

Does Acknowledging China's Claim to The South China Sea Open Trade Doors to Economic Advantages for the Philippines

Evaluating the Immediate and Long-Term Effects of Philippine Maritime Policies on Diplomatic Relations with China through a Comparative Analysis of the Economic Advantages and Sanctions Received across the Aquino and Duterte Administrations

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ABSTRACT

The tensions surrounding the South China Sea dispute have spanned more than decades, with China declaring ownership of all territory within a nine-dash that overlaps the Philippines' EEZ, often using concessions to gain economic leverage over the smaller country. While former Filipino President Aquino has widely disputed these actions, current President Duterte has chosen a reconciliatory path, declaring that better diplomatic relations will result in more developments and economic growth for the Philippines. He later changed this approach in 2018. Here we will compare the trade policies under Aquino and the Two Duterte Periods. This will be followed by a comparison of the amount of foreign aid received under another Filipino President, Arroyo, and Aquino. The South China Sea disputes have garnered international attention: with over a third of trade passing through its territory, many powerhouse countries, including Filipino longtime ally, the United States, are not keen on China gaining complete control.

Introduction

The South China Sea dispute is becoming increasingly dangerous with every new phase - adding islands and weapons to the 'war' for more claim or area of the sea. And the Philippines must face the difficult question of whether or not it should concede its claim over the South China Sea in favor of trade benefits, access to vaccines, resources, raw materials, and foreign aid, but most importantly to avoid the sanctions of opposing China's decisions. From the President, expert economists and powerful businessmen, to the fishers and farmers who reside next to Chinese military vessels guarding the sea, this question has become more crucial than ever before - with lives, livelihoods, and our economy hanging in the balance. While there have been several scientific investigations and opinion pieces written regarding the topic, it is often either scattered, inaccessible, or outdated. This research serves to present its findings, from our past, and present, and provide relevant information and discussions that will contribute to improving our understanding of a very widely, but rarely fully understood, disputed topic.

In this paper, I will argue against acknowledging China's claim to the South China Sea. The comparison between two different administrations with two opposing bilateral relations with China provide insights on the potential economic advantages of surrendering the Philippines' claim over the South China Sea, that is that although positive relations with China may result in a higher willingness to negotiate foreign aid and participate in trade, they are largely for China's benefit or left incomplete. Furthermore, administrations with an anti-China stance have not experienced major, long-term sanctions, and similarly, administrations with a pro-China stance have not seen major

Economic developments. Finally, relinquishing the Philippines' claim on the South China Sea would also relinquish its access to its many resources, land, and opportunities.

Background

The discussion of the tensions surrounding the South China Sea begins with one about its significance: the sea itself is home to rich oil reserves and a third of "the entire world's marine biodiversity." (*Ani et al., 2020*). It, too, boasts a strategic geopolitical position that is the "second most used sea lane in the world." ("*South China Sea*", 2021). Therefore, with economic benefits in mind, it comes as no surprise that powerful nations such as China, the United States, and other countries around the globe are often involved in tensions surrounding the sea.

As the closest of the superpower nations to the South China Sea's territory, China has a long history of territorial disputes with nearby countries over the internal waters, leveraging its strength and ability to impose sanctions on the less economically developed countries, and in recent years, to claim over 80% of the entire sea for itself. (*Mastro, 2021*)

One country, the Philippines, has been critical to hindering China's advancement (to an extent). As a long-time ally of the United States, it is bound by a treaty to be protected by the American military, which by proxy, stops the invading Chinese vessels. At least, that was the philosophy behind ex-President Benigno Aquino's pro-USA, anti-China approach. On the contrary, current President Rodrigo Duterte shifted stances in 2016, aligning with China and reaping benefits in trade, infrastructure, and tourism, only to renege from this in 2018, cursing China in his infamous threat to "send warships" ("*Duterte to China*", 2021) to "stake a claim" over the SCS. (*Corrales, 2019*)

In this paper, I will be comparing the two perspectives on whether or not acknowledging China's claim over the South China Sea provides economic advantages to the Philippines by comparing the economic advantages and sanctions received by two administrations with two different approaches: the Aquino Administration, which represents not acknowledging China's claim, and the Duterte Administration, which does. I will also evaluate whether or not Duterte's veer from his alignment with China in 2018 is of any significance, and contrast what we are losing (in resources in the South China Sea) if we were to align with China, and what we lose (in trade, benefits, aids, and sanctions we receive) if we do not.

Research Design and Data Sources

This paper defines the act of obtaining "Economic Advantages" as an improvement in three distinct categories: the increase in Economic Growth, active Trade Policies, and a reduction in the Economic Sanctions experienced. The categories are then operationalized to produce quantitative results.

