

OWNING THE ISLANDS:
CHINA'S MOVE INTO THE SOUTH CHINA SEA
A STUDY OF CHINESE FOREIGN POLICY

by

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I would like to dedicate this thesis to my grandfather, L. R. MacKinnon, who is one of the most interesting, inquisitive and intelligent men I have ever had the pleasure of knowing.
You will live long in the hearts of many.

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ABSTRACT

This paper examines the future of Chinese foreign policy by analyzing China's involvement in the conflict over the Spratly Islands in the South China Sea. The Spratly Islands are located in the South China Sea and are claimed, in part or in whole, by Vietnam, Taiwan, China, the Philippines, Vietnam and Brunei. This ongoing regional dispute is useful does not currently involve any of the international major powers. As such, China's actions are constrained only by general international pressures and not by targeted actions by Japan or the US. This is important because, in the future, China will be much less susceptible to pressure from these major powers. How China acts in the Spratly Islands, where it has the preponderance of power, is indicative of how China will act once it has become a major international power.

In order to understand China's actions in the Spratly Island this paper looks at the Spratly Island conflict itself and then analyzes China's claim to the islands under international law, looks at China's need for resources and how this influences its drive into the Spratlys, explores China's military power, and examines China's regional relationships in order to understand how they constrain China's advance into the South China Sea.

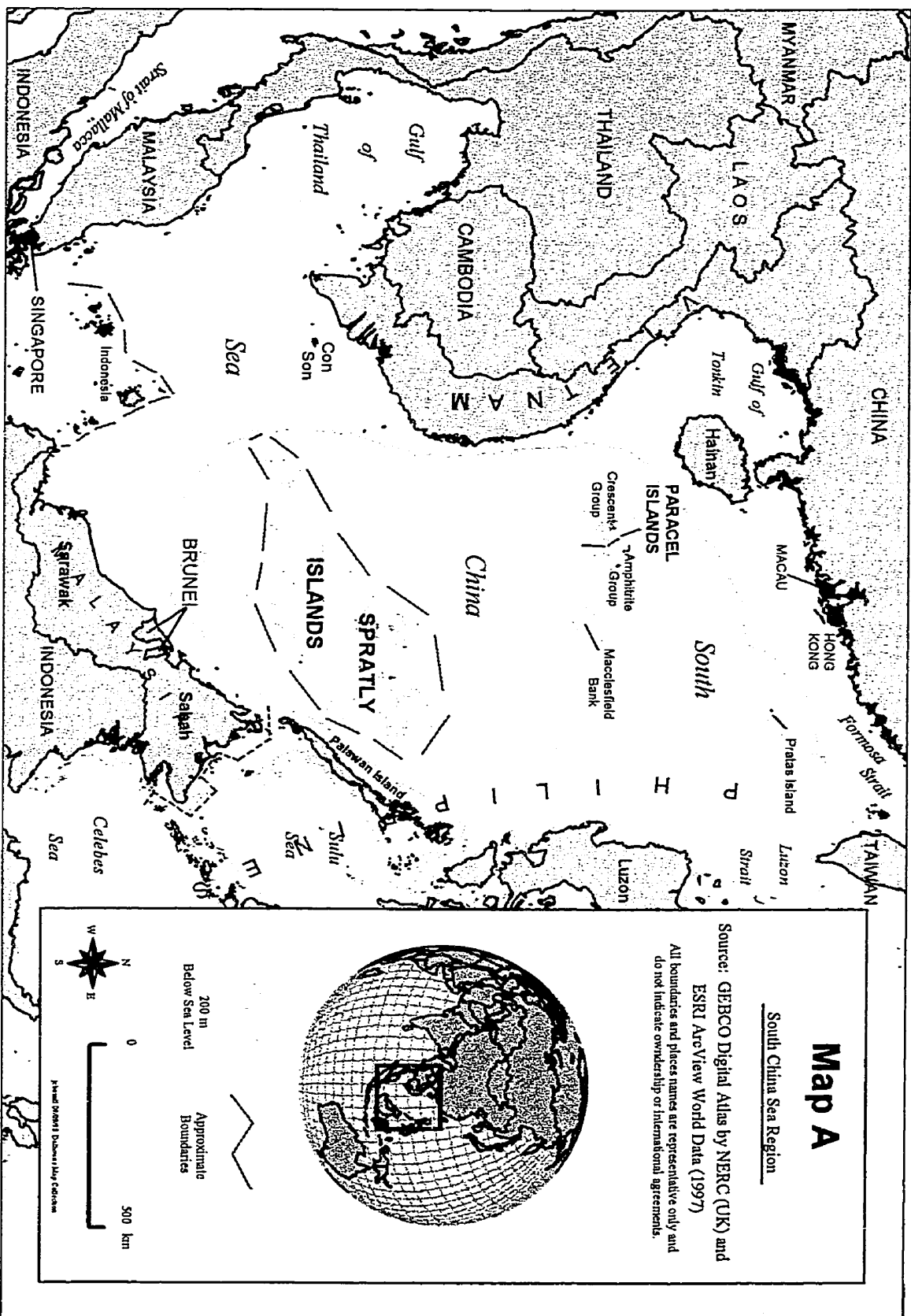
This analysis leads the author to believe that in the near future China will not seize the Spratly Islands nor become an aggressive hegemon in the region but rather will become a great power that is interested in maintaining the current peaceful status quo in order to promote its own economic growth. Presently China is not only discouraging conflict but also discouraging any practical steps towards conflict resolution. This indicates that China is trying to maintain the status quo until it has enough power to force the other countries, by either military or political coercion, to agree to resolve the dispute in China's favour. This strategy is likely to be used more often in the future and will characterize Chinese foreign policy.

LIST OF ABBREVIATIONS

APEC - Asia-Pacific Economic Cooperation
ARF - ASEAN Regional Forum
ASEAN - Association of Southeast Asian Nations
AWAC - Airborne warning and control
CBM - Confidence Building Mechanisms
CCP - Chinese Communist Party
CMC - Central Military Commission
EAEC - East Asian Economic Caucus
ECCM - Electronic Counter-countermeasures system
EEZ - Exclusive Economic Zone
GATT - General Agreement on Tariffs and Trade
GDP - Gross Domestic Product
GNP - Gross National Product
ICBM - Intercontinental ballistic missiles
ICJ - International Court of Justice
IEA - International Energy Agency
IMF - International Monetary Fund
IRBM - Intermediate range ballistic missiles
JDA - Joint Development Agreement
KMT - Kuomintang
MFA - Ministry of Foreign Affairs
OPEC - Organization of Petroleum Exporting Countries
PAP - People's Armed Police
PLA- People's Liberation Army
PLAAF - PLA Air Force
PLAN - PLA Navy
PPP - Purchasing Power Parity
PRC - People's Republic of China
R&D - Research and development
ROC - Republic of China (Taiwan)
SEZ - Special Economic Zone
SLOC - Sea lines of Communication
SSBN - Nuclear-fuelled ballistic missile submarine
SSN - Nuclear-fuelled submarine
SSTC - State Science and Technology Council
UNCLOS - United Nations Convention on the Law of the Sea
V/STOL - Vertical/short take-off and landing
WTO - World Trade Organization

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INTRODUCTION

We live in a watershed moment in global history: the moment when China passed from a period of national decline lasting two centuries to a renewed period of international strength and power¹.

The post-Cold War international order has been characterized by the changing identities of several countries around the globe. The previous world order was shattered with the demise of the Soviet Union and the end of the strategic division between East and West, democratic and Communist, enemy and ally. This split faded leaving an unclear mixture of strategic relations to form the beginnings of the new world order. In line with these transformations China's role in the international system has changed dramatically. At the beginning of the Cold War China, the second largest Communist state, allied itself with the Soviet Union. However, its strategic realignment, first to isolationism, and then to an anti-Soviet defense posture with a slant toward the US, made China an important player in the politics of the Cold War in the Asia-Pacific. For a time the international strategic environment was considered tripolar, with China as the third pole sharing the spotlight with the US and the Soviet Union. The end of the Cold War diminished China's international strategic importance but saw the dawn of China's international economic importance. China is once again perceived as a potential great power but this time because of its economic surge and not because of its ideological links.

This economic growth has given China power potential that is much more permanent than its flirtation with greatness during the Cold War. An economically strong

¹Richard Bernstein and Ross H. Munro *The Coming Conflict with China* (New York: Knopf, 1997) p53

nation can influence markets, build strong militaries, and educate its population so as to perpetuate economic success. Because of the more permanent nature of Chinese power, based on the sheer size of the country, China will have a major influence in all areas of regional and international relations including military, economic, and political. Because of this, it is important to understand Chinese foreign policy to be able to accommodate China into the present peaceful and prosperous international system.

However, as with any rising power, there are several avenues that China's future may follow. The two primary possibilities are first, that China could become a status quo great power interested in working with and shaping the current status quo. Second, that China will be a hostile hegemon, unwilling to accept the rules and institutions created by the current great powers and instead work to destroy the status quo in order to create an international system that is more oriented to the needs and desires of China. Although no academic can claim to predict the future it is important to try to understand which of these routes, or variation thereof, China will follow.

In order to better understand Chinese foreign policy this paper will look at the Chinese involvement in the Spratly Island dispute in the South China Sea. The Spratly Islands are claimed, in part or in whole, by China, Taiwan, the Philippines, Malaysia, Vietnam and Brunei. These islands, located at the bottom of the South China Sea off the coast of Brunei, Philippines, and Malaysia, are positioned in the middle of significant sea lanes, are said to contain important natural resources, and have important implications for the security of Southeast Asia. China claims that it has owned these islands since time immemorial but has most recently exercised its claims through military action against

Vietnam and the Philippines. The Spratly island case is unique and useful because no major powers are explicitly involved in what is essentially a regional dispute. Neither Japan nor the US has been directly involved, nor is likely to do so unless international shipping passing through the area is interrupted or seriously threatened. Compared to the other nations China has the strongest military, the largest economy and the most international influence, this means that China has the most power of all the countries involved. Therefore, this case study will show how China manages its power in the context of regional relationships and global constraints but without any direct pressure from other countries, none of which can singlehandedly constrain Chinese actions. In the Spratly Island dispute China is only constrained by international and regional pressures and not by specific American policy. How China acts in the Spratly Island dispute is indicative of how a stronger China will act in future regional and international conflicts. This chapter will introduce the reader to China and to the power relations between China and the rest of the world. The introduction to China will help to clarify the historical, cultural, economic and military factors that make China unique and affects its relations with the world.

CHINA AT A GLANCE

China is currently neither a great power nor a hegemon. It is a country full of contradictions. First, China is a veto-holding member of the United Nations Security Council and a member of the 'nuclear club,' yet it has no bloc of allies and claims to be an ordinary member of the Third World. Second, it is a critic of capitalism but is one of

the top ten trading nations. The current trade deficit between the US and China is approaching \$US 40 billion as China threatens to surpass Japan as the US's largest trade deficit country². Third, as China's vast rural interior nurtures a traditional inward looking culture, its long coastline is home to a cosmopolitan population that is larger than the combined populations of all East Asian Newly Industrializing Countries. Finally, it is a regional power with a global presence, from one perspective it is at the periphery of world affairs, from another at the centre of the action³.

GEOGRAPHY

China is the third largest country in the world, accounting for 6.5% of the world's landmass⁴. It occupies 70% of the land of East Asia and stretches from the Siberian tundra to the lush tropics of East Asia. Approximately 40% of its landmass is mountainous, but it has large fertile plains created the Yellow, the Pearl and the Yangtze River, three of the greatest river systems in the world. China also contains one of the world's largest deserts, the Takla Makap, which is located in the Northwestern region and contains most of the minerals and oil resources in China⁵. The western 13 of China's 30

²Robert D. Herstay. "China has Become Chief Contributor to US Trade Gap," *The New York Times*, (August 20, 1996)

³Andrew J. Nathan and Robert S. Ross *The Great Wall and the Empty Fortress: China's Search for Security* (New York: W.W. Norton & Company, 1997) p3

⁴China has a total area of 9,572,900 square kilometres, this is slightly smaller than Canada but slightly larger than contiguous United States.

⁵Nathan and Ross, *The Great Wall*, p10

provinces occupy 78% of China's land surface, but contain only 34% of its population and produce less than 22% of its GNP⁶. Only 22% of China's land, located along the eastern side of the Chinese landmass, contains 66% of its population.

China shares its extensive border with Russia, Kazakstan, Kyrgyzstan, Tajikistan, Pakistan, Nepal, Bhutan, India, Myanmar, Laos, Vietnam, North Korea, and Mongolia. This central location has caused the Chinese to think of their country as the Middle Kingdom⁷, or the centre of the world's civilization⁸. China has historically exerted influence in many nearby countries making them wary of its rising power today. Because most of these states differ both ethnically and ideologically from China, its relationship with them has been marked by mutual suspicion. These feelings are often exacerbated by the presence, within the borders of neighbouring countries, of large communities of ethnic Chinese who are often regarded as potential 'fifth columns'.

Although China is only the third largest country in terms of land, it is the largest in terms of population. China has 1.2 billion people, or approximately 20% of the world's population, and has over 400 million more people than the next most populous

⁶This is due largely to the inhospitable conditions of the area and the vast infrastructure that would have to be built in order to transport the extracted resources from the remote areas down to the industrialized South. It is currently cheaper for China to import resources to southern China than to exploit their own reserves in the North.

⁷The word 'China' translates to 'Middle Kingdom' which can be understood in two ways: one is a geographical image, the other a class perception. China, because it is bordered by so many countries, considered itself to be the middle territory surrounded by barbarians. This led China to perceive itself as the middle place between the rest of the world and the divine, as the pinnacle of civilization on earth.

⁸Dean Collinwood. *Japan and the Pacific Rim* (Guilford, CT: Dushkin Publishing Group/Brown and Benchmark Publishing, 1995) p47

country, India. It is four times larger than the US, five times larger than Russia, and ten times larger than Japan. While China has 57 different ethnic groups inside its borders, 92% of the population is Han Chinese and the remaining 8% are divided into the other 56 ethnic groups. China has so many people that it seems to have treated its people as expendable. For example, during the Taiping Rebellion of 1851-1865, 20 million people died. Similarly, 11 million people from one province lost their lives in the conflicts between the Communist and Nationalist armies in the 1920's and 30's⁹. The sheer size of the population has led China to implement a 'one child' policy but, despite this measure, it is estimated that between 15 and 17 million Chinese will be born each year until the turn of the century¹⁰.

THE MILITARY

China has the largest military in the world with three million soldiers, 8,000 tanks, 5,700 fighter aircraft and bombers, 50 submarines, 55 destroyers and frigates, 14 intercontinental missiles (ICBM) and 60 intermediate range missiles (IRBM)¹¹. Much of this equipment is of Korean War vintage or older which limits the military's effectiveness and reduces its power projection capability. However, in this century China has engaged in military conflict with the US, Russia, Japan, India, Vietnam, South Korea, and Taiwan.

⁹Collinwood, *Japan and the Pacific Rim*, p48

¹⁰Collinwood, *Japan and the Pacific Rim*, p48

¹¹Joseph S. Nye "China's Re-emergence and the Future of the Asia-Pacific" *Survival* 39:4 (Winter 1997-98), p69

All these countries have forces that belong to the top 25 armies in the world by size and they all remain potential military rivals of China. Despite the size of the Chinese military, China suffers from a net two to one disadvantage in terms of troop strength against its potential rivals, even without factoring the United States¹².

ECONOMY

Sometime early in the next century China will almost certainly become the largest economy in the world, vastly bigger than any of its neighbours, and bigger in absolute terms, though not in per capita terms, than both Japan and the US¹³. China is not a rich country on a per capita basis because it is beset with enormous problems of unemployment, inefficient industries, a low level of average education, overpopulation and continuing poverty. Its large size is a result of an average rate of 10% per year for the past decade. China's growing economy could lead it down any number of routes. As China becomes more prosperous the government could become more moderate and democratic and engage itself in international institutions to perpetuate the current international political economy that is providing for its economic growth. This would mean that China would be unlikely to engage in aggressive behaviour for fear of jeopardizing international stability and economy prosperity. Alternatively, China could become more aggressive and more defiant of the current international institutions. It

¹²Nathan and Ross, *The Great Wall*, p10

¹³Berstein and Munro, *The Coming Conflict*, p59

could use its newly established economy to leverage concessions out of surrounding nations or to fend off outside criticism about such things as its human rights record¹⁴.

HISTORY

China's history has a major influence on the way it practises foreign policy in the current world order. China was weak for so long that this condition has ceased to be an aberration, however, for the greater part of its long history China was among the world's wealthiest and most powerful nations. Historically, China sought wealth and power as a way of gaining supremacy in what was to China the entire known world. China's vision kept it at the centre of the world with all the states on its periphery paying tribute to China's rulers in much the same way that vassals paid tribute to European or Japanese feudal lords.

China's history is replete with imperial and totalitarian rule. Except for a few years in the early part of this century China has been controlled by imperial decree, military order and/or patriarchal privilege¹⁵. The arrival of Western colonial powers in the 19th century started a new kind of rule of China. The West extracted the permission for foreign citizens to live in parts of China without being subjected to Chinese authority. This practise of extraterritoriality resulted in the Chinese losing control over their own sovereign territory. Unlike the previous conquerors, who were happy to rule China on site and to absorb Chinese culture and practises, the Europeans preferred to rule China

¹⁴Berstein and Munro, *The Coming Conflict*, p60

¹⁵Collinwood, *Japan and the Pacific Rim*, p48

from afar, with the proceeds of conquest being drained away from China to enrich coffers of European monarchs¹⁶. In addition to the practise of extraterritoriality, territory was taken by Russia, Britain and Portugal along the coastal areas of China to gain privileged access to trade along the eastern coast through what China claims are now 'unequal treaties'.

During the first quarter of this century, China's leading thinkers came to the conclusion that China would have to profoundly change to regain power over its own country and recover its place in the international system¹⁷. This prompted the creation of two political parties that would dramatically influence the direction of Chinese politics. Western trained Sun Yat-Sen led a republican revolutionary movement and created the Nationalist Party know as the Kuomintang (KMT) or the Guomindang. The Nationalists proclaimed the founding of the Republic of China in 1912. In reaction against the Western orientation of the KMT, Mao Zedong and others organized the Soviet-style Chinese Communist Party (CCP). After Sun's death Chiang Kai-Shek assumed control of the KMT and waged a campaign to rid the country of the CCP's influence. Although these two parties cooperated against Japan, they became such bitter enemies that they brought a ruinous civil war to all of China. However, because Mao derived his support from rural populations and Chiang from urban areas, the Communist outnumbered the Nationalists and by 1949 the CCP drove the KMT out of China and proclaimed the foundation of the People's Republic of China (PRC). The KMT retreated to Taiwan

¹⁶Collinwood, *Japan and the Pacific Rim*, p48

¹⁷Berstein and Munro, *The Coming Conflict*, p54

where they, along with the CCP government on the mainland, claim to be the legitimate government of all of China.

The Communist Party victory put China under strong, unified rule for the first time in roughly half a century. Soon after a system of central planning and rigid ideological control was put into place. As leader of China, Mao Zedong led the Chinese through two ruinous socialist revolutions that contributed to China's economic, technological, military, and cultural stagnation. The first, the Great Leap Forward, started in 1958, Mao had workers assigned to huge agricultural communes and denied individuals the right to grow crops privately. He also placed all enterprises under strict control of the central government. These acts resulted in economic chaos and a dramatic drop in both industrial and agricultural output¹⁸. Again in 1966, Mao sought to purify Chinese socialism. However, the Great Proletarian Cultural Revolution was more of an anti-cultural purge than a socialist reaffirmation: Books were burned and educated people were arrested and persecuted. Schools were closed and all intellectuals were sent to rural regions to do manual labour. This left the entire country in a state of chaos for more than a decade. The disruption of the education of an entire generation that has had severe repercussions in the area of scientific and technical development.

At Mao's death in 1976 he was a dictatorial head of a corrupt venal and stifling system¹⁹. Deng Xiaoping, his successor, adopted Hua Guofeng's policy of 'Four Modernizations' which dealt with liberalizing the economy, modernizing agriculture,

¹⁸Collinwood, *Japan and the Pacific Rim*, p49

¹⁹Berstein and Munro, *The Coming Conflict*, p55

upgrading national defence, and encouraging world class science and technology. Deng managed an astounding feat, he was able to maintain national unity and internal order while abandoning central planning in favour of truly visionary economic reforms. By allowing the creation of a mixed economy, Deng instigated one of the most explosive bursts of economic growth in human history²⁰.

In 1979 the PRC formalized relations with the US and in the 1980's the PRC joined the World Bank, IMF, and Asian Development Bank. Significantly China was not successful in joining the GATT or the WTO, the most important trading organizations²¹. China also started welcoming foreign investment and permitting foreign companies to sell their products in China. By the early 1990's trade between Taiwan and China (through Hong Kong) amounted to nearly US\$6 billion²². China has since opened Special Economic Zones (SEZs) to bolster its economy²³. The agricultural modernization abolished collective farming and replaced it with a household contract system, a system where a family receives the equivalent of a hereditary land title. In addition, free markets replaced most of the system of mandatory agricultural sales to the government. New

²⁰Berstein and Munro, *The Coming Conflict*, p56

²¹ Negotiations are ongoing for China's accession to the WTO, the major stumbling blocks include China's trading practises, such as their infringements of intellectual property rights and use of prison labour, and China's desire to be accepted as a third world nation.

²²Collinwood, *Japan and the Pacific Rim*, p50

²³Special Economic Zones are capitalist enclaves adjacent to Hong Kong and along the southern coast into which were sent the most educated of Chinese population to catalyze the internal economy.

industries were established in rural villages and incomes improved to the extent that families were able to add new rooms onto their homes or to purchase two or three story houses²⁴.

The Tiananmen Square massacre in 1989, which saw pro-democracy demonstrators killed, convinced many people, both inside and outside of China, that the Communist Party had lost, if not its legal, but certainly its moral authority, to govern²⁵. However, the international sanctions imposed were repealed a few years later in the interest of engaging China into the international community through economic ties.

HEGEMONY vs. GREAT POWER STATUS

Because of China's history, its size, and its booming economy, China has the potential to become very powerful in the near term, but many observers disagree over whether China will become a great power or a regional hegemon. Although some authors use these terms interchangeably, they actually have very different meanings and implications for Chinese foreign policy. According to Joshua Goldstein, hegemony is "the holding by one state of a preponderance of power in the international system, so that it can singlehandedly dominate the rules and arrangements by which international political and economic relations are conducted²⁶." This implies that a hegemon will

²⁴Collinwood, *Japan and the Pacific Rim*, p50

²⁵Collinwood, *Japan and the Pacific Rim*, p50

²⁶Joshua S. Goldstein. *International Relations* (New York: Harper Collins College Publishers, 1994) p78

attempt to control and direct the system over which it holds power. In order for China to be a hegemon it would need a military and economy powerful enough to project a credible threat and the ability and the will to follow through on the threat regardless of the potential international implications.

Conversely great power status refers to a state that can be defeated militarily only by another great power. Great powers tend to share a global outlook with other powers based on interests far from their home territories²⁷. These powers also generally have the strongest military forces and the strongest economies to pay for the forces. However, because these countries rely on a combination of large populations, plentiful natural resources, advanced technology and educated labour forces in order to provide their economic and military strength they also have a vested interest in the market economy that provides the economic benefits to sustain the great power status. Great powers are not interested in dominating the system like hegemons, instead, they are interested in maintaining the system that has served their economic, political and security interests. China as a great power would be less of a threat to states in the Asia-Pacific than China as a hegemon, because it would be interested in participating in international organizations that promote economic growth and prosperity as well as those that provide regional and global security. China as a hegemon would pursue goals that could be detrimental to other states in the region, such as reclaiming Taiwan or unilaterally seizing the Spratly Islands in the South China Sea.

²⁷Goldstein, *International Relations*, p74

While not every rising power can become a hegemon, China is a country with enormous assets and therefore enormous potential. International relations scholars are unable to agree on what China intends to do with its new capabilities. Even scholars who rely on historical data and have a realist view of China as a rational actor, disagree on the possibilities for the future²⁸. Some believe that as China's strength returns it will wish to regain its regional dominance and that this will bring it into conflict with the US. Much will depend on the evolution of the current regime and whether China's spectacular economic growth continues²⁹. Certainly there is a spectrum of available choices for the evolution of Chinese power. China will not necessarily become only an aggressive hegemon or passive great power.

In 1994, Ezra Vogel and Joseph Nye developed a series of scenarios predicting the nature of Chinese power in the future and then asked a group of international relations specialists to assign a probability to each scenario³⁰. These predictions are interesting

²⁸Nye, "China's Re-emergence and the future of the Asia-Pacific" *Survival* 39:4(Winter 1997), p73

²⁹If China's economic growth falters significantly the possibility of China becoming a major power or a hegemon diminish dramatically. First, without economic growth the Chinese military budget will not increase, thus smothering its modernization program and therefore diminishing its international deterrence and threat capability. Second, the current political structure is tolerated and supported because of the economic benefits it has provided. Without these benefits internal political turmoil will likely cripple China. Lastly, because of its sheer size China is an attractive economy in which to invest. However, if economic growth slows and internal turmoil plague the country, investors will lose interest thus reducing China's economic clout which will further hurt its status in the international community.

³⁰These scenarios are described and explained in Joseph S Nye. "China's Reemergence and the Future of the Asia-Pacific," *Survival* 39:4 (Winter 1997), p65-79

because they display the range of possibilities for China in the future. The first scenario is China continuing its East Asian style of development. In this scenario rapid economic growth continues, as does its orientation towards international markets and the relatively stable central government control over the country. Political pluralism would gradually increase, democratic institutions would slowly emerge, and human rights would be slowly introduced. External investment would continue because of this relative stability making large infrastructure development possible. This course of development continues to tie China into the international community through multilateral institutions and investment ties, therefore, it would lead China to become a great power in the region but not a hegemonic power.

The second scenario foresees the democratic reformation of China. The Tiananmen crackdown and those who led it would be repudiated and the victims rehabilitated. Political pluralism and levels of voting for representative government would increase, human rights would be recognized, press freedom would grow and democratic parties would emerge. The central government would weaken because of the need for coalitions, while high growth rates and foreign investment would continue. However, the democratic reforms actually increase the possibility of China becoming a hegemon. There is a strong resurgence of nationalism that is currently being both encouraged and held in check by the authoritarian government. However, democratically elected leaders do not have the same ability to suppress the nationalist desires of the voting public. It would be difficult for leaders to ignore the popular desire to reclaim lost territory or to seize islands perceived to be Chinese sovereign territory such as the Spratly

Islands. This could result in elected representatives aggressively pursuing the populist desire to reclaim Chinese territory and dominate the Asia-Pacific. In this scenario Chinese leaders would have to balance populism against foreign investment, if Chinese leaders became too aggressive they would risk losing the international investment that fuels economic growth, if they ignore popular sentiment they risk losing elections.

