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Calculating China's Advances in the South China Sea: Identifying the Triggers of "Expansionism"

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Identifying the Triggers of "Expansionism"

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IN EARLY APRIL OF 1997 a Chinese oil and gas exploration ship, the *Kan Tan III*, began plying the waters between Hainan Island and the Vietnamese coast in search of petroleum. This type of exploratory activity would have been routine almost anywhere else, but in the South China Sea, where unresolved territorial disputes threaten to flare quickly, the presence of a Chinese survey ship swiftly escalated into a diplomatic scuffle between Vietnam and China. Subsequent talks failed to bring either side closer to compromise, and the crisis was averted only when the vessel, having completed its survey, withdrew from the area a month later. This particular territorial fracas did not have the "stuff of war" in it, but the commotion it generated is a reminder of the fragility of the peace reigning over the South China Sea. From the standpoint of regional security, the adamance of rival claimants to vast, overlapping water space in the South China Sea continues to make this maritime zone a brewing flashpoint.

That the multilateral dispute simmers at all is largely the responsibility of China, whose assertion of absolute sovereignty over a great majority of the South China Sea, coupled with its apparent willingness and growing ability to reinforce its claims, has effectively stymied any real progress towards a settlement. The explanation for this unbending posture is complex, rooted in goals and ambitions of many domestic actors in China. Rather surprisingly, though,

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Beijing's behavior in the South China Sea over the last decade has shown a consistent motivation: a growing desperation by Beijing to control the potentially lucrative natural resources of the region. While strong assertions of sovereignty form the backdrop of China's claims, and nationalism impels Beijing's leaders to defend their presumed rights there, sensitivity to resource encroachments and a growing fear of economic dependence has emerged as the primary determinant of China's willingness to assert itself physically in the South China Sea.

This article examines circumstances surrounding China's occupation of nine reefs in the Spratly island group in 1988, 1992, and 1995, in support of the thesis that economic threats have been the triggers for China's appropriation of territory in the South China Sea. The case studies will show that steps taken by rival claimants—Vietnam, Malaysia, and the Philippines—to exploit the natural resources of the seabed incited Beijing to respond with ever-deeper physical penetrations into the Spratly archipelago. Understanding what spurred China to enlarge its presence in the South China Sea will not only strip away much of the uncertainty surrounding Beijing's intentions in this maritime zone but suggest how and where future conflict may take place, in this region and perhaps elsewhere.

Historical Framework

Attempts to establish sovereignty over the formerly uninhabited archipelagos in the South China Sea—the Paracels and Spratlys being the largest—are a modern phenomenon. Today China is the most adamant of claimants, but for thousands of years the Chinese saw these uninhabited cays and shoals as places off the map, zones beyond civilization. China expressed no desire to control or possess barren, peripheral territories until Western encroachments, beginning with the Opium War in 1839, shocked China into a new awareness of its geographic vulnerabilities. Until then, because the islands were of marginal economic value, few other Southeast Asian states made any effort to secure clear title to them either.

The littoral states perched on the South China Sea were gradually awakened to the porosity of their borders by prolonged periods of victimization by foreign powers during the colonization era. The history of exploitation from the sea crystallized the notion among Asian leaders, especially in China and Vietnam, that they must not be soft on the issue of territorial integrity.

Given the relative remoteness of the offshore islands and the frequency with which the issue of ownership was overshadowed by more pressing domestic priorities, the history of occupation and control over the archipelagos during the nineteenth and early twentieth centuries, particularly of the two most

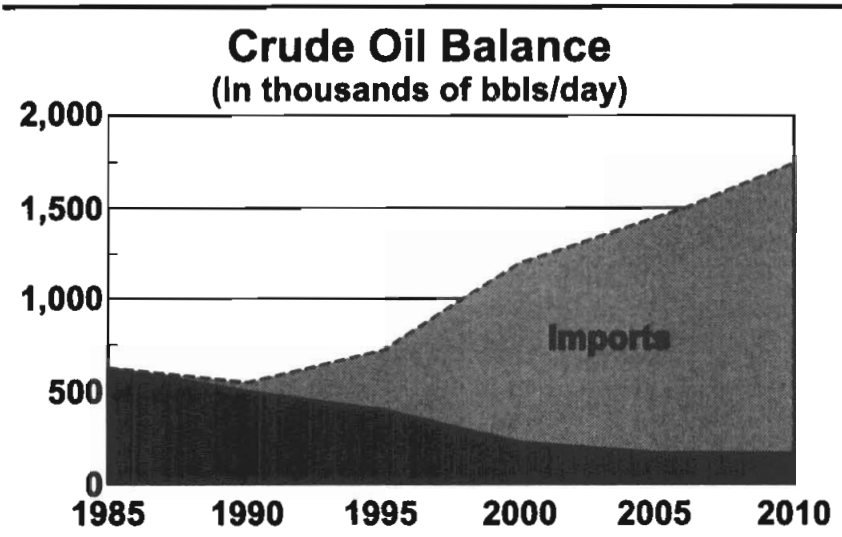
contested areas, the Paracels and Spratlys, is checkered. Ownership of islets changed hands repeatedly over the last century as various regional and extra-regional actors exerted influence over the maritime expanse. As one contemporary scholar has noted with irony, "Until World War II, the islands in the South China Sea were only worth their weight in guano."[1]

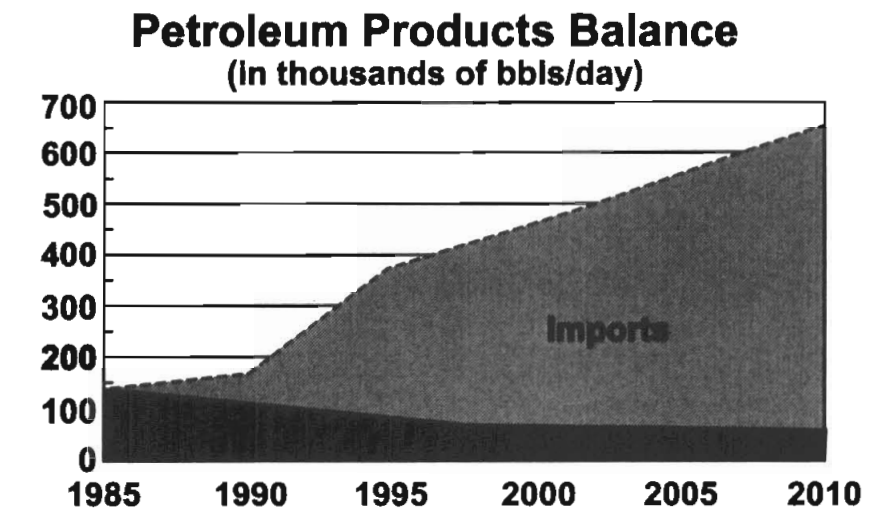
From 1956 onward, Chinese forces happened to occupy the largest island in the Spratlys, which under customary law entitled the Chinese to *en toto* ownership of the archipelago.[2] But China's self-presumed dominion over the South China Sea islands was challenged in the early 1970s as their intrinsic strategic and economic value became more apparent. Taking advantage of a China distracted by the Cultural Revolution, rival claimants started methodically to absorb fragments of the Spratlys within their own boundaries. Desperate to find viable domestic sources of petroleum, both Vietnam and the Philippines began to occupy, and bolster defenses on, the largest islands in the Spratlys; by 1973 each had occupied six.

Interest in developing offshore petroleum quickly added an economic dimension to the territorial disputes. Indeed, strong correlations soon developed between the relative value of oil to each claimant and the intensity of their ownership claims. This dynamic deserves greater amplification, particularly in light of the importance offshore oil has played in other maritime jurisdictional disputes around the globe.

