

RESEARCHERS AT SINGAPORE'S INSTITUTE OF SOUTHEAST ASIAN STUDIES SHARE THEIR UNDERSTANDING OF CURRENT EVENTS

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China-Philippines Relations Stunted by the South China Sea Dispute

By Zhao Hong [Guest writer]

INTRODUCTION

Over the last four decades, relations between China and Philippines have had its up-and-down moments. Recently, these ties have suffered badly from quarrels over the South China Sea. The Philippines was one of several ASEAN claimants to protest against China's submission in 2009 of the "9-dash line" claim to the South China Sea, and was among the more vocal supporters of US Secretary Clinton's call the 2010 ASEAN Regional Forum in Hanoi for a resolution of disputes through referral to international law.

China has based its claim to the islands and other land features in the South China Sea on historical surveying expeditions, fishing activities, and naval patrols going back as far as the 15th century; and modern Chinese cartographers have included the area delineated by the nine-dash line within maps of Chinese territory since 1914. The area was also included in an official map drawn in 1947 by the Kuomintang government, something that the People's Republic of China has also done since 1949.

The Philippines' sovereignty claims over the Spratlys are in turn based on *res nullius* ("No man's land") and geography. After Japan renounced sovereignty over the islands in the San Francisco Treaty in 1951, they became *res nullius* and available for annexation. The Philippines states that geographically all the islands it claims lie within the country's archipelagic baselines and in accordance with the 1982 United Nations Convention on the Law of the Sea.

CHINA GETTING ASSERTIVE

From the late 1990s up until recently, China's approach to Southeast Asia and various territorial and maritime disputes was to practise a "good neighbor policy" and engage in bilateral negotiations. Over time, Beijing tried hard to charm Southeast Asia, and adhere to Deng Xiaoping's guideline to shelf territorial differences for later generations, and to concentrate on joint development instead.

Recent years, however, have seen Beijing departing somewhat from this approach and becoming assertive over energy exploration and through frequent military activities in the region.

In fact, the Huangyan Island dispute is a reflection of the underlying tension and competition between China and the Philippines over sovereignty, resources, and security in the South China Sea. There are two outstanding issues here: one is access to energy resources and the other is strategic concerns. The recent crises in northern Africa and the Middle East affected China's overseas energy-strategic areas, posing potential constraints and raising costs. China was compelled to diversify further its energy strategy, and shift its oil and gas development focus to the ocean.

Some Chinese scholars believe that China's current rather passive situation in the South China Sea is largely due to its slow resource development process there.¹ "If China has achieved effective development and management of the maritime resources within the traditional intermittent line, the possibility of the increase in the frequency and deterioration of the South China Sea dispute would very likely have been much lower."²

Under such circumstances, the search for energy resources in adjacent waters and support for its oil companies in the development of offshore oil and gas projects have become an inevitable trend for China. Related ministries and departments in China have likewise attached great importance to the exploitation of oil and gas resources in the South China Sea.

However, China is not the only country assertively exploiting energy resources there. Vietnam is the major oil producer in the disputed area with the state-owned Petro Vietnam producing 24.4 million tons, or 26 percent of Vietnam's total production, in 2010 from three fields in the South China Sea.³ For the Philippines, the urgency for developing offshore resources is greater than for China. When resources per capita is taken into consideration, we see that the pressure on the Philippines is also more serious. Its population density is 342 persons per square kilometer, while China's is 140 per square kilometer.

According to the International Energy Agency (IEA), the Philippines' primary energy demand in 2007 stood at 40 Mtoe (million tons of oil equivalent), and is projected to grow at an average rate of 2.8% per year from 2007 to 2030.⁴ Oil accounted for 35% of the Philippines' total primary energy consumption in 2010. The country's oil consumption in 2010 was 282,000 bpd (barrels per day), but its production in 2008 was only 23,000 bpd, most of which were from the Malampay and Palawan fields in the South China Sea.⁵

Moreover, for domestic political and religious reasons, its relations with Arab countries and Indonesia are complex, making its energy supply somewhat unstable. Therefore, the Philippines is under pressure to expand its domestic oil production to reduce its almost total reliance on oil imports.

