

GEOSTRATEGIC ANALYSIS

South China Sea: Stable but tenacious waters

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It's been over two months since The Hague ruled that China does not have historic rights to the South China Sea. Tensions will continue to escalate further before a bilateral agreement is met, as other players step into the scene. Upside risks remain, particularly in neighboring countries.

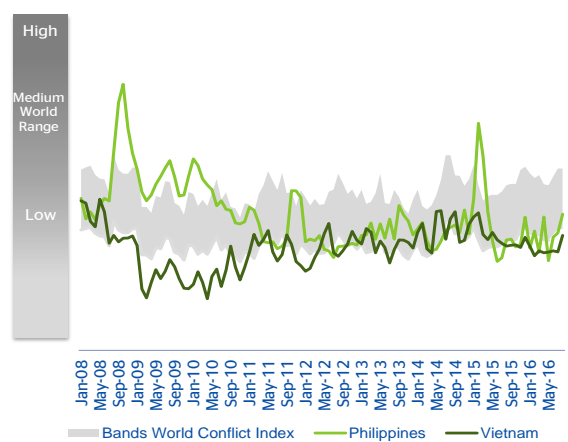
No real progress on bilateral talks between China and the Philippines

Philippine President Rodrigo Duterte was resolute about his intention to seek a bilateral solution to the territorial disputes with China. However, not much has happened since [The Hague announced its ruling](#) in favour of the Philippines on July 13. By neither rejecting nor confirming the result of the arbitration, Duterte may in fact be playing the U.S. and China against each other. The president recently announced that his administration will gravitate away from US dominance in the Philippines, and called for the withdrawal of U.S. forces from the South of the country. Duterte is also allegedly considering purchasing armament from China.

Complexities increase as other players step into the scene

China and Russia conducted joint maritime drills last week. The “Joint-Sea 2016” is part on an annual exercise, but this was the first time that the drills took place in the South China Sea. The timing is interesting as it coincided with the end of the ASEAN Summit in Laos, where member states (and China) agreed to have a legally binding code of conduct in the South China Sea in effect before the end of the year to prevent accidents. Vietnam in particular could be a dark horse in the making, as tensions have been higher than in other countries with overlapping claims.

Figure 1
Conflict index: Vietnam and Philippines
(Number of conflicts / Total events)



Source: www.qdelt.org & BBVA Research

For example, Hanoi saw big protests in March to mark the anniversary of the 1988 “Spratly Islands naval battle”, where 64 Vietnamese soldiers were killed. Vietnamese Prime Minister Nguyễn Xuân Phúc recently concluded his first official trip to China, in a bid to mend bilateral ties. The U.S. could seek to intensify its diplomatic efforts in the region in response to a more assertive China, which may not go down well in Beijing. Of course, this will depend on the result of the upcoming election, but other regional powers have already started to deploy more resources to the area. For instance, Japan recently announced that it will supply the Philippines with patrol vessels and surveillance planes to counter Chinese expansion in the area.

Tensions will escalate further before an agreement is achieved

While tensions have remained manageable so far, the repercussions of the PCA ruling are not over yet. Furthermore, the political landscape just got more complicated, as new actors have stepped into the scene. This is why we expect some upside risks and more tensions going forward.

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