

Trump's elusive gambit on North Korea aimed at 'containing' China

By: Lars Henriksson, Senior Research Fellow; Co-Head, Frontier Asia Consulting
With Sebastian Spio-Garbrah, Chief Frontier Markets Analyst & Global Managing Director



While the US looks to soon ink a trade deal with China to resolve their balance of payments imbalances, the security relationship between the two major global nuclear powers is poised to deteriorate further as the Trump administration tightens its 'containment' policy. Key to the new US 'containment policy' on China is a desire to flip North Korea from a Chinese client-state into a neutral peaceful nuclear power freeing up many of the 24,000 troops currently stationed on the DMZ for other duties in Asia. Thus US President Donald Trump's flattering quest for any deal with North Korea's taciturn leader 36-year old leader Kim Jong-un is principally not merely an ego quest by Trump for the Nobel Prize, but fundamentally about a major pivot in US Asia policy from a focus on The Korean Peninsula and Japan, to a muscular continental-focused Indo-Pacific policy to curb deepening Chinese hegemonic influence. The US Pacific command established in 1947 was aimed at Japan. The Indo-Pacific strategy is aimed squarely at containing China.

Last month, Singapore hosted the Shangri-La Dialogue where defense ministers, security officials and industry specialists were offered further insights about the new US INDOPAC strategy. Shortly afterwards President Trump appointed Mark Esper as acting Secretary of Defense following the abrupt resignation of his predecessor. Taken together, the new military initiatives will be directly linked to economic/business considerations particularly with regards to China. It lends further support to the view that security strains in the China-US relationship are unlikely to be fully resolved in the near-term.

Pentagon, led by China hawks

On June 18, Mark Esper replaced Patrick Shanahan as Acting Secretary of Defense, or the Secretary of Defense. Esper is a graduate of West Point Class of 1986, a classmate with current Secretary of State Mike Pompeo. He worked as Secretary of the Army, a senior executive at Raytheon, and at the US Chamber of Commerce Global Intellectual Property Center and as vice president for Europe and Eurasian Affairs. He is regarded as a China hawk, which is evident his statement that “the biggest challenge is clearly China” in the long-term.

If confirmed as the new Secretary of Defense, Esper will be in charge of a paradigm change in the US global military strategy.

To recap, a year ago the US announced that its Asia military command would be re-labelled from the Pacific Command (“PACOM”) – to Indo-Pacific Command (“INDOPAC”) – signaling the biggest military strategy change over the last 70 years.

Initially met with apathy, the fresh features of the new US strategy was revealed at the Shangri-La Dialogue, the major annual regional security gathering for Asia-Pacific, held in Singapore last month.

Feature 1: It’s the economy, stupid

Patrick Shanahan, the predecessor of Mark Esper, proclaimed during the Shangri-La Dialogue meeting that the region was a “priority theater,” where the US has a “natural presence,” and the overall aim was to support a free and open Indo-Pacific. The US Department of Defense (DOD) issued a 65-page report titled “INDO-PACIFIC Strategy Report: Preparedness, Partnerships, And Promoting and Networked Region” which offered further details.

The DOD report reads more like an investment banking document than a military strategy report. The economic reasons took center stage: “The Indo-Pacific contributes two-thirds of global growth in gross domestic product (GDP) and accounts for 60 percent of global GDP. This region includes the world’s largest economies – the United States, China, and Japan – and six of the world’s fastest growing economies – India, Cambodia, Laos, Burma, Nepal, and the Philippines. A quarter of U.S. exports go to the Indo-Pacific, and exports to China and India have more than doubled over the past decade.”

The US military role is justified by the fact that “We have contributed both blood and treasure to sustain the freedoms, openness, and opportunity of this region. Our presence secures the vital sea lanes of the Indo-Pacific that underpin global commerce and prosperity.” Furthermore, it stressed that the US two-way trade with INDOPAC was \$2.3trn and US foreign direct investments stood at \$1.3trn - more than China, Japan and South Korea combined.

Feature 2: CCP enemy no. 1?

Perhaps unsurprisingly, China was identified as the biggest threat to stability as it is seeking regional hegemony in the near-term and global “preeminence” in the long-term. It makes a clear distinction between “the Chinese people aspire to free markets, justice, and the rule of law” and the “Chinese Communist Party (CCP), [which] undermines the international system from within by exploiting its benefits while simultaneously eroding the values and principles of the rules-based order.”

The CCP is accused of lording over systematic mistreatments of Uighurs, Kazakhs, and other Muslims in Xinjiang, cyber thefts, militarizing the South China Sea and using other “non-military tools coercively, including economic tools, during periods of political tensions with countries that China accuses of harming its national interests.”

