

New Developments in China's Policy on the South China Sea

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Introduction

The territorial issue in the South China Sea centering on the Spratly or *Nansha* Islands has been the seed of the most serious confrontation between China and Southeast Asian countries. For East Asia, it has been an important security issue, in addition to the problems of North Korea and the Taiwan Straits. China, in 1974, used force to occupy the Paracel or *Xisha* Islands, the territorial right of which was claimed by South Vietnam. In 1988, the Chinese military fought with the Vietnamese navy to capture the Johnson or *Chigua* Reef in the Spratly Islands with casualties of about 80 Vietnamese soldiers. China accelerated its advancement into the Spratly Islands from the early 1990s, enacting the Law on the Territorial Sea and the Contiguous Zones (territorial waters law) in 1992 to clarify its intention to use force to secure territorial rights and for the protection of islands in the South China Sea. In 1995, China occupied the Mischief or *Meiji* Reef, for which the Philippines had been making a territorial claim.

However, Chinese actions on this matter have visibly changed since the late 1990s. The past hard-line stance of not hesitating to use force has been replaced by the strategy of settling down the problem based on dialogue and partnership with relevant nations. China accepted discussions on the issue in a multilateral framework as requested by ASEAN countries, signing the Declaration on the Conduct of Parties in the South China Sea in 2002. Moreover, China started a trilateral exploration for underwater resources surrounding the Spratly Islands with Vietnam and the Philippines in 2005. Such cooperative responses from China regarding the South China Sea issue have been mitigating ASEAN countries' vigilance against China. In 2003, China and ASEAN went as far as to enter into a strategic partnership.

The altered attitude of China over the issue of the South China Sea has affected Southeast Asian nations' policies toward China and situations in important sea lanes of the South China Sea, which cannot be neglected in considering Japan's diplomatic and security policies. The present article, after reviewing the history of repeated frictions between China and Southeast Asian countries over the South China Sea, assembles new responses of China with the focus on the negotiation process with Vietnam¹, against which China has had the most severe confrontations over the matter, and then concludes by analyzing factors behind such changes.

¹ See Tomotaka Shoji, "Demarcation and Territorial Problems between Vietnam and China," *Boei Kenkyusho Kiyo (NIDS Security Studies)*, Vol. 8, No. 3 (March 2006), pp. 53-67, for the examination from the Vietnamese perspective.

I. Expansion of the Occupation by Use of Force

China, or the People's Republic of China (PRC), insists that while Japan's loss in World War II brought the jurisdiction of the Spratly Islands into its hand, it was the armed forces of the Republic of China (ROC) that actually took over these islands. For example, Itu Aba or *Tai ping* Island, the largest island in the Spratlys, was captured by the ROC naval ship *Tai ping* and other units from the Japanese military, and has remained under the effective control of Taiwan until now². Immediately after its founding, the PRC had almost no naval power, which was necessary to take the control of the Spratly Islands. The PRC had to wait for its naval buildup before embarking upon the South China Sea.

Serious Chinese advancement into the South China Sea started with the occupation of the Paracel or *Xisha* Islands in 1974. With the French withdrawal in the mid-1950s, South Vietnam began claiming territorial rights over the Paracel Islands and the Spratly Islands, and put the western part of the Paracels and a part of the Spratlys under its effective control. Meanwhile, China took over the eastern part of the Paracels in 1956. After almost twenty years of standstill, the Chinese navy launched an attack against South Vietnamese forces in January 1974, capturing the entire Paracel Islands.³ At that time, South Vietnam was losing ground in the Vietnam War, which made it difficult for South Vietnamese units guarding the Paracels to conduct an effective counterattack operation. In addition, U.S. forces had already scaled down assistance for South Vietnam, and thus the possibility of an intervention by the United States was low in case of a Chinese attack against South Vietnamese forces in the Paracel Islands. Furthermore, China was on the side of North Vietnam, who was therefore unlikely to protest Chinese military's occupation of the Paracel Islands. China, probably taking advantage of these favorable international situations, determined to capture the Paracel Islands by force.

The Hanoi Administration that won the civil war in Vietnam came to make territorial claims over the Paracel and Spratly Islands, criticizing Chinese occupation of the Paracel Islands and bringing the part of the Spratly Islands that was controlled by the former Saigon Administration under its jurisdiction. After that, China-Vietnam relations became tense with the war concerning the Cambodian issue and other events. Amid the strained relationship, China again used force to occupy islands controlled by Vietnam in March 1988. The clash between the Chinese and Vietnamese militaries over the Spratlys' Johnson or *Chigua* Reef that was then under Vietnamese control resulted in around 80 casualties on the Vietnamese side. China, after winning that battle, occupied the Johnson Reef and some other islets in the Spratlys. During this period, the détente between the East and the West was being facilitated by the New Thinking of the Gorbachev Government, and Sino-Soviet relations were also improving. The former Soviet Union had reduced the level of assistance for Vietnam, and thus Moscow was not expected to intervene in a confrontation between China and Vietnam regardless of its alliance with Vietnam. There was almost no reason for China to hesitate exercising its military might.

With the beginning of the 1990s, China enlarged its encroachment into the Spratly Islands. On February 25, 1992, the Standing Committee of the National People's Congress of China passed the Law on the Territorial Sea and the Contiguous Zones (territorial waters law), which was promulgated on the order of President Yang Shangkun. The territorial waters law, after clarifying that the Spratly Islands belong to the PRC, stipulates that the Government of the People's Republic of China has the right to

² See "Taiping Island of the Spratly," Website of the Taiwanese authority, <http://www.cga.gov.tw/south/taiping/>.

