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CHINA AND THE SOUTH CHINA SEA DEBATE: CROUCHING TIGER OR HIDDEN DRAGON?

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JCSP 39

Master of Defence Studies

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PCEMI 39

Maîtrise en études de la défense

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CANADIAN FORCES COLLEGE – COLLÈGE DES FORCES CANADIENNES
JCSP 39 – PCEMI 39
2012 – 2013

MASTER OF DEFENCE STUDIES – MAÎTRISE EN ÉTUDES DE LA DÉFENSE

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HIDDEN DRAGON?**

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ABSTRACT

For decades, the South China Sea (SCS) and its scattering of islands have been a source of tension between Southeast Asian states. The Philippines, Brunei, Vietnam, Malaysia, Taiwan and China all lay claim to part, if not all, of the region. For years academics and policy makers have debated if this region will be a future hot bed of conflict between China and its neighbours that could boil over and involve the world's last remaining superpower, the United States. The purpose of this paper is to examine Chinese ventures in the SCS to determine future Chinese courses of action in that area.

The methodology employed is threefold. Firstly, the various claims, conflicts and diplomatic ventures will be analyzed in order to determine any trends. The second avenue of analysis will be an examination of the importance of the SCS to the naval strategy of an emerging China. The final is the study of the economic potential of the SCS and why it is important to claimant states, especially China.

Examination of these factors and Chinese moves in the region over the last thirty years will reveal a trend. Although China has on occasion resorted to force to obtain territory in the region, it is slowly biding its time and consolidating its position. Through a combination of intimidation through the PLAN, economic pressure on nations as blackmail, China has slowly gained the upper hand in the region. China will in no way risk starting a large scale conflict that would draw in the US and hurt the Chinese economy, but it will continue to look at a long term strategy and peck away at the SCS until it dominates what it views as Chinese territory.

INTRODUCTION

Coolly observe, calmly deal with things, hold your position, hide your capacities, bide your time, accomplish things where possible.

-Deng Xiaoping

Over the past sixty years the People's Republic of China (PRC) underwent significant growth. It transformed from an agrarian society torn by civil war into an economic powerhouse that may eventually overtake even the United States of America as the most powerful world economy. Fuelling this growth have been cheap labour and resources, a depressed national currency and a relatively secure domestic environment dominated by a powerful central government. The authoritarian open market economy espoused under Deng Xiaopeng after the death of Mao permitted the re-tooling of the economy and a means for the Chinese Communist Party (CCP) to set a vision for the nation: to regain its place in the world and ensure that the dark days of the foreign subjugation throughout the 19th and 20th centuries would never happen again. One of the key aims to obtain this goal was to lift hundreds of millions of Chinese out of poverty. China has been largely successful in this venture to date and a booming middle class has emerged.

Satisfying this middle class, however, has become a catalyst in seeking greater Chinese involvement in world affairs and protection from outside influence. This increased power also meant that China needed to reassert its sovereignty over the entirety of its territory, included its far flung possessions. While Taiwan is regarded as one of the lost territories that China must retake and Tibet is a source of internal concern and external criticism, these are not the only contested regions in which China has attempted

to assert its sovereignty. Another such region, which is more visible today, is the conflict zone that is potentially brewing in the South China Sea (SCS). This region, which includes the Paracel Islands and the Spratly Island chain, has a long history of dispute between numerous nations that border the SCS and has even resulted in bloodshed. Why does this region matter? It is significant because it is the key Sea Line of Communication (SLOC) which sees the fuel required to maintain China's economic miracle. It is also the avenue in which China exports its goods across the globe.

The aim of this paper is to examine the disputes in the SCS between China and other claimant nations, including Malaysia, Vietnam, Brunei, Taiwan and the Philippines and the likely path that China will take in the future. The disputes in the region began largely in the 1950s and continue to this very day. It has only been in the last thirty years, however, that significant attention has been paid to the region. Armed clashes have occurred; local fishermen have been arrested and even killed. Attempts were made to try to deescalate tension in the region with varying degrees of success. Bilateral negotiations between China and other states were sought and even multilateral talks occurred on occasion. It will be argued that despite these attempts and China's apparent openness, China attempted to isolate nations and maintain its power in the region. Any multilateral arrangements were quietly swept aside.

With the context of the disputes outlined, the first aspect that will be examined is the military significance of the region to China. At first glance this area is just a vast ocean expanse that is littered with small islands that offer very little strategic advantage to China. Closer examination, however, will reveal that the SCS is effectively a Chinese lake that will allow the Chinese People's Liberation Army Navy (PLAN) to extend the

defensive perimeter of China seaward. A coastal defence force was regarded as inadequate to defend China from attack. Under the tutelage of Chinese Admiral Liu Huaqing, a blue water Navy was developed with the task of defending China's shores, but from extended distances. Liu spent twenty years re-equipping the PLAN with the long term goal of being of blue water force capable of engaging even the US Navy. The SCS, even with its small speckling of islands, was viewed as a way to project Chinese military power further from China and towards strategic maritime choke points, like the Straits of Malacca.

The second critical aspect which will be examined is the economic significance of the SCS to China. The region is not just a key gateway for the Chinese economy; the natural resources in the region are bountiful. Hydrocarbon development is seen as a solution to China's dependence on foreign oil, a commodity that could evaporate in times of crisis. The region is also home to diverse fish stocks, which generates a fishing industry in China which account for millions of Chinese jobs and significant exports for the Chinese economy.

Examination of these factors and Chinese moves in the region over the last thirty years will reveal a trend. Although China has on occasion resorted to force to obtain territory in the region, it is slowly biding its time and consolidating its position. Through a combination of intimidation through the PLAN and economic pressure on nations, China has slowly gained the upper hand in the region. China will in no way risk starting a large scale conflict that would draw in the US and hurt the Chinese economy, but it will continue to look at a long term strategy and peck away at the SCS until it dominates what it views as Chinese territory.

CHAPTER 1- WHERE? THE SOUTH CHINA SEA

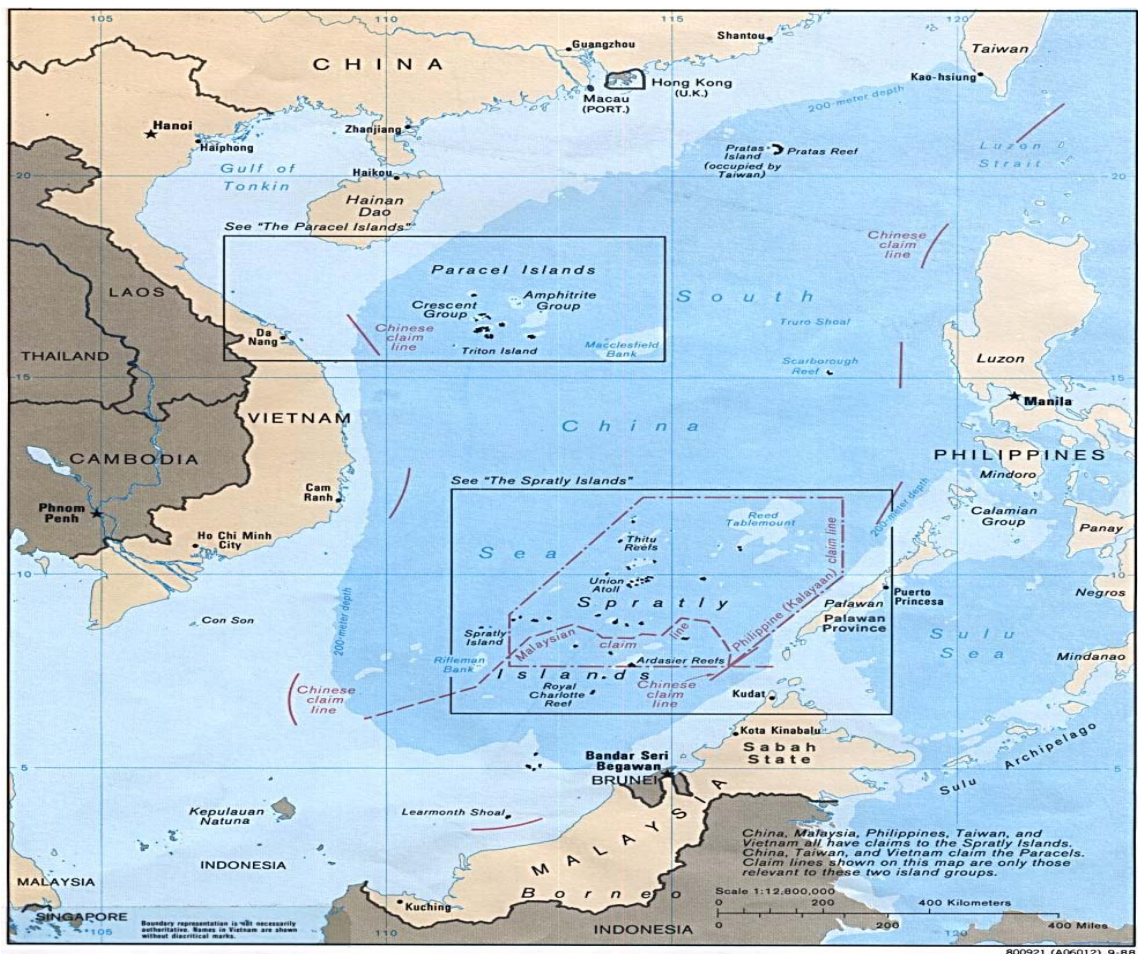
In order to determine the possible courses of action that China may take in the SCS, one must first understand the issues concerning this region. Firstly, the geographical significance of this region and the rich resources that it contains will be examined. This will be followed by an analysis of the various claims over the features in the SCS by the nations in the region; specifically those of China, Taiwan, the Philippines, Malaysia, Brunei and Vietnam. As many of these claims are overlapping, conflict has arisen on several occasions within the last sixty years between the various claimants. China has been the predominant actor in these conflicts and therefore warrants particular attention. We will then observe the political efforts that have been undertaken to bring stability to the region, most notably the actions of the Association of Southeast Asian States (ASEAN) and its interaction with China. Bilateral talks between China and the various nations will also be examined, as they reveal the differences between China's stance in the SCS when dealing with nations one-on-one as opposed to with ASEAN exclusively. It will be argued that while none of the claims in the SCS are sufficiently solid to side with one state, China has been the most confrontational state in the area and negotiations (bilaterally and multilaterally) have done little to ease tensions in the region.

GEOGRAPHY

The SCS is an area encompassing 3.5 million square kilometers with a number of geopolitical features. It is surrounded by China, the Philippines, Taiwan, Indonesia, Malaysia, Vietnam, Brunei and a small portion by Indonesia. The SCS is adjacent to the Pacific Ocean in the north-east, the Sulu Sea to the south-east, the Gulf of Tokin in the

north-west, the Gulf of Thailand to the west, and the Straits of Malacca to the south. The SCS has over 250 small reefs, islands, atolls, cays, shoals, and sandbars. Many of the features are underwater at high tide and have no indigenous population. The key island groups are the Paracel Islands between China and Vietnam and the Spratly Islands near Borneo and Palawan, Philippines. Other prominent areas are Scarborough Shoal near Luzon, Philippines, and Pratas Island in the northeastern SCS (see figure 1.0).

Figure 1.0 - The South China Sea



Source: China Tourist Maps, last accessed 25 Mar 2013, <http://www.chinatouristmaps.com/china-maps/china-sea-maps/south-china-sea-map.html>.

Despite the SCS's lack of substantial areas that can support human life, it is a resource rich crossroad between the Indian and Pacific Oceans. Via the Straits of

Malacca, it is estimated that over 50,000 ships pass through the area every year.¹ In these ships, over 80% of China's and Japan's imported oil travels.² Not only is the SCS a strategic avenue of global commerce, it is also a significant fishing ground which fuels many of the coastal economies of the region³ and is considered to represent one tenth of the world's entire landed catch.⁴ Furthermore, the oil and gas potential in the area has been a hot topic over the last 20 years. In 1994, a US geological survey estimated that there were 25 billion barrels of oil in the region, but more recently Chinese sources have estimated that there is upwards of 213 billion barrels.⁵

As a potentially resource rich area and commanding sea way, it is not hard to fathom why so many nations have a vested interest in the control and development of this region, especially China, given its insatiable thirst for oil. China is already the second highest consumer of oil and that demand is expected to increase significantly in the coming years.⁶

CLAIMS

Many nations bordering the SCS have competing claims to some, if not all, its features, waters and sea bed. In order to understand a possible course of action for China in the SCS, it is imperative that the history behind these competing claims be analyzed.

¹Peter Dutton, "Three Disputes and Three Objectives: China and the South China Sea," *Naval War College Review* 64, no. 4 (Autumn, 2011) ; Shicun Wu and Keyuan Zou, eds., *Maritime Security in the South China Sea* (Burlington, VT: Ashgate Publishing Limited, 2009), 52.

