THE PURSUIT OF ECONOMIC STRENGTH HAS STABILIZING EFFECTS IN THE SOUTH CHINA SEA

by

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September 2016

Thesis Advisor: Michael S. Malley
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Are Vietnam and the Philippines trending more toward conflict or cooperation with China over disputed territories and resource claims in the South China Sea? This thesis investigates realist and liberal international relations theories applied to three states involved in South China Sea disputes. It reviews the history of South China Sea disputes between China, Vietnam, and the Philippines since 1988 and reviews the states’ growing economic interconnectedness to determine whether they have trended toward armed conflict or if economic interdependence has led the states toward cooperation to manage their overlapping claims. This thesis concludes that China, Vietnam, and the Philippines have trended neither toward armed conflict nor cooperation to manage their South China Sea territory and resource disputes. Despite increasing tensions over the competition for territory and resources, the states have managed their disputes peacefully and have avoided armed conflict since 1988. Furthermore, despite increasing asymmetric economic interdependence between the smaller states and China correlating to the period of relative peace in the South China Sea, the states have rarely cooperated with one another to manage their disputes. Asymmetric economic interdependence between the smaller states and China, however, has contributed to the relative peace in the South China Sea.
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ABSTRACT

Are Vietnam and the Philippines trending more toward conflict or cooperation with China over disputed territories and resource claims in the South China Sea? This thesis investigates realist and liberal international relations theories applied to three states involved in South China Sea disputes. It reviews the history of South China Sea disputes between China, Vietnam, and the Philippines since 1988 and reviews the states’ growing economic interconnectedness to determine whether they have trended toward armed conflict or if economic interdependence has led the states toward cooperation to manage their overlapping claims. This thesis concludes that China, Vietnam, and the Philippines have trended neither toward armed conflict nor cooperation to manage their South China Sea territory and resource disputes. Despite increasing tensions over the competition for territory and resources, the states have managed their disputes peacefully and have avoided armed conflict since 1988. Furthermore, despite increasing asymmetric economic interdependence between the smaller states and China correlating to the period of relative peace in the South China Sea, the states have rarely cooperated with one another to manage their disputes. Asymmetric economic interdependence between the smaller states and China, however, has contributed to the relative peace in the South China Sea.
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<table>
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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>ASG</td>
<td>The Abu Sayyaf Terrorist Group</td>
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<td>AFP</td>
<td>Armed Forces of the Philippines</td>
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<tr>
<td>BRP</td>
<td>Ship of the Republic of the Philippines</td>
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<tr>
<td>CAFTA</td>
<td>China-ASEAN Free Trade Agreement</td>
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<tr>
<td>CCP</td>
<td>Chinese Communist Party</td>
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<tr>
<td>CPP</td>
<td>Communist Party of the Philippines</td>
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<td>CMS</td>
<td>Chinese Marine Surveillance</td>
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<td>CNOOC</td>
<td>China National Offshore Oil Corporation</td>
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<tr>
<td>EDCA</td>
<td>Enhanced Defense Cooperation Agreement</td>
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<tr>
<td>EEZ</td>
<td>Exclusive Economic Zone</td>
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<tr>
<td>FLEC</td>
<td>Chinese Fisheries Law Enforcement Command</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>HD-981</td>
<td>Haiyang Shiyou-981</td>
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<tr>
<td>ICJ</td>
<td>International Court of Justice</td>
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<tr>
<td>JMSU</td>
<td>Joint Marine Seismic Undertaking</td>
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<tr>
<td>MDT</td>
<td>Mutual Defense Treaty</td>
</tr>
<tr>
<td>MILF</td>
<td>Moro Islamic Liberation Front</td>
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<tr>
<td>MNLF</td>
<td>Moro National Liberation Front</td>
</tr>
<tr>
<td>NPA</td>
<td>New People’s Army</td>
</tr>
<tr>
<td>ODA</td>
<td>official development assistance</td>
</tr>
<tr>
<td>PCA</td>
<td>Permanent Court of Arbitration</td>
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<tr>
<td>PLAN</td>
<td>People’s Liberation Army (Navy)</td>
</tr>
<tr>
<td>VCP</td>
<td>Vietnamese Communist Party</td>
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<tr>
<td>VFA</td>
<td>Visiting Forces Agreement</td>
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<td>WAB-21</td>
<td>Wan An Bei 21</td>
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I. INTRODUCTION

A. MAJOR RESEARCH QUESTION

There are two prevailing but opposing schools of thought regarding the security environment and potential for armed conflict between states with competing territory and resource claims in the South China Sea. One school of thought contends that as China continues its rise, it will challenge the status quo of the region in an effort to shift the international environment in Beijing’s favor.1 As a result, China’s neighbors will view it as a threat, respond by balancing against China, and a security dilemma will ensue, thus destabilizing the region and increasing the likelihood of armed conflict.2 Those who hold this realist perspective point to evidence in China’s aggressive actions to assert sovereignty over disputed territories and resource claims in the South China Sea and the corresponding reactions by Southeast Asian nations, particularly Vietnam and the Philippines.3

By contrast, the liberal school of thought contends that economic interdependence between the states has stabilized the region and reduced the likelihood of armed conflict between China and its neighbors.4 Some who hold this liberal perspective point to evidence in the growing economic ties between China and its neighbors. These liberals believe Vietnam and the Philippines have become so economically dependent on China that they are constrained from using force to settle conflicts and instead will favor cooperation.5

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These realist and liberal perspectives predict vastly contrasting trends for interstate relations over South China Sea disputes. Realists suggest that the states are on an increasing trend toward armed conflict to resolve disputes. Liberals predict that states are on an increasing trend toward cooperation to manage their disputes. Vietnam and the Philippines have demonstrated realist trends of self-strengthening in response to China’s growing assertiveness in the South China Sea. Both countries also show evidence of becoming more economically dependent on China and favoring cooperation over conflict to manage territorial disputes. Assessing which trend is historically dominant may provide insight to whether the region is heading toward armed conflict. Are Vietnam and the Philippines trending toward conflict or cooperation with China over disputed territories and resource claims in the South China Sea?

B. SIGNIFICANCE OF THE RESEARCH QUESTION

Armed conflict stemming from territorial disputes in the South China Sea would have significant global repercussions. It is estimated that more than half of the globe’s shipping trade, one-third of its crude oil, and one-third of its liquefied natural gas transits the South China Sea chokepoints. Oil transiting the South China Sea powers the giant Asian economies that manufacture technology, clothing, and consumer goods flowing toward the West. Bill Hayton attests that if the flow of shipping through the South China Sea were to halt, “it wouldn’t be long before the lights in some parts of the world started going out.”

Many Southeast Asian experts recognize the tensions between states over territorial disputes and competing resource claims in the South China Sea. Mikael Weissmann claims, “Today the [South China Sea] is…the most critical flashpoint in the

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7 Ibid.
8 Ibid.
East Asian region.”⁹ He identifies that the Spratly and Paracel island groups are the “core area of conflict.”¹⁰

As the world’s most powerful naval force and with vital interests in the region, the United States is likely to be drawn into an armed conflict over South China Sea disputes. Any clash would result in U.S. diplomatic pressure for de-escalation. Additionally, a better understanding of whether Vietnam or the Philippines will resort to armed conflict to defend their claims against Chinese aggressive assertion of sovereignty may help U.S. policymakers defuse potential crises in the region.

C. LITERATURE REVIEW

This thesis will attempt to determine whether Vietnam and the Philippines are trending toward conflict or cooperation in managing their competing South China Sea territory and resource claims with China. This section reviews literature on realist international relations theory, how it has been applied to Southeast Asia, and preliminary evidence that supports this realist view. This section then reviews literature on economic interdependence, how it has been applied to Southeast Asia, and preliminary evidence that supports the liberal perspective on the South China Sea security environment.

1. ARE SOUTH CHINA SEA STATES TRENDING TOWARD ARMED CONFLICT?

Realists contend that sovereign states compete for power.¹¹ Some argue that this competition could lead to a security dilemma and destabilize a region, trending it toward a propensity for armed conflict.¹² Robert Gilpin attests that rising powers seek prestige through territorial gains and by controlling the rules of the international system, and he argues that they may challenge the status quo of the system if the potential gains

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¹⁰ Ibid., 601.
¹² Friedberg, “Ripe for Rivalry,” 9, 28.
outweigh the costs.\textsuperscript{13} Aaron Friedberg contends that, as a rising power challenges the system, its neighbors may perceive it as a threat.\textsuperscript{14} As a result, the rising power’s weaker neighbors will respond to the perceived threat. Responses could include self-strengthening or making alliances to balance against the threat and defend their own interests.\textsuperscript{15} As a rising power observes its neighbors increase their defenses, it may perceive a threat to its own power and, in turn, increase its defenses.\textsuperscript{16} The situation may evolve into a spiraling security dilemma that destabilizes a region.\textsuperscript{17}

\textit{a. Conflict between China, Vietnam, and the Philippines}

Some who hold a realist perspective of Asia suggest that the region is trending toward armed conflict over competitions for territories and resources.\textsuperscript{18} Realists have argued that, since the Cold War ended, Asia has developed into a multipolar region with complex interstate relations.\textsuperscript{19} Aaron Friedberg contends that as states compete for power in such a complex system, there is a greater chance of miscalculation by leaders that further destabilizes the region.\textsuperscript{20} As a counter to liberal views, Friedberg observes that in the early to mid-1990s, the economies of Asian countries remained largely independent from each other and contends that if economic interdependence truly has pacifying effects, they had not reached the whole of Asia.\textsuperscript{21} Friedberg also points out the political friction between states that achieve high levels of interdependence, leading to higher potential for rivalry.\textsuperscript{22} John J. Mearsheimer argues that although China will not likely attempt to conquer its neighbors, it will strive for greater regional power and use its

\begin{flushleft}
\textsuperscript{13} Gilpin, \textit{War and Change}, 186–7.  \\
\textsuperscript{14} Friedberg, “Ripe for Rivalry,” 28.  \\
\textsuperscript{15} Ibid.  \\
\textsuperscript{16} Ibid.  \\
\textsuperscript{17} Ibid.  \\
\textsuperscript{18} Ibid., 18; Mearsheimer, “China’s Unpeaceful Rise,” 466–7.  \\
\textsuperscript{19} Friedberg, “Ripe for Rivalry,” 9.  \\
\textsuperscript{20} Ibid.  \\
\textsuperscript{21} Ibid., 19.  \\
\textsuperscript{22} Ibid., 21.  \\
\end{flushleft}
power to challenge the regional status quo in its favor.\textsuperscript{23} He highlights that, as China continues its naval growth, it will present a greater challenge to its neighbors’ with overlapping claims to territory and resources in the South China Sea.\textsuperscript{24} Although they are liberals, Adam P. Liff and G. John Ikenberry agree in part with the realist view, observing that China’s rapid development combined with the economic growth of the region “seems to have created an even more volatile climate and a potentially vicious cycle of arming and rearming.”\textsuperscript{25}

\textit{b. Evidence of an Unstable Region Trending toward Armed Conflict}

South China Sea disputes over territorial sovereignty and resource claims continue to create tension among China and its neighbors, Vietnam and the Philippines. China and Vietnam have conflicting claims over the Spratly and Paracel archipelagos, and the Philippines has overlapping claims with China in the Spratlys and other sizable areas of the South China Sea.\textsuperscript{26} With China’s growing economic strength, it has increased its maritime capabilities, used military and maritime law enforcement vessels to assert sovereignty over its claims, and attempted to deter its smaller neighbors from extracting resources from disputed areas.\textsuperscript{27}

China’s maritime interests and defense spending have grown with its economic expansion and dependency on energy and raw material imports.\textsuperscript{28} Jingdong Yuan contends that China recognizes the need to protect its maritime rights and interests by strengthening the capabilities of its navy.\textsuperscript{29} He highlights China’s naval buildup that emphasizes submarines over aircraft carriers, its pursuit of sea-denial capabilities within

\begin{itemize}
\item \textsuperscript{23} Mearsheimer, “China’s Unpeaceful Rise,” 466–7.
\item \textsuperscript{24} Ibid.
\item \textsuperscript{26} Amer, “South China Sea: Achievements and Challenges,” 627.
\item \textsuperscript{27} Weissmann, “The South China Sea: Still No War,” 603.
\item \textsuperscript{29} Ibid., 166–67.
\end{itemize}
the first island chain and blue water capabilities abroad, and its aims to protect its perceived rights to South China Sea resources.\textsuperscript{30}

As China has grown stronger, it has unilaterally imposed restrictions over portions of the South China Sea and modernized its capabilities to influence the Southeast Asian international system in its favor. China’s challenges to the status quo have acted as a catalyst to South China Sea tensions. In 1999, Beijing began unilaterally imposing a fishing ban over the Spratly Islands.\textsuperscript{31} In 2007, China passed legislation to govern the Spratly and Paracel Islands from Hainan.\textsuperscript{32} China’s modernized maritime capabilities enable it to enforce a stronger stance in undermining its neighbors’ territorial claims.\textsuperscript{33} China has increased naval and maritime law enforcement patrols near contested areas to assert its sovereignty and enforce its restrictions.\textsuperscript{34}

There are numerous examples of China challenging the status quo over disputed territories with Vietnam and the Philippines. In 1994, China began seismographic survey operations in Wan An Bei 21 (WAB-21), a Chinese named oil exploration block located over 500 nautical miles south of China but within 150 nautical miles of Vietnam’s coastline.\textsuperscript{35} In May of 2011, China used maritime surveillance (CMS) vessels to interfere with Vietnamese contracted survey ships operating in disputed waters.\textsuperscript{36} Two weeks later, another Vietnamese contracted oil survey vessel clashed with Chinese fishing boats and ships from China’s Fishery Law Enforcement Command (FLEC) within Vietnam’s claimed EEZ.\textsuperscript{37} A more recent crisis between China and Vietnam erupted in May 2014
when China deployed an oil-drilling rig in disputed waters near the Paracel Islands. The event resulted in a two-month standoff at sea, violent anti-Chinese riots in Vietnam resulting in Chinese casualties, Vietnamese diplomatic pressure on Beijing, and attempts to gain international support for Vietnam’s Paracel claims.

China’s challenges against the Philippines have been aggressive, as well. In 1995, the Philippines’ discovery of Chinese built structures on Mischief Reef caused considerable diplomatic uproar. In 1998, the Philippines discovered Chinese fishermen fishing in the Philippines’ exclusive economic zone (EEZ), roughly 100 nautical miles east of the Philippines’ main island of Luzon in the disputed Scarborough Shoal. Tensions over Scarborough Shoal flared in April 2012 and resulted in a two-month standoff between the states when two Chinese CMS vessels blocked a Philippine Navy attempt to arrest Chinese fishermen operating in the disputed area. In 2015, Chinese Coast Guard ships rammed Philippine fishing vessels in Scarborough Shoal and interfered with Philippine resupply of forces occupying Second Thomas Shoal.

Realists argue that states in Southeast Asia might respond aggressively to China’s assertiveness, resulting in a destabilizing security dilemma in the multipolar region. Self-strengthening efforts of increased defense budgets and the pursuit of modern maritime capabilities to counter China’s assertive posturing could indicate destabilizing

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41 Ibid.
responses by China’s neighbors. For instance, Beijing’s defense spending outpaced India for the second largest regional budget in 2001 and took the region’s lead from Japan in 2005.

Vietnam and the Philippines’ defense spending may indicate self-strengthening measures and an increasing trend toward regional conflict, as well. Bill Hayton argues that the two countries have built up their militaries to protect territorial claims in response to China. In 2014, Vietnam’s military budget had more than doubled from that of 2005, reaching $4.3 billion. In 2009, Vietnam purchased six Kilo-class submarines and expressed interest in purchasing Su-30MK2 fighter aircraft from Russia to secure its air and maritime domains in response to South China Sea disputes with China.

In 2011, the Philippines reinvigorated its pursuit of territorial defense capabilities in response to China, as well. Ernest Bower claims that China’s efforts of territory reclamation in disputed areas of the Spratly Islands have bolstered Philippine defense spending. Additionally, in 2011, the newly elected Benigno Aquino III presidential administration sought new ships to replace its aging World War II era fleet and fighter aircraft to rebuild its air defense capability and assert sovereignty over disputed territorial claims with China.

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47 Hayton, South China Sea: Struggle for Power, 236–7.


