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DEFENCE

China conducts naval drills in the South China Sea

Following a joint exercise by Australia, Japan, New Zealand, the Philippines, and the US, China conducted a naval drill in the South China Sea that coincided with its National Day. The People's Liberation Army Southern Theatre Command arranged a flotilla for combatready activities from 30 September to 1 October to enhance operational capabilities and make clear China's resolve over its claims in the region. The People's Liberation Army Navy (PLAN) executed a drill around Scarborough Shoal, an area claimed by both China and the Philippines, just as the joint exercise concluded.²

Chinese activity in contested waters has included incidents where the China Coast Guard used water cannons against Filipino fishing vessels, most recently this week. The Philippine Navy confirmed its commitment to patrolling the area and reported 190 Chinese vessels in the West Philippine Sea between 30 September and 6 October, lower than previous counts but still indicative of ongoing tensions.³ However, China did not interfere with Philippine efforts to resupply the wrecked BRP Sierra Madre tanker on the Second Thomas Shoal, suggesting that China may not intend to escalate the situation further providing the Philippines complies with its demands - the resupply accorded with a provisional agreement reached between the two countries in July over the disputed territory.⁴

Adarga Analysis: This year has seen a significant uptick in China's aggression towards Philippine vessels in the South China Sea. The combination of recent water cannon attacks on the one hand, and allowing the resupply operation on the other, reflects both China's willingness to use dangerous grey-zone tactics to assert its territorial claims and its aim of establishing new norms in its favour which, when followed, do not incur reprisals.

The bilateral dispute with the Philippines is directly related to China's concerns regarding the joint exercises performed by Australia, Japan, New Zealand, the Philippines, and the US, a precedent for which was set by similar joint exercises in April this year.⁵ China's concerns are as follows. First, China claims much of the South China Sea as its own territory, and is therefore keen to make clear its resolve in backing up those claims with force; this is reflected both in the use of grey-zone methods against the Philippines and in the demonstration of combat readiness presented by naval exercises. Second, the joint exercises reflect increased coordination between the US and regional allies aimed at pushing back on China's claims. This is of particular concern to China as a multilateral containment strategy, which Beijing perceives as threatening not only its claims in the South China Sea but also its wider security in the region.

More broadly, China's assertiveness in the South China Sea should be understood in terms of both its defence and economic interests. Historically, China has been threatened militarily by Western maritime powers, beginning with the UK in the 19th century. Economically, the South China Sea is vital for China's trade flows - 40% of the country's exports are transported through the area. ⁶ China's claims, and willingness to assert them by pressuring other countries, are reflective of geopolitical concerns similar to those that motivated the United States' Monroe Doctrine of the 19th and 20th centuries - an assertion of a sphere of influence by a rising power, closely tied to its regional security interests, which is becoming increasingly enforceable as its military strength grows.

TRADE China responds to EU

electric vehicle tariffs On 8 October, China announced temporary anti-dumping duties on brandy imported from the EU, which primarily targets French brands such as Hennessy, Martell, and Remy Martin. The duties range from 30.6% to 39%, effective from 11 October. China's Ministry of **Commerce stated that these measures** are a response to the EU's recent vote to impose tariffs on Chinese electric vehicles (EVs), which is seen as an escalatory move in the ongoing trade tensions between the two economies.⁷⁸

The Ministry said that the decision followed a preliminary investigation indicating that the dumping of EU brandy posed a substantial threat to China's domestic brandy industry. 10 11 12

Tensions have heightened since the EU

rates as high as 45.3% on some imports.9

voted for tariffs on Chinese EVs, with

Furthermore, in addition to brandy, China is investigating EU pork and dairy imports for potential anti-dumping and anti-subsidy measures, which may specifically target Spain and other EU countries reliant on the Chinese market for these products. 13 China also referenced further studies that may lead to increased tariffs on large-displacement vehicles, mainly affecting the German automotive sector. 14 15

In response, the European Commission announced its intention to formally challenge China's measures at the World Trade Organization, labelling them as groundless and a misuse of trade defence mechanisms. The Commission plans to support EU producers impacted by China's countermeasures. 16 17 French officials, including the Trade Minister, stated their disapproval and indicated that they would work with the European Commission to contest the decision at the WTO. 18

Adarga Analysis: This is the latest development in the long-running dispute between China and the EU over tariffs. It is far more than just about EV sales into Europe but is instead reflective of the wider tensions between China and the West.

In short, Europe and North America are now realising that their main political competitor has a distinct industrial lead over them in a variety of areas, including EVs. The lead in EVs - which manifests itself as high quality but far cheaper products - has been created by long term investment by Beijing, a strategy that Western lawmakers say included the transfer of IP from the West and the use of WTO-non-compliant subsidies.

