

# PHILIPPINES-CHINA RELATIONS UNDER THE DUTERTE ADMINISTRATION

GAINS, CHALLENGES AND DILEMMAS  
GOING FORWARD

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# Philippines-China Relations under the Duterte Administration: Gains, Challenges and Dilemmas Going Forward

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to Progress Foundation

Relation between the Philippines and China is one of Asia's most volatile. Not only is Manila one of the most forward-leaning claimants in the disputed South China Sea, but it is also the longest-tenured ally of the United States in Asia. As US-China rivalry intensifies with action-reaction dynamics manifesting in such regional flashpoints as the South China Sea and the Taiwan Strait, alliance threat perception of China grows. This makes for traditionally uneasy ties with its big northern neighbor. As such, the rapprochement with Beijing pursued by the Duterte administration, despite persistent challenges, earned both tributes and critiques.

The rise of China and the response to it is shaping global geopolitics. These and the Philippines' own growing economic capacity and security concerns drive the evolution of bilateral relations. Improved ties in the last five years delivered economic gains, but security concerns persist. Going forward, Manila faces three critical policy dilemmas. The first is how to expand economic ties with China as what its other Southeast Asian neighbors are doing without becoming too beholden to Beijing. The second dilemma, related to the first, is how to deny China the use of economic leverage to diminish the country's diplomatic legroom. The third is striking a balance between pursuing friendly ties with China to temper its behavior in the South China Sea and keeping deterrence and alliances to check potential expansionist ambitions in the contested sea.

## **Wanting to grow economic ties, but worried about becoming too bounded to China**

Economics is a major driver behind Manila's decision to foster cordial ties with Beijing. China's rapid growth is a boon for the world, not least in Southeast Asia, and the country's neighbors lost no time seizing the opportunity. The race to corner more Chinese economic largesse despite the unresolved maritime row and other irritants in ties was set. In this game, Manila upped its play in recent years under the Duterte government.

China has been ASEAN's largest trade partner since 2009, and ASEAN became China's largest trade partner in 2020<sup>1</sup>. As the US-China trade spat continues and as Chinese investments encounter hurdles in the West, Beijing may redirect trade and capital flows to regions receptive to its economic overtures and Southeast Asia is right on cue. Philippine Ambassador to China Jose Santiago Sta. Romana expect that robust relations will only grow deeper with the entry into force of the Regional Comprehensive Economic Partnership (RCEP), Manila's participation in China's Belt and Road Initiative and other mechanisms within the framework of ASEAN-China cooperation. All ten ASEAN countries and its five dialogue partners, including China, are on board RCEP, the world's largest free trade agreement, which took effect last January 1, 2022. President Rodrigo Duterte signed the RCEP agreement last September, but the Senate has yet to concur. Manila and Beijing also signed a Memorandum of Understanding for Belt and Road Cooperation in 2018. ASEAN and China also upgraded their ties to comprehensive strategic partnership in a summit convened last November to commemorate 30 years of dialogue relations. Philippine Special Envoy to China Ambassador Carlos Chan succinctly put it: the biggest challenge for the country in the 21<sup>st</sup> century is not inter-state conflict, but rather how to compete with its neighbors in Southeast Asia.

In this competition to attract Chinese and other foreign capital to spur growth, investing in infrastructure is crucial. Ominously, the Philippines is being left behind in this department and has to catch up real fast to stay in the game. In many respects, the country is no longer competing with its traditional peers Indonesia, Malaysia, and Thailand, but instead with Cambodia, Laos, and Vietnam, with Hanoi already surpassing Manila in

many infrastructure metrics<sup>2</sup> (see Table 1). Laos already edged the Philippines in providing near-universal access to electricity and ranked better in infrastructure. The opening of the Laos-China high-speed railway last December is expected to boost the country's connectivity further. Malaysia, Thailand, Vietnam, and Indonesia performed better in logistics and quality of trade and transport-related infrastructure. Vietnam, Thailand, and Malaysia outpaced the country in the ratio of people with fixed broadband subscriptions. The country's proportion of internet servers to its population only bested Laos and Myanmar (see Table 2). This highlights the importance of Duterte's flagship "Build, Build, Build" infrastructure program, where China and Japan are vital partners.

The Philippines missed the train in the past and does not want to miss it again. If it falls too far behind its neighbors, it may be hard to bounce back. In 2004, China offered a \$503 million concessional loan to underwrite a railway that would link Manila and Clark called the Northrail project. Back then, it was hailed as China's biggest official development assistance project in Southeast Asia and the first time for Beijing to extend a 20-year concessional loan to another country under a 3 percent interest rate with a five-year grace period<sup>3</sup>. But weak governance, anomalies, and lawsuits scuttled the deal, with the leadership transition from the Arroyo to the Aquino administration sealing its fate. Close to two decades later, a substitute to the doomed undertaking - the North-South Commuter Railway (NSCR) - which Japan will build, did not break ground until September last year and will not be completed until 2028<sup>4</sup>.

