Title	Chinese Corporate Players in the South China Sea: Complicating the Disputes?
Author(s)	Gong, Xue
Citation	Gong, X. (2016). Chinese Corporate Players in the South China Sea: Complicating the Disputes? (RSIS Commentaries, No. 228). RSIS Commentaries. Singapore: Nanyang Technological University.
Date	2016
URL	http://hdl.handle.net/10220/41464
Rights	Nanyang Technological University

RSIS COMMENTARY

www.rsis.edu.sg

No. 228 – 14 September 2016

Chinese Corporate Players in the South China Sea: Complicating the Disputes?

By Xue Gong

Synopsis

China's state-owned enterprises are increasingly engaged in various activities in the South China Sea. Their involvement, usually mingled with nationalism in China, further complicates Beijing's policy on the dispute.

Commentary

ON 12 JULY 2016, a special arbitral tribunal under the United Nations Convention on the Law of the Sea (UNCLOS) issued its verdict over the case brought by the Philippines against China in the South China Sea dispute. Since the start of the arbitration, China has steadfastly held on to its stance known as the Four Nos: No Participation, No Acceptance, No Recognition and No Execution.

Many analysts attempted to interpret China's reaction to the arbitration from Beijing's strategic and regional security policy perspectives. What is missing in all the analyses is the increasing role of Chinese corporate players, many of which are state-owned enterprises (SOEs). Exploring the role of these Chinese SOEs helps to enrich our understanding of China's behaviour in the dispute. In fact there is a case to be made that China's tourist industry is playing a complicating role in China's positioning in the South China Sea dispute.

Involvement of Chinese Tourist Companies

It is easy to understand that the Chinese defence industry has significantly benefited from the South China Sea disputes. The stock market offers a glimpse of their latest gains. In the weeks leading to the tribunal ruling, a few notable Chinese stocks experienced significant price hikes and rising trading volume.

For example, the shares of Beifang Daohang Technological Corporation, affiliated to China North Industries Group, rose by 8.8 per cent. Another example includes China RACO which specialises in satellite communication. Its shares rose by 6.6 per cent. The shares of State China Shipping Corporation rose by 19.6 per cent between 24 June and 12 July 2016. In addition to the defence industries, there are other less well known but active SOEs reaping benefits from the South China Sea disputes.

Although the tourism industry may seem to be the unlikeliest candidate to experience growth in times of regional conflict and uncertainty, it is not the case for Chinese companies that offer tour services to the South China Sea. On the day after the release of the arbitration ruling, two aircraft, chartered by China Southern Airlines and Hainan Airlines, both state-owned enterprises, departed from Haikou and landed on Meiji/Mischief Reef and Zhubi/Subi Reef respectively. Pundits in China suggested their government may eventually come up with a plan in the future to utilise the tourism resources on the newly-constructed artificial islands occupied by China in the South China Sea.

Chinese tourist companies had already started their businesses in the Paracels. The Coconut Fragrance Princess Cruise was introduced in 2012 by the Hainan Strait Shipping Co. Ltd. (HSSC), a local SOE, to promote tourism in the Paracel Islands, especially to Quanfu Dao/All Wealth Island and Yagong Dao/Male Duck Island. Initially, the Princess Cruise made losses and was subsidised by the government. But its operational performance improved after Sanya became the departing port in September 2014 and Yinyu/Observation Bank was added to the existing two destinations.

Such tourism operations are inevitably linked to nationalism. Tour activities include flag-raising and oath-taking ceremonies. It is believed that promoting travel resources bolsters China’s sovereignty and rights in the South China Sea. Over 10,000 Chinese tourists, touted to be patriots, have visited the Paracel Islands. Such tours continue to be supported and welcomed by the general Chinese public, especially after the arbitration.

Growing Appetite of the Tourist Sector

The Chinese corporate players are developing an even stronger interest in the tourism resources in the South China Sea. In April 2016, China COSCO Shipping Corporation started a cruise company in partnership with two other national SOEs, namely China Travel Service Group (CTSG), and China Communications and Constructions Corp. (CCCC). COSCO is seeking opportunities to expand operations from Paracels to Taiwan and other islands in the neighbouring countries, as part of China’s Maritime Silk Road cultural tour.

During the exhibition of China Nanhai Cruise, Party Chairman and CEO of China COSCO Xu Lirong reiterated that tours to the South China Sea would be part of the company’s future development plan. He also emphasised that operating businesses along the “One Belt, One Road” (OBOR) route is one of China’s SOEs’ responsibilities. Similarly, the CCCC has also actively responded to the OBOR initiative to focus on the development of maritime economy.

Besides developing a cruise terminal in Sanya Feng Huang Island about 330 kilometres from Yong Xing/Woody Island, together with CTSG, the CCCC co-founded the Sanya International Cruise Development Company (SICDC) with the support of Sanya Municipal Government in December 2015.

The fortunes of Chinese SOEs are inexplicably linked to their double missions which includes not only financial goals but also the obligation to achieve the nation's socio-political objectives. This is apparent among the SOEs involved in the South China Sea. By including the realisation of tourism potential in the South China Sea as one of China's strategies, the development of civilian usage within the disputed maritime territory becomes a mandate for the SOEs.

In 2012, the government declared national marine zonings that essentially stipulated state support for the oceanic industry in Nansha/Spratly Islands, Zhongsha/Macclesfield Bank, and Xisha/Paracel Islands, and travel resources, especially in Yongxing/Woody Island.

Corporate Involvement Further Complicates China's Policy

After the tribunal ruling, China is likely to continue to encourage its SOEs to invest in the South China Sea because Chinese decision makers believe that the presence of Chinese SOEs in the area helps enhance China's sovereignty and maritime claims in the South China Sea. The expansion of SOEs' interests in the South China Sea, in turn, makes it more difficult for China to back off from its South China Sea claims or soften some of its positions.

But Beijing faces a dilemma. In addition to the negative impacts on China's relations with some regional countries and Beijing's regional strategic influence, the disputes in the South China Sea cast a gloom over some of Beijing's more ambitious regional economic integration plans such as the 21st Century Maritime Silk Road (MSR) initiative, which requires the participation and cooperation of many countries in Southeast Asia.

The tensions and disputes in the South China Sea make the implementation of the MSR only possible bilaterally, that is, between China and willing parties in Southeast Asia. A multilateral approach for the MSR, which would be ideal for the purpose of maximising the benefits of the initiative for all participating countries, is very unlikely at least in the foreseeable future unless the South China Sea becomes far more stable than it is now.

Xue Gong is a senior analyst with the China Programme at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University, Singapore.