

## 6. Patterns of and Incentives for Entry into the Arctic and South East Asia

This chapter explores Chinese and Russian entry pathways into regions that have historically been in each other's purview: the Arctic and South East Asia. Ekaterina Klimenko discusses Russian and Chinese interests in the Arctic region and how these have changed over time with enhanced access to transport corridors and natural resources. She argues that while there are cases of cooperation on specific projects, such as the Yamal Peninsula, Russia has been reluctant to allow Chinese investment in upstream projects. Imes Chiu provides a detailed account of political, economic and military deals in South East Asia to illustrate how Russian engagement has steadily expanded and could start to challenge some traditional Chinese holdings.

### 6.1. Ekaterina Klimenko<sup>1</sup>

#### **Introduction**

It is thought that the Arctic contains 30 per cent of world's undiscovered reserves of oil and gas. Climate change has accelerated the melting of the Arctic ice, making these resources more available. Climate change has also forced Russia to expand its presence in the region. In the past decade, Russia has been actively developing Arctic resources and shipping routes, while boosting its military presence. China has also been increasing its engagement in the Arctic and it sees cooperation with Russia as its 'way in' to Arctic affairs. While Russia has traditionally looked to Western countries for energy cooperation, including in the Arctic, a number of factors have led Russia to reconsider its approach to development in the Arctic region.<sup>2</sup>

#### **Interests in the Arctic**

Russia's Arctic strategy identifies the following core national interests: (a) use of the Arctic Zone of the Russian Federation as a strategic resource base; (b) safeguarding the Arctic as a zone of peace and cooperation; and (c) use of the Northern Sea Route as a national integrated transport-communication system for Russia in the Arctic. Among these goals, the development of offshore and onshore oil and gas resources is a top priority. The Russian economy is largely dependent on revenues from oil and gas. At least 50 per cent of federal budget revenue is generated from exports of energy resources. Most of Russia's oil and gas production is concentrated in the traditional areas of western Siberia. However, their depletion

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<sup>2</sup> For more information see the forthcoming paper, Klimenko, E. and Sørensen, C., *Emerging Chinese and Russia Cooperation in the Arctic: Possibilities and Constraints*, SIPRI Policy Paper no. 46 (Stockholm International Peace Research Institute: Stockholm, forthcoming 2017).

over the past decade means that the geography of production has been shifting to new regions to the north of western Siberia, including the Yamal Peninsula and the Arctic seas.

To date, China's focus and activities in the Arctic region have been primarily concentrated on its scientific interests, particularly those that relate to how the melting ice and changing climate in the Arctic will affect China. However, over the past five years, China's activities have begun to concentrate on economic interests and concerns about energy and resource security. Furthermore, China is interested in the Arctic region due to its importance in relation to international governance and institution building. As a result, China has sought to build strong economic partnerships in the region, including on developing resources and testing the North East Passage.

### **Drivers of cooperation in the Arctic**

Major shifts in world energy markets have significantly affected the development of Russia's Arctic shelf resources and the expansion of the current onshore resources of the Yamal Peninsula. At least four key factors have led to a significant overproduction of natural gas in Russia: (a) an overall decrease in demand for natural gas among the European Union (EU) member states; (b) an undermining of EU confidence in Russia as a reliable supplier following the Ukraine gas crises of 2006 and 2009; (c) EU plans to prioritize the diversification of gas suppliers in the European market; and (d) difficult relations with Ukraine, which is the third largest consumer of Russian gas. The shale gas revolution has also resulted in the loss of other potential markets. This in turn has delayed the development of gas resources on the Arctic shelf.

Estimates suggest that the fall in oil prices has made development of the Arctic shelf oilfields unprofitable. This will continue to be the case while the price of oil stays below USD \$100 per barrel. However, perhaps the decisive factor in the need for Russian companies to diversify their partnerships has been the geopolitical tensions between Russia and the West in the wake of the crisis in Ukraine. The United States and the EU introduced sanctions against Russia in 2014 after Russia's annexation of Crimea.