In contrast, China already delivered Laos' first high-speed railway (HSR) last December after five years' work and is poised to complete a similar HSR for Indonesia, also the country's first, this year. This shows that, unlike in the Philippines, Chinese infrastructure contracts in other Southeast Asian host countries (see Table 3) were able to weather changes in political leadership better, ensuring the continuity of long gestation big-ticket items despite some hurdles. Political risk thus dampens Chinese infrastructure investment in the country<sup>5</sup>. From this vantage point, past experience gives Chinese investors reason to be anxious about whether the next Philippine administration will sustain projects begun under Duterte's watch.

TABLE 1. ASEAN countries by infrastructure metrics

	Access to electricity			Investment in energy with private participation (current US\$), 2019	Investment in transport with private participation (current US\$), 2019	Investment in water and sanitation with private participation (current US\$), 2019	Logistics performance index: Quality of trade and transport-related infra (2018)**	Global Transport Infra (2019)		Global Utility Infra (2019)		Global Infra (2019)	
	Percent of pop (2018)	Percent of rural pop (2018)	Percent of urban pop (2018)					Score	Rank	Score	Rank	Score	Rank
Singapore	100	100	100	..	..	..	4.06	91.7	1	99.2	5	95.4	1
Malaysia	100	100	100	95,030,000	..	..	3.15	66.4	29	89.7	51	78	35
Brunei	100	100	100	..	..	..	2.46	47.8	77	92.3	45	70.1	58
Thailand	100	100	100	1,653,340,000	..	..	3.14	56.8	53	78.9	90	67.8	71
Indonesia	98.51	96.81	99.88	290,000,000	2,903,430,000*	82,380,000	2.89	56.1	55	79.4	89	67.7	72
Vietnam	100	100	100	3,287,680,000	1,025,050,000	159,140,000	3.01	52.2	66	79.6	87	65.9	77
Laos	97.92	97.08	99.49	49,000,000	5,700,000,000	..	2.44	45.3	87	73.2	97	59.2	93
Philippines	94.86	92.51	97.51	52,500,000	1,733,250,000	32,070,000	2.73	41.5	102	74.1	96	57.8	96
Cambodia	91.55	88.97	100	100,210,000*	..	..	2.14	42.4	96	67.4	107	54.9	106
Myanmar	66.26	54.82	92.24	293,000,000*	104,000,000*	..	1.99	..	..	..	..	..	..

\*2018; \*\*1=low to 5=high; pop = population; infra = infrastructure

Source: World Development Indicators (World Bank), 2019 Global Competitiveness Report (World Economic Forum)

<sup>a</sup> The table was taken from pg. 234 of Lucio Blanco Pitlo III, "China's Place in the Philippines' 'Build, Build, Build,'" *Chinese Studies Journal*, Vol. 14 (January 2021): 232-253



TABLE 2. ASEAN countries by Information  
and Communication Technology (ICT) metrics (2019)<sup>b</sup>

	Fixed broadband subscriptions	Fixed broadband sub- scriptions (per 100 people)	Fixed telephone sub- scriptions	Fixed telephone sub- scriptions (per 100 people)	Mobile cellular sub- scriptions	Mobile cellular sub- scriptions (per 100 people)	Secure Internet servers	Secure Internet servers (per 1 million people)	Global ICT adoption score	Global ICT adoption ranking
Singapore	1498100	25.8	1905800	32.8	9076700	156.4	698581	122481.4	87.1	5
Brunei	54195	12.5	86590	19.9	557398	128.6	455692	1683.847	75.4	26
Malaysia	2964500	9.3	6474400	20.3	44601400	139.6	214828	6723.928	71.6	33
Vietnam	14802380	15.3	3658005	3.8	136230406	141.2	250511	2596.989	69	41
Thailand	10108819	14.5	2614000	3.8	129614000	186.2	97741	1403.809	60.1	62
Cambodia	184379	1.1	56445	0.3	21418681	129.9	2626	159.2814	55.4	71
Indonesia	9411805	3.5	9477137	3.5	345025155	127.5	455692	1683.847	55.4	72
Philippines	4178822	3.9	4165209	3.9	167322432	154.8	12035	111.315	49.7	88
Laos	76280	1.1	1490831	20.8	4362183	60.8	224	31.24366	44.2	102
Myanmar	129050*	0.2*	520863*	0.9*	61143964*	113.8*	663	12.26746	..	..

\*2018

Source: World Development Indicators (World Bank), 2019 Global Competitiveness Report (World Economic Forum)

<sup>b</sup> The table was taken from pg. 235 of Lucio Blanco Pitlo III, "China's Place in the Philippines' 'Build, Build, Build,'" *Chinese Studies Journal*, Vol. 14 (January 2021): 232-253