The third scenario is called “Pinochet China”, in this example political control by authoritarian leadership remains relatively strict. Party hierarchy is used to keep provinces in line and tight control over demands for more democratic institutions persist. The economy remains oriented towards international markets and rapid growth continues. In this future China could strive for either great power status or hegemony. Orientation towards the international market suggests peaceful intentions but the continued strict political control also suggests the ability to make unpopular foreign policy decisions. The difference between this scenario and the first scenario is that tight central control is not dissolved therefore foreign policy can be used to achieve the hegemonic ambitions of the leadership.

The ‘Modern Middle Kingdom’ scenario is advanced as another possibility for the future. This would see strong nationalistic and xenophobic urges combined with a repressive central government based on party and/or military mechanisms. Heavy investment would be funnelled into the military and tight controls would be placed on foreign investments resulting in lower growth rates and reduced exports and imports. This future would result in China becoming a threat to the Asia-Pacific region because it would gain the necessary military strength to back up its hegemonic ambitions.

The penultimate scenario postulates a federated feudalist structure for China. This implies a weakening central government as power grows in provincial, municipal and local areas. Flourishing local economies underpin this political structure but compete against each other for trade and investment. Local mercantilism and protectionism slow growth rates and serious regional wealth disparities and disputes emerge. The regional conflict developing out of this structure would preclude China from becoming a regional threat. Individual regions would wield economic power but as a country China would not be cohesive enough to project a strong foreign policy and therefore would become neither a hegemon nor a great power.

The final scenario proposed by Vogel and Nye is the stagnation of the Chinese economy. Division between top leaders, tension and confusion in government at different levels, growing dissatisfaction with corruption and inefficiency, and regional discontent and intra-government struggles would weaken overall policy and result in lower growth. Foreign investment would decline depressing growth and exacerbating internal disunity. Under this scenario China would not become either a great power or a hegemon. However, it would be a threat to the region because of the possibility of mass migration and regional instability which would depress foreign investment thereby depressing the entire regional economy.

The polled international relations scholars chose the first scenario, continuing East Asian-style development, as the most probable route for Chinese growth³¹. It must be

³¹Scholars collectively predicted that the first scenario, continuing East Asian-style development, has 40% probability of occurring. The other scenarios, except Federated Feudalism, were given only a 10% chance of occurring. Federated Feudalism

noted that, as with Indonesia, this path does not necessarily mean a smooth transition to democratic reform. Despite Indonesia's troubles this choice is supported by many China watchers, including Doak Barnett, who note that political controls have been loosened and the average Chinese is better off economically and enjoys greater freedoms including the ability to make choices about employment, travel, relocation, personal interests, and relationships. While the Chinese do not enjoy political pluralism they can now choose not to participate in politics. Barnett goes on to say that access to information of all sorts and signs of economic and social, if not political, pluralism are multiplying³².

Other Chinese scholars believe there are reasons to doubt the patina of passivity that China exudes. China claims that it will never seek hegemony and valiantly tries to assure its neighbours that its growing military and economic strength will not be used to bully the region³³. However, this rhetoric is contradicted by a 1996 Chinese publication titled *The China that Can Say No*. This publication, written by five authors claiming to represent a broad public opinion, reflects the powerful sense of wounded nationalism and anti-Americanism prevalent in China. The articles represent the beliefs that there are historical grievances that have yet to be addressed, an intense, brittle, defensive kind of national pride, and a powerful suspicion of foreigners³⁴. The fact that the book became a

was ranked slightly higher with a 20% probability.

³²Doak Barnett. "US-China relations: Time for a New Beginning Again" Loe Memorial Lecture, School of Advanced International Studies, John Hopkins University, Washington D.C., April 1994, pg 37 in Nye, "China's Re-emergence", p72

³³Nathan and Ross, *The Great Wall*, p5

³⁴Berstein and Munro, *The Coming Conflict*, p62

best seller throughout the Chinese reading world and rapidly went into a second edition reveals some clues as to how broadly these views are held.

In addition, Chinese statements and analysis make anti-hegemony claims questionable. In 1996, Lieutenant-General Mi Zhnyuo, Vice Commandant, Academy of Military Sciences, Beijing, was quoted as saying “for a relatively long time it will be absolutely necessary that we quietly nurse our sense of vengeance . . . we must conceal our abilities and bide our time³⁵. Sun Tzu, the author of *The Art of War*, put denial and deception at the centre of any successful nation’s protection of its interests. This book is still widely read by Chinese elite, both political and military, and therefore it is worth considering whether this is still a useful concept for understanding China’s goals and ambitions³⁶. According to Arthur Waldron “sooner or later, if present trends continue, war is probable in Asia . . . China is actively seeking to scare the US away from East Asian rather as Germany sought to frighten Britain before World War I by building it’s ‘risk fleet’³⁷.” David Shambaugh suggests that even if China claims it does not aim for hegemony that ‘significant differences in traditional statecraft, military traditions, and scientific establishments . . . suggest China may be more benign, but the sheer magnitude

³⁵This quote was part of a widely published 1996 collection of essays by several Chinese officials. It can be found in Bernstein and Munro, *The Coming Conflict*, p3

³⁶Bernstein and Munro, *The Coming Conflict*, p51

³⁷Arthur Waldron. “How not to deal with China,” *Commentary* 103:3 (March 1997), p44-49

of China . . . combined with its intense nationalism and irredentist claims have given the historical comparisons and concomitant policy debates contemporary currency³⁸.”

The examination of the China’s actions in the Spratly Island dispute will provide a useful tool for understanding the nature of Chinese power so as to provide the international community with the means to construct a useful policy to work with China in the future. This paper will examine the Spratly Island dispute to understand Chinese foreign policy both in the present and extrapolate these actions for some insight into future Chinese actions. Chapter one is an overview of the Spratly Island conflict with an emphasis on China’s role in the dispute. This chapter will provide a base of reference for the more in-depth analysis of aspects of Chinese foreign policy in the following chapters.

The following three chapters examine important elements in Chinese foreign policy which are also major issues in the Spratly Island dispute. Chapter two looks at the legal aspects of the dispute. It analyses China’s claims to the Islands and compares them with the claims from the other disputants in terms of their legitimacy under the United Nations Convention on the Law of the Sea. The third chapter examines the resource imperative of the dispute. China, as an industrializing economy, needs increasingly larger amounts of energy to support its growing economy. China’s internal reserves are of limited use because of the difficulty involved in extracting them, this means that China relies heavily on the international marketplace making China vulnerable to price fluctuations and international embargoes. The resources located in the seabed

³⁸David Shambaugh. “Containment or Engagement of China? Calculating Beijing’s responses” *International Security* 21:2 (Autumn 1996), p186

surrounding the islands in the South China Sea could provide China an excellent source of energy without having to rely on the international marketplace. Chapter four reviews the strength and weaknesses of the Chinese military. This force is both an asset and a constraint for China. The sheer size of the People's Liberation Army (PLA) is threatening to the Southeast Asian nations but the age and limited reliability of the equipment makes the success of military action in the South China Sea uncertain. This chapter also analyses the threat of the current Chinese military modernization to the region in general and the Spratly dispute in specific.

The fifth chapter evaluates the regional relationships that may act as constraints on Chinese power. The regional ties through institutions, both formal and informal, have shaped the regional responses to Chinese actions but it remains questionable whether these institutions can create the conditions to reach a long-term solution for the Spratly Island conflict. The conclusion discusses the probable future direction of the Spratly Island conflict and then extrapolates the lessons from the South China Sea dispute to Chinese foreign policy in general.

CHAPTER ONE - The Spratly Island Conflict

One obstacle in China's bid for integration into the world community is China's unique position of having a territorial dispute with virtually all of its neighbours¹. China claims land and islands that extend far beyond the current status quo distribution in the Asia-Pacific and these territorial disputes make for uncertain relations between China and its neighbours. While China has been making attempts to negotiate bilateral settlements to many of its territorial disputes, the Chinese claims in the South China Sea continue to cause much tension between China and the five other nationals that claim some or all of the islands in the Spratly Island archipelago in the South China Sea².

The conflict in the South China Sea reflects the customary paradox inherent in much of the Chinese foreign policy; The situation is mainly a regional threat but has global implications, it is motivated both by China's historical claims to greatness and by its pressing resource scarcity, and while logically a large scale conflict is improbable, nonetheless the threat of one remains credible. The way in which China and its neighbours handle the issues in the South China Sea may provide a template for the manner in which the region and the world handle future conflict with China. The region and the world are stepping carefully, not wanting to "wake the dragon."

¹Gerald Segal. "Introduction: A Changing China and Asia-Pacific Security" in Yang, Richard H. (ed) *Chinese Regionalism: The Security Dimension* (Boulder CO: Westview, 1994), p12

²China, Taiwan and Vietnam claim all of the islands, islets and reefs of the Spratly archipelago while Malaysia, Brunei and the Philippines only claim some of the islands.

This chapter will explore China's claim in the South China Sea with specific emphasis on the Spratly Islands. It is meant as an introduction to the dispute and will include a brief history of the dispute, a brief overview of China's military and its implications for the dispute, and basic political and economic implications of conflict in the South China Sea. This chapter is meant to familiarize the readers with the dispute in the South China Sea and the most recent conflicts over the Spratly Islands. Perhaps the most important theme of this overview is the contradiction between China's need for stability to promote economic growth and its desire to control the islands for political, economic and strategic reasons despite the fact that any attempt to seize the islands would destabilize the region and hurt China's economic growth.

The Spratly Islands, located in the South China Sea, are composed of approximately 230 islands, islets and reefs. Together they constitute only five square km of lands amid more than 800,000 square kilometres of ocean. None of the 25 actual islands are capable of supporting human life and most of the reefs, cays, and shoals are underwater much of the year. The islands are situated near the coast of the Philippines, Malaysia, Brunei, and Vietnam (see appendix A) and are located near major shipping lanes. The islands are of strategic value both because of their location in Southeast Asia and because of their abundance in natural resources including oil, natural gas and phosphorus. Thus, these islands are of both geo-strategic and economic value to China.

China's drive to the Spratly Islands must be understood in the context of their move into the South China Sea which began with the seizure of the Paracel islands located closer to China and just off the coast of Vietnam (see appendix A). According to

Graver, China's push into the South China Sea has been a 'seamless web' of military build-up and diplomatic manoeuvring³, amounting to a gradual process of power consolidation for its move southward. This drive began in 1970 when the Navy of the People's Liberation Army (PLAN) began conducting surveys of the Amphitrite Group located in the eastern most cluster of the two island archipelagos of the Paracel Island grouping. The move into the Paracel Island was prompted by the Chinese desire to seize the islands while Vietnam was uninterested or unable to defend the islands. As the Vietnamese did not occupy the Amphitrite Group, China correctly calculated that South Vietnam would not attempt to protect the islands while fighting the Communist North in a civil war. That same year the Peoples Liberation Army (PLA) set up a meteorological station on Woody Island in the Amphitrite Group. The following year the PLA started building military structures on the island that included a harbour and a 350 metre reinforced concrete wharf⁴. This was the beginning of the PLA's permanent presence in the area and it provided the basis for the Chinese expansion into the rest of the South China Sea.

Defeating a South Vietnamese force in 1974, the PLAN made a successful bid to seize the three islands in the Vietnamese occupied Crescent Group of the Paracel Islands. This expansion onto the Vietnamese-claimed islands was likely precipitated by geostrategic calculations. The Chinese were concerned about the North Vietnamese

³John W. Graver. "China's Push Through the South China Sea: The Interaction of Bureaucratic and National Interests" *The China Quarterly* Vol 132, Dec 1992, p1000

⁴Graver, "China's Push," p1002

assured victory and the implication of the close North Vietnamese ties with the USSR. China believed that if the North Vietnamese gained control over the Paracel islands they would allow the Russians to use these islands to further promote Russian containment of China⁵. To avoid this situation the Chinese consolidated authority of the Paracel Archipelago by defeating the South Vietnamese and occupying all of the islands. The PLAN thus landed on Robert, Prattle and Money Island and proceeded to give priority to the construction of infrastructures on the islands.

A fierce war of propaganda ensued and diplomatic statements were exchanged between China and Vietnam regarding the historical claims and current ownership of the Paracel and the Spratlys. Both countries claimed historic rights to the island groupings and each claimed them as part of their current sovereign territory. This confrontation took on greater importance than it may otherwise have had because it was regarded as a secondary issue in the ongoing conflict between Vietnam and China over relations with the USSR. Despite the war of words, China continued to consolidate its claim on the Paracel Islands. Military control increased when, in 1979, a Marine Corps was established on Hainan Island (part of the PRC since 1950) with the South China Sea as its main theatre of operations⁶. Administrative control was further tightened when a Paracel Maritime Police Division was established with several posts set up on various islands and when the Guangdong provincial government, which had administrative responsibility for the Paracel and Spratly Islands, opened an office on Woody Island in the Paracel

⁵Graver, "China's Push," p1005

⁶Graver, "China's Push," p1007

Archipelago. This increased control was reflected by the acceleration of construction in 1978 as more money became available from Beijing. An airstrip was built on Woody Island, lighthouses were erected in strategic areas of high danger, and in 1982 a new large harbour was constructed at Triton Island, the southernmost of the Paracel Group. Between 1979 and 1982 China turned back several Vietnamese attempts to recapture the islands.

The Chinese activities in the Paracel Islands were important not only for bolstering China's claim to the South China Sea but also for providing a stepping stone to the Spratly islands further to the South⁷. China's first excursion to the Spratly Islands occurred on November 3, 1980. Following this maiden voyage the PLAN drastically increased activity in the Spratly Islands so that by 1983 there had been repeated PLAN patrols of the Spratly islands that had provided extensive oceanographic surveying. The cruises, the most important of which was to James Shoal, considered the Southernmost tip of Chinese territory, fulfilled the military purpose of familiarizing the navy with the dangerous waters surrounding the islands and the political purpose of asserting China's sovereignty in the area.

China's first comprehensive survey of the Spratly Islands took place in 1984 after which Chinese activity in the area subsided until 1987. The pause in activities can be attributed to many factors including the oddities of the Five Year Plan budgetary processes, improvement in Sino-Soviet relations, and an emphasis on the development of infrastructures on the Paracel Islands closer to Vietnam. The rebirth of the Chinese push

⁷Graver, "China's Push," p1008

into the Spratly Islands started with their attempt to establish a permanent presence in the area. The Chinese justified this presence by claiming it was in response to a request by UNESCO in May of 1987 that China establishes an oceanic observation station in the Spratlys in the context of the global oceanic survey⁸. Ostensibly in the name of planning for the establishment of the permanent presence on the islands, the navy proceeded to conduct the first large scale military patrol of the Spratly Islands and in October of that year a squadron of the West China Sea Fleet steamed 54,000 knots from Qingdao through the Western Pacific to James Shoal at the Southern tip of the Spratly archipelago⁹. Far from being an oceanic survey the patrol of the Spratly Island and the appearance of the West Sea Fleet was a massive show of force by the PLAN to demonstrate its ability to reinforce the area. It was an attempt to enhance sovereignty claims and display China's ability to militarily enforce its territorial claims. The Chinese went on to establish a permanent fixture on Fiery Cross Shoal, where construction began in February of 1988 and was completed in August of the same year. In addition, the Chinese constructed 'semi-permanent' structures on Subi Reef, Johnson Reef, Cuarteron Reed, Gaven Reed and Dongmen Reef.

⁸Not only does China still contend that their permanent presence in the Spratly Islands is justified through this UNESCO request, but they also contend that this request signalled the international community's acceptance of the legitimacy of the Chinese claims to these islands. For more information please see FBIS-CHI-95-075, *Oceanographic Official on Spratly Islands*, Hong Kong WEN WEI PO in Chinese 17, April 95 pA1-2.

⁹Graver, "China's Push," p1010

The Vietnamese responded by increasing their resistance to the Chinese presence in the Spratlys. According to Chinese reports, between 1987 and 1988 the Vietnamese sent more troops to Spratlys, occupied more reefs and islands, and conducted more frequent military exercises in the South China Sea area than they ever had previously. Several diplomatic confrontations occurred between China and Vietnam, resulting in the April 1987 Chinese protest regarding the Vietnamese occupation of Baroque Canada Reed and the Chinese claim to the right to recover the islands at any time. Tensions escalated and two weeks after this first warning the Chinese officially claimed that Vietnam was illegally occupying more than 20 islands and reefs in the Spratly Archipelago¹⁰. Both China and Vietnam intensified their naval presence in the area and stepped up the diplomatic confrontations. Tensions rose to such a level that on March 14, 1988 an armed conflict occurred on Johnson Reef. The PLAN sunk one Vietnamese ship and heavily damaged two others, killing 74 Vietnamese sailors. This increased tensions and both sides seemed to be preparing for a showdown over the Spratly Islands.

In April 1988 the PLA released a statement that outlined its willingness to engage in a battle over the Spratly Islands and reiterated the Chinese position that the Vietnamese should retreat from Islands considered Chinese territory¹¹. It is interesting to note that the PLA and not the Ministry of Foreign Affairs (MFA) released this statement thus implying that the army was representing the Chinese stance, a clear indication of the power of the PLA within the government and the readiness of the PLA to fight over these islands.

¹⁰Graver, "China's Push," p1012

¹¹Graver, "China's Push," p1014

Despite the intensification of tensions, construction activity by the Chinese continued on both the Paracel and the Spratly Islands. The air base on Woody Island in the Paracel Islands was enlarged and a geological and topological investigation of the Spratly Islands was conducted. In September of 1989 the PLAN was reported to be planning an attack against the Vietnamese but was forced to cancel. In December the results of the geological survey were released revealing that the islands and their surrounding waters contained a wealth of oil, natural gas and phosphorous.

Shortly after shelving the plans for a military operation in the Spratlys, Beijing dramatically changed its policy toward the South China Sea. It moved from an aggressive military stance to a conciliatory position in order to reassure neighbouring countries who had become increasingly alarmed about the conflict between Vietnam and China in the area. In August 1990 Premier Li Peng proposed a policy for shelving territorial claims of the Spratly for the short term in order to pursue joint development so that all claimants could enjoy the benefits of exploiting the seabed and the maritime resources of the area¹². In July 1991 Wang Yingan, director of the MFA Asian Affairs Department, clarified the Chinese stance by claiming that China was not altering its claims of sovereignty over the area but rather that it was prepared to explore various types of international cooperation in the South China Sea. In fact China suggested the development of a mechanism to support cooperation and joint exploration of the area. In 1992 Foreign Minister Qian Qichen reiterated China's intention to seek a peaceful settlement over the dispute and in

¹²Graver, "China's Push," p1016

1993 he assured the region that China would not use force to resolve matters in the Spratly Islands¹³.

The Chinese claimed that this dramatic shift in policy was the result of the desire to reduce tensions in the area. Alternatively, the shift can be attributed to a series of setbacks experienced by Beijing as a result of the revolutions in Eastern Europe and the collapse of the USSR leading to the bankruptcy of communism. China was also dramatically affected by the Tiananmen Massacre that left Deng's modernization plans in jeopardy. After the Tiananmen incident China could not afford to alienate the entire international community and chose to reassess its relationships with its Southeast Asian neighbours. These factors forced China to develop new ties and contacts as traditional allies crumbled and new allies broke off communications.

The drastic change in policy did not affect China's effort to consolidate political power in the region. In 1992 China sent the highest ranking delegation thus far to inspect the Spratly Islands and soon afterwards published the 'Law on Territorial Waters and Adjacent Areas'. This law enumerated the island groups belonging to China, laid out regulations regarding the use of and transit near these islands and their surrounding waters and provided the power for China to evict foreign military vessels that violated the laws and regulations of China¹⁴. This Law amounted to more of a political symbol rather

¹³William J. Dobson and M. Taylor Fravel. "Red Herring Hegemon: China in the South China Sea." *Current History* 96:611 (September 1997), p 259

¹⁴Graver, "China's Push," p1017

than a legal procedure as it clearly stated the territory claimed by China¹⁵. China also went on to sign an agreement with the Crestone Corporation, an American oil company, for exploration in the Spratlys. According to Crestone, China was prepared to use all necessary force to protect the company's operations. The partnership with an American company was a shrewd move for the Chinese. With American interest in the area the US government would be reluctant to intervene against the Chinese should a conflict arise in the South China Sea¹⁶.

In July 1992 China accepted the Manila Pact, a 5-point declaration on the South China Sea put forward by ASEAN that said that force should not be used to change the status quo in the area. By accepting this pact China was seen to be indicating their resolve to cooperate with ASEAN. By 1994 both China and Vietnam were becoming more adept at developing contacts with Western countries and corporations in order to explore and exploit resources in the South China Sea¹⁷. In August 1994 however, China began to be concerned about Vietnam's oil prospecting activities with foreign companies in the Spratlys. This resulted in several incidents in the summer and autumn where Vietnamese forces chased off Chinese boats operating in Vietnamese controlled water near the Spratlys. China also continued to modernize its navy to increase its power projection capabilities in the South China Sea.

¹⁵Gerald Segal. "East Asia and the "Constrainment of China." *International Security* 20:4 (Spring 1996) p118

¹⁶Graver, "China's Push," p1017

¹⁷Segal, "Constrainment of China," p118

The latest and probably most significant activity in the Spratly Islands started in September of 1994 when the Filipino armed forces detained Chinese fishermen who tried to set up a structure on one of the Spratly Islands. As China believes that all the islands in the Spratly Archipelago are part of Chinese sovereign territory China felt compelled to respond to what it perceived as a provocative move by the Philippines. By January 1995 China had sent at least nine naval vessels to Mischief Reef, a Filipino claimed territory. It is likely that Chinese officials unanimously agreed to use force in this situation, the only dispute would have been over the timing and the target of the force¹⁸. This move by China was significant not because it was the most southerly territory taken by the Chinese but because it was the first territory China seized from an ASEAN member. The Chinese forces arrested Filipino fishermen, built structures on the island, and left troops in place to guard the Chinese claim. Filipino forces confirmed this action in February of 1995 but were unable to alter the situation. Formal reactions by ASEAN members were minimal, amounting only to a statement of concern over the situation made by the foreign ministers. Even this response was released only after the Philippines made a diplomatic 'scene'¹⁹. In April ASEAN members asked China to cease building structures on disputed islands and officials informally asked for China to allow the issue to be considered formally but China refused. Five months after the incident the Americans responded by

¹⁸Segal. "Constrainment of China," p120

¹⁹Segal, "Constrainment of China," p122

releasing an ambiguous strategy regarding the Asia-Pacific stating the US should concentrate on traditional friends in the regions²⁰.

Following the Mischief Reef incident China has established a “panel of experts” with the Philippines to promote cooperation in overlapping areas of concern between the two countries. These concerns included fisheries, meteorology, naval safety, piracy prevention, research and protection of the marine environment and finding a solution to the conflict over the Spratly islands²¹. China has also withdrawn most of its naval ships from Mischief Reef and has left the structures intact and invited Filipino fishermen to use the Reef. In 1995 China told ASEAN that it would abide by international law in resolving the dispute and it would ensure the freedom of the sea lanes. Then in 1996 China ratified the International Law of the Sea and signed statements of cooperation with Vietnam and the Philippines²². Despite these cooperative overtures China's actions continue to contradict their stated intentions as they were caught drilling for oil in Vietnamese claimed waters in March of 1997²³.

MILITARY CAPABILITIES

²⁰Segal, “Constrainment of China,” p124

²¹Jusuf Wanandi. “ASEAN’s China Strategy: Towards Deeper Engagement,” *Survival* 38:3 (1996), p123

²²Dobson, “Red Herring Hegemon,” p260

²³Dobson, “Red Herring Hegemon,” p259

China's actions in the South China Sea in general and in the Spratly Islands in particular have demonstrated an inconsistency in the Chinese policy. The actions of the Chinese are more often than not at odds with the policies presented. China claims it wants to resolve the matter peacefully but has engaged the Vietnamese in the Spratly islands and militarily seized Mischief Reef from the Philippines. This pattern of Chinese diplomacy can be attributed to the on going struggle between the PLA and the MFA²⁴. Several times policy disagreements between the PLA and the MFA have resulted in PLA preferences being accepted over the MFA. One example of this is the publication of the specific identity of all territorial waters and islands claimed by China in the 1992 Law on Territorial Waters²⁵. The MFA favoured a more ambiguous wording that did not enumerate the exact sovereignty claims but instead included a blanket statement that would be less likely to antagonize China's neighbours. Another example of the political power of the PLA over the MFA occurred in 1995 when Foreign Minister Qian stated at an ASEAN meeting that China has never claimed the South China Sea as territorial waters. That statement however is in direct contradiction to statements made by Pan Shiying, a retired naval officer who is believed to represent the PLAN's view, who reiterated China's historic claim to the South China Sea²⁶. This demonstrates the inconsistency between the views and actions of the PLA and the views and statements of

²⁴Dobson, "Red Herring Hegemon," p260

²⁵Dobson, "Red Herring Hegemon," p260

²⁶Dobson, "Red Herring Hegemon," p260

the MFA. This discrepancy can be attributed to the internal struggles for power and the elevated clout of the PLA following the Tiananmen incident.

One of the primary reasons that this disparity is allowed to continue is because of the domestic political situation in China. The leadership transition after the death of Deng Xiaoping has left the political figures such as Jiang Zemin in a vulnerable position. In the wake of the Tiananmen Square massacre when the political elite relied on the PLA to quasi pro-democracy demonstrators, the leaders realize that they need the support of the PLA to bolster their regime. Therefore, under the auspices of 'national interest,' the PLAN is given independence in the South China Sea in exchange for ongoing domestic support, thus the MFA's aim to maintain friendly bilateral ties with East are consistently overshadowed by the PLA's unilateral assertive actions which are in line with the PLAN perceived mission to defend China's territorial integrity²⁷.

Despite the PLA's interest in defending China's territorial integrity, threatening Chinese intentions must not be confused with the reality of Chinese military capabilities. The PLA has been described as a force composed of largely Korean War Vintage weaponry²⁸. The current program of modernization and professionalization has resulted in some qualitative improvements in the power projection of the military but the force remains far behind Western standards. In line with the program to modernize the military the PLA has also modernized its doctrine. It has shifted from focussing on ground force

²⁷Dobson, "Red Herring Hegemon," p260

²⁸David Shambaugh. "China's Military: Real or Paper Tiger?" *The Washington Quarterly* 19:20 (1996), p24

fighting to enhancing the range, endurance and performance capabilities of the air force and navy which will allow the PLA to project military power at greater distances beyond its immediate border areas. This doctrinal change indicates a move toward "flexible response for multiple missions based on high-technology weaponry and a diversified -yet integrated - force structure²⁹." This doctrine, suitable for combat in the South China Sea, is ambitious as weaponry lags 10-20 years behind. China lacks airlift and sealift capabilities for power projection and rapid deployment capabilities and is unlikely to obtain them for at least two decades³⁰. Despite the ancient vintage of the PLA, modernization has provided the Chinese with a military force that is capable of protecting some power, however limited, into the South China Sea and this is threatening to the ASEAN nations who also lay claim to some or all of the Spratly Islands.

