Scientific Students’ Associations

China’s maritime disputes in the South China Sea

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Abstract

The aim of this paper is to answer the question whether the use tying-hands signals is the rational strategy for China to further increase its relative power in the South China Sea. It concludes that while tying-hands signals on average better than sunk-cost signals, in China’s case the use of tying-hands signals carry risks for Beijing. Therefore, the use of these signals are not necessarily a rational strategy. The conclusion is based on James D. Fearon’s seminal theoretical framework and signalling game model and an empirical investigation of the actors’ signals based on a qualitative analysis of the news coverage of official statements and actions. The relevance of the subject is given by the constant maritime disputes in the South China Sea, and by China’s goal to increase its influence as a superpower.

JEL Classification: F51
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1. Introduction

The South China Sea area is one of the most important global trading routes, and an area rich in natural resources. (Council on Foreign Relations, 2016) There is an estimated deposit of 11 billion barrels of oil and 190 trillion cubic feet of natural gas in the region, (U.S. Energy Information Administration, 2013) and 5.3 trillion dollars’ worth total trade passes through the South China Sea every year. (Glaser, 2012)

Beside its economic value, the area is full of maritime disputes. China as a superpower in the region is involved in most of the disputes. In the East China Sea, it has a conflict with Japan and Taiwan over the Diaoyu/Senkakus islands. China also claims roughly 80% of the South China Sea, and has other disputes with Vietnam, Philippines, Malaysia and Brunei. As a global superpower, the United States of America also would like to ensure its own interests in the region. (Council on Foreign Relations, 2013) Since 2013 China made great efforts to secure contested areas in the South China Sea, by establishing military control over those territories. China has been building artificial islands in Spratly Islands to use them as military outposts. (U.S. Department of Defense, 2015)
In this paper, I am going to focus on maritime disputes in the South China Sea. I assume that China represents such a threat in the region that other actors will cooperate to minimize that, which will set back Beijing’s power gain. My aim is to find an answer for that how could China further strengthen its position in the area without risking serious international conflicts. My hypothesis is that, if China’s goal is to increase its relative power in the South-China Sea, then the rational strategy is the use of tying-hands signalling (assuming that escalation of the dispute is not in China’s interest). I will examine the disputes from a neorealist viewpoint and I will use the theoretical framework of James D. Fearon to assess my hypothesis. I will also examine how cheap talk could affect events in the South China Sea. After the review of the theoretical literature and its application to my case study, I conduct an empirical investigation of the actors’ signals, classifying them as tying hands or sunk cost signals. For the analysis of the events, the method I use is a qualitative analysis of their news media coverage.

In the second section, I summarize the historical background of the maritime disputes in the East-South China Seas, then I expose the theoretical framework I am using. After that I give a review of the current situation in the region by examining China’s recent actions and review they disputes with local countries and with the United States. Following that I examine China’s situation in the South China Sea, then I finish my paper with the conclusions that tying-hands signals on average are better than sunk-cost signals, but it brings a bigger chance of military conflict with itself. In the light of that and other geopolitical reasons, I found that China have reasons not to use tying-hands signals.

2. Historical Background

China’s maritime disputes in the East and South China Seas date back for decades. For instance, the conflict between China and Japan about the Diaoyu/Senkakus islands can be trailed back to the Sino-Japanese War of 1894. However, the territorial claims in the region got more complex after World War II, during the Cold War. (Council on Foreign Relations, 2016)

In 1947 China, under the leadership of the Kuomintang, claimed most of the South China Sea including the Paracel Islands, the Macclesfield Bank, the Pratas Islands and Spratly Islands. (Council on Foreign Relations, 2016) These claims are referred as the eleven-dash line. After the Chinese Communist Party got the power in China, they renounced their claim about the Gulf of Tonkin area, and simplified the border claims to nine dashes. Since then, China considers this nine-dash line in the South China Sea as the foundation for its territorial claims. (Council on Foreign Relations, 2016)
As China strengthened its global position, and with the discoveries of the natural resource deposits in the area, China started to use aggressive strategies to extend its territory. In 1974 they seized the western part of the Paracel Islands from South Vietnam. On the largest Paracel Island on Woody Island, China established an artificial harbour and an airfield as well. This move was the starting point of the Sino-Vietnamese conflict, which escalated further with the Sino-Vietnamese war in 1979. In the South China Sea, the largest conflict between the two countries took place in 1988 when the Chinese navy sunk three Vietnamese vessels. (Council on Foreign Relations, 2016)

