

PHILIPPINE-CHINA RELATIONS IN THE POST-COLD WAR ERA

By

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Perhaps more than any of its ASEAN neighbors, the Philippines has been the most dramatically affected by the end of the Cold War. The collapse of the Marcos dictatorship in 1986 and the crumbling of Cold War structures since then has forced the Philippines to come to grips with a rapidly changing international environment and the urgent need to redefine its foreign policy.

In an emerging world order where economics will dictate politics and where economic competition is expected to heighten, the Philippines has shown much eagerness to catch up with its more affluent Asian neighbors. The drive for more rapid economic growth and the primacy of economic interests has made "development diplomacy" a cornerstone of Philippine foreign policy. It is in this context that the Philippines has had to undergo a process of reassessing and reaffirming its relations with China.

Between 1986 and 1991, levels of Taiwanese investments reached such a height as to generate calls for a "Two-China" policy. But China's highly impressive economic performance and increasing importance as a major player in the Asia-Pacific region could not easily be disregarded. As a result, the Philippine government was compelled to define a more balanced and holistic approach to relations with China, within which Taiwan could be given due importance, without jeopardizing relations with the mainland.

Beyond the economic dimensions, security and defense issues will likely intersect with economic interests and cast their shadow over future Philippine-China relations. This is specifically

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true with regard to the conflicting claims over the Spratlys in the South China Sea. Such issue has to be assessed in a context where the Philippines is no longer tied to the coattails of US foreign policy.

The closing down of the US military bases in the Philippines in 1991 has effectively severed the umbilical cord that had tied Philippine foreign policy to that of the United States. While strong US-Philippine ties remain, the “special relationship” that characterized previous decades has come to an end. In the process of assuming greater responsibility for its own security and defense, but without the necessary economic and technological capacity to undergird it, the Philippines is relying on a strategy that is anchored on some form of collective security provided by ASEAN. Although ASEAN is not exactly a collective security system in the military sense, its combined economic strength and its crucial role in maintaining a power balance in the Asia-Pacific acts as a restraint on the use of force in settling disputes in the region. On this level alone, ASEAN has become a vital focus of Philippine foreign policy.

Coming to terms with China, with ASEAN and the new power configuration in the region has not been easy for the Philippines. It has required a shift from a highly Western-oriented, and more specifically US-centered perspective, to a more Asian outlook on the part of Philippine policy-makers. For an entire population schooled in a colonial tradition that made American history, politics and basketball more familiar than the Opium War, the Angkor Wat and sushi, relating more closely with its Asian neighbors has had its store of tough lessons for the Philippines.

Not only is the Philippines culturally more “Westernized” than many of its Asian neighbors; since 1986, its shift towards the institutionalization of a “participatory democracy” has in many ways rendered it “out of synch” with the more centralized political systems of many other Asian nations. Nowhere has this been more evident than in the making and implementation of foreign policy. In place of the presidential edicts that former strongman Ferdinand Marcos used to issue on foreign policy matters, there have emerged many “centers” and many voices on foreign policy, resulting in what some have described as a “muddled policy.” While the country appears to be moving towards a national consensus on many issues, the process has been slow and difficult. In the meantime, the active and oftentimes extremely vocal participation of NGOs, media, business sectors, lobby groups and legislators in the articulation of foreign policy has given it a vacillating and ambiguous character.

The One-China Policy

The drive to attract more aid and investments for economic development, the need to shape a more independent foreign policy and security strategy after the withdrawal of the US bases, and the more participatory nature of the foreign policy making process are factors that have pushed the Philippines to take a second look at its One-China Policy since 1986.

After the euphoria of toppling the Marcos regime, the transitional government of Corazon Aquino was faced with the unenviable task of repaying a then \$26 billion foreign debt and an economy in shambles. Besides having to reconstruct acceptable “democratic” institutions amid contending political forces, the new President had to draw desperately needed aid and investments into the country. Aquino’s trips abroad jolted national consciousness of the country’s status as a laggard in a region of economic “tigers” and “dragons.” The country was eager and anxious to receive aid and investments from almost any source.

