VIETNAM AND PHILIPPINES’ HEDGING AGAINST CHINA IN THE SOUTH CHINA SEA: ECONOMIC AND SECURITY PERSPECTIVES

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ABSTRACT
This article is based on the argument that despite competing for territorial claims and different military stands off, the competing states have shown considerable restraint and hedging behaviors against each other’s to not make the politics of the South China Sea on a point of no return. This assumption is correct in a way that on economic forums like Association of Southeast Asian Nations (ASEAN), they have shown their consensus to resolve their disputes peacefully. But it seems wrong on the pretext that then why this economic interdependence has not provided the space to resolve their perennial territorial disputes in the South China Sea. To find out which assumption seems true, this article is based on the theoretical framework of the Strategic Hedging perspective. This study tries to find the answer to the research question of despite close economic interdependence and military stands offs, why regional states have failed to resolve the SCS dispute? China, the regional hegemon, claims the South China Sea (SCS) region as its core interest and provides the basis for its claims based on historical usage and part of the ancient Chinese dynasties. Vietnam has also shown inflexibility in its claim in the region overlapping with China and other competing states. Honai has also invoked international law to stop the Chinese territorial assertiveness in the region. The Philippines, one of the three important claimants of the SCS, has also tried to take help of the international court of arbitration and the support of global hegemon the US to extend its sovereignty in the disputed islands of the SCS. This article concludes with the findings that Vietnam and the Philippines are using constrain cum hedging to save their national interests from Beijing.

Keywords: Politics, Hedging, South China Sea, Economy, Security, Spratly, Paracel

INTRODUCTION
South China Sea dispute is an apple of discord among the East Asian States. China, the Philippines, and Vietnam are major confronting states of this dispute. Vietnam, the Philippines, and other states have taken this critical issue in multiple international forums against China and gained the support of world powerful states like Australia, India, France, Japan, Russia, the UK, and the US. China and Vietnam have complex relations due to their geographical proximity and economic interdependence. Vietnam’s Communist Party Central Committee announced its foreign policy regarding China in 2013 in which Vietnam adopted that it would treat China as its ideological and economic partner. Although Vietnamese claim over Paracel and Spratly islands would remain a critical part of both countries relations (Hiebert, 2015). China and Vietnam have strong economic bounding. China has become the second-largest trading partner of Vietnam after the US and economists claimed that China will replace the US soon and become the largest trading partner of Vietnam. China is Vietnam’s second-largest export partner and first largest import partner (CIA, 2019).

The same case is happening in the relations of China and the Philippines. The Philippines is near to western countries and their culture. It has a strong influence on the US in its political and economic affairs. Manila’s claim over the Spratly Islands was mostly based on its geographical proximity, effective control, and occupation, the United Nations on the Convention on the Law of the Sea (UNCLOS) definition of Exclusive Economic Zone (EEZ), and national security. Its claim was
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initiated from the discovery of Spratly islands by Philippine’s businessman Thomas Cloma, director of the Philippines Maritime Institute and the owner of a fishing company in 1956 (Kelly, 1999, pp. 8-9). These are the determinants that stimulate the Philippines to take control over the Spratly Islands. South China Sea dispute is a bottleneck in relations between China and the Philippines. The Republic of the Philippines is a smaller state than China. It is the 38th largest world economy with Gross Domestic Products (GDP) of US$354.31B in 2019 (IMF, 2019). Its economy is the third-largest economy of ASEAN states after Indonesia and Thailand (Business World Online, 2015). It has the fiftieth largest army among 133 armies of the world and one of the world's lowest army GDP and expenditures. It has remained the colony of the US and mostly under the influence of the US in terms of politics, military, and economy. One of the Philippines army Gen. Abadia exposed that the US bears almost 42 percent budget of the Philippines army (Soliven, 2016).

Research Question
This study tries to find the answer to the following research question:
Despite of close economic relations with China, why Philippines and Vietnam have failed to resolve the territorial disputes in the South China Sea?

RESEARCH METHODOLOGY
This study is being conducted under the qualitative research methodology within post-positivist paradigm. Three qualitative research approaches i.e., descriptive, historical and exploratory to find out the answer to research question. The theoretical lens of the study is based on the Strategic Hedging. Data is mostly collected from primary and secondary sources. Primary data is taken from the official statements of the competing states, official reports such as white papers etc. and foreign office statements whereas secondary data is derived from research article, books, reports published on the issue under consideration.

