MENDEL UNIVERSITY IN BRNO

Faculty of Regional Development and International Studies

The territorial disputes in the region of South China Sea - case study of selected countries in the region

DIPLOMA THESIS

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Acknowledgement

Abstract

Diploma thesis deals with disputes of contested territory in South China Sea region and describes the maritime trade in the region using statistical techniques. The theoretical part is focused on regional security of the region and legalistic theories. In practical part are described historical actions that took place in South China Sea and analysis of the commodities going through the South China Sea region. Analysis is based on Container port throughput, Liner shipping Connectivity index and export and import groups of goods and their impact on balance of trade.

Keywords: South China Sea, conflict, regional security complex theory, principal component analysis, maritime trade, export, import, resources, trade balance

Abstrakt

Diplomová práce se zabývá nároky na sporné ostrovy v Jihočínském moři a sleduje obchod v něm za pomoci statistických metod. Teoretická část práce je zaměřena na teorii regionálních bezpečnostních komplexů a legalistické teorie, jako například mezinárodní veřejné právo. V praktické části jsou analyzovány události, které se udály v Jihočínském moři a mají souvislost se vzájemnou obchodní výměnou států a regionů. Byly vybrány nejdůležitější obchodovatelné komodity, a na základě teorií distribuční sítě a nákladové propustnosti přístavů, indexu lodní spojitosti a v neposlední řadě na vývozních skupinách a dovozních skupinách zboží a jejich dopad na obchodní bilanci, byly analyzovány trendy vývoje.

Klíčová slova: Jihočínské moře, konflikt, regionální bezpečnostní komplex, analýza hlavních komponent, námořní obchod, export, import, zdroje, bilance obchodu

CONTENT

LIST OF ABBREVIATIONS

APX	Appendix
ASEAN	Association of South East Asian Nations
BOT	Balance of Trade
CLC	Commission on the Limits of the Continental shelf
DWT	Deadweight tonnage
EEZ	Exclusive Economic Zone
EIA	Energy Information Administration
FEU	Forty-foot Equivalent Units
GDP	Gross Domestic Product
ISA	International Seabed Authority
LSBCI	Liner Shipping Bilateral Connectivity Index
LSCI	Liner Shipping Connectivity Index
PCA	Principal Component Analysis
PRC	People's Republic of China
ROC	Republic of China
RSCT	Regional Security Complex Theory
SCS	South China Sea
SEA	South East Asia
TEU	Twenty-foot Equivalent Units
UN	United Nations
UNCLOS	United Nations Convention on the Law of the Sea
UNCTAD	United Nations Conference on Trade and Development
US	United States
WSC	World Shipping Council
WW2	World War 2

INTRODUCTION

South China Sea has been presented for a long time as a source of tension and instability in the region of Southeast Asia. South China Sea has an undeniable impact on the current world developments, especially with its geostrategic importance, which is constantly confronted with new threats. Increasing proportion of maritime transport, raw material deposits or natural disasters are just some of the risks for the entire region. With the economic development in Southeast Asia and an increase in maritime container transport, the South China Sea has become one of the busiest shipping areas in the world.

Territorial delimitation of this work is the South China Sea, which includes not only a complex network of geographic unresolved disputes but has many thematic dimensions, including economic, political and security plane. Over last decades, it has become one of the most important geo-strategic areas of the world. Economies in the lead with China are dependent on transportation of oil, gas and goods over the South China Sea. In addition, the sea itself is likely a great source of minerals, which brings a crucial transformation in relations between adjacent countries. The emerging economies of Southeast Asia are highly energy-intensive, and therefore hungry for resources. South China Sea, but offers much more, since it is one of the richest and most unique marine ecosystems in the world and a source of livelihood, whether directly or indirectly, for tens of millions of people living on the coast.

South China Sea over the past decade has become a geostrategic core of Southeast Asia. It is a major commercial artery linking the Indian and Pacific Ocean, a huge source of food and raw materials to neighbouring countries, where they meet the strategic interests of regional and non-regional powers and organizations. Among the most active external powers in the territorial disputes are Japan and the United States. Both countries are greatly based on maintaining security and stability in the region and are significantly involved in security issues. Finally, the situation in the area is significantly affected by the territorial claims of neighbouring countries, of which the largest claims are coming from China and Taiwan, as well as Vietnam, Malaysia, the Philippines, Indonesia and Brunei. The existence of the territorial dispute, which didn't help to solve even the UN Convention on the Law of the Sea, complicates the management of mineral resources, the safety of maritime transport and relations between neighbours in the South China Sea.

South China Sea region is extremely important from a geostrategic and geopolitical point of view, but I believe that it is in European terms, with few exceptions rather neglected. I received this conclusion after the evaluation of literature. I believe that despite

the relative calm in the situation in the South China Sea, the topic is still current. China is in my opinion the most important state in the South China Sea and its attitude towards other countries is absolutely essential. Thesis is aimed at defining moments that led individual states to greater cooperation and contrary to the escalation of tensions. Hypothesis is that China is the main driver of change in the South China Sea since the change in China's attitude towards countries in the region allows establishment of a stable and secure environment in the South China Sea. I contemplate that China's position on the South China Sea issue is absolutely crucial and lead to escalation or de-escalation of tensions between states. Potential future conflict in South China Sea will have impact on economic activity of involved actors.

The first subchapter of theoretical part will focus on theoretical background of the disputes – regional security complex theory and legalistic theories concerning the South China Sea region. The importance of marine law on territorial disputes in the South China Sea will be the described in this subchapter also Law of the Sea and its issues, since different interpretations of maritime law still causes many problems in the area. Second subchapter of theoretical part will focus on geographic analysis of the South China Sea, and then it will map the territorial claims of individual states. The purpose of this part is to set the geographical boundaries of the inspected object, i.e. Where the South China Sea is and what geostrategic importance South China Sea represent for neighbouring countries.

Second part of thesis is analytical part, this part is divided into two subchapters – case study of historic events that took place in South China Sea through the years and insight into the economic side of the countries involved in the region. First subchapter of analytical part will address the development of the conflict after the WW2. Since the behaviour of countries in the South China Sea was affected by the domestic situation in the countries as well, the situation within the individual states will be highlighted too. Another part will focus on the current situation in the South China Sea, followed by a chapter on the actors who are in the South China Sea right not claim any territory. The second subchapter of my analysis will be focused on economic aspect of the region. The emphasis will be on maritime trade (export and import of goods) by selected actors of South China Sea. For analysis will be used statistical techniques.

The final chapter summarizes the lessons learned. Also one can find in the final chapter suggested solutions of experts on the South China Sea territorial disputes.

AIM AND METHODOLOGY

Main aim of the work is to describe the South China Sea, the importance of South China Sea and claims of the individual actors in South China Sea region. The hypothesis is that China is the main driver of changes in the South China Sea. I contemplate that China's position on the issue of South China Sea is key and lead to escalation or de-escalation of tensions between the states. Also I believe that conflict in South China Sea would have impact on economic activity of involved actors.

This Diploma thesis is divided into three main chapters: Theoretical part, Analytical part and Results and recommendations. The theoretical part will be divided into subchapters. First subchapter of theoretical part will be focused on theory of Regional security complexes and legalistic theories, followed by second subchapter which will be focused on review of the region and introduction of the actors and their claims in South China Sea. Analytical part of my thesis is also divided into two subchapters. First subchapter is focused on actions that happened in South China Sea throughout the years, starting off in the 1940s till the latest. Second subchapter is focused more on economic aspects of the region.

The method used to develop this Diploma thesis is mainly based on data collection and structured interview which help me better understand this issue and provide essential information related to this topic. Collected data is later used for evaluation and formulation of conclusion and suggestion. In analytical part I will use the science methods to help me discover the strengths, weaknesses, opportunities and threats related to the event in region. At the end of the thesis, I will propose suggestions and conclusions based on analysis and obtain data in the analytical section by deduction method for specification of possible actions that would ensure sustainable development of this still ongoing issue of labour and commodities transport.

There are several science methods that were used in this thesis. One of them is the review of the literature and then statistical techniques. The data were collected from publicly available sources such as:

- United Nations Conference on Trade and Development
- ASEAN Statistics
- United Nations Common format for Transient Data Exchange for power systems

The data were used for different analysis in this diploma thesis. Most of the statistical analysis like principal component analysis and multiple regression were done in statistical programme SPSS and in Statistica 12. The data are presented visually through tables and charts. Among other scientific methods used in this thesis are:

- analysis   comparison
- deduction   descriptive research
- generalization   legalistic research

1 THEORETICAL PART

1.1 Conflict

The situation in South China Sea region is perceived as conflicting. Tensions arise mainly around Spratly and Paracel islands. Even though this definition is used quite often, the right meaning of the definition it's not that clear. Mr. Pšeja defines Conflict as *„constantly present and recurring condition of international relations, which nature can be dependent on many factors as violent or non-violent which is explicitly or implicitly present in all interactions in international relations".* (Pšeja, 2002, p 82)

Another definition of Conflict was done by Mrs. Waisová. Her definition says: *„that conflict is situation, where at the same moment at least two actors are striving for the same good, although this good is not enough to meet the demand of both or more actors".* (Waisová, 2005, p 136)

1.1.1 Types of conflicts

As well as definition of conflict, we have more ways of dividing the conflicts. One of the basic options of dividing conflicts is divide them as Armed and Unarmed. Another type of conflict is more focused on conflicts of interests and conflicts of values. The purpose of conflicts is interest in material goods, which are resources, economic profit, political advantage and more. By this tangibility of goods, the mutual disputes can be defined, measured or shared, which facilitates actors to reach a compromise. The basic types of conflicts of interests include conflict of territory, economical conflicts and political conflicts. Conflict of values is not that connected to tangible causes, which are subject to less material affairs and attitudes. It could be religion, nationalism or ethnicity these values could be perceived as conflicting. In South China Sea region there is conflict which includes the three mentioned types of conflicts. It is conflict for territory in Spratly islands, also minerals at Paracel islands and also power in the region. This conflict is also about increasing and decreasing level of hostility between actors in South China Sea region over time. (Šmíd, 2010, p 18)

1.2 Security

The definition of security is elastic but it is a common misconception that the term implies peace and stability. Following the conclusion of the Cold War, many scholars realized that the term was confined to the analysis of national security and that security

studies overemphasized the military dimension. The fall of the Soviet Union called for a re-examination of the ethnocentric term to yield a definition that would be more pertinent to the analysis of a world that became characterized as multi-polar. According to Buzan *„in the case of security, the discussion is about the pursuit of freedom from threat. When this discussion is in the context of the international system, security is about the ability of states and societies to maintain their independent identity and functional integrity".* (Baylis, 2014, p 255)

During the Cold War, security studies were preoccupied with the threats posed primarily by the military dimension and how those perceived military threats affected the domestic security of states. The scope of the definition was expanded in the 1980's in recognition of the fact that there are other destabilizing factors at work within the fabric of the state.

1.3   Regional Security Complex Theory

Theory of regional security complexes comes from the pen of the main representatives of the so-called Copenhagen school by Barry Buzan and Ole Waever. Copenhagen school belongs in safety studies on the so-called spreaders of them who promote inclusion of non-military-political topics to research. Copenhagen school brought the sectored approach to examining the security. (Buzan, 2003, p 26)

Its logic stems from the fact that international security is not defined in absolute terms, but in relative terms.[1] Safety is thus primarily a matter of social relationships units motivated by security threats and vulnerabilities. All states are indeed involved in a global network of reciprocal security dependence, but since security threats operate over short distances more easily than large distances the safety feeling of insecurity is usually associated mainly with geographical proximity. The region in contrast, refers to the level where states or other units link together sufficiently closely that their securities cannot be considered separate from each other. The definition of a security complex was defined as *„a set of units whose main securitization processes and de-securitization processes are so intertwined that the problems of security of each of them cannot be adequately analyzed or addressed* separately". (Buzan, 2003, p 44). This

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[1] This means for example on the safety of the Czech Republic as isolated unit we cannot tell much. We have to study it in a wider context - in the region (relations with neighbouring states), membership in international security organizations etc.

allows the safety analysis to include other actors of securitization, reference objects and security sectors.

The creation of regional security complexes was based on one side of the anarchic nature of the international system and its consequences on the other hand the pressures created by local geographical proximity. It is this physical proximity that generates significantly more security interactions between adjacent units than the units allocated in other areas. On that basis, we can identify a geographically definable "clusters". Obviously such a regional security complex is not isolated from other regions or global superpowers. A connecting element between the regional dynamics and global levels is a mechanism called so called *"penetration"*. This occurs when an outside power develops security relations and obligations with the state or states within the complex. (Buzan & Waever, 2003, p 84)

With regard to the regional security complex, actors within a security complex have closer relations, whether friendly or antagonistic, with one another than they do with actors outside the complex.

„The absence of threat to the core values of a state is the most ambiguous yet generally accepted definition of national security." (Buzan, 2003, p 98) While the definition of core values may be subjective there is widespread support for the notion that the principle values of the definition refers to include the issues such as sovereignty and territorial integrity.

As Buzan rightly points out, *„securitization is an extreme version of politicization, which consequently allows for and justifies actions outside the normal bounds of political procedure".* (Buzan, 2003, p 101) Successful securitization implies that the move is accepted as legitimate and legitimacy refers to the normative belief by an actor that a rule is to be obeyed. *„An issue is considered a threat when the immediacy of a threat necessitates a rapid response that must be elevated above formal political procedure and practice".* (Buzan, 2003, p 103)

1.3.1 Securitization

Traditionally, the security considerations of a state were focused on the military's capacity to respond to external threats. In other words, it was assumed that the national security of the state was reinforced by weapons acquisition and advancements

in military technology. However, the security considerations of states today have become much more complex and Buzan developed the idea of securitization as a response to pattern of states that feel there are existential threats to their security. The concept of securitization highlighted how easy it was for states to subjectively interpret the context and conditions that would constitute a threat to their national security. Essentially securitization occurs when a state interprets the action taken by another state something that poses an immediate threat to the integrity of the state and one that if not answered could jeopardize the national security of that state. Essentially, any threat to the survival of a valued object can be interpreted as a threat towards security at both the state and individual level. Threats can come from a plethora sources both state and non-state actors, in the forms of principles, offensive and aggressive actions, and undesirable social trends such as terrorism, and cultural homogenization. (Buzan, 2003, p 103)

Today, the internal threats to the fabric of the state seriously outweigh the number of external threats that must be considered. Scholars agree that security is multidimensional concept that includes internal and external elements. It is also implicit that security is not always a term that is synonymous with peace. If the military, political, economic, societal, and environmental sectors are weak, issues arise that will inevitably invite domestic instability and threaten national security. These sectors impact one another at the national level and they are interdependent. It is rare that developments in one sector do not have repercussions for the other sectors. In addition, threats can occur hierarchically on the local, regional and strategic levels. According to Buzan *„political security is centered upon the system of government, the extend of political cohesion, levels of legitimacy, and the presence of an ideologically orientating force which gives meaning to the idea of a state".* (Buzan, 2003, p 105)

Among the primary five sectors of securitization belong:

- Economic security − which pertains to the ability to effectively mobilize resources and provide access to markets in such a way that growth is sufficient enough to support the activities of the state.
- Environmental security − which is a prerequisite to enjoy the financial benefits of a vigorous ecosystem. Ultimately, practices that promote sustainable development are of upmost importance to environmental security.

- Political security – can take the form of competition amongst ideologies, or an attack to the nation itself. It is important to distinguish between intentional political threats and those that arise structurally from the impact of foreign alternatives on the legitimacy of states.

- Societal security - which pertains to the preservation of traditional practices, norms, customs and the religious orientations of the state's citizens. Also concerns the ability of a society to preserve the essence of its character during times of change and transformation within the state. Furthermore, societal insecurity may involve the introduction of new threats to identify the group.

- Military security - states consistently subscribed to the definition of military security that best suits the interests and ambitions and as interest change, so do the orientations of the states. If we can increase the security of states by discouraging the development, production and acquisition of offensive weapons the world will be a safer place. (Buzan, 2003, p 106 - 108)

1.4   RSCT and South China Sea region

The RSCT is a significant tool for providing valuable insight into the understanding of the Southeast Asian regional security environment and the development of its security framework by exploration at the regional, interregional, and global level, respectively. The creation and survival of ASEAN are useful for the transformation of the region's essential structure and responsible for the confrontation of the post-Cold War era. The transformation of Southeast Asian security from conflict formation to security regime has moved the region forward from its shadowy past to a new creation of a distinct and autonomous region with relative control over its own boundary, polarity, structure, and social construction. Moreover, the conflicts in South China Sea and the rise of China have linked the Southeast Asian security concerns sufficiently closely together and highlighted the extent to which stability and security cannot be achieved without strong cooperation. The increasing threat posed by non traditional and transnational security issues has ensured that the intensity of the Southeast Asian (regional) security complex continues to deepen and a regional cooperation level remains an imperative feature of the regional security environment. The domestic region's relations and patterns of amity within Southeast Asia provide its regional peace. Nevertheless, the region is still comprised of individual and self-interested states who have accepted the need for economic and security cooperation

in the pursuit of their own survival. ASEAN continues to face criticism over its functional autonomy of its units. The ASEAN style of conflict management, the ASEAN way, has achieved the proposed initiatives, created the source of criticism; raised questions about ASEAN reliance on unbinding consensus based on decision-making and led external regions to penetrate in the region. However, the intertwined security interdependence and the strategies to cope with it are much more complicated than they appear. Proximity and familiarity can draw regions together, on the other hand historical and cultural aspects can pull them apart. (Buzan & Waever, 2003, p 136)

1.5   Legalistic theories

In next chapter will be described the legalistic theories concerning the South China Sea and the disputed territory. There will be described in detail Public international Law, United Nations Convention on the Law of the Sea and also treaties focused on South China Sea. To the treaties we can add ASEAN declaration on the South China Sea and Declaration on the Conduct of Parties in the South China Sea.