TABLE 3. Chinese railway projects in Southeast Asia

Project	Location	Length (kms)	Cross-border links	Year started	Status	Remarks
Line 2A Hanoi metro line (Cat Linh-Ha Dong) <sup>6</sup>	Vietnam	13.1	None	2011	Inaugurated 11/06/21	Vietnam's first rapid urban transit
Vientiane-Boten HSR <sup>7</sup>	Laos	422	Linked to Kunming, capital of China's Yunnan province, via the Yuxi-Mohan line	2016	Completed; inaugurated 12/03/21	Country's first HSR
Jakarta-Bandung HSR <sup>8</sup>	Indonesia	142.3	None	2016	79% complete as of 11/21; estimated completion date: 12/2022	Country's first HSR
East Coast Rail Link (Port Klang-Kota Bharu) <sup>9</sup>	Malaysia	665	None	2017	25% complete as of 12/21; estimated completion date: 12/2026 Biggest Chinese project in Malaysia	Will connect peninsular Malaysia's east and west coasts;
Bangkok-Nong Khai HSR <sup>10</sup>	Thailand	609	Can be linked to Laos-China railway via Thanaleng (Laos)	2017	2028; First phase (253 km Bangkok-Nakhon Ratchasima) expected to begin operations in 2026	Country's first HSR
Muse-Mandalay-Kyaukphyu Railway <sup>11</sup>	Myanmar	810	Can be linked to Dali-Ruili railway under construction in Yunnan; Ruili (China) and Muse (Myanmar) are border towns; from Mandalay, the rail can be linked to Kyaukphyu in the Bay of Bengal	Not yet	Feasibility study for Muse-Mandalay section (431 kms) completed in 2019; MOU on feasibility study for Mandalay Kyaukphyu section (379 kms) signed on 1/10/21	No date announced thus far

HSR – High-speed railway; kms = kilometers

The pursuit of friendly relations with Beijing brought economic gains to Manila. From a low base in previous years, China's role in the Philippine economy swiftly grew under the Duterte presidency. It became the country's largest trade partner (since 2016), its top import source, the second largest investor, third-largest export market, fastest-growing tourist market pre-pandemic, and emerging infrastructure builder. Along with Hong Kong, it accounts for over a quarter of the country's external trade. Even with the unprecedented global health crisis, trade continued to grow last year. Imports of Philippine agricultural and electronic goods increased, indicating Beijing's efforts to address the trade imbalance. Last October, China overtook the United States and Japan to become the country's biggest export market<sup>12</sup>. It was the fifth month in a tough pandemic year that China achieved this feat<sup>13</sup>.

TABLE 4. Philippines' top trade partners in 2020

	FOB value in million USD	Share of total foreign trade
China	30,698.15	19.8%
Japan	18,650.83	12%
United States	16,939.55	10.9%
Hong Kong	12,009.42	7.7%
South Korea	9,749.85	6.3%
Singapore	9,396.73	6.1%
Thailand	7,849.79	5.1%
Taiwan	6,804.51	4.4%
Indonesia	6,185.93	4%
Malaysia	5,794.97	3.7%

Source: Philippine Statistics Authority

TABLE 5. Growing bilateral trade

Year	Exports to China		Imports from China		Total Trade with China	
	FOB value*	Share of total PH exports	FOB value*	Share of total PH imports	FOB value*	Share of PH total foreign trade
2016	6,372.52	11.1%	15,584.90	18.5%	21,937.42	15.5%
2017	8,017.13	11.7%	17,463.60	18.2%	25,480.73	15.5%
2018	8,816.72	12.7%	22,014.95	19.5%	30,831.68	16.9%
2019	9,814.43	13.8%	25,495.69	22.8%	35,310.12	19.3%
2020	9,830.09	15.1%	20,868.06	23.2%	30,698.15	19.8%

\*FOB – Free/Freight on Board; values in millions of US dollars

Source: Philippine Statistics Authority

Under the Duterte administration, the Philippines actively participated in China's trade expositions. In 2020 and 2021, it was the country guest of honor in the China International Fair for Investment and Trade (CIFIT) held annually in Xiamen<sup>14</sup>. CIFIT is one of the world's largest investment events and is currently China's only international investment promotion platform to facilitate bilateral investment<sup>15</sup>. The Philippines also took part in all four China International Import Expos (CIIE) since the world's largest import-themed trade fair opened in Shanghai in 2018. This opened the doors wide for Philippine food and agricultural companies to access the vast Chinese market<sup>16</sup>.

Before the onset of Covid-19, China was also on track to eclipse South Korea to become the country's biggest source of foreign tourists. The growth of the Chinese tourist market was rapid – tripling from 2016 to 2019.

TABLE 6. Chinese Tourists in the Philippines

Year	Chinese tourist arrivals	Share of total PH inbound tourist market
2016	675,663	11.32%
2017	968,447	14.63%
2018	1,257,962	17.55%
2019	1,743,309	21.1%

Source: Department of Tourism

China also became the country's largest foreign investor in 2018 and its second-largest investor in 2019 and 2020. Chinese capital made a big leap in 2018 and 2019. But while mostly welcomed, Chinese investments in certain strategic sectors and sensitive locations also raised security concerns. These include state-owned State Grid Corporation of China's 40 percent stake in the National Grid Corporation of the Philippines<sup>17</sup> and state-run China Telecom's similar 40 percent investment in the new local telco company Dito Telecommunity<sup>18</sup>. Several lawmakers and the security establishment also expressed unease over Chinese participation in building a new airport close to an existing naval and air base in Cavite province<sup>19</sup>, interest to acquire a distressed shipyard in Subic which sits close to a naval base<sup>20</sup>, as well as proposed investments in offshore islands in Subic Bay and northern Luzon<sup>21</sup>. Moreover, US sanctions against several Chinese technology and construction companies stirred legislative scrutiny and even calls for project cancellations<sup>22</sup>.

