

Abstract

The Spratly Islands are a group of over 230 small islands and reefs in the South China Sea. Both China and Taiwan, as well as four members of the Association of Southeast Asian Nations (ASEAN) - Vietnam, the Philippines, Malaysia, and Brunei - have made claims on part or all of the land areas and surrounding waters. There have been armed clashes in the region over the islands, and the controversy has heated up because of the possibility of substantial oil and gas deposits in the seabed nearby.

The claims of the different countries, the Law of the Sea Convention, and the possible role of the International Court of Justice in resolving the dispute are reviewed. Because there are multiple, overlapping claims and no single country has had continuous possession of the area, it is unlikely that international legal procedures can resolve the dispute quickly.

There are four major issues in the dispute: sovereignty, economic development, freedom of passage, and regional security. We focus on sovereignty and suggest a fair division procedure called Adjusted Winner (AW) as a way to facilitate negotiations. Under AW, two sides each allocate 100 points over the goods to be divided, which yields a division satisfying several properties of fairness.

We see the process as a two-step one, whereby China would first negotiate with ASEAN, and then the ASEAN countries would negotiate among themselves. As an example of how the China-ASEAN bargaining might go, we have divided the region into five zones and present three potential bidding strategies for China, and two for ASEAN, that give six different allocations of the islands. The AW allocations are efficient, equitable, and envy-free, and, in our example, give *both* sides between 65% and 83% of what they prefer.

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