

# Looming Tension: Business, Trade, and Commerce are Victims as the South China Sea Disputes Continues

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**Abstract**—The debacle in the South China Sea involving China and several countries presents a threat to international business and trade. The resolution of the issue involves looking at various dimensions which vary according to which stakeholder's perspective it is viewed from. Elements of history, international trade, globalization, diplomacy, are some issues that impinge one upon another.

**Keywords**—China, geopolitics, international relations, globalization, ASEAN, territorial and maritime disputes, UN Convention on the Law of the Sea

## I. Introduction

In a sea a little larger than the Mediterranean Sea, tensions continue unabated between China, the USA and several Southeast Asian countries over the sovereignty of several geographical maritime features in the South China Sea, where China is at present fortifying its occupied territories through land reclamation and island-enhancement construction. Other countries such as Japan and Australia have also been recently pulled into the picture and would seem to be potential corollaries in this long-standing saga in this part of the world. This paper aims to explore the various possible positions for interested countries in this complex diplomatic and nationalistic tit-for-tat.

The seemingly-innocuous collection of around 700 small rocks and nearly-uninhabitable islands dotting the South China Sea all straddle crucial maritime routes through which half the world's trade, and about a third of its oil, passes - and where the cumulative pressure from the fishing operations of the many Southeast Asian countries is threatening to compromise fish stock. If any one of the claimants assumes a stranglehold over these routes - particularly China, which, has completed construction of several man-made islands on the sea, including a 10,000 - foot runway on that group's Fiery Cross Reef located among the Spratly group of islands --- freedom of navigation and access to copious amounts of resources will be bottlenecked for several countries who would count these resources as imperative to their future growth and international trade. Since 2013, international satellite images revealed that China has been vigorously constructing, --- as if in a rush --- seven artificial islands, and three airstrips at least in the expanded/enhanced/reclaimed islets.

Of the rivals to China's operations on the South China Sea territories, the US, Vietnam and the Philippines comprise the staunchest. In fact, at present, the Philippines has entered what amounts to a diplomatic 'showdown' with China, sending a team of the country's high-profile political figures to a tribunal in the United Nations' Permanent Court of Arbitration in the Hague, in an effort to follow up a case it posted in 2013 in the wake of China's forcible acquisition from the Philippines of Scarborough Shoal a year earlier in 2012. A decision on the case is expected by mid-2016.

## II. What is at Stake in the South China Sea Dispute

At face value, most countries seem to tout the value of the oil and natural gas reserves in the South China Sea as being imperative to their future growth. Countless fruitless expeditions and political quagmires have ascertained that the realistic amount of oil that can be gleaned from the South China Sea's reserves, while potentially a great economic boon for smaller countries like the Philippines, cannot sustain the energy needs of a country as large as China for more than a few years. To put it into perspective: the disputed areas of the South China Sea are said to realistically yield around 1.1 billion barrels of usable oil; China uses around 3 billion barrels in a single year. What is left, then, is access to trading routes and fish stock. As mentioned in the introduction, a large portion of the world's oil and traded goods passes through the South China Sea, and if any one country were to assume control over these shipping routes, the development of other economies can effectively be bottlenecked - a trump card that China can use as leverage not only to keep its regional rivals at bay, but also keep the other global superpower, the US, from intervening in its affairs in the Asia Pacific region.

Moreover, supplies of fish in and around the South China Sea are dwindling due to dramatic increases in unregulated fishing over the past two decades. Estimate from the Southeast Asia Fisheries Development Center have the catch figures of tuna, the most common fish in this region, as increasing from 870,000 to 1.6 million tons from 2000-2010. This loss of fish stock is a big issue because most countries in the region are highly dependent on it, both in terms of nutrition and economic gain; the Philippines, for example, supplies as much as a quarter of the tuna sold in the USA, mostly caught off the shores of Palawan, the island on the Philippine archipelago that is nearest to the South China Sea.