The PLAN has limited power projection because most of its warships were designed for fighting styles that are currently outmoded. To update their capabilities some Chinese warships have been updated with ship-launched cruise missiles, active homing radar and electronic counter-countermeasures (ECCM) systems. This, combined with the growing number of Chinese warships capable of replenishing at sea, indicates that China will be able to conduct sustained large scale operations necessary for a campaign in the South China Sea³¹. Despite these improvements naval power remains

²⁹Shambaugh, "China's Military," p24

³⁰Shambaugh, "China's Military," p24

³¹Felix K Chang. "Beijing's Reach in the South China Sea." *Orbis* 40:3 (Summer 1996), p356

limited without significant air support. Air support is crucial in any campaign at sea as the PLAN has few vessels capable of air defence. Air defence is especially important in any campaign in the Spratly Islands. Both Singapore and Malaysia have newer and more sophisticated fighters than China, giving them superior air capability over the Chinese³². As well, ASEAN nations have the distinct advantage of being geographically closer to the Spratly Islands than the Chinese allowing more time for their aircraft to operate over the area.

The bulk of the PLA Air Force (PLAAF) is composed of 1950s and 60s generation aircraft that cannot even reach the South China Sea. The PLAAF recently purchased 72 Russian made Su-27s, now China's most modern fighter. However, these planes can only loiter over the Spratly islands for 30 minutes consequently negating their usefulness in any combat situation over the Spratly Islands³³. Other problems with the PLAAF included the lack of aerial refuelling technology, the necessity of extensive aircraft maintenance because of fragile engines, and limited pilot training. These conditions combine to provide an air force which is limited in skill, especially flying over open water without ground support, aircraft that are grounded more often and for longer periods, and a range that is severely limited.

In addition to the limited credibility of the aircraft in any campaign over the Spratly Islands, the infrastructure to support these aircraft are in poor condition, badly located, and in need of urgent updating. Most airstrips in China were not built to

³²Chang, "Beijing's Reach," p357

³³Chang, "Beijing's Reach," p359

withstand the wear and tear of modern aircraft³⁴, limiting the sites from which the Su-27's can be launched. Most strips were built inland to fit the previous military doctrine based on land invasions. Currently China's most modern landing strip is located on Woody Island in the Paracel Archipelago. This 2,700-metre airstrip is 345 km from the next closest airstrip in China at Yulin, and is 920 kilometres from the Spratly Islands. The difficulty is that Woody Island lacks the space to house aircraft shelters without which sophisticated

aircraft quickly deteriorate³⁵. In addition, the shortage of space limits the amount of fuel and munitions that can be stored on the island, which combined with the lack of adequate docking facilities severely limits the utility of the landing strip, especially in a situation of extended air operations. As a result the Chinese would have to rely on air support originating from bases further inland which would severely reduce the utility of the fighters in any combat situation over the Spratly Islands.

Another limitation of the PLAN is the lack of an aircraft carrier. The navy needs an aircraft carrier to have real force projection in the South China Sea³⁶. Despite this necessity the Chinese likely do not have the technical knowledge to build a modern aircraft carrier, nor the avionics and metallurgy technological expertise necessary to construct an aircraft that can operate on an aircraft carrier in any weather condition³⁷.

³⁴Dobson, "Red Herring Hegemon," p24

³⁵Chang, "Beijing's Reach," p361

³⁶Shambaugh, "China's Military," p27

³⁷Dobson, "Red Herring Hegemon," p262

Without the capability to build an aircraft carrier China has to look to the world market to purchase one. It was rumoured that the Chinese were attempting to purchase the aircraft carrier *Varyag* from the Ukraine in 1993 but no carrier has since materialised³⁸. The logistical demands of providing resources to a carrier would pose a significant challenge to the Chinese and it is unlikely that China is in a financial or political position to purchase an aircraft carrier³⁹. Estimates on the earliest China will have an operational aircraft carrier vary but most range between 10-20 years⁴⁰.

An extended campaign would be necessary to seize and control all the islands in the Spratly archipelago, however, currently neither the PLAN nor the PLAAF has the capability to mount a credible extended campaign in the Spratly Islands. Therefore, despite the PLA's aggressive rhetoric their capabilities belie their intentions. However, despite its limitations in a large extended campaign the PLA does pose a threat to the area. In their current capacity the PLA is capable of disrupting the sea lanes surrounding the Spratly Islands and is capable of projecting at least a limited amount of force in that area. They are not the threat that some imagine, but they are capable of causing disruptions and acting, albeit in a limited capacity, on their threats to enforce Chinese sovereignty in the area.

³⁸Bonnie Glaser. "China's Security perceptions: Interests and Ambitions." *Asian Survey* 33:3 (1993), p265

³⁹Shambaugh, "China's Military," p28

⁴⁰Dobson, "Red Herring Hegemon," p262

POLITICAL DIMENSIONS

Although the Chinese military is limited in its capabilities to project power into the South China Sea, the actions of the military in the area are politically significant. Temporary limits on military power are diminished by long term political desires that are the backbone of the Chinese move into the Spratly Islands. The push to the Spratly Islands is sanctioned by the political leadership in China for many reasons but primarily for nationalistic purposes. The Chinese are haunted by their historic claims to greatness. An integral part of Chinese psyche is the desire to right the wrongs of history⁴¹. This desire is fed by the belief that the Chinese were cheated out of national territory during the 'century of shame' when imperial powers negotiated so called 'unequal treaties' with a weakened Chinese state. The rising Chinese consciousness regarding these historical injustices coincides with the success of Deng's modernizations and with the increasing prosperity of the Chinese⁴². The swell of public pride that is part of this prosperity is responsible for the belief that China should once again restore its place of greatness in the world and along with that reclaim territories that historically belonged to China. Thus, most Chinese not only supported the return of Hong Kong to Chinese rule but also support the military campaign in the South China Sea to secure Taiwan, the Paracel and the Spratly islands to Chinese rule.

This historic nationalism is a critical part of politics in contemporary China. The legitimacy of the communist leadership is shaky in the aftermath of the Tiananmen

⁴¹Dobson, "Red Herring Hegemon," p260

⁴²Dobson, "Red Herring Hegemon," p261

massacre and the collapse of communism in Eastern Europe and the former Soviet Union. Communism is now seen as bankrupt and the transfer of leadership following the death of Deng Xiaoping has left the Chinese Communist Party (CCP) in a fragile condition. The leaders now appeal to the nationalist sentiment to bolster their personal legitimacy and the legitimacy of their authoritarian regime⁴³. By endorsing the move into the South China Sea they appeal to both political and emotional sentiment. Thus, the Chinese claim to the Spratly Islands coincides with the nationalist desires to correct history. The population sees each excursion into the Spratly Islands as an assertion of sovereignty over the region and an increase in effective control over the islands. Every action is seen as a legitimization of Chinese claims over other nations. Politically the Spratly islands are a pragmatic choice to exercise nationalist views on lost territory. Each exercise is viewed as a demonstration of Chinese authority in the region. This satisfies the Chinese public that the leaders are fulfilling the nationalist agenda which thus promotes satisfaction in the political system. Unlike other territorial claims such as the Senkaku Islands, currently occupied by the Japanese, the Spratly Islands are a much safer and lucrative place to assert national sovereignty⁴⁴. The Spratly Islands are ideal because the other claimants are weak powers that the PLAN can at least threaten, if not defeat. The PLA would not be able to defeat the Japanese Self Defence Forces in a conflict over the Senkaku Islands, nor are they willing to engage other major powers such as Russia, Taiwan or India over other territorial disputes. The ASEAN nations that share claims over the Spratly Islands

⁴³Graver, "China's Push," p1023

⁴⁴Graver, "China's Push," p1023

are relatively weak, although they too are modernizing their militaries, and the major powers in the region, including Japan and the United State, do not have a vested interest in the protection of the ASEAN claims in the South China Sea. This means that, just as in the past, any Chinese aggression in the area is unlikely to meet any major military opposition. The only interest that the Americans have in the area is concerning the freedom of the shipping lanes that pass directly through the South China Sea close to the Spratly Islands. American concern over Chinese aggression in the South China Sea has been minimal and the US response to past conflict has been limited⁴⁵.

ECONOMIC CONSIDERATIONS

Both the emotional and the political considerations make the conflict in the South China Sea an attractive option to the Chinese leadership. However, the possible economic benefits of controlling the Spratly Islands make the move to the Spratly Islands even more attractive. Starting in 1988 Chinese academics began to publish articles on the utility of marine resources for economic development. Many of these articles identify the value of Exclusive Economic Zones (EEZs)⁴⁶ surrounding the islands and reefs in the Spratly archipelago. These articles tied sovereignty issues in the Spratly's to economic

⁴⁵Dobson, "Red Herring Hegemon," p262

⁴⁶Exclusive Economic Zones (EEZs) are part of the UN Convention on the Law of the Sea (UNCLOS). A nations territory extends 12 nautical miles from its land borders but its exclusive economic zone extends 200 nautical miles (371 km). IN this zone a nation can exercise its rights to fish and mine while prohibiting access to other nations. This is important in the Spratly Island because the nations claiming even the most insignificant reef gain exclusive access to valuable natural resources.

national interest⁴⁷. The economic payoffs of the Spratly Islands are potentially huge. There is thought to be an abundance of oil, natural gas and phosphorus in the surrounding seabed. According to the Chinese geological survey conducted in 1989 the seabed contains 25 billion cubic metres of natural gas, 370,000 tons of phosphorus, and 105 billion barrels of oil. The quantity of oil in the Spratly Islands is subsequently larger than onshore reserves. China became a net importer of oil in 1994 making the exclusive right to explore and exploit the resources of the South China Sea very attractive to policy makers in China.

The exclusive fishing rights inherent in EEZs are also very attractive to the Chinese. In 1995 China became the world's second largest food importer after Japan⁴⁸. The ability to feed 1.2 billion people is a major concern for any Chinese leader and permanent exclusive access to this fishing area would provide important animal protein to parts of this enormous population. Many Chinese believe that control over the islands in the South China Sea will enhance China's ability to provide prosperity for its people and to achieve a position of global power in the future⁴⁹.

CONSTRAINTS ON THE LEADERS

⁴⁷Graver, "China's Push," p1019

⁴⁸Martin Walker. "China and the New Era of Resource Scarcity." *World Policy Journal* (Spring 1996), p8

⁴⁹Graver, "China's Push," p1020

Jiang Zemin and his contemporaries are limited in their flexibility regarding the South China Sea. To maintain legitimacy political leaders need to play into the beliefs and desires of the population, they need to play the nationalist card in order to maintain stability and popular support⁵⁰. In addition, the CCP is also constrained by the need for support from the PLA. As discussed earlier the CCP has given the PLA a wide latitude of discretion over the activities conducted in the South China Sea in exchange for their continued loyalty. The necessity of providing such freedom will likely continue until a leader has consolidated power. With the increased decentralization of political power in China because of economic prosperity, Jiang may have severe difficulty in controlling the PLA without providing a proverbial carrot.

This lack of flexibility is critical because despite the possible payoffs of further action in the South China Sea there are many constraints, both political and economic, that make any further aggression unwise. The capability of the PLA limits the effectiveness of any aggressive action in the South China Sea. The loss of any military campaign would certainly be a massive blow to the political leadership which needs to maintain an image of a strong China for domestic consumption. In addition, the defeat of the PLAN in the Spratly Islands would diminish the utility of the South China Sea as a tool to maintain regime legitimacy by exploiting nationalist sentiments.

China has also come to realize the inherent importance of ASEAN as a political ally⁵¹. ASEAN has sided with China regarding matters of human rights and political

⁵⁰Dobson, "Red Herring Hegemon," p261

⁵¹Dobson, "Red Herring Hegemon," p262

freedom. They have consistently argued with China concerning 'Asian values' and have been sympathetic supporters of China in the United Nations. Trade between ASEAN and China is approximately US\$20 billion per year. The Chinese understanding of the value of ASEAN as an ally is reflected in their 1995 move to show that China was committed to cooperation on the issue of conflicting claims in the Spratly Islands. These moves include the recognition that international law and the United Nations Convention on the Law of the Sea (UNCLOS) should form the basis for resolving overlapping claims in the South China Sea. China's willingness to negotiate a code of conduct for the South China Sea based on the 1992 Manila Declaration and their acknowledgment of the freedom of navigation through the waters it claims also demonstrates China's new flexibility toward the issue⁵². The creation of a bilateral committee to solve the conflict with the Philippines illustrates the Chinese desire to settle matters peacefully at least for the moment. This cooperative spirit may be due to the rational calculation of both the political and economic self-interest of the Chinese state. It is also perhaps an indication of the power of economic interdependence constraining the actions of the Chinese in relations to other states.

The stability of China is critical to its prosperity. According to IMF data China is the second largest economy in the world. The World Bank has identified the Chinese economic area as a growth pole for the region and China has the world's largest trading surplus with some countries⁵³. It also has a smaller GDP per capita than all major powers

⁵²Wanandi, "ASEAN's China Strategy," p123

⁵³Segal, "Introduction: A Changing China," p3

which means if China continues to maintain its current course to modernization it will continue to rely on foreign investment and technology transfer. Therefore stability in the region and in China is crucial if China is to continue to attract foreign investment. Thus, any calculations regarding moves into the South China Sea must allow for the need for stability to promote prosperity.

The need for foreign investment is important because it means that China's prosperity is tied with the prosperity of other nations. China's growth is not sustainable without access to foreign markets and injections of foreign capital⁵⁴. However, it is not clear that interdependence has been nor will be an effective deterrent to Chinese aggressiveness. There is no evidence that China will be cut off from foreign markets or foreign investment if it misbehaves, alternatively the evidence shows that investors are reluctant to cut China off⁵⁵. For example only limited pain was inflicted on China in the aftermath of the 1989 Tiananmen Square massacre. Many countries quickly restored diplomatic ties, Japan doing so after only one year, and most economic ties with China did not suffer at all.

Even more instructive is the international reaction in the aftermath of the Mischief Reef incident with the Philippines. China acted in an aggressive manner against an ASEAN nation and suffered neither politically nor economically. Although furious, ASEAN nations did not retaliate nor did they publicly acknowledge the misdeeds of China. The limited reactions from the ASEAN nations were significant compared to the

⁵⁴Segal, "Introduction: A Changing China," p7

⁵⁵Segal, "Introduction: A Changing China," p8

reactions from the rest of the world who seemed to disregard China's aggression against the territory of another sovereign nation. This reaction signalled to China the lack of political will on behalf of their neighbours to antagonize China, and the disinterest of the rest of the world in the affairs in the South China Sea.

Perhaps the most serious result of the Mischief Reef incident is that the ASEAN nations are now more active in diplomatically engaging China and are becoming better prepared for a possible conflict. The US has awakened to the possibility of conflict in the region but has simply stated its intentions to maintain clear shipping lanes through the region if such a conflict were to occur, however, with the current domestic atmosphere in the Senate, American policy could easily turn against China. While the world has been alerted to possible Chinese aggression, it has become obvious that interdependence did not alter China from asserting nationalist claims.

The Chinese leadership has difficult choices to make regarding the future of China's claim to the Spratly Islands. They have committed themselves to a non-military solution to the overlapping claims and have initiated several confidence building measures with ASEAN nations to promote prosperity and stability. In their fragile economic state China needs to promote economic prosperity but this is not a sufficient deterrent to the use of force in the Spratly Islands. Chinese leaders are equally concerned with personal and regime legitimacy. If these are threatened then the possibility of aggression in the Spratly island dramatically increases as the domestic payoffs in terms of political support are high. China's need to safeguard resources for both the present and the future viability of China also threatens the peace in the Spratly islands. If China is

dissatisfied with the progress of joint exploitation of the resource base then the possibility of China forcibly acquiring the islands cannot be dismissed.

The South China Sea case study provides us with the basis to study specific issues of Chinese foreign policy more closely. The issues raised by the overview include the legal and historical basis of the Chinese claims to the Spratly Islands, the military power of the PLA, the influence China's need for resources, and the constraints placed on China by its ties with the region both bilaterally and multilaterally. The next chapter will examine the legal basis for China's claim to the Spratly Island archipelago. This will provide the basis for a comparison of the relative importance of the legal, military and resource dimensions of this case study.

CHAPTER 2 - Legal Implications

In order to understand the conflict in the South China Sea it is important to examine the basis for China's legal claim to the Spratly Islands. China is one of the six nations that claim all or some of the islands in the South China Sea; China, Taiwan and Vietnam claim all of the islands in the Spratly archipelago, the Philippines claims most of the islands, and Malaysia and Brunei only claim islands located close to their shores. However, it is not only the number of islands involved but also the legal principle used that differentiates each claimant. Some claims are based on historical occupation of the islands while others are based on cession or geographic proximity; China's claim to the Spratly Islands is based on the historical occupation. While occupation and governance is a legitimate means of claiming the title of a territory the evidence provided by the Chinese to support their claim is not only limited but also open to various contradicting interpretations. While this means that the validity of China's claim is questionable it does not weaken the predominant position of China as a significant player in the Spratly Island dispute, nor does it lessen the necessity of involving China in any dispute resolution process. This chapter will first explain the legitimate means in which a state may claim sovereignty over territory under international law, it will then explore the nature of the Chinese claim to the Spratly Islands, and finally it will evaluate the validity of the Chinese claim and examine the implications that this has for any resolution of the conflict in the South China Sea.

There are five ways in international law that a state may legitimately claim sovereignty of a territory, these include: occupation; prescription; conquest; cession; and

accretion and avulsion. In order to claim territory based on occupation a state must first discover an unclaimed territory (*terra nullius*) and then exert effective control over the territory¹. Therefore, in order for any state to claim title to the Spratly islands based on occupation they must show evidence that they had not only discovered the islands but that they also had effective control over the islands. Usually these claims are weak as they are backed up by historical records that are often rare and usually vague in their reference to a specific territory. Archeological evidence is also used to support a claim however artifacts can only confirm discovery and not effective occupation or the exertion of control over a territory. China, Taiwan and Vietnam each argue that they have occupied these islands since 'time immemorial' and support their contentions with historical records and archeological findings that they believe proves occupation and administration.

The second method of claiming title is the principle of prescription. Prescription is based on a 'peaceful, unopposed and continuous manner of governance by one state while the territory actually belongs to another'.² To claim title using this method the state would first have to confirm the title officially belongs to another state. If any country tried to claim the Spratly Islands based on prescription they would first need to acknowledge that the islands belonged to one of the other claimant states. It is unlikely that any state will use this principal because none of the disputants are willing to support the idea that the Spratly Islands have actually belonged to any other state.

¹R. Haller-Trost, *The Spratly Islands: A Study on the Limitations of International Law*. Occasional Paper No. 14 (Kent: Centre of South-East Asian Studies, 1990) p44

²R. Haller-Trost, *Limitations*, p44

The third manner in which state can acquire territory is by conquest. Although conquest is currently a morally unacceptable method for acquiring territory was widely used before World War II. In order to legally acquire territory through conquest a state cannot simply invade another and receive title to the land, rather there must be a peace treaty in order to validate the title.³

Cession is the forced or voluntary transfer of territory from one state to another. This transfer is usually done by treaty through which a nation revokes its rights and titles over a territory and cedes them to another nation.⁴ The difference between cession and conquest is that the transfer is not preceded by a war. An example of cession would be the transfer of the title to the Paracel Islands from the French to the Vietnamese when the French gave up its colonial possession. Similarly, the Philippines claim to the Spratlys is based on the cession of the islands from the Filipino businessman who 'discovered' and claimed the islands based on the principle of occupation and subsequently ceded the title to the Philippine Government.

The final principle of territorial acquisition is through accretion and avulsion. A title to territory is granted when a new area is added within the territorial limits of a state. This is usually due to natural causes and may happen gradually through such things as fluvial actions (accretion) or suddenly through such things as volcanic action (avulsion).⁵ The addition need not be natural, land reclamation in the Netherlands is an example of

³R. Haller-Trost, *Limitations*, p45

⁴R. Haller-Trost, *Limitations*, p46

⁵R. Haller -Trost, *Limitations*, p80

non-natural territorial acquisition. This is a particularly important method of acquiring territory because no formal act or assertion is necessary to establish an original title in cases where new land areas emerge in the direct vicinity of a country's coast. It also has direct implication for the Spratly Islands dispute, if a country gains sovereignty over one of the islands, then based on the principle of avulsion and accretion it need only build a platform on the various submerged features in the vicinity of the island in order to gain sovereignty over the newly created islands and thereby also gain the benefits an EEZ surrounding the new islands.

The most common principle of claiming title in the Spratly Islands is by occupation. China, Vietnam and Taiwan's claim are entirely based on the principle of first discovery and occupation, while the Philippines' claim is based on cession of the lands which were originally claimed through the principle of occupation. There is a threat that states may decide to once again claim territory by conquest as evidence by the Chinese attack on Mischief Reef in 1995, however, thus far states have been reluctant to engage in military aggression. More significantly, title by accretion and avulsion will likely create problems in the future as the claimants continue to build on features in an attempt to expand their claims.

The Paracel and Spratly Islands have not always been at the forefront of Chinese foreign policy. Before the scramble to occupy islands in the 1970s to profit from the potentially rich resources surrounding the islands, the Paracel and Spratly Islands were mainly important for their geopolitical status. In the 1950's the Paracel Islands and to a lesser extent the Spratly Islands were used as pawns between France, who occupied

Vietnam, and China. Later, China formally claimed both the Spratly and the Paracel Islands because they were concerned about the United States using these islands to 'contain' China. Although the politics of the time impelled China to claim the islands, the Chinese claim itself was not based on political arguments but rather historical occupation.

The basis of China's claim to title of the entire archipelago is through the principle of first discovery which is substantiated by historical records. The Chinese claim that the 'Nan Hai' or Southern Sea (currently known as the South China Sea) was the main corridor for the China trade and the principal sea gateway to the outside world,⁶ in fact, during the 10th to the 16th Century the South China Sea was a zone of Chinese power and influence. That China had significant influence in the South China Sea is not in dispute, however, the historical evidence for the occupation and governance of the Spratly Islands is not equally as clear. Historical documents referring to the Spratly Islands are rare. From the literature it is apparent that the islands in the South China Sea became important traffic-divides to delineate the southwestern water margins of China's maritime sphere. However, according to Samuels, no source documenting such routes actually mentions the Spratly Islands.⁷ The failure of the literature to mention the Spratly Islands is significant because it points to an essential aspect of Chinese shipping practises. Although islands and rocks were important to Chinese shipping, they were critical

⁶R. Haller-Trost, *Limitations*, p37

⁷Marwyn S. Samuels, *Contest for the South China Sea*, (New York: Methuen, 1982) p23-24

because they defined the main shipping corridor to and from China's southern most tributary state and trading partners. Except for direct trade with the Philippines, the principal shipping lanes ran along the western and southwestern margins of the South China Sea, passing through the Hainan-Paracels gateway to the Vietnamese coast. The route then followed the coast to K'un-lun Island located off the Cambodian coast, and finally proceeded directly across the sea to the vicinity of Singapore (See appendix A). Therefore the traditional route avoided or, at least, skirted the Spratly islands on the west. Consequently the Paracel Islands, located directly along the route, and not the Spratly Islands, were long considered the southernmost point of China's maritime frontier. The reasons for these trading routes are clear; The dangers of high-seas navigation and the need to stay within easy reach of fresh water and food stocks forced sailors to stay close to the shore. In addition, the maritime trade in the South China Sea could be described as 'tramping' from port to port in a system of exchange where whole cargoes might change hands many times en route.⁸ Therefore, while Chinese merchants may have strayed into the Spratly Islands it is unlikely that they would have regularly stopped there and brief visits to the islands do not constitute occupation or effective control over the territory.

Although it is unlikely that the movements of the Chinese merchants can substantiate China's claim to the Spratly Islands other sources are also used to back up China's historical links to the Spratly Islands. Beijing claims that the Spratlys and the Paracels were discovered by the Chinese in the 2nd Century A. D. and have been a part of

⁸Samuels, *Contest*, p23

Chinese territory since then⁹. In 1975 the Peking Review reported that during the Western and Eastern Han Dynasties (206-220 A.D.) “people surveyed, worked and administered without a break these valuable islands.”¹⁰ Other references have been made to the Ming Dynasty (1260-1368), when expeditionary forces sent to Java came back with reports of an island grouping they named “Wan-li shih-t’ang” or the Myriad on the Thousand Li Rocks that some scholars believe refer to the Spratlys while other, such as Samuels, contend that the reference is to the Macclesfield Bank¹¹. Further references are made to possible sightings of the Spratly Islands by voyages during the Ming Dynasty (1368-1644) and Ch’ing Dynasty (1644-1911) when Chinese scholar Ch’en Lun-chiung described the islands geographical position in a book and charted the Paracel and Spratly Islands on a map¹².

These varied references in Chinese text to the Spratly Islands cannot support the Chinese claim to the Spratly Islands because it is unclear as to whether the island groupings they referred to are in fact the Spratly Islands. Even if they do these passing references they do not prove Chinese occupation. The argument that occupation is supposed to have taken place since ‘time immemorial’ is not legally relevant evidence that habitation really had been continuous and administration had taken place. Relics of

⁹Tang Chengyuan, “The legal Basis of Chinese Sovereignty over the Xisha and Nansha Islands” paper presented at *The Second Workshop on Managing Potential Conflicts in the South China Sea*, Bandung, Indonesia. 15-18 July 1991, p1-7

¹⁰*Peking Review* 12.12.1975 as noted in R Haller-Trost, *Limitations*, p37

¹¹R. Haller-Trost, *Limitations*, p37

¹²R. Haller-Trost, *Limitations*, p38

household items, tombstones from the era of Emperor Tongzhi (1862-1875) and etymological indications that names referring to the islands showed links to Hainan dialects are not evidence of permanent occupation and administration but instead only confirm that periodic commerce took place in the area of the Spratly Islands¹³. In fact, according to Samuels' research, none of the 11 major Chinese historical texts on the South China Sea clearly confirm that the Spratlys were ever under Chinese control rather they confirm that the Paracels, not the Spratlys, were considered the southernmost maritime frontier¹⁴.

