



## CHINA'S NAVAL STRATEGY HEIGHTENS GEOPOLITICAL RISK TO OIL

China is increasingly asserting itself militarily both near to its shores and farther at sea. In doing so, it will seek to define the rules of the sea in ways that better protect its interests. The United States and some closer treaty allies such as Japan and Australia are likely to lead the opposition to China redefining what they consider as settled law of the sea. Both sides will be careful to avoid a clash that could affect merchant traffic. However, an incident could prompt escalation and create another crisis between Beijing and Washington, and likely lift oil prices.

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This past week China issued its first public national military strategy, outlining what it is calling a new policy of “active defense.” In Singapore at a regular major meeting of defense officials from around the world, the United States and China clashed over Beijing’s reclamation and island-building campaign in the South China Sea. China is building a larger and more capable military (particularly its navy), and it is now taking a series of steps to assert what it views as its rights in the waters near China as well as signaling that it is going to take a more active military role on a global basis.

China has been issuing defense white papers in English for a number of years, and this year the white paper was likely provided in advance to the United States as part of a set of confidence-building measures agreed to between the two sides this past fall. The news, therefore, did not come as a surprise to Washington policy makers. What is new in this year’s white paper is the shift in emphasis on what some analysts call the “near seas” to one where China states that it will become more active – “active defense” – across a range of maritime scenarios including ones farther from its shores. China’s new white paper also emphasized a shift from a land-centric military point of view to one that emphasizes naval, air, space, and “informatized” (read: cyber) elements of military power. In other words, China continues to emphasize a shift from a military (the People’s Liberation Army) that was sized and structured to win ground wars against land powers such as the former Soviet Union to one that will protect China’s much more global interests now that it is a huge trading nation reliant on international markets for sales and significantly on imports for a variety of raw materials, including oil and petroleum products.

Over the past seven years, China has been expanding the reach of its navy – both participating (on its own terms) in the international coalition that is combating piracy in the Gulf of Aden and Somali basin as well as sending naval forces around the world on port visits and other operations. Chinese navy ships have recently participated in evacuating Chinese citizens in cases such as the Libyan civil war. China’s navy is building to become a global force, which will conduct the full range of operations in all regions that has – since the Second World War – only been done by the U.S. Navy. While the strongest military emphasis is still on China’s ability to defend its near seas (the South China Sea and the East China Sea), China is developing naval capabilities – as well as military capabilities based on land that can affect the maritime domain – that will be useful across a range of missions in any part of the world. This includes the development and first deployment of an aircraft carrier as well as a hospital ship.

In the short-to-medium term, China is likely to focus its efforts on securing its near seas interests, including

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pushing back U.S. and allied navy activities in what it considers its territorial waters – the South China Sea. The language in the new defense white paper was very clear on this: “Some external countries are also busy meddling in South China Sea affairs; a tiny few maintain constant close-in air and sea surveillance and reconnaissance against China. It is thus a long-standing task for China to safeguard its maritime rights and interests.” The Chinese reclamation/island building is a centerpiece of this effort. While the United States, and others with claims in the South China Sea, have objected publicly to these activities, it is unclear whether there is anything that can be done other than disagreeing publicly over what it means in terms of sovereignty over the region. As a practical matter, the United States will continue to assert a right to freedom of navigation through the region with its military ships and aircraft. China will continue to object, claiming that the entire South China Sea within the “nine dash line” is its territorial waters, and it may ramp up its military activities in the region in an attempt to intimidate the U.S. into decreasing its military activities in the region. However, China will continue to allow merchant traffic to pass through the region unscathed, in large part because it is reliant on the trade that commercial vessels facilitate.

Outside of the South China Sea, China’s rapid advancement in capabilities will not give China the ability to replace the United States as the dominant global navy anytime soon. While China may wind up with the a very sophisticated fleet in the coming decade – perhaps rivaling the U.S. Navy in size and structure by the mid 2020s – it will not have the experience that the USN has nor will it have the string of allies/partners that would provide it with bases from which to operate or resupply. While the Chinese navy has learned how to operate on extended voyages – including resupplying ships in commercial ports – that is very different from bases from which they could operate and resupply during combat operations. In other words, China’s ability to use its navy to influence merchant traffic or other country’s navies on the high seas will remain limited in the near-to-mid term. It also has little incentive to make trouble with regular merchant traffic as Beijing is highly reliant on trade.