²*Ibid.*

³Alice D. Ba, "Staking Claims and Making Waves in the South China Sea: How Troubled Are the Waters?" *Contemporary Southeast Asia* 33, no. 3 (2011): 270.

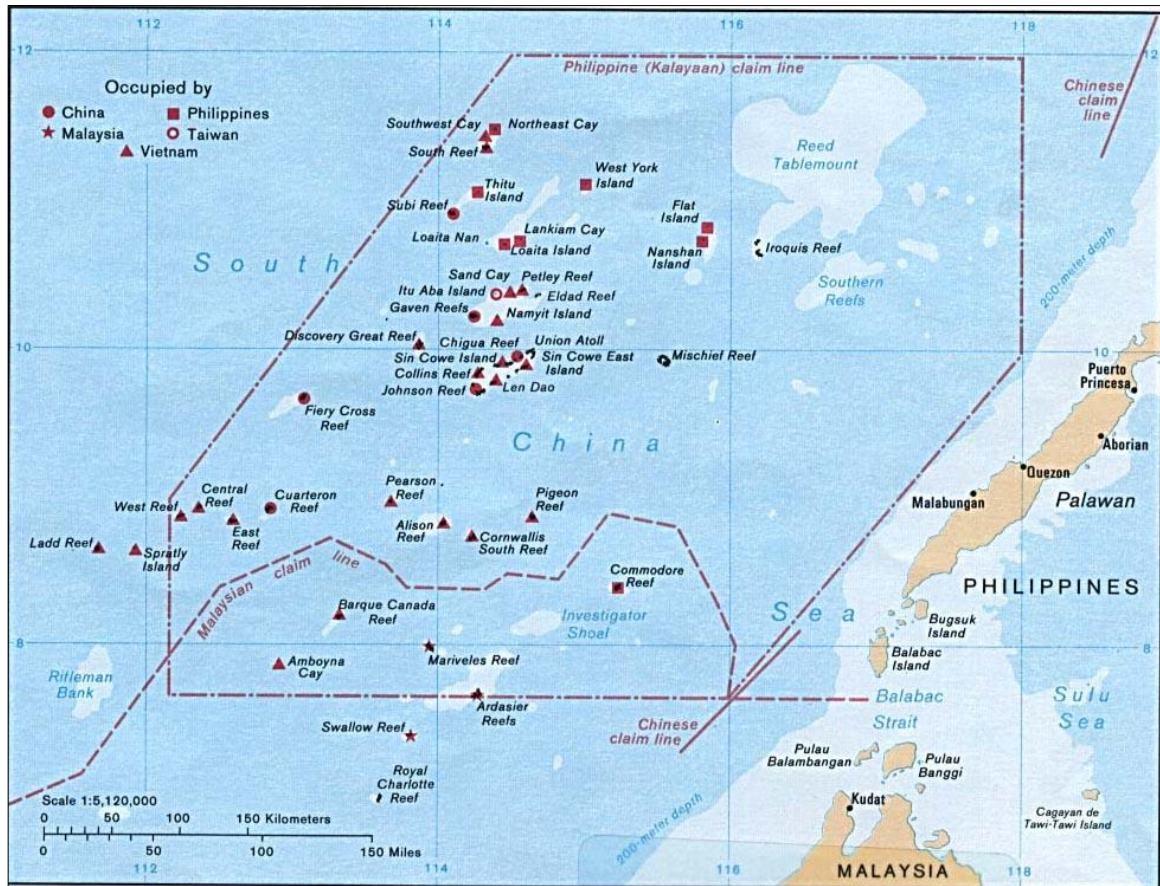
⁴Patrick M. Cronin, *et al.*, *Cooperation from Strength: The United States, China and the South China Sea* (Washington, D.C.: Center for New American Security, 2012), 55.

⁵Additional detail on the economic potential of the SCS will be expanded upon in chapter three.

⁶Anonymous, "Fuel to the Fire," *China Economic Review*, last accessed 27 March 2013, <http://www.chinaeconomicreview.com/fuel-fire>.

China, Taiwan, Malaysia, Brunei, Vietnam and the Philippines are these players and each nation's claim will be analyzed separately (see figure 1.1). It is also significant to note that the majority of claims in the SCS began in the 1970s, following the oil crisis and the eventual discovery of hydrocarbons in the region.

Figure 1.1 - The Spratly Islands and Claims



Source: Vidiani, Maps of the World, last accessed 25 Mar 2013, <http://www.vidiani.com/?p=4354>.

Brunei

The Brunei Darussalam, due to its size, has arguably the least influence in the SCS and the weakest claims amongst the nations of the region.⁷ In 1988, it claimed an

⁷ Nong Hong, "Law and Politics in the South China Sea Assessing the Role of UNCLOS in Ocean Dispute Settlement" (Doctor of Philosophy thesis, University of Alberta, 2010), 45.

extended exclusive economic zone (EEZ) up to 350nm, which is permitted by the United Nations Convention on the Law of the Sea (UNCLOS),⁸ encompassing two features in the Spratly chain: Louisa Reef and Rifleman Bank. The former is occupied by Malaysia and the latter by Vietnam. Both of these nations have built structures on “their” respective features and Brunei has done nothing to remove them. Additionally, foreign fishermen routinely use the same area without impediment, which calls into question Brunei’s ability to exercise control over the region. Another hole in Brunei’s credibility to claim this area is that the continental shelf is interrupted by the Palawan Trough. This makes its claim over Louisa Reef and Rifleman Bank invalid in the context of UNCLOS, a treaty that Brunei signed in 1984 and ratified in 1996.⁹

Malaysia

Malaysia was a late comer to laying claims to features in the SCS; it did so only in 1979.¹⁰ Although it claims sovereignty over eleven features in the Spratly chain, it only occupies eight through the placement of naval stations.¹¹ The claim was not initially

⁸Article 76 of the UNCLOS provides a complex formula for determining the outer limit of a state's continental shelf beyond 200 nautical miles. Determination depends on the thickness of sedimentary rocks, which underlines the idea that the shelf is the natural extension of a state's land territory. The maximum limit is 350 nautical miles from the baselines or 100 nautical miles from the 2500-metre isobath (lines indicating water depth), whichever is greater. If a coastal state's continental shelf extends beyond 200 nautical miles from the baselines, the coastal state must submit scientific, technical and legal details about the limits of its continental shelf to the Commission on the Limits of the Continental Shelf (the Commission). The Commission is a United Nations body established under the UNCLOS. The Commission makes recommendations to the coastal state regarding establishment of its outer limit. Interruptions in the continuity of the continental shelf through troughs/ridges would likely invalidate the claim of an extended continental shelf. <http://www.dfo-mpo.gc.ca/oceans/canadasoceans-oceansducanada/marinezones-zonesmarines-eng.htm>.

⁹ Brunei Darussalam, *Brunei Darussalam's Preliminary Submission Concerning the Outer Limits of its Continental Shelf* (Bandar Seri Begawan, 2009), 4.

¹⁰ Lee Lai To, *China and the South China Seas Dialogues* (Westport, CT: Praeger, 1999), 117.

¹¹ Sumathy Perman, "Preventive Diplomacy in the South China Sea: Malaysia's Perspective," *The Journal of Defence and Security* 3, no. 1 (2012): 19.

based on historical precedent or discovery, but rather on an extension of the continental shelf as provided under UNCLOS. The seabed in the area, however, makes Malaysia's claims as erroneous as those of Brunei due to the interruption in the shelf. In recent years Malaysia realized this error and now asserts that the features it claims were discovered by Malaysia, despite the fact that only eight of the eleven are actually controlled by the state.¹² Furthermore, in 2009, Malaysia and Vietnam submitted a joint proposal to the Commission on the Limits of the Continental shelf outlining a 200nm EEZ from each country's respective baselines.¹³ It also indicated that the Spratly features cannot be part of an extended continental shelf claim, nor can they generate their own EEZ. Malaysia has instead claimed that individual features can only generate a territorial sea.¹⁴

The Philippines

The Philippines refer to the Spratly group as the Kalayaan Islands and lay claim to a significant portion of the chain. They maintain that the islands are Filipino based on the *terra nullius* justification¹⁵ as well as due to geographic continuity.¹⁶ This may seem somewhat confusing as the Filipinos also maintain that even though the Japanese occupied the islands during World War II, they were considered "abandoned" after the

¹² *Ibid.*, 18.

¹³ Malaysia and the Socialist Republic of Vietnam, *Joint Submission to the Commission on the Limits of the Continental Shelf Pursuant to Article 76, Paragraph 8 on the United Nations Convention of the Law of the Sea in Respect of the Southern Part of the South China Sea*. 2009: 1-27.

¹⁴ Dutton, "Three Disputes and Three Objectives: China and the South China Sea". . . ,52.

¹⁵ *Terra Nullius* mean that a nation may assert control over an unclaimed territory and gain control when one of its citizens enters the territory.

¹⁶ Perman, "Preventive Diplomacy in the South China Sea: Malaysia's Perspective". . . , 19.

treaty of San Francisco was signed.¹⁷ It was in the late 1940s, when a private Filipino citizen set up residence on some of the islands, that they were “discovered.”

The Philippines’ claim over the islands is also wrought with debate. Like other states, they have argued for an extended continental shelf claim, which has the same difficulty of both Bruneian and Malaysian claims: the Palawan Trough. Other nations noted that when the Philippines adopted straight baselines around the islands in 1955, they did not include the Spratly group, which further weakens their claim.¹⁸ Moreover, despite the Philippines assertions over these islands, they currently only occupy nine of the features.

Vietnam

Apart from China and Taiwan, the Vietnamese have laid claim to the greatest number of features in the SCS. The Vietnamese maintain that both the Spratly and Paracel groups, named Hoang Sa and Troung Sa respectively, are Vietnamese.¹⁹ The basis of their claim is through historical base and preoccupation. Although the Vietnamese historical claim dating back to the 18th century appears to be unsubstantiated, Vietnam asserts that as a French protectorate in the 19th and 20th centuries, many of the islands were occupied by France on behalf of Vietnam. Regardless of the lack of evidence, Vietnam has physically occupied the most Spratly features of any nation in the

¹⁷Hong, “Law and Politics in the South China Sea Assessing the Role of UNCLOS in Ocean Dispute Settlement”. . . , 40.

¹⁸*Ibid.*, 42.

¹⁹*Ibid.*, 39 ; Dutton, “Three Disputes and Three Objectives: China and the South China Sea”. . . , 44.

region; 22 in total.²⁰ In June 2012, Vietnam passed legislation codifying its claims over the Parcel and Spratly Island Chains.²¹

China

Like other nations in the region, China has extensive and complex claims over the SCS. The most significant difference between Chinese and other nations' claims is that China asserts sovereignty over the entirety of the islands in the SCS. This includes the Spratly (Nansha) and Parcel (Xisha) island chains as well as Pratas (Dongsha) Island, Scarborough Shoal and Macclesfield Bank (Zhongsha).²² The Chinese claim is based on historical usage, dating back to the Han Dynasty of 200 A.D.²³

This argument may have held water under China's Tributary System, but not after European intervention in East Asia. China's first formal admission of sovereignty over the islands was in 1876 by the Chinese ambassador to the British government.²⁴ Opponents of the Chinese claim cite that French occupation of several of the islands in the 1930s diluted the Chinese continuity of occupation.

In order to substantiate its claims to the region, China has passed legislation to include the Spratly and Parcel Island chains as part of Hainan province in 1998.²⁵

²⁰*Ibid.*, 40.

²¹Anonymous, "China Hits Out at Vietnam Law on Disputes Islands," *Jane's Country Risk Daily Report* 19, no. 126 (June 22, 2012).

²²Hong, "Law and Politics in the South China Sea Assessing the Role of UNCLOS in Ocean Dispute Settlement Hong" . . . , 37 ; Dutton, "Three Disputes and Three Objectives: China and the South China Sea" . . . , 45.

²³*Ibid.*, 37.

²⁴*Ibid.*

²⁵Perman, "Preventive Diplomacy in the South China Sea: Malaysia's Perspective" . . . , 18.

Furthermore, in 2012, China upgraded Sansha City, on Woody Island in the Parcel group, as a Prefecture level city in Hainan province.²⁶

China also claims the *waters* in the SCS. This is a significant difference between the other aforementioned claimants. China first articulated this policy under the previous Nationalist government in 1947.²⁷ The Chinese produced a chart of the region with nine dashed lines which essentially encompassed the entire region from the coast of Vietnam in the west, the coast of Malaysia/Brunei in the south and the Philippines in the east. China has since passed legislation to codify its claims in the region. This was in the form of the Territorial Waters Act of 25 February 1992, which outlined China's claim over the waters of the entire SCS.²⁸

The Chinese claim over the region has been wrought with controversy. The majority of the opposition has come from the US, citing freedom of the seas and incompatibilities with UNCLOS. The US asserts that the entirety of the SCS cannot be realistically considered "Chinese waters." Although China cites historical claim to the sea, a significant impediment to its case is UNCLOS, which it signed on 15 May 1996²⁹ and ratified on 15 May 1996.³⁰ UNCLOS specifically delineates the demarcation of the territorial sea, the contiguous zone and exclusive economic zones. As many of the SCS features that China occupies would not be considered "islands" in accordance with

²⁶Anonymous, "Roiling the Waters; the South China Sea," *The Economist* 404, no. 92 (July 7, 2012): 92 ; Mark J. Valencia, "High-Stakes Drama: The South China Sea Disputes," last accessed 10 January 2013, <http://thediplomat.com/china-power/chinas-island-strategy-redefine-the-status-quo>.