It was at this juncture that Taiwan began its first wave of investments in Southeast Asia. Between 1989 and 1991, Taiwanese firms invested large amounts in the Philippines, making them one of the top investors in the country. Further promises of aid and investments sparked a procession of officials to Taiwan and ignited a call for a re-evaluation of the Philippines’ One-China policy. A number of bills were filed in the legislature urging a redefinition of relations with Taiwan. Members of the House of Representatives authored several versions of a Philippine-Taiwan Mutual Benefits Act.¹ In the Senate, Senator Leticia Ramos-Shahani, in her capacity as Chair of the Senate Foreign Relations Committee, proposed a “Foreign Entities Act” which she hoped would assure Taiwanese investors of legal protection for their investments without unnecessarily causing offense to Beijing.²

There was no stopping the “unofficial” and “private” visits of key Cabinet members to Taipei. In response to the calibrated protests of Beijing, President Aquino issued Executive Order 313 banning official visits to Taiwan. This, however, did little to restrain ranking Taiwanese officials from visiting Manila and vice versa.

On one level, Taiwan was obviously using its economic clout to wring diplomatic concessions from the Philippines. Given its economic difficulties and hence vulnerability, the Philippines had been targeted by Taiwan as an arena for testing out its “flexible diplomacy.” Against promises of increased levels of official aid and investments, Taipei hoped to gain some legal status in its relations with the Philippines.

On another level, there was a growing need for official negotiations on issues that were fast becoming irritants to Manila-Taipeh relations. Incidents of Taiwanese fishing vessels poaching in Philippine waters were on the rise. Crime syndicates and smuggling rings were surreptitiously traversing the narrow straits between the Philippines and Taiwan. There was also the issue of Filipino labor (estimated by some to have reached 40,000) illegally entering and overstaying in Taiwan.³ All these could not be resolved without some kind of official contact and negotiation.

Of course, ironing out links with Taipeh could have been done without the attendant publicity that would provoke Beijing into lodging its protests. Other ASEAN countries had apparently gone further, but much more quietly in their official contacts with Taipeh, without ruffling Beijing's feathers. But Taiwan's propensity to make political hay out of its relations with Manila and the tendency of Philippine media to expose every little quirk in government did not give Philippine officials the chance to exercise "quiet diplomacy." Between 1989 and 1991, the clamor for a review of the One-China policy became so strident in the Philippine Congress and media that a few officials were even known to have suggested that diplomatic ties with Taipeh be restored at the expense of relations with Beijing.

This clamor has died down since 1992. Proposed legislation related to Taiwan has been shelved for a number of reasons. For one, the first wave of investments from Taiwan has subsided as Taiwanese business seemed more interested in investing in China and even Vietnam rather than in a calamity-prone Philippines. Apart from the disastrous effects of the Mt. Pinatubo eruption, 1991 and 1992 saw the worst period of Manila's energy crisis. The deteriorating investment climate was exacerbated by a spate of kidnapping of ethnic Chinese, perpetrated by criminal syndicates reportedly involving military personnel. All these has dampened Taiwanese enthusiasm for investing in the Philippines and no amount of legislation could convince them otherwise.

Legislators themselves have begun to entertain second thoughts about sacrificing relations with China for hitherto unfulfilled promises of further aid and official investments from Taipeh. The collapse of the deal with Taipeh over a petro-chemical plant to be constructed in the province of Bataan signalled an end to the peak period of Taiwanese investments in the Philippines.

Taiwan's current drive to upgrade its technology and industries will mean the continued relocation of its labor-intensive, low-technology industries to less developed countries such as the

Philippines in the next few years. Compared to its neighbors, however, the Philippines has been getting the least share of Taiwanese investments. Among six countries in Southeast Asia, the Philippines' share of Taiwanese investments was only 3 percent in 1992 compared to Malaysia which garnered 33.7 percent.⁴

The decline in Taiwanese investments coincided with a rising awareness of China's economic and political significance in the region. China's phenomenal double-digit growth has been the focus of international attention over the last three years. It is now projected to become the next superpower while its economy is expected to sustain growth in the region in the next two decades. It is this growing recognition of China's economic and political power and the importance of maintaining good relations, more than anything else, which has led to a reaffirmation of the Philippines' One-China policy. This was capped by the official visit of President Fidel Ramos to China in May 1993.