By the end of the 15th Century the Chinese power in the South China Sea had significantly diminished and by the late 18th Century with the introduction of European powers the Chinese interest in the Spratly Islands became less a matter of trading networks and more a function of strategic and political concern. It was at this point that China attempted to absorb the islands into the political sovereignty of the Chinese state¹⁵.

The first implicit Chinese claim to the Spratly Islands came in 1883 when the Germans were repelled from an expedition to the Spratly Islands by official complaints from the Ch'ing government¹⁶. The earliest official Chinese claim to the islands in the South China Sea and the first international agreement regarding these islands came as part

¹³Bob Catley and Makmur Keliat, *Spratlys: The Dispute in the South China Sea*, (Brookfield: Ashgate, 1997) p37 and R. Haller-Trost, *Limitations*, p38

¹⁴Catley and Keliat, *Spratlys: The Dispute*, p12

¹⁵Samuels, *Contest*, p46

¹⁶Chi-kin Lo, *China's Policy Towards Territorial Disputes: The Case of the South China Sea Islands* (New York: Routledge, 1989) p31, and Samuels, *Contest*, p52

of the settlement following the Sino-French War of 1884-1885. The treaty called the 'Convention respecting the Delimitation of the Frontier between China and Tonkin,' signed on 5 June 1887, specifies that all the islands east of the meridian 105° 43' of Paris "sont également attribueés à la Chine"¹⁷. In other words all islands east of 108° 3' Greenwich had been ceded by treaty to China, this implies that the Paracel and Spratly Islands were recognized by France to be part of China's sovereign territory. Despite the treaty France continued to seek hegemony over the Paracel Islands and as a result China sent out an expedition to the Paracel Islands in 1902 to implement the 1887 Convention and assert authority over the archipelago. The legacy of Sino-French treaty was not to provide a clear basis for Chinese sovereignty over the islands in the South China Sea but rather it served to further confuse matters. When China referred to the 1885 Treaty in an official protest against the French occupation of the Paracel Islands in 1932 the French replied by saying that the Treaty did not apply to the Paracel Islands (or the Spratlys). They argued that it only applied to the Mancay area on the northern Vietnamese Coast otherwise the line would cut across the central part of Vietnam¹⁸. The main problem with the Sino-French Treaty is that it is ambiguous. It does not refer to any northern or southern demarcation and therefore can be interpreted to refer only to the Mancay area in the Gulf of Tonkin, as suggested by the title of the Treaty. The 1887 Convention only served to confuse the legal grounds for both the Chinese and Vietnamese claim.

¹⁷R. Haller-Trost *Limitations*, p40

¹⁸Samuels, *Contest*, p62

The legal status of the Chinese claim to the Spratly Islands up to the eve of the Pacific War revolves around the highly questionable evidence of occupation since 'time immemorial'. In support of its claim China is only able to produce vague references to discovery and occupation. The only hard evidence produced is the treaty signed with the French that may or may not cover islands in the South China Sea. The only thing that the Chinese record does confirm is the absence of a formal claim to the Spratly archipelago prior to the Japanese occupation of the islands in 1939. In fact, according to Samuels, in 1928 the Paracel Commission reported that the Paracels were China's Southernmost territories¹⁹, directly contradicting any Chinese claim that the Spratly were considered part of their sovereign territory.

The second period of territorial claims over the Spratly and Paracel Islands begins with the end of the Pacific War. During the war Japan occupied Hainan, Spratly and Paracel Islands. These islands were key to the Japanese offensive in South East Asia as they provided a base from which Japan could push into the rest of Southeast Asia. To this end Japan constructed air bases, naval bases, weather stations and radio stations on some of the more sizable islands. Occupation of the islands also allowed Japan to control shipping through the South China Sea and gave them a strategic local for which to station submarines²⁰. The end of this brief Japanese occupation ushered in a new period of claims and conflicts over the islands in the South China Sea.

¹⁹Samuels, *Contest*, p68

²⁰R. Haller-Trost, *Limitations*, p43

At this point it is important to recall that China was embroiled in the middle of a civil war. The Republic of China (ROC) was being weakened by the war between the Kuomintang (KMT) and the People's Liberation Army (PLA) which represents the People's Republic of China (PRC). Most actions taken in the South China Sea by China up to 1950 were taken by the ROC. After this point both the PRC and the ROC were active in the South China Sea and despite the civil war and its aftermath they maintain identical claims to the islands as rival legitimate governments of all of China.

There is no evidence of any occupation of the Paracel or the Spratly Islands from the evacuation of Japanese troops in August 1945 to July 1946. In the summer of 1946 the ROC became concerned about French movements in the Spratly Islands and sent their first post-war naval expedition to the islands. In December 1946, the ROC sent a four-ship flotilla to the South China Sea; Two of the ships went to the Paracel Archipelago to occupy Woody Island and two went to the Spratlys where they occupied Itu Aba Island, the largest Island in the Spratly Archipelago. One year after the occupation of these islands the ROC announced that all four islands groups in the South China Sea were fully incorporated into Kuangtung Province²¹. To implement this decision the first Chinese naval administrator arrived to take his post at Itu Aba on December 12, 1947. As the civil war continued the ROC lost the mainland in 1949 and subsequently lost Hainan and the Paracel Islands in 1950. At this point the ROC forces withdrew from Itu Aba Island in the Spratly Archipelago leaving it deserted from 1950-1956.

²¹Samuels, *Contest*, p77

The first formal treaty explicitly dealing with the Spratly Islands was the San Francisco Peace Treaty signed on September 8, 1951. In article two of this Treaty 'Japan renounces all rights, title and claim to the Spratly Islands and to the Paracel Islands.'²² Despite the specific mention of the islands the ambiguity of ownership remained an issue as the renunciation did not entail the devolution or the reversion of the territory in question to one or another previous claimant. While it is clear from the wording of the treaty that Japan no longer enjoys the rights to the islands, it is equally as obscure as to who should enjoy the rights. Part of the reason for the ambiguous nature of the wording was the absence of both the ROC and PRC from the treaty negotiations. The Allied Powers could not decide which China had a legitimate right to be at the negotiations so neither were invited. The main problem was that the USSR favoured the PRC while the US preferred the ROC.

As the Chinese claim over the islands are and were identical either the ROC or the PRC would have adequately represented the Chinese point of view. However, the collective Chinese claim was not without voice in the negotiations. The USSR tabled an amendment to Article 2 that would have had Japan recognize the rights of the PRC over Manchuria, Taiwan, Pescadores Islands, Pratas Islands, Paracel Islands, and the Spratly Islands²³. Clearly this amendment was made at the behest of the PRC but as the claims are identical it represented the stance of both the PRC and the ROC. This amendment was voted down and was one of the reasons that the USSR did not ratify the Peace Treaty.

²²United Nations Treaty Series Vol 136, no 48 in Samuels, *Contest*, p76

²³Samuels, *Contest*, p78

Though absent from the treaty negotiations neither the PRC nor the ROC was silent on their territorial demands. In a statement, Zhou Enlai, the foreign minister of the PRC, announced on August 1951 that the Spratlys and the Paracel Islands as well as the Macclesfield Bank and the Pratas Islands have always been Chinese territory. He also declared that the sovereignty of the PRC over the Spratly and Paracel Archipelagos will not be impaired even if the San Francisco Treaty does not explicitly recognize Chinese sovereignty.²⁴ The ROC was not to be left out. It negotiated a separate treaty with Japan, the Sino-Japanese Peace Treaty, signed on 29 April 1952. Article two in this treaty contained a similar provision to the San Francisco Treaty that has Japan renouncing all claims to Taiwan, Pescadores, Spratly Islands and the Paracel Islands. However, by including Taiwan, which is obviously Chinese territory, in with the other island the statement implies that all the territories mentioned belong to China. According the Samuels, upon examining the minutes of the *Sino-Japanese Peace Negotiations*, initialed in March 1952, evidently Japan insisted on only dealing with territory that related to the Republic of China. By including the Paracel and Spratly Islands into the treaty it is apparent that Japan believed that these two islands grouping were in fact a legitimate Chinese claim²⁵.

The failure of the Allied powers to identify an inheriting authority set the stage for further conflicts over the islands in the South China Sea. In 1947 a Filipino businessman, Tomas Cloma, 'discovered' the Spratly Islands. He claimed to colonized them in 1950,

²⁴Lo, *Policy*, p28 and Samuels, *Contest*, p78

²⁵Samuels, *Contest*, p80

and on May 11, 1956 he attempted to take formal possession of them by raising the Philippines Flag and naming his new territory Kalayaan (Freedomland). Taipei immediately issued several formal complaints and Beijing issued its own protest through the New China News Agency that declared Coma's claim to be 'nonsense'²⁶. The claim alarmed the ROC to the degree that it sent three different naval task forces to the Spratly Islands from 1 June to 24 September 1956 to patrol and reclaim the Spratlys for China. The second task force reoccupied Itu Aba Island in the Spratlys on 29 June 1956.

In 1956, 1957, 1958 and again in 1959 the PRC reiterated its claims over the Spratly Islands. In 1958 Beijing included the Paracel and Spratly islands in the *Declaration on the Territorial Sea*. This document, issued on 4 September, established and continues to serve as the basis for China's legal claims over the islands. The Declaration states that China's territorial baseline is to be straight lines connecting the base points on the mainland coast and the outermost of the islands. If the maritime zone included between the islands and the mainland is treated as Chinese internal waters then the South China Sea would turn into a Chinese lake²⁷. As a result of the 1958 Declaration all maps produced by the PRC are drawn to enclose vast areas of water in the South China Sea, thus signifying on paper that the Sea is once again a Chinese lake. It is difficult to tell if China claims such large areas because of the ambiguity of the Chinese statement, however, there are a number of reasons why China is not interested in clarifying its statement. First, the Spratly Islands are so scattered and tiny that they defy

²⁶Samuels, *Contest*, p84

²⁷R. Haller-Trost, *Limitations*, p52

any logical system of straight baseline linking the outermost points. Specifying such lines would certainly invite contradictory opinions and unwanted criticism. Second, if China does construct its baseline on the archipelagic principle set out in UNCLOS the political consequences of doing such would be serious. If this principle were used areas considered Chinese internal waters would overlap with Exclusive Economic Zones (EEZs) or sea areas above the continental shelves of surrounding coastal states. This would cause undesired friction between China and these states. Finally, without the prospect of the PRC acquiring more islands under its control it has no reason to initiate conflict with any of the littoral states²⁸.

There is conflicting evidence as to whether China actually considers the waters of the South China Sea to be within its jurisdiction. In practise China continues to treat the South China Sea as 'high seas' as can be interpreted from the fact that it only issues warning about entry into their territorial sea and only when ships stray into their 12 mile limit²⁹.

The 1970s ushered in a new phase in the Spratly islands conflict. The underlying reasons for claiming islands of the Spratly and Paracel archipelagos in the 1950s and 60s were primarily political. The PRC perceived that the claims over the Spratly Islands made by the Philippines were the result of American involvement and part of the American strategy of containing China. As a result between May 1959 and December 1971 the PRC issued more than 200 warning to the US for violating the territorial

²⁸Lo, *Policy*, p43

²⁹Lo, *Policy*, p44

airspace and waters of the Paracel Islands. Therefore, China's interest in the South China Sea can be interpreted as a politically motivated tactic to limit the effectiveness of the American containment strategy. Significant changes in the political geography of the South China Sea occurred in the 1970s. The Sino-American rapprochement caused alliances in the South China Sea to radically alter. The Philippines was no longer an enemy but rather an ally. Similarly the outcome of the Vietnam War was such that the Communists won, but they then allied themselves with the USSR against China. The new Vietnamese government no longer supported the Chinese claim to all of the Spratly and Paracel Islands but rather adopted the previous Vietnamese government's claim to both island grouping. In addition to the political changes, the economic importance of the islands were intensified by the resource potential of the surrounding seabeds. Studies were released that suggested major oil fields surrounded the Spratly Islands and the United Nations Law of the Sea discussions involving a 200 mile EEZ surrounding territory accelerated the need for states to stake their claims over the Spratly Islands.

The first major activity in the South China Sea in the 1970s was the incident between Vietnam and China which resulted in China seizing the Paracel Islands from Vietnamese control in January 1947. The PRC claims that this move was an act of self-defence and it was simply resuming control over part of its own territory³⁰. The attack, while unexpected, contains certain logic when examined from a strategic and economic perspective. China at this point was fully aware of the importance of securing maritime zones for economic purposes. It was an active participant on the United Nations Seabed

³⁰R. Haller-Trost, *Limitations*, p56

Committee and an enthusiastic supporter of UNCLOS III. In addition, from 1974 onwards all claims to islands in the South China Sea also included claims to 'adjacent sea areas' or to 'surrounding sea areas' or 'nearby waters.'³¹

In 1982 China signed the United Nations Law of the Sea Treaty thereby accepting the rules for conflict resolution and delimitation of territorial waters. China continued to advance on several islands in the Spratly archipelago in order to fortify its claim on the islands. Aside from these movements China reiterated its claims to the Spratlys and protested against the new Malaysian and Bruneian claims. The next important step in China's claim was the issuance of the 1992 "Law of the People's Republic of China on Its Territorial Waters and Their Contiguous Areas". This law stresses once again that the islands of the South China Sea have always been Chinese territory and China has 'indisputable sovereignty over them'³².

The most recent form of exercising sovereignty involves the practise of granting petroleum and natural gas concessions in disputed ocean areas³³. China granted a concession to Crestone Energy Corp of the US and reportedly drilled a well on Fiery Cross Reef in 1992. Other ways that China, as well as other claimants, have recently tried to bolster their claims include announcing the creation of tourist resorts on various islands, conducting scientific expeditions, establishing weather stations under the

³¹Lo, *Policy*, p39

³²Elizabeth Van Wie Davis, *China and the Law of the Sea Convention: Follow the Sea* (Lewiston: The Edwin Mellen Press, 1995) p14

³³Mark J. Valencia, *China and the South China Sea Disputes* Adelphi Paper 298 (October 1995), p9

auspices of the World Meteorological Organization, as well as continuing to fortify various garrisons with helicopter landing pads, piers capable of handling 4,000 ton ships, and creating direct postal and telecommunications links between personnel stationed on the reefs and islands and the mainland.³⁴ These moves have been made primarily in order to show that the features are capable of sustaining life and creating economic activity. This allows the features to be considered islands and thus allows the occupying nation to claim an EEZ around the feature. China's seizure of Mischief Reef was also an attempt by the PRC to exert sovereignty over the Spratly Archipelago. The fact that China has since left Mischief Reef and invited Philippine fishers to use the island at their will shows that China is sensitive to regional pressure but does not diminish the impact of the exercise in terms of its implications for China's claims over the area. In addition, both the ROC and PRC have incorporated the whole Spratly Archipelago into their provincial administration.

According to many sources China's (both the PRC and ROC) claims based on historical grounds is in no way supported by modern international law or UNCLOS³⁵. However, despite the weakness of the claim based on questionable historical references the Chinese claim continues to carry a great deal of weight in the multilateral dispute. China is the most powerful country involved in the conflict and thus has disproportionately strong influence over the conflict despite the lack of actual physical

³⁴Valencia, *China*, p9

³⁵Barry Wain, 'China's Spratly Claim is all Wet' *Asian Wall Street Journal*, 15 (April 1994), p6 in Valencia, *China*, p22

evidence to support their claim. Any resolution of the conflict in the South China Sea must involve China. China's preponderance of power is not only due to its ability to effectively threaten its neighbours but also because any avenue of solving the dispute through international law mechanisms have been effectively blocked.

Solutions to disputes over the sovereignty of land territory either continental or insular, are not covered by the Law of the Sea. UNCLOS is a multilateral treaty that governs the use of the oceans and its resources. Therefore, it concerns the waters surrounding a sovereign territory and not the sovereignty of territory surrounded by water. According to a Taiwanese scholar "it is not the waters which give title to islands but islands which confer rights to waters"³⁶. UNCLOS is not designed or equipped to solve the South China Sea dispute.

None of the six nations has brought the case before the International Court of Justice (ICJ), the judicial arm of the United Nations. The great weakness of the ICJ is that the international community has not agreed on a comprehensive way to enforce its decision, no state can be compelled to follow a ruling. In addition, states may choose whether they recognize the authority of the ICJ and, if they do, they may also limit the degree to which the Court can infringe on national sovereignty³⁷. Most states will not agree to have matters of national territory and security adjudicated by such an outside

³⁶Steven Kuan-tsyh Yu, 'Who Owns the Paracel and Spratlys? An Evaluation of the Nature and Legal Basis of the Conflicting Territorial Claims.' paper presented at *Workshop on Managing Potential Conflicts in the South China Sea*, Bandung, Indonesia, 15-18 July 1991, p1-29

³⁷Joshua Goldstein, *International Relations* (New York: Harper Collins College Publishers, 1994) p250

body, partly because of the uncertainty in outcomes but also because of the length of the process and the costs involved. One of the disputants, Malaysia, has chosen not to recognize the Court's compulsory jurisdiction and views any submission to the Court as a sign of weakness and political uncertainty. Therefore, not only is it unlikely that the dispute would be brought to the ICJ, but it is equally unlikely that any decision would be universally accepted by all the disputants³⁸.

The other method of dispute resolution in international law involves the United Nations Security Council. The Security Council will not be able to resolve the dispute because the PRC is a permanent member of the Security Council and it can use its veto right to stop any collective action against any conflict in the South China Sea. The veto right is restricted when the country is a party to the dispute, however, this restriction only covers articles 33 to 38 of Chapter Six of the Charter. Article 39 of Chapter Seven, dealing with actions in respect to threats to the peace and acts of aggression (not covered by the restriction), places the Security Council in the position of determining the existence of any threat to the peace or acts of aggression. This means that the Security Council decides on areas of concern through the voting mechanism. China is unlikely to allow the Spratly issue to be labelled as a threat to the peace, thereby asking the Security Council to find a solution to the problem.³⁹ In effect China is able to obstruct the Security Council from discussing or providing any solution to the problem.

³⁸R. Haller-Trost, *Limitations*, p81

³⁹R. Haller-Trost, *Limitations*, p82

As the conflict in the South China Sea over the Spratly Islands will not be resolved by any formal means according to international law the substance and validity of China's claim to the Spratly Islands is of little consequence. The best option for a solution to the conflict is through multilateral fora. Informal Working Group sessions hosted by Indonesia clarified the dispute but provided no possible solutions. Several other suggestion have been tabled by various scholars but until such solutions are reached it remains a possibility that this conflict will 'heat up' because of the increasing importance placed on the economic potential of the islands and their surrounding waters. It remains conceivable that military operations will be contemplated or used in order to solve the various claims.

Although China's legal claims to the islands are tenuous the decision to move into the South China Sea is shaped by political and economic factors. The alleged abundance of natural gas, oil and fish in the Spratly archipelago makes the islands both politically and economically more attractive to China. The next chapter examines the influence of resources for China's push into the Spratly Islands.

CHAPTER 3 - China's Resource Imperative

The marine environment in Southeast Asia is rich in living and non-living resources. The waters around the Spratly Islands have an abundance of coral reefs, mangroves and seagrass beds which support a variety of marine animals and plants. They are also underlain by sediment basins that are either already producing oil and gas or are said to contain major hydrocarbon deposits. Despite this resource abundance the Spratly Islands oil and gas reserves remain largely unexplored. This is a result of the overlapping claims around the islands that has left jurisdiction unclear and means that investment and exploitation of the area poses a political, security, and economic risk.

While the promise of exploitable resources intensified the scramble to stake claims over individual islands in the Spratly archipelago, the desire to exploit these resources holds the potential to both destabilize the area and to create the conditions for a long term solution to the conflict. If states, China in particular, choose to unilaterally exploit the resources, other states would likely retaliate and armed conflict could ensue. Alternatively, if China, along with the other states involved, enters into an agreement to jointly develop the resources in the area, the resulting relationship could provide the trust and confidence to find a multilateral solution to the question of sovereignty over the islands amenable to all disputants.

The interest in the resources contained in and around the Spratly Islands is a result of the growing energy needs of the economies of Southeast Asia. There is a positive

correlation between economic growth and demand for resources from the sea¹. Higher per capita and disposable incomes mean higher demand for seafood while industrial development leads to increased demands for energy. The need for resources, both energy and food, is more than simply an economic issue. According to Calder “Asia’s emerging energy problems cut subtly across the conventional boundary between economics and security².” This means that the safety of energy supplies is understood as a national security concern. China, with its increasing reliance on imported energy, is especially aware of the importance of a steady, safe energy supply. Because of this there remains a possibility that China’s need for a safe, and preferably domestic, supply of energy could compel it to seize the entire Spratly archipelago and unilaterally exploit the resources.

This chapter will examine how the importance of resources affects the Spratly Island dispute. To do so the chapter will first look at China’s need for resources as its industries grow larger and its population grows wealthier. Next, the resource potential of the Spratly Islands will be examined along with the problems of exploitation and extraction in the area. Finally, this chapter will examine the potential success of a functional approach to joint exploitation of the resources and the possibility that this approach could form the basis for a long-term solution to the Spratly Island conflict.

¹Sam Bateman. “East Asia’s Marine Resources and Regional Security”, Paper for Workshop on East Asia Security conducted at Wilton Park, UK, July 1996 <uniserve.edu.au/law/pub/icl/mstudies/maritime_studies_89/ms_marine_resources.html> (27 June 1998): p2

²Kent E. Calder. “Asia’s Empty Tank,” *Foreign Affairs* 75:2 (March/April 1996), p55

CHINA'S CRAVING FOR RESOURCES

In 1994 China ceased to be a net exporter of energy and grain and became a net importer of these commodities. This is significant because of China's large population and its status as an industrializing country. China's per capita income remains low, \$370 in 1994 as compared to \$22,200 in Canada, \$24,700 in the US, \$19,800 in Japan, and \$2,960 in Malaysia³. Once more of China's 1.2 billion people gain a share in the growing wealth the need for grain is going to skyrocket. In addition, as China grows and continues to industrialize its need for oil will dramatically increase. This growth in demand for both food and energy will have repercussions on the worldwide market.

After China began to import crude oil in 1993 the average cost of a barrel of crude oil to US refineries increased from just under US\$13 in 1993 to a high of US\$20 in 1996⁴. Similarly the price of grain increased by 50% between September 1993 and September 1995⁵. These price increases need to be taken seriously because of what they indicate about the repercussions if the Chinese economy continues to grow at its current speed. The price increases were not induced by political acts, such as those created by the OPEC

³All figures taken from Collinwood, Dean. *Japan and the Pacific Rim, Third Edition* (Guilford, Connecticut: Dushkin Publishing Group/Brown & Benchmark Publishers, 1995)

⁴Martin Walker. "China and the New Era of Resource Scarcity," *World Policy Journal* (Spring 1996), p8

⁵Although the price increases for both the grain and the oil cannot be directly tied to Chinese imports, the pressure of China's switch from exporting to importing these commodities put serious upward pressure on the price mechanism.

countries in 1973 and 1979, but was simply the result of an economic adjustment to the increased demand. In other words the price increase was demand driven and not supply driven; an increase in demand rather than a decrease in available supply drew the price upwards⁶. When the price increase is driven by political deed it can usually be undone or modified by other political acts, however, when there is a basic increase in demand it is significantly more difficult to correct the price change by political action. It would be especially difficult in China because the economy has liberalized to the extent that economic levers are no longer controlled by the State Council. Even if the CCP wanted to control or reduce excessive Chinese demand on international resources they would have a difficult time doing so. This is especially true in South China where the government has set up formal and informal special economic zones, capitalist enclaves designed to spur rapid growth in the Chinese economy.

China's growth could place a significant strain on food and energy resources of the world. In 1994, to produce the 30 million tons of pork consumed by the Chinese required 120 million tons of grain, to put this in perspective the total world export of grain in 1994 was 200 million tons of grain⁷. As China grows more prosperous more people will be able to afford pork, but giving each of China's 1.2 billion citizens an extra pound of pork per year would alone require an extra 2.5 million tons of grain. This is significant as in

⁶Walker, "Era of Resource Scarcity," p9

⁷Walker, "Era of Resource Scarcity," p9

1995 China imported 16 million tons of grain, making it the second largest food importer after Japan⁸.

The ocean fishery will not be able to cope with any surge in demand from China. If the Chinese were to consume fish at the same rate as the Japanese, they would require some 100 million tons per year, or roughly the equivalent of the entire global ocean harvest⁹. Fish farming is likely to be of only marginal help because it takes 2 pounds of grain to produce one pound of farmed fish, roughly the same grain to protein ratio required to produce chickens¹⁰. Therefore, fish farming presents only a minor relief and not a substantial breakthrough for providing the world's most populous country with sufficient protein sources.

As for the demand for grain, due to improved farming techniques and technologies, the global grain harvest output tripled between 1950 and 1990 when the global harvest reached a high of 1.78 billion tons. However, output seems to have peaked as the 1995 harvest was only 1.69 billion tons. Therefore, barring any major breakthroughs in farming techniques, the size of global grain harvest is likely to remain relatively fixed. The harvest could temporarily increase, induced by the price mechanism, but this would be only a short-term solution. The increase would be due to the use of fields that are currently allowed to lay fallow, but if these areas are farmed intensively without the necessary regeneration time for the soil, the output of the fields will decrease

⁸Walker, "Era of Resource Scarcity," p8

⁹Walker, "Era of Resource Scarcity," p10

¹⁰Walker, "Era of Resource Scarcity," p10

bringing down the total global harvest. With the global output fixed, the Chinese surging demand will result in a further increase in the price of grain. However, China is likely to want to avoid importing larger quantities of grain because of its traditional posture of self-reliance and its reluctance to rely on foreign supplies. Therefore, it will look to internal sources of food, which include fish from off the coast of the Spratly Islands. However, although China's need for food resources makes exclusive fishing rights in the Spratly Islands attractive, the government is unlikely to seize the islands for this purpose alone as China's fishing boats are already active in the area.

There has been some speculation that the prime motive for China's claims over and actions in the South China Sea is its need for oil¹¹. China's economic growth and industrialization have already promised to revolutionize the economics of oil. China's consumption is only 40% of world average and per capita consumption is one sixth¹². Korea uses 10 times, Japan 20 times and the US 30 times the amount of oil China currently uses. The lowest estimates for China's growth suggest that its demand will rise to 10 barrels per capita by 2005. Significantly, even if the Chinese were to continue to consume oil at their current rate, one fifth of the US rate, by 2005 the US and China will consume equal amounts of oil, and to do so China will have to import an extra six billion barrels per year or 16 million barrels per day, equivalent to twice the production of Saudi

¹¹Mark J. Valencia. "Energy and Insecurity in Asia," *Survival* 39:3 (Autumn 1997), p96

¹²Calder, "Asia's Empty Tank," p56

Arabia¹³. However, China will not continue to consume at its current rate. As it continues to industrialize it is focusing growth on energy-intensive industries such as auto making¹⁴, petro-chemical production, ship building, and air travel, all of which will dramatically increase China's need for oil in the near future.