The first category, Economic Growth, will be quantified through exports, trade, GDP, Foreign aid and other benefits received. Foreign aid is a good indicator for economic growth in the Philippines as there is a strong, positive correlation between developing countries and economic growth from foreign aid, as opposed to developed countries, as long as the aforementioned developing country has strong "market-oriented" economic policies (*Burnside et al., 1997*). A similar positive relationship was found for developing countries with strong "fiscal, trade, and monetary economic policies" (*Graham et al., 1997*). Graham et al's findings also explain this paper's second indicator: trade, or more specifically exports, as an indication for economic growth. A country's "importing and exporting activity" can largely affect the economy, namely its GDP, exchange rate, inflation rate, and interest rates (*Kramer et al., 2021*). It is especially relevant in the Philippines, which relies on high exports of goods and services to maintain their trade deficit/balance of payments to offset the cost of imports in the balance of payments.

Secondly, Trade Policy will be operationalized through the current trade policies and an analysis of whether or not they changed after a circumstance, and finally, Economic Sanctions through the sanctions imposed by retaliation. Economic Sanctions will also include the resources of the South China Sea, and any forecasted benefits that will be forfeited upon the renouncement of a claim over the South China Sea.

The data used in the paper is of utmost accuracy, gathered from reliable sources, either official or an aggregate of official sources. These sources illustrate trends and fluctuations in global development data over an extended period of time. On the contrary, the data set used to estimate the amount of foreign aid provided by China to the Philippines, is unconventional and covers a different administration - which will involve looking into the GM Arroyo regime. However, this dataset was the most reliable, and only source available as China no longer releases a foreign aid breakdown by country to the public. This paper employs both a literature review and data analysis method through policy tracing and a comparison of outcomes by examining the changes in maritime policies across different regimes.

Table 1: Overview of outcomes and stance per administration

The following table provides a summary as to the Trade Policy and Foreign Aid outcomes per administration in the Philippines:

Administration	Stance	Trade Policy Outcome	Foreign Aid Outcome
G.M. Arroyo (2001-2010)	Neutral	7 Memorandums Joint Exploration of the SCS	Passed 12% VAT (help the Philippine treasury earn money and stabilize the budget). Introduce BPO to the Philippines (less unemployment, increase income)
B. Aquino III (2010-2016)	Anti-China	Five Year Development Program For Trade and Economic Cooperation (2010-2016) Minor Sanctions	More investments (resulting in growth and poverty reduction), albeit amongst many risks and challenges
R. Duterte (2016-2018)	Pro-China	Joint Commission on Economic and Trade Cooperation (2017)	Encouraged more trade, investment, and access to a larger market
R. Duterte (2018-present)	Anti-China	Bilateral Trade Agreements (2019)	More funding for infrastructure projects

Comparison of Trade Policy under the Aquino and Duterte Administration

Throughout the course of his administration, President Benigno Aquino III maintained an Anti-China stance, largely directed by the domination of territorial disputes over the South China Sea, including both the Scarborough Shoal's naval standoff, and China's aggressive and unlawful institution of the nine dash-line (Wong, 2014). In response to these actions, the Aquino administration filed an arbitration case against China that later ruled in the Philippines'

favor in 2016 (Cook, 2019). On the other hand, his successor President Rodrigo Duterte established a Pro-China approach, not invoking Hague’s 2016 arbitration ruling and instead pursuing bilateral relations with China.

These contrasting strategies executed by two different administrations provide insights on whether or not acknowledging China’s claim, or Duterte’s Pro-China approach, yields better Economic Advantages for the Philippines as opposed to Aquino’s Anti-China approach.

Economic Growth

Amount received by the Philippines in Exports
USD (\$) in Billions



Fig.1.: Amount Received by the Philippines in Exports in Billions of USD

According to Figure 1, the Aquino Administration (2010-2016) experienced a steady increase in the amount received by the Philippines in Exports to China and the United States between 2011 and 2014, before facing a 22.9% in amount received in Exports to China in the years leading up to 2016. The amount received in exports to China hit an all time low before 6.19 billion USD before increasing 58.5% to 9.81 billion USD in 2019 under Duterte’s administration (2016-present). Surprisingly, although the trend showed a steady increase of amount received in exports was expected under Duterte’s “Pro-China” administration between 2016-2018, the trend still continued to increase after 2018, after his stance turned “Anti-China.”

