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The South China Sea: The Soviet Factor

An Intelligence Memorandum

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**The South China Sea:
The Soviet Factor** [redacted]

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Summary

A joint offshore oil agreement signed by Vietnam and the USSR in July 1980 portends increased Soviet involvement in the strategic South China Sea, a troublesome development for the governments of China and the Association of Southeast Asian Nations (ASEAN). The offshore oil agreement commits the USSR to assist Hanoi in exploring for and developing potential hydrocarbon deposits on Vietnam's continental shelf. Vietnam turned to the Soviet Union after Western oil companies, impeded by a suspicious bureaucracy and discouraged by poor results, began to curtail their operations. Moscow's initial exploration will be some 100 kilometers off southern Vietnam's Mekong Delta.

ASEAN and China have reacted with concern over both the economic and strategic implications of the joint agreement. Their fears of an immediate oil bonanza that would strengthen Vietnam's economy and enhance Hanoi's ability to continue its military activities in Southeast Asia are premature: the Soviet Union does not possess the expertise or equipment necessary to implement an intensive offshore program. Their concern that the joint agreement may lead to the establishment of a permanent Soviet naval base in Vietnam, however, has more basis. The South China Sea is a link between the Pacific and Indian Oceans for both the Soviet and US Navies and for merchant shipping; the opportunity to "protect" Soviet offshore oil activities in this strategic region will undoubtedly appeal to Moscow.

The offshore agreement has, moreover, focused regional attention on Hanoi's numerous offshore sovereignty disputes. Rival claimants—particularly China, Thailand, and the Philippines—are concerned that the oil agreement will result in Soviet backing for Vietnam's extensive claims to the South China Sea and its islands. Preliminary indications are that the signing of the joint agreement has stiffened the resolve of ASEAN and Chinese leaders to resist settlement of these disputes on Vietnam's terms.

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The South China Sea:**The Soviet Factor** [redacted]

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The joint offshore oil agreement signed last July by Vietnam and the USSR commits the Soviet Union to assist Vietnam in exploring for oil and gas on Vietnam's continental shelf and in developing any significant finds. The Soviet Union's involvement in offshore resource exploitation in the disputed South China Sea is worrisome to China and the five members of the Association of Southeast Asian Nations (ASEAN).¹ Leaders of all six countries have expressed concern over the implications of Moscow's expanded role. Particular concerns are that implementation of the agreement will strengthen the Vietnamese economy, lead to the establishment of a permanent Soviet naval base in Vietnam, and cause Moscow to back Vietnam's ambitious claims to the South China Sea. [redacted]

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The announcement of the agreement carried no details on the extent of Soviet assistance, but a joint Soviet-Vietnamese organization is now being formed to implement the offshore oil program, and a group of Soviet technicians is already supervising port improvements at Vung Tau. [redacted]

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[redacted]

Why Moscow?

Hanoi has assigned a high priority to development of offshore petroleum resources since consolidating its hold over all of Vietnam in 1975. Military activity in Indochina, bad weather, difficulties encountered in socializing the South, and poor planning have left Vietnam's economy in a shambles. Energy, particularly petroleum-based products, is in short supply, and the government is severely rationing electricity, gasoline, and kerosene. [redacted]

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Oil strikes off South Vietnam's Mekong Delta near the end of the Vietnam war led to some optimism that the continental shelf could produce critically needed petroleum. After the war, Hanoi contracted with experienced European and Canadian firms to continue this exploratory drilling, but 12 wells that were drilled in Vietnamese waters over the past two years have failed to show commercial deposits of hydrocarbons. This lack of success, the unwillingness of Vietnam to underwrite any of the risks of exploration, and the numerous problems encountered with the suspicious government bureaucracy have caused some Western companies to reduce or discontinue

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¹ Thailand, Malaysia, Singapore, Indonesia, and the Philippines [redacted]

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their operations in Vietnamese waters. The continuing US trade boycott of Vietnam has also hampered the companies' operations by making it difficult for them to purchase specialized equipment and technical services. Under these circumstances, Hanoi may have viewed an agreement with the less technically advanced Soviet Union as a feasible route toward a solution of its energy problems. Hanoi also has to be aware of the potential usefulness of a Soviet-sponsored oil exploration program in advancing its claims to the disputed South China Sea. [redacted]

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Implications of Soviet Involvement

