

Russia: New Player in the South China Sea?

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Long accustomed to a seat on the sidelines of East Asian affairs, Russia now finds itself sought after as an energy and military partner, particularly by Vietnam, but increasingly by a wider range of states in Southeast Asia. Russia's growing relations with Southeast Asian states, especially in energy and defense, and the development of an alternative northern shipping route to the Malacca Straits are changing perceptions of Russia's potential role in the region, as Southeast Asian states seek to balance a rising China.

Indeed, it is not the Sino-Russian strategic partnership that will make Russia more of a player in East Asia, as Russian policymakers originally thought nearly two decades ago, but rather Russia's role in counterbalancing Chinese power in the region, via defense and energy ties with Southeast Asian states. Although Russia finds support in China for its global positions, on a regional level Russian leaders have sought to enhance their country's independence of action through an increasingly varied Southeast Asian diplomacy, including traditional allies like Vietnam, but also unexpected partners such as the Philippines.

This memo addresses Russian relations with China and Southeast Asian states in the context of disputes over boundaries and energy resources in the South China Sea. It examines how Russia balances its regional energy interests with its desire to play a role in Asia-Pacific regional institutions, its strategic partnership with China, and relations with Southeast Asian states. It also assesses China's reaction to Russian offshore energy relations with Vietnam and outlines the growing role of Southeast Asia in Russia's increasing effort to counterbalance China and open an alternative shipping route to the Malacca Straits in the north.

Russia and Southeast Asia

Russia has long proclaimed an interest in becoming an Asia-Pacific power. In practice, Russia's Asia policy has focused more attention on its bilateral relationships, especially

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its strategic partnership with China and its longstanding ties to India, than on Asian multilateralism.

In Southeast Asia, Russia's political dialogue with members of the Association for Southeast Asian Nations (ASEAN) has largely outpaced substantive cooperation, although shared norms and bilateral relations in certain areas have created a foundation for broader Russian engagement with Southeast Asia. Conceptually, President Vladimir Putin's emphasis on "sovereign democracy," a model of managed and centralized political development rooted in Russian traditions, resonates with former Malaysian Prime Minister Mahathir Mohamad's position on "Asian values" and ASEAN norms of non-interference. (In light of their convergence of views, during a 2002 visit to Moscow, Mahathir proposed to Putin that Malaysia could be Russia's "gateway to Asia.")

Malaysia proved to be a key supporter of Russia's inclusion in the East Asian Summit, although skepticism in Singapore and Indonesia, among others, about Russian cooperation with ASEAN delayed Moscow's entry. Russian Foreign Minister Sergei Lavrov, writing in the Moscow-based *International Affairs*, admitted that bilateral ties lag behind political dialogue with ASEAN, but he saw new dynamism in areas of previous cooperation such as energy, as well as engagement in new cooperative efforts, such as terrorism and disaster relief.

However, it is more through Russia's bilateral engagements, especially with Vietnam, than its efforts to gain entry into East Asian regional institutions that Russia is achieving greater relevance to Southeast Asian security as a whole. In particular, Russia's bilateral ties with Malaysia, Indonesia, and Vietnam have been developing over the past two decades in weapons sales, aviation, and energy. More recently Russia has tried to expand military cooperation with the Philippines.

Military Cooperation

Historically, Russia's strongest bilateral relationship in Southeast Asia has been with Vietnam. Although military ties between the two countries declined in the early 1990s as Moscow repaired its relations with Beijing, in recent years Russia's military relationship with Vietnam has deepened. Vietnam and Indonesia are major purchasers of Russian weapons, while Malaysia, Burma, and Thailand have more limited military cooperation with Russia. In 2010, Vietnam accounted for 6 percent of all Russian arms sales. Vietnam's purchases have been the most wide-ranging, including fighter aircraft, frigates, diesel submarines, anti-ship missiles, and anti-aircraft missiles. Indonesia began purchasing fighter jets and helicopters from Russia after the United States imposed an arms embargo due to Indonesian human rights violations in East Timor, but it has continued its purchases since the embargo was lifted. Malaysia has bought some Russian fighter aircraft and missile systems in the past decade. In recent years, Burma has also bought some aircraft and helicopters from Russia, while Thailand has purchased helicopters and portable defense systems.

