

Dire Straits: Competing Security Priorities in the South China Sea

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by David Rosenberg

From the Taiwan Strait to the Strait of Malacca, security concerns are growing around the South China Sea. While the Bush Administration sees a resurgent Chinese military threat across the Taiwan Strait and a terrorist threat in the Strait of Malacca, many countries between the Straits are more concerned about security for their maritime resources from the threats of competitors, traffickers, poachers, and pirates.

Security Concerns in the South China Sea

Several recent statements and appointments highlight the current Bush administration view of China's threat to Taiwan. Porter Goss, director of the U.S. Central Intelligence Agency, warned that improved Chinese capabilities not only threaten Taiwan but also U.S. forces in the (western Pacific) region. U.S. Defense Secretary Donald Rumsfeld worried that the Chinese navy was building some amphibious landing ships for possible use across the Taiwan Strait. The appointment of combative neoconservative John Bolton as U.S. ambassador to the United Nations sends a clear and ominous signal: formerly a paid consultant to the Taiwanese government, Bolton has advocated Taiwan's independence and its full

U.N. membership. Then, in February 2005, Secretary of State Condoleezza Rice, Defense Secretary Donald Rumsfeld and their Japanese counterparts announced a significant alteration in the U.S.-Japan Security Alliance by identifying security in the Taiwan Strait as a "common strategic objective."

Has there been any big shift in the balance of power around the Taiwan Strait that warrants this U.S. response? The Chinese defense budget has grown by double-digit increases for the past fourteen years. This year it's up by 12 percent. But that is not significantly faster than the Chinese economy as a whole is growing. China is modernizing its defenses -- adding anti-ship missiles to aircraft, acquiring AWACS-airborne early warning and control systems, guided missile destroyers and frigates. However, its power projection capabilities are limited. It lacks any long-range amphibious capability or support infrastructure to supply forces over long distances for a protracted period. It also lacks heavy cargo-carrying aircraft, comprehensive air defenses, seaworthy ships, and aircraft carriers. Given the current state of Chinese equipment and training, the Chinese have no capability to pursue an expansionist maritime policy in the Taiwan Strait or the South China Sea. [1]

By contrast, the U.S. has overwhelming military superiority and an expansive network of military bases across the Asia-Pacific. The U.S. Pacific Fleet is the world's largest naval command, including approximately 190 ships, about 1,400 Navy and Marine Corps aircraft and 35 shore installations. Over 300,000 Navy, Army, Air Force, Marine Corps, Special

Operations, and Intelligence military personnel are integrated under the unified command of PACOM, the U.S. Pacific Command.

What are China's strategic goals between the Straits? China's Defense White Paper of 2002 emphasizes the importance of pursuing peaceful external relations initiatives through multilateral, cooperative approaches to promote domestic development. The most recent Defense White Paper, published in December of 2004, reiterates this priority. More important than statements of good intentions, however, China has taken significant steps to implement this goal. It was evident in the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation, negotiated in November 2002. That led to the agreement signed in November 2004 to implement an ASEAN-China Free Trade Area (FTA) by 2010.



Following the 10th Summit Meeting of the Association of Southeast Asian Nations (ASEAN), in Vientiane, Laos in November 2004, Beijing held its own summit with ASEAN leaders (ASEAN Plus One) and then joined Japan and the Republic of Korea in discussions

with ASEAN leaders (ASEAN Plus Three, or APT). Beijing had earlier in November hosted the first Security Policy Conference of the ASEAN Regional Forum. It featured an anti-piracy drill and a workshop on countering terrorism.

Regional Economic and Financial Agreements

Regional economic agreements were the main achievements of these meetings. However, the ASEAN Plus Three sessions identified other areas for cooperation, including deeper cooperation in investment and finance, expanded security dialogue and cooperation, expanded cultural exchanges, and periodic progress reviews.