49 Liff, “Racing Towards Tragedy?,” 80.


51 Bower, “Southeast Asia from Scott Circle.”

52 Hayton, South China Sea: Struggle for Power, 236.
2. ARE SOUTH CHINA SEA STATES TRENDING TOWARD COOPERATION?

Some liberals attribute peace between modern states to their economic interdependence.53 Robert O. Keohane and Joseph S. Nye Jr. contend that interdependence between states has a strong influence on international political processes when compared to traditional realist theories.54 They argue that as states become more interdependent, the use of military force to resolve political conflict becomes more costly, undesirable, and unlikely.55 They describe that interdependence between states can be especially strong when it is created through interconnected economies with reciprocating, but not necessarily symmetric, “significant costly effects” for both sides if they oppose each other in armed conflict.56

a. Economic Interdependence of China, Vietnam, and the Philippines

Some contemporary liberals attribute the lack of armed conflict over territory and resource disputes in the South China Sea in recent years to economic interdependence.57 Those holding this perspective claim that Vietnam and the Philippines have become so economically dependent on China that they are restrained from settling disputes with military force. Benjamin Goldsmith argues that liberal hopes of economic interdependence contributing to peace in Asia have come to fruition.58 Ming Wan claims that economic interdependence and cooperation have spread through the Asia Pacific region, and, although they may not prevent conflict over territorial disputes, they certainly have pacifying effects.59 Chong-Pin Lin claims that despite contentious

54 Ibid.
55 Keohane, Power and Interdependence, 23–24.
56 Ibid., 8.
58 Ibid.
territorial disputes between the states, Vietnam and the Philippines are so economically dependent on China that they are restricted from using military force to settle disputes.  

\[ \text{b. Evidence of Economic Interdependence} \]

The Vietnam and Philippine economies have grown increasingly dependent on China. Vietnam began growing more economically dependent on China during the last decade of the 20th century.  

Joseph Y.S. Cheng claims that in 1991, with Vietnam’s economy suffering, Hanoi turned toward China as a model for economic reform and to open bilateral trade.  

Subsequently, trade between China and Vietnam developed quickly, increasing from $32.23 million in 1991 to almost $2.47 billion by the end of the 20th century.  

China exceeded Japan as Vietnam’s largest trade partner by 2004, and the two countries’ trade topped $21 billion by 2009 and was over $63.5 billion by 2014.

The Sino-Vietnam trade picture, however, is asymmetric. Even with China’s foreign trade expanding, in 2013, trade between the two countries was only 0.76 percent of China’s total trade, as opposed to 13.6 percent of Vietnam’s trade. Furthermore, the Vietnamese trade deficit to China has continued to grow. The preliminary evidence shows economic interdependence but is indicative of Vietnam’s economic dependence on China.

During the first decade of the new millennium, as Sino-Philippine trade began growing rapidly, the Philippines grew more economically dependent on China, as well.

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62 Ibid., 385.
63 Ibid., 385.
65 Ibid., “Sino-Vietnamese Relations,” 394.
66 Ibid.
Bilateral trade between the Philippines and China grew from $3.1 billion in 2000 to more than $27.7 billion by 2010.\(^6^9\) In 2010, Renato Cruz De Castro qualified the Sino-Philippine economic relationship as, “the fastest-growing bilateral trade in the Southeast Asian region.”\(^7^0\) Also in 2010, China became the Philippines’ third-biggest trade partner after Japan and the United States.\(^7^1\) Trade between the two states reached nearly $23.5 billion by 2014.\(^7^2\) The rapidly growing Sino-Philippine trade relations caused De Castro to declare that China had grown vital to the Philippine growth in exports and economic expansion.\(^7^3\)

As with the Sino-Vietnam trade relationship, Sino-Philippine trade is very asymmetric. In 2013, for example, total bilateral trade between the countries was nearly 14 percent of the Philippine GDP. By contrast, total bilateral trade during the same year was less than 1 percent of China’s GDP. Although the preliminary evidence shows signs of an economic interdependent relationship, the asymmetry is more indicative of Philippine dependence on China.\(^7^4\)

D. POTENTIAL EXPLANATIONS AND HYPOTHESES

The literature review covered two theories that explain regional trends toward conflict or cooperation between China, Vietnam, and the Philippines. One explanation suggests that China’s challenges to the status quo have resulted in balancing responses by Vietnam and the Philippines that may lead to a less stable environment and unintended armed conflict. The other explanation suggests that the states are becoming economically


\(^7^0\) De Castro, “Weakness and Gambits,” 706.

\(^7^1\) Ibid.


\(^7^3\) De Castro, “Weakness and Gambits,” 708.

\(^7^4\) Calculations based on IMF and World Bank data; Total trade value calculated by adding “Goods, Value of Exports, Free onboard” to “Goods, Value of Imports, Cost, Insurance, Freight (CIF) for given year.
interdependent and trending toward cooperation rather than conflict, resulting in a more stable environment.

The first explanation contends that China’s growth has increased its willingness to challenge the regional status quo, which, in turn, threatens Vietnam and the Philippines and destabilizes the region. With China’s economic growth, it has increased its capabilities to assert sovereignty over disputed territory and resource claims. China’s neighbors, however, view China’s actions as a threat to their sovereignty. As diplomatic protests and attempts to gain international support for their claims continually have failed to resolve the disputes, Vietnam and the Philippines have turned toward military means to deter China’s actions and defend their claims. Thus, the resulting security dilemma may lead the region toward instability, and Vietnam and the Philippines may be trending toward conflict in response to China’s assertiveness.

The second explanation submits that the trade ties between China, Vietnam, and the Philippines have become strong enough to make regional armed conflict cost prohibitive, undesirable, and therefore unlikely. The explanation contends that China’s economic growth and opening of trade with Vietnam and the Philippines have made the two smaller states economically dependent on China. Thus, with armed conflict being cost prohibitive to Vietnam and the Philippines, they may be more likely to resort to cooperation than conflict to manage their overlapping territory and resource claims with China.

The two explanations predict vastly diverging trajectories for the South China Sea security environment. Reviewing the conflict trends in South China Sea disputes and the economic environment between the states and China over the past three decades can help determine whether the South China Sea has trended toward increasing conflict or cooperation.

E. RESEARCH DESIGN

This thesis evaluates the history of disputes over competing territory and resource claims and the economic relationships between China and its two neighbors, Vietnam and the Philippines, to assess the trend toward conflict or cooperation in the region. The thesis
reviews the history of engagements, standoffs, clashes, and armed conflict between China, Vietnam, and the Philippines over territory and resource competitions during the last three decades to evaluate how the states have managed the disputes and determine whether they are trending toward conflict. The thesis also evaluates the economic environment between China and its two neighbors to determine their economic interdependence and whether or not increased economic ties have trended the states toward increasing cooperation to settle disputes. Based on these assessments, the thesis aims to demonstrate that China, Vietnam, and the Philippines have managed their disputes short of armed conflict, despite increasing tensions and that economic interdependence has played a role in the relative peace in the region.

F. THESIS OVERVIEW AND CHAPTER OUTLINE

This thesis includes four main chapters. This first introductory chapter presents the research question, its relevance, a literature review, and potential hypotheses. The literature review includes basic summaries of realist and economic interdependence theories being examined and how they have been applied to the South China Sea environment. The literature review also includes preliminary evidence that supports each theory.

The second chapter reviews engagements, standoffs, clashes, and the only armed conflict in the South China Sea over territory and resource disputes. The chapter demonstrates that the states have managed tensions and avoided armed conflict for nearly three decades. It also illustrates that the states have actively sought ways to deescalate standoffs short of armed conflict, despite increasing competition and tensions.

The third chapter describes the growing economic ties that Vietnam and the Philippines’ have established with China. The chapter illustrates that the smaller countries’ pursuit of economic strength to counter internal and external threats led them to establish economic ties and subsequent economic interdependence with China. Although the interdependence has been asymmetric, it correlates to a lack of armed conflict over South China Sea disputes and, at times, periods of cooperation to manage their disputes.
The final chapter presents conclusions based on the evidence presented in Chapters II and III. The conclusion demonstrates that the states have not trended toward armed conflict over their South China Sea disputes, despite growing tensions. Furthermore, although Vietnam and the Philippines have grown increasingly economically dependent on China, cooperation between the states to manage disputes has been limited. Moreover, Beijing has attempted to use its asymmetric economic advantage over its smaller neighbors to change the status quo in the South China Sea. As Vietnam and the Philippines recognized the vulnerabilities they incurred with their dependence on China’s economy, they worked to diversify their economic ties. The conclusion also makes recommendations for future study and policy recommendations that may assist in assessing regional stability.
II. TWENTY-EIGHT YEARS OF AVOIDING ARMED CONFLICT IN THE SOUTH CHINA SEA: ASSESSING “ASIA’S CAULDRON”

A. INTRODUCTION

Robert Kaplan has stated, “Anyone who speculates that, with globalization, territorial boundaries and fights for territory have lost their meaning should behold the South China Sea.” He proposes that the growing tensions between South China Sea states, as they challenge one another for territory and resources, has developed into “Asia’s cauldron” and will erupt into “the military front lines” of a future war. Reviewing the competition for territory and resources between the states over the last 30 years, however, does not indicate an increasing trend for armed conflict. Although the competition has intensified and the states have strengthened their military and maritime capabilities, just a single armed conflict has occurred involving the current governments of China, Vietnam, and the Philippines, taking place in the Spratly Islands more than 28 years ago, during March of 1988, between China and Vietnam.

The citizens and states surrounding the South China Sea have competed with one another for resources and territories, leading to an increase in engagements, which at times have escalated to standoffs, clashes, and even armed conflict. Civilizations surrounding the South China Sea have long valued its resources, primarily fish and, more recently, speculated hydrocarbon reserves. Following the decolonization of East and Southeast Asia following World War II, the region’s civilizations formed independent sovereign states. As the populations of these states grew, so did their resource requirements. Growing resource requirements resulted in overlapping maritime and territorial claims to secure resources near features, such as islands, islets, shoals, reefs, and rocks, within the South China Sea. Subsequently, the populations of these states have

76 Ibid., Kindle 287–288.
77 Hayton, South China Sea: Struggle for Power, 81–84.
increasingly engaged and competed with one another while harvesting resources, exploring for hydrocarbons, or attempting to secure their claims to the body of water. Many engagements have resulted in standoffs between the states, with no clear winner. Some of the standoffs have escalated into clashes involving military and law enforcement assets in efforts to settle the disputes. Yet, only one of the clashes has escalated to armed conflict.

Enabled by economic growth, China has increased and modernized its maritime capabilities and military strength to control the competition for territories and resources. Consequently, Vietnam and the Philippines have sought to increase their capabilities to counter China’s assertion of control. The engagements between these states over territory and resource competition, and the ensuing military buildup, have led observers to believe that there is significant potential for armed conflict in the South China Sea.78

What has been the trend for standoffs and clashes over territory and resource competition in the South China Sea escalating toward armed conflict between China and its two neighbors, Vietnam and the Philippines? This chapter argues that there has not been an increasing trend for standoffs and clashes over territories and resources in the South China Sea escalating into armed conflict. The only armed conflict between the current governments of China, Vietnam, and the Philippines occurred nearly three decades ago. Since then, the states have more actively sought to avoid armed conflict. China, as the more powerful and capable nation, has limited its use of military assets to respond to standoffs and clashes. Although the smaller states have attempted to balance against the perceived Chinese threat during the last few decades by pursuing self-strengthening efforts, their efforts have been hindered by a lack of resources and, in the case of the Philippines, internal threats. In effect, Manila has sought external balancing measures with the United States. Vietnam, however, has avoided bipolar balancing with external powers to avoid provoking its powerful neighbor. This chapter reviews the history of South China Sea engagements, standoffs, clashes, and armed conflict between these states over territory and resources, assesses the frequency and intensity of the

states’ responses to these events, and reviews Vietnam and the Philippines’ limited strengthening and balancing efforts to illustrate the states’ trend of avoiding armed conflict.

B. ESCALATION OF ENGAGEMENTS OVER TERRITORIES AND RESOURCES

Reviewing the escalation of South China Sea engagements between China, Vietnam, and the Philippines reveals that, although engagements have become more frequent, they rarely escalate to clashes involving military forces or armed conflict. Additionally, the history of engagements over the last 28 years shows that China, despite its increasing and relatively overwhelming military and maritime capabilities when compared to its neighbors, has resorted to less militarized means in response to engagements over the years. Moreover, the smaller countries have also started using fewer military assets and have pursued diplomatic measures to respond to China’s actions, thus limiting the potential for armed conflict. This section is broken up into two subsections. The first establishes the levels used to define escalation of engagements used in this thesis: engagements, standoffs, clashes, and armed conflict. The following subsection reviews the escalation of engagements between the states by breaking them down into two categories: competition over territory and competition over resources.

1. Engagements, Standoffs, Clashes, and Armed Conflict

To explain that there is not an increasing trend for armed conflict in the South China Sea, it helps to first establish and define the categories of interactions between China and its neighbors used in this thesis: engagements, standoffs, clashes, and armed conflicts. For the purposes of this thesis, an engagement is considered any time citizens of one country came into contact with those from another.79 As examples, Chinese and Filipino fishermen meeting at the same fishing grounds or Vietnamese maritime patrols discovering a Chinese oilrig in an area of overlapping claims are considered engagements. A standoff is considered any time an engagement led to an argument or

79 Webster’s New World College Dictionary, 4th ed., s.v. “engage.”
contest with no clear winner.\textsuperscript{80} A few standoffs have persisted over time and escalated and deescalated without being ultimately resolved. For instance, the competition for hydrocarbon exploration between China and Vietnam is considered a persistent standoff, as harassments from both sides have resulted in escalations at times, but neither side has made clear progress in finding and extracting hydrocarbons. A clash is considered any engagement that involved state or military assets or personnel from either side and included arrests, fired shots, colliding vessels, intentional damage to equipment, or death of fewer than 25 personnel.\textsuperscript{81} For example, occurrences of China Marine Surveillance (CMS) vessels deliberately cutting the cables of Vietnamese seismic survey ships are considered clashes. If the engagement involved military forces from both sides and resulted in 25 or more battle-related deaths, it is considered an armed conflict.\textsuperscript{82}

### 2. Competition for Territory and Resources

The competition in the South China Sea combined with China’s sovereignty claim to nearly the entire body of water with its “nine-dashed line” has made engagements with its neighbors more frequent and contentious.\textsuperscript{83} The competition between China, Vietnam, and the Philippines can be divided into two general categories: competition for territory—including islands, islets, shoals, reefs, and rocks—and competition for resources, notably fish and speculated hydrocarbon reserves. During the last three decades, the increasing frequency of engagements over territory and resources coincided with China’s attempts to formally establish legal control over the South China Sea, as seen in 1992, 1999, and 2007. In 1992, China adopted a law to unilaterally establish legal claim over South China Sea features and island groupings, including the Spratlys and Paracels.\textsuperscript{84} In 1999, China unilaterally began imposing an annual fishing ban over

\textsuperscript{80} Merriam-Webster.com, s.v. “standoff,” accessed April 8, 2016, \url{http://www.merriam-webster.com/dictionary/standoff}.

\textsuperscript{81} Merriam-Webster.com, s.v. “clash,” accessed April 8, 2016, \url{http://www.merriam-webster.com/dictionary/standoff}.

\textsuperscript{82} “Armed Conflict,” Department of Peace and Conflict Research, accessed 8 April 2016, \url{http://www.pcr.uu.se/research/ucdp/definitions/definition_of_armed_conflict/}.


\textsuperscript{84} Hayton, \textit{South China Sea: Struggle for Power}, 125–28.
portions of the South China Sea. In 2007, Beijing passed legislation to govern the Spratly and Paracel Islands from its Hainan province. Moreover, Beijing has increased its maritime law enforcement capabilities to back up its legal efforts, further increasing the frequency and intensity of engagements and standoffs between the states.

The following sections review the history of engagements, standoffs, clashes, and armed conflict between the current governments of China, Vietnam, and the Philippines over South China Sea territories and resources to demonstrate that, despite growing tensions, armed conflicts have not occurred since 1988. For territorial disputes, the section focuses primarily on two contentious island groupings: the Paracel and Spratly Islands. The review of resource disputes focuses on engagements over hydrocarbon exploration and fishing. The review begins with an armed conflict over territory between China and Vietnam in 1988 and continues with standoffs through 2015.

a. Armed Conflict in the Spratly Islands in 1988

Engagements in the South China Sea have escalated to armed conflict involving the current state governments just once. The engagement over territory in the Spratlys remains as a standoff today. Although another armed conflict occurred between the Chinese and South Vietnamese governments over territory in the Paracel Islands in 1974, South Vietnam’s government no longer exists and, therefore, is not included in this review.