³ Ramses Amer, "The Territorial Disputes between China and Vietnam and Regional Stability," *Contemporary Southeast Asia*, Vol. 19, No. 1 (June 1997), p. 87.

adopt all necessary measures to prevent and stop the passage of a ship which is not innocent through its territorial sea. The law also refers to the right of hot pursuit against foreign ships violating Chinese laws, and states that the right of hot pursuit is exercised by warships or military aircraft of the PLA.⁴ The enactment of the territorial waters law by China caused concern among ASEAN countries who claimed dominion over the Spratly Islands. It became more likely that Chinese advancement into the South China Sea would be directed not only to Vietnam but also to ASEAN countries. At the 25th Foreign Ministerial Meeting held in Manila in July 1992, the ASEAN adopted the ASEAN Declaration on the South China Sea. This declaration emphasizes the necessity to resolve all sovereignty and jurisdictional issues pertaining to the South China Sea by peaceful means, without resorting to force, urges all parties concerned to exercise restraint, and proposes establishing a code of international conduct over the South China Sea.⁵ However, in May, following the enactment of the territorial waters law in 1992, China provided a U.S. oil developer with a right to probe sea waters claimed by Vietnam under the guardianship of the Chinese military. Moreover, in July the same year, Chinese forces landed on the Gaven or *Nanxun* Reef, over which Vietnam insisted territorial rights.⁶

ASEAN countries' concerns about Chinese expansion in the South China Sea came to be real in 1995, as the PRC constructed huts in the Mischief or *Meiji* Reef. On February 8, President Fidel V. Ramos of the Philippines announced that China built several permanent structures in the Mischief Reef and that Chinese vessels were observed in the vicinity at his news conference. The Philippine Government conveyed its protest to the Embassy of China, but the Chinese side did not accept the protest from the Philippine side saying the buildings were shelters for fishermen constructed solely by a local government. In response to these actions by China, the ASEAN Foreign Ministers met in Singapore and released the Statement by the ASEAN Foreign Ministers on the Recent Development in the South China Sea. With this statement, the ASEAN Foreign Ministers expressed their serious concern over recent development which affects peace and stability in the South China Sea, and called for the early resolution of the problems caused by recent developments in the Mischief Reef.⁷ Nevertheless, China has not withdrawn from the Mischief Reef, continuing its occupation with expanded facilities fortified by stationary troops.

⁴ “Zhonghua Renmin Gongheguo Linghai ji Kunlianqu Fa (Law on the Territorial Sea and the Contiguous Zones), *Renmin Ribao* (*People's Daily*) (February 26, 1992).

⁵ “ASEAN Declaration on the South China Sea,” Website of ASEAN Secretariat, (July 22, 1992), http://www.aseansec.org/politics/pol_agr5.htm.

⁶ *Yomiuri Shinbun* (*Yomiuri Newspaper*) (July 19, 1992).

⁷ “Statement by the ASEAN Foreign Ministers on the Recent Development in the South China Sea,” Website of ASEAN Secretariat, (March 18, 1995), <http://www.aseansec.org/politics/scs95.htm>.

II. Setting Aside Disputes and Pursuing Joint Development

Since the 1970s, China has been expanding its control over islands in the South China Sea with the use of force or the threat of using force. On the other hand, Beijing has been officially advocating the policy of setting aside disputes and pursuing joint development, which was originally propounded by Deng Xiaoping as a policy to handle the territorial issue with Japan over the Senkaku Islands, according to Chinese side's explanation.⁸

Chinese Vice Premier Deng Xiaoping, who visited Japan in October 1978, said at his meeting with Japanese Prime Minister Takeo Fukuda that the territorial issue over the Senkaku Islands could be left to the future generation for resolution and did not have to be solved hastily. In May of the next year, Deng Xiaoping told Zenko Suzuki, a member of the House of Representatives who paid a visit to him in China, that it was possible to consider developing resources jointly in the vicinity of the Senkaku Islands, not referring to the territorial dispute. In the following June, China, through a diplomatic route, proposed joint development of resources in areas surrounding the Senkaku Islands, thereby clarifying for the first time its stance to settle problems with neighboring states over territories and maritime interests by the policy of setting aside disputes and pursuing joint development.⁹

In 1986, the PRC announced its intention to apply this policy of setting disputes aside and pursuing joint development to the territorial issue in the South China Sea. Deng Xiaoping in his meeting with visiting Vice President Salvador Laurel of the Philippines urged the territorial issue to be shelved, saying, "we should set aside controversy over the Spratly Islands for the time being... this dispute should never undermine friendly relationships between China and other countries including the Philippines." In April 1988, he also said to President Corazon C. Aquino who was visiting China, "Taking account of friendly ties between the two countries, we can take a path to promote joint development while setting aside this controversial issue for a while," and proposed concrete measures to that end, although he, at the same time, stressed that the sovereignty over the Spratly Islands belonged to the PRC.¹⁰

The PRC Ministry of Foreign Affairs explains that the concept of "setting aside disputes and pursuing joint development" has the following four elements. 1) The sovereignty of the territories concerned belongs to China. 2) When conditions are not ripe to bring about a thorough solution to the territorial dispute, discussion on the issue of sovereignty may be postponed so that the dispute is set aside. To set aside dispute does not mean giving up sovereignty. It is just to leave the dispute aside for the time being. 3) The territories under dispute may be developed in a joint way. 4) The purpose of joint development is to enhance mutual understanding through cooperation and create conditions for the eventual resolution of territorial ownership. As shown by this explanation, the concept of setting aside disputes and pursuing joint development promises first and foremost that the sovereignty of the disputed islands belongs to China. In this sense, the concept of "setting aside disputes and pursuing joint development" is more accurately expressed as "sovereignty belonging to China, setting aside

⁸ "Gezhi zhengyi, Gongtong kaifa (*Setting aside Dispute and Pursuing Joint Development*)," Website of the Chinese Ministry of Foreign Affairs, (November 17, 2000). <http://www.fmprc.gov.cn/chn/ziliao/2159/t8958.htm> for Chinese, <http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18023.htm> for English.