Although the USSR may have entered into the oil agreement primarily to help solve Vietnam's immediate energy problems, Hanoi's neighbors are more concerned about the longer range economic and strategic implications of Soviet involvement. Some ASEAN members fear that Soviet success in locating and developing offshore oil and gas deposits would strengthen Vietnam's economy and enhance its ability to continue aggressive actions in the region. These countries, as well as China, also warn of a potential increase in the Soviet naval presence to "protect" the offshore drilling rigs and raise the spectre of Soviet backing of Vietnam's ambitious claims to the South China Sea. [redacted]

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Fears of a Vietnamese oil and gas bonanza under Soviet auspices lack foundation in the short term. Some parts of the South China Sea, including the offshore delta of the Mekong River, are believed to have excellent petroleum prospects. The Soviet Union's experience in offshore drilling has been limited to shallow waters in the Caspian Sea, however, and it will be several years before the Soviets are able to manufacture deep-water drilling rigs in factories recently purchased from France. In the interim, the specialized expertise and equipment unavailable in the Soviet Union would have to be obtained from Western firms. [redacted]

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The worldwide boom in offshore drilling has driven up the cost of purchasing or leasing the required equipment and technology. The high operating costs normally associated with offshore exploration will further limit the extent of the exploration program. Even in the unlikely event that significant oil deposits were found soon, it would take several years to translate discoveries into substantial production. Vietnam's economy, already consuming an estimated 40,000 barrels per day, should use most of the oil produced in the early years, leaving little or none to generate export earnings. [redacted]

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Speculation in the region about the military implications of the offshore oil agreement is widespread. Although the announcement of the agreement made no mention of an increased Soviet naval presence, some of Vietnam's

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neighbors fear that a permanent base for the Soviet Navy, perhaps at Cam Ranh Bay or Vung Tau, will be established. Such a naval base could be used not only to protect exploration vessels and drill rigs from hostile powers, but to provide a base for monitoring ship movements in the South China Sea and Indian Ocean, including US and Chinese naval activity. This possibility especially alarms the Chinese, who have already accused the Soviet Union of sending ships temporarily based at Cam Ranh Bay to carry out reconnaissance missions, and the Thais, who recently protested the presence of a Soviet naval flotilla in the Gulf of Thailand. [REDACTED]

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Regional concern over the possibility of a larger Russian naval presence may be warranted, given the strategic importance of the South China Sea. While attention has been focused largely on Soviet and Vietnamese activities in Indochina, the South China Sea represents an equally significant target of opportunity for Moscow and Hanoi. The only viable route between the Indian and Pacific Oceans is through the South China Sea. The Soviet Navy uses the South China Sea to enter the Indian Ocean, as do the US fleet based in the Philippines and tankers carrying Japan's vital Middle East oil supply. Three of ASEAN's members are island states, Malaysia is divided by the South China Sea, and Thailand has a long coastline. China considers the South China Sea its special preserve and still publishes maps showing a Chinese claim as far south as the Malaysian continental shelf. [REDACTED]

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Vietnam: Sovereignty Disputes in the South China Sea

The signing of the offshore oil agreement, coupled with a keen awareness of the strategic importance of the South China Sea, has helped focus regional attention on Hanoi's extensive offshore claims. At present, Vietnam's claims are in conflict with those of China and every member of ASEAN with the exception of Singapore. These states fear that Moscow's involvement in offshore oil exploration will lead to Soviet backing of Vietnam's claims to the South China Sea. The Soviet Union, with some of its East European allies, has already supported Vietnam's offshore claims vis-a-vis China, although Moscow and its supporters have yet to back Hanoi's position in disputes with ASEAN. [REDACTED]

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Vietnam's handling to date of its offshore boundary disputes provides no solace to neighbors concerned about the implications of the offshore oil agreement. A serious offshore boundary conflict with Kampuchea was settled only after the Vietnamese invasion in December 1978 and subsequent installation of the pro-Hanoi Heng Samrin government. On two other occasions, Hanoi has resorted to force to settle sovereignty disputes over offshore islands—capturing islands in the Spratly group then held by South Vietnam and the Wai Islands occupied by Kampuchea. [REDACTED]

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Vietnam's most serious sovereignty disputes are with China. The two former allies are currently quarreling over the Paracel Islands, the Spratly Islands, and the potentially oil-rich Gulf of Tonkin (see foldout). [redacted]