On 14 March 1988, Chinese and Vietnamese forces escalated an engagement to armed conflict in the disputed Spratly Islands near Fiery Cross Reef, located approximately 300 miles east of Vietnam’s southeastern shores. The conflict escalated from an engagement on 22 January, when the crew of a Vietnamese ship discovered a Chinese naval engineering team at Fiery Cross Reef, dredging coral to build up man-made features and create dry land for the construction of outposts. By the time of the...

discovery, the Chinese team was building structures on the previously uninhabitable rocks, reefs, and shoals near Vietnam’s outposts in the vicinity of Johnson Reef. In response, Vietnam deployed three ships with troops to stake claims on three additional features within the Spratlys—Lansdowne, Collins, and Johnson Reefs. At Johnson Reef, the Vietnamese forces clashed with Chinese forces, and the engagement escalated into armed conflict. When the battle ended, the Chinese had killed an estimated 70 Vietnamese troops and destroyed all three of their ships. Although the Chinese won the battle for Johnson Reef in 1988, the control of the Spratlys between China and Vietnam remains at a standoff, with both countries occupying outposts and claiming sovereignty over the islands. The standoff, however, has not escalated to armed conflict since.


An engagement in early 1995 between China and the Philippines over sovereignty in the Spratly Islands developed into a standoff that persists today. At times, the standoff has escalated to clashes involving military forces, but thus far, it has not escalated into armed conflict. The standoff escalated from an engagement that began when the crew of the Philippine fishing vessel Analita discovered newly built Chinese structures on Mischief Reef, located within the Spratlys and roughly 140 miles northwest of the Philippine island of Palawan. The Chinese structures included a 300-meter-long pier, barracks, and an apparent command and control center constructed on Philippine claimed maritime features. After the Philippine discovery, the Chinese occupants detained the Analita’s crew on site for a week, thus escalating the situation to a clash. After their release and return to the Philippines, the crew reported the Chinese activities to the Philippine government.

88 Hayton, South China Sea: Struggle for Power, 81–84.
90 Hayton, South China Sea: Struggle for Power, 81–84.
91 Ibid., 85–86.
92 Scott, “Conflict Irresolution,” 1031.
Surprised by the Chinese presence and with limited military options, Manila responded through diplomatic pressure but received mixed results. President Fidel Ramos’ administration attempted to internationalize the incident by ferrying local and foreign journalists to report on China’s activities at the reef. The administration also appealed to the Association of Southeast Asian Nations (ASEAN) to pressure Beijing, resulting in senior ASEAN officials collectively confronting China on the matter during the first ASEAN-China dialogue in April 1995. Manila’s diplomacy proved somewhat successful, as ASEAN’s support demonstrated that the organization was willing to confront China on its unilateral and destabilizing activities in the South China Sea.\(^93\) Beijing also agreed to bilateral talks with Manila, and on 10 August, after the incident had deescalated, China and the Philippines issued a joint statement, declaring that their South China Sea disputes would be resolved peacefully through consultations, cooperation, and mutual respect.\(^94\) Manila’s efforts had limited effects, however, as the Chinese occupied structures remain on Mischief Reef today.\(^95\)

In 1999, the standoff in the Spratlys between China and the Philippines escalated to a clash again, this time at Second Thomas Shoal, located about 130 miles northwest of Palawan. Tensions escalated when the crew of the Philippine naval ship \textit{BRP Sierra Madre} deliberately ran the ship aground at the shoal to assert Philippine sovereignty in the Spratlys.\(^96\) Through rotation of personnel and resupply efforts, the Philippine government has maintained a crew of marines aboard the grounded ship to guard its sovereignty to this day.\(^97\)


\(^95\) Hayton, \textit{South China Sea: Struggle for Power}, 84–89.

\(^96\) Ibid., 103–4.

Tensions over the standoff at Second Thomas Shoal have fluctuated in intensity since 2013, when China began active opposition to the Philippine presence there. In May 2013, China deployed two maritime surveillance ships and a naval frigate to within five nautical miles of the feature, which the Philippines viewed as an attempt to block resupply efforts for the *Sierra Madre*’s crew. Tensions increased again in March 2014, when two Chinese Coast Guard ships successfully blocked Philippine resupply efforts. China defended the actions by contending that the supplies contained materials meant to establish more permanent structures at the shoal. Chinese attempts to block *Sierra Madre* resupply efforts continued through 2015, often with two Chinese Coast Guard ships hovering near the shoal.

Although the standoff at Second Thomas Shoal continues, it has not escalated to armed conflict, and the Philippines, limited in its maritime capabilities, has resorted to peaceful and diplomatic measures to resolve the standoff without surrendering its claims. For example, Manila began using unarmed naval vessels for resupply and announcing personnel rotation dates to Beijing in advance. The government has also adopted less risky means of challenging China’s claims, such as filing a case under the United Nations Convention on the Law of the Sea (UNCLOS) through the International Court of Justice (ICJ). China’s use of coast guard and maritime surveillance vessels, rather than combatants, is a sign that Beijing is attempting keep the standoff from escalating as well.

c. **Standoffs over Resources: 1994 through 2015**

Like territorial disputes, early disputes over South China Sea resources between China and its two neighbors escalated quickly, but more recent disputes have been less militarized, with each side taking measures to limit escalation. Some of the most contentious engagements over resources between China and Vietnam primarily began with oil exploration during 1994 in the contested oil exploration area, WAB-21, and

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98 “Interactive Map.”


continue today. Some of the most contentious engagements over resources between China and the Philippines primarily began with fishing at Scarborough Shoal in 1998, which has since developed into a territorial standoff that also continues today. In 1999, a Chinese unilaterally imposed fishing ban in the Spratly and Paracel Islands led to increased tensions with both Vietnam and the Philippines. Although many of the disputes over South China Sea resources have escalated to clashes over the years and still remain as standoffs, none have escalated into armed conflict as seen in 1988.


Engagements over oil exploration between China, Vietnam, and the Philippines have evolved into enduring standoffs. The standoff between China and Vietnam escalated into clashes in 1994, 2011, 2012, 2013, and 2014. The standoff between China and the Philippines involved a military response in 2011 but has never escalated to a clash. Furthermore, the governments have limited their use of military assets in their more recent responses and have pursued other de-escalation measures to avoid armed conflict.

The standoff over oil between China and Vietnam began with an engagement during April of 1994 in WAB-21, located roughly 150 miles southeast of Vietnam. The engagement occurred after the China National Offshore Oil Corporation (CNOOC) contracted an American oil company, Crestone, to conduct oil exploration in WAB-21. Four days after Crestone announced its exploration endeavors and deployed a seismographic survey rig to the contested area, Vietnam responded by deploying three naval vessels to the site. According to Randall Thompson, the American head of Crestone overseeing the operation, the Vietnamese vessels arrived at the scene and fired shots across the Chinese ship’s bow, turning the standoff into a clash. The incident de-escalated after two days, when the Chinese ship’s captain returned home. On 17 May, the Vietnamese deployed a contracted Russian oil-drilling rig to Vanguard Bank, lying within WAB-21. The standoff resumed when China responded by deploying two ships to block the delivery of food and supplies to the rig. The Vietnamese drilling teams endured the siege and continued operations for several weeks but eventually departed having
never found oil.\textsuperscript{101} Although the engagement at WAB-21 escalated into a clash involving military vessels reportedly firing shots, no lives or vessels were lost, in contrast to the states previous clash in the Spratlys, just six years prior.

The oil exploration standoff between China and Vietnam escalated again on 7 March 1997 in the Tonkin Gulf, but de-escalated peacefully and was followed up with improved diplomatic relations and bilateral agreements for joint exploration. The escalation occurred when China deployed two ships along with its Kantan-III mobile oil platform to explore for hydrocarbons in an area Vietnam considers within its exclusive economic zone (EEZ). When Vietnamese protests proved ineffective at halting China’s actions, Hanoi’s leaders turned to ASEAN and Washington for assistance. Within two weeks of the escalation, the U.S. Pacific Command Commander, Admiral Joseph Prueher, visited Vietnam, becoming the highest-ranking U.S. military leader to visit the country since the normalization of U.S.-Vietnamese relations. Subsequently, China removed its vessels from the area on 1 April and agreed to settle the dispute through diplomatic discussions.\textsuperscript{102} By December of 2000, with the framework for discussions already in place, China and Vietnam’s leaders signed the “Agreement on the Demarcation of Waters, Exclusive Economic Zones and Continental Shelves in the Gulf of Tonkin.”\textsuperscript{103} In 2006, China and Vietnam signed an additional agreement for joint oil exploration in an area within the Tonkin Gulf. The two countries’ leaders agreed to expand the area in June 2016.\textsuperscript{104}

A March 2011 engagement between China and the Philippines over oil exploration near Reed Bank escalated to involve a military response from the Philippines but de-escalated short of a clash or armed conflict.\textsuperscript{105} During the two months prior to the

\textsuperscript{101} Hayton, \textit{South China Sea: Struggle for Power}, 124–30.


engagement, the French-owned seismic survey ship MV *Veritas Voyager*, contracted by the Philippines, had conducted oil exploration near Reed Bank, located roughly 100 miles from Palawan. The engagement began on 1 March, with the arrival of Chinese CMS vessels at Reed Bank in response to the Filipino surveys. After the crew of the CMS vessels ordered the *Voyager* to leave, the Chief of the Western Command of the Armed Forces of the Philippines (AFP) responded by launching two unarmed OV-10 spotter aircraft and deploying two naval vessels, the BRP *Rajah Humabon* and BRP *Rizal*, to the site.\(^\text{106}\) The CMS vessels departed before the Philippine ships arrived at the scene, however, and the survey continued to completion. Surprised by the Chinese ships’ assertive presence within 100 miles Palawan Island and east of the Spratlys, the Philippine government filed a protest at Beijing’s Manila embassy.\(^\text{107}\) Although the engagement at Reed Bank involved a military response from the Philippines, China’s response was non-military, there were no reported fired shots, and Manila concluded the engagement with a diplomatic protest.

In May 2011, another engagement between China and Vietnam continued their standoff over oil exploration, this time soliciting a more aggressive but still non-military response from Beijing.\(^\text{108}\) Prior to the engagement, the Vietnamese-contracted survey ship *Binh Minh 02* had conducted oil exploration operations within 100 miles of Vietnam’s coastal city of Nha Trang.\(^\text{109}\) The standoff escalated on 26 May when three CMS vessels arrived at the oil survey area. Expecting the CMS ships would disrupt the operation, two Vietnamese fishing trawlers positioned themselves around the *Binh Minh* to protect the ship’s survey cable but were unsuccessful. One of the CMS ships severed the cable while crossing the *Binh Minh*’s stern. The Vietnamese were able to retrieve and repair the cable and returned to the survey site a week later, this time with eight escorts.\(^\text{110}\)

\(^{106}\) Hayton, *South China Sea: Struggle for Power*, 144–45.


\(^{108}\) Hayton, *South China Sea: Struggle for Power*, 145–47.

\(^{109}\) “Interactive Map.”

\(^{110}\) Hayton, *South China Sea: Struggle for Power*, 145–47.
The standoff escalated again two weeks later with another clash near WAB-21 over a joint seismic survey endeavor between Canadian and Vietnamese companies, using another French-owned ship, the *Veritas Viking 2*. The standoff escalated on 8 and 9 June when two Chinese Fisheries Law Enforcement Command (FLEC) vessels and a flotilla of Chinese fishing vessels appeared on the scene. Despite warnings from an accompanying Vietnamese Coast Guard ship to stay clear of the operation, one of the Chinese trawlers managed to entangle its net with the *Viking 2*’s survey cable, at which time a FLEC vessel intervened, cut the cable and nets, and freed the trawler. Bill Hayton labels the Chinese actions as “an elaborate charade to justify the cutting of the cable.”\(^{111}\) China’s cable-cutting tactics continued through 2013, with *Binh Minh 02* falling victim again on 30 November 2012, near the Paracel Islands. According to Hayton, regional criticism of “bullying” caused Beijing to realize “that CMS and FLEC went too far.”\(^{112}\) In March 2013, Beijing announced plans to consolidate its numerous maritime organizations under one administration. From then through 2015, there appear to be no additional reports of Chinese cable cutting.\(^{113}\)

The oil exploration standoff between China and Vietnam escalated again on 2 May 2014, when the CNOOC Haiyang Shiyou-981 (HD-981) oilrig deployed to an area west of the Paracel Islands and within 130 miles of Vietnam’s coast.\(^{114}\) China announced that the HD-981 drilling operations would continue through August and declared a 3-mile security standoff distance from the operation—greater than the UNCLOS stipulated 500-meter safety zone. Additionally, China deployed over 100 vessels, including civilian fishing boats, coast guard vessels, and People’s Liberation Army Navy (PLAN) ships to form a multi-layered security perimeter around HD-981.\(^{115}\) Vietnam’s Deputy Prime Minister Pham Binh Minh responded on 6 May with diplomatic

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112 Ibid., 145–47.
113 Ibid.
protests to Beijing, demanding the withdrawal of HD-981. At the drilling site, the standoff turned into a clash as Chinese vessels used water cannons and reportedly rammed Vietnamese vessels, causing one to sink, while enforcing their security perimeter. Both the Chinese and Vietnamese, however, primarily relied on civil maritime, rather than military, vessels during the clash. Additionally, the two governments maintained diplomatic engagements in an effort to resolve the standoff peacefully. Concurrently in Vietnam, however, violent anti-Chinese protests erupted, targeting Chinese-owned industries and businesses and resulting in at least two Chinese casualties, 100 more injured, and the evacuation of 3,000 Chinese citizens.

The standoff deescalated on 15 July, when Beijing announced the completion of HD-981’s drilling operations and withdrew the rig from the contested area, approximately one month earlier than originally planned. The exact reason for HD-981’s early withdrawal is unclear. Some claim it was in response to typhoon season, while others claim it was due to Vietnam’s diplomatic pressure, and still others claim the drilling operation was simply complete. Regardless, both sides limited their use of military force, and the standoff de-escalated short of armed conflict. Moreover, the clashes that resulted in casualties occurred among the civilian population within Vietnam and were not state-sanctioned uses of force.

The standoffs between China, Vietnam, and the Philippines over oil exploration have not been resolved. China deployed the HD-981 to areas south of Hainan Island again in June 2015 and as recently as January 2016. Although Hanoi has made diplomatic

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119 “Interactive Map.”


121 Panda, “1 Year Later”; “Interactive Map.”
protests that the rig has entered disputed waters, it appears Beijing has kept its operations far enough away from Vietnam to avoid the escalation of violent protests seen in 2014.\textsuperscript{122} For Vietnam and the Philippines, the international energy companies that they often depend on have concluded that operations in the contested waters are too risky, thus leaving the smaller countries with few options short of diplomatic and public protests and attempts to interfere with China’s operations with their limited maritime assets.\textsuperscript{123} Moreover, each government appears to be limiting its use of military assets in the standoffs, thus reducing the potential for escalation toward armed conflict over hydrocarbons.

e. \textit{Standoff over Fishing Resources: 1997–2015}

The South China Sea competition for fishing resources has led to violent clashes between state-controlled organizations and fishermen from China, Vietnam, and the Philippines, but the states have de-escalated the clashes short of armed conflict. The standoff over fishing between China and the Philippines largely began in 1997 at Scarborough Shoal. China’s 1999 unilaterally announced South China Sea fishing ban—which Beijing has since periodically enforced—increased tensions with both Vietnam and the Philippines. Subsequently, more engagements over fishing have escalated into clashes. Some of the clashes involved military forces and assets, ramming and sinking of vessels, confiscation of equipment, and arrests. At least one of the clashes between China and Vietnam in 1999 resulted in deaths. None of the standoffs over fishing, however, has escalated to armed conflict. Additionally, the states have taken measures to manage clashes and resolve their disputes over fishing peacefully.\textsuperscript{124}

In April of 1997, an engagement between China and the Philippines over fishing resources in and around Scarborough Shoal escalated into a standoff that persists


The standoff quickly evolved into a clash on 20 May 1997, and clashes occurred again in 1998, 1999, and 2015. Like the standoffs over oil, however, both sides have limited their use of military assets in their later responses.

Scarborough Shoal, claimed by both China and the Philippines, is located roughly 150 nautical miles west of the Philippine island of Luzon and is known by fishermen and mariners throughout the region for its abundant marine life and as a sanctuary for mariners evading foul weather. An engagement at the shoal on 30 April 1997 escalated when Philippine naval ships blocked three Chinese vessels from approaching the feature. Following the engagement, the Filipinos planted a Philippine flag at the shoal to assert their nation’s sovereignty there, which drew diplomatic protests from Beijing. The standoff escalated on 20 May, when the Philippine Navy apprehended 21 Chinese fishermen near Scarborough Shoal. The fishermen were charged with illegal entry and poaching in the Philippine EEZ, which drew more diplomatic protests from the Chinese embassy in Manila. The Philippine court eventually dropped the illegal entry charges, deescalating the standoff. The standoff escalated again in 1998, when the Philippine Navy detained 22 Chinese fishermen near the shoal in January and 29 more in March. Among other charges, the fishermen were arrested for illegally gathering endangered marine species. The arrests resulted in more diplomatic protests from the Chinese embassy and demands for release of the fishermen, as Beijing maintained they were operating in Chinese waters.

