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**Security in the South China Sea:  
China's Balancing Act and  
New Regional Dynamics**

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## ABSTRACT

In essence, Chinese policies over the South China Sea (SCS) disputes since the mid 1990s can be characterized as trying to strike a balance between sovereignty, development, and security interests. China, like other disputants, never explicitly compromised its sovereignty claim. However, there have also been important changes in China's approach, which include gradually engaging in multilateral negotiations since the late 1990s, stronger eagerness to push for the proposal of "shelving disputes and joint exploitation", and accepting moral as well as legal restraints on the SCS issue. These changes are also demonstrated in China's signing of the Declaration on the Conduct of Parties in the South China Sea (DOC), its accession to the ASEAN Treaty of Amity and Cooperation, and the recent agreement with the Philippines and Vietnam to jointly explore the prospect of energy resources in the SCS.

Using extensive Chinese sources, this paper attempts to analyse the overall pattern in Beijing's handling of the SCS issue over the past decade. The focus is on the question why Beijing pursued this balanced approach to the SCS contention. I argue that Beijing has scrupulously treated the SCS issue as part of its foreign policy imperatives in Southeast Asia and thus pursued a strategy of calculated moderation to achieve its balanced interests in development, security, and sovereignty. China's own need for economic development, the collective pressures from ASEAN, and the strategic presence of other major powers, particularly the United States, effectively restrained Beijing from further advancing its interests in the SCS. I also examine China's positions on these latest developments in the SCS and the emerging regional economic cooperation schemes. In particular, I will discuss the Pan-Tonkin Gulf Economic Cooperation Zone proposed by the local Guangxi government and its security implications for the SCS. I conclude that China's balancing behaviour is likely to continue in the near future, which implies that there is a good chance of maintaining peace and stability in the SCS, at least from the Chinese perspective.

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## Security in the South China Sea: China's Balancing Act and New Regional Dynamics

China has been regarded as the most crucial actor on the South China Sea (SCS) dispute for a number of reasons. First of all, barring interference by other external powers, China is the strongest among all claimant states. Beijing's words and actions with regard to the SCS have a direct and the most influential impact on the situation in the region. Second, China claims the largest area of the SCS, including the Paracels, the Spratlys, the Macclesfield Bank, and the Pratas.<sup>1</sup> China's claims overlap with those of other disputant states. Third, although there have been numerous skirmishes among the various parties in the SCS, major naval conflicts occurred between China and two of the other competing states, namely, with Vietnam over the Paracels in 1974<sup>2</sup> and the Spratlys in 1988<sup>3</sup>, and with the Philippines over the Mischief Reef in 1995.<sup>4</sup>

Thus, understanding Beijing's approach to the dispute is very pertinent. Chinese policies towards the SCS can be seen as having gone through a few phases, including the "low profile" posture—mainly rhetorical declarations—in the 1950s and 1960s, assertive moves to establish a presence from the 1970s to mid 1990s, and "considerable restraint" since the mid 1990s.<sup>5</sup> In essence, Chinese policies since the mid 1990s can be characterized as trying to strike a balance between sovereignty, development, and security interests. China, like other disputants, never explicitly compromised its sovereignty claim. This can be illustrated by Chinese actions of

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<sup>1</sup> It should be noted that China has made it quite clear that it is no longer claiming the whole South China Sea region, but only the archipelagos and their adjacent waters, although this position is still ambiguous. Carolina G. Hernandez and Ralph Cossa (Eds.), *Security Implications of Conflict in the South China Sea: Perspectives from Asia-Pacific*, p. 19 (Institute for Strategic and Development Studies, Philippines, 1997).

<sup>2</sup> The 1974 conflict was partly motivated by the Chinese anxiety of Soviet security threat from the sea. Manvyn S. Samuels, *Contest for the South China Sea* (New York and London: Methuen, 1982). Chinkin Lo, *China's Policy Towards Territorial Disputes: The Case of the South China Sea Islands* (New York & London: Routledge, 1989).

<sup>3</sup> The 1988 Sino-Vietnamese conflict in the Spratlys had to do with the PLA Navy's interest in pushing for greater budget when Beijing was shrinking expenditure on military in the 1980s. See John W. Garver, "China's Push through the South China Sea: The Interaction of Bureaucratic and National Interests", *The China Quarterly*, No. 132, pp. 999–1028, December 1992.

<sup>4</sup> The 1995 Mischief conflict was partly a result of internal elite political power struggles in China. Ian James Storey, "Creeping Assertiveness: China, the Philippines and the South China Sea Dispute", *Contemporary Southeast Asia*, 21 (1), April 1999.

<sup>5</sup> Shee Poon Kim, "The South China Sea in China's Strategic Thinking", *Contemporary Southeast Asia*, 19 (4), March 1998.

erecting markers or other artificial features on some of the reefs in the later half of the 1990s, fishery disputes between China and the Philippines and Vietnam, Beijing's diplomatic quarrels with Hanoi, and constant Chinese rhetorical declaration of sovereignty in the SCS. However, there have also been important changes in China's approach, which include gradually engaging in multilateral negotiations since the late 1990s, stronger eagerness to push for the proposal of "shelving disputes and joint exploitation", and accepting moral as well as legal restraints on the SCS. These changes are demonstrated in China's signing of the Declaration on the Conduct of Parties in the South China Sea (DOC), its accession to the ASEAN Treaty of Amity and Cooperation, and the recent agreement with the Philippines and Vietnam to jointly explore the prospect of energy resources in the SCS.

Using extensive Chinese sources, this paper attempts to analyse the overall pattern in Beijing's handling of the SCS issue over the past decade. The focus is on the question why Beijing pursued this balanced approach to the SCS contention. The first part discusses the strategic importance that China has attached to the SCS, which best explains why Beijing firmly holds to the sovereignty claim in the SCS. The second section examines why China has pursued such an interest-balancing and relatively moderate approach in the past decade or so. I argue that Beijing has scrupulously treated the SCS issue as part of its foreign policy imperatives in Southeast Asia and thus pursued a strategy of calculated moderation to achieve its balanced interests in development, security, and sovereignty. China's own need for economic development, the collective pressures from ASEAN, and the strategic presence of other major powers, particularly the United States, effectively restrained Beijing from further advancing its interests in the SCS. In the third part of the paper, I examine China's positions on these latest developments in the SCS and the emerging regional economic cooperation schemes. In particular, I will discuss the Pan-Tonkin Gulf Economic Cooperation Zone proposed by the local Guangxi government and its security implications for the SCS. I conclude that China's balancing behaviour is likely to continue in the near future, which implies that there is a good chance of maintaining peace and stability in the SCS, at least from the Chinese perspective.

## The Strategic Importance of the SCS in Chinese Perspective

According to the Chinese, the SCS has always been important to them. Numerous Chinese sources claim that the Chinese ancestors discovered some of the islands in the SCS over 2,000 years ago and started various activities in the area ever since. In addition to the official position that China is legitimately entitled to sovereignty over much of the SCS on historical grounds, the intensity of Chinese claims may have sources slightly different from those of other disputants.