The Philippines and Vietnam’s Strategies against China
Philippines and Vietnam have massive trade and diplomatic relations with China to hedge China. Both countries even have strong economic and strategic relations with China’s competitors like India, Russia, Japan, France, United Kingdom (UK), and the United States of America (US). In this way, both countries are reducing the risk of war. Vietnam is consistently building its military capabilities through a strong economy and making alliances with strong countries and international and regional institutions. There are the following ways which are causing to hedge China by Philippines and Vietnam.

To hedge China, the Philippines and Vietnam are engaging China through a huge trade volume and interdependence. Vietnam has become the second-biggest trading partner of China. Mutual interdependence would cause to stop China from taking any aggressive action against Vietnam. Philippines and Vietnam are developing diplomatic, political, party to party, and people to people relations with China. This will help to know about the behavior of China towards the Philippines and Vietnam over the South China Sea dispute. Philippines and Vietnam are focusing to increase their military strength. For this purpose, Vietnam has bought large military equipment from Russia and developing its military equipment complex in Vietnam for modernizing its military equipment with the help of Russia. The Philippines has increased its military alliance with the US. Vietnam has made alliances with world powers like the US, Russia, India, Japan, etc. to secure itself against any aggression from China. For this purpose, it has engaged itself in many exercises and joint ventures with the US and many other countries. Philippines and Vietnam have improved their relations with neighboring countries that can provide help in times of difficulty. This is the reason that the Philippines and Vietnam are active in the ASEAN forum.

THEORETICAL FRAMEWORK: STRATEGIC HEDGING THEORY
To measure the behaviors of the Philippines and Vietnam against China, the lenses of Strategic Hedging have been employed. Strategic hedging theory (SHT) comes from the finance market. It was introduced in 1940 and it became an influential theory in finance during the 1960s. The rapid growing power of China is compelling Vietnam and the Philippines to adopt this strategy (Hemmings, 2013). Vietnam and the Philippines are using this strategy against China.
Assumptions of Strategic Hedging Theory

Tessman and Wolfe (2011) describe four assumptions of strategic hedging theory which are given below:

1. A country needs to improve its competitive tools other than military confrontation with other countries and improve the economic condition and provide public goods.
2. To avoid direct confrontation with a country whom to be a hedge and should become part of military alliances against that country. It is called external balancing. A country that is hedging other countries should increase its military arsenal and make itself from the military point of view. It is called internal balancing.
3. Strategic hedging is a strategy of the highest level of government because it addresses the issues related to the national security of the hedging state.
4. Hedging states should accept every consequence related to domestic and international costs as a part of the strategy.

Following are the definitions of the strategic hedging theory:

- Strategic Hedging Theory is a set of planning and contingent strategies to avoid the conditions in which a state cannot decide and choose balancing, band wagoning, or neutral policies as alternatives.
- The SHT helps and protects a state in two types of contingencies and possibilities. First, it causes to increase in relations between the hedging states which decreases the point of militarization. Second, it ceases the clauses of public goods that the hedging state enjoys (Dong, 2015).
- Strategic hedging is a policy of state against another state by the means of balancing and engaging for reducing the uncertainty and risks. This policy is basically about knowing the intention of other states rather than their actions. In this way, he says that there are two basic tools of strategic hedging. A state reduces risks, uncertainties, and contingencies through two contradicting policies against other states. Those are balancing and engagement. A state is preparing itself against the odds by building strong military relations and strengthening alliances. On the other side, to increase the power of the state, a state increases trade relations and makes strong diplomatic ties with the hedging state (Hemmings, 2013).
- Strategic Hedging refers to uncertain conditions and planning for contingencies and gain power and insurance through different means. It emphasizes enhancing relations with the enemy and boosts power by the means of minimizing risks, diversifying strategic options maintaining freedom of actions, and shaping the target states' choices and preferences (Dong, 2015).
- Strategic Hedging Theory is a strategy of weak powers against great powers avoiding confrontation and maximizing benefits with taking sides of big powers (Liou & Hsu, 2017, p. 2).

