

# Philippines-China Relations, 2001–2008: Dovetailing National Interests

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## Abstract

This study shows that the Joint Marine Seismic Undertaking (JMSU) between China and the Philippines is an attempt of both countries to advance their respective national interests. Arguing that the foreign policies of China and the Philippines dovetailed during the administration of President Gloria Macapagal-Arroyo, the study situates the JMSU as (1) part of China's overall foreign policy in Southeast Asia and (2) as an attempt to maintain good relations with the Philippines and help resolve tensions related to the South China Sea disputes between the Philippines and China. The paper also shows that (3) the JMSU, along with Chinese ODA, dovetailed with the Philippine government's plan to promote economic development and facilitate energy security. Citing significant documents compiled by government agencies, newspaper and online articles, government officials' speeches, and academic journals, the study shows how the Chinese official development assistance (ODA) coincided and ran parallel to the signing of the Joint Maritime Seismic Undertaking. In conclusion, the study suggests a direct, causal link, not just conjunction, among Chinese ODA, the advancement of Beijing's security interests, and the signing of the JMSU.

Keywords: Philippines-China relations, China and Southeast Asia, Joint Marine Seismic Undertaking

## Introduction

THE GREAT LEAP OF China's economy in recent decades has brought enormous benefits to many of its people. Economic development brought better standards of living and provided spillover effects to its neighbors. China, fuelled by its rising economic power, has also become a provider of official development assistance (ODA), markedly different scenario from the 1980s in which it was a mere recipient. It isolated itself from the world during the Maoist period, but this once "sleeping giant" grew more aggressive in its foreign policy, particularly in staking its territorial claims and sovereignty especially in Southeast Asia.

Through ODA, China has not only successfully made its presence felt in countries they assist, but it has also given greater business opportunities offshore to Chinese companies, who help implement Chinese ODA-funded projects. This trend has been particularly notable in Southeast Asia, an important region for China's strategic goals. On the economic front, "the importance of Southeast Asia to China's continued economic development has grown larger as its economy has grown because the resources that China needs to maintain its growth, security, and stability flow through the region" (Scher 2010, 3). Particularly, China needs an uninterrupted source of raw materials, i.e. minerals, oil, gas, rubber, agricultural products and the like, from Southeast Asia in order to secure the growth and development of its economy.

Moreover, China needs to engage with the Southeast Asian region, embarking on a multilevel engagement that help prevent the alignment of states against its interests, establish the means for preferential access on a bilateral basis, and project an image consistent with its theme of seeking a "harmonious world" (*ibid.*). In relation to that, China used instruments such as elements of its national power—diplomacy, economy, culture, military and information—to cultivate a good relationship with Southeast Asia. As China helps developing countries like the Philippines, it creates an image that it is one of them, i.e., a developing country that helps another achieve its developmental goals. China appeals to these nations,

particularly in regions like Africa and Southeast Asia, because agreements with Beijing focus on “mutual benefits rather than on one-way assistance” and provide a “win-win” solutions (King 2006, 6). China has successfully employed these instruments to promote its long-term interests, including maintaining regional influence, defending its territorial claims, and leveraging regional access to markets, resources, and securing transit routes whether they are on land or sea (*ibid.*).

It is amidst this politico-economic background that this study shows that the Joint Marine Seismic Undertaking (JMSU) between China and the Philippines is an attempt of both countries to advance their respective national interests. Arguing that the foreign policies of China and the Philippines dovetailed during the administration of President Gloria Macapagal-Arroyo (GMA), the study situates the JMSU as (1) part of China’s overall foreign policy in the South China Sea and (2) as an attempt to maintain good relations with the Philippines and help resolve tensions related to the South China Sea disputes between the Philippines and China. The paper also argues that (3) the JMSU dovetailed with Philippine government’s plan to promote economic development and facilitate energy security.

### **The Joint Marine Seismic Undertaking**

Bilateral relations between the Philippines and China received a boost on 16 May 2000 with the signing of the Framework of Bilateral Cooperation in the Twenty-First Century (ABS-CBN News.com 2008). The framework was crafted in order to expand the bilateral relationship of the two countries, focusing on exchanges and cooperation on government, business, military, education, and tourism sectors. The framework also reiterates the Philippines’ and China’s adherence to the promotion of peace and stability in the South China Sea as both states refrain from actions that may complicate or escalate the situation in the area (Ministry of Foreign Affairs of the People’s Republic of China 2000).

