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## CHINA'S BELT AND ROAD INITIATIVE: ECONOMIC DANGERS OF MILITARY INTERVENTION IN THE SOUTH CHINA SEA

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IN THE SOUTH CHINA SEA**

By Lieutenant-Commander Jordan M.G. Thwaites

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# **CHINA'S BELT AND ROAD INITIATIVE: ECONOMIC DANGERS OF MILITARY INTERVENTION IN THE SOUTH CHINA SEA**

## **AIM**

1. The aim of this paper is to inform the Commander of the Royal Canadian Navy (CRCN) of the potential impacts China's Belt and Road Initiative (BRI) will likely have on the global maritime commons. The scope of this paper will be focused on the potential impact to Canadian geo-economic foreign policy in Southeast Asia and the Royal Canadian Navy's (RCN) involvement in a whole of government response, should China seek to disrupt or cut off the free movement of goods through the South or East China Sea. Although this paper will not address strategic or tactical military operations in a contested combat environment, this topic should be explored in future to gain a complete understanding of the implications of military interventions in the region.

## **INTRODUCTION**

2. China has steadily risen in political and economic power over the past forty years. China is now disrupting the US centered Western hegemony and influencing major international bodies such as the United Nations (UN) and world markets. Today, it is the central power in Asia and it is the world's largest economy. Its economic growth was fueled by positioning itself as the world's manufacturing base, which has necessitated the importation of raw material and as much as 80% of its energy requirements by sea.<sup>1</sup> Understanding the strategic vulnerability of its economic reliance on seaborne supply routes, China is redeveloping the ancient Silk Road overland route to the Middle East and

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<sup>1</sup> Centre for Strategic & International Studies. *How Much Trade Transits the South China Sea?* (ChinaPower January 25, 2021).

Europe with the BRI. Pipelines and high speed rail links seek to replace China's reliance on trade transiting by sea. Given China's recent military expansion, global concerns are mounting surrounding what China's future plans may be for a waterway which sees one fifth of global GDP pass through it.<sup>2</sup> In particular, there are concerns regarding the possible disruption of economic trade routes as a result of a blockade or armed intervention by China attempting reunification with Taiwan, and what the international response may be. Canada's increased military presence in the region and the increasingly aggressive Chinese actions necessitate clear whole of government policy and guidance on the conduct of operations. RCN commanders in theatre require clear direction so that they can take timely and effective action in an increasingly complex and dynamic environment, where missteps are likely to have far reaching geo-economic implications.

## **DISCUSSION**

3. China has long been a nation of growing economic and political influence in Asia. China's economic rise started in 1978 when then president Deng Xiaoping sought to open the Chinese market to foreign markets. His policy known as "hide and bide" sought to build up China economically before it could build itself up militarily and project power outside its borders.<sup>3</sup> China's economic efforts over the past forty years has moved 99% of its population from living below the poverty line to above it.<sup>4</sup> To achieve this change China has positioned itself as a cheap labour market for production goods. This has caused it to become heavily reliant on the import of raw materials for production and the

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<sup>2</sup> *Ibid.*

<sup>3</sup> Graham Allison. *Destined for War: Can China and the United States Escape Thucydides's Trap?* The Atlantic. (The Atlantic. September 24, 2015).

<sup>4</sup> *Ibid.*

export of finished goods. China is particularly reliant on energy imports, bringing in 80% of their energy requirements by sea.<sup>5</sup> Over sixty percent of Chinese trade transits through the South China Sea, making it and its main choke point, the Strait of Malacca vulnerable to blockades.<sup>6</sup> To mitigate its strategic vulnerability to a seaborne blockade and protect its economic interests,<sup>7</sup> China has sought alternate trade routes and new markets through the BRI. There are now more than one hundred twenty-five countries participating in infrastructure projects and trade deals as part of the BRI.<sup>8</sup> This has allowed China to open new markets in Africa, Eurasia and Europe. This diversification of markets has reduced China's historic reliance on the United States as its primary partner in trade.

4. Since 2012 when Xi Jinping took over as president of China, it has rapidly capitalized on its long ascent to regional primacy in Asia. Since 2013, the BRI has been central to expanding Chinese markets and foreign influence. As of 2016 China has displaced the United States as the world's largest economy.<sup>9</sup> Having disrupted the historic economic centre of gravity, China is now seeking to disrupt the established Western rules based order. This has been a two pronged approach. Firstly, using economic influence to gain the support of developing nations in the Asia Pacific and Africa in exchange for votes on council seats in established bodies such as the UN.<sup>10</sup> Secondly, undercutting Western institutions such as the World Bank with the Asia

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<sup>5</sup> Centre for Strategic & International Studies. *How Much Trade Transits*.

<sup>6</sup> Cordesman, Anthony H., Arleigh A. Burke, and Max Molot. *China and the U.S.: Cooperation, Competition And/or Conflict An Experimental Assessment*. Report. Center for Strategic and International Studies (CSIS, 2019), 337.

<sup>7</sup> *Ibid*.

