

Understanding the Economic Diplomacy between the Philippines and China*

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Abstract

When Philippines-China relations turned for the worse after the Scarborough standoff in 2012, concerns were raised about possible coercive levers, particularly economic sanctions that China might impose. This study enlarges the domain of analysis and focuses on economic diplomacy to contextualize China's approach within the ambit of its foreign economic relations with the Philippines. Following the framework of Okano-Heijmans (2011:16-20), economic diplomacy not only serves the national interest by acting strategically in securing a constant supply of critical resources, opening new markets for exports or finding new opportunities for investments. It also covers the use of economic statecraft in advancing foreign policy objectives. The research looks at empirics on trade, investment and aid, and juxtaposes the analysis with that applied to qualitative content from primary materials on bilateral agreements.

Keywords: Philippines-China, foreign economic relations, strategic studies

1. Introduction

As the Philippines-China maritime tension escalated, various sectors flagged concerns on possible economic coercion by China. The constraining of trade, blacklisting of Philippine companies in investment bids, negative tourist advisories are just a few fears. On the other hand, questions have been raised on whether the Philippines will diversify away from China or resort to a nationalist boycott. While exploring the Philippines' vulnerability to possible sanctions from China and reactions is a burning question (Clemente, 2014), this research note seeks to shed light on the pattern of bilateral economic diplomacy to contextualize within this picture, China's actions towards the Philippines. Government planners may use the research to reconsider the Philippines' economic strategies in the context of national security and better understand China's economic statecraft.

Using official primary documents on agreements such as treaties and communique, a meticulous content analysis in processing qualitative content was applied. Secondary sources such as reports, news and commentaries were used as supplementary material in ascertaining information where access to primary content was limited. Agreements that related to economic diplomacy were then coded according to a classificatory instrument that allowed the framing of interests in an economic diplomacy spectrum where commercial gain and stability are binary extremes.

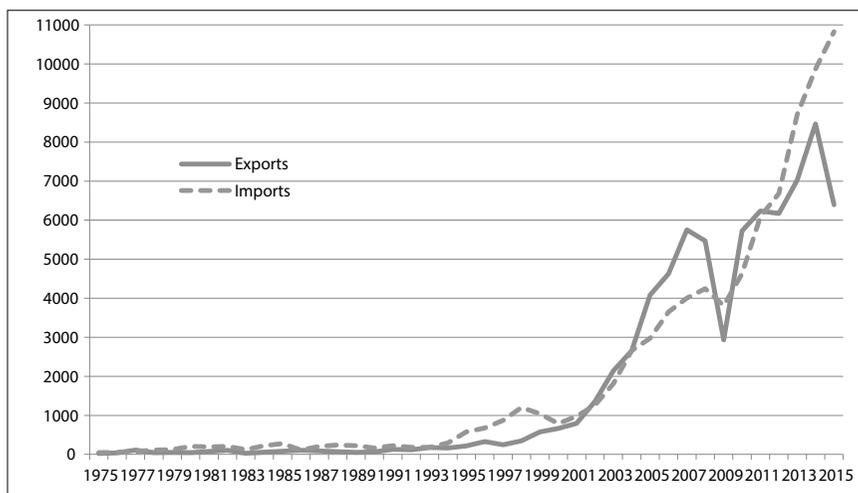
The next section presents data on the bilateral economic engagement in trade, investment and official development assistance. The third section analyses patterns in the bilateral agreements. The fourth section provides a brief word on new questions pertaining to China's recent grand initiatives. The paper ends with closing remarks.

2. Trade, Investment and Aid: What the Numbers Confess

2.1. Trade

Trade with China proceeded at a glacial pace since 1975, but it leaped forward sharply in the 21st century. Except for the drastic dip associated with the global financial crisis, the relative uptick in trade is a fairly recent phenomenon. Figure 1 shows that both exports to and imports from China

Figure 1 Philippines Exports to and Imports from China, 1975-2014
(F.O.B. value in USD millions)



Source: 1975-1989 data from the *Philippine Statistical Yearbook* (various years), National Statistical Coordination Board; 1990-2015 data from <<http://www.bsp.gov.ph/statistics/excel/dir-trade.xls>>, accessed on 18 June 2016.