In 1999, the same year Beijing announced its South China Sea fishing ban, the standoff between China and the Philippines over fishing expanded and escalated beyond Scarborough Shoal, as the Philippine Navy patrolled and engaged with Chinese
fishermen in what Manila considered as its territorial waters and EEZ. In May, for example, a Philippine naval vessel, chasing a group of three Chinese trawlers from waters claimed by both countries, collided with and sank one of the Chinese boats. In July, another Philippine naval patrol, chasing two Chinese fishing boats in the Spratlys, collided with and sank another Chinese boat.\textsuperscript{130}

The standoff between China and the Philippines at Scarborough Shoal escalated again in April 2012, when a Philippine surveillance aircraft detected eight Chinese fishing vessels near the shoal. Manila responded on 10 April by deploying the Philippine Navy flagship, \textit{BRP Gregorio Del Pilar}, to confront the fishermen. In turn, China responded by deploying two CMS ships to the site to prevent the arrest.\textsuperscript{131} In response to international and domestic criticism for potentially escalating the standoff by sending a combatant to the scene, Manila eventually exchanged its flagship for smaller coast guard vessels.\textsuperscript{132} China, on the other hand, maintained the appearance of a more benign presence at the shoal by deploying only civilian law enforcement vessels, although these included its largest and most-advanced FLEC ships, which outmatched the \textit{Del Pilar}.\textsuperscript{133}

The standoff deescalated on 18 June with an understanding that both sides would withdraw from the shoal. Only the Philippines fully complied, however, as the Chinese left seven law enforcement vessels at the feature.\textsuperscript{134} In August, the Chinese cordoned the opening to the shoal’s protective waters, and six months later three Chinese government vessels remained to control access. As of 2015, the Chinese continued to deploy coast guard ships to prevent other nations’ vessels from entering the shoal.\textsuperscript{135} The standoff


\textsuperscript{131} “Interactive Map;” Hayton, \textit{South China Sea: Struggle for Power}, 115.


\textsuperscript{133} De Castro, “Aquino Administration’s Balancing Policy,” 6.

\textsuperscript{134} “Interactive Map;” Hayton, \textit{South China Sea: Struggle for Power}, 115.

\textsuperscript{135} “Interactive Map.”
escalated again as recently as February of 2015, as the Philippines reported Chinese Coast Guard ships ramming three Filipino fishing boats in the vicinity of the fishing grounds.¹³⁶

Tensions between China and Vietnam over fishing began to escalate in 1999, as well, and although engagements have evolved to a standoff, which has escalated to clashes at times, since 2011, the two governments have increased means of managing emerging crises. Immediately following China’s 1999 fishing ban through 2008, China and Vietnam managed tensions over fishing, maintained relatively stable relations, and in December of 2000, even established an enduring cooperation agreement over fishing in the Tonkin Gulf.¹³⁷ The states maintained stable relations despite a clash in January 2005, when Chinese maritime police killed nine Vietnamese fishermen in the Tonkin Gulf.¹³⁸ Anxious to maintain good relations with China, the VCP actively subdued public discontent and suppressed protests triggered by the incident.¹³⁹

In contrast to the relatively stable relations up to 2008, from 2009 through 2011 numerous clashes were reported between Vietnamese fishermen and Chinese maritime law enforcement and naval personnel. For example, when China announced another fishing ban in May 2009, Vietnam responded adversely and released information about Chinese maritime patrol forces detaining three Vietnamese fishing boats and 37 fishermen while operating in the Paracels. China seized another Vietnamese boat in August.¹⁴⁰ February through September of 2010 saw six separate incidents of China aggressively enforcing the fishing ban. The incidents included boarding and detaining Vietnamese fishing boats, seizing catches and equipment, and fining and sometimes arresting crews operating in and around the Paracel Islands. Vietnam’s media sources reported 433 Vietnamese fishermen arrested and 33 fishing vessels detained by China during 2009. Vietnam reported similar numbers in 2010. During China’s 2011 fishing


¹³⁹ Ibid.

ban, Vietnam had fewer reported incidents. It is unclear, however, whether the reduction in reports was due to less aggressive Chinese action, more cases of Vietnamese fishermen remaining in port to avoid conflict, more suppression of media reports by the VCP in the interest of preserving China relations, or combinations of each.141

Beginning in 2010, an increase in diplomatic events between China and Vietnam corresponded with and likely contributed to the de-escalation of tensions over fishing. In 2010, the two states conducted five meetings to discuss their “fundamental guiding principles” for managing bilateral maritime disputes.142 In June 2011, the VCP sent Ho Xuan Son, its deputy minister for foreign affairs, on a special envoy to meet with his counterpart in Beijing as a response to increasing tensions and a deadlock over maritime matters that involved third-party states. During the talks, the deputy ministers agreed that the governments needed to guide public sentiment in order to avoid actions and statements that were harmful to peaceful relations between the countries. They also agreed to accelerate negotiations for the principles guiding the settlement of maritime disputes and implementation of the Declaration on the Conduct of Parties in the South China Sea (DOC), adopted by ASEAN and China foreign ministers in 2002.143 In October 2011, the VCP General Secretary Nguyen Phu Trong visited Beijing, marking the first meeting between party leads since 2008. During October, the two governments also signed The Agreement on Basic Principles Guiding the Settlement of Sea-Related Issues, in which the governments agreed that settling their maritime disputes would enhance peace, stability, development, and cooperation in the region.144 The agreement also established the groundwork for implementing periodic discussions between government officials, conducting unscheduled meetings if required, and creating hotlines between lead officials to manage emergent crises. By March 2012, the countries’ deputy

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142 Ibid., 362.
foreign ministers opened their first hotline between foreign ministries and agreed to establish regular working groups to negotiate and cooperate over South China Sea matters. In June 2013, the governments’ agricultural ministries opened hotlines for emergent incidents involving fishing.\footnote{Amer, “China, Vietnam, and the South China Sea,” 25–26.}

In summary, despite the episodes of escalation, the Philippine, Vietnamese, and Chinese governments seemed to have been seeking opportunities to avoid armed conflict over fishing standoffs. For example, since deescalating from the Philippine response in 2012, both sides appear to have limited the use of military assets in response to the standoff in the Spratlys. In addition to Manila’s repeated diplomatic protests against China over Scarborough Shoal, in January 2013 the Philippines initiated proceedings under UNCLOS to settle its overlapping claims with China.\footnote{“Philippines Says Chinese Ship Rammed Fishing Boats”; “Arbitration on the South China Sea.”} Vietnam and China have developed means to de-escalate disputes and avoid armed conflict as well, including discussions, working groups, agreements, hotlines, and even joint oil exploration operations. Although tensions have fluctuated through periods of escalation and de-escalation, the states have avoided armed conflict since 1988.

C. EFFORTS TO BALANCE AGAINST CHINA

As realists would predict, Vietnam and the Philippines have attempted to balance against China but with limited results. The standoffs and clashes between the smaller countries and China reveal stark differences in the formers’ maritime capabilities when compared to their powerful opposition. During the last two decades, both Hanoi and Manila engaged in various attempts at strengthening, but both countries lack the resources and financial growth to support defense budgets capable of competing with Beijing’s.\footnote{Renato Cruz De Castro, “Philippine Strategic Culture: Continuity in the Face of Changing Regional Dynamics,” \textit{Contemporary Security Policy} 35, no. 2 (2014), 262; Le Hong Hiep, “Vietnam’s Strategic Trajectory: From Internal Development to External Engagement,” \textit{ASPI Strategic Insights no. 59} (2012), 6.}

While Vietnam remains cautious about provoking anger in its northern neighbor by establishing enduring security connections with prominent world powers, the Philippines has rekindled security ties with its long time external security provider, the
United States.\textsuperscript{148} This section reviews the defense budgets, equipment modernization attempts, and balancing efforts of the Hanoi and Manila governments during their challenge to strengthen and balance against China.

1. **Vietnam: Omni-Balancing and a Little Internal Strengthening**

Vietnam has responded to China’s assertiveness in the South China Sea with a combination of omni-balancing and a little internal strengthening. Vietnam’s economic growth during most of the last three decades created an opportunity to bolster its territorial defense capabilities. Consequently, the VCP increased its defense budget, reaching $4.3 billion in 2014, more than doubling since 2005.\textsuperscript{149} By comparison, Vietnam’s 2014 defense budget equaled just 0.2 percent of China’s $202.4 billion 2014 defense spending.\textsuperscript{150} Although Vietnam’s defense budget rose above 2 percent of its GDP beginning in 2007, from 2003 to 2014, it never rose above 2.3 percent GDP (see Figure 1).\textsuperscript{151} If the VCP was aggressively strengthening against China, one might expect a more dramatic increase in its defense budget corresponding to the 2011 and 2012 escalating tensions in the countries’ standoff over oil exploration and fishing resources.

Despite the overwhelming asymmetry between Vietnam and China’s defense budgets, Hanoi has pursued more robust weapons and platforms to strengthen against China. For example, Vietnam has purchased cheaper weapon systems optimized to inflict intense damage on naval fleets threatening its sovereignty close to home and far from their adversary’s homeports. Vietnam operates small fast attack boats and purchased two batteries of Russian long-range anti-ship missile systems and Israeli anti-ship ballistic missiles to deter more powerful, threatening naval forces.\textsuperscript{152} In December 2009, Vietnam Prime Minister Nguyen Tan Dung signed contracts with Russia for six Kilo-class

\textsuperscript{148} De Castro, “Philippine Strategic Culture,” 263; Hiep, “Vietnam’s Strategic Trajectory,” 9–11.

\textsuperscript{149} Bower, “Southeast Asia from Scott Circle.”

\textsuperscript{150} SIPRI Military Expenditure Database, Stockholm International Peace Research Institute, accessed 24 November 2015, \url{http://www.sipri.org}.

\textsuperscript{151} Military Expenditure, World Bank; World Bank does not report records of Vietnam’s defense spending from 1995 to 2002.

\textsuperscript{152} Hayton, \textit{South China Sea: Struggle for Power}, 237.
submarines and twelve Su-30MK2 fighter aircraft to modernize Vietnam’s force. At the same time, Dung’s Foreign Minister traveled to Washington to request that the United States lift its arms embargo that had been in place since the Vietnam War ended. Regardless of Vietnam’s strengthening efforts, however, the VCP seems to understand the power asymmetry and that a hostile relationship with China could have costly results.

Figure 1. China, Vietnam, the Philippines, and United States’ Defense Spending

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154 Ibid.
156 Chart derived from data downloaded from The World Bank website; Military Expenditure, World Bank; Vietnam did not report defense spending from 1995 to 2002.
As seen during the 1997 oil exploration incident in the Tonkin Gulf and the 2009 foreign minister visit to Washington, Vietnam has sought balancing relationships with other countries in response to China’s actions. While the VCP has resisted alliances with external powers, it has cautiously balanced its security relationships between Beijing, Washington, and other states and multilateral organizations.\(^{157}\) Stronger security ties with the United States, however, have strained Sino-Vietnamese relations and, at times, resulted in Chinese punitive action against Vietnam.\(^{158}\) China’s punitive actions have instigated anti-Chinese nationalist protests against the VCP, which the party views as an internal threat to the regime.\(^{159}\) As such, some members of the VCP—regime conservatives, discussed more closely in Chapter III—have adopted a counter-dominance strategy that emphasizes multiple bilateral engagements to increase “strategic partners” and multilateral influence through ASEAN-led institutions.\(^{160}\) With its principle of consensus, however, it will be difficult to get ASEAN to unite against China given that only a few of its member nations have strong interests in the South China Sea. Regardless, Vietnam’s defense diversification is evident, as it maintained bilateral security relationships with 65 different countries in 2012. Furthermore, in Vietnam’s quest for defense diversification it has sought relationships with South Korea, India, Japan, and Australia.\(^{161}\) Consequently, the VCP has multilaterally diversified its security ties without provoking or creating a bipolar balance against China.

2. The Philippines: Less Strengthening and More Balancing

Like Hanoi, Manila has also shown some signs of strengthening and balancing against China. During the last three decades, however, internal threats and domestic politics interrupted strengthening efforts, and balancing efforts have focused primarily on rekindling strong bilateral security ties with Washington. Also like Vietnam, the

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\(^{158}\) Hiep, “Vietnam’s Strategic Trajectory,” 11.

\(^{159}\) Ibid.


\(^{161}\) Hiep, “Vietnam’s Strategic Trajectory,” 11.
Philippines’ economic growth during most of the last three decades created an opportunity to bolster its defense capabilities. Despite its growth and China’s increased assertiveness, however, the Philippine defense investment as a percentage of its GDP has been on a slow decline since 2003 (see Figure 1). With a 2014 budget just less than $3.5 billion and at 1.9 percent of its GDP, Manila claims the lowest defense budget of the three states.162

Moreover, the AFP’s strengthening efforts constantly fell victim to corrupt political processes and diversion of funds to perceived higher priorities. Despite adopting a military modernization plan in the mid-1990s, elite congressional politicians delayed and reduced promised defense dollars until the 1997 Asian financial crisis caused them to put the plan on hold indefinitely. At the start of the new millennium, Manila assumed that the Philippines would not confront external challenges to its territory until 2018 and directed the majority of its small defense budget to defeating internal threats, accordingly.163 Faced with multiple, rising insurgent movements from the Communist Party of the Philippines’ (CPP) New People’s Army (NPA), the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF), and the Abu Sayyaf terrorist group (ASG), in 2001, the President Gloria Macapagal Arroyo administration directed the AFP to concentrate efforts on internal security.164 As a result, the AFP diverted funds and materials earmarked for external defense capabilities toward combating internal threats.165 Thus, from 2002 to 2011, defense procurement reflected the Arroyo administration’s internal defense policy. The AFP purchased body armor, troop helmets, squad machine guns, and aircraft with night ground-attack capabilities.166 They also procured or reconditioned South Korean medium patrol craft, U.S. UH-1H Huey helicopters, and Thai OV-10 aircraft, all with limited external defense capabilities.167

With no funds for external defense, Manila decommissioned the last of its aging F-5

162 Military Expenditure, World Bank.
164 De Castro, “Philippine Strategic Culture,” 257.
166 Ibid., 11.
167 Ibid.
fighter aircraft and deactivated its Air Defense Command in 2005, leaving the country essentially without air defense.\textsuperscript{168}

Shocked by China’s interference with Philippine oil exploration operations at Reed Bank during March 2011, the newly elected President Benigno Aquino III renewed efforts to modernize the Philippine forces but received minimal results.\textsuperscript{169} President Aquino pressurized the navy to accelerate acquisition of secondhand U.S. Coast Guard cutters and directed the air force to find affordable fighter jets and upgrade the nation’s air defense.\textsuperscript{170} Military modernization plans, however, encountered its usual hurdles of small budgets and squandered funds.\textsuperscript{171} Debates over procuring new frigates and amphibious assault ships have yet to come to fruition, and the navy has been left operating aging World War II vessels.\textsuperscript{172} Plans from 2013 to purchase 12 Korean FA-50 fighter aircraft for $420 million to rebuild its air defense will not produce all of the aircraft until 2017.\textsuperscript{173}

Like Manila’s strengthening efforts, its balancing efforts have fluctuated with perceived threats and changes in its presidential administrations but have produced stronger results. The U.S.-Philippine Mutual Defense Treaty (MDT), signed in 1951 and ratified in 1952, effectively allowed the Philippines to enjoy a reasonable level of U.S. protection against external threats until the U.S. withdrawal from Philippine bases in 1992. With the end of the Cold War shifting Philippine priorities, a close vote by the Philippine Senate in 1991 ended U.S. forces’ enduring presence at Clark Air Base and Subic Naval Base.\textsuperscript{174} The U.S. base closure left the Philippines essentially defenseless against external threats and, worse yet, without the annual subsidy Washington had

\textsuperscript{168} De Castro, “Aquino Administration’s Balancing Policy,” 11.
\textsuperscript{169} Ibid., 6.
\textsuperscript{170} Ibid.
\textsuperscript{171} Hayton, \textit{South China Sea: Struggle for Power}, 236.
\textsuperscript{172} Ibid.
\textsuperscript{174} Hayton, \textit{South China Sea: Struggle for Power}, 84.
provided to the AFP. In 1991, however, the perception of external threats to the Philippines, including from China, was minimal. The Philippines discovery of Chinese construction at Mischief Reef in 1995 shifted Manila’s perspective on defense. Lacking viable external defense capabilities, Manila began negotiating with Washington in 1996 to implement a Visiting Forces Agreement (VFA), which reopened the door for U.S. exercises and ship visits. By 2010, China’s assertiveness in the South China Sea increased discussions among Philippine policymakers to further rekindle defense ties with Washington. The Philippines welcomed the 2010 announcement of the U.S. rebalance to the Pacific. By 2014, Manila’s concerns about an increasingly assertive China accelerated the drafting of the U.S.-Philippines Enhanced Defense Cooperation Agreement (EDCA) that reaffirmed bilateral defense cooperation with Washington. The Philippine balancing efforts have renewed security ties with the United States, which seem to grow stronger with China’s growing assertiveness. America has strong economic ties with China, however, which encourages Washington to mediate on behalf of both sides of disputes.