Percentage countries account for Philippines' total trade* (%)

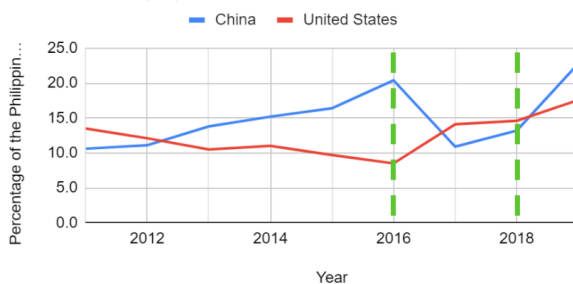


Fig.2.: Percentage countries account for the Philippines' total trade

Philippine Trade (% of GDP)

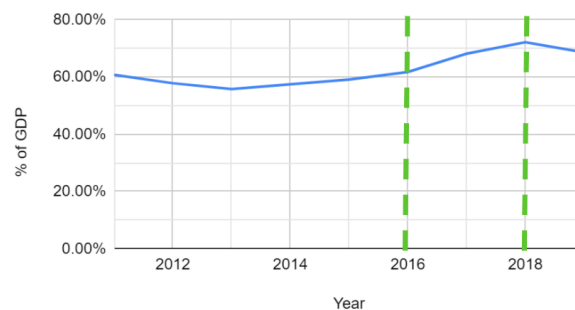


Fig.3.: Philippine Trade as a % of GDP

According to Figure 2, the percentage China and the United States accounted for Philippines’ total trade had been inversely proportional between the years 2011-2016, with China’s proportion for total trade increased

92.5%, while the United States’ proportion of the Philippines’ total trade decreased by 37.0%. Under Duterte’s administration, China’s proportion abruptly dropped, likely from the delayed effect of sanctions imposed following the arbitration ruling in the Philippines’ favor, and the United States gradually rising, before reaching a plateau in 2017.

Figure 3 shows that although China took up a larger proportion of trade between 2011-2016, this occurred during the period where trade composed a smaller proportion of total GDP, therefore its net value may have been less than that of the post-2016, albeit not by a significant amount. Therefore, a weighted average was taken of the values, per administration.

Table 2: Weighted average of proportion China vs USA accounts for Philippine’s total trade per administration

Weighted Average: % of total trade vs Trade % of GDP	
	China
Aquino	14.6
Duterte	16.7

Once weighted with the corresponding Trade % of GDP for its year, Table 2 shows China facing a 14.4% increase from Aquino’s Anti-China stance, to Duterte’s Pro-China one. However, this value, albeit an increase, is insignificant to suggest vast Economic Growth can be obtained through positive relations with China.

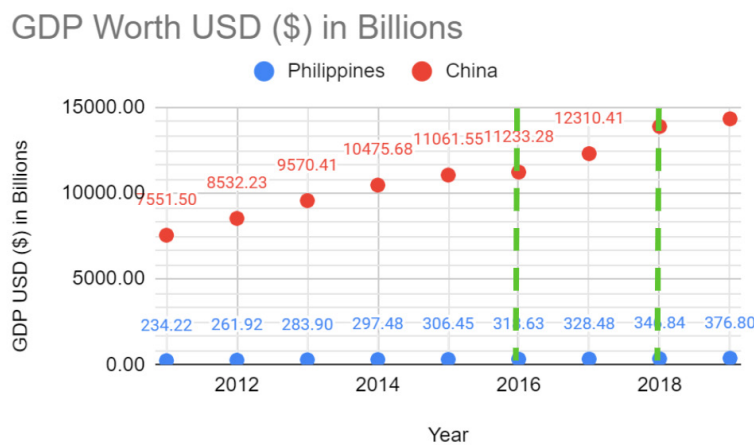


Fig.4.: Philippine vs China GDP in Billions of USD 2010-2019

According to Figure 4, the Philippines’ GDP steadily increased, amounting to a 36.0% increase in the Aquino Administration (2010-2016), and a 18.3% increase in the Duterte Administration(2016-present). However, a majority of the increase in GDP in the Duterte Administration (8.64%) occurred between the years 2018-2019, after Duterte shifted to an Anti-China stance, suggesting that maintaining positive relations with China does not have bearing over Philippine GDP.

Overall, it appears that maintaining positive relations with China does not affect Economic Growth in the Philippines. Of the three, exports have the largest bearing, facing a decrease in Exports during the Aquino administration, but not in the second ‘phase’ of the Duterte Administration (2018-). All three categories - Exports, % of total trade, and GDP- only experienced slight changes, and did not have large effects on the Philippines. Hence, the

difference in trends between Aquino's Administration (2010-2016) and Duterte's Administration can be attributed to external factors or simply by chance, and not as a result of having a 'Pro' or 'Anti' China stance. In other words, a negative stance on China will not result in a drastic change in Economic Growth, and not acknowledging China's claim over the South China Sea will not yield drastic effects for the Philippines.