China had conflicts with other countries in the region over time. Beside Vietnam, China’s most serious incidents occurred with Japan and the Philippines. While China had military conflict with the Philippines, it was much more cautious with those countries in the past, thanks to their strong ties with the U.S. The United States signed the Treaty of Mutual Cooperation and Security with Japan in 1960 and a mutual defence treaty with Philippines in 1951. The Unites States’ goal in the region was to reduce the power gain of China. The U.S. achieved this by backing its allies and through applying instruments of international law. One of the most important legal weapon against China was the United Nations Convention on the Law of the Sea (UNCLOS). (Council on Foreign Relations, 2016)
UNCLOS is an international agreement, which was accepted on the Third United Nations Conference on the Law of the Sea in 1982. It outlines the rights and responsibilities that nations need to consider when they use the world’s oceans, contains regulations on environment issues, management of maritime natural resources and businesses. (Oceans & Law of the Sea United Nations, 1982): However, the content of this agreement had little impact on China’s methods. Diplomatic negotiations did not lead to considerable results either. Therefore, most of the maritime disputes in the East and South China Sea remained unsolved up to this day. (Council on Foreign Relations, 2016)

3. Theoretical Framework

In this section of my paper I provide an overview of the theories, which I use to analyse China’s maritime disputes in the South China Sea. I build up my research on the neorealism framework. After building up a framework, I summarize James D. Fearon’s relevant works: the rationalist explanations for war and the signalling foreign policy interests. In the third part of this chapter I examine cheap talk and cheap signals.

3.1. Neorealism

The international relations theory of neorealism was first introduced by Kenneth Waltz in his book *Theory of International Politics* in 1979. Neorealism assumes that anarchy is the ordering principle of the international structure. This means that there is no central authority with legitimate monopoly of violence, which means the international system is decentralized. Sovereign states are equal in this system. Every state acts to ensure its survival. Since states do not know the others’ intentions for sure, they lack trust between each other. This leads to the development of offensive military capabilities, that can increase a state’s relative power, which is the power that one state has in relation to another state. The distribution of capabilities is important in the neorealism framework. It limits cooperation between states, they fear that the other states will make relative gains or they will depend on other states. (Baylis et al, 2014)

3.2. Rationalist Explanations for War

Actors wage wars between themselves despite the cost of waging wars is high. Scholars use three types of arguments to explain this problem. First, it could be reasonably contented that people are irrational, which means that state leaders are also irrational. Second, one can argue that leaders only enjoy the benefits of war but the costs of it is paid by citizens and soldiers.
Finally, one can claim that even if the risks and costs of war are considered by rational actors they may end up fighting. (Fearon, 1995, page 380)

James D. Fearon argues that in the case of the third cause of war, there are five tenable rationalist arguments, which he calls ‘rationalist explanations’. These are the followings:

1) Anarchy: the lack of an authority, which is capable of policing agreements.
2) Expected benefits greater than expected cost: rational actors will only wage war if that statement is true.
3) Rational preventive war: a declining power fears that it will be attacked in the future by a rising power therefore, a preventive war in the present could be rational.
4) Rational miscalculation due to lack of information.
5) Rational miscalculation or disagreement about relative power.

(Fearon, 1995, page 381)

Fearon points out that the first three arguments do not explain why actors cannot find a settlement, which prevents the costs of war. The other two arguments address that by stating that rational leaders may miss better settlements by miscalculating relative power because of the lack of information. However, those arguments do not explain that what stops rational leaders from avoiding those miscalculations by using diplomacy or other forms of communication. Therefore, Fearon propose that there are three general mechanisms, which operate in specific international situations. (Fearon, 1995)

In the first mechanism, rational leaders have private information, such as military capabilities, which the other actors do not know. Thus, during bargaining settings, they can have motivation to mispresent those information, in the hope of a better deal. Second, mutually preferable settlements are unavailable due to commitment issues. In these situations, some of the actors are motivated to renege on the terms. In the third case, issue indivisibilities prevent states from achieving a peaceful settlement. Some disputes cannot be handled by compromises by their nature. In these cases, the limited number of solutions could mean that actors cannot find a preferable answer for the issue other than war. (Fearon, 1995)
3.3. Signalling Foreign Policy Interests