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China, which occupies the Paracels, continues to consolidate its position there. The defensive capabilities of Chinese forces on the islands have been improved over the past year, and steps such as the opening of air and shipping services have been taken to further incorporate the islands into China. For its part, Hanoi has improved its defensive posture on its seven garrisoned islands in the Spratly group, adding helipads, a short airstrip, and anti-aircraft artillery. China has yet to establish a foothold in the Spratlys, but has recently stepped up air and naval activity near the islands. Hanoi is still attempting to gain control over two-thirds of the Gulf of Tonkin, basing its claim on an unusual interpretation of a 19th century treaty between the colonial French rulers of Annam and the Qing Dynasty. China has responded with a growing naval presence in the Gulf and increased security precautions in US and French oil companies' concession zones east of the Vietnamese claim. [redacted]

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The offshore oil agreement, binding Hanoi even closer to Moscow, further reduces the chances of an amicable settlement of these disputes. Vietnam dared to challenge China's offshore claims even before the US-Vietnamese war was over, when Hanoi was beset with economic and military problems and dependent on Chinese aid. As ties with Moscow have grown closer, Vietnam has taken a steadily hardening line on the offshore boundary problems. While expressing in 1974 a willingness to negotiate the complex issues of sovereignty over the Spratlys and Paracels, Hanoi now claims them as "sacred and inviolable" parts of Vietnam's territory. Vietnam also has begun to protest Chinese oil exploration and fishing activities in the Gulf, writing protests and warnings to foreign oil companies working there. Moscow's signature on the offshore agreement is likely to strengthen Hanoi's resolve to make no significant concessions on these territorial disputes.

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Vietnam-Philippines

Vietnam's dispute with the Philippines centers on the Spratly Islands.² Despite their informal agreement to settle the sovereignty dispute through diplomatic channels, the two countries are engaged in a military buildup in the islands. Hanoi's activities in the Spratlys are documented above. Philip-

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pine forces now occupy eight islands and are improving naval and air capabilities, including construction of a 1,300-meter runway on Thitu Island.

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The Philippine Government has not publicly protested the Vietnam-USSR oil agreement, but is concerned about its potential impact on the contentious sovereignty issues in the South China Sea. President Marcos views the Spratly area as a potential oil source and seems intent upon asserting a Philippine claim to most of the islands. He is suspicious of Vietnamese and Soviet motives and, since Hanoi's turn to the USSR, has taken several steps to buttress the Philippine claim to the Spratlys. Philippine marines have been sent to occupy the seventh and eighth islands—Lankiam Cay and Commodore Reef—during the past two years. In 1979, Marcos issued decrees officially incorporating the islands into the Philippines and establishing a 200-mile exclusive economic zone extending into the Spratlys.

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Although there is little chance of Vietnamese-sponsored oil and gas exploration in the Spratlys in the foreseeable future, the agreement with the USSR has probably heightened Marcos's well-known fears of a Soviet naval presence in the islands. His likely reaction to the agreement will be to accelerate the upgrading of Philippine military facilities and capabilities in the islands. The agreement also gives Marcos new leverage to use in his attempt to have the Spratlys included under the terms of the US-Philippine Mutual Defense Treaty, which pledges American assistance in the event of an attack on Philippine territory.

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Vietnam-Indonesia

Vietnam's dispute with Indonesia is centered on an area of 12,000 square nautical miles in the South China Sea north of Pulau Natuna Besar (Greater Natuna Island). Eight years of negotiations, begun in 1972 with the South Vietnamese Government and continued since 1975 with the Hanoi regime, have failed to produce an agreement. One reason is the area's petroleum and gas potential. In early 1974, a large gas deposit, yet to be exploited, was discovered in the disputed area. Recent oil strikes by Conoco/Marathon in an adjacent area and Exxon successes in nearby Malaysian waters have raised expectations that this area will be an important oil and gas producer in the near future.

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Indonesia has thus far shown less concern about the implications of the Soviet-Vietnamese offshore agreement than have the other ASEAN countries. Indonesian leaders view an expansionist China fomenting unrest through overseas Chinese communities as their chief security threat and, so far, are less concerned about the growing Soviet and Vietnamese presence in

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the region. Despite Beijing's warnings about Moscow's and Hanoi's intentions, Jakarta still values a Vietnam hostile to China as a useful buffer state. [redacted]

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The Indonesian Government nonetheless appears determined to uphold its claim to the area in dispute with Vietnam. Jakarta granted foreign oil companies exploration concessions encompassing the entire disputed area, and seismic surveys have already been completed. Drilling is due to start within the next few months with protection provided by Indonesian naval patrol ships. Plans to upgrade the airfield on Greater Natuna Island, allowing it to handle jet fighters and heavy cargo aircraft, are also being considered. [redacted]