1.5.1   Public International law

Public international law is formed in the shape of a common will of states; it is specifically shaped by the basic sources, including international treaties and customs. Supporting sources are court decisions, unilateral acts of States and international organizations, learning of the most qualified experts of international law, general legal principles and equity. Ondřej defines international public law as *„a set of laws regulating the most part of the relations between sovereign states and governing States' relations with other subjects of international law, as well as the relationships between these bodies".* (Ondřej, 2009, p 24)

Among the subjects of international law are: sovereign states, international organizations with national character (inter-governmental organizations), the special political units and individuals. The State has right of sovereignty over its territory and the population of state and the full-fledged entity, limited only by sovereign rights of other states, general international law and unmarried assumed liabilities. Other states may not interfere in the internal affairs of another state. The State also has sovereignty over all things and people in international areas in which the object must act in accordance with the jurisdiction of the motherland. International law prohibits the use

of force and threat of force in conflicts over sovereignty of a territory. (Ondřej, 2009, p 104)

State territory over which the state has sovereignty means an area that is from other countries or territories not subject to the sovereign power of any state, separated by borders. State territory is made up of portions of the earth's surface including terrestrial area and the area of water which lies within the terrestrial area or adjacent to it. It could be internal waters, national waters and territorial sea. Another part of the national territory is the earth's interior and the airspace above land and sea parts of the national territory. State territory can be acquired in three ways. The first is to get the initial occupation of the territory, which means to acquire the territory that had previously no subject to the sovereignty of another state. Nowadays, this method is possible only in small parts of the territory called "Addition territory". Among other means of acquiring territory belongs to an international treaty on the transfer of state sovereignty, based on the decision of an international judicial body or other bodies and acquisitive prescription. (Ondřej, 2009, p 157)

An important judgment was the decision of the International Court of Justice in 2002. The case concerned Malaysia and Indonesia. Object of the case was possession of the islands Pulau Ligitan and Pulau Sipadan. Sovereignty was granted on the basis of Malaysia's de facto authority over the islands and the activities carried out by them. (Buszynski, 2010, p 87)

Special legal statuses have international areas. The international areas include part of the sea (the open sea, the seabed beyond the limits of national jurisdiction), outer space', celestial bodies and Antarctica. International spaces, no nation can steal the other hand, anyone can become a benefit. Special areas are exclusive economic zone (EEZ) and continental shelf in which the States cannot have sovereignty, but they have sovereign rights of exploration and exploitation of natural resources. On Offshore it is valid for coastal and inland states freedom of the seas. This concerns fishing, freedom of navigation and over flight, building artificial islands, the freedom of scientific research and other. Seabed beyond the limits of national jurisdiction is designated as *"Area"*. As well as in the international *"Area"* or areas of the state cannot have sovereignty, but all states may use the area. Unlike the international area utilization

of the *"Area"* is covered by the rules, which oversees the International Seabed Authority (ISA). (Ondřej, 2009, p 161 – 163)

1.5.2 United Nations Convention on the Law of the Sea

United Nations Convention on the Law of the Sea (UNCLOS) deals with the legal aspects of maritime law. UNCLOS specifically establishes *„a legal order for the seas and oceans which will facilitate international communication, and will promote the peaceful usage of the seas and oceans, the equitable and efficient utilization of their resources, the conservation of their living resources, and the study, protection and preservation of the marine environment".* (Ministry of Foreign Affairs, 1996, p 1)

The contract was signed in 1982, came into force in 1994. To date, 166 countries have ratified the treaty, including European Union, however United States of America are missing among others. Each coastal state has sovereignty over the territory to twelve nautical miles from its shores, which is known as territorial waters. The threshold at which they are measured is called the baseline and consists of the low-water line around the coast. All vessels are entitled to sail through the territorial waters, without any delay. The coastal state may intervene against vessels if it considers that the vessel threatens the peace, good order or security of the state. Area within twenty-four nautical miles from the baselines called contiguous zone. In this zone, the coastal state has the right to intervene to prevent infringement of its customs, medical, financial and immigrant rights. Although not specified in detail in the Convention, most countries allows free passage of other vessels. The territorial waters builds exclusive economic zone (EEZ). *„The exclusive economic zone is measured from the baselines and extends up to 200 nautical miles from the shores of the coastal State. It is an area "that is subject to specific legal regime*". (Ministry of Foreign Affairs, 1996, p 14)

This means that the coastal state has the right to explore and exploit natural resources and manage them, explore seabed or use resources for energy production. Under the jurisdiction of the coastal state falls oversight of scientific research in the field of protection of the marine environment and control the construction of buildings, installations and artificial islands. Other vessels are entitled to an exclusive economic zone to travel through, but must be subordinate regulations of the coastal state. Another term is continental shelf. The UN Convention on the Law of the Sea, definition of the concept of continental shelf: *„Continental shelf includes the seabed and subsoil beneath*

the sea areas which lie beyond its territorial sea throughout the natural prolongation of its land area to the outer limit of the continental margin, or to a distance of 200 nautical miles from the baselines from which to measure the breadth of the territorial sea where the external border the continental margin does not reach this distance". (Ministry of Foreign Affairs, 1996, p 20)

Figure 1: Map of South China Sea (*Source: BBC Q α A: South China Sea dispute)*

Figure 1: Map of South China Sea displays Exclusive economic zone of countries located in South China Sea and China's claimed territory. States submit their proposals on the delimitation of the continental shelf to the Commission for the limits of the continental shelf, which then decides whether the claim state grants. If the state proves that the continental shelf is the continuation of its continental territory and the Commission on the boundary of the continental shelf approves, he can become a claim to an exclusive economic zone and beyond 200 nautical miles to 350 nautical miles from the baselines. Conflict in the South China Sea is important to define the island. Only an island can have territorial waters, contiguous zone and exclusive economic zone in particular and the continental shelf. UNCLOS defines an island as *„a naturally formed area of land, surrounded by water, which is above water at high tide".* (Ministry of Foreign Affairs, 1996, p 30)

To dispose exclusive economic zone and continental shelf it must be possible permanent settlement and also lasting economic activity, on the island. If this is not possible, it is not an island but a rock. (Ministry of Foreign Affairs, 1996, p 30)

1.5.3   ASEAN Declaration on the South China Sea

Declaration on the South China Sea was a response to increased tensions between Vietnam and China, which occurred after China allowed Creston Energy group (from United States of America) to explore the area of the Vietnamese continental shelf (Vanguard Bank). It was on 25 February 1995 that China claimed absolute sovereignty over Paracels and Spratly islands. ASEAN's foreign ministers recognized that *„South China Sea issues involve sensitive questions of sovereignty and jurisdiction of the parties directly concerned"* and the fact that *„any adverse developments in the South China Sea directly affect the peace and stability in the region"*. (ASEAN, 1992, p 2)

Declaration on the South China Sea was signed in 1992 by the foreign ministers of six countries. It was a Brunei, the Philippines, Indonesia, Malaysia, Singapore and Thailand. Vietnam, at that time a non-member ASEAN, the content of the declaration endorsed. China refused to participate in international discussions over issues around Spratly and Paracels islands- China did not perceived these islands as the theme of ASEAN, but agreed with the principles of the Declaration. (Thuy, 2011, p 22)

States in the document recognize common historical, social and economic roots that connect the countries surrounding the South China Sea. For this reason, participants should strive to develop friendship and cooperation and avoid the use of force in conflicts. This cooperation of countries in the South China Sea was mainly related to maritime navigation, communication and combating piracy, the fight against armed robberies and transport of drugs, environmental protection and joint coordination in rescue operations. (ASEAN, 1992, p 4)

Declaration on the South China Sea is committed to the principles of another document, namely the Treaty of Amity and Cooperation in Southeast Asia. Among the principles of this agreement is the principle of non-interference in the internal affairs of other countries and the peaceful resolution of conflicts. States should renounce the use of force in resolving disputes and cooperate with each other. Another principle is the right of countries to have sovereignty over their territory. (ASEAN, 1976, p 4)

The Declaration has several shortcomings. It does not include the punishment part of an actor who would violate one of the points in the document. It is rather a formal document in which states express desire to resolve the conflict peacefully, but it is not binding and does not establish any punishment. The second shortcoming lies in the list of signatory countries, among missing states are Vietnam and China, which, although adopted the principles of the Declaration, but did not attach their signature. (ASEAN, 1976, p 6)

1.5.4   Declaration on the Conduct of Parties in the South China Sea

Efforts to create a code of conduct by states in the South China Sea already appeared in 1992 in connection with the Declaration on the South China Sea. The Code would become a guarantee of long-term stability in the region. But the result of talks was not a binding document to rules of conduct, but a political document that did not require any state warranties. Declaration on the conduct of parties in the South China Sea was signed in 2002 by states of ASEAN and China. (Thuy, 2011, p 3)

„Specific signatories were the foreign ministers of Brunei, China, the Philippines, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand and Vietnam". (ASEAN, 2002, p 2)

To the signing of the Declaration on the conduct of parties in the South China Sea contributed the terrorist attacks on the USA on 11 September 2001. The US declared that Southeast Asia has become a second front in the fight against terrorism. China was worried about the growth of US power in the region, which was given to the fact of improving relations by United States of America with the Philippines, Malaysia and Vietnam. Thailand, Singapore and Indonesia also supported US efforts. Connecting the People's Republic of China to the Declaration should have prevented the conflict in the South China Sea to be more internationalized and became more multilateral. Members of the ASEAN should have step down from their efforts to deepen their relations with the US, and thus should reduce the possibility of US involvement in the events in Southeast Asia. For China the signing of the Declaration marked the change of its current approach to the conflict in the South China Sea. From the bilateral negotiations, it has moved closer to multilateral negotiations. China did not back down from its territorial claims, but wanted negotiations to prove more of a friendly face of China. It was happening to ease the concerns of ASEAN states about the increasing

China's ambitions to gain the trust of states and economically benefit from the negotiations. (Thuy, 2011, p 6)

States have signed in the Declaration, deepening friendly relations and that they will attempt to resolve the conflicts in the South China Sea by peaceful means. State actions should be consistent with the principles of the UN Charter, UN Convention on the Law of the Sea, Treaty of Amity and Cooperation in Southeast Asia and Treaty of Five Principles of Peaceful Coexistence and other principles of international law. The Declaration affirmed the freedom of navigation and over flight above the South China Sea, as well as the principle of cooperation in resolving disputes sovereignty over the territory. To deepen the cooperation between the countries, the parties should cooperate to protect the marine ecosystem also survey of the marine environment in the area of safe navigation and communication at sea, rescue operations and suppression of international crime. The overall result of the Declaration had to be achieving peace and stability in the South China Sea region. (ASEAN, 2002, p 4)

1.6 Principal Component Analysis

„Principal component analysis is one of the oldest and most widely used methods of multivariate analysis". The aim of principal component analysis is to transform correlated variables into smaller number of uncorrelated variables which are known as principal components. *„That means decomposition of source matrix into a structural matrix and the noise matrix".* (Meloun, 2012, p 68)

In the case when dealing with many variables, it is therefore necessary to reduce the number of variables, but with a minimal loss of information. The aim of the PCA is therefore to reduce the large number of variables into a smaller set of components. The aim of the PCA analysis is to reveal how different variables will change their relationship to each other and how they are connected. This is achieved by that the correlated variables are transformed into a new set of uncorrelated variables using covariance or correlation matrix. The initial set of variables is called p variables (manifested variables) and a new set is called the latent variables. Factor analysis is similar to PCA. And it is more or less sophisticated than PCA. (Jadczaková, 2014b)

1.7   Data normalization

For normalization of data in this thesis will be Min/Max method. Min/Max method will be used for the Liner shipping connectivity bilateral index.

1.7.1   Min – Max method

MIN-MAX method - This method normalizes indicators that have identical intervals⟨0; 100⟩ by subtracting the minimum value and dividing by range of indicator values. The disadvantage of this model is that extreme values or outliers could disrupt transformed indicator. Min – Max method will be used in Liner shipping connectivity index and also in the Liner shipping bilateral connectivity index.

In order to establish a unit free index, all components are normalized using the standard formula: Normalized Value = (Raw – Min (Raw)) / (Max (Raw) – Min (Raw)). This formula rather than the Raw/Max (Raw) formula has been chosen essentially because of the existence of minimum values which differ from zero. If all minimum values for all components were zero both formulas would be equivalent and would generate identical normalized values.

$$I_{qc}^t = \frac{x_{qc}^t - min_c(x_q^t)}{max_c(x_q^t) - min_c(x_q^t)}$$

For indicators of the *MAX* type is used following formula (Jadczaková, 2014a):

$$B_j = \frac{X_j - min\{X_j\}}{max\{X_j\} - min\{X_j\}} * 100$$

For indicators of the *MIN* type is used following formula (Jadczaková, 2014a):

$$B_j = \frac{max\{X_j\} - X_j}{max\{X_j\} - min\{X_j\}} * 100$$

1.8   Multiple Regression

„Regression analysis refers generally to a broad class of statistical techniques that are designed to examine the relationship between the dependent variable Y and independent variables $X_1, X_2, ... X_k$". (Hendl, 2004, p 372)

Multiple regression is a statistical tool for the study of dependence of the model, which includes a single dependent variable and several independent variables.

Data can be retrieved by selecting the elements we find the values of all variables considered. There are three kinds of tasks for which solutions should be applied multiple regression analysis.

- We want to know the effect of the summary changes affecting parameter X_1, X_2, ... X_k on the target variable Y.
- We want to predict the value of dependant variable Y for future values of the variables X_1, X_2, ... X_k.
- Within the exploratory statistical analysis we try to find statistical relationships between the dependent variable and several independent variables. (Hendl, 2004, p 372)

For this diploma thesis the first task is crucial to find the impact of the selected commodities on the balance of the trade.

2   REVIEW OF THE SOUTH CHINA REGION

South China Sea is a place, where are clashing geopolitical interests of individual countries and non-state actors. In the conflict of the South China Sea are involved states, which claim the territory in the area, which basically means each state, which surrounds the South China Sea. Sovereignty over these territories by any state would guarantee the right of mining operations and other raw material supplies. Also South China Sea is an important geo-strategic space, because it is the key and the shortest maritime route between northern Pacific Ocean and the Indian Ocean. It is also one of the busiest shipping lanes in the world, since over 50% of global annual trade tonnage travels through the South China Sea. Southeast Asia is focused on the Sea; we find there several biggest ports in the world. Among the largest and most important ports in the South China Sea are: Hong Kong, Singapore, Kaohsiung in Taiwan, Shenzhen in China, Port Kelang and Tanjung Pelepas in Malaysia, Tanjung priok in Indonesia Laem Chabang in Thailand and Manila in the Philippines. (Burgess, 2003, p 7)

By sea they are transported here mainly raw materials stocks, whose share of transported items will surely continue to grow in the future, as the Southeast Asian countries led by China are hungry for energy resources that enable them to further economic development. Since the start of the economic process in China and other Asian economies, the share of maritime transport multiplied.[2] (Rosenberg, 2009, p 44)

Individual national interests of the states are often crossing. States that are not in the pursuit of the sovereignty over the contested territory are closely monitoring the situation and their objectives. Such countries include Japan, for which the South China Sea is important in terms of supply and security, and the United States which are monitoring the peaceful resolution of conflicts and the strengthening power of China. Terrorist organizations are also active in this area, in form of pirates, mafia and organized crime groups. Their interests are oil, and money from extortion of the oil trading companies. (Waisová, 2006, p 67)

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[2] Tonnage of Asian ships is the largest in the world as its market share of 38.8% of world tonnage, while Europe's share is 21.8%

It is estimated that one-third of the world's shipping transits through SCS. Taking control over SCS means taking control over the sea route from Malacca Straits to East Asia. Therefore, its unique geopolitical position enables SCS to be of great strategic importance. (EIA, 2013)

Straits are important for coastal and neighbouring countries in terms of security and the economy. Indonesia is directly crossed by one of the paths leading from Europe and the Middle East. Routes lead mostly to China, Japan and South Korea. Importance of the South China Sea as roads for China is evident by the fact that 90% of China's exports now travel across the water. Equally important is the route for Japan, which transports about 40% of its exports and imports over the South China Sea. The numbers are even higher in terms of oil imports, because over 67% of oil arrives in Japan over the South China Sea and the Philippines even 85%. Route through the Malacca straits cuts through the year 100,000 ships, making it the second busiest strait in the world. Sea, however, is not only important for the neighbouring states, but also for countries like India, Australia, Russia and the United States. (Thao, 2009, p 344)

Established sea routes lies east and west of the Spratly Islands. Avoid areas marked on maps as dangerous as that of Singapore ships usually sail towards Hong Kong, Shanghai and the northern ports. The eastern route follows the coast of Sarawak-Brunei-Sabah, and after the arrival to Manila heading to Hong Kong. The alternative is the western route that crosses the Macclesfield Bank and the Paracel Islands. (Chung, 2004, p 44)

Usually the northern route used for oil and minerals, while food and goods are transported further south. If shipping routes would be threatened by conflict, it would have a significant impact on the economies of many countries. Security and peaceful continuity of the South China Sea is threatened by another threat. The amount of sea routes and especially valuable goods on board ships has resulted in long-term incidence of piracy in the South China Sea. (Chung, 2004, p 44)

2.1 Geographical background

„Enclosed or semi-enclosed sea means a gulf, basin or sea surrounded by two or more States and connected to another sea or the ocean by a narrow outlet or consisting

entirely or primarily of the territorial seas and exclusive economic zones of two or more
coastal States." (Keyuan, 2006, p 16)

According to some authors South China Sea is surrounded by six states, according to other authors by nine states, which claim the islands and maritime zones. South China Sea covers an area of 648,000 square nautical miles (about 1,200,096 square kilometres if it is included also the Gulf of Thailand it covers an area of 3.5 million square kilometres. (Gao, 2005, p 330)

The geographic location of the South China Sea has resulted in specific natural conditions. Weather significantly affects the life cycle of the area and can have huge consequences in the form of natural disasters. Seaside conditions in the South China Sea are affected by changing monsoon period. Northwest monsoon from November to March brings strong winds and dry from May to September rainy southeast monsoon causes the wind that carries the occasional occurrence of typhoons. They then often pass through the territory of the Philippines to the north towards Taiwan and Japan and west toward Vietnam and southern provinces of China. Every year is the region hit about 10-12 by really strong typhoons. The climate in the area is very hot with high humidity. Natural conditions therefore have a significant impact on the population and the natural ecosystem in the South China Sea. (Ablan and Garces, 2005, p 65)

South China Sea (Chinese Nan Hai) borders with Peoples Republic of China, the Philippines, Brunei, Vietnam, Cambodia, Thailand, Singapore, Malaysia and Indonesia, while some authors are also included Taiwan, which is not recognized by participating States as an independent state entity, it is very often in professional texts considered as a province of China. Population living on the coast of the South China Sea is estimated at around 270 million inhabitants, which amounts to 5% of the world population. According to estimates, the population in the region is projected to rise to 726 million people in 2025. (Ablan and Garces, 2005, p 137)

In this area we find several smaller and largely incoherent grouped archipelagos. South China Sea includes not only the large number of islands; one can find here atolls, sandbars, shoals, reefs, rocks, some of which are above the water and the other below the water. The most important and most discussed formations are concentrated in four large archipelagos which belongs to Pratas Islands (Dongsha in Chinese), Paracel

Islands (Xisha in Chinese, Hoang Sa in Vietnamese) Spratly Islands (Nansha in Chinese, Thruong Sa in Vietnamese and Kalayaan in Filipino), Macclesfield Bank (Zhongshu in Chinese) and Scarborough Reef (Huangyan Dao - Yellow Rock). Formations include more than 235 different units, of which only 148 fall under the Paracel Islands. The largest island, with size of 0.43 square kilometers, is Taiping Island (Itu Aba), occupied since 1956 by Taiwan. (Song, 2008, p 151)

All the major islands and marine areas are in the South China Sea territorial disputes subject, involving almost all the countries surrounding the sea.