²⁷Perman, "Preventive Diplomacy in the South China Sea: Malaysia's Perspective". . .,17.

²⁸Esmond D. Smith, "China's Aspirations in the Spratly Islands," *Contemporary Southeast Asia* 16, no. 3 (1994): 281.

²⁹Hong, "Law and Politics in the South China Sea Assessing the Role of UNCLOS in Ocean Dispute Settlement". . ., 148.

³⁰*Ibid.*, 149.

UNCLOS, this argument is not sound.³¹ China has also argued that a domestic EEZ law passed in 1998 states that the EEZ shall not prejudice any of China's historical rights,³² although there is no Chinese document which actually delineates what those rights are.³³ A third area of confusion regards the "nine-dashed line." China has never defined what the dashed line actually demarcates. Also inconsistent is the fact that China drew baselines around the Paracel Islands in 1996, but not around the Spratly Islands. Therefore, is China seeking territorial or maritime rights of the Spratlys?

More recently, in June 2012, further confusion arose when the Chinese National Offshore Oil Company (CNOOC) placed bids for drilling on the Vietnamese continental shelf, well within the defined Vietnamese EEZ. Paul Valencia stated that "...the action appeared to confirm that China claims everything within its nine-dashed historic line. 'Everything' means islands, reefs, submerged features, seabed, water column and all resources - perhaps even the air space above."³⁴

The Chinese government has made it abundantly clear that the SCS is of great importance to the nation. There have been varying reports in the media and between analysts as to whether a Chinese official has ever labelled the SCS as a "core interest"³⁵ on par with Taiwan and Tibet. Indeed, China used the threat of economic sanctions to both counter criticism of its Tibet policy and to show its displeasure towards foreign arms sales to Taiwan. Also regarding Taiwan, China has frequently asserted its intention to

³¹Taylor M. Fravel, "China's Strategy in the South China Sea," *Contemporary Southeast Asia* 33, no. 3 (2011): 294.

³²People's Republic of China, "Law of the People's Republic of China on the Exclusive Economic Zone and the Continental Shelf," last accessed 15 March 2013, <http://www.asianlii.org/cn/legis/cen/laws/lotprocoteezatcs790/>.

³³Fravel, "China's Strategy in the South China Sea". . ., 294.

³⁴Valencia, "High-Stakes Drama: The South China Sea Disputes."

³⁵Fravel, "China's Strategy in the South China Sea". . ., 296.

invade the island if it declared independence. Though it remains unclear if China would be willing to go to war over the SCS to protect its claims, China has not been afraid to flex its military power when required as we shall see below.

Taiwan

The Taiwanese government maintains the same claims to the features of the SCS as the PRC. This claim has been articulated through the “nine-dashed line.” To date, Taiwan only controls one Spratly feature (Ita Abu) and the small island of Prata, which is much closer to the Chinese mainland and not part of either the Spratly or Paracel chains.³⁶ The Taiwanese claims to the SCS are as ambiguous as the Chinese.

CONFLICTS IN THE SOUTH CHINA SEA

With the numerous overlapping claims in the SCS, conflict has erupted on several occasions. The conflicts can be divided into either armed clashes between the nations or fisheries disputes and will be analyzed bilaterally through the various states. While blood has only been spilled over the features between China and Vietnam, other nations have nevertheless had close calls. Initially, the greatest animosity over SCS claims has concerned the Paracel Islands, largely due to their proximity to China.

³⁶Perman, “Preventive Diplomacy in the South China Sea: Malaysia's Perspective”. . . , 21.

China and Vietnam

Though Vietnam claimed both the Paracels and Spratlys after the French left Indochina in 1954,³⁷ it was not until 1973 that tensions between China and Vietnam became heated. The government of South Vietnam at the time proclaimed that the Parcel chain was in fact Vietnamese. The Chinese responded by verbally reasserting its own claim over the Paracels and threatened to use force if the South Vietnamese did not withdraw from both the Paracels and the Spratlys. South Vietnam refused and the Chinese invaded in January of 1974, forcing the South Vietnamese to withdraw from its Parcel possessions.³⁸ An estimated 50 Vietnamese were killed and one vessel was sunk.

After the defeat of South Vietnam by the communist North in 1975, North Vietnam assumed the South's claim over the Paracels and Spratlys, but took no concrete military action against China.³⁹ Vietnam's subsequent lack of action in the Paracels in particular has essentially provided China *carte blanche* to exercise sovereignty over this island chain.

The next significant military clashes between China and Vietnam occurred in 1988, this time in the Spratly chain.⁴⁰ Over 70 Vietnamese sailors were killed in their unsuccessful attempt to repel the Chinese near Johnson Reef on 14 March 1988.⁴¹ Two

³⁷Elizabeth Speed, *Competing Interest in the South China Sea: An Overview of the Paracels and Spratlys Disputes* (Ottawa: Department of National Defence, 1989), 4.

³⁸*Ibid.*

³⁹*Ibid.*, 5.

⁴⁰Dutton, "Three Disputes and Three Objectives: China and the South China Sea," . . . , 43.

⁴¹Stein Tonnesson, "Vietnam's Objective in the South China Sea: National or Regional Security?" *Contemporary Southeast Asia* 22, no. 1 (April, 2000): 203; Lee Jae-Hyung, "China's Expanding Maritime Ambitions in the Western Pacific and the Indian Ocean," *Contemporary Southeast Asia* 24, no. 3 (2002): 559.

other minor clashes occurred in the surrounding Spratly chain the month prior and by the end of the conflict in 1988, China occupied an additional six Spratly features.⁴²

The other significant areas of conflict between China and Vietnam concerned fishermen attempting to fish in claimed Chinese waters in the SCS. The first series of clashes occurred in the early 1990s between Chinese warships and Vietnamese, but did not result in any casualties. As Vietnam regarded the region as “Vietnamese,” the fishermen considered that fishing in the area was still acceptable. The most recent armed incident between China and Vietnamese fishermen occurred in 2007 in the vicinity of the Parcel Islands, killing one fisherman and wounding several others.⁴³

China and the Philippines

Clashes between the Philippines and China over the Spratlys were relatively minor until the mid-1990s. The first significant use of force by the Chinese was on 8 February 1995, when People’s Liberation Army Navy (PLAN) units occupied the Philippine claimed Mischief Reef.⁴⁴ Other incidents included a gun battle between PLAN and Philippine naval vessels in January 1996⁴⁵, a clash over Scarborough Shoal in 1997⁴⁶ and the sinking of Chinese fishing vessels by Filipino warships in 1999.⁴⁷

⁴²Min Gyo Koo, "Scramble for the Rocks: The Disputes over the Dokdo/Takeshima, Senkaku/Diaoyu, and Parcel and Spratly Islands" (Doctor of Philosophy thesis, University of California, Berkeley), 223.

⁴³Sheldon Simon, "ASEAN and Multilateralism: The Long, Bumpy Road to Community," *Contemporary Southeast Asia* 30, no. 2 (2008): 264.

⁴⁴Nicholas Scott Bauer, "How do You Like Me Now?: Status-Inconsistency Theory as an Explanation for China's use of Force" (Masters of Arts thesis, Georgetown University, 2010), 20 ; Jae-Hyung, *China's Expanding Maritime Ambitions in the Western Pacific and the Indian Ocean*. . . , 559.

⁴⁵Ross Marlay, "China, the Philippines, and the Spratly Islands," *Asian Affairs* 23, no. 4 (Winter, 1997): 204.

⁴⁶Chien-peng Chung, "The Spratlys and Other South China Sea Islands Disputes," *The Journal of Social, Political, and Economic Studies* 24, no. 1 (Spring, 1999): 33.

More recently, China and the Philippines have sparred over Scarborough Shoal. In April of 2012, the Philippine Navy prepared to arrest Chinese fishermen that were operating in the feature's lagoon. Chinese Maritime Surveillance (CMS) vessels intervened and prevented the Filipinos from taking any action. A standoff ensued which involved as many as seven CMS ships. Though an approaching typhoon forced all parties to vacate the area, by mid-July CMS vessels returned and have maintained effective control of Scarborough ever since.⁴⁸

China and the United States

Disputes between China and the US have never come to blows, but the two nations have come very close on several occasions. From the US's perspective, the disputes have centred on the freedom to navigation in the SCS, not territorial disputes. Despite the US's opposition to Chinese claims, it has not condoned Taiwan's identical claims in the area.

The first significant quarrel between China and the US in the SCS occurred in 2001 when a Chinese fighter struck an American surveillance EP-3 aircraft 70nm south of Hainan Island. The Chinese fighter and pilot were lost and the EP-3 was forced to land on Hainan. China claimed that the aircraft was violating its territorial airspace and waters.⁴⁹ The American crew was questioned, but eventually released eleven days after the incident.

⁴⁷Jae-Hyung, "China's Expanding Maritime Ambitions in the Western Pacific and the Indian Ocean". . . , 559.

⁴⁸Taylor Fravel, "Redefining the Status Quo," last accessed 10 Jan 2013, <http://thediplomat.com/china-power/chinas-island-strategy-redefine-the-status-quo/>.

⁴⁹Perman, "Preventive Diplomacy in the South China Sea: Malaysia's Perspective". . . , 25.

The second incident involved the US surveillance vessel USNS Impeccable, which was harassed by Chinese trawlers and was shadowed by a PLAN surveillance vessel and a State Oceanographic Administration patrol vessel in March 2011.⁵⁰ The Chinese claimed that the US vessel was conducting activities within China's EEZ and that China had the right to evict the vessel.⁵¹ UNCLOS, however, allows freedom of navigation within an EEZ, as the American government highlighted in its protest to the Chinese. China's actions suggest that although it ratified UNCLOS, it does not clearly understand the fundamental principles, or more likely chooses to ignore them to further its own agenda.

Other Clashes between Claimants

Although relatively minor, there have been additional military clashes between claimant states in the SCS and especially over the Spratly group. In 1995, Taiwanese artillery fired on a Vietnamese resupply ship.⁵² In 1998, Vietnamese warships fired on a Philippine fishing boat near Tonnant reef and later fired on a Philippine reconnaissance aircraft in 1999. Lastly, Malaysia and the Philippines had a close call in 1999 when two military aircraft almost engaged one another.

The only other incidents of note were between Brunei and Malaysia. The first occurred in March 2003, when Brunei sent a gunboat to remove a US-based Murphy Sabah Oil Co. Ltd drilling ship from the area under licence by Malaysia. In response, in April 2003, Malaysia sent its own gunboats to remove the French-based Total Inc's oil

⁵⁰*Ibid.*

⁵¹*Ibid.*

⁵²Jae-Hyung, "China's Expanding Maritime Ambitions in the Western Pacific and the Indian Ocean". . . , 559.

rig from its own area under license by Brunei.⁵³ Despite these clashes, they pale in comparison to those instances involving China.

Summary of Clashes

As indicated, the majority of clashes between the states have been with China. Initial clashes were witnessed in 1974, which solidified the Chinese claim over the Paracel chain. The next wave of disputes was typified by an assertive Chinese stance in the area. As the analyst Taylor Fravel indicated, it began with the taking of Johnston Reef in 1988 and culminated in the occupation of Mischief Reef in 1995.⁵⁴ In reaction to the Chinese moves, many of the claimant states grabbed as much of the Spratly chain as possible; akin to the “scramble for Africa” witnessed between European powers in the late 19th and early 20th centuries. The period after 1995 can be regarded as a lull in the SCS and a phase where China consolidated its possessions.⁵⁵

It was not until 2010, when China sent its navy to patrol in the vicinity of the Spratlys, did tensions begin to rise again.⁵⁶ This action precipitated the detention of fishermen from numerous nations as well as the tense standoff at Scarborough Shoal. Even Taylor Fravel, who long argued that the Chinese were not being more assertive in the region,⁵⁷ back peddled when he conceded that “...these responses suggest an even

⁵³Perman, “Preventive Diplomacy in the South China Sea: Malaysia's Perspective”. . . , 22

⁵⁴Cronin, *et al.*, *Cooperation from Strength: The United States, China and the South China Sea*. . . , 36.

⁵⁵Fravel, “China's Strategy in the South China Sea”. . . , 299.