Economic Relations

For the Philippines, a strong and vibrant Chinese economy will offer both economic opportunities and keen competition. Some of the country's top corporations are beginning to find niches in China's economy. Besides a brewery, San Miguel Corporation has shrimp farms and feed factories in various parts of China. Sycip, Gorres and Velayo, the largest accounting firm in the Philippines, has offices in Shanghai and Beijing while Metrobank, the top private commercial bank, has branches in Beijing, Xiamen and Shanghai. There are already more than 500 Filipino professionals and managers in Beijing and other major cities and their numbers are expected to increase.

Trade relations between the two countries, however, leave much to be desired. The Philippines' trade with China ranks among the lowest in ASEAN. In 1992, total Philippine-China trade was valued at slightly below \$400 million while Indonesia-China trade passed the \$2 billion mark and Malaysia-China trade reached \$1.47 billion.

The low levels of trade between China and the Philippines have been attributed to the failure of the latter to diversify its exports. Apart from this, Philippine-China economic relations was severely limited because until 1992, all trade between the two countries had to be conducted and coordinated through the Philippine International Trade Corporation (PITC). A legacy of the Cold War era, the PITC was created by former President

Marcos to facilitate Philippine trade with socialist countries. In 1989, in a move designed to improve the balance of trade with China, the PITC required importers of Chinese goods to export an equivalent amount of Philippine goods to China. This succeeded in curbing imports from China but did little to boost exports. Although the PITC rescinded its requirements by the end of 1992, trade levels have not risen dramatically.

Today, there are signs that the Philippine government is exerting efforts to promote Philippine-China trade through the establishment of more commercial offices in Southern China. By and large, though, not enough has been done on the Philippine side to explore China's rapidly expanding market for goods and services. Philippine exporters and small-scale enterprises, in general, have little access to information about markets in China. Those Filipinos who have been the most informed and most economically active in China are the Chinese-Filipinos.

The Ethnic Chinese

Most of the one million Chinese in the Philippines trace their origins to Fujian Province where many still have relatives. It is here where some have actively invested since the early 1980s. The economic and political crises of this period had driven Chinese-Filipinos to invest in China where attractive incentives were being offered, particularly in the Special Economic Zones (SEZ). The high rates of profits have kept Chinese-Filipinos interested in expanding their investments in China. The Philippines, however, remains a home base for these Chinese-Filipino capitalists.

Information on the levels and nature of Chinese-Filipino investments in China is difficult to trace since much of these have been channelled through Hong Kong. Nevertheless, the available information tends to indicate that Chinese-Filipino investments have been comparatively small and concentrated in the southern province of Fujian. For instance, according to some sources, Chinese Filipino investments in Xiamen, where much of Chinese-Filipino investments are concentrated, amount to only 5 percent of total investments in that SEZ.⁵

In terms of their profile, it appears that much of Chinese-Filipino investments have been in real estate development, hotels and shopping complexes. Other areas include banking, light manufactures and even retail stores. Those who have invested claim that profitability has been the dominant motive for investing in China. Both pull and push factors have worked to draw capital

to China in recent years. In the Philippines, the spate of kidnappings, the power crisis and general political instability of the previous years pushed a number of Chinese-Filipinos to invest in China. Their knowledge of the Chinese language and culture and contacts with relatives and friends on the mainland facilitated the process.

Official attitudes towards their investments in China have been ambivalent. On the one hand, there has been a tendency to regard Chinese Filipino investments in China as a form of “capital flight” from the Philippines. On the other other, Philippine officials realize that their ethnicity, kinship ties and cultural affinity with the Chinese could be tapped in opening new markets for Philippine products and generally contribute to the expansion of economic ties with China.