2.1.1 Spratly Islands

Spratly Islands lie at the heart of the South China Sea more than 900 nautical miles south of China's Hainan Island, 230 nautical miles east of the Vietnamese port of Nha Trang, 120 nautical miles west of the Philippine island of Palawan and 150 nautical miles northwest of the Malaysian state of Sabah. Geographically located between 4 ° and 11 ° 3 'north latitude and 109 ° 30' and 117 ° 50' East. The estimated area of the islands is 172,000 square nautical miles. (Joyner, 1999, p 28)

Spratly Islands have no permanent population and are too small to allow them to settle permanently. It is undisputed that the islands have important strategic significance, as evidenced by the past, when the islands were used as a military base for the Japanese or smugglers. *„The final number of islands is still unknown (100 - 200) and majority ownership is still the subject of unresolved disputes. It says even that only 36 of the islands can legally be regarded as the islands since they remained above water during high tide".* (Schofield and Storey, 2005, p 39)

2.1.2 Paracel Islands

Paracel Islands are located in the South China Sea north of the Spratly Islands. From the east side they are surrounded by the Philippines and from west by Vietnam. Paracel Islands consist of islets, reefs and sandbars; if we summarize them we will reach number of 35 formations. Area of Paracel islands is 15,000 square kilometres. The first mention of the islands dates back to the seventh century, when the islands were under the control of China, but overtime China lost the territory of Paracel islands to other countries. Among the largest area are Rocky Islands, and Woody Tree, which occur in the northern part of the island, called Amphitrite. The second part Paracel islands is

named Crescent. Paracel Islands are not habitable permanently, although one can find here equipment used for transport, electricity production and to tourism. (Beckman, 2013, p 18)

To the South China Sea islands belong geographically Anambas, Badas, Natuna and Tambelan that are internationally recognized as Indonesian territory.

2.2 The presence of minerals

Due to the escalating pressure on energy independence and the necessary diversification of sources of raw materials for the rapidly developing countries of the region of Southeast Asia and China, the South China Sea became very important. South China Sea areas engross local ministries of energy, since the seabed presents considerable reserves of oil and natural gas. EIA estimates the South China Sea contains approximately 11 billion barrels of oil and 190 trillion cubic feet of natural gas in proved and probable reserves. For visualization the numbers are of reserves of oil are visible on the map with name Figure 5: Proved and probable reserves of oil in South China Sea located in appendix. (EIA, 2013)

However, the data with which operates the Chinese government, particularly for crude oil are up to ten times higher. Further exploration in the area is needed; numerous national petrochemical companies, sometimes in cooperation with American or European mining giants already detailed survey work began. More accurate estimates are impossible due to the ongoing disputes. (BBC, 2012)

 EIA estimates the South China Sea to be more viable as a source of natural gas than as a source of oil, so producers would have to construct expensive subsea pipelines to carry the gas to processing facilities. Submarine valleys and strong currents present formidable geologic problems to effective deepwater gas infrastructure. (EIA, 2013)

2.3 Individual Actors and their claims of the territory

In the following chapter will be described the actors in South China Sea and their territorial claims over the disputed territory. The claims are also visualized in the map located in the appendix with name Figure 4: Claims of involved actors. Most of the countries involved in the SEA territorial disputes claims parts of the Spratly and Paracels islands from the concept of historical waters. This concept is not precisely defined in international law. Mr. Keyuan defined historical waters as: *„waters over*

which the coastal state clearly, effectively, continuously and over a significant period of time assert his rights with knowing of other countries". (Keyuan, 1999, p 40)

Concept of the historical waters was debated on third conference of UN about sea law, on this conference was also signed UNCLOS convention, but still without clear sated conclusions. Unofficially were formulated three general conditions, which need to be fulfilled by the state with the historical waters. First one is carrying out the state authority over the territories (1), which takes a longer time period (2), and third that other states accept your authority over the territory (3). Lack of clarity in defining the historic waters led to many lawsuits and in the case of Spratly Islands and Paracel Islands it has shifted the concept away of historic waters and inclined to arguments based on the UNCLOS. (Keyuan, 1999, p 46)

2.3.1 People's Republic of China

China claims the entire area around Paracel and Spratly Islands; even so they are located at a distance of 1000 kilometres from the nearest Chinese territory. China originally based its claims on their historical rights and argued with the initial occupation of the islands in the 14th century in which the Chinese Ming dynasty possessed the islands with political competencies. (Dolven, 2013, p 38)

China demands on the Spratly and Paracel Islands were part of the broader efforts of the country to gain control over the territory occurring inside the imaginary line in the shape of a letter "U" also called *"Nine-dotted line"*[3], which defined China's boundaries. This boundary was established in 1914 and included the Paracel Islands and Pratas Islands. In the 30s - particularly with regard to the occupation of nine small islands in the Spratly Islands by France, China has even begun to claim Spratly and other islands in the area.

In 1947 the Nine-dotted line gained a steady shape, although later there were minor changes as a result of further development of relations between states in the region. China claims the area encompassing the borders of East China Sea and Yellow Sea, an area of Vietnamese banks and also the Luzon Island. These claims cannot be historically supported, moreover China did not declare whether it wants to gain

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[3] Nine Dotted Line - the demarcation line used initially by the government of People's Republic of China for claims in South China Sea.

sovereignty over the territory or whether it had requested fishing and navigation rights. (Keyuan, 1999, p 31)

In 1958, China adopted a Declaration on the territorial waters in which, it was obvious departure from the concept of historic waters. The Declaration established width of territorial waters to 12 nautical miles, which were measured from China's mainland, Taiwan and the islands, which China considered its territory. Among the islands, which were mentioned as part of China, were the Spratly and Paracel Islands. In 1992 was accepted the law on territorial waters and the continental shelf, where it was determined that the Spratly and Paracel Islands, as well as the islands of Senkaku, island of Penghu and Pratas islands belongs to Chinese territory. (Asian Collection, 1992)

2.3.2   Taiwan (Republic of China)

Taiwan claims sovereignty over four groups of islands and reefs in the South China Sea. These are the Spratly and Paracel Islands, Macclesfield Bank[4] and the Pratas Islands. Taiwan in its claims relied on historical arguments, which are identical to the Chinese. In 1947 the four groups of islands was enrolled in the Taiwanese maps as part of its territory. In 1956 Taiwan had occupied the biggest island of Spratly Islands, Itu Aba also known as Taiping Island. Taiwan still operates on this island today. In 2007 Republic of China constructed an airport on this island. (Dolven, 2013, p 10)

2.3.3   Socialist Republic of Vietnam

Vietnam claims the entire Spratly and Paracel Islands and their interests collide mainly with China, with which it has historically antagonistic relations. Vietnam demands are based on historical rights and the principle of continental shelf. Country refers to documents from the 16th century, in which Vietnam had Spratly and Paracel Islands under their control. These documents, however, relate only Paracel Islands and Spratly Islands have not been mentioned in the document. (Buszynski, 2010, p 86)

In the 19th century, Vietnam was part of the French colonial empire and France claimed their power over the Spratly Islands and Paracel Islands, which, according to the Vietnam entitles the country to control the islands in the present. The second argument concerns the UNCLOS, namely the exclusive economic zone, which according to Vietnam Spratly and Paracel Islands includes. In 2012 Vietnam approved the Maritime Law, in which has been described the claimed territory and were also raised

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[4] Macclefields bank - an elongated sunken atoll of underwater reefs and shoals in the South China Sea.

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formal demands on Spratly and Paracel Islands. (Dolven, 2013, p 11)

2.3.4   Republic of Philippines

Philippines are claiming eight smaller islands of the Spratly archipelago; these claims intersect with the interests of China, Malaysia, Taiwan and Vietnam. Claims on the territory of the islands are based on the law of explorers and historical rights. Claimed islands were after WW2 abandoned and later rediscovered by the Philippines, which should give the country the right of the discoverer and entitle Philippines to check the islands even today. The second argument relates to 1947, in which Philippine businessman Tomas Cloma established settlements on eight of the Spratly islands and in year 1956 he declared himself their protector. One of the islands - Kalayaan - and its surroundings have become a territory of the Philippines. (Rowan, 2005, p 414)

The Philippine government has supported this claim by issuing a declaration which areas identified as *terra nullius*[5]. Despite the negative reaction of Vietnam and Taiwan, the Philippine sovereignty over the Kalayaan Island affirmed in 1959 by issuing a presidential decree. After signing UNCLOS in 1982, the argument shifted from the level of historical rights in the legal level, with an emphasis on exclusive economic zone. (Buszynski, 2010, p 86)

2.3.5   Malaysia

Claims of Malaysia partially cover the Spratly Islands and Paracel Islands. The country does not require the whole region in their claims, but overlaps with the requirements of Brunei and China, The Philippines, Taiwan and Vietnam. Territory that Malaysia requested is not based on historical rights, but to establish an exclusive economic zone in which they are partly included the Spratly and Paracel Islands. (Dolven, 2013, p 12)

Throughout the South China Sea Malaysia claim a total of fifteen islands and reefs, of which twelve actively occupy. These requirements are based on the UN Convention on the Law of the Sea, but some scholars however, believe that this concept in the case of Malaysia will not stand because the country applies the concept of the continental shelf on the rocks and continental formations that are above sea level, while UNCLOS speak about units that are submerged underwater. (Rowan, 2005, p 418)

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[5] Terra Nullius - Latin expression deriving from Roman law used to describe territory which has never been subject to the sovereignty of any state.

2.3.6 Nation of Brunei, Abode of Peace

Brunei claims are based on UNCLOS and the definition of exclusive economic zones. Brunei claims territory which is 200 nautical miles from the coast of Brunei, this territory correlate with the demands of China, Malaysia and Taiwan, and to a lesser extent with the Philippines. (Dolven, 2013, p 13)

Brunei does not claim Spratly Islands or Paracel Islands directly, but the two different areas. These areas are Louisa Reefs[6] and Rifleman bank located in the southern part of the South China Sea. Malaysia also claims these areas. Brunei and sovereignty over Rifleman Bank relies on the concept of the continental shelf and its extension to a distance of 350 nautical miles. The demands of Brunei are not in accordance with the UNCLOS Convention, which requires continuous extension of the continental shelf. (Rowan, 2005, p 419)

2.3.7 Republic of Indonesia

With regard to demands on countries in the South China Sea, it is important to note the position of Indonesia. A Chinese claim over territory in the so-called „*nine-dotted line*"does include Natuma islands, which are part of the territory of Indonesia. Indonesia does not claim any territory of Paracel or Spratly Islands. Indonesia still pays attention to the conflict for two reasons. First, China's claims extend into its territory; secondly, Indonesia can be measured from its territory, exclusive economic zone and continental shelf, which would mean Indonesia's claims in the South China Sea, which would overlap with China, Malaysia and Vietnam. (Rowan, 2005, p 420)

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[6] Louisa Reefs - small navigational light beacon in the south of the Spratly Islands

3 ANALYTICAL PART

Analytical part of this diploma thesis focused on South China Sea is divided into two separate parts. In first part I would like to describe and analyze the development of the conflicts in the South China Sea from history. The second part is focused on economic factors and trade in the South China Sea region and analysis of the economic indicators of selected players in South China Sea region.

3.1 Development of the conflict in South China Sea throughout the years

3.1.1 Actions that took place in 1940s

China

After the battles with Japan which took place in the 2nd World War, the temporary truce between nationalists (Chinese Nationalist Party) and the Communists (Chinese Communist Party) ended. These two sides fought for dominance in China since the 20s of the 20th century, after the outbreak of WW2 they have agreed on a temporary truce, and their attention was focused on the country's liberation from Japan. Despite this arrangement the nationalists who ran the government tried to persecute the communists. However these actions had the opposite effect, mainly because of corruption and other problems of government. Support of the Communists party rose on the contrary. The civil war, which began in China in 1945 ended four years later. Although the nationalists supported the Allies and controlled major cities, they were unable to compete with well-equipped and organized communists. In 1949, the Communists have achieved a decisive victory and October 1 was declared the People's Republic led by communist leader Mao Zedong. (U. S. Department of State Office of The Historian, 1949)

After the end of the 2nd World War, most notably China and France tried to gain control of the territory, which was occupied by Japan till 1945. France tried to exploit the situation to restore French empire, but France needed to focus more on the divided Vietnam. China took advantage of the French busyness and in 1947 occupied part of the Paracel islands. France reacted by raising the official objection and occupied the second largest island of Paracel islands the Pattle. The objection which was raised by France had no influence whatsoever onto what was happening in the South China Sea. China has entered the Paracel Islands on their maps as part of Chinese territory and the actual

dispute between China and France has been terminated by the Communist revolution in China. (Chemilier - Gendreau, 2000, p 40)

Vietnam

After the end of WW2 communists undertook the government of Vietnam. Communists led by Ho Chi-Minh declared an independent Democratic Republic of Vietnam. Ho Chi Minh, however, failed to dominate the entire region and France renewed its control over the southern part of Indochina. Both sides agreed on the presence of French troops in the northern part of the country, which should help push the Chinese in exchange for recognition of the Republic of Vietnam as a free state within Indochina Federation. In year 1946, strained relations between the communists and the French escalated into a war of Indochina. This war ended with the defeat of France in 1954, and departure of all French troops from the country. Conference in Geneva later that year decided that Vietnam will be divided into two states: North and South Vietnam. (Plechanovová and Fidler, 1997, p 65)

The presence of the Vietnam in the conflict in the South China Sea was in the 40s limited by its internal political situation. In response to the Chinese occupation of one of the Paracel Islands, Vietnam sent together with French, soldiers on one of the Paracel islands the Pattle.[7]

3.1.2 Actions that took place in 1950s

China

After the establishment of the communist government in China, China had to deal with damage caused by the 2nd World War, which were also enhanced by the civil war. The country was disrupted economically, socially and politically. The Communist leadership implemented radical changes that should have improved the situation for citizens, but also introduce a new social order based on the unitary society with equal rights for all citizens. China has introduced a centrally planned economy and the rationing system, collectivized private land and carried out land reform. Their opponents, often entire groups of people, persecuted. (Political Campaigns, 1950)

Although a number of measures did not lead to the desired goals, the Communist Party has consolidated its position as the leading political power in the country. In 1951 there was a conference in San Francisco, which dealt with the status of Japan and

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[7] The Pattle Island – island in the southern part of spratly islands

the territories it has occupied during WW2. China has not participated in the conference and was dissatisfied with the results of the conference and the acceptation of the following contract: Although Japan surrendered rights to the Spratly and Paracel Islands, the treaty did not mention who is the new owner of the islands. China responded by confirming its rights over Paracel island which was still physically active, and raising claims to the Spratly Islands. (Chemilier - Gendreau, 2000, p 41)

Taiwan

After establishment of Taiwan in 1949, Taiwan claimed area around the Spratly Islands and Paracel islands. Taiwan was directly involved in the conflict in 1956, when in response to the actions of the Philippine government, which declared its claims to the Spratly Islands; The Taiwanese sent troops to the island Itu Aba (the largest of the Spratly Islands). (Chung, 2004, p 109)

Vietnam

During the first half of the 50s War with France took place in Vietnam, which was completed in 1954 by the creation of two states: the communist Democratic Republic of Vietnam and the non-communist South Vietnam. Although the fighting ended, on both sides there was still tension as well as in China, Vietnam had to face the problems caused by two wars in a short time sequence. Above all, it was the high food prices, low wages, high unemployment and persistent ethnic problems. (Szalontai, 2005, p 401)

Due to the difficult internal situation, the participation of Vietnam in the South China Sea wasn't severe. Actor that undertook action was South Vietnam at that time, since the islands fell under his control and North Vietnam in 1956 and 1958 admitted the rights over the Spratly Islands to China. After the retreat of France from Indochina in 1954, French troops were relieved by troops from South Vietnam on the Pattle Island. In the same year, Vietnam has adopted a declaration in which Paracel Islands fell under its sovereignty. (Chemilier - Gendreau, 2000, p 48)

Philippines

Philippines became an independent state in 1946. The process for Philippine independence started already in 1934, in which the United States promised the Philippines independence after a period of ten years. Due to the Japanese invasion

of the Philippines, the period was extended by two years. US maintained close relations with the Philippines even after independence: the USA participated in the economic recovery of the country on the research of mineral resources in the Philippines and in 1947 concluded with the Philippines military agreement that allowed the US to use twenty-three military bases on Philippine territory. (Bayoneto, 2011 p 115)

Philippines joined the disputes in the South China Sea in 1951. They claimed the Spratly Islands on the basis of an argument of their proximity to the territory of the Philippines and the rediscovery of the islands after the end of WW2. In 1956, the Philippines established its claims to the Spratly Islands to the argument of initial occupation of *terra nullius*. According to the Philippines, the Islands were not part of any state, and therefore their occupation by Filipino trader Thomas Cloma, who founded their own state Kalayaan, gave the Philippines the right to argue over the initial occupation. Philippine actions provoked negative reactions of other nations: China has sent their troops to the Spratly Islands; Vietnam raised their own claims to the islands and sent their own armed forces. (Chemilier - Gendreau, 2000, p 41)

3.1.3   Actions that took place in 1960s

1960s did not bring any pronounced shift to the conflict over Spratly and Paracel Islands. Many states were focused on their internal problems and the South China Sea was not priority for them. Individual states have tried to clarify their arguments about claims over islands. This was also related to the interests of international oil companies, which began to show more interest on the South China Sea region and explore the region. States refrain from taking any action that would other actors perceived as a threat.. An exception to the prevailing rhetorical observations by States accounted for Taiwan, which strengthened its position on the island of Itu Aba. Taiwan introduced new postal links, deployed patrols and separated the territory that was under the control by creating borders. It was possible to observe greater involvement of the United States in the South China Sea region. The primary objective of the US wasn't the territorial dispute over the Spratly or Paracel Islands, but the war in Vietnam. USA was directly involved on the side of South Vietnam. (Snyder, 1996, p 48)