⁹ Ibid.

¹⁰ Ibid.

disputes and pursuing joint development (*Zhuquan shuwu, Gezhi zhengyi, Gongtong kaifa*).¹¹ The final goal of “setting aside disputes and pursuing joint development” is thus considered to be creating conditions where countries concerned accept Chinese sovereignty over the disputed islands through the implementation of joint development.

III. Bilateral Negotiation with Vietnam

China and Vietnam normalized their relations in November 1991, but at that time, they still had territorial disputes over land borders and the Gulf of Tonkin or *Beibu* Gulf, in addition to the territorial dispute over the South China Sea. The joint communiqué announced upon the normalization of their ties expressed that, “Both sides agreed to keep taking necessary measures, to maintain the peace and stability of border areas between the two countries, to facilitate the restoration and development of friendly comings and goings by people near the borders, and to change Sino-Vietnamese borders into those of peace and friendship.” It also confirmed that, “Both sides agreed to resolve territorial disputes such as border disputes between the two countries peacefully through dialogue.”¹² This communiqué did not refer to any specific issues such as those related to the Spratly Islands or the Gulf of Tonkin, which indicates that no concrete agreement between China and Vietnam was reached on the territorial disputes over lands and waters.

The turning point in such a relationship between China and Vietnam appears to be the visit to China by the General Secretary Le Kha Phieu of the Communist Party of Vietnam in February 1999. The General Secretary Jiang Zemin of the Communist Party of China held talks with his counterpart in Vietnam, General Secretary Le Kha Phieu who made an official and friendly visit to China, and highly appreciated the bilateral relations since the normalization in 1991, saying that cooperation in political, economic, cultural and military fields has continuously developed and solidified. He went on saying that he would like to establish long-term, stable and future-oriented relations of good-neighborly friendship and comprehensive cooperation with Vietnam. As for unresolved disputes between the two countries, Jiang said that an early solution to the border and territorial issues conformed to the common aspiration and interests of both peoples, adding that the further development of Sino-Vietnamese good-neighborly and comprehensive cooperative ties and the consensus reached by the two countries' leaders had created favorable conditions for the settlement of problems left over by history. He also expressed his conviction that the two sides would fulfill this glorious, difficult and historic mission as long as they sped up negotiations, proceeding from the general situation of friendly relations and with a strategic view, and in the spirit of friendly consultations, equality, reasonableness and demonstrating mutual understanding. In response, General Secretary Phieu said that the two countries should work together with noble responsibility to resolve the border and territorial issues at an early date, so as to establish a peaceful, friendly and stable border.¹³

The China and Vietnam Joint Statement issued through this meeting states, “Phieu’s visit has been

¹¹ “Nanhai Wenti (South China Sea Issue),” *Zhongguo Waijiao Cidian (Chinese Foreign Affairs Dictionary)* (Beijing: Shijie Zhishi Chubanshe, 2000), p. 238.

¹² “Zhongyue Fabiao Lianhe Gongbao (China and Vietnam Release Joint Press Communiqué),” *Renmin Ribao (People’s Daily)* (November 11, 1991).

¹³ “Jiang Zemin yu Li Ke Piao Juxing Huitan (Jiang Zemin Held Talks with Le Kha Phieu),” *Renmin Ribao (People’s Daily)* (February 26, 1999).

successful and will make a major contribution to the two Parties and two countries in building friendly and cooperative relations for the 21st century, and will have a positive effect on regional peace, stability and development.” The statement then stipulates that the two sides agreed to build long-term, stable, future-oriented good-neighborly and all-around cooperative relations on the basis of the consensus reached by their Party and state leaders. In the statement, the two sides, after confirming their resolve to solve the border and territorial issues peacefully, showed their commitment to sign the land border agreement by 1999 and solve the demarcation issue of the Gulf of Tonkin (*Beibu Gulf*) by 2000, thereby building a peaceful, friendly and stable borderline between the two countries. With regard to the territorial issue in the South China Sea, the two sides agreed to maintain the current negotiation mechanism on maritime issues and stick to peaceful negotiations in an effort to seek a mutually acceptable and long-standing solution. At the same time, they agreed that neither takes any action that may complicate and enlarge disputes, nor resorts to the use of force or threat by force.¹⁴

Based on the agreement reached by the leaders of the two countries, China and Vietnam concluded the Treaty on the Land Boundary in December 1999, and the Agreement on the Demarcation of the Gulf of Tonkin Territorial Waters, Exclusive Economic Zones and Continental Shelf as well as the Agreement on Fishing Cooperation in the Gulf of Tonkin in December 2000. As a result, two of the three sovereignty issues, the resolution of which were postponed upon the normalization of the bilateral relations, were basically solved, while no consensus was reached on the territorial dispute in the South China Sea for which negotiations between the two countries are still underway. Nevertheless, it can be said that the cooperative relationship between China and Vietnam has been rapidly progressing in recent years.

