

**CHINA FACES UNPRECEDENTED
CHALLENGES ON THE
SOUTH CHINA SEA ISSUE**

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Executive Summary

1. China enhanced its economic cooperation and high level exchanges with the Philippines and Vietnam after the adoption of the Guidelines for the Implementation of the Declaration on the Conduct of Parties in the South China Sea (DOC) in Bali in July 2011.
2. The Philippines secured huge Chinese investments after President Aquino's visit to China. China and the Philippines agreed not to let the South China Sea (SCS) disputes affect their bilateral friendship and cooperation, and to address the issue through peaceful dialogue.
3. China and Vietnam signed the Agreement on Basic Principles Guiding the Settlement of Maritime Issues and issued a Joint Statement during Vietnamese Communist Party Chief Nguyen Phu Trong's visit to China. Both agreed to properly handle the SCS issues. The documents while significant have limited impact on managing the maritime disputes as well as China's SCS diplomacy.
4. Despite China's intensive diplomatic efforts to strengthen its ties with Vietnam and the Philippines to defuse the maritime dispute and enhance cooperation and friendship, new tensions in the SCS emerged soon after the ASEAN Regional Forum.
5. India got involved in the SCS with the signing of an agreement with Vietnam on joint oil exploitation around the Spratlys and on strengthening Indian–Vietnamese military cooperation in the SCS. These moves were regarded by China as a means to counterbalance China's growing maritime power.
6. Separately, the US has strengthened its military ties with Australia with a view to counter China's maritime build-up in the SCS. It has expanded its access to Australian military bases and enhanced its military presence in Australia.

7. The Philippines has tried to multilateralize and internationalize the SCS issue. It convened an ASEAN Maritime Legal Experts' Meeting to seek ASEAN's consensus on the Philippine proposal for a Zone of Peace, Freedom, Friendship and Cooperation in the SCS to forge a unified regional policy against China.
8. The Philippines-Japan Joint Statement on the Comprehensive Promotion of Strategic Partnership echoes the US' position with claims of interests in the SCS, particularly concerning safety and freedom of navigation.
9. Japan, the US and India are reported to be planning to hold a trilateral dialogue for the first time on "regional and global issues of mutual interest" "with an eye on an increasingly assertive China in the South China Sea and the overall Asia-Pacific region".
10. The US is regarded by some quarters in China to be the mastermind behind these activities and the initiator of a NATO like organization in Asia. These moves were viewed by some as measures to contain and confront China.
11. Chinese leaders have to strike a balance between maintaining stability and protecting its maritime rights and interests. China faces unprecedented challenges and dilemma as all the existing mechanisms have had limited impact on the SCS dispute.