Prospecting in the South China Sea

Offshore petroleum exploration is relatively recent in Asia. Until exploiting hydrocarbons trapped below the sea floor became technologically and economically feasible, it received little official attention. However, early seismic studies in Asian waters were performed in 1968 under UN auspices, and the following decade saw most of the Southeast Asian nations establishing joint ventures for oil prospecting. Oil was discovered in 1976 at Reed Bank, midway between Palawan and the Spratlys, and production was developed by the Philippines beginning in 1979. Indonesia's offshore oil industry, which began in 1970, accounted for 35 percent of Jakarta's total oil output in 1979. Malaysia's offshore oil production doubled each year throughout the 1970s. Hanoi, eager to welcome back concessionaires in the wake of reunification, also oversaw the resumption of offshore drilling in 1976, with a six-well program. In 1981, after Western oil companies pulled out due to rigid contract terms and disappointing preliminary finds, Vietnam and the Soviet Union formed a joint venture to explore and exploit hydrocarbons from Vietnam's southern continental shelf, striking oil three years later.[3]





China's Oil Imports
(Office of Naval Intelligence)

China's first experiments with offshore drilling occurred as early as 1971, in the Bohai Gulf, but throughout the decade China generally lagged behind its neighbors by a significant technological margin. China objected perfunctorily to foreign exploration in traditional disputed zones, but it was ill equipped either

to enforce its protests or compete through offshore programs of its own. Beijing was annoyed by growing encroachments in its claimed areas, but its ire was somewhat tempered by a thriving domestic petroleum industry on land. Output from its onshore sites was so prodigious that in 1974 China surpassed Indonesia as East Asia's top petroleum producer.[4]

China's exclusive emphasis on onshore exploration turned out to be an ephemeral luxury. Southeast Asia's successes in offshore development through the late 1970s and a decline in China's domestic oil production in 1980 figured prominently in Beijing's decision to expand its search for hydrocarbons offshore. China sought foreign assistance in developing fields and in February 1982 established the China National Offshore Oil Corporation (CNOOC) to coordinate contracts with foreign oil companies on behalf of the State Council. Seven months later, the first of many cooperative ventures was signed. These joint ventures concentrated their activities in the Gulf of Tonkin and off the mainland coast (particularly in the Pearl River Basin, adjacent to Hong Kong). China's leaders were buoyed by reports that almost a fifth of all estimated Chinese oil potential lay on its continental shelf.[5]

If dwindling onshore petroleum production in the early 1980s was a major consideration in China's new emphasis on offshore production, exploiting resources on the continental shelf was attractive for other reasons as well. Not only were the offshore fields closer to consumers (industrial and population centers along the south and east coast of China), but they were less vulnerable than the onshore fields in northeast and northwest China to potential Soviet attack. The "sweeter" quality of the crude lifted from the South China Sea seabed (the oil was less waxy and sulfuric) also reduced the processing burden on China's heavily taxed oil refineries.

In the years preceding China's first attempt, in early 1988, to occupy reefs in the Spratlys, China's rocketing economy and its need for refined petroleum products threatened to outstrip domestic production capacity. Since 1984 a growing discrepancy had emerged between China's energy supply and demand, and had grown since. The situation was exacerbated by a decline in foreign investment in offshore oil exploration in 1986. In early January 1988, economists calculated that "there is no way a three percent per year growth in oil production can feed sustained growth in refined products demand of six to eight percent per year or growth in demand for light and middle distillates of eight to twelve percent per year."[6] Oil experts estimated China could sustain its 1986 oil production level through at least 2020 but that the expanding consumption requirements of the Chinese economy would oblige it to begin importing oil within the decade.[7] A shortage of energy became one of the most important factors retarding economic growth, and the Chinese increasingly turned their eyes to offshore areas, including the South China Sea.

China's leaders were also eager to find additional sources of petroleum so that they could convert inefficient, coal-burning industries into modern, high-tech factories. The nation's dependence on coal was so profound (China still relies on coal for nearly 80 percent of its energy) that it was a brake on China's rapidly developing economy. Beijing's leaders considered petroleum a *sine qua non* of Beijing's modernization plans; at the same time, the Chinese Communist Party was preaching a doctrine of "self-reliance." Correspondingly, without additional domestic sources, China's efforts to streamline its industrial base would be slowed, and it would find itself in the ideologically untenable position of relying on foreign suppliers for its lifeblood.[8] Beijing perceived that a successful modernization effort would turn on its ability to manage energy requirements; by the mid-1980s it was already feeling tremendous resource pressure.

China's developing energy crisis lured Beijing to the sea, but other ocean resources were gradually becoming important to China's national health as well. Fishing, for example, was emerging as a source of nutrition that could partly compensate for relative declines in agricultural output. The limiting factor in China's agricultural productivity was, and is, the availability of cultivable land—approximately 10 percent of China's land mass. About half of this cultivable land is of low quality due to such conditions as soil salinity or alkalinity, falling water tables, erosion, and desertification. Significant losses of arable land occurred between 1970 and 1987 as farmland was converted to industrial, transportation, and urban construction purposes. Increasing the efficiency of agricultural production through greater mechanization was complicated by lack of funds for investment and the problem of displaced rural labor.[9]

China not only faced declining amounts of cultivable land, but its population was growing steadily. In the 1980s it was predicted that by the year 2020 China would have 250 million more mouths to feed.[10] Even with population control measures and enhanced agricultural techniques, China's leaders realized, the nation would become increasingly dependent on alternative sources of food. As early as 1984, a high government official asserted that the diet of China's large and growing population would increasingly require the protein supplied by fish. Chinese journals in 1989 similarly argued that 80 percent of the earth's living resources were in the sea and that fish would become an increasingly important source of animal protein.[11] A strong fishing industry had an obvious nutritional benefit, was compatible with China's need for low-technology, human-intensive occupations, and was preferable to importation.

A Chinese article published in 1988 best captured China's growing sense of the South China Sea's economic value:

> In order to make sure that the descendants of the Chinese nation can survive, develop, prosper and flourish in the world in the future, we should vigorously