On 4 November 2002, The Association of Southeast Asian Nations (ASEAN) and China signed the Declaration on the Conduct of Parties in the South China Sea. In the same year, President Gloria Macapagal-Arroyo appointed Mr. Eduardo Mañalac as undersecretary supervising upstream operations at the Department of Energy. This appointment came right after his seven-year stint in China as an oil explorer (*ABS-CBN News, Timeline*, 2008). Then, on 30 August 2004, Mañalac was appointed president and CEO of the Philippine National Oil Company (PNOC); two days after his appointment he signed the Joint Marine Seismic Undertaking (JMSU) deal with China (*ABS-CBN News, Timeline*, 2008).

Earlier in September 2003, China made a significant move to ease tensions over the South China Sea by proposing a joint oil exploration and development of the disputed Spratly Islands in the South China Sea with other claimants to the potentially oil-rich archipelago (Pablito 2003). In November 2003, The Philippine National Oil Company (PNOC) and the China National Offshore Oil Corporation (CNOOC) signed a landmark agreement to jointly develop the South China Sea, which is believed to be rich in oil and gas deposits. The two companies also agreed on a program to “review, assess and evaluate relevant geological, geophysical and other technical data available to determine the oil and gas potential in the area” (*Philippine Star* 2003).” Moreover, the exploration would not include the highly-contested Spratly region (*Philippine Star* 2003).

This agreement would culminate on 1 September 2004, when the JMSU was signed between Philippines and China through the PNOC and CNOOC. Under the JMSU, the two countries “expressed the commitment to pursue efforts to transform the South China Sea into an area of cooperation.” Under the agreement, two countries under their respective state-oil companies would do a “joint research of petroleum resource potential of certain areas of the South China Sea as a pre-exploration activity” (3). The area covered by the agreement has “a total area of one hundred forty two thousand eight hundred and eighty-six (142,886) square kilometers” and was to be implemented for three years

(2005 to 2008). Allegedly, the site of the JMSU covers about 80 percent of the Philippines' Exclusive Economic Zone (EEZ), an area the government acknowledged as disputed (*ABS-CBN News.com*, Timeline, 2008).

The JMSU initially elicited protests from Vietnam (*ibid.*). To address the objections from Hanoi, a tripartite agreement that now included Vietnam (via Petro Vietnam, a state-owned oil company) was signed on 14 March 2005. In 2007, because of the initial success of the joint seismic undertaking among the Philippines, China, and Vietnam, Philippine President Gloria Macapagal-Arroyo urged all the parties involved to continue pursuing phase 2 of the JMSU beyond 2008 (Bengco 2011). However, in 2008, the agreement lapsed without extension by the Philippines because of domestic issues and protests, which will be explored at a later section of this paper.

### **Chinese Official Development Assistance (ODA), Strategy, and Policy in Southeast Asia**

The signing of the Joint Marine Seismic Undertaking between China and the Philippines exemplifies Chinese foreign policy towards Southeast Asia. China since the early 1950s has always given official development assistance to other countries, particularly to developing nations, despite its own modest economy (Zhang 2007, 250). But marked change occurred in 1978, when a flood of foreign direct investments (FDIs) entered the country through Deng Xiaoping's economic reforms, specifically its *gaige kaifang* (reform and open-door) policy. *Gaige kaifang* policy ushered a new era for China, propelled its economic development, and turned Beijing from being an FDI receiver to an aggressive investor in other countries through its ODA. Specifically, China made its investments through the different private companies, who were encouraged by Beijing to invest in government-identified regions. Zhang (2007) also observed that just as a country's policies on aid programmes reflect its national interests, so do China's increasing aid programmes in Southeast Asia mirror its increasing

objectives in the region. For Zhang, China's ODA reflects the "country's major policy goals and its understanding of national interests as well as the international environment" (250).

The Southeast Asian region's attractiveness to China rests on many aspects, culture and strategy included. Strategically, the region is a next-door neighbour of China; both share rich, similar histories and traditions. Moreover, Southeast Asia is home to rich natural resources like minerals, oil, gas, rubber, agricultural products, and the like, which China needs for its growing domestic economy (Viraphol 2007). Goh argued that the recent Chinese "penetration" into Southeast Asia has focused primarily on "economic cooperation and mutual gains" (2006, 1). The US Congressional Report Service also noted that China's ODA initiatives were intended to "secure and transport natural resources and secondarily for diplomatic reasons" (2009, 1). China's ODA parallels its growing economy, which needs to expand into new markets.

In addition to the economic growth, China's regional security concerns have also shaped the evolution of its aid programmes (Cotterrell and Harmer 2005). Cotterrell and Harmer observe five factors that influence China's ODA: (1) projection of an image, (2) encouragement of local Chinese private companies to invest abroad, (3) expansion of the markets of state-owned enterprises, (4) adherence to its foreign policies, and (5) development of a suitable environment for China's economic development.