Vietnam’s Economic Hedging against China

Vietnam's economy has grown rapidly in the last three decades with a tremendous record in growth after China in the East Asia region. It has transformed Vietnam from the world's poorest nation to a lower-middle-class nation. Vietnamese economic growth had a boost with the economic reforms launched by Doi Moi in 1986. This is the reason these economic reforms are called “Doi Moi” reforms. Since 1990 Vietnam's GDP per capita growth remained one of the world's fastest with 6.4 percent despite global uncertainties in the economy and enjoyed one of a prominent position in world economies. This economic growth caused the reduction of poverty from half of the population. Vietnamese GDP growth was recorded at 13.5 percent from 1993 to 2014. This tremendous economic growth has improved the standard of life of Vietnamese citizens. The Vietnamese government is optimistic to bring more reforms in improving the economic condition. The inception of Vietnam’s Socio-Economic Development Strategy (SEDS) from 2011 to 2020 shows the government’s great concerns regarding economic development, emerging issues of macro-economic stability, and structural reforms (The World Bank, 2017).

China is the largest trading partner of Vietnam. Vietnam’s second-largest export partner is China with 14.5 percent of its export. The US secure the biggest trading partner with 20.1 percent of Vietnamese export and Japan secured third with 8 percent of Vietnam export. Vietnam’s first largest import partner is China with 25.8 percent of its import and Japan secured the third largest import partner with 7.8 percent of Vietnamese import (CIA, 2019). Huge numbers of Chinese foreign direct
investment companies are working in Vietnam. It is estimated that about 833 companies are running their business in Vietnam in 2011. The quantity of these companies is increasing day by day and their total registered capital is 4.3 billion. There are the following benefits of Vietnam for economic partnership with China: Investment in China has caused to strengthen and growth of the economy of Vietnam. It also caused to fulfill the gap of unemployment in the country.

Vietnamese strong economy has built the internal power of Vietnam. Economic strength could be utilized to make a strong Vietnamese military which provides a means to hedge China with the help of Chinese investment. This economic integration also caused to minimize the tension of the South China Sea dispute and strengthen the bilateral relations. Both countries will prefer their economic ties and try to solve the disputed matters through table talk. Strong economic ties caused to improve relations based on economic stacks. In this regard, stakeholders would not intend to create negative relations with each other. In this way, such economic ties caused to increase peace and stability between two countries (Hiep, 2013).

In this way, Vietnam and China have great interdependence with each other and Vietnam is using the tool of economy and engagement to reduce the uncertainty between both countries and hedging China from its actions against Vietnam in the issue of the border as well as the South China Sea dispute. Vietnam has become the strongest growing economy in the region after China, this factor also stopped China to take any aggressive action against Vietnam.

Vietnam’s strong economic relations with China shows strong and close economic relations with China and involvement of Chinese stacks and benefits with Vietnam on the other hand the involvement of the US and Japan being largest exporters after China shows the behavior of Vietnam which is following hedging strategy against China through regional and extra-regional actors.

Military Strength of Vietnam
People’s Army of Vietnam is the most experienced and busiest army in the East Asia region. It has a long experience fighting against France, the United States of America, and China. Vietnam also has the experience to fight with Cambodia. Following are the detail of Vietnamese battles. It was founded on 22 December 1944. Its army is divided into ground forces, Navy, Air Force, and Border Defense Force (Embassy of the Socialist Republic of Vietnam, 2004). Vietnamese army fought against Japanese imperialism during the last year of WWII (Kyoichi, 2001). After the end of the Second World War Vietnam fought the first Indo-China war against France from 1946 to 1954 and defeated France but caused the division of the country into South and North Vietnam (Jha, 2014, p. 44). France's departure immediately caused the Second Indo-China War with the US and the forces of South Vietnam from 1954 to 1975. It caused mass causalities of the Vietnamese. The US and South Vietnam had to face defeat and caused the foundation of the Socialist Republic of Vietnam (Slantchev, 2014). After two years of the unification of Vietnam, Vietnam initiated the war against Cambodian ruler Khmer Rouge from 1977 to 1989 (Deth, 2009). During this war, Vietnam had to face opposition and attack from China and caused the beginning of the Sino-Vietnam war in 1979 (Rosenstrauch, 2014). After this war, China and Vietnam border conflicts continued from 1979 to 1990 (Clodfelter, 2017).

Vietnam has the strongest military after China in the Southeast Asia region. Only the Vietnamese military can resist China in this region (Totten, 2014). Vietnamese military has long experiences of war against the world powers like France, the US, and even China. On the other hand, Vietnam is gradually strengthening its military because of its strong economy and military alliances with Russia, the US, Japan, India, and other powers. China is a giant military power and after the US it spends the largest military budget on its army. China has the largest military of the world on the term of strength. Vietnam should be beware in front of Chinese power and must adopt shrewd and concrete moves against the mighty opponent China. In this way, Vietnam has adopted the strategy of hedging which works in multi-dimensions and covers economy, politics, and military and alliances with strong countries.