From 1994, when China began importing oil, to 1996 China's oil deficit grew to 600,000 barrels per day, accounting for 17% of China's energy consumption¹⁵. In 1994 China imported just three million tonnes of crude oil, by 1996 this had risen to 22.6 million tonnes, and in the first three quarters of 1997 the demand had increased by 54% which would be the equivalent of 24 million tonnes for the year¹⁶. Although China began conservation efforts in 1979, its energy crisis is growing because of outdated and inefficient equipment, overuse of capacity, uneven resource development and price

¹³Walker, "Ear of Resource Scarcity," p9

¹⁴In 1994, China produced only 350,000, mostly for state enterprises. However, with the growing middle class and its aspirations for a car, the government has approved a 'people's car.' Given the China's population, a long-range projection of 300 million cars is not unreasonable, this would require large amount of energy for the production, use, and upkeep of these automobiles.

¹⁵Valencia, "Energy and Insecurity," p96 and Calder, "Asia's Empty Tank," p56

¹⁶Ahmed Rashid and Trish Saywell. "Beijing Gusher: China pays hugely to bag energy supplies abroad." *Far Eastern Economic Review* 161:9 (Feb 26, 1998), p46

irrationality¹⁷. In addition, China's need for natural gas is likely to double by 2000 as the country shifts away from coal, which currently supplies 80% of its energy needs¹⁸.

The logistics of oil production compounds China's problems. The most explosive increases in oil demand are in the southeast coastal provinces, notably in Fujian and Guangdong, yet these provinces produce virtually no oil and rely heavily on imports. In addition, the northeast fields like Daqing and Shengli are on the decline. Although China appears to have huge reserves in the Tarim Basin of Western Xinjiang province, prospecting in Tarim's desolate desert is torturous and the oil is located in deep, small, hard to find pockets making it very difficult to extract¹⁹. An enormous investment in pipelines, roads and telecommunications would be necessary if this remote field were to be fully exploited. The Tarim Basin accounts for less than 7% of China's current oil production, and according to the International Energy Agency (IEA), this could remain the case until well beyond year 2010 unless there is significant foreign assistance forthcoming²⁰. In addition, the suggestion that Tarim's reserves could top Saudi Arabia proven reserves of 250 billion barrels has had to be revised downward after several unsuccessful wells have been drilled in the area.

¹⁷China is one of the few countries that still relies on coal as its chief energy resource for industrial production and daily consumption. This is not only inefficient, but it also contributes to major pollution problems and adversely affects the quality of goods produced with coal energy. For more information please see "China's Energy Development Strategies" *Beijing Review* January 26-February 1, 1998.

¹⁸Rashid, "Beijing Gusher." p47

¹⁹Calder, "Asia's Empty Tank," p57

²⁰Calder, "Asia's Empty Tank," p57

With domestic oil production stagnating and economic growth outstripping the rest of the world, China must figure out how to fuel itself into the future. According to Robert Simmons, the chief executive of Houston-based oil consultancy Simmons and Co. International, "China needs to bring on more new energy supplies in bigger volumes and at faster rates than any other country in the world has ever attempted²¹. Because Chinese officials worry about protecting their supply of imports, they are attempting to develop a 'strategic oil-supply security system'. In essence China wants to build a network of diverse oil suppliers worldwide so that it will not be vulnerable to the blockade of any one shipping lane or an embargo by any one exporter²². Chinese officials are currently investing in oil fields overseas because they believe that the more control they have over overseas oil, the more likely they are to be able to supply their own needs.

China's primary cause for concern is that 87-95% of its oil comes from the Middle East²³. This dependency makes China especially vulnerable to sharp oil-price increases and instability in the Middle East or along the transport routes through the Straits of Malacca, Sunda Straits or Lombok Straits up through the South China Sea. Therefore, protecting the sea lines of communication (SLOCs) or controlling them will be an important strategic military goal in the coming decade.

SOUTH CHINA SEA'S OIL POTENTIAL

²¹Rashid, "Beijing Gusher," p47

²²Rashid, "Beijing Gusher," p47

²³Valencia, "Energy and Insecurity," p86

It must be noted that China currently claims an area that is supposed to have significant oil and gas potential. If China gained sovereignty over the Spratly Islands, either through force or multilateral agreement, they would gain a significant source of oil and natural gas, thereby reducing China's reliance on potentially unstable areas for imports. International press reports describe the Spratly Islands as 'oil-rich' but, although preliminary exploration in the South China Sea has proved promising, it could take several years, millions of dollars and numerous wells to find out just how much oil lies beneath the scattered atolls and islands of Spratlys²⁴. Estimate about the amount of oil contain in the Spratly Islands vary, according to Minister Song Ruixian of Geology and Mineral Resources in China, the Spratly Islands have an oil potential of 30 billion tons²⁵. However, some reports call the South China Sea the second Middle East, with estimates of offshore oil at 78.7 billion tonnes, phosphate deposits at 370,000 tonnes and an annual catch of five million tonnes²⁶. In 1987 the South China Sea Institute of Oceanography conducted a geophysical survey of portions of the Spratly s and confirmed strong evidence of commercial oilfields, with estimates that the area contained 25 billion cubic meters of natural gas, 370,000 tons of phosphates, and 105 billion barrels of oil²⁷. By contrast,

²⁴Craig Snyder. "The Implications of Hydrocarbon development in the South China Sea," *International Journal* 53:1 (Winter 1996-7), p142

²⁵"Minister Reveals Spratly Islands' Oil Potential" FBIS-CHI-94-172 Beijing XINHUA in English 1328 GMT, 5 September 1994.

²⁶"Problems Exist for Joint Development of Spratly's," FBIS-CHI-95-096 Hong Kong LIEN HO PAO in Chinese, 21 April 1995, p9

²⁷Snyder, "The Implications of Hydrocarbon," p144

outside sources place the amounts of oil and gas much lower. US geologists, in 1988, estimated the presence of 2.1 billion to 15.8 billion barrels of oil in the area while Russians believe there are 7.5 billion barrels of oil equivalents with 70% of those gas resources²⁸.

The location of the oil and gas in the deep water surrounding the Spratly Islands and the geological structures in which it is found makes for expensive drilling²⁹. Most claimant states do not currently possess the technology nor the expertise for drilling under these conditions and therefore would have to purchase both at significant cost. The technical and economic obstacles, combined with the distance of the Spratly Islands from China, render exploitation difficult and expensive. However, the claimants are countries not companies, and countries think long-term and multidimensionally, particularly when territory is involved. Resources other than petroleum may eventually be discovered or exploited, such as deep seabed minerals or the energy potential created by marked vertical temperature differences in the water column. Therefore, the claimants are unlikely to dampen their interest in an area simply because the oil potential may in fact be modest³⁰.

GAS EXPLORATIONS AND MILITARY EXPLOSIONS

In an increasingly energy-scarce world, energy supply issues can become national-security concerns. If the claimants in the Spratly Island dispute fail to develop cooperative

²⁸Synder, "The Implications of Hydrocarbon," p145

²⁹Andrew Nathan and Robert S. Ross. *The Great Wall and Empty Fortress* (New York: W.W. Norton & Company, 1997) p116

³⁰Valencia, "Energy and Insecurity," p97

multilateral arrangements for jointly exploring and exploiting the energy sector, competition for scarce energy resources could become a catalyst for regional conflict³¹. Conflicts have already occurred on a small scale in the South China Sea over drilling rights. China feels that other claimants to the South China Sea have unilaterally exploited oil in Chinese territory. About 120 wells have been drilled by other countries in what is considered Chinese claimed territory. The PLA believes that while China is unable to exploit its oil in the South China Sea, militarily weaker states are taking advantage of its tolerance and restraint by plundering its oil³². They use this as an excuse to increase their budgets for the modernization of the navy and air force. Some PLA officials feel that it is not feasible to wait for so-called joint exploitation in diplomatic terms, they believe that if the area is not exploited now it would be tantamount to abandoning sovereignty³³. Despite the prevailing view in the PLA that the exploration and exploitation of the Spratly Islands should be expedited, the cooler heads of those in charge of such activities have prevailed. This is critical as the mere act of granting hydrocarbon concessions in disputed areas has caused military skirmishes.

In May 1992, China granted Crestone Corp. of the United States a five-year contract to look for hydrocarbon deposits beneath the ocean floor in the 6.2 billion-acre Vanguard Bank tract, known to the Chinese as Wan'an Bei or WAB-21, an area that

³¹Valencia, "Energy and Insecurity," p86

³²Valencia, "Energy and Insecurity," p96

³³"Problems Exist for Joint Development," p9 and Valencia, "Energy and Insecurity," p96

overlaps with Vietnamese claims. In May 1993, a Chinese Ministry of Geology seismic survey vessel ventured into block 5-2, which is adjacent to the Crestone block and under lease by the Vietnamese government to British Petroleum (BP) and Norway's Statoil. BP had drilled two wells on the site but the results were kept secret because Vietnam feared China's reaction. China's vessel refused to leave the area despite Vietnam's protests thus causing a diplomatic scene. In April 1994, relations were further strained following Crestone's announcement that it would begin a seismic survey of the block WAB-21. Vietnam countered this action by announcing that it had entered into a production-sharing agreement with Mobile Corp. for the Blue Dragon Area, which sits adjacent to the WAB-21 block and north of the 5-2 block³⁴. By July 1994 China announced that it would send two warships to the area to stop the Vietnamese operations and did in fact blockade a Vietnamese rig operating within the WAB-21 area. In August of that year Vietnam retaliated by forcing a Chinese vessel carrying Crestone officials to leave the WAB-21 block.

The crisis abated after Chinese and Vietnamese officials met in Hanoi in November and agreed to "refrain from all acts that make things more complicated or broaden conflict³⁵." However, the failure of the leaders to agree on a code of conduct left the situation open for future conflicts. Early in 1995 Vietnam's President called upon China to rescind its contract with Crestone. China refused but authorized Crestone's President,

³⁴Synder, "Implication for Hydrocarbon," p146

³⁵Synder, "Implication for Hydrocarbon," p147

Randall Thompson, to negotiate a joint development agreement directly with Vietnam³⁶. Vietnam insisted that Crestone must withdraw from its contract before joint development could be considered. As Crestone refused to terminate its contract, and China refused to force Crestone to do so, Vietnam retaliated in January 1995 by starting exploration in the Vietnamese designated block 135 which covers the southwest corner of WAB-21. Furthermore, in February 1995 Vietnam opened tenders for blocks 122-130, all in waters claimed by China, however, there was little interest in these blocks because they extend into deep water off the Vietnamese coast about which little is known. Finally, in April 1996, Vietnam signed a production-sharing agreement with Conoco, an American oil company, for blocks 133 and 135, which overlap the Northwest corner of WAB-21. During the Vietnamese negotiations China threatened to take retaliatory action against Conoco's parent company, Dupont, if an agreement was reached³⁷.

While there has been little serious military action taken to disrupt survey work or drilling by these companies, neither Vietnam nor China has been silent about actions taking place in overlapping areas of jurisdiction. Harassment by naval ships from the opposite country is common, and supply ships often must be escorted by naval vessels to safely reach their destination. The reason for this activity is that unopposed operations in the area, particularly drilling might demonstrate effective control over the area, which is

³⁶John R Engen. "Where hope and risk go hand in hand." *World Trade* 9:2 (February 1996), p31

³⁷Valencia, "Energy and Insecurity," p96

one criterion for ownership³⁸. Therefore, both countries like to maintain a presence in the area to bolster their claims. This is often achieved through the presence of oil companies, such as Benton Oil (of US) which now holds the concession granted to Crestone, which has ambiguous work requirements including seismic surveys, an activity requiring a physical presence in the concession area. The need for a physical presence is important because in legal terms it is a manifestation of ownership.

TEMPORARY COOPERATION AND LONG-TERM POSSIBILITIES

The belief that the South China Sea contains large deposits of non-renewable resources has complicated the pursuit of peaceful resolution to the territorial disputes. Although claimants have agreed that they should not use force to resolve the dispute there is no agreement on how a resolution should be developed. The prospect for peace and stability in the region depends on the success of multilateralism. Cooperation need not necessarily happen over the resource issue but it is an area where the claimants have a great deal to gain or lose. If the claimants can commit to joint development of the area they will all gain access to economic benefits from oil and gas exploitation. If they do not cooperate, not only will the economic benefits be forfeited, tensions will build and conflict will likely occur. Despite the obvious gains from multilateralism, such cooperation is unlikely to occur until a crisis has made the potential losses from the absence of cooperation abundantly clear. If, for example, China seized, occupied and then attempted to exploit the resources of another island in the archipelago (which is well within its

³⁸Valencia, "Energy and Insecurity," p96

military capability to do), the other nations involved will likely feel the need to cooperate to head off any further problems with the Chinese. Perhaps even the threat of a further seizure by the Chinese would be enough to compel the states to enter into serious multilateral negotiations to solve the Spratly Island dispute.

The first step towards a peaceful settlement of this conflict is to create a shared perception by states that they have a common stake in an agreed solution. It is important to create a sense of community, a common identity around the need for a resolution to the conflict. However, the creation of such a community presupposes the mitigation and minimisation of conflict so that the interests and needs shared by different nations outweigh the interests separating them. There needs to be a common recognition that even a weak multilateral regime is better than nothing. The claimants must recognize the common benefits and believe that these benefits outweigh any individual losses that they may incur in finding a solution to the Spratly Island conflict. The problem with the South China Sea conflict is that it is not evident that the states involved believe the potential benefits of any multilateral solution outweighed the present status quo. The nations are unwilling to agree to shelve the sovereignty claims to participate in joint development because they believe it will weaken their respective claims. China, for example, has agreed to shelve the sovereignty issue and pursue multilateral joint development only once the others have acknowledged that the Spratly Islands do in fact belong to China.

A functional approach could help develop positive and constructive common work, common habits and interests, and decrease the significance of boundaries or conflicting claim by overlaying them with a natural growth of common activities and

administrative agencies³⁹. It must be noted that this approach of shelving the dispute and establishing a joint development agreement (JDA) is not a solution to the Spratly Island conflict but rather it is a demonstration of the political will of the various claimants to reach a working arrangement to manage the disputed territory⁴⁰. Shelving the dispute to exploit natural resources should be viewed as a confidence building measure (CBM) that will provide a basis for solving the issue of sovereignty in the future. Once states are comfortable cooperating with one another they will be better able to negotiate and discuss sensitive issues including sovereignty issues. In order to build-up joint development, CBMs such as data and technology exchange in petroleum exploration development and use, joint training programmes, policy discussion and major annual conference could be used to build links in the petroleum sectors of the various countries and build trust between the states in question. The functional approach is a gradual approach to finding a solution to the dispute. CBMs are used to create the conditions where states are willing to shelve sovereignty issues and jointly explore and exploit natural resources. This piecemeal approach is often successful because it is built on practical issues from which both parties can benefit in economic terms. This provides both an incentive to cooperate with one another and a reward for cooperation. It also increases the trust and confidence between parties and states thus allowing them to discuss more sensitive issues based on the memory of positive cooperation. The functional approach to dispute resolution is a

³⁹Valencia, "Energy and Insecurity," p102

⁴⁰Synder, "Implications of Hydrocarbons," p152

long process that needs to be started over issues that can provide benefits for each participant, such as a joint development agreement over natural resources.

For a JDA to be practical each state involved must accept that it is sharing the resources in the area with every other state. Should any state consider the arrangement to be temporary, the JDA is doomed to failure⁴¹. In addition, the terms and conditions must be fully supported and accepted by each member. However, to agree on a JDA the claimants must first decide who would be included, where the agreement would take place (around which islands), how the revenues would be divided, and who would manage the exploration. Deciding on the area to be covered would alone present a significant obstacle as most of the claimants are unwilling to have to joint development proceed in their claimed EEZ for fear that it would lessen their sovereignty claim. Deciding who would participate, with what proportion of power, is also problematic. If a decision is based on current claims, Vietnam and China would be rewarded for their extravagant claims and benefit disproportionately. A further complication involves the ongoing difficulty between China and Taiwan, as they share identical claims to the area it would be difficult to decide who would represent the Chinese claim and how the profits are divided between these two entities.

Several JDAs have been signed between countries in Southeast Asia and many of them have moved beyond mere talk to practical cooperation⁴². For example, Thailand and Malaysia created a JDA for their overlapping maritime claim; the agreement has spawned

⁴¹Synder, "Implications of Hydrocarbons," p152

⁴²Synder, "Implication of Hydrocarbon," p155

a joint Malaysian-Thai oil company, Carigali-PTTEPI Operating Company, which has drilled one well and is planning on another. There are also extra-regional joint exploration and development agreements that could be used as guides for similar agreements in the South China Sea. The Timor Gap agreement between Indonesia and Australia, like the Falklands/Malvinas joint development agreement between Britain and Argentina, is an example of a successful agreement between countries that had formerly been in conflict over the areas in question.

In 1989 Indonesia and Australia agreed to put aside their sovereignty dispute in the Timor Sea and to develop jointly the hydrocarbons in the disputed area. The 'gap' in which their claims overlapped was divided into three areas, one each to be controlled by Indonesia and Australia with a central zone controlled by a joint commission. While this is only one of several links between Indonesia and Australia, cooperation in such a highly sensitive issue has an impact on the level of trust the two states have for one another⁴³. That trust was deepened in December 1995 with the signing of the Australian-Indonesian Agreement on Maintaining Security, which calls for both countries to promote cooperative activities in defence and security issues and to consult with one another over 'adverse challenges' to either⁴⁴. This indicates that if a joint development agreement for the Spratly Islands was reached it could provide the catalyst to deeper cooperation between the states and be the basis for a long-term solution to the conflict.

⁴³Snyder, "Implication of Hydrocarbon," p156

⁴⁴Snyder, "Implication of Hydrocarbon," p156

As can be seen by the failure of the Indonesian talks over the Spratly Island dispute, the claimants are not currently prepared to put aside their claims and participate in a joint development agreement. However, clearly as China grows it will need more resources, and it is equally clear that China cannot currently supply sufficient resources to satisfy its growing needs. China's need to import grain and energy resources has placed it in a weak position in the international community. Chinese leaders do not relish their dependence on international supply and their vulnerability to price changes and political embargoes. The wealth of the Spratly Islands in terms of food and energy resources seems to present a partial solution for the Chinese. The Islands, which are already considered by the Chinese to be part of their territory, are rich in living and non-living resources, and are relatively close to the mainland. It is likely that in the future China will want to exploit these resources, the question remains whether China will unilaterally exploit the resources or whether the states will be able to enter into a joint development agreement and multilaterally exploit the resources in the area. If the states do enter into such an agreement it is likely that this agreement will provide the basis for a long term solution to the Spratly Island conflict by increasing the cooperation and trust between the states.

Thus, it seems unlikely at the moment that China would be willing adopt a stance that would be conducive to promoting joint cooperation over the Spratly Islands. All the claimants need and want the rights to explore and exploit the area around the islands in the South China Sea and each claimant is reluctant to do anything that might reduce its claim to the islands. This means that cooperation is unlikely, however beneficial it would be,

and increased tensions causing military build-up is going to continue. The next chapter will examine the current military capacity of China to see what kind of threat it presents to the littoral states in the South China Sea, and whether China could unilaterally seize the islands.

CHAPTER 4 - Military Influence

In the post Cold War era there has been much uncertainty about the political environment especially between lesser powers and smaller states. The Cold War, which once froze smaller disputes, has ended, allowing many former conflicts to reemerge as destabilizing forces in the present international environment. Within this environment the realist outlook on international relations seems to be a strong influence on the political and military leaders in the Asia-Pacific. Realism says that the international system is an anarchic self-help system meaning there is no overarching world government or world police force and that each state must therefore protect its own interests. Because of this, traditional sources of security, namely military forces, are crucial to defend the sovereignty of a nation. The military dimension is crucial to China's strategy because in order to support an aggressive position over the sovereignty of the Spratly Islands China needs to be able to mount a credible force to protect its claims in the South China Sea.

According to realist theory, states are compelled to base their foreign policy on national security considerations because they are ultimately responsible for their own survival¹. Statements by political leaders regarding peaceful intentions are reinforced by the increasing transparency of most military organizations, however, national security dictates that your opponents should be analyzed on the basis of their military capabilities and not their political statements. Therefore, while Chinese leaders claim they will not seek hegemony or attempt to gain control over the Spratly Islands using military force, the

¹Marc A Genest. *Conflict and Cooperation: Evolving Theories of International Relations* (New York: Harcourt Brace & Company, 1996), p48

leaders of the other claimant countries should be wary of China's stated intentions and gauge the threat environment based on the PLA's actual military capabilities. In order to understand the threat to the states in South East Asia created by the modernization of the Chinese military it is important to examine the current status of the PLA. This chapter will examine the Chinese military capabilities by looking at the PLA's budget and military expenditures, the changes to its military doctrine, and the equipment and technology available to them.

MILITARY BUDGET AND EXPENDITURES

To understand the future potential of the Chinese army it is important to know what kinds of resources are available in order to actualize their modernization program. The present Chinese leaders no longer subscribe to Mao's dictum that war is decided by men and not weapons. Instead they focus on Mao's advice that 'power grows out of the barrel of a gun' and have therefore increased defence spending to modernize the PLA's hardware². While the PLA is the largest army in the world³ they have been described as the 'largest military museum' and as a 'junkyard army' simply because the equipment and technology are so far out of date⁴. The extent of the backwardness was revealed during

²Andrew J. Nathan and Robert S. Ross. *The Great Wall and the Empty Fortress: China's Search for Security*. (New York: W.W. Norton & Company, 1997) p146

³China has the largest military in the world with 3 million personnel, 8,000 tanks, 5,700 fighter aircraft and bombers, 50 submarines, 55 destroyers and frigates, 14 intercontinental missiles (ICBM) and 60 intermediate range missiles (IRBM).

⁴Nathan and Ross, *The Great Wall*, p146.

the in Gulf War when the Chinese saw that the US and allied forces had made dramatic technological advances that are far ahead of current Chinese and Soviet equipment. The ability of smart bombs to hit specific building and the sophistication of the US logistical ability, based on vast transportation assets as well as on deep industrial resources, computerized planning capacity, and the financial wherewithal to stockpile spare parts and equipment throughout the world, was well noted by the Chinese. The real-time integrated electronic command of the battlefield, called C4I (command, control, computers, communication and intelligence), which enables planes, ships, tanks, and infantry to execute a battle plan coordinated by central commanders using real time information from every part of the battlefield is far ahead of anything the PLA has developed or acquired.

To remedy these deficiencies the PLA needed money and political support.

Although Deng Xiaoping placed military modernization on his list of 'Four Modernizations,' it remained subordinate to the primary goal of economic modernization. After a decade of shrinking military budgets in the 1980s, the defence budget increased again after 1989. This was partly due to the cost of the military's role in the Tiananmen demonstrations. However, despite the budgetary increases throughout the early 1990's, PLA purchasing power did not increase, in fact, the money officially allotted was not even enough to cover operational and maintenance expenses. In 1992, the budget for current expenses only should have been 50 billion RMB, but the actual budget was only 37 billion RMB⁵. During the Deng Period the PLA suffered from inadequate funding. This

⁵Ellis Joffe. "The PLA and the Economy: The Effects of Involvement" in Gerald Segal and Richard Yang (eds) *Chinese Economic Reforms: The Impact on Security* (New York: Routledge, 1996) p18

accounts for the enthusiastic entry and the subsequent proliferation of the PLA into the realm of trade and industry with the express purpose of earning money.

The 1994-95 PLA budget, of approximately US\$6 billion, is a miserly sum when compared to the US defence budget of \$282 billion, the Japanese budget of US\$42 billion, or even the Taiwanese budget of US\$11 billion. However, for most other nations, including the US, Japan, and Taiwan, the military budget is an accurate representation of the resources available to the organization for operations and maintenance, research and development, and weapons procurement. Although China has produced a Defence White Paper and publicized its defence expenditures, it is widely believed that the official figure does not come close to representing the actual expenditures of the PLA. Specialists believe that the funding provided to the PLA is actually two to four times higher than the official figures⁶.

The annual aggregate figure provided by the Chinese finance minister for military expenditures in 1995-96 for military expenditure was US\$7.5 billion or 63.1 RMB, equivalent to 9.9% of the total state expenditures and 1.5% of GNP⁷. However, this sum leaves out most of the military research and development (R&D) and weapons acquisition, both of which are done by ostensibly civilian departments such as the State Science and Technology Council (SSTC).

⁶Nathan and Ross *The Great Wall* p148

⁷David Shambaugh. "China's Military: Real or Paper Tiger?" *The Washington Quarterly* 19:2 (1996), p21

In addition, under Deng's reforms erstwhile military enterprises have been allowed to produce goods for the civilian market. The PLA has many enterprises by which it raises considerable revenue, these include farming, hotel management, coal mines, pharmaceutical plants, rental and use of military trucks and airport facilities, and also weapons sales⁸. By 1993 there were at least 10,000, if not twice as many, production and industrial units run by the PLA, not including those run by the reservists or the People's Armed Police (PAP). Since the early 1990's the income generated by these activities has covered about one fifth of the military expenditure deficits⁹.

In Liaoning province, which borders North Korea and the Yellow Sea, there have been more than 130 military-run enterprises established since 1985. They produce food, petrochemical goods, machinery and provide catering and other services. In total, it is estimated that these enterprises employ approximately 5,000 staff members, has an output of 730 million RMB yearly of which 116 million are profits, 21 million are taxes, and 78 million go directly to the PLA. As well, the Navy (PLAN) and the Air Force (PLAAF) are uniquely suited and well placed to undertake large scale profitable projects. The China United Airline Company, run by the PLAAF, had 39 domestic routes by 1992 and has since flown over 30,000 civilian sorties. The PLAN has established a shipping fleet for civilian needs, employing naval ships that use naval ports. The units of the South China Sea fleet stationed in the Special Economic Zones (SEZs) have established more than 460

⁸Chuo Koron. "Expert Analysis of the Chinese Menace." *Daily Report [Tokyo]* FBIS translation (Feb 1, 1995), 170-180

⁹Joffe, *The PLA and the Economy*, p20

construction companies in cooperation with foreign enterprises, state factories, and the localities¹⁰. The enormous scope of the PLA involvement is shown by the merger of several enterprises into conglomerates. One such conglomerate is the 999 Enterprise Group that generated 157 million yuan RMB within 10 months of its establishment in 1992. The profits were made from businesses dealing in pharmaceutical, real estate, export-import, motor vehicles, electronics, food, clothing, trust investments and stocks and securities. The foreign trade companies of the Group have reportedly found markets in Russia, Sudan, Singapore, Hong Kong, Taiwan, Egypt and Qatar, with a volume of foreign trade worth approximately US\$12 million¹¹.

