

Are Australia's national interests jeopardised by a South China Sea dominated by China?

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Abstract

This paper addresses the question of whether Australia's national interests are jeopardised by a South China Sea dominated by China. It notes that while China is already the dominant power in the region, Australian trade passing through the South China Sea has not been impeded. Moreover, it asserts that the prospect of such action by China is unlikely, not least because it makes little sense for Beijing to disrupt its own economic interests.

The paper cautions, however, that Australia's security interests are potentially at greater risk, as a result of a discredited and diminished US presence, citing the lack of US support for the Philippines in its dispute with China. It also contends that the yet-to-be-settled policy of the Trump administration adds another layer of uncertainty. The paper concludes that a policy solution may be a reinvigoration of Australia's engagement with the region, independent of the US, while still maintaining its alliance with Washington.

Introduction

The roles of the United States and China in our region and the relationship between them will continue to be the most strategically important factors in the security and economic development of the Indo-Pacific.

Australia's 2016 Defence White Paper¹

The argument as to whether Australia needs to make a choice between its major economic partner, China, and its primary security partner, the US, has been central to discussions about Australia's security and economic interests in recent years. While governments of both persuasions have argued this is a choice Australia does not have to make, some analysts have a different view.² Hugh White argues some accommodation to the natural rise of China should be made by the US and its allies, while Hamish McDonald *et al* urge Australia to do more to balance Chinese expansion in the region, including in the South China Sea.³

This paper will argue that Australia's economic and trade interests are not seriously jeopardised by a dominant China in the South China Sea but that its security interests may be weakened by a discredited and diminished US presence in the Asia Pacific. For the purposes of this paper, Australia's national interests in the South China Sea are defined as primarily economic and security related, that is, economic in terms of Australian trade passing through the South China Sea, and security related in terms of supporting a continued US presence in the Asia Pacific as a stabilising influence representing the existing, rules-based global order.⁴

Also, this paper defines that a state of dominance in the South China Sea exists when a claimant has dual-use civil and military facilities in both the Paracel and Spratly Islands groups, as well as a persistent maritime and air presence (both civil and military) and surveillance and command-and-control capabilities throughout the area. While Beijing's land reclamation activities on Mischief, Subi and Fiery Cross Reefs in the Spratly Islands have attracted significant attention over the last two years, this paper will not take a position on whether Chinese or other claimant activities in the South China Sea are right or legitimate.⁵

China's activities and trajectory in the South China Sea

China is already the dominant power in the South China Sea. Beijing refers to its sovereign rights and territorial interests in the South China Sea, contained within its so-called nine-dash line, as a core interest.⁶ In July 2016, Chinese

Foreign Minister Wang Yi reiterated China's position on the South China Sea, after the announcement of the Arbitral Tribunal's ruling on a case lodged by the Philippines to clarify a series of questions surrounding the status of certain features and waters, contending that:

China has sovereignty over Nanhai Zhudao [the South China Sea Islands]; China has internal waters, territorial sea, contiguous zone, exclusive economic zone [sic] and continental shelf based on its sovereignty over Nanhai Zhudao; and China has historic rights in the South China Sea.⁷

In keeping with this clearly expressed view, China has built significant joint-use facilities and increased its military and civilian presence in the Paracel and Spratly Islands. In the Paracel Islands in the north of the South China Sea, Beijing has established civilian and military facilities on Woody Island and surrounding features.⁸ The area now constitutes a significant base for People's Liberation Army assets, including fighter aircraft and air-defence missiles. Beijing reinforced its claim on the Paracel Islands in 2012 by designating the area a prefecture-level city, subordinate to Guangdong Province, thereby establishing a governance structure within the island group.⁹

In the southern Spratly Islands group, China has undertaken land reclamation activities on an unprecedented scale. Beijing has now completed the development of deep-water ports at three islands, capable of berthing People's Liberation Army Navy frigates, and runways capable of landing all aircraft in the People's Liberation Army Air Force inventory.¹⁰ China's dual-use facilities in the northern Paracel and southern Spratly Islands, combined with developing surveillance and command-and-control capabilities and a permanent People's Liberation Army Navy and maritime law enforcement presence in the South China Sea, make China the dominant power in the South China Sea. While US military capabilities in the South China Sea may overmatch those of the People's Liberation Army for short periods of time, Washington's presence is not persistent, leaving Beijing as the enduring dominant power in the South China Sea.¹¹