Russia has sought to expand its military cooperation with Vietnam, as well as with Burma and the Philippines. In 2012, Russia bid (so far unsuccessfully) to sell Yak-130 aircraft to the Philippines. In January 2012, three Russian warships visited Manila at

the same time as two U.S. destroyers. It was the first visit by the Russian Pacific Fleet to the Philippines in 96 years.

In March 2013, Russian Minister of Defense Sergei Shoigu visited Burma and Vietnam. Anticipating the future lifting of international sanctions on arms trade with Burma, Shoigu saw good prospects for defense cooperation. With future Russian naval access to the Syrian port of Tartus in doubt, the Russian navy has been seeking additional ports of call in Vietnam (as well as the Seychelles and Cuba). In 1979, the Soviet Union and Vietnam signed a 25-year agreement allowing the Soviet Navy to use the port at Cam Ranh Bay, but after Vietnam demanded \$300 million in rent in 1998, Russia withdrew from the arrangement. Vietnam is now proposing that the Russian Navy use Cam Ranh Bay for maintenance purposes, and an agreement is likely to be signed by the end of the year. Russia is also helping Vietnam develop a submarine fleet. Finally, three ships from the Russian Pacific fleet paid a visit to the port of Ho Chi Minh in April 2013, the second time the Russian Navy has visited Vietnam since 2001.

Aviation and Space Technology

Russian civilian aircraft companies view Southeast Asia as their most promising market. In July 2010, Sukhoi Civilian Aircraft signed a \$1 billion dollar 5-year contract with Indonesia's Kartika Airlines for the delivery of 30 SSJ100 aircraft. Thailand's Orient Thai Airlines and Laotian Phongsavanh Airlines also expressed interest in purchasing the planes. However, Kartika has since ceased operations and a test flight of the SSJ100 crashed in 2012. No further contracts for SSJ100s have been signed. In the interim, the Sukhoi company signed a \$380 million contract with another Indonesian company, Sky Aviation, for maintenance and training for the SSJ100s the company has on order.

Space technology has emerged as an area of cooperation between Malaysia and Russia. In September 2000, Russia helped Malaysia launch a miniature remote sensing satellite, which helped provide data on the haze then afflicting Southeast Asia due to forest fires in Indonesia. In 2007, a Malaysian military surgeon was selected for a mission on the International Space Station.

Regional Energy Cooperation

Energy is an area of growing cooperation between Southeast Asian states and Russia. Although several Southeast Asian states are producers of natural gas (Vietnam, Burma, Malaysia, and Indonesia), the region as a whole is dependent on oil imports which account for 40-60 percent of its energy mix. Even Indonesia, which was an OPEC member until 2008, is now a net oil importer. At the first meeting between economic ministers from ASEAN and Russia in August 2010, an ASEAN-Russia Energy Cooperation Work Program was adopted for 2010-15. Its wide-ranging agenda includes the development of alternative and renewable energy resources, energy infrastructure, peaceful use of nuclear energy, and gas exploration.

Now that the East Siberia Pacific Ocean (ESPO) pipeline has begun pumping oil to Kozmino on Russia's Pacific coast, Russia is shipping approximately 7 percent of ESPO oil to Singapore, Malaysia, Indonesia, and South Korea, with 35 percent destined

for the United States, 30 percent for Japan, and 25-28 percent for China. Consequently, Russia's share of the Asian oil market, now 3.8 percent, is slated to expand to 5.5 percent. Gunvor, a Russian firm and the world's fourth largest commodity trading company, is seeking to invest in an oil terminal in Indonesia that could supply the region with ESPO oil.