The first two factors concern us here. Along with the need to help other developing countries, China's ODA giving can be contextualized in what can be called as "South-South Cooperation" (Zhang 2007, 251), an arrangement consistent with China's image as a developing country helping another. Indeed, China has used its economic resources to enhance its global image in the international community. The second factor that influences China's ODA is its desire to push its private companies to invest in other countries, particularly in areas where Beijing sends its ODA. This materialized through the "Step-out policy where the government strongly

encouraged its state-owned and privately owned enterprises, to invest abroad” (Woo and Zhang 2005, 2). According to Cheng, et al. (2012, 8), State-Owned Enterprises (SOEs) intervened in China’s foreign aid in three stages: “help recipient countries to prepare aid requests, conduct preliminary project assessment and implement aid projects.” This is exemplified in the National Broadband Network (NBN) deal between China and the Philippines in 2007. As part of the arrangement, Zhong Xing Telecommunications (ZTE), a favored Chinese private company for this project, helped the Philippine government arrange loans with the Chinese government. Lastly, China’s intention to influence SEA and other countries has also been a major basis of their ODA. One author argues that the development and rise of China in the past two decades has shown that the assumption of the realist theorists that China will use its economic and military capabilities to overturn the balance of power and stability in East Asia is wrong (Kang 2003, 6). Instead, China’s strong and stable condition contributes to order in East Asia.

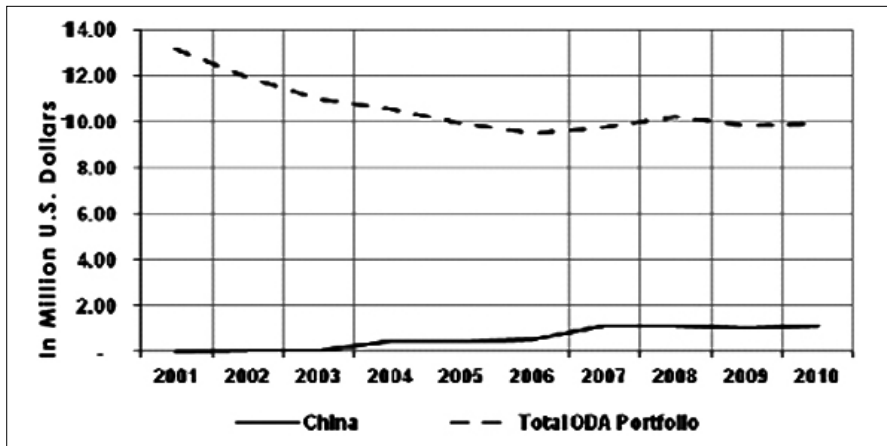
### **Chinese ODA and Loans to the Philippines during President Gloria Macapagal-Arroyo’s Administration**

Chinese foreign policy in Southeast Asia can be exemplified by Beijing’s increasing economic involvement in the Philippines. Indeed, it is interesting to note that the signing of the JMSU in 2002 coincides with China’s rising economic presence in the Philippines. China became a significant contributor to the Philippines during the Arroyo administration, providing ODA projects and increasing their volume every year. In addition to that, China devised an easy loan payment scheme for the Philippines. Beijing also provided not only infrastructure projects but also military aid to the Philippines. It only shows the wider involvement of China in the Philippines which went beyond the signing and approval of the JMSU.

### Growing Volume of Chinese ODA in the Philippines during the Arroyo Administration

Data from the department Head of the National Economic Development Authority (NEDA) confirms the growing volume of China's ODA in the Philippines (Table 1). Statistics show that despite the decreasing volume of all the assistance and loans from other countries, China's ODA continued to increase from 2001 to 2010.

**FIGURE 1**  
Total ODA to the Philippines and China's Contribution, 2001-2010



Source: Systems and Development Policy Division, Project Monitoring Staff, NEDA, 27 July 2012.

According to a department head from NEDA (Email Interview, 27 July 2012) the total loan commitments from China from 2001 to 2010 amounted to US\$1.316 billion, broken down into the following:

- a. US\$209.99 million for closed or completed projects.
- b. US\$607.75 million for ongoing projects; and
- c. US\$500.00 million for projects which are not yet effective.



Philippine Senator Francis Pangilinan pointed out that “in 2007 the Philippines has entered into 31 agreements with China which supposedly aims to promote bilateral trade and development in the next 10 years” (Casayuran 2008, 12). The promotion bilateral trade between the Philippines and China during the presidency of Gloria Macapagal-Arroyo had increased since China upped amounts ODA to the Philippines in 2001.