<sup>8</sup> United States, *Military and Security Developments*, 123.

<sup>9</sup> Graham. *Destined for War*.

<sup>10</sup> Kurt M. Campbell, *The Pivot: The Future of American Statecraft in Asia* (New York: Twelve, 2016), 165.

Infrastructure Investment Bank (AIIB) which provides loans at lower interest rates and with fewer or any strings attached, such as governmental or human rights reforms as characterized and often mandated by Western organizations.<sup>11</sup> China has also disrupted organizations such as The Association of Southeast Asian Nations (ASEAN), of which it is not a core member, by exerting coercive economic influence over members to block security bills specific to the Chinese annexation of disputed territory in the Spratly Islands chain.<sup>12</sup> Most concerning in this trend are China's successful efforts to effect ideological change within foreign governments to disavow their recognition of Taiwan in favour of a one China policy. There are now only fourteen nations who recognize Taiwan's independent status.

5. China's new found economic hegemony has allowed President Xi to leverage that power into military might. Xi's vision of a rising China at the center of Asian influence has fueled a rapid expansion and modernization of the People's Liberation Army (PLA).<sup>13</sup> Xi has leveraged China's large manufacturing base to expand its domestic military industrial complex. For example, China is now the world's largest shipbuilder with facilities producing 43% of worldwide tonnage.<sup>14</sup> Xi has stated that China intends to "build a strong and modernized naval force" ... capable of carrying out "missions on the far seas."<sup>15</sup> The rapid expansion of the People's Liberation Army Navy (PLAN) means that China now poses the worlds largest naval force including indigenously designed and

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<sup>11</sup> Tan, S.S. *Defence and Security Cooperation in East Asia: Whither ASEAN Centrality?* Chap. 3 in *International Security in the Asia-Pacific: Transcending ASEAN Towards Transitional Polycentrism*, edited by Alan Chong. Cham: (Palgrave Macmillan US, 2017), 164.

<sup>12</sup> *Ibid*, 167.

<sup>13</sup> Centre for Strategic & International Studies. *How Is China Modernizing Its Navy?* (*ChinaPower Project*. August 25, 2020).

<sup>14</sup> *The Chinese Navy: A New Force Is Rising in the East*. (Modern Diplomacy. July 1, 2020).

<sup>15</sup> *How Is China Modernizing Its Navy?* (*ChinaPower Project*. January 9, 2019).

built aircraft carriers.<sup>16</sup> The 2020 United States Department of Defence Report to Congress on Chinese military capabilities reported that the United States still maintained the largest navy by tonnage, this is likely an antiquated metric of comparison.<sup>17</sup> China's main focus of effort for the foreseeable future is likely centred on the South China Sea rather than global force projection, its capacity to concentrate force will be greater than that of the United States. China's growing geo-economic influence within international bodies and its increasingly aggressive posture in the South China Sea is an indication of intent to solidify its claim over disputed islands, and most importantly the re-absorption of Taiwan under the One China policy. A Chinese ministry of defence spokesperson stated "We warn those 'Taiwan independence' elements - those who play with fire will burn themselves, and Taiwan independence means war."<sup>18</sup> The US also believes that China is prepared to, if necessary, take Taiwan militarily while also preventing other nations from coming to its aide by using force up to and including anti-access and area denial (A2AD) technics.<sup>19</sup> Further indications of China's willingness to escalate the use of force in securing its interests in the South and East China Sea were made evident with the recent passing of new maritime security laws authorizing new powers for the Chinese Coast Guard. These include: authorizing for the destruction of other nation's structures on contested islands and reefs; the establishment and enforcement of exclusion zones around them; the right to board foreign vessels within disputed waters; and these measures are to be enforced by any means necessary up to and including the use of

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<sup>16</sup> United States. Office of the Secretary of Defence. *Military and Security Developments Involving the People's Republic of China 2020: Annual Report to Congress* (Washington, DC: U.S. Government Printing Office, 2020), 44.

<sup>17</sup> *Ibid*, vii.

<sup>18</sup> BBC News. *China warns Taiwan independence 'means war' as US pledges support*. (BBC News January 29, 2021).

<sup>19</sup> United States. *Military and Security Developments*, 96.



deadly force.<sup>20</sup> This expansion of authorized is likely to result in increased hostile interactions with the potential for major diplomatic incidents and loss of life.

6. As China seeks increasingly to flex its muscle in the South China Sea operations in previously uncontested international waters will likely become increasingly tense as forces are shadowed, hailed or provoked. Once China has completed its BRI overland transportation network, it will no longer be as reliant on seaborne transport links, particularly for its energy reserves.<sup>21</sup> If China is no longer reliant on seaborne links and continues to possess substantial Naval and Coast Guard assets capable of saturating the East and South China Sea, China would be in a position to enforce the blockade of one of the most valuable trade corridors in the world. This area sees the movement of one fifth of global GDP.<sup>22</sup> The shut down of trade routes through the South and East China Sea or the Strait of Malacca would have wide reaching and long lasting negative impacts on the global supply chain, commodity prices, and GDP.<sup>23</sup> China and Japan represent Canada's second and fourth largest trading partners, respectively, with a further \$23 billion in trade with ASEAN countries.<sup>24</sup> Disruption in Canada's trade relations with this region of the world would represent a significant and far reaching downturn across several major sectors within the Canadian economy, with excess capacity and demand not quickly or easily shifted to markets in other regions.