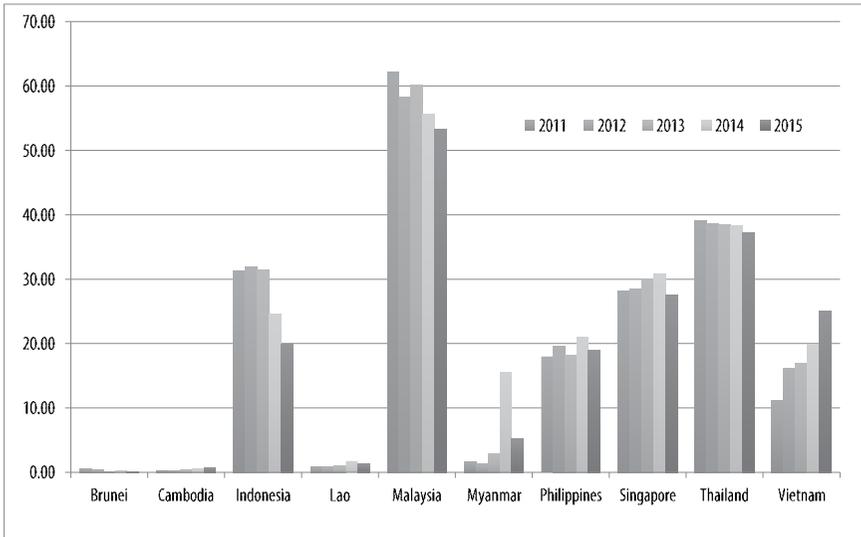
likewise started surging in the beginning of the 21st century except for the large dip in exports owing to the global financial crisis. It is noteworthy that when advanced economies in the West took a hit, this meant that China's major export markets were compromised. Philippine exports posted a sizeable drop as Philippine exports were linked to China's exports to the West (Tong and Chong, 2010). The pattern of imports relative to exports shows that China has increasingly become important to the Philippines, owing to the fact that buyers of Philippine commodities are more diversified. While Philippine exports to China are more volatile, imports from China have been more stable. The balance of trade between the Philippines and China posted a deficit from 1975-2001 except for 1977. During the years 2002-2011, the balance of trade yielded a surplus except for the years 2004 and 2009. Curiously, the deficits in 2012-2015 raised concerns that they were caused by the maritime tension. The figures for 2013-2015 indicate the three highest deficits in the economic relationship.

However, China's trade with the Philippines constitutes a small proportion of its total trade with the Association of Southeast Asian Nations (ASEAN) and an even smaller proportion of its trade with the world. Zhao (2013) contends that the Philippines did not take a proactive stance in crafting Free Trade Agreements (FTAs) with China and other economies. This view is consistent with the observation that the Philippines merely adheres to multilateral trade agreements rather than paves its own inroads. It is therefore not a surprise that relative to other nations in ASEAN, bilateral trade and investment with China have proceeded slowly. The value of China's imports from the Philippines is the least among the economies in the ASEAN 5 (Indonesia, Malaysia, Philippines, Singapore and Thailand) but it happens to be greater than what it imports from Vietnam (Figure 2). Hence, as a supply market, the Philippines does not rank well in China's scale of importance. As a market for China's exports, the Philippines is the least significant among the ASEAN-5 and Vietnam in 2011-2015. The value of Philippine imports from China is less than half of Vietnam imports in 2015 (Figure 3). In other words, while the Philippines imports more than it exports to China, it does not import as much as the other economies in ASEAN. In the last three years, from 2013-2015, Vietnam is the top importer of Chinese goods.

2.2. Investments

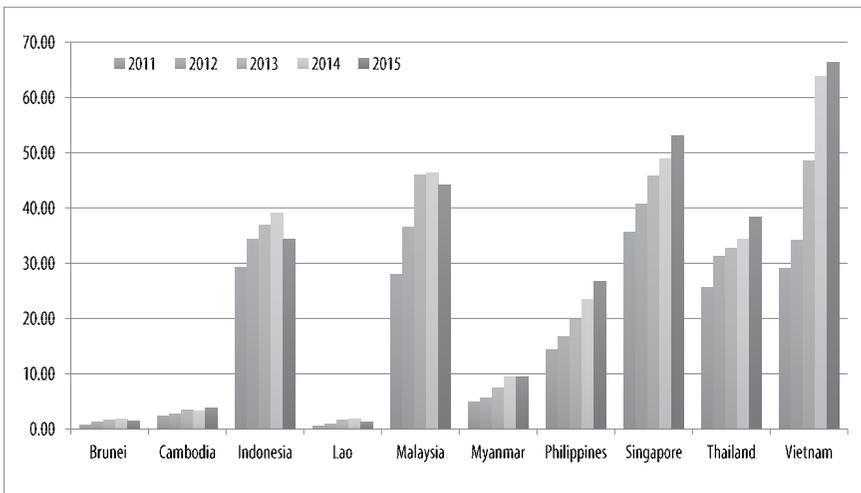
In terms of investments, the Philippines invests more in China than China invests in the Philippines and was one of the first foreign investors in China. However, the value of Foreign Direct Investment (FDI) in China is too minuscule relative to the investments of other ASEAN economies. Regarding China's investments in ASEAN, Figure 4 shows that it is only Brunei that has