In many ways, China has become a formidable competitor for foreign capital, and Philippine officialdom would rather have domestic capital reinvested in the country than in China. This message was clearly put across by President Ramos to his hosts during his China visit in April 1993, when he chose to announce in Beijing, that six of the top Chinese-Filipino “taipans” who were in his entourage were forming a consortium that would undertake infrastructure projects in the Philippines. At the same time, the announcement served as a reminder to Chinese Filipinos that their primary loyalty should be to the Philippines and not to China.⁶

Despite the allusion to Philippine displeasure at the close links between China and the ethnic Chinese, this has been less a source of friction in Philippine-China relations compared to other ASEAN states. This may be attributed to the considerable integration of the ethnic Chinese in Philippine society specially since the granting of mass naturalization in 1974. Moreover, Chinese-Filipino investments in China have not reached the same level as those of other Southeast Asian Chinese or of Hong Kong- and Taiwan-Chinese.

Conflicting Claims to the Spratlys

What have been of greater concern to the Philippines in its relations with China are the conflicting claims to the Spratlys in the South China Sea. The Philippines sees its claims to the Kalayaan Island group, which is part of the Spratlys, as vital in its drive for economic development. Considered rich in oil and other resources, the disputed territory is regarded as a significant source of wealth for the Philippines. It has a strategic importance for the

country as well, considering that Japan used one of the islands as a staging ground for its invasion of the Philippines during the Second World War. Apart from Vietnam, Malaysia, Brunei and Taiwan, China also claims the islands.

The islands of Lawak, Pagasa, Kola, Likas and Parola are claimed by the Philippines by virtue of the right of occupation. Proximity has also been used as an argument: the distance between the Spratlys and Palawan is only about 250 miles, whereas they are 350 miles from Vietnam, 950 miles from Taiwan and 550 miles from Hainan Island. The Philippine government has stationed marines and has maintained a garrison on these islands. It has insisted on resolving the dispute in the United Nations and in the International Court of Justice.

Historically, Philippine claims to the Kalayaan Islands (Freedomland) date back to 1956 when Tomas Cloma, founder of the Philippine Maritime Institute, claimed ownership of some 33 islands, cays, sand bars and coral reefs in the Spratly archipelago based on discovery and occupation. The Philippines began to occupy some of these in 1971. In 1974, Cloma irrevocably transferred to the Republic all rights and interests over the islands. President Marcos issued Presidential Decree 1596 in 1978 to include the Kalayaan Island group in the Philippine map. This was registered with the United Nations Secretariat on June 1980. The Philippine Western Command was established, with its base on Palawan, for defense purposes and to protect oil explorations off the Palawan coast. An airstrip was built on Pagasa island where a settlement was organized into a barangay under the municipality of Palawan, with registered and active voters.⁷

Until the late 1970s, the Philippines appeared to be the most intent in pursuing its claim. However, by the 1980s, all other claimants had increased their presence. With the winding down of the Cambodian conflict, the Spratlys has become the focus of international attention as the next flashpoint in the region. Indeed, there has been a worrying degree of military buildup by claimant states in various parts of the islands. Open clashes between China and Vietnam and the current disputes over the activities of oil exploration companies, including Crestone, have fueled tension.⁸ In response to these developments, the Philippines has undertaken measures to shore up its claims to the Kalayaan Islands.

In February 1992, Beijing was reported to have adopted legislation which drew a "historical claim line" of official maps that encompasses some 80 percent of the South China Sea.⁹ This generated concern in Manila and in November 1992, Senator

Shahani introduced a joint resolution to establish a "National Policy on the Law of the Sea." In the resolution, it was noted that under the UN Convention on the Law of the Sea (UNCLOS), the Philippines stood to gain an estimated 360,000 square nautical miles as part of its 200-mile Exclusive Economic Zone.