One of the central dilemmas of international politics is making credible threats. According to Fearon: “The dilemma concerns the problem of how a genuinely resolved state can threaten in such as way as to persuade the target that it is not bluffing.” (Fearon, 1997, page 69) Fearon argues that in order to see a threat credible actors need to use costly signals because if they send signals, which do not create or incur some cost others will not believe that they are willing to carry out the threat. (Fearon, in Fearon, 1997, page 69) States encounter this problem on two fields: on grand strategy level and on specific international disputes. Fearon proposes that leaders could choose from two kinds of credible signals to communicate and create costly signals: tying hands or sunk-cost. (Fearon, 1997)

A tying hands signal means “taking an action that increase the costs of backing down if the would-be challenger actually challenges but otherwise entails no costs if no challenge materializes.” (Fearon, 1997, page 70) These signals mostly emerge as some kind of public statements. Its cost paid ex post because tying hands signals create audience costs, which result from actions of the domestic political audience. (Fearon, 1997)

On the other hand, sunk-cost is paid ex ante, because these signals are actions such as building arms, which costs must be paid in advance. (Fearon, 1997)

To better understand the different logic behind the two signals I review Fearon’s game model in the complete information version. In both cases, there are two actors. A challenger (C) and a defender (D). The challenger is the actor in the model, who would like to change the current distribution of capabilities by making a challenge. The defender is the actor, who wants to keep the current status quo. Therefore, it tries to deter the challenger by making sunk-cost or tying-hands signals. The order of the actions is the same in both cases. Both the challenger and defender have a value for the issue of the conflict $V_D$ and $V_C$. The next step is when the defender chooses a signal and $M$ is the cost of that signal, $M$ is even or greater than zero. After that the challenger needs to choose between challenging or not challenging, if the state chooses the second one, then the game ends. In the other case, the defender must choose whether to fight or not. (Fearon, 1997)
To show the payoffs of the model through an example, let us imagine that the United States would like to challenge China’s position at one of the Spratly Islands. The U.S. wants to do that by sending warships to the area. In this case, if China uses sunk-cost signals like increasing the number of patrols to deter the challenger and the U.S. does not challenge after China’s action as defender payoff will be the following: China will get $V_D - M$, since the defender will get the value of $V_D$ but it also pays the cost of the signal $m$, because the cost of patrols paid ex ante. The challenger gets nothing in this case. If the U.S. challenge and next China does not fight, then it will pay the cost of the signal $M$ so its payoff is $-M$, while the U.S. will get the value of $V_C$. End if the China is willing to fight then its payoff is $P*V_D - C_D - M$, where $C_D$ is the cost of war for the Beijing, and $P$ is the probability of the defender winning the conflict ($P$ is a probability and its value is between 0 and 1). The challenger gets $(1-P)*V_C - C_C$, where $C_C$ is the challenger’s cost of war, and $1-P$ is the U.S.’s probability to win the conflict. (Fearon, 1997)

If China uses tying-hands signals, for example by saying that their navy will raise a blockade in the area if the United States sends its ships there, then the payoff will be different. In the first scenario if the U.S. does not challenge, then it will still get nothing, but China’s payoff would be $V_D$, since now the defender does not need to pay to cost of signal, $M$. When the U.S. challenges and China does not fight, the payoff will be the same as in the case of sunk-cost
signalling, because now China must pay the audience cost of its signal. If China chooses to fight, then its payoff will be \( P^* V_D - C_D \), while the U.S. will have the same payoff as in the sunk-cost signals. Therefore, if there would not be other factors in real conflicts, then it would be better to use tying-hands signals. (Fearon, 1997)

3.4. Cheap talk and cheap signals

Farrel and Rabin (1996,116) defined cheap talk as “costless, nonbinding, nonverifiable messages that may affect the listener’s belief’s.” Fearon argues that diplomacy is a costless form of communication and states try to use this to get information on other actors’ preferences. However, rational states during international disputes inclined to misrepresent their resolve and willingness to participate in military conflicts and therefore these costless cheap talks cannot affect the outcome of interstate crises. (Fearon, 1995)

Diplomatic history confutes this theory and prove the usefulness of cheap talk diplomacy. Cheap talk affect a crisis if the improvement of the country’s payoffs by negotiations relates to the country’s willingness to take a compromising initial position. Hence, cheap talk can be used to alter ex ante probability of war, to coordinate negotiation effort and to reveal information about a state’s resolve. (Ramsay, 2011)