Russia's Energy Relations with Vietnam

According to Vietnamese President Truon Tan Sang, "cooperation in the sphere of oil represents the clearest achievement in bilateral relations." Vietsovpetro, the Russian-Vietnamese joint oil venture between Zarubezhneft and PetroVietnam, was established in the Soviet Union in 1981 and now produces half of Vietnam's oil. In 2010, the venture was extended to 2030, with PetroVietnam increasing its stake from 50 to 51 percent. Lukoil and TNK-BP are also seeking to cooperate with PetroVietnam on offshore projects.

More interesting is the new joint venture between Gazprom and PetroVietnam (49 percent Gazprom and 51 percent PetroVietnam) to develop two offshore oil and gas blocks in the South China Sea. According to a senior Chinese scholar I interviewed in 2012, Gazprom originally sought to develop with PetroVietnam a bloc that China considers within the "9-dashed line" it uses to define its maritime boundary in the South China Sea. The Russian company abandoned this project after the Chinese government asked it to withdraw. Even though Gazprom and PetroVietnam are proceeding with offshore oil and gas cooperation outside the "9-dashed line," an April 2012 *Global Times* editorial reprinted on the official Chinese government website complained that Russia was "sending mixed signals" and "meddling" in the South China Sea, which was tarnishing Russia's reputation in China. The editorial noted that "Gazprom's agreement with the Vietnam company could simply be profit-oriented. However, as both companies are controlled by their respective governments, the action could be seen as a reflection of the attitude of top-level leadership."

Meanwhile, Vietnam has had a leg up on China in upstream investment in Russia. As a part of a December 2009 Strategic Partnership Agreement, Gazprom invited PetroVietnam to participate in the development of a "federal gas deposit" in the Yamal-Nenets region and several other oil and gas projects in Russia. According to Prime Minister Dmitry Medvedev, the decision on the Yamal-Nenets deposit was "exclusive" and resulted from the "special relationship" Russia has with Vietnam. During Chinese President Xi Jinping's March 2013 visit to Moscow, CNPC finally signed an agreement with Rosneft to participate in a Barents Sea project. PetroVietnam was already in discussions with Zarubezhneft over a project in the same region.

Russia and Vietnam have been deepening their relations in other spheres as well. Vietnam is considering joining the Eurasian Customs Union, which now includes Russia, Belarus, and Kazakhstan. In 2015 Kyrgyzstan will become a member of the organization, which Russia has been promoting to extend its economic influence in post-Soviet Eurasia.

From Malacca to the Arctic?

What does the opening of a new northern shipping route through the Arctic have to do with Southeast Asia? Concerns over the security of energy supplies shipped through the Malacca Strait, the narrow shipping corridor through which most of the world's oil passes, and freedom of navigation are at the root of the conflict in Southeast Asia over the South China Sea.

With climate change making a northern shipping route more practical, Southeast Asian states believe that Russia may be able to lessen their reliance on shipping through the Malacca Straits by opening up a northern shipping route and providing new sources of oil supplies, thereby lessening energy security fears at a time of heightened tension in the South China Sea area. Since the record low extent of summer sea ice in 2007, scientists foresee the possibility of ice-free shipping in the Arctic Ocean by the summer of 2015. Indeed, in its "Foundations of the Russian Federation's State Policy to 2020 and Beyond," Russia has made the development of a Northern shipping route a priority, which potentially could reduce shipping pressures in the South China Sea and Straits of Malacca.

New Arctic routes via Canada (Northwest Passage) or via Russia (Northeast Passage) would cut shipping times from Asia to Europe in half, compared to passage through the Suez or Panama Canals or the Malacca Straits. According to the *Barents Observer*, 46 ships sailed the Northern routes in 2012, compared to 34 in 2011 and 4 in 2010, and there was a 53 percent increase in total cargo transported in 2012 over the previous year. Energy products made up the largest group of cargo (including over 894,000 tons of diesel fuel, gas condensate, jet fuel, LNG, and other petroleum products out of a total of around 1,260,000 tons of cargo). China and Japan are among countries to have received energy supplies from this route so far. Nonetheless, seasonal variability in ice melting and a lack of ports on the Arctic routes will limit their utility in the short term, especially for container traffic.

