The South China Sea in 2016. Towards recognising the global public good of the SCS

Stephen Nagy discusses what is at stake in the South China Sea for countries in and outside the region
The South China Sea has been seen as the growing centre of turmoil, with China and several Southeast Asian countries engaged in territorial disputes. What is more, Japan and the United States as well as other countries have both have expressed their concern and commitment to the region, both in terms of rhetoric but also in terms of policy action.

This short essay will discuss what is at stake in the SCS for countries in and outside the region. It argues that the SCS resources and role as the major sea lane for the export and import of energy resources and commodities for countries within and without the immediate region dictate that the area needs a multilateral management to ensure mutual economic security and socio-economic development. The first section of this essay will highlight the region’s importance in terms of trade and energy flows. The second section will then introduce the major actors and their interests in the region, with a special focus on China, Japan, the US and collectively the ASEAN countries involved in the territorial dispute. Lastly, I will draw attention to the possibility of cooperation to ensure multilateral management of the SCS to ensure mutual economic security and socio-economic development.

What’s at stake?
The area represents a major source of trade flow to and from countries in Northeast Asia, Southeast Asia, the Middle East and both South and North America. Conservative estimates of trade flows in the region totals 5.3 trillion USD per annum. The area is also a transport corridor for energy resources to East Asia’s largest economies, China, Japan and South Korea. A disruption, a territorial dispute or some other destabilizing incident, manufactured or accidental would not only harm regional economies but global flows of trade.

Of the above 5.3 trillion USD in trade in the SCS, according to the Centre for Foreign Relations at least 1.2 trillion of that belongs to the US. This amount will most definitely increase with the realization of the Transpacific Partnership
(TPP) in October 2015. Japan and Vietnam being signatories to the TPP would also see their share of this total trade volume increase increasing their stakes in the SCS.

ASEAN countries, both from an import and export perspective, are also dependent on stability in the SCS region and particularly in win-win relations with China to ensure their own continued socio-economic development.

With global trade centred in the Asia-Pacific and tied to crucial sea lanes that traverse the SCS, not only do countries in the region have a stake of what goes on in the SCS but so do countries who utilize the region for import and export. In this sense, the SCS is not only a regional public good that needs to be safeguarded by and for regional stakeholders, but it is also a global public good that requires a global commitment to its stability and multilateral management.

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Diversity of stakeholders

China

China's interest in dominating the SCS area is based on the SCS being the sole sea route in which imports its energy resources and imports. Importantly, it is the strategic chock point for its exports making the SCS a core interest for an economy that is still largely export-based. To secure its position in the SCS, China has imposed what it calls the eight-dash line representing its sweeping interests. It has also actively engaged in building islands on semi-submerged atolls in the SCS. To fortify their position, they have also placed military installations, missiles and radar facilities on the newly-built islands.

Habitation, management and control of the manmade islands strengthen Beijing's EEZ (exclusive economic zone) claim by demonstrating sovereignty. It also expands the exploitable under seas resources such as liquefied natural gas, oil, minerals and access to fishing resources. Lastly, the installation of radar facilities, ‘defensive’ missiles and runways for military aircraft allow Beijing to consolidate its military footprint in the SCS and to deter smaller nations from realizing their own territorial ambitions. At the same time, this forward setting by Beijing consolidates its position vis-à-vis the US in the region by significantly increasing the potential military, political and economic costs of getting Beijing to backtrack in its territorial claims.