As Clayton L. Thyne introduces cheap signals, they are equivalent to cheap talk - but cheap signals can affect payoffs and have some costs. (Thyne, 2006) But as Ramsay revealed, cheap talk could affect payoffs in some ways and could carry some costs. Therefore, in my paper I use the two as similar concepts and connect Thyne’s findings with Ramsay’s. Cheap signals may disturb intrastate negotiations, which increases the chance that one of the actors will make excessive demands. Therefore, hostile cheap signals my increase the probability of military conflicts, while supportive cheap signals may have a pacifying effect. (Thyne, 2006) In the case of the South China Sea disputes parties often use cheap signals and because the potential effects of these signals they worth examining.
4. Recent events in the South China Sea

In this chapter I give an overview about China’s recent actions, which lead to the increased tension in the South China Sea, then I examine the local countries relationship with China and in the third part China’s affiliation with the United States in this region. After that I examine the types of the signals recently used in the disputes.

4.1. China’s expansive actions

The South China Sea is one of the most important trade routes in the world, and contains huge deposits of natural resources. (U.S. Energy Information Administration, 2013) These factors and the region’s strategic value could explain why China increased its activity in South China Sea in the recent years. As China took up a more active role, so did other countries in the region. From 2005 to 2014 China increased its military spending by 167%, while Vietnam increased it with 170% and the Philippines did it by 30%. (sipri.org, 2015 in: Council on Foreign Relations, 2016) A part of those increased resources were spent to increase the actors’ military capabilities in the region.

In 2013 China started to build up permanent naval basis in Spratly Islands, in some cases in the form of artificial islands such as Subi Reef and Fiery Cross Reef, dramatically reshaping the environment in the process. (Council on Foreign Relations, 2016)


Until June 2015 China reclaimed more than 2,900 acres of land. Compared to that Vietnam reclaimed 80 acres and the Philippines did only 14. (U.S. Department of Defense, 2015, page
16) With this China reclaimed “17 times more land in 20 months than the other claimants combined over the past 40 years, accounting for approximately 95 percent of all reclaimed land in the Spratly Islands.” (U.S. Department of Defense, 2015, page 16)

China has engaged in upgrading its outposts, by building defence emplacements and by improving its infrastructural capabilities. (U.S. Department of Defense, 2015) China uses events as new island runway test (Martina-Torode, 2016) or a lighthouse completion ceremony (Blanchard, 2016) to communicate its growing power in the area. With that power, China wants to control the region as an Exclusive Economic Zone (EEZ) (Council on Foreign Relations, 2016). Exclusive Economic Zone concept was defined in the UNCLOS and gives the right to a State to explore and exploit marine resources in that region. (OECD, 2003) China tries to size the control over fishing in the South China Sea and uses its fleet regularly to persecute other nations’ fishing boats from the area. (Council on Foreign Relations, 2016)

4.2. China’s disputes with local countries

China’s actions boosted the disputes with other countries in the region. They are willing to cooperate with each other and with the United States to strengthen their position against China. Although Vietnam, Philippines, Malaysia, Brunei and Japan are against China rising, they have a hard time to act united, because of their own different goals. (Council on Foreign Relations, 2016) Except Japan, they have their own territorial claims in the region, which is shown by the map below. These claims are sources of disputes as well.

Figure 6: Territorial claims in the South China Sea (The Mackenzie Institute, 2015)
Japan does not have its own territorial claims in the South China Sea. However, Japan tries to help others in the area, because China’s power gain in the region would negatively affect Japan’s disputes with China outside of the South China Sea, like the one in the East China Sea over the Diaoyu/Senkakus islands. Japan’s most intense action was when they donated ten coast guard ships worth 110 million dollars to the Philippines to help their actions. (Esplanada, 2013)

The Philippines has the most active history recently with China in the South China Sea. They strengthened their military in the region and are trying to have a closer cooperation with the United States in the area. (Council on Foreign Relations, 2016) They agreed on a cooperation plan, which includes that the United states will open new military basis in the Philippines until 2024. (Business Insider, 2015)