One of the specific cases of such cooperation can be seen in the Gulf of Tonkin.¹⁵ The Gulf of Tonkin is rich in fishery resources, and Chinese and Vietnamese fishermen confronted frequently over the fishing grounds. In the negotiation on the demarcation of the Gulf of Tonkin, the Chinese side, from the perspective of Chinese fishermen’s serious interests, urged the Vietnamese side to conclude a fishing cooperation agreement at the same time, which led to the simultaneous signing of the demarcation agreement and the fishing cooperation agreement. The central part of the fishing cooperation agreement is the establishment of the Common Fishery Zone, which has been designated by the both sides as 33,000 km² of seawaters striding over the borderline of their Exclusive Economic Zones fixed by the demarcation agreement. This Common Fishery Zone is supposed to be valid for 12 years with an automatic extension of three years upon expiration. The Joint Fishery Committee established by the two countries decides the number of fishing ships for each side in the Common Fishery Zone every year. China and Vietnam respectively watch and control seawaters on their own sides of the borderline, and it is also possible to conduct such operations jointly. Taking account of difficulties associated with the retreat of Chinese fishing boats from Vietnamese waters, both countries, besides the Common Fishery Zone, have set up the Transitional Zone, which allows fishing by Chinese ships for four years. Moreover, the Small Fishing Boat Buffer Zone has been established in order to prevent border crossing by small fishing boats from escalating into a conflict.

¹⁴ “Zhongyue Lianhe Shengming (China-Vietnam Joint Statement),” *Renmin Ribao (People’s Daily)* (February 28, 1999).

¹⁵ The following description of the bilateral cooperation in the Gulf of Tonkin is based on: Jiang Huai, “Beibuwan: Zhongyue Hezuo zhi Wan (Gulf of Tonkin [Beibu Gulf]: Gulf of China-Vietnam Cooperation),” *Shijie Zhishi (World Affairs)*, Vol. 24 (2006), pp. 27-29.

Small fishing boats in illicit operation in this zone are immune to detention, arrest and punishment as well as the use of force. In addition, China and Vietnam have launched a joint survey on fishery resources in the Common Fishery Zone of the Gulf of Tonkin since January 2006.

In the Gulf of Tonkin, China and Vietnam have also been strengthening their cooperation in the field of inspection and patrol amid the steadily advancing fishery cooperation. The two countries carried out the first joint inspection operation in the Common Fishery Zone of the Gulf of Tonkin in September 2006. The Chinese fishery control boats and the Vietnamese maritime police vessels set up the joint unit, and went into the Exclusive Economic Zones of both sides to inspect fishing boats belonging to their respective countries. Since April 2006, naval forces of the two countries also have initiated joint patrols in the Tonkin Gulf, which are based on the Agreement on the Joint Patrol by Chinese and Vietnamese Naval Forces in the Gulf of Tonkin (*Beibu Gulf*) proposed by the Vietnamese side and concluded in October 2005. This joint patrol was the first of its kinds for the Chinese navy, and treated as the symbol of further enhanced cooperation between the two navies. Furthermore, China and Vietnam have embarked on joint development of petroleum and natural gas resources across the border in the Gulf of Tonkin. At the end of 2005, the China National Offshore Oil Corp (CNOOC) and the Vietnam National Petroleum Corporation signed the Framework Agreement for Oil and Gas Cooperation in the Gulf of Tonkin (*Beibu Gulf*).

Sino-Vietnamese economic cooperation centering on the Gulf of Tonkin is developing into broader cooperation, that is, the “two corridors, one circle” economic cooperation initiative. Chinese Premier Wen Jiabao visited Vietnam to hold talks with Nong Duc Manh, General Secretary of the Central Committee of the Communist Party of Vietnam, and other officials in 2004. The Joint Communiqué between the People's Republic of China and the Socialist Republic of Vietnam released upon this visit stipulates that the two sides agree to establish an expert panel, under the framework of China-Vietnam economic and trade cooperation commission, to discuss the feasibility of building the “Kunming - Laojie - Hanoi - Hai Phong - Quang Ninh” and “Nanning - Liangshan - Hanoi - Hai Phong - Quang Ninh” economic corridors and the Gulf of Tonkin economic rim.¹⁶ The joint communiqué is a step forward in realizing the “two corridors, one circle” concept comprised of the two distribution routes that connect Quang Ninh with Kunming of Yunnan Province and Nanning of Guangxi Zhuang Autonomous Region (Guangxi Province) respectively and the one economic cooperation area centering on the Gulf of Tonkin.

In November 2006, the China-Vietnam steering committee on cooperation was established with a view to further deepening bilateral economic cooperation, and its first meeting was held in Hanoi with the attendance of Chinese State Councilor Tang Jiaxuan and Vietnamese Deputy Prime Minister and Foreign Minister Pham Gia Khiem as co-chairs. The steering committee on cooperation, which meets once a year in principle, is designed to strengthen macro management of the existing collaborative mechanisms, coordinate China-Vietnam cooperation in various fields, and address major issues in their cooperation. Tang Jiaxuan highly evaluated the steering committee on cooperation, saying that the establishment of the committee that covered different sectors at a high level was the strategic decision jointly made by the leaders of the two parties and the two countries who foresaw the future under the new circumstances. He also said that the committee had the significant objectives

¹⁶ “Zhongyue Fabiao Lianhe Gongbao (China and Vietnam Release Joint Press Communiqué),” Website of Chinese Ministry of Foreign Affairs, (October 8, 2004), <http://www.fmprc.gov.cn/chn/wjlb/zzjg/yzs/gjlb/1338/1339/t163636.htm>.

of deepening mutual trust, facilitating cooperation, and comprehensively and thoroughly promoting long-term, good- neighborly relations between China and Vietnam.¹⁷