A HEDGING STRATEGY

During the Marcos administration, the Philippines began asserting its sovereignty on some of the islands in the South China Sea, and sent military forces to occupy parts of these islands in 1970.⁶ In 1995, it was discovered that China had been building military buildings in the Philippines-claimed Mischief Reef located 135 miles west of the Philippines' Palawan Island. This was a turning point in the Philippines' perception of China and its policies towards its Spratlys Islands claims.

In view of China's more aggressive profile in the region, the Philippines has enhanced its hedging strategy by strengthening security ties with the US and Japan to bolster its own military capability. For the Philippines, China's control of Mischief Reef and other reefs after the late 1990s constitutes a threat to its national security, which compels it to rely more on the US military.⁷

This hedging strategy goes beyond a simple balancing of power. At the height of Manila's territorial row with China in early 2012, the Aquino administration raised the prospect of invoking the 1951 Philippine-US Mutual Defense Treaty (MDT) if armed clashes were to erupt in the Spratlys.⁸ In January 2012, Manila announced that it was likely to grant the US military greater access to its territory for purposes of re-supplying, refueling and for repairs.

The Philippines also receives Japanese military aid. Philippine Defense Secretary Voltair Gazmin met his Japanese counterpart Satoshi Morimoto in Tokyo in July 2012 to sign a Statement of Intent of the Greater Defense Cooperation Agreement. Included in the military pact is Tokyo's approval for Manila to acquire 12 patrol boats for use by the Philippine Coast Guard (PCG). According to related reports, 10 new 40-meter long vessels packed with modern electronics will also be handed over under terms given in Japan's Official Development Aid, while two additional bigger vessels are being eyed for transfer to the Philippine government under a grant.

China recognizes the need to tolerate the hedging strategy by the Philippines as well as other ASEAN states. It attempted to co-opt the Philippines and other ASEAN states by providing incentives in the form of trade concessions, investments and large-scale Official Development Assistance projects. Beijing offered to conclude a free trade deal with ASEAN, and in 2003 China became the first major power to accede to the 1976 ASEAN Treaty of Amity and Cooperation. In 2002, China and ASEAN conducted the Declaration on the Conduct of Parties in the South China Sea, a non-binding agreement to encourage cooperative confidence-building measures among claimants to the Spratlys and the overlapping exclusive zones.

China-Philippines ties registered a significant upturn in 2004 when then-President Arroyo paid a state visit to China. After a dialogue, Arroyo and Chinese Premier Wen Jiabao decided to set aside their countries' territorial claims in the South China Sea and pursue joint exploration for maritime resources instead. There were indications that joint exploration was being seriously considered, the Philippines National Oil Company and Chinese National Offshore Oil Company did sign an agreement in 2004 to conduct joint seismic studies in the South China Sea.

Even after 2005, China-Philippines relations continued to warm as evidenced by increased security, economic and socio-cultural cooperation, frequent high-level exchange of visits and the conclusion of various bilateral agreements. During a 2007 goodwill visit, former Defense Minister Cao Gangchuan pledged an initial US\$6.6 million in equipment as a confidence-building measure, promising to provide more security assistance to the Philippine military and signifying its willingness to intensify defense relations between the PLA (People's Liberation Army) and the AFP. In particular, President Arroyo encouraged greater commercial interaction with China to take advantage of its rising economic power, while maintaining close security relations with its foremost ally.⁹

However, despite its warming relations with China, the Philippines had yet to jump completely on to the Chinese bandwagon.¹⁰ Renato, an expert on the Philippines, believes that "[a]s a close neighbor of China, the Philippines has not yet totally trusted Beijing, and Manila still considers Washington as the least dangerous among the big powers, the best balancer, and the most reliable insurance against an emerging China."¹¹ New Philippine Foreign Minister Del. Rosario also stressed that "US is the sole strategic partner of the Philippines", signaling a gradual path back into the US sphere of influence after years of drifting toward China during the previous Arroyo administration.¹²

In line with the Obama administration's "return to Asia" strategy, the Philippines has been demonstrating that it accords high priority to relations with the US. In 2011, the US benefited from the tensions in the South China Sea, holding a series of high-profile naval exercises with the Philippines and other ASEAN countries. All these have led to a new plateau of distrust in Philippines-China relations.