Perhaps the most dramatic developments have occurred in regional financial cooperation. Finance ministers of the ASEAN+3 countries have launched an Asian Bond Markets Initiative and the regional central bankers group set up two Asian Bond Funds in early 2005.

These are key steps in addressing one of the major weaknesses in the region's development as indicated by the currency and financial crisis that struck large parts of the region in 1997: the heavy reliance by firms on short-term bank loans for financing. As Jennifer Amyx notes, many countries in East Asia maintain high savings rates but, because of the absence of stable long-term debt markets, the savings deposited into local banks tended to be funneled out to international financial centers and then back into the region as short-term foreign currency loans. This situation creates a problem referred to as a "double mismatch" -- that is, a mismatch between debt maturities (short-term borrowing for long-term investments) and the denomination of this debt (in foreign rather than local currencies). [2]

The ASEAN+3 finance ministers had earlier set up a network of bilateral currency swaps to

permit a country beset by a speculative attack to draw on reserves of other nations. The program -- the Chiang Mai Initiative (CMI) -- went into effect at the end of 2003. Japan, with the largest reserves in the region, led negotiations over swap arrangements and will play the role of arbitrator for currency loans. China, another potential lender with substantial reserves in excess of potential needs, also lent its support to the CMI.

Widespread participation by ASEAN Plus Three members in these initiatives encourages smooth financial liberalization processes and thereby bolsters regional stability. It also reinforces the efforts of various working groups to improve transparency and information dissemination and to strengthen settlement systems and regulatory reforms.

China's shift to a more proactive position on regional financial cooperation has greatly facilitated these recent financial developments. As a result, interdependence between the Chinese economy and other economies in the region has deepened significantly in recent years. Today, trade by ASEAN member nations with China far exceeds trade conducted within the ASEAN grouping, while China is predicted to soon overtake the United States as Japan's top trading partner. Levels of investment in China by countries in the region are also extremely high.

The worst case scenario is not Chinese domination but a Chinese meltdown, as many regional monetary authorities are quick to note.

How to Eliminate Terrorism in the South China Sea?

At the other end of the South China Sea, American officials are primarily concerned by the terrorist threat to the vital sea lane of the Strait of Malacca. Admiral Thomas Fargo, commander of U.S. forces in the Pacific, on a visit to Singapore and Malaysia last year

warned that seaborne terrorism must be taken as seriously as attacks from the air, especially in the vital Malacca Strait shipping lane. Fargo noted that the Al-Qaeda-linked Jemaah Islamiyah (JI) terror group was a menace in the region. Defense Secretary Donald Rumsfeld said he hoped U.S. forces would be hunting terrorists in the Strait of Malacca "pretty soon," as they were already doing with Filipino counter-terrorist troops in Mindanao in the Philippines.

To deal with these possible threats, the U.S. has started three major unilateral initiatives, the Container Security Initiative (CSI) the Proliferation Security Initiative (PSI), and the Regional Maritime Security Initiative (RMSI) directed specifically at the Strait of Malacca.

The Container Security Initiative (CSI), first proposed by the U.S. Customs service in January 2002, aims to identify "high-risk" containers and use technology to screen them according to U.S. specifications in the originating ports rather than in the destination ports in the U.S. The program -- compulsory inspection at the origin rather than the destination -- places an enormous financial and security burden on all ports that ship to the U.S. More than half of the top 20 container ports in the world are in or around the South China Sea.

In order to be approved as a CSI-port, a government must agree to allow U.S. Customs personnel to supervise the screening of containers bound for ports in the U.S., install screening equipment designed to detect illicit narcotics, as well as radiological, chemical, biological or conventional weapons, submit a detailed electronic manifest to U.S. Customs 24 hours in advance of its projected arrival in the U.S., and upgrade to new "smart container" technologies and designs for U.S.-bound shipping traffic.

Remarkably, despite numerous difficulties of

implementation, in the first year after the announcement of the CSI, 18 of the top 20 ports that export containers to the United States had complied.