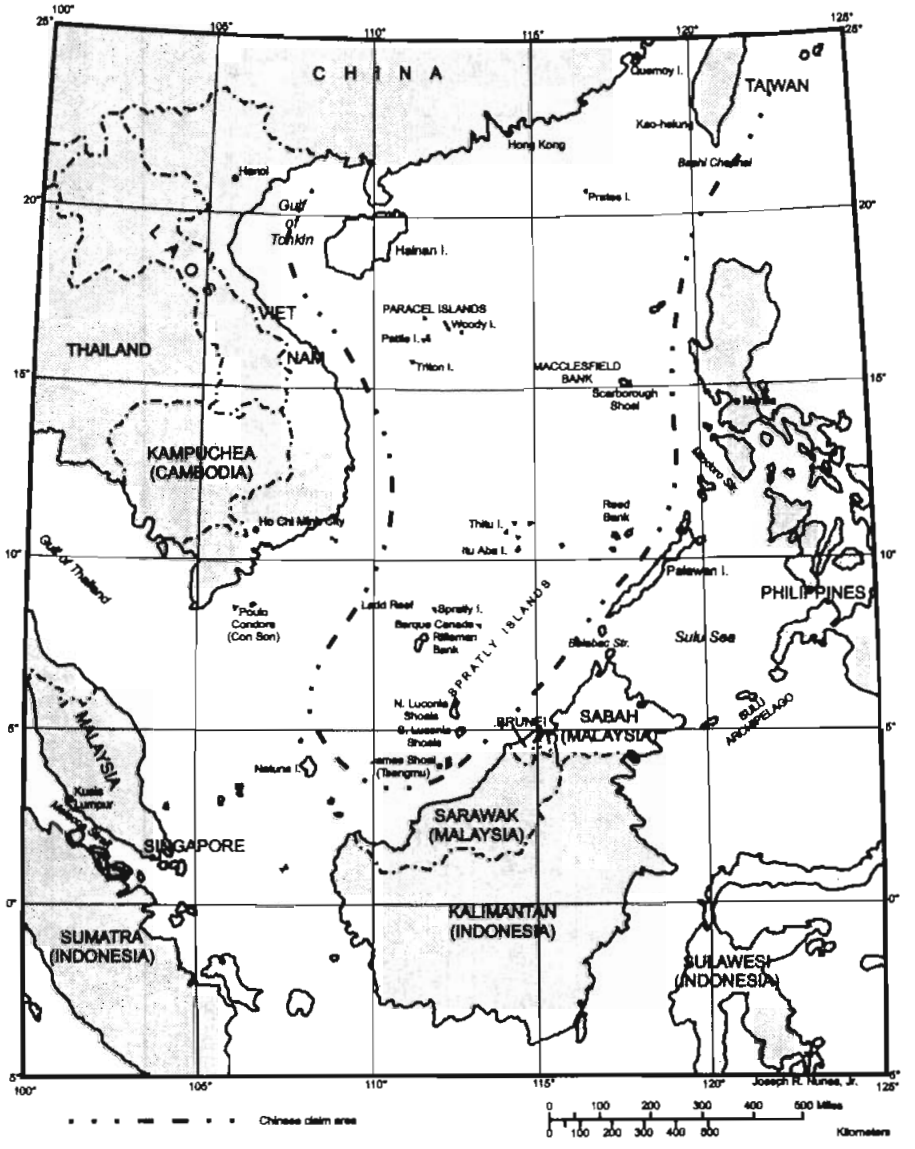
develop and use the oceans. To protect and defend the rights and interests of the reefs and islands within Chinese waters is a sacred mission.... The [Spratly] Islands not only occupy an important strategic position, but every reef and island is connected to a large area of territorial water and an exclusive economic zone that is priceless.[12]

The PLAN Colonizes the Spratlys

With a view toward emerging resource shortfalls, particularly in the field of energy, China's response to Vietnam's April 1987 occupation of one of the largest reefs in the Spratlys, Barque Canada, was vitriolic. China demanded Vietnam's immediate withdrawal from Barque Canada and nine other islands in the archipelago. Citing Soviet-Vietnamese economic cooperation as evidence that continental shelf oil exploitation was a key project, the Chinese asserted that "Vietnam's purpose in illegally dispatching troops to [Barque Canada] is to occupy the continental shelf nearby and pave the way for its future exploitation of oil."[13] China had been aware the Spratlys had very good oil prospects as early as 1982, when the then president of China's geological society made favorable predictions about oil exploitation there.[14] To reaffirm these calculations, in spring 1987 the People's Republic of China (the PRC) conducted extensive oceanographic research in the vicinity of the Spratly Islands. By the fall of 1987 the Chinese government had concluded that the continental shelf north of James Shoal, in the southernmost part of the archipelago, had a large sedimentary basin that probably contained substantial natural gas and oil deposits. In November 1987, around the time of these findings, the People's Liberation Army Navy (PLAN) began to survey outposts for construction in the Spratlys. Soon after, the decision was made to establish a Chinese "sea-level weather research station" on Fiery Cross Reef.

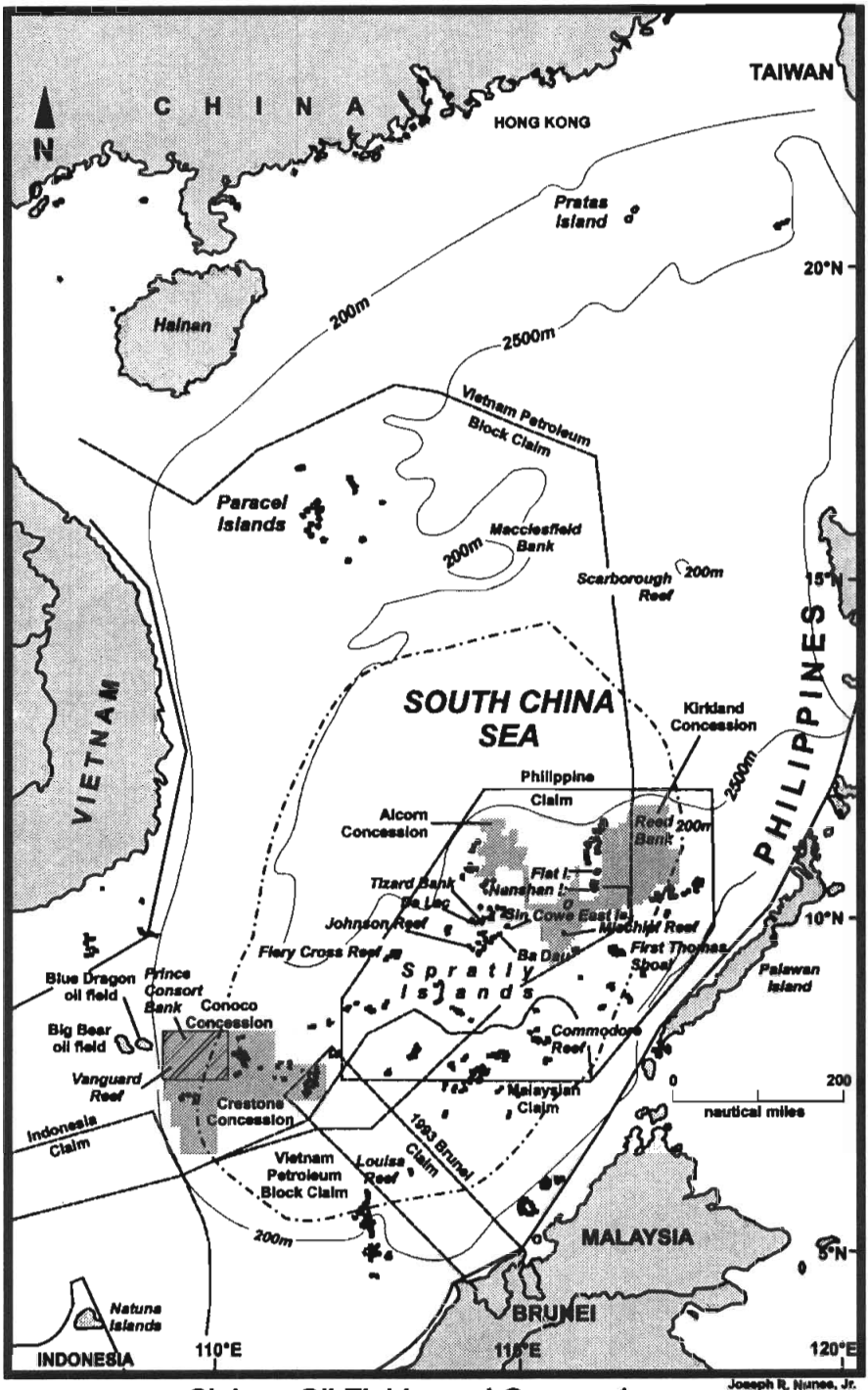
Sensitive to its power projection weaknesses and fearing negative political reactions stemming from a military presence in the maritime heart of Southeast Asia, China disguised the naval missions sent to the Spratlys in late 1987 and early 1988 as scientific expeditions. They involved oceanographic research vessels and warship escorts, which subsequently deposited "scientists" and building materials on a number of reefs. Portraying its actions as "non-aggressive," China claimed that the United Nations Education, Scientific and Cultural Organization had approved the construction of weather research stations on the cays in question.[15] This defensible justification provided a convenient pretext for an increased naval presence and helped forestall a direct confrontation with Vietnamese forces during the early stages of occupation.