Figure 2 China's imports from each ASEAN member, 2011-2015 (USD billions)

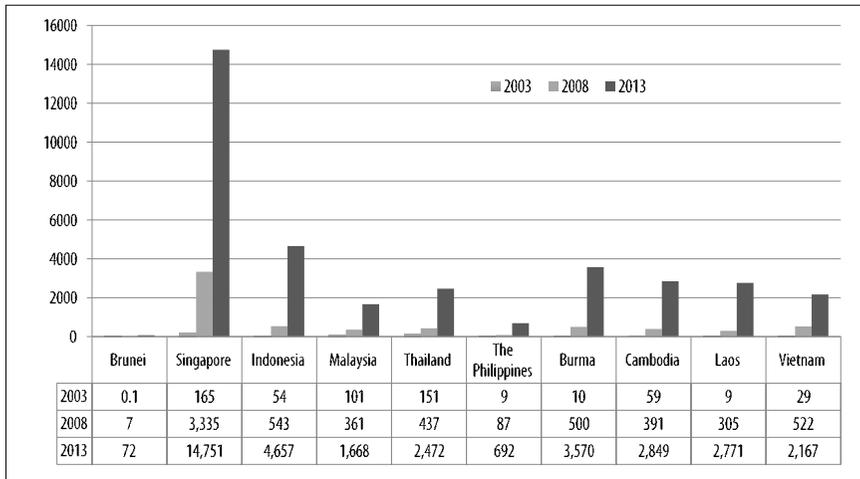


Source: Trade Map (www.trademap.org), accessed on 20 September 2015 and 18 June 2016.

Figure 3 China's exports to each ASEAN member, 2011-2015 (USD billions)



Source: Trade Map (www.trademap.org), accessed on 20 September 2015 and 18 June 2016.

Figure 4 Stock of Chinese FDI in ASEAN countries (USD millions)

Source: China Ministry of Commerce (data compiled from Salidjanova, Koch-Weser and Klanderman 2015: 7).

worse figures than the Philippines in terms of China's stock FDI in ASEAN in the years 2003, 2008 and 2013.

2.3. Official Development Assistance (ODA).

The focus of ODA projects in the Philippines can be structured in the following five priority sectors: agriculture, natural resources and agrarian reform; governance and institutions development; industry, trade and tourism; infrastructure; social reform and community development (National Economic Development Agency, 2012). In 2012, ODA from China went to projects that focused on water utilization, aqueduct improvement and irrigation¹, directly impacting the agriculture, natural resources and agrarian reform sector and affecting the rest of the sectors indirectly. Table 1 shows that China is ranked 11th among 18 development partners in terms of the total ODA composed of loans and grants. China's total share in total ODA stood at 0.84 per cent as of December 2014. From 2003 to 2012, new ODA loans show that China's total likewise lags behind that of the other development partners (Table 2).

3. Patterns in Bilateral Agreements

Agreements on trade, investment and finance outnumber all other types of agreements. In terms of the entire period of the diplomatic relationship from 1975 to the present, it was in 2007 that the number of total agreements peaked

Table 1 Total ODA by Development Partner in USD million as of December 2014

<i>Development Partner</i>	<i>Loan Amount</i>	<i>Grant Amount</i>	<i>Total ODA</i>	<i>Per Cent Share</i>	<i>Rank</i>
World Bank	4,453.27	84.88	4,538.15	31.59	1
Japan	3,159.11	166.55	3,325.66	23.15	2
Asian Development Bank	2,231.70	118.24	2,349.94	16.36	3
United States of America	–	1,148.56	1,148.56	7.99	4
United Nations System	75.29	608.48	683.77	4.76	5
South Korea	524.75	93.84	618.59	4.31	6
Australia	–	587.02	587.02	4.09	7
France	436.95	0.54	437.49	3.04	8
Germany	55.30	124.66	179.96	1.25	9
European Union	–	174.55	174.55	1.21	10
China	115.33	5.70	121.03	0.84	11
OPEC Fund for International Development	70.00	–	70.00	0.49	12
Canada	–	54.74	54.74	0.38	13
Italy	34.21	3.84	38.05	0.26	14
Austria	25.64	–	25.64	0.18	15
Spain	–	9.34	9.34	0.07	16
Norway	–	4.34	4.34	0.03	17
New Zealand	–	0.69	0.69	0.00	18
Total	11,181.55	3,185.97	14,367.52	100.00	

Source: National Economic and Development Authority (2014: 6).

