The South China Sea in the Broader Maritime Security of the Indo-Pacific: The Economic Context for Regional Conflict and Cooperation

East and Southeast Asia have seen considerable economic growth over the past few decades. The pace of development in China has been virtually unprecedented, with millions of people being raised above severe poverty to a middle-class lifestyle. This outcome has resulted from national investments in human capital and infrastructure and policies that have encouraged business growth and trade.

The long-running tensions in the South China Sea involve conflicting claims by regional economies (Brunei, China, Indonesia, Malaysia, the Philippines, Taiwan, and Viet Nam). The claims are to the rights to the control of passage in the South China Sea, to the small rocky outcroppings and sandbanks, and to the marine resources. The different national positions – lines drawn in the shallow sea – have sometimes been aggressively pursued, including by having coast guard and/or naval vessels harass vessels of other countries, or taking control of islands, or even constructing islands. While generally non-lethal, it has not always been so. The present low-level conflict has had identifiable if transitory impact on the existing patterns of trade. Moreover, we risk slipping into real conflict that could result in drastically limiting trade and economic growth throughout the region.

Over decades there have been aggressive acts between different pairs of countries. Currently the most severe involve disputes between China and members of the Association of Southeast Asian Nations (ASEAN), especially the Philippines and Viet Nam. This is due to many reasons, including China’s geographic centrality and size, the nature and extent of the several nations’ claims, and the huge growth of the Chinese economy and the fishing, coast guard and naval fleets.

The paper argues three points:

a. The economies of the South China Sea depend on regional trade flows that would not survive military conflict.

b. The *wealth* – oil, gas, and fishery resources – that might be gained from waging and winning military conflict are largely illusory and pale in comparison to the economic costs of conflict.

c. Regional economic cooperation programs, similar to those the South China Sea claimants currently participate in, could potentially enhance the benefits of waging peace through increased trade.

The Interdependence of the South China Sea Economies

East and Southeast Asia have seen considerable economic growth over the past few decades. The pace of development in China has been virtually unprecedented, with millions of people being raised above severe poverty to a middle-class lifestyle. This outcome has resulted from national investments in human capital and infrastructure and policies that have encouraged business growth and trade. The last is important – these are countries that believe that international trade can be leveraged into national development. This faith has been vindicated in the emergence of *Factory Asia* – the spread of global value chains (GVCs) across the region, providing assembly and intermediate manufacturing for a range of products destined for global markets. Initiated by Japanese foreign direct investment (FDI), the process was encouraged by technological changes that lowered oceanic freight costs. This uncoordinated, but cooperative international effort transformed the East and Southeast Asian economies. The willingness of businesses to invest in

GVCs presupposes that trade can occur relatively unfettered. Serious conflict would not allow trade as usual.

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David Jay Green is Professor of Economics at the Hult International Business School, San Francisco CA, USA.

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