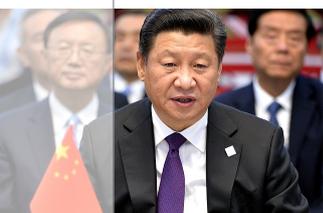


China's Strategic Path after the Arbitral Ruling on the South China Sea

Hsin Kuei Yu



Pursuing multilateral cooperation is more likely to allow China's ambitions in the South China Sea to be realised.

On 1 July, Chinese President Xi Jinping spoke at the 95th anniversary celebration of the establishment of the Chinese Communist Party. Xi said that China does not 'covet other countries' interests, nor does it envy other countries' development, but we won't give up our rightful interests'. For China, these 'rightful interests' include its right to resources in the waters of the South China Sea falling within the 'nine-dash line'. Xi added that:

The Chinese people don't fear trouble but don't seek trouble. Other countries should not expect us to trade away our core interests nor should they expect us to swallow circumstances that harm our sovereignty, security and developmental interest.

Eleven days later, the Permanent Court of Arbitration ruled that China's claim to the resources of the sea waters within the nine-dash line had no legal basis. It also found that China had violated the sovereign rights of the Philippines in its exclusive economic zone, suggesting that Beijing was, in fact, 'coveting' the interests of other countries. Indeed, the conclusion of the Arbitral Tribunal made it quite clear that China was seeking trouble.

China should take note. Beijing must recognise that intimidating other states with an interest in the South China Sea may not be the best strategy. It will not increase Beijing's political influence among them, and it will not weaken the US's regional influence. On the contrary,

China's military presence and build-up in the South China Sea will only contradict its oft-repeated commitment to peaceful development in the region.

In September, China and Russia's annual Exercise *Joint Sea 2016*, their largest-ever bilateral combat drill, coincidentally took place in the South China Sea. This was not an emotional reaction to the ruling; it was a carefully considered strategic action planned long before the arbitration.

However, the timing of the exercise was useful for China. First, it provided an opportunity to demonstrate Chinese naval power in this contested water – a not-so-subtle warning to other states that have interests in the region, including the US. Second, it showed the strength of Sino-Russian military ties. Third, it allowed Xi to cast himself as a strong military leader, to back up his 'China Dream' vision, articulated in a series of speeches after he had assumed office in November 2012: 'This [China] dream can be said to be the dream of a strong nation. And for the military, it is a dream of a strong military'. Finally, the drill provided Xi with the opportunity to promote nationalism and to consolidate his leadership in the Communist Party ahead of its 19th National Congress next year.

Almost in parallel to *Joint Sea 2016*, the US Pacific Command held its biennial *Valiant Shield 2016* exercise in Guam and around the Marianas Island Range Complex. Indeed, it may appear that China and the US are at daggers drawn. But the reality is less exciting. Although China and the US still lack strategic trust and do not have

reliable military-to-military channels of communication, there is still some cooperation on military operations.

China's 2015 White Paper on military strategy stipulated that the country's armed forces would continue to foster warmer relations with the US armed forces that conform to the new model of bilateral relations between the two countries. In a bid to build trust, the Chinese pledged to strengthen defence dialogues, exchanges and cooperation, and to improve confidence-building mechanisms relating to the notification of major military activities, as well as rules of engagement, in order to avoid problems in air and maritime encounters.

In fact, in July and August, as in previous years, China joined the US Navy's Pacific Fleet-sponsored *Rim of the Pacific (RIMPAC)* exercise – the world's largest international naval exercise – off the coasts of Hawaii and Southern California. During *RIMPAC*, the two states jointly drilled rescuing sailors from a disabled submarine and held a forum on providing medical assistance and disaster relief. There were also drills in counter-piracy, diving and salvage, as well as search and rescue. By cooperating in non-combat areas, this exercise should help to ensure that less friendly interactions remain professional and safe.

Not only that, since 2006 observers from the People's Liberation Army Navy have been invited to attend the *Valiant Shield* exercises, the first of which was the largest US military exercise in the Pacific since the Vietnam War.

Observers from China had previously not been allowed to observe US war games.

Both China and the US should have the capability to arrange military cooperation or contact with each other. However, the important question for these two Pacific powers is how military activities can best support their own national interests and political objectives. So far, although there have been errors in the interpretation of strategic intents by both China and the US, they have not yet led to erroneous strategic decisions – that is, decisions that could trigger direct military conflicts.

In fact, states that have claims in the South China Sea that intend to use the potentially dangerous hostility between the US and China to leverage support with Washington will gain no advantage. After all, the US has repeatedly made it clear that it takes no position on the knotty sovereignty claims in the South China Sea. Washington instead emphasises its interest in, among other things, freedom of navigation, the peaceful settlement of disputes and the absence of coercion.

Washington's policy towards the disputes in the South China Sea has not changed significantly since then Secretary of State Hillary Clinton

outlined the US perspective at the ASEAN Regional Forum in Hanoi in 2010. She said that:

The United States, like every nation, has a national interest in freedom of navigation, open access to Asia's maritime commons, and respect for international law in the South China Sea. We share these interests not only with ASEAN members or ASEAN Regional Forum participants, but with other maritime nations and the broader international community.