3.1.4 Actions that took place in 1970s

China

As a result of the deteriorating economic situation, which began in the 60s, China turned away from central planning and shifted to a partial market economy. Central Management of the state did not bring the desired economic growth, but rather a shortage of goods and poor quality. Economic problems were compounded by the chaos in the country occurred as a result of the Cultural Revolution. The Cultural Revolution began in 1967 and lasted 10 years; revolution was intended to revive the revolutionary enthusiasm of the country, destroy capitalism and get rid of opponents of the regime. In practice, the revolution served the Communist leader Mao Zedong as a tool to eliminate the opposition within the party, and meant death for thousands of people and millions were forced to do forced labour. (BBC, 2014)

In 1978, China carried out economic reform. New market economy has brought China's focus on exports, which required maintaining good relations with economic partners. China has not given up its claims in the South China Sea, on the other hand and China began to realize the disadvantages that could bring her the hostile and aggressive attitude against other states. Even in the 70s China repeated her claims over Spratly and Paracel Islands. In 1974, China came into serious conflict with Vietnam. Part of the Paracel islands, which were under the control of Vietnam was invaded by Chinese troops. The Battle of the Paracel Islands ended up by Vietnamese being forced to leave the Paracel Islands.
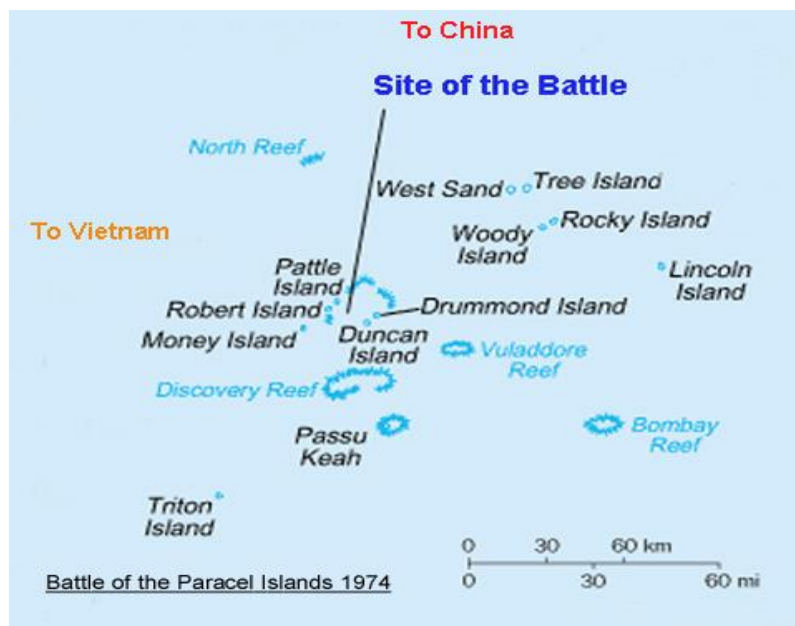

Figure 2: Map of Battle of the Paracel Islands (*Source: globalsecurity.org*)

Vietnam responded to China's actions by raising an objection to the United Nations and called for maintaining the integrity of its territory. Other countries did not agree with the behaviour of China, but did not want to be involved in a dispute; therefore they did not support Vietnam. Vietnam responded by confirming their claims over the Paracel and Spratly islands and strengthening their defences. Paracel Islands, however, remained under the control of China. (Buszynski, 2010, p 88)

Vietnam

Tension that prevailed after the division of Vietnam between the two countries, culminated into outbreak of a new war in 1955. The war in Vietnam was one of the conflicts of the Cold War; each party was supported by the Western countries and the Eastern Bloc. Casualties on both sides reached such proportion in the '70s that the parties have agreed to peace talks. However, after American forces withdrew from Vietnam, North Vietnam used the opportunity and continued to fight. The war in Vietnam ended in 1975 with a victory of the Communists. Vietnam was unified into one state, Socialist Republic of Vietnam. (Chung, 2004, p 112)

The attention of both Vietnamese State has been concentrated on the internal situation, and therefore Vietnam didn't markedly show in the South China. An exception was, when China attacked Vietnamese part of Paracels islands, to which Vietnam had to respond. In 1971 North Vietnam cancelled their former statement on the rights of China on the Spratly islands and declared them to be part of their territory. The same opinion also held South Vietnam, who tried to join Spratly Islands to its southern provinces. After the war Vietnam had one definite opinion: Paracel and Spratly Islands were considered part of Vietnamese territory. (Chung, 2004, p 113)

Philippines

Philippines had to react in the 70s to the oil crisis, since the country has been volatile and relied on sources from the Middle East. In order to get new resources, the Philippines focused on new areas, among which were the Spratly islands and potential oil reserves.

In 1971 Philippines raised the official claims to Spratly Islands on the basis of an argument called initial occupation. Philippine President issued two presidential

decrees: the first decree included Kalayaan[8] and surrounding Islands into Philippine territory on the basis of proximity to the Philippines Islands and their safety and economic importance. The second decree was focused on the exclusive economic zone, which extended to 200 nautical miles from the coast of the Philippines and included Spratly Islands. (Buszynski, 2010, p 86)

Malaysia

Malaysia gained its independence in 1957. Since the beginning of its independence Malaysia began to apply the model of planned economy, which was in her case successful. The Malaysian economy showed growth, and with it there was industrialization of the country, which was at that time concentrated on the export. Malaysian export-oriented economy required, that Malaysia maintain good relations with its economic partners. This may be one of the causes of the Malaysian moderate involvement in the conflicts in the South China Sea. Philippine declaring control over parts of the Spratly Islands led Malaysia to raise its official claims to the area in 1979 and the subsequent occupation of the three rocks (Swallow, Ardasier, Mariveles) in the Spratly Islands. (Wood, 2005, p 14 – 15)

3.1.5 Actions that took place in 1980s

In 1982 was adopted UN Convention on the Law of the Sea, which has led states involved in the conflict in the South China Sea expand their entitlements based on the argument of exclusive economic zone and continental shelf. The Convention brought into the conflict in the South China Sea, new actors and new disputes arisen due to overlapping claims between states.

China

In the 80s' China has benefited from the economic reform: average economic growth in China amounted to 10%, increased wages, China has become more independent in grain production, changes have also occurred in the financial, banking and working system. In 1988, China got into another direct conflict with Vietnam. The core of the dispute was the rock Feira Cross and rocks Collins and London in the Spratly Islands. A clash between the two countries ended up damaging several Vietnamese boats and by missing seventy-four Vietnamese sailors. China refused to let in Vietnamese rescue forces, leading to the deaths of Vietnamese sailors and a further deterioration

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[8] Kalayaan state – fifth class municipality in the Philippine province of Palawan

of relations. (Chemilier - Gendreau, 2000, p 46)

China and Vietnam have submitted objection on behaviour of the other party, but the situation has not been resolved and the conflict resulted in China controlling over other parts of the Spratly Islands. This direct military confrontation with China has raised distrust in other States about future Chinese intentions. (Chung, 2004, p 114)

Vietnam

After the war ended in 1975, Vietnam had to deal with many problems, especially poverty and underdevelopment, which according to the planned economy of the Soviet type was not enough. As a result of economic problems economic reform was held in Vietnam in 1986, which should support the development of private sector and expand the production and exchange of goods. These changes should have helped Vietnam become a part of the global and regional economy. The changes have led to improvements, but the status of the country was still unstable, which China took advantage and attacked the Vietnamese units on the part of the Spratly Islands. (Thang, 2000, p 24)

Even in the '80s Vietnam repeated its claims to the Spratly and Paracel Islands. In 1982, Vietnam issued a report in which it was determined the baseline from which the territorial waters should be measured and which incorporated the Spratly and Paracel Islands. (Chung, 2004, p 110)

Malaysia

Although Malaysia was a country with a stable economy, during the 80s Malaysia had to face economic challenges. Despite these problems Malaysian economy still manages to grow, since 1987 the average GDP growth of 8%, and this trend continued in the 90s. In 1983 Malaysia for the first time enter the conflict in the South China Sea physically. Malaysia sent workers on the island Hoa Lau, one of the Spratly Islands for construction work. This act was negatively received by Vietnam, which was on the Spratly Islands also present. No country took further steps to sharpen the relationship. (Ariff, 1998, p 5)

Brunei

Brunei has entered the conflict in the South China Sea for the first time in 1988. In this year Brunei published a map of its territory, which included two of the islands

of Spratly Islands, which were also occupied by Vietnam. Brunei in their claims did not specify on what their claims was founded or whether it aims to gain physical control over the islands. (Chung, 2004, p 94)

3.1.6   Actions that took place in 1990s

China

In the early 90s China had to face the consequences of demonstrations in Tiananmen Square in Beijing in 1989. The result was a crisis at home and abroad. Individual groups within the Chinese Communist Party were fighting for influence and leadership that wanted to fill following the departure of party leader Deng Xiaoping in 1989. Departure of Deng Xiaoping however was only formal, and he continued to be the one who control the Communist Party. While in 1990 China's economy faced a downturn (although it was still in positive numbers), since next year the economy started to grow again significantly and this trend is China endured throughout the '90s. The main reason for this growth, were mainly the massive capital investments by both domestic and foreign players and big production growth. Thanks to a booming economy, the Chinese leadership has been able to stabilize the social situation, which at the beginning of a period marked by high unemployment and was complicated and a large increase in population. (Shambaugh, 1990, p 36)

In the first half of the 90s, China tried to show good will towards their neighbours, when China promoted joint research in the Spratly Islands and expressed its agreement with the peaceful resolution of the conflict. On the other hand, the country didn't give up their claims, since 1992 China adopted a law on the territorial sea and contiguous zone, which extended the territorial waters of China and the territory that China considered its territory. China's relations with neighbouring countries deteriorated sharply in 1995. China occupied one of the islands of Spratly Islands, Mischief Reef, which was part of the Philippine exclusive economic zone. With the ensuing mistrust of other states, China tried to reverse its policies. In the late 90s, China began to pursue a policy of good neighbourliness, which was based on a more multilateral approach and efforts to build friendly relations with its neighbours. As a result of this policy, concerns of neighbouring countries for future behaviour of China decreased. (Chemilier - Gendreau, 2000, p 47)

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Taiwan

In 1993 Taiwan adopted the Rules for the South China Sea, in which reiterated its claims to Spratly and Paracel Islands. Claims Taiwan based on the geographical location, international law and historical rights. Among others Taiwan mentioned that the area of the South China Sea is part of the historic waters of Taiwan, in which Taiwan has all the rights. (Chung, 2004, p 110)

Vietnam

Vietnamese Communist Party in the 90s tried to stabilize its position, which was weakened mainly by poor economic development and political struggle within the party. The aim of the party was to raise living standards and expand the allowed economic activity should help to stabilize and release in the cultural field. This should have led to the fact that the Communist Party and its leadership will be attractive to young people, because young people now support the main objective of the Vietnamese communists. Even in the 90s Vietnam got into the conflict on the Spratly and Paracel Islands in particular with China. In 1994 mutual disputes culminated into withholding of twenty Vietnamese ships. However the disputes concerned also Taiwan and Vietnam. Taiwan attacked a Vietnamese cargo ship by firing several shots at them. (Jae-Hyung, 2002, p 549)

After China changed its policy course, the relations between Vietnam and China have greatly improved, which can be declared, inter alia by the mutual signing of the territorial borders in 1999 and by the Treaty on the maritime borders in 2000. Both countries have also maintained solid economic ties - for Vietnam was China's biggest trading partner - and therefore it was in the interest of both countries to focus on strengthening diplomatic relations. (Manyin, 2013, p 34)

Philippines

In the 1995 Philippines faced Chinese occupation on one of the islands, which were under their control, but the country was not strong enough to win the conflict with China. On the contrary, the Philippines have been weakened by the departure of US military bases in the Philippines and were aware of their vulnerable position. In response to the actions of China, Philippines tried to achieve positive results after mutual bilateral negotiations. The two countries have established a working group, which focused on fisheries cooperation and environmental protection. Neither this cooperation but did not prevent further clashes. In 1997 China and the Philippines

clashed near Scarborough shallows. In 1999 Philippine navy sunk several ships of Chinese fishermen's. Philippines were not only in a dispute with China. In 1998 and 1999 Philippine and Vietnamese ships clashed at the Spratly Islands. (Jae-Hyung, 2002, p 559)

Philippines tried to secure their position by clinging closer to ASEAN. Philippines hosted the 1992 ASEAN meetings at the ministerial level, in 1998 were also organizing country for ASEAN Regional Forum and the ASEAN informal summit.

Philippines devote much attention to the drafting of a code of conduct in the South China Sea, which were adopted in 2002 (Declaration on the conduct of parties in the South China Sea). (Chung, 2004, p 158)

Malaysia

Malaysia in the 90s focused on its economic development, which meant deepening relations with other states, and Malaysia did not want to get into direct conflict with any other player in the South China Sea. The main economic partners of Malaysia were the United States, Japan, European Union and countries of ASEAN, however, the country had economic ties with China. Friendly relations between China and Malaysia have cooled after China occupied Mischief Reef. Malaysia began to see China as a threat, but that did not mean that it ceased economic relations. Disagreement with the actions of China led in reality only to Malaysian greater cooperation with ASEAN. (Whiting, 1997, p 313)

In 1999, Malaysia occupied two of the islands in the Spratly Islands, and built on them their devices, which were used for the climate research and research of the marine ecosystem. China, Vietnam, Taiwan and the Philippines have protested against these actions Malaysia have taken, Philippines moreover responded by casting an Island near the new Malaysian territory. Because Philippines were aware that too much pressure could cause a negative reaction among ASEAN members. Philippines didn't escalate the situation and the relations between Philippines and Malaysia later calmed down. (Chung, 2004, p 120)

3.1.7   Period from 2000-2015
China

The Chinese economy continued in the new millennium in its growth. From 2001 to 2007, China's gross domestic product increased every single year and in 2007

reached the highest value of 14.2%. While in subsequent years the GDP did not reach such values, it was still hovering around 9%. Economic growth has led to changes in society. Chinese society was more urbanized, grew standard of living, more people has attained tertiary education. China's population did not rise at a pace as was predicted mainly due to one-child policy.

On the other hand, the society was got much older and a problem with the gap between the sexes rose, which has given preference for boys over girls after their birth. (Morrison, 2012, p 4)

In 2012 the Communist Party of China changed leadership. At that time, GDP did not reach double digits, but good economics allow the Chinese regime to maintain stability in society, and therefore debate about the new economic reform flared up.

As a result of political fighting of each wing within the party, scandals from communist leaders got to the public, which increased the dissatisfaction of ordinary Chinese people. The biggest problem was the corruption and the proportion of Chinese politicians in the management of state companies. The result of the 18th Congress of the Communist Party of China was the election of a new leader, Xi Jinping. (Wan, 2012, p 24)

China continued its policy of good neighbourliness, which was adopted in the second half of the 90s, until 2007. The main objective of China was to reduce the concerns of neighbouring countries from its ambitions in the region and establish stable economic relations. China has signed agreement with each member of the ASEAN; the agreement was focused on future cooperation in the 21st century in economic, security, political, cultural and social fields. In 2001 followed negotiations between China and ASEAN on the establishment of a free trade area. Friendly relations between the two parties culminated in the signing of the Declaration on the conduct of parties in the South China Sea in 2002. Close relations and confidence in China's future actions, which are not a threat to the stability of the region, resulted mainly in economic terms, China has become a major trading partner for many countries of Southeast Asia. The emphasis on economic cooperation was the reason that China in the first half of this year in the South China Sea did not show significantly. (Glaser, 2013, p 4)

That changed in 2007, with increased number of conflicts on fishing boats in the South China Sea and in which China refused to join the efforts of Vietnam and Sea research

foreign companies in the South China. In the following years, China's assertiveness increased. In 2009 China expanded the area in which it was officially to protect the marine ecosystem forbidden to fish, and increased the number of security patrols, which occurred in the South China Sea. China reacted sharply to the proposal from Vietnam and Malaysia, which was submitted to the Commission for delimitation of the continental shelf (CLCs). (Glaser, 2013, p 6)

In response to ASEAN's adherence to the United States in 2010 China changed its assertive approach and tried to reconnect with the regional actors through good relations. Despite the fact that China has assured the states involved in disputes of their peaceful intentions, the conflicts continue to take place in the South China Sea, especially with Vietnam, but also with the Philippines. In 2012 China clashed with the Philippines at the Scarborough shallows. Philippine Navy sent in their boats, which were there to investigate the alleged presence of eight Chinese vessels. After Philippine ships found that Chinese ships have on board their illegal catches of sharks and clams, fishermen were about to get arrested. At that exact time Chinese maritime surveillance ships arrived and blocked the action of the Philippine Navy. While the Philippines is trying de-escalate the tensions by pulling out navy ships and replace them by civil fleet, China have sent more ships to the Philippines and developed economic pressure. After the connection the US into the dispute, both countries reached an agreement: China and the Philippines should withdraw all areas of their present vessels. This agreement foundered on non-compliance by China, which after pull out of the Philippine Navy sent in more ships. (Glaser, 2013, p 10)

On 8th of June 2015 one of the Chinese coast guard vessels anchored at Luconia Shoals Beting Pattinggi Ali, leading to diplomatic protests by Malaysia. (The Washington Street Journal, 2015)

Last major incident regarding China I want to mention happened on 27 of October in 2015. China's naval commander issued a stern warning to the United States chief of naval operations after US warships sailed within 12 nautical miles of one of Beijing's artificial Island's in the Spratly Islands. Situation was precarious, but both sides preserved cold heads and acted under the Code of Unplanned Encounters at Sea. (Reuters, 2015)

Vietnam

Vietnam until 2007 benefited from economic growth. The positive economic development was accompanied by the release on the political and social level, which resulted in reducing the repressive nature of the regime and permits certain forms of resistance. In 2007, the Vietnamese government's attitude changed and suppression of dissent began in greater degree. In the same year, economic growth in the wake of the crisis stopped and Vietnam had to deal with inflation and decline of its currency and a rose in commodity prices. Although Vietnam wasn't due to limited foreign transactions directly exposed to the consequences of the financial crisis, the country has been unable to reach a value of 7% of GDP, which it considered a value that keeps the social peace and political stability of society. The inability of Vietnam to return the economy to the pre-crisis levels may cause greater suppression of dissent by the Vietnamese Government. In 2011 there was a change at the head of the Vietnamese Communist Party, but the policy has remained the same. The aim was to achieve a higher gross domestic product and the stability of society. (Manyin, 2013, p 27)