Immediately after this first meeting of the steering committee, Chinese General Secretary Hu Jintao visited Vietnam. The examination of remarks by Hu Jintao and the joint statement released during his visit to Vietnam reveal several features in Chinese policies toward Vietnam. The first feature is that China sees benefits in stable governance by the Communist Party of Vietnam. Hu Jintao, in his talks with Vietnamese General Secretary Nong Duc Manh, spoke highly of the achievements of the Vietnamese Communist Party's rule, saying that Vietnamese people as a whole were promoting undertakings under the Doi Moi, which appeared to make the country more and more prosperous. He went on to say that the party, government and people of China firmly supported the domestic and foreign policies adopted by the 10th national party congress of the Vietnamese Communist Party and hoped for the establishment of a modern socialist industrialized country at an early date by the Vietnamese people. Hu Jintao then proposed to that both sides keep deepening exchanges in governance by the parties as well as socialist theory and practice and make use of these exchanges in their respective national developments.¹⁸ For China, as the socialist governments in the Soviet Union and East European states disappeared, Vietnam is one of a few countries that share socialist political system. China will be able to demonstrate domestically and internationally the legitimacy of the single-party ruling system by the communist party if the communist party's leadership in Vietnam successfully brings about economic development and political stability. The same is applied to the communist party of Vietnam. The Chinese and Vietnamese communist parties are interdependent in the sense that their achievements in governance mutually complement their legitimacy.

The second characteristic is China's emphasis on the advancement of economic and trade relations with Vietnam. General Secretary Hu Jintao proposed sticking to equality and reciprocity for common development and prosperity at his meeting with General Secretary Nong Duc Manh. He advocated enhancing the level of bilateral economic and trade relations through well-understood macroeconomic planning, the steady implementation of commitments in the economic and trade cooperation agreements in pursuing the expansion and deepening of the relationship, and the orderly and gradual promotion of "two corridors, one circle" cooperation. He also encouraged bringing bilateral economic and trade cooperation into a new phase by putting emphasis on the expansion of the volume of trade, the improvement of trade structure, and the securing of major trade commodities. In the China-Vietnam Joint Declaration released after the summit meeting, the two sides agreed to enhance economic and trade cooperation in terms of both quality and quantity, to achieve the target of US\$15 billion of bilateral trade by 2010, and to accelerate the process of establishing "two corridors, one circle."¹⁹

¹⁷ "Zhongyue Shuangbian Hezuo Zhidao Weiyuanhui Shouci Huiyi zai Henei Juxing (First Meeting of the China-Vietnam Steering Committee on Cooperation Held in Hanoi)," *Renmin Ribao (People's Daily)* (November 12, 2006).

¹⁸ "Hu Jintao tong Yuegong Zhongyang Zongshuji Nong De Meng Yuenan Guojia Zhuxi Ruan Mingzhe Huitan (General Secretary Hu Jintao Met General Secretary Nong Duc Manh and President Nguyen Minh Triet)," *Renmin Ribao (People's Daily)* (November 17, 2006).

¹⁹ "Zhongyue Lianhe Shengming (China-Vietnam Joint Statement)," *Renmin Ribao (People's Daily)* (November 18, 2006).

A strengthened cooperative relationship with Vietnam in the economic and trade sectors provides China with not only a foundation to build and maintain the favorable bilateral relationship as a whole but also possibilities conducive to economic development of the rural Southwestern part of China. For example, Guangxi Province which borders Vietnam, is pursuing development through economic cooperation with Vietnam.²⁰ Trade between Guangxi Province and Vietnam has been increasing dramatically, reaching US\$980 million in 2005. That amount accounts for three quarters of its trade with ASEAN countries. Vietnam has been the biggest ASEAN trading partner of Guangxi Province for seven consecutive years. Since 2004, the China-ASEAN Expo has taken place annually in Nanning to promote trade and investment ties between China and ASEAN. Secretary of the CCP Guangxi Zhuang Autonomous Regional Committee Liu Qibao, who proposes the “one axis, two wings” initiative with the traffic route from Nanning to Singapore as an axis and the economic cooperation areas of the Mekong Basin and the Gulf of Tonkin rim as two wings, hopes that the Gulf of Tonkin rim economic cooperation area becomes the new zone of economic growth in the west coast of the Pacific as the hub of China-ASEAN trade.²¹

The third observed direction is China's intention to strengthen ties with Vietnam from a strategic viewpoint, based on shared political and economic interests. Vietnam is ranked high in Chinese neighboring diplomacy or *zhoubian waijiao* based on the policy of good friendship and partnership or *yulinweishan, yilinweiban*, which has been implemented since the 16th national party congress of the Chinese Communist Party held in November 2002. Chinese Premier Wen Jiabao visited Vietnam in October 2004, and stressed in his meeting with General Secretary Nong Duc Manh that the party and the government of the PRC have consistently attached priority to their relations with Vietnam and placed them in an important position in Chinese neighboring diplomacy.²² General Secretary Hu Jintao, who visited Vietnam in November 2006, also stated that China and Vietnam both should grasp the precise direction of their developing bilateral relations from a strategic and overall perspective. The Joint Declaration issued upon this visit confirmed that China and Vietnam shared strategic interests over many major issues, and stipulated that the two countries were committed to advancing the bilateral relationship on long-term stability, future orientation, friendly neighborliness and comprehensive cooperation as ever-lasting good neighbors, good friends, good comrades and good partners.

The above characteristics imply that the PRC will continue to pursue the advancement of comprehensive cooperative relations with Vietnam. China appears to have set the near-term target at constructing a strategic partnership centering on economic cooperation with Vietnam while settling down the territorial dispute in the South China Sea under the policy of setting aside disputes and pursuing joint development.

²⁰ Deng Yaping, Liang Siqi, and Jiang Guibin, “Beibuwan: Quyu Jingji Hezuo Xinjiekou (Gulf of Tonkin [Beibu Gulf]: New Connection of Regional Economic Cooperation),” *Liaowang Xinwen Zhoukan (Outlook Weekly)* (June 5, 2006), pp. 38-40.