Vietnam has established its strategic partnership with many powerful countries. Followings are the detail of Vietnam’s strategic partnership with other countries; Strategic Partnership of Vietnam and Russia established in 2001, India 2007, South Korea 2009, Japan 2006, the UK 2010, Spain 2009, Germany 2011, France, Indonesia, Singapore, and Thailand in 2013 and China 2008. Vietnam has executed comprehensive partnerships with Australia in 2009 and the US in 2013. These all countries
are the most influential countries of world institutions like UN Security Council, ASEAN, G8, G20, etc. (Hiep, 2013, p. 357). These alliances would secure Vietnam from any Chinese aggression.

Vietnam is involved in balancing itself through the modernization of its army, navy, air force, and coast guards. Vietnam is also engaging defense and security alliances with the US for the sake of balancing the power of China in the South China Sea. The US has lifted the arms embargo from Vietnam for normalizing the relations of both countries. First time in the history of Vietnam, the US and Vietnam has conducted joint exercises and rescue operations in the sea as well as in the air in April 2014. Vietnamese navy is gradually gaining power and modernizing and enhancing its capacity to face the Chinese navy. Vietnam has been operating six Russian advanced Kilo-class submarines since 2017. But this deal was completely executed in 2018. These submarines will be equipped with land-attack missiles that can hit the Chinese submarines (Nang, 2018). Vietnam’s air force has got 36 Su-30 MK2 fighter jets and Russia made aircraft to enhance its power against China (Hiebert, 2015). Vietnam purchased two Gepard-class 3.9 missile stealth frigates from Russia for 300 million dollars. These two Gepard-class quantities were increased from two to six in 2017 (Defense Industry Daily staff, 2017). Vietnam is also interested to purchase MI-17V-5 and MI-38 helicopters from Russia. For this purpose, the Vietnamese delegation of defense minister visited Russia (Asian Military Review, 2017).

Vietnam also raised its voice in the Association of the Southeast Asian Nations (ASEAN) forum and showed its great concerns regarding the Chinese assertiveness in the South China Sea. Vietnam persuaded these countries that the aggressive behavior of China could also cause a threat to other neighboring countries. Vietnam has further option to take China in court under the United Nations Convention on the Law of the Sea (UNCLOS) like the Philippines (Hiebert, 2015).

**Philippines Economic Hedging Strategy**

Spratly Islands (Kalyan Islands Group) are the part of Philippines territory. KIG is part of the Philippines Exclusive Economic Zone (EEZ) under UNCLOS 1982 (Palma, 2009). The Philippines has filed a case against China and its historical claim of nine-dash lines in the International Court of Tribunal in Hague in 2013. Court has given the decision in favor of the Philippines on 12 July 2016, but China has rejected the decision and remained adamant in its claim (France-Presse, Agence, July 8th, 2016). The Philippines and Chinese relations worsen due to the Philippines case and the ongoing problem in Scarborough Shoal and Chinese construction of new islands. This was the scenario when the Philippines ' new president Rodrigo Roe Duterte took charge on 30 July 2016 (Philippine History, 2017) and initiated a strategy that is called strategic hedging. Although the Philippines ' previous governments have close economic and political relations the current government is leading in this respect. The Philippines started to engage China with a huge trade volume. Politically, the Philippines has come closer to China (Shead, 2017).

South China Sea dispute is a bottleneck in relations between the Philippines and China. The Republic of the Philippines is a smaller state than China. Its economy is the third-largest economy of ASEAN states after Indonesia and Thailand. It has the fifteenth largest army among 133 armies of the world and one of the world's lowest army GDP and expenditures. It has remained the colony of the US and mostly under the influence of the US in terms of politics, military, and economy. One of the Philippines army Gen. exposed that the US bears almost 42 percent budget of the Philippines army.