### Easy payment terms for Chinese loans

The Chinese government set up easy payment terms that could help finance the country’s economic development. As Chinese Embassy Attaché Peng Xiubin pointed out, the “Chinese government’s standard rate for loans is pegged for a period of 10 years while the ‘preferential loan’ to the Philippines was pegged at 3 percent for a maximum period of 20 years” (Cagahastian 2005). Moreover, Chinese Embassy Attaché Peng Xiubin qualified that “what we provided the Philippines is a preferential loan for an important ally,” Xiubin said (ibid.). China also furnished all necessary arrangements so that the Philippines could avail of Chinese loans. Specifically, Hon. Liang Wean tao, economic and commercial counselor of the Chinese Embassy in Manila, described that “China has offered \$1.8 billion in a preferential buyer’s credit to the Philippines, making it the largest recipient of such loan from China” (*Philippine Star* 2007, 5).

### Major Aid Projects of China in the Philippines

The major highlight of the Philippines-China relations during the administration of President Arroyo was the deepening and increasing economic ties between the two countries. She enumerated the different Chinese-funded projects in the Philippines:

Major landmarks of our relations include the Philippine-China Comprehensive Economic Cooperation Partnership framework, also the Northrail from Manila to my home province of Pampanga, the national broadband network projects in the Philippines, and continued regular exchanges of high-level visits between our two countries. (Arroyo 2007a)

China helped finance many of the identified key and vital government projects during that time. President Arroyo believed that funding some of the vital infrastructures in transportation and communication is a key to the economic development of the country (Arroyo 2007). Furthermore, she argued that the Philippines benefitted from the growth of China (Arroyo, 2007). The president stressed the importance of the Filipino and Chinese business groups in forging the closer relationship of Manila and Beijing. She enumerated the different undertakings, initiatives, programs and projects; these include promoting trade, investments and tourism; improving fiscal discipline; and the forging of new partnerships and alliances that positively affected the relationship of the Philippines and China, specifically in the economy (Arroyo 2007). Some of China's major ODA projects in the Philippines are as follows (Email interview with NEDA-Project Monitoring Staff, 27 July 2012):

- a. **General Santos Fishing Port Complex Expansion/Improvement Project** (Completed 31 July 2007)—The project consists of wharf expansion and improvement of some components of the fishing port like water supply system, cold storage and waste treatment plant.
- b. **Non-Intrusive Container Inspection System I and Non-Intrusive Container Inspection System II** (Completed in 2010)—The project involves the purchase, installation, and operation of thirty (30) x-ray machine units to be placed in the different shipping ports in the country.
- c. **Banaoang Pump Irrigation Project** (Ongoing as of 2012)—The project is designed to provide irrigation water to 6,312 hectares of area involving the construction of pumping stations in Ilocos Sur.
- d. **Agno River Integrated Irrigation Project** (Ongoing as of 2012)—The Agno River Integrated Irrigation Project (formerly San Roque Multi-Purpose Project-Irrigation Component) is envisioned to provide year-round irrigation to some 34,450 hectares of farmlands to benefit 28,207 farm families in Pangasinan.

- e. Angat Water Utilization and Aqueduct Improvement Project Phase II** (Ongoing as of 2012)—The project aims to maintain the security of water supply for Metro Manila by ensuring the safety and integrity of the raw water conveyance system via Umiray, Angat, and Ipo dams to water treatment plants in La Mesa and Balara.
- f. Northrail Project Phase I Section I** (Ongoing as of 2012) and Phase I Section II- (Loan not yet effective)—This project aims to provide an efficient transport service for passengers and goods between Metro Manila and Central and Northern Luzon, thus helping alleviate the traffic problems and reducing urban sprawl outside Metro Manila.

Of the projects included in this section, which are identified through from NEDA-PMS, only the following have definite project costs:

**TABLE 1: Some China-Funded Projects**

<b>Project</b>	<b>Cost in Million Dollars</b>
General Santos Fishing Port Complex Expansion / Improvement Project	<b>US\$ 30.54*</b>
Non-Intrusive Container Inspection System Project I	<b>US\$ 44.12*</b>
Non-Intrusive Container Inspection System Project II	<b>US\$ 119.60*</b>
Banaoang Pump Irrigation Project	<b>US\$ 49.77*</b>
Agno River Integrated Irrigation Project	<b>US\$ 89.15</b>
Angat Water Utilization and Aqueduct Improvement Project Phase II	<b>US\$116.60</b>
Northrail Project Phase 1 Section 1	<b>US\$ 500</b>

\*Note: Actual data presented values in Pesos converted at Php50.00 = \$1.00 rate for illustration and comparison purposes only.

Here are the updates on the ongoing projects as of 2012: Banaoang Pump Irrigation Project (98.52% complete), Angat Water Utilization and Aqueduct Improvement Project Phase 11 (89.44% complete), Agno River Integrated Irrigation Project (77.61% complete), and the Northrail Phase I Section I (22.94% complete).