Security issues on certain investments aside, China is also involved in several potentially transformative projects in the Philippines. These include a \$3.5 billion investment by Panhua Group to build the country's first integrated steel mill complex in northern Mindanao. Began in 2019 and expected to be completed in five to seven years, the project will generate 50,000 jobs<sup>23</sup>. Another Chinese steel company, HBIS, the world's third-

largest<sup>24</sup>, also signed a deal with SteelAsia, the largest local producer, to establish another steel plant in Batangas on the main island of Luzon<sup>25</sup>. Combined, these two projects will churn out 18 million tons of steel, the biggest output spike driven by Chinese capital in Southeast Asia<sup>26</sup>. As steel is touted as the mother of all industries, this massive production can tremendously benefit the country's construction, shipbuilding, automotive, and defense, among other sectors.

TABLE 7. Approved Foreign Investments  
from China to the Philippines

Year	Amount in millions of PHP
2016	1,519.40
2017	2,333.90
2018	50,692.60
2019	88,674.50
2020	15,596.20

Source: Philippine Statistics Authority

As elsewhere, China is also emerging as a force in the Philippine telecoms industry. Chinese companies Huawei and Fiberhome have been providing products and services to local telco service providers, Globe and Smart, for years<sup>27</sup>. The entry of China Telecoms-backed Dito Telecommunity will inject competition and break the current duopoly in the market. So far, the company's average broadband speeds have already exceeded its initial pledge of 27 Mbps – reaching 85.9 Mbps for 4G and 507.5 Mbps for 5G<sup>28</sup>. As of December 2021, it has already built 4,000 towers and 22,000 kilometers of fiber optic cable and gained five million subscribers in just eight months of operation in 500 areas across the country<sup>29</sup>. All these took place even against the backdrop of work disruptions brought about by the pandemic in the last two years. Indeed, expanding coverage, improving quality, and

lowering the cost of telco and internet services will go a long way in boosting the country's digital economy. Ambassador Chan noted that both the hard (physical) and soft (digital) connectivity aspects of China's massive multiyear Belt and Road Initiative could benefit the country.

This year, Beijing will also commence construction of the Kaliwa Dam<sup>30</sup>, which will enhance the water security of Metro Manila and neighboring provinces and mitigate flooding during the rainy season. It will relieve pressure on the 54-year old Angat Dam in Bulacan, which currently supplies 90 percent of the capital region's water needs<sup>31</sup>. A cargo railway to link Subic and Clark economic zones, both former US bases, in Luzon, will also be built. As Subic hosts a deep seaport and Clark an international airport, the improved logistics can entice locators to move north and decongest Manila's port container and air traffic. The first phase of a railway that will run throughout the country's second-largest island of Mindanao will also start this year. This connectivity project will further unlock the potentials of Duterte's home island, which boasts the country's largest banana, coconut, pineapple, cacao, and other tropical fruit plantations<sup>32</sup>.

Both presidential aspirant Senator Emmanuel "Manny" Pacquiao and leading vice presidential candidate Sara Duterte-Carpio, the president's daughter, hail from Mindanao and will likely support the implementation of China-funded projects in the island. One of Sara's key political backers, former President Gloria Macapagal-Arroyo, will likewise be supportive of the Subic-Clark railway as it will boost the economic profile of her home province, Pampanga, where Clark is situated and where the airport named after his late father, former President Diosdado Macapagal, sits.

Meanwhile, Kaliwa Dam's contribution to water security will not be lost to leaders and constituents of the vote-rich National Capital Region and neighboring provinces in Region 4-A (CALABARZON). Two "friendship" bridges that span the Pasig River can also help unclog Metro Manila's traffic. The Estrella-Pantaleon bridge that links the country's business hub, Makati, with neighboring Mandaluyong City already opened last July. A second one, that connects the historic Intramuros, the former Spanish colonial walled city, with Binondo, the world's oldest Chinatown, is due to be completed this year.