Another important factor is the issue of oil supplies to various countries and regions, which use the South China Sea as its main supply route. This consideration is one that makes several countries anxious, even if they are not directly involved in the territorial-maritime disputes in the

South China Sea. Official information released by the Energy Information Authority of the U.S. says that one-third of global crude oil, and up to around 60 percent of global LNG (liquefied natural gas) is supplied using this same trade route. In Japan's case, which is currently even more dependent on hydrocarbons (which include crude oil) after the March 2011 Fukushima debacle, the purchases from the Middle East are transported through the South China Sea. In fact, up to about 85 percent of Japan's oil and oil products/derivatives purchases from its main suppliers --- three from ASEAN countries --- Brunei, Malaysia, Indonesia, and others such as Australia, Nigeria, Oman, Qatar, UAE, --- also traverse through the South China Sea. Practically all of South Korea's oil imports from the Middle East pass through this same route. This is not to mention Taiwan which is just as dependent as Japan and South Korea are in their oil transshipment needs on the South China Sea. It is in this light that there is a general apprehension that the use of these routes will be compromised by having to have to ask the permission of any particular country to avail of what is now regarded by all as international water ways.

### **III. International Law and the UNCLOS**

According to the United Nations' Convention on the Law of the Sea (UNCLOS) - which is currently being touted as the international paradigm (even as the U.S. has refused to ratify) that should govern operations in the South China Sea by most of the claimant countries - ownership of the disputed islands generates an exclusive economic zone (EEZ) that grants the owner of a given territory legal and economic control over the area of sea within a 200-square-mile radius of that territory. Most of the land formations in the South China Sea, particularly the Spratly and Paracel groups, have EEZ's that overlap. This, combined with the multiple claims staked by several different countries on the same islands, makes for a very complex strategic predicament.

Another problem with UNCLOS is that there is no official sanctioning body that can uphold its verdicts by way of concrete action. The Philippines' current case at the UN tribunal, if it gets a positive decision, will therefore most likely be nothing more than a moral victory as opposed to a tangible action against China - which itself has also largely disregarded verdicts or sanctions made by any supranational political bodies on matters related to the South China Sea, including warnings from the USA. A state-controlled newspaper, the Global Times, has even claimed that China is prepared to go to "inevitable" war with the USA in the scenario that Washington does not back down, although by doing this China may simply be trying to call the USA's bluff.

### **IV. The Resurfacing of a Tradition of Imperiousness**

Amidst the milieu of China's contemporary foreign relations, one notion is gradually coming to the fore: that the

imperiousness that once characterized ancient China's foreign policy seems to be beginning to manifest itself once more in the present day. As China again prepares to take its place among the world's foremost economic superpowers, its former tributary based relationship with other countries may be rearing its head again.

For all but the most recent 200 of the last 2,000 years, China has lived up to its own self-proclaimed "Middle Kingdom" title - the most economically-productive country in the world, a massive nation that has traditionally insisted on its own claim as the center of the world by virtue of the governance of the incumbent Emperor, who was seen as having received the so-called "Mandate of Heaven" - an implicit divine entitlement to universal rule. Countries around and outside China would comprise mere "vassals" or "barbarians" under what was known as the tributary system, wherein said countries were encouraged to recognize China's suzerainty and centrality. China would not necessarily force this arrangement upon the other countries, as many would be understandably loath to simply give over leadership of their nation to China. However, if these states capitulated to China's nominal reception of them as "minor countries" or "vassals" - which they often did, if only for the sake of trade - China would in turn allow these countries to benefit from its economic prosperity through various business endeavors; or, in the case of the regions closest to China, the exertion of actual political influence.

Now on the rise again after two centuries of languishing in the wake of Western colonization and internal turmoil, China - a country known throughout the late 19th and early 20th centuries as the "Sick Man of Asia" - is again showing signs of eagerness to assert its "centrality" on the Asia Pacific region in the present day.