Trade Policy

Throughout the Aquino and Duterte Administration, they shared many mutual trade policies including, but not limited to: ASEAN, APEC, WTO, ACCSQ, but both administrations have each secured a major bilateral agreement with China during their tenure. (*China-Philippine relations, n.d.*)

Aquino established the Five Year Development Program for Trade and Economic Cooperation with China in 2010. The trade policy culminated in aid and investments resulting in Economic Growth of approximately 7-8%, "reductions in unemployment" by 6.5-6.7%, and the "incidence of income poverty" from 18-20% to 16-18%. (*Philippine Development Plan, 2014*). However, the agreement also has challenges, namely: having "low productivity and production", "vulnerability to climate risks and disasters", "weak governance and resource degradation", "weak institutions and policies." (*Paderanga Jr., 2011*), and risks: can cause "Political Instability,

Economic Crisis

Implementation of Projects/programs delayed", "A high and unstable inflation rate, which will reduce the purchasing power of the poor." (*Philippine Development Plan, 2014*).

In Duterte's administration, he initiated the Joint Commission on Economic and Trade Cooperation with China in 2017. This agreement would emphasize integration and "cooperation between entrepreneurs of both sides," allowing Chinese enterprises to trade and invest in the Philippines, while opening up China's market of over "1.3 billion people," to the Philippines. This trade agreement also included China "providing [the] necessary financing support for the implementation of relevant projects," such as Duterte's "Belt and Road" infrastructure initiative and "Philippine Ambition 2040," to pave the way for Philippine development and "life improvement" (*28th Meeting of Philippines-China Joint Commission, 2017*). Duterte also initiated the Bilateral Trade Agreements in 2019, composed of four infrastructure and capital-intensive projects, with China funding the project.

While the Joint Commission on Economic and Trade Cooperation with China agreement under Duterte's Pro-China stance resulted in a \$24 billion USD pledge in investment (*Camba, 2018*) in the Philippines - "\$9 billion in soft loans, including a \$3-billion credit line with the Bank of China, with a further \$15 billion worth of direct investments from Chinese firms in railway, port, energy and mining projects." (*Koutsoukis et al., 2018*). A large proportion of it remains undelivered, and it appears that China's motives are "strategic rather than benevolent." China's willingness to participate in negotiations is largely as a result of accomplishing its own goals and safeguarding its own interests (*Torrecampo, 2019*). For example, its support for Duterte's infrastructure development directly aligns with its own "Build, Build, Build project" to combat its issue of overcapacity. This likely can explain why China still chose to engage in bilateral agreements with the Philippines even when the administration held an "Anti-China" stance.

While agreements under a "Pro-China" administration likely resulted in larger pledges in trade policies, ultimately, it is driven by China's ulterior motives rather than the active administration's stance and willingness to maintain positive relations with their nation, and does not present a need to acknowledge their claim over the South China Sea.

Economic Sanctions

“Relations between the Philippines... and China have suffered due to the worsening South China Sea dispute,” and many “tense standoffs” that have lasted for several years. Under the Aquino Administration, the Philippines’ refusal to comply resulted in both diplomatic and economic sanctions by China (Zirulnick, 2012).

Amount received by the Philippines in Exports
USD (\$) in Billions

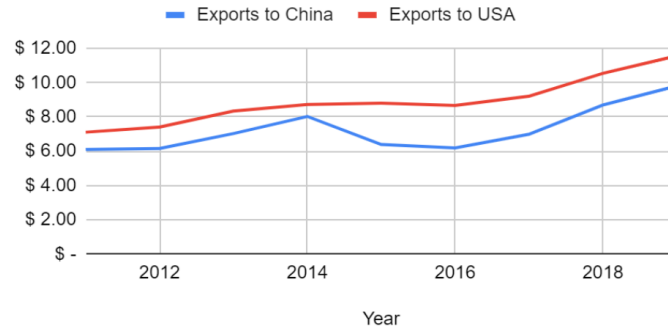


Fig.5.: Amount Received by the Philippines in Exports in Billions of USD over the years

China’s main sanction reduced its banana imports from the Philippines through a month-long ban and “phytosanitary restrictions” (Zhang, 2020) on the goods, refusing over 150 containers of bananas to enter, destroying them, and costing the exporters over \$760,000. (Zirulnick, 2012) This resulted in a low export value for overall exports in 2012 (Figure 5). However, in years succeeding 2012, the trend in Figure 5 proceeds to rise upwards, suggesting that the sanction on exports impacted only the short-term, because the opportunity cost for enacting sanctions on Philippine exports were still very high (Ravindran, 2012). Additionally, China cancelled senior-level meetings with Filipino officials, hindering the Philippines’ ability to negotiate and settle on agreements, and engaged in “gray-zone” coercion by blockading or ramming Philippine vessels with military and surveillance ships. The Philippines also faced a decrease in tourism from China, resulting in losses of up to one million USD, which may have an impact on the 778,000+ jobs in the tourism sector in the future (Ravindran, 2012).