As is true to other parties, oil is perhaps the most important concern for China. This can be illustrated by the fact that similar to other parties concerned, the intensity of Beijing's claims of sovereignty over the SCS was felt for the first time in the 1960s and early 1970s when it was reported that the SCS may be abundant in oil and gas resources. Different from other claimant states, perhaps, is the strategic importance of oil in the SCS that Chinese analysts envision for the future of China's economy. An official Chinese report, published in 2003, noted that by 2020, China will have to import 500 million tons of oil and 100 billion cubic metres of natural gas, which account for 70 per cent and 50 per cent of China's total domestic consumption respectively.<sup>6</sup> Yet, China's known oil deposit in 2003 decreased by 20 per cent as compared to ten years ago. And China's oil production from 1997 to 2003 has stayed roughly constant at 160 million to 170 million tons annually.<sup>7</sup>

At a central meeting on economic issues on 29 November 2003, Chinese President Hu Jintao explicitly emphasized China's oil security. He urged his colleagues to view the energy issue from a new strategic height, adopt a new oil development strategy, and take effective measures to ensure China's energy security.<sup>8</sup> The SCS, often dubbed the "second Persian Gulf" in Chinese reports, has been regarded as one of the ten most important strategic oil and gas sources for China. A popular Chinese estimate of energy deposit in the SCS is somewhere between 23 billion to 30 billion tons of oil.<sup>9</sup>

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<sup>6</sup> Xu Longdi, "Ershiyi shiji diyuan zhengzhi zhong de nansha qundao" (Spratlys in the 21st geopolitics), *Journal of Shanghai Jiaotong University*, Vol. 1 No. 5, 2005.

<sup>7</sup> Task Team of China Land and Resources Security Analysis, "Wo guo nengyuan wenti de hexin—shiyou anquan" (The core of China's energy issue—oil security), *Zhongguo guotu ziyuan bao (China Land and Resources Newspaper)*, 21 November 2005.

<sup>8</sup> Shi Hongtao, "Zhongguo de maliujia kunju" (China's Malacca Dilemma), *China Youth Daily*, 15 June 2004.

<sup>9</sup> Chen Shangjun, "Ruhe renshi haiyang zai guojia nengyuan anquan zhanlue zhong de diwei" (How to understand the role of the sea in China's energy security strategy), *China Oceans Newspaper*, 30

Another important consideration for China is strategic security. The SCS, which connects the Malacca Strait to the Southwest and Balintang Channel, Bashi Channel, and Taiwan Strait to the Northeast, is perceived as the “throat” of the Pacific Ocean and Indian Ocean. Chinese analysts believe that the SCS is uniquely important to China. First of all, the SCS is regarded as a natural shield of China’s security in the South. China’s southern regions are densely populated and relatively developed. Stability and security in this region is critical for China’s national security. Second, having a strong foothold in the SCS would give China a strategic defence hinterland of 1,000 kilometres, the security implication of which is “incalculable”.<sup>10</sup> Some sort of Chinese security leverage in the SCS would certainly serve as a restraining factor for the U.S. Seventh Fleet that has been active transiting the Pacific Ocean and the Indian Ocean. Third, geographically, China is surrounded by a chain of islands in the East. Given the fact that the United States has always intended to preserve a strong military presence in the West Pacific, Beijing feels that having a strong presence in the SCS would give China at least some more strategic manoeuvring space. Fourth, Chinese strategists believe that geopolitically, China is vulnerable both on land and from the sea. This double vulnerability has been ameliorated to some extent due to China’s improved relations with various land neighbours. In the future, challenges to China’s territorial integrity and sovereignty will mostly come from the ocean, including the South China Sea.<sup>11</sup>

Marine economy, for instance, fishery, is another important factor in Beijing’s considerations. Also, similar to all other competing states and external powers, the SCS is also significant to Chinese interests because it contains very important flight routes and sea lanes of communication. Its importance as a transportation outlet is related to the Malacca Strait, which is a crucial channel for China’s energy security.

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August 2005; Li Zengtang and Tian Yudong, “*Er ling yi ling nian qian wo guo haiyang shiyou canliang jiang fan bei*” (China’s oil production in the sea to double before 2010), *Zhongguo haiyang bao* (China Oceans Newspaper), 23 September 2005.

<sup>10</sup> Hou Songling, “*Zhongguo yu dongmeng guanxi zhong de bu wending yinsu—nansha wenti*” (A destabilizing factor in China-ASEAN relations: Spratlys), *Southeast Asia Studies*, Issue 5/6, 2000.

<sup>11</sup> Liu Zhongmin, *Journal of Foreign Affairs University*, Vol. 80, February 2005.



## China Balances Economic, Security and Sovereign Interests

China's approach to territorial disputes has never been a separate or isolated endeavour; rather it has always been subjected to the more important imperatives of the time, either external or internal.<sup>12</sup> The SCS is of no exception in Beijing's strategic thinking. For instance, in the mid 1970s, in order to achieve the larger foreign policy goal of securing support from other Southeast Asian states to counter the Soviet-Vietnamese alliance, China played down the SCS issue with the Philippines.<sup>13</sup> The 1974 Chinese military assault against the South Vietnamese in the Paracels was partly an effort to pre-empt Moscow from using the islands to threaten China's security from the sea.<sup>14</sup> And in the aftermath of Tiananmen, in order to break the diplomatic isolation imposed by the West, China showed a quite conciliatory posture on the SCS issue towards other disputants. For instance, in August 1990, then Premier Li Peng announced in Singapore that China was prepared to shelve the dispute of sovereignty and cooperate with other claimants in joint development.<sup>15</sup>

Given the political, economic, and strategic importance of the SCS to China, many decision-makers in China may have wished to use assertive means to push for China's interests in the area. However, in the past decade, there has been no major military conflict between China and other disputants over the SCS. China, on one hand, officially held an obstinate position on its claim of sovereignty, took peace-meal actions to consolidate its presence in the SCS, and responded with stern warnings when other disputants acted against Chinese interests. On the other hand, Beijing felt that it had to address other more important goals in its foreign policy towards Southeast Asia, entailing quite a few significant changes in China's actual behaviour.

One significant change is the shift from its previous adamant insistence on bilateral talks to gradually accepting multilateralism as an approach. The signing of the DOC is a good example. Although the DOC is not a treaty in the legal sense, it

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<sup>12</sup> M. Taylor Fravel, "Regime Insecurity and International Cooperation: Explaining China's Compromises in Territorial Disputes", *International Security*, Vol. 30, No. 2, pp. 46–83, (Fall 2005).

<sup>13</sup> Eric Hyer, "The South China Sea Disputes: Implications of China's Earlier Territorial Settlements" *Pacific Affairs*, Vol. 68 No. 1, pp. 34–54, (Spring 1995).

<sup>14</sup> David Muller, *China's Emergence as a Maritime Power*, pp. 152–154 (Boulder: Westview, 1983). Gerald Segal, *Defending China*, pp. 197–210 (New York & London: Oxford University Press, 1985).

<sup>15</sup> Nayan Chanda and Tai Ming Cheung, "Reef Knots", *Far Eastern Economic Review*, p. 8, 30 August 1990.

does serve as a moral restraint on the parties concerned. It demonstrated to some extent China's acceptance of norms to regulate issues concerning the SCS, no matter how primitive and informal the norms are. Together with the traditional "joint exploitation" proposal, the DOC indicated further compromise of the Chinese sovereignty claim. Also, by joining the ASEAN Treaty of Amity and Cooperation (TAC), China has legally committed itself not to use force against members of the ASEAN. The two documents are particularly binding for China because of Beijing's own peace and harmony rhetoric and international scrutiny over the track record of China acting as a rising responsible power. Another change in Chinese policy is Beijing's increasing intensity of pushing for concrete programmes of joint development, whereas in the past Beijing has been criticized for advocating "shelving disputes, joint development" without any practical proposals.

