

GLOBAL HOT TOPICS

# South China Sea tensions escalate

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The Permanent Court of Arbitration (PCA) in The Hague will announce the results of a ruling on the South China Sea dispute between Philippines and China on July 12. China rejects the idea that the international court has jurisdiction over the dispute and has announced a military drill in the run-up to the decision, heralding an escalation of tensions in the coming months. The new president of Philippines has displayed more willingness to downplay the territorial dispute.

## The ruling in a nutshell

Philippines argues that under the United Nations Convention on the Law of the Sea (UNCLOS), China's claims to historic rights with respect to maritime areas of the South China Sea are unlawful because violate UNCLOS agreements. **A ruling in favor of the Philippines would encourage other nations who currently have overlapping claims with China to follow suit. China will argue that this is a breach of sovereignty** and will intensify the claims and militarization efforts in the area, resulting in an escalation of tensions. In fact, **China just announced a 7-day military drill off the Parcel Islands ahead of July 12 and has threatened with abandoning UNCLOS, which would be destabilizing for the region. Further, the most likely verdict will avoid antagonizing China by including some compensation as Spratly Islands.**

## Alternative solution

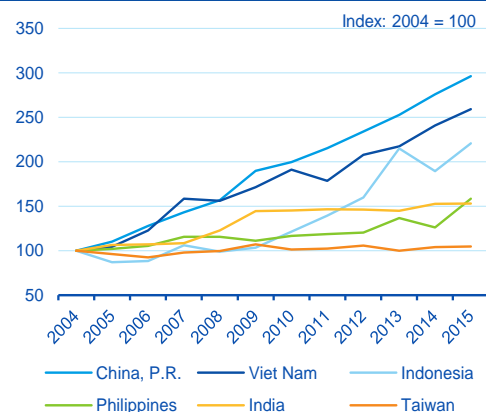
Philippines and China could explore bilateral channels. In fact President Duterte has vowed that his administration would reverse President Aquino's policy on the South China Sea while **Beijing has stated that it is ready to start negotiations with the Philippines on South China Sea issues if Manila ignores the arbitration ruling.** As the Philippine economy is not dependent on exports to China (3% of GDP) Duterte would use this as an opportunity to attract Chinese investments to close the infrastructure gap.

### Tensions in the South China Sea on the rise



Source: [www.qdelt.com](http://www.qdelt.com) and BBVA Research

### Military spending has increased since 2004



Source: SIPRI and BBVA Research

## Beyond politics

Due to the economic relevance of the South China Sea in terms of revenues (energy, seaborne trade, fishing...) some countries maintain tough attitudes. Indonesia has adopted a harsher stance over incursions by Chinese fishing vessels, and arrested seven Chinese nationals after clashes off the Natuna Islands. **Looking forward, other South East Asian nations could re-assess their strategies in the area after the PCA verdict, increasing the current arms build-up and the likelihood of military accidents.**

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