Japan

Under PM Abe and in conjunction with a series of territorial disputes with China in 2005, 2010 and 2015, Japan has proactively courted Southeast Asian nations through economic and value diplomacy to counter China's influence in the region. On the one hand, Japanese businesses and the Japanese government have continued to invest in Southeast Asia to isolate them from political friction with China. Joining the TPP has been part of the strategy as the TPP tethers economies with complementary comparative advantages to each other based on an agreed-upon framework of trade rules.
Trade Flows
(Billions of Dollars)

CHINA
$885.64
$129.88

ASEAN
$1,020.00
$182.11

JAPAN
$102.88
$112.38
On the other hand, and from a longer term perspective, the Japanese government and business community have recognized the changing economics of doing business in China. The increased cost of labour in China, corruption and environmental challenges have all been contributing factors, compelling Japanese businesses to expand into Southeast Asia for manufacturing for global export while trying to remain in China by producing things in China, by Chinese, for Chinese with Japanese technologies.

This rebalance allows Japan to expand its overseas manufacturing platform from China to a region that includes Southeast Asia, and insulates them from economic downturns associated with souring political relations.

In looking to Southeast Asia and expanding its economic aims in the region through the TPP as well as value diplomacy, Japan has arguably transformed itself into a major stakeholder in the SCS. Political and business leaders clearly understand the potential economic impact on Japan in the case of destabilization of the region, and thus have engaged the region through its **horizontal diplomacy/keiretsu gaikou** (系列外交).

With the stakes high, PM Abe launched his initial foray into the SCS on his first visit to Indonesia in January 13th, 2013 in which he spoke on the ‘The Bounty of the Open Seas: Five New Principles for Japanese Diplomacy’. His speech highlighted Japan’s commitment and the championing of protecting freedom of thought, expression, rule-based governing of the seas, free, open, interconnected economies, **promoting intercultural ties and promoting exchanges with young people**.

Japan has also enhanced its enhanced cooperation with the Philippines through the provision of coast guard vessels, while at the same time strengthening military-to-military cooperation with **Australia, India and Vietnam**. It is also supporting the future ascension to the TPP of South Korea, the Philippines and other nations in Southeast to increase the number of stakeholders in the region.
US

Although not the biggest winner in terms of trade volume and projected direct economic benefits from the SCS-centered TPP, the US’s interest in the region germane economic, political and security dimensions. Three of TPP’s member states are geographically located in the SCS and one, Japan, has major economic stakes in the disputed region. At the economic level, the TPP inculcates economic ties to the region that could be affected by a destabilization of the region such as the militarization of disputed islands, a bilateral dispute between two claimants or the possibility of a nationalist from any of the claimant countries sparking a conflict.

At the political level, the US-led trade agreement is based on shared norms concerning trade, the rule-of-law and the direction of trade within the region and throughout the Asia-Pacific. This agreed upon, norm-based and volunteer trade agreement will benefit members economically but also increase the economic stakes for member countries in the case of a conflict.

This includes the US who will be firmly anchored to the region economically through the TPP. In addition to the economic benefits of increased trade, the 1st tier agreement which sets the rules for intellectual property rights to services and beyond, will become the benchmark in terms of trade rules linking partners in the SCS region to partners throughout the Asia-Pacific.

Lastly, at the security level the US has serious concerns over what they perceive as an assertive China who is illegally occupying territories in the region. Deepening US concerns are island building by the Chinese, the positioning of missiles, the installation of a radar facility in early 2016. Each of these initiatives is perceived by the US and the non-Chinese claimants in the region as unilateral, assertive and hugely destabilizing. With Japan being a treaty ally with the US and forging deeper and stronger military, economic and political ties with Vietnam, the Philippines, In-
Indonesia, Singapore and Brunei, the US could be pulled into a conflict within the region because of economic interests or the or a real conflict between claimants in the region.

**ASEAN countries**
ASEAN countries, in particular those with territorial disputes with Beijing, continue to be concerned about Beijing’s moves in the SCS. Whether it is directly over disputed islands or EEZ, ASEAN countries are greatly concerned over what exactly a Chinese regional hegemon would mean for them. Already, nations such as Laos and Cambodia find it difficult to oppose Beijing owing to their economic dependence with China. Others such as the Philippines and Vietnam struggle to resist Beijing’s encroachment on what they conceive as their territorial waters.