The question that ought to be asked is why China adopted these relatively more moderate policies. It is a question that is important to not only understand the history in the past decade, but also shed light on future development in the SCS. There are of course numerous reasons that one can come up to answer the question. One factor that most observers can agree upon is insufficient capability of the PLA.<sup>16</sup> This factor alone does not give us a satisfactory explanation though; after all, China did take forceful actions in 1974, 1988, and 1995 when its navy was even far inferior. So, there must be other political or strategic concerns that compelled Beijing to act the way it did. At the risk of over-simplification, one can perhaps argue that three major factors played a crucial role in shaping China's approach: the need for a peaceful neighbourhood for domestic economic development, the importance of ASEAN, and the strategic pressures from other external powers. In the words of Chinese analysts, China needs to safeguard its national unification and maritime rights, but at the same time it also faces the task of avoiding potential conflicts with neighbouring countries so as not to endanger China's other strategic interests.<sup>17</sup>

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<sup>16</sup> Felix K.Chang, "Beijing's reach in the South China Sea", *Orbis*, Vol. 40, Issue 3, Summer 1996.

<sup>17</sup> "Zuzhi nansha yuye shengchan weihu guojia haiyang quanyi" (Organize fisheries in the Spratlys and safeguard the national maritime rights), *Zhongguo yuye bao (China Fishery Newspaper)*, 3 April 2006; Tian Xinjian and Yang Qing, "Zhengque renshi he chuli zhongguo yu dongmeng de haiyang quanyi zhengduan" (Correctly understand and handle the maritime disputes between China and ASEAN), *Zhongguo haiyang bao (China Oceans Newspaper)*, 14 June 2005.

### *The Imperative of Domestic Economic Growth*

First of all, the less assertive behaviours of China in the SCS in the past decade or so reflect Beijing's overall concern of creating a peaceful and stable surrounding environment.<sup>18</sup> It is no surprise that Chinese foreign policy became more pragmatic and less assertive roughly at the same time when China launched its domestic economic reform programme in the late 1970s and early 1980s. Chinese leaders understood that a conflict-free neighbourhood was essential for China to concentrate on domestic economic matters and engage the outside world in trade and other economic exchanges. The late Chinese leader Deng Xiaoping clearly linked peace and development in his grand design of China's reform and opening up drive. In the late 1970s, Deng for the first time professed China's proposal of "shelving disputes and joint development" on the Diaoyu/Senkaku islands disputes with the Japanese. In June 1986, during then Philippine vice president Salvador Laurel's visit to Beijing, Deng proposed to him that "the South China Sea issue can be put aside at the moment. We will not allow this issue to hamper [our] friendly relations with the Philippines and other countries."<sup>19</sup>

Creating a stable and peaceful neighbourhood also conforms to one of the pillars in Chinese international strategy in the post-Cold War era—"basing upon Asia-Pacific and stabilizing the neighbourhood" (*lizhi yatai, wending zhoubian*). Numerous Chinese analysts have argued that the SCS issue had become a hot spot in Asia-Pacific and also an issue in China's relations with ASEAN. They cautioned that China should be sober-minded and objectively assess the situation and contingencies in the SCS. Properly handling the SCS issue to reduce tensions with some ASEAN countries should be an integral part of China's effort to create and maintain a peaceful environment in the surrounding areas and in the Asia-Pacific.<sup>20</sup>

Economically, Southeast Asia is also an important partner for China's modernization. For many years, ASEAN has been China's fifth largest trading partner. Up to 2005, ASEAN countries had invested in 26,000 projects in China, involving

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<sup>18</sup> For the linkage between domestic reforms and foreign policy, see Mingjiang Li, "China's Proactive Engagement in Asia: Economics, Politics and Interactions", *RSIS Working Paper*, No. 134, July 2007.

<sup>19</sup> Wang Chuanjun, "Zhong fei yue dapo jiangju kaifa nanhai" (China, the Philippines, and Vietnam break the deadlock to jointly exploit the South China Sea), *Huan qiu shi bao (Global Times)*, 16 March 2005.

<sup>20</sup> Hou Songling, *Southeast Asia Studies*, Issue 5/6, 2000; Guo Yuan, "Cong mulin zhengce kan zhongguo zai nanhai wenti shang de lichang he zhuzhang" (China's posture and positions on South China Sea seen from the good neighbour policy), *China's Borderland History and Geography Studies*, Vol. 14, No. 4, December 2004).

some \$38.5 billion total investment.<sup>21</sup> Southeast Asian countries, for instance, Indonesia, Brunei, Vietnam, Thailand, and Myanmar, have a fairly large amount of energy reserve and the cost of exploitation is relatively low. Energy cooperation with these countries will be significant for China's energy security.<sup>22</sup> By the mid 1990s, Beijing was convinced that its good relations with ASEAN were far more important than the benefits that an aggressive Chinese policy might get in the SCS region.<sup>23</sup>

### *The Weight of ASEAN in China's Diplomacy*

Southeast Asia is the key area in China's neighbourhood essential for China's goal of creating and maintaining a peaceful environment. China's caution in the SCS also had to do with the role of the ASEAN as a grouping. Although in reality, ASEAN as a regional organization may have been more circumspect in dealing with Beijing on the SCS issue, Chinese analysts believe that ASEAN has been quite straightforward in putting pressure on China.<sup>24</sup> In the Chinese accounts, ASEAN lopsidedly supported its members that are disputants in the SCS, used various ASEAN-related forums to constrain China, and tried to drag in external powers into the dispute.<sup>25</sup> The pressures from ASEAN have been effective in changing Beijing's attitude and behaviours in the SCS simply because ASEAN is too important for China to ignore or antagonize.

A few concrete actions by ASEAN are frequently mentioned by Chinese analysts. In February 1992, China enacted its Law on the Territorial Sea and the Contiguous Zone, which states that the territory of China includes much of the SCS. At the ministerial meeting of 1992, ASEAN issued the Declaration on the SCS and stated that any adverse development in the South China Sea would directly affect the

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<sup>21</sup> Wang Qing, "Zhuanjia: zai dong nan ya xiujian xin de nengyuan yunshu tongdao" (Expert opinion: building a new energy transportation line in Southeast Asia), *First Financial and Economic News Daily*, 31 October 2006.

<sup>22</sup> Li Jicheng, "Zhongguo yu dongmeng nengyuan hezuo de xianzhuang yu qianjing" (The state and prospect of China-ASEAN energy cooperation), *Around Southeast Asia*, Issue 9, 2004.

<sup>23</sup> Tian Xinjian and Yang Qing, *Zhongguo haiyang bao* (China Oceans Newspaper), 14 June 2005.