### **The JMSU, Energy Security, and Economic Development**

The rising amount of Chinese development assistance dovetails with the Philippines' national interests and foreign policy vis-à-vis China. Indeed, the signing of the JMSU is but one part of broader thrusts of Philippine foreign policy towards China during President Arroyo's administration: (a) preservation and enhancement of national security; (b) **promotion and attainment of economic security**; and (c) protection of the rights, and the promotion of the welfare and interests, of Filipinos overseas (NEDA, Medium Term Philippine Development Plan 2004–2010, *emphasis mine*).

The Arroyo administration prioritized economic development and recognized that the country has the potential of producing its own oil and gas requirements. Hence, the JMSU. The president pointed out that the Philippines must foster greater energy independence by exploring its oil and gas reserves in its territory. She stressed that

“I am therefore, setting the policy directions and announcing them today towards our **goal of energy independence and savings**: First, we need to increase our reserves of indigenous oil and gas. We must develop and actively promote oil and gas exploration. The Philippine National Oil Corp. (PNOC) will search for indigenous energy resources.” (Arroyo 2004, *emphasis mine*)

Highlighting the importance of energy independence, the president said that “energy independence also comes in the form of strategic alliances with other countries, particularly our long-time energy partners like Saudi

Arabia, our ASEAN neighbors, China and our new partners, Russia” (Arroyo 2004). The administration also argued that energy independence will improve the country’s national security which will positively affect the country’s economy and its environment as she said,

“And part of bright new future for our nation is to take control over our reliance on energy, **to become free from dependence on foreign oil and become self-sufficient through the use of sustainable, alternative forms of energy.** This will enhance our national security, lift our economy and preserve our environment [emphasis mine]. (Arroyo 2002)

But the Joint Marine Seismic Undertaking is not simply about energy security; indeed, the signing of the JMSU is also part and parcel of the Arroyo administration’s plan to develop the Philippine economy. Although there is no way now to determine the economic impact of the JMSU because it was shelved, it should be read in light of Philippine foreign policy under President Arroyo.

Recognizing that China is a very significant player for the Philippines and the region, the president stressed that the Philippines must deal with and align its foreign policy with China’s rise. She pointed out that the Philippines must deal with different realities in the international arena:

“The relationships of China, Japan and U.S. will be a determining influence on the security situation and economic evolution of East Asia”, “Philippine foreign policy decisions will have to be made more in the context of the ASEAN”, and “The defense of the nation’s sovereignty and the protection of its environment and natural resources can be carried out only to the extent that it asserts its right over its maritime territory- and get others to respect those rights.” (Arroyo 2002)

President Arroyo viewed China’s rise as not “a threat but an opportunity for all” (ibid.). She believed that China is important and that it would play a strategic role in the economic development and security situation

in Asia (Arroyo 2007b). In her speech during a forum at Chengdu, Sichuan Province, China, the President said that the Philippines' relationship with China is among the most important ties of the Philippine Government (2007). As a result, the Philippines under Arroyo grew very "aggressive in seeking multilateral and bilateral trade relationships" with China (Arroyo 2007c). Indeed, the closer economic relations between the Philippines and China evolved in a more confident, mature and comprehensive relationship (ibid.). Specifically, their economic relations are "punctuated with substantial and important projects aimed at deepening exchanges on a number of areas, especially trade and investment" (ibid.). Indeed, "many Filipino analysts and observers somehow agree that former President Arroyo paved the way for a more enhanced relations between the Philippines and China" (Email Interview with a Foreign Service Officer at DFA, 20 July 2012).

One can highlight the importance of China to President Arroyo's foreign policy by comparing the number of state visits of President Arroyo to China with those of past Philippine presidents (Table 2). Whereas her predecessors visited China once during their terms, President Arroyo travelled there twelve times between 2001 and 2009.

**TABLE 2: High Level Visits between Leaders of the Philippines and China**

<b>Philippine Presidential Visits to China</b>	<b>Visits of Chinese Leaders to the Philippines</b>
Ferdinand Marcos (1975)	Premier Zhao Ziyang (1981)
Corazon Aquino (1988)	Premier Li Peng (1990)
Fidel Ramos (1993)	President Jiang Zeming (1996)
Joseph Estrada (2000)	Premier Zhu Rongji (1999)
Gloria Macapagal-Arroyo: 2001 (2x), 2004, 2006, 2007 (3x), 2008 (3x), 2009	President Hu Jintao (2005)
Benigno S. Aquino III (2011)	Premier Wen Jiabao (2007)

Source: Email interview with a Foreign Service Officer of DFA, 20 July 2012.

The increase in visits is paralleled by the rise in the number of economic agreements between the Philippines and China. Table 3 below lists such agreements.

