

# **INTERVIEW: Shipping in maritime Asia is vulnerable to geopolitical tension**

Geopolitical disruptions to global shipping supply chains have recently been felt due to the conflict in Gaza and Russia's invasion of Ukraine. Concerns have been sharpened by the assaults by Houthi militias on commercial shipping through the Bab al-Mandab Strait at the entrance to the Red Sea and the Suez Canal, disrupting the 12 percent of global trade that passes through those waters. Disruptions to global shipping have also occurred due to COVID-19 and a drought affecting the Suez Canal.

Maritime Asia is a major transit route for international trade. But the South China Sea, which is between China, Taiwan, the Philippines, Brunei, Malaysia and Vietnam, is hotly disputed territory and China's claims in the area have led to increased tension with the US.

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## ***What are some of the lessons learned so far in relation to maritime supply chains in relation to the current conflicts in the Red Sea and the Black Sea?***

Some recent lessons will be enduring. We had the Tanker War in the Persian Gulf, which was part of the Iran-Iraq war in the 1980s and which severely impacted the price of oil. We had the Gulf crisis in 2019-2020, where Iran attacked a number of ships, and we've seen it again, on a different scale and in different waterways.

There are three key lessons that I would highlight. The first, is that as the world becomes more unpredictable, traditional trade routes will be challenged and reliability, including delivery times, will be challenged. We've have been pretty lucky—as maritime trade has expanded and as the world became more globalised there haven't been really significant disruptions to maritime trade. We've been able

to rely on the fact that, by and large, the system's there, it works, and it adjusts to certain shocks, such as piracy off the coast of Somalia that in 2008 really started to ramp up to 2011. But shipping trade adjusted—ships took a wider arc around Somalia and avoided the high risk area. It was pretty resilient. What we're seeing now is that in different areas are on a different scale maritime trade will be interfered with and that impacts on reliability.

My second point that is that despite the fact that we are seeing that maritime trade will be interfered with, we are also seeing that maritime trade is resilient. We saw this through the COVID-19 pandemic. There were initial shocks and shortages, but it did adjust. I think the best example of this is what's occurring in the Red Sea, where we're seeing a number of ship companies stating that they will not transit through the Red Sea, but they're adjusting around the Cape of Good Hope. It's adding transit time and therefore fuel costs. With 10 to 14 days transit time, some people are estimating about a million dollars in fuel costs, but it is adjusting, and those fuel costs are less than the war risk insurance costs that are skyrocketing for ships going through the Red Sea. What I want to draw out from that, is we need to do some thinking about how future adaptation might occur and what the impact might be. For example, I would say, the increasing number of ships going around the Cape of Good Hope and going towards the Somali coast is probably increasing their vulnerability to the surge in Somali piracy. Until last year, we would have said that Somali piracy had finished. The last attack was in 2017 and there's some doubt about whether that was really a piracy attack. We've seen the resurgence coinciding with the Houthi attacks in November and there's a whole bunch of reasons for that resurgence and probably ships taking different routes which can be targeted is one reason. We need to understand what the impacts might be. We also need to understand the impact of things like war risk insurance, which is finally reaching general parlance again (war risk insurance was something that impacted Australia during World War II when we had the government looking at subsidising war risk insurance) and to how much that actually dominates where ships will operate, especially now, since so many ships fly under flags of convenience. Flags of Convenience is where shipping companies will register under a country that either has cheaper registration fees or is unlikely to really enforce some of their obligations under the United Nations Convention of the Law of the Sea (UNCLOS) or other Conventions. We know that the majority of the world shipping is flagged to Panama, Liberia and the Marshall Islands. We need to understand how some of those impacts of wars and insurance will make it adjust. I think it's likely that shipping companies will not go through the Red Sea because of the risk to their crews and also because

of the significant cost of war risk insurance.

The third point is that countries see interference with maritime trade and shipping as a way to send a strategic message. That that has a lot of implications for how Australia and other countries in the region should view their dependence on maritime trade. If you look back to the 2019-2020 Persian Gulf crisis, there were lots of issues wrapped up in that, but at the heart of it was that Donald Trump was the US President and he pulled out of the JCPOA (the Iran nuclear deal). Iran saw interfering with shipping as a way to send a strategic message and we see that again in the Red Sea. I don't think the Houthi's actions in the Red Sea are all about the Gaza conflict. I think their actions are more about sending a significant message about where they see their role in the Middle East.