However, while these sanctions did not result in immediate and severe results, it is possible that the growing trend in exports, GDP, and the continued enactment of trade policies albeit during Aquino’s Anti-China administration and after Duterte’s shift to an “Anti-China” stance after 2018 is to increase the Philippines’ dependence on China, and therefore, cause the Philippines to be more likely to concede to modest demands from China in the future, if the political cost of compliance for major demands decreases. (Ravindran, 2012).

Furthermore, it is also important to consider external factors, such as the 2020 Global (COVID-19) Pandemic, and China’s mask and vaccine diplomacy initiatives to provide countries like the Philippines with suitable aid (Hunt, n.d.). The Philippines’ increasing dependence (section IVc) on China will require their help in order to overcome the devastating crisis and economic harm (Hung, 2021).

These arguments suggest that refusing to acknowledge China’s claim over the South China Sea may not initially result in severe impacts, however, with the Philippines’ growing reliance on the Chinese market and economy, they may be able to impose sanctions with damaging effects in the future, should the opportunity cost for imposing such sanctions decrease for them.

External Factors

Furthermore, the overall economic condition and the domestic pressure of both administrations were also taken into account to determine whether or not there were any external influences to each administration’s stance. (For example, an administration facing a bad overall economic condition would be more willing to align with China for aid.

Similarly, a populist administration facing large domestic Anti-China pressure would be less willing to align with them).

Overall Economic Condition of the Philippines

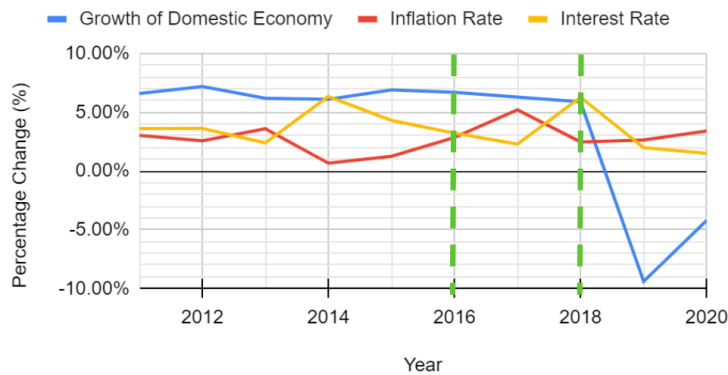


Fig. 6.: Overall Economic Condition of the Philippines, measured via the growth of Domestic economy, Inflation rate, and Interest rate

As can be seen in Figure 6, the overall economic condition of the Aquino administration experienced a steady increase in its domestic economy from 3.70% in 2011 to 6.90% in 2016, and interest rate from 2.64% in 2011 to 6.34% in 2015 with a slight drop to 4.31% in 2016. Surprisingly, despite the Aquino Administration’s Anti-China stance, the country still experienced growth. Between 2011 and 2016, the country’s inflation rate dropped by 73.5%. The lower inflation rate is likely caused by a decrease in Chinese investments in the country, with the then Chinese Ambassador Zhao Jianhua admitting China’s investments in the Philippines weren’t satisfactory with a smaller sum directed to the Philippines compared to other countries in ASEAN. (Stern, 2016)

The growth of the domestic economy and interest under Duterte remained stable until 2018 before experiencing a sharp decrease of 161% and 65.2% respectively. Consequently, the inflation rate rose within Duterte’s administration. Like Aquino’s administration, this was likely caused by an influx of Chinese investments and his Pro-China stance. This data suggests that a positive relationship with China will result in an increase in Chinese investments, however this does not necessarily translate into Economic Advantages for the Philippines.