According to international law, countries have means to build artificial islands in international waters as did China, but in the process, they need to respect other states’ rights to use those waters. (Bokorné Szegő, 2003) In the case of China’s artificial islands it is questionable, because China started to install missile systems on their outposts in territories, which are partly claimed by the Philippines. (Council on Foreign Relations, 2016)

In 2013 Philippines filed a case against China to the Permanent Court of Arbitration in Hague. Stating that China’s actions and claims violate the United Nations Convention on the Law of the Sea. On July 12, 2016, the court ruled that China’s exclusive economic zone claims are unrightfully and the historical basis of China’s nine-dash line cannot confirm its claims. The filing and the ruling raised the tension between the Philippines and China. China does not accept the court’s ruling and did not change its policy in the region since then. (Dutton et al., 2016)

Beside Philippines, Vietnam has the most intense connection with China in the region. After the Sino-Vietnamese war, the relationship between the two countries got uptight, they lost control over the Paracels islands in that war. Since then they have minor conflicts near the Paracels islands, which are the foundation of their disputes. China built up military basis on those islands to reinforce its position. The Hague ruling jugged those expansions too. (Peel, 2017)
Vietnam even started to ease its relationship with the United States to have a better position in the region. They believe that the larger military presence of the United States in Southeast Asia would contain China’s expansion. They agreed to let US ships use Vietnamese harbours for resupply. In exchange, the U.S. has lifted its arms sale embargo on Vietnam. (Gurtov, 2016)

Malaysia’s relationship with China has started to improve recently. In November, 2016 the two countries signed an agreement naval cooperation in the South China Sea. They try to solve their maritime disputes via negotiations. Malaysia had some recent diplomatic scandals, which caused tension with western countries. This further reinforced its opening toward China.

As the smallest actor, Brunei does not voice its territorial claims as loudly as the others. It had its most serious dispute with Malaysia when both countries tried to extract resources from the same region in 2003. The two countries managed to solve this dispute in 2009 through negotiation. Brunei tries to maintain a balanced relationship with both superpowers in the region. After The Hague ruling China started separate negotiations with Brunei. (Sands, 2016) China prefer to parley with smaller countries in the region on a one to one basis, because it helps China to negotiate on better terms thanks to larger relative power. (The Guardian, 2016) It also helps to divide the states of ASEAN and it makes harder for them to cooperate against China if they bargain separately. As an organisation, ASEAN only works through group consensus and China probably tries to undermine that.
In the last part of this section, I summarize the regional countries’ main goals in the South China Sea and their disputed territories with China in a table based on the previous findings in this section.

<table>
<thead>
<tr>
<th>State</th>
<th>Main disputed territory</th>
<th>Main goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>None</td>
<td>Contain China’s expanse</td>
</tr>
<tr>
<td>Philippines</td>
<td>Eastern part of the Spratly Islands</td>
<td>Strengthen US bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increase its military power in the region</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unified ASEAN</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Paracels Islands</td>
<td>Strengthen US bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increase its military power in the region</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unified ASEAN</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Southern part of the Spratly Islands</td>
<td>Closer relationship with China and from that better agreements.</td>
</tr>
<tr>
<td>Brunei</td>
<td>Small part of the Southern Spratly Islands</td>
<td>Maintain balanced relationship with the superpowers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strengthen its position through negotiations because of its small relative power</td>
</tr>
</tbody>
</table>

Table 1: Local countries’ goals, own compilation based on (Council on Foreign Relations, 2016, Esplanada, 2013, Dutton et al., 2016)
4.3. The position of the United States

As with the local states, China’s extension also raised the tension with the United States in the last few years concerning the South China Sea. The US expressed its concerns on international level, usually referring to UNCLOS. The Hague ruling further strengthened this argument. However, China does not respect the ruling, and threw back UNCLOS argument by pointing out that the United States has not ratified it yet. (United Nations, 2017)

Beside diplomatic statements, the U.S. challenges China’s authority over the contested area by sending warships within the twelve-nautical mile line of islands claimed by China or by sending airplanes to the islands’ airspace. (Stewart-Taplin, 2016) In 2001 a Chinese jet even crashed with a US EP-3 spy plane near Hainan Island. In the accident, the Chinese pilot died and after the crash the US spy plane had to made a forced landing in Chinese territory and its crew was detained. (Rosenthal and Sanger, 2001)