The claims China places on the territories in the South China Sea were laid on the basis of what it now calls a "ten-dashed line" (recently adding one to the previous "nine" that includes Taiwan) that was initially published just after World War II - a line that vaguely demarcates China's claims to various islands within the sea, but that leaves much room for misinterpretation. It should then come across as no surprise that China's claims to these territories are currently being contested strongly by several Asian countries that insist, to varying degrees, that the territories are also their own, partially mostly, except Vietnam and China who both claim to everything. China has even had to deal with several small, isolated military skirmishes on the Spratly and Paracel islands against both Vietnam and the Philippines - tensions with the last country in particular have reached such a high that the Philippines has changed the official name of the South China Sea in its political texts to the West Philippine Sea, and was the trigger for the case to be lodged to the International Court of Justice (Permanent Court of Arbitration) in the Hague in early 2013. It is of note that given China's conviction that it has historical undisputed sovereignty over the South China Sea and the islands within it, with ancient maps and other supposed evidences and proofs, it did not have the confidence to submit these claims to the UN tribunal, for arbitration, or confirmation of their validity.

Upon closer inspection, the motivations for the divisiveness over the disputed territories become clear: some of these disputed islands carry a supposed (unverified) abundance of valuable resources such as natural gas and oil, and are located in strategic positions relative to what the USA has loosely referred to as an "Asian pivot". Further complicating matters is the reality that some of these opposing countries are experiencing their own respective economic booms in parallel to China, which has led to increased military capability across the region. This, combined with several free trade agreements and strategic alliances between various members of the Asia Pacific and powerful non-Asian countries such as the US, only makes the big picture murkier - and the possibility of armed conflict more real and threatening.

It is safe to assume that in the near future, China will continue to stake its claim to these disputed territories on the basis of its president Xi Jinping's policy that the Chinese government is committed to "defending [its] territorial integrity" - and, in front of a global community in which China is making quite the effort to appear as a strong member, it will not allow itself to lose face to its comparatively-smaller Southeast Asian neighbors, or to a perennial economic rival in Japan.

In some bizarre sense, China's apparent feelings of entitlement to assert itself on both its people and home region ultimately do not come across as wholly unjustified when taken into context - China is the third-largest country in the world in terms of landmass, and the largest situated entirely in Asia; a vast, mostly-contiguous landmass inhabited by more than a billion people of disparate ethnic backgrounds, now once again a powerful, united nation under the nominal banner of the Chinese Communist Party.

Moreover, China is a nation that has traditionally enjoyed its position as the center of at least the Asian world for millennia; and therefore there seems to exist some intuitive sense that all is right in the world if China takes its place amongst the world's great powers. It is a formidable country to throw off the proverbial throne of the Asia Pacific theater, if only because of its sheer size and manpower - factors that inherently guarantee China a level of economic might that is practically unattainable for most other countries in the region, some of which will ultimately have to concede at least a little to China.

In some way, with the advent of the ruling Communist party, it has also become apparent that the dynastic/kingdom paradigm may be part-and-parcel of a unified China - a method of governance suitable for its vast and diverse geographic and social makeup - and this method of leadership, by definition, incites at least some sense of imperiousness. The challenge, then, is how to properly manage China's imperious attitude in terms of not appeasing it excessively, yet conceding that China deserves to have at least a good amount of clout in the future of the Asia Pacific region - and hopefully, steps towards an amenable arrangement will occur through careful negotiation rather than through armed conflict.