Visualizing Domestic Pressure: % of Filipinos that responded to having a 'Favorable' opinion on the US vs China

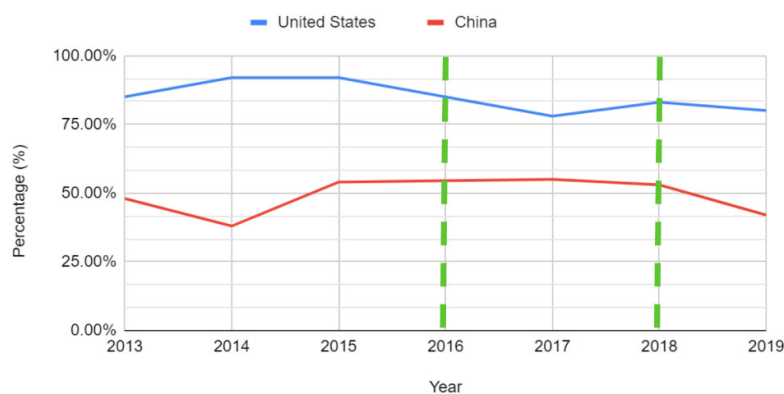


Fig. 7.: % of Filipinos that responded to having a Favorable opinion on the US vs China

Figure 7 shows that both administrations faced similar trends in domestic pressure. While the percentage of Filipinos voting who voted on having a favorable opinion of the United States and China varied per year, a consistently higher percentage of Filipinos voted on having a favorable United States (average of 89.7% under Aquino, 80.3% under Duterte) compared to China (average of 46.7% under Aquino, 50.0% under Duterte), suggesting that Domestic Pressure as an external factor did not have a large effect on either Administration's stance (*Opinion of China, 2020*). This data set is corroborated by the ISEAS-Yusof Ishak Institute in Singapore who found 87% of Filipino respondents considered China's "encroachments" into other EEZs to be of "top concern in the South China Sea," with the same number (87%) preferred to align with the U.S. over China. (*Kurlantzick, 2021*)

Comparison of Trade Policy under the Two Duterte Periods

While Duterte initially began his regime with a Pro-China approach, this later shifted in 2018, when he vowed not to move an "inch backward" to China's aggressive ships (*Calayag, 2021*). The Philippine Department of Foreign Affairs later chose to acknowledge the 2016 Hague Arbitration ruling publicly, which was originally avoided to maintain a positive relationship with China. Duterte noted in a September 2020 speech at the UN General Assembly that his administration will "firmly reject any attempts to undermine [the ruling]." (*Grossman, 2021*).

Duterte's Pro-China shift

One of Duterte's main reasons for aligning with China is their unique, and significant role in global politics and economics, and ability to offer foreign aid and investment for projects to benefit the Philippines. Throughout Duterte's "Pro-China" regime, the Philippines has seen vast improvements to its tourism sector, posting "a record high 7.1 million tourist arrivals," a 30% increase from 2017 with 17% (1.25 million) coming from China (*Sarmiento, 2019*). As the world's largest market for outbound tourism, an improvement in bilateral ties have contributed towards enhancing the Philippines' tourism industry, resulting in a growth in economy and rise in incomes. Another benefit is the increase in infrastructure-related investments, and exports that may help the agricultural sector not only survive - but thrive (*Schnabel, 2016*). According to Bernardo Villegas, senior V.P. and CRC research director at UA&P, the Philippines could export "high-value food products" like bananas (recovering from the sanctions incurred in 2012), dried mangoes, and other raw materials (*Heydarian, 2021*).

However, while Chinese investments in infrastructure could boost Economic Growth in the future, it would involve large amounts of imports of equipment and other materials that will not only sustain, but further increase the Philippines' already large trade deficit. It would create further loss for the Philippines (and more gain for China), if the Philippines began its infrastructure projects with the pledge going unpromised with no real FDI "pouring" in (*Schnabel, 2016*).

Duterte's Anti-China shift

Duterte's dis-alignment from China can be rooted under the unequal benefits that China has received in comparison to the Philippines. Duterte's Pro-China relations came at the expense of the South China Sea through an appeasement policy ignoring the arbitration ruling in 2016. While he never renounced the Philippines' claim over the sea, Duterte allowed China's aggressive strategies to take over region's in the sea within the Philippines' EEZ, allowing them the agricultural and fishery benefits with relatively nothing in return, especially since China never fully completed their 2016 Foreign Aid and FDI pledges, supplying only a mere 19.6% of the promised total. The Philippines experienced increases in exports and Economic Growth during the Pro-China period, but without a significant change of results than that of the Anti-China periods.

Duterte would later invoke the 2016 Arbitration ruling in 2018, referring to China’s increasingly aggressive take over of the South China Sea within the Philippine EEZ when stating that “We have a stand here. And I want to state it here and now again, that our ships that are on Pag-asa and elsewhere, we will not move an inch backward.” He also added that ““You can kill me but here I stay, this is where our friendship will end” (Robles, 2021).