Alarmed by PLAN operations in their "backyard," Vietnam sent aircraft to monitor Chinese construction efforts, and Vietnamese warships shadowed



Adapted from Marvyn Samuels, *Contest for the South China Sea*

Chinese vessels engaged in survey and patrol.[16] Friction between these opposing forces correspondingly mounted. The volatile mix of Chinese and Vietnamese ships in the same waters predictably led to a series of near-clashes. These brushes usually involved Vietnamese units approaching the reefs on which Chinese



Claims, Oil Fields, and Concessions
(Adapted from Valencia, "China and South China Sea Disputes")

investigation teams were working; on at least three occasions, Chinese warships intercepted and turned away the Vietnamese vessels. The situation climaxed in mid-March 1988, when the PLAN sank a Vietnamese auxiliary and damaged an LST operating in the vicinity of Johnson Reef.[17] The PLAN subsequently consolidated its position in the region, planting flags and occupying six reefs (all previously uninhabited) by April 1988.

While it remains unclear what criteria China had used to select the reefs on which it settled, one may have been an aim to undermine rival claims to prospective resources nearby. The occupied reefs are dispersed throughout a number of smaller archipelagos—Laoita Bank, Tizard Bank, Union Reefs (just south of Tizard), and London Reef. By landing on reefs near islands and on reefs held by other claimants, China may have intended to supersede, or at least neutralize, any legal rights of other nations to the surrounding seabed and water column. The only reef distant—and this for defensive purposes—from claims of other states is Fiery Cross, the PLAN "headquarters" in the Spratlys.

Beijing did not have the technological know-how in late 1987 and early 1988 to exploit petroleum so far from its shores. China's leaders, however, acted as if they meant to thwart physical incursions they could not halt using the time-worn technique of diplomatic protest. To Beijing, competition for offshore resources in the South China Sea was becoming a zero-sum game. Aware of the limitations of its existing resource base, China sought to deter foreign encroachments and reserve the area for its own future exploitation.

Law of the Territorial Sea

The next significant development in the ongoing ownership quarrel over the South China Sea was the adoption in February 1992 by the Chinese National People's Congress of the Law of the Territorial Sea and Contiguous Zone. Contrary to China's promises to resolve outstanding territorial disputes through friendly discussion, the law was a hard-line assertion of Chinese maritime rights.[18] Its articles claimed exclusive sovereignty over the Paracels and Spratlys, asserted a right to evict other nations' naval vessels from its territorial waters (presumably even those still under dispute), and authorized the PLA Navy to pursue foreign ships violating its regulations to the high seas. The law also required all foreign warships to give notification of intent to pass through China's territorial seas and to receive permission before doing so. These regulations not only threatened freedom of navigation but revived regional antagonisms over maritime sovereignty.[19]

China quickly acted on its claims. Less than a month after the territorial sea law's proclamation, Chinese forces landed on Da Ba Dau reef, near the Vietnamese-held island of Sin Cowe East. A clash (of which the intensity is not

known) took place between Chinese and Vietnamese forces on 19 March 1992. Four months later, Chinese marines landed on Da Lac reef on Tizard Bank. No direct economic benefits accrued from occupying these features. However, Da Ba Dau reef, as of then the easternmost point occupied by the PLA in the Spratlys, is so close to Sin Cowe East Island that its occupation would seem an attempt to trump Vietnam's claims to resources in the eastern part of the archipelago.[20] As in 1988, the PLA avoided direct assaults on occupied islands, landing only on uninhabited reefs.[21]

Why was China suddenly taking a more aggressive stance? The most plausible explanation returns to China's pressing economic conditions. Beijing probably interpreted joint development schemes sponsored by other claimants to exploit offshore petroleum in the South China Sea as threats to China's long-term economic sustainability.

Indeed, by 1992 almost all Southeast Asian nations were heavily involved in oil exploration off their coasts. A joint venture sponsored by the Philippines had recently discovered oil off northwest Palawan Island. Malaysia was producing oil from ninety wells in 1992, about half the region's total offshore output. Vietnam was emerging as a major regional oil producer, with its offshore production surpassing China's by mid-1992. Most compelling, a month before China passed its sea-claims law Vietnam and Malaysia had announced their mutual interest in joint development of oil reserves where their claims overlapped.[22] The Association of Southeast Asian Nations (ASEAN) viewed the territorial sea law and its manifestations as ominous.

The near-simultaneous declaration of the Law of the Territorial Sea, the Chinese occupation of reefs, and the skirmish with Vietnamese naval units all reflected China's heightened sensitivity to resource invasions in the South China Sea. They were a shrill warning to its neighbors that they could not exclude China from development of the area's natural resources. China's efforts in this direction were undoubtedly encouraged by a renewed promise of huge finds. Revised geological surveys by the Chinese Ministry of Geology and Mineral Resources led to speculation that the Spratlys archipelago could contain as much as 105 billion barrels of oil, an amount greater than China's on-shore reserves. The area surrounding James Shoal alone was also estimated to contain upwards of 90 billion barrels of oil.[23]

The latest encroachments, coupled with China's shifting status from oil exporter to net importer, likely had convinced Beijing it needed to become more energetic in asserting its rights over a potentially world-class petroleum field. For influential elements in the Chinese leadership the South China Sea was probably a prize worth the minor costs of diplomatic turbulence with ASEAN. At stake was China's modernization program, which depended upon the finite fuel resources then at its disposal. China's goals were transparent to its

neighbors. President Lee Teng-hui of Taiwan commented in 1993, "The Chinese Communists want access to the South China Sea since the amount of petroleum there could exceed that under the North Sea."[24]

China's new emphasis on controlling petroleum exploration in distant waters further manifested itself in an unprecedented cooperation contract between CNOOC and an American firm, the Crestone Energy Corporation, in May 1992.[25] The contract called for joint exploration in a twenty-five-thousand-square-kilometer block in the southwest perimeter of the Spratlys archipelago, just inside China's sweeping claim line. The contract was significant not only for its sheer ambitiousness—the water was so deep in most of the contract block that exploration would present major technological challenges—but because the concession was located within two hundred nautical miles of the Vietnamese coast. China appeared to be using Crestone to reaffirm and internationalize its title, justifying its actions by pointing to Vietnamese exploration activity directly west. Hanoi insisted the Crestone concession was illegal, because it fell on Vietnam's continental shelf, but it avoided chastising the U.S. oil company in order not to jeopardize the lifting of the U.S. trade embargo.[26] Endeavoring to reap a share of the rewards of the offshore oil production of its competitors, China was willing to run the risk of sponsoring exploration within Vietnam's exclusive economic zone (EEZ). China even promised PLA Navy protection for Crestone personnel and equipment.

Mischief Reef

A more assertive policy to satisfy energy concerns helps explain Beijing's actions in the southwest Spratlys where oil prospects were good. But in 1995, Beijing decided to occupy Mischief Reef, in the Philippines claim zone, where the oil potential was relatively meager. Beijing seemed to be throwing political capital to the wind by penetrating deeply into the Philippine EEZ. Why?

