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A Plan to Save the South China Sea from Disaster

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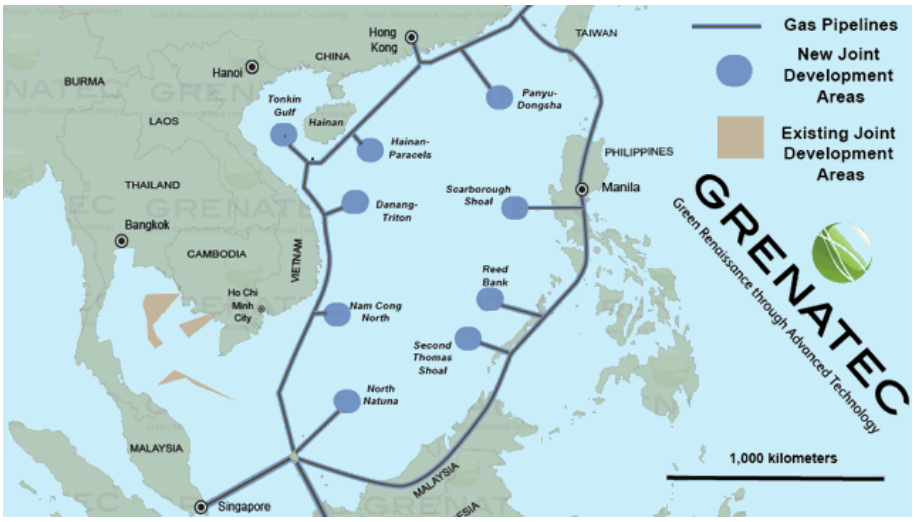

Editor's Note: The image above depicts possible joint development areas in the South China Sea that could be created to which an open-access, common carrier energy infrastructure could be added. Such joint development and collective infrastructure could reduce or solve territorial tensions.

Arbitration, joint development, coordinated investment, shared infrastructure. The plan above could offer an "everybody wins," face-saving solution to the increasingly dicey situation in the South China Sea. None of the points are novel. All are on the table or represent logical extensions to existing initiatives.

Arbitration
The Philippines has appealed to the Permanent Court of Arbitration established under the United Nations Conference on the Law of the Sea over China's claim to waters near the Philippines. Vietnam is likely to follow suit. This, after China placed a deep-sea oil exploration rig – accompanied by a protective flotilla – in waters claimed by Vietnam. China has refused to respond to the Philippines' UNCLOS appeal, claiming the arbitration court lacks jurisdiction. China's certain to take the same stance with Vietnam.

While the jurisdiction of UNCLOS in the particulars of the Philippine-Chinese, Vietnam-Chinese cases is arguable, international arbitration still looks like the best bet on a menu of second-bests. Given this, the Philippines and Vietnam should continue to multilaterize the South China Sea issue. This draws uncomfortable attention to China, which could encourage China to moderate her unilateral assertiveness pending better solutions.

Joint Development Areas

A second track – China's favored track – should also be pursued: bilateral negotiation. China, Vietnam and the Philippines all have voiced qualified support for Joint Development Areas (JDAs) in the South China Sea. JDAs therefore, could provide the most promising medium-term avenue for avoiding escalating incidents that could lead to war.

JDAs have pedigree. They've been around for decades. A number exist all around the world, including in the South China Sea. JDAs enable countries to indefinitely postpone resolution of disputing offshore claims while they jointly develop the oil and gas resources within them. Several disputed Chinese-Vietnam, Chinese-Philippine offshore areas look suitable for JDAs. These could lead to others. If JDAs were established (a big if), multilateral investment could follow.

Coordinated Investment
China is a major investor in Southeast Asia, particularly in infrastructure. China Southern Power Grid has built cross-border electricity grid interconnections with Vietnam. State Grid of China is several years into a 25-year contract to operate and upgrade the Philippine electricity grid.

Therefore, this emerging situation of "coop-frontation" – deepening economic ties on the one hand between the Philippines, Vietnam and China and worsening territorial tension on the other – creates awkwardness all around.