This crisis was resolved by the parties, but in these tense situations, it is especially important how actors communicate in domestic and intrastate levels. Thus, it is worth examining how the new president Donald Trump will change the United States’ policy. Of course, we cannot examine the Trump administration’s policy stance yet, but there are a number of aspects worth mentioning already. As a president-elect, Trump tweeted that “Did China ask us if it was OK to... or to build a massive military complex in the middle of the South China Sea? I don’t think so!” (Panda, 2016) This is a provocative cheap talk, which raises the question if the United States will follow its policy of not taking position in sovereignty disputes in the South China Sea in the future. Also as a president-elect Trump made a precedent by speaking with the Taiwanese President Tsai Ing-wen. (Panda, 2016)

Rex Tillerson as a Secretary of State nominee stated that the U. S. would prevent Chinese access to its own artificial islands if needed. On January 23, 2017 Sean Spicer, White House Press Secretary in connection to Tillerson’s comments stated that the United States will protect international territories if a country would try to take over them. Spicer also claimed that the U.S. will defend its interests in the South China Sea. China usually claims that it will only militarize if the defence of the region makes it necessary. These statements, especially the ones about the blockade of the artificial islands, could give China the cause to take these steps. (Stashwick, 2017)
4.4. South China Sea signals

In this part of my paper I will examine signals used by the states in the South China Sea in the period between February, 2015 and January, 2017. I chose an especially tumultuous period to demonstrate the variability of signals.

I compile a list of relevant events (either actors’ statements or actions) and classify them as either tying hands or sinking costs on the one hand and either cheap or costly on the other, based on the theoretical framework I use. In this endeavour, I rely on news media coverage of these events and use the ‘South China Sea Newsletter’, a monthly media review compiled by experts and observers of the region (Phan, Vol. 1, 2015). Although this method has the limitation of only covering publicly available communications (classified ones are not observable), both public communication and actions are of key importance in signalling games (see: Fearon, 1997, Ramsey, 2011), so it does cover an important segment of these games. In the table I wrote the signal sending actors name with bold.

<table>
<thead>
<tr>
<th>Date</th>
<th>Signal</th>
<th>Tying hands/sinking costs signal</th>
<th>Cheap/Costly signal</th>
</tr>
</thead>
<tbody>
<tr>
<td>February, 1, 2015</td>
<td>Japan, Philippine renew vow to strengthen maritime security cooperation</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>February, 05, 2015</td>
<td>China Starts Dredging at Mischief Reef</td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>February, 26, 2015</td>
<td>China ‘aggressively’ expanding into South China Sea says U.S.</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>March, 10, 2015</td>
<td>The Philippines and Vietnam Forge a Strategic Partnership</td>
<td>Tying hands</td>
<td>Costly</td>
</tr>
<tr>
<td>March, 15, 2015</td>
<td>Philippines calls on international community to press to stop reclamation in South China Sea</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>May, 10, 2015</td>
<td>U.S. ‘distorted’ report on China’s South China Sea reclamation, says Beijing</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>August, 1, 2015</td>
<td>China is building a new South China Sea fleet</td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>Date</td>
<td>Signal</td>
<td>Tying hands/sinking costs signal</td>
<td>Cheap/Costly signal</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>August, 14, 2015</td>
<td><strong>Philippines</strong> to open base near disputed sea even without U.S.</td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>October, 27, 2015</td>
<td><strong>U.S. Navy Ship Sails Near Islands Claimed by China; U.S. pursues long-awaited ‘freedom of navigation’ operation</strong></td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>November, 25, 2015</td>
<td><strong>China</strong> criticizes Philippines over South China Sea arbitration</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>November, 28, 2015</td>
<td><strong>Vietnam</strong> demands China halt aggressive action</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>November, 28, 2015</td>
<td><strong>Chinese warship threatens Vietnamese vessel with guns in South China Sea</strong></td>
<td>Tying hands</td>
<td>Costly</td>
</tr>
<tr>
<td>May, 27, 2016</td>
<td><strong>China</strong> dissatisfied with G7 statement on South China Sea</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>June, 2, 2016</td>
<td><strong>Vietnam</strong> supports peaceful solutions to disputes</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>June, 20, 2016</td>
<td><strong>Chinese Shadow U.S. Aircraft Carrier on Patrol</strong></td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>June, 29, 2016</td>
<td><strong>China</strong> slams South China Sea case as court set to rule</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>July, 11, 2016</td>
<td><strong>Chinese vessels sunk Vietnamese boat</strong></td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>July, 12, 2016</td>
<td><strong>China President Xi dismisses Hague arbitration</strong></td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>July, 12, 2016</td>
<td><strong>Japan urges China and the Philippines to comply with the ruling</strong></td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>July, 12, 2016</td>
<td><strong>Japan’s ship arrives in the Philippines for joint exercise</strong></td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>Date</td>
<td>Signal</td>
<td>Tying hands/sinking costs signal</td>
<td>Cheap/Costly signal</td>
</tr>
<tr>
<td>-------------------</td>
<td>------------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>August, 30, 2016</td>
<td><strong>Philippines</strong> says China must recognize South China Sea ruling</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>September, 7, 2016</td>
<td><strong>Malaysia</strong>: South China Sea concerns must be tackled through negotiations</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>September, 24, 2016</td>
<td>China to fly drones over South China Sea</td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>October, 4, 2016</td>
<td><strong>China</strong> Activates First Desalination Plant on Woody Island</td>
<td>Sinking costs</td>
<td>Cheap</td>
</tr>
<tr>
<td>October, 18, 2016</td>
<td><strong>Vietnam</strong> gives thumbs-up to U.S. regional role as pivot stumbles</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>November, 18, 2016</td>
<td><strong>China</strong> urges Vietnam to stop construction on South China Sea island</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>November, 22, 2016</td>
<td><strong>China, Malaysia</strong> begin joint military exercises amid closer ties</td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>January, 8, 2017</td>
<td><strong>Philippines, Japan</strong> navies hold war games</td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>January, 11, 2017</td>
<td><strong>Beijing</strong> warns of ‘necessary response’ against provocation</td>
<td>Tying-hands</td>
<td>Cheap</td>
</tr>
<tr>
<td>January, 14, 2017</td>
<td><strong>China</strong> tests aircraft carrier’s capabilities in South China Sea</td>
<td>Sinking costs</td>
<td>Costly</td>
</tr>
<tr>
<td>January, 24, 2017</td>
<td><strong>White House</strong> warns China on trade, South China Sea</td>
<td>Tying hands</td>
<td>Cheap</td>
</tr>
</tbody>
</table>