China's dominance of the South China Sea is likely to increase over the next decade. To date, both claimants and non-claimants with interests in the South China Sea have lacked the inclination and/or capability to directly challenge China's growing dominance. In addition to China, other claimants to parts of the South China Sea include Brunei, Malaysia, the Philippines, Taiwan and Vietnam.¹² For these smaller claimants, national interests in the area are a mix of territorial sovereignty, economic interest, and a desire for freedom of navigation and overflight, as well as the peaceful resolution to disputes.¹³

But none of the claimants has the resources to directly challenge China's reclamation activities. Non-claimant states such as Japan, Australia and the US

prioritise the maintenance of the global commons and associated unimpeded trade as key common interests in the South China Sea.¹⁴ The US has recently increased freedom of navigation operations in the South China Sea, where US naval vessels and aircraft move within 12 nautical miles of claimed features.¹⁵ But freedom of navigation operations and diplomatic disapproval have proven ineffective in slowing China's activities. The US and others have also shown little willingness to confront China more directly—and Beijing appears to have calculated the threshold for US action against it in the South China Sea as quite high.

The US will still retain the military capability over the next ten years to challenge China's dominance of the South China Sea, with defence spending three times that of China, but Washington has not directly challenged Beijing in the South China Sea.¹⁶ While the US does have interests in the South China Sea, they are likely not strong enough to risk conflict with China. The cost in 'blood and treasure' would be immense. Early tough talk on the South China Sea from the new Trump administration has subsided and has not resulted in a change of US policy.¹⁷ So absent a significant policy shift from the new US administration, over the next decade and beyond Beijing will likely continue to enhance its dominance of the South China Sea.

Australia and China share interests in unimpeded trade in the South China Sea

Australia's economic interests and associated freedom of navigation are unlikely to be greatly affected by a dominant China in the South China Sea. Most Australian trade passing through the region is with China and it makes little sense for Beijing to interrupt its own economic interests. Around two-thirds of Australia's trade passes through the South China Sea.¹⁸ Much of this trade is in the form of iron ore, coal, other raw materials and agricultural products going to China, and engineering and manufactured products coming from China.¹⁹

In 2014, China accounted for 24 per cent of Australia's two-way trade in goods and services, nearly as much as our next three trading partners combined (Japan, US and South Korea). Australia exported A\$38 million worth of iron ore to China in 2015-16, helping drive China's construction and manufacturing sectors.²⁰ So trade through the South China Sea is important to both China and Australia. While Australia's dependence may be greater, both countries would suffer an economic impact if trade in the South China Sea was disrupted. More broadly, the reputational damage to China in the eyes of its other trading partners would be significant and run counter to Chinese policies of trade liberalisation and openness that have underpinned Beijing's remarkable economic development over the last three decades.

When signalling displeasure to a regional partner, China has a range of more subtle levers at its disposal, other than physically disrupting trade in the South China Sea. In 2012, a two-month stand-off at Scarborough Shoal, in an area of the South China Sea claimed by China and the Philippines, resulted in a range of indirect Chinese economic sanctions against the Philippines, most notably disrupting the export of bananas from the Philippines to China on the basis that they were not meeting quarantine standards.²¹ While Beijing's actions could be classed as a form of economic coercion resulting from competing territorial claims, China's actions did not impede freedom of navigation or the physical passage of goods through the South China Sea. Simply, China achieved the same effect through other means.

The major shipping lanes in the South China Sea do not pass through the most sensitive and contested areas, so disruption to trade is unlikely to occur due to a miscalculation or misunderstanding. The major shipping lane through the South China Sea passes from the south-west through to the north-east, dissecting the Paracel and Spratly Islands.²² At its closest point, the shipping lane is still several hundred nautical miles from contested areas. The third major contested area, Scarborough Shoal, is even further away from the major shipping lane.

So, it is not in China's economic interests to impede Australian trade in the South China Sea, most of which is going to or from Chinese ports. The distance between the major shipping lane in the South China Sea and contested features also mitigates against commercial trade getting caught up in security matters. To date, Australia's trade has not been impeded by a dominant China in the South China Sea, and to do so in the future would not be in Beijing's economic interests.