Vietnam in the past came into direct conflict mainly with China, so China's emphasis on strengthening economic ties and good neighbourhood policy meant to Vietnam calming of the situation. Both countries cooperated at the bilateral level: the Communist Party of the two countries adopted an agreement on long-term cooperation, which was in 2009 raised to the level of strategic partnership. In 2000 Vietnam and China have codified the Joint Declaration on broad cooperation in the new century, which touches the economic, security and cultural spheres. In 2013, both countries agreed to deepen strategic partnership. Vietnam and China have agreed to take measures to promote trade, expanding mutual financial and monetary relations and cooperation on transport links between the two countries. In connection with the conflict in the South China Sea, the two countries agreed to develop a document on principles for resolving disputes in the South China Sea and cooperation in such parts of the sea that are not problematic. No party should take steps that could lead to the disruption of relations. (Viet Nam News, 2013)

The deepening of relations also occurred between Vietnam and the US. United States of America has in 2013 provided the region with 2013 over 32 million dollars for the

maritime security of maritime, of which more than half of this amount went to Vietnam. In the same year, the United States and Vietnam have agreed on a partnership that included economic and military cooperation and information exchange in the field of education and technology. Improving relations between the two countries also reflected in multilateral forums that dealt with territorial disputes in the South China Sea. USA and Vietnam was encouraging the adoption of rules for the behaviour of states in conflicts. (Tiezzi, 2013)

But not even close economic ties did not prevent the outbreak of new conflicts in the South China Sea between China and Vietnam. In 2009 China arrested thirty-three Vietnamese fishing boats that had been hiding from the storm near Paracel islands. In 2010 disputes continued, during the year China had captured several dozen fishing boats from Vietnam. These captures took place between the two countries regularly but since 2009 their number increased. (Thayer, 2011, p 357)

In 2009, Vietnam submitted two proposals to the CLCs. The first of the proposals was submitted together with Malaysia; the second proposal submitted independently Vietnam and concerned the extension of the boundaries of the continental shelf in the northern part of South China Sea. In 2012 Vietnam passed a law establishing that the Spratly and Paracel Islands have became part of Vietnamese territory. This provoked protests from China, which sees the adoption of the law as a serious violation of Chinese sovereignty, and in the Spratly Islands and Paracels Islands strengthened its military presence. (Perlez, 2012)

Philippines

After the 2009 the situation in the South China Sea worsened, the Philippines sought to strengthen its claims over Spratly Islands. Philippines approved a law in which the Shoal named Shoal and Kalayaan Island in the Spratly Islands became part of Philippine territory. This act provoked a negative reaction from China and Vietnam, which have also claimed the same territory. In 2009 Philippines have submitted a Commission on the Limits of the Continental shelf (CLCs) proposal to extend the boundaries of the continental shelf of the Philippine Sea, while you reserve the right to claim the territory as well as in other parts of the region. In 2011 Philippines have adopted the term "West Philippine Sea" as a name for the area west of the Philippines, where there are also

Spratly and Paracel Islands. (Thuy, 2011, p 11)

From 2010 the cooperation between Vietnam and the Philippines deepen. In 2010 the two countries signed an agreement on cooperation in the defence field (Memorandum of Understanding on Defense Cooperation). This agreement enabled the exchange of information between the two countries on terrorism, education and development of military technology. The two countries deepen the cooperation in the field of security in following years. Philippines focused on strengthening ties with the US. In 2014 the US and Philippines have reached a 10 year pact that allow a larger US military presence in Philippines. It would not be mean a permanent US bases for United States of America, but for Philippines it would mean a significant strengthening of their position in the region. (Thayer, 2014, p 32)

Malaysia

In the new millennium Malaysia was also focused on its economic development, which was halted in 2008 due to the global financial crisis. Malaysia was able to cope with the crisis better than other countries in the region, since it could rely on a stable domestic financial market and the anti-crisis measures taken in the 90s. The financial sector was due to these actions able to withstand fluctuations in the financial market. In 2009 Malaysia filed together with Vietnam a proposal on CLCs to modify the boundaries of the continental shelf. This proposal was rejected by China and the Philippines, which argued with intrusion into their sovereignty. (Thuy, 2011, p 12)

Brunei

After the end of the Cold War, Brunei did not engage more actively to the conflict in the South China Sea. That changed in 2009, when the country filed for CLCs its proposal to extend the boundaries of the continental shelf. The country was aware that such an extension would lead to overlapping claims with other countries and declared that in the new definition it was not determined the future national borders. (Espina, 2013, p 7)

3.2   Role of ASEAN in the South China Sea

Association of Southeast Asian Nations was founded in 1967 by signing the ASEAN Declaration by foreign ministers of Philippines, Indonesia, Malaysia, Singapore and Thailand. Currently ASEAN have these members - Brunei, Philippines, Indonesia,

Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand and Vietnam. (ASEAN, 2014)

Four of them - Brunei, Philippines, Malaysia, Vietnam - are directly linked to the conflict in the South China Sea. The goal of the organization is cooperation between states in the economic, social and cultural fields. In the 90s security was added to ASEAN region agenda. The main objective of ASEAN on security issues was to prevent the use of force between states regardless of whether they were members of the Association of Southeast Asian Nations or not. ASEAN should have become a counterweight to China, the main actor in the conflict in the South China Sea, and should have assumed the role of balance, which during the Cold War was taken by the United States. Even though ASEAN has an important role in the economic field and trade in the region, in the security the role is limited. (Kurlantzick, 2012, p 4)

This is due to the fact that ASEAN does not have a permanent army, navy or air force, which would enable him to ensure compliance with the mutual agreements and possibly punish states that violated the agreement. To ensure security in the region ASEAN uses the main tools which are regional forums. Their aim is to demonstrate united strength (especially relative to other regional superpowers like China and Japan) and try to involve China into the negotiations, which is against the multilateral approach to conflict and vice versa prefers bilateral negotiations. China's giving priority to bilateral negotiations due to two reasons. Firstly, China - as a most powerful player in the region – has superiority when dealing with individual states separately and secondly, a multilateral approach would mean indirect involvement of interested countries, particularly the US and Japan, which is China against. (Dolven, 2013, p 7)

The first act of ASEAN's active safety was the signing of the Declaration on the South China Sea in 1992. The effectiveness of this declaration has been limited due to the absence of Vietnamese and Chinese signatures. After Chinese occupation on Mischief Reef in 1995, significant increase in Southeast Asia tensions created a need for further negotiations. In 1996 there was a negotiation between ASEAN and China in Indonesia, which resulted in a draft code of conduct which states would follow in the South China Sea. China on one side changed its approach to ASEAN and began to engage more mutual negotiations, on the other hand, did not admit to any territorial concessions. In the same year, Chinese Foreign Minister had confirmed China's claims to Spratly

Islands and the new border of China's territory included the territory of Paracel Islands. (Rowan, 2005, p 426)

Countries of the ASEAN worked on code of conduct for the South China Sea, which should prevent further armed clashes. In 1999 was designed document, which described the rules on the South China Sea more concrete. Because of disputes within ASEAN and China refused to agree, the document was rejected. In 2002, ASEAN countries signed the Declaration on the conduct of parties in the South China Sea, which was joined with the signature of China. Despite the many problems of the Declaration - the document is not legally binding and in the event of a violation, there is no possibility of punishing the guilty. (Rowan, 2005, p 428)

On the above-mentioned agreements, there is visible tendency of improvement in relations between ASEAN and China, which suffered after the incident in Mischief Reef. Increased affection for China to deal with ASEAN countries was an attempt to dispel fears about China prevailing as an economic and security threat for the entire region. Relations between ASEAN and China in the period from the second half of the 90s until around 2007, when there was an escalation of tensions in the region, are known as the golden age of partnership. (Shen, 2011, p 586)

Since 2007 the relations between ASEAN and China have begun to deteriorate. The reason for deteriorating is increased number of clashes of fishing boats in the South China Sea, to which representatives of various countries responded with aggressive rhetoric than in the past, and also return of China to be more aggressive and effort to play a more important role in the region. ASEAN countries have responded to the activities of China by deepening the relations with the United States. USA weren't under the presidency of George Bush (the growing cooperation between ASEAN and China) in the region very active and, unlike ASEAN they main focus was on the fight against terrorism, especially in the Middle East. After the inauguration of President Barack Obama into office, the situation changed. Obama sensed Southeast Asia as one of the key in foreign policy and the United States began to be more involved in the region. Since 2012, the tensions in the region once again increased and ASEAN responded securing relations with the US. There was established these measures: Annual meetings of Heads of State, Bilateral meetings of individual countries, the United States are engaged in greater degree in regional for a of ASEAN and became a member of ASEAN ADMM Plus (ASEAN Defence Minister's Meeting) USA joined their signature to the Treaty of Amity and Cooperation in Southeast Asia and became

a member of the East Asian Summit and cooperated with ASEAN in the field of health and education. ASEAN and the US deepened mutual relations in economic and military areas. (Glaser, 2013, p 11)

Growing tensions in the region, as well as economic and social problems, ASEAN had resolved at a meeting of ASEAN ministers in Myanmar in 2012. This meeting can serve as a demonstration of worsening relations in the very ASEAN: States that clashed the hardest with China in the South China Sea, i.e. The Philippines and Vietnam, presented their concerns about the security situation in the region. ASEAN ministerial meeting on the crisis did not have any result. Chairman of the meeting described the clashes in the South China Sea as the bilateral disputes that don't belong to the meeting of ASEAN. (Glaser, 2013, p 12)

3.3   Role of Japan in South China Sea

Japan is not a direct party to the conflict in the South China Sea cannot claim any territory but still has its interests. First, the region is for Japan important from an economic point of view (especially because of transport routes), secondly, Japan leads with China and Taiwan dispute in the East China Sea on the islands of Senkaku and actions China will take in the South China Sea, could herald China's actions also in dispute with Japan. (Dolven, 2013, p 14)

Although Japan is the second largest player in East and Southeast Asia, its role in the conflict in the South China Sea is limited. This is due to several reasons. First, China rejects Japan's participation as indirectly involved state in the negotiations. Secondly, the presence of Japan as a balancing actor is not welcomed even by other countries in the region. The aggressive policy of Japan after the World War II has left countries in distrust and not only in Southeast Asia. Public opinion in Japan is not positively built to possible military involvement of Japan outside its boundaries. Japan is involved in the South China Sea through direct dialogues with China and participation in the ASEAN Regional Forum, the East Asian Summit and meetings of defence ministers of the ASEAN + Three and ASEAN Plus. (ASEAN, 2013)

Japan's role in the conflict is important also in terms of its relations with the US. United

States of America concluded with Japan 1960 Treaty on Mutual Cooperation and Security that guarantees the United States provision of logistical and financial assistance in the field. In the event of a conflict in the South China Sea, Japan would have to rely on American protection of waterways, as they pledged to defend the waterway only to a distance of 1,000 nautical miles from Tokyo. Japan would therefore not be engaged in the conflict directly, but it would be an important strategic partner for the US. The aim of Japan in conflict in the South China Sea is to contribute and to resolve the dispute in a manner that would be peaceful and that could be applied in favour of Japan and the East China Sea. (Dolven, 2013, p 16)

3.4 Role of USA in South China Sea

In the 90s the US attention in the South China Sea was mainly devoted to the economic sphere, the safety receded into the background. The most obvious example of this fact has been the withdrawal of American troops from bases in the Philippines in 1991 and 1992, which, however, was not only due to the efforts of the United States, but also Philippine nationalism and opposition to US military presence. The main objective of the US in the '90s was to ensure the free passage of American ships and eventually provide access to the Asian market. This meant the consolidation of relations with countries in the region, the US, therefore, participated in many meetings at the level of ASEAN. Since the economy was of primary importance, the United States did not express to the conflicts that took place in the South China Sea, even after the most prominent of the conflicts in '90s which was conflict over Mischief Reef with China and the Philippines. (Mauzy and Job, 2007, p 623)

After President Bush's inauguration in 2001 the Southeast Asia was for the US still important from the economic point of view, but not a primary area of interest. In the same year incident between China and United States occurred, which led to a cooling of trade relations that had already suffered between Taiwan and the US. In April 2001 crash between US Navy surveillance plane and a Chinese fighter occurred. Crew of the American plane managed to land on the island of Hainan and Chinese fighter pilot crashed into the sea and the search for him begun. US crew was arrested on the island Hainan and held by Chinese authorities for eleven days, who demanded an apology from the United States. The Chinese perceived this event as a threat to Chinese sovereignty, since the area where the clash occurred was in China's exclusive economic

zone, and accused the US of spying. United States refused Chinese allegations and stressed that US aircraft carried out reconnaissance of the area. US crew was released on April 11 after the US expressed regret for the vanished Chinese pilot and the aircraft landing in the Chinese airspace. Relations between the two countries remained even after the release of American's very tense. US demanded the return of its aircraft, which China refused for a long time. China on the other hand demanded payment of one million dollars, which was refused by the United States of America. (Kan et all, 2010, p 37)

After the terrorist attack on United States in 2001, the US attention to Southeast Asia was limited. Their policy was clear: the war against terrorism. The main objective was economic development, which was at that time secondary for the US. In addition, some countries opposed the US invasion in Iraq. Retreat of the US from the region assisted the convergence of Southeast Asian Nations with China. The US wasn't focused only on the fight against terrorism, but also on economic cooperation and regional stability. The result of the new US approach was the Trade and Investment Framework Agreement in 2006, which meant stronger cooperation in trade and investment, preventing the proliferation of weapons of mass destruction, the fight against drugs and terrorism. In this period United States did not devote much of their attention to territorial disputes in the South China Sea. (Glaser, 2013, p 4)

In 2009 the US attention to Southeast Asia increased. New US president Barack Obama focused on the region for several reasons: the growing economic importance of Southeast Asia, the withdrawal of its troops from Iraq and Afghanistan, which made it possible to focus on a different region, an effort to limit the expansion of Chinese influence and safeguarding regional stability, which was important because of the transport routes in the area. USA engaged in negotiations with ASEAN, namely the US Secretary of State Hillary Clinton visited several ASEAN summits. On them she highlighted the main concerns of the United States in the region: the right to freedom of navigation, the US approach to Asian waters, respect for international law and diplomatic resolution of disputes without the use of force. (Glaser, 2013, p 6)

Although one of the US aims was to prevent an increase in the Chinese influence, this did not mean that the United States did not want to have good relations with China. The two countries have worked together to establish friendly relations. However, with the rise of Chinese assertiveness in the conflict over Spratly and Paracel Islands

the relations have cooled. The US opposed to Chinese pressure and became the strong player, which advocated states rights of ASEAN. China disagreed with this and rejected US involvement in the conflict, which has no direct demands. USA responded by strengthening economic and security relations with countries in the region, especially those directly bordering with China. (Glaser, 2013, p 14)

The main violent and shifting engagement that changed the South China Sea for good happened between the People's Republic of China and Republic of Vietnam in 1974. China reported 18 deaths and for Vietnam the estimated number is much higher for the Battle of the Paracel Islands. Troops of Vietnam were expelled by Chinese forces from the Crescent group of the Paracel Islands. By this act of violence China asserted the objective of Nine-dotted line. The result of this battle was that China gained control and showed their dominance in the region. From this point countries located in South China Sea was afraid of China's next moves.

4 ECONOMIC ANALYSIS

In following chapter of the thesis will be emphasized the economic point of view of the South China Sea. There will be described different measures of trade and involvement of countries in the region. One can see here container port throughput for selected countries, liner shipping connectivity index and also bilateral liner shipping connectivity index and last but not least the PCA of export and import commodities of ASEAN and China and their impact on balance of trade.

Global GDP increased by 2,5% in 2014 up from 2,4% in 2013 estimated increase for 2015 is 2,5%. GDP of Asia increased by 5,5% in 2014 and the growth of GDP for 2015 is estimated at 5,2%. For the hegemony of the region – China the estimated growth of GDP is 6,9% which is 0,5 per cent lower than in year 2014. This is due to the slowdown in the industrial production. This slowdown of industrial production has serious implications for seaborne trade. Over the past decade, developing countries have incrementally shifted patterns of trade. Since the 1970s the distribution between the goods loaded and unloaded changed significantly. Developing countries have become major importers and exporters and major force in seaborne trade. Developing

counties in 2014 had nearly 60% of total loaded goods and 61% of unloaded goods of the whole world. (UNCTAD, 2015, p 15)

The source of the data for the analysis below was United Nations Common format for Transient Data Exchange for power systems (COMTRADE) and United Nations Conference on Trade and Development (UNCTAD). The data comprises of balance of trade, export and import of ASEAN and China for selected years. Also the data comprises of Container port throughput of selected economies, Liner shipping connectivity index and Liner shipping bilateral connectivity index. The data were available only for recent years so I had to compute rest of the data till year 2001 mainly for ASEAN. The data comprises of Export and Import Commodities of ASEAN and China from year 2001 till 2014. Further will be analysed the Liner shipping index of countries involved in South China Sea and Container port throughput of selected economies.

4.1   Container Port Throughput

I have analyzed Container port throughput for countries which are involved in South China Sea. The data was obtained from United Nations Conference on Trade and Development, all data was available online. Container port throughput presents the total number of containers handled by a port, per country, expressed in Twenty-foot Equivalent Units so called TEUs. This process may include loading and unloading of Twenty-foot containers, repositioning and trans-shipment containers as well as Forty-foot Equivalent Units (FEUs) being counted as two TEUs. Data for Container port throughput were available from 2008 till year 2014 here are the results.

The data for container port throughput are listed in the table 2: Container port throughput located in the appendix. Economies which are used in the table are Brunei, China, Indonesia, Japan, Malaysia, Philippines, Taiwan and Vietnam. In the columns 2 – 8 are listed years for which was container port throughput analyzed and in the column number 9 we can find ranking of listed economies from the biggest to the smallest container port throughput derived from the average of single economy throughout the 6 years.

With 115 million TEUs in 2008, China was and still is the world leader in Container port throughput and it is visible also in other years. China holds their standards

for Container port throughput in these six years always over the 100 million TEUs and China is largest exporting economy in the world. China's economy is growing and it is visible also on the numbers of TEUs in 2008 China Container port throughput was around 115 million TEUs but in year 2014 it has reached number 181 million TEUs. This increase throughout the six years is more than 56%. As the second actor in South China Sea I would like to describe Malaysian container port throughput. Malaysia is with their container port throughput third largest export economy in the South China Sea. From table 1: Container port throughput it is visible that country exports are raising in these 6 years. Malaysian container port throughput was in 2008 around 16 million of TEUs and rose to 22 million TEUs in 2014 which is raise over 41%.