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<sup>20</sup> Yew Lun Tian. *China authorises coast guard to fire on foreign vessels if needed*. Reuters January 22, 2021.

<sup>21</sup> Centre for Strategic & International Studies. *How Much Trade Transits*.

<sup>22</sup> *Ibid.*

<sup>23</sup> *Ibid.*

<sup>24</sup> Government of Canada. *Canada and the Asia Pacific*. January 13, 2021.

7. In recent years Canada has increasingly sought to project influence into Southeast Asia. This has included an increased and sustained tempo of deployments for RCN vessels. Military operations and cooperation overseas is an important tool of strategic policy projection and engagement. The deployment of RCN units has bolstered relationships with both core 5EYES nations such as the United States and Australia, as well strategic regional partners such as Japan. Increased military cooperation agreements and multinational exercises have sought to strengthen both regional defence and economic ties. These efforts have paralleled what the United States calls the Asia Pivot, shifting significant foreign policy, military and economic weight to a valuable economic region which has been under represented as Western nations focused on Islamic extremism in the Middle East.<sup>25</sup> The RCN is operating in an increasingly complex political milieu, its most important strategic partner, the United States, continues to pursue Freedom of Navigation Operations (FONOPs) in international waters which are increasingly being contested and patrolled by an increasingly hostile PLA and Chinese Coast Guard. This is of particular concern when operating near the Spratly Island Chain and the Strait of Taiwan. Xi Jinping's ambition of Taiwanese reunification with mainland China by any means up to and including military intervention makes the ambiguity of the United States' Taiwan Relations Act regarding the defence of Taiwan ever more precarious and concerning.<sup>26</sup> Since RCN units routinely operate within United States Navy (USN) task groups or with USN units, clear policy guidance needs to be developed regarding RCN actions in the event of increased hostilities between allied units or nations and China. Given the significant impact to the Canadian economy that would result from

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<sup>25</sup> Campbell, *The Pivot*, 6.

<sup>26</sup> *Ibid*, 184.

a disruption of trade with China or the free movement of international goods through the South or East China Sea, a comprehensive whole of government stance is required regarding policy and action in this region. Faced with today's fast paced and dynamic strategic environment, RCN commanders need to be armed with clear guidance in order to deal with situations involving hostile interactions directly with PLA forces, or between the PLA and partner nations in this theatre. Clear policy directives are also needed to articulate passage through and operation in or near contested waters recognized under the United Nations Convention on the Law of the Sea (UNCLOS). RCN engagement with the offices of the Assistant Deputy Minister Policy [ADM(POL)], Global Affairs Canada (GAC) and the Privy Council Office (PCO) is necessary so that commanders can take fast, decisive action in support of the Government of Canada and its interests.

## **CONCLUSION**

8. China's geo-economic and military expansion means that it is now considered to be the central power in Asia. Its disruption of Western hegemony and influence within international institutions will likely continue. As China succeeds in achieving its economic and military goals, it will look to solidify its territorial claims in the South and East China Seas. Taiwan's right to self determination will remain a hot button topic both politically and militarily. The RCN needs to align its actions and policy with the whole of government strategic approach to the region. Solidifying clear policy guidance is essential to protecting Canadian geo-economic interests in the region as dynamic tensions mount. RCN commanders must be equipped with the guidance necessary to avoid unintentional diplomatic missteps, which could have long lasting and far reaching economic and diplomatic impacts at home.

## **RECOMMENDATION**

9. On the coordination of RCN operations in the South China Sea with the Government of Canada's whole of government approach:

- a. RCN coordination with ADM(POL), GAC and PCO to develop strategy and policy for the conduct of operations in the South and East China Sea. In particular, clear guidance regarding Freedom of Navigation and Operations through or near areas of contested waters;
- b. Policy direction on interaction with Peoples Liberation Army and Chinese Coast Guard units attempting to enforce exclusion zones in areas not recognized under the United Nations Convention of the Law of the Sea;
- c. Guidance for Commanding Officers operating in the South and East China Sea regarding non-escalatory and escalatory interactions with Peoples Liberation Army and Chinese Coast Guard units;
- d. Guidance for Commanding Officers operating in the South and East China Sea regarding the harassment of Canadian flagged or foreign flagged vessels by Peoples Liberation Army and Chinese Coast Guard units in internationally recognized or disputed waters; and
- e. Guidance for Commanding Officers operating in the South and East China Sea either independently or in concert with allied nations regarding Rules of Engagement in defence of allied nation military units coming under attack by Peoples Liberation Army and Chinese Coast Guard units.

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