Arms trading have also proved to be very profitable for the PLA. It made an estimated US\$21 billion between 1979-1991¹². There are three PLA companies trading weapons and most of the profits made by these companies apparently go to the PLA organizations that own them, and are presumably used for current expenses and for investment in commercial ventures. Some weapons-trading companies are branching out into other areas of the economy including property development thus creating new links between the PLA and the civilian economy. The revenue figures published by the PLA for all these enterprises are incomplete and not reliable. Indeed, the PLA itself has little knowledge of exactly how extensive these enterprises are and, therefore, do not have the capability to estimate the revenue supplied by these sideline exercises.

¹⁰Joffe, *The PLA and the Economy*, p21

¹¹Joffe, *The PLA and the Economy*, p21

¹²Joffe, *The PLA and the Economy*, p22

The official PLA budget also does not include the costs of demobilization and pension costs or the maintenance of the militia, the reserves and the PAP. It is simply not possible to maintain a force of 2.93 million active troops, one million paramilitary in the PAP, and 1.2 million reservists with any money leftover for the modernization of conventional and nuclear weaponry based on the budget figure published¹³. However, much more is known about China's budget process and hidden categories than actual expenditure. It is estimated that, including the off-budget funds, the Chinese military expenditures still remains well under American, Russian or Japanese figures in absolute terms and on a per capita basis. However, it must be noted that given the low cost of labor, food, housing, uniforms, and domestically produce equipment, China's defence dollar buys more than that of other armies, raising defence expenditure value in terms of purchasing power parity (PPP). Even in terms of PPP, China's defence spending is much less than that of Japan or the US. Regardless, the publication of a credible White Paper on defence spending would eliminate this guess work and help allay fears regarding Chinese defence spending and reassure neighbours about the pace and intention of the Chinese military modernization.

MILITARY DOCTRINE

The budget of the PLA gives an indication of the resources available for the modernization of the military but it does not specify where the military will spend money nor what it will buy. The military doctrine shows what kind of warfare the PLA considers

¹³Shambaugh, "China's Military," p21

likely and therefore in which service they will invest and what kind of equipment they will buy. This section will trace the evolution of the PLA's doctrine in order to understand why the military is configured the way it is and how this is changing in the new international threat environment.

The PLA began as a guerilla fighting force to overthrow the nationalists (KMT) in a revolutionary war. The PLA drove out the nationalists, who fled to Taiwan, and established the People's Republic of China on the Chinese mainland in 1949. Following this victory, China's military commander in Korea, Peng Dehua, returned home to lead the PLA. He started to build the military as a conventional force and was able to suppress armed opposition, occupy Tibet, and prepare for amphibious assaults on Taiwan¹⁴. This Soviet inspired modernization soon fell victim to Mao's economic and political vision for China. Mao's attack on professionalism in the Great Leap Forward included purging the military of professionals, thus relegating the military to a revolutionary type organization. In fact, Mao went as far as to revive the revolutionary strategy of the People's War insisting that men rather than weapons decided wars. Soon after Peng Dehua was purged for openly criticising the Great Leap Forward he was replaced with Lin Biao, a man personally loyal to Mao and committed to the ideological mobilization of the troops and the interpenetration of military and civilian life.

During Mao's rule the PLA devoted much of its energies to internal matters. In the 1950's the PLA battled KMT troops, took Hainan Island, engaged in violent campaigns to wipe out the landlord class and suppress counter-revolutionaries, and occupied Tibet. In

¹⁴Nathan and Ross *The Great Wall*, p139

the 1960's the military became more ideological and began to have a larger influence in the rule of the country as military officers took over many government offices and state owned enterprises. By the end of the Cultural Revolution, the military was in charge of local administration through organizations called revolutionary committees.

During this time, military threats to China were primarily from Taiwan and the USSR. The PRC feared that Taiwan would invade along the South East coast with air assaults and amphibious landings, and that the USSR would invade from the North East with infantry preceded by bombers and led by tanks and battlefield missiles. To counter these threats the Chinese planned to exchange space for time, to 'lure the enemy in deep' and to prevail by popular resistance and engaging in close combat over a long period of time¹⁵. The sheer size of China allowed the leadership to be generous with land and the vast numbers of soldiers in the PLA allowed the leadership to be ambivalent about the amount of projected casualties.

As a result of the People's War strategy, which meant luring the enemy into a prolonged ground war, Mao favoured the army to the detriment of the Navy. The People's Liberation Army - Navy (PLAN) was essentially a coastal patrol force and virtually irrelevant to China's national defence strategy. In December 1953, Mao designated three tasks for the Navy, these were: to wipe out the pirates (ie Nationalists) in coastal waters; to assist the army in taking over Taiwan when the time was ripe; and to

¹⁵Nathan and Ross *The Great Wall*, p140

resist imperialist invasion from the seas¹⁶. There was no sign that Mao ever thought of the Navy in terms of 'going blue water' or using it to maximize China's maritime interests. Instead, the PLAN was treated as the poor cousins of the PLA and the PLAAF. Even Mao acknowledged how small the Navy was when he, in 1975, raised his little finger and said that 'our navy is only like this'¹⁷.

The strategy created for the Navy during this period was either an extension of army strategy or was aimed at simply supporting the army in their ground war efforts. For example, the Korean War (1950-53) seemed to have taught Mao that a ground defence based on a network of underground bunkers and tunnels was the most effective way to resist foreign invasion. Mao then ordered the Navy, in 1965, to dig caves for hiding their ships, exemplifying the little time spent on useful naval strategy during the Mao period. When strategy was specifically developed for the Navy, it was developed on the basis of the supremacy of the ground troops. In 1957, Xiao Jingjiang studied how to coordinate the navy with land battle when imperialists came from the sea. He concluded that the PLAN could be of assistance to the ground forces from the sea through a combination of coastal sea guerilla warfare and coastal anti-aircraft landing warfare. Thus, the purpose of the Navy was not to deter the enemy from landing but instead to hurt the enemy while they were landing. Based on this strategy the Navy gave priority to naval aircraft,

¹⁶Jun Zhan. "China goes Blue Water" *Journal of Strategic Studies* 17:3 (September 1994) p183

¹⁷Wen Hua, "Inside Story of Liu Huaging's Promotion to Deputy Secretary - General of the CMC", *Guangjiaojing [The Mirror Monthly - Hong Kong]* 184 (Jan 1988) p38 in Zhan "China goes Blue Water" p184

submarines, fast patrol boats and torpedo boats. Large surface vessels were treated as obsolete because they could not actively support the ground troops in such a situation. The current look of the PLAN, mostly small ships good for coastal defence only and not suitable for the power projection necessary to operate in the Spratly Islands, is the result of the People's War strategy.

The Sino-Vietnam conflict in 1974 was an embarrassment to many Chinese elites because it brought to light all the defects of a large but weak navy crippled by outmoded strategy and poor equipment. Although the Chinese won the conflict and sunk one of the Vietnamese boats, they were reduced to fighting using rifles and grenades off the side of their ship. This shows that although Chinese propaganda lauded the PLA as the 'Great Wall of Steel,' the conventional capabilities of the PLA declined throughout the 1960's and 70's and the strategy of People's War was beginning to fail them. That China was not invaded was probably because the superpowers were unwilling to risk a conflict with each other and not because of the People's War strategy.

At Mao's death the PLA was more a domestic and border force composed of large infantry units rather than a modern military. The lack of power projection meant that China did not even try to defend its claims in the South China Sea until late 1988, when it engaged the much weaker Vietnamese forces. The People's War combined with a nuclear deterrent was a strategy that reflected weakness. Had either the US or the Soviet Union invaded the prospects of the PLA were dim. At best, the Chinese would have ceded extensive territory to invaders and fought a costly protracted war with an uncertain outcome. The most likely scenario was that the invaders would not have fallen into the

trap, opting instead to make limited incursions along the length of the border and aerial attacks on China's industrial centres, leaving the PLA with few retaliatory options¹⁸. The rehabilitation of Deng Xiaoping in 1977 and China's weak showing in the 1978 Sino-Vietnamese conflict created a politically viable environment for a shift away from a 'People's War' to the development of a professional standing army¹⁹. Deng recognized the need to improve the military and upon ascension to leader, Deng made military modernization the last of the Four Pillars of Modernization.

Nixon's visit in 1972 ended the possibility of war with the US and the decline of the Soviet power and easing of Sino-Soviet tensions in the 1980's severely reduced the likelihood of Soviet invasion. At this point Chinese strategists ceased to consider world war as 'inevitable' and began to officially anticipate a 'considerable period of peace.' These changes were discussed at a conference of an expanded Central Military Commission (CMC) in May-June 1985. The conference identified both the spirit behind the doctrinal changes as well as the concrete steps to be taken. The conference, summarized in a report called "Strategic Changes to the Guiding Thoughts in National Defence Construction and Army Building," placed overwhelming importance on national reconstruction and supported of Deng's Four Modernizations. Based on this interpretation of the new security considerations it was important to develop 'comprehensive national strength' by supporting economic development as a means of

¹⁸Nathan and Ross *The Great Wall*, p144

¹⁹David C. Johnson "Modernization of the PLA Navy and East Asian Regional Security Issues" *Journal of Public and International Affairs* 7 (Spring 1996), p33

creating more resources for military modernizations²⁰. The CMC declared, at the conference in 1985, that the most likely contingency was no longer ‘early, major, and nuclear war’ but rather ‘local, limited war’ thus ending the PLA’s preparations for immediate large-scale war and beginning of the development of resources necessary to compete militarily in the next century²¹.

Limited war requires preparations distinctly different from the principles of protraction and attrition that had dominated the armed forces’ preparations. The PLA defines local war as conflict circumscribed both in geographical scope and political objectives, but one that can vary widely in intensity and duration²². The purpose of the military in limited warfare is not to totally eliminate their adversaries but rather to assert one’s own standpoint and will through limited military action. Therefore, the focus of modern limited warfare is not military action as such, but rather the political and diplomatic struggle behind the military action. The Chinese identified five types of limited war, including conflict over territorial seas and islands, and in all the scenarios the political objectives require that the forces be able to respond quickly either to defeat the presumed political purpose of the attack or to gain the political objective sought by the use of force.

The recognition of the need for power projection beyond the immediate coast of China has elevated the importance and the status of the PLAN. The shift to ‘offshore

²⁰Dipankar Banerjee. “China’s Emerging Military Capability and Security Policy” *Strategic Analysis* 17:11 (February 1995), p1291

²¹Nathan and Ross, *The Great Wall*, p144

²²Paul H.B. Godwin “Chinese Military Strategy Revised: Local and Limited War” *Annals, AAPSS* 519 (January 1992) p194

defence' enables the Navy to take an offensive posture and chose were it will fight, thus freeing the Navy from Mao's restrictive '*houfazhiren*' principle, meaning strike only when struck, and making it possible to apply, when necessary, the '*xianfazhiren*' principle or strike first²³.

The central theme behind this shift in the Navy doctrine is that no large scale invasion of China, especially from the sea, is likely to happen in the foreseeable future. Therefore, resisting foreign invasion should not be the primary task of the Navy. Instead, the intensifying competition for maritime interests makes local war and peripheral wars very probable, demanding that the Navy be capable of long distance combat well beyond China's coast, or as some naval analysts put it 'to fight in all sea areas where we have interests'²⁴.

This new offshore defence strategy involves two distinct ideas, that the Chinese navy will be ready to fight virtually wherever its capabilities allow it to and that maritime interests will be a major cause of future navy combats. The 1985 CMC official doctrinal change outlined the new goals for the Navy. These are: to build a navy that can seize and maintain control of offshore areas; to effectively control, within a necessary period of time, the important sea channels and lanes adjacent to Chinese territorial waters; and to launch combat in areas adjacent to the Chinese territorial claims²⁵. Liu Huaqing, the Commander of the Navy, simplified these into three main tasks for the PLAN. These are:

²³Zhan, "China goes Blue Water," p181

²⁴Zhan, "China goes Blue Water," p190

²⁵Zhan, "China goes Blue Water." p192

to defend China against foreign invasion; to secure China's sovereignty at sea; and to protect China's maritime rights and interests. This offshore defensive strategy was put into practise by launching the PLAN's first long distance joint fleet exercise in the Western Pacific for the purpose of intensifying the concept of joint action and improving the capability of rapid reaction and joint combat. This exercise, in 1987, was a parade of China's power and determination and was obviously a planned show to prove that they could control the islands that they claim. The voyage of more than 54,000 nautical miles in total passed through the Balintang Channel near James Shoal in the disputed Spratly Island archipelago. They conducted 17 tactical training exercises and 164 unit training exercises including 'channel blocking' and 'anti-channel blocking' exercises.

The political power of the PLAN was increased at the 14th CPC Congress in 1992 as a result of the 9% rise in the number of seats in the Central Committee and the elevation of former Commander of the Navy, Liu Huaqing, to the Politburo Standing Committee. Liu's ascension to the Standing Committee has arguably provided a favourable boost to China's efforts to develop PLAN forces, particularly the plans to acquire an aircraft carrier. The 1992 'Law on Territorial Waters and Adjacent Areas' is further evidence of the gaining momentum of the seapower mentality. The Law listed disputed territories, against the wishes of the Foreign Affairs Bureau. This implies that the ocean oriented elites gained the upper hand and that China is willing to risk impairing relations with its neighbours over these territorial claims.

This trend is also reflected in articles written about the PLAN and the South China Sea. The first, an article written by Shen Changjing and Xiao Jun, notes that "if we lose

the Nansha [Spratly] Islands, we will lose hundreds of nautical miles of defence depth on the seas, which would mean that our economic and military activities would be restricted by others.²⁶” The article went on to note that due to their lack of deterrent force China was losing the Spratly’s. It continued saying that from both a geostrategic perspective and an eco-political perspective, China needs to deploy forces with considerable combat capability into the South China Sea to protect China’s interests in the region. The other article, a classified document, said that the South China Sea is the major territory that will support China’s existence in the next century. It suggested that pursuing power in the South China Sea is a strategic direction that China must eventually choose²⁷.

China cannot be sure its strategic environment will remain stable. Tensions with Taiwan continue to flare on occasion, relations with a unified Korea could be less cooperative than the current state of relations with North and South Korea, problems are likely to arise with Inner Asian separatists and problems continue with ASEAN over the dispute in the South China Sea. To deal with this uncertainty, Deng sought to create a smaller, more sophisticated PLA. Together with the doctrinal changes in 1985, the PLA began to reshape the forces for the new purpose. One million men were demobilized in 1985, many were reclassified as ‘non-military cadres,’ and the older less educated soldiers were sent to civilian government offices. The militia was also slashed to create

²⁶Shen Changjing and Xiao Jun “What does Nansha Tell Us?” *Jianchuang Zhishi [Warships and Ship Knowledge]* (February, 1988) p4-5 in Zhan, “China goes Blue Water” p196

²⁷According to Zhan, the document may still be classified in China, but a similar version appeared in *Zhongguo Zhichun [China Spring, New York]* 104 (January, 1992) 35-39

semiprofessional regular reserves of only one million men. By 1988, the PLA reintroduced ranks that had been abolished with Mao's egalitarianism and officers were expected to have specialized education. The forefront of the PLA's enhancement was the reestablishment, after 23 years, of the Marine Corps in 1980. They were organized into 'fist' units, similar to US Special Forces and Israeli Commandoes, for conducting raids and operations. Also created were division sized rapid reaction forces designed to operate like US marines and 82nd Airborne division in high-impact operations utilizing high technology equipment. These units boast China's most disciplined and best trained soldiers and are given the first access to modern battlefield weaponry, including anti-tank and surface-to-air missiles.

Since the redefinition of China's military strategy in 1985 and the shift from continental to peripheral defence, the PLA has again revised its overall defence doctrine and force structure. The Gulf War had a jarring effect on the PLA. The military nature of Desert Storm and the swiftness of the allied victory stunned the Chinese high command. Before the war they had predicted that US forces would become bogged down in a ground war similar to the Soviets' experience in Afghanistan. Every element of the allied strategy and capabilities left the PLA aghast and hammered home as never before the backwardness of the PLA²⁸. Because of this, the PLA is trying to implement a doctrine of flexible response for multiple missions based on high-technology weapons and a diversified, yet integrated, force structure. This new doctrine is officially called 'limited

²⁸Shambaugh, "China's Military," p25

war under high-technology conditions' (*jubu zhanzheng gaoji jishu tiaojian xia*) and 'active defence' (*jiji fangyü*)²⁹.

The Gulf War caused a thoroughgoing revision of doctrine and training in the PLA. However, this doctrine stands in sharp contrast with the actual capabilities of the PLA. The weapons are at least 10-20 years behind in all categories. In the PLAAF, most of the equipment remains Korean War vintage. China lacks airlift and sealift capabilities for power projection and rapid deployment for probably two or more decades. The Navy remains green or brown water at best, although weapons acquired from Russia have helped to enhance China's power projection capabilities. On balance the PLA lags far behind state-of-the-art technology and equipment.

The rationale underlying the growth of military power may be analyzed by studying its declared strategic objectives. The question that needs to be answered is what is the mission assigned to the navy by its political masters³⁰. There is little doubt that China is in the process of reinventing itself as a great power. It has reiterated its intentions to reunify Taiwan, announced a tenfold increase in the area that it claims as sovereign waters, and changed its emphasis from coastal defence to an offshore defence strategy. China must now be able to back its assertive foreign policy with a highly proficient naval force.

Military doctrine has evolved to reflect the new strategic environment facing China. China has updated its People's War mentality and it now believes that it must be

²⁹Shambaugh, "China's Military," p24

³⁰Ehsan Ahrari. "China's Naval Forces look to Extend their Blue-Water Reach" *Jane's Intelligence Review* (April 1998) p34

able to project power in order to be able to fight local limited wars that are more likely to occur. This doctrinal change to offshore defence has resulted in a change in resource allocation within the combined forces. The Army no longer received almost three quarters of the resources, rather, the PLAN is now the 'golden boy' of the military receiving the most attention in the present modernization drive. However, the doctrinal change does not mean that the PLA is capable of fulfilling its new mission, in fact it is not.

EQUIPMENT AND TECHNOLOGY

To fully understand the capability of the PLA it is important to look at the equipment the military possesses. In the case of the PLA it is important to look at not only what they have now, which indicates their immediate power projection capabilities, but also at the equipment they are in the process of or planning to acquire. This indicates what the PLA will be able to do in the future and what type of conflicts they are preparing for.

The PLA has three million troops in the Army, Navy, Air Force and Second Artillery Division (the strategic nuclear missile unit). Because of the People's War strategy, the PLA was a very army oriented nation with 2.2 million men in the army or 76% of the total strength. The main body of the navy consists of three fleets and possesses approximately 2,000 or more warships with a total displacement of approximately one million tons. It is the third largest navy in the world after the US and Russia. The Air Force has approximately 5,000 aircraft and airborne units. The PRC claims that the PLAAF has become the third largest air force, capable of carrying out

nearly all kinds of air combat operations including air attacks, support, transport, reconnaissance, and anti-air defence. With these forces the PLA must defend 9.6 million square kilometres of land, 1.17 billion people, a 23,000 kilometre long border touching 14 countries, as well as various islands and their surrounding waters claimed by China.

The primary problem is that despite innovative doctrinal changes that have kept pace with the changing international environment, the equipment that the PLA owns has not kept pace with changing international standards. The PLA is currently trying to deal with the backwardness of the weapons and declining morale and discipline. For example, most of the naval vessels are for coast guard duty and are not useful for conflict away from China's coast, nor can they project the kind of power China needs to back up its assertive foreign policy. As for the morale, the metaphysical military power that includes soldiers morale, discipline, and solidarity, is low due to poor treatment amid the social trends stressing the importance of economy over the needs of the military³¹. In addition, the problem with morale and discipline is likely to increase as the economic involvement of the PLA continues to permeate the professional corps of the military. Economic imperatives are likely to continue to make businessmen of soldiers, an inherently incompatible combination. As the money becomes more compelling, discipline and solidarity, crucial aspects of any military, will continue to erode. This can only be solved by providing the PLA with adequate funding for both operations and management and also weapons acquisitions. However, as this is not likely to occur in the near future, the military elites have instead concentrated on the most effective and efficient way to

³¹Chuo, "Expert Analysis," p4

modernize the PLA so that it can perform the duties laid out for it in the doctrine of limited war under high technology conditions.

The military requirements for limited, small scale wars, are mobility, lethality, and command, control, communications and intelligence (C4I) capabilities that can direct swiftly moving combined arms combat integrating air, land and naval forces³². The PLA's largest weakness is their lack of high-technology equipment, without which they will not be capable of mounting or winning a modern war. Even if war is not the immediate objective, China needs to maintain a credible capacity to respond quickly to a crisis and to maintain an effective deterrent posture. To fulfil these objectives China must modernize the air force and navy. Currently Chinese equipment is not on par with advanced Western systems and it would take a massive investment to quickly bring the forces up to Western standards. Therefore, as funds are not abundant, the Chinese elite has chosen to modernize selectively. It has upgraded key units, such as the fist units, by supplying them with the most modern equipment. Although this will not result in a modernized PLA, except in the very long term, the PRC remains unconcerned because the most likely sources of local war around the periphery do not involve countries whose forces can conduct high technology warfare in the same capacity as the major Western powers.

Since the Gulf War, the military has turned its attention to the development of combined arms, rapid deployment units, force mobility issues, long-range force projection and the development of airlift and sealift capabilities. The PLAN and the PLAAF are under comprehensive modernization and professionalization programs to achieve the

³²Godwin, "Military Strategy Revised," p198

aforementioned items³³. To modernize China has done much window shopping but has purchased limited quantities of foreign equipment, what it has purchased is technology that can be incorporated into domestic production. During the Reagan administration, the US supplied the Chinese with defensive weaponry including artillery equipment, anti-submarine torpedoes, radar equipment and avionics packages for fighter planes, however, these were all cancelled post-Tiananmen. As a result China turned to Russia for their major military equipment. Beijing bought Su-27 fighter aircraft, Il-76 transport aircraft, SA-10 surface to air missiles, and Kilo-class attack submarines³⁴. However, even with this equipment transfer Russia has a limited ability to augment China's power projection capability beyond coastal waters.

The Air Force needs equipment that Russia has been unable or unwilling to supply. The current inventory of the PLAAF consists of approximately 400 J-5s, 500 J-7s, 100 J-8s and 3,000 J-6 planes. The J-6 is a Chinese version of a MiG-23 that is at least 20 years out of date and is no match for the principal interceptors in the inventories of the US, Japan, South Korea, Russia, Taiwan, India, or even most of the ASEAN nations. The standard Chinese bomber, the H-6, is of much the same vintage as the fighter. To modernize the PLAAF needs long-range interceptors, aerial refuelling, transports and airborne early warning and guidance systems. The acquisition of the Sukhoi-27s and the Ilyushin transports from Russia serve to help plug deficiencies but are far from sufficient to create a fleet capable of power projection or close air support. Without in-flight

³³Shambaugh, "China's Military," p26

³⁴Nathan and Ross, *The Great Wall*, p149

refuelling technology or airborne warning and control (AWAC) capabilities the new interceptors are of limited value.

China's indigenous fighters, the F-7s and F-8s have a maximum range of 2,200 kilometres, which is too short for any sort of support mission beyond the coast of China such as the Spratly Islands in the South China Sea. The air forces of the ASEAN nations enjoy clear air superiority because their forces can reach the Spratly Islands easily. Vietnam, is only 400 kilometres from the Spratlys and possesses approximately 20 Su-17s and 40 Su-22s. China, on the other hand, even with its purchase of the Su-27s, is still at a clear disadvantage because the closest base on which to station the interceptors is Hainan, 1,800 kilometres from the Spratlys. Although the Sukhoi's are not of immediate strategic value, they are politically significant. The purchase of such an aircraft abroad indicates China's desperation to gain a high performance aircraft to upgrade its outdated air force in order not to fall further behind in relation to the capabilities of Taiwan and some ASEAN nations³⁵. It also signals Beijing's willingness to risk an arms race in Southeast Asia. Therefore, the 24 Su-27s are not a threat because of their military power but because of the political assertiveness they reflect³⁶.

The PLAAF cannot currently defend its own ground troops or naval forces from attack nor can it provide air support outside Chinese coastal waters. For the PLAAF to gain power projection beyond the coast requires the acquisition of aircraft carriers.

³⁵Zhan, "China goes Blue Water," p199 and Nathan and Ross, *The Great Wall*, p150

³⁶Zhan, "China goes Blue Water," p199

Without an aircraft carrier, when naval vessels move beyond the range of land based aircraft they will be vulnerable to attacks from the land based aircraft of smaller powers near the theatre of operations. This leaves Chinese troops occupying disputed territory in distant waters without air support to defend against aircraft of closer rivals. Despite the strategic importance, aircraft carriers are conspicuously absent from the current modernization efforts, although the fascination with owning one is very apparent. Towards the end of 1997, it was reported that under Jiang Zemin's leadership China has resolved to launch an ambitious carrier plan for the year 2000³⁷. The problem is that China does not have the technical sophistication required to build a true conventional take-off and landing (CTOL) carrier. Of vital necessity is the availability of vertical take-off and landing (VTOL) aircraft, which China does not currently own. The UK is unlikely to sell its Sea Harriers to Beijing, and the only other state that has the necessary technology is Russia, but they have discontinued their Yak-141 programme.

Indeed, there is no more challenging task in modern warfare than manufacturing and operating an aircraft carrier. It is the most expensive of all military hardware requiring the construction not only of the carrier but of a fleet of up to eight support ships. In addition, the aircraft that can land on and take-off from the platforms on the open sea at night must have the most advanced avionics and power plants. To manage an aircraft carrier convoy and to coordinate the comings and goings of numerous aircraft on a small space requires sophisticated systems engineering and logistical capabilities. China could master these technologies but by that time contending militaries would have advanced as

³⁷Ahrari, "China's Naval Forces," p32

well. Experts estimate the earliest China could have an aircraft carrier is 2010, and it would be less than half the size of the current US carriers and carry less capable vertical/short take-off and landing (V/STOL) aircraft and not high performance jets like the US. As a means to overcome these constraints China has attempted several times to purchase carriers from abroad. None of these attempts have succeeded but, according to an article in *Jane's Defence Weekly*, the Chinese have already commissioned a Spanish company, Empresa Nacional Bazán, to produce a carrier design for them for a 23,000 to 25,000 ton vessel. Bazán has also offered to manufacture each carrier for US\$350 to \$400 million each, a price well within China's financial constraints³⁸.