In a similar move in December 2004, Australia declared a new 1000-nautical-mile maritime security zone in which all ships traveling to Australia will be required to provide details on their journey and cargo. All vessels coming within a 200-nautical-mile limit of the Australian coast will be required to give extra details on cargo, ports visited, location, course, speed and intended port of arrival. Indonesian authorities objected to the unilateral measure, saying it infringed on Indonesian waters and violated freedom of navigation. As other countries extend their security zones, complications are bound to arise.

The Proliferation Security Initiative (PSI) aims to seize "shipments of weapons of mass destruction (WMD) and missile-related equipment and technologies" -- by sea or air -- before they fall into the hands of terrorist organizations or their state sponsors. Participating states agree to share information related to suspected proliferation activities, interdict the transshipment of WMD, and strengthen national and international laws to allow the "aggressive interdiction of vessels suspected of carrying weapons of mass destruction." The PSI Interdiction Principles further state that countries have a commitment to board suspicious vessels sailing within their national waters, to board suspicious vessels flying their own flag in international waters, and to "seriously consider providing consent" to boardings of their own flagged vessels by other PSI states.

So far, many states have gone along with CSI and PSI. However, the high costs of compliance evoke images of colonialism and hegemony. The stationing of U.S. Customs officials in the sovereign ports of foreign states might be seen as intrusive. PSI and CSI may also limit the

rights of commercial vessels operating internationally to remain free from arbitrary search and seizure. The initiatives are directed exclusively toward safeguarding U.S.-bound shipping, not Asia-bound trade or intra-Asian trade. Further, they exclude WMD and related shipments by the U.S. to its allies. On the whole, CSI and PSI lack transparency, reciprocity, and accountability; they are unilateral U.S. measures prompted by the 9/11 attacks.

It may be that this is the necessary cost of increased maritime security in the twenty-first century. If many countries are willing to accept this type of non-consultative and unilaterally-driven process, that would indicate a very significant change in the way international regulations are framed and implemented. It would constitute a major shift from negotiated multilateralism of the post-war system to cooperative unilateralism under post-Cold War American hegemony.

In sharp contrast with the CSI and PSI, the Regional Maritime Security Initiative (RMSI) proposed by the United States, has caused much consternation around the South China Sea. Adm. Thomas B. Fargo, Commander of the U.S. Pacific Command, introduced the RMSI in a speech to the U.S. Congress on March 31, 2004. He remarked that "we're looking at things like high speed vessels, putting Special Operations Forces on high-speed vessels so that we can use boats that might be incorporated with these vessels to conduct effective interdiction in, once again, these sea lines of communications where terrorists are known to move about and transmit throughout the region." [3]

Malaysia and Indonesia immediately and vehemently rejected the idea of U.S. troops in the area, emphasizing their own capabilities in tackling the threat. Malaysian Defense Minister Najib Razak emphasized that the presence of foreign forces in the region or "interdiction"

operations in the Strait would not be tolerated. [4]

The U.S. began almost immediately to backpedal on the idea. U.S. Secretary of Defense Donald Rumsfeld and U.S. Navy Pacific Fleet Commander Adm. Walter F. Doran stated that Adm. Fargo's earlier comments on the RMSI had been "misreported," the plan was still very much in its early stages, and it would focus primarily on intelligence sharing not a U.S. troop presence.

Another effort to improve shipping safety and security -- the International Ship and Port Facility Security Code (ISPS) -- came into effect in July 2004. Initiated by the UN's International Maritime Organization, the ISPS is more comprehensive and provides more transparency and multilateral participation than the RMSI.

Exclusive Economic Zones, Pirates and Political Conflict

The most important security issues for many countries in the region between the Straits are not the American priorities of containing China or countering terrorism. They are preoccupied with resource claims in their offshore Exclusive Economic Zones (EEZ's) -- in particular, fisheries, oil and natural gas -- and in pursuing regional economic integration for their export-oriented economies. Two factors have recently increased concerns about these security issues: the projected increase in shipping traffic and the rise in piracy.

