



# FOREIGN AFFAIRS

Published by the Council on Foreign Relations

[Home](#) > Vanishing Borders in the South China Sea

Tuesday, June 5, 2018 - 12:00am

Vanishing Borders in the South China Sea

The U.S. Must Do More to Stop China's Encroachments

Bonnie S. Glaser and Gregory Poling

BONNIE S. GLASER is a Senior Adviser for Asia and Director of the China Power Project at the Center for Strategic and International Studies (CSIS).

GREGORY B. POLING is Director of the Asia Maritime Transparency Initiative and a Fellow with the Southeast Asia Program at CSIS.

On May 27, two U.S. Navy ships engaged in a freedom of navigation operation near the Paracel Islands to contest China's excessive maritime claims in the South China Sea. At the Shangri-La Dialogue in Singapore several days later, when asked about the maneuver by a senior colonel from the People's Liberation Army (PLA), Secretary of Defense James Mattis said, "We do not do freedom of navigation for America alone ... it's freedom for all nations, large and small, that need to transit those waters for their own prosperity and they have every reason to do so." And yet, despite statements like these and an increase in such operations by the U.S. Navy, China continues to succeed in steadily restricting freedoms in the South China Sea, particularly those of its neighbors. This behavior exacts a direct economic toll on the region's developing countries, and, more broadly, threatens international law and the United States' interest in maintaining a rules-based order.

## GIVING UP RIGHTS

China has been aggressive in restricting its neighbors' activities in the [South China Sea](#) <sup>[1]</sup> over the last year. Twice in that time—in July 2017 and again in March 2018—it strongarmed Vietnam, reportedly with the threat of force, into suspending two natural gas drilling projects on the country's own continental shelf. With the Philippines, Beijing has pushed for joint oil and gas development in an area of the sea bed that an international court ruled belongs exclusively to Manila.

In late March, the Vietnamese government issued a last-minute order for Spanish energy company Repsol to suspend work on a planned oil and gas project in part of the Red Emperor (*Ca Rong Do*) field. Repsol had already commissioned a rig to depart for the project site and had, along with its partners, spent an estimated \$200 million on the project. A similar incident occurred last July, when Repsol began drilling a well in a nearby block but was ordered to stand down after Chinese authorities [reportedly threatened](#) <sup>[2]</sup> to attack Vietnamese outposts in the area if the work moved forward. In that case, Repsol had already spent an estimated \$300 million.

In early May, Russia's Rosneft began drilling a new production well at the Lan Do field in Block 06.1, which is part of Vietnam's most important offshore energy project. In the early 2000s BP, along with partners including ConocoPhillips, constructed the Nam Con Son pipeline to carry gas from the Lan Tay field in Block 06.1, but between 2008 and 2012, ConocoPhillips divested all its energy assets in Vietnam, including its stake in the project, amid pressure from China. BP followed suit, agreeing in 2010 to sell its assets to Russia's TNK-BP (since acquired by Rosneft). Estimates vary year-to-year, but Block 06.1 likely supplies about ten percent of Vietnam's total energy needs, making the project critical for the country's energy security.

To date, Russian companies engaged in Vietnam's offshore energy sector have not faced the same pressure from Beijing as their Western counterparts, but it's not clear whether that will remain the case. In response to Rosneft's announcement that it would be drilling a new well in Block 06.1, a spokesperson for China's Ministry of Foreign Affairs said [3],

On the other side of the South China Sea, the Philippines has been eager to tap natural gas reserves beneath Reed Bank for over a decade but has been stymied by Chinese opposition [1]. In 2011, a survey vessel hired by Forum Energy, which is majority owned by the Philippines' PXP Energy Corporation, was expelled from the area by Chinese naval vessels. The company attempted to restart exploration in 2014 but was blocked by the Philippine government, which halted work while it pursued an arbitration case against China's claims before a tribunal in The Hague. The Philippines won the case in July 2016, confirming its exclusive rights to Reed Bank, but Manila has still been unwilling to risk Beijing's ire by greenlighting exploration.

In May 2017, Philippine President Rodrigo Duterte told the press that China's President Xi Jinping had warned him that any attempt to unilaterally tap resources at Reed Bank would mean war [4]. Lacking any recourse, Manila entered talks with Beijing to jointly develop oil and gas in the area. Despite official optimism on both sides, no details on such a potential arrangement have emerged. The Philippine constitution mandates that the government protect the country's rights to its natural resources, including those offshore. With the 2016 arbitration ruling awarding Reed Bank to the Philippines, many legal experts [5] in the country, including the acting chief justice of the Supreme Court, have rejected joint development as unconstitutional.