**TABLE 3: Agreements between the Philippines and China**

<b>PH President</b>	<b>Number of Agreements</b>
Ferdinand Marcos	8
Corazon C. Aquino	3
Fidel V. Ramos	3
Joseph Estrada	6
Gloria Macapagal-Arroyo	65

Source: abs-cbnNEWS.com/Newsbreak, 14 March 2008.

The agreements forged under President Arroyo covered areas such as agriculture, infrastructure cooperation, scientific and technical cooperation, maritime cooperation and others (Philippine Embassy in Beijing 2005). These closer bilateral economic ties were strategic moves that sought to reduce the Philippines' long and heavy dependence on the United States as its major export market (Magkilat 2002, B1). Indeed, as a reflection of the maturing economic relations of the two countries, China became the Philippines' third largest trading partner as well as the fastest growing market for Philippine exports such as electronics, minerals and agricultural products like banana (Dela Cruz 2008). And, according to data from the National Statistics Office and processed by the Bureau of Export Trade Promotion (BETP) of the Department of Trade and Industry (DTI), China was the Philippines' top 3rd, 5th and 4th trading partner between 2008 and 2010, settling as 3rd in 2011 and 2012. By 2012, exports to China amounted to US\$6.16 billion, which is 11.85 percent of total exports. Merchandise trade with China amounted to US\$12.822 billion with a share of 11.28 percent of total Philippine merchandise trade (DTI-BETP 2013).

### **Economic Development and Energy Independence, But at What Cost?**

Although the JMSU is an attempt to help promote economic development and energy security in the Philippines, it was signed at a great cost to the country. The JMSU violates the Philippine Constitution and departs from established legal and government protocols. Under the JMSU, only the areas under dispute must be explored for oil. However, 80 percent of the exploration area lies within the Philippines' 200-nautical mile Exclusive Economic Zone (EEZ). As such, it should fall under the provisions of the Philippine Constitution and Republic Act 387 (Petroleum Act of 1949). Section 2, Article 12 of the Philippine Constitution states that "all natural resources are owned by the State and therefore their exploration, development and utilization shall be under the full control and supervision of the State" ([www.gov.ph](http://www.gov.ph)). With the provisions of the JMSU, this article of the Constitution is clearly violated.

Also, according to the Petroleum Act of 1949, any agreement that the Philippines will sign with other countries regarding the use, extraction, exploration, and other similar and related activities must clearly state that at least sixty per centum of the capital is owned by [Filipino] citizens" (Article 31). The JMSU, however, violates this provision, which clearly states that all parties—China, Vietnam and the Philippines—must have equal rights, interests, and obligations. Thus, China, Vietnam, and the Philippines share equally not only the costs of the exploration but also the gains and benefits.

Third, despite its impact on Philippine national territory, the JMSU (the one Philippines-China signed in September 2004, and the other Philippines, China, and Vietnam signed in March 2005) was signed in secrecy. This very fact is a valid point of contention for the involved countries, especially for the Philippines. And it was only through some scholars and journalists like Barry Wain and other members of the media that the signed JMSU agreements were exposed. They revealed in the Philippine press that aside from the contested Spratlys Islands, some islands of Palawan



were covered by the agreement (Bondoc 2011, 153). Specifically, seven Philippine islands, without any territorial issues or contentions, were included in the coverage areas of the JMSU (Bondoc 2011, 250).

Fourth problem was the commercial nature of the JMSU; this meant that it was not subject to government scrutiny because of its confidentiality, which is allowed because of the stiff competition in the oil industry. That the JMSU was packaged as a commercial agreement, despite covering areas in territorial disputes and thus being an issue for the national government, already suggests a conspiracy among the parties involved to sidestep standard procedures. Indeed, as a commercial agreement, the JMSU was protected from accusations of violating the general provisions of the Petroleum Act of 1949: “the right to explore for, develop, exploit or utilize the petroleum resources may only be granted... under a contract of service executed for the Republic of the Philippines by the President and approved by the Congress of the Philippines” (Article 5). Indeed, some members of Congress and the Senate accused the Executive Branch of not asking the legislature to review and approve the JMSU agreement.

On a diplomatic front, the JMSU does not fall under “cooperative activities” allowed under two official documents from ASEAN: the *1992 ASEAN Declaration on the South China Sea* and the *2002 Declaration on the Conduct of Parties in the South China Sea*. Both documents encourage the party or parties involved to “undertake” only these activities relating to: (a) marine environmental protection, (b) marine scientific research, (c) safety of navigation and communication at sea, (d) search and rescue operation, and (e) combating transnational crime, including but not limited to, trafficking in illicit drugs, piracy and armed robbery at sea, and illegal traffic in arms (2002 ASEAN Declaration on the Conduct of the Parties in the South China Sea, 5–6). When it signed the JMSU with China, the Philippines violated the spirit of *2002 ASEAN Declaration on the Conduct of the Parties in the South China Sea*, which calls for “friendly consultations and negotiations” among all States concerned in the disputes; Manila dealt with China bilaterally, never taking the

multilateral route that would have entailed consulting with ASEAN. This is ironic since it must be remembered that the Philippines had called for a multilateral engagement in dealing with the South China Sea disputes calling all parties involved to be part of the dialogue in solving the disputes.