The resolution proposed that in order to strengthen the Philippines' claim on the Kalayaan Island Group, the Baselines Law of the Republic be amended to include the islands, and appropriate legislation be enacted to define the territorial sea, the contiguous zone and the Exclusive Economic Zone. At the same time, the resolution recommended continued diplomatic negotiations with ASEAN states in accordance with the Treaty of Amity and Cooperation of the ASEAN. It declared that "the Philippines would cooperate with ASEAN and other Southeast Asian countries in the development of a regional arrangement for living marine resources as well as matters involving scientific research and technology transfer—pertinent to ecological and environmental concerns."¹⁰

Since then, other resolutions on the Spratlys have been tabled for discussion in both the lower and upper houses of Congress.¹¹ While these documents have consistently reaffirmed Philippine claims to the Kalayaan islands, they have also maintained that disputed claims be settled through peaceful means. One of the latest bills was filed by Speaker of the House, Jose De Venecia, proposing the holding of a regional diplomatic conference to launch a "Philippine formula" for a peaceful resolution of the Spratlys dispute. The formula calls for a "North Sea-type partition of the South China Sea" or the creation of a demilitarized five-nation condominium that includes China, Vietnam, Malaysia, the Philippines and Taiwan. It proposes a rotating administration and chairpersonship with a production sharing formula for the joint development of resources in the area.¹²

Given its weak economy and poorly equipped military, the Philippines can hardly be expected to put up an effective defense of its claims to the Kalayaan should any of the other claimants decide to use force. As such, it has had to exercise utmost care in not aggravating relations with other claimant states. When President Ramos visited China in May 1993, he and President Jiang Zemin signed a joint declaration reaffirming "the essential need for the peaceful settlement of the territorial disputes in the South China Sea and the desirability of cooperation in the area's preservation and development of the disputed areas therein."¹³ Subsequently, on May 17th, local newspapers reported that Ramos had ordered the armed forces to expand an airstrip on the Spratly

Islands. This immediately prompted a clarification from the President himself that the airstrip was in Palawan and not in the Spratlys as reported.

In its approach to the resolution of the Spratlys conflict, the Philippines leans towards a multilateral solution although it remains open to bilateral discussions. Conscious of the tensions between Vietnam and China, the Philippines has been careful in maintaining a balance in its relations with both parties. Bilateral agreements between the Philippines and either country will be difficult to implement without generating opposition from other claimants.

A multilateral approach is most advantageous to the Philippines since it is militarily one of the weakest among claimant countries. The Philippine claim appears to be among the most legally sound since it is based on several decades of effective occupation, actual political administration as well as registration with international bodies.¹⁴ This assumes, of course, that parties to the dispute are willing to subject themselves to international arbitration.

Scientists contend that coastal states around the South China Sea will have to learn how to cooperate if the overall ecological health of the sea and its living resources are to be maintained. According to them, marine pollutants are distributed erratically due to ocean currents while fish resources migrate widely. Petroleum pools may also transcend jurisdictional lines. Since territorial claims and maritime boundaries are difficult and seemingly intractable issues, scientific cooperation may offer a good beginning towards increasing levels of cooperation. The first working group meeting on marine scientific research in the South China Sea that was held in Manila in June 1993 may lead to a breakthrough.¹⁵

Thus far, the involvement of Indonesia and other non-claimant states in discussing ways of managing the South China Sea dispute have kept the problem from deteriorating into an armed conflict. China has indicated its willingness to shelve the sovereignty issue in favor of joint development and resource sharing. A series of semi-official workshops held in the region has contributed to some degree of confidence building and has helped defuse tensions, even if it has not prevented the military buildup in the islands over the last three years.

Tensions have heightened over the oil drilling activities of multinationals contracted by claimant states to explore areas they claim. Both Vietnam and China have declared their intentions to

defend, by force if necessary, the activities of companies they have contracted. How Vietnam and China will resolve their differences over the South China Sea will be closely watched.

Perhaps the greatest deterrent to military conflict in the South China Sea will be the growing integration of China and Vietnam into a dynamic regional economy. With greater economic interdependence, the stakes for maintaining peace and stability in the region will concomitantly increase.