⁵⁶Kathrin Hille, "Chinese Boats Fish in Dangerous Waters," *FT.Com* (April 25, 2012), <http://search.proquest.com/docview/1009145335?accountid=9867>.

⁵⁷Cronin, *et al.*, *Cooperation from Strength: The United States, China and the South China Sea*. . . , 41.

greater willingness to pursue unilateral actions to advance its claims. In neither case is a return to the status quo ante likely.”⁵⁸

COOPERATION IN THE SOUTH CHINA SEA

Despite the numerous clashes in the SCS, there has been on occasion cooperation in the region, but with only mixed results. This has been in the form of talks, agreements and confidence building measures (CBM) between states. Collaboration was conducted on a bilateral and multilateral basis with China as the key player. China’s willingness to engage in bilateral and multilateral talks with its neighbours is a relatively new concept. The ancient Chinese Tributary System encouraged regional Asian states to come to the *Middle Kingdom* and affirm Chinese supremacy in exchange for trade and even protection.⁵⁹ In today’s context, the Westphalian system of state equality cannot be ignored by China and it must be mindful of scaring its neighbours into the protective arms of others, namely the United States. However, whereas the success of these bilateral talks have been significantly different from nation to nation, the multilateral dialogue with ASEAN has been challenging.

Multilateral - ASEAN and China

ASEAN’s membership includes Burma (Myanmar), Thailand, Indonesia, Malaysia, Brunei, Singapore, the Philippines, Laos, Cambodia and Vietnam. ASEAN has numerous functions, but its keystone roles are to accelerate economic growth and social

⁵⁸Fravel, “Redefining the Status Quo.”

⁵⁹Min Shu, "Hegemon and Instability: China and Southeast Asia in the Pre-Colonial Era," *WIAS Research Bulletin* no. 4 (March, 2012): 2.

progress, promote regional peace and security, as well as provide mutual assistance between member states.⁶⁰ ASEAN has become a major forum to reach consensus on issues plaguing the region, including the SCS, as four of the member states have competing claims. ASEAN has by and large permitted claimant states to engage its larger neighbour, China, with a united voice.

One of ASEAN's key agenda items was to reach a code of conduct in the SCS in order to ease tensions between ASEAN members and China. As early as 1992, ASEAN engaged the Chinese, but China paid lip service to negotiations while it consolidated its territorial claims in the SCS during the 1990s. It took almost ten years for only an *unbinding* agreement to be reached. This was largely due to an attempt by China to reverse its tarnished regional image and improve relations with its neighbours in the fallout of the 1997-1998 Asian Financial Crisis.⁶¹ The resulting 2002 Declaration on the Conduct of Parties in the South China Sea (DOC)⁶² was designed to “consolidate and develop the friendship and cooperation existing between China and ASEAN, to promote a peaceful, friendly and harmonious environment in the South China Sea.”⁶³ In 2003, China also signed the Treaty of Amity and Cooperation in Southeast Asia (TAC). This document's primary purpose was to ensure the peaceful settlement of regional disputes and regional cooperation.⁶⁴ ASEAN states have continued to call for more cooperation between nations in the area in order to stabilize relations. Areas of possible cooperation have included fisheries management, environmental protection, maritime search and

⁶⁰ASEAN, "About ASEAN," last accessed 15 Mar 2013, <http://www.asean.org/asean/about-asean>.

⁶¹Cronin, *et al.*, *Cooperation from Strength: The United States, China and the South China Sea*. . . , 61.

⁶²ASEAN, *Declaration on the Conduct of Parties in the South China Sea*, (4 November, 2002).

⁶³Wu and Zou, *Maritime Security in the South China Sea*. . . , 3.

⁶⁴Simon, “ASEAN and Multilateralism: The Long, Bumpy Road to Community” . . . , 282.

rescue, combating maritime terrorism and piracy, securing freedom of navigation and even joint exploitation of natural resources (oil and gas).⁶⁵

Nevertheless, the apparent progress made between China and ASEAN with multilateral agreements was largely a failure. Their unbinding nature held no accountability towards nations that broke aspects of the agreements. China's unilateral actions in the SCS, such as armed standoffs and the arresting of foreign fishermen, have no consequences and ASEAN has no teeth to do anything. China's overall strategy since the 1990s has been to engage ASEAN when required to *appear* to be willing to negotiate multilaterally, but in fact, as we shall see, has chosen to negotiate bilaterally with nations from a position of power. Any real binding governance in the SCS through ASEAN is unlikely.

Bilateral Cooperation - China and Malaysia

As indicated above, China and Malaysia have not had any clashes in the SCS and their interactions have been more or less cordial. This is, in part, a result of the ability of the Malaysian government to keep the Spratly issue off of the table. Malaysia has realized that close ties with China can be a significant economic benefit.⁶⁶ Another significant reason why Malaysia has been so successful is that it has not labelled China as an enemy. One senior Malaysian official has said that "if you identify a country as your future enemy, it becomes your present enemy – because then they will identify you as an

⁶⁵Thang Nguyen Dang, "Fisheries Co-Operation in the South China Sea and the (Ir)Relevance of the Sovereignty Question," *Asian Journal of International Law* 2 (2012): 60-88 ; Wu and Zou, *Maritime Security in the South China Sea*. . . , 4.

⁶⁶Cheng-Chwee Kuik, "Malaysia's China Policy in the Post-Mahathir Era: A Neoclassical Realist Explanation," *S. Rajaratnam School of International Studies* 244 (30 July, 2012): 30.

enemy and there will be tension.”⁶⁷ Malaysia has also not aligned itself with the US, a move which would be perceived in Beijing as potentially hostile.

China and Vietnam

China and Vietnam have arguably the coolest relations of the claimants in the SCS and they have only shown the ability to work together outside the confines of the SCS. Successful CBMs included the settling of the long standing Gulf of Tonkin demarcation line between China and Vietnam in December 1999.⁶⁸ The land border between the nations was also settled at the same time and the area was de-mined.⁶⁹ Fisheries cooperation and joint patrols of the area were also successful, as well as the hosting of port visits of each other’s naval ships.⁷⁰ China and Vietnam have also conducted joint search and rescue exercises in the area.⁷¹ Additionally, in 2000 the two nations signed a Joint Statement for Comprehensive Cooperation in the New Century⁷² and in 2011, a second agreement was reached, which outlined a six-point process to settle maritime disputes.⁷³ At much higher levels of government, China and Vietnam have also setup “Joint Steering Committee on Bilateral Cooperation at the deputy prime ministerial level to coordinate all aspects of their relationship.”⁷⁴

⁶⁷*Ibid.*, 29.

⁶⁸Carlyle A. Thayer, "The Tyranny of Geography: Vietnamese Strategies to Constrain China in the South China Sea," *Contemporary Southeast Asia* 33, no. 3 (2011): 363.

⁶⁹Carlyle A. Thayer, "Vietnam and Rising China: The Structural Dynamics of Mature Asymmetry," *Southeast Asian Affairs* (2010): 397.

⁷⁰Thayer, "The Tyranny of Geography: Vietnamese Strategies to Constrain China in the South China Sea". . . , 355.

⁷¹*Ibid.*

⁷²Thayer, "Vietnam and Rising China: The Structural Dynamics of Mature Asymmetry". . . , 396.

⁷³Perman, "Preventive Diplomacy in the South China Sea: Malaysia's Perspective". . . , 23.

⁷⁴Thayer, "Vietnam and Rising China: The Structural Dynamics of Mature Asymmetry". . . , 396.

Despite the aforementioned bilateral cooperation between China and Vietnam, none of the measures adopted have translated into any de-escalation in the SCS dispute. Both nations view their claims in the region as irrefutable and they are unwilling to compromise. Furthermore, both the Chinese and Vietnamese people have voiced their support for their respective governments in maintaining their individual claims. Demonstrations over the island disputes have occurred in both nations' capitals and have stirred the ire of each others' governments. Both Vietnam and China have accused one another of enticing their respective populations in order to draw out nationalist sentiments.

China and the Philippines

China and the Philippines have been bitter rivals in the SCS; there have been only faint glimmers of hope to help forge a bilateral relationship. The first bilateral venture was a "Joint Statement on PRC-RP [Republic of the Philippines] Consultations on the South China Sea and on Other Areas of Cooperation,"⁷⁵ signed on 10 August 1995. However, this was regarded as a failure as the Chinese built structures on the Philippine claimed Mischief Reef four years later. The second was a "Joint Marine Seismic Undertaking" between China's CNOOC and Philippine National Oil Company (PNOC) reached in 2003.⁷⁶ This exploratory venture was an initial step to put aside the sovereignty issue and jointly develop the resources of the SCS. However, due to a scandal in Filipino domestic politics, the venture was abandoned over alleged bribes from

⁷⁵Ang Cheng Guan, "The South China Sea Dispute Re-Visited," *Institute of Defence and Strategic Studies, Singapore* (August, 1999): 10.

⁷⁶Richard Cronin and Zachary Dubel, "Maritime Security in East Asia: Boundary Disputes, Resources, and the Future of Regional Stability," *Stimson* (August, 2012): 19.

China to Filipino politicians involved in the deal.⁷⁷ Overall, the Philippines has made little progress with bilateral relations with China over the SCS affair and has for the most part used its voice in the ASEAN forum to attempt to push forward its agenda, with little success.

Chinese Cooperation Trends

As indicated, China has had a different stance when dealing either multilaterally with ASEAN or bilaterally with claimant states. A significant trend is the preponderance of China to attempt multilateral discussions on the SCS issue, but pay lip service to them in order to engage in bilateral talks. This has given China the advantage of preventing the “internationalization of the SCS.” Furthermore, it allows China to deal one-on-one with nations that have overlapping claims with China. Indeed, due to China’s economic and military weight in the region, it clearly dwarfs the other players.

CONCLUSIONS

The SCS clearly is a complex issue in world affairs with China at its core. China has shown on several occasions its willingness to resort to force in order to stake out its claims and maintain them. Chinese actions in the Paracel Island chain were one such example. Once China took control of the area, it was able to consolidate its forces and prevent any sort of retaliatory effort on the part of Vietnam; action which could have precipitated a larger scale conflict. In the Spratlys, China and other nations have scooped up as many features as possible. However, it has been China that has most aggressively

⁷⁷*Ibid.*, 20.

used its power to maintain its claims and even push other nations, such as the Philippines at Scarborough Shoal, out of the area.

The Chinese government's overall strategy in the SCS has appeared to be multipronged. It involved acquiring territory through conflict, or intimidation, when required and then dealing diplomatically with conflicting nations to come to an agreement. Despite China's apparent willingness to come to solution, its overtures appeared to have been a ruse in order to consolidate its foot hold on its territories. Negotiations have been short lived as China has simply stated that the SCS issue is nonnegotiable, resulting in another stalemate. Additionally, China has appeared to be willing to discuss the issue through multilateral talks, via ASEAN, on codes of conducts and peaceful measures, but China has never actually abided by them. Overall, China appears to be resorting to a long term strategy to gain dominance. An important aspect of that is China's overall military strength in the region which will be examined in detail in the next chapter.

CHAPTER 2 – THE SOUTH CHINA SEA AND PLAN DEVELOPMENT

This chapter will investigate Chinese ventures in the SCS in the context of overall Chinese naval strategy. The full extent of Chinese naval history will not be examined, but it is important to note that China did have an auspicious maritime tradition dating back thousands of years.⁷⁸ For the purposes of this examination, focus will be on PRC naval strategy beginning under Mao Zedong, which then developed under Deng Xiaopeng through the tutelage of Admiral Liu Huaqing. It will be argued that China's naval capabilities grew significantly over the past forty years, which allowed the PLAN to exert more influence in the SCS and defend Chinese claims. Though the PLAN initially adopted a strategy of coastal defence, for the last thirty years it has been undergoing a transition to a blue water navy with the task of far sea defence. This buildup has not gone unnoticed by others. China's neighbours in the SCS are now increasing their own defence capabilities, but these measures are not viewed as an arms race *per se*, which could lead to further instability.

MAO'S NAVY – COASTAL DEFENCE

The PLAN was in its infancy at the end of the Chinese Civil War and was influenced heavily by its army-centric masters in the PLA. The PLAN, officially created 1950, was little more than a ferry service for the Army to invade the few remaining Nationalist strongholds outside of mainland China. Communist Chinese naval capabilities

⁷⁸During the 1400s, China's most significant maritime adventures occurred under the Chinese Admiral Zheng He. Zheng He led a fleet of large of treasure ships which travelled as far as the Middle East to establish trade routes.

were so limited that during numerous amphibious assaults, Chinese junk style vessels were used to move the army.