ECONOMIC TIES AFFECTED

Although the Philippines, like many other ASEAN countries, remains uncertain about China's long-term intentions in the region, it also found that the economic importance of China has increased greatly. As a consequence of China's economic rise and diplomatic assertiveness, the Philippines' strategy is to have China as its major trading partner and foreign investor while depending on the US for the maintenance of regional security order. However, this strategic "dual dependency" has led to ambivalence and to a strategic dilemma.

Throughout most of the 1980s, the Philippines was beset by political instability and economic malaise, and was in dispute with China over the South China Sea. Therefore, it was not in a position to take advantage of China's economic liberalization. The country fell behind most of its ASEAN neighbors, whose trade and investment ties with China expanded remarkably during the period.

The situation did not change until 2000 when former Philippine President Estrada visited China, signing a joint declaration on the Framework of Bilateral Cooperation in the 21st Century. Since then, China-Philippines trade has risen tremendously and in 2002 China became the 10th largest trade partner of the Philippines for the first time, with bilateral trade value accounting for 4% of the Philippines' total trade. From 2003-2011, bilateral trade rose steadily from US\$9.4 billion to \$32.3 billion, an increase of 244%, making China the Philippines' third largest trading partner after the US and Japan.¹³

However, although economic ties have continued to improve, the degree of wariness toward this major power has increased as the tension on South China Sea grew. In the Philippines there is fear that the asymmetrical economic interdependence between these two countries could spell trouble for the Philippine economy. According to Manila's point of view, "Beijing's main motive for developing economic relations with the Philippines is to wean it away from Washington, while isolating the US politically and diplomatically to the maximum possible extent".¹⁴

Thus, in contrast to other ASEAN countries, the Philippines has not been very active in negotiating FTAs with China and other countries. Manila did not have clear strategies or policies towards the ASEAN-China FTA and has largely been a follower of the trade negotiations in ASEAN.¹⁵ Consequently, compared with other Southeast Asian countries, the growth in Philippines' trade with China has been much slower. In 2011, Philippines' trade with China was lowest among ASEAN-5, reaching only about one third that of Malaysia's trade with China.

In bilateral investment, although the Philippines was one of the earliest foreign investors in China, its FDI value in China is insignificant when compared with that of other ASEAN countries. For example, in 2010 the value of Philippine FDI in China was US\$138.1 million, accounting for only 2.2% of ASEAN-6's total value of FDI in China.¹⁶ China's overall investment in the Philippines also remains comparatively small. In 2011, China's total outward FDI reached US\$74.7 billion, while its FDI in ASEAN reached US\$5.9 billion, a 63.3% increase from that of the previous year; China's FDI in the Philippines on the other hand was US\$294 million, accounting for only 4.5% of China's total FDI in ASEAN.¹⁷

BEYOND THE DISPUTE

ASEAN attitudes and policies towards China are still shaped to a degree by uncertainty regarding the long-term implications of the rise of China. This, together with rising domestic nationalism and the countries' active search for energy resources in the South China Sea will continue to create tension in relations with China.

For China, its rise has boosted national confidence to levels unprecedented since the Cultural Revolution. Chinese nationalists increasingly blame the government for perceived inaction, unprincipled compromises, or national humiliations, and have called for tough action, including economic punishment, over the South China Sea dispute. The Philippines will in turn continue with its hard-line policy on the South China Sea, hoping to rely on the US and other big powers' military forces for support.

However, no military confrontation that can lead to the deterioration of bilateral relations between China and the Philippines is expected.¹⁸ In light of increasing economic ties and mutual desire for regional peace and stability, China and the Philippines are likely to make every effort to improve relations. As President Aquino said during his state visit to China in August 2011, China-Philippines relations will not be affected by the dispute over the South China Sea, and he reiterated the need "to deal with the disputes through peaceful dialogue, and to continue to maintain regional peace, security and stability, creating a favorable environment for economic growth".¹⁹

Indeed, the expansion of economic ties and the growth of common interests have laid the foundation for partial settlement or management of the territorial disputes. To move beyond South China Sea disputes, Beijing and Manila, and other ASEAN claimant countries should put more focus on enhancing mutual trust and bolstering economic cooperation, rather than being assertive or showing military muscle.

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Endnotes

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