Table 2: South China Sea signals (Phan, The South China Newsletter Vol. 1, 2, 4, 7, 9, 10, 16, 17, 18, 19, 20, 21, 22, 23, 2015-2017)
5. China’s position in the South China Sea

In this section of my paper I use the theoretical framework to examine my hypothesis, based on several assumptions.

First, I will treat China as a defender in the region, because I Beijing successfully challenged the occupied islands in the past, and now China responds as a defender in the instalments of local conflicts.

I take granted that other states act rationally and do not challenge just for the status quo, which means that states do not challenge if \((1-P)*V_C - C_C < 0\) is true. Namely the challenger state’s payoff would be negative if they fight. Based on my analysis, I think actors (beside the United States) are too small for that, and the U.S. would not jeopardize its global interests for a geopolitical matter irrationally.

Finally, I assume uncertainty for both sides’ prize value in Fearon signal model. (Fearon, 1997) The value of the contested areas can be possibly measured by the value of the natural resource deposits there, or by how much the trading pays in the region.

Finally, every actor has different strategic and political values for the area, and those may change with time.

Considering these assumptions, my conclusion is that tying-hands signals are better on average than sunk-cost signals in the setting of Fearon’s model. That is because tying-hand signals on average have the same effect on the challenger as sunk-cost but without the fix costs. However, tying-hands signals produce a higher ex ante chance of war, because the defender more likely tries to prevent challenge by binding itself to military conflict. (Fearon, 1997) Although tying-hands signals usually are better choices, I think in the case of China those signals would be worse than sunk-cost signals for several reasons.

First of all, China’s rivals in the region are mostly cooperating with each other against the Chinese threat. (Haotian, 2015) This means that if high scale military conflict would break out in the region, then China could face multiple foes. Therefore, the bigger chance of war in the case of tying-hands signals is especially noxious for China.