With the ever present threat from Taiwan on China's doorstep, the PLAN was forced to expand rapidly in the 1950s. The Nationalist forces had inflicted heavy losses on Chinese shipping during the Civil War and the thought of a major amphibious operation by the Nationalists was always in the back of the minds of the Communist leadership.⁷⁹ Additionally, American support for Taiwan meant that a powerful US Navy presence could be assured. This was witnessed during the Korean War when the US 7th Fleet was positioned in the Taiwan Strait in June 1950. Given this ominous threat, Mao provided three specific missions to the PLAN, which influenced it for the next quarter century: eliminate the Chinese Nationalist Kuomintang naval interference and ensure safe navigation; prepare to recover Taiwan; and oppose aggression from the sea.⁸⁰ Clearly, the PLAN's missions were geared towards the recovery of Taiwan and the secondary role was to prevent American interference in the region. These tasks essentially meant that the PLAN was a coastal defence force that would support the PLA.

The development of the PLAN was further guided by Mao through his concepts of "people's war" and "active defence," which he developed during the long Civil War.⁸¹ Mao's doctrine called for a gradual retreat which would draw the enemy deep into China and trade space for time while the nation could mobilize. Small attacks on the enemy would help achieve this aim until a true strategic offensive defence could be launched.⁸²

⁷⁹Bernard D. Cole, "China's Maritime Strategy," *Hampton Roads International Security Quarterly* (Summer, 2002): 136-184, <http://search.proquest.com/docview/215213710?accountid=9867>.

⁸⁰*Ibid.*

⁸¹Paul An-hao Huang, *Maritime Strategy of China in the Asia-Pacific Region* (Queenston, ON: The Edwin Mellen Press, 2010), 177.

The PLAN had a key role to play in this strategy and it was developed by Admiral Xiao Jinguang. He envisaged a PLAN that was a light type navy, capable of coastal defence, with the key mission of accompanying the ground forces in war actions. Its basic characteristic was to be deployed quickly due to what Xiao called its “lightness.”⁸³

Not only did Mao’s revolutionary flavour rub off on the PLAN, but so too did the influence of the Soviet Navy. After the Communist victory over the Nationalists, numerous advisors from the Soviet Union entered China and imparted their own naval model on the Chinese. The Soviets of the 1950s geared their forces towards defending against the massive American amphibious and carrier forces that defeated the Japanese during World War II. Having learned from their own experience in the Second World War and from the German U-boat campaign, the Soviets championed a strategy of coastal sea control based on numerous agile fast attack craft and submarines. This naval strategy permitted the Soviet Navy to defend the flank of the Red Army and also to deny enemy sea forces from launching an amphibious attack on the Soviet heartland.

Soviet advisors to China grew in number throughout the 1950s and many PLAN officers were sent to study naval warfare in the USSR. Many of these young officers progressed through the ranks of the PLAN for the next twenty years and espoused the Soviet doctrine. Furthermore, Soviet technical assistance and arms sales meant that the makeup of the PLAN mirrored the Soviet model of coastal defence.

It was not until the Sino-Soviet split in the late 1950s that the Chinese and Soviet naval paths radically changed. This left the PLAN in a naval development black hole.

⁸²*Ibid.*, 179.

⁸³You Ji, "The Evolution of China's Maritime Combat Doctrines and Models: 1949-2001," *Institute of Defence and Strategic Studies, Singapore* (May, 2002): 5.

From a strategic perspective, the Sino-Soviet split meant that the primary threat to China was now the Soviet Union instead of the US and, to a lesser extent, Taiwan. With the Soviet Red Army's numerous divisions along the Chinese frontier, the PLA remained the critical arm for the defence of the nation. Consequently, the PLAN was tasked to protect the flank of the PLA and assigned the critical role of defending north-eastern China from a Soviet naval attack originating out of Vladivostok.

The loss of Soviet advisors and technical expertise also meant that the PLAN needed to domestically develop its own naval forces or buy them from other nations. Chinese industrial production and the development of a high tech naval force was extremely limited throughout the 1960s and 1970s. The only aspect of the PLAN that was provided any significant attention was submarine development. Mao personally directed the navy to develop a naval nuclear deterrent in the form of ballistic missile submarines, or SSBNs.⁸⁴ This was largely to add teeth to China's ability to counter the USSR and to provide a second strike capability. The remainder of the PLAN, however, was still focused on coastal defence and remained as such as long as Mao held the reins of power.

The drawbacks of the coastal defence force orientation were quite evident throughout the 1960s and 1970s. The most significant issue was the inability to project naval power offshore. This was not necessarily an issue when battling the Taiwanese on the one hand, but it became painfully obvious when confronting the Vietnamese on the other.

Regarding Taiwan, the PLAN did not require ocean going vessels and was essentially limited to transiting the Taiwan Strait with Fast Attack Craft (FAC) and

⁸⁴Cole, "China's Maritime Strategy."

landing craft. This was a relatively easy task, unless significant weather precluded doing so. Indeed, the PLAN was relatively effective and captured numerous Nationalist strongholds during the 1940s and 1950s.⁸⁵

The situation with Vietnam was quite different. The aforementioned battle for the Paracel Islands was the first engagement which could be considered out of area for the PLAN. With only several corvettes and small submarine chasers involved in the battle, the Chinese ships were significantly outmatched by the larger South Vietnamese forces. It was only through accurate Chinese fire that the Vietnamese ships were damaged and forced to withdraw. The actual battle was largely won by troops landed on the islands and through the use of attack aircraft from Hainan Island. This operation in excess of 200 nautical miles (nm) from China with small vessels not built for offshore operations and with limited firepower revealed the limitations of the PLAN. Furthermore, this underscored Chinese aggressiveness despite its relative lack of naval capabilities.

POST MAO – THE TRANSITION UNDER DENG

After the death of Mao, Deng Xiaoping's leadership significantly modified the core missions of the PLA and PLAN, but only over time. To explain, China's poor performance during the 1979 Sino-Vietnamese War forced Chinese strategists to rethink the concept of people's war.⁸⁶ If such a strategy was employed against the well armed

⁸⁵ These strongholds included Jinmen Islands (October 1949 and August 1958), Dengbu and Zhoushan Islands (November 1949), Hainan Island (April 1950), Wanshan Island (May 1950), Four Islands (June 1953) and Yijianshan Island (August 1955) ; Huang, *Maritime Strategy of China in the Asia-Pacific Region*. . . , 185.

⁸⁶China mobilized over 400,000 troops but was unable to reach a decisive victory over the battle hardened Vietnamese ground forces ; *Ibid.*, 234.

and mobile Soviet Red Army, it was doomed to failure.⁸⁷ A new strategy of *people's war under modern conditions* was espoused. This approach moved away from drawing enemy forces deep into China and then executing a protracted war relying on superior numbers of Chinese soldiers. Instead, it meant that offensive operations into enemy territory and technologically advanced weapons were required.

From a naval perspective, the Soviet Navy remained the primary threat to the PLAN. Indeed, the Soviet Navy's capabilities had grown significantly since the 1950s. Under the leadership of Admiral Sergei Gorshkov, the Soviet Navy was reinvigorated after the Cuban Missile Crisis debacle and was truly a blue water navy that could even compete with the US Navy if required. The PLAN, therefore, was simply a pushover. The Soviet Navy also operated out of Cam Ran Bay, Vietnam in 1979, which placed this immense threat on China's doorstep. Facing this threat, Deng reemphasized a large coastal navy capable of facing the Soviets. The PLAN was still primarily concerned with protecting the flank of the PLA, notably near the Bohai Sea and defend Tianjin and Beijing at all costs.⁸⁸

Significant change in the PLAN's *raison d'être* did not occur until the mid-1980s. In 1985, Deng admitted that China no longer faced an imminent threat from the Soviet Union and that the PLA must prepare to fight limited wars.⁸⁹ This meant that China had to be prepared to fight and win in local and limited military engagements around China's

⁸⁷*Ibid.*, 235.

⁸⁸Ji, "The Evolution of China's Maritime Combat Doctrines and Models: 1949-2001". . . , 19.

⁸⁹Huang, *Maritime Strategy of China in the Asia-Pacific Region*. . . , 237.

periphery in addition to the Taiwan contingency.⁹⁰ Furthermore, other roles for the PLAN were sought, namely peacetime missions that could spread Chinese interests.

China only needed to look to the USSR in order to find clearly defined peacetime missions for the PLAN. The Soviet Navy under the leadership of Admiral Gorshkov assigned the Red fleet with specific peacetime tasks which included the following: showing the flag; gaining international respect; supporting economic interests; managing crises; limiting an adversary's options; exercising local sea control; and, use in local wars. The aforementioned tasks were seen as viable options for a rebranded PLAN.⁹¹

LIU HUAQING – OFFSHORE ACTIVE DEFENCE

While the Soviet Navy had Admiral Gorshkov to oversee its changes from the 1960s to the 1980s, China had a similar champion who was critical for moving the PLAN from a coastal navy towards a blue water force: PLA General Liu Huaqing. Soviet trained in the 1950s, General Liu Huaqing was the head of the PLAN from 1982-1987 and subsequently acted as Chairmen of the Military Committee (CMC) from 1987-1997. In this latter position he was well placed to directly influence Chinese national security concerns and had access to the Chinese Premier. Additionally, his influence allowed funds to be directed towards the development of the PLAN that may not have been possible by another officer.

Liu created a long term naval strategy for China designed to move the PLAN forward from Mao's coastal defence mission to a blue water force. Liu's strategy called for an "active offshore defence," which consisted of three elements: strong defence near

⁹⁰*Ibid.*

⁹¹*Ibid.*, 242.

the Chinese coast, mobile warfare at sea and surprise guerrilla-like attacks at sea.⁹²

Additionally, Liu framed two overarching requirements for the development of the PLAN that were related to space and time. The space element concerned the ability of the PLAN to dominate geographic regions around China. The time element detailed at what point the PLAN should be able to control the regions.

With regard to operating areas, Liu viewed that the PLAN should be able to operate in a great swath of ocean which Western analysts coined as the “first island chain.” The first island chain spanned an area that essentially boxed in the coast of China and included Japan, the Ryukyus, Taiwan, the Philippines and Indonesia. This area covered the Yellow, East and South China Seas. Liu’s plan was to have a PLAN strong enough to be able to dominate the first island chain by 2000.⁹³

The second phase of Liu’s naval strategy involved a progressive buildup of PLAN capabilities which would allow it to extend further out into the western Pacific Ocean. This “second island chain” was bounded by the Kuriles, Japan, the Bonins, the Marianas and the Carolines.⁹⁴ Liu wanted the PLAN to be able to dominate this area by 2020 (see figure 2.0). The final phase of the PLAN strategy was to create a global force by 2050 on par with the US Navy.⁹⁵

⁹²Cole, “China’s Maritime Strategy.”

⁹³*Ibid.*

⁹⁴James R. Holmes and Toshi Yoshihara, *Chinese Naval Strategy in the 21st Century* (New York: Routledge, 2008), 30.

⁹⁵Cole, “China’s Maritime Strategy.”

Figure 2.0- The First and Second Island Chains



Source: University of Texas Libraries, last accessed 25 Mar 2013, http://www.lib.utexas.edu/maps/middle_east_and_asia/china_first_and_second_island_chains_2009.jpg.

Not only did Liu detail the geographic area and timelines associated with building the PLAN, he, like Gorshkov, outlined several specific pillars that the Navy must be able to achieve. These include the following features:

a) Strategic defence: in line with Beijing's desire for peaceful coexistence, Liu called for a strategically defensive line, which corresponded to the first island chain. Although this was defensive at the strategic level, at the operational and tactical levels, it called for offensive naval action far from China's coast to neutralize enemies;

b) Operational Areas: Initially the PLAN would operate solely in the first island chain, and then move outwards to be able to control the area of the second island chain. Taiwan, however, posed a significant problem as it curtailed the PLAN's ability to operate beyond the first island chain without impunity;

c) National Objectives: Liu viewed that his strategy would allow the nation to fulfill its primary policy objectives: maintaining national unity, protecting territorial integrity, ensuring access to natural resources, deterring imperial aggression from the sea, and maintaining peace in the Asia-Pacific area;

d) Peacetime Missions: Liu outlined that the peacetime strategy would safeguard territorial integrity (with Taiwan as a top strategic priority), support diplomatic aims, maintain credible deterrence, cope with regional contingencies, and assist other socialist nations confronting seaborne challenges; and

e) Wartime Missions: Liu called for the PLAN to act either independently or jointly with the PLA and PLA Air Force (PLAAF), to defeat enemies at sea, assuring Chinese use of the Sea Lines of Communication (SLOCs), and taking part in nuclear retaliatory operations under unified command.⁹⁶

Far Sea Defence

Liu's final vision of the PLAN was for far sea defence. This is the ability to project power over vast distances and in the words of Mahan, gain *command of the seas*, or sea control. It is essentially the ability of the Navy to dominate a given area for a period of time normally through the wholesale destruction of the enemy's fleet; examples were the annihilation of the Franco-Spanish fleet at the battle of Trafalgar in 1805, or of the Russian fleet at the battle of Tsushima Strait in 1905.