### **The JMSU: The Philippines' and China's Attempt to Resolve Tensions in the South China Sea**

The Joint Marine Seismic Undertaking is also part of China and the Philippines' formal, official commitment to maintain good relations—political, economic, and diplomatic—amidst tensions between Manila and Beijing regarding the South China Sea. Indeed, the significance of the signing of the JMSU is better understood in light of Philippines-China relations vis-à-vis the South China Sea disputes, one of the major issues between some ASEAN members and China. A major challenge to the Philippines in dealing with territorial issues with China started in 1995, when China occupied Mischief Reef. This was seen as an encroachment of Philippine territory. Since then, the Philippine Navy has patrolled the South China Sea, and the Department of Foreign Affairs explained that the Navy has a mandate to maintain patrols in the area in order to protect and maintain the country's marine resources and its Exclusive Economic Zone (EEZ) (Casanova and Carreon 2001). Even so, military reports attested to continued sightings of Chinese ships in the Spratly Island chain in the South China Sea alongside new markers on reefs not already occupied by rival claimants (Cabacungan and Burgonio 2003). Exercising some political will, the Philippines imposed a fishing ban in April 2001 in the disputed Scarborough Shoal, although this action of the Philippine government was welcomed by the Chinese government stating that the imposition of the fishing ban in the area is acceptable to Beijing since it would preserve the marine species in the area (Calica 2001).

At the start of President Arroyo's term, however, the government stressed that despite the tension with China over the South China Sea, the Philippine government is determined to maintain its good relations with

Beijing (De Leon 2001). Former spokesperson at the Department of Foreign Affairs (DFA), Vic Licaros, stressed that both countries give importance to maintaining their good relationship (Casanova and Carreon 2001). The president herself explicitly stated the Philippine interest in diplomatic and security engagement with China, stressing that her foreign policy towards Beijing will be based on respect and rationality. Indeed, her presidency saw an increased use of diplomacy with China to help solve the South China Sea dispute (Interview with a division head from the National Security Council [NSC], 10 July 2012; De Leon 2001). During the 103<sup>rd</sup> Foundation Day of the DFA, she desired a healthy, comprehensive, long-term relationship with China that goes beyond the different issues between the two countries. Furthermore, she pointed out that an important priority for the DFA is to secure agreements on maritime boundaries and that the government must intensify its efforts to promote peaceful resolution of territorial disputes (Arroyo 2001a). Noting the volatility of the world economy and security during that period, President Arroyo emphasized the need to consolidate “collective security and economic stability in the Pacific Rim in East Asia and in Southeast Asia” to which the Philippines should contribute. Similarly, she had claimed that

The areas of cooperation are already clear to every nation involved. From north to south, east to west, we are resolved to work more closely on border security cooperation, more active multilateral and bilateral exchanges of information intelligence and communication effective restraints on terrorist fund transfers, transportation, energy and health security, customs controls and generally ensuring a safe and stable environment for trade, investment, travel and tourism. (Arroyo 2001b)

The Philippines agreed to address the South China Sea issue in the spirit of cooperation and nonconfrontation (De Leon 2001). The Philippine government proposed the joint use of the disputed Mischief Reef in the Spratlys Islands by Filipino and Chinese fishermen and even of other nationalities (Calica 2001). Both countries vowed not to make any action

that might complicate the situation; instead, they promised to expand military dialogue and cooperation and other confidence-building mechanisms (ibid.). The Philippine government also stated that they are bent on multilateralizing the issue by adopting a Code of Conduct in the South China Sea by ASEAN and its dialogue partners (De Leon 2001).

The desire to resolve the disputes peacefully takes off from ASEAN initiatives regarding the issue. The Foreign Ministers of ASEAN had adopted the *1992 ASEAN Declaration on the South China Sea* (aseansec.org, 1). The declaration stressed that all parties desired peace and stability in the South China Sea and that any development leading to tensions in the area must be treated with restraint (aseansec.org, 1). In November 2002, during the 8<sup>th</sup> ASEAN Summit in Cambodia, all ASEAN member countries and China joined in the signing of the declaration on the Code of Conduct on the South China Sea (*Manila Bulletin* 2002). This initiative of the Philippines received credit and praise from ASEAN and China, pointing that this is a major breakthrough in resolving the battle of sovereign claims in the disputed territories in the South China Sea (Kabilig 2002).