D. CONFLICT CONCLUSION

Although the frequency of engagements, standoffs, and clashes over territories and resources between China and its two neighbors, Vietnam and the Philippines, increased between 1988 and 2015, they avoided any further armed conflict for nearly three decades. Moreover, during the last five years, each country appears to be taking measures to de-escalate clashes short of armed conflict. The first engagements between China and Vietnam in 1988 escalated quickly into an armed conflict between military forces that resulted in casualties and destroyed Vietnamese ships. Since then, the standoffs have involved fewer military assets and have resulted in fewer shots fired and less loss of life. Some of the standoffs, such as the one between China and the Philippines

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175 Hayton, South China Sea: Struggle for Power, 84–85.
176 De Castro, “Philippine Strategic Culture, 256.
177 Bower, “Southeast Asia from Scott Circle.”
over Scarborough Shoal, have escalated at times, involved military vessels as recently as 2012, and resulted in government ships ramming fishing boats as recently as 2015. The casualties resulting from clashes have remained below the threshold of armed conflict. Moreover, the deaths and damage to equipment during the more recent standoffs over oil exploration near Vietnam in 2014 and over fishing at Scarborough Shoal in 2015 were due to civil uprisings or resulted from the actions of non-military vessels. Furthermore, the governments have avoided armed conflict by withdrawing their assets from escalating engagements and have sought other means of resolving their disputes. As the more powerful state with superior relative maritime capabilities, China appears to have learned from its earlier engagements and has been able to control the tempo and limit the escalation of the standoffs. For example, instead of using military vessels to respond to incidents, China depends on the more benign appearance of its FLEC, CMS, and coast guard vessels, albeit many of which rival the capabilities of Vietnam and the Philippines’ best combatants. The smaller states appear to have learned from the engagements as well and have limited their use of military assets to avoid provoking their powerful neighbor. Since their non-military maritime capabilities pale in comparison to China’s, the smaller states have limited their options to underwhelming physical presence and stronger diplomatic pressure to counter China’s action, or they effectively surrender their claims.

Vietnam and the Philippines have engaged in limited strengthening and balancing efforts, as well, but with limited results. Their efforts to strengthen do not demonstrate a desire to compete with China militarily over their disputes. Vietnam remains cautious about provoking China through internal strengthening or external balancing. The Philippines’ diversion of resources away from external defense has left it seeking renewed security ties with the United States.

The lack of armed conflict in the South China Sea between China, Vietnam, and the Philippines raises an additional question. The competition for territory and resources was important enough for China and Vietnam to expend national blood and treasure in 1988. As the engagements, standoffs, and clashes have become more prevalent, why have the governments of these nations actively avoided armed conflict in recent years? The next chapter addresses one possible explanation, which is that growing economic
interdependence between these states and China inhibited them from doing so. For example, increased economic interdependence may have increased the cost of armed conflict to a level that each country found unacceptable, thus moving them toward cooperation, rather than conflict, to manage their disputes.
III. VIETNAM AND THE PHILIPPINES’ ECONOMIC (INTER)DEPENDENCE WITH CHINA: AVOIDING ARMED CONFLICT IN THE SOUTH CHINA SEA

A. INTRODUCTION

In 2007, Benjamin E. Goldsmith argued that “liberal expectations… about the importance of economic interdependence for reducing conflict in Asia are robustly confirmed.” Since he made this claim, tensions over territory and resource disputes in the South China Sea have increased, yet China, Vietnam, and the Philippines have continued to avoid armed conflict. Goldsmith’s claim suggests that it should be possible to see correlation and causation between Asia’s economic growth and the lack of armed conflict over South China Sea territory and resources since 1988, despite growing tensions. Hanoi and Manila’s pursuit of economic ties with Beijing not only correlates to relative peace in the region, it has even, at times, encouraged cooperation and agreements to manage their South China Sea disputes.

Asia was not the first region in the world where a lower probability of conflict was attributed to increased economic interdependence. Prior to World War I, Norman Angell predicted that globalization and “the complex financial interdependence” between England and Germany would make armed conflict costly for both sides, eliminating the prospective gains for the victor, therefore making war less likely. Despite Angell’s assessment, however, the European governments proved that economic interdependence would not keep them from engaging in armed conflict. Subsequently, two global wars began in Europe with costly effects worldwide. In the aftermath of World War II and given the current interconnectedness of global economies, many would agree with Angell’s analysis that engaging in armed conflict for the conquest of another state’s territory and resources would disrupt global markets, with detrimental effects on all sides.

The last time China engaged in armed conflict over territory or resources in the South China Sea was with Vietnam over the Spratly Islands in 1988. Since then, Vietnam and the Philippines have engaged in standoffs with China, involving periods of fluctuating escalation of tensions, but the states have avoided armed conflict. The nations’ economies have also liberalized and grown during the last three decades. The smaller nations’ governments have sought economic ties with China, and vice versa, thus increasing the interconnectedness of their economies. The simple correlation between the nations’ growing economic ties and nearly three decades of relative peace, despite growing tensions, might suggest that economic interdependence, as predicted by Angell, is having the effect in the South China Sea that it failed to produce in Europe.

How has economic interdependence between China and its neighbors, Vietnam and the Philippines, helped to deter armed conflict between the states over territory and resource disputes in the South China Sea since 1988? This chapter argues that asymmetric economic interdependence between the states has favored China and correlates to periods of cooperation, management of maritime disputes, and the lack of armed conflict in the South China Sea since 1988 but left the smaller states with limited options due to their vulnerability to China’s economic leverage. This chapter illustrates three major points regarding economic interdependence between China and its two neighbors. First, Sino-Vietnamese and Sino-Philippine economic ties prior to the 1988 conflict were minimal compared to the rapidly growing, asymmetric, economic interdependence during the mid- to late 1990s and through 2015, which correlates to a lack of armed conflict in the South China Sea. Second, Vietnam and the Philippines pursued economic growth in response to threats, which eventually led to increasing asymmetric Sino-Vietnamese and Sino-Philippine economic ties. Finally, these growing economic ties correlate with a long period during which the three countries avoided armed conflict, while the smaller states accepted vulnerabilities caused by their economic dependence on China.
B. BILATERAL TRADE: FROM RELATIVELY MINIMAL TO NOTICEABLE ASYMMETRIC GROWTH

Evidence of asymmetric economic interdependence correlating to the lack of armed conflict in the South China Sea can be found by looking at bilateral trade data between the smaller countries and China during the decade prior to the 1988 armed conflict at Johnson Reef and through 2015. Sino-Vietnamese and Sino-Philippine trade throughout the 1980s was relatively minimal when compared to trade relations during the 1990s and through 2015. Figures 2 and 3 show Sino-Vietnamese and Sino-Philippine trade data from 1978 through 2015. The graphs depict each country’s imports and exports in relation to its counterpart as a percentage of the country’s total global imports and exports, respectively. For example, Figure 2 shows that during the three years following the Sino-Vietnamese armed conflict at Johnson Reef, Vietnam’s imports from China from 1989 to 1992 increased from zero to about 4 percent of Vietnam’s total imports. As another example, Figure 3 depicts that the Philippines sent about 46 percent of its global exports to China in 2007.\textsuperscript{181} The trade data shows increasing, yet asymmetric, economic interconnectedness between China and its two neighbors.

Figure 2. Sino-Vietnamese and Sino-Philippine Import Trade Data

\textsuperscript{181} IMF Direction of Trade Statistics, \textit{International Monetary Fund}, last modified 14 July 2016, http://data.imf.org/dot. Values were calculated as a percentage of the respective countries’ bilateral trade in relation to its global trade. Exports are based on “Goods, Value of Exports, Free onboard” (FOB) data, and imports are based on “Goods, Value of Imports, Cost, Insurance, Freight” (CIF) data for each given year.
1. **Sino-Vietnamese Trade Data**

Sino-Vietnamese trade ties increased from nearly nonexistent for the decade prior to the 1988 conflict to noticeable asymmetric interdependence after normalization of relations in 1990 and 1991.\(^{182}\) Low Sino-Vietnamese trade during the late 1970s and much of the 1980s correlates to poor relations between the states during that period, as Vietnam’s invasion of Cambodia and its border wars with China severely damaged Sino-Vietnamese relations. Beijing consequently adopted its “bleed Vietnam” policy, aimed at diplomatically isolating its southern neighbor.\(^{183}\) Accordingly, the International Monetary Fund (IMF) reports no Sino-Vietnamese trade data from 1979 through 1988.

By contrast, increasing Sino-Vietnamese trade relations throughout the 1990s were accompanied by a general improvement in bilateral relations and a lack of armed conflict in the South China Sea. During 1989, Chinese goods made up less than 1 percent of Vietnam’s imports, and less than 1 percent of Vietnam’s exports went to China. During 1992, the year following normalization of Sino-Vietnamese relations, Chinese

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\(^{182}\) Thayer, “The Tyranny of Geography,” 351.

products made up about 4 percent of Vietnam’s imports and, in general, the number continued to grow, reaching a high of 44 percent in 2014. Furthermore, Vietnam sent about 2 percent of its exports to China in 1992, and in general, that number continued to grow, reaching a high of roughly 15 percent as recently as 2015. Despite the growing South China Sea tensions covered in Chapter II, the Sino-Vietnamese trade numbers have tended to increase, while the states have avoided armed conflict.184

The Sino-Vietnamese trade picture, however, has been asymmetric. For example, during 2015, China only sent 3 percent of its exports to Vietnam, compared to the 15 percent Vietnam sent to China.185 Additionally, the Vietnamese trade deficit to China continued to grow with the increasing economic ties.186 This asymmetric trade relationship is more indicative of Vietnam’s economic dependence on China, rather than balanced interdependence between the two—an outcome that is not surprising given the disparity in size between the countries’ economies.

2. Sino-Philippine Trade Data

Sino-Philippine trade data indicates some differences and similarities to Sino-Vietnamese trade data. In general, the data shows an asymmetric increase in bilateral trade relations and that trade increased despite growing South China Sea tensions. Unlike Sino-Vietnamese trade, the Philippines and China maintained bilateral trade throughout the 1980s. Despite continued trade throughout the 1980s, however, Sino-Philippine trade data does not indicate noticeable increases in the countries’ interconnectedness until later than the Sino-Vietnamese increases. Like China’s trade with Vietnam, Sino-Philippine economic interconnectedness shows similar rapid growth since 2000 but even more so with regard to the smaller country’s exports to China. For example, Philippine annual imports from China comprised of less than 7 percent of Philippine total imports until 2002—the year following President Gloria Macapagal Arroyo’s assumption of office. The number continued to rise, reaching 36 percent in 2015. Likewise, Philippine exports

184 IMF Direction of Trade Statistics.
185 Ibid.
to China made up just 9 percent of the country’s total exports in 2002 but reached as high as 46 percent in 2007 and were still at 32 percent in 2015.\textsuperscript{187} Despite fluctuating tensions over SCS territory and resources, the countries have increased their economic interconnectedness, while the governments managed South China Sea disputes and avoided armed conflict.

As with the Sino-Vietnam trade relationship, Sino-Philippine trade is very asymmetric. In 2015, while the Philippines exported about a third of its goods to China, the Chinese sent only about 1 percent of their exports to the Philippines. As with Sino-Vietnamese trade relations, the asymmetry is more indicative of Philippine economic dependence on China than balanced interdependence between the two.

\textbf{3. Summary of Trade Data}

While differences exist in Sino-Vietnamese and Sino-Philippine trade relations, the trade data indicates that each of the smaller country’s economies have grown asymmetrically interconnected with China. The increasing interdependence correlates to a lack of armed conflict in the South China Sea reviewed in Chapter II, despite increasing tensions over territory and resource disputes. The relationships seem appropriately captured in Chong-pin Lin’s claim: “The economic dependence of its neighbors on China restrains them from launching war against it.”\textsuperscript{188} Vietnam and the Philippines intentionally pursued increased trade relations with China, despite the inherent vulnerabilities in this asymmetric outcome.

\textbf{C. THE PURSUIT OF ECONOMIC GROWTH LED TO ASYMMETRIC INTERDEPENDENCE}

Vietnam and the Philippines’ pursuit of economic growth, largely beginning in mid-1980s, eventually led to increasing but asymmetric Sino-Vietnamese and Sino-Philippine economic interdependence. This section reviews Vietnam and the Philippines’ pursuit of economic growth and highlights three additional commonalities in their paths. First, each country sought economic growth to increase national strength in response to

\textsuperscript{187} IMF Direction of Trade Statistics.
\textsuperscript{188} Lin, “Behind Rising East Asian Maritime Tensions,” 500.
threats. Second, eventually their paths led to economic ties with Beijing. Finally, once the countries established ties with China, the ties continued to grow despite increasing tensions over South China Sea disputes.

1. Vietnam: How Threats to the Regime Led to Economic Ties with China

Vietnam’s history of struggle against threats evolved into a path toward deepening economic ties and, at times, cooperation and agreements with China over oil exploration and fishing in the South China Sea. Before the Vietnamese Communist Party’s (VCP) active pursuit of economic growth in the mid-1980s, Vietnam’s past had been plagued with conflict and struggle for survival. As Vietnam’s powerful neighbor, China has played a key fixture in Vietnam’s struggle as well as its economic growth.189

Decades of struggle and conflict led war-torn Vietnam into an economic crisis in the 1980s that shocked and threatened the VCP, shifted perspectives within its leadership, and inspired economic reform. After leading North Vietnam to victory over South Vietnam in 1975, the VCP engaged in military conflicts against Cambodia and China while facing trade embargos from the United States. Strained by conflicts, facing global isolation, and with a starving population at home, the VCP felt even more vulnerable with the collapse of communism in Europe during the 1980s, as the deterioration of the communist bloc challenged the basis of the regime’s socialist origins.

Desperate to maintain regime and state survival during the early to mid-1980s, a modernization and reform movement within the VCP successfully pushed its doi moi, or renovation, strategy. Adopted by the VCP’s Sixth Party Congress in 1986, doi moi aimed to reform and modernize the party and Vietnam’s economy through increasing market liberalization and opening to the capitalist world.190 The collapse of the Soviet Union from 1989 through 1991 produced additional shock to the VCP, as it had relied on

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Moscow for investment, trade, and aid. The fall of Vietnam’s primary economic, security, and political partner pushed the VCP to search for partners elsewhere.\textsuperscript{191} The economic successes of Vietnam’s East Asian neighbors with close ties to the West made them attractive trade options to reformers. Accordingly, and concurrent with the Soviet collapse, the VCP accelerated implementation of liberalizing economic reform policies and Vietnam’s integration into the rapidly growing East Asian economies.\textsuperscript{192}

Regime conservative elites, however, resisted rapid reform policies and pushed for closer ties with Beijing.\textsuperscript{193} Conservatives felt that \textit{doi moi} caused too dramatic of a shift away from the VCP’s key socialist interests and feared the “peaceful evolution” of Western capitalist and democratic norms.\textsuperscript{194} Although, most party members agreed that modernization and openness to other countries as a friend and reliable partner were required for VCP survival, many regime conservatives favored “party first” and “closed door” policies. As such, conservatives pushed for closer ties with China than the United States.\textsuperscript{195} Washington’s resistance to the normalization of U.S.-Vietnamese relations throughout the late 1980s and early 1990s further inspired closer ties with China.\textsuperscript{196}

Concurrently, the VCP grew more inclined to recognize China’s position of strength in the region as Vietnam’s powerful neighbor with common socialist values. As such, the VCP realized the value of normalizing Sino-Vietnamese relations even at the cost of paying deference to Beijing.\textsuperscript{197} Despite VCP ambitions to normalize relations with China, Beijing was reluctant to develop close economic ties with Hanoi in 1991. Regardless of Beijing’s reluctance, by 1992, the VCP concluded that states could

\textsuperscript{191} Elliott, \textit{Changing Worlds}, 119.