Conclusion

In rising to the issues posed by its relations with China and with ASEAN, one of the greatest challenges to Philippine diplomacy in the post-Cold War era has been the forging of a national consensus on what constitutes “national interest” within a framework of “participatory democracy.” The openness of the foreign policy making process has given the Philippines an image of weakness and vacillation. Its messy handling of the East Timor issue is a case in point. The equivocal adherence to a One-China policy is another. What is needed is greater inter-departmental coordination within government, more information, more strategic planning and a fine tuning of policy options.

Given China’s growing economic power and political influence in the region, it is imperative for the Philippines to maintain good relations with the mainland. This, however, should not proscribe the expansion of economic and non-diplomatic ties with Taiwan. The latter can contribute substantially to the Philippines’ economic growth, but greater efforts should be exerted to improve ties with Taiwan without unnecessarily jeopardizing relations with China.

China’s burgeoning market and growing middle class hold vast business potentials for the Philippines. Trade relations can be markedly improved if information flow on business opportunities can be facilitated through more commercial offices in China. Domestically, the Philippines ought to explore the potential of its Chinese Filipino community as a bridge in doing business with China, rather than penalize it for investing in the latter. The tourist trade with China, Taiwan and Hong Kong is another untapped area of economic growth for the Philippines.

The Philippines should also gear itself to facing stiff competition from China for capital and markets. This will require the political will to institute reforms and provide the necessary

infrastructure for economic development. Only with the growth in its economy will the Philippines be able to provide more teeth for its own defense.

NOTES

1. "Philippine China Relations: An Overview," *Currents*, Vol. 1, No. 1 October 1990.
2. See Leticia Ramos-Shahani, "Redefining Our Policy Towards Taiwan," *Foreign Relations Journal*, Vol. IV No. 2, June 1989.
3. Theresa Cariño, "Dragon's Play: Philippine Relations with Taiwan and the PRC," *Currents*, Vol. 2 No. 2, March/April 1991.
4. Amado Mendoza, "Philippine Policy Perspectives on Greater China" (unpublished paper).
5. Felicidad V. Tan-Co, "1.17 B-Strong Consumer Market Provides Motivation to Invest in Mother China," *Business World Sixth Annual Report*, 27 July 1993, pp. 23-31.
6. See "Six Chinese Filipinos Team Up: Consortium Announced in China," *Manila Chronicle*, 28 April 1993.
7. Aileen Baviera, "The Philippines Looks to the South China Sea: Ocean of Opportunity or Sea of Strife?" *Currents*, Vol. 3 No. 1, January-March, 1992.
8. See "Beijing Lays Official Claim to Oil Fields," *South China Morning Post*, 11 May 1994.
9. "China Pushes Claim to Strategic Spratlys," *South China Morning Post*, 13 May 1994.
10. In Joint Resolution No. 8 of the Philippine Congress entitled "Affirming the National Policy on the Law of the Sea" introduced by Senator Leticia Shahani on November 22, 1992.
11. A resolution on "The Formulation of a National Policy on Spratly Islands Territorial Dispute" was introduced by Senator Leticia Shahani on May 3, 1994 followed by Senate Resolution No. 878 on May 25, 1994 "directing the appropriate committee to conduct a study on the necessary Philippine policy on the Spratly Islands and the South China Sea." House Resolution No. 608 introduced on May 5, 1994 directs the Philippine Mission to the UN

to file a resolution in the UN General Assembly seeking a peaceful settlement and joint exploration and development of the Spratlys by the claimant states.

12. See House Resolution No. 927 filed on February 7, 1994 by Speaker of the House, Hon. Jose De Venecia.
13. Cited in "Flashpoint," *Philippine Graphic*, 7 June 1993.
14. See the arguments of Haydee B. Yorac in "The Philippine Claim to the Spratly Islands Group," *Philippine Law Journal*, Vol. LVIII Second Quarter, June 1983.
15. Reported in "Testing the Waters" *Manila Chronicle*, 27 June 1993.