Oil tanker traffic -- already high -- will increase substantially with the projected increase in Chinese oil imports. Almost all of this additional Asian oil demand, as well as Japan's oil needs, will be imported from the Middle East and Africa. Most will pass through the strategic Strait of Malacca into the South China Sea, although supertankers going to Japan will use the wider Lombok Strait east of Bali.

All the coastal countries around the South China Sea as well as Japan and South Korea -- who depend heavily on oil imports -- have a common interest in the safety and freedom of navigation through these congested and confined waterways. Major shipping nations and shipping companies are working together to pursue these goals through the APEC Transportation Working Group (TPT-WG) for managing port and cargo traffic and through the Marine Electronic Highway (MEH) program. Funded by the World Bank, United Nations Development Program (UNDP), and the International Maritime Organization (IMO), the MEH project aims to increase navigational safety through electronic navigational charts and information systems. It can also be extended to search-and-rescue operations, anti-piracy programs, and environmental impact assessment.

The large volume of shipping in the South China Sea/Strait of Malacca littoral has created opportunities for attacks on merchant shipping. Piracy can threaten a disaster through a collision, grounding, chemical or toxic spill or closing of a strait. Since the 1990's, around half of the world's reported piracy took place in the South China Sea. The big increase in piracy in Indonesian waters and ports may be attributed to its economic crisis and domestic instability. It may also result from more sophisticated attacks by organized crime groups.

The response of coastal countries was delayed by uncertainties over legal jurisdiction, disputed sovereignty, and uncoordinated efforts at recovery of crew, cargo, or ships. Even when pirates were detected, "hot pursuit" across national boundaries was seldom attempted. Sensitive to sovereignty issues in their territorial and EEZ waters, coastal countries have slowly started multilateral programs to monitor piracy attacks and bilateral exercises to coordinate anti-piracy patrols. The International Piracy Control Center in Kuala Lumpur, and the International

Maritime Organization's Piracy Reporting Centre in London have stepped up monitoring efforts. The ASEAN Regional Forum convened a meeting of maritime specialists to coordinate coast guard action, information exchange, and investigation of piracy reports.

The most sweeping proposal for eradicating maritime piracy was advanced by Japan, which imports 99% of its petroleum and 70% of its food by sea, mostly through the Strait of Malacca. Ships carry 99% of Japanese exports by volume. Not surprisingly, Japan sees maritime safety as an integral part of its comprehensive security strategy. Its initial anti-piracy proposal envisioned ocean-peacekeeping fleets conducting multinational patrols in both territorial and international waters. This was met with skepticism, if not suspicion, by several Southeast Asian states. Indonesia, in particular, was unwilling to allow Japanese forces to patrol Indonesian waters, and was further reluctant to bear the cost of participating in joint exercises. Faced with disaster relief challenges, separatist struggles, and widespread poverty, Jakarta does not rate piracy as a major security issue. Malaysian policymakers also rejected Japanese joint patrols, concerned about violations of their sovereignty and any limitations on controlling their EEZs. Singapore, possessing interests closely aligned with those of Japan, has been most receptive.

Less ambitious bilateral approaches by the Japanese Coast Guard (JCG), however, have enjoyed relative success. As a safety agency, the JCG is a less controversial vehicle for providing regional police service than the more militarized Japanese Maritime Self-Defense Force (JMSDF). The JCG has provided training, equipment, and funding to all the coastal states of the South China Sea, and has conducted joint training exercises with six Southeast Asian states. The JCG has funded the installation and maintenance of navigational aides and buoy-tenders; it has also provided technical assistance to upgrade marine safety

data management systems and hydrographic surveys. These efforts have heightened awareness of the problem, and coastal responses have been emerging. In 2003, Malaysia and Thailand started coordinated maritime patrols along their maritime frontier. In 2004, Singapore, Malaysia, and Indonesia began coordinated patrols of the seaways. Putting aside the conflicting territorial claims in the South China Sea, China has called for joint exercises with its South China Sea neighbors to control piracy and drug smuggling. [5] Anti-piracy programs address region-wide problems; they cannot succeed without regional cooperation. Gradually, they are emerging.