Table 2 Historical New ODA Loans by Selected Development Partners (value in USD billions)

<i>DPs</i>	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
ADB	0.22	–	0.39	0.65	0.28	0.62	0.56	0.40	0.20	0.71	4.03
China	–	0.40	–	0.05	0.60	–	0.09	0.12	–	–	1.26
JICA	0.12	–	–	–	0.25	0.27	0.61	0.38	0.52	0.94	3.09
Others	0.02	0.05	0.28	0.24	0.32	0.44	0.32	0.6	0.01	0.35	2.63
WB	0.11	0.06	0.09	0.41	0.39	0.44	0.12	0.74	0.76	0.33	3.45
Total	0.47	0.51	0.76	1.35	1.85	1.77	1.70	2.24	1.50	2.32	

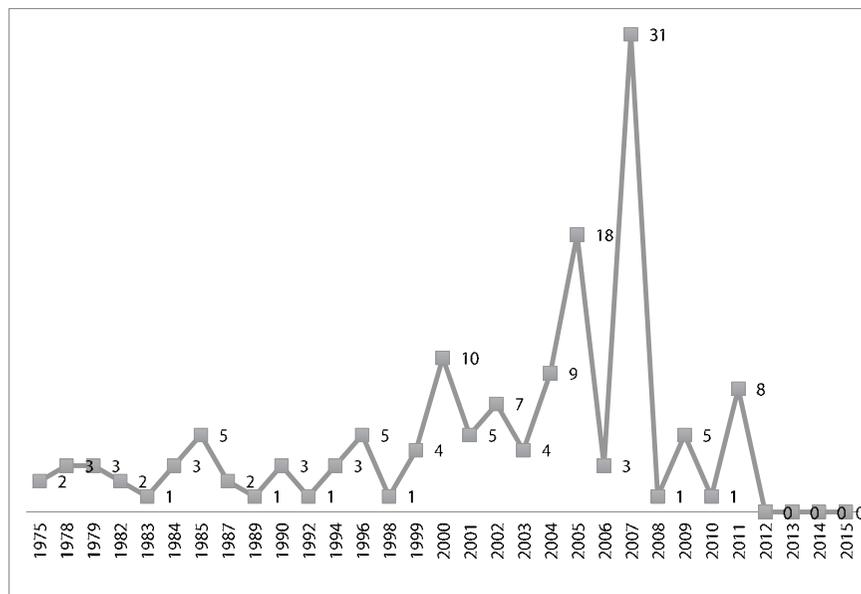
Note: DPs – Development Partners, ADB – Asian Development Bank, JICA – Japan International Cooperation Agency, WB – World Bank.

Source: National Economic and Development Authority (2012:11)

(Figure 5). We evaluate the agreements from sources such as the website of the Embassy of the Philippines in Beijing, the Supreme Court E-Library and Philippine Treaties Online. We then group agreements according to the modified list in Figure 6. Some categories were subsumed into or combined with other categories. Note that one agreement can yield a multiple number of areas of concern and likewise a multiple number of economic diplomacy types and subtypes, depending on the degree of comprehensiveness of the agreement's scope. Figures 5 and 6 show that efforts to forge economic diplomacy have not been intense. A break from the relatively low number of agreements per year occurred in the 2001-2010 period. Furthermore, during the entire period of diplomatic relations, trade/investment/finance got the most number of agreements while agriculture and scientific/technical agreements ranked second and third.