The best explanation involves China's perceptions of economic threats and its desire to preempt foreign exploration that would leave it a net loser in terms of territory and resources. China's occupation of Mischief Reef was not a bolt from the blue; it was preceded by a chain of events that began with a falling-out with the Philippines over hydrocarbon exploration in the northeast region of the Spratlys.

Joint development talks between China and the Philippines over gas-rich Reed Bank broke down in early 1994; in May, Manila decided to grant a six-month oil exploration permit to Alcorn Petroleum and Minerals.[27] The Philippines was interested in collecting seismic data on the seabed southwest of Reed Bank. Manila hoped the contract would remain a secret, but news of the collaboration soon leaked. Beijing swiftly issued a statement reasserting its

sovereignty over the area covered by the license and ignored Manila's belated invitation to become a partner in the project. Manila back-pedaled on the diplomatic front for weeks, but the damage had been done. By secretly licensing an exploration effort the Philippines had appeared to engage in unilateral efforts to exploit the natural resources of the Spratlys.

Stung by Manila's "betrayal," China decided to advance eastward for better surveillance coverage of any Philippine-sponsored oil exploration. Mischief Reef is in the lower-middle section of the Alcorn concession; a presence there would also strengthen China's hand were petroleum ever to be discovered in the area. The Chinese post on Mischief Reef was discovered by Filipino fishermen in February 1995, the advanced state of its buildings indicating that construction had begun in the fall of 1994, just a few months after Manila's "faux pas." China had quietly advanced onto the reef because it believed physical occupation was the only method by which Chinese interests could be protected. Beijing's own misstep was in not foreseeing that this characteristically "defensive" response would be interpreted as offensive.

Domestic Factors

Economic determinants clearly account for the timing of China's advances in the South China Sea. Oversimplifying the sources of China's behavior, however, can be dangerous and misleading. A more comprehensive view of China's motives to use force in the South China Sea can be reached by examining matters through a broader domestic lens. The demands of national industrialization aside, factors within Chinese government and society that contribute to China's territorial resolve include nationalism, the bureaucratic interests of the Navy (the PLAN), the relative influence of the PLA in domestic politics, and provincial development objectives.

The wellspring of modern Chinese nationalism is the humiliation the nation suffered at the hands of foreigners intent on exploiting and dismembering China for economic and political profit. The nineteenth century saw Western powers seize concession areas in Hong Kong, Guangzhou, Qingdao, and Dalian; Russia bit off sections of Manchuria; Japan captured Taiwan, Korea, and the Ryukyus; and France colonized Indochina. Outer Mongolia took advantage of a deteriorating dynasty to achieve nominal independence in 1912. In 1932, Manchuria became a puppet of Japan. Although some territories were recovered after World War II, by the time the Communists took over in 1949 the erstwhile Qing empire had been sliced into five separate entities: the PRC, the Republic of China on Taiwan, the Mongolian People's Republic, Macau, and Hong Kong.[28]

The Chinese accordingly possess a particular sensitivity about their territorial integrity; it finds expression in contemporary nationalist statements about

reunifying the motherland. The Chinese press considers "inseparable" or "inalienable sovereignty" the strongest phrases it can invoke to signal seriousness; the Paracel and Spratly islands are consistently referred to in these terms.

Since the late 1970s China's leaders have promoted Chinese nationalism as a unifying force to replace the "carcass of communism."[29] In the decade after Mao's death, the Party realized that revolutionary fervor was becoming unreliable as a source of social cohesion. Emphasizing instead a theme that touches the roots of Chinese pride, the center began to elevate the citizenry's collective "consciousness of suffering" (with regard to sovereignty) as a way of uniting elements of Chinese society that were increasingly disenchanted with the Party's socialist ideology.

By attaching the regime's legitimacy to its ability to protect and defend Chinese sovereignty, however, Party leaders committed themselves to holding firm on the prickly questions of autonomy in Taiwan, Hong Kong, Tibet, Xinjiang, and the Spratly Islands. Any Chinese leader who suggests greater autonomy, much less independence, for these areas risks being pilloried for sundering the "sacred motherland." Having wrapped themselves in the flag, the regime's leaders can brook no compromise on the issue of territorial integrity, even if it would be in the short-term national interest to do so.

Assertive nationalists, however, are not the only elements in Chinese society that encourage a hard-line stance. The PLA Navy has seized on instability and tension in the South China Sea to advance its own cause. In its aggressive effort to acquire larger budgets and more modern capabilities, the PLAN has consistently spotlighted as threats the issues emerging from the South China Sea. In the middle to late 1970s the PLAN crafted and obtained political endorsement of an offshore defense policy by linking naval expansion with the maritime threats posed by the ever-present U.S. Seventh Fleet and Soviet Pacific Fleet. Sino-American rapprochement in the late 1970s and Sino-Soviet warming in the mid-1980s, however, dealt major blows to the PLAN's offshore strategy by depriving it of overt threats with which to justify a large, oceangoing maritime force.[30] Recovery of so-called "lost territories," which hitherto had been a secondary priority of the PLAN, now surfaced as a major, budget-driving mission. Other primary missions of the PLAN, which include strategic deterrence (by submarine-launched ballistic missiles) and the liberation of Taiwan, did not warrant the expensive and wide-ranging capabilities that sea control would. Defending maritime economic interests, particularly offshore territorial claims, soon became the most concrete justification for the PLAN's prospective blue-water navy.[31] Operations at long range from the mainland, such as in the remote Spratlys archipelago, an area fraught with navigational hazards and in proximity to multiple threats, required a "modern, technically proficient, combat-ready, long distance navy skilled in joint operations."[32]

Success in acquiring the requisite share of the budgetary pie hinged on the Navy's ability to fuse its narrow organizational interests with broad economic goals and core national issues. Toward that end, in 1984 the PLAN's commander listed as one of the Navy's main goals the capability to defend Beijing's claim to sovereignty over the South China Sea's rich maritime resources, including offshore petroleum deposits, manganese nodules, and fish.[33] In 1992, during budgetary debates in the National People's Congress, the deputy Navy commander echoed these resource-based arguments, especially China's long-term necessity to make better use of maritime riches, particularly petroleum. Observing that China's offshore oil production output was only 62 percent of Vietnam's, he warned that China could not continue to lag behind other nations in exploiting marine resources without a negative impact on China's economic growth levels in the next century. The PLAN believes the seas have become the "new high ground of strategic competition."[34]

The notion that China's future economic growth depends on its ability to exploit living and nonliving marine resources, and that the PLAN must be equipped to secure these zones, has taken root in the most powerful factions of the Party and central government. The Navy's success in convincing the regime of the fleet's importance in this endeavor is reflected in the Chinese media:

> The conflict over China's surrounding waters has been heating up over the years as islands in China's coastal areas and territorial waters [have been] occupied, its maritime space divvied up, and its resources plundered. . . . The only way to give our maritime defense a solid basis is to intensify [our] naval buildup and upgrade our naval buildup defense capability.[35]

Absent an overt Russian or Japanese threat, the PLAN can be expected to continue to view the South China Sea as an area from which new threats to China's sovereignty are likely to emerge. In short, naval leaders hope that protecting Chinese territorial interests from foreign encroachments (i.e., defending the water column and seabed minerals that may be invaluable to China's energy and food supplies in the future) will have wide patriotic and political appeal.

The PLAN's influence over budgetary and strategic policy at the seat of government is partly attributable to its success in intertwining its parochial interests with China's national objectives, but it is also facilitated by the influence of its parent organization, the People's Liberation Army itself, in political circles.