Among these sanctions, the third package, which was introduced in July 2014, has had significant implications because it concerns the transfer of technologies. US and EU sanctions include a ban on the transfer of equipment and technology for deep drilling below 150–152 metres, as well as on exploration and development of Arctic shelf shale oil reserves. These sanctions forced ExxonMobil, Statoil and other Western companies to suspend their cooperation with Russia in the Arctic. The third package of sanctions also introduced strict financial restrictions, applied to loans of longer than 30 days. The largest Russian banks and corporations in Russia, such as Rosneft, Transneft, Gazpromneft, Gazprom, Novatek, Lukoil and Surgutneftegaz, remain under sanctions. This has made it difficult to seek financing for Arctic projects in the Western financial markets.

Seen from China, Russia, as the biggest Arctic state, is a ‘gatekeeper’ and ‘necessary partner’ for non-Arctic states. According to Chinese calculations, there is no way to avoid getting along with Russia in the Arctic. Despite the lower growth rate of the Chinese economy in recent years, its demand for energy and resources continues to grow and its state-owned enterprises (SOEs) are continuously encouraged to identify and establish new areas for exploration and extraction. China sees the Russian Far East, Siberia and the Russian Arctic as sources of energy resources, as export markets and as new shipping and trading routes, as well as recipients of and partners in infrastructure and other development projects. These activities have synergies with China’s high-profile Belt and Road Initiatives (BRI), through which China is seeking access to vital European markets through Central Asia and Russia. China is also seeking to take advantage of Russia’s current geostrategic and geo-economic vulnerabilities, and its need of China as a partner to develop the Russian Arctic, to gradually strengthen its overall presence and relationships in the Arctic.

### **Prospects for and limitations on emerging Arctic cooperation**

#### *Development of the Arctic shelf*

In February and March 2013, during a round of oil delivery negotiations, Rosneft and the China National Petroleum Corporation (CNPC) discussed opportunities for cooperation on shelf projects in the Arctic Barents Sea and Pechora Sea, with a particular focus on the Zapadno-Prinovozemelsky, Yuzhno Russky, Medyskoe Sea and Varandeykoe Sea deposits.<sup>3</sup> Among these, the Medyskoe Sea and Varandeykoe Sea are the most promising, containing an estimated 3.9 million and 5.5 million tonnes of oil per year, respectively.<sup>4</sup> Although the head of Rosneft, Igor Sechin, confirmed a commitment to work with China on the Arctic shelf early in 2014, however, no official confirmation or details have yet to emerge.<sup>5</sup>

In late 2015, Russia’s Deputy Energy Minister reiterated that Rosneft was still ‘negotiating’ and ‘discussing’ its participation in Arctic shelf energy and extraction projects with China.<sup>6</sup> The relative lack of progress over nearly two years could indicate that China is either reluctant to invest or trying to get a better deal. Moreover, the fact that China did not invest in the Vankor deposit in East Siberia and did not buy Rosneft’s shares could demonstrate that its interest in the Russian upstream has decreased, or that it cannot accept Rosneft’s conditions. It could

<sup>3</sup> Zagorodnov, A., ‘Rosneft to attract Chinese, Korean investment to Arctic shelf’, *Russia Beyond the Headlines*, 19 Feb. 2013, <[http://rbth.com/news/2013/02/19/rosneft\\_inks\\_memorandum\\_with\\_sinopec\\_on\\_possible\\_oil\\_delivery\\_increase\\_23037.html](http://rbth.com/news/2013/02/19/rosneft_inks_memorandum_with_sinopec_on_possible_oil_delivery_increase_23037.html)>; Topalov, A., [Shelf for China: ‘Rosneft’ is negotiating with Chinese corporations to participate in the development of the Russian Arctic shelf], *Gazeta.ru*, 18 Feb. 2012, <<http://www.gazeta.ru/business/2013/02/18/4972145.shtml>> (in Russian).

<sup>4</sup> [Bogoyavlenskiy, V.I., Bogoyavlenskiy, I.V. and Budagova, T.A.], [Ecological safety and rational management of natural resources in the Arctic and the oceans], *Drilling and Oil*, Dec. 2013 (in Russian).

<sup>5</sup> *Arctic Info*, [Rosneft is waiting for the Chinese on the Arctic shelf], 7 Feb. 2014, <[http://www.arctic-info.ru/News/Page/-rosneft--jdet-kitaicev-na-sel\\_fe-arktiki](http://www.arctic-info.ru/News/Page/-rosneft--jdet-kitaicev-na-sel_fe-arktiki)> (in Russian).

