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# Emerging Issues: The Underlying Economics of the South China Sea Conflict

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# THE UNDERLYING ECONOMICS OF THE SOUTH CHINA SEA CONFLICT

Christopher Stock\*

The countries of southeastern Asia and China are currently in a territorial dispute over the Spratly and Paracel island chains in the South China Sea. The South China Sea encompasses roughly 1.4 million square miles of the Pacific Ocean, spanning throughout most of southeastern Asia.<sup>1</sup> A majority of the islands located within the sea are uninhabited and have never had an indigenous population, which makes it nearly impossible to track the lineage to determine sovereignty over the islands. Because there has never been an indigenous population on a majority of the islands, there are now competing claims for many of the same pieces of land.<sup>2</sup>

There are four main territorial disputes at issue: (1) China claims the “nine-dash line” area, which encompasses the southern province of Hainan, the Paracel island chain, and Spratly island chain; (2) Vietnam claims sovereignty over the Paracel and Spratly island chains; (3) the Philippines claim the Spratly islands based on their geographical proximity to the chain; (4) Malaysia and Brunei claim territory they believe to be in their economic exclusion zones, as laid out by the United Nations Conference on Law of the Sea (UNCLOS).<sup>3</sup> The purpose of this paper will be to examine the underlying economics behind the fisheries, shipping lanes, and natural resources highlighting South China Sea’s role in the industrialization of Asia.

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1. BEINA XU, *South China Sea Tensions*, COUNCIL ON FOREIGN RELATIONS (2014), <http://www.cfr.org/china/south-china-sea-tensions/p29790>.

2. *Id.*

3. *Q & A: South China Sea dispute*, BBC (May 8, 2014), <http://www.bbc.com/news/world-asia-pacific-13748349>.

### Ambiguity of UNCLOS

Each country in southeastern Asia is making legal claims for the disputed archipelagoes within the South China Sea. China is claiming the most land, the nine-dash line area, which consumes nearly all of the South China Sea.<sup>4</sup> China believes they have a right to the area based on their survey expeditions, fishing activities, and naval patrols, which allegedly date back to the fifteenth century.<sup>5</sup> Under the UNCLOS agreement, which China rejects, each littoral state is allowed to claim an Exclusive Economic Zone of 320 km, or a continental shelf, around their island.<sup>6</sup> Under the UNCLOS guidelines, China's nine-dash line area claim would be invalid.

Unfortunately, the UNCLOS guidelines are not clear in defining island boundaries because there are an additional twelve kilometers of territory that can be included in the country's geography based on different aquatic features.<sup>7</sup> UNCLOS also fails to specifically state what happens when an island lies in multiple countries' territory. Although it may seem UNCLOS would solve the dispute by laying specific boundaries for each country, instead, UNCLOS further complicates the dispute between the countries. The ambiguity of UNCLOS has opened the door for China to intimidate and dominate these smaller island nations. Through its size and vast economy, China is able to control the South China Sea in regards to fishing, shipping, and natural resources.

### The Fisheries

Fishing is an integral part to the economies of southeastern Asia and China. Nearly 1.5 billion people live along the border of the South

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4. XU, *supra* note 1; David Lague, *Analysis: China's nine-dashed line in South China Sea*, REUTERS (May 25, 2012), available at <http://www.reuters.com/article/2012/05/25/us-china-sea-boundary-idUSBRE84O07520120525>.

5. Q & A: SOUTH CHINA SEA DISPUTE, *supra* note 3.

6. Leszek Buszynski, *The Development of the South China Sea maritime dispute*, in THE SOUTH CHINA SEA AND AUSTRALIA'S REGIONAL SECURITY ENVIRONMENT 3, 4 (Leszek Buszynski & Christopher Roberts eds., 2013), available at <http://nsc.anu.edu.au/documents/occasional-5.pdf>.

7. *Id.* at 5.

China Sea and rely on fishing for food and income.<sup>8</sup> The fishing zone in the South China Sea ranks fourth out of the nineteen fisheries around the world in total maritime production.<sup>9</sup> The area regularly produces approximately 10% of the worldwide commercial fishing catch.<sup>10</sup> However, the unregulated fishing in the waters around the Paracel and Spratly archipelagoes is quickly depleting fish populations and destroying plant and reef life.<sup>11</sup> The depleted fish populations have forced fishermen to take longer trips and travel farther from their homes in search of fish. The competition between countries for the most valuable fisheries has led to more clashing between foreign fishing boats. Many countries, in particular China, have been placing annual bans and have been arresting foreign fishermen in waters they believe to be their own.<sup>12</sup> By taking these actions against foreign fishermen, China is indirectly asserting sovereign control over the area.<sup>13</sup> In a recent fishing dispute, a Chinese boat struck a Vietnamese boat, causing the boat to eventually sink.<sup>14</sup>

These conflicts have the potential to deter fishermen from the South China Sea, many of whom have no other skills. If this trend continues, the economies of the region would undoubtedly suffer because the region relies so heavily on fishing as the foundation of the economy.

### **The Shipping Lanes**

The South China Sea serves as a corridor for much of the world's shipping, thus, it is essential to China, southeastern Asia, and the world for this territorial dispute to be resolved in order to ensure free navigation. The reason this area is of paramount importance is

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8. XU, *supra* note 1.

9. *Philippines wants fishing agreement in S. China Sea*, REUTERS (Sept. 4, 2007), available at <http://legacy.utsandiego.com/news/world/20070904-0245-philippines-fishing-.html>.