<sup>24</sup> Most Chinese analysts believe that ASEAN has been intent on putting pressure on China on the SCS issue. See Xiao Xian and Luo Jianbo, "Lengzhan hou dongmeng anquan hezuo de shenhua ji qi dui wo guo zhoubian anquan huanjing de yingxiang" (The deepening of ASEAN security cooperation in the post-Cold War era and its impact on China's peripheral security environment), *Journal of Yunnan Administration College*, May 2005; Zhao Ruiling, "Dongmeng dui nan zhongguo hai wenti de jieru ji qi xiaoji yingxiang" (ASEAN's interference in the South China Sea issue and its negative impact), *Journal of PLA University of Foreign Languages*, Vol. 25, No. 6, November 2002.

<sup>25</sup> Xiao Xian and Luo Jianbo, "Lengzhan hou dongmeng anquan hezuo de shenhua ji qi dui wo guo zhoubian anquan huanjing de yingxiang" (The deepening of ASEAN security cooperation post-Cold War and its impact on China's peripheral security environment), *Journal of Yunnan Administration College*, May 2005,

peace and security in the region. While urging all parties concerned to practise self-restraint, they also emphasized that the use of force should not be allowed in any territorial or jurisdictional dispute in the region.<sup>26</sup> These early actions by ASEAN put China on the defensive. At the 1992 ASEAN ministerial meeting, then Chinese foreign minister Qian Qichen reiterated China's policy of "shelving disputes and joint development", reassuring ASEAN countries that China values friendly cooperative relations with them and does not wish to see conflicts over the dispute.<sup>27</sup>

Beijing also believed that ASEAN supported the Philippines and Vietnam whenever there was a conflict between China and the two ASEAN members. The Mischief conflict in 1995 was quite destructive to China-ASEAN relations. Many Southeast Asian states were alarmed by China's show of assertiveness. In March 1995, the Ramos government was able to obtain a statement from ASEAN, in which ASEAN foreign ministers expressed "serious concern" over developments in the SCS. The statement was a clear message to China that ASEAN was concerned about Chinese assertive actions in the SCS. Then, in April, during the first China-ASEAN senior officials meeting, ASEAN again stated that the recent Chinese action affected the stability in the region and impaired the mutual trust between China and ASEAN. The Mischief issue was again raised at the second ARF meeting in August 1995, and China, in the face of grievance from ASEAN, stated that it was willing to solve the SCS problem on the basis of the United Nations Convention on the Law of the Sea (UNCLOS). The Philippine leaders were happy that ASEAN had stood behind them and dealt with China with "unusually forceful terms" and "with one voice".<sup>28</sup>

Starting from the mid 1990s when Vietnam joined the ASEAN, Hanoi proved its preparedness to use ASEAN as a collective force to deal with China.<sup>29</sup> According to Chinese analysts, Vietnam has been pursuing three-pronged strategy. First, after becoming a formal member of ASEAN, Vietnam has tried to unite with other claimant states to put pressure on China. Second, after the signing of the DOC in 2002,

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<sup>26</sup> (Wu Shicun and Ren Huaifeng, "More Than a Declaration: A Commentary on the Background and the Significance of the Declaration on the Conduct of the Parties in the South China Sea" *Chinese JIL*, 2003.

<sup>27</sup> "Zhu Rongji zongli chuxi dongmeng youguan huiyi he fangwen jianpuzhai qude chenggong" (Premier Zhu Rongji's participation in ASEAN-related meetings and visit to Cambodia a success), *People's Daily*, 5 November 2002.

<sup>28</sup> Ian James Storey, "Creeping Assertiveness: China, the Philippines and the South China Sea Dispute", *Contemporary Southeast Asia*, 21(1), April 1999.

<sup>29</sup> Ang Cheng Guan, "Vietnam-China Relations since the End of the Cold War", *Asian Survey*, Vol. 38, No. 12, pp. 1131-1133, December 1998.

Vietnam has played brinksmanship by launching new rounds of sovereignty claims in the SCS. Third, Vietnam has tried to pull in other external powers, such as the United States, Japan, and India into the SCS dispute. From the Chinese perspective, granting contracts to Western oil companies concerns Vietnamese economic interests, but more fundamentally it is a Vietnamese strategy to internationalize the dispute.<sup>30</sup>

China felt the restraint on its actions in the SCS. On one hand, Beijing was aware that it simply could not forego its sovereignty claim. On the other hand, if the situation gets out of control, it will surely cause military conflicts with other claimant countries, which leads to a tense situation in the SCS and a deterioration of China's security in the neighbourhood and the rise of the "China threat" rhetoric in Southeast Asia.<sup>31</sup> This is why Beijing had to adopt some conciliatory policies towards Vietnam and the Philippines.

In November 1994, China and Vietnam agreed to set up a joint work team to handle the bilateral disputes over the Spratlys during then Chinese President Jiang Zemin's visit to Vietnam. The joint team was established in July 1995 and started talks on the Spratlys. In the China-Vietnam joint statement in 2000, the two sides vowed to continue to maintain the existing mechanisms of negotiations on the sea to seek a durable solution acceptable to both sides. The two sides also agreed to cooperate on issues of maritime environmental protection, meteorology, and disaster prevention.

After the Mischief conflict in March 1995, China and the Philippines held talks a few months later. The talks concluded with an eight-point joint declaration, which constitutes a "code of conduct" between the two claimant countries. The agreement included confidence-building measures and no use of force or the threat of force commitment in solving disputes. In March 1999, during the Sino-Philippine meeting on "confidence-building measures in the South China Sea", the two sides agreed to further expand their military dialogue and cooperation and adopt measures to avoid conflicts. At the third meeting in 2002, China and the Philippines reached ten points of understanding and consensus, confirming their willingness to further develop confidence-building measures. With regard to Malaysia, Beijing and Kuala Lumpur

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<sup>30</sup> Gu Yu, "Waijiao boyi nanhai shiyou" (The diplomatic game over oil in the South China Sea), *Ya tai jingji shi bao (Asia-Pacific Economic Times)*, 29 October 2004.

<sup>31</sup> Luo Li and Yuan Shulin, "Zhongguo guojia anquan zhong de nanhai wenti chu tan" (A tentative analysis of the South China Sea issue in China's national security), *Journal of Jinan University*, Sum No. 114.

agreed on some principles in 1994 to solve the Spratly dispute. In the framework paper on bilateral future cooperation signed by the two countries in May 1999, China and Malaysia noted that they would join hands to maintain peace and stability in the SCS. In 1996, ASEAN foreign ministers meeting endorsed the idea of drafting a code of conduct, which was officially accepted in 1998 at the ASEAN summit. China reluctantly agreed to talk about a code of conduct in 1999.

### *Strategic Pressure from Other External Powers*

The United States strategic presence in the region also served as an effective deterrence against any Chinese expansion of influence in the SCS. In the post-Cold War era, the United States has always been a significant factor in China's regional security. According to Chinese analysts, Washington has been intent on preventing the emergence of any other major power from challenging its global hegemony.<sup>32</sup> That is why the United States has made tremendous efforts to organize a potential or even de facto containment against China that stretches from Korean Peninsula, Japan, Taiwan, to Southeast Asia, including the SCS.<sup>33</sup> According to Chinese analysts, the purpose of the U.S. military redeployment and enhancing military ties with some regional states is to facilitate military intervention if necessary in the Taiwan Strait and the SCS.<sup>34</sup> These pessimistic views are shared by top Chinese leaders. Former President Jiang Zemin, in an internal meeting, explicitly pointed out that the United States, although a country far away from China's neighbourhood, was a crucial player in influencing China's security environment in the peripheral regions.<sup>35</sup>

Chinese observers maintain that historically the United States has always been involved in the SCS issue, as far back as the Southeast Asia Collective Defence

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<sup>32</sup> Zhang Xin, "Jingti! Meiguo zai baowei zhongguo" (Be vigilant: the United States is encircling China), *Dong ya jingmao xinwen bao (East Asian Economic and Trade News)*, 7 July 2000.