China echoed the Philippines' intention to resolve the disputes without conflict. President Hu Jintao, during his 2005 visit to the Philippines, said that China and the Philippines pledged that the two countries would turn the South China Sea into an "area of cooperation" in order to achieve development (Calica 2005). China's Defense Minister Chi Haotian assured in September 2002, when he travelled to the Philippines, that both countries would promote "peaceful consultations and negotiations" in dealing with the territorial disputes in the South China Sea; he highlighted the fact that the two countries had no history of war against each other (*Philippine Daily Inquirer* 2002). In addition, Philippine Defense Secretary Angelo Reyes pointed out China's willingness to take part in drafting a regional code of conduct for all claimant countries aiming to reduce the tension in the South China Sea (ibid.).

## Conclusion

This study has shown how the signing of the Joint Marine Seismic Undertaking (JMSU) exemplified Chinese foreign policy vis-à-vis Southeast Asia and coincided with the rise of Chinese economic assistance to the Philippines. The paper also set the JMSU in the context of Philippine foreign policy vis-à-vis China under President Gloria Macapagal-Arroyo, even if its signing violated the Constitution, departed from government protocols, and ran contrary to ASEAN agreements. Yet it is also interesting to move from this purely conjunctural analysis and hypothesize instead a direct causal link between China's increasing economic assistance to the Philippines and Beijing's drive to promote its security interests in the South China Sea, specifically through the signing of the JMSU.

Several studies posit such a general link between economics and security. Economic policies and agreements like the JMSU serve a country's national objectives. For instance, Davis (2008) explores the economic and security bargaining in the Anglo-Japanese alliance, in which Britain then recognized Japan as a good security ally in the Far East because of its increasing naval power and ability to preserve stability in the region in the early 1900s (173). Britain accordingly developed foreign policies that would contribute to Japanese economic gains (175). In this way, London's overseas policies dovetailed with those of Tokyo. Davis also argues that "security interests motivate states to offer side payments to an ally" and that the capacity of a state to offer "economic side payments" to another state has direct importance for international security (153). Similarly, liberal theorists hypothesize about the use of economic tools to achieve one's national interests, particularly on security cooperation. Specifically, they "contend that common interests from interdependence raise the costs of conflict" (Polacheck, S.W., 1980 as cited in Davis 2008). An article entitled *The Link between Economics, Stability and Security in a Transforming Economy* (Zukrowska 1999, 269) observed the differences on how the links between economics, stability and security are being defined over the course of world events. It highlighted the fact that the security of a state

depends on the condition of its economy (270). Moreover, it stressed that the link between economics and security are more obvious in the case of democratic states that rarely engaged in war (272). Zukrowska (1999, 282) concluded that the new security in the world today is evolving based on interdependence and cooperation in which economic force leads to the attainment of security. Lastly, Hirschman (1980) and Baldwin (1985) as cited in Kahler (2006, 23) stressed the importance of economic instruments as an essential part of a state's toolkit in influencing other states and their policies. Following these lines of thought, It can be surmised that China's ODA is an economic strategy used to influence the Philippines. Long and Leeds (2006, 2), in their article *Trading for Security: Military Alliances and Economic Agreements*, argued that economic and security agreements positively affect each other, judging from the corresponding relationship between alliances and trade particularly among European states before World War II.

Given these theoretical perspectives, it is plausible to suggest that China assisted the economic development of the Philippines in order to enhance its security standing in the South China Sea, specifically through the Joint Marine Seismic Undertaking. Naturally, it still does not follow from these studies that Chinese economic development assistance to the Philippines is an example of Davis' notion of "side payments," but the idea—that China strategically leveraged the economic development of the Philippines to influence Manila's cooperating and agreeing with China in the JMSU—is lent credence by a Foreign Service Officer (FSO). In an email interview, the FSO said that China's ODA to the Philippines was not given out of goodwill but is created for political influence which China needed to advance its interests over the Philippines (Email interview with a Foreign Service Officer at DFA, 20 July 2012). Similarly, it is instructive that during the signing of the Northrail Project a few days after the JMSU was finalized, an embassy official was even reported to have said that "No JMSU, no Northrail" (Drilon in the interview at the Correspondence, March 2008 episode). Indeed, that there were strings attached to the JMSU can be hypothesized in the fact that the Northrail Project served as the

gateway of China's ODA to the Philippines; indeed, the Northrail Project was followed by other new assistance programs such Projects I and II of Non-Intrusive Container Inspection System, Agno River Integrated Irrigation Project, and Angat Water Utilization and Aqueduct Improvement Project Phase II. These few comments, along with the conjunction of Chinese economic aid and the signing of the JMSU, suggest a direct causal link between Chinese ODA and Beijing's security interests, one that can be established in separate, further study.

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