From an Australian perspective we need to think about what happens if a potential adversary, such as a state in the region, thinks that there is a way to send Australia message by interfering with our trade. We need to accept that shipping could be interfered with and we need to understand the impact of that.

***Could you talk a little more about the main points of geopolitical tension in the Indo-Pacific that might cause significant disruptions to maritime supply chains?***

The first thing is, what is classified as the Indo Pacific? It sounds really obvious: the Indian and Pacific Oceans and everything in between. But different countries classify the Indo Pacific differently. For example, the Houthi are undertaking attacks in the Gulf of Aden which is broadly on the edge of the Indian Ocean. France would view that as being of the Indo-Pacific because it's the Indian Ocean. India would also regard that as part of the Indo-Pacific. Australia has a really confined view of the Indo-Pacific, which is unhelpful when you think about maritime connectivity. The Australian government and Australian academics tend to talk about it as cutting off at the southern tip of India. We don't tend to think about the western Indian Ocean, which is where piracy is increasing at the moment, for example, as part of the Indo-Pacific. Certainly, the government's definition of the Indo-Pacific when stated does not include the western Indian Ocean, which is why when the request came through to send a ship to the Red Sea, the deputy prime minister said at the time that it's outside of our main area of focus.

There are a number of potential flashpoints. I think that the most urgent and the most concerning is China's aggressive behaviour in the South China Sea. For

example, there's some recent significant footage of two Chinese coast guard using a water cannon on a very small wooden Philippine supply vessel. As much as that aggression has kind of become the status quo in the last 12 months, it's very clear that the Philippines is not happy with that and the President of the Philippines clearly stated that they intend to develop a series of countermeasures to respond to China. Since that statement, we've seen maritime cooperative activity in the South China Sea between Japan, Australia, the Philippines, and the US. The visit by US Secretary of State Antony Blinken to the Philippines in March reaffirmed that they consider issues in the South China Sea coming under the treaty with the Philippines and that they would respond in the event of an attack. In terms of flash points that could impact maritime trade and supply lines, it's a big one because 60 percent of the world's maritime trade goes through the South China Sea. There's not been any threat to shipping yet, but if tension escalated into a conflict it would have a significant impact in terms of ships diverting around the area of risk. I think ships being attacked is probably less likely because of how dependent China is on maritime trade.

Of course, there's also the Taiwan issue and whether that would evolve into a conflict. If so, it would obviously have an impact on maritime trade in the region, but I would say probably potentially less of an impact than a significant event arising from a dispute between the Philippines and China which I think would involve all of the Chinese artificial islands in the South China Sea that have been militarised becoming legitimate military targets; so it would expand quickly. Also, there are obviously the continued issues on the Korean Peninsula. In the last 12 months, North Korea has fired more missiles than it has in the last five years or 10 years. It's often the thing that you're not expecting that causes a conflict, so as much as we're focused on South China Sea tensions boiling over there's a list of other things that could happen.

***It would be interesting to get your critical evaluation of the actions of the US and its allies, because China's usually portrayed generally in the West as the aggressor.***

When we talk about what's occurring in South China Sea, we need to be clear with terms. When we talk about maritime jurisdiction, as established under the United Nations Convention on the Law of the Sea, a nation doesn't have full sovereignty over things like Exclusive Economic Zones or Contiguous Zones, they have a balance of rights and obligations, depending on the zone. When you talk about the Exclusive Economic Zone, the coastal state that claims that Exclusive Economic Zone has a

right to the use and regulation of the resources within that zone, such as fisheries and energy. I think it's dangerous when you talk about the term 'sovereignty', but the challenge is that China does think about it as sovereignty, even though in 2013 a tribunal at the Permanent Court of Arbitration was clear that China's position on the 'nine dash line'—its claim over the South China Sea—has no standing in international law. As much as China would say this goes back thousands of years, there's actually not a lot of evidence of that. China has never articulated exactly where the nine dash line is, so if the Philippines wanted to negotiate with China in terms of their claims, it makes it difficult because no-one knows exactly what their claims are. In contrast, if you wanted to know where Australia's Exclusive Economic Zone was, you can find the exact GPS coordinates of what Australia claims.