<sup>33</sup> Wu Guangyi, "Zhongguo zhoubian anquan de jiyu yu tiaozhan" (Challenges and opportunities in China's security in neighbouring regions), *Bulletin of China Academy of Social Sciences*, 28 December 2004.

<sup>34</sup> Chen Liuning, "Jiedu meiguo dong nan ya zhanlue tiaozheng" (Interpreting U.S. strategic readjustments in Southeast Asia), *Shijie bao (The World)*, 31 May 2005. Wang Chuanjun, "Qu wai da guo dui nanshai diqu de shentou ji qi yingxiang" (External powers' involvement and its influence in South China Sea), *Dang dai ya tai (Contemporary Asia-Pacific)*, Issue 11, 2001; Liu Zhongmin, "Hai quan wenti yu zhongmei guanxi shulun" (An analysis of maritime rights and China-U.S. relations), *Northeast Asia Forum*, Vol. 15, No. 5, September 2006.

<sup>35</sup> Jiang Zemin, *Selected Works of Jiang Zemin*, Vol. 3, p. 318, Beijing: People's Press, 2006.

Treaty.<sup>36</sup> Beijing came to realize that since the mid 1990s, the United States has changed its apparently neutral position to some sort of active involvement. According to Chinese strategists, in a nutshell, the United States has three purposes in its SCS policy. First, the United States wants to use the SCS dispute as part of its strategy to contain China. Second, Washington intends to use the SCS issue to strike a wedge in China-ASEAN relations. Third, the United States wants to use the SCS issue as an excuse to keep and strengthen its military presence in Asia-Pacific to preserve its hegemonic position in the region.<sup>37</sup>

Chinese analysts believe that they have sufficient evidence to demonstrate U.S. intention to be involved in the SCS. For instance, during the ASEAN ministerial meeting in 1995, then U.S. secretary of state Christopher stated that the SCS dispute was one reason why the United States needed to maintain a strong presence in Asia-Pacific. The United States proposed at the 1999 ARF senior officials meeting to set up a work group to expedite the conflict resolution mechanism on the SCS. At the ARF senior officials meeting in 2000, American participants again made the same proposal. The Visiting Troops Agreement between the Philippines and the United States declares that the United States will be responsible to defend the Philippines. The new defence cooperation guidelines between Japan and the United States implicitly incorporate Taiwan and the SCS into the sphere of their joint defence.

China takes special note of the military exercises between Southeast Asian nations and the United States. One Chinese report mentions that in the five years prior to 2005, such joint exercises numbered over 30. In March 2004, the *Balikatan* (literally meaning shoulder to shoulder) exercise between the United States and the Philippines for the first time was held at a location where China and the Philippines contend for sovereignty. It was also the first time that the objective of the exercise changed from the previous goal of counter-terrorism to defense against invasion of a third party.<sup>38</sup> From the Chinese viewpoint, the United States was pulled into the SCS

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<sup>36</sup> Zhang Mingliang, “*Cong dong nan ya jiti fangwu tiaoyue kan meiguo de nan zhongguo hai zhengce*” (U.S. South China Sea policy as seen in the Southeast Asian Collective Defence treaty), *Southeast Asian Studies*, Issue 6, 2004.

<sup>37</sup> Qiu Danyang, “*Zhong fei nansha zhengduan zhong de meiguo yinsu*” (The U.S. factor in China-Philippine Spratlys contention), *Contemporary Asia-Pacific*, Issue 5, 2002.

<sup>38</sup> Luo Li and Yuan Shulin, “*Zhongguo guojia anquan zhong de nanhai wenti chu tan*” (A tentative analysis of the South China Sea issue in China’s national security), *Journal of Jinan University*, Sum No. 114.



issue because of some Southeast Asian states, in particular Vietnam and the Philippines, to balance Chinese power in the SCS.<sup>39</sup>

In the perception of Beijing, the United States is not alone in the imbroglio of rivalry in the SCS among major powers. According to Chinese analysts, since 2000, India ostensibly increased its activities in the SCS region, with the purpose of pressuring China to make concessions on other important matters and to achieve its goal of being a maritime power and a world power.<sup>40</sup> To China, Japan has also in recent years expanded its security influence from Japan's main islands to encompass "peripheral areas" that may include the SCS. China has taken special caution of Japanese participation in some military exercises, for instance, the Pacific Reach 2000 in the SCS.

There is quite substantial evidence to show that Beijing was worried about the internationalization of the SCS issue due to the involvement of these external powers. And the Chinese did try to limit the influence of other powers in the SCS. In November 1999, when the Philippines announced a joint military exercise with the United States near the Spratlys, Chinese ambassador in Manila immediately opposed the plan. In the process of drafting the code of conduct, China proposed that some measures need to be adopted to limit U.S. involvement in the SCS, but ASEAN preferred to keep the option open for military exercises.<sup>41</sup> During the negotiation for a code of conduct, the Chinese insisted that disputants should refrain from conducting military exercises at the Spratlys and the adjacent waters targeting other countries.<sup>42</sup> While attending the 7th ARF, China's Foreign Minister, Tang Jiaxuan, raised Beijing's concern over the issue of U.S. joint military exercises, stating that the increase in the number of U.S. joint military exercises in the region was a negative

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<sup>39</sup> Wei Hong, "Meiguo yinsu dui zhongguo yu dongmeng guanxi de yingxiang", *Nanyang wenti yanjiu* (Southeast Asian Affairs), No. 1, 2006; Du Chaoping, "Lun yin yue zhanlue huoban guanxi ji dui wo guo de yingxiang" (India-Vietnam strategic partnership and its impact on China), *Southeast Asian Studies*, Issue 4, 2001.

<sup>40</sup> Wang Chen, "Yindu jiaqiang zai nan zhongguo hai diqu de huodong ji wo guo de duice" (India's increasing activities in the South China Sea and China's counter strategy), *The World Economic and Political Forum*, Issue 1, 2001.

<sup>41</sup> Li Jinming, "Cong dongmeng nantai xuanyan dao nantai gefang xingwei xuanyan" (From ASEAN declaration on the South China Sea to the declaration of the parties on the code of conduct in the South China Sea), *Dong nan ya* (Southeast Asia), Issue 3, 2004.