<sup>6</sup> *Sputnik*, ‘Rosneft, Beijing in talks on China Arctic energy participation’, 16 Nov. 2015, <<https://sputniknews.com/business/201511161030170034-rosneft-china-arctic/>>; and *Kommersant*, [Chinese oil bubble], 18 Nov. 2015, <<http://kommersant.ru/doc/2849786>> (in Russian).

also be argued that the Russian oil and gas delivery deals that China secured in 2013 and 2014 have reduced its overall interest in the Russian upstream, including in the Arctic. Nonetheless, analysts continue to claim that China wants not just to be part of, but a managerial stake in these Arctic projects.<sup>7</sup>

Another unanswered question is the extent to which Chinese companies can replace the work of Western partners on the Arctic shelf, particularly their technological assistance. Despite such concerns, Russia and China have increased their technological cooperation in the oil and gas sectors since the imposition of sanctions. In September 2015, for example, China Oilfield Services Limited (COSL) signed deals with Rosneft and Norwegian Statoil to drill two exploration wells in the Sea of Okhotsk, which has similar conditions to the Arctic. Igor Sechin noted that the agreements unlocked new potential for cooperation on oil and gas resource exploration by industry leaders in Russia, Norway and China. The extent to which this potential will affect the Arctic remains to be seen.

### *Cooperation on the Yamal Peninsula*

If offshore projects remain a question for the future, onshore cooperation in the Arctic is already advancing. In February 2013, the head of Novatek visited China as part of an official Russian delegation to discuss opportunities for cooperation on its main Arctic project, Yamal liquefied natural gas (LNG). As a result of this visit and several subsequent rounds of negotiations, on 5 September 2013, Novatek and CNPC signed a contract for the sale of a 20 per cent stake in Yamal LNG. The agreement includes a long-term contract for the supply of not less than 3 million tonnes of LNG per year to China, which is 18 per cent of total capacity.<sup>8</sup> The deal was approved by the Russian Government in November 2013 and signed in January 2014.<sup>9</sup>

Following the breakout of the crisis in Ukraine, Novatek became the target of sanctions and Yamal LNG faced further financial difficulties. Novatek was forced to seek further engagement with foreign partners and China was among the few remaining alternatives. In September 2015, Novatek sold the Silk Road Fund, a Chinese sovereign fund, a further 9.9 per cent of Yamal LNG for approximately EUR €1.09 billion. In December 2015, as part of the deal, Novatek received a loan from the Silk Road Fund of EUR €730 million for a period of 15 years to finance the project.<sup>10</sup> As a follow-up to these advances, on 29 April 2016 Yamal LNG announced the signing of agreements with the Export-Import Bank of China and

<sup>7</sup> Henderson, J. and Mitrova, T., *Energy Relations Between Russia and China: Playing Chess with the Dragon*, (Oxford Institute for Energy Studies: Oxford, Aug. 2016), <<https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/08/Energy-Relations-between-Russia-and-China-Playing-Chess-with-the-Dragon-WPM-67.pdf>>.

<sup>8</sup> *Vedomosti*, ['Novatek' and CNPC have agreed terms on the purchase of 'Yamal LNG' gas project], 22 Oct. 2013, <<http://www.vedomosti.ru/newline/news/17761011/novatek-i-cnpc-dogovorilis-ob-usloviyah-pokupki-gaza-s>> (in Russian).

<sup>9</sup> Knodyakova, Y., ['Novatek' has closed a deal to sell 20% of 'Yamal LNG' to China's CNPC], *Vedomosti*, 15 Jan. 2014, <<http://www.vedomosti.ru/companies/news/21288661/novatek-prodal-20-yamal-spg-kitajskoj-cnpc>>.

<sup>10</sup> *Arctic Info*, ['Yamal LNG' gets on to the Silk Road], 16 Mar. 2016, <[http://www.arctic-info.ru/news/16-03-2016/-amal-spg-vstal-na-selkovii-pyt\\_-/](http://www.arctic-info.ru/news/16-03-2016/-amal-spg-vstal-na-selkovii-pyt_-/)> (in Russian).

the China Development Bank on two 15-year credit facilities of a total amount of EUR €9.3 billion to finance the project.<sup>11</sup> China will therefore provide up to 60 per cent of the necessary capital to implement the project.

