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<http://atimes.com/2016/01/china-and-the-south-china-sea-dispute-the-5-trillion-lie/>

## China and the South China Sea dispute: The \$5 trillion lie

BY PETER LEE

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Great News! The world doesn't need to worry about the South China Sea!

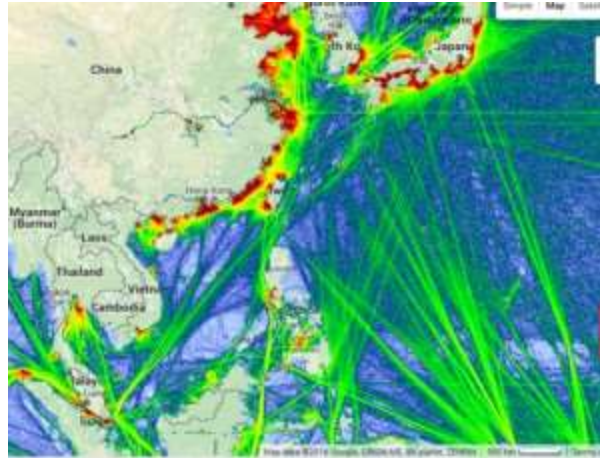
There has been a concerted campaign to depict the South China Sea (SCS) as an indispensable artery for commercial shipping and, therefore, a justifiable object of US attention and meddling.

This public relations effort is typified by the declaration that “\$5 trillion dollars” worth of goods pass through the SCS each year. Reuters, in particular, is addicted to this formula. For instance, two minutes with the Google turned up seven articles filed by five Reuters bureaus throughout Asia-Pacific on PRC misbehavior in the South China Sea in the last month employing the \$5 trillion reference.

However, the awkward fact is that the only major power with a vital strategic interest in Freedom of Navigation in the South China Sea is the People's Republic of China. And the powers actually interested in impeding Freedom of Navigation down there are ... pretty much everybody else, led by the United States.

Let's look at a map, courtesy of [Marine Traffic](#), a most interesting website which offers dynamic real time ship information and some useful historical data free of charge.

If you select the “density map” option and zoom in, you get this view of the busiest shipping routes (green lines) and busiest ports (red blobs) in and around the South China Sea:



Note that marine traffic in the South China Sea does a few things. First of all, much of it goes, unsurprisingly, to the People's Republic of China and Hong Kong. Second, Vietnam, Indonesia, Taiwan, and the Philippines are largely served by coast-hugging routes outside the PRC's dreaded Nine-Dash-Line.

Third, the rest of the traffic that transits the SCS pretty much on a straight line is headed for Japan and South Korea. This would seem to support the perception that Japan and South Korea, our precious allies, need protection against threats to their supply of hydrocarbon-based joy juice, their economies, indeed their national security and ways of life emanating from the overbearing PRC presence on the South China Sea lifeline.

Not quite.

The strategic insignificance of the South China Sea to Japan and the Republic of Korea has been well known since the 1990s, when "energy security" became an explicit preoccupation of Japanese planners.

Here is an insightful passage from a book by Euan Graham, *Japan's Sea Lane Security: A Matter of Life and Death?*, published in 2005.

*The cost to Japan of a 12-month closure of the South China Sea, diverting oil tankers via the Lombok Strait and east of the Philippines, has been estimated at \$200 million. A Japanese estimate puts the cost as basically the same to that imposed by a closure of the Malacca Strait, requiring 15 additional tankers to be added to the route, generating an extra \$88 million in shipping costs. This is roughly corroborated by the reported findings of a joint study conducted by the JDA and the Indonesian authorities in the late 1980s, which put the number of extra tankers required to divert around the South China Sea via Lombok and east of the Philippines at 18.*

*... The volume of oil shipped to Japan from the Middle East is evenly split between Lombok and the Straits of Malacca ...*

What does two extra days on the water mean? Per Graham,

*... Based on an oil import bill of \$35 billion in 1997, [a cost of \$88 million for diverting through Lombok] accounts for 0.3% of the total.*

To update these figures, the oil/tanker market has gone pretty gonzo recently, as everyone is aware. Crude prices have gone down, while tanker rates go up as importers stampede buy cheap strategic reserves and, on occasion, hold the tankers for temporary storage instead of releasing them back into the wild. Most recent shipping figure I could find was about \$2.50/barrel from the Gulf to Japan.

Let's assume \$30/barrel crude plus \$3/barrel shipping costs. Japan imports about 2 billion barrels per year. That's \$6 billion dollars. And we assume the Lombok route adds 10% or \$0.30/barrel to the shipping cost. That's another \$600 million dollars against \$60 billion in total crude costs. 1%. By a funny coincidence, \$600 million is also about 1% of the annual Japanese defense budget. Japan's GDP: \$4 trillion dollars.

So is Japan going to light off World War III to keep the purportedly vital SCS SLOC open and save 1% on its oil bill?

Here's one fellow who doesn't think so:

*CSD [Collective Self Defense] will not allow minesweeping ops in SCS/Malacca Strait as unlike Hormuz there are alternative routes.*

That's a statement that notorious appeaser, Prime Minister Shinzo Abe, made in the Diet, as reported on Corey Wallace's Twitter feed.

Republic of Korea: imports less than 1 billion barrels per annum. Cost of the Lombok detour: maybe \$270 million.

Bottom line, everybody prefers to use Malacca/South China Sea to get from the Persian Gulf to Japan and South Korea. It's the straightest, it's the cheapest, there's Singapore, and, in fact, shipowners looked at the economics and decided to dial back the construction of "postMalaccamax VLCCs" (Very Large Crude Carriers) so they'd always have the option of going through the Malacca Strait and South China Sea.