<sup>42</sup> Leszek Buszynski, "ASEAN, the Declaration on Conduct, and the South China Sea", *Contemporary Southeast Asia*, 25(3), December 2003.

development that was undermining efforts to build confidence in the region and was deleterious to the security and stability of the region.<sup>43</sup>

In response to U.S. strategy of seeking preponderance and its heavy-handed approach to China, Beijing felt that it could not take the risk of being assertive in the SCS. For instance, ASEAN attempted to persuade China to engage in a multilateral approach since 1992, but China did not respond positively. The multilateral approach was reached in November 2002 when the DOC was signed. China, being a stronger power versus other ASEAN countries, did not have the incentive to agree to a multilateral approach until the United States took part in the balance of power game over the SCS. In the meantime, Beijing began to take proactive measures, changing its previous tactic of using economic measures only to using both economic and political tools.<sup>44</sup> China has adopted two strategies on the SCS issue, according to a Chinese analyst. First, Beijing has tried to demonstrate to ASEAN nations, through concrete Chinese actions, China's respect of its smaller Southeast Asian neighbours, understanding of their concerns, and willingness to help with their needs. Secondly, China has been inclined to openly and formally accept various legal responsibilities and political commitments through signing various treaties or documents to show to ASEAN states that China was willing to practise self-restraint.<sup>45</sup>

Chinese analysts maintain that by signing the DOC, China demonstrated its political sincerity to act as a responsible major power. It has also to a certain extent mitigated relevant countries' misgivings of China seeking hegemony in the SCS, which in turn was a big blow to the "China threat" thesis.<sup>46</sup> After the signing of the DOC, Chinese vice foreign minister Wang Yi proclaimed that "signing the declaration is positive in that it sends a clear signal to the outside world: parties in the region are completely capable of properly handling their existing differences through dialogue and maintaining peace and stability in the SCS region through cooperation".<sup>47</sup> Through these actions, coupled with confidence-building measures, improving relations with members of the ASEAN, and openly supporting the freedom

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<sup>43</sup> Yang-huei Song, "The Overall Situation in the South China Sea in the New Millennium: Before and After the September 11 Terrorist Attacks", *Ocean Development & International Law*, 34, pp229–277, 2003.

<sup>44</sup> Zhang Xizhen, "Dong nan jin ling, zhongguo waijiao zai fa li" (China again makes diplomatic foray in Southeast Asia), *Southern Weekend*, 28 August 2003.

<sup>45</sup> Zhang Xizhen, *People's Daily*, 9 October 2003.??

<sup>46</sup> Nu Anping, *Zhongguo chanjing xinwen bao (China Industrial and Economic News)*, 2 March 2004.

<sup>47</sup> Li Jinming, *Dong nan ya (Southeast Asia)*, 2004, issue 3.

of navigation, China sought to prevent the United States from intervening, sending a political signal to Washington that China and various ASEAN countries can cooperate in finding a political solution to the disputes and they do not need U.S. “help”.<sup>48</sup>

### **New Domestic and Regional Dynamics and Possible Future Trajectory**

A central question that we ought to ask is whether the Chinese interest-balancing approach, which carries with it some moderation and relative restraint, is sustainable. This part of the paper tries to examine China’s views on some of the positive developments that have taken place, perceptions of the larger strategic context, and the role of local Chinese governments.

#### *Beijing Sets Eyes on Status Quo*

Apparently, China is quite happy with the latest developments on the SCS. Despite its initial reluctance to join the negotiations and many objections in the process, Beijing feels that the DOC is the best deal that could have been reached with other claimant states. The official newspaper, *People’s Daily*, proclaimed: The Declaration, the first political document on the SCS between China and ASEAN, has positive implications for China to maintain its sovereign rights, maintain peace and stability in the SCS region, and enhance mutual confidence between China and ASEAN.<sup>49</sup>

Beijing believes that the DOC, although simply a declaration of principles that have no legally binding force, should at least curb or restrain other states from expanding their presence and resource exploitation in the SCS. Beijing was also quick to use the DOC to censure Vietnam. In early 2004, when it was reported that Vietnam was planning to organize tourist activities in the SCS, Chinese foreign ministry spokesman Kong Quan referred to the DOC, saying that “we expect the party concerned to respect the bilateral consensus, respect the principles stipulated in the DOC, ... and avoid any action that might lead to further complication of the situation”.<sup>50</sup> In May the same year, when Vietnam started to construct an airplane

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<sup>48</sup> Shi Jiazhu, “Nanhai jianli xinren cuoshi yu quyuan anquan” (Confidence-building measures in South China Sea and regional security), *Guoji guancha (International Observation)*, Issue 1, 2004.

<sup>49</sup> Mi Ligong and Zhang Ruiling, “Zhongguo yu dongmeng qianshu nanhai ge fang xingwei xuanyan” (China and ASEAN sign the DOC), *People’s Daily*, 5 November 2002.

<sup>50</sup> *People’s Daily*, 26 March 2004.

runway on one island under its occupation, both China and the Philippines demanded Vietnam to observe the principles of the DOC.<sup>51</sup> During the 11th China-ASEAN senior officials meeting in April 2005, China and Vietnam agreed to hold a work meeting on implementing the DOC.<sup>52</sup>

On the other hand, the Chinese are sceptical that the DOC has served as an effective means to curb the assertive actions of other claimant states. Chinese sources frequently criticize other disputants of continuing to exert political and diplomatic offence against China, stepping up efforts to exploit the resources, frequent military patrols to those unoccupied islets, carrying out missions of exploration and survey, upgrading their naval power, and engaging external powers in military exercises to further internationalize the dispute.<sup>53</sup> Using the DOC as an instrument by China to restrain other claimants' behaviour may essentially legitimize other parties' utilization of the document to censure Beijing's future expansive actions in the SCS.

"Shelving disputes and joint development" continues to be the favoured approach by China, as illustrated in Beijing's attitude toward the newly-reached trilateral agreement among China, the Philippines, and Vietnam. According to Chinese reports, to facilitate the conclusion of the Sino-Philippine deal in 2003, China offered a monetary swap arrangement with Manila in case of financial crisis and made a preferential loan of US\$500 million to the Philippines.<sup>54</sup> According to Chinese Deputy Foreign Minister Wang Yi, "the deal actually symbolizes new progress in China's relations with ASEAN. It also signals a new level of trust between the two parties."<sup>55</sup> Later, Vietnam joined the agreement and the three parties agreed to conduct seismic surveys to prospect petroleum resources in parts of the SCS. The project has been hailed as a success story of China's "joint development" proposal and "an important step" towards a peaceful solution of the SCS.<sup>56</sup> Chinese foreign ministry spokesman Liu Jianchao stated that the trilateral cooperation was an

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<sup>51</sup> Zhang Mingliang, "Nan zhongguo hai: hezuo zhi hai ruhe hezuo" (South China Sea: how to cooperate on "the sea of cooperation"), *Shijie zhishi (World Knowledge)*, Issue 18, 2006.

<sup>52</sup> Wei Yudong, "Di shi yi ci zhongguo-dongmeng gaoguan cuoshang juxing" (The 11th China-ASEAN senior officials meeting), *People's Daily*, 30 April 2005.

<sup>53</sup> Liu Zhongmin, *Journal of Foreign Affairs University*, Vol. 80, February 2005.

<sup>54</sup> Chen Ting, "Zhong fei kaifa nan zhongguo hai xieyi qianshu" (China and the Philippines sign South China Sea exploitation agreement), *21st century economic reports*, 13 November 2003.

<sup>55</sup> Wu Shicun and Ren Huaifeng, "More Than a Declaration: A Commentary on the Background and the Significance of the Declaration on the Conduct of the Parties in the South China Sea" *Chinese JIL*, 2003.