The Philippines is the 34th largest world economy with Gross Domestic Products (GDP) of 329.716 billion dollars in 2017 (IMF, 2019). The Philippines is the third-largest economy in ASEAN countries after Indonesia and Thailand. The Hongkong and Shanghai Banking Corporation Limited (HSBC) has predicted that the Philippines will become the 16th largest economy in 2050 (Business World Online, 2015). Philippines economic growth in the first quarter of 2017 is reported 6.4 percent whereas 6.6 percent recorded in 2016 (Viray, 2017). Philippines economic growth has been recorded 6.1 percent from 2011 to 2016. It is comparatively better growth than the government of Gloria Macapagal Arroyo’s (2001-2010) 4.5 percent growth. Aquino III (2010-2016) government was a period of economic fastest growth, and the unemployment rate has declined from 7.3 percent to 5.5 percent. In import of Philippines, China is the first largest trading partner of Philippines. The Philippines has imported the goods 18.1 percent of its total import from China. Japan has secured the second-largest import partner of the Philippines with 11.4 percent and the US secured fourth with 7.4 percent. In terms of the export of Philippines goods, China stands the fourth position after Japan and...
the US and Hong Kong. Philippines export volume from Japan is 16.4 percent, the US 14.6 percent, and China 11 percent (CIA, 2019).

This huge volume of trade with China, the US, and Japan shows deep involvement of the US, and Japan stacks with the Philippines and they are always ready to provide their assistance to the Philippines in case of any assertive and hegemonic actions taken by China against the Philippine. In this way, the Philippines is hedging China through its economy. On the other hand, huge trade volume with China is also a type of hedging. Chinese companies' business has been increased in the Philippines which increased China’s interest in the Philippines, and they would never want that their government will make negative relations with the Philippines. This is the tact of hedging through economic engagement. The Philippines' stable economy is also improving its military capabilities.

Philippine’s president has visited China in October 2016 which is proved very productive on an economic basis. This visit has summed up with a 24-billion-dollar business and trade deal for the Philippines. China has provided 1.272-billion-dollar assistance to the Philippines from 2002 to 2013 for developmental projects. Both countries' trade volume was recorded at 17.646 billion dollars in 2015. In this huge trade volume, the Philippines has exported its products to China with a worth of 6.175 billion dollars and import goods from China 11.471 billion dollars’ worth. Chinese investors invested 1.455 billion dollars in the Philippines in 2015. The tourism industry contributes a large share of the country's GDP. A Chinese tourist has played a big role in the development of the Philippines economy. It is estimated that almost 680,000 Chinese tourists have visited the Philippines in 2016 and contributed to the development of the Philippines economy and GDP. On the other hand, 1.2 million Philippines tourists visited China (Shead, 2017).

Military Strategic Hedging
Armed Forces of the Philippines (AFP) consists of the army, air force, and navy including Marine Corps. Philippines military spending is comparatively lower than other ASEAN countries. Philippines defense spending was 1.4 percent of its GDP in 2017, 1.28 percent in 2016, 1.14 percent in 2015, 1.09 percent in 2014, 1.24 percent in 2013, 1.16 percent in 2012, and 1.21 percent in 2011. Philippines national issues have concentrated towards the Spratly Islands and Scarborough Shoal with China and Taiwan. On the other hand, there is an internal separatist movement of the Moro insurgency in the southern Philippines (CIA, 2019).

Although the Philippines has a weak military it seems the Philippines would develop its military with the coordination of the US, Russia, and other countries. Enhanced Defense Cooperation Agreement (EDCA) is the most important agreement signed between two parties on 28 April 2014 (Soliven, 2016). The Philippines has a good position in ASEAN, and it is the third-largest country in the economic term in the ASEAN region (Business World Online, 2015). The Philippines has a great military alliance with the US and its defense is largely based on US military agreements and assistance. These are political, economic, and military tools that the Philippines is using against China.

CONCLUSION
Peace lies in the continuous diplomatic engagement of claimant states of the SCS dispute. Any change in the existing status quo might put the peace of the whole region at risk. Philippines and Vietnam consider China as an assertive state but still are not able to break off their relations with Beijing owing to their vast economic relations. Both states are using strategic hedging to secure the national interests without compromising on the traditional stance on the South China Sea. Both States are hedging China economically and diplomatically leaving less space for China to behave aggressive in the sea. Vietnam has effectively used internal hard and soft balancing while enhancing it economy and military and engaged China as well in both areas. At the same time, it has also engaged China through economic pragmatism increasing more interdependence and consequently forcing China to soften its approach toward Vietnam on the sea dispute. Philippines has also very effectively employed strategic hedging against China. It has enhanced military and diplomatic relations with China thus persuading China to adopt a non-assertive behavior against Philippines on the sea dispute. The US has strong political, economic, and military bilateral alliances with the Philippines, Vietnam, and other ASEAN countries. Chinese assertiveness and the nexus of other countries against China might result to any crises in the region.
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