On the face of it, it should be easy for Brussels to make the decision to add strong tariffs to Chinese EVs given that they have such a price advantage over European competitors. However, there are those who think that tariffs are a bad idea. First, because cheaper cars are good for consumers (although if those consumers lose their jobs because of Chinese competition, will they be able to buy a car?); second, and as the head of Uber said in a recent BBC interview, Chinese EVs are needed to help the planet; and third because of the fear of Chinese reprisals. 19 The move against French brandy falls into the last category, as do the decisions by Germany and Spain to publicly back China against the EU over these tariffs.

This is the 'trump card' that China holds: that European countries have different attitudes to Chinese competition - in EVs and in other areas - based on how much exposure they have, i.e. how much money they can make from China. Germany is a case in point. One of its main car companies, VW, made around EUR2.6 billion (USD2.84 billion) of profits from China on the back of sales of 3.2 million vehicles in 2023; this compares to total EV sales of 771,000.^{20 21 22} Until this balance changes, it is difficult to see how VW - and therefore Germany - will easily swallow EU tariffs that damage their prospects in China. As long as this is the case, the coalition against China will struggle, especially if counter tariffs on products like brandy weaken the resolve of other EU members.

SECURITY

for the perpetrators.^{37 38}

and exploitative.³⁹

Terror attack on Chinese workers in Pakistan

On 6 October, a convoy of Chinese personnel working for Port Qasim Power Generation Co., Ltd. was targeted in a terrorist attack near Jinnah International Airport in Karachi, resulting in the deaths of two Chinese nationals and injuries to at least one other and several Pakistanis.^{23 24} The explosive device used in the attack is reported to have caused significant damage, destroying or damaging multiple vehicles and was attributed to the Baloch Liberation Army (BLA), specifically its Majeed Brigade.^{25 26 27}

The Chinese Ministry of Foreign Affairs expressed deep shock and extended condolences to the victims' families, urging Pakistan to pursue a thorough investigation and strengthen security measures for Chinese nationals and projects within the country. 28 29 The Pakistani government described the incident as a "deplorable act of terrorism", and reasserted its commitment to safeguarding Chinese citizens and projects in light of its strategic partnership with China. 30 31 32 The BLA has a history of targeting Chinese interests in Pakistan, often claiming that such actions

Following the attack, both the Chinese and Pakistani governments issued strong condemnations.

are part of their resistance against what they perceive as exploitation of local resources under the China-Pakistan Economic Corridor initiative. 33 34 In the wake of this attack, both countries are reportedly reinforcing their counter-terrorism cooperation and improving security protocols to ensure the safety of Chinese personnel undertaking projects in Pakistan. 35 36 International responses included condemnation from the United Nations Security Council, which

reiterated that acts of terrorism threaten global peace and security, while calling for accountability

Adarga Analysis: This is the latest in an increasing number of terrorist attacks on Chinese nationals and projects in Pakistan. There is significant Balochi nationalist opposition to Chinese projects in Balochistan, including the China-Pakistan Economic Corridor, a flagship Belt and Road project. This stems from a combination of regional hostility to Punjabi elites, resentment of

the central Pakistan government, and a perception of Chinese activity in the region as extractive

However, despite the deteriorating security situation in Pakistan, bilateral security and defence ties continue to grow and remain of great value to both sides. China and Pakistan are very close defence partners, and port projects in Pakistan are important for facilitating Chinese access to the Indian Ocean. The value China places on the relationship was underscored by the visit of General Li Qiaoming, commander of PLA Ground Forces, to Pakistan in August this year, amid an earlier wave of terrorist attacks. 40 This followed Pakistani Prime Minister Muhammad Shehbaz Sharif's visit to Beijing in June, during which he committed to improving security measures and efforts to ensure the safety of Chinese nationals and projects. 41 In May, Chinese Politburo member, Foreign Minister, and Director of the Office of the Central Commission for Foreign Affairs, Wang Yi, met with Pakistan's Deputy Prime Minister and Foreign Minister, Mohammad Ishaq Dar, celebrating the two countries' 'ironclad' relationship and commitment to 'ensuring common security' and deepening counter-terrorism and security cooperation.⁴²

Deteriorating security is of concern to both countries and could well lead to further deepening of ties. From China's perspective, the situation presents an active risk to its nationals and projects in Pakistan; while failings on Pakistan's part to better ensure security may prove a point of frustration for Beijing, the bilateral relationship is greatly valued. This, combined with Pakistan's desire for greater security cooperation, may mean it makes sense to both parties to explore a greater Chinese security presence in Pakistan in order to provide the resources necessary to protect Chinese interests. Earlier this year, Pakistan's Ambassador to China, Khalil Hashmi, spoke favourably of China's Global Security Initiative (GSI).⁴³ The bilateral relationship could be an important one to watch to evaluate what the GSI means in practice.

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