Duterte’s decision to reverse his stance on maintaining positive relations with China comes as a result of the pledges returning unfulfilled, and no significant economic advantages attained. Suggesting that acknowledging China’s claim to the South China Sea will be a poor decision. However, while not acknowledging China’s claims will not yield significant advantages, it may lead to significant *disadvantages*, or sanctions that may further harm the Philippine Economy.

Forecasting future sanctions (with consideration to high interest diplomatic debts)

This section will forecast potential sanctions the Philippines may experience in the future if it chooses not to acknowledge China’s claim over the South China Sea. In 2012, it was predicted that the Philippines could lose China as a major trading partner with “modest effects” on exports. This did not result in grave effects for the Philippine market (section IVc). However, the Philippines’ growing reliance on China, as well as its status as the second-largest economy in the world and the Philippines' third biggest trading partner may result in the sanctions predicted in 2012 to have a larger impact on the Philippines (Esmaquel, 2021).

Furthermore, China’s approach to sanctions across different countries who have not maintained positive relations can be used as a basis as to what the Philippines may experience should it refuse to acknowledge China’s claim over the South China Sea:

Table 3: China’s sanctions overview: Hufbauer and Jung (2020)

Country	Sanctions		
	Trade	Relations / Negotiations	Regulations
Australia	Tariffs and suspensions of Aus exports		
Canada	Blocked canola imports, citing "pests"		
Japan	Export ban on Rare Earth Minerals	Encouraged boycott of Japanese products	
Mongolia	Raising fees on Mongolian mining products	Cut off bilateral relations and all FDI (monetary aid) negotiations	
Norway	Regulations to decrease Salmon Imports to China	Cut off diplomatic relations and talks of trade	Increased regulations on Norwegian products
South Korea	"Curbed" tourism Cut imports of cultural products (cosmetics/music)		Regulatory measures that shut down 90 Korean owned stores in China
Taiwan	Cut off group tourism to Taiwan		
United States	Retaliation - tariffs on US exports		

China’s sanctions can be divided into three categories: (1) a cut in imports, exports, or tourism (2) a cut in diplomatic/bilateral relations and foreign aid negotiations and (3) additional regulations (arbitrary).

Sanctions for more powerful nations tend to result in a stalemate of mutual tariffs and export bans, while sanctions with less powerful, aid-reliant countries (like the Philippines) will often have to renounce their claims/actions or publicly issue a statement apologizing to China in order to resume bilateral and diplomatic relations (*Hufbauer et al., 2020*). In this sense, Duterte’s decision to shift to a Pro-China policy following the sanctions (or warnings) imposed in 2012, under Aquino were advantageous to the country and similar to the actions of other countries.

However, one anomaly in this situation is Japan. Instead of issuing apologies or renouncing claims, they “filed a case in the WTO” citing a 29% violation of international trade rules and won (“*Japan files complaint against China*”, 2021). Following the case, China could no longer ‘dump’ Japanese stainless steel products. Similar to Japan, the Philippines filed and won an arbitration ruling in 2016, and as previously covered (section Vb), was only invoked by Duterte during his shift to an Anti-China stance in 2018. This suggests that the Philippines, like Japan, is unlikely to face severe sanctions on trade and relations should it invoke the arbitration ruling properly, however it may still be at risk to face regulation sanctions, as both Norway and South Korea issued a public statement highlighting their ‘wrongdoings’ and apologies to China.

Therefore not acknowledging China’s claim over the South China Sea may not result in severe trade and negotiation-related sanctions should the Philippines invoke the arbitration-ruling, however, they may face newfound regulations.

Comparison of Foreign Aid Under Arroyo

During her tenure as president, G.M. Arroyo (2001-2010) took a pacifist, “Neutral” approach, often choosing to go alongside China’s plans to avoid conflict. In 2004, she supported the joint exploration of the Spratly Islands with China and Vietnam (Joint Marine Seismic Undertaking), and by doing so, allowed the exploration and exploitation of resources within the archipelagic water and EEZ of the Philippines (*Pastrana, 2008*).