### ***Why hasn't China been specific?***

China has also declined to specify what it claims within the nine dash line and so I think it sees benefit in ambiguity. As I said, there is a mix of rights and obligations depending on the zone. China has never explained whether they view the nine dash line as their Exclusive Economic Zone, or perhaps whether they view it as their territorial sea. In terms of the international law question, the Arbitral Tribunal has dealt with China's historical claims, and it was very, very clear that it has no claim in international law and even if there was an historical claim, it has been superseded by the United Nations Convention of the Law of the Sea, to which China is a signatory and played an active part.

There are two reasons China is so intent on it. I'm not a China specialist but a lot of academics who write on China says that when China looks out towards the South China Sea it has a land-centric view of security. It sees parts of the South China Sea as an extension of China, which you can see it in terms of the graphics on the maps they produce. This has increasingly become the case, I think, because China also sees its vulnerabilities in that area in terms of defence so it makes sense in terms of trying to claim the South China Sea from a defence standpoint. You can understand the logic, not the legal claims, but the logic behind building up shoals into artificial islands and putting capabilities such as surveillance and electronic warfare missiles on them. There's a clear logic and rationale, I think, to what China is doing in the South China Sea. There's always been territorial delimitation disputes between China and Vietnam and China and the Philippines, but this has increased as China has felt more vulnerable. There's also a huge economic argument as well, relating to resources in South China Sea being incredibly important such as hydrocarbons. I think the rationale and the logic is understandable, but doesn't have a foundation

International law.

There is a significant overlap between China's nine dash line and the Philippines Exclusive Economic Zone at a place called Reed Bank, an undersea mountain rich in hydrocarbon. China is excluding Philippines fishing vessels from being at Reed Bank and also excluding the Philippines from seeking to explore oil and energy from there. The Philippines is running out energy supply and it needs to very quickly find another way to support its energy needs from within its pretty rich Exclusive Economic Zone. It wants to develop areas around Reed Bank, but China doesn't want it to.

***Would China deliberately disrupt maritime supply chains to see what happened?***

I don't think it's out of the realm of possibility, because when you think about the fact that when China didn't like what Australia said about COVID-19, China undertook economic coercion against Australia. Interfering in maritime trade could be just an extension of that. But we need to remember that China is also heavily dependent on maritime trade, because something like 60 percent of China's trade goes through the Malacca Strait and the South China Sea. A general interference with maritime trade in the South China Sea would impact China's economy and China would not start randomly attacking ships because it's just not in their interests to do so. What I think is more likely is a very targeted interference, such as a blockade on supplies going to Taiwan, which would be hugely escalatory but not outside of the realm of possibility; so boarding, detaining, or interfering with certain shipping heading to Taiwan or certain parts of the Philippines. There is also an argument that if China did not like something that Australia was doing, given how dependent Australia is on maritime trade, then they could interfere with Australia's maritime trade. This wouldn't happen in the short term, but if there was a significant event, Australia's vulnerabilities are in the maritime domain. Somebody else coined this expression that if you think about Australia as a living organism its organs are outside its body, its vulnerabilities are outside of its physical geography. It would be very easy to target shipping coming to Australia. I also think that if they wanted to send a message with a military focus, they could send a Chinese task group to sit off our oil platforms on the Northwest Shelf.

***Could you talk a bit more about what an actual conflict would be on shipping supply chains and the consequences?***

It is heavily dependent on what the genesis and nature of the conflict, because the