The China Factor

China's growing economic and military power in Asia has led to renewed interest in a greater Russian role in the region. As Stephen Blank has argued, this trend represents more than an effort to counterbalance China; it reflects the efforts of states in the Asia-Pacific region to diversify their bilateral and multilateral ties and form a new equilibrium in which China would be one of many key players. With the U.S. rebalancing policy leading to greater U.S. engagement with the region, Russia, like ASEAN, has sought to chart a course in Asia that reduces the likelihood of U.S.-China conflict. Similarly, regarding Japan, Russia has tried to encourage negotiation between Beijing and Tokyo in a bid to reduce tensions over the disputed Diaoyu/Senkaku islands. From Russia's perspective, China's assertiveness in Asia has broader negative consequences in terms of precipitating an enhanced U.S. military presence in the region.

Russia has refrained from taking sides in the South China Sea territorial disputes as well. To the contrary, a Russian diplomat in the Philippines noted that, if asked, his country was prepared to help resolve tensions in the South China Sea, but that Russia

had no intention of interfering between its friends, China and the Philippines. According to Al Labita, a journalist in Manila, Russia has sought to contrast its low-key role in the region with that of the United States. Despite efforts by Russian experts like Dmitri Trenin to portray Russian arms sales to Vietnam and other Asian states as business decisions, some Chinese observers remain wary of the political consequences of these deals. Li Jian, a researcher at the Chinese Naval Research Institute, argued in a November 29, 2012 article in *Global Times* that the defense ties developing between Russia and Vietnam are likely to complicate the South China Sea issue, particularly for China. While critical of Russian actions to gain room for maneuver, which were likened to attempts by the Soviet Union to acquire a sphere of influence in Asia, he left open the possibility that additional external participants in the South China Sea issue might ultimately provide more diplomatic options for China.

Conclusion

As China and the United States have sought a more active role in Southeast Asia, states in the region have begun to see the value of Russian participation. It remains to be seen whether Russia will take advantage of the new regional climate to engage more substantively with regional institutions. Given the priority of the Sino-Russian partnership, Russian policymakers have thus far treaded cautiously, sometimes at the cost of making inroads into Southeast Asia. According to Artyom Lukin and Sergei Sevastyanov, scholars at Far Eastern Federal University in Vladivostok, one possible interpretation of President Putin's failure to attend the East Asian Summit in Cambodia in November 2012 was a desire to avoid taking sides on controversial regional issues.

Nonetheless, Kavi Chongkittavorn, an editor of the Thai newspaper *The Nation*, commented last year that while Russia's security initiatives in East Asia have been "dismal," Putin's third term in office "will impact on the Asia-Pacific region, in particular, ASEAN, more than ever before." This is because of Russia's interest in redistributing power in the region, unlike the United States and China, who seek to extend their own influence.

At a time of anxiety in Southeast Asia over China's greater assertiveness in the region and the U.S. "rebalancing" in response, Russia can bring a lot to the table in any bilateral agreement: weapons, oil and gas, and an Arctic shipping route that will in time provide an alternative to the Malacca Straits. Instead of being content with playing a marginal role in Asian multilateral institutions, Russian policymakers are now trying to develop their own alternatives, for example by inviting Vietnam to join the Eurasian Customs Union. After several decades of talk about Russia's role in Asia, if Russian leaders are ready at last to engage their neighbors in a consistent way in the areas noted above, they will find that Russia's interest in a redistribution of power in the Asia-Pacific region resonates with other regional powers such as Australia and Japan. Accordingly, Russia will have the potential to create new bridges between Eurasia and the Asia-Pacific region.

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