The nature of factionalized party-army rule in China has made the PLA the arbiter of power among contending groups atop the Chinese communist system. Indeed, a party leader's power today ultimately relies to a great degree on the breadth and robustness of his personal links with the military. However, the PLA is not a monolithic institution; cleavages exist within it, caused by the attempts

of individuals to promote their careers and seek professional security. The PLA's potency is also somewhat weakened by senior military leaders' dependence on Party patronage for political leverage; nonetheless, the PLA exerts a high degree of political authority in Beijing.[36]

The People's Liberation Army is only one of several major organizations that vie for political attention in Beijing, but by virtue of its control over instruments of lethality, it wields substantially more influence than its rivals. The PLA's relative prominence among competing bureaucracies in Beijing was brought home when in 1992 conservative military and senior Party officials pushed through the territorial sea law over the Ministry of Foreign Affair's objections.[37] As telling, for the past five years the senior uniformed military officer on the Politburo was the former PLAN commander, Liu Huaqing, champion of the Navy's strategy in the South China Sea.[38]

Lastly, loosely allied with the nationalists and Navy commanders are officials in the island province of Hainan. Since it became an independent province in 1988, the island has seen rapid economic growth. To maintain this momentum, Hainan is giving top priority to construction of large industrial projects, including a refinery and a gas-fired chemical fertilizer plant, cornerstone industries that will process mineral resources mined on shore or lifted from the floor of the South China Sea. Indeed, the development and processing of mineral resources is being pursued as a key industry of the province over the next five years. Close to thirty mineral resource development projects are to be carried out, the collective output value of which is predicted to be eight times existing production.[39]

The interest of Hainan in Chinese control over the mineral supplies of the South China Sea became clear when its governor made an inspection tour of the Spratlys in January 1992, one month prior to the formal declaration of the 1992 territorial sea law. The governor believed that every 1 percent of the exploited proven resources in the South China Sea would yield a profit equivalent to sixty times Hainan's total economic output in 1990.[40] It is imperative, he stated, for Hainan to "develop the rich resources on the Spratly Islands and in the surrounding waters, to change them into huge material wealth."[41]

In the final analysis, ownership over and exploitation of the South China Sea's economic abundance has wide appeal across the spectrum of China's officialdom, from national-level strategists seeking a panacea for China's growing energy demands to provincial administrators eager to expand their areas' industrial capacity.

Prospects

Some analysts have concluded that if China is serious about tapping the abundant resources of the South China Sea, its best option is to settle the overall dispute and split the profits that would most profusely flow from joint development in a peaceful environment. This path, however, is obstructed by several major factors, not the least of which is China's cultural, political, and economic paradigm of self-reliance.

Deeply embedded in the Chinese psyche is an all-pervasive sense of a patron-client hierarchy and a conviction that dependence implies subordination. The era of exploitation by the West that transformed China into a veritable vassal state in the last century was intensely humiliating. These memories still wound the Chinese national self-esteem and sense of identity, nourishing Chinese nationalism in a modern form that is both powerful and assertive. Sensitivity to past injustices has also influenced China's foreign policy and its economic decisions, where autonomy and self-sufficiency are ideals.

Of course, in the interests of providing for the welfare of its citizens China has been forced to make pragmatic choices that compromise its goal of self-reliance. China needs access to Western technology and expertise to modernize, and it has opened trade doors accordingly. Indeed, Jiang Zemin has placed himself at the forefront of such sweeping change. Beijing has set limits on these endeavors, however. Beijing has taken steps to protect its "pillar industries," one of which is the energy sector; it has been hesitant to approve dozens of major refinery and power-generating projects.[42] Despite proclamations of openness, great divisions still exist within the Chinese bureaucracy over how far and how fast foreigners should be allowed to penetrate economically the "motherland."

In truth, Beijing's stress on, and definition of, self-reliance militates against any joint development scheme sponsored by parties interested in resolving the South China Sea quandary politically. From China's standpoint, "joint development" means China dictating terms to a single partner. Beijing prefers to negotiate with state entities and individual companies on a bilateral basis, where its hand is stronger and leverage greater than when dealing with several at once. Beijing finds unappealing political solutions calling for an equitable division of resources, not only because they may require relinquishment of what it considers sovereign ground but also because they forfeit some measure of economic independence.

Based on current predictions of China's energy requirements, China's incentive to remain unswerving in its ambitions to control most of the South China Sea is exceedingly great.

> At present why is this problem so grave? Why are we fighting over this? Mainly because of the oil. . . . [A]t present our one year [oil] production and production quantity has not even reached the 100 million [ton] mark and if there is at least 15 billion tons [in the South China Sea], then we could have 150 years of production. So, we want this.[43]

In 1994, China consumed five barrels of oil per capita; conservative estimates indicate that demand will rise to ten barrels within a decade.[44] While China is attempting to make better use of its onshore fields, technology trends (for instance, mobile rigs capable of exploring for and producing oil in ever deeper waters) suggest that the seabed will only become a more valued and accessible prize.[45] Offshore petroleum production accounts already for a fast-growing (if now small) share of China's overall output. Chinese offshore oil production has been increasing at an average annual rate of 39.6 percent for the past decade.[46] One analyst estimates by the year 2000, nearly 40 percent of China's gross crude oil yield may be brought in from sea.[47] Many Chinese think the Spratly area is likely to become the second Persian Gulf. China may well feel that it must play for keeps or inexorably become dependent on foreign energy suppliers, perhaps again subject to foreigners' manipulations.

It might be imagined that China may also perceive, however, that a powerful argument *against* further expansion in the South China Sea is that it may lead to global ostracization. This reasoning asserts that China risks casting itself into a kind of international purgatory if it oversteps its bounds too many times. Ironically, in fact, many Chinese think that precisely because China may find itself internationally besieged in the future, it must become ever more self-reliant. In other words, China should fully and unilaterally exploit all the resources available as a fail-safe against the possibility of future estrangement from the world community.[48]

Pinpointing Flashpoints

It is impossible to predict exactly the timing and location of Beijing's next move in the Spratlys, but the areas most likely to see conflict are those claimed by China but economically exploited by rivals. In April 1996 Vietnam signed an exploration deal with a U.S.-based company, Conoco, to conduct hydrocarbon surveys in two blocks that overlap the Benton (ex-Crestone) concession in the southwestern section of the Spratlys.[49] This area is a likely flashpoint, and it deserves greater attention than it currently receives. Large, proven petroleum reserves exist nearby. Vietnam's southern continental shelf is its most lucrative offshore source of oil. Two fields, Big Bear and Blue Dragon, have by themselves practically underwritten Vietnam's economy, and both fields are located less than eight kilometers west of the Benton block,

and within or astride China's claim line. In the contested block reside at least two Vietnamese outposts, on Vanguard Bank and Prince Consort Bank, increasing the risks of potential conflict. Also, China appears ready to honor in this case a standing promise to protect contractor equipment and personnel with its navy.[50]

Minor clashes have occurred in or near concession blocks off the Vietnamese coast. Vietnam alleges that a Chinese seismic survey ship harassed a British Petroleum–led exploration off Vietnam's southeastern continental shelf in May 1993. Vietnamese gunboats escorted a Chinese research vessel out of the Crestone block in April 1994.[51] In July 1994 Chinese naval units blockaded a drilling rig licensed by Hanoi.[52] Because both countries are becoming increasingly reliant on offshore petroleum to fuel their respective economies, the risks are high that one side or the other will contemplate force to defend its concessions. The region has been calm, lately, because Benton Oil & Gas has yet to send exploration equipment to the concession, but the volatility of this area may sharply increase when petroleum exploration vessels begin to converge. The only spark that may be needed to ignite conflict in this region is the discovery of commercially viable quantities of oil or natural gas. Given the massive volume of shipping funneled through this particular stretch of the South China Sea, developments there should be monitored closely.