Despite this impressive track record of cooperation on Yamal LNG, two problems reveal the limits of possible cooperation. First, Novatek had serious difficulties in securing Chinese financing for the project. The deal was only concluded after numerous delays and negotiations. Second, China also received huge benefits from the deal, since up to 80 per cent of the equipment for Yamal LNG will be produced in Chinese shipyards.<sup>12</sup> This shows that despite China's interest in the Arctic, Russia remains eager to garner a Chinese partnership. Still, from a Russian perspective, there may be a number of difficulties ahead. Chinese companies will only work on projects in which they are interested and under conditions that they find acceptable—and their partners have little choice but to accept their demands.<sup>13</sup>

### Takeaways

Russia has historically been defensive about non-Arctic states playing a big role in the Arctic. It has been reluctant to allow Chinese investment in upstream projects. While geopolitical shifts have pushed Russia towards greater acceptance of non-Arctic state involvement, there has still been little progress in Russia's cooperation with China in the Arctic.

Russia can no longer be just a gatekeeper. Its companies must also offer good conditions for developing this cooperation. The slowdown in China's economy as well as alternative oil and gas delivery deals have reduced China's interest in the Russian upstream. Nonetheless, in the long term, China's broader interest in accessing the Northern Sea Route and ice-breaking technologies, as well as in participation in Arctic governance, seem likely to compel its ongoing participation in Arctic projects.

## 6.2. Imes Chiu<sup>14</sup>

### Introduction

New patterns of cooperation and competition are emerging in the securing of energy supplies in South East Asia. Rapid environmental, economic and demo-

<sup>11</sup> Yamal LNG, 'Yamal LNG signs loan agreements with the Export-Import Bank of China and the China Development Bank', Press release.

<sup>12</sup> *Lenta.ru*, [Yamal LNG plant to be built from Chinese parts], 5 May 2016, <<https://lenta.ru/news/2016/05/05/yamallng/>> (in Russian).

<sup>13</sup> Maxie, J., 'Russia's Arctic dreams have Chinese characteristics', Pacific Energy Summit, 18 Oct. 2016, <<http://pacificenergysummit.org/2016/10/18/russias-artic-dreams-have-chinese-characteristics/>>.

<sup>14</sup> Imes Chiu is a Social Scientist in the Information Generation and Management Branch of the Geospatial Research Laboratory, at the Engineering Research Development Centre of the US Army Corps of Engineers. The views expressed in this article are those of the author and do not necessarily reflect the official policy or position of any agency of the US government. Examples of analysis performed in this article are only examples. The assumptions made in the analysis are not reflective of the position of any US

graphic transitions in the region continue to shape the dynamics of these engagements. While energy resource endowments, human capital and technological capability differ vastly across the distinct South East Asian countries, the larger sociological, demographic, economic and geopolitical forces affecting the entire region are compelling new means of cooperation and competition.

Within these trends, Russia is emerging as a stakeholder, albeit one still perceived as a minor player when compared with China and the USA. However, Russia's presence in the region needs to be understood not solely in terms of its economic magnitude and military power, but also as a counterbalancing component within South East Asia's security architecture. This is particularly the case as the region grapples with securing a steady supply of energy in prosperous, but uncertain, times.

## Game changers

### *The economy*

South East Asia's energy landscape will dramatically change in the coming decades as its sustained economic growth, fuelled by a steady 80 per cent increase in energy demand by 2040,<sup>15</sup> partly motivates resource engagements with Russia. The Office of the US Director of National Intelligence predicts that Asia will eventually surpass North America and Europe in global economic power.<sup>16</sup> Regionally, Asia will rise to contribute in excess of 50 per cent of global gross domestic product (GDP), a trend that began in the 20th century with Japan and South Korea and has accelerated with China, India and Indonesia.<sup>17</sup> Based on the projections of the Economist Intelligence Unit, Asia is poised to pass the 50 per cent mark around 2050.<sup>18</sup> GDP growth in emerging Asia,<sup>19</sup> that is South East Asia, China and India, is forecast to average 6.2 per cent per year in the period 2017–2021,<sup>20</sup> and its GDP is projected to triple in size by 2040 or 2050.<sup>21</sup>

government entity.