The ability to achieve far sea defence required a combination of platforms capable of projecting power on a global scale as well as obtaining the supporting infrastructure necessary to maintain such a force. With regard to the latter requirement, the PLAN only needed to look at the current US Navy to determine the requirements to project a force thousands of kilometers from home. The US has bases across the world where it can forward deploy its massive fleet of aircraft carriers. Yokosuka, Japan, is one such example and is the headquarters for the US 7th Fleet. It is unique in that it houses an entire carrier strike group and numerous other subsurface and surface forces. Other smaller logistic hubs across the Pacific allow for the buildup of fuel and food stores that

⁹⁶Huang, *Maritime Strategy of China in the Asia-Pacific Region*. . . , 241-242.

can then be transported by a fleet of supply vessels to keep the US carrier strike groups at sea.

For China, a similar basing strategy is required to maintain such a fleet. In the last decade, China has taken the first steps to develop overseas bases. This strategy has been aptly named the “string of pearls” (SOP) and is important not only militarily for China, but also economically.⁹⁷ The SOP strategy comprises of naval stations (the pearls) spaced along the SLOC (string) between the Middle East to China. As mentioned earlier, as this is a significant SLOC through which the majority of Chinese oil and natural gas travels, it is not coincidental that China has begun to place its first overseas bases in this region. To date, China has helped develop naval and port facilities in Chittagong in Bangladesh; Sittwe, Coco, Hianggyi, Khaukphyu, Mergui and Zadetkyi Kyun in Myanmar; Laem Chabang in Thailand; Sihanoukville in Cambodia; and Gwadar in Pakistan.⁹⁸

China has also begun to use its warships for more than just protecting China’s coasts. Chinese warships have routinely patrolled the Gulf of Aden to protect Chinese merchant ships from Somali pirates. PLAN warships were also diverted to Libya in 2011 to help in the evacuation of over 30,000 Chinese nationals during the Libyan Civil War.

String of Pearls and the SCS

How does the SCS fit into China’s basing and SOP strategy? As the SCS is on China’s doorstep and the first stepping stone towards the Middle East via the Straits of Malacca, it is not surprising that the Paracels and Spratlys are significant factors in the

⁹⁷A more comprehensive analysis of the economic impact of the “string of pearls” strategy will be detailed in chapter three.

⁹⁸Chris Devonshire-Ellis, "China’s String of Pearls Strategy," last accessed 14 Mar 2013, <http://www.china-briefing.com/news/2009/03/18/china%E2%80%99s-string-of-pearls-strategy.html>.

viability and integrity of the SOP. The Straits of Malacca are a strategic vulnerability for Chinese energy strategy and it has been postulated that in the event of a cross Taiwan Strait crises, the US could cut this vital SLOC and bring Chinese energy imports to an immediate halt.⁹⁹ Consequently, senior PLAN officers have discussed the need to be able to dominate the Straits of Malacca in a time of war.¹⁰⁰ This would be extremely difficult given the size and potency of Singapore's Navy and Air Force and the fact that the US Navy will operate up to four Littoral Combat Ships (LCS) in the city state in the coming years. Chinese bases in the Paracels, however, make power projection in that area much easier.

China has already militarized the Paracel Islands. It built a runway in 1990 on Woody Island, which can accommodate all types of China's modern fighter and patrol aircraft. Additionally, China built a port to accommodate ships of up to 5,000 tons, which will allow the PLAN to dock frigate size vessels. The developments on Woody Island are significant as they are a further 200 miles south of the main Chinese base on Hainan. They can be used as a forward operating base for both PLAN ships and aircraft for patrols into the Spratlys, or they could act as a staging area for a potential spearhead to capture other claimants' islands.

In the Spratlys themselves, Chinese development has been similarly impressive. Although large ports and runways have not been built, this should not be misconstrued as a lack of interest in the area. This is largely due to the limited size of the islands to support bases. To date, two Chinese held Spratly islands are home to radar stations which

⁹⁹Lyle Goldstein, "Chinese Naval Strategy in the South China Sea: An Abundance of Noise and Smoke, but Little Fire," *Contemporary Southeast Asia* 33, no. 3 (December, 2011): 329.

¹⁰⁰*Ibid.*

were built on concrete structures jutting into the sea. The stations provide an essential recognized air picture of the region and are likely used as listening posts as well.

PLAN Modernization

With any significant change to an armed force, a state requires a significant injection of cash. The opening of the closed Chinese Communist economy towards a Western market economy championed by Deng resulted in massive economic growth. Between 1980 and 1995 the GDP of China grew thirteenfold.¹⁰¹ Furthermore, the majority of Chinese trade was transported on ships to the world markets and the hydrocarbons required to fuel the economy came by sea too. Double digit GDP increases also meant that more money was available to re-equip the Chinese armed forces, including the PLAN.

Certainly, resources were required to reorient the PLAN from a backwards coastal defence force to a modern blue water force that could go toe-to-toe with Western navies, including that of the US.¹⁰² Although the PLAN of the early 1980s had several domestically produced nuclear attack submarines and surface combatants, it had significant deficiencies and the fleet still consisted of many of the meager forces that were used to push the Vietnamese out of the Paracel chain in the 1970s. The problems facing the PLAN were twofold: they lacked the platforms required of a modern force and the capabilities to fight a modern Western navy.

¹⁰¹Huang, *Maritime Strategy of China in the Asia-Pacific Region*. . . , 213.

¹⁰²Between 1980 and 1995, the Chinese defence budget increased from 19,350 million RMB to 63,700 million RMB ; *Ibid.*, 214.

Regarding platforms, the PLAN's previous coastal defence doctrine had little need for ocean going vessels capable of attacking targets far from China's shores. With Liu's new active offshore defence, however, larger ships were needed with the sea keeping abilities to operate far from China's shores. Although the mission to counter Taiwan was still significant, greater emphasis was placed on positioning PLAN assets further from coast and denying the use of the Yellow, East and South China Seas.

The second aspect which limited the PLAN was the ability to build modern capable warships. Deng's trade policies greatly increased the infrastructure of Chinese shipyards, but developing high tech missiles and command and control systems required for modern naval warfare was very difficult to achieve. The Chinese followed a two pronged approach to overcome this obstacle. The first focused on purchasing Russian systems and the second was buying limited numbers of Western naval combat systems and reverse engineering them. The majority of these systems came from France, Italy and the US. The French sold integrated command and control (C2) systems, anti-air missiles and first-class shipboard helicopters. Italy provided China with torpedoes and the US turbines for surface ship propulsion.

Because the Chinese crackdown at Tiananmen Square in 1989 resulted in an arms embargo which effectively halted Western military assistance, China looked to Russia for aid. Russia was more than happy to satiate China's need for advanced weapons systems in return for a profit. During the 1990s, China purchased six Kilo-class submarines and two formidable Russian Sovremenny class destroyers armed with aircraft carrier killing SSN-22 Sunburn missiles.

Using the Russian built platforms and reverse engineered Western systems as a baseline, China was able to domestically develop its first destroyer, the Luda in the 1970s and 1980s. This platform was geared towards anti-surface warfare (ASuW), but it lacked any substantial anti-air (AAW) and anti-submarine (ASW) capabilities which are needed to confront a first class naval power.¹⁰³ Nevertheless, through trial and error since 2000, the PLAN has produced significantly advanced surface and subsurface platforms that make an active offshore defence viable.

A great success story is China's submarine fleet, which is now the third largest in the world with 58 vessels. These are potent weapons delivery units that can deny access to China's coasts by even the most potent navy. Although the majority of the submarines are conventionally powered, China has also shown interest in building more modern nuclear powered attack submarines (SSN) and ballistic missile submarines (SSBN).

The crowning jewel of Liu's naval buildup was the development of aircraft carriers. He assessed that aircraft carriers were necessary to project Chinese naval power and protect the PLAN surface fleet from enemy air attack. China began looking at building its own carriers decades ago but it lacked the technical knowledge and skill to produce its own. However, China did buy four used aircraft carriers from other nations. China purchased one from Australia in 1985 and three from Russia in 1995, 1996 and 2002. The first three carriers were used to study aircraft carrier design, whereas the final carrier was refitted and is now a sea worthy vessel undergoing trials. What is more, China

¹⁰³Huang, *Maritime Strategy of China in the Asia-Pacific Region*. . . , 245.

is in the process of building two carriers based on the latest carrier purchased from Russia.¹⁰⁴

PLAN building to date reveals a Navy that is slowly reaching Liu's goals of far sea defence, but still not able to dominate either the first or the second island chains. Despite falling behind Liu's proposed schedule, the newer area air defence destroyers, submarines, advanced strike aircraft, fast patrol boats and a potent submarine force provide China with the ability to project significant combat power beyond China's shores. Although unlikely to do so, the PLAN could now quite easily outmatch the navies of Vietnam, the Philippines and Malaysia, but it would have significant difficulties confronting either South Korea or Japan. Attempting to confront the US Navy would be suicidal. As the PLAN continues to build up its forces in the SCS based out of Hainan Island, armed with an aircraft carrier, China will be able to protect its claims in the Spratlys and conduct offensive action if it chooses to do so.

AN ARMS RACE IN THE SOUTH CHINA SEA?

The massive reconstitution of the PLAN has not gone unnoticed by many of China's neighbours. South Korea, Japan and Taiwan all have a vested concern regarding a well armed PLAN, but so too do the nations bordering the SCS. Recent arms acquisitions by Vietnam, Malaysia and the Philippines have begged the question if there is actually an arms race occurring in the region. The arms race question was posed over

¹⁰⁴James C. Bussert, "China Enters the Aircraft Carrier Club," *Signal* 64, no.8 (April, 2010), <http://search.proquest.com/docview/89281687?accountid=9867>.

twenty years ago but is gaining traction once again as the Chinese government made public its plans to continue to modernize its armed forces.¹⁰⁵

Colin Gray defines an arms race of consisting of four distinct elements: it must include two or more states that have an adversarial relationship; there must be a conscious structuring of the armed forces towards the other; there must be competition regarding the quantity and quality of the weapons systems; and the parties must increase their arms at a rapid rate.¹⁰⁶

In the SCS, it is debatable if the acquisitions by various states have actually constituted an arms race. Vietnam's armed forces, and the navy in particular, were in a dire state of affairs for years. In 2010, through it announced the desired purchase of six Kilo-class submarines from Russia, it will be years before this potent weapons platform will be effective. Vietnam also purchased new frigates, fast attack craft, maritime patrol aircraft and air defence fighters. The rapidity of these purchases does not hail an arms race with China, however, as Vietnam appears to be simply rebuilding its antiquated forces to be able to defend itself as well as its possessions in the Spratly chain.

Malaysia also acquired significant naval capabilities over the years. It has a modest fleet of submarines and surface ships, maritime patrol aircraft and strike fighters. These forces are critical to secure Malaysia's vast coastline. As Malaysia has had little confrontation with China in the Spratlys and due to the slow speed of Malaysia's naval buildup, it would be difficult to cite an arms race between Malaysia and China.

¹⁰⁵Richard A. Bitzinger, "A New Arms Race? Explaining Recent Southeast Asian Military Acquisitions," *Contemporary Southeast Asia* 32, no. 1 (April, 2010): 67.

¹⁰⁶*Ibid.*, 60.

The Philippines is the nation that has been the most vocal in its concerns with Chinese incursions into the Spratly Islands. The Scarborough Shoal incident sparked controversy regarding the Philippines' ability to defend against an aggressor, especially China. After the withdrawal of US forces from the islands in the 1990s, the Philippines were largely left to itself to patrol its waters and airspace. The Philippine navy and air force are arguably the weakest of the forces in the SCS. The air force does not even possess one multi-role fighter and the navy is comprised of older small craft and two recently retired US Coast Guard cutters with limited armaments. Procurement programs have called for acquiring additional retired US vessels, updated fast attack craft, frigates and ASW corvettes. Although there is much public support¹⁰⁷ to strengthen the armed forces and programs are in development, it will be a significant period before the Philippines will be able to defend its claims in the Spratlys with any significant force.

Figure 2.1 - Comparison of Naval Strength of SCS States 2000-2011

Nation	Major Surface Combatants 2000 (2011)	Submarines 2000 (2011)	Patrol Craft 2000 (2011)
China	61 (79)	64 (61)	332 (266)
Vietnam	7 (16)	2 (2)	40 (48)
Brunei	0 (0)	0 (0)	21 (27)
Malaysia	6 (14)	0 (2)	101(103)
Philippines	14 (17)	0 (0)	48 (46)

Source: Jane's World Navies 2012.¹⁰⁸

The buildup of arms in the SCS region does not fit Gray's rubric of an arms race. Many of the nations seem to be rebuilding their decrepit forces before they eventually

¹⁰⁷Michael Cohen, "Rise in Philippines' Defence Budget Meets with Approval," *Jane's Defence Weekly* (August, 2012), <https://janes.ihs.com>.