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Vietnam-Malaysia

Malaysia's dispute with Vietnam is presently limited to the matter of sovereignty over Amboyna, a small, barren sand cay in the southern part of the Spratlys. Vietnam quietly occupied Amboyna Cay in 1977 and now has built artillery positions and support and storage facilities on the island. Vietnamese troops have fired at a Malaysian naval expedition near the island and driven off other foreign ships and fishing boats. Malaysia's claim to Amboyna Cay did not become official until January 1980 when Kuala Lumpur published a map outlining its continental shelf claim in the South China Sea. Amboyna Cay and other small islets and reefs are within the boundary line shown on the map. [redacted]

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Along with Indonesia, Malaysia has sought good relations with Vietnam as a counter to the perceived threat of China. In keeping with this policy, Kuala Lumpur has handled the Amboyna Cay sovereignty issue in a low-key manner. Hanoi has responded by not publishing an official claim or publicly admitting that its troops occupy the island. The Vietnam-USSR offshore oil agreement, however, has drawn the Malaysian Government's attention to the potential dangers posed by an increased Soviet presence. Since the signing of the agreement, Prime Minister Hussein has advocated the formation of an ASEAN defense organization and resumed the defense portfolio, both actions at least partially attributable to his growing concern about Vietnamese and Soviet activities in Southeast Asia. Malaysian officials have voiced specific fears about Moscow's involvement in South China Sea resource extraction and a potential Soviet naval buildup. [redacted]

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Vietnam-Thailand

Thailand, with Vietnamese troops poised along its border with Kampuchea, views itself as the frontline of defense against Vietnam. It considers the signing of the offshore oil agreement as further evidence of the dangers

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posed by the Moscow-Hanoi alliance. Although there has been no official reaction to the oil agreement, Thai authorities have privately expressed their concern to US officials and have proclaimed a 200-mile exclusive economic zone to protect Bangkok's economic and strategic interests in the Gulf of Thailand.

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Thailand has long been involved in jurisdictional disputes in the Gulf, where its continental shelf (and presumably its new 200-mile economic zone) overlaps those of Malaysia and Kampuchea as well as Vietnam. In 1979, Bangkok temporarily settled an offshore boundary dispute with Malaysia, but it is unlikely that the Thais will even consider offshore boundary negotiations with Vietnam or Kampuchea before the Kampuchean conflict is resolved.

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Prospects

Vietnam's neighbors see the joint offshore oil agreement between the USSR and Vietnam as an ominous development in their disputes with Hanoi. The sweeping nature of Vietnam's claims and its military occupation of islands hundreds of miles from its shores are a clear indication of Hanoi's intention to control as much of the South China Sea as possible. This is but one manifestation of Vietnam's drive to be the predominant Southeast Asian power—to the exclusion of China. Having taken steps to consolidate its hold over Indochina and now firmly allied with the Soviet Union, Vietnam feels even less pressure to settle its sovereignty disputes with China.

There are some indications that Vietnam would like to settle its offshore disputes with the ASEAN nations. Hanoi has surfaced a plan to resolve South China Sea sovereignty problems between Vietnam and ASEAN, the ultimate goal being an agreement among the littoral Southeast Asian countries that would ignore China's sweeping claims in the area. The ASEAN nations, however, are beginning to view the Moscow-Hanoi alliance as a serious long-term security threat. They see the Vietnam-USSR oil agreement resulting in wider and more direct Soviet involvement in the hotly contested South China Sea, and are unlikely to accept any settlement designed to enhance Vietnam's position there.