The US is not the problem when it comes to China asserting itself in the South China Sea; the problem is the tension between China's growing military capability and its lacklustre diplomatic efforts in the region. Rather than pursuing peaceful diplomacy through multilateral negotiations, China has attempted to bully states either through military means, or by using its economic muscle. This has often manifested itself through opaque bilateral deals. For example, Beijing's long-time financial support persuaded Cambodia to veto ASEAN's official statement in July mentioning the Arbitral Tribunal's ruling against China. In October, Philippine President

Rodrigo Duterte visited Beijing and secured \$24 billion of funding and investment pledges, deals which helped the Philippines to forget for the time being any diplomatic differences over the South China Sea (remember that it was the Philippines which, in January 2013, commenced the arbitration against China). After Duterte's visit to Beijing, his Communications Secretary Martin Andanar went so far as to say – without a hint of irony – that 'China is not only a friend. China is not only a relative, but China is a big brother'.

It seems that as its economic power grows, China's diplomatic posture will become more and more arrogant, only increasing its neighbours' anxiety and feelings of insecurity. No wonder some regional states – especially Singapore, Thailand and Vietnam – choose to depend on the US for their security, despite their economies relying heavily on China.

While a strong military presence is critical for China to protect its core interests, being aggressive might prove to be counterproductive. For example, there have been problems with the Belt and Road Initiative, Xi's flagship project for connectivity and cooperation among countries between (primarily) China and Eurasia. Its maritime component, the 21st Century Maritime Silk Road, which is focused on Southeast Asia, is not going as smoothly as the land-based Silk Road Economic Belt, which is geared towards Central Asia. Only Malaysia, Thailand, Laos and Indonesia are currently involved in the former.

In September, the Joint Statement of the 19th ASEAN–China Summit only mentioned the Belt and Road Initiative twice. It said that 'ASEAN notes China's initiatives such as the "Belt and Road"', omitting to mention its future development. The main reason for the lack of cooperation with the project among Southeast Asian states is the mistrust caused by disputes in the South China Sea and fears over Beijing's regional intentions, especially its increased militarisation and the creation of new islands. ASEAN countries might be wondering what really lies behind Belt and Road. Although Xi has repeatedly asserted that the initiative – formerly known as



A Chinese navy frigate and a US destroyer transit in formation in July, during RIMPAC 2016. Image courtesy of US Navy/Ryan J Batchelder.

One Belt, One Road – was not intended to increase Beijing’s sphere of regional influence, China’s military actions will be a stumbling block to its neighbours’ view of the initiative.

In recent years, China has shown no signs of slowing the development of its blue-water strategy, which involves implementing an active defence, whereby an attack against China comes to be seen as prohibitively costly. China’s 2015 White Paper stressed that:

The traditional mentality that land outweighs sea must be abandoned, and great importance has to be attached to managing the seas and oceans and protecting maritime rights and interests. It is necessary for China to develop a modern maritime military force structure commensurate with its national security and development interests ... so as to provide strategic support for building itself into a maritime power.

If active defence remains the essence of China’s military strategy, Beijing might need to reconsider how to develop it properly to keep the balance between the protection of its rights and maintaining stability in the South China Sea. Otherwise, there is no way to achieve China’s strategic objective stressed in the White Paper ‘to foster a strategic posture favourable to China’s peaceful development’.

China is already the dominant economic power in the region. As such, it does not need to continue using military means to try to achieve its goals. In fact, its use of military power to intimidate other states is hampering its ability to build trust with these states. As Sun Tzu wrote in *The Art of War*: ‘Move not unless you see an advantage; use not your troops unless there is something to be gained’.

China must seek a balanced use of its national powers of diplomacy, information, military and economics in

order to effectively assert its strategy in the South China Sea. As a dominant regional power, China should be trusted by the surrounding states instead of feared. China’s strong military power can act as a security guarantee instead of a source of intimidation. By pursuing multilateral as opposed to bilateral cooperation, China will be more likely to achieve its aims in the South China Sea. For example, China could lead the South China Sea littoral states to conduct regular regional maritime warfare exercises that focus on regional security. Not only might this help the neighbouring states better understand China’s military behaviour and development, it could also lower tensions in the region.

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Gambling on Low-Risk: Anti-Money Laundering in Non-Banking Sectors

Alexandra Stickings



Fines recently imposed on leading bookmakers highlight why the UK’s anti-money laundering action plan must include non-banking sectors so that the challenges they face are taken into account.

The gambling sector, a global industry encompassing casinos, bookmakers and lotteries, among others, has unique vulnerabilities to money laundering. The Financial Action Task Force’s (FATF) March 2009 report, ‘Vulnerabilities of Casinos and Gaming Sector’, highlights ways in which the industry is at risk from those involved in money laundering or terrorist financing, including: the industry’s ability to offer financial services while, in some jurisdictions,

being poorly regulated; an often high turnover of staff and seasonal workers, leading to a lack of staff training; and a high proportion of cash transactions. The number of gambling operators is growing worldwide, with some of the largest increases in areas of poor governance or bordering regions with significant criminal or terrorist activity. In other cases, large volumes of illicit flows through the sector are found in areas with a strong history of gambling.

In the UK, while the government’s October 2015 National Risk Assessment of Money Laundering and Terrorist Financing (NRA) judges that ‘the overall money laundering risk in [the] regulated casino sector and the retail betting sector [is] assessed to be low in comparison to the regulated sectors’, it is certain that the money laundering threats to the gambling industry are real and significant, and must not be ignored in favour of more high-profile,