only reason it interferes with shipping is if the shipping companies perceive that there is a risk. If you look at the Iranian drone and missile attack on Israel in April there's not a direct risk to shipping. There are certain types of conflicts where it potentially does have a direct impact on shipping. If we had a wide-ranging conflict in the Indo-Pacific, being very much a maritime construct, one of the things you'll start to see is shipping routes change mainly due to concern about risk and the cost of war risk insurance. Dr Richard Dunley has recently talked about how Australia's trade comes from Southeast Asia and so instead of it being north-south trading through the Indonesian archipelago it would quickly diversify east-west, India and the US. Patterns would change and I think we would see the potential development of a southern route around Australia. Ships don't currently take the route around southern Australia because it's too long and costs too much. But if they're trying to avoid conflict in the South China Sea and they're not going to a Southeast Asian country, then it becomes more attractive. From a defence perspective this creates more vulnerabilities to the south of Australia. There could be change in relation to who nations trade with and the routes ships take. If there was a wide-ranging conflict in the Indo-Pacific where ships were targeted and if there was a conflict that Australia was involved in ships might be targeted because that's one of Australia's major vulnerabilities: political, cyber and maritime. No-one would send a battalion to land on Cape York or something like that, it's just not feasible because the terrain is so difficult. Certainly, the targeting of certain sites with missiles is possible. If Australia were engaged in a war in the Indo-Pacific then we could expect to see missile or drone strikes into places like the military facilities in the vicinity of Alice Springs, certainly into where we have our F35s based, and certainly into our naval bases if China or another adversary had capability within range. In the lead-up you would see significant disinformation and cyberattacks on infrastructure, and you would see interference with trade because if Australia can keep going in a conflict then the US can use Australia as a base to project forward, which happened in WWII. Bearing in mind that 91 percent of Australia's fuel is imported and the International Energy Agency specifies that in normal peacetime a country should have 90 days fuel reserves and Australia currently has a lot less than that. Australia doesn't have the fuel reserves and we don't have the ammunition reserves. We can grow crops to feed ourselves, but we are heavily dependent on imported fertiliser. There are a lot of things there that could be interfered with to shut Australia down.

***How can states individually and together make maritime supply***

## ***chains more resilient?***

Regardless of the chances of a conflict in the region, which is not probable, but it is increasing, there are a number of other things that we've learnt. COVID-19, for example, generated supply chain shock and showed that resilience, or preparedness, is important. From an Australian perspective, one of those things is understanding exactly what we import that is critical to our economy. I'm not sure that we actually know and I think that became obvious during COVID. The second thing is working out how we either generate increased stocks of the critical imports, or we diversify supply chains. In terms of the increased stocks, the most obvious one for Australia is its energy supply. I don't think this is talked about enough—if there was an interruption to that supply chain for many reasons we would really struggle. These things are applicable to many nations. There's also the conversation about whether things like the US-led Indo Pacific Economic Framework can make the region more integrated and thereby develop confidence and reduce the chance of conflict. That's an argument that some people put forward and I would have subscribed to it a couple of years ago, but I think that the war in Ukraine and Russia's illegal actions there demonstrate that economic dependence is not something that will necessarily prohibit a country from taking military action.

## ***Are other countries in the region doing that work?***

I get the sense that some other countries are trying to understand what they are dependent on and become more resilient and more diversified and encouraging other countries to do so. For example, in the trilateral meeting between the US, Japan and the Philippines some of the vulnerabilities of the Philippines were examined, including energy and infrastructure and the US has agreed to provide some support, but we will have to see if that actually happens. Another example is Vietnam—countries that used to have goods produced in China are looking to Vietnam as an alternative, but it needs to become more of a focus. One of the reasons that it's not, is that there is not a general sense in the region of the likelihood of a conflict. I'm not convinced that a lot of people believe that conflict in the region, which would be catastrophic, is possible. But if the events between Iran and Israel show us anything it shows us that increasingly states do not abide by the UN Charter and they act in an unpredictable way. Neither the US, or China or the Philippines want a conflict, but I think people put more faith in the architecture of the international system to de-escalate things than they probably should. Another example is that the UN body that for 14 years had overseen sanctions on North Korea was recently disbanded, which didn't get a lot of attention, but it's was really



important. Interestingly, Australia has sent a ship to a regional presence deployment which includes Operation Argos which is the enforcement of sanctions against North Korea, but the body overseeing that has now officially been disbanded because Russia would not support its renewal in the UN Security Council. Russia did that because the body had released a report saying that Russia is actively breaching sanctions in North Korea. I'm optimistic, but the chances of a conflict in the region are increasing and I don't think our responses for risk reduction are effective. What we've seen from the Black Sea and the Red Sea is that maritime trade doesn't just stop because of conflict, but we need to understand better how it might change and evolve.

*Image credit: NASA/Flickr.*