All the major trading countries and their shipping companies in the region have a strong common interest in the safety and freedom of navigation through the perilous, crowded, narrow sea lanes of the South China Sea. They have cooperated in regional and international maritime agencies to combat piracy threatening their vital imports. They have put aside seemingly intractable issues -- such as sovereignty claims in the Spratly Islands -- and adopted a policy of strategic pragmatism to develop regional institutions to resolve intrinsically regional issues.

The existing maritime forces between the Straits are primarily concerned with policing their waters to assert sovereignty and to secure maritime resources, especially in disputed areas in and around their EEZ's, in relation to piracy, poaching, smuggling, trafficking, and terrorist threats. The limited military modernization that has taken place has primarily been directed toward securing a minimum level of control over their adjacent seas and their new resource claims in their EEZ's, and has not attempted to fill the gap by the apparent withdrawal of U.S. forces after the Cold War or the possibility of an expansionist neighbor, China.

Notwithstanding recent incidents of gunboat diplomacy between Indonesia and Malaysia over oil leases offshore northeast Borneo and violent clashes between Vietnam and China over fishing grounds in the Tonkin Gulf, a *modus vivendi* has been approached on the territorial disputes in the South China Sea. Many claimants have deployed troops to various islands and reefs within the Spratlys, but total occupation of the Spratlys by any one claimant seems highly unlikely. There have been many low-level incidents, but no major wars in the Spratlys or elsewhere, because no country has any major stakes there. They are not astride any major sea lanes and have little intrinsic military significance. While no one will foreclose options because of the lure of resources, none of the claimants seem likely to attempt a military occupation of the entire Spratly group. No claimant has the power projection capability or the ambition to control them or to defend them. Even if they did, it is highly unlikely that any such claims would be recognized regionally or internationally. Hence, all parties appear to be following a strategy of denial rather than a strategy of conquest.

The shipping of energy through the South China Sea is currently more important than any possible oil resources in disputed waters. As a consequence, there is now a window of opportunity to pursue regional efforts to ensure safe and secure navigation and to promote regional economic integration. Several bilateral and multilateral agreements for joint resource management have been achieved in recent years. For example, China has signed similar bilateral fisheries agreements with South Korea, Japan, and Vietnam for cooperative resource management of their common fisheries in the Yellow Sea, the East China Sea, and the South China Sea.

As regional negotiations take shape, more thought needs to be given to finding a creative diplomatic formula for incorporating Taiwan's participation. Taiwan forces occupy the two largest islands in the South China Sea: Pratas

Island and Itu Aba. Taiwan has reduced its garrison on Itu Aba; defense responsibilities have been transferred from the ROC Navy to the ROC Coast Guard. This implies that Taiwan is no longer prepared to use force to defend this islet. To the contrary, it is developing facilities for tourism there.

Cross-Strait Conflict and interdependence

There is a curious pattern of accommodation in PRC-Taiwan relations. On the one hand, the PRC views Taiwan as a renegade province while Taiwan views the mainland with cultural empathy but political disdain. On many South China Sea issues, however, they are often in agreement. They have not had any direct confrontations in the South China Sea. They make the same claims, use the same definitions, baselines, and maps in stating their interests in the region. There is even some direct cooperation between China and Taiwan on technical issues.