Australia's security interests in the Asia Pacific linked to US engagement

Australia's security interests in the Asia Pacific may be weakened by a discredited and diminished US presence in the region. The US presence in the region could be discredited if US allies and partners in the region view the US as inactive or disinterested in assisting them secure their own interests against growing Chinese dominance of the South China Sea. Without willing partners in the region, the US presence could diminish. Australia supports continued US leadership in the Asia Pacific, including a military presence, as a means of maintaining the stability the region has enjoyed over the last 60 years.²³ In a speech in January 2017, Australia's Foreign Minister, Julie Bishop, said:

In Australia's experience and in our observation, Asian countries appreciate this point, and remain deeply receptive to an ongoing US presence—indeed the appetite for working with the United States is strengthening in many countries. Most nations wish to see more United States leadership, not less, and have no desire to see powers other than the US, calling the shots.²⁴

But there is a risk that China's growing dominance of the South China Sea and associated infringement on the interests of US partners in the region may shift views of the US in the region.

As China's dominance in the South China Sea is reinforced, sometimes at the expense of other claimants, the role of the US as a security partner and guarantor of the rules-based global order in the Asia Pacific may be discredited. Having already discussed the economic implications of the 2012 Scarborough Shoal incident, the security implications of that incident, and incidents at Second Thomas Shoal in 2013 and 2014, are perhaps more significant.

In the case of Second Thomas Shoal, Beijing has long protested the presence of a disabled Philippines Navy vessel on the shoal, run aground in 1999. A small garrison of a dozen Filipino Marines maintains a permanent presence on the vessel. In 2014, China attempted to disrupt the resupply of the vessel, resulting in Philippine calls for the US to step in and assist. However, the US view was that the Scarborough Shoal and Second Thomas Reef incidents did not meet the threshold that would invoke the treaty between the US and the Philippines, and that its position of neutrality regarding South China Sea territorial disputes should be maintained.²⁵

Mira Rapp Hooper notes that 'many of the disputes in the East and South China Seas are over rocky, uninhabited islets, and a pledge to treat these far-off land features as though they were US soil strains belief'.²⁶ For the Philippines, there was a sense that its powerful ally and friend was not there when it was needed, perhaps contributing to current Philippines President Duterte's view that the relationship with the US is one-sided. Future reticence to support allies and partners in the region could further discredit the US in the region.

A discredited primary ally in the region or the risk of US disengagement in Southeast Asia is not in Australia's security interest. If established rules and norms surrounding the use of global commons and territorial dispute resolutions—championed by the US—are undermined, the resultant uncertainty also risks heightened levels of tension and even conflict in the region. Adding to uncertainty about US commitment in the region has been the election of President Trump. His 'America first' platform has raised concerns about US disengagement in the region, prompting some to question Australia's alliance arrangements on the basis that the US may not be the reliable partner it once was.²⁷

However, the Australian Government and knowledgeable former officials have been quick to reiterate the value of the US alliance to Australia. Without it, former Chief of the Defence Force Angus Houston claims that Australia would need to spend up to 4 per cent of GDP on defence, which is clearly an unrealistic proposition.²⁸ So while the Trump administration's security policies in the Asia Pacific are yet to solidify, Australia would be hoping for evolution rather than revolution in the US approach, and continued if not enhanced and positive regional engagement.²⁹ While a strong US presence in the Asia Pacific is in Australia's security interests, a South China Sea dominated by Beijing is testing the credibility of the US among some regional partners. If US credibility diminishes, US presence may also decrease, weakening Australia's security interests.

Conclusion

This paper has attempted to set out the arguments as to why Australia's economic and trade interests are not jeopardised by a dominant China in the South China Sea but why its security interests may be weakened by a discredited and diminished US presence in the Asia Pacific. The pace of Beijing's expansion in the South China Sea, particularly over the last five years, has surprised many. China is already the dominant power in the South China Sea and this situation is only likely to solidify over the coming decade. Despite this dominance, Australian trade passing through the South China Sea has not been impeded and the prospect of such action by China is unlikely. Most Australian trade through the region goes to and from China, and it makes little sense for Beijing to disrupt its own economic interests.

Australia's security interests, however, are at greater risk. The US has been reluctant to directly support partners under pressure from China in the South China Sea. The Philippines sought US support between 2012 and 2014 during a series of incidents at Scarborough Shoal and Second Thomas Reef, however, the US chose to maintain its neutrality on sovereignty claims in the South China Sea. The Philippines has since drifted closer to Beijing's orbit, and there is a risk other US partners in the region will start to doubt US commitment to them and the region. Yet-to-be-settled Trump administration policy towards the region adds another layer of uncertainty.

A simple policy implication resulting from this analysis may be a reinvigoration of Australia's engagement in the region, independent of the US, while still maintaining its alliance relationship with Washington as the basis of its security policy. Australia's forthcoming foreign policy white paper is well timed to address this issue.

Notes

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