TABLE 8. Chinese infrastructure projects in the Philippines

Project	Location	Dimensions/Capacity	Cost	Date	
				Work begin*	Work completed*
Kaliwa Dam <sup>33</sup>	Quezon, Rizal (Southern Luzon)	Can treat 600M liters of water/day	P12B (Loan)	2022	2025
Subic-Clark Cargo Railway <sup>34</sup>	Zambales, Pampanga (Central Luzon)	72 kms	P50B (Loan)	2022	2024
Mindanao Railway Phase 1 <sup>35</sup>	Tagum-Davao-Digos (Davao region)	100 kms; reduces travel times from 3+ to 1.15 hrs; partial operability of Tagum-Carmen section expected on 2022	P82B (Loan)	2022	2024-25
Chico River Irrigation Project <sup>36</sup>	Kalinga, Cagayan (northern Luzon)	Will irrigate 8,700 hectares of land and benefit 4,350 farmer families	P4.37B (Loan)	2018	2022
Philippine National Railways – South <sup>37</sup>	Calamba-Daraga section (Southern Luzon)	380 kms.; partial operability of San Pablo (Laguna)-Pagbilao (Quezon) segment expected on 2022	P142.48B (Loan)	2022	2025
Binondo-Intramuros Bridge <sup>38</sup>	Manila	680 linear meters; can accommodate 30,000 motorists/day; 88% complete as of 12/2021	P3.39B (grant)	2018	2022
Estrella-Pantaleon (Rockwell) Bridge <sup>39</sup>	Makati-Mandaluyong (Metro Manila)	506 meters; cuts travel time between the two cities to 5 minutes; can accommodate 50,000 vehicles/day	P1.46B (grant)	2018	Opened July 29, 2021

\*includes expected commencement/completion dates; B = billion; kms = kilometers; hrs = hours; M = million; P = Philippine peso



In northern Luzon, an irrigation work that may be finished this year can enhance Philippine food security. With more lands in Central Luzon, the country's traditional rice granary, giving way to residential, commercial, and industrial uses, the Chico River irrigation project will go a long way in powering the Cagayan Valley and Cordillera regions to become major staple and vegetable producers for the country.

Two other areas can unlock thousands of job opportunities for Filipinos. One is China's huge virtual English language education market. The Philippines is among the world's largest non-native English-speaking countries, a talent pool that forms the backbone of its thriving business process outsourcing industry. Since 2010, Filipinos have been among the largest providers of online English teaching services in China<sup>40</sup>. For one, Chinese company 51Talk employs 30,000 Filipino teachers working online at the comfort of their homes, free from worries of contracting Covid-19<sup>41</sup>. However, new Chinese regulations that curbed the private tutoring market damp prospects for the industry<sup>42</sup>. As a result, many companies dampen, slashing pay for teachers, which forced many to quit as the pay is no longer sustainable or cope by directly reaching out to parents and students through social media platforms<sup>43</sup>. It remains to be seen whether the rules would soon be relaxed or repealed.

The second promising area is the opening of China's domestic and caregiver work to Filipinos<sup>44</sup>. Both countries have yet to iron out regulations and standards to facilitate legal deployment<sup>45</sup>. But despite the risks involved, the lure of higher pay has already attracted 200,000 Filipino household workers in the Mainland<sup>46</sup>. Their immediate protection should give a sense of urgency to both sides. The continued threat posed by new Covid-19 variants, which led to stringent entry restrictions, and domestic labor reform in China will determine hopes for this market. Either way, the growing Chinese middle class – 707 million strong and counting<sup>47</sup> – who wants access to better English teaching for their kids and professional household and caregiving work for their families – will always present opportunities for the Philippines.

Indeed, the economic windfall from China's rise raise the stakes for keeping stable and productive ties. Trade, investment, tourism, and infrastructure went up in the last five years, and the opening of China's labor market will be a boon for Filipino migrant workers. The debate on whether China can deliver the economic goods is already water under the bridge. The more salient question is whether growing exposure to Chinese market, capital and aid may engender dependence with potentially adverse consequences should relations go south.

### **Denying the use of economic leverage to diminish Philippines' diplomatic legroom**

China's punitive economic measures or the threat to employ them in response to security or diplomatic spats raised international concerns. In 2010, a maritime row led to Beijing curbing rare earth exports to Japan. In 2017, opposition to Seoul's decision to allow the US to deploy an anti-missile battery in its soil severely affected South Korean retail and tourism from China. Most recently, Australia's coal and agricultural exports were deprived access to their primary markets in China after Canberra's call for an independent coronavirus inquiry soured relations. This puts commodity exporters, tourism-reliant economies and cash-strapped host states that have China as their top market or investor in a bind.

Manila's own experience in 2012 brings home the point. Amid a standoff over the rich traditional fishing grounds of Panatag (Scarborough) Shoal in the West Philippine Sea, banana exports to and tourism from China suffered. Banana is the country's top agricultural export, and tourism is a fast rising sector so they are useful yardsticks to assess China's growing contribution to the local economy. In both cases, a surge in Chinese demand led to increased banana exports and tourist arrivals since better bilateral ties in 2016. The same picture is reflected in other Philippine agricultural and mineral goods. Hence, the China market has become, in many ways, a barometer for the health of Philippine commodity exports and tourism. In fact, even absent a diplomatic row, internal developments in China, such

as outbound travel and import restrictions and supply disruptions because of Covid-19, already hurt Filipino growers, exporters, and tourism operators.

Back in 2012, China was just the country's third-biggest banana consumer and fourth-largest source of foreign tourists<sup>48</sup>. But the pressure was still felt, prompting Manila to seek alternative markets<sup>49</sup>. Fast forward to 2018, China had eclipsed Japan to become the largest export market of its yellow fruit – a position Tokyo held for the last 30 years<sup>50</sup>. In that year, China's imports rose by a historically unprecedented 70 percent<sup>51</sup>. Riding on the back of huge Chinese demand, the country cemented its position as Asia's largest and the world's second largest banana producer<sup>52</sup>. Meanwhile, in tourism, China was closing in on South Korea to become the country's second-largest and fastest-growing international market. In fact, before the onset of the pandemic, Philippine tourism authorities were eyeing four million Chinese tourists yearly<sup>53</sup>. Absent astute diplomacy, burgeoning economic ties may thus constitute a vulnerability if tensions escalate.