With year-on-year bilateral trade relations deepening, ASEAN countries must be both pragmatic and prudent in their economic engagement with China and how they resolve political or territorial disputes with Beijing.

**Multilateralization of the global common goods in the South China Sea**
With each claimant having dug their heels in terms of their claims, it is important for countries within and without the region to recognize the global public good associated with the SCS. A zero-sum game in which there are clear losers and winners will result in more instability, less dialogue and a division of ASEAN into client states of Beijing and those who are not.

This has particular important consequences to how organizations such as ASEAN function. The ASEAN-way requires consensus to move forward on subjects of shared concern and growing overdependence on China could shift the equilibrium of the ASEAN-way to one that is bifurcated and in the end ineffectual in dealing with issues such as territorial disputes facing the region.
Recognition of the global public goods of the SCS, bringing in more direct and indirect stakeholders can decrease the chance for conflict of a destabilizing incident in the region. With that in mind, each stakeholder in the region can assuage each other’s mutual suspicion through tactically contributing to multilateralization of the region.

China has continued concerns that the US and to a lesser extent Japan are using economic and security partnerships to contain China. The continued and strengthening US-Japan Alliance, expanding security ties and mega trade agreement that excludes China, consolidates China’s containment fears. Here, the US and Japan need to demonstrate that the TPP will welcome China upon China agreeing to and meeting its standards. Using Vietnam as an example may provide a path for China as a new member. Furthermore, including China in any joint patrol of the region under the auspicious of anti-piracy or simply a coalition of naval powers that works together to keep sea lanes open, free and stable would be meaning ways to assuage some of Beijing’s concerns.

On the Chinese side, the recent unilateral and non-consultative process of island building, the placing of defensive missile and radar facilities on disputed territories, has been unhelpful in allaying the concerns of claimants. This non-consultative process needs to stop and the appropriate joint usage of the territories needs to be discussed in a transparent, multilateral forum. A declaration by the Chinese that disputes will not be settled by forceful means would also pave the way for multilateralization of resources in the SCS.

Claimant countries from ASEAN also have a role in this multilateral process by not further escalating Beijing fears of containment by engaging in bilateral partnerships with countries such as the US and Japan. They should continue to rely on international organizations and laws such as the UNCLOS (The United Nations Convention on the Law of the Sea) to stake their claims and garner international support through international law. Although Beijing may not agree to the process, arbitration and dialogue may be helpful in diffusing escalating tensions and further convey
the message to the global community that the SCS region is a global public good that requires global attention because of its potential to destabilize and disrupt regional trade but also global trade and commerce.

ABOUT THE AUTHOR
Dr Stephen R Nagy has been an Associate Professor in the Department of Politics and International Studies at the International Christian University, Tokyo since September 2014. Previously he was an Assistant Professor at the Department of Japanese Studies from December 2009 to January 2014. He obtained his PhD from Waseda University, Japan in International Relations in December 2008. His research interests include international relations of Northeast Asia, Sino-Japanese relations, Asian regional integration and regionalism in Asia. His recent funded research projects are ‘Sino-Japanese Relations in the Wake of the 2012 Territorial Disputes: Investigating changes in Japanese Business’ trade and investment strategy in China’. Currently he is conducting a research project on the entitled ‘Perceptions and drivers of Chinese view on Japanese and US Foreign Policy in the Region’.

With extensive experience in China, Japan and Northeast Asia, Dr Nagy provides macro-level geopolitical analysis on trends in the region to businesses, governments and the media. He has published widely in peer-reviewed international journals such as China Perspectives, East Asia, the Journal of Asian Politics and History and the International Studies Review on topics related to trade, nationalism and China-Japan relations. He has also published in think tank and commercial outlets such as the China Economic Quarterly on trade and political risk. In addition to writing in media and policy forms outlets in Japanese and English such as Diamond OnLine, South China Morning Post, the East Asian Forum and
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Endnotes