A further hindrance to China's carrier plans is that a single carrier would not be sufficient for adequate power projection, the US needs at least three carriers in its fleet to keep one on location at all times and given China's less efficient logistical and maintenance operations, its navy might need four to five carriers to keep one on location³⁹. If China acquired its first carrier in 2010, it would not get its third until 2020, meanwhile the US forces in the Pacific and land-based air forces of the ASEAN countries would not be standing still. Therefore, it is no guarantee that Chinese aircraft carriers would significantly improve the force-on-force balance with its potential adversaries.

Although the Chinese are anxious to improve the air force, their highest priority in terms of funding, next to the 2nd Artillery, is the PLAN. The PLAN is critical because the

³⁸Jons Jannsen Lok and Robert Karniol. "Spain offers Carrier Designs to China" *Jane's Defence Weekly* (18 Feb 1995) p8

³⁹Nathan and Ross *The Great Wall*, p150

most pressing geopolitical areas of tension are Taiwan and the South China Sea, thereby necessitating force projection past the coastline of China. For the PLAN, the new doctrine means more resources can be dedicated to improving the electronics, weapons systems, communications and nuclear propulsion and acquiring modern ships capable of blue water excursions. The overall emphasis for the navy will be on the development of sea combat forces, including warships, submarines, aircraft. The PLAN visualizes that between 2001-2020 it will acquire several light aircraft carriers in the 20,000 to 30,000 ton range equipped with V/STOL capable aircraft, and then by 2021 - 2040 PLAN aims to be at a level to match the US navy and be capable of projecting power around the world⁴⁰.

While the long-term focus of both the PLAN and the PLAAF is the acquisition of an aircraft carrier, in the short term the PLAN plans to develop a new generation of Luhu destroyers (displacement 4,200 tons) and Jiangwei class guided missile frigates (displacement 2,250 tons). So far only 1 Luhu has been commissioned with another near launching. Two more are reportedly under construction but Luhu's engines and on board ship armaments are heavily dependent on foreign sources of supply (primarily French), which have been cut off because of post-1989 sanctions. The new Jiangwei frigate entered the fleet in 1991, 4 are currently in service with six more on order. These ships have more sophisticated radar than China's other frigates and carry the Crotale anti-ship missiles launchers that are capable of carrying up to 26 missiles in a magazine.

In addition to improving their surface force, the PLAN is also improving its submarine force. The Chinese are purchasing a number of Russian 'Kilo' class

⁴⁰Banerjee, "China's Emerging Military," p1302

submarines, but will probably not acquire more than 10 in the next few years because of a lack of hard currency. The Kilo class submarines are the top-of-the-line variety, very quiet and fast, with a range of 6,000 nautical miles at seven to eight knots submerged. They are outfitted with 18 type-63 torpedoes (each with a 400-kilo warhead) and carry enough replacements to reload 12 times⁴¹. The Russians are also working with the Chinese under a five-year Defence Cooperation Accord to improve PLAN's long-plagued nuclear submarine force, the HAN class. China has also succeeded in launching its indigenously developed Song (also known as Wuhan-C) diesel attack submarine. The Song is intended to supersede the aging Ming and Romeo class submarines. Despite these additions the PLAN currently only operates 52 submarines, including one nuclear-fuelled ballistic missile submarine (SSBN), five nuclear-fuelled (SSN) submarines, one non-ballistic missile submarine (SSG), 1 Kilo class, and 44 Ming and Romeo class.

Even with all the new additions, the PLAN remains primarily a coastal defence force. It has moved from brown water to green water with minimal blue water capabilities. The problem is that it takes time and money to build a navy of any significance. Currently, the PLAN has 55 surface combat vessels but has only three destroyers and four frigates approaching modern standards, a few SSN attack submarines and a variety of minesweepers and light patrol craft.

The PLAN identified and bolstered a few pockets of excellence. These include the acquisition of the Sovremenny class destroyers and the Kilo class submarines from Russia, the recreation of its Marine Corps and their deployment to Hainan, the acquisition of the

⁴¹Shambaugh, "China's Military," p27

Ilyushin Il-76 destroyers to enhance its airborne forces and the improvement of China's strategic submarines⁴². For the moment the PLAN remains a largely defensive fleet. To enhance its power projection capabilities China must increase the number of logistic supply ships, modernize and increase the number of its current nuclear submarines and equip them with modern offensive platforms, acquire state-of-the-art command and control systems, and reexamine its nuclear deterrent option to redirect its capital investments to other military programmes. However, the mere acquisition of highly sophisticated technology is not sufficient for a country to be considered a great military power, the country must be ready to use force whenever it is advantageous and be willing to accept the resulting combat casualties with equanimity⁴³. China has shown in Korea in the 1950's, in India in 1962, in Vietnam in 1979, and finally with the Philippines in 1995, that it is willing to engage and is willing to accept the casualties.

CONCLUSION

If an observer was to judge the threat of the PLA based solely on its military doctrine of limited war and offshore defence they may conclude that China is threatening to the states in the South China Sea, specifically those who claim some or all of the Spratly Islands. The reason being that because of the new defence doctrine China is preparing to project force away from its borders to protect Chinese sovereign territory, with force if necessary. China claims both the entire Spratly Archipelago and almost the

⁴²Ahrari, "China's Naval Forces," p34

⁴³Ahrari, "China's Naval Forces," p35

entire South China Sea as Chinese sovereign territory. This means that the Chinese have pledged to use power to protect 'their waters' that also happens to include the major shipping lanes from the Middle East through to Japan. This area is also reported to be very rich in oil, natural gas and fish resources. The present doctrine indicates that China is willing to engage opponents who are mining, fishing, or even passing through these waters, a stance that threatens Vietnamese, Malaysian, Taiwanese, Bruneian, Filipino as well as American and Japanese interests in the area.

However, upon examination of both the funding of the PLA and the current equipment available to the navy and air force in order to enforce this military doctrine, the intensity of the threat immediately recedes. With its minimal blue water capability, China presents a threat to the area because it is able to engage in limited conflicts in the Spratly Islands. However, based on its current equipment it cannot disrupt shipping for any length of time or engage in a sustained operation in the Spratlys. China has neither the force projection capability with its surface ships and aircraft, nor a sufficient amount of nuclear powered submarines to be able to mount or maintain a credible ongoing threat to the area.

The plans for the future of the PLA are ambitious. They would like to obtain enough weaponry and technology to be able to project their power, not only into the South China Sea, but also around the world. Although this a threatening posture that needs to be acknowledged it is unlikely, with the current level of funding available to the PLA, that it can concurrently obtain sufficient aircraft carriers, modern frigates and destroyers, nuclear powered ballistic missile submarines, and high-tech aircraft in the projected time frame. China will become a major military power if their economy and

political framework evolves in a positive manner without any major fallouts, but it is likely a longer term project than the PLA currently expects.

Based on the current military funding, doctrine, and equipment China does pose a minimal threat to the states involved in the Spratly Island dispute. China does have minimal blue water capability and therefore can reach the islands with its destroyers and frigates. However, if China were to use its military power to mount an operation in the South China Sea it would likely be similar to the Mischief Reef incident in 1995. China could use its Marines and airborne units for a fast attack on a single, or possibly small number of islands. Their hold over the given island(s) would be tenuous because of the lack of air support available to the Chinese and abundance of air support available to the closer nations. As such China is unlikely to attempt any such operation, they are more likely to continue to occupy deserted islands and wait until they have sufficient power projection capabilities before they consider any type of large military operation. Based on current projections for China to obtain the necessary capability any such operation would take place well into the future. The final chapter will look at the constraints placed on China and Chinese power by regional bilateral ties and multilateral institutions.

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CHAPTER 5 - Regional Responses

Of the states directly involved in the South China Sea dispute China is undoubtedly the largest in terms of population, military size, and economic potential. It also has the largest influence in international relations, because of its position on the UN Security Council and membership in the 'nuclear club'. This means that China can effectively keep any international dispute resolution mechanism, like the UN or the World Court, from being involved in the Spratly Island dispute. This puts China in a unique position; Without China's acquiescence the Spratly Islands dispute cannot be settled, but because of its power China can dictate the conditions under which it is willing to participate in any conflict resolution. Any negotiations must necessarily include the participation of the rest of the states involved in the conflict. Malaysia, Vietnam, the Philippines, and Brunei must be willing to use their influence to press China to enter into dispute resolution based on reasonable terms of negotiation. How these states approach China, individually and as a group, will affect the nature of conflict in the South China Sea and influence the way negotiations for a settlement will proceed. As a result it is important to examine the regional players involved in the Spratly dispute and understand their relations with China. This chapter will explore China's relationship with Vietnam, Malaysia, the Philippines and Brunei and what kind of effects the nature of these relationships will have on the resolution of the South China Sea dispute. The relationships will be examined in terms of their historical relevance, the nature of their claims to the Spratly Islands, and the current economic ties and political connections between these states and China.

HISTORICAL CLAIMS AND REGIONAL RELATIONS

For much of its history, excluding the last 200 years, China was a major power in Asia. China was predominantly a land power engaged in political and economic relations through trade routes, usually over land or along the coast. This meant that China had many dealings with Vietnam, connected to China with a land border, but limited contact with islands at the base of the South China Sea. Thus Malaysia, the Philippines, and Brunei, had limited exposure to China in the past.

China's traditions regarding the conduct of foreign relations with neighbouring states have left their mark on current Chinese relations with Vietnam. The practise of centrality - being the central actor in international dealings, implied by China's name which means 'Middle Kingdom' - was well developed in the Qing Dynasty. During that era China had no natural allies and no permanent enemies, but rather developed a complex of mutually separable relationships with its neighbours¹. Vietnam was one China's 'tributary' states, which meant the Vietnamese were treated as 'second class citizens' and Vietnam's rulers were expected to pay homage to the Emperor. This historical legacy has translated into a present relationship that is often characterised by animosity and confrontation. This is reflected by the Chinese takeover of the Paracel Islands in 1974, the Sino-Vietnamese border clashes in 1979, and in the ongoing clashes between Chinese and Vietnamese boats in the South China Sea.

¹William C. Kirby, "Traditions of Centrality, Authority and Management in modern China's foreign Relations" in Thomas W. Robinson and David Shambaugh (eds) *Chinese Foreign Policy: theory and Practise* (Oxford: Clarendon Press, 1994) p

Both Vietnam and China back their assertions of sovereignty over the Paracel and Spratly Islands by claiming their peoples occupied and exercised effective governance over the islands. While it is difficult to confirm historical occupancy and even harder to prove effective governance, both sides use archeological evidence to support their claims. In such cases international law considers treaties between the two states as important documents for settling disputes. However, the oldest document between Vietnam (then a French colony) and China is ambiguous about the ownership of the Spratly Islands. The Sino-French Treaty of 1887, which delineated Chinese and Vietnamese territory in the Gulf of Tonkin, neither explicitly confirms nor denies the allocation of the Paracel and Spratly Islands to either state. As a result the treaty has simply served to confuse the legal grounds of both the Chinese and the Vietnamese claims².

The Vietnamese assert that their sovereignty claims to the islands can be substantiated based on the French occupation of the Paracel and Spratly Islands. However, although the French acknowledge the transfer of title for the Paracel Islands, they claim that they did not explicitly devolve sovereignty of the Spratly Islands to the Vietnamese. This means that the Vietnamese claim to the Spratly Islands is based on weak historical evidence, an unclear bilateral treaty, and a questionable deed transfer from a former colonial power.

Following the end of the Pacific War and the expulsion of the Japanese from the Spratly Islands both Vietnam and China used the 1952 San Francisco Treaty negotiations

²Marwyn S. Samuels. *Contest for the South China Sea*, (New York: Methuen, 1982), p66

to bolster their claims to the islands. Although neither state was invited to the treaty negotiations, they both released statements claiming title based on historical grounds and insisted that the islands 'had always' belonged to their respective countries³.

Not only is Vietnam's historical claim difficult to prove but it is weakened because of the North Vietnamese decision to support China's claims over the islands. Before 1975 Vietnam's position was to support China's claim to the Spratly Islands in order to get Chinese support in its wars against the French and the US. However, by the time the Chinese occupied the Paracel Islands in 1974, the Vietnamese had in 1973 negotiated an agreement with the US and were no longer desperate for Chinese support and therefore expressed their opposition to the move⁴. After unification the Vietnamese government, composed of North Vietnamese Communists, rescinded its support of the Chinese claim and reasserted Vietnam's historical rights to the Islands. This not only signalled the resurrection of conflict between China and Vietnam over the Spratly islands but also a rebirth of general animosity between these two states.

The 1990's ushered in a new era of political relations in the Asia-Pacific. Vietnam could no longer rely on Soviet support and therefore found it necessary to find other allies in the region. To balance China's power in the South China Sea Vietnam chose to tilt towards ASEAN. This was not only a reaction to the loss of Soviet support but also to the 1988 Sino-Vietnamese conflict, during which Vietnam realised that it did not have the

³Samuels, *Contest*, p79

⁴Bob Catley and Makmur Keliat, *Spratlys: The Dispute in the South China Sea*, (Brookfield: Ashgate, 1997), p94

naval power to counteract Chinese advances in the South China Sea⁵. Vietnam's accession to the ASEAN Treaty of Amity and Cooperation in October 1992 can be understood in part as a means to enhance Vietnamese links to ASEAN to create a common approach to the Spratlys Island conflict. By acceding to the Treaty Vietnam enhanced its position in the region by reassuring its ASEAN neighbours of its good neighbourliness and helped to create a peaceful and cooperative environment conducive to regional stability. This produced regional sympathy for Vietnam, increasing the likelihood that ASEAN would support Vietnam in any future Sino-Vietnamese conflict. Vietnam's treaty with ASEAN caused China to speculate that Vietnam was attempting to internationalise the issue to gain both intra- and extra-regional support for its cause. This suspicion was further enhanced when Vietnam formally joined ASEAN in 1995. While Hanoi appears to fully support a negotiated settlement to the dispute, it must be recognized that Vietnamese support for a non-violent resolution is likely as much due to its weak military and diplomatic position as it is to its dedication to regional stability⁶.

Other than the Taiwanese claim, which is identical to China's, the other states involved in the dispute base their claims on either recent discovery of unoccupied land, or on geographical proximity. The Philippines combine both these elements in their claims to the Spratly Islands, but has been candid in explaining that the geographic location of the Spratlys makes the archipelago important to the security of the island nation. In

⁵Catley and Keliat, *Spratlys: The Dispute*, p96

⁶Catley and Keliat, *Spratlys: The Dispute*, p98

addition, the traumatic experience of the Japanese occupation has underpinned the Philippines belief that Spratlys should not be controlled by a hostile power⁷.

The historical foundation for the Philippines claim is based on the work of Tomas Cloma. Cloma, a Philippine businessman, claimed to have discovered the Spratly Islands in 1947, then proceeded to established colonies on them in 1950. On May 11, 1956, Cloma tried to take formal possession of the islands by raising the Philippines flag and proclaiming his new possessions under the name 'Archipelago of Freedomland' or Kalayaan⁸. On May 15, 1956, Cloma sent a note to the Vice President and Foreign Secretary Carlos Garcia, saying that he had claimed the islands based on discovery and occupation on his own behalf. Ironically, at the time the Philippines did not support Cloma in his claim to these islands⁹.

The first official Filipino claim to islands came after a supposedly unarmed Philippine patrol vessel was reportedly fired on by Taiwanese naval patrol units in 1971. This prompted President Ferdinand Marcos to call an emergency session of the Philippine National Security Council on July 10, 1971. This session culminated in a declaration of sovereignty over the islands now formally known as Kalayaan. The official announcement claimed the '53 island group, exclusive of the Spratly, which Filipino

⁷Catley and Keliat, *Spratlys: The Dispute*, p98

⁸Samuels, *Contest*, p81

⁹Catley and Keliat, *Spratlys: The Dispute*, p29

explorer Tomas Cloma explored and occupied from 1947 to 1959.¹⁰ Marcos noted that these islands were regarded as *res nullius*, as all other claims had been abandoned after the Pacific War, and therefore could be acquired according to the modes of acquisition recognized under international law¹¹.

To further bolster the Filipino claim the government also justified this action based on national security. Following the March 1988 incident the Philippines pursued friendly relations with Vietnam to create a common position towards China. Representatives from both sides agreed to follow some common norms to resolve their differences. These included a nonviolence principle and an agreement to resolve the issue through negotiations. It is interesting to note that China did not enter into any such agreement at this point with any of the disputants¹². As if to reinforce the Philippines' concern over its security, the most recent incident in the South China Sea directly involved Philippine interests. In 1995, Manila discovered that Mischief Reef had not only been occupied by Chinese forces but these forces had also built a so-called military structure on the Reef. As a result, the Philippines announced a US\$1.5 billion military buildup to bolster its defence against Chinese aggression.

Both Malaysia and Brunei's involvement in the dispute are relatively new. Malaysia's first official claim to the Spratly Islands came in 1978. Malaysia's claim

¹⁰ Jose C. Balein, 'Spratlys stir RP, China row', *Manila Chronicle*, 14 March 1972, p1 in Samuels, *Contest*, p90

¹¹Mark Valencia, "Spratly Solution still at Sea" *Pacific Review* 16: 2 (1993), p155-70

¹²Catley and Keliat, *Spratlys: The Dispute*, p100

derives from its geographical proximity to the Spratlys, and Kuala Lumpur's security concern over communication lines between Eastern and Peninsular Malaysia. On December 21, 1979, approximately one year after the first claim, Malaysia released a new official map showing some parts of the Spratly Islands under its territorial jurisdiction. What differentiates Malaysia's claim from the rest is that it is the first claim that does not rely on historical occupation for its legitimacy. Malaysia's claims are based on the extension of its continental shelf into the Spratly archipelago¹³. The published map shows that some islets come within Malaysia's 200 nautical-mile EEZ. In 1983, the Defence Minister in charge of legal matters reiterated that Malaysia's right to Amboyna Cay in the Spratly archipelago was simply a matter of geography. The problem is that a claim based on territorial waters is not legitimate according to international law. As was noted earlier, the ownership of an island generates the rights to sovereignty over the surrounding waters, not the other way around¹⁴. In addition, the EEZ concept established coastal state rights (and duties), but not full territorial sovereignty.

Brunei, the smallest claimant, is simply claiming Loisa Reef, because it is off Brunei's continental shelf. Loisa Reef is underwater most of the time and is likely only significant in terms of subsurface minerals and the lucrative EEZ rights attached to ownership. Although Brunei has not increased its fortifications in support of its claim, there are clear indications that the country is concerned with the dispute over Spratlys. In

¹³Catley and Keliat, *Spratlys: The Dispute*, p35

¹⁴R. Holler-Trost, *The Spratly Islands: A Study on the Limitations of International Law*. Occasional Paper No. 14 (Kent: University of Kent at Canterbury)

June 1992, Prince Bolkiah released a statement saying that his country planned on signing a Memorandum of Understanding with the US and boosting bilateral defence links with Australia, New Zealand, Britain, and Singapore¹⁵.

REGIONAL ECONOMIC TIES

There is no more weighty uncertainty for East Asia than the future of China. The growing power of China has displaced domestic insurgency as the primary strategic concern for ASEAN states. If China should falter either politically or economically then Southeast Asian nations may be faced with mass migration and regional chaos. If China continues its double digit growth, the states in the region must deal with an increasingly confident state that has even more power and influence over the region. To mitigate either extreme the nations of Southeast Asia are attempting to integrate China into a regional political and economic structure. It seems the states are attempting to temper China's economic growth with political interdependence to reduce China's threat to the region.

The interdependence approach to constraining China posits that economic ties between China and the states in the region will deter China from being an aggressive hegemon. Essentially the belief is that economic links will be too important to China to risk losing them over a military conflict in the South China Sea. However, the economic links between the claimant states in the South China Sea dispute and China are negligible. Unless the major powers are willing to lose or damage their economic links with China,

¹⁵Catley and Keliat, *Spratlys: The Dispute*, p105

China is unlikely to be deterred by the minimal economic contact with Vietnam, Malaysia, the Philippines and Brunei. This is not to say that these ASEAN countries would be unable to deter China simply because of their limited economic influence, political ties are an important aspect of the relations between Southeast Asian nations, the relevance of these political ties for deterring China will be discussed in the next section.

Of the reforms imposed by Deng Xiaoping, the most striking and extensive may be economic reforms. These reforms began as a relatively carefully controlled experiment with market forces but have since slipped out the control of central planners¹⁶. Estimates are that less than half of the economy is owned by the state and less than a quarter is controlled by the state plan. It has been further suggested that two-thirds of the Chinese economy is actually hidden from central statisticians. This means Beijing contributes a shrinking proportion of the total national investment and is left attempting, largely in vain, to control the tax system¹⁷. The control over the economy, formerly held by the central planners has been diffused, this is especially true in the South and the designated Special Economic Zones where much of the economic growth has taken place. However, as the economic structures have evolved in response to the market forces, the old political structures and practises have remained, jeopardizing further economic health.

¹⁶Gerald Segal. "Tying China in (and down)" in Gerald Segal and Richard R. Yang (eds) *Chinese Economic Reforms: The Impact on Security* (Routledge: New York, 1996) p191

¹⁷Segal, "Tying China In," p192

The result of the unplanned and uncontrolled economic growth is that investment in infrastructure including freight, energy, and financial services are not being adequately provided by the state. As a result China now relies on trade with the outside world to support its modernisation. China's prospects for growth depend on other states providing markets for its goods, raw materials and investment for its economy, and information and technology for its development¹⁸. The countries that can and do provide this kind of economic and technical support include the US and Japan (both of whom have a significant trade deficit with China) as well as Taiwan and Singapore. The Southeast Asian nations involved in the Spratly Island conflict do not have the resources nor the technology to provide China with significant investments. In fact, the Chinese economy plays an insignificant role in the region. China is a minor trading partner of ASEAN states because they have similar export structures and compete against each other to sell light-industrial manufactures¹⁹.

The state with perhaps the most significant economic relation with China is Vietnam, however, this relationship is far more important to Vietnam than to China. China is critical for Vietnam's economic growth. Vietnam's recovering economy requires inexpensive Chinese agricultural and light-manufactured goods to raise their standard of living. In fact, trade between the two nations doubled in 1995 over the previous year, reaching approximately US\$1 billion. With the opening of the rail link in

¹⁸Gerald Segal. "East Asian and the 'Constraint' of China" *International Security* 20:4 (Spring 1996), p112

¹⁹Andrew J. Nathan and Robert S. Ross. *The Great Wall and the Empty Fortress: China's Search for Security* (New York: W. W. Norton & Company, 1997), p110

February 1996, trade and other contracts should continue to develop²⁰. While China is unlikely to lightly discard Vietnam economic input, this relationship will be more of a constraint on Vietnamese actions than Chinese.

The notion that the 'overseas Chinese' in Southeast Asia are important to the Chinese economy is a significant exaggeration. If foreign investment in China can be used as an accurate indicator of the significance of the overseas Chinese then Southeast Asia's importance is minimal compared to Hong Kong, Taiwan, and Macao. Between 1985 and 1995 Hong Kong, Macao, and Taiwan invested more than US\$70 billion in China. In the same time investment from Singapore, the largest Southeast Asian supporter of China, totalled less than US\$3.9 billion. The figures for the other ASEAN states were even lower, with Thailand investing US\$916 million, Indonesia US\$318 million, and Malaysia US\$581 million. The amounts are significantly lower than from Hong Kong, Taiwan and Macao, and almost inconsequential when compared to investment from Japan and the US²¹. ASEAN states, like China, are economically dependent on the US and Japan because they are not only the major export markets for the region but they are also the major investors in the local economy. The weak economic ties between China and those ASEAN nations involved in the South China Sea dispute are unlikely to deter Chinese aggression, thus the only way economic ties would constrain Chinese action in the South China Sea is if the US or Japan made an explicit

²⁰Nathan and Ross, *The Great Wall*, p106

²¹Jusuf Wanandi. "ASEAN's Chinese Strategy: Towards Deeper Engagement", *Survival* 38:3 (Autumn 1996), p127

commitment to punish China with economic sanctions if any military action was taken in the Spratly Islands.

Despite these limited economic linkages the ASEAN nations are trying to promote economic relations with China as a precursor to stronger political relations. During 1993 Prime Minister Goh Chok Tong of Singapore, President Fidel Ramos of the Philippines, Prime Minister Mahathir of Malaysia, Prime Minister Chuan Leekpai of Thailand, and King Bolkiah of Brunei visited Beijing to promote regional economic cooperation²². The high-level visits demonstrated the attraction of those countries to the Chinese market. Most leaders hope that economic interdependence with China will increase the likelihood that China will develop into a status quo participant in regional affairs rather than an aggressive threat willing to grab resource rich Spratly Islands despite potential consequences.

POLITICAL TIES

The political ties between Chinese and the Southeast Asian nations involved in the Spratly Island dispute are more significant than their economic ties. Just as in the past the current political ties between China and Vietnam are unique because of Vietnam's geographical proximity. The dominant theme in Sino-Vietnamese relations is grudging Vietnamese accommodation of Chinese power²³. With the dissolution of the Soviet

²²Masashi Nishihara. "China and East Asia" in Gerald Segal and Richard A. Yang (eds) *Chinese Economic Reform: The Impact on Security* (Routledge: New York, 1996) p137

²³Nathan and Ross, *The Great Wall*, p106

Union, and the loss of the Soviet security alliance, Vietnamese security depends on Chinese forbearance. Beijing seeks neither to control Vietnam nor to establish bases on its land mass therefore China's interests are served when Vietnam, along with the rest of Indochina, is free of outside military influence. As long as Vietnam does not lend its territory to a great power, its animosity is simply an annoyance. To this end China believes that Vietnam's claims and their possession of several islands in the archipelago are illegal and an infringement of Chinese sovereignty, but because of the historical ties China has been more likely to act on these infringements by Vietnam than those by any other state.

The relationships between China and the other Southeast Asian nations, namely the Philippines, Brunei, and Malaysia, are less intense than with Vietnam. These states, located at the South of the South China Sea, are outside the effective military reach of the PLAN thereby constraining China's ability to influence them. Lacking significant economic ties and effective military influence, China often used ties with Communist parties as an instrument of diplomacy. However, China's support for revolution and its ties to the illegal communist parties in Southeast Asia created an obstacle to its cooperation with the ASEAN states. China supported insurgencies in all the ASEAN countries, especially in Thailand and Malaysia and provided support to Communist parties in Indonesia, Myanmar, Singapore, and the Philippines²⁴. Beijing halted its aid to communist insurgencies in Southeast Asia and has largely abolished party-to-party relations, thereby strengthening state-to-state relations.