\textsuperscript{193} Vuving, “Vietnam: A Tale of Four Players,” 368.


cooperate and struggle and still maintain peaceful relations.\textsuperscript{198} Thus, the Party adopted a cooperate-and-struggle strategy, and its conservative agenda led it toward closer ties with Beijing. It was not until 1997, however, that Beijing opened up to closer economic cooperation with Vietnam.\textsuperscript{199}

Although the Chinese Communist Party (CCP) had slowed Vietnam’s progress toward normalizing trade relations in 1991, by 1997 Chinese reformers had set out to reassure China’s Southeast Asian neighbors that its economic rise would be peaceful and beneficial to the region.\textsuperscript{200} As such, the CCP pursued closer Sino-Vietnamese economic ties, which coincide with increasing negotiations between the states to resolve South China Sea disputes. In December, CCP reformer Li Ruihuan visited Hanoi with a plan for reform that combined China’s national requirements with Marxist principles. The VCP General Secretary Le Kha Phieu accepted the relationship but also accepted a level of deference to China.\textsuperscript{201} Concurrent with Li Ruihuan’s visit to Hanoi, the VCP and CCP agreed to accelerate negotiations that led to the Tonkin Gulf border agreement of 2000, covered in Chapter II.\textsuperscript{202}

Li Ruihuan’s 1997 visit to Hanoi resulted in stronger Sino-Vietnamese diplomatic ties and trade relations. Although bilateral trade between China and Vietnam emerged after normalizing relations in 1991, increasing from $32.23 million to almost $2.47 billion by the end of the 20th century, it stagnated during the mid-1990s until after the 1997 meeting (see Vietnam’s exports to China and imports from China in Figures 2 and 3).\textsuperscript{203} Following the 1997 meeting, the trade data shows that Vietnam’s imports from China have generally made up an increasing share of Vietnam’s total imports during subsequent years. Although, Vietnam’s exports to China have fluctuated in relation to its

\textsuperscript{198} Thayer, “The Tyranny of Geography,” 351.


\textsuperscript{201} Elliott, \textit{Changing Worlds}, 184–86.

\textsuperscript{202} Ibid.

\textsuperscript{203} Cheng, “Sino-Vietnamese Relations,” 385.
total exports, since 1997 the percentage has generally increased, as well. By 2004, China exceeded Japan as Vietnam’s largest trade partner.\footnote{52}

Increased Sino-Vietnamese economic ties were slow to produce the investments from China that the VCP expected, but as China’s economy grew, so did closer ties and Chinese support for improving Vietnam’s infrastructure.\footnote{205} It took more than a year after normalizing relations for Vietnam to receive its first loans from China, and these only amounted $14 million.\footnote{206} More recently, however, Chinese foreign direct investment in Vietnam during 2013 increased dramatically to $2.3 billion, up from $345 million during the previous year. That number more than tripled to $7.94 billion in 2014.\footnote{207}

2. **The Philippines: How Threats and Domestic Politics Led to Economic Ties with China**

Internal and external threats and domestic politics shaped the Philippines’ path to economic reform and growth, which eventually produced enduring ties with China. Social and political landed elite families have largely controlled Philippine domestic politics.\footnote{208} The political environment in the Philippines during much of the 20th century can be characterized as elite rule over underrepresented masses, which led to political corruption, domestic instability, and the emergence of internal threats.\footnote{209} Following Japanese occupation during World War II, the Philippine oligarchical government created an environment that unintentionally fostered domestic threats, seen in the rise of peasant rebellions and Islamic insurgencies. By the 1980s, Philippine domestic threats included the CPP with its NPA, the MNLF, and the MILF.\footnote{210} By the early 1990s, ASG split from

\footnote{204}Ibid., 392; IMF eLibrary Data, International Monetary Fund: Direction of Trade Statistics, last modified 25 August 2015, \url{http://data.imf.org/dot}; Trade value is “Goods, Value of Exports, Free on board, U.S. dollars.”


\footnote{206}Elliott, *Changing Worlds*, 123.

\footnote{207}Amer, “Vietnam in 2014: Crisis with China,” 390.


\footnote{209}Hutchcroft, “Strong Demands and Weak Institutions,” 262–63.

\footnote{210}Morada, “The Philippines: State Versus Security?,” 553

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the MNLF, adding to the Philippine internal threat problem.\textsuperscript{211} Protected by a U.S. security umbrella until 1992, Manila perceived its external threats as minimal until the mid-1990s, when China increased its challenges to Philippine sovereignty in the South China Sea.\textsuperscript{212} Although Philippine leadership recognized the need for economic growth to counter threats, political corruption and the concurrent rise of threats often hindered, but at times inspired, economic reform. Each successive political administration adjusted its economic policy and the Philippine path to economic growth in response to threats.\textsuperscript{213}

President Ferdinand Marcos, president of the Philippines from 1965 through 1986, aimed to end oligarchical political control that prompted the emergence of internal threats, but his administration’s corruption, cronyism, and authoritarian rule hindered economic reform and growth and ultimately led to the overthrow of his regime. Not only did Marcos fail at reforming class inequality, but the CPP/NPA and MNLF insurgencies he aimed to mollify only grew stronger during his term.\textsuperscript{214} As corruption and failed policies plagued the Marcos presidency, in February of 1986, the “People Power” uprising forced Marcos into exile after he tried to steal the presidential election from Corazon Aquino.\textsuperscript{215} Aquino emerged from the uprising as president. Civil-military infighting, however, plagued her administration and destabilized the government. Ultimately, Aquino failed to make progress with the insurgencies and did not adopt any significant economic reform.\textsuperscript{216}

Aquino’s former AFP chief of staff, Fidel Ramos, succeeded her in 1992. As a reformer, he prioritized economic growth and applied new strategies to handle internal threats and domestic politics. Ramos recognized four factors that connected managing the Philippine insurgencies with a path to economic growth: first, economic growth required

\begin{itemize}
\item \textsuperscript{211} “Terrorist Groups: Abu Sayyaf Group (ASG),” The National Counterterrorism Center, accessed 29 July 2016, \url{https://www.nctc.gov/site/groups/abu_sayyaf.html}.
\item \textsuperscript{212} Morada, “The Philippines: State Versus Security?,” 552.
\item \textsuperscript{213} Ibid., 567–68, 571, 575.
\item \textsuperscript{214} Ibid., 550, 553
\item \textsuperscript{215} Ibid., 557–59; Mark R. Thompson, “Reformism vs. Populism in the Philippines,” \textit{Journal of Democracy} 21, no. 4 (2010), 162.
\item \textsuperscript{216} Morada, “The Philippines: State Versus Security?,” 559.
\end{itemize}
more domestic stability; second, the insurgencies disrupted stability; third, poverty of the masses fed the insurgencies; and finally, the Philippine elitist political structure fostered poverty. Accordingly, Ramos prioritized economic reform during his presidency.\textsuperscript{217}

China’s construction at Mischief Reef in 1995 further highlighted to Ramos the need for economic growth. China’s activities challenged Philippine sovereignty and underscored the nation’s vulnerability to external threats. As such, external security emerged as an additional priority for the Ramos administration. In February of 1995, Ramos signed the AFP Modernization Act, aimed at improving Philippine external defense capabilities. Fulfilling the requirements outlined in the act, however, largely depended on enduring economic growth, facilitated through internal stability, but lack of stability continued to afflict the Philippines at the end of Ramos’ term.\textsuperscript{218} Joseph Estrada, succeeded Ramos in 1998, but cronyism and corruption plagued his brief presidency, which inspired the “People Power 2” movement, ending his term in January 2001.\textsuperscript{219}

Following the Estrada administration, the Gloria Macapagal Arroyo presidency marked an increase in Sino-Philippine economic ties and cooperation between the two governments over South China Sea disputes, with some enduring results. With her economist background, Arroyo made economic growth a top priority.\textsuperscript{220} She adopted an “equi-balancing” policy between relations with Beijing and Washington, which helped her manage the Philippine internal threats while pursuing economic growth.\textsuperscript{221} While rekindling security ties with Washington to manage Philippine insurgencies, Arroyo pursued economic ties with Beijing to grow the Philippine infrastructure and economy.\textsuperscript{222} Beijing likely welcomed President Arroyo’s more open policies with China, since the CCP had been working since the mid-1990s to reassure its Southeast Asian neighbors

\textsuperscript{218} Ibid. 567–68, 571, 575.
\textsuperscript{219} Hutchcroft, “Strong Demands and Weak Institutions,” 280–82.
\textsuperscript{221} De Castro, “Aquino Administration’s Balancing Policy,” 8.
that China’s rise would be peaceful and beneficial to the region. Subsequently, a substantial increase in Sino-Philippine bilateral trade emerged during Arroyo’s term. The president also facilitated contracts for Chinese investment in Philippine infrastructure and a joint agreement for oil exploration in the South China Sea—the Joint Marine Seismic Undertaking (JMSU), which later included Vietnam.

President Arroyo’s equi-balancing policy correlates with enduring economic benefits for the Philippines, despite political corruption tainting many of her agreements with Beijing. As evidence of the economic benefits of Arroyo’s cooperation with China, bilateral Sino-Philippine trade increased from $2 billion in 1998 to $30 billion in 2007. Moreover, between 2004 and 2007, President Arroyo and Chinese President Hu Jintao signed several bilateral agreements for investments, including $1.6 billion of loans and $1 million of military finance from Beijing. By 2006, China funded high-level infrastructure development projects in the Philippines and became its fifth highest official development assistance (ODA) investor. China’s concessional lending to the Philippines expanded from $60 million in 2003 to $1.1 billion by 2007. Also in 2007, China ranked fourth—behind the World Bank, the Asian Development Bank, and Japan—in sources of financial support for the Philippines.

Manila joined the China-ASEAN Free Trade Agreement (CAFTA) in 2005, correlating to continued acceleration in Sino-Philippine trade growth witnessed since the beginning of Arroyo’s presidency. As part of the ASEAN-5 with Indonesia, Malaysia, Singapore, and Thailand, the Philippines witnessed only limited bilateral trade with

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228 IMF Direction of Trade Statistics.
China between 1980 and 1999.\textsuperscript{229} Annual trade numbers during the period never rose above 6 percent of Philippine imports coming from China and 3 percent of its exports going to China.\textsuperscript{230} Though Sino-Philippine trade grew prior to the CAFTA proposal, the Philippines significantly lagged its ASEAN-5 partners. The Philippines conducted just over $3.5 billion in total trade with China in 2001.\textsuperscript{231} The next closest ASEAN-5 country to the Philippines during 2001 was Indonesia, totaling just over $6.7 billion of trade with China.\textsuperscript{232}

Though Manila was initially hesitant to join CAFTA, Beijing incentivized Philippine membership with its “early harvest program” (EHP).\textsuperscript{233} China presented the EHP as a series of bilateral agreements with selected ASEAN countries that aimed to eliminate trade tariffs by 2006.\textsuperscript{234} In 2005, the Philippines accepted the EHP, and Sino-Philippine bilateral trade relations continued to accelerate.\textsuperscript{235}

Aside from joining CAFTA, Beijing and Manila signed additional bilateral agreements during Arroyo’s presidency. The agreements included Chinese funded railway and telecommunications projects in the Philippines and a joint oil exploration project in disputed areas of the South China Sea. Corruption and lack of transparency in the Arroyo administration caused these projects to falter, but the growing economic ties established between the countries during the Arroyo administration endured.\textsuperscript{236}

Wary of Arroyo’s corruption scandals, her successor, President Benigno Aquino III, distanced himself from many of her policies, while initially still seeking cooperation with Beijing. Upon taking office in June 2010, however, rising tensions in the South

\begin{enumerate}
\item \textsuperscript{229} John Wong and Sarah Chan, “China-ASEAN Free Trade Agreement: Shaping Future Economic Relations,” \textit{Asian Survey} 43, no. 3 (2003), 507–8, 517.
\item \textsuperscript{230} IMF Direction of Trade Statistics.
\item \textsuperscript{231} Wong, “China-ASEAN Free Trade Agreement,” 507–8, 517.
\item \textsuperscript{232} IMF eLibrary Data; Total trade value calculated by adding “Goods, Value of Exports, Free onboard” to “Goods, Value of Imports, Cost, Insurance, Freight (CIF) for given year in U.S. dollars.
\item \textsuperscript{233} De Castro, “Weakness and Gambits,” 714.
\item \textsuperscript{234} Gregory Chin and Richard Stubbs, “China, Regional Institution-building and the China-ASEAN Free Trade Area,” \textit{Review of International Political Economy} 18, no. 3 (2011), 279, 288.
\item \textsuperscript{235} Goh, “Modes of China’s Influence,” 843.
\item \textsuperscript{236} Baviera, “Domestic Mediations of China’s Influence,” 102, 109–20.
\end{enumerate}
China Sea turned Sino-Philippine cooperation cold and hastened Aquino’s urgency for improving external defense capabilities. Nevertheless, lack of funds continued to hinder the administration’s external defense modernization plans.237

Despite Arroyo’s corruption scandals and growing tensions in the South China Sea, Sino-Philippine bilateral trade continued to increase during Aquino’s term.238 Although the percentage of Philippine exports to China dropped significantly—from 45 percent to 30 percent—between 2007 and 2009, China continued to import more than 30 percent of Philippine exports through the end of Aquino’s term (see Figure 3). By 2010, China had become the Philippines’ third largest trade partner and contributor of foreign aid, a trend that continued through 2015.239 During Aquino’s final full year in office, 2015, Chinese statistics claim that Sino-Philippine bilateral trade reached a record $45.6 billion, marking a 2.7 percent growth rate. As a same year comparison, Sino-ASEAN trade decreased 1.7 percent, while the Philippines remained one of four ASEAN members with positive trade growth with China. According to Philippine statistics, China retained its spot as the Philippines’ second largest trade partner in 2015, a position China reached in 2013.240

3. Summary of Pursuit of Economic Growth

The pursuit of economic growth led both Hanoi and Manila to pursue policies that led to asymmetric economic interdependence between them and Beijing. Vietnam’s historic struggle and early 1980s economic crisis led the VCP to seek economic growth to strengthen the nation and ensure regime survival. Factions within the VCP had competing perspectives on how to achieve economic growth. The conservative path favored ties with Beijing, with an air of deference, which led to growing interconnectedness between

the countries’ economies. Both internal and external threats inspired successive Philippine political administrations to seek economic growth to reduce poverty, social unrest, and later, vulnerability to external threats. Corruption and failure to implement effective economic reform hindered progress for growth, but the Philippines’ path toward economic prosperity led it toward closer ties with China during the Arroyo administration, with enduring effects.

D. MANAGING SOUTH CHINA SEA DISPUTES CONCURRENTLY WITH INCREASING TRADE TIES

China and its two neighbors, Vietnam and the Philippines, have taken efforts to manage South China Sea disputes concurrently with their growing trade ties. Their dispute management efforts can be correlated to enduring peace and, at times, cooperation and agreements, despite increasing tensions over South China Sea disputes. The asymmetric nature of the relationship has given Beijing leverage over Hanoi and Manila that it has attempted to use to its advantage. This section reviews the correlation between growing economic ties and the management of disputes. This section also reviews how the nature of the asymmetric interdependent relationships has provided Beijing leverage to manage disputes in its favor, without using military force.

While Vietnam and the Philippines’ pursuit of economic growth may have been a catalyst to agreements and cooperation to manage South China Sea disputes at times, the resulting asymmetric interdependence became a liability to the smaller states. For example, while VCP conservatives have demonstrated willingness to cooperate with Beijing on South China Sea disputes to foster closer relations, bilateral discussions and negotiations have avoided contentious topics, such as overlapping claims to the Paracels, and focused on less controversial matters, such as the Tonkin Gulf agreement of 2000.241 Furthermore, Vietnamese nationalists criticized General Secretary Le Kha Phieu’s negotiations for the border agreements as conceding too much to Beijing.242 As for the Philippines, its Congress investigated the 2005 tripartite JMSU negotiated by President

242 Elliott, Changing Worlds, 184–86.
Macapagal Arroyo, questioned the agreement’s lack of transparency, and criticized it for trading away Philippine security interests. Ultimately, the asymmetric Sino-Vietnamese and Sino-Philippine trade relations created vulnerabilities in the smaller states that Beijing has attempted to use as leverage in managing South China Sea disputes while avoiding armed conflict. Evidence indicates that many in Vietnam and the Philippines have grown concerned about their countries’ economic dependence on China. Two case studies highlight the smaller states’ concerns and how they attempted to mitigate their vulnerabilities: the Sino-Vietnamese 2014 standoff over China’s HD-981 oilrig operations and the Sino-Philippines 2012 standoff over Scarborough Shoal.