<sup>15</sup> International Energy Agency, Directorate of Global Energy Economics, 'South East Asia Energy Outlook, 2015: World Energy Outlook Special Report' (IEA Publications: Paris, 2015), <[https://www.iea.org/publications/freepublications/publication/WEO2015\\_SouthEastAsia.pdf](https://www.iea.org/publications/freepublications/publication/WEO2015_SouthEastAsia.pdf)>, p. 9.

<sup>16</sup> Office of the Director of National Intelligence, 'Global trends 2030: alternative worlds', National Intelligence Council, accessed 3 Mar. 2017, <<https://www.dni.gov/index.php/about/organization/global-trends-2030>>.

<sup>17</sup> Economist Intelligence Unit, 'Developing economies grow stronger by 2050', 2015, <[http://pages.eiu.com/rs/783-XMC-194/images/Long-termMacroeconomicForecasts\\_KeyTrends.pdf](http://pages.eiu.com/rs/783-XMC-194/images/Long-termMacroeconomicForecasts_KeyTrends.pdf)>.

<sup>18</sup> Economist Intelligence Unit (note 17).

<sup>19</sup> The 10 member countries of the Association of South East Asian Nations (ASEAN) are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

<sup>20</sup> Organisation for Economic Co-operation and Development, 'Economic Outlook for South East Asia, China and India 2017: Addressing Energy Challenges', preliminary version, <[http://www.oecd.org/dev/asia-pacific/SAEO2017\\_PV.pdf](http://www.oecd.org/dev/asia-pacific/SAEO2017_PV.pdf)>.

<sup>21</sup> International Energy Agency (note 15), p. 9.

### *Demography*

Natural resources in the region such as oil, gas and coal will be strained due to growing demand, owing partially to the increase in global population from 7.1 billion today to an estimated 8 billion by 2030. To emphasize the exponential population growth in South East Asia, its total population in 2010 was an estimated 593 million and had doubled in the 44-year period from 1972 to 2016.<sup>22</sup> In a more aggressive approximation, a 50-year demographic study of East Asia and South East Asia in the period 1950–2000 found 850 million inhabitants in 1950, and that it took only 35 years for its population to double.<sup>23</sup> Current projections by the Organisation for Economic Co-operation and Development (OECD) and the International Energy Agency (IEA) estimate that South East Asia's population will reach 760 million by 2040.<sup>24</sup> As China reduces production of its labour-intensive goods, South East Asia's abundant labour reserves mean it is poised to take China's place.<sup>25</sup>

### *The environment*

However, these economic and demographic drivers also bring stresses to an environment already suffering from the most damaging effects of climate change. Climate change is often identified as the greatest threat facing the Asia-Pacific region in the coming decades.<sup>26</sup> South East Asia faces risks from rapid uncontrolled urbanization, extreme sudden and slow-onset climate-induced crises such as coastal and river flooding, water and food shortages following drought, and heat-related mortality. About one million people along the coasts of South East Asia would be at risk of flooding due to projected sea-level rise.<sup>27</sup> The resulting societal and infrastructural disasters often aggravate already volatile situations, particularly pre-existing intrastate conflicts occurring concurrently with the increasing depletion of natural and state resources. Demand for food is set to rise by 35 per cent and for energy by 50 per cent over the next 15–20 years.<sup>28</sup> While there are high levels of access to electricity in Brunei Darussalam, Malaysia, Thailand and Singapore, currently only 75 per cent of the population in Cambodia,

<sup>22</sup> Jones, G. W., 'The population of South East Asia', ARI Working Paper no. 196 (Asia Research Institute, Jan. 2013), <[http://www.ari.nus.edu.sg/wps/wps13\\_196.pdf](http://www.ari.nus.edu.sg/wps/wps13_196.pdf)>.

<sup>23</sup> Attané, I. and Barbieri, M., 'The demography of East and South East Asia from the 1950s to the 2000s: a summary of changes and a statistical assessment', *Population*, no. 64 (2009), p. 209.

<sup>24</sup> International Energy Agency (note 15).

<sup>25</sup> International Monetary Fund, 'World Economic Outlook', Oct. 2016, <<http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/text.pdf>>.