10. LAGUE, *supra* note 4.

11. EVA PEISOVA, *Issue Alerts: The South Sea's Commons: Behind and beyond sovereignty disputes*, 30 EUROPEAN UNION INST. FOR SECURITY STUDIES 1 (2014), available at [http://www.iss.europa.eu/uploads/media/Alert\\_30\\_South\\_China\\_Sea.pdf](http://www.iss.europa.eu/uploads/media/Alert_30_South_China_Sea.pdf).

12. XU, *supra* note 1.

13. XU, *supra* note 1.

14. *Vietnam boat sinks after collision with Chinese vessel*, BBC (May 27, 2014), <http://www.bbc.com/news/world-asia-27583564>.

because, of the top ten shipping ports in the world, more than half are located there, and nearly fifty percent of all oil tankers pass through this region.<sup>15</sup> There are roughly one and a half billion people who live within 100 miles of the South China Sea, and the volume of shipping through the South China Sea has greatly increased due to the developing industrial economies of the countries within the region.<sup>16</sup> China's coast, bordering the South China Sea, has become significantly more urban, thus giving rise to even more traffic.<sup>17</sup> Assuming these countries will continue to grow economically, the shipping lanes have the potential to become an escalating part of the issue threatening the economic stability of the region.

If China were to take control of the South China Sea and impede travel through the region, the impact would be felt worldwide. This imposition would have severe economic consequences adversely affecting the essential principle of free navigation. Free navigation is paramount to ensure the most efficient outcome is reached when trading and shipping internationally. Without free navigation, the price of many necessary goods, in particular oil, would skyrocket in price due to re-routing and other inefficiencies arising from the nuisance.<sup>18</sup> However, because free navigation is such a vital component of the global economy, it seems unlikely that a country would interfere with free navigation because it would also have an undesirable effect on their economy.

### The Natural Resources

The South China Sea is rich with natural resources, and so the competitive interests between the countries have landed the sea's hydrocarbons at the crux of the dispute. The South China Sea has yet to be exploited to the extent of many of the world's other natural resource locations, and therefore, remains relatively untapped.<sup>19</sup> One report by the World Bank estimates that in the South China Sea there

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15. XU, *supra* note 1; *South China Sea Oil Shipping Lanes*, GLOBALSECURITY.ORG, <http://www.globalsecurity.org/military/world/war/spratly-ship.htm> (last updated Nov. 7, 2011).

16. XU, *supra* note 1.

17. XU, *supra* note 1.

18. XU, *supra* note 1 (Fifty percent of all oil tankers travel through the South China Sea).

19. XU, *supra* note 1.

are nine hundred trillion cubic feet of natural gas and oil reserves, equivalent to at least seven billion barrels.<sup>20</sup> The vast amount of natural resources available to the region has the potential to allow the economies of the smaller nations of southeastern Asia to industrialize and prosper. If smaller countries like Vietnam and the Philippines were able to share in the profits from the natural resources, this could have the potential to jumpstart their industry, and invigorate their economies. The area in southeastern Asia is already booming, and parts of southeastern Asia are going through an industrial revolution.<sup>21</sup> The additional revenue from natural resources could help move along industrialization and ensure economic stability in the region.

The hydrocarbons within the South China Sea are also valuable to China. As China's economy continues to grow and expand, the natural resources in the area could provide the stability necessary to support their vast industrialization.<sup>22</sup> Chinese energy companies have already started drilling in the disputed waters; in 2012, China's National Energy Administration named the South China Sea as a major source for China's natural gas production.<sup>23</sup> Although there is much discontent and hostility among the smaller southeastern Asian nations against China, the disparity of economic and political capital leaves little chance for negotiating fair terms to the region's hydrocarbons.

### **Conclusion**

The basic economics underlying the entire conflict is the necessity of resources to facilitate industrialization in fisheries, shipping lanes, and hydrocarbons, of which the South China Sea is an integral part of that development.<sup>24</sup> China has been able to harass and bully their way into controlling the South China Sea because the countries of southeastern Asia have insufficient resources to properly compete. China's ultimate goal is to force the disorganized,, smaller, southeastern Asian countries into recognizing its claim to the area. The best chance at a resolution to the South China Sea conflict would be

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20. XU, *supra* note 1.

21. XU, *supra* note 1.

22. XU, *supra* note 1.

23. XU, *supra* note 1.

24. XU, *supra* note 1.

for Vietnam, the Philippines, Malaysia, and the other smaller southeastern Asian countries to combine economic resources to rival that of China's. Although the Association of Southeast Asian Nations (ASEAN) exists, it lacks the necessary organization and consolidated nature to stand up to China.<sup>25</sup> ASEAN's economic and political resources are inadequate to unite the people of the region under one centralized influential organization.<sup>26</sup> Thus, in order for ASEAN to be a successful organization and an imposing force within the region, ASEAN needs "to define clearer mandates, establish closer coordination, and mobilize greater resources."<sup>27</sup> Until there is communication and unity between the smaller southeastern Asian nations, China will be able to impose their own economic agenda over the South China Sea.

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25. A.K.P. Mochtan, *ASEAN' Internal Issues are Paramount*, THE JAKARTA POST (Aug. 23, 2012), available at <http://www.thejakartapost.com/news/2012/08/23/asean-s-internal-issues-are-paramount.html>.

26. *Id.*

27. *Id.*