As external actor who is involved in South China Sea is Japan. Japan is fourth largest export economy in the world. (UNCTAD, 2014, p 4) Japan container port throughput in years 2008 – 2014 was stable, in 2009 there was recorded decrease due to financial crisis, but after that export in form of TEUs rose. In 2008 was Japan export in form of TEUs around 19 million and in the 2014 the number of TEUs handled by Japan was closing to 21 million. This is raise by 9,5% in 6 years.

Taiwan province is also visible in the table 2: Container port throughput, it is not included in China as a whole, but separated. Taiwan had in year 2008 in the Container port throughput around 13 million TEUs and in year 2014 Taiwan handled over 16 million TEUs which is more than 26% raise in container port throughput.

Indonesia is another actor in South China Sea listed in table 2: Container port throughput. Indonesia handled around 7,4 million of TEUs in 2008 and as like the other economies the container port throughput was raising until 2014 and the amount was reaching 12 million of TEUs. This raise was more than 60% which is the second biggest of all the risings throughout the 6 years of listed countries in table 2: Container port throughput.

Vietnamese container port throughput initial number in 2008 was around 4,4 million of TEUs and rise to the final number in 2014 reaching 12 million of TEUs which is massive raise reaching 172% in these 6 years.

Philippines had around 4,5 million of TEUs in 2008 and steadily rose till closing to the number of 5,9 in 2014. This steady raise was in the end more than 31% from the initial number in 2008.

The country with the lowest container port throughput in years 2008 – 2014 is Brunei which is visible from table XY. Brunei handled 90 thousands of TEUs in 2008 and 128 thousands TEUs in 2014. The container port of Brunei rose in the 6 years by 41%. This small number of TEUs is understandable, because 89,6% of country export is oil.

As one can see from the number gathered from the table 2: Container port throughput. The number of containers handled by every country in the region was raising, it doesn't matter if it was internal actor or external actor of South China Sea. This trend is saying that with higher level globalization and interdependence of the countries this number will probably be rising through the upcoming years also. Maritime transport is the cheapest transport available and if there will be no direct conflict in South China Sea we can expect the number of container ships on the sea be raising.

4.2 Liner Shipping Connectivity Index

Countries access to world markets depends largely on their transport connectivity, especially as regards regular shipping services for the import and export of manufactured goods. UNCTAD's Liner Shipping Connectivity Index (LSCI) aims at capturing a country's level of integration into global liner shipping networks.

The table 3: Liner shipping connectivity index located in APX presents the liner shipping connectivity index (LSCI), which indicates a country's integration level into global liner shipping networks. The index base year is 2004, and the base value is on a country showing a maximum figure for 2004 (China). Source for this data was UNCTAD, Division on Technology and Logistics, based on Containerization International Online.

The current version of the LSCI is generated from five components: (a) the number of ships; (b) the total container-carrying capacity of those ships; (c) the maximum vessel size; (d) the number of services; and (e) the number of companies that deploy container ships on services from and to a country's ports.

The index is generated as follows: for each of the five components, a country's value is divided by the maximum value of that component in 2004, and for each country, the average of the five components is calculated. This average is then divided by the maximum average for 2004 and multiplied by 100. In this way, the index generates the value 100 for the country with the highest average index of the five components in 2004. The country with the highest average index in 2004 was China.

Following China's Liner shipping connectivity index for year 2008 is 137, 38 from there the index for China was rising till 2015's value of 167, 13. Country with second highest LSCI in year 2015 was Malaysia with 110, 58. Taiwan Liner Shipping connectivity index of 2015 is 76, 22 which is the third highest from the selected countries. I have added also Japan into the selected countries, because I wanted to know Japanese involvement in the maritime trade. LSCI of Japan was fluctuating between number of 62 till 69 throughout the eight observed years with final score of 68, 82. Vietnam Liner shipping connectivity index in 2015 reached the value of 46, 36. Indonesian index of liner shipping connectivity was fluctuating in years from 2008 till 2015 and the final value of the index for Indonesia is 26, 98. Philippines liner shipment connectivity index for year 2015 is 18, 27. The country which is least connected to world through shipping from selected countries in South China Sea is Brunei. 2015 liner shipping connectivity index of Brunei is 4, 56 points.

4.3 Liner Shipping Bilateral Connectivity Index

Transport connectivity is a crucial determinant of bilateral exports. UNCTAD's Liner Shipping Bilateral Connectivity Index is meant to reflect specifically the liner shipping connectivity between pairs of countries.

The table 4: Liner Shipping bilateral Connectivity Index indicates a country pair's integration level into global liner shipping networks. The LSBCI is an extension of UNCTAD's country-level Liner Shipping Connectivity Index (LSCI) and based on a proper bilateralization transformation.

The current version of the LSBCI includes 5 components. For any pair of countries A and B represented in our sample, the LSBCI is based on: 1) the number of trans shipments required to get from country A to country B; 2) the number of direct connections common to both country A and B; 3) the geometric mean of the number

of direct connections of country A and of country B; 4) the level of competition on services that connect country A to country B; 5) the size of the largest ships on the weakest route connecting country A to country B. The data are derived from Containerization International Online and Lloyd's List Intelligence.

The LSBCI is computed by taking the simple average of the five normalized components. As a consequence, the LSBCI can only take values between 0 (minimum) and 1 (maximum). As to the first component, we simply take its complement to unity that is 1-Normalized Value to respect the correspondence between higher values and stronger connectivity.

As was already mentioned the table 4: Liner shipping bilateral connectivity index is located in appendixes. This table is focused on eight selected countries which are playing role in South China Sea. In the first column and row are located economies in alphabetical order. The numbers between two selected economies indicates the Liner Shipping Bilateral Connectivity Index. The higher the index is the stronger the liner shipping bond between the countries is. It is visible from table 4: Liner Shipping Bilateral Connectivity Index that the highest index from these selected economies is in bond between China – Malaysia (Malaysia – China) with 0.83 index points. The second highest index is between Taiwan - China (China – Taiwan) with 0,72 points. The third highest liner shipping bilateral connectivity index of these eight selected economies can be found between Japan – China (China-Japan) with 0,65 points. On the other hand the lowest liner shipping bilateral connectivity index of selected economies is obtained by bond Brunei – Vietnam and Brunei – Indonesia.

4.4 Theoretical framework of PCA

Following analysis is focused at goods only without the services. To ease the data I have selected sixteen commodities throughout the time span of 14 years in total. To make the data more connected to the South China Sea disputes I have added the China + ASEAN, becuase China is the key actor in SCS. I have selected eight commodities of import and eight commodities of export of ASEAN + China. The commodities are divided into 4 correlated groups and my main intention of this analysis was to find which group of the commodities have the highest impact on balance of trade of ASEAN+China. For better understanding in the analysis the commodities are named with numbers from Harmonized Commodity Description and

Coding System[9]. It can be seen from chart 1: Export and import of ASEAN and China that export commodities increases relatively more as compare to import commodities.
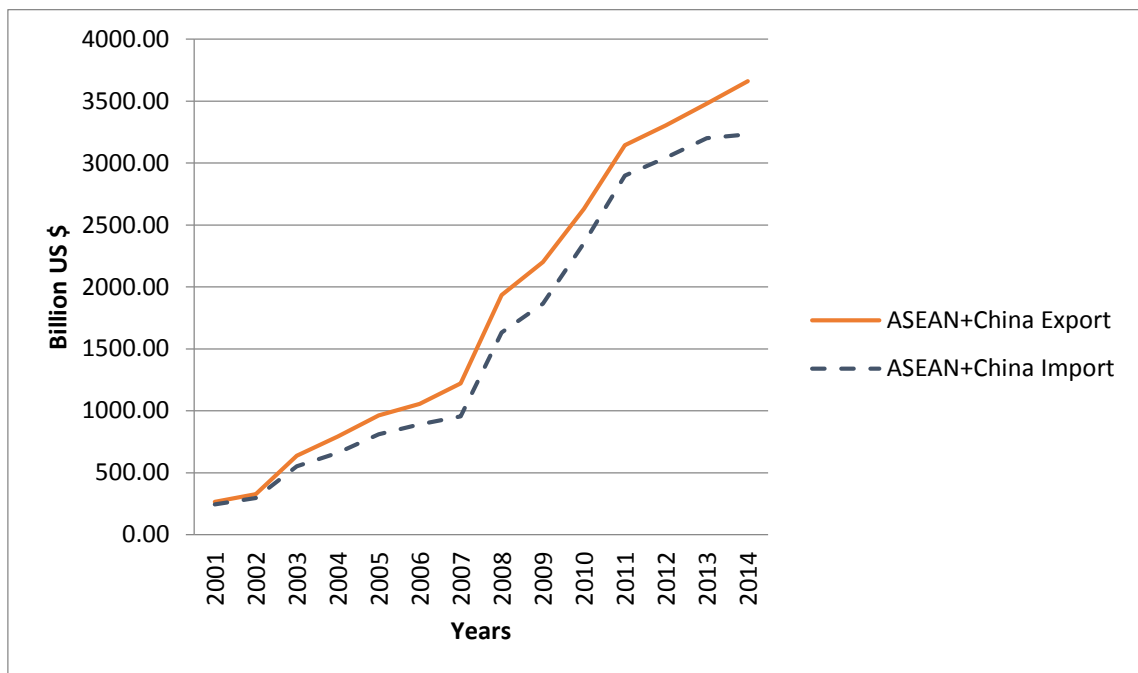

Chart 1: Export and Import of ASEAN and China
Author: Bc. Nikola Valeček

The Principal component analysis is applied for the different groups of data separately. The groups are highly correlated and give us one principal component. The first group consist of four highest import commodities in the selected years. One can find here commodities like electronics, machinery, optical apparatus and commodities not else specified. The second group also consists of imported commodities to ASEAN + China; one can find here minerals, ores and chemicals and plastics. Third group of commodities are focused on most exported commodities from ASEAN + China. One can find here electrical equipment, machinery, optical apparatus and vehicles. Last group of commodities is also focused on export commodities and we could define this commodity as textiles. In fourth group can one find articles of knit textiles, not knitted textiles, footwear and also other textiles. Each group gives us one principal component. In this way we get four major variables instead of the 16 variables for further analysis. For statistical analysis were used software like Statistica 12 and SPSS by IBM.

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[9] Harmonized Commodity Description and Coding System is an international nomenclature fot the classification of products.

Further we apply the regression technique to gather the factor scores for each individual group of commodities, and then use the multiple regression on the balance of trade, where these four variables are the first principal components of each group mentioned above.

4.5   Principal Component Analysis of first group

The first group of commodities consists of four different main import commodities of China and ASEAN. In this group we can find Electrical and electronic equipment with HS number 85, then with number 84 – Machinery and nuclear reactors, number 90 – Optical, photo, technical, medical, etc apparatus and finally with number 99 – Commodities not specified. In SPSS statistical programme I have selected highlighted variables and used dimension reduction tab.

These four commodities are highly correlated due to the increase in the fourteen observed years. This component accounts for 95% variation in this group. We can clearly see in Chart 2: Eigen values on component number – group one located below this text, that the magnitude of slope between the first and the second component is the highest and much higher in comparison with others principle components. That tells us that we have only one principal component.

In SPSS I have selected the option save variables as Regression. This way the software gave me the factor scores needed for further analysis. The obtained scores – Z_1 are visible in the appendix in table 20 Obtained scores + BoT.

Chart 2: Eigen values on Component number – group one
Author: Bc. Nikola Valeček

4.6 Principal Component Analysis of second group

The second group of selected import commodities consists of commodities like Ores, slag and ash with number 26 in Harmonised System, next is 27 – Mineral fuels, oils, distillation products, 29 – Organic chemicals and last but not least number 39 – Plastics. In SPSS statistical programme I have selected highlighted variables and used dimension reduction tab.

This principle component accounts for 98% variation in this group. In Chart 3: Eigenvalues on component number – group two we can clearly observe that magnitude of slope between component with number one and two is much higher than the others, thus we have only one principle component.

In SPSS I have selected the option save variables as Regression. This way the software gave me the factor scores needed for further analysis. The obtained scores – Z_2 are visible in the appendix in table 20 Obtained scores + BoT.
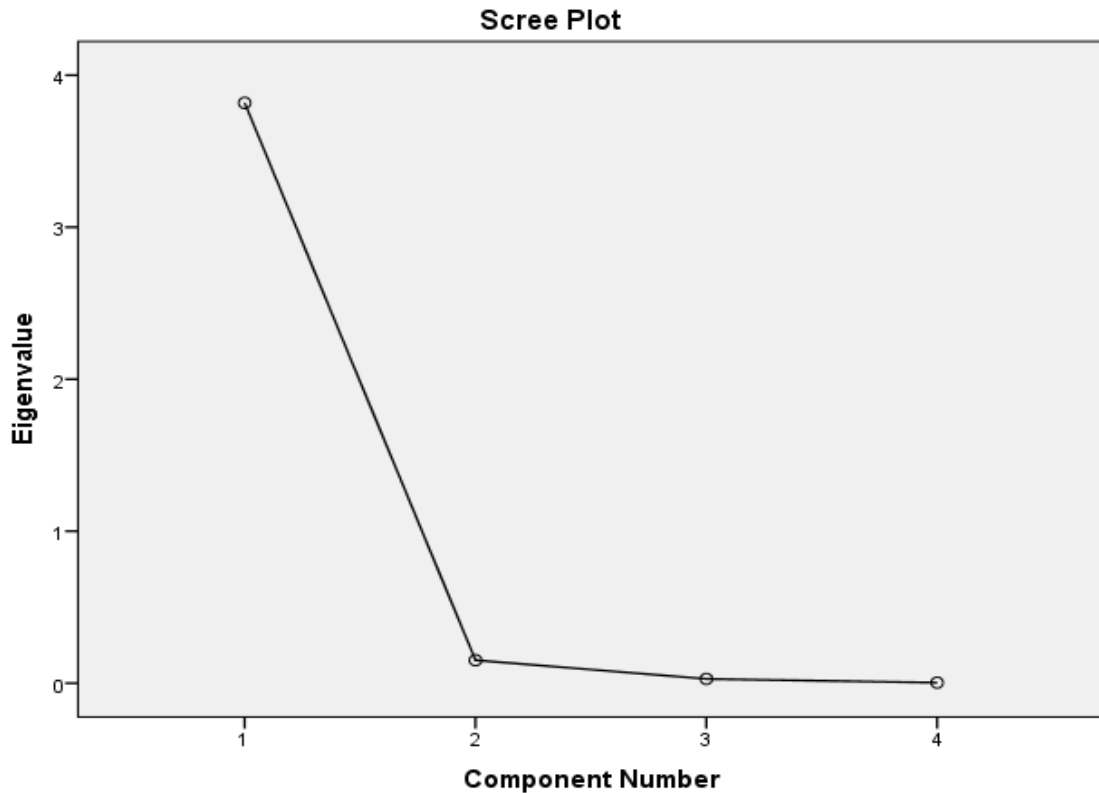
Chart 3: Eigen values on Component number - group two
Author: Bc. Nikola Valeček

4.7 Principal Component Analysis of third group

Third group consists of four different export commodities of ASEAN + China. One can find here with number 85 – Electronic equipment, 84 – Machinery, nuclear reactors, boilers etc, 90 – Optical apparatus and with number 87 – Vehicles. The data of these selected commodities are highly correlated due to the increase over the years. In SPSS statistical programme I have selected highlighted variables and used dimension reduction tab.

The first component accounts for 98% variation in this group. We can clearly see in Figure 4: Eigen values on component number – group three that the magnitude of slope between the component 1 and 2 is much higher than between the others components. This means we have only one principle component in this group.

In SPSS I have selected the option save variables as Regression. This way the software gave me the factor scores needed for further analysis. The obtained scores – Z_3 are visible in the appendix in table 20 Obtained scores + BoT.
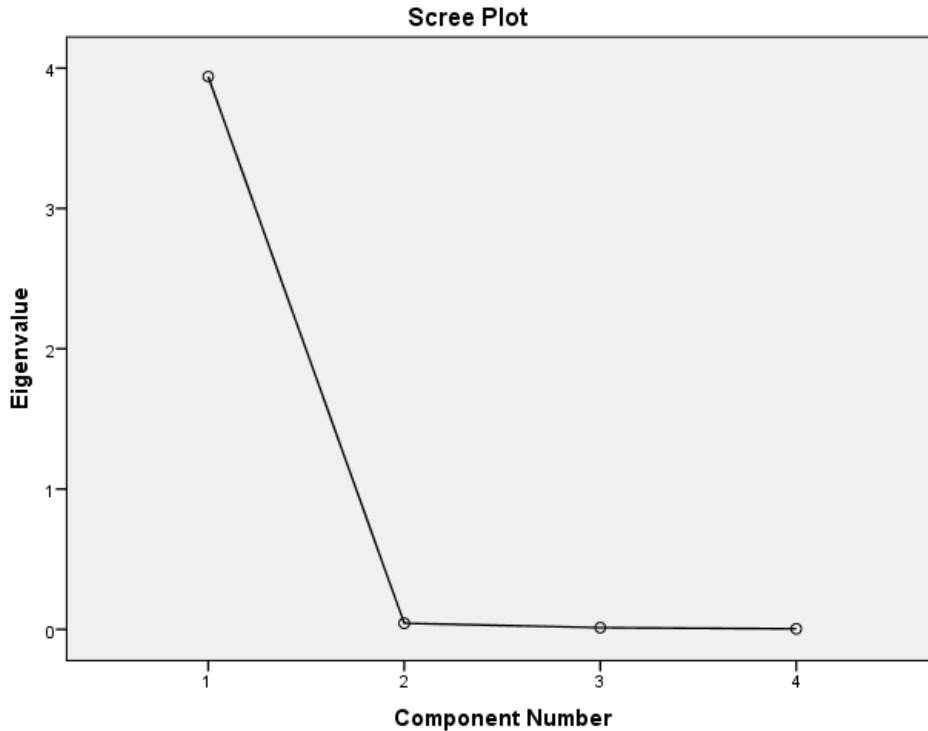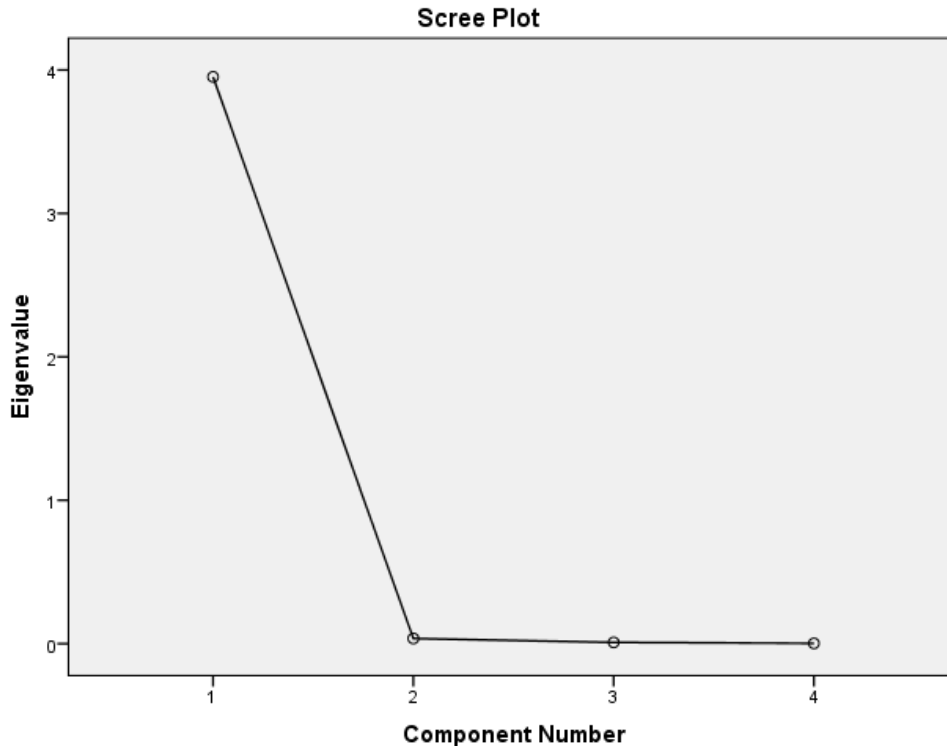
Chart 4: Eigen values on Component number - group three
Author: Bc. Nikola Valeček

4.8 Principal Component Analysis of fourth group

Fourth group consists of four different export commodities. Fourth group is focused on commodities related to textiles. One can find here with number 61 in Harmonised System − Articles of apparel, accessories, knit or crotchet, 62 − Articles of apparel, accessories, not knit or crotchet, 63 − Other made textile articles and 64 − Footwear, gaiters and the like, parts thereof. The data of these selected commodities are highly correlated due to the increase in fourteen followed years. In SPSS statistical programme I have selected highlighted variables and used dimension reduction tab.