1. **Sino-Vietnamese Trade and South China Sea Disputes**

China and Vietnam have conducted bilateral engagements as an alternative to armed conflict to resolve disputes. Many of the engagements involved discussions that culminated in joint statements, calling for the peaceful resolution of disputes. One of the series of talks resulted in an enduring settlement over maritime borders and cooperation for oil exploration and fishing in the Tonkin Gulf. Despite periods of cooperation, however, Vietnam’s leadership recognized its limited ability to respond to disputes as a result of its economic dependence on China. Accordingly, VCP leaders moved to reduce the country’s dependence on its powerful neighbor following escalating tensions over China’s oil exploration in Vietnam’s claimed EEZ during the summer of 2014.

a. **Agreements, Cooperation, and Asymmetric Leverage**

The Sino-Vietnamese agreements for joint oil exploration and establishing fishing boundaries in the Tonkin Gulf represent the ability of the two governments to cooperate and resolve disputes without resorting to armed conflict. In 1992, a year after normalizing relations, VCP and CCP leaders established a series of structured bilateral discussion to

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244 Amer, “South China Sea: Achievements and Challenges,” 630.

manage territorial disputes.\textsuperscript{246} Subsequently, negotiations over Tonkin Gulf borders began in 1994.\textsuperscript{247} In 1997, the same year Chinese reformer Li Ruihuan approached the VCP to open Sino-Vietnamese economic relations, Hanoi and Beijing agreed to complete their land-border agreement by 2000.\textsuperscript{248} For nine months during 2000, the two governments conducted six out of the 17 total joint talks held since 1994 to urgently resolve the Tonkin Gulf borders. On 25 December 2000, China and Vietnam’s leaders signed the Agreement on the Demarcation of Waters, Exclusive Economic Zones and Continental Shelves in the Gulf of Tonkin.\textsuperscript{249} Concurrently, the states signed a Bilateral Agreement on Fishing Cooperation in the Gulf of Tonkin and a Joint Statement on All-Round Cooperation in the New Century, which promoted maintaining bilateral institutions for negotiations to resolve South China Sea disputes.\textsuperscript{250} Both governments ratified the fishing and maritime border agreements on 30 June 2004. Bilateral expert-level talks expanded in January 2006 to discuss areas of cooperation beyond the Tonkin Gulf. During the same year, Vietnam and China signed an agreement for joint oil exploration in the Tonkin Gulf. In June 2013, the two states extended the agreement to 2016 and expanded the area of exploration.\textsuperscript{251} As identified in section B of this chapter and indicated in Figures 2 and 3, Sino-Vietnamese economic ties generally increased during this period.

In addition to the Tonkin Gulf agreements, Hanoi and Beijing made further agreements and joint statements of cooperation since their economies became more interconnected. For example, in 1995, the governments initiated bilateral, “expert-level” talks to institutionalize efforts for peaceful negotiations of South China Sea disputes.\textsuperscript{252} The VCP and CCP made a Joint Declaration on 27 February 1999 in which they agreed

\textsuperscript{246} Amer, “South China Sea: Achievements and Challenges,” 631.
\textsuperscript{247} Amer, “China, Vietnam, and the South China Sea,” 19.
\textsuperscript{248} Elliott, \textit{Changing Worlds}, 186.
\textsuperscript{249} Amer, “China, Vietnam, and the South China Sea,” 19.
\textsuperscript{250} Ibid., 18–20.
\textsuperscript{252} Amer, “China, Vietnam, and the South China Sea,” 19.
to continue the “existing negotiation mechanism on the sea issues” to achieve a long-term solution to resolve disputes.\textsuperscript{253} In March 1999, following VCP General Secretary Le Kha Phieu’s visit to China for a high-level summit meeting, the VCP and CCP leaders reached an agreement for “long-term, stable, future-oriented, good-neighbourly, and all-round cooperative relations.”\textsuperscript{254}

Some might argue that these statements and agreements have had little effect on the growing tensions in the South China Sea. The governments that make these statements, however, control the military assets required to engage in armed conflict. Furthermore, Beijing and Hanoi have both sought methods to manage disputes without resorting to military force, especially during times of growing tensions. For example, rising tensions between China and Vietnam beginning in 2009 spurred more frequent visits and measures between party leaders to deescalate tensions peacefully. The tensions in 2009 increased following the Chinese Zhou Jiang International Travel Agent’s announcement to commence tours to the Paracel Islands.\textsuperscript{255} Subsequently, between early 2010 and mid-2011, Chinese and Vietnamese officials conducted six rounds of negotiations over their disputed South China Sea claims.\textsuperscript{256} Tensions continued through 2011, triggering Hanoi to send officials to Beijing on 25 June to deescalate the situation. Following the meeting, both sides agreed that a key element to peace and stability resided in the “need to steer public opinions [sic] along the correct direction, avoiding comments and deeds that harm the friendship and trust of the people of the two countries.”\textsuperscript{257} In October 2011, the parties signed The Agreement on Basic Principles Guiding the Settlement of Sea-Related Issues, and the first meeting of the VCP and CCP heads of state since 2008 occurred when General Secretary Nguyen Phu Tong visited Beijing.\textsuperscript{258}

\textsuperscript{253} Amer, “China, Vietnam, and the South China Sea,” 20.
\textsuperscript{255} Amer, “China, Vietnam, and the South China Sea,” 20.
\textsuperscript{256} Ibid., 24–25.
\textsuperscript{257} Ibid., 24.
\textsuperscript{258} Ibid., 24–25.
Furthermore, meetings between China and Vietnam’s leaders during 2011 and 2012 led to the establishment of working groups and hotlines between government ministries to manage maritime disputes. In June of 2013, the two nations’ presidents visited Beijing, and there were more agreements for hotlines to manage emergent incidents, cooperation through working groups, and continued negotiations for dispute settlements.

The asymmetric nature of the economic interdependence between China and Vietnam, however, has not come without a cost to Hanoi. The VCP leadership has adjusted its actions in response to the country’s economic dependence on China. For example, as China’s growing assertiveness to control the South China Sea has threatened Vietnam’s resources and sovereignty, it has also threatened VCP legitimacy. As a result of China’s assertiveness, Vietnamese nationalists have increasingly perceived China as a threat, leading to excessive anti-Chinese sentiment in Vietnam. Due to Vietnam’s economic dependence on China, the threat of economic sanctions led the VCP to view anti-Chinese sentiment as a threat to Vietnam’s economic growth and regime survival. Accordingly, VCP conservatives have quelled anti-Chinese uprisings, as seen during their 2011 control over protests in response to China’s interference with Vietnamese South China Sea oil exploration, covered in Chapter II.

b. Case Study: HD-981

A closer study of the 2014 Sino-Vietnamese oil exploration standoff involving China’s HD-981 oilrig operations reveals that Hanoi has developed growing concerns about Beijing’s economic leverage in managing disputes. As covered in Chapter III, the 2014 standoff escalated on 2 May, when HD-981 deployed—with over 100 fishing boats and ships to form a defense perimeter around the operation—to the disputed area within Vietnam’s claimed EEZ. When the Vietnamese responded with their own vessels, the

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260 Ibid.
262 Ibid., 13.
standoff escalated, as Chinese vessels reportedly rammed and sank a Vietnamese vessel. While the two governments maintained diplomatic engagements in an effort to resolve the standoff peacefully, violent anti-Chinese protests erupted in Vietnam, targeting Chinese-owned industries and businesses and resulting in at least two Chinese casualties and the evacuation of 3,000 Chinese citizens.

To the VCP, the incident highlighted vulnerabilities resulting from Vietnam’s economic dependence on China. As tensions increased, state media in China warned of possible enduring economic ramifications in Vietnam, and the countries’ bilateral trade quickly decreased. During a June 2014 National Assembly meeting, VCP deputy ministers considered ways to lessen Vietnam’s economic reliance on China as a result of China’s “illegally placed…oil rig in Vietnamese waters.” At the time, Vietnam’s industries relied on many materials manufactured in China—such as textiles, leather, and shoe products—to produce its own finished exports for external markets in countries like Japan, the United States, and Europe. During the assembly, Vietnam’s Minister of Industry and Trade Vu Huy Hoang highlighted that the country’s trade deficit with China has existed for several years and was a growing concern among many of Vietnam’s business sectors. Several industries, such as garments and textiles, had begun seeking material in alternate markets, including South Korea, Malaysia, India, and Thailand. Additionally, the government pursued finalization of Trans-Pacific Partnership negotiations and other, bilateral, free trade agreements to diversify Vietnamese markets. Subsequently, Vietnam’s imports from China dropped from 44 to 31 percent of Vietnam’s total imports from 2014 to 2015, after the percentage had rapidly increased for more than a decade. In light of Vietnam’s economic dependence on China, the 2014 HD-981 incident resulted in significant concern among VCP leaders, causing them to diversify the country’s economic ties.

264 “Vietnam Lawmakers Discuss Ways to Lessen Reliance.”
265 See Figure 2.
266 “Vietnam Lawmakers Discuss Ways to Lessen Reliance.”
2. Sino-Philippine Trade Relations and South China Sea Disputes

Despite increasing tensions over South China Sea disputes during the last 15 years, the increase in Sino-Philippine trade relations correlates with a lack of armed conflict in the South China Sea, cooperation, and agreements for the peaceful settlement of disputes, and at least one case when Beijing applied subtle economic leverage and influenced Manila’s response to increasing tensions at Scarborough Shoal.

a. Dispute Management, Agreements, and Cooperation

Overlapping territory and resource claims did not receive significant attention from Philippine leadership until the 1995 incident at Mischief Reef. At that time, internal threats occupied Manila’s focus. Accordingly, the Ramos administration was resigned to engaging ASEAN and making diplomatic protests to counter China’s actions. Ramos’ efforts had some positive results for maintaining stability in the South China Sea, as Beijing agreed to bilateral talks with Manila, and the governments issued a joint statement during August of 1995, vowing to resolve disputes peacefully.267

President Arroyo’s 10 separate visits to China during her term are indicative of her administration’s cooperative approach toward dealing with the emerging Chinese threat. By comparison, her four predecessors each visited China once.268 The JMSU was another indication of cooperation between the governments to manage disputes. Although the Arroyo administration abandoned the JMSU, the governments have avoided armed conflict over hydrocarbons.

Since President Arroyo increased cooperation with Beijing, the succeeding administration, under President Aquino, managed other disputes short of armed conflict, as well. As seen in Chapter II, Sino-Philippine disputes over fishing have escalated to

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clashes involving state-operated vessels in 1998, 1999, and 2015. The 1998 and 1999 incidents involved Philippine naval vessels, but Manila limited its use of military assets during the more recent escalations. Additionally, all of the clashes have deescalated short of armed conflict. The Scarborough Shoal standoff, which began during the Ramos administration, escalated again in 2012 and has remained as a standoff, but short of armed conflict, ever since. As with Sino-Vietnamese trade relations, Manila’s ability to manage South China Sea disputes underscored vulnerabilities the Philippines incurred with the asymmetry in Sino-Philippine economic interdependence.

b. **Case Study: Scarborough Shoal**

A closer study of the 2012 escalation of the standoff at Scarborough Shoal reveals the ramifications of the imbalanced Sino-Philippine trade ties on Manila. As reviewed in Chapter II, the standoff escalated in April 2012, when a Philippine surveillance aircraft detected eight Chinese fishing vessels near the shoal. Manila responded on 10 April by deploying the Philippine Navy flagship, *BRP Gregorio Del Pilar*, to confront the fishermen. In turn, China responded by deploying two CMS ships to the site to prevent an arrest.269 Reacting to international and domestic criticism for potentially escalating the standoff by responding with a combatant, Manila exchanged its flagship with smaller coast guard vessels.270 China, on the other hand, maintained the appearance of a more benign presence at the shoal by deploying civil law enforcement vessels, including its largest and most-advanced FLEC ships, which outmatched the *Del Pilar*.271

Economically, the asymmetric Sino-Philippine trade relationship created vulnerabilities for Manila that Beijing could leverage in managing the standoff in its favor, while avoiding armed conflict. As tensions increased, Chinese import inspectors blocked Philippine bananas from entering China’s markets, claiming the fruit failed to

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pass Chinese import standards. By 15 May, 150 containers of bananas worth approximately $760,000 sat ripening at the Chinese port of entry. The following day, 43 containers of Philippine pineapple and papaya exports joined the bananas, also failing import inspections. At the time, Sino-Philippine trade had reached about $30 billion, and China accepted nearly 38 percent of the Philippines’ total exports. Additionally, bananas made up approximately $75 million of Philippine exports to China, which, as one of Manila’s top four banana markets, accepted about 25 percent of the bananas the Philippines exported each year, according to Philippine Trade Secretary Gregory Domingo. The head of the Filipino Banana Growers and Exporters Association, Stephen Antig, initially claimed that protracting the situation could risk up to 200,000 Filipino jobs, including pickers, growers, and workers in the supply chain. While, the Aquino administration maintained that the banana incident was a technical matter, rather than diplomatic over Scarborough Shoal, Secretary Domingo traveled to China on a diplomatic mission during peak tensions. Additionally, President Aquino, recognizing the Philippines’ vulnerability, provided direction to diversify the Filipino banana markets. Subsequently, the Philippines’ banana exports more than doubled during 2012, even as Philippine exports to China compared to its total exports dropped 5 percent between 2012 and 2013.

Philippine fear of Beijing’s economic leverage over the Scarborough dispute extended to tourism, as well. In response to Filipino protests over the incident, Beijing issued travel advisories, warning Chinese tourists to avoid protest sites, such as the Chinese consulate in Makati City. The advisories sparked concerns among Philippine

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274 Ibid.; see Figure 3.

275 Littler, “An Overview of the Past Two Months.”


media and tourism companies that the standoff would result in reduced commercial air flights between the countries and impose a significant dent in the Philippine tourist market.\textsuperscript{278} Ultimately, Philippine businesses and local politicians became more concerned about the economic effects of increasing tensions in the South China Sea.\textsuperscript{279}

After more than two months of tensions over the Scarborough Shoal incident, concurrent with fears of the economic ramifications in Manila, tensions finally deescalated, with Beijing gaining an advantage at the shoal. Amid Chinese protests, Manila almost immediately replaced its combatant at the shoal with smaller coast guard vessels, while Beijing responded with more capable ships. By the end of May, China was accepting Philippine bananas again, but Philippine fears of economic sanctions remained.\textsuperscript{280} Following negotiations, the standoff deescalated on 18 June with an understanding that both sides would withdraw from the shoal. Only the Philippines fully complied, however, as Beijing left seven law enforcement vessels at the feature.\textsuperscript{281} In August, the Chinese cordoned the opening to the shoal, and six months later, three Chinese government vessels remained to control access.\textsuperscript{282} In January 2013, Manila resigned to less risky means of challenging China’s South China Sea sovereignty claims by filing its case through the ICJ, which Beijing has merely protested as unlawful and largely ignored.\textsuperscript{283} Despite the dispute, by October 2013, Secretary Domingo was claiming that China may soon surpass the United States and Japan as the Philippines’ largest export market.\textsuperscript{284} As of 2015, the Chinese continued to deploy coast guard ships to prevent other nations’ vessels from entering the shoal.\textsuperscript{285} In effect, China’s subtle,

\begin{itemize}
  \item \textsuperscript{279}Baviera, “Domestic Mediations of China’s Influence,” 120–23.
  \item \textsuperscript{280}Littler, “An Overview of the Past Two Months.”
  \item \textsuperscript{281}“Interactive Map;” Hayton, \textit{South China Sea: Struggle for Power}, 115.
  \item \textsuperscript{282}“Interactive Map.”
  \item \textsuperscript{283}“Arbitration on the South China Sea: Rulings from The Hague,” \textit{Center for Strategic and International Studies}, accessed 4 May 2016, \url{http://amti.csis.org/ArbitrationTL/index.html}.
  \item \textsuperscript{285}“Interactive Map.”
\end{itemize}
application of economic pressure gave it an advantage in claiming sovereignty over Scarborough Shoal.

3. Summary of Trade Relations and South China Sea Disputes

Since Sino-Vietnamese and Sino-Philippine trade relations have increased, China, Vietnam, and the Philippines have worked to manage South China Sea disputes, while avoiding armed conflict, despite growing tensions. As seen in Chapter II, all three countries have limited their use of military assets in response to standoffs. Vietnam and China have favored bilateral discussions, joint statements and agreements. To a lesser extent, the Philippines and China have also engaged in discussions and have made joint statements and agreements. The recent standoffs over HD-981 and Scarborough Shoal emphasized to the smaller countries’ governments the vulnerabilities in their asymmetric economic interdependence with China. The Vietnamese and the Philippine governments have taken measures to adjust accordingly, but their economic ties to China have limited their options to non-provoking measures, regardless.