China's rivalry and suspicion of the Philippines' longtime ally, the United States, can put the country in a difficult position. Beijing long resented America's hub-and-spokes network of alliances as containing or constraining its rise and bottling it up in its near seas. The restoration of the Visiting Forces Agreement (VFA) last year and the implementation of the Enhanced Defense Cooperation Agreement (EDCA) are thus developments that China is carefully watching. VFA provides legal cover for US troops' rotational presence in the Southeast Asian country, while EDCA facilitates the prepositioning of US hardware in agreed locations across the archipelago. These military pacts allow the US access to proximate bases to quickly respond to contingencies that may emanate from the South China Sea or the Taiwan Strait. Beijing may protest certain drills or the installation of specific weapon systems that it deems may harm its interests in the two flashpoints, if not directly the Mainland itself. This may put junior ally Manila in the same quandary as Seoul in 2017. Its alliance with the US or any other country for that matter and what it does in its own territory are its sole sovereign prerogatives. The alliance too has long played an integral role in Philippine external defense, enhancing its military's

readiness through joint training and exercises and modernizing its arsenal through US arm sales and transfers. Therefore, it will be a litmus test to factor China's security concerns without derogating its independence or undercutting its alliance ties with Washington.

This predicament emphasizes the importance of diversifying economic partners. To this end, Asia-Pacific Pathways to Progress Foundation Convener and Fellow Dr. Aaron Jed Rabena spoke of Manila distributing its infrastructure portfolio to China and Japan. Beijing, for instance, gets to build the railways linking Subic and Clark, as well as rail lines in Southern Luzon and Mindanao, while Tokyo gets to construct the country's first subway in Metro Manila, as well as the Clark-Manila-Calamba (NSCR) line. He said that such a move forms part of a complex hedging strategy similarly pursued by its other neighbors. This, he added, shows that the country is not putting all its eggs in one basket, which may weaken its bargaining position not only in construction projects but also in other contentious aspects of the relations. In reviewing Duterte's policy towards China, Dr. Rabena said that deeds matter more than words so overfocus on policy rhetoric is misplaced.

The dilemma also highlights the need for sturdy guardrails to be put in place to insulate commercial ties from the vicissitudes of inter-state politics and the broader regional geopolitics. Relations need not be at their best so long as it is stable enough to allow for unfettered economic transactions. The "warm economics, cold politics" comes to mind, but even this is being strained as economics is increasingly being securitized and the economics-security nexus becomes more difficult to unfasten. Also, bilateral relations do not exist in a vacuum. Ambassador Sta Romana spoke about the backdrop of growing US-China strategic competition which puts pressure on the country's independent foreign policy. In this great power game where the Philippines and other regional countries find themselves increasingly being drawn even against their will, stressing one's autonomy becomes more complicated.

## **Fostering friendly ties to temper Chinese behavior in the South China Sea, but keeping alliances to check Beijing's maritime ambitions**

China's interests and strategy in the South China Sea evolve in response to its security outlook, growing wherewithal and actions by other claimants and rivals. So while the expectation for Beijing to moderate its behavior in turbulent waters in light of friendly ties is natural, its value cannot be overstated. Also, while Duterte's approach may have helped avert a crisis arising from the South China Sea, domestic and international factors, including the absence of a durable dispute resolution mechanism, means that another incident may just be around the corner. Any sea mishap between now and the May 2022 Philippine elections may also be opportunistically exploited by candidates to display their patriotic credentials. This forebode tumultuous times for the relations. Uncertainty about China's end game in the semi-enclosed sea also raises the salience of maintaining deterrence and alliances, moves that Beijing would oppose but would be seen as necessary by its neighboring coastal states.

Dr. Rommel Banlaoi, President of the Philippine Association for Chinese Studies, noted that Duterte's paradigm shift in dealing with China helped calm and de-escalate the situation in the disputed sea. He cited the establishment of a bilateral consultative mechanism (which already convened six times), security talks and Manila's efforts as ASEAN-China country coordinator in the last three years to make progress in the Code of Conduct (COC) negotiations as contributing to pacifying tensions. The first reading of the Single Draft Negotiating Text of the COC in 2019 was considered a significant milestone.

However, notwithstanding its merits, the approach does not address the roots and drivers of the conflict in its entirety. Neither does it guarantee that future untoward incidents will be managed well, and a Panatag Shoal 2.0 will be averted. Trust deficit and rising nationalism among claimant states - not only in China and the Philippines, but also in Vietnam - limit the space for political leadership to compromise on security and territorial issues. Konrad Adenauer Stiftung Philippines Country Director Dr. Stefan

Jost pointed that China's increasingly assertive stance in the South China Sea trouble not only bilateral relations, but also ASEAN-China ties and presents serious challenges to Philippine diplomacy and security. Furthermore, while rapprochement in the last five years created spaces to improve China's perception among Filipinos<sup>54</sup>, the gains remain tenuous and easily subject to disruption should another sea episode occur that both sides will not be able to handle well.