## v. What is at Stake for the Interested Parties? Conclusion

**The ASEAN.** The 10 countries that comprise the Association of Southeast Asian Nations (ASEAN) are not able to mount a unified response owing to a lack of consensus. Only four of the ten, Brunei, Malaysia, the Philippines, and Vietnam have island and EEZ claims. Laos and Cambodia, both landlocked, have no interest in the issue. Besides, these two countries are recipients of generous amounts of economic aid and FDI from China. Myanmar, although not landlocked, has no connection with the South China Sea. It also enjoys a firm economic engagement with China. Thailand like Myanmar, has no direct link with the South China Sea. Besides, under the current regime, the country has inched closer and closer to China for diplomatic and other reasons. Singapore is far out from the South China Sea to have any direct immediate interest in the conflicting claims. Indonesia has no island issue with China, but has an overlapping EEZ issue in the waters off Natuna island, one of Indonesia's most northernmost island. The Philippines and Vietnam are the most affected by the disputes since these two countries are the most proximate to China. Malaysia is in the deep south and thus not so proximate geographically speaking even if it has conflicting island claims. Besides, the issue of the unsolved disappearance of airliner MH370 in 2014 with the vast majority of the passengers being Chinese could make Malaysia be soft on the issue in terms of coming to a confrontation with China.

**The Shippers.** Malaysia, Indonesia, The Philippines, Brunei, Singapore, Indonesia, and Thailand are all heavy users of the South China Sea for their exports and imports to China, Japan, Taiwan, and Korea. The same is true for Australia and New Zealand. The Middle East, especially Oman, Qatar, UAE,--- being the heaviest transporters of the waterway. Africa too, cannot be ignored since Nigeria (oil exports) is a heavy user, not to mention other African countries' exports and imports traversing the sea. In this vein, practically all countries, --- Europe, the Americas (North, Central, and South) --- that trade with North Asia, are directly affected in terms of commercial navigation.

**The Traditional Big Economies.** Europe, Japan, and the US, --- do not need to have to ask permission to pass through the South China Sea. For them, the body of water is regarded as international waters. Power groups such as the G-7, the European Union, have made declarations to the same effect.

**The U.S. as An Asian Presence.** The U.S. has military and security ties with several countries in the region: Singapore, the Philippines, Vietnam, Thailand. Indeed, through these ties, the U.S. exercises its self-appointed global policing and roaming-around function through a variety of treaties, joint naval/military exercises, use of military bases, etc. It is its means of power projection that could be altered if the South China Sea ceases to be international waters. The U.S. is seen as a balancing weight to China in the region, and any change in the ability of the U.S. to go wherever it wants to go in what it regards as



international waters, will shake its image as a global superpower in the region.

**The United Nations.** In a way, the whole world has a stake in the resolution of the South China Sea disputes. It is only a matter of whether the effect on these countries is immediate or long-term, direct or proximate, relative or hard-hitting. Besides, there is also the consideration that the image, reputation, and power of the UN to dish out its arbitration and judging faculties be not neutralized with its decisions being ignored by its member states.

The hope is that this long-running dispute will not lead to the victimization of international trade, commerce, and business. The world's current state of globalization rely on their free flow. War, small or big,--- skirmishes, one-off or recurrent, all of these will be serious disruptors. What everybody wants is a lasting peace in the region,--- that the South China Sea continues to be a venue of friendship and unity, what with the bandied about peaceful rise of China being one of the costs at stake if these tensions are not handled well.

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Dr Reuben MONDEJAR is currently Director of the Master's in Global Business Management Program at the City University of Hong Kong. He is an occasional Asian affairs commentator for international news providers CNBC, CCTV-China, BBC, Bloomberg, CNN, Reuters-Thompson, Voice of America, and others. He has held visiting academic appointments at Harvard University (Weatherhead Centre, Lowell House), Oxford University (Balliol College), Cambridge University (St Edmund's & Wolfson Colleges), the IFO Research Institute (Munich), and the Kiel Institute for World Economics (Germany), among others. He holds degrees in Economics, Finance, International Studies, and Organization Theory. Dr Mondejar is the author/co-author of eight books, among which are *Business Creativity* (with A. Gogatz), Macmillan, London, 2005 (Russian ed, 2007); and *Introduction to International Business & Globalization* (with J. Onishi et al.) 2010. His articles have appeared in the popular press as well as in academic journals such as *Journal of Management*, *Journal of Management Studies*, *Management International Review*, and *Journal of Entrepreneurship*, among others.