Second, China is facing multiple chicken games in the South China Sea. If China backs down in a challenge, then that will affect its bargaining position with other actors. (Haotian, 2015) China’s bargaining power would suffer that, because the credibility of Beijing’s commitments would lower. If China uses tying-hands signals, the signals would raise the chances that
challengers actually challenge. More challenges are increasing the risk of that China would need to back down from one. It would also mean that China should pay the audience cost of the signal. While China highly count on nationalism in its domestic politics, paid audience costs would undermine the practise of China’s leadership. (Haotian, 2015) These reasons further strengthen China’s determination not to let challenges unopposed.

With the use of sunk-costs signals, China’s power would also become more avowed in the South China Sea. That should lower the risk of an actual military conflict, because the chance of rational miscalculation of relative power is reduced. Stable military control over the region would mean that in the case of a military conflict between China and Taiwan or Japan, China could block U. S. forces, which would come to defend their allies in the South China Sea. China also assume that the United States would rather avoid military conflict with an actor who controls massive amounts of military assets in the region. (Periera, 2016)

Now there are no states in the area who could militarily oppose China without a large-scale mobilization of its navy- not even the United States – therefore, Beijing could resume its building actions without taking extra risks. (Haotian, 2015) With the continuous buildings China could reach a point when its sunk-costs signals are so high that no other actors could rationally challenge that. If China uses tying-hand signals local actors would challenge China with a higher probability. Therefore, sunk-cost signal is maybe costlier, but it gives China bigger flexibility.

Furthermore, China tries to improve its positions globally too. To achieve that, Beijing is willing to use its navy in other areas of the world. (Holmes, 2015) It is only achievable if China can withdraw some of its ships from the South China Sea. Beijing can achieve that by making compromises with other actors or by further increasing its outpost’s power. I believe that in short term, compromises in the region with most of actors are unlikely. China has maritime disputes with other states for a long time, it even had military conflict with Vietnam and with the Philippines. Those conflicts could not be mitigated quickly. (Council on Foreign Relations, 2016)
6. Conclusion

In this paper, I aimed to answer the question that: The use tying-hands signals is the rational strategy for China to further increase its relative power in the South China Sea? Tying-hands signals on average are better than sunk-cost signals, but it brings a bigger chance of military conflict with itself. In the light of that and other geopolitical reasons, I found that China have reasons not to use tying-hands signals.

I came to the conclusion by examining the historical background and the current situation in the South China Sea. Local states find difficult to cooperate against China thanks to their different goals. However, most of them try to maintain strategic partnership with the United State to strengthen its position. Meanwhile China tries to negotiate on a one by one basis with the countries to utilize its bigger relative power.

In the case of the United States the new Trump administration could mean that the U. S. will apply a more aggressive strategy in the South China Sea. The examination of recent statements and events (Table 2) showed that actors in the region use a huge variety of signals in every examined dimension.

However, we can see that China signals most of the sinking costs signals in the area, smaller countries tend to use more tying hands signals. When they used, sinking costs signals they did it with another state usually, in the form of a war game or joint exercise. Sinking costs usually costly signals, while tying hands signals are cheap signals, but we can find some counterexamples. In the examined two-year period, there are times when signals are sent in higher frequency, for example near The Hague ruling.

I used the gathered information to analyse China’s positon through James D. Fearon’s signalling game model. I tried to improve my analysis by considering information, which could not be implied in the boundaries of the game model. I found that China should try to avoid using tying-hands signalling in the area, and continue its one by one negotiations with the regional actors.
7. Further research options

There are multiple ways to continue this research. In this paper, I only used the neorealist framework to analyse the maritime disputes in the South China Sea, which narrowed my tools, and reduced the comprehensiveness of my study. James D. Fearon’s signalling model also has its limits in the real situation. Fearon’s model counts with only two actors, but in reality, China never faces only just one challenger, but it has to deal with more local actors. Also, while sunk-cost signals could be measured with good accuracy by the actors, in the case of tying-hands signals, the measurement of the audience costs are much harder. China also has to plan on a global scale, which is modifying its value payoffs. It would be interesting to examine how those modifiers could be included in Fearon’s model.

It would also be an option to follow the Trump administration signals in the future and compare them to previous presidents’ methods and to better understand the Unites States policy changes in the question of South China Sea disputes. It could be useful to examine the actors’ political and ideological backgrounds more thoroughly. That would give a better picture on how audience cost could affect the states, because an Islamic absolute monarchy state treats signals differently than a socialist state. Also to make a more comprehensive research it would be wise to examine more concrete signals from a longer time period.
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China’s maritime disputes in the South China Sea

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