²¹ Du Xin and Liu Wei, “‘Yizhou Liangyi’ Tuidong Hexie Gongying (‘One Axis, Two Wings’ Promote Harmonious and Win-win Relations),” *Liaowang Xinwen Zhoukan (Outlook Weekly)* (October 30, 2006), pp. 22-23.

²² “Wen Jiabao Huijian Yuegong Zongshuji Nong De Meng (Wen Jiabao Met General Secretary Nong Duc Manh),” *Renmin Ribao (People's Daily)* (October 8, 2004).

IV. More Flexible Chinese Approach and its Background

The PRC had taken a rather tough line over the Spratly Islands issue until the mid-1990s as seen in its advancement into the Mischief Reef which had greatly threatened Southeast Asian countries. Since the late 1990s, on the other hand, China has come to be more flexible in dealing with the issue as shown by the enhanced relationship with Vietnam.

Since the 1995 occupation of the Mischief Reef, China has not captured any island in the Spratlys, although it has steadily supplemented the existing facilities there. In addition, China has taken part in multilateral dialogues with ASEAN on the Spratly Islands issue since around the end of the 1990s. As the controversy over the South China Sea became serious, the ASEAN side urged the Chinese side to engage in negotiations with a view to establishing a code of conduct in the South China Sea. In response, China was originally unwilling to partake in discussions on the South China Sea issue in a multilateral framework. However, it started working level consultations with ASEAN in October 1999, submitting the draft of a code of conduct to the ASEAN side.²³ China-ASEAN negotiations on the code of conduct did not progress very smoothly due to differences of opinion over several elements such as the scope of the code, but finally reached a consensus in November 2002 with the Declaration on the Conduct of Parties in the South China Sea being signed by Chinese and ASEAN Foreign Ministers. This Declaration on the Conduct stipulates that the Parties concerned should resolve their territorial disputes by peaceful means without resorting to the threat or use of force, refrain from inhabiting presently uninhabited islands, notify on a voluntary basis other Parties concerned of any military exercises, and guarantee the freedom of navigation, among other things.²⁴

This agreement is a “declaration on the conduct,” which is less binding than a “code of conduct” pursued in the first place. China characterized it as a political document, not a legal document.²⁵ Still, in the Declaration on the Conduct, the Parties concerned agree to work towards the adoption of a code of conduct. The Joint Declaration of the Heads of State/Government of the ASEAN and the PRC on Strategic Partnership for Peace and Prosperity, signed in October 2003, stipulates that the Parties concerned will discuss how to implement and follow-up the Declaration on the Conduct.²⁶ The Plan of Action to Implement the Joint Declaration on ASEAN-China Strategic Partnership for Peace and Prosperity adopted in November the next year states that China and ASEAN will hold senior working-level consultations regularly to implement the Declaration on the Conduct and that they will make efforts for the eventual adoption of a code of conduct.²⁷

Following the agreement on the Declaration on the Conduct, the PRC embarked on materializing joint development in the South China Sea. On September 1, 2004, CNOOC and the Philippine National Oil Company agreed to carry out a joint investigation with seismic waves in a part of the

²³ “Waijiaobu Fayannen Da Jizhewen, Dongmeng ‘Nanhai Diqu Xingwei Zhunze’ Dierci Cuoshang (Foreign Affairs Ministry Press Conference, Second Round Consultation with ASEAN on Code of Conduct in the South China Sea),” *Renmin Ribao (People’s Daily)* (August 31, 2000).

²⁴ “Declaration on the Conduct of Parties in the South China Sea,” Website of ASEAN Secretariat, (November 4, 2002), <http://www.aseansec.org/13165.htm>.

²⁵ “Zhongguo yu Dongmeng Qianshu Nanhai Gefang Xingwei Xuanyan (China-ASEAN Declaration on the Conduct of Parties in the South China Sea),” *Renmin Ribao (People’s Daily)* (November 5, 2002).

²⁶ “Joint Declaration of the Heads of State/Government of the ASEAN and the PRC on Strategic Partnership for Peace and Prosperity,” Website of ASEAN Secretariat, (October 8, 2003), <http://www.aseansec.org/15266.htm>.

²⁷ “Plan of Action to Implement the Joint Declaration on ASEAN-China Strategic Partnership for Peace and Prosperity,” Website of ASEAN Secretariat, (December 8, 2004), <http://www.aseansec.org/16806.htm>.

South China Sea, which triggered sharp reactions from Vietnam. Later, on March 14, 2005, it was agreed that Vietnam Oil and Gas Corporation would join the two companies to be involved with the joint seismic research activities. The tripartite agreement stated: The joint activities cover an area of about 143,000 km², and two- and three-dimensional data with seismic waves will be collected for three years to research oil and gas reserves; Both the cost of the undertaking and the collected data will be shared by the three companies; The necessity of further research will be examined upon the completion of the initial three year undertaking; And this joint undertaking will not undermine the basic positions held by respective Governments on the territorial issues.²⁸ The Chinese side appreciated the tripartite agreement as the first case to put the policy of setting aside disputes and pursuing joint development into action as well as an important step in implementing the Declaration on the Conduct of Parties in the South China Sea.²⁹

The reasons for the more flexible Chinese attitude toward the South China Sea issue as explained include, firstly, its need for closer relationships with Southeast Asian nations. ASEAN countries are proximate neighbors for China and unstable relations with those countries would undermine a stable international environment required for China's economic growth. In addition, ASEAN is China's fourth largest trading partner as well as important economic partner with a considerable amount of investment in China made by overseas Chinese living in those countries. Furthermore, ASEAN plays a critical role in multilateral frameworks such as the ASEAN Plus Three (APT) cooperation and the East Asia Summit, and maintaining a good relationship with ASEAN therefore will contribute to Chinese strategy toward the establishment of an East Asia community in future. Vice President of the China Foreign Affairs University Qin Yaqing points out that the establishment of strategic cooperative relationships with ASEAN demands that China handle issues with the spirit and style of a major power, understand interests and reasonable concerns of ASEAN countries, and even sometimes make certain compromises from a long-term perspective.³⁰ The Chinese conciliatory approach to the South China Sea issue is considered to be a "compromise" to keep a strategic partnership with ASEAN.

