access to its crucial sea lanes of communication and commerce, especially for its imports of oil through the South China Sea and its exports of manufactured goods through both the South and the East China Seas; this denial would be effected by US attack submarines and surface ships. In addition, it will be important for US forces to be able to deny China the capability to deny the United States the use of these seas (a compounded version of denial or what can be thought of as denial)." (Hattendorf, 2006)

Facing such dilemmas, China has primarily adopted a development strategy of integration. By integrating itself into the international system

featured by market economy and democratic principles, China can act as a free rider of the international security system. (Huang, 2004: 237-239) At the same time, Beijing is making efforts to improve cooperation with other navies and transparency of its naval development. For example, China and Japan made their first exchange of port calls by naval ships and are considering the establishment of a maritime liaison mechanism. The PLAN conducted a host of bilateral or multilateral maritime training exercises and rescue exercises with other countries such as the US, India, Australia, Singapore and so on in the past few years. Recent naval display is a sign of China's efforts to enhance transparency and mutual understanding with foreign navies.

China's efforts in alleviating its SLOC concerns across the Indian Ocean have been dubbed as a "string of pearls" strategy. In helping Myanmar to build the Sittwe Port and Pakistan to build the Gwadar Port, it was claimed that China could use these ports for military purposes. But their military significance for China is questionable. First, without effective air cover, the port itself would be first mowed down in time of war. The ports can be used for monitoring purposes, but they also reflect "China's limited presence for limited scope of missions." (You, 2007: 484) Moreover, according to China's Myanmar specialist Li Chengyang, Myanmar would not accept Chinese troops stationed in its territory, and it is also reluctant to allow China to build any naval bases in Myanmar.¹⁹ Pakistan holds similar stance in that regard. (You, 2007: 483) Also notable are the facts that Singapore is operating that port now and Pakistan is the ally of the US which stations troops in its territory.

5. Conclusion

Sustained economic growth and commensurate military capability are key to China's rise as a great power status. Both goals, however require the power engines of constant and sufficient energy supply. China has to rely on the Strait of Malacca to transport its bulky trade with oil imports in particular, whereas little influence on this sea route has exposed it to a serious strategic weakness. The so-called "Malacca dilemma" has thus gone around both within and outside China. This paper has examined the implications of China's efforts of coping with the strategic vulnerability that it has perceived. It is found, however, that the risk that China is facing in the Strait of Malacca tends to be exaggerated. China's countermeasures, though economically, are conducive to mitigating its reliance on the Strait of Malacca, such a reliance will continue; from a geopolitical point of view, its military modernization is likely to lead to arms race in Asia and Southeast Asian countries' hedging initiative.

Appendix

Map: Shipping Patterns in East Asia



Source: From John C. Fawcett-Ellis, "Maritime Security in the Straits of Malacca and Singapore – Industry's Views", MILOPS 2006, 17th-19th July, Bangkok.

Notes

- * The author appreciates the valuable comments from an anonymous reviewer, as well as the comments received in the International Conference on "China's Future: Pitfalls, Prospects, and the Implications for ASEAN and the World" held by the Institute of China Studies (ICS), University of Malaya, 5th-6th May 2009.
- 1. See for example, You (2007: 467-489); Storey (2006); Lanteigne (2008: 143-161); Ho (2006: 558-574).
- 2. "Jinnian Jingchukou Dui Jingji Zengzhang de Gongxian Lv Jiang Chaoguo 35%" [The contribution rate of net exports to economic growth will be over 35%], by Xiao Ming, *Xinhua*, 31st October 2005.
- 3. "Maoyi Mocha Wai Ai Zhong-Ou Hezuo, Zhong-Ou Jingmao Fazhan Jinru Xin Jieduan" [Trade frictions do not hinder Sino-EU cooperation, Sino-EU economic and trade development has entered a new phase], by Zhang Yi and Wang Yu, *Xinhua*, 25th March 2007.
- 4. The above numbers are based on Cole (2008: 88).
- 5. "Zhongguo Haijun Chengli 60 Zhounian, Xinjiapo Haijun Zongzhang: Wei Weihu Haiyun Anquan, Geguo Ying Gongxiang Xinxi" [The 60th anniversary of China's navy, Singapore's Chief of Navy: Countries should share information in order to preserve safety of maritime shipment], by Han Yonghong, *Zaobao*, 22nd April 2009. <http://www.zaobao.com/zg/zg090422_505.shtml>

6. It was estimated that the expenses for blocking all the four straits would reach US\$8 billion, based on the trade flows in 1993. See Grove (2006: 28).
7. "Slump Tilts Priorities of Industry in China", *New York Times*, 18th April 2009.
8. "Jingbiao Bajisitan Guada'er Gang Baizhen, Zhongguo 'Shiyou Tuwei' Yu Zu" [Failure in bidding the Gwadar Port of Pakistan indicates China's "oil breakthrough" encountered hindrance], *China Economy Net*, 12th December 2006. <http://i3.ce.cn/intl/zgysj/200612/12/t20061212_9737015_1.shtml>
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10. "China Plans to Expand Navy", by Hille, Kathrin and Demetri Sevastopulo, *Financial Times*, 16th April 2009.
11. *China's National Defense in 2008*, released by the Information Office of the State Council, January 2009, p. 33.
12. "China Plans to Expand Navy", by Hille, Kathrin and Demetri Sevastopulo, *Financial Times*, 16th April 2009.
13. "Defense Minister: Aircraft carriers Needed", Website of the State Council of China, 24th March 2009. <http://www.china.org.cn/international/2009-03/24/content_17492000.htm>
14. Relations between China and ASEAN are based on Lee and Chen (2008).
15. To date, 14 countries have ratified the ReCAAP Agreement, namely, Bangladesh, Brunei, Cambodia, China, India, Japan, Republic of Korea, Laos, Myanmar, the Philippines, Singapore, Sri Lanka, Thailand, and Vietnam. But Malaysia and Indonesia, two key littoral states have not signed the agreement so far.
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18. "Zhongguo de Dayang Haijun" [China's blue-water navy], by Piao Douzhi, *The Chosun Ilbo*, 25th April 2009.
19. Authors' interview with Li Chengyang in Singapore, 27th April 2009.

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