China has long pushed joint development as a means to manage territorial and maritime disputes with neighboring countries while at the same time expanding control over disputed land and water. Deng Xiaoping originally put forward the policy of "setting aside disputes and pursuing joint development" in the late 1970s in a proposal to Japan to jointly develop the resources in waters surrounding the Senkaku/Diaoyu Islands. In the 1980s, Deng suggested joint development of the Spratly Islands with the Philippines. But Beijing's concept of setting aside disputes [6] and pursuing joint development is inextricably linked to advancing its sovereignty claims. In Chinese, the policy is formulated in 12 characters as "sovereignty belongs to China, set aside disputes, pursue joint development." The objective of joint development, in other words, is to promote other claimants' acceptance of Chinese sovereignty.

In most cases, China's neighbors are exploring for resources in areas that should be undisputedly theirs [7]. Reed Bank was explicitly recognized as part of the Philippines' continental shelf in the 2016 arbitration ruling. Vanguard Bank, which includes the blocks

in which Repsol attempted to drill, is considered part of Vietnam's continental shelf in its agreements with Indonesia and Malaysia. It falls far outside any potential Chinese claim, which must be restricted to territorial waters around disputed islands. But coercing Manila and Hanoi into sharing resources in these areas would help legitimize China's assertions that it maintains historic rights throughout the South China Sea, in contravention of the 2016 arbitration and the United Nations Convention on the Law of the Sea (UNCLOS), which grants countries exclusive rights to resources on their continental shelves. If Vietnam and the Philippines are forced to undertake joint development and give up their exclusive rights, it would deal a heavy blow to the rules-based order, and to U.S. credibility as a protector of that order.

## A HEAVY ECONOMIC PRICE

It is important to note that Beijing's behavior in the South China Sea <sup>[8]</sup> is unrelated to China's vast energy demand. The U.S. Energy Information Agency estimates that the South China Sea holds about 14 trillion cubic meters of natural gas and 16 billion to 33 billion barrels of oil, most of which lies under the continental shelves of China's Southeast Asian neighbors. For perspective, Chinese energy demand in 2018 is expected to top 12.5 million barrels of oil per day. The exploitable oil and gas reserves on the continental shelves of the Philippines and Vietnam would be a mere drop in the bucket given China's demand. The primary purpose of China's call for joint development is not to quench its thirst for energy but to strengthen its claims.

For China's neighbors, on the other hand, the inability to independently develop their energy resources <sup>[9]</sup> comes at a significant cost. The Philippines generates nearly half the electricity for its main island of Luzon from a single source, the Malampaya gas field, which is expected to start running dry around 2024. Unless an alternative is found, the country will need to either import significant amounts of natural gas, rapidly incorporate other energy sources into its power supply, or face severe shortages. Reed Bank is Manila's best option to replace the supply from Malampaya, but preparing a new gas field is expected to take about ten years. That makes each day it fails to undertake exploration ultimately costlier than the last.

After the suspension of Repsol's project in the Red Emperor field, state-owned energy company PetroVietnam made a rare admission <sup>[10]</sup> that South China Sea tensions are hurting its offshore exploration and exploitation activities. Vietnam's crude oil output this year is expected to fall to 227,000 barrels a day, down 14.7 percent from 2017. Hanoi could also be on the hook for hundreds of millions of dollars to Repsol and its partners. Even worse is the likely long-term impact on Vietnam's ability to attract interest from foreign companies in its offshore energy resources. By 2015, BP, Chevron, and ConocoPhillips had all been forced out of their investments by Chinese threats to their assets and staff, which began escalating in the mid-2000s. Other than Russia's Rosneft and Gazprom, there are few foreign companies still invested in Vietnam's offshore energy sector. The most promising project still on the horizon is ExxonMobil's ambitious plan to exploit natural gas in the Blue Whale field (about ten nautical miles from China's "nine-dash line," the ambiguous demarcation Beijing uses to assert its territorial claims in the South China Sea), but the company has delayed a final investment decision until 2019.

## A TOUGHER U.S. RESPONSE

A free and open Indo-Pacific requires that all lawful uses of the sea be preserved, including the rights of coastal states to the resources in their waters and on their seabed. If the United States proves capable of defending its military freedom of navigation but not the broader freedom of the seas in the Indo-Pacific, its position in the region will be severely undermined [11]. Asian states will see little value in a U.S. presence that cannot advance their interests or preserve international law, which will in turn make them less supportive of Washington's efforts and more likely to cut deals—even inequitable ones—with Beijing in the absence of better options.

Distracted by other crises and unused to confronting a challenger that employs coercion short of actual military force, Washington's policy tools have so far proven grossly inadequate. During a Senate Foreign Relations Committee hearing on May 15, Deputy Assistant Secretary of State Alex Wong said that the Trump administration's South China Sea policy consists of four things [12]: freedom of navigation operations, legal diplomacy, maritime security assistance, and support for the Association of Southeast Asian Nation's efforts to negotiate a code of conduct with China. But all of those have been central to U.S. South China Sea policy since the Obama administration, and while necessary, have proved far from sufficient to prevent China from restricting freedom of the seas.