The second factor behind the change in Chinese stance was to prevent Taiwan from using the South China Sea issue as a tool to approach Southeast Asian nations by taking the lead in détente with them over the issue. Taiwan, or the ROC, has been actively pursuing strengthened ties with Southeast Asian nations under the so-called "Go South policy" since the 1990s. Former President Lee Teng-hui and Chen Shui-bian, whom the PRC accuses of representing a pro-independence faction, visited Southeast Asian countries, though unofficially, making efforts to expand Taiwan's "international living space." One of the important elements that can bring Taiwan and Southeast Asian nations closer, is a common concern about China's threat. From the perspective of China, therefore, mitigating the Chinese threat theory caused by the South China Sea issue in Southeast Asia is important in preventing Taiwanese access to ASEAN countries. In addition, if China strengthens its efforts to resolve the

²⁸ "Zhongfeiyue Qianshu Nanhai Dizhen Lianhe Kantan Xieyi (China-Philippines-Vietnam Sign the Agreement of Seismic Research Activities in the South China Sea)," *Renmin Ribao (People's Daily)* (March 17, 2005); "Zhongfeiyue Dapo Jiangju Kaifa Nanhai (China, Philippines and Vietnam Break a Deadlock and Develop the South China Sea)," *Huanqiu Shibao (Global Times)* (March 17, 2005); and Zhang Xuegang, "Nanhai: Gongtong Kaifa Dabuzou (South China Sea: Joint Development Progresses)," *Shijie Zhishi (World Affairs)*, Vol. 7 (2005) pp. 32-33.

²⁹ "Bian Zhengyi Zhihai wei Hezuo Zhihai (Duanping) (Change Sea of Dispute into Sea of Joint Development)," *Renmin Ribao (People's Daily)*, March 16, 2005.

³⁰ Wang Jianjun, Liu Xinyu, "Hu Jintao Yuenan zhi Lv Quanshi Zhongguo Zhoubian Zhanlue (Hu Jintao's Visit to Vietnam and China's Neighboring Strategy)," *Liaowang Xinwen Zhoukan (Outlook Weekly)*, Vol. 45 (November 7, 2005), pp. 53-54.

Spratly issue in cooperation with the ASEAN, Taiwan, which is also a party to the issue claiming its sovereignty over the entire Spratly Islands and effectively controlling the largest island, Itu Aba or *Tai ping* Island, will lose an opportunity for dialogue with Southeast Asian countries. Yang Qing, Professor at the Institute of International Strategic Studies, Central Party School, says that it is of particular importance to appropriately deal with the South China Sea issue between China and ASEAN countries from the perspective of critical national interest to prevent the independence of Taiwan.³¹

The third reason is to stop intervention by the United States and other major powers in the South China Sea issue. The United States sits back regarding the territorial issue in the South China Sea, but expresses concern about a situation where the issue impedes freedom of navigation.³² Meanwhile, Southeast Asian countries' concern about an expanding Chinese navy is one of the factors that have made these countries deepen their relations with the U.S. armed forces. The issue of the South China Sea, if it becomes strained and contentious, would raise the possibility of the U.S. intervention in the name of securing free navigation, and move Southeast Asian countries toward more strengthened relations with U.S. military. It is said that some countries in Southeast Asia have comparative advantages over the South China Sea issue through a strategy of balancing major powers and that U.S. policy for the Asia Pacific provides conditions for the relevant countries to keep vested interests with the help from outside powers.³³ For China, therefore, it is important to deal with the South China Sea issue peacefully and thus to prevent the United State from stepping in. Wang Yi, Vice Minister of the Ministry of Foreign Affairs, states that the Declaration on Conduct in the South China Sea is significant in sending the outside world a clear signal that nations in the region can manage the South China Sea issue properly and maintain the peace and stability of the South China Sea through dialogues.³⁴ A critic says that the resolution of the South China Sea issue in cooperation with Southeast Asian nations will save the issue from being exploited as a piece to contain China.³⁵

The fourth and final point will be the need to secure energy resources that are indispensable for sustainable economic growth in the future. The rapid economic advancement has dramatically increased the Chinese economy's demand for energy. As for petroleum, China has become a net importer of oil since 1993, and at present, is second in the world, following the United States, in oil consumption.³⁶ Che Changbo, Deputy Director of the Strategy Research Center for Oil and Gas Resources at the Ministry of Land and Natural Resources, predicts that Chinese oil demand will reach 380 million tons in 2010 and 450 million tons in 2020.³⁷ If China can develop oil and natural gas reserves in areas surrounding the Spratly Islands on its own, it will greatly contribute to the stable

³¹ Yang Qing, "Zhengque Renshi he Chuli Nanhai Quanyi Zhengduan (Appropriate Recognition of the South China Sea Issue)," *Liaowang Xinwen Zhoukan (Outlook Weekly)*, Vol. 3 (January 16, 2006), p. 39.

³² Joshua P. Rowan, "The U.S.-Japan Security Alliance, ASEAN, and the South China Sea Dispute," *Asian Survey*, Vol. 65, No. 3 (May/June 2005), pp. 429-431.

³³ Ju Hailong, "Nanhai Wenti Nenggou Heping Jiejue ma? (Peaceful Resolution of the South China Sea Issue?)," *Shijie Zhishi (World Affairs)*, Vol. 3 (2007), p. 30.