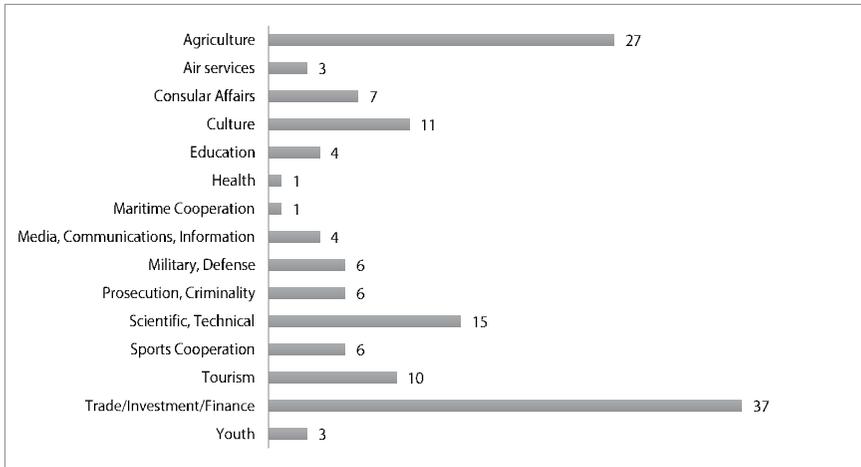
This research also organized the agreements by presidential term by area of cooperation (Figure 7). The documentary sources begin in 1975, during the Marcos era, when the diplomatic relationship was forged. It was during the term of Gloria Macapagal-Arroyo when the so-called golden age of diplomacy was reached, with trade/investment/finance agreements still getting the most attention.

Figure 5 Number of Bilateral Agreements per Year (1975-2015)²



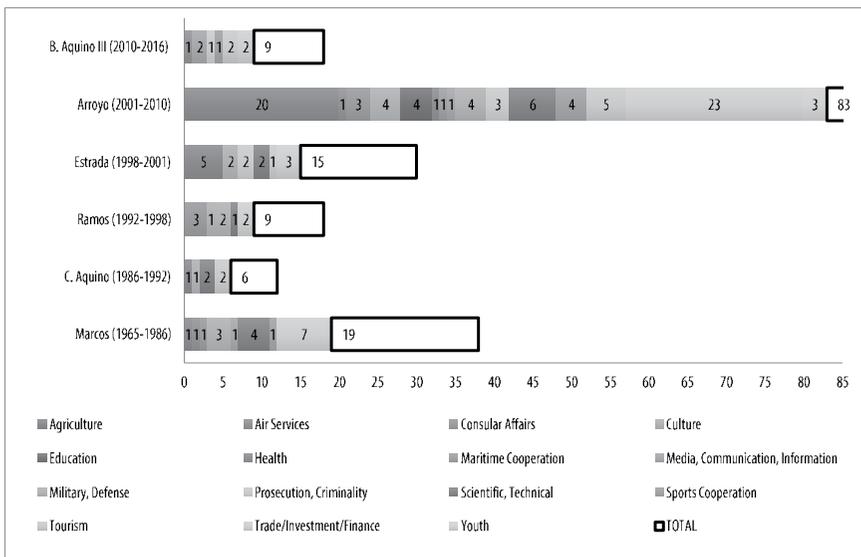
Sources: Embassy of the Philippines in Beijing, China, n.d.; Malaya, Oblena, and Casupanan, 2010; *Supreme Court E-Library*; *Philippine Treaties Online*; Carlos P. Romulo Library, Foreign Service Institute, Philippines, n.d.

Figure 6 Frequency of Each Area of Concern in 138 Bilateral Agreements between the Philippines and China



Sources: Embassy of the Philippines in Beijing, China, n.d.; Malaya, Oblena, and Casupan, 2010; *Supreme Court E-Library; Philippine Treaties Online*; Carlos P. Romulo Library, Foreign Service Institute, Philippines, n.d.

Figure 7 Number of Agreements Signed in Each Presidential Term, by Area of Concern



Sources: Embassy of the Philippines in Beijing, China, n.d.; Malaya, Oblena, and Casupan, 2010; *Supreme Court E-Library; Philippine Treaties Online*; Carlos P. Romulo Library, Foreign Service Institute, Philippines, n.d.

The 83 areas of cooperation during the Arroyo administration focused on agriculture (20) and trade, investment and finance (23), overshadowing other areas of cooperation of interest to analysts: maritime (1), military and defense (4) and scientific & technical cooperation (6). These agreements were forged well before the breakout of the Scarborough incident. The Arroyo administration's foreign policy involved a constant balancing between the US and China, export and investment promotion, Overseas Filipinos Worldwide (OFW) protection and multilateralism. Unfortunately, many agreements with the Chinese were embroiled in serious corruption charges (De Castro, 2010: 705-714).