¹⁰⁸Closer analysis of China's naval acquisitions reveals that it has actually decreased the overall number of forces in the PLAN. This is in part through the decommissioning of older, less capable platforms.

On paper, both Vietnam and the Philippines appear to have a healthy number of major surface combatants, but these figures include corvettes and less capable frigates when compared to Chinese ships. Many of the Philippine and Vietnamese vessels do not have missile systems.

Malaysia is the only navy in the SCS region that has newer, well-equipped surface combatants.

rust out, or in the case of the Philippines, creating viable armed forces from which there currently are none. Many of the purchases by the Philippines, Vietnam and Malaysia will give these nations excellent capabilities, but the number of platforms is so low that it would be of little use in an all out conflict with China. Most acquisitions, such as patrol vessels, are clearly defensive in nature and could be useful in maintaining the claims of the various nations in the SCS, vice attempting to expand their own claims. The local capabilities appear to be aimed at being *strong enough* to deter China from making any further advances on already claimed territory. Conversely, if an arms race were to occur, it is also highly likely that no individual country would be able to out match China and such a venture would also be economically foolhardy.

Figure 2.2 - Military Expenditures of SCS States 2002-2011 in Billions US\$

Nation	Expenditure 2002 (% GDP)	Expenditure 2011 (% GDP)	% Change in Spending	% Change in GDP
China	48 (2.2)	129 (2.0)	+170	-0.2
Vietnam	1.3 (2.0)	2.4 (2.5)	+84	+0.5
Brunei	0.32 (5.3)	0.37 (3.2)	+15	-2.1
Malaysia	8.5 (2.2)	14 (1.6)	+64	-0.6
Philippines	2.0 (1.5)	2.2 (1.2)	+10	-0.3

Source: SIPRI Yearbook 2012¹⁰⁹

CONCLUSIONS

Chinese naval strategy since the inception of the PLAN in 1949 underwent significant changes. The coastal defence force, which acted as an arm of the Chinese Red Army, was initially focussed on fending off attacks from the Nationalist Taiwanese and preparing to invade the island. Significant changes occurred in the 1970s under Deng and

¹⁰⁹An analysis of military expenditures reveals that all claimant states in the SCS increased their military spending between 2002-2011, with China leading the group. However, spending as a percentage of GDP actually decreased amongst all states except Vietnam.

the leadership of Liu Huaqing. He built the PLAN into a modern fighting force with missions that focussed on defending China from aggressors far from the shores of the nation. The first and second island chain active defence strategies remain the PLAN's primary missions, as well as defending the SLOCs between the Straits of Malacca and China. Despite the massive investment in the PLAN, it has not achieved the timelines as laid out by Liu and Chinese officials appear to be content to slowly obtain capabilities, and in the long run, be a force on par with the US Navy.

Liu's development of a first-class blue water navy has caused concern by the claimants in the SCS. Although a possible arms race in the region was posited, a closer examination reveals that recent procurement by Vietnam, Malaysia and the Philippines are simply attempts to modernize their forces to be a viable defence if China ever decided to act aggressively. These capabilities will give itself an overwhelming advantage over its neighbours, but using them en masse would likely be unpalatable as it would incur significant political costs in doing so. China may therefore resort to bullying its neighbours with the threat of the use of force to achieve its aims, vice the use of force itself.

CHAPTER 3 – THE ECONOMIC ASPECTS OF THE SOUTH CHINA SEA

This chapter will examine the economic significance of the SCS to underscore further why this region will continue to be important to China in the future. As indicated in chapter one, the SCS is an area of significant strategic value, largely due to the volume of commercial traffic that vies this waterway each day. The fossil fuel dependent economies of much of east and northeast Asia rely on the import of oil and natural gas from the Middle East. The SCS also allows China to export cheap goods to Europe, Africa and South Asia. Not only is this region a major economic highway, it also has natural resources in the form of fish and petroleum products that make it a lucrative area for exploitation. With regard to the fisheries in the region, China has enforced fisheries bans in the area, but has also been the largest exploiter. The coastal populations in the area, especially Vietnam, rely on the SCS as a source of protein to feed the growing population. With regard to the natural gas and oil in the region, China has on occasion leaned towards joint development with other claimant states, but these gestures have largely failed. China's expansion in the SCS from an economic standpoint is similar to its military buildup in the region: it has been characterized by a gradual buildup to consolidate its hold on the area.

HYDROCARBONS

The presence of oil and natural gas deposits in the SCS has been a central issue in the quarrel in the SCS. Anywhere between 25 to 200 billion barrels of oil and 900 trillion cubic feet of gas rest beneath the sea bed in the area and has re-sparked the interest of claimant nations and oil companies alike. If the estimates on the amount of oil are even

remotely accurate, it is conceived that the region could be home to the largest such deposits outside of Saudi Arabia, which has led some Chinese to call the region the “second Persian Gulf.”¹¹⁰

Although China is a significant producer of crude oil, since 1992, it has been a net importer. These imports have been a critical aspect to expanding the industrialized Chinese economy since Deng’s reforms and now over 50% of the crude consumed by China comes from overseas markets. In fact, as of 2009, China was the second highest consumer and importer of oil after the US and consumption is expected to double by 2030.¹¹¹

Because China relies so heavily on Middle Eastern and Angolan oil, the Chinese government has attempted to mitigate against possible interruption of the commodity by diversifying its imports. This has been achieved through purchasing foreign companies, such as Canada’s Nexen, which has a global reach, or by developing foreign oil fields, such as in the Sudan. Another avenue for diversification has been to increase domestic production in China. This has been attempted through shale gas and offshore drilling. Shale gas reserves in western China have been discovered and it is estimated that at 1.275 trillion cubic feet, that they are the largest in the world.¹¹²

Another avenue of diversifying Chinese oil is through offshore drilling. Despite the immense potential of hydrocarbons in the SCS, actual extraction of the resources in the disputed zone of the SCS has been next to nil over the last thirty years. This is largely

¹¹⁰Cronin, *et al.*, *Cooperation from Strength: The United States, China and the South China Sea*. . ., 9.

¹¹¹Leszek Buszynski, "The South China Sea: Oil, Maritime Claims, and U.S.- China Strategic Rivalry," *The Washington Quarterly* 35, no. 2 (Spring, 2012): 141.

¹¹²Country Analysis Briefs, *South China Sea Energy Data, Statistics and Analysis - Oil, Gas, Electricity, Coal*, Energy Information Administration (2008).

due to three factors: China's confusing stance on drilling in the area, the lack of indigenous technology by the national oil companies in the region to drill deep wells and the pressure which China exerted on foreign oil companies attempting to partner with local national oil companies.

The evolution of China's own pursuit to drill in the disputed area evolved over the past twenty years and reveals significant flip flopping by the government. As early as 1990, Premier Li Peng called for joint development of the islands and reaffirmed such a venture in 1992. This may have been more a ploy to keep ASEAN nations from coalescing,¹¹³ as at the same time China was actually the first nation that attempted to drill in the Spratly chain, but was forced to back down due to foreign pressure. Chinese double talk continued and in 1992, China awarded contracts to US based Crestone Energy to conduct seismic studies in the Chinese occupied area of the Spratlys. Protests from Vietnam again effectively halted Chinese ventures. In the mid 2000s, following China's approval of the DOC and the TAC, China about faced again and opted for joint exploration of the Spratlys. A joint seismic venture between CNOOC and both the Vietnamese and Philippines national oil companies was signed, but failed due to the aforementioned political scandal in the Philippines. Since 2005, China has taken a hard line on no joint development, nor unilateral drilling in the region, but has on occasion aired the idea of joint ventures with claimant states. None of these gestures have come to fruition.

Even more confusing, China recently revealed its willingness to move away from more cordial drilling practices in the SCS and directly confront other nations. This was

¹¹³Buszynski, "The South China Sea: Oil, Maritime Claims, and U.S.- China Strategic Rivalry". . . , 141.

abundantly clear in 2012, when CNOOC tendered bids for foreign joint development in the western SCS. The blocks opened for bidding, however, were *inside* Vietnam's EEZ and some were within 80nm of the coast. Previous bids by CNOOC in both 2010 and 2011 were well within the internationally recognized Chinese EEZ on the south coast of China and Hainan Island. It remains to be seen if any international petroleum companies will place bids and risk being embroiled in the SCS dispute. If history is any indicator, most companies will stay well clear as being entangled in the dispute is not worth the economic gain. Most analysts cite that CNOOC's change is likely "political posturing than an actual push for development"¹¹⁴ and "more symbolic than substantive."¹¹⁵

The second factor which potentially has limited drilling in the SCS concerns technology. Through CNOOC, China recently acquired its own capacity to drill deep wells, which are required to tap into the hydrocarbon reserves throughout much of the SCS. The massive 31,000 ton CNOOC 981¹¹⁶ can drill in as deep as 3,000 metres of water to a length of 12,000 metres. CNOOC's Chairman Wang Yilin described the rig as "mobile national territory and strategic weapon for promoting the development of the country's offshore oil industry."¹¹⁷ This capability gives China a huge advantage over other claimant states, but China has still not signaled its intent actually begin drilling in the disputed zone and CNOOC 981 has remained inside the recognized Chinese EEZ.

The third factor, pressure squarely applied on foreign based companies attempting to drill in concert with other SCS state oil companies, has been a very successful. This

¹¹⁴Anonymous, "Fuel to the Fire," *China Economic Review*, last accessed 27 March 2013, <http://www.chinaeconomicreview.com/fuel-fire>.

¹¹⁵Taylor Fravel, "The South China Sea Oil Card," last accessed 10 Jan 2013, <http://thediplomat.com/china-power/the-south-china-sea-oil-card/>.

¹¹⁶Anonymous, "Deep Water Drilling Begins in South China Sea," *China.org.cn*, last accessed 26 March 2013, http://www.china.org.cn/business/201205/09/content_25339532.htm.

¹¹⁷*Ibid.*

often used Chinese tactic aimed at Vietnam and the Philippines. With regard to Vietnam, that nation has a booming offshore hydrocarbon industry that accounts for over a quarter of all Vietnamese production.¹¹⁸ Expansion of these fields through foreign investment occurred through 60 contracts between 1988 and 2008.¹¹⁹ Actual drilling, however, has been problematic at times, mainly due to Chinese interference. In 2006 and 2007, Vietnam requested foreign oil companies to jointly develop in the SCS. In response, China issued 18 separate diplomatic objections.¹²⁰ In a more aggressive move, in May 2011, two Chinese MSF ships harassed and reportedly cut the sonar cable of a Vietnamese seismic survey ship. This incident occurred only 120nm from the coast of Vietnam, well inside the UNCLOS recognized EEZ. Another incident occurred in June of the same year when Chinese fishing vessels harassed a Norwegian survey vessel under license from Vietnam. The fishing vessels allegedly employed a cable slashing device to sever the Norwegian vessel's sonar. China claimed that the fishermen's nets became entangled with the sonar and cited poor seamanship to blame for the incident.¹²¹

With regard to the Philippines, it experienced interference from China. On one occasion, in May 2011, MSF vessels harassed a Filipino survey ship in the vicinity of Reed Bank in the disputed zone of the Spratlys, forcing it to withdraw.¹²² To date, the Philippines have not been successful in drilling in the disputed areas of the SCS either through past Chinese actions or future threat.

¹¹⁸Buszynski, "The South China Sea: Oil, Maritime Claims, and U.S.- China Strategic Rivalry". . . , 141.

¹¹⁹*Ibid.*

¹²⁰Cronin, *et al.*, *Cooperation from Strength: The United States, China and the South China Sea*. . . , 36.

¹²¹*Ibid.*, 39.

¹²²*Ibid.*

FISHERIES

The SCS is home to one of the world's most diverse and important fish stocks and is of key importance to many nations that border this region. Its significance is twofold: it is a source of protein for the populations in the region and it is a source of income. With regard to the former, the Chinese alone consumed over 33 million tons of fish in 2005 and this figure is expected to increase to 38 million tons by 2015.¹²³ By way of comparison, since 1970, the average Chinese citizen has increased his/her intake of fish products fivefold and now exceeds 25kg of fish per person.¹²⁴ This figure is much lower than in Japan where the average citizen consumes over 65kg of fish a year, but as China becomes more prosperous, further increases can be expected. Without a doubt, fish is becoming a staple in China and over one third of animal protein comes from the fishing industry. In the rest of Southeast Asia, fish is also a significant source of food. Over 18 million tons of fish are consumed in the region and this figure is also expected to increase to 21 million tons by 2015.¹²⁵ With the reliance on SCS fisheries to feed the growing populations of China and other Southeast Asian nations, it is assessed that the total fisheries industry would need to grow 25% by 2030 just to meet today's current consumption rates.¹²⁶

The second key aspect of the fishing industry in the SCS is its economic impact in terms of GDP and jobs. The fishing industry in the SCS accounts for 40% of the entire

¹²³Nguyen Dang, "Fisheries Co-Operation in the South China Sea and the (Ir)Relevance of the Sovereignty Question". . . , 63.