Neither improved bilateral ties nor a global pandemic stopped China's activities in the contested sea leading to frustration among its neighbors, not least from Manila. This includes measures like enforcing a much detested unilateral fishing ban and passing a disturbing new coast guard law that legitimizes the use of force against foreign vessels in China's claimed waters. With its massive artificial island bases, China's sovereignty patrols and efforts to interfere in marine economic activities<sup>55</sup> and routine resupply missions<sup>56</sup> of other littoral states intensify leading to diplomatic wrangling (see Table 8). More modern and efficient Chinese fishing fleets operating in the exclusive economic zones of its neighbors, like in the West Philippine Sea, put pressure on dwindling fish stocks and outcompete artisanal fishermen. The congregation of Chinese vessels in certain features also raise worries about a possible prelude to control if not occupation as was feared in Sandy Cay<sup>57</sup> and Julian Felipe (Whitsun) Reef<sup>58</sup>. State-backed maritime militias continue to roam the sea and support Beijing's objectives with deniability, a phenomenon that prompted the US to calibrate its view towards such vessels<sup>59</sup>.

Earlier Chinese pledges not to militarize features in the sea were not kept casting doubt on China's sincerity. In contrast, despite being a pioneer in administering features in the disputed sea, concern about the reactions of its neighbors, including fellow ASEAN claimants and China, long dissuaded the Philippines from undertaking major infrastructure upgrades in the Kalayaan (Spratlys). In fact, criticisms aside, it is only under Duterte's term that Manila made significant construction work in Pag-Asa (Thitu), the seat of its Kalayaan town and its largest occupied feature in the West Philippine Sea<sup>60</sup>. The country took the same steps to demonstrate its sovereignty in other maritime areas – setting up an outpost in Mavulis

Island<sup>61</sup> in Batanes close to Taiwan and putting sovereign markers in the Philippine (Benham) Rise<sup>62</sup> and Panguan Island off Sabah<sup>63</sup>. A proposal to construct naval outposts in the West Philippine Sea and other maritime peripheries of the country was also put forward<sup>64</sup>.

While the Philippines and China were able prevent a repeat of the Panatag Shoal debacle, that goal was rather a low bar. And although that was achieved, other disconcerting incidents took place, the most recent of which was the use of water cannon by Chinese coast guard vessels to interfere in a regular resupply run by Filipino civilian boats to Ayungin (Second Thomas) Shoal last November<sup>65</sup>. Hence, despite the popular Duterte expending enormous political capital to defend his policy towards China and the maritime row, incidents continue to put relations on a stress test<sup>66</sup>. And as his term of office draws to a close, challenge to his policy is only bound to grow. A less popular and charismatic successor may have difficulty sustaining the same position if sea incidents persist.

The 2016 arbitration award presents an enduring challenge for the relations. Dr. Jost maintained that China's refusal to adhere to the tribunal ruling will continue to plague ties. China's position on the judgment is unlikely to bend and so does that of the Philippines. No Philippine administration will drop or undermine it. The next leadership in Manila may oscillate between downplaying it (a tact taken by the current government) or making it the premise for any talks with Beijing over the coveted sea, a move that may plunge relations to uncharted waters anew. Compartmentalizing the disputes from the overall ties has long been Manila's aspiration. But this can unravel in the face of growing domestic or foreign pressures. International support for the ruling both push and is appreciated by Manila. This solidarity engenders closer security ties, notably with its treaty ally and China's bitter rival, the United States, much to Beijing's chagrin. China preferred to settle disputes with its neighbors through direct dialogue and oppose what it sees as unwanted meddling of non-disputants. But the disquiet stirred by its growing power projection and the challenge its activities posed to establish maritime rules of the road, notably UNCLOS, will continue

TABLE 9. Incidents in the West Philippine Sea  
involving Philippines and China

Date	Location*	Remarks
February 5, 2016	Near Hasa-Hasa (Half Moon) Shoal	CCG, PLAN ships harassed PN resupply ship; standoff ensued
February 28, 2016	Quirino (Jackson) Atoll	CCG, PLAN ships denied Filipino fishing vessels access to fishing grounds; standoff ensued
March 5, 2016	Panatag (Scarborough) Shoal	CCG harassed and rammed Filipino fishing vessels
March 14, 2016	Panatag Shoal	CCG denied Filipino fishing vessels access to fishing grounds
March 22, 2016	Panatag Shoal	CCG harassed and rammed Filipino fishing vessels
March 27, 2017	Pagkakaisa (Union) Banks	CCG speedboat harassed and fired shots at a Filipino fishing trawler
May 11, 2018	Ayungin (Second Thomas) Shoal	CCG, PLAN ships harassed PN resupply mission
June 9, 2019	Recto (Reed) Bank	Chinese vessel rammed and sanked Filipino fishing boat

\*Author put international names in ( )

CCG = China Coast Guard; PLAN = People's Liberation Army - Navy;

PN = Philippine Navy

Source: Center for Strategic and International Studies

<https://csis-ilab.github.io/cpower-viz/csis-china-sea/>



to give cause for other like-minded countries to voice concerns and oppose unilateral and destabilizing acts. Meanwhile, failure of negotiations to deliver may compel other claimants to explore other options to address the impasse.