<sup>56</sup> Dong Shaopeng, *Guoji jinrong bao (International Financial News)*, 2 December 2005. Gu Yu, "Waijiao boyi nanhai shiyou" (The diplomatic game over oil in South China Sea), *Ya tai jingji shi bao (Asia-Pacific Economic Times)*, 29 October 2004.

important measure in implementing the DOC and an important contribution to the stability and development of the SCS region.<sup>57</sup> Chinese ambassador to the Philippines Wu Hongbo noted that China would also welcome other parties involved in the SCS issue to participate in the joint venture.<sup>58</sup>

While feeling positive about the latest developments among parties concerned, Chinese analysts believe that other claimant countries are still using their previous strategies, using ASEAN to put pressures on China at ARF and Asia-Europe meetings and at the same time dragging in other external powers to deter Chinese aggression.<sup>59</sup> China is also vigilant and resentful of other powers' intentional involvement in the SCS issue. Beijing was on its guard when Tokyo and Washington jointly stated that they would work together to deal with unstable issues in the Asia-Pacific region.<sup>60</sup>

#### *A Pan-Tonkin Gulf or Pan-SCS Economic Zone?*

In addition to the above-mentioned Chinese views on the regional and international dynamics, it is also useful to examine the role of some local Chinese governments,<sup>61</sup> who are passionately pushing for further economic interdependence with Southeast Asia. Interdependence of course does not function to restrain assertive international behaviours automatically, but coupled with the strong incentives of political leaders to focus on domestic economic development and their desire to use trans-national economic exchanges for their domestic programmes, interdependence assumes greater importance in maintaining regional stability and peace.<sup>62</sup> Chinese analysts believe that closer economic and political ties will reduce the likelihood of open conflicts over the SCS and other claimant countries may be more likely to agree to the Chinese

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<sup>57</sup> Zhou Lei, "Zhongguo licu nanhai hezuo shi zhi chengwei youyi zhi hai" (China endeavours to make the SCS into a sea of friendship), *People's Daily*, 16 March 2005.

<sup>58</sup> Wang Chuanjun, "Zhong fei yue dapo jiangju kaifa nanhai" (China, the Philippines, and Vietnam break the deadlock to exploit the SCS), *Huan qiu shi bao (Global Times)*, 16 March 2005.

<sup>59</sup> Luo Li and Yuan Shulin, "Zhongguo guojia anquan zhong de nanhai wenti chu tan" (A tentative analysis of the South China Sea issue in China's national security), *Journal of Jinan University*, Sum No. 114.

<sup>60</sup> Chou Huafei, "Quanqiu hua shidai de zhongguo zhoubian anquan huanjing" (China's peripheral security in the era of globalization), *Shehui kexue (Social Sciences)*, Issue 5, 2005.

<sup>61</sup> One study has shown the usefulness of focusing on local provincial actors in China-ASEAN relations. Daojiong Zha, "Localizing the South China Sea problem: the case of China's Hainan", *The Pacific Review*, Vol. 14, No. 4, pp. 575–598, 2001.

<sup>62</sup> For the restraining effect of economic development on China's foreign policy, see Zhang Yunling and Tang Shiping, "China's Regional Strategy", in David Shambaugh (Ed.), *Power Shift: China and Asia's New Dynamics* (University of California Press, 2006).

proposal of “shelving disputes and joint development”,<sup>63</sup> as the Sino-Philippine deal on energy exploration has demonstrated.<sup>64</sup>

On the part of China, it is also worthwhile to focus on local provinces to understand some of the new developments that may have a direct bearing on the SCS. Local provincial actors, Yunnan, Guangxi, and Hainan have played an important role in shaping China’s relations with ASEAN countries. Yunnan played a pivotal role in initiating many of the proposals in regard to China’s relations with other continental ASEAN countries, for instance, in the Greater-Mekong Sub-region cooperation. Guangxi and Hainan are now stepping up efforts to match and compete with Yunnan in drawing more attention, support, and preferential policies from the central government under the framework of China-ASEAN business ties.

Originally, Guangxi was proposing a Tonkin Gulf Regional Economic Cooperation Zone to include China’s Guangxi, Guangdong and Hainan provinces, and Vietnam. Starting from early 2006, Guangxi began to push for a Pan-Tonkin Gulf Economic Cooperation Zone to include parts of China’s Southwest and Southeast regions, Vietnam, Thailand, Cambodia, Malaysia, Singapore, Indonesia, the Philippines, and Brunei.<sup>65</sup> Under the proposed Pan-Tonkin Gulf Zone, China and ASEAN would pursue a physically M-shaped economic cooperation structure: Mekong sub-region, Nanning to Singapore corridor (mainland economic cooperation), and the Pan-Tonkin Gulf Zone (maritime economic cooperation). Former Guangxi Party leader Liu Qibao proposed that the Pan-Tonkin Gulf Regional Economic Zone be officially incorporated into the ASEAN-China cooperation. China’s trade with the other six countries reached \$130 billion in 2006, accounting for 81.3 per cent of China’s total trade with ASEAN.<sup>66</sup> The proposal has won solid approval from other regional state leaders, including Singapore, Malaysia, the Philippines, and Vietnam.<sup>67</sup>

The Pan-Tonkin Gulf Regional Economic Cooperation scheme has won the support of top Chinese leaders. During an inspection visit to Guangxi in August 2007,

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<sup>63</sup> Wen Wen and Li Peng, “CAFTA jianli guocheng zhong de jiyu he tiaozhan” (Opportunities and challenges in the course of CAFTA establishment), *Cai jing jie (The Financial World)*, pp. 224–225, Issue 2, February 2006.

<sup>64</sup> Wang Wei, “Feilubin jinshen duidai zhong fei nanhai kaifa” (The Philippines cautious about Sino-Philippine SCS exploitation), *Guoji xianqu daobao (International Herald)*, 8 October 2004.

<sup>65</sup> Chen Shanzhe, “Fan beibuwan: zhongguo-dongmeng M xing zhanlue gouxiang” (Pan-Tonkin Gulf: the M shape strategic proposal for China and ASEAN), *21st Century Economic News*, 28 July 2006.

<sup>66</sup> *Lianhe zaobao (Singapore)*, 27 July 2007.

<sup>67</sup> Liu Kun and Yang Rong, “Bei bu wan (guangxi) jingji qu jianshe jishi” (A factual account of the Tonkin Gulf (guangxi) economic zone construction), *Guangming Daily*, 18 January 2007.

President Hu Jintao encouraged Guangxi to further open up and take full advantage of its maritime position to push for multilateral economic cooperation beyond the Tonkin Gulf.<sup>68</sup> Chinese Premier Wen Jiabao mentioned that the Chinese government would actively explore the feasibility of the Pan-Tonkin Gulf regional cooperation both at the memorial summit of China-ASEAN summit in November 2006 and at the tenth China-ASEAN summit in January 2007.