The following figures outline the amount of foreign aid as a % of total foreign aid and GDP China has received during Arroyo (2001-2010) and Aquino’s administration (2010-2016):

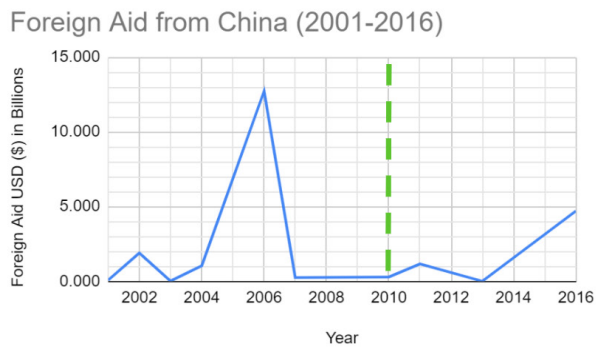


Fig.8.: Foreign Aid from China



Fig.9.: Foreign Aid from China as a % of Total Foreign Aid

As can be seen in Figure 8, Foreign Aid from China, for the most part, remains between 0 and 1 billion USD, with the exception of a few years, the majority of which (2003, 2004, 2005, 2006) fell under Arroyo’s “Neutral” administration. The second highest value to surpass the trendline occurs during 2016, the beginning of the Duterte, and his Pro-China policies and administrations, with the lowest in 2013 - following Aquino’s submission of an arbitration against China. Likewise, Foreign aid from China increased under Aquino’s administration in 2014

and 2015. In Figure 9, a similar trend is shown, with the exception of the sharp decrease in 2011-2013 during Aquino's administration.

Furthermore, foreign aid from China broke the 1 billion USD trendline in 2011 and 2014-2016 during Aquino's Anti-China regime suggests that China's willingness to provide foreign aid is not affected by the maritime policy, and a Pro-China regime did not contribute towards receiving economic advantages.

Figure 8's fluctuation in 2006 appears to be an anomalous data point, with no apparent trigger, especially since all pieces of data had been adjusted to the deflated monetary equivalent of reported monetary amount in reported currency to 2014 U.S. Dollars. Upon further investigation, 11.0 out of 12.7 billion USD (86.6%) in foreign aid from China was pledged for a pipeline development project under President Arroyo, however the data set reported that the "current status" of the project was "unknown," meaning that it is likely that China, despite its pledge, did not deliver the full amount. A similar event occurred in 2016 under the Duterte Administration, where he was pledged double the amount than that of Arroyo. However, only 4.70 out of the pledged 24 billion USD (19.6% - data not included on graph as it was confirmed that the Philippines never received the remaining balance). According to prominent Filipino policy maker, Richard Heydarian, "China has yet to deliver its infrastructure promise even as its militarization in the South China Sea worsened under Mr. Duterte's administration," especially as "there is absolutely no evidence that Duterte's 'meekness policy' toward China has produced any kind of tangible concessions in favor of the Philippines." (*Villegas et al., 2021*). Greg Poling added that, "China has launched just two of the pledged infrastructure projects — a bridge and an irrigation project — and both have hit major snags." (*Lee, 2020*)

This prompts the alteration of the initial conclusion made: Through the comparison of the 2006's fluctuation of foreign aid pledged under Arroyo's "Neutral" stance (~12.7B), no large pledge under Aquino's "Anti-China" stance, and a similarly (to Arroyo) large pledge of foreign aid under Duterte's "Pro-China" stance (24B), foreign aid was indeed affected by the relations with China (*Shead, 2017*). It is important to note that while double the amount was promised under a Pro-China regime (Duterte) in comparison to a neutral one (Arroyo), with both significantly higher than the "Anti-China" administration (Aquino), its status remains uncertain as the pledges have yet to be delivered in full.

Furthermore, it also appears that large pledges are being made by China on infrastructure projects (Pipeline Development Project with Arroyo, Joint Commission on Economic and Trade Cooperation with Duterte) aligning with their Build, Build, Build program (section IVb). This suggests a third amendment to the conclusion. While positive relations are a factor considered in China's willingness to negotiate and offer large pledges to Philippine administrations, they will only do so if there is a foreseeable benefit to them. (*Torrecampo, 2019*)

Conclusion

Not acknowledging China's claim to the South China Sea causes a larger effect on Foreign Aid negotiations with China as opposed to the Philippines' ability to achieve economic growth, and coordinate trade policies. This means that a negative relationship with China may result in less pledges on Filipino projects, albeit not resulting in major decreases in total Philippine foreign aid (and as a result, economic growth) obtained. This is mainly due to the majority of large Chinese pledges being left incomplete even during an administration with a neutral or Pro-China stance. Sanctions imposed by China's market as retribution may impact Philippine exports negatively, and increase proportionately as the Philippine reliance on China grows. However, this is unlikely to occur as long as the opportunity cost for imposing sanctions remains high for China, as it currently is now. Finally, China is mainly driven by economic benefits and ulterior motives rather than the status of relations, and therefore, the Philippines will continue to receive benefits (aid/policies) that China believes will benefit them indirectly or in the future, regardless of whether positive relations were maintained. This is the reason as to why it is not advantageous for the Philippines to relinquish its claim over, and all of the resources alongside, the South China Sea.

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