Of course, several other friction points along China's periphery exist—disputed offshore zones claimed by Beijing but exploited to some degree by others. China continues to maintain serious claims, for example, in the Gulf of Tonkin and the Senkakus (northeast of Taiwan). So far, marginal hydrocarbon finds in the former and the larger strategic importance of Sino-Japanese relations restrain Beijing, but one can expect that as the disparity between domestic energy production and consumption grows, China will become increasingly less inclined to compromise away potentially resource-rich territory in these sea zones as well.

While China will almost always act pragmatically when larger strategic issues are at stake, future leaders may behave less moderately where large, proven caches of petroleum are discovered, particularly if a more muscular PLA Navy is standing by to "arbitrate" claims. Indeed, PLAN leaders assert,

> We cannot resolve problems with political or diplomatic measures until we have [great] naval strength, and only then will it be possible to "overcome our enemies without engaging in battles." If intimidation fails to achieve any effects, we would then be able to actually deal an effective blow.[53]

Of course, the likelihood of prolonged combat over offshore disputes is extremely low. China hopes to outmaneuver rather than fight its competitors. Beijing is very much aware that if disagreements result in open warfare China risks being stigmatized as East Asia's new hegemon, in turn upsetting the stable

environment within which it has prospered over the last two decades. Eruption of quick-flare, short-burn fights on the order of the March 1988 skirmish, however, cannot be so easily discounted. Indeed, China is currently gearing its military forces to deal with such special "local war" situations. In the future Beijing may feel compelled to use these instruments should other methods fail to preserve the integrity of its treasured "blue territories."

"The Golden Thread of Sovereignty"

Economic imperatives have emerged as the crucial factor in the timing and rationale for China's expanded presence in the South China Sea. While the golden thread of sovereignty is interlaced with China's every move in the Spratlys in particular, current trends indicate that China takes action when economic threats break a threshold of tolerance. As innocuous as they appear, offshore joint development schemes sponsored by Vietnam, Malaysia, and the Philippines have been consistently interpreted by Beijing as serious threats to its prosperity. Indeed, the triggers that set PLAN warships into motion are resource-related encroachments by China's neighbors. In an era of resource scarcity, these events more than any other heighten China's sense of territorial and economic vulnerability. Viewed in this light, China's occupation of reefs in 1988, the 1992 sea law, and the Mischief Reef takeover were driven less by opportunism than a belief that it was necessary to respond to imminent challenges to presumed Chinese dominion over these maritime areas.

Domestic forces reinforce China's inflexibility about control of the disputed waters. Nationalist politicians, PLAN leaders, economists, and certain provincial officials represent a loose but powerful coalition exerting influence over decision makers in Beijing. These domestic elements possess a vested interest in ensuring that China responds in a forthright manner to perceived encroachments in the South China Sea. That negative repercussions stemming from China's arrogation of Mischief Reef has not significantly altered this dynamic was best exemplified by official and semiofficial pronouncements during the 1997 *Kan Tan III* incident. The Chinese foreign ministry vigorously reaffirmed China's exclusive ownership of the economic zone, while the Beijing-based *China Daily* quoted senior Chinese economists as saying exploration of natural resources in the disputed South China Sea was essential for China's economic growth.[54]

Petroleum is certainly not the sole motivating force in China's calculations, of course. A powerful argument can be made that Beijing hopes to cast the widest possible net over the sea so other marine treasures—perhaps resources that will prove more vital to China's economy than petroleum is today—can be hauled in by future generations. The islets and reefs in the South China Sea

are valued not for themselves but as fixed points upon which to attach much larger claims to surrounding maritime zones.

A solution to this complex problem, which intertwines historical, political, economic, and even cultural threads, will not be arrived at easily. One can only hope China will begin to trust that dependence on foreign energy suppliers is not a major source of strategic vulnerability. Domestic trends in China, however, particularly the growth of jingoistic nationalism, suggest that Beijing will not soon abandon its efforts at maximizing self-sufficiency in its core industries. Until this paradigm shifts from within or is gently dismantled from without, one can expect that China's propensity to take action in the South China Sea will remain strongly influenced by its dependence on offshore resources. One can also expect Beijing to pay close attention to the policies of other littoral states, as well as the United States and Japan, toward evolving South China Sea issues and tensions. If this analysis is correct, moreover, one may have to examine other Chinese foreign policy issues in a new light.

Notes

1. Stewart S. Johnson, "Territorial Issues and Conflict Potential in the South China Sea," *Conflict Quarterly*, Fall 1994, p. 29.

2. The Chinese forces occupying the largest island (Itu Aba) were in fact Taiwanese, but Beijing was content to rely on Taipei's commitment in the region—a tacit understanding between the two entities that Republic of China forces would uphold greater China's sovereignty in the disputed zone.

3. Mark J. Valencia, *South-East Asian Seas: Oil under Troubled Waters* (Oxford, U.K.: Oxford Univ. Press, 1985), pp. 32–8.

4. Michael Morrow, "Oil: Catalyst for the Region," *Far Eastern Economic Review*, 27 December 1974, p. 26.

5. Daniel Dzurek, *The Spratly Islands Dispute* (Durham, U.K.: International Boundaries Research Unit, 1996).

6. "China's Petroleum Exports Face Slide," *Oil & Gas Journal*, 4 January 1988, p. 20.

7. Joseph P. Riva, Jr., "Oil Distribution and Production Potential," *Oil & Gas Journal*, 18 January 1988, p. 60.

8. China is endeavoring to diversify its energy sources and has pushed for greater exploitation of natural gas, and nuclear and hydroelectric power as well.

9. Karsten Grummitt, *China Economic Handbook* (London: Euromonitor Publications, 1986), p. 50.

10. Judith Banister, *China's Changing Population* (Stanford, Calif.: Stanford Univ. Press, 1987), pp. 355–76.

11. Seafood is also an important source of iodine. Subsistence farming on the iodine-deficient soils of inland China has already resulted in an inordinately large number of cretins in China's population. World Health Organization statistics indicate that of the estimated 1.6 billion cases of iodine deficiency worldwide, almost a third (500 million) live in China. Patrick E. Tyler, "Lacking Iodine in Their Diets, Millions in China Are Retarded," *New York Times*, 4 June 1996, p. A10.

12. John W. Garver, "China's Push through the South China Sea: The Interaction of Bureaucratic and National Interests," *The China Quarterly*, December 1992, p. 1019.

13. Alan J. Day, ed., *Border and Territorial Disputes*, 2nd ed. (London: Longman Group UK, 1987), p. 376.

14. Valencia, p. 101.

15. *Far Eastern Economic Review*, 13 August 1992, p. 15. The fourteenth annual inter-governmental UNESCO conference in March 1987 did in fact request China to establish an oceanic observation station in the Spratlys. The UN probably did not foresee, however, the extent to which China would exploit this legitimate worldwide oceanic survey to advance its sovereignty claims.

16. Garver, pp. 1005–6.

17. According to the Chinese account, two Vietnamese navy freighters and an amphibious landing ship disembarked over forty armed men on Johnson Reef and opened fire on a Chinese shore party conducting

a survey of the area. PLAN ships responded to the attack by firing on the Vietnamese ships (which were also firing onto the reefs with heavy machine guns). The Vietnamese may have thought the Chinese were operating too close to its garrison on Collins Reef (also known as Johnson Reef North). See Garver, p. 1013.