Often, Chinese analysts would ask, what has changed in the policy of the Aquino administration as it sharply contrasts with the golden age of bilateral diplomacy during the Arroyo administration? What this empirical reflection shows is that the Aquino administration is not the outlier but the Arroyo administration is. The rest of the presidential administrations reflect the lacking relationship proximity between the Philippines and China. Alternatively, the Philippines has always been peripheral to China, geopolitically. Can we say the same for the reverse? In the Marcos era during the 1970s, communism in the world was on the rise, the US was defeated in Vietnam, and the oil crises caused a global economic shock. Marcos decided to re-open ties with China to access oil but also to hedge between powers. The Laurel-Langlely Agreement, a trade pact with the US, was also going to end in 1974, making it more urgent for the Philippines to seek other markets for trade (Resos, 2015: 3-4). During Ramos' time, he focused on development diplomacy, which strived to push the Philippines towards gaining new markets in the context of increasing globalization of production, labour, finance and services. Cooperative regional frameworks were also increasing. Ramos' administration also saw the rising concern of non-conventional threats to security, which required better cooperation with states and international institutions. Notwithstanding the development policy, there were very few agreements with China and even fewer deals on economic cooperation. It was difficult for the administration to warm relations with China when it occupied the Mischief Reef in 1995 (Pattugalan, 1999: 131, 140). Estrada on the other hand likewise strived to bring in more foreign investment. Meanwhile, continued Chinese activity in the West Philippine Sea, including a runway that was built on Woody Island, made the administration uncomfortable (Singh and Freeman, 2000: 14).

Economic diplomacy instruments, which are not limited to sanctions, have varied instruments and goals, which must be plotted to elucidate patterns. Hence, this research applied the classificatory typology adapted from Okano-Heijmans (2011: 20) on the bilateral agreements. The typology first applied codes on major economic diplomacy types and their subtypes. Content from the agreements underwent meticulous manifest and latent coding to capture specific markers in classification (Table 3). Many agreements related

Table 3 Nature of Economic Diplomacy Agreements

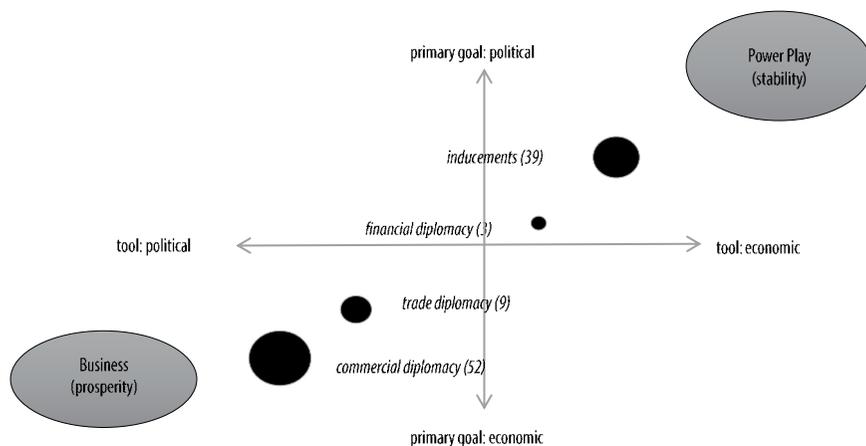
<i>Commercial diplomacy</i>		<i>Trade Diplomacy</i>		<i>Financial diplomacy</i>		<i>Assistance/Cooperation</i>		<i>Total</i>
Trade promotion	20	Tariffs/Duties	3	Currency Swap Agreements	1	Grants/Loans/Financing	18	
Investment Promotion	22	SPS and Quality Regulation	4	Establishment of Banking Institution	1	Technical Cooperation	18	
Tourism Promotion	10	Quantitative Restriction and Others	2	Unspecified	1	Fisheries/Agriculture Cooperation	3	
Total	52		9		3		39	103

Sources: Embassy of the Philippines in Beijing, China, n.d.; Malaya, Oblena, and Casupanan, 2010; *Supreme Court E-Library; Philippine Treaties Online*; Carlos P. Romulo Library, Foreign Service Institute, Philippines, n.d.; Typology adapted from Okano-Heijmans (2011: 20).

to more than one major type of economic diplomacy (e.g. commercial diplomacy) and within this category, they pertained to more than one subtype of economic diplomacy (e.g. investment promotion and tourism promotion). In this light, such agreements were counted more than once. Coding required a close reading of each agreement, emphasizing the need for specific knowledge of economic diplomacy. This is where secondary material proved useful in triangulating the economic diplomacy type and subtype. Examples of content in secondary material that require specialized knowledge include provisions on the special treatment on rice; whether fisheries cooperation entails investment promotion or a political solution to common resource use (Wang, 2001); the intricacies of China's ODA (Reilly, 2012); and when large-scale projects reflect investment or development assistance. Critiques of civil society also provide information (beyond the advocacy statements) that can be used to counter check details of the agreements (Francia and Ramos, 2011; De La Cruz, 2011; Aquino and Jensen-Joson, 2009).