The administration should be more proactive in rallying international opprobrium against Chinese actions and ensuring that Beijing faces diplomatic pushback and isolation in response. To that end, the U.S. Department of Defense took an important step in late May by disinviting the PLA Navy from the 2018 Rim of the Pacific naval exercises—the largest multilateral naval drills in the world—in what a Pentagon spokesperson termed an “initial response” [13] to China's continued militarization of the South China Sea.” Rescinding the invitation imposes a reputational cost on China, and such efforts should be continued, especially in concert with international partners. The upcoming two-year anniversary of the 2016 ruling provides an opportunity for the United States to speak out forcefully against Chinese coercion.

But reputational cost alone is unlikely to make Beijing modify its claims and alter its behavior. To achieve that end, the United States would have to undertake a broader pushback strategy that would incur a heightened risk of military confrontation with China.

If the United States opts for a tougher approach aimed at halting China's changes to the status quo in the South China Sea, one key step should be to reaffirm and clarify its treaty commitment to the Philippines. A public statement from the United States—announcing that it would consider any attack on Philippine troops, ships, or planes in the South China Sea to fall within the scope of the two countries' Mutual Defense Treaty—would reduce the possibility of Chinese violence against the Philippines. Chinese harassment of Philippine operations to resupply its marines on Second Thomas Shoal last month, involving both a PLA Navy vessel and a Chinese Coast Guard ship, is a reminder of the need to bolster deterrence to avert conflict. To make its commitment credible, U.S. officials should push the Philippines to fully implement the 2014 Enhanced Defense Cooperation Agreement and to include rotations of U.S. combat aircraft in Philippine bases that could rapidly respond to incidents in the South China Sea.

The United States should also consider ways to more clearly support Southeast Asian countries' rights in their own waters. One relatively easy step would be to shift from a public focus on “freedom of navigation,” which Asian states see as referring mainly to U.S.

military operations and commercial shipping, to “freedom of the seas,” which more clearly encompasses all lawful uses of the oceans and which are more directly threatened by China. That would bolster the confidence of Southeast Asian partners in standing up to Chinese coercion because it would signal that the United States is committed to upholding their freedoms, not just its own. This, in combination with a commitment to defend the Philippines if attacked by China while developing its own waters and seabed, would send a powerful message.

It is unclear whether the Trump administration intends to adopt a more robust pushback strategy in the South China Sea. But without one, it will fail in its stated goals. Assistant Secretary of State Susan Thornton testified <sup>[14]</sup> before the Senate Foreign Relations Committee in February, saying that “we will not abide Chinese attempts to displace the U.S. in Asia, to coerce countries in the region and ... we will not be taken advantage of.... Rules and standards must be observed and countries must not be bullied or threatened, but treated as equal players.” Unfortunately, that is not exactly happening in the South China Sea, as Beijing increasingly bullies and coerces its neighbors out of their rights over their waters and seabed. Any effective U.S. pushback will require bold initiatives, a higher tolerance for risk, and a commitment to protect not only its own freedoms at sea but those of its partners.

Copyright © 2018 by the Council on Foreign Relations, Inc.

All rights reserved. To request permission to distribute or reprint this article, please fill out and submit a Permissions Request Form. If you plan to use this article in a coursepack or academic website, visit Copyright Clearance Center to clear permission.

**Source URL:** <https://www.foreignaffairs.com/articles/china/2018-06-05/vanishing-borders-south-china-sea>

#### Links

[1] <https://www.foreignaffairs.com/articles/2017-06-13/course-correction>

[2] <http://www.bbc.com/news/world-asia-40701121>

[3] <http://www.fmprc.gov.cn/ce/ceun/eng/fyrth/t1560357.htm>

[4] <https://www.reuters.com/article/us-southchinasea-philippines-china-idUSKCN18F1DJ>

[5] <http://news.abs-cbn.com/news/03/02/18/no-way-carpio-rejects-joint-venture-with-china-in-west-ph-sea>

[6] <https://www.foreignaffairs.com/articles/china/2018-01-25/why-south-china-sea-diplomatic-breakthrough-unlikely>

[7] <https://www.foreignaffairs.com/articles/china/2016-07-22/parting-south-china-sea>

[8] <https://www.foreignaffairs.com/articles/2017-12-08/crossing-south-china-sea>

[9] <https://www.foreignaffairs.com/articles/china/2016-02-08/confronting-china-south-china-sea>

[10] <http://www.businessinsider.com/petrovietnams-rare-statement-south-china-sea-tensions-hurt-business-2018-4>

[11] <https://www.foreignaffairs.com/articles/china/2016-07-14/us-hypocrisy-south-china-sea>

[12] <https://www.foreign.senate.gov/hearings/american-leadership-in-the-asia-pacific-part-5-the-asia-reassurance-initiative-act-051518>

[13] <https://www.defensenews.com/news/your-military/2018/05/23/china-was-just-uninvited-from-rimpac-heres-why/>

[14] [https://www.foreign.senate.gov/imo/media/doc/021518\\_Thornton\\_Testimony.pdf](https://www.foreign.senate.gov/imo/media/doc/021518_Thornton_Testimony.pdf)