³⁴ "Zhu Rongji Chuxi Dongmeng Youguan Huiyi he Fangwen Jianpuzhai Qude Chenggong (Zhu Ronji's Successful Visit to Attend ASEAN Meeting in Cambodia)," *Renmin Ribao (People's Daily)* (November 5, 2002).

³⁵ Tan Zaiwen, "Nanhai Gongtong Kaifa de Guoji Zhengzhi Jingjixue (International Political Economy in the Joint Development of the South China Sea)," *Nanyang Wenti Yanjiu (Southeast Asian Affairs)*, Vol. 3 (2005), p. 13.

³⁶ Tsutomu Toichi, "Chugoku-no Enerugii Senryaku-to Nihon (China's Energy Strategy and Japan)," *Toua (East Asia)*, (July 2004), pp. 11-12.

³⁷ "Chugoku, 2010nen-no Sekiyu Seisanryo-ga 2-oku-ton-ni (Chinese Oil Production to 200 Million Tons in 2010)," *Renmingwang Ribenyu Ban (Japanese Version of People's Web)* (December 13, 2005), http://j-people.com.cn/2005/12/13/jp20051213_55850.html.

supply of energy and future development of the Chinese economy. Petroleum and natural gas in the South China Sea have a very important role for the economy of China.³⁸

Meanwhile, the importance of the South China Sea development to secure energy resources is not so high at this moment. In recent years, China has been making efforts to obtain rights over oil and natural gas as well as to realize the stable import of energy through enhanced cooperation with energy producing countries. It has also been actively participating in international bids on already-investigated prospective mining areas. In other words, there are many options around the world that China can pursue for a stable energy supply, and therefore the development of the South China Sea, which has not yet been researched fully and will probably involve huge costs, is not an urgent task for China. Still, the exploration of resources in the South China Sea is of course significant for the Chinese economy from a long-term perspective and China someday will take steps to secure those resources. If the trilateral joint research project by China, Vietnam and the Philippines produces good results, China may take fresh measures to promote serious development and acquire the associated rights and interests for it. For the time being though, the best option for China seems to be the examination of resource deposits in the vicinity of the Spratly Islands implemented without confrontation against ASEAN countries through joint investigation involving countries concerned, rather than worsening relations with those countries by taking tough actions to secure resources in the area, which is not urgently needed.

Conclusion

Sino-Japanese relations, which deteriorated during the Koizumi Administration, are showing signs of improvement, with, in October 2006, Prime Minister Shinzo Abe selecting the PRC to be the first country he visited after his inauguration and agreed with his counterpart that the two countries should both pursue a mutually beneficial relationship based on common strategic interests. In April of the following year, Chinese Premier Wen Jiabao visited Japan and both sides reached common understanding on constructive roles played by the two countries for the peace, stability and development of Asia and the world, the establishment of the Japan-China High-Level Economic Dialogue to strengthen economic cooperation, and the enhancement of defense exchanges such as the Chinese Defense Minister's visit to Japan and mutual port calls by naval vessels. In addition, the Chinese side has demonstrated its intention to further improve its relationship with Japan by expressing its gratitude for Japanese ODA loans which contributed to Chinese economic growth, announcing its expectation for Japan's expanded, constructive roles in the international society, and expressing its understanding and sympathy toward the humanitarian concern of the Japanese people which implicitly means the abduction of Japanese nationals by North Korea.³⁹

Meanwhile, the Japanese side is still vigilant in the face of China's policy toward Japan. China has been promoting rapid military modernization without the transparency urged by the international community amid a situation where the resource development issue in the East China Sea and other territorial or sovereignty issues that cannot be neglected remain unresolved between Japan and China. Some people in Japan expect Southeast Asian nations who face the South China Sea issue to share

³⁸ Yang Qing, *op. cit.*, p. 39.

³⁹ "Japan-China Joint Press Statement," Website of Japanese Ministry of Foreign Affairs, (April 11, 2007), http://www.mofa.go.jp/mofaj/area/china/visit/0704_kh.html.

Japanese concern. However, as already shown by the present article, the Chinese stance on the South China Sea issue has changed significantly, thereby mitigating Southeast Asian nations' concern over the Chinese threat. Vietnamese President Nguyen Minh Triet, who visited China in May 2007, said in an interview with Chinese media that any problem between China and Vietnam can be solved, calling the territorial issue between the two countries a family issue. He went on to say that Vietnam would make its utmost efforts to advance relations between China and the ASEAN with Vietnam working as an intermediary.⁴⁰ In formulating Japan's policy toward China as well as East Asia, it is indispensable to precisely perceive changes in China's policy toward Southeast Asia as seen in China's response to the South China Sea issue and associated developments in China-ASEAN relations.

In June 2008, Japan and China reached an agreement on the pending issue of resource development in the East China Sea in line with the policy of setting aside disputes and pursuing joint development. As a result, a joint development area will be set across the median line, a demarcation line advocated by the Japanese side, and Japanese private companies will take part in Chinese undertakings at the Shirakaba (*Chunxiao*) gas field located on the Chinese side of the median line. Whether or not China can take a flexible stance to Japan in the East China Sea issue, like the one taken with the Southeast Asian side regarding the South China Sea, will greatly affect how East Asian countries assess Chinese policy of "peaceful development."

⁴⁰ "Jiang Yuezhong guanxi tuixiang Xingaodu—Fang Yuenan Guojia Zhuxi Ruan Mingzhe (Closer China-Vietnam Relationship - Vietnamese President Nguyen Minh Triet Visit)," *Renmin Ribao (People's Daily)*, (May 19, 2007).