This component accounts for 98% variation in this group. We can clearly see in Chart 5: Eigen values on component number − group four that the magnitude of slope between the component one and two is much higher than between the others components. This means we have only one principle component in this group.

In SPSS I have selected the option save variables as Regression. This way the software gave me the factor scores needed for further analysis. The obtained scores − Z_4 are visible in the appendix in table 20 Obtained scores + BoT.
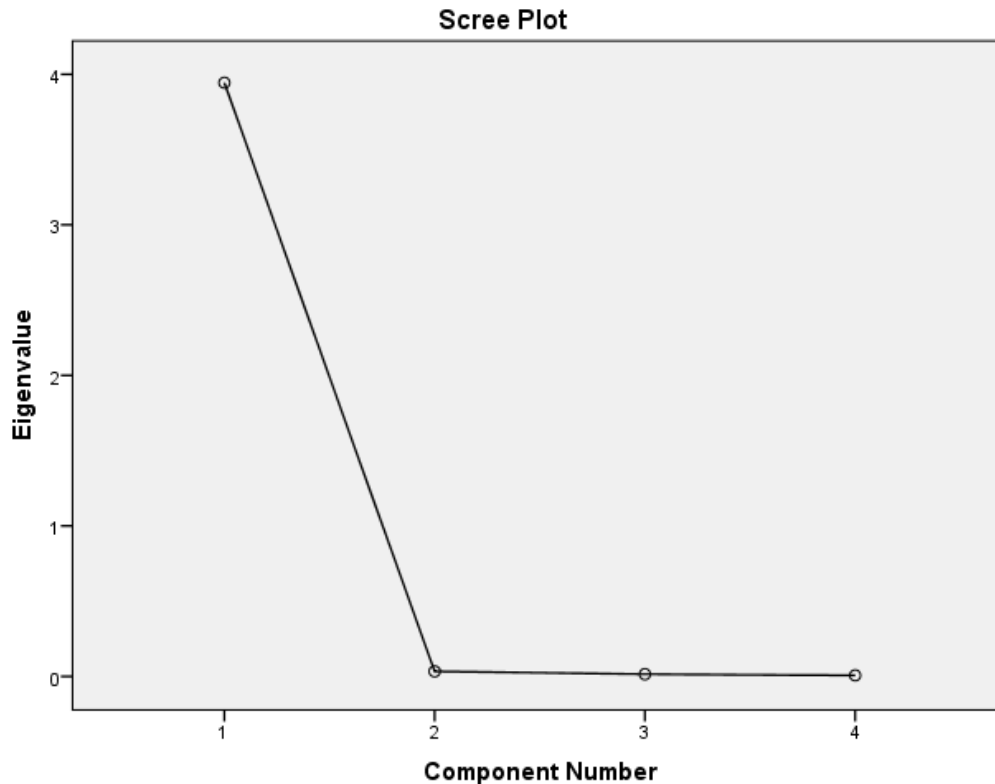
Chart 5: Eigen values on Component number - group four
Author: Bc. Nikola Valeček

4.9 Effects of principle components on balance of trade

We apply the multiple regression to check the effect of four different variables on the balance of trade, where the four variables represent principal components of each selected group of commodities. We regress the independent variables Z_1, Z_2, Z_3 and Z_4 on dependant variable balance of trade (BOT). From table 21: Regression model summary located in APX it is visible from Adjusted R Square 0,89. R^2 indicate that 89% of balance of trade is explained by these principle components.

The main aim of this analysis was to determine which group of commodities have the highest impact on Balance of trade of ASEAN and China. The answer is that it is group number 1. It is visible from table 1: Regression coefficients of scores on BoT located below. Principle component corresponding to group 1 is the most significant because the Standardized coefficient of this group is the furthest from zero. The second most impactful group of commodities on balance of trade is group number 3 which is not surprising dude to the shared commodities with group one, but in export.

Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	231,563	9,822		23,575	,000
	Z1	-380,950	111,524	-3,375	-3,416	,008
	Z2	-88,432	118,344	-,783	-,747	,044
	Z3	347,699	188,577	3,080	1,844	,048
	Z4	200,774	116,402	1,779	1,725	,049

Table 1: Regression Coefficients of scores on BoT
Author: Bc. Nikola Valeček

I have used the principle component analysis for the deduction of the important variables which contribute towards the balance of trade of ASEAN and China. Then I computed the factor scores, followed by multiple regression on dependant variable Balance of trade. The principle components of group 1 and group 3 are very significant, where as the principle component of group 2 is insignificant. The commodities listed in the group one and two are electronic equipment, machinery, optical apparatus and vehicles.

5 RESULTS AND RECOMMENDATIONS

Although was South China Sea considered over decades for so-called Hot spot of Southeast Asia, right now the probability of serious conflict is very slim. The long-term and very complicated territorial claims have not been over the years solved, but through joint activities and agreements, such as the Declaration on the conduct of the parties the situation became much more stable than in the past.

With the solution to the complicated situation in the South China Sea dealt many recognized experts on regional security. Among the most interesting proposed solutions or recommendations is solution of Professor Hasjim Djalal. Mr. Djalal proposed a theory of so called "*donut hole*". The theory deals with the idea that the area beyond 200 nautical miles from the coast and claimed the islands could be used by all adjoining states like zones of so called Cooperation Zone. (Thao and Amer, 2009, p 89)

One of the other proposed solutions include sharing of mineral resources by all stakeholders like in the Antarctic scheme of joint development. This brings third party as a supervisory body or arbitration in territorial disputes. Antarctic scheme is based on similar issues that can be found in the South China Sea territorial claims. Antarctica scheme created a management mechanism that allows countries to conduct joint scientific research, but all military activities are banned. (Joyner, 1999, p 86)

If this theory would be putted into practice, there are still no effective measures that would finally resolve the disputes.

Sam Bateman and Ralf Emmers in their book described several possible outcomes of disputes in South China Sea. One can find here both pessimistic and optimistic forecasts of further development in the South China Sea. Sam Bateman leans more to the pessimistic view, because he believes that if the risk of conflict in the region will disappear, states will have reason to cooperate effectively in the security, protection and preservation of the environment and research. Despite a number of cooperation documents referred to in the text it is not the situation in the South China Sea completely safe. The sea is set number of illegal activities which are not only under the heading of territorial disputes. Illegal activities such as piracy, armed conquest, terrorism, uncontrolled fishing and environmental degradation are becoming a threat to all neighbouring states. (Bateman and Emmers, 2009, p 3)

It is interesting that some authors consider increasing economic ties and strong economic growth of the region and especially by China as a negative aspect of future development, while the second group of authors consider the same thing very positive. Mr. Hamzah from ASEAN studies centre wrote that *„the economic growth is coupled with rising energy demand that encourage competition among states for possible reserves in the South China Sea. Dependence on oil and gas could encourage states to a greater assertiveness in pursuing their needs"*. (ASEAN studies centre, 2009, p 53)

Personally, I do incline towards the second group of solutions and I believe that the emerging countries interdependence and globalization are factors that reduce the risk of future conflict between adjacent states. China's increasing demand for oil was addressed by giving more focus on the Middle East and Africa. Although China has decided to invest 200 billion Yuan to survey potential sites in disputed areas, it is likely that if relevant deposits of gas and oil were found, it would not be addressed with aggressive actions.

Over the past few years, China is presented as a security threat. But many authors disagree with this statement and argue that China is through partnerships and alliances with neighbouring countries more constructive and responsible player in the international arena. (ASEAN studies centre, 2009, p 54)

Like is viewed China as a threat to South China Sea, China is viewing the United States with suspicion. Therefore, it could exacerbate the situation if one of the states involved in the dispute became an ally of the US against China. (Hamzah, 2009, p 3)

Although United States has built a partnership with the Philippines, Thailand and Taiwan, it was involved actively in the territorial disputes in the region. Relations between China and the United States are extremely important for the entire Asia-Pacific region and consequently the world. Although their relationships improve, China will continue to manifest its dominant position near the coast, as was done in previous years. China obviously does not want the US presence in the region and wants to shipping routes on which it is existentially dependent to be policed by itself. The evidence of this is clearly visible in the enormous expenditures on the modernization of the Chinese naval army. Extreme military spending is an important signal that although the security situation in the South China Sea fairly stable, it is also very erratic. In response

to Chinese spending on weapons other countries also started to spend more on weapons such as Singapore, Malaysia and Indonesia. The security and economy are interrelated to each other as complex and interdependent. This can be seen from these countries that progress in the collection of economic prosperity with the accumulation of military power simultaneously, since economic wealth is one of the main factors in the maintenance of military capacities in order to secure the national interest and its benefits. Therefore, the relationship between security and the economy should be maintained and continued. But on the other hand huge success of regional cooperation and efforts demonstrating deeper cooperation are undoubtedly sealed documents between China and ASEAN. Among the most important documents include China's adoption of the Agreement on the ASEAN Friendship and Cooperation and the Declaration on the Conduct of State parties in the South China Sea.

China's economic cooperation with ASEAN countries is important, since the neighbouring countries for her to represent an important market and create a market for Chinese goods. It was already mentioned by the Liner Shipping Bilateral Connectivity index. China's integration to the shipping is the largest and China has strong trade bonds with ASEAN as a whole and also with separate economies of ASEAN, like Malaysia, Philippines and Indonesia.

Increase economic, financial and trade links between ASEAN and China creates a favourable environment for cooperation and dialogue on the South China Sea. Most regional analysts see the conflict as unlikely, yet almost nobody expects that the dispute over the maritime border zones and islands were soon resolved. Only cooperative management can be a solution to successfully manage the area for the benefit of all. Mode of cooperation may cover a variety of areas that are geographically and thematically defined. Cooperation can continue to develop in the field of oil and gas fields, safety at sea, research, conservation of ecosystems and fishing. But these activities require a lot of negotiation and haggling about shared responsibilities and rights. (Bateman and Emmers, 2009, p 8)

Bateman therefore recommend as a suitable model for cooperation in bilateral agreements, which should cover only pre-defined area, which are included in only two sides of the conflict. In his opinion the bilateral agreement could also be an issue, since a third party may feel disadvantaged. All actors in the South China Sea feel that their

claims are justified, but while arguing a large part of the sea is still n effectively treated with problems such as piracy, ecology, economy. (Bateman and Emmers, 2009, p 8)

I believe that an agreement concluded between China and ASEAN, as well as huge economic and socio-political development of China are vital to the situation in the South China Sea, which I confirmed the hypothesis that China is the main driver of change in the region. I also believe that the position of China will be absolutely crucial for future developments in the South China Sea.

5.1   Model Situation

In this subchapter of the results and recommendations, I would like to add my point of view on the topic of South China Sea and try to imagine a model situation with a conflict.

From my point of view conflict that would occur in South China Sea will have impact on economic activity of involved actors in South China Sea. If conflict would break out in the South China Sea it will have immediate impact on countries located in South China Sea and consequently it will have impact on countries which are using these waters for trade. The counties that would be struck the most are exporting countries of South China Sea. By term exporting countries I mainly mean China, Taiwan and ASEAN members mainly Malaysia, Indonesia, Philippines and Singapore. Among other countries which would be economically hit by the erupting conflict in South China undoubtedly Japan and Australia. All of these named countries are using the South China Sea heavily for trade routes, of course other countries use the waters also but not in such high volume.

I have analyzed that if conflict would break out it would have main impact on commodities of electronic equipment, machinery and optical apparatus of ASEAN and China. Also the conflict would have immediate impact on trade with mineral resources like gas and oil, because they are located in the South China Sea. The impact would be slightly higher for import over export of these commodities, because these commodities have highest impact on the Balance of trade of ASEAN and China.

According to Buzan it is the interest of the security hegemony of the region is to persevere and maintain not conflicting relations. Security hegemony in the area of South China Sea is obviously China. (Buzan & Waever, 2003, p 172)

At present China is going through the industrial slowdown and have no interest in causing any conflicts in South China Sea. By keeping the situation stable China can profit from trade and mineral resources with no danger. It would slow the economy of the China even more and it is not beneficial in terms of trust and also trade with adjacent countries and economy as a whole. The maritime trade by China is heavily done with countries like Malaysia, Japan, Taiwan and Vietnam. These data were obtained from the Liner shipping bilateral connectivity index. By raising conflict China would lose trust of the trading partners and also already build relationships in the region. Buzan defined the possible outcome of the conflict: *„Conflict formation would be unlikely to end in war among its great powers, not only because of the fear of nuclear weapons, but also of fear of jeopardising the economic achievements."* (Buzan & Waever, 2003, p 175)

But on the other hand as we could observe in October this year, China is also not afraid to stand strong against the US. Warship of the US was passing the disputed waterway near Man-made Island in the contested territory of Spratly Islands and situation was escalating as none of the warships backed out. As the Chinese admiral Wu Shengli said *„If the United States continues with these kinds of dangerous, provocative acts, there could well be a seriously pressing situation between frontline forces from both sides on the sea and in the air, or even a minor incident that sparks war."* (Reuters, 2015)

This clearly represent Chinese stand in the region of the South China Sea. The situation in South China Sea region is ambiguous, unpredictable and difficult to solve. Southeast Asian countries have to cope with the growing power of China, and strong influence of Japan and the United States in the region.

CONCLUSION

The intent of this diploma thesis was to show the importance of the South China Sea and Spratly and Paracel Islands and prove that China is the main driver in the region. Also the introduction of the actors which are involved in the conflict in the South China Sea region and outline the evolution of the conflict after the WW2. The disputed territories have several important aspects. Firstly the area of Spratly Islands has great energy potential; as it was mentioned studies show that mainly stocks of natural gas are located under the seabed and one cannot forgot the stocks of oil. Secondly the South China Sea is the centre of transport routes leading towards the Malacca strait. The routes are used for trade of goods not only by the Southeast Asian countries, but also countries like USA, Japan, Australia and EU.

The conflict in South China Sea involves states of Brunei, China, Philippines, Malaysia, Taiwan and Vietnam. Although they are six states involved in the disputes we can observe more actors, so called external actors like Japan and USA. Particularly three countries were really active in terms of clashing over territory, these countries are China, Vietnam and Philippines. The analysis of the development of the actions that took place in the South China Sea in the history showed that the situation was influenced mainly by two crises that occurred throughout the years. First crisis happened in 1974, when Chinese troops assaulted Crescent group of the Paracel Islands occupied by Vietnamese troops. Second major incident happened 1995 over Mischief Reef. Where did China and Philippines clash. After the clash China had adopted Good neighbour policy. This adoption led to economic cooperation in the South China region and improvement of relations.

This analysis of the actions that took place in South China Sea highlighted the increasing trend in tensions. The tensions rise mainly due to the USA involvement into the region, which is refused by the Chinese. Secondly china is more involved in the tensions, and also ASEAN is not able to unite the policy in the region.

Second part of the analysis was focused on the trade characteristics of South China Sea region. The analysis was focused on container port throughput, liner shipping connectivity index, liner shipping bilateral connectivity index and also principle component analysis of export and import goods and their impact on balance of trade.

These different analyses were focused mainly on maritime trade of goods, because the aim was also to determine, if possible conflict would have impact on actors located in South China Sea. I came to conclusion that it will have immediate impact on the actors located in South China Sea and then impact on the external actors in SCS region also. The amount of impact is unpredictable but I assume it will have impact on trade of goods and transport mechanisms. South China Sea is very important because it is the main maritime connection route from Europe to Asia. For ASEAN and China it will have major impact in terms of import and export of electronic goods and machinery. These selected commodities have the highest impact on balance of trade of China and ASEAN. Potential conflict could entirely stop the amount of container ships going through the SCS. The impact of the future conflict will be always different due to the type of the conflict. The conflicts could vary from unarmed to armed, conflicts over interest like the natural gas and oil located in South China Sea.

To conclude the situation in South China Sea is indefinite and hard to predict. Countries located in Southeast Asia have to deal with the growing power of China and strong influence by external actors like USA and Japan.

