



Hotspot South China Sea – Political, Military and Economic Implications

Dr. Peter Roell and Christoph Brewka

March 2020

Summary

The present paper focuses on hot spots in the South China Sea and their significance politically, militarily and economically. The keynote speech entitled Great Power Competition in Asia: Should Germany be Worried?, was followed by a discussion of eleven topics and proposed recommendations for decision-makers in politics, military and industry.

ISPSW

The Institute for Strategic, Political, Security and Economic Consultancy (ISPSW) is a private institute for research and consultancy. The ISPSW is an objective, task-oriented and politically non-partisan institute.

In the increasingly complex international environment of globalized economic processes and worldwide political, ecological, social and cultural change, which occasions both major opportunities and risks, decision-makers in the economic and political arena depend more than ever before on the advice of highly qualified experts.

ISPSW offers a range of services, including strategic analyses, security consultancy, executive coaching and intercultural competency. ISPSW publications examine a wide range of topics connected with politics, the economy, international relations, and security/ defense. ISPSW network experts have held – in some cases for decades – executive positions and dispose over a wide range of experience in their respective fields of expertise.



Analysis

South China Sea –Political and Military Implications

Why is the South China Sea Important?

The South China Sea is one of the most important economic and environmental regions in the world. More than half of the world's fishing vessels are in the South China Sea, and millions of people depend on these waters for their food and livelihoods. Thirty per cent of world crude oil and over 50% of world LNG shipments are transported via the South China Sea, and the SCS is rich in energy reserves (oil and gas).

The Sea Lanes of Communication are a vital military artery since the U.S. Seventh Fleet transits regularly between the Pacific and Indian Ocean. Furthermore, the SCS is the heart of a rapidly growing South East Asia and a vital link between the Indian Ocean and the Asia-Pacific regions.

The region is also the subject of more than a dozen overlapping and interconnected territorial disputes over the various islands, rocks, shoals and reefs scattered throughout South China Sea waters. For example, the Spratly Islands are claimed by China, Taiwan, Vietnam and, in part, by Brunei, the Philippines and Malaysia, whereby each of the disputants except Brunei actually occupies some islands.

The power that gains hegemony over the South China Sea will will dominate the future of East Asia.

China's Maritime Activities in the South China Sea

When President Xi Jinping visited President Obama at the White House in September 2015, he maintained that China had no intention to militarise the artificial islands in the Spratly Group. Now, however, over 40 different installed radar facilities represent a significant enhancement of China's C4ISTAR capabilities (command, control, communication, computers, information/intelligence, surveillance, targeting acquisition and reconnaissance). The following are three examples of above:

Fiery Cross Reef: The images date from November 28, 2017 and depict the northern part of a 3000-meter runway and its large communication and signal intelligence facilities. The airfields are capable of supporting military aircraft including bombers and large transport aircraft. With this military presence, China would be in a position to better control the South China Sea.

The Subi Reef: The image is of a sensor/communication facility and hardened structures with retractable roofs believed to be shelters for mobile missile launchers.

The Mischief Reef: The image shows a large sensor/communication facility and hangars for China's fighter jets, bombers and transporters. Shelter for anti-ship cruise missiles, ammunition storage depots, and a range of electronic and signal intelligence equipment, including over the horizon radars.

ASEAN Members Begin Standing up to China's Maritime Aggression

Indonesia: President Joko Widodo reasserted Indonesia's claim to its exclusive economic zone (EEZ) in the Natuna Sea –waters that border the South China Sea – as Chinese and Indonesian vessels remain in a standoff in the area. In January 2020, Widodo stated *"There is no compromise when it comes to our nation's territorial sovereignty"*.



Malaysia: In December 2019 several Chinese ships entered Malaysian waters. Foreign Minister Saifuddin Abdullah has characterized China’s excessive claims in the area as “ridiculous”.

Vietnam: Repeat incursions by Chinese vessels in 2019 prompted Hanoi to openly consider legal action against what it called “serious violations of its exclusive economic zone”.

The following statement by the G7 Foreign Minister’s on Maritime Security, April 11, 2016 in Hiroshima underline our concerns and worries: “We express our strong opposition to any intimidating, coercive or provocative unilateral action that could alter the status quo and increase tensions, and urge all states to refrain from such actions as land reclamations including large scale ones, building of outposts, as well as their use for military purposes and to act in accordance with international law including the principles of freedom of navigation and overflight”.

While the focus of German and European Union politicians is currently placed on such issues as migration, terrorism, the situation in the Near and Middle East, the Ukraine and now the Coronavirus, Asia is too important for it not to be on the radar. The European External Action Service (EEAS), together with other EU institutions, such as the Institute for Strategic Studies in Paris, the EU Intelligence Analysis Centre (INTCEN) in Brussels etc., would be well advised to critically analyse the situation in Asia, and issue valuable information to EU decision-makers, including situation reports on developments in the East and South China Sea.