Beyond these governmental links, there are very substantial corporate and personal links between China and Taiwan. Taiwanese firms have invested over US \$100 billion on the mainland, more than any other country. Much of this involves the relocation of Taiwanese industries to the Shanghai-Suzhou and Fujian areas. To a large extent, Taiwan's continued economic prosperity is tied to reintegration with the mainland. These economic links of investment and trade are reinforced by millions of personal visits as well as mail and email correspondence. Bonds of marriage also strengthen these ties. Nearly 10% of Taiwanese men marry mainland brides, further tying migrant generations to ancestral origins. These deeply-rooted, long-term economic and demographic trends provide a counterbalance to the often strident political clashes. The longer and broader the cross-Strait engagement, the better the prospects for peaceful coexistence.

Unfortunately, the cross-Strait issue has become immersed in domestic politics in Taiwan and China. The recent spate of threats and counter-threats over Taiwan's status is linked to maneuvering among domestic political forces seeking popular support. For example, in March 2005, after China passed its anti-secession law, there were widespread protest demonstrations in Taiwan led by Prime Minister Chen Shui-bian's Democratic Progressive Party (DPP). Soon after, a large delegation of Taiwan's main opposition party, the Kuomintang (KMT, Nationalist Party), visited the mainland to encourage trade and political dialogue with China and to pay respects to the memorial shrine of Sun Yat-sen, KMT's founder. This, in turn, was followed in early April by the visit of right-wing Taiwan Solidarity Union party leaders to the Yasukuni shrine, the Japanese war memorial in Tokyo. Clearly issues of national identity and national sovereignty can generate volatile reactions.

The big danger across the Taiwan Strait is that misunderstanding and miscalculation, fueled by distrust, xenophobia, and opportunism, may lead to escalating conflict. Senior leaders on both sides of the Strait are beginning to realize the potential consequences if instability erupts into violence. Hu Jintao has recently been signaling that he advocates a long-term policy of stability for eventual reunification. Chen Shui-bian has recently dropped his independence demands. Several Southeast Asian leaders have opposed Taiwan's independence; most explicitly, Singapore's Prime Minister, Lee Hsien Loong. Lee bluntly stated, "If Taiwan goes for independence, Singapore will not recognize it. In fact no Asian country will recognize it. China will fight. Win or lose, Taiwan will be devastated."

The prospect of a military confrontation between the mainland and Taiwan is unlikely, in part because the consequences of such a conflict would be extremely destructive for both sides. Diplomatic efforts are needed to

avoid even this remote risk. In the March/April 2005 issue of *Foreign Affairs*, Kenneth Lieberthal offered a useful proposal to change the focus of negotiations over "independence" and "reunification" to a pragmatic question: what is needed to achieve long-term stability and peaceful coexistence between China and Taiwan? What confidence building measures are needed to reassure security strategists that defensive military developments are not offensive? What legal and administrative means are necessary to resolve routine conflicts that will inevitably occur as commercial and civil relations thicken?

The current U.S. attempts to help Taiwan "contain" China and to mobilize support in its global war on terrorism threaten to complicate if not weaken regional security developments. As Ronald Montaperto notes, "the almost daily manifestations of Chinese economic power, the effort to demonstrate commitment to the 'new' principle that the economic development of individual nations is inseparable from the development of the region as a whole, and the broad perception within the region that the Chinese are willing to engage actively in multilateral, cooperative policies have combined to provide Beijing with an unprecedented measure of influence and even clout." [6]

The Beijing regime is obsessed with economic stability, because it fears that a severe downturn would trigger social and political upheaval. The last thing it wants is a military confrontation with its biggest trading partner, the United States, or with Japan or Taiwan, each of which are major trade and investment partners. It may go on playing the nationalist card over Taiwan to curry domestic political favor, but there has been no massive military build-up and there is no plausible threat of impending war. [7] To the contrary, China is investing heavily in creating a regional security framework to pursue its domestic development. The U.S. goal of achieving genuine regional

maritime security would best be served through cooperation with China -- one of its most important creditors, suppliers, and markets -- rather than confrontation.

NOTES

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