<sup>26</sup> United Nations Information Centre, Canberra, 'IPCC presents climate change findings in South East Asia', Press release, 17 Aug. 2015, <<https://un.org.au/2015/08/17/ipcc-presents-climate-change-findings-in-southeast-asia/>>.

<sup>27</sup> Hijioka, Y., Lin, E., Pereira, J.J., Corlett, R.T., Cui, X., G. Insarov, G.E., Lasco, R.D., Lindgren, E. and Surjan, A., 'Asia', ed. V. R. Barros, *Climate Change 2014: Impacts, Adaptation and Vulnerability. Part B: Regional Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change*, (Cambridge and New York: Cambridge University Press, 2014), pp. 1327–70.

<sup>28</sup> Office of the Director of National Intelligence, 'Global Trends 2030: Alternative Worlds', National Intelligence Council, <<https://www.dni.gov/index.php/about/organization/global-trends-2030>>, accessed 3 Mar. 2017.

Myanmar, the Philippines and Indonesia has access to electricity.<sup>29</sup> As of 2016, 346 million people in emerging Asia still did not have access to electricity.<sup>30</sup>

## Emerging regional paymaster

### *Towards a symbiotic relationship*

Russia looks to the Indo-Asia-Pacific region to diversify its industry, revitalize its economy and reduce its economic dependence on the West. The key drivers include the global financial and eurozone crises, plunging global oil prices and, most recently, sanctions by the USA and the EU, among others, following Russia's annexation of Crimea in 2014 and its continued support to pro-Russian rebels in eastern Ukraine. South East Asia, on the other hand, seeking to lessen its dependency on China, turns to Russia as a potential energy partner.<sup>31</sup> Russia garnered regional attention in 2012, when the state-owned State Atomic Energy Corporation, Rosatom, secured a contract to build the first two nuclear power plants in Viet Nam, which it is projected will be completed in 2024.<sup>32</sup>

### *Nuclear*

Russia has been helping Viet Nam to repair its nuclear reactor since the 1980s. In 2015, Rosatom in partnership with the Viet Nam Atomic Energy Institute conducted a workshop to transfer knowledge on nuclear and radiation safety to local staff.<sup>33</sup> Recently, it began educating Vietnamese students on nuclear technology at the Russian National Research Nuclear University (MEPhI). The first group graduated in 2017.<sup>34</sup> While Viet Nam continues to be Russia's key partner,<sup>35</sup> Russia has begun reaching out to other South East Asian nations and has offered to share its advanced civilian nuclear technology with Myanmar, Indonesia and Cambodia.<sup>36</sup> It is conceivable that the pressures on energy demand in the years to come, aggravated by resource scarcity and burgeoning populations, could push South East Asian nations to follow in Viet Nam's footsteps as they hedge against China's build-up in the South China Sea.

<sup>29</sup> Office of the Director of National Intelligence (note 28).

<sup>30</sup> International Energy Agency, 'World Energy Outlook 2016: Electricity Access Database', <<http://www.worldenergyoutlook.org/resources/energydevelopment/energyaccessdatabase/>>, accessed 3 Mar. 2017.

<sup>31</sup> Buszynski, L., 'Russia and South East Asia: a new relationship', *Contemporary South East Asia: A Journal of International and Strategic Affairs*, vol. 28, no. 2 (Aug. 2006), p. 276.

<sup>32</sup> Hutt, D., 'A look at Russia's own "pivot to Asia"', *South East Asia Globe*, 16 Sep. 2016, <<http://sea-globe.com/russia-asia-pivot/>>.

<sup>33</sup> Press Service of the Rosatom International Network, 'Rosatom and Vietnam Atomic Energy Institute hold a workshop on ecological and social aspects of nuclear power', 27 Oct. 2015, <<http://archive.rosatom.ru/en/presscentre/news/0d32c3804a5cdbcfe24beb2bf8alcca>>.

<sup>34</sup> *Vietnam Breaking News*, 'Vietnamese students graduate in nuclear technology from Russia', 23 Feb. 2017, <<https://www.vietnambreakingnews.com/2017/02/vietnamese-students-graduate-in-nuclear-technology-from-russia/>>.