South China Sea – Economic Implications

We do not have to explain to Asian experts how important the South-Chinese-Sea is for Germany and our economy. The profound economic importance of the region for Europe and especially for Germany is abundantly clear. The Corona virus show us in, shall we say, a brutal manner how global events impact our economy and the real significance of interruptions in global trade. Interruptions in supply chains, as can already be determined, are really hard and are already having consequences. The measures taken by all governments regarding the virus are necessary.

We are dealing with eight key countries of the region with a strong position in global trade. The eight countries, the direct neighbors in the South-Chinese-Sea, are well known and one of them is our host today. Special thanks to Mr. Bay, Ambassador of the Republic of Singapore in Berlin.

The contribution of eight countries to global GDP in 2018 represented approx. 23%, a very substantial number. China, Indonesia, Brunei, the Philippines, Taiwan, Singapore and Vietnam have demonstrated tremendous economic growth over the last years. Singapore has functioned as the financial hub in the Asian region (ranked No. 4 worldwide) and occupied second place in the 2018 Global Competitiveness Ranking as issued by the World Economic Forum, in other words, just behind the USA. Another important and huge number is that nearly 30% of global trade passes through the South-Chinese-Sea. And, to complete the numbers, 80% of oil deliveries for northeastern Asia pass through this important trade-route. The South China Sea is becoming the world’s most important trading route – of far greater importance than comparable trade routes such as the Panama-Channel or the “Strait of Hormuz”. In the latter case is important for oil and gas, whereas the South China Sea is considerably more important for us.

Another change in the recent years, something that is important for Germany as export world champion is that these countries no longer “mere producing countries”. China is, above all, changing from a more or less



production economy to a “consumer and travelling Country”. The Chinese consumer market is important for German merchandise. Similarly, there is also a major difference between the consequences of Sars and the current virus. In 2003 China represented 4% of global trade, as compared to its present position of over 18%. Whereas, in the past China produced more or less “cheap parts” for the global trade, it now produces “high level products”.

Considering the region from an economic standpoint, we are, of course, referring to resources. Experts estimate that there are 900 trillion cubic meters of gas and 210 billion barrels of oil under the sea floor. This fact alone makes the region so important and vital for Germany. China is the world’s biggest importer of coal, oil and gas. While it is clear that current oil and gas prices are low, it is more important for every country to have direct access to these raw materials. Last night we witnessed an approximate 30% decrease in oil prices. The reason, I think is already evident. To complete this section we must also bear in mind that the South China Sea is big fishing grounds.

As a major economy German has a big interest in peaceful conflict resolution. We welcome and support dialogue between involved nations, and we all know that every nation has a right to protect its trading routes. The same holds for China and all the other countries who use this trading route. Stability is what we need in these times, and yet the reality looks different We have witnessed an increasing number of serious incidents in recent years.

We have seen stable global economic growth. We also recall the 2007-2009 global financial crisis and its survival. Should events in this region take a negative turn, we will go into a deep recession followed by depression. We must recognize that we are presently on the way to a recession triggered by the virus. The consequences of economic decline would be so hard and brutal, that it is difficult to imagine what would happen within our country, in Europe and worldwide.

To conclude, we must acknowledge that the South China Sea is a hotspot for the worldwide economy, and thus for Germany as well. Thus, we have more than one reason to be concerned about the development in the South China Sea.

Remarks: Opinions expressed in this contribution are those of the authors.

This paper was presented at the roundtable discussion *Great Power Competition in Asia: Should Germany be worried?* organized by ISPSW and hosted by the Embassy of the Republic of Singapore on March 9, 2020 in Berlin, Germany. In the discussion session with eleven Asian experts we also provided recommendations for decision-makers in politics, military and industry.



About the Authors of this Issue

Dr Peter Roell has been President of the Institute for Strategic, Political, Security and Economic Consultancy (ISPSW) in Berlin since January 2006. His former post was as Senior Advisor for Foreign and Security Policy at the Permanent Representation of the Federal Republic of Germany to the EU in Brussels. While in Germany, he served the German Government as Director of the Asia-Pacific, Latin America and Africa (Sub-Sahara) Department and at German embassies in the Near and Middle East, and in Asia.

Dr Roell studied sinology and political sciences at the universities of Bonn, Taipei and Heidelberg. He gained his Ph.D. from the Ruprecht-Karls-University, Heidelberg.

Dr Roell is an Ancien of the NATO Defence College in Rome and the Federal Academy for Security Policy (BAKS) in Berlin.



Dr Peter Roell

Christoph Brewka has been Board Member of the Company Group Klein/Berlin since April 2019 and is heading the single-family-office activities. In his former career he worked for more than 35 years in leading national and international positions for different banks like DZ Privatbank S.A, BHF-BANK and Deutsche Bank AG.



Christoph Brewka