Analysis of the bilateral agreements yielded a total of 103 economic diplomacy applications. Of these, 52 relate to commercial diplomacy, nine to trade diplomacy (i.e. decreasing trade barriers), three to financial diplomacy while 39 were related to financing assistance or cooperation of a technical, fisheries or agricultural nature. One can observe that in terms of frequency of efforts, commercial diplomacy is the most used instrument, followed by assistance/cooperation. With commercial diplomacy as a focus, investment and trade promotion are consistent with China's rationalist commercial cost-benefit considerations. On the other hand, inducements reflect China's preference for carrots and focused on assistance in financing projects as well as technical cooperation. Its sunshine policy towards the Philippines saw its golden age during the Arroyo administration.

While the preceding section on descriptive statistics emphasized the magnitude of major bilateral economic indicators, we direct attention to the importance of relating various economic diplomacy type within a larger strategic map. The x-axis represents tools while the y-axis represents goals. Tools get more economic (political) in nature as economic diplomacy moves towards the right (left) of the axis. Similarly, goals get more economic (political) in nature as economic diplomacy types are plotted lower (higher) on the map. While the location of each type of economic diplomacy within this map, as denoted by circles, is set by the conceptual framework, the magnitudes are not. The outcomes of the basic classification yielded frequencies for each economic diplomacy type, which in turn, determined the visual magnitude of each type in the spectrum. The resulting plot of magnitudes of economic diplomacy types is presented in the 4-quadrant prosperity-stability spectrum (Figure 8). The overall result of the spectral mapping shows how the state of bilateral economic diplomacy negotiates

Figure 8 Frequency of Each Typology of Economic Diplomacy

Source: Embassy of the Philippines in Beijing, China, n.d.; Malaya, Oblena, and Casupanan, 2010; *Supreme Court E-Library*; *Philippine Treaties Online*; Carlos P. Romulo Library, Foreign Service Institute, Philippines, n.d.; Framework adapted from Okano-Heijmans (2011: 18).

prosperity *vis-à-vis* stability. As a post-agreement evaluative instrument, Figure 8 depicts a paradigm of China's multidimensional interests.

We see that China's economic diplomacy approach towards the Philippines tips towards commercial diplomacy on one hand, where political tools are applied to secure economic deals with the Philippines. On the other hand, inducements or sunshine policies constitute the mode when economic tools are applied to achieve China's political goals. For the entire diplomatic relationship since 1975, the economic diplomacy instruments show that China considers the Philippines merely peripheral to its overall interests. Interestingly, even in historical times, the Philippines remained on the outskirts of China's trade interests, while not discounting the importance of the commodities that were traded (Wang, 2008). Before 2012, China seemed to have perceived the Philippines as more likely to give in to modest political demands with relatively little inducement (Ravindran, 2012: 115-125). The golden age of bilateral diplomacy during the Arroyo administration fits into this picture, which shows a surge in diplomatic acts. In turn, these tips the favour of decision-makers in the Philippines (De Guzman, 2014: 71-97) without being too costly, satisfying China's rationalist considerations. This affirms the empirical finding on the Hu Jintao regime's diplomacy that the latter is still driven by the primacy of economic interests (Shi and Yue, 2014: 10, 13). After the 2012 incident in the Scarborough Shoal, the Philippines

has become a flashpoint in the West Philippine Sea. From a standpoint of commercial cost-benefit thinking, China's anaemic trade and investment interests in the Philippines actually speak of a rational calculus. Strategically speaking, Chinese assessment did not anticipate a more nationalist stance considering the weak reaction of the Philippines to the Mischief Reef incident in 1995 and the warm relations during the Arroyo administration.

4. Questions for the New Economic Diplomacy Architecture

China's newest grand initiatives are the Belt and Road and the Asian Infrastructure Investment Bank (AIIB). At present, the Philippines is trying to grasp the breadth of implications of the 21st Century Maritime Silk Road (MSR), the component in the Belt and Road that applies to Southeast Asia. At any rate, these grand initiatives show that China's new phase of economic diplomacy involves more deliberate efforts in shaping the external environment. Fresh approaches are reflected in the creation of new Free Trade Zones (FTZs), which epitomize attempts to veer away from project-based concessions of old while the AIIB is a bolder attempt at closer linkages with various economic regions (Zha, 2015: 100-104). The use of economic levers by China is not new. However, these initiatives generate great interest as to the geopolitical content that goes with crafting a new global economic architecture.