China's supposed desire to upend marine resource and security engagement with non-disputants continues to elicit pushback from several ASEAN coastal states. This betrays persistent wariness about Beijing, as the biggest claimant, dominating the strategic and resource-rich sea. Beijing's wishes also touch on regional countries' sensitivities, notably the evergreen desire to maintain autonomy and hedge against potentially ominous designs in choppy waters. Dr. Banlaoi pointed out that as an international waterway, it is difficult to keep other relevant user states of the South China Sea from the equation given the sea's importance to their trade and energy security. Thus, while concluding a COC at the soonest possible time is a common desire, how it is reached – the manner of negotiations and securing international buy-in – is as important as the document's substance in ensuring everyone's compliance.

Philippines' relation with China has a long history and is one of the most substantive and comprehensive. Ambassador Sta Romana noted that the ties have its fair share of converging and diverging interests and underscore the importance of law, defense, and diplomacy in protecting the country's maritime interests and resolving differences. The three key dilemmas will continue to inform Philippine policy towards China with consequences for the two neighbors and regional order.

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Established in 2014, Asia Pacific Pathways to Progress Foundation, Inc. (APPFI) is an independent policy think tank that aims to promote peace, development, and cultural understanding for peoples of the Philippines and the Asia Pacific through research, international dialogue, and cooperation. It is the Philippine member of the regional network ASEAN Institutes for Strategic and International Studies.

The organization's work focuses on the implications of international and regional developments for the Philippines and its foreign relations. It has dedicated programs which cover international security developments, maritime affairs, connectivity and integration, and China.

Principally, APPFI undertakes three major activities. First, it conducts and publishes policy-oriented research, disseminates the same to relevant stakeholders, and provides quarterly analyses of regional developments. Second, it organizes roundtable discussions and national as well as international conferences, solely or in partnership with other institutions. Third, it hosts exchanges and develops issue-based partnerships with governmental and non-governmental organizations, academic institutions, and the private sector in the Philippines and the Asia Pacific.

## RESEARCH PROGRAMS

- CHINA PROGRAM

APPROF's original flagship program focuses on China and Philippines-China relations. The China Program stands on two pillars: (1) promoting better understanding among Philippine stakeholders of the implications of China's emerging role in East Asia and the world, and (2) strengthening linkages and engaging in Track Two diplomacy between these two neighboring countries.

- MARITIME DEVELOPMENT & SECURITY PROGRAM (MDSP)

This multidisciplinary program explores how the Philippines can enhance advantages and minimize threats and risks arising from its maritime strategic environment, looking toward both the internal and external dimensions. MDSP aims to generate timely discussions and appropriate recommendations regarding the strategic implications of Philippine maritime security, marine economic resources, and coastal development.

- REGIONAL INTEGRATION & CONNECTIVITY PROGRAM (RICP)

The RICP promotes a critical understanding of the political economy of regional development, and of economic trends and issues that affect Philippine national and regional interests. It seeks to generate insights and research that will enable the Philippines to strategically navigate through its international economic engagements, and interact beneficially with regional states and multilateral institutions.

- REGIONAL SECURITY ARCHITECTURE PROGRAM (RSAP)

The RSAP examines the evolving security environment, the role of multilateral and other forms of security associations, and institutional developments that affect Philippine and regional security. RSAP will be a hub producing research, intelligent commentary, and policy briefs from leading experts and specialists in the Philippines and the wider Asia-Pacific region.



Closely linked to, but independent from the Christian Democratic Union of Germany, Konrad Adenauer Stiftung (KAS) Philippines is a German political foundation. Established in 1964, KAS Philippines was the first ever KAS office in Asia. Ever since its inception, KAS has been actively working in the Philippines under the principles of freedom, justice, and solidarity.

With the main purpose of developing programs that boost the country's democratic institutions and processes, KAS strongly believes that human dignity and human rights are at the very heart of their work. Thus, KAS regards people as the starting point of its initiatives towards social justice, democratic freedom, and sustainable economic activity. KAS Philippines creates, develops, and sustains networks within the political and economic arenas by bringing people together who take their mandates seriously in society.

Given that KAS provides, not just research, but also robust and dynamic activities, the foundation considers itself not just as a think tank, but a think-and-do tank that works along socially equitable, economically efficient, and ecologically sustainable lines. KAS Philippines' country foci are institutional and political reform, the social market economy, and peace and development in Mindanao. The foundation works with civil society organizations, the academe, governmental institutions, political parties, think-tanks, the media, and decision-makers, creating strong partnerships along the way. Particularly, KAS Philippines aims to increase political cooperation in development cooperation at the national and international levels.

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