But if that route goes blooey, they can always go via Lombok and the Makassar Sea. Just a little bit more expensive.

So, the South China Sea is not a critical sea lane for our primary North Asian allies Japan and the Republic of Korea.

What about the threat to the Antipodes? Core ally Australia? If the PRC shut down the South China Sea, what would that do to Australian exports (other than to China, naturally)?

From Euan Graham's volume quoted above:

*Iron ore and coke shipments from Australia account for most of the cargo moved through the Lombok Strait ... Lombok remains the principal route for bulk carriers sailing from Western Australia to Japan.*

They use Lombok already!

As to the South China Sea factor, Sam Bateman, a retired Royal Australian Navy commodore who now think-tanks in Singapore, debunked a dubious piece of numerology by Bonnie Glaser:

*Bonnie Glaser has recently claimed that approximately 60% of Australia's seaborne trade passes through the South China Sea ...*

*When measured by value, the figure of 60% of our seaborne trade passing through the South China Sea is way off the mark. Based on the latest data for Australia's overseas trade, it mightn't even be half that—and about three-quarters of it would be trade to and from China. Thus the notion of a threat to our seaborne trade from China is rather a non-sequitur.*

Doing the math ...25% of 30% ... that's 7.5% of Australia's total seaborne trade by value through the South China Sea isn't going to the PRC. Back of the envelope, that's A\$40 billion, about half of which is back and forth with Singapore, which could be end-arounded by entering the Malacca Strait from the west and avoiding the South China Sea completely. So maybe A\$20 billion theoretically at risk in the unlikely event that the PRC decided to close the SCS completely to Australian shipping. By contrast, Australian two-way trade with the PRC: A\$152 billion.

If you are wondering why there is a "spirited debate" as to whether confronting the PRC, the biggest customer for Australian ore and real estate, in the South China Sea serves Australia's national interest, I think you have your answer.

It should be clear by now that the South China Sea as a commercial artery matters a heck of a lot more to ... China, unsurprisingly, than it does to Japan, South Korea, Australia, and the United States.

Here's the funny thing. The South China Sea is becoming less and less important to the PRC as well, as it constructs alternate networks of ports, pipelines, and energy assets.



*Carrier USS Ronald Reagan was deployed late last year to Japan station*

The idea that the PRC will ever wriggle free of the maritime chokehold is anathema to the US Navy, which has staked its reputation, claims to a central geostrategic role, and budget demands on the idea that the US Navy's threat to the PRC's seaborne energy imports is the decisive factor

that will keep the Commies in their place. America's interest in d\*cking with the PRC in the South China Sea predates any Xi Jinping-related arrogance, expansionism, and island-building and indeed predates the appearance of any PRC Navy worthy of consideration. It can be traced to the Office of Net Assessment's 2004 report prepared via Booz, Hamilton for Donald Rumsfeld, *Energy Futures in Asia*.

As I don't think that report has been declassified, interested readers can check out this 2010 paper from the US Naval War College titled, "Your Pitiful Pipeline Plans Will Never Succeed, Silly Chinese! Learn the Will of the Mighty US Navy and Tremble!" (actual title, *China's Oil Security Pipe Dream*, not so far off the mark).

Indeed, Middle Eastern oil, oil that at the very least leaves the Middle East by ship, is probably going to be a big deal in China for decades. But the PRC is trying to do something about it. "Something" means setting up a terminal in Burma with a dual crude/gas pipeline to China, and signing an agreement for the titanic (and titanicly risky) project to link the Pakistan port of Gwadar to Kashgar in Xinjiang by a rail and possibly a pipeline link originating in insurrection-plagued Balochistan, crossing the high Himalayas, and terminating in insurrection-minded Kashgar in Xinjiang. And signing a military basing agreement with Djibouti. And putting submarines into the Indian Ocean Region.

Pipelines are, of course, more expensive to operate and vulnerable to attack by local insurgents and more mysterious forces, as US strategists are suspiciously keen to point out. Ports in third countries are liable to meddling by pro-US governments, factions, and regional proxies. But the PRC is building 'em. If the US can spend half a trillion dollars on our national security, the PRC is also willing to spend a couple hundred billion on its energy security in defense and capital budgets and the added expense of moving oil & gas from A to B not through the Malacca Strait.

Which means, of course, it's time to hype that PRC threat to the Indian Ocean!

Here you go: *US Navy official questions intent of China military advance in Indian Ocean*

As these massive and risky alternative expenditures by the PRC—and the complete absence of plausible threats to Japan, South Korea, and Australia interests—indicate, the only genuine role the South China Sea played as a strategic chokepoint worthy of US interest is ... against the PRC.

Bad news is, with the PRC putting its energy eggs in a multiplicity of baskets, if it ever comes to fighting the real war with China—a full-fledged campaign to strangle it by cutting off its energy imports (like we did with Japan in the 1930s! Hey! Useful historical analogy)—we'll have to do it in a lot of places, like Burma, the Indian Ocean, and Djibouti, as well as the South China Sea. A real world war!

Good news is, as the PRC's shipping options increase, the strategic importance of each individual channel decreases ... as does the desire of the PRC, Japan, ROK, or Australia to risk regional peace for an increasingly irrelevant sideshow—and the local interests of Vietnam and the Philippines—diminishes.

What I hope is that the South China Sea, instead of serving as the flashpoint for World War III, may well end up as a stage for imperial kabuki as the US & PRC bluster and posture to demonstrate resolve to their neighbors and allies ... and an opportunity for political posturing, amped-up defense spending, and plenty of opportunities for the hottest of media and think-tank hot takes.

That would keep everybody happy.