¹²⁴Zhang Hongachou, "China's Evolving Fishing Industry: Implications for Regional and Global Maritime Security," *S. Rajaratnam School of International Studies*, no. 246 (2012): 5.

¹²⁵*Ibid.*

¹²⁶Cronin, *et al.*, *Cooperation from Strength: The United States, China and the South China Sea*. . . , 90.

world catch.¹²⁷ By way of comparison, China alone accounted for over 34% of the entire world fishing industry in 2009 and generated US\$13 billion in exports.¹²⁸ In terms of jobs, in China the fishing industry accounts for over 13 million jobs, of which over 7.5 million are traditional fishermen.¹²⁹ These fishermen operate over 600,000 fishing vessels of varying sizes.

As Southeast Asia's demand for fish has increased, so too has the pressure placed on the fish stocks in the SCS. Catch sizes peaked in 2005 and continue to drop, prompting the Chinese government to take measures to ensure industry viability. This has meant the imposition of unilateral fishing bans throughout China's EEZ, backed up by Chinese fisheries enforcement vessels. The fishing bans have had a direct impact on where Chinese fishermen now fish. The restriction imposed on the primary fishing grounds in the Yellow, East and South China Seas have meant that fishermen are moving to offshore fishing outside of the internationally recognized Chinese EEZ. While in 1985 almost 90% of Chinese fishing was conducted in Chinese waters, by 2002 only 65% of the catch was in Chinese waters.¹³⁰

To overcome the restrictions at home, Chinese fishermen have begun fishing in new areas. "Distant Water Fishing" is now a worldwide phenomenon where Chinese fisherman can be routinely seen plying the waters of Argentina and even Africa. Close to home, Chinese fishermen have been concentrating their efforts in the SCS. As recently as May 2012, a Chinese company dispatched its largest fish factory ship to the region. At

¹²⁷Youna Lyons and Tara Davenport, "South China Sea: Limits to Commercial Fishing by Claimants," *S. Rajaratnam School of International Studies* no. 113 (July, 2012): 1.

¹²⁸Hongachou, "China's Evolving Fishing Industry: Implications for Regional and Global Maritime Security" . . . , 2.

¹²⁹*Ibid.*, 4.

¹³⁰*Ibid.*, 14.

32,000 tons, it is in fact, one of the largest of such vessels in the world. It can process upwards of 2,100 tons of seafood a day, has a crew of 600 workers with four processing factories and 14 production lines. As the ship can stay at sea for nine consecutive months, it requires the support of a 20,000 ton oil tanker and two 10,000 ton supply vessels.¹³¹

Local Chinese fishermen have also resorted to fishing in foreign EEZs for fear of being arrested by Chinese enforcement vessels. Although lucrative, the risks are high. Since 1989, there have been over 300 incidents involving Chinese fishermen violating either Vietnamese or Filipino fishing grounds, resulting in Chinese fishermen being detained, fined and even fired upon.

In an effort to avert the collapse of the SCS fisheries industry, China has taken the extreme step of enforcing a fishing ban in the SCS *beyond* its internationally recognized EEZ. This has been a yearly occurrence since 1999¹³² and is unlikely to change. In 2009, the three month long ban covered the entire area of the SCS north of the 12th parallel, which did not include the Spratly group, but nevertheless covered the declared EEZ of several other SCS claimant nations. China is serious in enforcing the ban through its fleet of Fisheries Enforcement vessels, which at times has numbered upwards of eight vessels. China has also indicated that it will construct a further 30 such vessels in the coming years and that even older naval vessels will be converted. China expects that it will have upwards of 350 vessels and 16 aircraft to dedicate to fisheries protection by 2015.¹³³

¹³¹Lyons and Davenport, "South China Sea: Limits to Commercial Fishing by Claimants". . . , 1.

¹³²Hongachou, "China's Evolving Fishing Industry: Implications for Regional and Global Maritime Security". . . , 20.

¹³³Buszynski, "The South China Sea: Oil, Maritime Claims, and U.S.- China Strategic Rivalry". . . , 144.

The Chinese fishing ban in the SCS inside other nations' EEZ caused uproars from other claimant states over the years and resulted in a tit-for-tat approach. The majority of the quarrels over fisheries have occurred in the Paracel chain between Vietnamese and Chinese fishermen. In many cases, Vietnamese fishing vessels have been impounded and fined. Though in the Spratly chain, incidents have been less frequent, in May 2010, Chinese fishing trawlers were harassed by Vietnamese fishermen. When the Chinese trawlers called for assistance, Beijing dispatched two fisheries administration vessels, but these ships were quickly surrounded by the angry Vietnamese when they arrived on station. In response, a PLAN vessel was sent, but the Vietnamese were gone by the time the warship arrived.¹³⁴

THE ECONOMIC STICK

China's willingness to use its navy and fisheries enforcement vessels and to entice its own fishermen by means of the ban to disrupt foreign activity in the SCS are not the only coercive tools that China has available. As the second largest economy in the world and the largest economy in East Asia, China has on occasion thrown about its economic weight to compel other claimant nations to either tone down their rhetoric or face the economic consequences. This tactic was evident on two occasions and not limited to only the SCS dispute. The Sino-Japanese dispute over the Senkaku/Diaoyu Island resulted in China limiting the sale of rare earths to Japan- a key resource needed in the production of electronics. With regard to the Philippines, the latest trade figures reveal that imports to

¹³⁴Thayer, "The Tyranny of Geography: Vietnamese Strategies to Constrain China in the South China Sea". . . , 359.

China from the Philippines decreased over 20% from last year¹³⁵, largely in response to that nation's defiance to Chinese ventures in the contested Spratlys.¹³⁶ Future economic sanctions by the Chinese on other nations cannot be ruled out.

CONCLUSIONS

The SCS offers immense economical potential for China and other claimant nations in the SCS. The potential hydrocarbons in the region could amount to a significant boost to the GDPs of the nations that extract the resources. Joint ventures have been attempted, but have failed largely due to Chinese interference. Any unilateral action by any of the claimant states in the disputed zones of the Spratlys, including China, has been halted as well. It appears that the political price in aggressively moving into the area outweighs any economic gain at this point. Future joint ventures cannot be discounted, but they appear to be unlikely given that with six nations laying claim to parts of the region, if not the entire area, will make consensus difficult if not impossible.

With its recent discovery of massive shale gas reserves in China, China may be content to explore that avenue of production to fuel its economy while it continues to block other nations from developing the SCS. This would provide China a way to wean itself of Middle Eastern oil and continue to stymie the aspirations of its neighbours in the SCS.

¹³⁵Exports to China in January 2013 were worth US\$422.06 million, or 10.5 percent share of total Philippine exports. It plummeted by 28.6 percent from its year ago value of \$591.23 million ; Republic of the Philippines National Statistics Office, "Merchandise Export Performance : January 2013," last accessed <http://www.census.gov.ph/content/merchandise-export-performance-january-2013>.

¹³⁶Graham Allison and Robert Blackwill, "Beijing Still Prefers Diplomacy Over Force," FT.com, last accessed 15 March 2013, <http://www.ft.com/cms/s/0/2bda1e4c-694c-11e2-9246-00144feab49a.html#axzz2NiQFSPIv>.

The protein resources of the SCS are less discussed on the world stage, but are arguably the more tangible aspect of the economic fight in the SCS. Millions of tons of fish are harvested every year. This industry not only employs millions of citizens, it also generates significant cash flow for their economies, not to mention a significant source of food for rapidly growing populations. Over-fishing in the region, however, will likely be the death knell for this industry. Although China has offered some leadership to curb overfishing in the region, it will continue to exploit the fish stocks the same way its competitors have done. Given that no claimant nation can effectively say that they control the Spratlys, it is further unlikely that any one nation will accept complete ownership of the overfishing problem and stocks will continue to dwindle.

CONCLUSIONS

This paper examined Chinese ventures in the SCS through an analysis of the diplomatic, military and economic aspects of the region. By outlining the historical claim of the nations in the SCS, the complexity of issue was apparent. Although China states that sovereignty over the entirety of the region is based on historic precedent, the Chinese stance clearly does not fall within the framework of UNCLOS. Vietnam, Brunei, Malaysia and the Philippines each have their own claims, some of which carry more weight than China when viewed in the context of international law. Despite China's lack of a legal footing, its action in the 1970s to take the Paracel Islands from Vietnam and its occupation of several Spratly features gave it a distinct advantage over other nations. China was banking on the old adage that possession is nine tenths of the law. Despite China's aggressive actions in the region, it has shown on occasion the willingness to work bilaterally, with mixed results. China's relationship with Malaysia and Brunei is rather cordial, whereas it was heated with Vietnam and the Philippines. China also revealed that multilateral talks through the ASEAN forum were possible, but despite China's signing of a code of conduct for peaceful actions in the SCS, this has been largely symbolic and China has in the end acted unilaterally to get what it wants.

The military significance of the SCS to China was also examined. The coastal defence orientation of the PLAN since its inception was cast aside in the early 1980s in favour of a blue water force. The PLAN was given the immense task of shielding China from its enemies far from China's shores in an effort to prevent the foreign domination that China experienced in the 19th and 20th centuries by imperial powers. Liu Huaqing, the master mind of the PLAN modernization, expanded the PLAN gradually so that it

could dominate the first and then second island chains. The SCS and its scattering of islands were central to this island strategy. The Paracels allowed Chinese power to be further expanded from China's doorstep and key naval installations were developed over the years, placing the remote Spratlys in striking distance of Chinese military power. Although the Spratlys offered little in terms of basing options for the PLAN, they provide a foothold in the area and can permit the PLAN to strike at the neighbouring occupied islands if China ever wished to do so. More importantly, the SCS is the doorstep for China's string of pearls strategy which allows it to reach toward the Straits of Malacca and push into the Indian Ocean and the Middle East.

In chapter four the economic significance of the SCS was discussed. The hydrocarbon potential in the region varies depending on the source, but even if the conservative reports are true, it is a region that could fuel China's economic growth for decades to come. It would also mean less dependence of Middle Eastern oil that must pass through various choke points in order to reach China. The Chinese initially sought to extract the resource unilaterally, but backed down under international pressure. It then sought bilateral development, but no real traction was ever witnessed on this front. More recently, China has threatened to drill in the deep regions of the SCS now that it has the technical competency to do so, but has not actually done so. China has even resorted to sabotaging the exploration of the SCS by other nations. Clearly, as long as China does not extract hydrocarbons from the area, it will stop at nothing to prevent others from doing so as well.

The importance of the fisheries industry in the SCS was also examined and it is a critical aspect of Chinese jobs, GDP, and source of food for the massive Chinese

populace. As the Chinese middle class continues to grow, the demand for seafood will increase substantially as well. This will only exacerbate an already fragile fish stock in the region. China is attempting to curb the wholesale destruction of the industry through the imposition of fishing bans throughout the SCS. Although these measures were enacted in good faith to secure a future of the industry, they also curtail the fishing practices of numerous other nations in the region, notably Vietnam and the Philippines. Chinese fisheries enforcement vessels have added fuel to the fire of an already tense situation in the SCS, but are unlikely to boil over.

China's position in the SCS has gone through an evolution over the last thirty years. It was belligerent in its actions to take the Paracel Islands and then resorted to island snatching when other nations began moving into the Spratlys. As the Chinese economy grew over the last few decades, it acquired a first-class navy capable of inflicting immense damage on its neighbours in the region. Despite having these tools of national power available, China did not do so and has rather chosen to solidify its hold in the region. Although China flexes its power on occasion, it would not be advantageous to upset the guarantor of the freedom of the sea, the US Navy, and start a conflict that would knock Chinese economic prosperity off of the rails. As Deng Xiaoping said, China is biding its time. It will continue to expand its hold in the SCS and prevent any other nations from achieving an advantage. Only time will tell if China will begin extracting the hydrocarbons in the region and test the patience of its neighbours. Such a calculated risk will only be taken when China knows it has the power to deter anyone from interfering.

As China's economic and military power continues to grow in the coming decades and it asserts more authority in East Asia and around the World, future research should focus on the impact that Chinese nationalism and the new Chinese leadership will play in dictating Chinese foreign and defence policy. Both of these items are inextricably linked and could change the course that China is taking in the SCS. The increased sense of Chinese Nationalism and the willingness to engage in world affairs could translate into the demand to further expand naval capabilities, such as the acquisition of more aircraft carriers to boost national pride, or the desire to flex the might of the PLAN not only around the world, but even more so in the SCS. The change in the senior Chinese leadership is also critical as the government will be forced to perform a balancing act of dealing with the aspirations of the Chinese people as well as continuing the growth of the nation as it continues to find its way in the World.

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