E. BEIJING DEPENDS ON PEACE AND STABILITY, TOO

Some might argue that the asymmetric nature of the Sino-Vietnamese and Sino-Philippine economic relationships indicates that the states are not economically interdependent. After all, China does not depend on the smaller countries for economic prosperity, and therefore, one might argue that little is preventing Beijing from using its growing military might to take control of South China Sea territory and resources. As identified in Chapter I, however, economic interdependence does not have to be symmetric. It only requires interconnected economies, where there will be significant costly effects for both sides if they oppose each other in armed conflict. Since China depends on the flow of raw materials and manufactured resources through the South China Sea, any armed conflict there would have significant costly effects on its economic growth. With limited alternatives for China’s flow of imports and exports, Beijing arguably depends on stability in the South China Sea more than its neighbors, as Vietnam and the Philippines have, and can continue to, pursued other options for economic growth. Furthermore, with China’s largest trade partner, the United States, in a Mutual
Defense Treaty (MDT) with the Philippines, a Sino-Philippine armed conflict would likely have significant negative ramifications for Sino-American trade relations. Thus, Beijing depends on peace and stability in the South China Sea.

With so much at stake for China with respect to South China Sea stability, it may not be surprising that China aims to control the body of water on its terms. It is also not surprising that Beijing has actively sought means to de-escalate standoffs, such as by using CMS, FLEC, and coast guard vessels, rather than combatants, to respond to standoffs, escalations, and clashes. Beijing’s consolidation of its multiple maritime organizations in 2013 was likely another effort to exert more centralized control over its maritime law enforcement assets to avoid escalation of disputes. Beijing depends on peace in the South China Sea for its economic prosperity at least as much as its neighbors. Thus, there exists an economic interdependent relationship that deters armed conflict between China, Vietnam, and the Philippines.

F. ECONOMIC INTERDEPENDENCE CONCLUSION

As Vietnam and the Philippines began seeking economic growth through closer ties with Beijing, they have sought cooperation and managed South China Sea disputes short of armed conflict, despite growing tensions. Both of the smaller countries have increased their interconnectedness with China’s economy, albeit with asymmetric results. As the more powerful member in the economic relationship, China has used its position to influence decisions in Manila and Hanoi. Regardless, the growing economic ties in the region not only correlate to relative peace between states during contentious periods, but also contributed to avoiding armed conflict.

Since China and Vietnam normalized relations in 1991, the growing interconnectedness of their economies not only correlates to a lack of armed conflict over South China Sea disputes, but also correlates to increases in meetings, working groups, agreements, hotlines, and joint statements aimed at deescalating and managing disputes peacefully. When tensions have risen, meetings have increased, indicating that both sides are seeking ways to avoid armed conflict. Additionally, a loss of 15 percent of Vietnam’s export market as a result of armed conflict or Chinese sanctions would likely have an
immediate significant impact on Vietnam’s economy, thus presenting cooperation over disputes as a more attractive option.

For Sino-Philippine relations, economic ties developed later but had similar effects. Bilateral agreements and statements to settle South China Sea disputes began in 1995, when China emerged as an increasing external threat to Philippine sovereignty. During the Arroyo administration, the economic ties grew more rapidly, although they were tainted by corruption, secrecy, and lack of transparency. Regardless, the economic benefits of Sino-Philippine economic ties continued to benefit the Philippines through 2015. When South China Sea tensions have escalated, however, so has the concern among Filipino business owners, as a loss of one third of the Philippine export market, resulting from armed conflict or Chinese economic sanctions, would have a significant immediate impact on the Philippine economy.

Vietnam and the Philippines’ pursuit of economic growth for national strength led to asymmetric economic interdependence with China. Such an asymmetric relationship may lead Vietnam and the Philippines to avoid provoking their powerful neighbor for fear of negative economic ramifications. Hanoi and Manila have realized they cannot compete with China militarily. Their leaders, recognizing the benefits of being good neighbors for peace, stability, and strength, understand they must avoid excessively provoking China. As such, forming economic ties provides important incentives to the smaller states for avoiding conflict. Beijing depends on peace in the region for economic prosperity as well. Vietnam and the Philippines have responded to China’s aggressive actions by seeking alternatives for economic growth, thus giving them more options to respond to China’s assertiveness. Beijing should take heed and foster its relationships with its neighbors to strengthen ties and encourage a stable region. As Mark Beeson states, “We must hope that policymakers on both sides remember that economic interdependence is a critically important, easily damaged part of overall national security.”

IV. CONCLUSION

This thesis has reviewed the security and economic environments between China, Vietnam, and the Philippines as they relate to the countries’ overlapping territorial and resource claims in the South China Sea. This chapter draws conclusions from this review, identifies other factors not addressed in this study that likely contribute to stability in the South China Sea, recommends further research to address these factors, and raises potential policy recommendations based on these conclusions.

A. RESEARCH CONCLUSION

This thesis derives three overarching conclusions from the evidence covered in Chapters II and III: first, China, Vietnam, and the Philippines have not demonstrated an increasing trend toward armed conflict for nearly three decades; second, the states have also not demonstrated an increasing trend toward cooperation; and finally, asymmetric economic interdependence has contributed to the lack of armed conflict in the South China Sea since 1988 but has also imposed a cost on the smaller states.

When China, Vietnam, and the Philippines identified common objectives of economic prosperity for national strength, they tended to cooperate, and economic interdependence took root, with enduring effects. When China’s assertiveness posed a threat, though, the smaller states’ realist reactions emerged and they attempted to balance against China and diversify their markets to alleviate their dependence on their powerful neighbor. All three continued to manage disputes short of armed conflict, but Beijing maintained the upper hand.

1. Increasing Tensions without an Increasing Trend for Armed Conflict

Although tensions over disputes between the states have increased during the last three decades, armed conflict over South China Sea territories and resources between the states has only occurred once, in 1988. Moreover, each country has actively sought ways to manage and deescalate standoffs and clashes short of armed conflict. For example, as tensions have continued to increase over the years, each country has limited its use of
military assets to respond to engagements and standoffs in the South China Sea to reduce the likelihood of escalation. China has shifted responses to its less adversarial, albeit very capable, CMS, FLEC, coast guard, and other state-owned, yet non-military, vessels. In 2012, the Philippines quickly withdrew its most capable combatant from Scarborough Shoal after receiving criticism for escalating the conflict by deploying a naval vessel. Since then, the Philippines has limited the use of its navy to respond to disputes and generally acquiesced to Beijing. In effect, Manila has maintained stability but sacrificed territories that it continues to claim.

Additionally, the smaller states’ limited balancing efforts have not produced excessively destabilizing results. While Vietnam and the Philippines have made efforts to balance against Chinese assertiveness through self-strengthening, the relative size of the smaller countries’ economies significantly limit their self-strengthening efforts. External balancing by Vietnam and the Philippines has produced limited results, as well. Vietnam has been concerned about upsetting relations with Beijing by pursuing stronger security ties with China’s potential competitors. Moreover, the Philippines’ closest security partner, the United States, has strong economic ties with China, which likely constrains Manila’s actions. While Vietnam and, to a lesser extent, the Philippines may have a limited ability to throw a small military punch at China, they have not been able to compete with China’s military and maritime capabilities. As such, the smaller states have resigned to responding with diplomatic pressure, protests through multilateral institutions like ASEAN and the United Nations, and filing cases through international legal institutions, like the ICJ.

2. Increasing Economic Interdependence without an Increasing Trend for Cooperation

While the states have become more economically interdependent since 1988, they have only demonstrated periodic episodes of cooperation to settle their South China Sea disputes. Vietnam and China have cooperated more often and with more enduring results than the Philippines and China. For example, as Hanoi and Beijing pursued stronger economic ties during the late 1990s, they established enduring agreements over Tonkin Gulf borders and fishing. The states have also agreed to joint oil exploration in the Tonkin Gulf and expanded the agreement and search area through 2016. As tensions
between Hanoi and Beijing increased over disputes since 2009, the CCP and VCP also increased diplomatic engagements and established measures to manage emergent crises, such as working groups and hotlines between state ministries. Likewise, as Manila pursued stronger economic ties with China during the President Arroyo administration in the late 1990s, the two governments cooperated, with Vietnam, for the JMSU and made joint statements and agreements for the peaceful settlement of disputes. To be sure, the states abandoned the JMSU and tensions have continued to increase but have been managed short of armed conflict.

3. **The Stabilizing Benefits of Economic Interdependence**

Economic interdependence between China, Vietnam, and the Philippines has contributed to stability in the South China Sea. Vietnam and the Philippines’ political leaders have recognized the benefits of economic prosperity for building stronger, more stable states, and ensuring the legitimacy and survival of their respective governing parties. As such, they turned toward the region’s largest economy, China, to establish economic ties. Once the nations realized the benefits of economic growth, they resisted actions that jeopardized that growth. Moreover, the asymmetric nature of their trade relations with China limited Vietnam and the Philippines’ options while providing Beijing leverage to manage disputes without using military force.

Economic interdependence between China and its neighbors, Vietnam and the Philippines, correlates to the relative peace in the South China Sea since 1988 as well as periods of cooperation to settle disputes. Additionally, during times of increasing tensions, China used the threat of economic consequences, in lieu of military force, as leverage in managing its neighbors’ actions. For example, when tensions increased over China’s deployment of HD-981 in Vietnam’s EEZ in 2014, the threat of economic sanctions underscored the vulnerabilities in Vietnam’s dependence on economic ties with China. Furthermore, when tensions increased during 2012 over Scarborough Shoal, China’s rejection of Philippine banana imports and issuance of travel advisories caused concern among Philippine business owners. Although cooperation has been limited between the smaller states and China thus far, for countries eager for economic growth,
such incidents may cause influential business owners to pressure their governments toward managing disputes through cooperation.

B. THE UNITED STATES: A SIGNIFICANT FACTOR NOT FULLY ADDRESSED

This thesis does not fully address the significance of the United States in the Southeast Asian economic and security environments and how it affects stability in the South China Sea. To isolate factors to relations between China, Vietnam, and the Philippines, this thesis intentionally limits its scope to these three countries and only briefly mentions the United States where its influence is too large to ignore, such as the MDT and EDCA with the Philippines and U.S. economic ties with China. It is recognized that the United States plays a significant role in the relationships between these states. China and the United States have interconnected economies, the two largest economies in the world. The United States has the world’s largest defense budget and largest and most capable navy. Given the United States’ economic ties with China and economic and security ties with the Philippines, Washington has significant national interests in maintaining peace and stability in the South China Sea. Moreover, Washington likely has leverage with both Beijing and the Philippines to influence their actions and responses to South China Sea disputes. The impact of this leverage is not covered in this thesis.

C. RECOMMENDED FUTURE RESEARCH

It is recommended that future research on conflict and cooperation between China, Vietnam, and the Philippines focus on three areas: the influence of the United States on dispute management, impact of the recent Hague ruling, and future occurrences of conflict and cooperation between China and its neighbors, to include other states with similar disputes.

As previously discussed, this thesis intentionally omits the influence that the United States has on regional relations regarding South China Sea disputes. Further research on the U.S. role in regional stability could help determine whether or not Washington should increase or decrease its involvement in disputes. Specifically, research could look at economic interdependence between the United States and each of
the countries to determine what sort of destabilizing behavior Washington can deter through economic leverage. Additionally, researching whether or not Washington balances security ties with Manila and economic ties with China would be useful in determining the U.S. role in regional stability. For example, has Washington denied military support to Manila during times of increasing tensions with China, but then cautioned Beijing on possible economic ramifications of its assertive actions?

In July 2016, toward the end of the research for this thesis, the United Nations Permanent Court of Arbitration (PCA) published its ruling on the Philippine case against China regarding the two countries’ overlapping South China Sea claims. The impact of the ruling on the regional security environment will be an important indicator of regional stability, as it provides legal grounds for Manila to challenge the status quo over territorial standoffs in the South China Sea. During the course of arbitration, China refused to acknowledge the case’s legitimacy and vowed to ignore the outcome. Subsequently, the PCA ruled in favor of the Philippines, as it was the only side that presented a legitimate claim. Since the Philippine case is used in this thesis as an example of a measure of managing disputes while avoiding armed conflict, it will be interesting to see if Manila uses the ruling to destabilize the status quo or if Beijing challenges the ruling with a destabilizing response. At the time of completion of this thesis, Beijing had not responded with notable action, and both sides have essentially maintained the status quo.  

Over the next ten years, research should reveal more data about how economic interdependence has contributed to avoiding armed conflict in the South China Sea. This thesis only covers approximately three decades of economic growth between three countries with overlapping South China Sea claims. As the populations, economies, and influence of South China Sea states continue to grow, their overlapping claims, unless resolved, are likely to result in increasing engagements and tensions and, potentially, more clashes and standoffs. If the states’ economies continue to grow interconnected, it will be important to see if they can continue to manage unresolved disputes, while avoiding armed conflict.

D. POLICY RECOMMENDATIONS

Based on the conclusions in this thesis, three policy recommendations should be considered: promoting diversified economic ties between developing states; promoting strengthening measures, such as the modernization of developing maritime states’ security capabilities and strengthening external security ties; and highlighting to state leadership the counter-productive ramifications of destabilizing actions in the South China Sea. A state’s economic prosperity is important to its stability, as economic growth allows a state to provide public goods for its population and gives it the means to strengthen against internal and external threats. Additionally, economic ties between states help to increase economic prosperity and stability within a region. Since the early- to mid-1990s, Vietnam and the Philippines actively pursued economic growth for domestic stability and national strength. With China’s powerful economy and geographic proximity, it has been an attractive economic partner for Vietnam and the Philippines. During Hanoi and Manila’s pursuit of closer economic ties with China, both states became more amenable to cooperate with Beijing to manage their South China Sea disputes. Vietnam and China’s cooperation produced enduring agreements and methods to manage disputes, and their economic interconnectedness has continued to grow, albeit asymmetrically. Although the Philippines and China’s cooperation did not produce enduring agreements, their economic interconnectedness also continued to grow. The asymmetric nature of the ensuing economic interdependence between the states, however, gave Beijing leverage over its smaller neighbors in managing disputes. Therefore, it is recommended that policymakers promote the establishment of diverse economic ties between developing states within a region to foster economic growth, cooperation, and stability. Diversifying trade partners will help alleviate the potential for a single state gaining leverage over its neighbors. Promoting extra-regional economic ties will further mitigate state dependence on a regional power, while broadening their opportunities for economic growth.

Policymakers should not understate the value of a nation’s ability to respond responsibly and with strength against external threats. Policymakers should promote modernizing smaller states’ maritime capabilities and strengthening security ties with responsible state actors that share common regional interests. China persists in its claims to
most of the South China Sea and continues construction on disputed features. Without assets that provide Vietnam and the Philippines maritime domain awareness, their governments may be caught off guard, as was Vietnam in 1988 and the Philippines 1995, when China laid claim to and began constructing outposts on two separate occasions in the Spratlys. It is difficult for the smaller states to respond without awareness of China’s activities. Early awareness will give the countries more response options than diplomatic protests after the fact and help deter China’s destabilizing activities. Further, Beijing cannot ignore the threat of a military response from the smaller states, especially if backed by a strong, responsible security partner, as conflict in the South China Sea would severely impact China’s economy. If Vietnam and the Philippines do not invest in maritime capabilities to improve their domain awareness and pose a credible threat to China’s assertive actions, they will effectively forfeit their claims to South China Sea territory and much of its resources. To modernize and strengthen their maritime capabilities, however, requires persistent economic growth—yet another reason for the states to establish globally diverse economic ties.

Finally, policymakers should highlight to state leaders how aggressive actions in the South China Sea have been counter-productive. With China’s diplomatic and economic actions during the late 1990s and early 2000s, it began to reassure its neighbors that its intentions were benign and its growth could be beneficial to regional stability. Toward the end of the first decade of the 2000s, China’s increasing assertiveness in the South China Sea caused Vietnam and the Philippines to respond and balance against Beijing. The two smaller countries’ economic dependence on China limited their response options, causing them to diversify their security and economic ties. In summary, when China has acted responsibly, Vietnam and the Philippines were prone to cooperate, contributing to a stronger, more stable region, and when China acted aggressively, Beijing only pushed Hanoi and Manila to diversify their markets and seek security ties elsewhere, while the disputes have remained unresolved.
LIST OF REFERENCES


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