The analyses in the previous sections demonstrate in practical and operational terms, what existing literature has argued (Morada, 2009; Dagdag, 2005; Churchill, 1990) and what we continue to intuit from real world events: economic diplomacy instruments are highly contextual, involving a host of dimensions. The question now that arises is, how will the current bilateral economic diplomacy be nested in the new architecture? Such bilateral diplomacy has indeed been contextual in practice (Reilly, 2013: 4-5), which is consistent with China's unilateral bilateralism or even unilateral multilateralism. In both instances, two features are vital. First, China's linkages with a country or a group of countries are based on a relationship regardless of written pacts. The perspective here is that, it is the relationship, not power, that needs balancing. Second, the parameters of the relationship are driven by China regardless of the extent of accommodation it provides to the other country/countries (Shih and Huang, 2014: 5, 19, 22). It is then important to elucidate the scope of reciprocity and to be mindful of seemingly unconditional benefits as these are intended to have an indirect effect, which is to encourage political accommodation over time (Reilly, 2013: 4, 10).

Thinking about the new architecture will not be complete without considering the dynamics from other arrangements such as the Regional

Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP). There is no confusion that the MSR and AIIB are China's development initiatives. However, in various dialogues, China's perception that the TPP is the economic dimension of the US pivot to Asia and rebalance of China, tends to pit the TPP against the MSR, notionally. On the other hand, China openly supports the RCEP and the path towards the Free Trade Area of the Asia-Pacific, involving APEC countries, while aggressively pushing the MSR among countries in the region. Notwithstanding reservations towards China and relatively warm relations with the US, the Philippines prefers to avoid an "either-or" decision between China and the US. Potentially, the MSR provides benefits in infrastructure development while the projections on gains from joining the TPP while already an RCEP member, indicate potential improvement in economic activity as a whole and a potential leap in exports by "48.88% over the average export performance" (Clarete, 2014: 6). Nevertheless, even if TPP membership is projected to be beneficial for the Philippines, the required economic governance and competition policy have yet to arrive at full TPP-readiness. In this regard, the MSR is more inclusive. Formally, joining the TPP is at the behest of the vetting process, but the real burden lies on how the Philippines reform process can be expedited. It is noteworthy that similar projections on economic gains from the MSR and a detailed evaluation of participation requirements have not been given ample attention. Where ASEAN is concerned, strengthening the ASEAN Economic Community (AEC) helps insulate the Philippines from the economic rivalry between the US and China. However, institutional difficulties in the Philippines remain an impediment in realizing gains from the AEC. Certainly, multilateral agreements affect how the Philippines formulates strategic economic relations with China, which is not limited to trade, without necessarily constraining the potential for a mutually beneficial linkage.

5. Closing Remarks

The deconstruction of economic diplomacy according to a prosperity-stability map allows analysts of Philippines-China relations to ruminate on economic diplomacy goals and tools in a context that is deliberate and strategic. In practice, empirical research on economic diplomacy has much room for improvement. In developing countries, the tasks involved in trade and investment promotion activities overwhelm the foreign relations apparatus but even in these cases, empirical research on commercial diplomacy constitutes a gaping need. Much elucidation is needed even in such basic interrogations as organizational arrangements and commercial diplomacy approaches (Naray, 2008: 6-7, 10; Kostecki and Naray, 2007). The economy-security linkage has

long been recognized, but how this is translated into policy remains unclear even after years of graduate-level academic programs in special government institutions as well as cooperation between development-oriented and security agencies of government. Notwithstanding the challenges, the potential for economic diplomacy studies is great.

As the Philippines begins with a new presidential administration under Rodrigo Duterte, the government faces a tough task in reconsidering relations with China. Duterte had made statements that support the claims of the Philippines in the disputed area as well as the arbitration process and its verdict. On the other hand, his marked departure from the stance of the previous administration is reflected in his statements about being open to bilateral dialogue if the issue cannot be resolved after two or three years. Furthermore, he indicated his openness to the notion of joint exploration of the disputed area as this does not contradict the Philippines' claims (Romero 2016; Ranada 2016). In spite of what China sees as a breath of fresh air, there is a need for the new administration to carefully consider how to deal with China. While multilateralism, involving ASEAN, the US and the middle powers, remains a channel to incentivize good neighbourliness from China, the Philippines must also increase its capability in effectively responding to China's actions (Baviera, 2016). It is hoped that a deeper appreciation of economic diplomacy can improve strategic calculations.

Notes

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1. The rail infrastructure projects were cancelled.

2. In 2012, during the Aquino administration, the Philippines was a signatory in three multilateral agreements between ASEAN and China.

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