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Figure 2   China Sea territory disputes
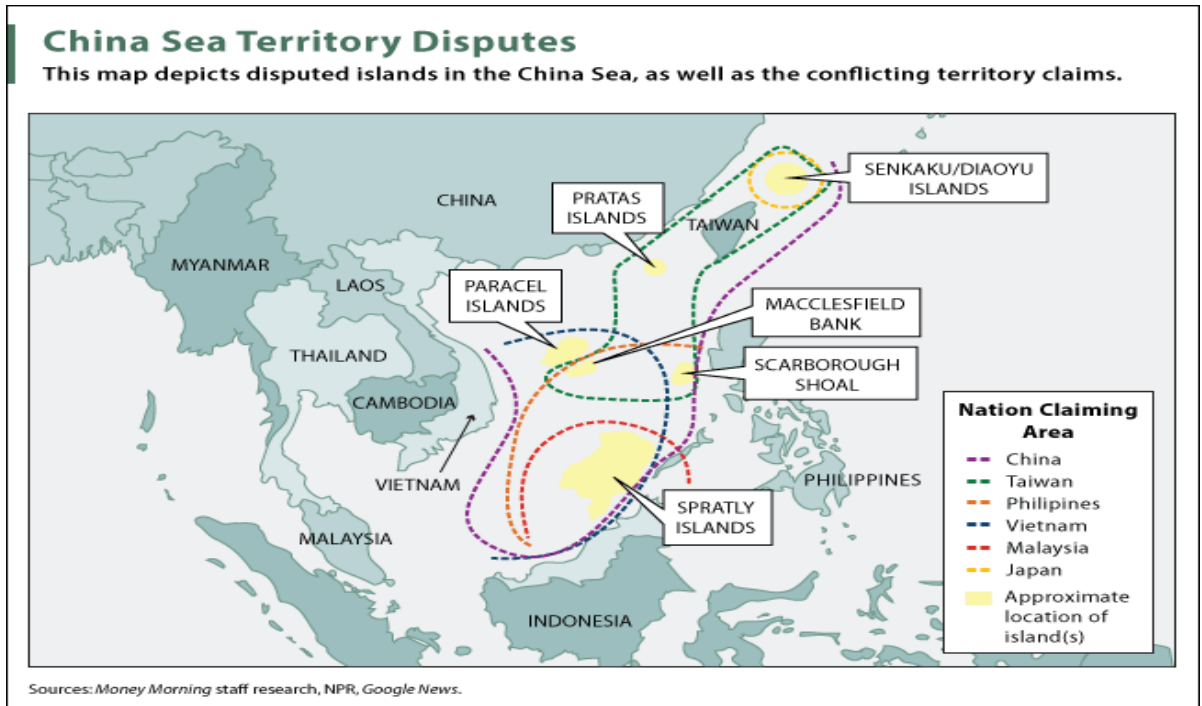
Figure 3   Map of claims in South China Sea
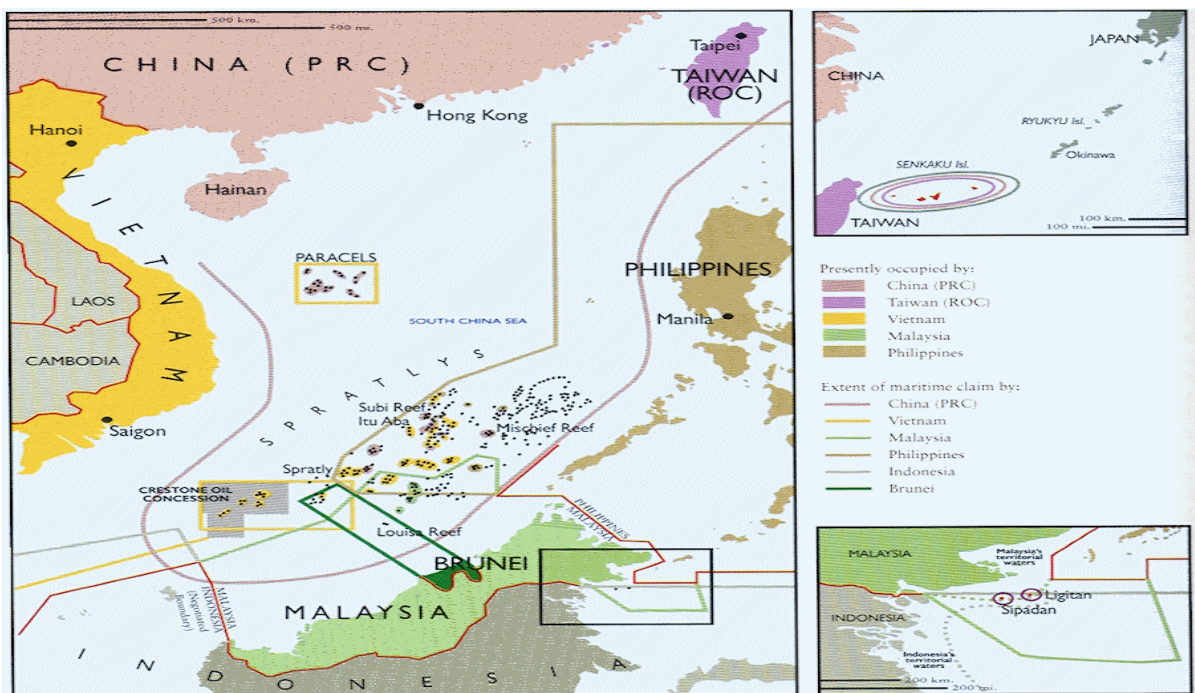
Appendix 2   Oil Flows and reserves in the South China Sea

Figure 4   South China Sea Major Crude Oil Trade flows
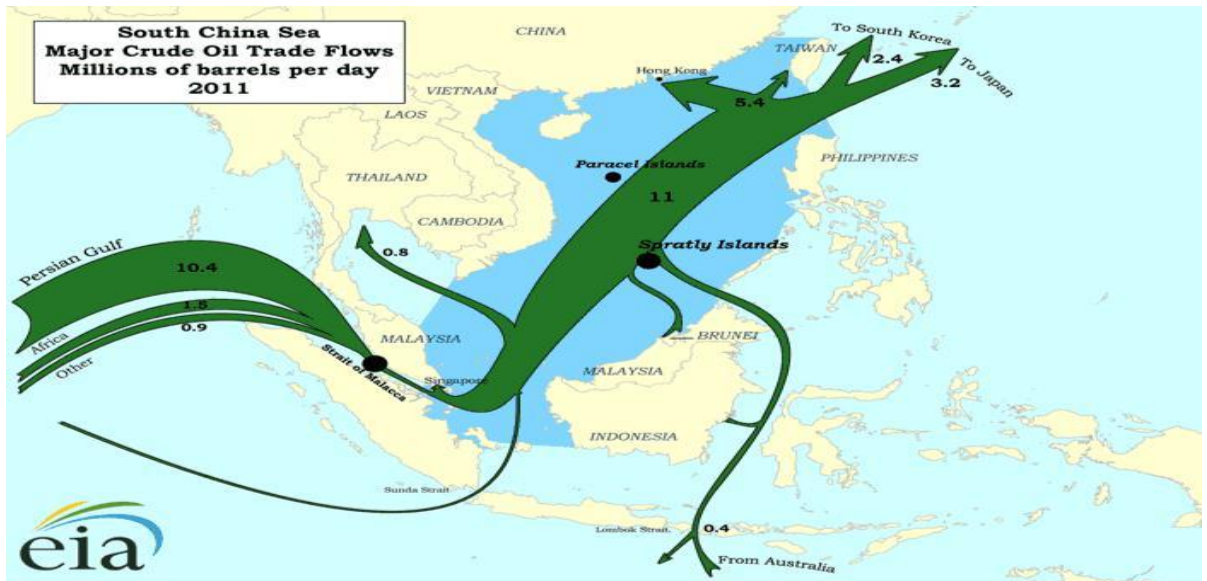
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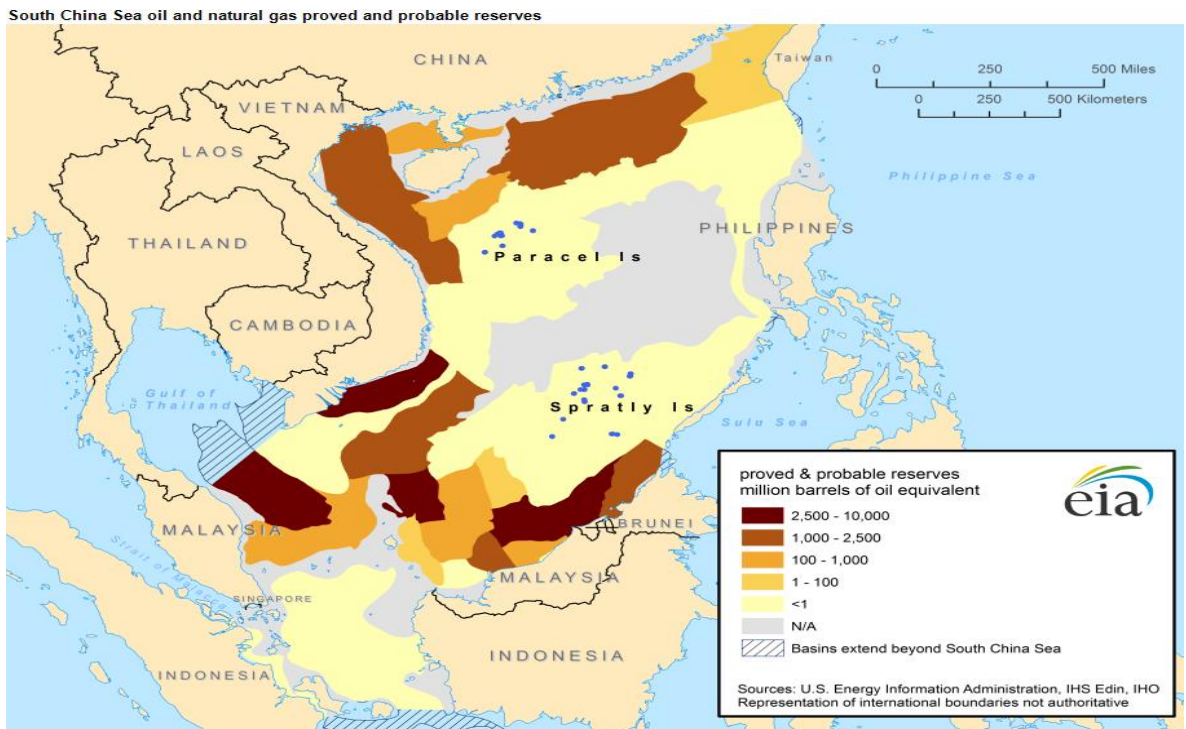
Appendix 3   Container port throughput

Table 2   Container port throughput of selected economies

Economy	2008	2009	2010	2011	2012	2013	2014	Average	Rank of average
China	115,9	108,8	130,2	144,6	161,3	170,8	181,6	144,7	1
Malaysia	16,1	15,9	18,2	20,1	20,8	21,1	22,7	19,3	2
Japan	18,9	16,3	18,1	19,4	20,1	20,4	20,7	19,1	3
Taiwan	12,9	11,3	12,7	14,8	14,9	15,3	16,4	13,9	4
Indonesia	7,4	7,2	8,4	8,9	9,6	11,2	11,9	9,2	5
Vietnam	4,4	4,9	5,9	6,9	7,5	9,1	9,5	6,9	6
Philippines	4,5	4,3	4,9	5,2	5,6	5,8	5,8	5,2	7
Brunei	0,09	0,08	0,09	0,1	0,11	0,12	0,12	0,1	8

(Source: UNCTAD, 2015)

Appendix 4   Liner Shipping Connectivity Index

Table 3   Liner Shipping Connectivity Index of selected economies

Economy	2008	2009	2010	2011	2012	2013	2014	2015	Average	Rank
China	137,38	132,47	143,57	152,06	156,19	157,51	165,05	167,13	151,4	1
Malaysia	77,60	81,21	88,14	90,96	99,69	98,18	104,02	110,58	93,8	2
Taiwan	62,58	60,90	64,37	66,69	66,62	64,23	75,38	76,22	67,1	3
Japan	66,63	66,33	67,43	67,81	63,09	65,68	62,14	68,82	66,0	4
Vietnam	18,73	26,39	31,36	49,71	48,71	43,26	46,08	46,36	38,8	5
Indonesia	24,85	25,68	25,60	25,91	26,28	27,41	28,06	26,98	26,3	6
Philippines	30,26	15,98	15,19	18,57	17,15	18,11	20,27	18,27	19,2	7
Brunei	3,68	3,94	5,12	4,68	4,44	4,61	4,30	4,56	4,4	8

(*Source: UNCTAD, 2015*)

Appendix 5   Liner Shipping Bilateral Connectivity Index

Table 4   Liner Shipping Bilateral Connectivity Index of selected economies in 2015

Economy	Brunei	China	Taiwan	Indonesia	Japan	Malaysia	Philippines	Vietnam
Brunei	-	0,20	0,19	0,18	0,19	0,26	0,23	0,18
China	0,20	-	0,72	0,43	0,65	0,83	0,43	0,55
Taiwan	0,19	0,72	-	0,39	0,58	0,64	0,40	0,46
Indonesia	0,18	0,43	0,39	-	0,37	0,44	0,35	0,35
Japan	0,19	0,65	0,58	0,37	-	0,53	0,38	0,47
Malaysia	0,26	0,83	0,64	0,44	0,53	-	0,37	0,48
Philippines	0,23	0,43	0,40	0,35	0,38	0,37	-	0,34
Vietnam	0,18	0,55	0,46	0,35	0,47	0,48	0,34	-

Source: UNCTAD, 2015

Appendix 6 PCA of group one

Table 5   Correlation matrix of group one

Variable	Correlations (Export,Import) Marked correlations are significant at p < ,05000			
	'85	'84	'90	'99
'85	1,000000	0,9853	0,983229	0,92916
'84	0,9853	1,000000	0,968724	0,899503
'90	0,983229	0,968724	1,000000	0,865879
'99	0,92916	0,899503	0,865879	1,000000

Table 6   Total Variance of group one

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3,817	95,436	95,436	3,817	95,436	95,436
2	,151	3,769	99,205			
3	,028	,706	99,911			
4	,004	,089	100,000			

Extraction Method: Principal Component Analysis.

Table 7   Component matrix of group one

Component Matrix[a]

	Component
	1
,84	,987
,90	,978
,99	,945
,85	,998

Table 8   Communalities of group one

Communalities

	Initial	Extraction
,84	1,000	,974
,90	1,000	,956
,99	1,000	,892
,85	1,000	,996

Extraction Method: Principal
Component Analysis.

Appendix 7 PCA of group two

Table 9   Correlation matrix of second group

Variable	Correlations (Export,Import) Marked correlations are significant at p < ,05000			
	'27	'26	'39	'29
'27	1,000000	0,957782	0,987077	0,985113
'26	0,957782	1,000000	0,974491	0,978973
'39	0,987077	0,974491	1,000000	0,995524
'29	0,985113	0,978973	0,995524	1,000000

Table 10   Total Variance of second group

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3,940	98,490	98,490	3,940	98,490	98,490
2	,044	1,099	99,588			
3	,012	,307	99,895			
4	,004	,105	100,000			

Table 11   Component matrix of second group

Component Matrix[a]

	Component
	1
'27	,990
'26	,985
'39	,997
'29	,997

Extraction Method:

Principal Component

Analysis.

a. 1 components

extracted.

Table 12   Communalities of second group

Communalities

	Initial	Extraction
,27	1,000	,980
,26	1,000	,971
,39	1,000	,994
,29	1,000	,995

Extraction Method: Principal

Component Analysis.

Appendix 8 PCA of group three

Table 13   Correlation matrix of third group

Variable	Correlations (Export,Import) Marked correlations are significant at p < ,05000			
	'85	'84	'90	'87
'85	1,000000	0,983142	0,977927	0,967445
'84	0,983142	1,000000	0,991233	0,987684
'90	0,977927	0,991233	1,000000	0,996413
'87	0,967445	0,987684	0,996413	1,000000

Table 14   Total Variance of third group

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3,952	98,799	98,799	3,952	98,799	98,799
2	,036	,909	99,708			
3	,009	,230	99,939			
4	,002	,061	100,000			

Extraction Method: Principal Component Analysis.

Table 15   Component matrix of third group

Component Matrix[a]

	Component
	1
,85	,988
,84	,997
,90	,997
,87	,994

Extraction Method:

Principal Component

Analysis.

Table 16   Communalities of third group

Communalities

	Initial	Extraction
,85	1,000	,976
,84	1,000	,993
,90	1,000	,995
,87	1,000	,988

Extraction Method: Principal
Component Analysis.

Appendix 9 PCA of group four

Table 17   Correlation matrix of fourth group

Variable	Correlations (Export,Import) Marked correlations are significant at p < ,05000			
	'61	'62	'64	'63
'61	1,000000	0,982429	0,976155	0,986345
'62	0,982429	1,000000	0,988484	0,984527
'64	0,976155	0,988484	1,000000	0,969942
'63	0,986345	0,984527	0,969942	1,000000

Table 18   Total Variance of fourth group

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3,944	98,599	98,599	3,944	98,599	98,599
2	,034	,844	99,443			
3	,015	,380	99,823			
4	,007	,177	100,000			

Extraction Method: Principal Component Analysis.

Table 19   Component matrix of fourth group

Component Matrix[a]

	Component
	1
'61	,993
'62	,996
'64	,991
'63	,992

Extraction Method:

Principal Component

Analysis.

Table 20   Communalities of fourth group

Communalities

	Initial	Extraction
,61	1,000	,986
,62	1,000	,992
,64	1,000	,981
,63	1,000	,984

Extraction Method: Principal Component Analysis.

Appendix 10 Obtained - scores

Table 21   Obtained scores + BoT

Year	BOT (In billion US$)	Z1	Z2	Z3	Z4
2014	428960	-1,13141	-1,11675	-1,20679	-1,25198
2013	278680	-1,06722	-1,08314	-1,15811	-1,18701
2012	258930	-0,92822	-0,99722	-1,05586	-1,03731
2011	243360	-0,75672	-0,82431	-0,88172	-0,89098
2010	281910	-0,65246	-0,70117	-0,6791	-0,67779
2009	276600	-0,52578	-0,60365	-0,4653	-0,41601
2008	334090	-0,38891	-0,37271	-0,25831	-0,18348
2007	356890	0,28933	-0,13486	-0,04712	0,00755
2006	276250	-0,41364	-0,28201	-0,18797	-0,11377
2005	166240	0,70081	71711	0,69951	0,53889
2004	97480	1,1202	1,31797	0,98379	0,94966
2003	95880	1,31111	1,28706	1,29092	1,09273
2002	76980	1,57631	1,43486	1,42934	1,40398
2001	69630	1,44527	1,35884	1,53675	1,76553

Appendix 11 Summary of Regression

Table 22   Regression model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,963[a]	,927	,894	36,75188

a. Predictors: (Constant), Z1, Z2, Z3, Z4

Table 23 ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	153469,550	4	38367,388	28,406	,000[b]
	Residual	12156,304	9	1350,700		
	Total	165625,854	13			

a. Dependent Variable: BOT

b. Predictors: (Constant), Z1, Z2, Z3, Z4