<sup>35</sup> Storey, I., 'The Russia–China strategic alignment: consequences for South East Asian security', *ISEAS Perspective*, 26 Oct. 2016, <[https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2016\\_59.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2016_59.pdf)>.

<sup>36</sup> Storey (note 35).



### Natural gas

Despite Russia's official position of taking no sides in the South China Sea dispute, Gazprom, the corporation created out of the former Soviet Ministry of the Gas Industry in 1989 and in which the Russian Government maintains a majority stake, entered an agreement with the state-owned PetroVietnam in 2006 to explore hydrocarbons in four offshore gas fields that lie within the contested nine-dash line. A USD \$1 billion joint venture, PVGazprom Natural Gas for Vehicles, followed between the two giants in 2015, after gas production began in 2013. This new company focused on producing engines fuelled by compressed natural gas in Viet Nam.<sup>37</sup> In early March 2016, the Russian state-controlled oil group Rosneft began drilling its first international offshore well as sole operator off the south coast of Viet Nam.<sup>38</sup> In May 2016, Gazprom and PetroVietnam launched new oil and gas projects, signing a memorandum of understanding before the prime ministers of the two countries.<sup>39</sup> Just three months later, Rosneft declared that it had discovered gas of an undisclosed volume.<sup>40</sup>

### Other sectors

In addition to energy, Russia has been supplying increasing amounts of weapons to South East Asia over the past decade.<sup>41</sup> On 4 January 2017, two Russian warships docked in the Philippines on a four-day visit to discuss future joint exercises.<sup>42</sup> Russia also began to reach out to other South East Asian countries outside the energy and defence industry. For instance, it entered into an agreement with Thailand to collectively invest USD \$3.7 billion in Russian dairy ventures in May 2017.<sup>43</sup> Russia hopes to double bilateral trade with Viet Nam, Thailand and Indonesia in the coming years.<sup>44</sup> The Regional Comprehensive Economic Partnership (RCEP) has the potential to be an alternative to the now defunct Trans-Pacific Partnership (TPP) and some analysts argue that Russia and China could take the

<sup>37</sup> *Tuoi Tre News*, 'Russian petroleum giant sets up \$1bn joint venture in Vietnam', 21 Oct. 2015, <<http://tuoitrenews.vn/business/31111/russian-petroleum-giant-sets-up-1bn-joint-venture-in-vietnam>>.

<sup>38</sup> Farchy, J. 'Rosneft to solo drill first international offshore well', *Financial Times*, 6 Mar. 2016, <<https://www.ft.com/content/cedcc2e0-e390-11e5-a09b-1f8b0d268c39>>.

<sup>39</sup> *Kallanish Energy Daily News and Analysis*, 'Gazprom, PetroVietnam to launch new O&G, power plants', 18 May 2018, <<http://www.kallanishenergy.com/2016/05/18/gazprom-petrovietnam-oil-gas-power-projects/>>.

<sup>40</sup> *Upstream Online*, 'Rosneft reveals Vietnam discovery', 11 Aug. 2016; and Graeber, D., 'Rosneft taps into Vietnamese gas field', *United Press International*, 12 Aug. 2016, <<http://www.upi.com/Rosneft-taps-into-Vietnamese-gas-field/5471471002845/>>.

<sup>41</sup> *Deutsche Welle*, 'Asian security fears fuelling global arms trade', 21 Feb. 2016, <<http://www.dw.com/en/asian-security-fears-fueling-global-arms-trade/a-19054185>>.

<sup>42</sup> Parameswaran, P., 'Why are the Russian warships in the Philippines?', *The Diplomat*, 4 Jan. 2017, <<http://thediplomat.com/2017/01/why-are-russian-warships-in-the-philippines/>>; Lendon, B., 'Russian warships visit Philippines: Admiral suggests wider exercises', CNN.com, 4 Jan. 2017, <<http://www.cnn.com/2017/01/03/asia/russia-philippines-exercises-south-china-sea/>>; and Reuters, 'Philippines says finalizing deal to observe Russian military drills', 9 Jan. 2017, <<http://www.reuters.com/article/us-philippines-russia-idUSKBN14T14B>>.