Shared Infrastructure

As China's internal infrastructure needs wind down, China's state champion energy infrastructure companies (like State Grid, China Southern Power Grid and China National Offshore Oil Company – CNOOC) face atrophy, shrinkage and decline. They need new projects. That's why China is looking abroad. Viewed through this domestic Chinese industrial policy prism, China Southern Power Grid's Vietnam interconnections, State Grid's investments in the Philippines (and Australia) and CNOOC's aggressive recent placement of an oil and gas exploration rig off Vietnam make a bit more sense. So does China's proposal to provide majority capital for a $50+ billion Asian Infrastructure Investment Bank (AIIB).

If JDAs were established in the South China Sea between China, Vietnam and the Philippines, China's proposed AIIB could provide the infrastructure funding to develop the South China Sea's offshore energy resources and bring them to market.

With JDAs, China gets a regional "social license" for her domestic infrastructure state champions to build new projects. Vietnam, the Philippines and (potentially later) other Southeast Asian nations, meanwhile, get new infrastructure they can't afford to build on their own.

But this happy symbiosis, however, begs the question: who controls the infrastructure once it's built? But this may be less of a problem than it appears. China, like Europe, is "unbundling" its domestic energy markets to separate ownership of energy generation assets and energy transmission infrastructure. The aim is to enhance energy market competition, encourage new energy market entrants and increase energy supply security. Applying this plan to the South China Sea, energy transmission infrastructure built to serve JDAs could be built and operated on an "open-access, common-carrier" model. This would avoid the problem of one party (read China) exploiting control of the infrastructure to squeeze the neighbors.

A rough draft for such an infrastructure already exists in the Association of Southeast Asian Nations' (ASEAN) proposed Trans-ASEAN Gas Pipeline (TAGP) and Trans-ASEAN Electricity Grid (TAEG). Both are aimed at deepening and broadening ASEAN's energy markets to increase supply security, and lower prices.In their most extensive forms, both the TAGP and TAEG look tailor made for providing access to new oil and gas supplies from the South China Sea developed through JDAs.

Pan-Asian Energy Infrastructure

What emerges is a proto-China/Southeast Asia energy network. That, in turn, can provide a template for something similar to be built in the East China Sea connecting the energy markets of China, Japan and South Korea, as well as a template for extending infrastructure southward to Indonesia and Australia. The end result would be a Pan-Asian Energy Infrastructure stretching from Beijing to Brisbane, Seoul to Sydney.

A Pan-Asian Energy Infrastructure – in its more extensive form – would be a multi-fuel network of gas pipelines, high-capacity power lines and fiber optics cables. These would create the world's largest common energy market along with the information to trade it. Built correctly, new Asian pipelines could carry natural gas supplies over the short-term, and future fuels like hydrogen, bio-energy and even waste carbon over the long term. Existing pipelines already do this in the US, Canada and Europe. So it isn't fanciful. It's an extension of current trends.

A Pan-Asian Energy Infrastructure of power lines and gas pipelines, and fiber optics creates the conditions for "cloud energy." Cloud energy – like cloud computing – involves sourcing marginal supply from anywhere on an interconnected network with dispatch arbitrated by distance, congestion, availability and, in the case of cloud energy, carbon pricing. In short, it represents a frictionless "perfect market" – a big one.

The South China Sea represents a classic case of crisis leading to opportunity. Upcoming multilateral meetings offer a pathway for moving the ideas forward. In October, the United Nations' Green Climate Summit meets in New York. It will focus on funding clean energy projects in the developing world. In November, China hosts the Asia-Pacific Economic Cooperation (APEC) group. A week later, Australia hosts the Group of 20 (G20). Both China and Australia plan to push infrastructure and investment agendas. In December 2015 – 18 months from now – the United Nations Framework Convention on Climate Change meets in Paris. It's tasked with reaching binding global agreement on post-2020 emissions cuts. Infrastructure could be the key to solving the challenges above simultaneously. These include climate change, territorial tensions, accommodating the rise of China, encouraging energy market innovation and developing low-emission energy sources. Viewed this way, the growing crisis in the South China Sea may really be an opportunity. Handled correctly, it could represent a turning point in history.

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