The new US policy leaves no other conclusion except that that the CCP is enemy number one. The next step could be CCP affiliated companies/staff being restricted or sanctioned in the US, much as ha already happened with companies affiliated with the Iranian Revolutionary Guards.

In April 2019, 40 bipartisan lawmakers led by Senator Marco Rubio and Representative Chris Smith on the Republican side and Senator Bob Menendez and Representative James McGovern on the Democratic side sent a letter to president Trump calling for sanctions on Xinjiang’s CCP chief and other Chinese official “complicit in gross violations of human rights.” They also urged tighter US export controls and asked for tighter financial disclosure to warn American investors about presence in US capital markets of Chinese companies which are “complicit in human rights abuses.” In essence, they called Trump administration to apply sanctions under the Global Magnitsky Act, a federal law which allows US government to target human rights violators around the world with freezes on US assets, travel bans and prohibitions on Americans from doing business with them.

Separately, the Bureau of Industry and Security (BIS) under the purview of the US Department of Commerce has already assigned more than 140 Chinese companies (among them Huawei) on the blacklist, or the “Entity List,” which identifies organizations and individuals deemed to be involved, or pose a significant risk of becoming involved, in activities contrary to America’s national security or foreign policy interests. On June 24, an additional five Chinese companies were added to the list. Expect this to grow further if China-US security relations deteriorates further.

The move to expand US sanctions on Chinese firms could jeopardize the steady and increasing (MSCI and FTSE Russell index providers which have recently upgraded China in key indices) with inflows of more than \$500bn in bonds and equities in China-related companies.

Feature 3: Shift towards South

The military component still plays a crucial role as the INDOPAC command boasts about controlling more than 2,000 aircraft, 200 ships and submarines and more than 370,000 military personnel. Key resources and personnel are stationed in North Asia, particularly in Japan and South Korea.

The aim is to change this towards the South as “we seek to evolve our posture and balance key capabilities across South Asia, Southeast Asia, and Oceania to have a more dynamic and distributed presence and access locations across the region.”

This shift is motivated, once again, by economic reasons. “The Indian Ocean Region is at the nexus of global trade and commerce, with nearly half of the world’s 90,000 commercial vessels and two thirds of global oil trade traveling through its sea lanes. The region boasts some of the fastest-growing economies on Earth, and is home to a quarter of the world’s population.”

Furthermore, it also stresses it will pursue “Multi-Domain Operations concept” that entails deploying smaller, temporary forces across “multiple domains.” It could mean that US will try open up new bases across the region, which so far only one has been announced in Papa New Guinea.

Feature 4: Play and pay

Military support comes with a price. Or as Mr. Shanahan put it, ""We are investing in the region. We are investing in you, and with you. And we need you to invest further in yourselves. "We need you to invest in ways that take more control over your sovereignty and your own ability to exercise sovereign choices." Failure to do so would risk that disputed areas, such as islands in South China Sea, could become toll booths and sovereignty could become the purview of the powerful, he added.

Increased defense spending could be a costly as with the exception of India (2.5% of GDP) and Singapore (3.3%), INDOPAC countries spending is relatively modest: Indonesia (0.8%), Japan (0.9%), Malaysia (1.1%), Philippines (1.4%) and Thailand (1.4%). To put that in perspective, the global average is 2.2% according to the World Bank. Alternatively, President Trump has demanded a minimum of 2% from NATO members.

Feature 5: Chinese support could be costly

" The US does not want any country in this region to have to choose or forgo positive economic relations with any partner," assured the previous defense secretary Mr. Shanahan. However the report warned that "some of China's investments result in negative economic effects or costs to host country sovereignty" and "results in lower standards and reduced opportunities for local companies and workers, and can result in significant debt accumulation."

While the report was vague was vague what would happen to countries which accepted capital and expressed political support for China, a report from another government ministry hinted was could be in store.

In the recently published semi-annual US Treasury watch list for potential currency manipulation new additions included Singapore, Malaysia and Vietnam. This should be read as a clear warning that their economic policies are monitored closely and any 'wrong' move could result in them being penalized

Vietnam, the hottest economy in the Mekong region, has been the key recipient of foreign direct investments from China and elsewhere following the escalation of the China-US trade dispute over the last 6 months, could be particularly vulnerable.

How will China respond to this? The Chinese Defense Minister Wei Fenghe, summarized his country's position at the conference with the following observation: "*A talk? Welcome. A fight? Ready. Bully us? No way.*" And he also added that China was willing to "fight to the end" if that was US wanted. China also set up its own blacklist, officially called the "non-reliable list", which targets foreign companies that harm the "legitimate rights and interests" of Chinese business interests.

Contact: Research@DaMinaAdvisors.Com

Phone +1 647 808 9671/+44 7779 656 878

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