<sup>43</sup> Trinkett, N., 'Can Russia ride China's trade lead in South East Asia?', *Global Risks Insights*, 11 Dec. 2016, <<http://globalriskinsights.com/2016/12/can-russia-ride-chinas-coattails-southeast-asia/>>.

<sup>44</sup> Tsvetov, A., 'Russia and ASEAN: in search of economic synergy and political consensus', *Russian International Affairs Council*, 10 June 2016, <[http://russiancouncil.ru/en/inner/?id\\_4=7713#3](http://russiancouncil.ru/en/inner/?id_4=7713#3)>.

lead on the call for a broader Asia-Pacific free-trade zone.<sup>45</sup> A study on perceptions of Russia among the young educated elite in South East Asia shows positive views of its government, economy and culture, and of the country as a Eurasian great power.<sup>46</sup>

### **Solidifying institutional partnership**

Further demonstrations of South East Asia's favourable view of Russia can be found in the increasing political and security cooperation between the Association of South East Asian Nations (ASEAN) and Russia. In its official documents, ASEAN traces Russia's engagement in the region back to July 1991, when the Deputy Prime Minister of the Russian Federation attended the opening session of the 24th ASEAN Ministerial Meeting in Kuala Lumpur with the support of the Malaysian Government.<sup>47</sup>

A significant step forward in this relationship was taken when Russia acceded to the Treaty of Amity and Cooperation in South East Asia in 2004. With Malaysia's support, the first ASEAN–Russian Federation Summit was held in December 2005. This was highlighted by the signing of the Joint Declaration of the Heads of State of the Member Countries of ASEAN and the Russian Federation on Progressive and Comprehensive Partnership, as well as the ratification of the ASEAN–Russian Federation Economic and Development Cooperation Agreement.<sup>48</sup>

The second significant step towards this partnership occurred in 2010 at the second ASEAN–Russia Summit in Hanoi, where a public declaration of the two parties' commitment consolidated a comprehensive and wide-ranging partnership that brought Russia closer to the emerging Asia-Pacific regional security architecture. A commemorative summit in 2016 in Sochi, Russia, resulted in a framework on the way forward, with an emphasis on economic cooperation, socio-cultural cooperation and areas such as food security, energy, disaster management, health, infrastructure development and research.<sup>49</sup>

### **Takeaways**

Cooperation between Russia and South East Asia is underdeveloped and has the potential to grow in the coming years. In the fields of energy and trade, Russia and South East Asia could find compelling reasons to establish closer ties as economic and population growth drive demand for natural resources. Energy secu-

<sup>45</sup> Trinkett (note 43); Tsvetov, A., 'Russia's Asian trade game', *The Diplomat*, 8 Feb. 2017, <<http://thediplomat.com/2017/02/russias-asian-trade-game/>>.

<sup>46</sup> Bukh, A., 'Can Russia win friends and influence people in South East Asia?', *East Asia Forum*, 17 Feb. 2017, <<http://www.eastasiaforum.org/2017/02/17/can-russia-win-friends-and-influence-people-in-south-east-asia/>>.

<sup>47</sup> Association of South East Asian Nations, 'Overview: ASEAN-Russia dialogue relations', Aug. 2016, <<http://asean.org/storage/2012/05/Overview-ASEAN-Russia-August-2016-r4cl.pdf>>.

<sup>48</sup> Association of South East Asian Nations, 'Chairman's Statement on the First ASEAN-Russian Federation Summit', Kuala Lumpur, 13 Dec. 2005, <[http://asean.org/?static\\_post=chairman-s-statement-of-the-first-asean-russian-federation-summit-kuala-lumpur-13-december-2005-2](http://asean.org/?static_post=chairman-s-statement-of-the-first-asean-russian-federation-summit-kuala-lumpur-13-december-2005-2)>.

<sup>49</sup> Association of South East Asian Nations (note 48).

urity has always been a key strategic concern for South East Asian nations, as well as China, Japan, South Korea and India. The dynamics of resource engagement among old members of and new entrants to the energy sector will be determined in the coming years as macroeconomic, demographic and environmental forces continue to shape the region. While South East Asia's long-term energy security remains uncertain, strengthening the regional cooperation found in entities such as ASEAN and new forms of partnerships could signal new patterns of cooperation and collaboration. In this context, Russia, with its assertive foreign policy, appears poised to play an enhanced role.