²⁴Wanandi, "ASEAN's Chinese Strategy", p118

Another obstacle to cooperation between China and ASEAN was China's policies towards overseas Chinese. China traditionally claimed that all ethnic Chinese were citizens of the People's Republic of China and that the Communist government had authority over them. Ethnic Chinese residents of Southeast Asian nations have traditionally exercised disproportionate influence in their respective countries' commercial sectors. Many ASEAN governments have viewed their ethnic Chinese as potential "fifth columns" which might use their influence in the interests of Chinese foreign policy²⁵ and as a result most of these states have adopted laws prohibiting Chinese from entering into sensitive professions. China thought it opportune to intervene immediately in any discrimination against these overseas Chinese, such as Malaysia's institutionalized racism against non-native Malaysians or non-Bumiputra's. However, in reality China did very little for these 'overseas Chinese' except voice diplomatic discontent for such unfair treatment. In fact, Beijing has been willing, since 1954, to give up historic claims to their citizenship but has with mediocre success insisted that they must not be coerced into giving it up or into taking local citizenship²⁶. To further alleviate regional suspicions China completely revoked its claims to the overseas Chinese in 1989, declaring that the Chinese no longer had the option of dual citizenship and

²⁵Nathan and Ross *The Great Wall*, p109

²⁶Harold Hinton. "China as an Asian Power" in Robinson, Thomas W. and David Shambaugh (eds) *Chinese Foreign Policy: Theory and Practise* (Oxford: Clarendon Press, 1994), p370

encouraged them to adopt the citizenship of their host country²⁷. This laid down a solid basis for improved relations with the Southeast Asian nations.

As obstacles to cooperative relations between China and ASEAN countries diminished, perceptions of common interests have emerged. For example, after the Vietnamese-Soviet invasion of Cambodia China collaborated with ASEAN countries to resist the growing Soviet influence in the region. This common security interest provided China the opportunity to overcome a legacy of mistrust and establish a pattern of cooperation with ASEAN states that lasted until Vietnam withdrew from Cambodia²⁸. However, with the end of the Cold War China's strategic importance to the non-Indochina states again diminished. The collapse of Soviet power and Vietnamese defeat in Cambodia removed the impetus for ASEAN's cooperation with China.

Compounding the problem of the limited geopolitical importance of China to Southeast Asia, is the focus on China as the region's primary threat. The bulk of the regional leaders, including those from Vietnam, would prefer a strong American presence in the region to either Chinese or Japanese regional leadership²⁹. China is generally taken seriously by Southeast Asian nations but it is not liked or trusted. China tends to appear to be harping on nationalist appeals for domestic consumption, while playing them down abroad. This leads to suspicions from Southeast Asians about which is the true Chinese

²⁷Wanandi, "ASEAN's Chinese Strategy", p119

²⁸Nathan and Ross *The Great Wall*, p110

²⁹Nathan and Ross *The Great Wall*, p111

state of mind³⁰. Although Beijing claims, on the whole sincerely, that it wants international peace and stability, if only for the sake of the success of its modernization programme, it often gives the impression of expecting others to do almost all the work of creating and maintaining such a condition while being unwilling itself to make much positive effort in that direction. Beijing also gives the impression of aspiring to substantial influence in Asia, especially in Southeast Asia, without being willing to assume much, if any responsibility for the welfare of the region³¹. The problem of defining the China threat and the different experiences with Chinese cooperation and aggression had led to various strategies about how to deal with China.

ASEAN, the institution that generally represents regional interests, has the most fluid strategy in dealing with China. When China's relations with Japan and the US deteriorated after 1989 ASEAN found China was more willing to listen to appeals of good behaviour, probably because China needed to avoid antagonizing everyone simultaneously³². As a result, in its formal response to Chinese aggression in 1995 ASEAN clearly avoided any explicit public attacks against China so as to maintain this period of increased Chinese flexibility. Clearly ASEAN officials felt the need to demonstrate that they could contain Chinese behaviour, at least in a symbolic fashion. In fact, ahead of the ARF meeting in Brunei on Aug. 1, 1995, ASEAN officials persuaded China to promise at least cosmetic changes in policy. While in Brunei, China's Foreign

³⁰Hinton, "China as an Asian Power", p370

³¹Hinton, "China as an Asian Power", p371

³²Segal, "East Asia's Constraintment of China", p128

Minister, Qian Qichen, insisted that China still had sovereignty over the entire South China Sea, but also declared that China was willing to resolve disputes according to the Law of the Sea. Significantly China also agreed to discuss the issue in a multilateral forum with ASEAN³³. China did not agree to resolve the issue multilaterally but the tone at least reflected China's recognition of the need to alleviate ASEAN's fears. China also agreed to pursue more transparency in military matters. The significance of these concessions is not that any individual issue was critically important, but rather that China was willing to be more cooperative with ASEAN when they presented a united front. This implies that if ASEAN can consistently present such a front then they may be able to regularly influence Chinese policy on issues relevant to regional security interests, including the conflict in the South China Sea.

Malaysia tends to treat China cautiously. Its population includes about a 40% ethnic Chinese minority, which has been excluded from political power by the ethnically Malay dominant political party. In the mid-1980s a leaked government policy paper described Malaysia's China policy as involving 'vigilance [combined] with commercial opportunism'³⁴. However, despite the territorial dispute over the Spratly islands, China and Malaysia have become cooperative with expanding trade and friendly political ties. As Prime Minister Mahathir has grown more confident about his abilities to manage the Chinese minority at home, he has been happy for them to seek the economic benefits of

³³Segal, "East Asia's Constraintment of China", p129

³⁴Nathan and Ross, *The Great Wall*, p111

trade ties with China³⁵. The two nations have also cooperated against American efforts to rapidly open the markets of Asia's developing countries. Malaysia is one of China's strongest supporters in debates about 'Asian values' with regards to human rights. In fact, Malaysia sees China as a crucial anti-Western ally in its struggle to develop an East Asian Economic Caucus (EAEC) and to shut out the Anglo-Saxon states across the Pacific. This close cooperation has led Mahathir to declare that Malaysia no longer regards China as a threat³⁶. Because of this positive relationship with China, it is unlikely that Malaysia would take a strong public stand against minor Chinese aggression in the South China Sea, provided the action was not directed against any Malaysian claimed territory.

Malaysia's China policy is drastically different from the Philippines. The Sino-Philippines relationship is the most tenuous of the region. During the Cold War there was active summitry between China and the Marcos' leadership as they had similar views regarding Vietnam and the Soviet Union. Since the end of the Cold War, the common interests have receded and conflict over the Spratlys has dominated the bilateral agenda. In response to the 1995 Mischief Reef incident Manila raised alarm over the 'China Threat', trying to call international attention to the Chinese challenge to a small Southeast Asian country³⁷. Despite the fact the Philippines was the most vehement in warning about the long-term Chinese threat, their armed forces were in no position to take on

³⁵Segal, "East Asia's Constraintment of China," p130

³⁶Segal, "East Asia's Constraintment of China," p130

³⁷Nathan and Ross, *The Great Wall*, p112

China on its own. Because of this weak position, the Philippines chose to engage in clever diplomacy intended to raise consciousness among ASEAN partners about the need to take a more robust line towards China³⁸. However, because the Philippines lacks support from the US, Japan, and ASEAN for its confrontational stance, it has attempted to defuse tension with China by trying to open a dialogue and considering joint economic activities in the disputed waters. In the spirit of cooperation China agreed to discuss a code of conduct for Spratly Island activities but refused the Philippines request to do so on a multilateral basis, likely because China believed it would have more leverage over each nation in a bilateral setting. At the 1995 ARF meeting Beijing shifted ground at the ARF meeting, possibly to take diplomatic high ground away from the Philippines, and agreed to discuss the Spratly issue in a multilateral dialogue with ASEAN. Ironically, the Philippines then proceeded to undermine their diplomatic efforts in raising consciousness about China by negotiating a 'code of conduct' bilaterally with Beijing³⁹.

Brunei does not possess sufficient economic ties or strategic importance to warrant sustained Chinese attention. The only point of contention between the two states is the dispute over the Spratly Islands. In this matter Brunei only participates in discussions in a multilateral setting, which reduces the importance of the conflict to bilateral relations.

Indonesia, while not directly implicated in the South China Sea dispute, has played a significant role in the multilateral discussions over the issues. Indonesia took the initiative to circumvent the difficulties involved in the South China Sea dispute after

³⁸Segal, "East Asia's Constraintment of China", p129

³⁹Segal, "East Asia's Constraintment of China", p130

the 1988 clash between China and Vietnam and hosted informal discussions designed to break the diplomatic deadlock. Six workshops were held on a track-two basis, meaning they were informal discussions between government officials not formal government-to-government talks. These discussions did not result in articulating a clear-cut regional consensus nor did they provide any solution to the conflict. From the beginning of these discussions Indonesia has had an uneasy relationship with China. This was made worse in 1993 when China presented a map of showing the southern reaches of its claims in the South China Sea stretching to the Indonesian Natuna Gas Field. In 1994, Indonesia asked Chinese officials to clarify their claims, and when no answer was forthcoming Indonesia decided that China did claim the Natuna Field. Traditionally Indonesian officials had been reluctant to characterize China as a threat, but in 1995 the Commander of the Indonesian armed forces said that it was important to modernize Indonesia's air force to deal with the Chinese challenge to the South China Sea⁴⁰. As Jusuf Wanandi, an Indonesian intellectual, noted "because China misbehaved in the past, it is then natural that we do not take for granted the Chinese reconciliatory statements on the Spratlys⁴¹."

One of the dynamics of the Southeast Asian region is its relative lack of regional institutions or even a clear sense of regional international society. Although the ability to balance and constrain China is not a function of these institutions, most Southeast Asians understand that it is in China's interest that such institutions do not develop, especially in

⁴⁰Segal, "East Asia's Constraintment of China", p132

⁴¹Jusuf Wanandi, raised this statement in the discussion between Chinese and Asian scholars at the 2nd Southeast Asian-China Conference in Beijing in 28-31 October 1992, in Keliat and Catley, p149

the security sphere. As a strong and rising power, it is in China's interest to deal with its neighbours bilaterally, in a fashion reminiscent of tributary states. China also seeks to reduce any efforts to 'internationalize' aspects of foreign policy, such as security issues, or to draw attention to issues that could possibly affect China's relations with states outside the region⁴². While China is not the main reason for the slow development of the Asia-Pacific Economic Cooperation (APEC) or the ARF, it is a factor in the slow long-term growth of these institutions. China is unwilling to be constrained by international or regional economic institutions and so stalling their growth or influence is in China's interest.

The tentative nature of Southeast Asian regionalism is evident in the security realm. The ARF is an informal collection of states that makes no pretence of seeking to shape the security policy of member states, however, even the most ardent supporters of the ARF will agree that the institution will not begin to consider matters of conflict resolution for many years. From the Chinese point of view, it is advantageous not to have an effective collective or even cooperative security system, for it is inevitable that such a system would be used primarily to balance and constrain the largest power in the region⁴³.

The current purpose of the ARF is to build up mutual trust and confidence between China and ASEAN. As such ARF members expect China to participate in a series of confidence building measures (CBMs) to create mutual trust and confidence. If successful the proposed CBMs may eventually lead Southeast Asian nations to accept

⁴²Segal, "East Asia's Constraintment of China," p114

⁴³Segal, "East Asia's Constraintment of China," p115

China as a regional power in the future. In line with the suggested CBMs China, in 1995, produced its first Defense White Paper. Although this document was limited and unrevealing, it was, and is, not very different from equivalent publications of Singapore, Thailand and Indonesia. China has also accepted other ARF recommendations including participating in a seminar on security developments in the region, exchanging military officers with ARF members, and, with some ASEAN members including Indonesia, has started student exchanges at various levels of the armed forces training programs⁴⁴.

Transparency in military spending and exchanges will promote trust and confidence and convey the sense that China is not preparing to militarily seize the Spratly Islands, but rather that its military build-up is simply a function of its need to modernize obsolete equipment. Without such a move, the Southeast Asian nations will assume that China is trying to build up its navy to be able to conquer and seize the Spratly Islands at their will. This will lead to further distrust and a further build-up of weapons in the region, to the detriment of economic growth and stability. On the other hand, cooperation in these areas will lead to a stronger ARF, which may then eventually be able to deal, in a constructive manner, with the Spratly Island conflict. Although cooperation between the Southeast Asian nations has moved into areas of economic and security concerns the substance involved in cooperation in this area is low. The ARF remains primarily an informal discussion group between unofficial government representatives. While the creation of such an institution is encouraging, it is unlikely that it will be the catalyst for any long-term solution in the Spratly Islands. The issues in the Spratly dispute are

⁴⁴Wanandi, "ASEAN's China strategy", p124

creation of such an institution is encouraging, it is unlikely that it will be the catalyst for any long-term solution in the Spratly Islands. The issues in the Spratly dispute are political, economic and military in nature, thus are beyond the limitations of any current regional organization. It is likely that the necessity to resolve the Spratly Island dispute will occur before the regional organizations are prepared to deal with it, it will therefore be a test of regional strength, growth and flexibility to see if the regional organizations can quickly respond to the pressures or whether they will collapse leaving either external powers such as the UN or the US to deal with the ensuing problems.

CONCLUSION

China's relationship with the states in Southeast Asia can be characterized as an uneasy balance between fear of Chinese aggression and the need to engage China to support the economic stability of the region. One of the reasons that the nations involved in the Spratly Island dispute have not presented a common front against China is that they have such widely divergent perceptions of China. This is a function of unique historical relations, unequal economic ties, and diverse levels of political trust and cooperation. Perceptions range from the Philippines intense distrust of China to Malaysia active cooperative relation with the major power. It is clear that although these states have developed basic regional institutions for dealing with regional economic and security matters, these institutions are not strong enough to be capable to deterring China from aggressive actions or firmly engaging China into regional security activities. In addition, attempts by the region to solve the Spratly Island dispute has failed to

produce even minimal shifts past rhetorical statements into concrete action. The region is currently a loosely woven fabric of economic and political ties far too fragile to make any large steps forward on such a large contentious issue as the Spratly dispute. Regional relationships dictate the slow pace of evolution in matters of security and this means that China can either exploit this opportunity and take advantage of this weakness by using its own political and military strength in the short term by aggressively taking the Spratly Islands through either military or political coercion, or it can allow itself to be engaged in regional institutions which will allow it to exert political influence over the region in the long term and thus eventually achieve a satisfactory solution to the Spratly Island dispute.

The current weakness of the regional institutions suggests that they will not be the catalyst to a regional solution for the Spratly dispute. The ARF remains essentially an informal discussion group attended by unofficial government representatives that is unable to agree to address substantive issues. In fact, it is likely that the conflict over the Spratly Islands erupt before the regional institutions are ready to deal with the political, economic, and security/military issues involved. Ideally, these institutions would be able to quickly adapt to the situation and deal with the regional problems on a regional level. If the ARF is unable to cope with such a large problem, or if the members involved block the ability of the ARF to deal with the dispute then it is likely that outside powers such as Japan or the US will have to impose an external solution. If the Spratly Island conflict does not erupt in the near future the regional links and ties through the fledgling

CONCLUSION

The dispute over the Spratly islands in the South China Sea is a regional dispute with global implications. It is a regional dispute not only because it involves China, Taiwan, Vietnam, Malaysia, Brunei and the Philippines, but also because none of the current international major powers are currently involved in the dispute. Neither Japan nor the United States are prepared to get involved in the 'spat over the Spratlys' unless the conflict threatens important sea lanes that pass through the region. This means that China's actions in the Spratly dispute can be used to understand Chinese power both in a regional and a global context. How China uses its power in the Spratly Island conflict with Southeast Asian states, over which it has a preponderance of power, can be used to understand how China will use its power in future, when it is much more powerful in economic and military terms and therefore is no longer as susceptible to great power pressure.

The Spratly Island conflict remains a volatile issue between China and the Southeast Asian nations involved. Although China's claims over the archipelago, based on vague historical evidence, are in no way supported by international law. Because China is the most powerful country involved in terms of military power, economic leverage, and political influence, it maintains a disproportionately strong influence over progression of the conflict and over any possible solution to the conflict. Because of China's preponderance of power, any resolution to the conflict must necessarily involve China and must proceed along a path approved by China. In addition, China has the means and the ability to block the use of any international law mechanism, including the

UN Security Council and the World Court, to solve the dispute. This means that although China does not control the situation, it does have a considerable ability to influence the outcome of the conflict.

As the conflict in the South China Sea will not be resolved by any formal means using international law, because of China's ability to block these mechanisms, the substance and the validity of China's claim are of little consequence. Therefore, the best option for a resolution of the Spratly Island dispute is through a multilateral forum between the claimants. However, if the countries involved are not willing or able to cooperate it is likely that tensions in the area will rise making further military conflict probable.

The presence of significant amounts of natural gas, oil and other resources in and around the Spratly Island increases the stakes over the Spratly Island dispute. The presence of resources makes the islands not only politically and strategically important but also economically valuable. China is already a net importer of energy and grain and as it continues to industrialize its dependence on imports of these commodities will rise. Therefore, the resources in the Spratly Islands will only become more attractive to the Chinese policy makers who, for both historical and strategic reasons, dislike relying on imports. The desire to exploit these resources will be high, and unless there is an acceptable multilateral agreement between the claimants, it is probably that China eventually will attempt to unilaterally exploit these reserves thereby causing political and possibility military retaliation from other states.

Although the presence of significant resources could be the catalyst for future conflict, it could also provide the basis for a long term solution to the problem. The functional approach to dispute resolution could be the best prospect for a settlement. Shelving the sovereignty dispute and entering into a joint development agreement to explore and exploit the natural resources in the area would be both beneficial to the surrounding states in the short term and could provide the basis for developing a long term solution to the problem. This functional approach would begin with a resource sharing agreement. A single issue agreement, covering only exploration and exploitation of oil and natural gas, would build functional ties between the nations and also increase trust and confidence between government officials. The success of the resources sharing agreement, which could be considered a confidence building measure, would allow successively more sensitive issues to be discussed and resolved.

A joint development agreement over resources will not, nor could not, be a solution to all the political, security and economic issues involved in the dispute over the Spratly archipelago. A JDA simply deals with the economic aspect inherent in resource exploitation. However, resources are an excellent way to start the cooperative process because each party will receive concrete benefits from cooperation. Once this level of cooperation has been achieved, cooperation and compromise on issues that would render fewer tangible benefits may be possible. It is important to note that this is a long term process that will not be without some problems or setbacks, however, the benefits of such a process would definitely outweigh the possible consequences of maintaining the current tense status quo.

Unfortunately, none of the claimants have been willing to adopt a stance that makes multilateral cooperation likely. China alone is not prepared to enter into negotiations regarding joint development before the rest of the countries acknowledge China's sovereignty over the islands, hardly a flexible position. All of the claimants fear weakening their already legally questionable claims. This means that the status quo is likely to continue until China either forces the issue of multilateral cooperation or chooses to unilaterally seize the islands and/or resources around the islands.

Despite China's threatening military stance it is unlikely that China will be able to seize the Spratly Islands until well in the future. The PLAN remains a largely defensive fleet that is currently unable to mount sustained operations in the Spratly islands. It has neither the power projection capabilities to ensure victory nor the funding to sustain any large operation. However, the PLA remains a large factor in the Spratly Island dispute because it does have minimal blue water capability and is able to seize islands and /or attack naval ships in the area, as was shown with the seizure of Mischief Reef in 1995. The PLA has also revised its military doctrine to indicate that it is preparing to project power away from its borders to protect Chinese sovereign territory, with force if necessary. The doctrine suggests that China is willing to engage opponents that are mining, fishing or even passing through Chinese claimed waters (which includes all of the South China Sea from the Chinese coast to the Spratly Islands). The current status of the PLA means that China is unlikely to be aggressive in the South China Sea in the near term, but it is clearly preparing for the possibility in the long term. This, in combination with China's stance regarding multilateral cooperation, indicates that China

is prepared for the status quo to continue until China is capable of projecting power into the Spratly Islands, thus strengthening China's position in the dispute.

The uneasy relations between China and the Southeast Asian nations do not contribute to the likelihood of any multilateral cooperative agreement. Southeast Asia is currently trying to balance its fear of Chinese hegemony against its need to engage China to support economic stability in the region. The Southeast Asian nations differ widely on how they view China and therefore how they believe ASEAN should deal with China. The different levels of bilateral trust are carried over into the multilateral regional organizations. These regional institutions, including ASEAN and ARF, are not sufficiently developed to deal with a conflict that involves highly sensitive political, security and economic issues, such as the Spratly Island dispute. This impedes any multilateral negotiations on resource development because the claimants cannot agree with each other on what to offer or how much to compromise when dealing with China. The current ties within the region are not strong enough to support multilateral cooperation, nor are they strong enough to deter Chinese aggression. Therefore, although the region is susceptible to Chinese aggression, as was seen in 1995, they remain unable to cooperate to protect their own interests.

China is not likely to enter into negotiations with the other claimants over the Spratly Islands unless Southeast Asia forces the issue. Currently China is being neither compelled through international law, nor through regional pressures, to find a solution to the Spratly Island dispute. China is happy to reap the benefits of the disunion between the ASEAN nations in order to prolong the dispute and build its military and economic

power. With more power China has more leverage over the other claimants and is more likely to gain an advantageous outcome over the Spratly Island conflict, whether it be resolved through military conflict or multilateral negotiations. China is currently minimizing potential conflict in the area through their agreement to solve the dispute peacefully, but it is still quietly asserting its sovereignty over the area through resource exploration and military excursions. It is unlikely that China will try to seize the islands with military force. It is more likely that China will force their position on the other disputants through a mixture of economic, political and military threats. A military operation would cost China too much, both in terms of actual cost, and in terms of international investment, stature, and good will.

China's approach to the South China Sea conflict, minimum cooperation for maximum benefit, is transferable to its power relations on a larger scale. China is not likely to become a hostile hegemon. It is not in China's interest to become aggressive because this would ostracize it from the international community and therefore threaten its economic development. China wants to be a great power, and it has chosen to achieve great power status through economic strength backed up by military power. China will thus want to join international institutions with minimum concessions on its part to gain the maximum benefits from the international community. China has been eager to join regional and international institutions. Its strategy is especially obvious in China's negotiations to join the WTO. China wants to join this prestigious trading organization with the fewest amount of changes to the Chinese economy as possible. It wants to join

as a third world nation, even when in many areas China is clearly much more prosperous than most Third World nations.

Furthermore, China is unlikely to be a status quo great power. China will want to mould international institutions to become more 'China friendly'. It will try to alter the 'Western-centric' approach of many of these international organizations. One of the first attempts by China to assert its own way of doing things is over the issue of human rights. China, along with other Southeast Asian nations including Malaysia, has asserted that there are distinct 'Asian values,' and therefore the Western concept of human rights should not be imposed in Southeast Asia. As with this issue, China will not immediately demand changes to international organizations but will pressure the organizations, from within, to make changes. This gives China maximum leverage over international institutions and allows it achieve great power without having to sacrifice economic growth.

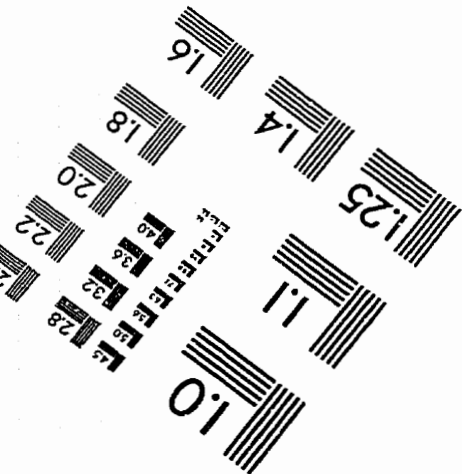
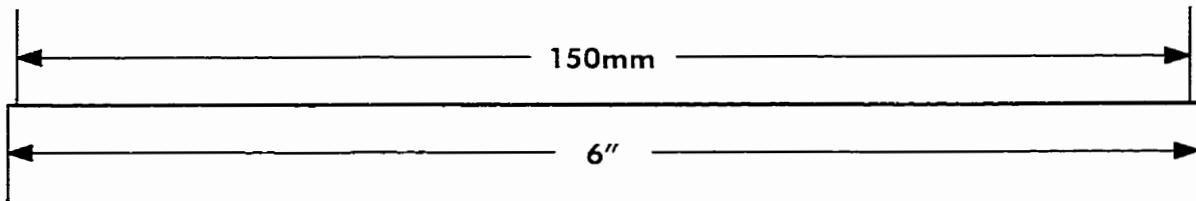
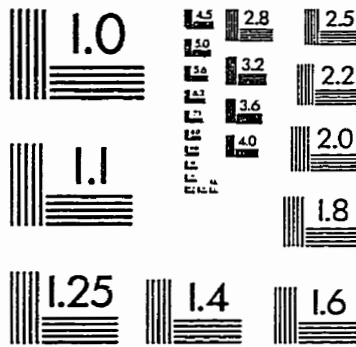
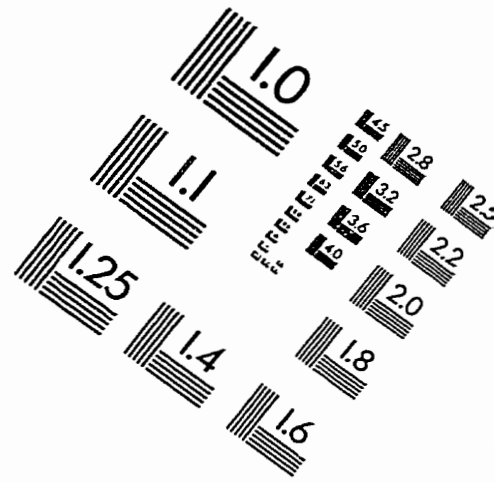
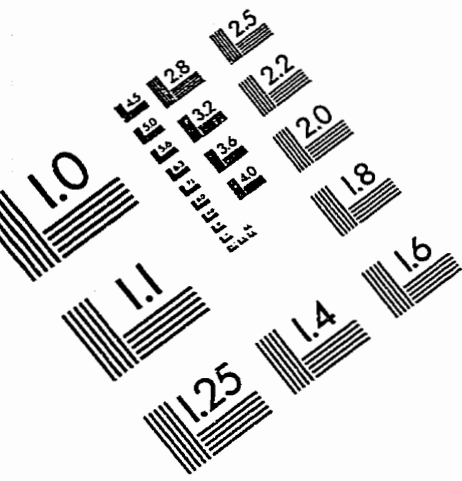
China is planning to become a great power and is planning to achieve it through economic power backed up by military capabilities. If the way China is dealing with the Spratly Island conflict in the South China Sea is an indication of how it will handle its quest to become a major power, then China will be difficult to stop because it will remain a status quo power until it has the leverage over other powers and institutions in order to institute changes. China has a very long term view of its position both in relation to the Spratly Islands and the international community. It is probable that China will become a major power, this leads to the question of whether major power transition

can and will be accommodated by the United States or whether major power conflict will occur as it has done so often in the past.

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IMAGE EVALUATION TEST TARGET (QA-3)



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