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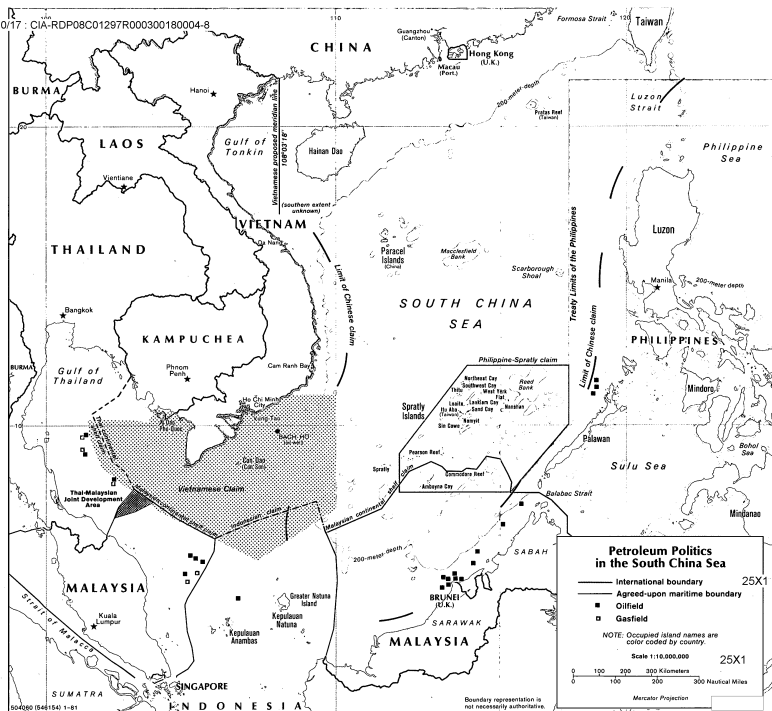
The intentions of a key player in this unfolding drama, the Soviet Union, are not yet clear. The offshore oil agreement may result in a gradual Soviet naval buildup in the South China Sea, thus realizing China's and ASEAN's worst fears. A naval buildup, however, would damage the Soviet Union's relationship with ASEAN and add yet another area where direct confrontation with Beijing is possible. Alternatively, Soviet leaders may be trying merely to reduce the burdensome economic aid now required by Vietnam. If such is the case, a skeptical China and ASEAN remain to be convinced.

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Occupied Islands in the South China Sea—Spratly Group

Standard Name	Pinyin Name	Chinese Name	Vietnamese Name	Filipino Name	Claimed By	Presently Occupied by
SPRATLY ISLANDS NÁNSHĀ QÚNDÁO 南沙群島 QUAN DAO TRUONG SA KALAYAAN PRC, SRV, PHIL, MAL (some), TAIWAN TAI, SRV, PHIL						
Amboyna Cay*	Ánbō Shāzhōu	安波沙洲	Dao An Bang	Kalantiyaw	PRC, SRV, Phil, Mal, Taiwan	SRV
Commodore Reef**	Sīlǐng Jiǎo	司令礁	-	Rizal Reef	PRC, SRV, Phil, Mal, Taiwan	Phil
Flat Island	Àntǎng Dǎo	安塘島	-	Patag	PRC, SRV, Phil, Taiwan	Phil
Itu Aba	Tàipíng Dǎo	太平島	Dao Thai Binh	Ligaw	PRC, SRV, Phil, Taiwan	Taiwan
Lankiam Cay	Yángāin Zhōu	楊蔴洲	-	Panata	PRC, SRV, Phil, Taiwan	Phil
Loaita	Nányuē Dǎo	南威島	Dao Loi Ta	Kuta	PRC, SRV, Phil, Taiwan	Phil
Namyit	Hánguō Dǎo	行果島	Dao Nam Ai (Nam Yet)	Binago	PRC, SRV, Phil, Taiwan	SRV
Nanshan	Mǎhuán Dǎo	馬歡島	-	Lawak	PRC, SRV, Phil, Taiwan	Phil
Northeast Cay	Běizǐ Jiǎo	北子礁	Dao Song Tu Dong	Parola	PRC, SRV, Phil, Taiwan	Phil
Pearson Reef	Biānhēng Dǎo	扁盤島	-	-	PRC, SRV, Phil, Taiwan	SRV (probable)
Sand Cay	Báilán Jiǎo	白蘭礁	Dao Son Ca	-	PRC, SRV, Phil, Taiwan	SRV
Sin Cowe	Jīnghóng Dǎo	景宏島	Dao Sin Tonh	Rurok	PRC, SRV, Phil, Taiwan	SRV
Southwest Cay	Nánzǐ Jiǎo	南子礁	Dao Song Tu Tay	Pugad	PRC, SRV, Phil, Taiwan	SRV
Spratly Island	Nánwēi Dǎo	南威島	Dao Truong Sa	Lagos	PRC, SRV, Taiwan	SRV
Thitu	Zhōngyē Dǎo	中業島	Dao Thi Tu	Pagasa	PRC, SRV, Phil, Taiwan	Phil
West York Island	Xiyuē Dǎo	西月島	Dao Ben Lac	Likas	PRC, SRV, Phil, Taiwan	Phil

*Malaysian name=Pulau Kecil Amboyna
 **Malaysian name=Terumbu Laksamana



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