Hainan Province, the largest special economic zone in China, is also stepping up efforts to benefit from China-ASEAN economic ties. Hainan has made it clear that its local economic future will have to depend on the SCS. Hainan delegates to the National People's Congress in 2002 proposed that China should have an overall comprehensive planning of the SCS in its national economic development agenda and support the development of the SCS.<sup>69</sup> Hainan government has proposed that by 2010 its maritime economy should reach 32.5 billion yuan, double that of 2003, and by 2020, three times that of 2003. A key part to achieve this strategy is to rely on the oil and gas resources in the SCS.<sup>70</sup> At the 2005 Boao Asia Forum, Hainan provincial leader Wei Liucheng stated that Hainan, with a focus on petroleum-related industries, would like to play an active role in pushing for energy cooperation in the SCS and provide a platform of dialogue for energy issues in the SCS.<sup>71</sup>

Fearing being marginalized by other economic cooperation schemes, Hainan has also quickened its steps to come up with alternative proposals. More recently, the China SCS Institute, based in Hainan, made a grand proposal. The Institute proposed to set up a pan-SCS regional economic cooperation organization to include China's pan-Pearl River Delta region, Taiwan, and six other neighbouring states, including Indonesia, Malaysia, Singapore, Vietnam, the Philippines, and Brunei. If this organization is created, it will cover a land area of nearly five million square

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<sup>68</sup> Gu Xiaosong (Ed.), *Report on the Cooperation and Development of Pan-Beibu Gulf Area*, p. 1, Beijing: Social Sciences Academic Press, 2007.

<sup>69</sup> "Jin nian renda shoudao she hai yi'an er shi si jian" (People's Congress receives 24 sea-related proposals this year), *Zhongguo haiyang bao (China Oceans Newspaper)*, 19 March 2002.

<sup>70</sup> "Hainan yao ba haiyang jingji zuo da" (Hainan to expand marine economy), *Zhongguo jingji dao bao (China Economic Herald)*, 20 September 2005.

<sup>71</sup> Chen Faqin, "Hainan sheng shengzhang Wei Liucheng: dajian nanshai nengyuan hezuo duihua pingtai" (Hainan provincial governor Wei Liucheng: to set up a platform for energy cooperation and dialogue in the SCS), *Economics Daily*, 24 April 2005.

kilometres and 3.5 million square kilometres of sea area, 850 million people, and a total of \$1.72 trillion of total GDP, and nearly \$2 trillion of international trade.<sup>72</sup>

The Hainan proposal is still embryonic. It is unlikely to emerge as a policy at the national level to be supported by the central government, because the Guangxi proposal has already received in principle the approval of Beijing and other countries. More importantly, the Pan-Tonkin Gulf scheme is perceived to be helpful in facilitating the economic growth of many other regions and provinces in China.<sup>73</sup> What is clear is that Hainan will eventually be happy to jump on the bandwagon of the Pan-Tonkin Gulf plan and place much premium on the SCS and cooperation with other countries surrounding the SCS to further boost its local economy. In fact, the proposed Pan-Tonkin Gulf Regional Economic Cooperation essentially covers all the littoral states surrounding the SCS and the whole maritime territory of the SCS.

The Pan-Tonkin Gulf cooperation plan, if substantively launched and fully implemented, would be very significant for the security situation in the SCS. This is so because the envisioned cooperation would turn the SCS into some sort of “internal lake” of the international economic zone. For the regional cooperation scheme to be smoothly functional, international security cooperation among these countries, particularly those involved in the SCS controversy, has to be the prerequisite. More importantly, in the proposed cooperation plan, there are quite a few areas that directly deal with the SCS, for instance, a network of ports surrounding the SCS, cooperation in fishery, maritime energy, maritime environment, and cooperation in tourism around the SCS. The realization of any of these functional areas means a major breakthrough in the SCS among claimant states. According to Zhai Kun, a senior analyst at China Institute of Contemporary International Relations, the emergence of the Pan-Tonkin Gulf Zone will help initiate China-ASEAN dialogue and cooperation in maritime affairs and will serve as a platform for communication and coordination among various parties in the SCS.<sup>74</sup>

Likewise, CCP Politburo member Li Changchun also commented in late 2006 that the fulfilment of the Pan-Tonkin Gulf cooperation plan would be beneficial not

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<sup>72</sup> Tan Lilin, “*Zhongguo nanhai yanjiu yuan xin liang yi zhang ‘nanhai pai’*” (China SCS Institute casts a new card on SCS), *Hainan Daily*, 9 January 2007.

<sup>73</sup> Author’s interviews with local officials and scholars in Hainan, November 2007.

<sup>74</sup> Chen Shanzhe, “*Fan beibuwan: zhongguo-dongmeng M xing zhanlue gouxiang*” (Pan-Tonkin Gulf: the M shape strategic proposal for China and ASEAN), *21st Century Economic News*, 28 July 2006.



only to China-ASEAN free trade area, but also to the cooperation of jointly exploiting resources in the SCS between China and other relevant parties.<sup>75</sup>

## **Conclusion**

In the post-Cold War era, while there have been quite a number of military conflicts in many parts of the world, the SCS, often believed to be one of the most volatile hot spots, did not witness a full-fledged or large scale military confrontation, although there have been numerous disputes concerning the consolidation of existing presence, fishery, exploitation of resources under the seabed, and environmental protection. Parties involved in the SCS issue have been primarily engaged in diplomatic polemics. The absence of major conflicts can be explained by many factors, among which the Chinese approach of balancing its sovereignty, development, and security interests should be given credit.

Given the perceived importance of the SCS to China's political, economic, and security interests, many people in China may have wished their government to carry out more assertive policies in this region. Bearing in mind the complexity of the current circumstances, the Chinese decision-makers, however, tend to be more cautious. Beijing essentially placed the SCS issue under the larger strategic context in order to achieve other important foreign policy and security goals. Chinese leaders understood that they had a larger stake in maintaining the momentum of domestic economic growth, a crucial factor to not only achieve the national dream of "strength and wealth", but, to some degree, also help the ruling elites claim legitimacy. A large military conflict in the SCS involving China would derail all the efforts China has made to create a stable and peaceful neighbourhood and thus be detrimental to the Chinese reform and opening up programme. Beijing also clearly understood the strategic importance of Southeast Asia and the potential benefits of economic cooperation with ASEAN states. Moreover, pressures from ASEAN helped curb China's assertiveness. China eventually realized that a non-confrontational approach with ASEAN would better serve China's national interests. The presence and involvement of other major powers, voluntary or pulled in by other claimant states, also played an important role in shaping Beijing's calculated moderation. Beijing

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<sup>75</sup> Gu Xiaosong (Ed.), *Report on the Cooperation and Development of Pan-Beibu Gulf Area*, pp. 1–2, Beijing: Social Sciences Academic Press, 2007.

understood that because of the vested interests of other external powers, the United States in particular, any assertive action in the SCS by China would only result in a worsening of security environment for China.

Beijing may not be happy about the fact that it still has a smaller presence in the Spratlys and that it has not been able to dictate the recent developments in the SCS. Instead, Beijing oftentimes found itself on the defensive. China scrupulously accepted those declaratory, moral, political, and even legal commitments on the premise that those commitments should not fundamentally challenge the bottom line of Chinese sovereignty in the SCS. These commitments will not easily lead to any resolution of the issue any time soon, but they do make it harder for China to use coercive means to expand its influence in the SCS in the near future. Coupled with that, local governments in China have made some proposals of regional economic cooperation that are likely to have a profound impact on the SCS issue. The SCS would essentially become an “internal lake” of various regional economic zones. With this kind of economic integration, if ultimately realized, together with the Chinese expressed willingness to accept a formal code of conduct and the intention to expand the “joint development” scheme, we can perhaps have some reason to be optimistic about the stability in the SCS at least in the foreseeable future.

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