18. The tough tone evident in the Chinese law may have also reflected new-found freedom of action that accrued to Beijing as a result of the American decision to withdraw its forces from the Philippines in 1992.

19. Bilson Kurus, "Understanding ASEAN: Benefits and Raison d'Etre," *Asian Survey*, August 1993, p. 836. ASEAN was worried that China intended to contravene the Manila Declaration, which had just ruled out force as a means to resolve the Spratlys dispute.

20. The two reefs occupied hy the PLA may have only been temporary acquisitions. Contemporary sources credit China with only seven reefs (the six acquired in 1988 and Mischief Reef).

21. Tai Ming Cheung, "Fangs of the Dragon," *Far Eastern Economic Review*, 13 August 1992, p. 19.

22. Kurus, p. 837; and "Territorial Disputes Simmer in Areas of the South China Sea," *Oil & Gas Journal*, 13 July 1992, pp. 20–1.

23. Garver, p. 1015. American geologists, on the other hand, speculate the Spratly archipelago probably contains between one and seventeen billion tons of petroleum, mostly natural gas (see Mark Valencia, "China and the South Sea Disputes," Adelphi Paper 298 [New York: Oxford Univ. Press, October 1995], pp. 10–1). Russia's Research Institute of Geology of Foreign Countries generally concurs with U.S. assessments. In 1995 the Russian scientists estimated the Spratlys to contain roughly six hillion barrels of oil equivalent, 70 percent of which would be natural gas.

24. Lee Teng-hui, "Asian-Pacific and America," *Sino-American Relations* (Taipei), Autumn 1993, p. 12.

25. Crestone was acquired by another American company, Benton Oil & Gas, after a stock swap in September 1996 (*Far Eastern Economic Review*, 10 October 1996, p. 75).

26. Michael Richardson, "Strategic Signpost for Asia," *Asia-Pacific Defence Reporter*, January 1995, p. 50.

27. In fact, the contract simply called for a "desktop" exploration, which involved reviewing data garnered earlier by other petroleum companies and the government. Rigoberto Tiglao, "Troubled Waters," *Far Eastern Economic Review*, 30 June 1994, p. 20.

28. Harry Harding, "The Concept of 'Greater China': Themes, Variations and Reservations," *The China Quarterly*, December 1993, p. 18.

29. Nicholas D. Kristof, "The Rise of China," *Foreign Affairs*, November/December 1993, p. 72.

30. See David Muller, *China's Emergence as a Maritime Power* (Boulder, Colo.: Westview, 1983), pp. 167–74; and Jun Zhan, "China Goes to the Blue Waters: The Navy, Seapower Mentality and the South China Sea," *The Journal of Strategic Studies*, September 1994, pp. 180–208.

31. For the PLAN's strategic transformation in the 1980s, see Alexander Chieh-ching Huang, "The Chinese Navy's Offshore Active Defense Strategy: Conceptualization and Implications," *Naval War College Review*, Summer 1994, pp. 7–32.

32. Garver, p. 1023.

33. *Xinhua* (Beijing), 12 August 1984, in Foreign Broadcast Information Service [hereafter FBIS], 13 August 1984, pp. 1–2.

34. Yan Youqiang [Senior Col., PLA], "Naval Officers on International Chinese Maritime Strategy," *Beijing Zhongguo Junshi Kexue* [China Military Science], FBIS, 20 May 1997, pp. 81–92.

35. Liu Zhenhuan, "Commentary on 'UN Law of the Sea,'" *Beijing Guofang*, 15 November 1996, pp. 14–6, in FBIS-CHI-97-021, 15 November 1996.

36. Michael D. Swaine, *The Military and Political Succession in China* (Santa Monica, Calif.: RAND, 1992), p. 5.

37. The Ministry of Foreign Affairs reportedly objected to the sea law, fearing that its exclusionary tone would negatively affect relations with Southeast Asia and Japan. The MFA favored a more ambiguous statement that temporarily avoided mention of sovereignty (Kyodo News Service, Tokyo, FBIS, 27 February 1992, pp. 15–6). For additional data on the subjugation of the MFA to the PLA's interests see John W. Lewis, Hua Di, and Xue Litai, "Beijing's Defense Establishment," *International Security*, Spring 1991, pp. 87–109.

38. In accordance with new regulations promulgated at the Fifteenth Party Congress requiring government officials over seventy years old to retire, Liu Huaqing stepped down from his Politburo post in fall 1997.

39. "PRC: Mineral Resources to Play Key Role in Hainan's Industry," *Xinhua* (Beijing) 12 April 1996, FBIS, p. 1.

40. Garver, p. 1026.

41. Lin Ning, "Admirals, Hainan Vice-Governor Inspect Spratlys," *Da gong bao*, 23 January 1992, FBIS, 29 January 1992, p. 42.

42. Nayan Chanda and Kari Huus, "The New Nationalism," *Far Eastern Economic Review*, 9 November 1995, p. 25.

43. Liu Sheng'e [Senior Col., PLA], "Asia-Pacific Security and China's National Defense Strategy" (paper presented at Hopkins Nanjing Center, Nanjing, China, October 1993).

44. Martin Walker, "China and the New Era of Resource Scarcity," *World Policy Journal*, Spring 1996, p. 9.

45. The oil fields in northeast China near Daqing have matured and face increasing difficulty in producing at previous levels. The same problem confronts China's eastern fields. China has employed enhanced oil-recovery techniques for these aging fields but has had limited success to date. Compounding the on-shore production dilemma, foreign oil exploration companies have so far failed to discover the large caches of oil Beijing believes exist in the Tarim basin in northwest China. "China's Upstream Programs Advance Onshore and Offshore," *Oil & Gas Journal*, 25 September 1995.

46. *Xinhua* (Beijing), in FBIS, "China: Official on Enhanced Cooperation with World Oil Industry," 12 October 1997, p. 1.

47. You Ji, "Facing the New Century" (paper prepared for the conference "Sea Power in the Next Century," Royal Australian Navy and Australian Defence Studies Centre, Sydney, 22–3 November 1995), p. 16.

48. Garver, p. 1027, discusses this viewpoint.

49. Vietnam asserts that the concession is legal because it is on Vietnam's continental shelf; China defends its jurisdiction based on a general claim to the Spratlys and "adjacent waters." Of note, the 1972 United Nations Law of the Sea Convention does not provide a basis for settling this dispute, because the issue returns to claimants' conceptions of sovereignty. Adam Schwarz, "Oil on Troubled Waters," *Far Eastern Economic Review*, 25 April 1996, p. 65; and "Beijing Said to Warn SRV against Spratlys Oil Deal," Hong Kong AFP 1029 GMT, FBIS, 11 April 1996, p. 1.

50. As mentioned earlier, China promised to protect Crestone's equipment while it operated in the concession block. It will presumably extend that same pledge to the Benton company.

51. "Asia Yearbook 1995," *Far Eastern Economic Review*, 1 January 1995, p. 22.

52. Peter Lewis Young, "The Potential for Conflict in the South China Sea," *Asian Defence Journal*, November 1995, p. 22.

53. Shigeo Hiramatsu, "The Objective of [the] Naval Strength Buildup," *Tokyo Ekonomisuto*, 27 January 1997, pp. 36–7, in FBIS-CHI-97-015, 27 January 1997.

54. Zhang Yin, "China, Vietnam Meet on Sea Territorial Dispute," *Renmin Ribao* (Beijing), 9 April 1997.

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